

**FINNING INTERNATIONAL INC.**  
**ANNUAL INFORMATION FORM**  
**2020**

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Vancouver, British Columbia  
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## TABLE OF CONTENTS

<b>FORWARD LOOKING INFORMATION .....</b>	<b>4</b>
<b>1. CORPORATE STRUCTURE .....</b>	<b>6</b>
1.1 NAME, ADDRESS AND INCORPORATION .....	6
1.2 INTERCORPORATE RELATIONSHIPS .....	6
<b>2. GENERAL DEVELOPMENT OF THE BUSINESS .....</b>	<b>7</b>
2.1 OVERVIEW OF OPERATIONS .....	7
2.2 STRATEGIC PLAN .....	7
2.3 THREE YEAR HISTORY .....	8
2.4 GROWTH OPPORTUNITIES .....	9
<b>3. DESCRIPTION OF OUR BUSINESS .....</b>	<b>11</b>
3.1 PRINCIPAL LINES OF BUSINESS .....	11
3.1.1 Product Support.....	11
3.1.2 New Equipment.....	11
3.1.3 Used Equipment.....	12
3.1.4 Equipment Rental.....	12
3.1.5 Refueling.....	12
3.2 PRINCIPAL MARKETS.....	12
3.3 DISTRIBUTION METHODS.....	14
3.4 REVENUE BY PRINCIPAL LINES OF BUSINESS.....	14
3.5 EMPLOYEE DEVELOPMENT .....	15
3.6 COMPETITIVE CONDITIONS .....	16
3.7 BUSINESS CYCLES .....	16
3.8 DEALERSHIP AND DISTRIBUTOR AGREEMENTS.....	16
3.9 EMPLOYEE RELATIONS .....	17
3.10 FOREIGN OPERATIONS .....	17
3.11 ETHICS.....	17
3.12 SUSTAINABILITY .....	18
<b>4. KEY BUSINESS RISKS .....</b>	<b>18</b>
4.1 RISK MANAGEMENT .....	18
4.2 KEY BUSINESS RISKS.....	18
4.2.1 COVID-19 Pandemic.....	18
4.2.2 Relationship with Caterpillar .....	19
4.2.3 Economic Conditions / Business Cyclicity.....	20
4.2.4 Information Systems, Technology and Business Process Changes .....	20
4.2.5 Cybersecurity .....	21
4.2.6 Safety & Health.....	22
4.2.7 Climate Change.....	22
4.2.8 Competition.....	23
4.2.9 Growth Initiatives / Integration of Acquisitions / Project Execution.....	24
4.2.10 Key Personnel .....	24
4.2.11 Long-term Product Support Contracts and Complex Power and Energy Systems .....	24
4.2.12 International Operations.....	25
4.2.13 Labour Relations.....	26

4.2.14 Business Continuity Risks.....	26
4.2.15 Government Regulation .....	26
4.2.16 Defined Benefit Pension Plans .....	27
4.2.17 Scope of Insurance Coverage .....	27
4.2.18 Repurchase Commitments and Guarantees .....	27
4.2.19 Future Warranty Claims .....	28
<b>5. DIVIDENDS.....</b>	<b>28</b>
<b>6. DESCRIPTION OF CAPITAL STRUCTURE.....</b>	<b>28</b>
<b>7. CREDIT RATINGS .....</b>	<b>29</b>
7.1 LONG-TERM DEBT CREDIT RATINGS .....	29
7.2 SHORT-TERM DEBT CREDIT RATINGS .....	30
<b>8. MARKET FOR OUR SECURITIES.....</b>	<b>30</b>
<b>9. DIRECTORS AND OFFICERS.....</b>	<b>30</b>
9.1 OUR BOARD OF DIRECTORS .....	30
9.2 OUR EXECUTIVE OFFICERS .....	31
9.3 SHAREHOLDINGS OF DIRECTORS AND OFFICERS .....	32
9.4 CEASE TRADE ORDERS, BANKRUPTCIES, PENALTIES OR SANCTIONS .....	32
<b>10. INTEREST OF MANAGEMENT AND OTHERS IN MATERIAL TRANSACTIONS.....</b>	<b>33</b>
<b>11. TRANSFER AGENT AND REGISTRAR .....</b>	<b>33</b>
<b>12. MATERIAL CONTRACTS .....</b>	<b>33</b>
<b>13. INTERESTS OF EXPERTS.....</b>	<b>34</b>
<b>14. AUDIT COMMITTEE.....</b>	<b>34</b>
14.1 AUDIT FEES .....	35
14.2 PRE-APPROVAL POLICIES AND PROCEDURES.....	36
<b>15. ADDITIONAL INFORMATION.....</b>	<b>36</b>
<b>APPENDIX A - AUDIT COMMITTEE TERMS OF REFERENCE.....</b>	<b>37</b>

In this Annual Information Form (AIF), the terms “we”, “our”, “us” “Company” and “Finning” mean Finning International Inc. together with, where the context requires and as applicable, our subsidiaries and divisions. The results reported in this AIF have been prepared in accordance with International Financial Reporting Standards (IFRS). All dollar amounts are Canadian dollars unless otherwise indicated. All information in this AIF is presented as at December 31, 2020, unless otherwise stated.

## **FORWARD LOOKING INFORMATION**

This AIF contains information about our business outlook, objectives, plans, strategic priorities and other statements that are not historical facts. Information is forward-looking when we use what we know and expect today to give information about the future. Forward-looking information may include terminology such as aim, anticipate, assumption, believe, could, expect, goal, guidance, intend, may, objective, outlook, plan, project, seek, should, strategy, strive, target, and will, and variations of such terminology. Forward-looking information in this AIF include, but are not limited to, the following: our expectations with respect to the economy, markets and activities and the associated impact on our financial results; our expectation that the execution of our strategic plan, customer-centric growth strategy, global strategic priorities and strategic area of focus will contribute to the achievement of our financial goals; and that our resilient business model, improving execution, financial flexibility, and cost and capital discipline will serve us well as markets recover and position us for future opportunities; our expectation of market recovery following the global pandemic; that strengthened commodity prices, public and private infrastructure investments in our dealership territories, accelerated adoption of technology by our customers, and a transition to a low carbon economy will provide growth opportunities in the near to medium term; that we should have additional opportunities from many of our customers announcing an increase in capital expenditures; expected growth in oil sands production in response to higher oil prices and the removal of production curtailments by the Alberta government; expected increase in demand for copper as a result of the transition to a low carbon world and as the largest economies recover from the pandemic, which should lead to increased mining activity in Chile and Western Canada; longer-term increasing commercial momentum for copper and gold mines in Chile and Argentina, where many large projects are advancing through feasibility studies; significant potential growth for us in connection with opportunities in the Lithium Triangle and expected growth of global lithium production at an average annual rate of about 25% in the next five years, driven by the transition to electric vehicles; the expectation that public and private infrastructure projects will provide significant opportunities in the construction sector across our dealership territories in the immediate and mid to long-term; expectations regarding political and social uncertainty in Chile; that earthmoving work on the HS2 rail project in the UK is expected to begin in 2021 and is expected to require approximately 1,600 units of heavy equipment representing a total industry-wide direct sales opportunity of approximately £400 million, and our expectation of a strong ramp-up in HS2 construction in 2021 and that we remain well-positioned to capture further equipment and product support opportunities for this project; our expectation that our power systems business will continue to support growth through all stages of the economic cycle, particularly in the UK and Ireland, where we expect to see continued significant opportunities in electric power capacity, combined heat and power, and data centre markets; expected acceleration of technology adoption by customers, with four technology areas expected to generate growth opportunities for our business, namely, machine connectivity, e-commerce, performance solutions, and autonomy; expected results from our strategic initiatives; our expectation that machine connectivity will enable us to grow our product support market share in both mining and non-mining sectors; that our digitally enabled value-added services will position us to capture new equipment and product support opportunities; our expectations for increased adoption of autonomy in mining operations in Chile and Western Canada and the significant potential for future autonomy conversions from the large fleets in those regions; that we will continue to make selective strategic investments in our digital capabilities to improve customer satisfaction and grow our market share; our belief that building safe, talented and inclusive teams will help us across all operations to achieve our strategic and operational goals and our commitment to providing employees with resources to support their learning and development; our target to reduce our absolute greenhouse gas emissions (GHG) by 20% by 2027 (from a 2017 baseline); our intention to grow our business through a combination of organic growth and strategic acquisitions, the success of which depends on the factors listed in section 4.2.9, Growth Initiatives / Integration of Acquisitions / Project Execution; our practices regarding dividend payment; the belief that our relationship with Caterpillar is and will continue to be strong; the belief that the claims and order issued by the Argentina Customs Authority are without merit and that there are mitigation measures available to us; the belief that we have the financial capacity to fully fund our accrued obligations under the defined benefit pension plans; future payments made for rating services; the expected impact of the COVID-19 pandemic on our operations and the market as a whole; and our plans to manage the risk and uncertainties associated with the spread of COVID-19. All such forward-looking statements are made pursuant to the ‘safe harbour’ provisions of applicable Canadian securities laws.

Unless otherwise indicated by us, forward-looking statements in this AIF reflect our expectations at the date of this AIF. Except as may be required by Canadian securities laws, we do 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 our business outlook, objectives, plans, strategic priorities and other statements that are not historical facts may not be achieved. As a result, we cannot guarantee that any forward-looking statement will materialize. Factors that could cause actual results or events to differ materially from those expressed in or implied by these forward-looking statements include: the impact and duration of the COVID-19 pandemic and measures taken by government, customers and suppliers in response; general economic and market conditions and economic and market conditions in the regions where we operate; foreign exchange rates; the impact of changes in the UK's trade relationship with the European Union as a result of Brexit; commodity prices; the level of customer confidence and spending, and the demand for, and prices of, our products and services; our ability to maintain the relationship with Caterpillar; our dependence on the continued market acceptance of our products, including Caterpillar products, and the timely supply of parts and equipment; our ability to continue to improve productivity and operational efficiencies while continuing to maintain customer service; our ability to manage cost pressures as growth in revenue occurs; our ability to negotiate satisfactory purchase or investment terms and prices, obtain necessary approvals, and secure financing on attractive terms or at all; our ability to manage growth strategy effectively; our ability to effectively price and manage long-term product support contracts with our customers; our ability to reduce costs in response to slowing activity levels; our ability to attract sufficient skilled labour resources as market conditions, business strategy or technologies change; our ability to negotiate and renew collective bargaining agreements with satisfactory terms for our employees and the Company; the intensity of competitive activity; our ability to maintain a safe and healthy work environment across all regions; our ability to raise the capital needed to implement the business plan; business disruption resulting from business process change, systems change and organizational change; regulatory initiatives or proceedings, litigation and changes in laws, regulations or policies, including with respect to environmental protection; stock market volatility; changes in political and economic environments for operations; our ability to respond to climate change-related risks; the availability of carbon neutral technology or renewable power; the cost of climate change initiatives; actual climate change consequences; 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 us; the potential of warranty claims being greater than we anticipate; the integrity, reliability and availability of, and benefits from, information technology and the data processed by that technology; our ability to protect ourselves from cybersecurity threats or incidents; and the actual impact of the COVID-19 pandemic and our ability to respond to and manage the evolving risks. Forward-looking statements are provided in this AIF for the purpose of giving information about management's current expectations and plans and allowing investors and others to get a better understanding of our operating environment. However, readers are cautioned that it may not be appropriate to use such forward-looking statements for any other purpose.

Forward-looking statements made in this AIF are based on a number of assumptions that we believed were reasonable on the day we made the forward-looking statements including but not limited to: that we will be able to successfully manage our business through the current challenging times involving the effects of the COVID-19 response and low/and or volatile commodity prices, and successfully implement our COVID-19 risk management plans; that general economic and market conditions improve; that the level of customer confidence and spending, and the demand for, and prices of, our products and services will be maintained; our ability to continue to address and mitigate, to the extent possible, the impact of business continuity risks, including preparing for future waves of COVID-19; our ability to successfully execute our plans and intentions; that our action plan to minimize the impact of Brexit will be successful; our ability to successfully execute climate change initiatives to reduce our GHG emissions; our ability to successfully attract and retain skilled staff; that market competition will remain at similar levels; the products and technology offered by the Company's competitors will be as expected; and that our current good relationships with Caterpillar and with our suppliers, service providers and other third parties will be maintained. Some of the assumptions, risks, and other factors that could cause results to differ materially from those expressed in the forward-looking statements contained in this AIF are discussed in Section 4 of this AIF and in the annual Management Discussion and Analysis (MD&A) for the financial risks.

Readers are cautioned that the risks described in the MD&A and AIF are not the only ones that could impact us. Additional risks and uncertainties not currently known to us or that are currently deemed to be immaterial may also have a material adverse effect on our business, financial condition, or results of operations.

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 AIF. The financial impact of these transactions and non-recurring and other unusual items can be complex and depends on the facts particular to each of them. We therefore cannot describe the expected impact in a meaningful way or in the same way we present known risks affecting its business.

## 1. CORPORATE STRUCTURE

### 1.1 Name, Address and Incorporation

Finning International Inc. was incorporated as Finning Tractor & Equipment Company Limited on January 4, 1933, under the *Company Act* (British Columbia), and became a public corporation on September 2, 1969. We continued under the *Canada Business Corporations Act* on October 8, 1986, and changed our name to Finning Ltd. on April 23, 1987, and to Finning International Inc. on April 25, 1997.

Finning is a widely held, publicly traded corporation, listed on the Toronto Stock Exchange (TSX) (symbol: FTT). Our registered and head office is located at Suite 300 – 565 Great Northern Way, Vancouver, British Columbia, V5T 0H8 (telephone: 604.691.6444; website: www.finning.com).

### 1.2 Intercorporate Relationships

Our principal divisions and subsidiaries, their jurisdictions of incorporation (where applicable) and the geographic areas they serve are noted below.

#### **Finning International Inc.**

- Canada – Reporting Segment
  - **Finning (Canada)** a division of Finning International Inc., servicing Western Canada with dealer territories in British Columbia, Alberta, Saskatchewan, the Yukon Territory, the Northwest Territories and a portion of Nunavut.
  - **OEM Remanufacturing Company Inc.** incorporated in Alberta, Canada, 100% beneficially owned by Finning.
  - **4Refuel Canada LP**, a Manitoba limited partnership, and its general partner 4Refuel GP Corporation, incorporated in Ontario, Canada, 100% beneficially owned by Finning, operating in British Columbia, Alberta, Saskatchewan, Manitoba, Ontario, Québec, New Brunswick and Nova Scotia
- South America – Reporting Segment
  - **Finning Argentina S.A.** and **Finning Soluciones Mineras S.A.** both incorporated in Argentina, 100% owned by Finning and servicing Argentina.
  - **Finning Bolivia S.A.** incorporated in Bolivia, 100% owned by Finning and servicing Bolivia.
  - **Finning Chile S.A.** incorporated in Chile, 100% owned by Finning and servicing Chile.
  - **Moncouver S.A.** incorporated in Uruguay, 100% owned by Finning and offering shared services and centralized purchasing to Finning's South American operations.
- UK and Ireland – Reporting Segment
  - **Finning (UK) Ltd.** incorporated in the United Kingdom, 100% owned by Finning and servicing England, Northern Ireland, Scotland and Wales.
  - **Finning (Ireland) Limited** incorporated in the Republic of Ireland, 100% owned by Finning, and servicing the Republic of Ireland.

## 2. GENERAL DEVELOPMENT OF THE BUSINESS

### 2.1 Overview of Operations

Finning is an international company with its head office in Vancouver, British Columbia, Canada. Our principal business is to provide sales, rentals, parts and support services for Caterpillar Inc. (Caterpillar or CAT) equipment and engines and complementary equipment on three continents. We are the largest dealer of Caterpillar products in the world and, as described further below, we are the authorized dealer of Caterpillar products in Western and Northern Canada, the United Kingdom, the Republic of Ireland, and the Southern Cone of South America. At December 31, 2020, we had 11,952 employees worldwide. We carry on other businesses that are complementary to our CAT dealership business; they are referred to elsewhere in this AIF.

#### **Canada**

We have been the authorized dealer for Caterpillar products in British Columbia since 1933, in the Yukon Territory since 1977 and in Alberta and a portion of the Northwest Territories since 1989. In 1995, we gained additional territory in Northern Canada, and became the authorized Caterpillar dealer for all of the Northwest Territories and the portion of Nunavut west of 110 degrees west longitude. In 2015, we became the authorized Caterpillar dealer in Saskatchewan. We service our Canadian dealership territory through our Finning (Canada) division.

#### **South America**

We have been the authorized Caterpillar dealer for Chile since 1993 and for Argentina and Bolivia since 2003. In March 2004, we formed a company in Uruguay, Moncouver S.A., to provide shared services and centralized purchasing services for our South American operations.

#### **UK and Ireland**

We have been the authorized Caterpillar dealer for the UK and the Republic of Ireland since 2010, following our acquisition of dealerships in the UK in 1983 and 1997 and our appointment for Northern Ireland and the Republic of Ireland in 2010.

### 2.2 Strategic Plan

The following is a summary of significant developments in our strategy.

Our strategic plan includes purpose and vision statements to guide a customer-centric strategy:

Purpose: *'We believe in partnering and innovating to build and power a better world.'*  
Vision: *'Leveraging our global expertise and insight, we are a trusted partner in transforming our customers' performance.'*

Our customer-centric growth strategy is based on three pillars:

- Develop = build a safe, talented, and inclusive team.
- Perform = operate efficiently, consistently and with agility.
- Innovate = lead with new ideas, processes and solutions.

Our strategic plan is based on a shared, global strategic planning and prioritization framework, which applies across our operations and is based on five global strategic priorities (GSPs):

- 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 generation of free cash flow;
- Digital Enterprise – advance the use of technology to improve our customers' experience, enable data-driven decisions, and reduce our cost to serve; and
- Growth & Diversification – achieve profitable and capital efficient growth.

Our strategic framework is founded in our values, which have been articulated with the input of our employees and are: we are trusted, collaborative, innovative and passionate. Our focus areas to support our strategy are: to capture growth in mining through a focus on lowest total cost of ownership and in construction through aftermarket leadership; and to improve performance through transforming service, accelerating supply chain capabilities and lowering our cost to serve. Our decisions about capital investments and allocation of resources are focused on initiatives that we believe best align with the GSPs and our strategic areas of focus.

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

## **2.3 Three Year History**

### **Recent Developments**

In December 2020, the shareholders of Energyst B.V. (Energyst), a company formed by Caterpillar and ten of its dealers, including Finning, to carry out a rental power and temperature control solutions business primarily in Europe, decided to restructure the company and converted its rental activities into four separate regional organizations. As part of this restructuring, in January 2021, we acquired the Energyst business in the UK and Ireland for gross consideration of \$15 million (€9 million) and we are now the authorized supplier of rental services for Caterpillar power generation in these territories.

### **2020**

- Effective January 1, 2020 Juan Pablo Amar was appointed President of Finning South America on the retirement of the previous President, Marcello Marchese.
- In March 2020, Greg Palaschuk was appointed as Chief Financial Officer of Finning International Inc. on the retirement of the previous Executive Vice President and Chief Financial Officer, Steve Nielsen.
- In response to global market volatility due to commodity prices, early in 2020 we took significant actions to control costs and capital investments. We accelerated existing strategies to further improve employee and facility productivity, which resulted in workforce reductions in all operations and restructuring of facilities in Canada and South America.
- In response to developing disruptions related to the COVID-19 pandemic, we took further actions starting later in the first quarter of 2020 to control our costs. These actions included implementing executive salary reductions, freezing recruiting activities, minimizing all discretionary expenditures and pro-actively managing costs in line with expected changes in business activity levels in each region. We followed up on these actions by implementing pay reductions for the members of our Board of Directors (Board) and employees, reduced work schedules and furlough. Due to a significant reduction in revenues in our Canadian operations year over year from the effects of the COVID-19 pandemic, we qualified for the Canada Emergency Wage Subsidy (CEWS) and recorded an aggregate benefit of \$115 million in 2020, which was included in other income and excluded from our adjusted earnings. As a result of this program, we estimate that we were able to preserve approximately 500 full-time jobs in Canada, including key technical capabilities and talent. To improve our financial flexibility, we also secured an additional \$500 million committed revolving credit facility. This facility has a term of two years, can be used for general corporate purposes, and has substantially the same terms and conditions as our existing \$1.3 billion committed global credit facility, which matures in 2024.
- In conjunction with our Annual Meeting in May 2020, Marcelo A. Awad retired from the Board after serving for seven years as a director and Andrés Kuhlmann was elected as a director.
- We have maintained a normal course issuer bid (NCIB) for a number of years. The NCIB may be renewed annually in May, subject to approval by the TSX, and was last renewed on May 11, 2020. In 2020, under the NCIB that was in effect until May 10, 2020 and under the renewed NCIB, we purchased and cancelled 1,215,617 common shares at an average cost of \$19.25 per share or \$23 million in the aggregate. All 2020 share repurchases under the NCIB were made during the first three months of 2020 and were halted for the rest of the year in light of the COVID-19 pandemic.
- In May 2020, Alexandre De Moraes Zanelatto joined the leadership team as the Executive Vice President, Global Supply Chain.



- In July 2020, we settled our 3.232%, \$200 million notes which were due July 3, 2020. Funding of the settlement of these notes was through our global credit facility.

## 2019

- In January 2019, Kevin Parkes was appointed as the President of Finning (Canada) on the retirement of the previous President, Juan Carlos Villegas, and David Primrose was appointed as Managing Director of Finning UK and Ireland.
- In February 2019, we finalized the acquisition of 4Refuel Canada and 4Refuel US (4Refuel), a mobile on-site refueling service provider with operations in most of the provinces in Canada and in Texas, U.S.
- In May 2019, we increased our regular quarterly dividend by 2.5% to \$0.205 per share (indicated annual dividend of \$0.82 per share).
- In August 2019, we issued \$200 million principal amount of 2.626% senior unsecured notes due August 14, 2026. Proceeds from the issuance of the notes were used to reduce indebtedness under our credit facility.
- In September 2019, we were awarded a contract by Teck Resources Limited (Teck) to deliver and support the first fleet of Caterpillar electric drive, autonomous off-highway trucks to South America, to Quebrada Blanca Phase 2 (QB2), Teck's open pit copper mine in northern Chile.
- In December 2019, we amended our existing \$1.3 billion credit facility to extend the maturity date to December 2024 and make other minor amendments. See Section 12, "Material Contracts".
- In 2019, we purchased a total of 1,073,354 common shares for cancellation under our NCIB at an average cost of \$24.75 per share or \$27 million in the aggregate.

## 2018

- In May 2018, we increased our regular quarterly dividend by 5.3% to \$0.20 (indicated annual dividend of \$0.80 per share).
- After a review, we determined that our investment in Energyst as the business was structured was no longer a strategic fit and it was held-for-sale at September 30, 2018. As a result, we wrote off our 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, for a total charge of US\$30 million.
- In December 2018, we amended our existing \$1 billion credit facility by extending the maturity date to December 2023 and increasing the credit facility commitment to \$1.3 billion.
- Juan Carlos Villegas, President of Finning (Canada) and Chief Operating Officer of Finning International Inc., retired effective December 31, 2018.
- In 2018, we repurchased 4,128,053 common shares for cancellation under our NCIB at an average cost of \$26.41 per share, or \$109 million in the aggregate.

## **2.4 Growth Opportunities**

We believe our resilient business model, improving execution of our strategic priorities, and financial flexibility will position us well to capture attractive growth opportunities as our markets recover following the global pandemic.

Strengthened commodity prices, public and private infrastructure investments in our dealership territories, accelerated adoption of technology by our customers, and a transition to a low carbon economy are expected to provide growth opportunities for our business in the near to medium term. As our key markets continue to recover, many of our customers have announced an increase in capital expenditures, which should provide us with additional opportunities.

Oil sands production is expected to grow in response to higher oil prices and the removal of production curtailments by the Alberta government. The Canadian Association of Petroleum Producers is forecasting 2021 capital spending in the upstream natural gas and oil industry to increase by 18% and 29% in Alberta and British Columbia, respectively, from 2020, driven by the expectation of higher economic activity and increased energy demand.

As we continue a transition to a low carbon world and the largest economies recover from the pandemic, the demand for copper is expected to increase, which should lead to increased mining activity in Chile and Western Canada. According to Cochilco, the Chilean Copper Commission, copper production in Chile is expected to increase to 7.1 million tons by 2029 from 5.8 million tons in 2020. Chile's mining projects' portfolio represents US\$74B of total investment in 49 projects, mainly in copper, gold, iron, lithium and industrial minerals. About 60% of these projects are currently being executed or are under review to proceed in the near future. We are actively quoting on

multiple opportunities for new mining equipment, autonomy solutions, and product support contracts for both brownfield expansions and greenfield projects in South America. Longer-term, we are seeing an increasing commercial momentum for copper and gold mines in Chile and Argentina, with many large projects advancing through feasibility studies. In addition, opportunities in the Lithium Triangle region represent significant growth potential for us. The Lithium Triangle is a region that covers parts of Argentina, Chile and Bolivia and holds approximately 55% of global lithium reserves. Global lithium production is expected to grow at an average annual rate of about 25% in the next five years, driven by the transition to electric vehicles.

Another important growth driver is public and private investments in infrastructure projects, which provide significant opportunities in the construction sector across our dealership territories. In Canada, the provincial governments have announced multi-billion dollar infrastructure stimulus packages to support economic recovery. These projects create both immediate and mid to long-term opportunities for equipment, product support, heavy rentals, and prime and standby electric power generation. In addition to significant private sector investment in LNG and power sectors, we expect to benefit from public investments in irrigation modernization and expansion projects in Alberta and Saskatchewan, orphaned well abandonment program and light rail projects in Alberta, and BC Highway works. In Chile, the government announced US\$34 billion public investment in infrastructure over 2020-2022 to jumpstart the economy. In the UK, earthmoving work on the HS2 rail project is expected to begin in 2021. This multi-year mega-project is the largest investment in infrastructure in Europe. It is expected to require approximately 1,600 units of heavy equipment representing a total industry-wide direct sales opportunity of approximately £400 million. After some delays, we expect a strong ramp-up in HS2 construction in 2021, and we remain well-positioned to capture further equipment and product support opportunities for this project.

We expect that our power systems business will continue to support growth through all stages of the economic cycle, particularly in the UK and Ireland, where we expect to see continued significant opportunities in electric power capacity, combined heat and power, and data centre markets. In Ireland, over the last 10 years, more than £6.3 billion has been invested in data centre infrastructure, with £1.34 billion invested in 2020 alone, according to Host in Ireland Market Report.

We are witnessing an acceleration of technology adoption by customers, which is increasing the rate of return on investments we have made in recent years. There are four technology areas that are expected to generate growth opportunities for our business: machine connectivity – an enabler, e-commerce, performance solutions, and autonomy.

In addition to enabling more robust inventory management, machine connectivity provides us with a solid foundation to grow our product support market share in both mining and non-mining sectors.

Our e-commerce journey from 10% of non-service parts ordered online in 2016 to 41% in 2020 continues today as we are supporting customers in converting to our online platform. We are an omni-channel business with parts ordering available at physical branch locations and through our call centres, as well as online.

We also offer digitally enabled value-added services that allow our customers to improve equipment, fleet and operational performance and are critical in positioning us to capture new equipment and product support opportunities. As an example, our digital solutions for the construction industry provide project, planning and equipment data to provide breakthrough performance for large earthmoving projects. Additionally, our Integrated Knowledge Centres are staffed by experienced equipment experts who, through data derived from digital connectivity, evaluate customer equipment health and operational efficiency, and are supporting our customers in all lines of business across all regions. These are two examples of how the performance solutions we offer are strengthening our customer relationships and enhancing our traditional equipment and product support business.

Our mining customers continue to adopt autonomy as they expand existing operations and plan for new mines. We are partnering with Teck on a wide-scale deployment of autonomy at their QB2 site in Chile. About 580 large and ultra-class Caterpillar off-highway trucks are currently operating in Chile's copper mines, none of which are presently autonomous. In Western Canada, our mining customers are operating approximately 620 large and ultra-class Caterpillar off-highway trucks, of which only 7% are presently autonomous. These fleets present significant potential for future autonomy conversions.

We will continue to make selective strategic investments in our digital capabilities to improve customer satisfaction and grow our market share.

### **3. DESCRIPTION OF OUR BUSINESS**

#### **3.1 Principal Lines of Business**

Below is a brief description of the products and services offered through our principal lines of business.

##### **3.1.1 Product Support**

We provide replacement parts and maintenance and repair services for the products we sell. A high level of customer service is essential to our long-term success and a continued emphasis on customer service promotes dedicated and customized solutions to meet customers' unique needs. In addition, we offer customers the service of rebuilding and refurbishing their aging equipment fleets to a new condition, to extend their fleet's operating life and help them defer major capital expenditures.

Through our digital performance solutions line of business, we provide our customers with digitally enabled services to drive productivity and safety for their connected equipment and fleets. Our performance solutions combine live data with the experience of thousands of pieces of equipment and the technical experts in our workforce to offer powerful equipment insights, condition monitoring and other value-added services. We continue to expand our online business to business capabilities and drive our omnichannel strategy so our customers can transact both online and from physical channels safely, efficiently and as they choose.

We maintain parts inventories in strategic locations across our territories to provide customers with convenient access to a supply of parts. Our major centres in each geographic area are connected through information systems, which provide timely information on both Finning and Caterpillar parts inventories.

In each of our regions, we employ qualified mechanics, welders, technicians, parts persons and other specialized tradespeople dedicated to product support. These specialized tradespeople comprise approximately 42% of our workforce in Canada, 47% of our workforce in South America; and 42% of our workforce in the UK and Ireland.

In addition to the in-shop capability at our Finning locations, we provide service at customer locations through specialized personnel and equipment. Many of our customer sites are in remote locations at very high altitudes or experience severe climatic conditions. We have consistently demonstrated our ability to successfully maintain and service equipment under these conditions, enhancing our reputation as a reliable full-service provider to our customers. We offer our customers long term maintenance and repair contracts for preventive maintenance, planned and guaranteed component replacement and guaranteed cost-per-hour contracts.

To meet the continuing demand for component replacement arising from the modular design of Caterpillar's products, we extensively use remanufactured components sourced from Caterpillar. In addition, we have centralized component remanufacturing centres in Edmonton, Canada; Leeds, England; Antofagasta, Chile; and Buenos Aires, Argentina, where trained technicians dismantle, test, repair and replace worn components. This centralization, through specialization and volume, creates economies of scale, enabling us to work with our customers to lower their overall cost of ownership. The remanufactured components are used in repairs or in an exchange program whereby the customer replaces a worn component with a repaired or remanufactured component, often at specified intervals to avoid failure, maximizing machine availability at an attractive cost compared to new replacement components. Through this process we also make a significant contribution to the circular economy, reutilizing a significant part of the equipment, which reduces waste, energy consumption and the greenhouse gas (GHG) emissions associated with equipment manufacturing, ultimately reducing our impact on the environment.

##### **3.1.2 New Equipment**

We distribute new Caterpillar products and other products complementary to Caterpillar-branded products, including tractors, off-highway trucks, drills, electric rope shovels, hydraulic excavators and draglines, backhoe loaders, excavators, forklifts, articulated trucks, loaders, log loaders, tree harvesters, skidders, motor graders, paving products, compactors, wheel tractor-scrapers, pipe layers and extensive underground equipment.

We also sell and rent new Caterpillar-branded and non-branded engines and power systems for use in electric power generation, oil and gas, marine, and industrial applications and supply complete or partial power systems engineering projects to customers.

### **3.1.3 Used Equipment**

We operate a used equipment business that complements new equipment sales and equipment rental. This full life cycle approach allows us to maximize the competitive advantage of Caterpillar equipment in the marketplace while offering customers full flexibility. Machines are accepted in trade, received from the rental fleet, and purchased on the open market. Some of this equipment is reconditioned or rebuilt in our service shops or rebuild centres and resold under a short-term warranty program. We also purchase and sell entire fleets of used equipment and sell used equipment on consignment or through auctions. Used equipment demand varies depending on general economic conditions, new product availability, customer buying preferences, and currency exchange rate considerations. The used equipment business is generally focused on the products and types of equipment for which we are a dealer. Unlike new equipment and engine sales, the used equipment business is not limited to our Caterpillar dealership territories.

### **3.1.4 Equipment Rental**

In addition to selling new and used equipment, we offer customers the ability to rent equipment.

Rental agreements range from short-term arrangements that provide customers with the flexibility to access reliable equipment to meet short term needs, to longer term arrangements that enable customers to have reliable equipment available at all times without having to invest the capital required to own the equipment. We also provide customers with equipment under rental agreements that include an option to purchase.

During peak periods, the rental fleet in the dealership business can be used to satisfy heavy customer demand, particularly during periods of longer lead times when customers are waiting for new product to be delivered. When slower economic conditions exist, customers can use the rental fleets to continue working while deferring capital expenditures on new equipment fleets until markets improve. Rental revenues are generally driven by general economic conditions and construction related demand.

Canada: operates three rental fleets. The heavy rental fleet is operated through the dealership network and focuses mainly on mid to large size Caterpillar earth moving equipment, such as track-type tractors, articulated trucks, wheel loaders and excavators, primarily for the construction and oil and gas industries. The power generation rental fleet services a wide variety of customers for larger temporary power generation applications. Our Canadian operations also offer rental products that include smaller Caterpillar earth moving equipment and forklifts, as well as work platforms, light towers, power generation and distribution equipment, heat products, air compressors and various other non-Caterpillar branded equipment, under the The CAT Rental Store banner.

South America: maintains a rental fleet consisting of motor graders, compactors, excavators, backhoe loaders, tractors, compressors, power generators, aerial work platforms and light towers. The rental business mainly serves customers in the construction and mining industries. The South American rental operations offer these Caterpillar products, as well as select non-Caterpillar products, under the The CAT Rental Store banner and through selected dealership branches.

UK and Ireland: maintains a fleet of rental equipment for rental contracts that are normally more long-term in nature. The fleet consists mainly of larger equipment such as wheel loaders and articulated and rigid chassis dump trucks. Customers served include quarrying and construction companies, as well as waste and recycling customers. Equipment rentals are facilitated through the dealership branches.

### **3.1.5 Refueling**

We operate a mobile on-site refueling business, 4Refuel, that serves customers in construction, transportation, oil and gas, power generation and other industrial sectors across most of the provinces of Canada and in Texas. Our refueling business complements our equipment business by helping customers improve the physical availability of their equipment and the productivity of their operations. We mostly service customers during off-hours, when equipment is idle, and leverage our Fuel Management Online System to further optimize the refueling process and save our customers additional time and money.

## **3.2 Principal Markets**

We serve customers operating in diverse markets, including mining and quarrying, construction (including pipeline and oil field development), power generation, and forestry. Customers include private enterprise and government. We have established industry and product specialists for the major markets in the geographic regions where we operate.

## Canada

Our Canadian operations span British Columbia, the Yukon Territory, Alberta, Saskatchewan, the Northwest Territories and a portion of Nunavut. In these regions, we serve diverse markets, such as mining (including the oil sands), construction, pipeline, conventional oil and gas, power systems, marine transportation, quarrying, forestry, agriculture, and commercial transport. As part of our industrial services strategy, the Canadian operations also provide mobile on-site refueling services through 4Refuel in most of the provinces of Canada, as well as in Texas, U.S.

The most significant markets served by Finning (Canada) are as follows:

Mining: We provide products and services for use in development of the Alberta oil sands and in the mining of coal, copper, molybdenum, gold, diamonds, silver, lead, zinc, potash, uranium and other metals and minerals in our territory. Most of the mining is done by open pit method, which lends itself to the application of large off-highway trucks, shovels, tractors, loaders, graders and draglines. Our surface mining products include drills, electric rope shovels and hydraulic excavators. In addition, we provide underground mining equipment. Operations in remote areas also require electric power generation equipment. High-hour usage of equipment in demanding applications creates substantial demand for parts and repair services from this market sector.

Construction: We provide products and services for use in the building and maintenance of highways, railway extensions, site development, residential and commercial construction, installation of utility services and similar projects.

Conventional Oil and Gas: Products and services include mobile earthmoving equipment for use in exploration and drill site preparation and excavators and pipe layers for use in gathering and delivery systems. In addition to our Western Canada market exposure, we have access to supply both purpose-built pipeline and traditional Caterpillar products to the global pipeline construction market through our 25% investment in PipeLine Machinery International ULC.

Forestry: We provide products and services for use in road building, harvesting and processing trees, silviculture, log transport to mills and ports and the handling of logs, lumber and finished products in mill yards.

Power Systems: We provide products and systems for use in oil and gas exploration and production, electric power generation and marine and industrial applications. Oil and gas markets include drilling, hydraulic fracturing, well servicing and gas compression, particularly in high horsepower applications. Electric power generation markets include power for remote communities and mines, local specialized power projects, camp power and electric power rentals.

## South America

Our South American operations serve a variety of markets in Chile, Argentina and Bolivia, including mining, construction, forestry, oil and gas, marine and electric power generation, the most significant of which are:

Mining: We provide products and services to support copper, gold and iron ore mines. These mine sites require fleets of off-highway trucks, shovels, loaders, tractors and other support equipment and often include long-term agreements for equipment maintenance. Our surface mining products include drills, electric rope shovels and hydraulic excavators. In addition, we provide extensive underground mining equipment. High-hour usage of equipment in demanding applications in South America creates substantial demand for parts and repair services from this market sector.

Construction: We provide products and services to the construction industry including road construction and maintenance projects, mine site preparation and infrastructure projects, and general residential and commercial construction.

Forestry: We provide products and services for road building, logging, log transportation and the handling of logs, lumber and finished products in yards, mills and port facilities.

Power Systems: We provide products and systems for use in electric power generation, oil and gas and marine power. Our electric power generation business includes sales of engines, generator sets and custom engineered power solutions for primary, stand-by or turnkey applications for customers engaged in various

dry-land markets, including mining, oil and gas, telecommunications, utilities and general construction. We also provide marine propulsion systems to the fishing industry and the Chilean Navy.

## **UK and Ireland**

Our operations in the UK and Ireland serve diverse markets, with the principal contributors to revenue being the construction, power and energy, and quarrying sectors:

Construction: We provide products and services for use in highway construction and maintenance, residential and industrial development, demolition, landscaping, waste and recycling landfill sites and recycling centres. An important customer group that serves the construction industry is plant hire or rental. Plant hire companies supply machinery and tools for a limited, yet flexible, period of time to end users.

Power Systems: We provide products and systems for use in electric power generation, marine power, industrial applications and oil and gas, and have recently been expanding this business to customers in Europe. Electric power generation is key for the electric capacity market and to provide mission critical power for commercial applications such as hospitals and data centres. Additional markets served in the UK and Ireland are pleasure craft and commercial marine, which purchase engines for vessels manufactured in the UK and Ireland and sold around the world, as well as certain industrial sectors (such as rock crushing), offshore oil platforms and the shipping industry.

Quarrying: We provide products and services for use in site reclamation, quarrying of limestone, granite and clay, and extraction of sand and gravel, and minimal coal mining.

## **3.3 Distribution Methods**

We operate through a network of branch locations and field representatives, and at customer mine sites. Our operations are represented across our territories by approximately 210 locations. We own the land and/or building at 18% of these locations.

We place a strong focus on providing customer support solutions to customers. An efficient parts distribution network, an integrated omni-channel solution, and a skilled workforce are key to achieving service excellence. The distribution network in each operating segment can be summarized as follows:

Canada: Caterpillar's distribution facility in Spokane, Washington, U.S. is the main distribution centre for Finning (Canada), with a secondary distribution facility in Morton, Illinois. Delivery routes are direct from these warehouses or via regional distribution centres throughout our territory, including the main regional distribution centre in Nisku, Alberta, which is managed by an independent logistics provider. Parts are distributed through branches, drop boxes, or delivered directly by logistics companies to both online and physical channel customers.

South America: Parts are primarily sourced from the Caterpillar parts distribution centres in Miami, Florida and Piracicaba, Brazil and are shipped by ocean and air to our parts distribution centres in Antofagasta and Santiago, Chile and Buenos Aires, Argentina and warehouses in Santa Cruz and La Paz, Bolivia. Through independent sub-contractors, a dedicated fleet of trucks makes daily deliveries of parts and components to our branches. Parts are distributed through branches, third party drop sites, or delivered directly by logistics companies to both online and physical channel customers.

UK & Ireland: Parts are primarily sourced from the Caterpillar parts distribution centre in Grimbergen, Belgium. These parts are stored in our UK national distribution centre in Cannock, UK, and are redistributed to branches throughout the UK and Ireland by our interbranch transport network, which is operated by an independent contractor, or delivered directly through national logistics companies to both online and physical channel customers.

## **3.4 Revenue by Principal Lines of Business**

We have diversified our business through different geographic areas, different lines of business based on the product or service supplied, and different customers and markets. This diversification means that our earnings and cash flow are less exposed to fluctuations in business or economic conditions that impact a specific geography, customer or market. While revenues reported by each reporting segment are mainly derived from business within the relevant territories, opportunities exist outside those territories for international power systems projects, pipeline

business and used equipment sales. The table below provides details of revenue by reporting segment and principal lines of business.

<b>Net revenue<sup>(1)</sup> for year ended December 31, 2020</b> (\$ millions)	<b>Canada</b>	<b>South America</b>	<b>UK &amp; Ireland</b>	<b>Consolidated</b>
Product support	1,812	1,386	275	3,473
New equipment	725	426	520	1,671
Used equipment	169	73	66	308
Equipment rental	133	37	26	196
Fuel and other	120	—	—	120
<b>Total</b>	<b>2,959</b>	<b>1,922</b>	<b>887</b>	<b>5,768</b>
Net revenue percentage by operations	51%	33%	16%	100%

Notes:

- (1) This financial metric, referred to as a “non-GAAP financial measure”, does not have a standardized meaning under IFRS, which are also referred to as Generally Accepted Accounting Principles (GAAP), and therefore may not be comparable to similar measures presented by other issuers. For additional information regarding this financial metric, including its definition and a reconciliation of this non-GAAP financial measure to its most directly comparable measure under GAAP, see the heading “Description of Non-GAAP Financial Measures and Reconciliations” in our 2020 MD&A. Management believes that providing certain non-GAAP financial measures provides users of our AIF, MD&A and consolidated financial statements with important information regarding the operational performance and related trends of our business. By considering these measures in combination with the comparable IFRS financial measures (where available) set out in the MD&A, management believes that users are provided a better overall understanding of our business and financial performance during the relevant period than if they simply considered the IFRS financial measures alone.

Our operations in Canada, South America, and the UK and Ireland offer products and services through five principal lines of business: product support, new equipment sales, used equipment sales and equipment rental and, in Canada and Texas, U.S., fuel. The following table summarizes our net revenue by principal lines of business:

## NET REVENUE BY PRINCIPAL LINES OF BUSINESS

### Net revenues:

(\$ MILLIONS)

	<u>2020</u>		<u>2019</u>		<u>Change</u>			
Product support	\$	3,473	60%	\$	3,793	52%	\$	(320)
New equipment		1,671	29%		2,776	38%		(1,105)
Used equipment		308	5%		361	5%		(53)
Equipment rental		196	4%		246	3%		(50)
Fuel and other		120	2%		114	2%		6
<b>Total</b>	<b>\$</b>	<b>5,768</b>	<b>100%</b>	<b>\$</b>	<b>7,290</b>	<b>100%</b>	<b>\$</b>	<b>(1,522)</b>

## 3.5 Employee Development

Our ability to succeed over time depends on the strength and capabilities of our employees. We employ skilled mechanics, technicians, parts persons, apprentices and highly qualified professional individuals and encourage training and career development for all our employees. We are also committed to building safe, talented and inclusive teams and believe this will help us across all operations to achieve our strategic and operational goals at all levels.

To ensure our employees feel safe, valued and a sense of belonging at Finning, regardless of differences, we launched a global respect, inclusion and diversity policy. Championed by our leaders, this policy outlines expectations to protect employees’ psychological and physical safety, through respect, inclusion and belonging. In addition, it empowers employees to be allies for inclusion, spotting risks and barriers to equity and inclusion, and working collaboratively with leaders to resolve gaps and celebrate successes. In support of this expectation, we commit to providing employees with resources to support their learning and development, as we all move along our inclusion journey as individuals, as teams, and as an organization.

For more information on how we enhance our employees’ skill levels, expertise and engagement, and on our inclusion and diversity initiatives, see our Sustainability Report available on our website at [www.finning.com](http://www.finning.com).

### **3.6 Competitive Conditions**

We are part of Caterpillar's global dealer network. As a dealer, we sell, rent and support Caterpillar equipment in the territories where we represent Caterpillar and through 4Refuel, we offer on-site fueling solutions in Canada and Texas, U.S.

We primarily compete with a large number of equipment distributors who sell and support equipment manufactured by companies other than Caterpillar. The competitive environment for Caterpillar's machinery and engine business consists of global, regional and specialized local enterprises. We believe our competitive advantage in our territories lies in superior product quality, exceptional service capability, component remanufacturing capability, product customization, strong omni-channel distribution capability and parts availability, an extensive branch network, our proximity and knowledge of our customers, and an increasing range of digital services and solutions offered to our customers to improve their equipment performance, and our on-site fueling solutions that reduce our customers' total operating costs.

Caterpillar offers a broad range of superior quality products, which provide us with a significant competitive advantage. Caterpillar's competitors generally offer a more limited range of products, and in many cases, these products are specific to particular market segments and applications within those segments.

Our superior product support capability and expanded offerings that include on-site fueling, combined with data and insights from connected equipment and our domain expertise, gives us a distinct competitive advantage when customers are looking to achieve the lowest operating cost over the life of their equipment.

### **3.7 Business Cycles**

Many of our customers operate in industries that are cyclical in nature. As a result, customer demand for our products and services may be affected by economic conditions on a global or local level. A number of factors, including changes in interest rates, inflation, economic growth or contraction, levels of taxation, foreign exchange rates, commodity prices, trade wars, environmental regulation and approval processes, the level of government infrastructure spending, government changes and policy changes may influence capital expenditure decisions and, ultimately, our sales. Through diversification by geography, by markets and by the services we offer, we endeavour to mitigate some of this cyclical impact.

### **3.8 Dealership and Distributor Agreements**

We have dealership and distributor agreements with several equipment manufacturers and distributors, the most significant being Caterpillar. We also have dealership agreements with companies owned by Caterpillar, such as Perkins and MaK. Under the terms of our agreements with Caterpillar, we are responsible for marketing, supplying, distributing and servicing Caterpillar's products in our dealership territories. Our principal agreements with Caterpillar can be terminated on 90 days' notice in Canada and South America and six months' notice in the UK and Ireland. Other agreements with Caterpillar can be terminated on three to six months' notice. If Caterpillar terminates an agreement, Caterpillar must purchase substantially all CAT-related inventories of new equipment and new parts from us at cost. We have been a Caterpillar dealer since 1933 and have developed a strong relationship with Caterpillar. Our management is not aware of any matter that could result in termination of any of our dealership agreements with Caterpillar.

Over 96% of our business involves Caterpillar products. Our business is therefore dependent on market acceptance of Caterpillar products. From time to time, Caterpillar finds it necessary to allocate supply of particular products among its dealers. Such allocations of supply may increase lead times for product delivery and decrease overall inventory levels in our regions; however, we work closely with Caterpillar to mitigate these issues and the impact to our customers.

In addition to the Caterpillar dealer relationships noted above, we have developed dealer relationships for other complementary product lines in order to create new marketing opportunities and to expand our product support.



### **3.9 Employee Relations**

We had 11,952 employees at the end of 2020 compared to 13,188 employees at the end of 2019. A breakdown of where these employees are located is as follows:

<b>As at December 31</b>	<b>Canada</b>	<b>South America</b>	<b>UK and Ireland</b>	<b>Total</b>
2020	5,189 <sup>(1)</sup>	5,318	1,445	11,952
2019	5,818	5,870	1,500	13,188
Change	(629)	(552)	(55)	(1,236)

(1) Canada includes 84 4Refuel employees in the U.S.

We (either directly or through one of our subsidiaries) are party to 15 collective agreements covering approximately 63% of our employees. There are three collective agreements covering employees in Canada, ten collective agreements covering employees in South America and two collective agreements covering employees in the UK and Ireland. We are also in the process of negotiating a collective agreement at a 4Refuel location in Canada, and renewing a collective agreement in Alberta which expired on December 31, 2020. Our remaining collective agreements expire on various dates from 2021 to 2023.

### **3.10 Foreign Operations**

In 2020, we generated approximately 51% of net revenue from operations in Canada (2019: 54%); 33% from South America (2019: 30%); and 16% from operations in the UK and Ireland (2019: 16%). Net revenue from operations outside of Canada contributed approximately 49% of consolidated net revenue in 2020, compared to 46% in 2019.

### **3.11 Ethics**

Our Code of Conduct (Code) forms the cornerstone of how we conduct business and how our employees' actions contribute to our corporate goals. The Code sets out our expectations for the ethical behaviour of our directors, officers and employees. Our Code of Conduct encompasses ambassadorship and accountability, privacy, ethical conduct, inclusion and diversity, confidentiality, environmentally responsible practices, health and safety, anti-bribery and anti-corruption, business integrity, financial accuracy and accountability, including fair and full disclosure of our financial results, and how to deal with breaches of the Code. The Code is further supported by our Global Anti-Bribery and Anti-Corruption Policy, Whistleblower Policy, Supplier Code of Conduct and Code of Ethics for Senior Executive and Financial Management. The Supplier Code of Conduct outlines the environmental, ethical and social expectation we have of our suppliers, including the expectation that our suppliers have policies to address safety and health, inclusion and diversity, anti-harassment, and the participation of women and underrepresented and/or marginalized groups. It also addresses anti-bribery, modern slavery and data protection.

Our Code of Conduct is reviewed annually by our Board and senior management. All directors, officers and employees are required to take training and acknowledge their compliance with the Code on an annual basis.

The Board monitors compliance with the Code of Conduct through the Audit Committee. All directors, officers and employees have a duty to report suspected Code violations. The Audit Committee receives quarterly reports of Code complaints and trends in complaints, and specific reports if any material violations are alleged. In order to address Code matters in a timely, unbiased and confidential manner, we have established a Global Ethics Committee comprised of the Compliance Officer (General Counsel), Executive Vice President & Chief Financial Officer, Head of Global Internal Audit, Chief Human Resources Officer and Senior Vice President, Corporate Controller, and Regional Ethics Committees in each of our three regions comprised of senior level executives in finance, legal, human resources and internal audit. The Global and Regional Ethics Committees are management committees. The Global Ethics Committee delegates the investigation of potential Code violations, where appropriate, to the applicable Regional Ethics Committee, who reports the results of investigations and any recommended actions to the Global Ethics Committee for approval. The Global Ethics Committee investigates and takes appropriate actions regarding any reports of suspected Code violations that it determines not to delegate to a Regional Ethics Committee.

Our Whistleblower Policy enables any issue that may arise to be resolved internally by us, without fear of retaliation. Anyone who believes that a violation of our Code of Conduct has occurred or who requires advice regarding compliance with the Code is encouraged to report such suspected violation or concern through our

compliance website or telephone hotline or to our Compliance Officer. The compliance website and the telephone hotline are managed by an independent global reporting agency. Further information on the reporting of ethics violations or concerns is provided in our Code of Conduct and in our Whistleblower Policy.

The Whistleblower Policy, Code of Conduct, Supplier Code of Conduct, Global Anti-Bribery and Anti-Corruption Policy and Code of Ethics for Senior Executive and Financial Management are all available on our website at [www.finning.com](http://www.finning.com).

### **3.12 Sustainability**

Our commitment to sustainability is a commitment to focus on a sustainable business model, with operations to create more value for all our stakeholders, including employees, communities, customers, the environment and shareholders. We work to create positive impacts in the communities where we operate, to reduce our environmental impacts, and to continually evolve to address the needs of our stakeholders.

In 2020, we continued making progress in our sustainability journey. We focused on the sustainability topics that are most relevant to our business, including people, environment, products, communities, ethics and governance. Our performance and progress in our journey are highlighted in our annual Sustainability Report and through the implementation of our sustainability roadmap, which is overseen by our global and regional sustainability committees. To further our efforts in environmental protection specifically, we have set a target to reduce our absolute GHG emissions by 20% by 2027 (from a 2017 baseline). In 2020, we also continued our efforts to support the United Nations Sustainable Development Goals by continuing to align our Sustainability Report with these commitments. We are also evolving the disclosure of our climate-related risks and opportunities. As a first step, we have aligned our Sustainability Report with certain requirements of the Task Force on Climate-Related Financial Disclosures (TCFD). Our disclosures are also aligned with the Sustainability Accounting Standards Board (SASB).

Our Sustainability Report is available on our website at [www.finning.com](http://www.finning.com).

## **4. KEY BUSINESS RISKS**

### **4.1 Risk Management**

We are exposed to market, credit, liquidity, and other risks in the normal course of our business activities. Our enterprise risk management (ERM) process is designed to ensure that such risks are identified, managed, and reported. This ERM framework assists us in managing business activities and risks across the organization in order to achieve our strategic objectives.

We are dedicated to a strong risk management culture to protect and enhance shareholder value. On a quarterly basis, our key business risks and any changes to the top risks and exposures and the steps taken to monitor and control such exposures, are reviewed by management and at the Board committee level and reported to the Board. The Board also reviews all material risks on an annual basis. The adequacy of disclosures of key risks in our AIF, MD&A, and financial statements are reviewed on a quarterly and annual basis. All key financial risks are disclosed in the MD&A and other key business risks are disclosed in our AIF.

For disclosure on our key financial risks (Pandemic Outbreak and Impact on Financial Results; Commodity Prices; Financial Instruments Risk; Credit Risk; Liquidity Risk; Market Risk and Hedging; Interest Rate Risk; Share-Based Payment Risk), Contingencies and Guarantees, Controls and Procedures Certification, and Accounting and Estimates, refer to our MD&A and the annual consolidated financial statements for the fiscal year ended December 31, 2020. Key business risks are disclosed in this AIF.

### **4.2 Key Business Risks**

#### **4.2.1 COVID-19 Pandemic**

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

The outbreak of COVID-19 has caused and continues to cause considerable disruption to the world economy, including financial markets and commodity prices. In periods of significantly lower commodity prices, development of new projects can be slowed or stopped and production from existing projects can be curtailed, leading to less demand for equipment or services we supply. In 2020, some of our customers requested to delay equipment deliveries as a result of their halted operations, parked equipment fleets, or delayed projects, and some equipment orders were also cancelled. These effects had a significant negative effect on our 2020 financial results.

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

Our operations and the operations of many of our customers have been deemed essential services during the pandemic and have remained open. A localized outbreak of a contagious illness such as COVID-19 could impact operations, risk the health of our employees who continue to work in branches or on customer sites, and result in the temporary closure of one or more of our major facilities or the facilities of our customers. We are following the requirements and advice of government and health authorities in each jurisdiction where we operate. We eliminated non-critical travel during the peak of the pandemic in 2020 and are taking a cautious approach to relaxing travel restrictions, in line with these requirements and advice. We have applied a risk-based approach to assessing each facility in our global operations. A series of preventative measures have been developed and executed at each facility that at a minimum include communication on the COVID-19 response protocol, awareness training, personal and facility specific hygiene practices, physical distancing, and work-from home arrangements where possible. Rules in all jurisdictions continue to change and further government intervention or quarantine restrictions could impede our ability to continue to manage the business.

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

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

#### **4.2.2 Relationship with Caterpillar**

The majority of our business involves the distribution and servicing of Caterpillar products. Our business is therefore highly dependent on continued market acceptance of Caterpillar's products. We believe that Caterpillar has a solid reputation as a manufacturer, with excellent brand recognition and customer support, and has high market share in many of the markets it serves. However, there can be no assurance that Caterpillar will be able to maintain its reputation and market position in the future. If Caterpillar is unsuccessful in developing and enhancing its product lines to meet evolving and sophisticated customer needs, is unable to maintain the quality of its products, or is unable to provide its products at competitive prices, market acceptance for Caterpillar products may deteriorate over time.

Any resulting decrease in the demand for Caterpillar products could have a material adverse impact on our business, results of operations and future prospects.

We are also dependent on Caterpillar for the timely supply of parts and equipment to fulfill our deliveries to customers and meet the requirements of our service maintenance contracts. In instances where Caterpillar reduces its production capacity or during periods of intense demand, Caterpillar may find it necessary to allocate its supply of particular products among its dealers. Such allocations of supply have not, in the past, proven to be a significant impediment to us in conducting our business. When supply constraints have occurred in the past, we have been successful in utilizing our rental assets, used equipment, and other sources (such as the dealer network) to meet demand, but there can be no assurance of continued success in this area. A significant disruption to our global supply chain could adversely affect our business, results of operations, and financial condition.

Our product supply could also be disrupted by labour disputes or strike action at Caterpillar. Caterpillar may also choose to discontinue a product line that is profitable for us. Prolonged delays or discontinued product supply may adversely affect our business, results of operations and financial condition. Historically, this has not been an issue for us.

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

We have a long-standing relationship with Caterpillar that dates back to 1933, when we were awarded our first dealer territory in Canada. Since 1933, and as part of our strategic plan, we have continued to develop our relationship with Caterpillar, expanding our dealer territories in Canada, the UK, Ireland and South America.

We enjoy an excellent relationship with Caterpillar, which management is confident will continue to be very strong into the future. However, as is customary in dealership arrangements of this type, the sales and service agreements with Caterpillar are terminable by either party upon 90 days' notice in most regions, and upon six months' notice in the UK and Ireland. If Caterpillar terminates an agreement, it must repurchase substantially all inventories of new equipment and parts from us at cost. Caterpillar may also, from time to time, change various elements of the dealership operating model or its dealer operating practices. Termination of any such agreement or a change to the business model or its dealer operating practices would have a material adverse impact on our business, operational results, and future prospects.

#### **4.2.3 Economic Conditions / Business Cyclicity**

Many of our customers operate in industries that are cyclical in nature. As a result, customer demand for our products and services may be affected by economic conditions on both a global and local level. Changes in interest rates, inflation, economic growth, levels of taxation, legal and regulatory matters, foreign exchange, commodity prices, customer access to resources, the level of government or other infrastructure spending and international trade agreements may influence capital expenditure decisions, and, ultimately, our sales. We have mitigated some of our exposure to variable business cycles and credit risk by diversifying our business across a broad range of business activities, industry sectors and geographic locations. A significant amount of our gross margin is generated from parts and service activities, which are less sensitive to swings in commodity prices than equipment sales. Despite our geographic and business diversification, an economic downturn in one or more markets or regions may adversely impact our operating results, particularly at a regional level. In addition, a sustained downturn in performance may impact our share price. We mitigate the economic risks associated with lower business volumes at a regional level through cost reduction initiatives and through constant evaluation of efficiency and process improvements.

#### **4.2.4 Information Systems, Technology and Business Process Changes**

Information systems and technology enable two main categories of solutions – those that facilitate internally consumed services and improve business performance, and those that facilitate customer facing activities and drive revenue.

The integrity, reliability and availability of technology and the data processed by that technology is an integral part of our business processes, including marketing of equipment and support services, inventory and logistics optimization, business intelligence and finance. Some of these systems are integrated with Caterpillar's core processes and systems.

We continue to invest to improve business performance through our internal transactional systems and will upgrade or install various business process enablement and decision support systems on a continuous basis in the coming years. These system implementations often drive business process changes as well as technology changes.

Information systems, technology and business process changes, and related organizational change, often carry a risk of business disruption, failure to achieve expected business benefits, cost overruns and ineffective design and operation of systems of internal control over financial reporting and disclosure controls and procedures. Benefits assessment, change management, risk and impact assessments, solution validation, strong project governance, communication and training have been identified as critical success factors in the successful implementation of new systems. Any disruptions to these systems or the failure of these systems to operate as expected, or any failure to appropriately adapt to business process changes, could, depending on the magnitude of the problem, adversely impact our operating results by limiting the ability to effectively monitor and control our operations.

In addition, new digital and other technologies and advancements to equipment in the market, such as equipment electrification, can become disruptive to our operations, market share and business model. We scan continuously for emerging digital and other technologies and equipment advancements and their potential impacts. In order to face this disruption risk, our digital and technology solutions initiatives are focused on investigating emerging digital technologies to determine how they can impact customers and our core business opportunities, improving the customer experience, and identifying and pursuing new opportunities for revenue generation in the digitally enabled value-added services area. While execution performance to date has been strong, our failure to meet these objectives could have an adverse impact on our business.

A rigorous management process is being followed to manage these risks and a great deal of the business processes and systems transformation program focus is on developing capabilities to reduce and mitigate these risks, however, there is no certainty that these risks can be sufficiently reduced or mitigated.

#### **4.2.5 Cybersecurity**

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

Many of our information technology systems, applications and supporting network infrastructure are in the process of being, or have recently been, upgraded. If we are unable to effectively upgrade and continually maintain our systems, applications and network infrastructure, or if we are delayed in doing so, the risk of a cybersecurity incident may increase. As monitoring capabilities are not always fully effective, we may also fail to identify cybersecurity breaches or be unable to discover them in a timely way, which could affect our ability to implement adequate preventative or remediation measures. Our risk of experiencing a cybersecurity incident has increased as the world has seen an increased number, intensity, and sophistication of attempted attacks and intrusions globally.

Although we make significant efforts to maintain the security and integrity of our information technology systems, there can be no assurance that those efforts and measures will be able to prevent all cybersecurity incidents. A cybersecurity incident could have various negative implications for us, including the following:

- a disruption of our business operations and lost revenues;
- unauthorized access to, or destruction, loss, theft, misappropriation or release of, our proprietary, confidential, sensitive or otherwise valuable information or that of our customers, suppliers or employees, which could be used for disruptive or otherwise harmful purposes;
- disruptions in the functioning or operation of equipment, which could lead to property loss or damage or personal injury or death;
- damage to our reputation with our customers, partners (e.g., Caterpillar), suppliers, investors and the general public;
- a disruption to the proper functioning of our information technology systems;
- potential significant expenditures related to remediation;

- investigations by regulatory agencies or litigation, claims and liability for breach of contract, damages or other penalties;
- inability to process customer transactions or service customers; and/or
- disruptions to inventory management.

We continuously implement security controls, training, policy enforcement mechanisms, management oversight and monitoring systems in order to prevent, detect and address potential threats. Our information security program aligns with global best practices and information security frameworks such as ISO 27001/2 and the Center for Internet Security (CIS) Critical Security Controls. Our Board, through the Audit Committee, oversees information security. We have a Chief Digital Officer who is focused on developing and improving our information security program and leads a skilled and diverse team located throughout our operating regions. Our Chief Digital Officer routinely reports to the Audit Committee and the Board on information security matters. The Audit Committee also receives quarterly cybersecurity and IT risk and risk mitigation updates from our executive officers. We have an in-house Cyber Security Operations Center (CSOC) that monitors for cyber security incidents to proactively defend against cybersecurity incidents. The CSOC is augmented by a service provider for advanced threat intelligence and a retainer is in place should a cyber security incident occur. An internal Global Data Breach Response Team, comprised of our Chief Digital Officer, Chief Information Security Officer, Privacy Officer, Chief Financial Officer, General Counsel and Head of Global Internal Audit, and regional data breach teams, have been assembled to execute incident response plans if needed. Our security team is involved in the procurement process and reviews all software, hardware and cloud-based contracts to be entered into by us to ensure privacy and cybersecurity elements are addressed. We require our cloud-service providers to obtain a Service Organization Control type 2 report annually for our review. Our executives and employees undergo mandatory security awareness training. We carry cyber insurance coverage as part of a stand-alone cyber insurance policy, however, there is no assurance that this coverage will apply or fully cover damages incurred in the event of a cyber incident. The occurrence of a significant loss or claim, or a greater number of these losses than anticipated, could have a material adverse impact on us. Our risk and exposure to these matters cannot be fully mitigated because of, among other things, the evolving nature of these threats. As a result, cybersecurity and the continued development and enhancement of controls, processes, practices and training designed to protect systems, computers, software, data and networks from attack, damage or unauthorized access remain a priority.

#### **4.2.6 Safety & Health**

Our business activities, including but not limited to the servicing and rebuilding of equipment and operation of fuel trucks, are inherently dangerous, with the potential for serious injury, loss of life and damage to property, which could result in negative financial and/or reputational impacts for us.

To mitigate those risks, a comprehensive and standardized safety and occupational health program is implemented in all regions, which includes leadership walkthroughs, training, inspections, observations, standards and procedures, job hazard assessments, audits, incident investigation, emergency preparedness, industrial hygiene assessments and other measures focused on maintaining a safe and healthy work environment. These programs are supplemented with a global audit plan focused on the implementation of global standards for critical operations.

For more information on our safety and health practices and programs, see our Sustainability Report on our website at [www.finning.com](http://www.finning.com).

#### **4.2.7 Climate Change**

We recognize that climate change is a serious global challenge and we are committed to monitoring, reporting and reducing GHG emissions of our operations.

We operate workshops and remanufacturing and other facilities and a fleet of vehicles, including cars, pick-up trucks, vans and large service trucks, and tanker trucks in our refueling business. At our facility locations, we repair equipment and replace parts and large components. We do not manufacture any new equipment. However, as a result of our operations, we generate direct GHG emissions (Scope 1) from fuel combustion in our fleet, natural gas use for heating facilities, and diesel use for engine and transmission diagnostics. We also generate indirect GHG emissions (Scope 2) from purchased electricity.

Our strategy to address the climate change challenge is to focus on monitoring our emissions, annually report our Scope 1 and Scope 2 emissions data through GDP Global's Carbon Disclosure Project and our Sustainability Report, and identify and implement opportunities for emissions reductions. Implementing practices that minimize our impact on the environment is a high priority. To that end, we have set a corporate target to reduce our GHG emissions

by 20% by 2027 (from a 2017 baseline). Focus in this area is viewed as a shared responsibility between us and our employees and is an important part of our corporate culture.

Governance of all aspects related to GHG emissions and climate change is held by the Safety, Environment and Social Responsibility Committee of our Board, which reports to the Board, and the Finning Leadership Team, which is comprised of the Chief Executive Officer, Chief Financial Officer, Presidents of the three regions in which we operate, Chief Digital Officer, Chief Human Resources Officer, General Counsel and Executive Vice President, Global Supply Chain, and may include other executives as may be designated by the Chief Executive Officer. Climate-related risks are identified, assessed and managed through our ERM processes and are updated and reviewed quarterly.

In 2020 we continued evolving in the identification of climate related risks in alignment with the Task Force on Climate-Related Financial Disclosures (TCFD). Our principal climate related risks are categorized into risks related to the transition to a lower carbon economy (transition risks) and physical risks resulting from climate change (physical risks) and are described below.

Transition risks may impact our business through increased and shifting government policies and regulations, pivoting customer demand for products and services (including through technological change) and ultimately impacting our operating costs. Increased focus on climate-related policies in Canada, Chile, Argentina and the UK may influence market dynamics applicable to our customers. The resulting regulations or changes to regulations may also impact our customers. For instance, many of our customers operating in the Alberta oil sands have disclosed risks related to uncertainty surrounding climate-related regulations and risks related to carbon taxes. Since these risks are relevant to our customers, as a supplier, these risks could negatively impact our business through reduced demand for our products and services. Further, carbon pricing and climate policies also impact the cost of goods and energy, which may increase our operating costs.

We also face increased stakeholder pressure to reduce emissions. All industries are attempting to reduce emissions, which may increase demand for vehicle electrification and other measures to reduce emissions and vehicle usage. We are an important part of the value chain associated with the oil and gas sector in Western Canada and other resource industries in the countries where we operate in South America and the UK and Ireland. As awareness of climate-related risks and impacts increases, there is growing concern about whether, or how, expansion of fossil fuel infrastructure is consistent with action on climate change. Since we are a major supplier of heavy-duty equipment to these industries, there is potential for this to have a negative impact not only on our brand and reputation, but also on our business prospects, results and/or share price.

Physical risks from climate change that may negatively impact our business relate to both event-driven impacts and longer-term disruption caused by climate change. Acute climate events, including changes in temperature extremes (such as extreme cold in winter and heat waves in summer and associated wildfire risk) in our operating regions could have an adverse impact on our operations. This risk may also give rise to more frequent use and maintenance of existing facility-related equipment (e.g. heating/cooling systems), resulting in increased operational costs. Increasing climate stressors in South America, such as water stress and drought, may also put operational stress on our operations and the operations of our mining customers in those regions. Further, increasing temperatures and increasing acute events could require an investment in our facilities to ensure that employees are able to work in a safe environment.

These climate related risks may negatively impact us from a share price and business, financial and reputational perspective.

#### **4.2.8 Competition**

We compete with a large number of equipment vendors worldwide that sell equipment manufactured by companies other than Caterpillar. Although price competition between us and other equipment vendors can be intense, there are a number of factors that have enhanced our ability to compete throughout our market areas, including: the range and quality of Caterpillar products; the range and quality of our services and the digital performance solutions we offer; our ability to meet sophisticated customer requirements; our effective and efficient distribution capabilities; the number of our sales and service locations; and our proximity to our customers.

We may encounter increased competition in the future through new entrants into the market and the expansion of e-commerce channels for parts and equipment sales, which may put pressure on prices. We may also encounter competition through the introduction of digitally enabled or digitally enhanced value-added services from third parties, including potential new non-traditional entrants into the market. In addition, pressure on prices may occur as a result of increased volumes of data in the marketplace, increasing price transparency and customers' pursuit

of value-added services, which would put commoditization pressure on core physical parts and equipment and service sales.

Further, foreign currency movements could provide relative pricing advantages to competitors who transact their business in different currencies than us.

Increased competitive pressures for these or other reasons, or our inability to maintain the factors which have enhanced our competitive position to date or develop effective responses to new competitive pressures, could adversely affect our business, results of operations and financial condition.

#### **4.2.9 Growth Initiatives / Integration of Acquisitions / Project Execution**

As part of our long-term corporate strategy, we intend to grow our business through a combination of organic growth and strategic acquisitions. Our ability to successfully grow our business is dependent on a number of factors including: identification of value creating business or acquisition opportunities; negotiation of purchase or investment agreements on satisfactory terms and at satisfactory prices; prior approval of certain acquisitions by Caterpillar or other parties, including approval of regulatory authorities; the ability to secure attractive financing arrangements; and the ability to successfully integrate newly acquired operations into the existing business. There can be no assurance that we will be able to identify such business or acquisition opportunities, negotiate satisfactory purchase or investment terms and prices, obtain necessary approvals or secure financing on acceptable terms. Although we make every effort to successfully integrate new operations, there can be no assurance that we will fully realize the anticipated revenues, synergies, or other intended benefits associated with any acquisitions we do make.

Further, any significant expansion of our business may increase our operating complexity and divert management attention away from regular business activities. Any failure to manage our growth strategy successfully could have a material adverse impact on our business, results of operations, and financial condition.

We have strategic initiatives underway, designed to improve our strategic position and operational and financial performance. These initiatives include placing a greater focus on meeting customer expectations and on continuously sustaining or improving employee engagement. Failure to effectively execute on these initiatives may result in the inability to obtain desired business results and could adversely affect our business, results of operations and financial condition.

We have adopted and implemented a project management process in order to manage risks associated with the complexity of the initiatives and projects underway.

#### **4.2.10 Key Personnel**

Our success in achieving our goals is largely dependent on the abilities and experience of our senior management team and other key personnel. Our future performance will also depend on our ability to attract, develop, motivate and retain highly qualified employees in all areas of our business and to successfully integrate employees transitioning to us from acquisitions. Competition for highly skilled management, sales and technical personnel is intense, particularly in certain geographic areas where we operate. To help mitigate this risk, we have implemented a number of human resources initiatives, including training and career development programs (see section 3.5, Employee Development, in this AIF for more on our employee development activities), succession plans, engagement surveys, performance management systems, compensation programs and recruiting strategies.

Although we actively manage our human resources risks, there can be no assurance we will be successful in our efforts. The loss of certain key employees, or failure to attract, retain and motivate talent as needed, may have an adverse impact on our business, results of operations and future prospects.

#### **4.2.11 Long-term Product Support Contracts and Complex Power and Energy Systems**

We enter into long-term product support contracts with some of our customers. Under these contracts, we agree to maintain certain fleets of customer equipment at negotiated performance levels. The lengths of these contracts vary, often ranging up to five or more years. The contracts are generally either at a fixed price over the term or can vary depending on equipment utilization. Many contracts have additional provisions for inflationary or currency adjustments.

We also enter into complex power and energy systems contracts with some of our customers, which are engineered solutions involving the design, installation and assembly of power and energy systems. The length of these contracts varies, but typically they have a term of under two years. The contracts are generally at a fixed price over the term and provide for penalties payable by us if contractual milestones are not met.



We have developed processes and have controls in place to ensure contracts are bid appropriately, but due to the nature and complexity of these contracts, there is a risk that significant cost overruns may be incurred. If we miscalculate the extent of work required, or if actual parts and service costs increase beyond the agreed adjustments, contract profitability may be adversely affected. All long-term product support contracts and complex power and energy systems contracts are validated against historic Finning and Caterpillar data, such as on conservative component change out periods, and usually include an escalation clause to cover inflationary increases where appropriate. We closely monitor these contracts for early warning signs of cost overruns, however, there can be no assurance that cost overruns will be avoided.

Preventative measures such as condition monitoring and scheduled fluid sampling help to identify problems in equipment subject to long-term maintenance contracts early on and help reduce the risk of costly repair work. There is no assurance that such measures will always address such risks.

Caterpillar may, in certain circumstances, share in cost overruns if profitability falls below a certain threshold. Our failure to effectively price and manage these contracts could have a material adverse impact on our business, results of operations and financial condition.

#### **4.2.12 International Operations**

We have operations outside of Canada, including in the UK, Republic of Ireland, Chile, Argentina, Bolivia and Texas, U.S. We also serve power systems customers in some countries in Europe out of our UK and Ireland operations. Our international subsidiaries are subject to risks normally associated with the conduct of business in foreign jurisdictions, including: uncertain political and economic environments; war, insurrection, and other civil disturbances; changes in laws, regulations, and taxation; foreign currency exchange controls; import and export controls; and limitations on the repatriation of earnings. These risks may limit or disrupt operations, increase costs, restrict the movement of funds, or result in the loss of property. Although we closely monitor our foreign investment risks, there can be no assurance that we will not be adversely affected by political, economic and other events beyond our control.

In June 2016, the UK voted to exit the European Union (EU), which created significant economic uncertainty and disruption. The UK subsequently left the EU on January 31, 2020 under a withdrawal agreement and through a transition period that ended December 31, 2020. A new trade deal between the UK and the EU was reached in December 2020 and has limited impact on our UK dealership, with no additional tariffs imposed and continued access to the single market. While significant planning was completed ahead of the Brexit leave date in conjunction with Caterpillar to mitigate supply chain risk, we continue to monitor all activities relating to Brexit as the end result may take a number of years to resolve and the resulting uncertainty may have an adverse effect on our business and financial results.

In 2019, the Argentina government began implementing restrictive monetary policies and capital and imports controls. We are actively managing key risks related to these policies and controls, including Argentina peso devaluation, and are maintaining a minimal level of investment in Argentina to manage these risks and support our customers. However, no assurance can be given that we will be able to maintain profitability in Argentina or that the government's restrictive monetary policies and capital and imports controls will not negatively impact our business and financial results.

In October 2019, Chile began experiencing a series of civil disturbances resulting in significant damage to property and the deaths of some civilians. Bolivia also experienced civil disturbances in October and November 2019. Although the extent of these disturbances appears to have diminished, the risk of civil unrest still remains, particularly in Chile. Potential impacts arising from the civil unrest include disruption to our operations and the operations of our customers and increase in costs of carrying on business as a result of social reforms and taxes. Further, political and social uncertainty in Chile related to the establishment of a new constitution poses a risk to our business, particularly in non-mining sectors, which are dependent on the government's investment in infrastructure and energy. The Chilean government's social reform agenda to reduce income inequality and prevent future social instability could potentially lead to higher costs and higher taxation for us and our customers, which could result in a slower rate of foreign investment in Chile and lower economic growth in the country in the near term, with a resulting negative impact on our business and financial results.

Our 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 us to import goods into Argentina to satisfy customer demand, while meeting the government's requirements. Our 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 us associated with the export of this agricultural product over this period and has also issued an order that could result in up to a one-year suspension of imports into Argentina by a portion of the business. We are appealing these claims and the order, believe they are without merit, and are confident in our position. Mitigation measures are also available to us. These pending matters may take a number of years to resolve. Should the ultimate resolution of these matters differ from management's assessment and the mitigation measures not be effective, this could have a material negative impact on our financial position.

#### **4.2.13 Labour Relations**

Many of our employees are represented by unions and we are party to a number of collective bargaining agreements worldwide, which are subject to expiration at various dates in 2021 to 2023.

While we are committed to the collective bargaining process and to concluding a fair contract for us and for our employees, the renegotiation process could result in future work stoppages or higher wages and benefits paid to union members. The failure to renew collective agreements upon satisfactory terms and in a timely way could have a material adverse impact on our business, results of operations, and financial condition.

#### **4.2.14 Business Continuity Risks**

The occurrence of one or more natural disasters, such as earthquakes, wildfires and hurricanes, unusually adverse weather, pandemic outbreaks, boycotts and geo-political events, such as civil unrest in countries in which we operate, acts of terrorism, or similar disruptions, could materially adversely affect our business, people, customers and financial results. We continue to enhance our business continuity program to address and mitigate, to the extent possible, the impact of these risks, including preparing for future waves of COVID-19. However, no such plan can eliminate the risks associated with events of this nature, which could still have a material adverse impact on our business, results of operations and financial condition.

#### **4.2.15 Government Regulation**

Our business and customers are subject to evolving law, regulation and intervention by governments at the federal, provincial, state and municipal levels in the countries where we and they conduct operations. As these governments continually balance competing demands from different interest groups and stakeholders, we recognize that the magnitude of regulatory risks has the potential to change over time. Although we cannot predict the future development of such laws and regulations, or their impact on future earnings and operations, changes in government policy, legislation or regulation could impact our existing and planned projects as well as impose costs of compliance and increase capital expenditures and operating expenses. In addition, changes to laws and regulations may impact our customers in ways that affect their demand for our products. Amendments to, or more stringent implementation of, current laws and regulations governing our operations or the operations of our customers could have a material adverse effect on our business, operating results or financial position. In addition, noncompliance with laws and regulations could significantly damage, and require us to spend substantial amounts of money to rebuild, our reputation and negatively impact our business.

Examples of regulatory risks that could affect us include, but are not limited to, uncertain or negative interactions with governments, uncertain agricultural or mining policies, uncertain climate change related policies, uncertain environmental, health and safety policies, expropriation or cancellation of contractual rights, currency exchange controls, limitations on repatriation of earnings, loss of licences to operate, penalties, taxes, royalties, government fees, restrictions on production, price controls, export controls, import restrictions or other restrictions or changes applicable to, among other things, equipment, services and supplies, currency remittance, foreign investment, financial reporting and disclosure obligations, corporate governance, antitrust, customs and trade, employees, contractors, transportation, pensions, benefit plans, and the manufacture and sale of consumer products. In addition, more stringent regulations on climate change could lead customers to look for equipment and technology that contribute to reduce GHG emissions, which brings risks and also opportunities for us. We are currently subject to GHG regulations on climate change in some of the areas in which we operate and could be impacted by more stringent laws and regulations yet to be adopted related to climate change. Changes to such laws and regulations may impose additional costs on us and may affect our business in other ways, including through a requirement to comply with various operating procedures and guidelines that may impact our operations or may affect our customers and the demand for our products.

We have in place, in each of our business units, programs for monitoring and compliance to ensure that we meet or exceed applicable laws and regulatory requirements. In addition, our Board has established and maintains the

Safety, Environment & Social Responsibility Committee, the Audit Committee and the Governance and Risk Committee to oversee, monitor, and report to the Board on compliance matters. More information about the mandates of these committees may be found in our most recent Management Proxy Circular, which can be found on our website [www.finning.com](http://www.finning.com) or under our profile on SEDAR at [www.sedar.com](http://www.sedar.com). No assurance can be given that these steps will be successful in completely mitigating these risks and ensuring we meet all applicable laws and regulatory requirements.

#### **4.2.16 Defined Benefit Pension Plans**

Although our current pension arrangements in Canada and in the UK and Ireland are defined contribution plans, we still have a number of closed defined benefit (DB) pension plans covering certain legacy employee groups in the UK and Canada. Our South American employees do not participate in a company pension plan.

We are responsible for funding our DB pension plans to ensure plan assets will meet accrued benefit obligations in the future. Our funding requirements are dependent upon many factors, including the rate of return earned on plan assets, the discount rate used to calculate accrued benefit obligations, and other actuarial assumptions and experiences. Changes in any of these factors may cause pension contributions and related pension expense to fluctuate. These risks are managed by selecting investments that aim to match assets and liabilities of the DB plans. Both the Canadian and UK DB plans invest in various asset categories, including equities, and fixed income. These investments, in aggregate, are expected to provide sufficient returns in the long-term but may experience some volatility in the short-term. In selecting the portfolios and the weightings in each category, we consider and monitor the duration and expected yield of the investments versus the expected cash outflows required to fund the DB pension obligations. In Canada, a significant proportion of the DB pension liabilities were settled via buy-out annuity purchases between 2019 and 2020. A framework has been developed and adopted for each of the Canadian and UK DB pension plans whereby the investments will be adjusted over time as plan funding positions change. The planned adjustments are intended to improve the asset-liability match over time. Our Board, through its Audit Committee, oversees our pension plans. This oversight includes the responsibility to review policies and strategies developed by management. Management believes that we have the financial capacity to fully fund our accrued obligations as necessary under our DB pension plans, but no assurance can be given that this will be the case or that our Board's oversight function will ensure that this will be the case. For further disclosure on key risks related to our DB pension plans, refer to our most recent annual consolidated financial statements available under our profile on SEDAR at [www.sedar.com](http://www.sedar.com).

#### **4.2.17 Scope of Insurance Coverage**

We maintain a program of insurance coverage that is ordinarily maintained by similar businesses, including property insurance and general liability insurance. Although the limits and deductibles of such insurance have been established through risk analysis and the recommendation of professional advisors, there can be no assurance that such insurance will remain available to us at commercially reasonable rates or that the amount of such coverage will be adequate to cover all liability or loss incurred by us. If we suffer claims or losses in excess of the limits of our insurance coverage or outside the scope of that coverage, our business, results of operations and financial condition could be adversely affected.

#### **4.2.18 Repurchase Commitments and Guarantees**

We enter into contracts that, in certain circumstances, include a right by the customer to require us to repurchase equipment sold to the customer for an amount that is generally based on a discount from the estimated future fair value of that equipment (right of return). The right of return is dependent upon a number of factors, including the condition of the equipment. The likelihood of the repurchase commitments being exercised, and quantification of the possible loss, if any, on resale of the equipment is assessed at the inception of the contract and at each reporting period thereafter.

In some circumstances we issue guarantees for certain equipment sold to customers to guarantee their residual values. The guarantees would be enforceable if the market value of equipment at the time of its ultimate disposal is below the residual value guarantee issued by us.

We also issue certain guarantees to Caterpillar Finance to guarantee certain borrowers' obligations. The guarantees would be enforceable if a borrower defaults on its obligations to Caterpillar Finance, to the extent that any net proceeds from the recovery and sale of collateral securing repayment of the borrower's obligations are insufficient to meet those obligations.

These repurchase commitments and guarantees require significant assumptions, including estimating future fair value and residual values of equipment. These are assessed based on past experience and take into account expected future market conditions and projected disposal values. Although we believe we have been successful in estimating equipment values to date, there can be no assurance that we will not incur a loss on such arrangements in the future. For repurchase commitments, our experience to date has been that the equipment at the exercise date of the contract is generally worth more than the repurchase amount. To mitigate this risk, all guarantees are reviewed on a quarterly basis and where deemed necessary, a provision is made at that time to record a potential loss. No assurance can be given that the steps we take to mitigate these risks will be sufficient to avoid loss with the resulting adverse affect on our results.

#### **4.2.19 Future Warranty Claims**

We provide standard and extended warranties for most of the equipment, parts and services supplied to customers. In many cases, the warranty claim risk is shared jointly with the equipment manufacturer. Accordingly, our liability is generally limited to the service component of the warranty claim, while the manufacturer is responsible for providing the required parts. There is a risk that product quality erosion or lack of skilled workforce could increase warranty claims in the future, or that future warranty claims may be greater than management anticipates. If our liability in respect of such claims is greater than anticipated, it may have a material adverse impact on our business, results of operations and financial condition. To mitigate this risk, we review every warranty offering by product at least annually to assess the experience with the product and endeavour to adequately manage the costs to service the product over its warranty period. Insurance may at times be obtained on equipment to further mitigate any warranty exposure. Additionally, we work closely with Caterpillar on all product quality issues and have extensive product improvement, product support and pre-delivery inspection programs in place.

### **5. DIVIDENDS**

We have a practice of paying quarterly dividends on our common shares. The declaration and payment of future dividends is subject to the discretion of our Board and will be dependent on our results of operations, financial condition, cash requirements, future outlook and other factors deemed relevant by our Board. The past practice of declaring dividends is no guarantee that we will continue to declare dividends at the same or different rates (higher or lower) or at all in the future.

Dividends paid on common shares were \$133 million or \$0.82 per share in 2020, compared to \$133 million or \$0.8150 per share in 2019. In 2020, we maintained our dividend rate of \$0.2050 per share per quarter. We have declared and paid the following dividends in 2020, 2019 and 2018. Except as prescribed by law, we are not subject to any restriction with respect to our ability to declare or pay dividends.

<b>Dividends Paid (\$ per common share)</b>					
	<b>Year (Total)</b>	<b>Q1</b>	<b>Q2</b>	<b>Q3</b>	<b>Q4</b>
2020	0.8200	0.2050	0.2050	0.2050	0.2050
2019	0.8150	0.2000	0.2050	0.2050	0.2050
2018	0.7900	0.1900	0.2000	0.2000	0.2000

### **6. DESCRIPTION OF CAPITAL STRUCTURE**

Our authorized share capital consists of:

- Unlimited number of common shares. As of February 10, 2021, there were 162,108,691 common shares issued and outstanding.
- Unlimited number of preferred shares without par value, of which 4,400,000 are designated as cumulative redeemable convertible preferred shares. As of February 10, 2021, there were no preferred shares outstanding.

#### **Common Shares**

Shareholders are entitled to one vote in respect of each common share held at all meetings of shareholders, other than meetings at which only the holders of another class or series of shares are entitled to vote separately as a class or series. Holders of common shares are entitled to receive any dividend declared in respect of the common

shares, subject to the rights of the holders of other classes of shares ranking in priority to the common shares. Holders of common shares will be entitled to receive, subject to the rights of the holders of other classes of shares, the remaining property and assets of Finning available for distribution, after payment of liabilities, upon the liquidation, dissolution or winding-up of Finning, whether voluntary or involuntary. The common shares are not subject to redemption or retraction rights, rights regarding purchase for cancellation or surrender, or any exchange or conversion rights.

## Preferred Shares

The preferred shares are issuable in series, with such rights, privileges, restrictions and conditions as may be determined by our Board, including as to the rate or amount of dividends or method of calculating dividends, the dates of payment of dividends, the terms and conditions of redemption, purchase and conversion, if any, or other rights, privileges, restrictions or conditions. Preferred shares of all series have preference over common shares and any other shares ranking junior to the preferred shares with respect to payment of dividends and distribution of the assets of Finning on liquidation, dissolution or winding-up of Finning, whether voluntary or involuntary. Preferred shares of any series may also be given such other preferences over the common shares as may be determined by our Board. Holders of preferred shares are not entitled to notice of or to vote at meetings of shareholders (except where holders of a specified class or series are entitled to a separate vote or in certain other specified cases).

## Shareholder Rights Plan

Our shareholder rights plan, which provided, among other things, for the issuance of one share purchase right for each common share, which right traded with the common share until such time as any person or group, other than a “permitted bidder” (as defined in the shareholder rights plan), bid to acquire or acquired 20% or more of our common shares, at which time the share purchase right became exercisable, expired following our 2020 annual meeting. However, our dealership agreements with subsidiaries of Caterpillar are fundamental to our business and a change in control of Finning may result in Caterpillar exercising its right to terminate those dealership agreements.

## 7. CREDIT RATINGS

The current credit ratings<sup>(1)</sup> on our securities are as follows:

	<b>DBRS</b> <sup>(2)</sup>	<b>S&amp;P</b> <sup>(3)</sup>
Short-Term Debt.....	R-2(high)	N/A
Long-Term Debt/Senior Unsecured Debentures and Notes.....	BBB (high)	BBB+

### Notes:

- (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) DBRS maintains a stable outlook on the above securities.
- (3) S&P assigned a negative outlook on the above securities in June 2020.

During the last two years, we have paid each of the rating agencies our customary fees in connection with the provision of the above ratings for our outstanding long-term and short-term debt securities. We reasonably expect that such payments will continue to be made for rating services in the future.

### 7.1 Long-Term Debt Credit Ratings

In August 2020, our long-term rating was re-confirmed at BBB (high) by DBRS with a stable outlook. The BBB (high) rating is the highest grade or standing within the BBB category of the DBRS rating scale. The BBB (high) category is the 4<sup>th</sup> highest of ten categories within the DBRS rating scale and reflects long-term debt that is of adequate credit quality. According to DBRS’s rating scale, the capacity for the payment of financial obligations is considered acceptable but may be vulnerable to future events.

In March 2020, S&P placed our BBB+ rating on CreditWatch with negative implications. In June 2020, S&P completed its annual review of our ratings and re-affirmed the BBB+ rating and removed us from CreditWatch with negative implications but changed the outlook from stable to negative. Our BBB+ rating is the highest grade or standing within the BBB category of the S&P rating scale. The BBB+ category is the 4<sup>th</sup> highest of ten categories within the S&P rating scale and represents adequate capacity to meet financial commitments subject to adverse economic conditions.

## 7.2 Short-Term Debt Credit Ratings

In August 2020, DBRS re-confirmed our short-term rating at R-2 (high) with a stable trend. The R-2 (high) rating is the 4<sup>th</sup> highest of ten categories within the DBRS short-term debt rating scale and represents short-term debt that is considered to be at the upper end of adequate credit quality. According to DBRS's rating scale, the capacity for the payment of short-term financial obligations as they fall due is considered acceptable but may be vulnerable to future events.

## 8. MARKET FOR OUR SECURITIES

Our common shares are listed on the Toronto Stock Exchange under the symbol FTT. The following table sets forth the high and low closing prices and the volume of common shares traded on the Toronto Stock Exchange during 2020.

<u>Month</u>	<u>High \$</u>	<u>Low \$</u>	<u>Volume</u>
January	25.50	22.49	4,193,800
February	24.35	18.95	11,859,900
March	20.23	10.59	15,964,500
April	17.96	14.29	12,957,000
May	18.69	16.63	6,442,200
June	20.86	18.05	9,044,900
July	19.75	18.26	5,479,900
August	20.92	18.55	4,948,500
September	20.95	19.14	6,979,900
October	22.78	20.06	6,986,300
November	26.55	19.96	10,278,000
December	28.28	26.42	8,365,300

## 9. DIRECTORS AND OFFICERS

### 9.1 Our Board of Directors

The name, municipality of residence and principal occupation during the past five years of each of our directors are as follows:

<b>Name and Municipality of Residence</b>	<b>Principal Occupation During the Past Five Years</b>	<b>Year First Became Director <sup>6</sup></b>
Vicki L. Avril-Groves <sup>1,3</sup> Burr Ridge, IL, USA	Corporate Director	2016
James E.C. Carter <sup>2 (chair), 4</sup> Edmonton, AB, Canada	Corporate Director	2007
Jacynthe Côté <sup>2, 3 (chair)</sup> Candiac, PQ, Canada	Corporate Director	2014
Nicholas Hartery <sup>2, 4 (chair)</sup> Limerick, Republic of Ireland	Corporate Director President & Chief Executive Officer, Prodigium LLC, a consulting firm, since 2009	2014
Mary Lou Kelley <sup>2, 3</sup> South Bend, IN, USA	Corporate Director President, e-commerce, Best Buy Company, Consumer Electronic Retailer, 2014 – 2017	2018
Andrés Kuhlmann <sup>1, 4</sup> Santiago, Chile	President, Transelec SA, Network Infrastructure, since 2007	2019

<b>Name and Municipality of Residence</b>	<b>Principal Occupation During the Past Five Years</b>	<b>Year First Became Director <sup>6</sup></b>
Harold N. Kvisle <sup>5 (chair)</sup> Calgary, AB, Canada	Corporate Director	2017
Stuart L. Levenick <sup>1 (chair), 4</sup> Naples, FL, USA	Corporate Director	2016
Kathleen M. O'Neill <sup>1, 4</sup> Toronto, ON, Canada	Corporate Director	2007
Christopher W. Patterson <sup>1, 3</sup> Greensboro, NC, USA	Corporate Director	2010
Edward R. Seraphim <sup>1, 3</sup> North Vancouver, BC, Canada	Corporate Director President and Chief Executive Officer, West Fraser Timber Company Limited, a forestry company, 2012 - 2019	2019
L. Scott Thomson <sup>3</sup> West Vancouver, BC, Canada	President & Chief Executive Officer, Finning International Inc., since 2013	2013

1 Member, Audit Committee.

2 Member, Human Resources Committee.

3 Member, Safety, Environment & Social Responsibility Committee.

4 Member, Governance and Risk Committee.

5 Chairman of the Board. Mr. Kvisle also attends various Board committee meetings in his capacity as Board Chair.

6 Our directors are elected each year at the annual meeting of shareholders and hold office until the close of the next annual meeting or until their successors are elected or appointed.

We currently have four committees of the Board: The Audit Committee, the Human Resources Committee, the Safety, Environment & Social Responsibility Committee, and the Governance and Risk Committee. The members of each committee are indicated by footnote in the table above.

## **9.2 Our Executive Officers**

The name, municipality of residence and principal occupation during the past five years of each of our executive officers are as follows:

<b>Officer's Name and Municipality of Residence</b>	<b>Principal Occupation During the Past Five Years</b>
Juan Pablo Amar Santiago, Chile	President, Finning South America, since 2020 Senior Vice President Operations (Finning Chile and Bolivia), 2017 – 2019 Finance Vice President, Finning South America, 2012 – 2016
David W. Cummings Vancouver, BC, Canada	Executive Vice President and Chief Digital Officer, Finning International Inc., since 2019 Executive Vice President and Chief Information Officer, Finning International Inc., 2013 – 2018
Chad Hiley Edmonton, AB, Canada	Chief Human Resources Officer, Finning International Inc., since 2016 Senior Vice President, Human Resources, Finning (Canada), 2014 – 2018
Amanda Hobson Kamloops, BC, Canada	Senior Vice President, Investor Relations & Treasury, since 2019

Officer's Name and Municipality of Residence	Principal Occupation During the Past Five Years
	Chief Financial Officer and Vice President, Finance & Corporate Services, BC Lottery Corporation, 2014 – 2019
Anna P. Marks North Vancouver, BC, Canada	Senior Vice President, Corporate Controller, Finning International Inc., since 2008 Senior Vice President, Corporate Controller & Treasurer, Finning International Inc., 2015 – 2017
H. Jane Murdoch Vancouver, BC, Canada	General Counsel, Finning International Inc., since 2016, and Corporate Secretary, Finning International Inc., 2016 – 2020 Partner, Cassels Brock & Blackwell LLP, 2012 – 2016
Greg Palaschuk North Vancouver, BC, Canada	Executive Vice President & Chief Financial Officer, Finning International Inc., since 2020 Senior Vice President, Commercial and Financial Performance Management, Finning (Canada), 2018 – 2020 Finance Director, Finning UK & Ireland, 2016 – 2018 Vice President, Treasurer, Finning International Inc., 2014 – 2015
Kevin Parkes Edmonton, AB, Canada	President, Finning (Canada), since 2019 Managing Director, Finning UK & Ireland, 2016 – 2018 Director, Equipment Solutions, Finning UK & Ireland, 2015 – 2016
David Primrose Birmingham, UK	Managing Director, Finning UK & Ireland, since 2019 Executive Vice President Core Industries, Finning (Canada), 2014 – 2018
L. Scott Thomson West Vancouver, BC, Canada	President & Chief Executive Officer, Finning International Inc., since 2013
Alexandre De Moraes Zanelatto West Vancouver, BC	Executive Vice President, Global Supply Chain, since 2020 Vice President Operations, Supply Chain, Canada, Kraft Heinz, 2015 – 2020

### **9.3 Shareholdings of Directors and Officers**

As of February 10, 2021, our directors and officers as a group beneficially owned, directly or indirectly, or exercised control or direction over 538,639 common shares, representing approximately 0.33% of the outstanding common shares.

### **9.4 Cease Trade Orders, Bankruptcies, Penalties or Sanctions**

To our knowledge, none of our directors or executive officers and, for (b), (c) and (d) below, no security holder holding a sufficient number of securities to materially affect the control of Finning:

- (a) is, at the date hereof or has been, within the 10 years before, a director, chief executive officer or chief financial officer of any company (including Finning), that while that person was acting in that capacity:
  - (i) was the subject of a cease trade or similar order or an order that denied the relevant company access to any exemption under securities legislation, for more than 30 consecutive days, or
  - (ii) was subject to an event that resulted, after the director or executive officer ceased to be a director, chief executive officer or chief financial officer, in the company being the subject of a cease trade or similar order or an order that denied the relevant company access to any exemption under securities legislation, for more than 30 consecutive days, or
- (b) is, as at the date hereof or has been, within the 10 years before, a director or executive officer of any company (including Finning), that while that person was acting in that capacity or within a year of that person ceasing to act in that capacity, became bankrupt, made a proposal under any legislation relating to bankruptcy or



insolvency or was subject to or instituted any proceedings, arrangement or compromise with creditors or had a receiver, receiver manager or trustee appointed to hold its assets;

- (c) has, within the 10 years before the date hereof, become bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency, or become subject to or instituted any proceedings, arrangement or compromise with creditors, or had a receiver, receiver manager or trustee appointed to hold the assets of the director or executive officer; or
- (d) has been subject to any penalties or sanctions imposed by a court relating to securities legislation or by a securities regulatory authority or has entered into a settlement agreement with a securities regulatory authority or been subject to any other penalties or sanctions imposed by a court or regulatory body that would likely to be considered important to a reasonable investor in making an investment decision.

## **10. INTEREST OF MANAGEMENT AND OTHERS IN MATERIAL TRANSACTIONS**

To our knowledge, none of our directors or executive officers, nor any person or company that beneficially owns, controls, directs, directly or indirectly, more than 10% of our common shares, nor any associate or affiliate of any of the foregoing persons, has or had a material interest in any transaction within the three most recently completed financial years or during the current financial year that has materially affected or is reasonably expected to materially affect us.

## **11. TRANSFER AGENT AND REGISTRAR**

The transfer agent and registrar for our common shares is Computershare which has offices in Montreal, Toronto, Calgary and Vancouver.

## **12. MATERIAL CONTRACTS**

The following sets out a list of all of our material contracts entered into either: (a) within the last financial year; or (b) subsequent to the last financial year and filed as a material contract up to the date of the AIF; or (c) before the last financial year but still in effect, other than (in either case) those contracts entered into before January 1, 2002:

- Unsecured committed credit facility agreement dated April 16, 2020, with The Toronto-Dominion Bank as Administrative Agent and those institutions from time to time party to the agreement as lenders. This facility has a maturity date of April 16, 2022.
- Unsecured committed credit facility agreement dated December 13, 2019, with Finning and our subsidiaries from time to time party to the facility as borrowers, Royal Bank of Canada as Administrative Agent, RBC Europe Limited as European Agent and those institutions from time to time party to the agreement as lenders. This facility amended our previous \$1.3 billion credit facility which was set to fully mature in December 2023, by, among other things, extending the maturity date to December 2024. This credit facility is a source of financing for all global operations.
- A trust indenture dated as of August 14, 2019, with Computershare Trust Company of Canada pursuant to which we issued \$200 million principal amount of 2.626% senior unsecured notes due August 14, 2026.
- A trust indenture dated as of September 29, 2017, with Computershare Trust Company of Canada pursuant to which we issued \$200 million principal amount of 2.84% senior unsecured notes due September 29, 2021.
- Indenture (Indenture) dated March 22, 1994, with Computershare Trust Company of Canada and a second supplemental indenture (Second Supplemental Indenture) dated September 23, 1998 with Computershare Trust Company of Canada. The Indenture and the Second Supplemental Indenture relate to our medium-term notes. The terms of these agreements were fully described in our final short form prospectus dated May 22, 2012, and pricing supplement No. 1 dated May 13, 2012, and pricing supplement No. 2 dated June 18, 2013.
- Note purchase agreement dated as of May 22, 2013, with various note purchasers pursuant to which we issued £70 million principal amount of 3.40% senior notes, Series F, due May 22, 2023.
- Note purchase agreement dated as of April 3, 2012, with various note purchasers pursuant to which we issued: (a) U.S. \$50 million principal amount of 4.18% Series C senior notes due April 3, 2022; (b) U.S. \$50 million principal amount of 4.28% Series D senior notes due April 3, 2024; and (c) U.S. \$200 million principal amount of 4.53% Series E senior notes due April 3, 2027.

- Note purchase agreement dated as of January 19, 2012, with various note purchasers pursuant to which we issued: (a) U.S. \$100 million principal amount of 3.98% Series A senior notes due January 19, 2022; and (b) U.S. \$100 million principal amount of 4.08% Series B senior notes due January 19, 2024.

### 13. INTERESTS OF EXPERTS

Deloitte LLP is our auditor and is independent within the meaning of the Code of Professional Conduct of the Chartered Professional Accountants of British Columbia.

### 14. AUDIT COMMITTEE

The Terms of Reference for the Audit Committee (attached as Appendix A to this AIF) require that the Audit Committee be comprised of at least three directors, all of whom must be independent. The current members of the Committee are Stuart L. Levenick (Chair), Vicki L. Avril-Groves, Andrés Kuhlmann, Kathleen M. O'Neill, Christopher W. Patterson and Edward R. Seraphim. In addition, our Board Chair, Harold N. Kvisle, attends meetings of the Audit Committee. All Committee members are required to be independent and financially literate (as such terms are defined in National Instrument 52-110 – *Audit Committees*) and at least one member is required to have accounting or related financial management expertise. All of our Audit Committee members are independent and financially literate. Ms. Vicki L. Avril-Groves and Ms. Kathleen M. O'Neill are the designated “financial expert” members of the Audit Committee.

In addition to each member’s general business experience, the education and experience of each member of the Audit Committee that is relevant to the performance of their responsibilities as a member of the Audit Committee is set forth below.

**Vicki L. Avril-Groves** is a Corporate Director. Ms. Avril-Groves retired from IPSCO Tubulars Inc. in 2013 after nine years, including five years as President and CEO. Prior to 2008, she held progressively senior executive positions with IPSCO Inc., including Senior Vice President of IPSCO Tubulars Operations and Chief Financial Officer of IPSCO Inc. Prior to 2004, Ms. Avril-Groves served as Chief Financial Officer for Wallace Computer Services and as a senior officer at Inland Steel Industries in various financial and strategy roles, including Chief Financial Officer, Treasurer, and head of Corporate Planning. Ms. Avril-Groves is a director of Commercial Metals Company and Greif, Inc.

Ms. Avril-Groves holds a Bachelor of Science degree in Accountancy from the University of Illinois and a Master of Business Administration degree from the University of Chicago.

**Andrés Kuhlmann** is a Corporate Director and serves as the Chief Executive Officer of Transelec SA, the leading power transmission company in Chile. Prior to Transelec, he was the Chief Executive Officer of Siemens in Chile from 2001 to 2007. He also served as the Chief Executive Officer of Electroandina South America from 1997 to 2001, and was the Operations Vice President at Enel Generación Perú S.A.A., formerly Edegel, a private electric power generation company in Peru, from 1995-1996.

Mr. Kuhlmann is a graduate in civil and industrial engineering from the Pontifical Catholic University of Chile.

**Stuart L. Levenick** is a Corporate Director. Mr. Levenick retired from Caterpillar in 2015 after 37 years, including 10 years as Group President. His most recent responsibility included leadership of customer and dealer support for Caterpillar. Other responsibilities during his tenure as Group President included management of businesses spanning marketing, manufacturing operations, engineering, supply chain, procurement and human resources. Prior to assuming the Group President in 2004, Mr. Levenick served as Vice President, Caterpillar Inc., and Chairman of Shin Caterpillar Mitsubishi Ltd. from 2000 to 2004, and as Vice President, Asia Pacific Division, from 2001 to 2004. Prior to 2000, he held various senior positions with Caterpillar in North America, Asia and Europe. Previously, he held positions as Chairman of the Association of Equipment Manufacturers, Executive Director of the United States Chamber of Commerce, Director of the U.S./China Business Council and the U.S./Russia Business Council. Currently, Mr. Levenick is the lead director of Entergy Corporation, the lead director of W.W. Grainger, Inc. and a director of the University of Illinois Foundation.

Mr. Levenick graduated from the University of Illinois with a Bachelor of Science degree in Forestry and is a Sloan Fellow with a Master of Science degree in management from the Massachusetts Institute of Technology.

**Kathleen M. O'Neill** is a Corporate Director and experienced Audit Committee Chair. Prior to 2005, Ms. O'Neill was an Executive Vice-President at BMO Financial Group where her most recent position was Executive Vice-President, Personal & Commercial Development and Head of Small Business Banking. Prior to joining BMO Financial Group in 1994, Ms. O'Neill was with PricewaterhouseCoopers LLP for 19 years including eight years as a tax partner. Ms. O'Neill currently serves on the Board of Directors of ARC Resources Limited and Ontario Teachers' Pension Plan. Ms. O'Neill served as Finning's Audit Committee Chair from May 2010 to May 2017 and is past Chair of St. Joseph's Health Centre and St. Joseph's Health Centre Foundation.

In 2005, Ms. O'Neill was accredited through the Institute of Corporate Directors / Rotman School of Management Directors' Education Program. She is on the Ontario Advisory Council and the Accounting Policy Advisory Committee for the Institute of Corporate Directors (ICD). She holds a Bachelor of Commerce degree (with Honours) from the University of Toronto and is a Fellow of the Ontario Institute of Chartered Accountants (FCPA). Ms. O'Neill was selected as one of Canada's Top 100 Most Powerful Women by the Women's Executive Network for 2014, 2015 and 2016 and was inducted into the Women's Executive Network Hall of Fame in 2017.

**Christopher W. Patterson** is a Corporate Director. From April 2005 until his retirement in June 2009, he was President and Chief Executive Officer of Daimler Trucks North America LLC. Prior to 2005, he held progressively senior executive positions with Freightliner LLC, predecessor to Daimler Trucks North America, including Senior Vice President, Service and Parts, and was Executive Vice President, Sales and Marketing of Volvo Trucks North America. Mr. Patterson is also a director of Modine Manufacturing Company. Mr. Patterson holds a Bachelor of Arts degree in Economics and a Master of Business Administration from the University of Western Ontario.

**Edward R. Seraphim** is a Corporate Director. From 2013 until his retirement in 2019, Mr. Seraphim was Chief Executive Officer and a director of West Fraser Timber Company Limited. Mr. Seraphim held the role of President from 2012 to 2018 and also held previous positions as Chief Operating Officer and Vice President, Pulp & Paper. Prior to joining West Fraser, he worked for Fletcher Challenge Canada from 1985 to 1997. Mr. Seraphim has over 30 years of operations, marketing and sales experience in the forest products industry. Mr. Seraphim is a former Chairman of the Council of Forest Industries and a former board member of the Softwood Lumber Board, British Columbia Lumber Trade Council and Forest Products Association of Canada.

Mr. Seraphim holds a Bachelor of Commerce degree from the University of British Columbia and is a Chartered Accountant.

The Audit Committee provides assistance to our Board in fulfilling its oversight responsibility to the shareholders with respect to our: (a) financial statements; (b) financial reporting process; (c) systems of internal control over financial reporting and disclosure controls and procedures; (d) internal audit function; (e) external audit function; (f) financial arrangements and liquidity; (g) financial risk identification, assessment and management program; and (h) pension plans. It is the responsibility of the Audit Committee to maintain an open avenue of communication between itself, the external auditors, the internal auditors and management. In performing its role, the Audit Committee is empowered to investigate any matter brought to its attention, with full access to all books, records, facilities and personnel of the Company. It is also empowered to retain outside counsel or other experts as required.

The Audit Committee met four times in 2020 in conjunction with regularly scheduled Board meetings.

## **14.1 Audit Fees**

The fees we paid or accrued for audit and other services provided by Deloitte LLP, our external auditor, during 2020 and 2019 were as follows:

<b>Type of Service</b>	<b>2020<sup>(4)</sup></b>	<b>2019<sup>(4)</sup></b>
Audit Fees <sup>(1)</sup>	\$3,319,416	\$3,826,532
Audit-Related Fees <sup>(2)</sup>	\$92,259	\$99,300
All Other Fees <sup>(3)</sup>	\$171,378	\$ 0
<b>Total:</b>	<b><u>\$3,583,053</u></b>	<b><u>\$3,925,832</u></b>

Notes:

- (1) Audit fees generally relate to fees charged for the annual audit, interim reviews, administrative charges and other services related to the performance of the annual audit of our financial statements.
- (2) Audit related fees generally relate to fees charged for assurance and related services, such as audits of Finning's pension plans, due diligence in connection with debt offerings and other services regulators require of auditors.
- (3) All other fees generally relate to fees charged for any non-audit related or non-tax services. The 2020 fees relate to advisory services with respect to a post-implementation review of the SAP project in South America.
- (4) Amounts were billed in various currencies and converted to Canadian dollars using the exchange rates in existence at the time of billing.

## **14.2 Pre-Approval Policies and Procedures**

The Audit Committee has adopted a formal policy requiring the pre-approval of non-audit services to be provided by its external auditors, Deloitte LLP, prior to the commencement of the engagement. On an annual basis, the Audit Committee pre-approves non-audit and tax related services to be provided by our external auditors. Between regularly scheduled Audit Committee meetings, the Audit Committee has delegated to the Chair of the Audit Committee the authority to approve individual non-audit service engagements up to a value of \$100,000 per quarter that have not been pre-approved. All engagements where such approval was granted are reported at the next Audit Committee meeting. Under no circumstances will our management engage the external auditors to perform services that have not been approved by the Audit Committee. Management and the external auditor are required to report quarterly to the Audit Committee all services provided by the external auditor and fees paid or accrued for the quarter and the fiscal year.

The Audit Committee determined that the provision of the audit-related, tax and other services described above did not compromise the independence of Deloitte LLP for purposes of performing audit services for us.

## **15. ADDITIONAL INFORMATION**

Additional information, including directors' and officers' remuneration, and indebtedness, principal holders of our securities and securities authorized for issuance under equity compensation plans, is contained in our Management Proxy Circular for our most recent annual meeting of shareholders, a copy of which may be obtained upon request to our Corporate Secretary. Additional financial information is provided in our annual consolidated financial statements for the year ended December 31, 2020 and its accompanying MD&A.

Copies of documents noted above and other disclosure documents may also be examined and/or obtained through the internet by accessing our website at [www.finning.com](http://www.finning.com) or by accessing our profile on SEDAR at [www.sedar.com](http://www.sedar.com).

## Finning International Inc.

### Appendix A - Audit Committee Terms of Reference

#### I. MANDATE

- A.** Primary responsibility for financial reporting, information systems, risk management, internal control over financial reporting and disclosure controls and procedures, and the pension plans of Finning International Inc. (the “Corporation”) is vested in management and is overseen by the Board of Directors of the Corporation (the “Board”).
- B.** The primary mandate of the Audit Committee (the “Committee”) is to assist the Board in fulfilling its oversight responsibilities to the shareholders and other stakeholders of Finning International Inc. (the “Corporation”) with respect to:
- i) the integrity of annual and quarterly financial statements that will be provided to the shareholders and others;
  - ii) audits of the financial statements;
  - iii) the systems of internal control over financial reporting and disclosure controls and procedures established by management and the Board;
  - iv) all audit, accounting, financial reporting and financial risk management processes;
  - v) compliance with accounting and finance based legal and regulatory requirements, relevant laws, regulations and policies;
  - vi) the External Auditor’s qualifications and independence;
  - vii) the internal and external audit processes and performance of the Internal Auditor and External Auditor;
  - viii) the Corporation’s pension plans; and
  - ix) the implementation and effectiveness of the Ethics Program Charter and the compliance program under the Ethics Program Charter.
- C.** It is the Committee’s responsibility to maintain an open avenue of communication between the Committee, the External Auditor, the Internal Auditor and management of the Corporation. At each meeting, the Committee may meet separately with management and **will meet in separate closed sessions with only independent directors in attendance, with the External Auditor, and with the Internal Auditor.**
- D.** In discharging its oversight role, the Committee is empowered to investigate any matter brought to its attention, with full access to all books, records, facilities, and personnel of the Corporation and the power to retain outside counsel or other experts for this purpose.

#### II. COMPOSITION AND OPERATIONS

- A.** The Committee shall consist of at least three directors of the Corporation, all of whom shall be independent as defined in National Instrument 52-110 *Audit Committees* (“NI 52-110”). The Board,

on the recommendation of the Governance and Risk Committee, will appoint and remove the Committee members by a majority vote.

- B.** The Board, on the recommendation of the Governance and Risk Committee and Board Chair, will appoint the Chair of the Committee from the Committee members by a majority vote. The Chair of the Committee will hold such position until otherwise determined by the Board.
- C.** All Committee members shall be financially literate, (or shall become financially literate within a reasonable period after appointment to the Committee) as required by NI 52-110, and at least one member shall be designated as an “Audit Committee Financial Expert”<sup>1</sup>.
- D.** The Committee shall meet not less than four times per year. Meetings of the Committee may be held in person or via remote communications, subject to the By-laws of the Corporation. The Committee shall meet at the call of the Committee Chair. Any two Committee members may request the Committee Chair to call a meeting of the Committee and, if the Committee Chair fails to do so, may call a meeting of the Committee.
- E.** A majority of Committee members constitutes a quorum.
- F.** Decisions of the Committee shall be by majority vote.
- G.** The function of the Committee is oversight. It is not the duty of the Committee to plan or conduct audits or to determine that the Corporation’s financial statements fairly present the Corporation’s financial position and results of operation and are in accordance with generally accepted accounting principles. Such duties remain the responsibility of management and the External Auditor.

### **III. DUTIES AND RESPONSIBILITIES**

Subject to the powers and duties of the Board, the Committee will perform the following duties:

#### **A. Financial Statements and Other Financial Information**

The Committee shall:

- i) review and discuss with management and the External Auditor before public disclosure:
  - a) the consolidated annual and interim financial statements of the Corporation, including the notes to the financial statements;
  - b) management’s discussion and analysis (MD&A); and

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<sup>1</sup> Based on the definition in rules passed by the SEC under the United States Sarbanes-Oxley Act of 2002: An Audit Committee Financial Expert is a person who has, through (a) education and experience as a principal financial officer, principal accounting officer, controller, public accountant or auditor or experience in one or more positions that involve the performance of similar functions; (b) experience actively supervising such a person, or experience overseeing or assessing the performance of companies or public accountants with respect to the preparation, auditing or evaluation of financial statements; or (c) other relevant experience:

- 1) an understanding of financial statements and generally accepted accounting principles;
- 2) an ability to assess the general application of such principles in connection with the accounting for estimates, accruals and reserves;
- 3) experience preparing, auditing, analyzing or evaluating financial statements that present a breadth and level of complexity of accounting issues that are generally comparable to the breadth and complexity of issues that can reasonably be expected to be raised by the Corporation’s financial statements, or experience actively supervising one or more persons engaged in such activities;
- 4) an understanding of internal controls and procedures for financial reporting; and
- 5) an understanding of audit committee functions.

- c) news releases regarding the quarterly and annual financial results of the Corporation;
- ii) review and recommend to the Board for approval and for public disclosure the annual and interim MD&A, consolidated financial statements and notes and related news releases of the Corporation;
- iii) annually review the Corporation's dividend strategy;
- iv) review and recommend to the Board for approval whether to declare a quarterly dividend, and if a quarterly dividend is recommended, the amount;
- v) satisfy itself that adequate procedures are in place for review of the public disclosure of financial information extracted or derived from the Corporation's financial statements and periodically assess the adequacy of those procedures;
- vi) receive quarterly updates and reports on the Corporation's global cash positions, access to capital, compliance with debt covenants and Treasury policies, as well as credit status with banks and credit rating agencies;
- vii) discuss with management and the External Auditor the quality of reporting and adherence to generally accepted accounting principles (GAAP);
- viii) review significant reporting principles, practices and procedures applied by the Corporation in preparing its financial statements, including any newly adopted accounting policies and the reasons for their adoption;
- ix) review changes in the Corporation's selection or application of accounting principles, and major issues as to the adequacy of the Corporation's internal controls and any special audit steps adopted in light of material control deficiencies;
- x) review analyses prepared by management and/or the External Auditor setting forth significant financial reporting issues and accounting judgments and estimates made in connection with the preparation of the financial statements, including analyses of the effects of alternative GAAP methods on the financial statements; and
- xi) review information related to special transactions requiring public filings (e.g., prospectus, business acquisition report, Corporation's issuer bid circular, directors' circular) prior to their release and recommend approval to the Board.

## **B. External Auditor**

The Committee has the authority and responsibility to recommend to the Board the appointment and, where appropriate, replacement of the External Auditor, and to determine compensation of the External Auditor, subject to shareholder approval where required. In that respect, the Committee shall:

- i) recommend to the Board the appointment and, where appropriate, replacement of the Corporation's External Auditor;
- ii) require the External Auditor to report directly to the Committee at each quarterly meeting, and otherwise to the Committee or to the Committee Chair as required;

- iii) communicate directly with the External Auditor, and meet independently with the External Auditor with and without management present;
- iv) evaluate the External Auditor's qualifications, performance, and independence and in that connection perform the following duties:
  - a) on an annual basis, obtain and review a report by the External Auditor describing any material issues, defects, restrictions or sanctions raised or imposed by the most recent internal quality-control review, or peer review, of the External Auditor, or by any inquiry or investigation by governmental or professional authorities or board within the preceding five years with respect to one or more independent audits carried out by the External Auditor or otherwise arising, and any steps taken to deal with any such issues, defects, restrictions or sanctions;
  - b) ensure that the External Auditor submits, at least annually or on a periodic basis, to the Committee a formal written statement delineating all relationships between the External Auditor and the Corporation including the extent and amount of fees received by the External Auditor for audit services and for non-audit services on a quarterly basis;
  - c) actively engage in a dialogue with the External Auditor with respect to any disclosed relationships or services that may impact the objectivity and independence of the External Auditor as prescribed by the Canadian Public Accountability Board (CPAB) or other applicable professional accounting or regulatory agency;
  - d) review and confirm with management and the External Auditor: the timing and process for implementing the rotation of the lead audit partner of the External Auditor as required by applicable rules governing the audit profession set out by the CPAB, CPA Canada or other applicable professional regulatory agencies; and the review of External Auditor resources providing audit services to the Corporation;
  - e) review with the External Auditor any hiring by the Corporation (whether as employees or Directors) of partners, former partners, or audit managers of the External Auditor;
  - f) review with the External Auditor any audit issues or difficulties with respect to the audit and management's response; and
  - g) annually conduct an assessment of the External Auditor. This assessment shall include audit quality considerations (auditor independence, objectivity and professional skepticism, quality of the engagement team, CPAB inspection findings, and communication and interaction with the External Auditor) and quality of service considerations. At least once every five years, a comprehensive review of the External Auditor shall be conducted.

The Committee shall report its conclusions on the performance and independence of the External Auditor to the Board, including any recommendations on any appropriate action to be taken to satisfy the requirement of the External Auditor's independence. When necessary, the Committee may recommend the removal of the External Auditor to the Board and may periodically issue a request for proposal from other external audit firms;

- v) review and approve the scope and plans relating to the External Auditor's annual audit and quarterly reviews including the adequacy of resources, and recommend the External Auditor's annual compensation for approval by the Board of Directors. The External



Auditor shall report to the Committee and obtain approval of all significant changes to the approved audit plan;

- vi) on at least a quarterly basis, meet separately with the External Auditor, with and without management present, to review and discuss the results of the audit, audit-related services, tax and other services performed by the External Auditor in the prior quarter;
- vii) require pre-approval of all audit and non-audit services performed by the External Auditor that are permitted under applicable law and are in accordance with the Corporation's *Approval of Audit and Non-Audit Services Provided by the Independent Auditor Policy*. This policy shall be approved and renewed annually by the Committee. Between scheduled Committee meetings, the Chair of the Committee, on behalf of the Committee, is authorized to approve the fees and terms of any audit or non-audit services, up to a value of \$100,000 per quarter that are not pre-approved. At the next Committee meeting, the Chair shall report to the Committee any such pre-approval given;
- viii) annually obtain and review a report by the External Auditor describing recommendations resulting from the External Auditor's review of internal control and accounting systems, and obtain and review a quarterly follow-up report from management on actions taken concerning such recommendations;
- ix) in accordance with the Protocol for Audit Firm Communication of CPAB Inspection Findings, annually obtain from the External Auditor the Public Report issued by CPAB on inspections of the quality of audits conducted by public accounting firms; and
- x) if CPAB inspects the Corporation's audit file, require the External Auditor to provide the Committee with a description of the focus areas selected for inspection by CPAB and any significant inspection findings by CPAB, and discuss with the External Auditor any significant inspection findings reported by CPAB, including their disposition and a description of the actions taken by the External Auditor.

### **C. Internal Auditor**

The Committee will:

- i) review the activities, resources and organization structure of the internal audit function and ensure no unjustified restrictions or limitations are made;
- ii) participate in the appointment, promotion or dismissal of the lead Internal Auditor; and discuss with the External Auditor the standard of work of the Internal Auditor;
- iii) participate in the annual performance and compensation review of the lead Internal Auditor;
- iv) review the effectiveness and independence of the internal audit function;
- v) meet separately with the lead Internal Auditor to discuss any matters the Committee or the lead Internal Auditor believes should be discussed privately;
- vi) ensure the internal audit's significant findings and recommendations are received, discussed and appropriately acted on by management;

- vii) review and approve the scope and proposed annual internal audit plan, resourcing plan and financial budget to ensure that they adequately address key areas of risk and that there is appropriate coordination with the Committee and the External Auditor;
- viii) annually review the Internal Audit Charter and approve any material amendments, as required; and
- ix) review periodic reports from internal audit addressing
  - a) progress on the Internal Audit Plan, including any significant changes to it;
  - b) significant internal audit findings, including issues as to the adequacy of internal control over financial reporting and any procedures implemented in light of significant control deficiencies; and
  - c) any significant internal fraud issues.

**D. Financial Risk Management, Internal Controls and Disclosure Controls and Procedures**

The Committee will review and obtain reasonable assurance that the financial risk management systems, internal controls over financial reporting and disclosure controls and procedures are operating effectively to produce accurate, appropriate and timely management and financial information. This includes:

- i) discussion with management and the Internal Auditor of the guidelines and policies with respect to financial risk assessment and financial risk management, including the processes management used to assess and manage the Corporation's financial risk. Discuss major financial risk exposures and steps management has taken to monitor and control such exposures including an annual review of the significant insurable risks and the adequacy of the Corporation's insurance coverage and approval of its annual insurance premium;
- ii) discussion with management, the Internal Auditor and the External Auditor of the adequacy and effectiveness of the internal controls, including financial controls and disclosure controls and procedures, and the Corporation's system to monitor and manage financial risk and produce reliable financial statements and public disclosure; and
- iii) obtaining reasonable assurance that the financial risk management systems, internal controls over financial reporting and disclosure controls and procedures are reliable and secure and that the systems of internal controls are properly designed and effectively implemented, through discussions with and reports from management, the Internal Auditor and External Auditor.

**E. Compliance**

The Committee shall:

- i) assist with Board oversight of the Corporation's compliance with legal and regulatory requirements by receiving a report concerning legal and regulatory matters that may have a material impact on the financial statements;
- ii) review the process for the certification of the interim and annual financial statements by the Chief Executive Officer (CEO) and Chief Financial Officer (CFO), and the certifications made by the CEO and CFO;
- iii) review with Management, the Internal Auditor and the External Auditor the Corporation's internal control over financial reporting and disclosure controls and procedures, any

significant deficiencies or material weaknesses in their design or operation, any proposed major changes to them and any fraud involving management or other employees who have a significant role in the Corporation's internal control over financial reporting;

- iv) discuss the Corporation's compliance with tax regulatory requirements, including the review of significant tax strategies or structures, legal withholdings requirements, and any other area of compliance monitoring that the Committee considers appropriate;
- v) ensure the External Auditor's fees are disclosed by category in the Annual Information Form in compliance with regulatory requirements and in such other documents as the Committee may determine;
- vi) review any specific policies or procedures adopted for pre-approving non-audit services by the External Auditor, including affirmation that they meet regulatory requirements;
- vii) prepare a report of the Committee's activities to be included in the annual proxy statement; and
- viii) assist the Governance and Risk Committee with preparing the Corporation's governance disclosure by ensuring it has current and accurate information with respect to:
  - a) the independence of each Committee member relative to regulatory requirements for the Audit Committee;
  - b) the state of financial literacy of each Committee member, including the name of any member(s) currently in the process of acquiring financial literacy and when they are expected to attain this status;
  - c) the education and experience of each Committee member relevant to his or her responsibilities as a Committee member; and
  - d) whether the Corporation has relied upon any exemptions to the requirements for Audit Committees under regulatory requirements.

## **F. Pension Plans**

The Committee shall:

- i) review the governance structure set out for the Corporation's pension plans, at least annually, and recommend to the Board any changes to the structure, considering any recommendation of the Management Pension Committee;
- ii) review the Terms of Reference for the Management Pension Committee and monitor compliance by the Management Pension Committee with their terms of reference on an annual basis, and approve any recommended changes;
- iii) review a summary of the funding policies on an annual basis and approve any material exceptions or changes to those policies upon recommendation by the Management Pension Committee;
- iv) review a summary of the investment policies and strategies for the defined benefit and defined contribution plans on an annual basis and approve, for the Canadian plans, any changes which could materially impact the financial performance of those plans upon recommendation by the Management Pension Committee;

- v) review a summary of the Canadian Journey Plan outlining the de-risking progression intended for the Canadian defined benefit plans on an annual basis and approve any material changes upon recommendation by the Management Pension Committee;
- vi) review reports from the Management Pension Committee regarding:
  - a) key highlights of educational and communication materials to plan members at least annually;
  - b) financial positions and investment performance results of the various pension plans at least semi-annually;
  - c) any changes to investment managers or other service providers at least semi-annually; and
  - d) other notable Management Pension Committee actions at least semi-annually.
- vii) with respect to plan design and amendments:
  - a) recommend, jointly with the Human Resources Committee, the establishment of new pension plans or termination of any existing plans, to the Board of Directors; and
  - b) approve financially significant plan amendments, jointly with the Human Resources Committee, if the amendments fundamentally change the nature of the benefits a plan provides.

Recommendations for such plan amendments will come from the Management Pension Committee unless a conflict or special situation is identified in which case the CEO will determine the recommendation source.

## **G. Other**

The Committee shall:

- i) periodically review the Ethics Program Charter and approve any amendments as recommended by management's Global Ethics Committee, ensuring that the Ethics Program Charter includes procedures for:
  - a) the receipt, retention and anonymous treatment of complaints received by the Corporation regarding accounting, internal accounting and financial reporting controls, or auditing matters;
  - b) the confidential, anonymous submission by employees of concerns regarding questionable accounting or auditing matters; and
  - c) addressing a report of a material breach of securities law, material breach of fiduciary duty or similar material violation.
- ii) annually review management's report on the Global Ethics Committee self-assessment;
- iii) review a report from management every two years (even years) on significant exceptions, if any, to corporate expense policies in respect of expenses of the Board Chair and CEO;
- iv) on an annual basis, review and approve key Treasury policies (Global Investment Policy, the Global Debt and Interest Rate Risk Management Policy, the Global Foreign Exchange Risk Management Policy);

- v) every three years, or more frequently if needed, review the Board Authority & Approvals Policy and recommend any proposed amendments to the Board for approval;
- vi) annually review and evaluate the Code of Ethics for Senior Executive and Financial Management (“Code of Ethics”), and:
  - a) recommend material changes required to be made to the Code of Ethics to the Board of Directors for approval; and
  - b) monitor compliance and report any material non-compliance with the Code of Ethics to the Board of Directors;
- vii) review and recommend any material changes to the Corporation’s capital structure plan to the Board for approval, as required;
- viii) review and recommend to the Board for approval, new or refinancing of material financing contracts;
- ix) review and approve the Non-GAAP Financial Measures Policy at least once every three years, or sooner if revisions may be necessary due to a change in practice or regulation;
- x) review and approve all related party transactions;
- xi) review the effect of regulatory and accounting initiatives, as well as off balance sheet structures, on the financial statements of the Corporation; and
- xii) review the succession plan for the Corporation’s financial and accounting management.

#### **IV. ACCOUNTABILITY**

- A.** The Committee Chair has the responsibility to make periodic reports to the Board, as requested, on financial matters relevant to the Corporation.
- B.** The Committee shall report its discussions and activities to the Board by maintaining minutes of its meetings and providing an oral report at each regular Board meeting.
- C.** The Committee shall:
  - i) conduct a self-assessment annually and discuss the results with the Board; and
  - ii) review and update its terms of reference at least annually.