

Finning reports Q1 2021 results and announces contracts with Codelco in South America

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

HIGHLIGHTS

All comparisons are to Q1 2020 results unless indicated otherwise.

- Q1 2021 EPS⁽¹⁾ of \$0.43 represented a 30% increase from Q1 2020 and included \$0.05 of Canada Emergency Wage Subsidy (“CEWS”) and \$0.03 from the final return on our investment in Energyst. Q1 2021 Adjusted EPS⁽²⁾⁽³⁾ was \$0.35, up 6% from \$0.33 in Q1 2020.
- Q1 2021 revenue of \$1.6 billion and net revenue⁽²⁾ of \$1.5 billion were up 2% compared to Q1 2020, higher in all operations. An increase in new and used equipment sales was partly offset by lower product support revenue, mostly due to the impact of COVID-19 restrictions in Chile and Canada.
- SG&A⁽¹⁾ was down by \$11 million or 3% compared to Q1 2020 reflecting savings from global cost and efficiency initiatives. Excluding long-term incentive plan (“LTIP”) expense in Q1 2021 and LTIP benefit in Q1 2020, first quarter SG&A was down \$35 million or 10% year over year.
- South America delivered a strong quarter despite difficult operating conditions due to a second wave of COVID-19 in Chile. Q1 2021 EBIT⁽¹⁾ as a percentage of net revenue⁽²⁾ was 8.6%. Q1 2021 Adjusted ROIC⁽¹⁾⁽²⁾⁽³⁾ was 14.4%, the highest since Q3 2018.
- Subsequent to the quarter, our South American operation received a notice of award from Chilean state-owned copper mining company, Codelco, to deliver new trucks, product support, and an autonomous technology pilot to its mining operations in northern Chile.
- In the UK & Ireland, Q1 2021 backlog⁽²⁾ was at record levels, driven by strong order intake⁽²⁾ in construction, including additional orders for the HS2 project, and a significant backlog of power systems projects for data centre customers.
- Consolidated equipment backlog increased by 57% from December 31, 2020 to \$1.2 billion at March 31, 2021, the highest backlog since Q4 2018. Consolidated order intake was up by 33% from Q4 2020, the highest since Q1 2018, with all operations reporting a significant increase in order intake.
- Q1 2021 free cash flow⁽²⁾ was a use of cash of \$20 million compared to a use of cash of \$50 million in Q1 2020. Over the last twelve months, we have generated \$900 million in free cash flow, significantly strengthening our balance sheet.

“We are encouraged by the build-up of equipment backlog in all our regions and product support activity strengthening through the first quarter. We are seeing strong quoting activity for equipment and product support across all market sectors. In the UK & Ireland, we have secured additional equipment orders for HS2. In South America, we are very pleased to build on our long-term relationship with Codelco to deliver and support the new Caterpillar ultra-class truck fleet at its Radomiro Tomic mine and pilot Caterpillar’s autonomous solution at the Ministro Hales mine. We continued to navigate through COVID-19 restrictions in all our operations to safely provide service to our customers while positioning our business for an improving demand environment. We are optimistic about market recovery gaining momentum in the second half of 2021 as the vaccine rollout ramps up in each of our regions,” said Scott Thomson, president and CEO of Finning International.

“I am confident that we have positioned the business for strong performance going forward. In 2021, we expect to benefit from operating leverage in a recovering market, product support growth in all regions, significant progress towards our mid-cycle target of 17% SG&A as a percentage of net revenue⁽²⁾, and the effective allocation of capital. We expect our business to continue demonstrating improved earnings capacity in the upcoming quarters as we execute on our profitability drivers. Despite slower than anticipated vaccine rollout in Canada and continued challenges related to COVID-19, we expect our 2021 earnings to exceed 2019,” concluded Scott Thomson, president and CEO of Finning International.

Q1 2021 FINANCIAL SUMMARY

Quarterly Overview <i>\$ millions, except per share amounts</i>	Q1 2021	Q1 2020	% change
Revenue	1,596	1,558	2
Net revenue	1,469	1,439	2
EBIT	108	94	15
<i>EBIT as a percentage of net revenue</i>	7.4%	6.6%	
EBITDA ⁽¹⁾⁽²⁾	185	170	9
<i>EBITDA as a percentage of net revenue⁽²⁾</i>	12.6%	11.8%	
Net income	70	54	30
EPS	0.43	0.33	30
Free cash flow	(20)	(50)	60

Q1 2021 EBIT and EBITDA by Operation <i>\$ millions, except per share amounts</i>	Canada	South America	UK & Ireland	Corporate & Other	Finning Total	EPS
EBIT / EPS	69	41	7	(9)	108	0.43
CEWS support	(10)	-	-	-	(10)	(0.05)
Return on investment in Energyst	-	-	-	(5)	(5)	(0.03)
Adjusted EBIT ⁽²⁾⁽³⁾ / Adjusted EPS	59	41	7	(14)	93	0.35
<i>Adjusted EBIT as a percentage of net revenue⁽²⁾⁽³⁾</i>	<i>7.7%</i>	<i>8.6%</i>	<i>3.2%</i>	<i>n/m⁽¹⁾</i>	<i>6.3%</i>	
Adjusted EBITDA ⁽²⁾⁽³⁾	105	61	17	(13)	170	
<i>Adjusted EBITDA as a percentage of net revenue⁽²⁾⁽³⁾</i>	<i>13.6%</i>	<i>12.8%</i>	<i>7.9%</i>	<i>n/m</i>	<i>11.6%</i>	

Q1 2020 EBIT and EBITDA by Operation <i>\$ millions, except per share amounts</i>	Canada	South America	UK & Ireland	Corporate & Other	Finning Total	EPS
EBIT / EPS	60	38	1	(5)	94	0.33
<i>EBIT as a percentage of net revenue</i>	<i>7.9%</i>	<i>7.8%</i>	<i>0.5%</i>	<i>n/m</i>	<i>6.6%</i>	
EBITDA	103	60	11	(4)	170	
<i>EBITDA as a percentage of net revenue</i>	<i>13.7%</i>	<i>12.4%</i>	<i>5.2%</i>	<i>n/m</i>	<i>11.8%</i>	

Q1 2021 INVESTED CAPITAL⁽²⁾ AND ROIC⁽²⁾ SUMMARY

All comparisons are to Q1 2020 results unless indicated otherwise.

- Excluding the impact of foreign exchange, invested capital decreased by \$575 million from March 31, 2020 driven primarily by improved inventory management in all operations and lower property, plant, and equipment.
- Inventory turns⁽²⁾ of 2.83 increased by 26% from Q1 2020 to the highest level since 2012. Working capital to net revenue ratio⁽²⁾ of 25.9% was down by 300 basis points from Q1 2020, driven by significantly improved working capital⁽²⁾ performance in South America and the UK & Ireland.
- Adjusted ROIC in South America was up 220 basis points from Q1 2020, driven by improved working capital performance, including the monetization of excess inventory. On a consolidated basis, lower Adjusted ROIC compared to Q1 2020 reflects challenging market conditions due to COVID-19 impacts.

Invested Capital and ROIC	Q1 2021	Q1 2020
Invested capital (<i>\$ millions</i>)		
Consolidated	3,177	3,883
Canada	1,832	2,093
South America (US dollars)	781	937
UK & Ireland (UK pound sterling)	202	243
Invested capital turnover ⁽²⁾ (<i>times</i>)	1.78	1.83
Working capital to net revenue ratio	25.9%	28.9%
Inventory (<i>\$ millions</i>)	1,593	2,152
Inventory turns (dealership) (<i>times</i>)	2.83	2.25
Adjusted ROIC (%)		
Consolidated	10.0	12.0
Canada	10.8	14.2
South America	14.4	12.2
UK & Ireland	7.6	8.4

Q1 2021 HIGHLIGHTS BY OPERATION

All comparisons are to Q1 2020 results unless indicated otherwise. All numbers are in functional currency: Canada – Canadian dollar; South America – US dollar; UK & Ireland – UK pound sterling (GBP).

Canada

- Net revenue increased by 2%, driven by strong used equipment sales, particularly in mining. In response to improving customer demand and extended lead times for new equipment, we have increased our focus on rebuilds and re-sale of used equipment to capture market recovery.
- Product support revenue declined by 4% due to the continued capital and cost constraints of our customers in the oil sands and softer market conditions in construction at the start of the quarter compared to Q1 2020. Compared to Q4 2020, product support revenue increased by 4%, driven by improved demand and stronger rebuild activity in the construction sectors.
- Rental revenue was down 19% year over year due to work stoppages at certain pipeline and construction sites to mitigate the spread of COVID-19.
- We continued to qualify for CEWS and recognized \$10 million of this wage subsidy in Q1 2021, which is included in other income and excluded from our adjusted earnings. Support from the CEWS program has allowed us to preserve jobs, as well as rehire and retrain our workforce. We have rehired close to 150 technicians since June 2020. Our OEM Remanufacturing facility in Edmonton has returned to a 3-shift operation, and we have been able to continue delivering our apprentice program throughout the pandemic. Our strong financial position is enabling us to make strategic investments early in the recovery cycle, including capacity expansions and the construction of new facilities in partnership with local Indigenous communities.
- Adjusted EBIT as a percentage of net revenue was 7.7%, down 20 basis points compared to Q1 2020 due to a decline in gross profit as a percentage of net revenue mostly from a lower proportion of product support in the revenue mix. SG&A decreased by 7% from Q1 2020 on higher revenues, reflecting cost savings from restructuring activities and improved operating efficiencies.
- 4Refuel delivered strong performance, with a 3% increase in net revenue and a 21% increase in Adjusted EBITDA compared to Q1 2020. We are accelerating revenue synergies between Finning and 4Refuel. As part of 4Refuel's growing relationship with AECON, in addition to equipment, we will be supplying fuel to Kicking Horse Canyon Constructors Joint Venture over the next three years for highway upgrades through the Kicking Horse Canyon in British Columbia.

South America

- Net revenue was up 7% from Q1 2020, driven by a 58% increase in new equipment sales reflecting improved activity in the construction and mining sectors, including deliveries to Teck's QB2 project.
- Product support revenue was down 3%, impacted by COVID-19 restrictions in Chilean mining operations which led to lower copper production in the quarter. Chile copper production in Q1 2021 declined by 2% from Q1 2020 and was down 7% from Q4 2020.
- Despite difficult operating conditions due to a second wave of COVID-19 in Chile, South America delivered a strong quarter. EBIT as a percentage of net revenue was 8.6%, up 80 basis points from Q1 2020, reflecting improved execution to capture growth opportunities and increased operating efficiencies. Adjusted ROIC was 14.4%, the highest since Q3 2018, driven by improved working capital performance, including the sale of excess inventory.
- Subsequent to the quarter, we received a notice of award from Codelco to supply 22 Caterpillar 797F off-highway trucks to the Radomiro Tomic open pit copper mine and support the fleet under a 5-year maintenance and repair contract. We expect to start delivering the trucks in the second half of 2021. In addition, we have secured a 5-year extension of our existing product support contract with Codelco's Ministro Hales copper mine, which operates 39 Caterpillar ultra-class trucks, 6 Caterpillar shovels, and a fleet of Caterpillar support equipment. We will also work closely with Caterpillar and Codelco's Ministro Hales Division to pilot Caterpillar's AHS (Autonomous Haulage System) to enable autonomous operations at the Ministro Hales copper mine.

United Kingdom & Ireland

- Net revenue was up by 2% from Q1 2020, driven by higher product support revenue and power systems project deliveries to data centre customers.
- EBIT as a percentage of net revenue was 3.2% compared to 0.5% in Q1 2020, driven by a shift in revenue mix to product support and improved operating efficiencies.
- The record backlog in the UK & Ireland reflects strong order intake in construction, including additional equipment orders related to HS2, and a significant backlog of power systems projects for data centre customers.

Q1 2021 MARKET UPDATE AND BUSINESS OUTLOOK

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

Canada

In the oil sands, our customers are increasing production while remaining disciplined on capital expenditures, which is expected to drive improved demand for rental equipment and increased fleet utilization. We expect higher product support activity in the oil sands in 2021 compared to 2020. Our expectation assumes sustainment of strong oil prices and that the Alberta government will not re-impose oil production curtailments. The improved outlook for copper, precious and base metals is expected to continue supporting increased mining activity in Western Canada. We are actively quoting on multiple requests for proposals for equipment and product support, including projects in the Golden Triangle of British Columbia, which represent significant greenfield opportunities. The large and aging mining equipment population is expected to drive opportunities for future fleet renewals, rebuilds, autonomy conversions, and continued demand for product support. We are also well positioned to help our mining customers reduce cost per ton and improve operating efficiencies through initiatives such as autonomy and leveraging our technology solutions. Approximately 7% of large and ultra-class Caterpillar off-highway trucks operated by our mining customers in Western Canada are currently autonomous, and we expect this ratio to increase to 10% by the end of 2021.

The federal and provincial governments' fiscal stimulus programs are expected to have a positive impact on construction activity as major projects are awarded. Significant private sector investment in LNG and power projects are expected to continue to drive demand for equipment, product support, heavy rentals, and prime and standby electric power generation in 2021. We are seeing an increase in order intake for construction equipment and are capturing increased product support market share in the construction sector by leveraging our rebuild programs and technology solutions. We expect improved utilization of our heavy rental equipment at pipeline construction sites during the second quarter as our customers have resumed work. Although COVID-19 restrictions at customer sites have eased, high infection rates continue to pose a near-term risk given slower than expected vaccine rollout in western Canada.

South America

We remain optimistic about mining recovery in Chile. We are actively quoting on multiple opportunities for new mining equipment and autonomous solutions for both brownfield expansions and greenfield projects. According to Cochilco, the Chilean Copper Commission, Chile's portfolio of mining projects includes about US\$20 billion of investment in brownfield project expansions over the next two years.

In the near term, COVID-19 restrictions are expected to continue to limit the capacity of mining operations. We are monitoring the mining industry's response to a second wave and expect mining product support revenue to recover in the second half of 2021 as customers resume major maintenance work. We reached agreements with our own unions, and we are closely monitoring our customers' upcoming union negotiations.

The outlook for the Chilean construction industry is positive, supported by the government's public investment in infrastructure. We are seeing improved customer activity and order intake in the construction markets in Chile. We continue to monitor the political and economic reform process in Chile leading up to general elections in November 2021.

In Argentina, we expect recovery in construction activity in 2021 and stable activity in gold mining and oil and gas. We expect the overall business environment in Argentina to remain challenging, and are actively managing key risks, including ARS devaluation.

UK & Ireland

The outlook for general construction equipment markets in the UK has improved, driven by optimism about a post-COVID economic recovery, a ramp-up of HS2 construction activity, and the UK government's tax incentives. Our backlog at March 31, 2021 includes £83 million of equipment orders related to HS2, and we expect to start delivering equipment to this project in Q2 2021.

Strong demand for our power systems solutions, particularly in the data centre market, is expected to continue. We expect power systems project deliveries to accelerate in the second half of 2021 and into 2022.

Improved Earnings Capacity in a Recovery

Our overall outlook for 2021 remains positive, underpinned by our strong backlog. We are optimistic about market recovery gaining momentum in the second half of 2021 as the COVID-19 vaccine rollout ramps up in each of our regions. However, we expect 2021 revenue to remain below 2019 levels.

In 2021, we expect to benefit from several profitability drivers, including operating leverage in a recovering market, product support growth in all regions, significant progress towards our mid-cycle SG&A target, and effective allocation of capital. Despite slower than anticipated vaccine rollout in Canada and continued challenges related to COVID-19, we expect our 2021 earnings to exceed 2019.

We expect to deliver strong annual free cash flow in 2021. However, with increased inventory purchases and related cash usage, our annual EBITDA to free cash flow conversion⁽²⁾ is projected to be modestly below 50% for the year.

CORPORATE AND BUSINESS DEVELOPMENTS

Dividend

The Board of Directors has approved a quarterly dividend of \$0.205 per share, payable on June 10, 2021 to shareholders of record on May 27, 2021. This dividend will be considered an eligible dividend for Canadian income tax purposes.

Renewal of Share Repurchase Program

We have received approval from the Toronto Stock Exchange ("TSX") to renew our normal course issuer bid ("NCIB") to purchase for cancellation up to 8,000,000 of our common shares, representing approximately 5% of the total common shares issued and outstanding of 162,393,066 common shares as at May 7, 2021.

The NCIB, which will begin on May 13, 2021 and end no later than May 12, 2022, will be conducted through the facilities of the TSX or other Canadian marketplaces or alternative trading systems, if eligible, and will conform to their rules and regulations.

Our Board of Directors believe that, from time to time, the purchase by Finning of its common shares represents a desirable use of its available cash to increase shareholder value.

The average daily trading volume of our common shares over the six-month period ending April 30, 2021, as calculated in accordance with TSX rules, was 385,026 common shares. Consequently, under TSX rules, we will be allowed to purchase daily, through the facilities of the TSX, a maximum of 96,256 common shares representing 25% of such average daily trading volume, subject to certain exceptions for block purchases. All shares purchased pursuant to the normal course issuer bid will be cancelled.

Purchases under the normal course issuer bid will be made by means of open market transactions or such other means as the TSX may permit. The price to be paid by Finning for any common share will be the market price at the time of acquisition, plus brokerage fees, or such other price as the TSX may permit.

Under the current NCIB, which expires on May 10, 2021, we obtained approval to purchase up to 8,000,000 common shares. We did not purchase any common shares under the current NCIB.

SELECTED CONSOLIDATED FINANCIAL INFORMATION

<i>\$ millions, except per share amounts</i>	Three months ended March 31		
	2021	2020	% change fav (unfav)
New equipment	403	353	14
Used equipment	103	68	51
Equipment rental	45	53	(15)
Product support	887	934	(5)
Net fuel and other	31	31	-
Net revenue	1,469	1,439	2
Gross profit	407	418	(3)
<i>Gross profit as a percentage of net revenue⁽²⁾</i>	27.7%	29.1%	
SG&A	(314)	(325)	3
<i>SG&A as a percentage of net revenue</i>	(21.4)%	(22.6)%	
Equity earnings of joint ventures	-	1	
Other income	15	-	
EBIT	108	94	15
<i>EBIT as a percentage of net revenue</i>	7.4%	6.6%	
Adjusted EBIT	93	94	(2)
<i>Adjusted EBIT as a percentage of net revenue</i>	6.3%	6.6%	
Net income	70	54	30
Basic EPS	0.43	0.33	30
Adjusted EPS	0.35	0.33	6
EBITDA	185	170	9
<i>EBITDA as a percentage of net revenue</i>	12.6%	11.8%	
Adjusted EBITDA	170	170	-
<i>Adjusted EBITDA as a percentage of net revenue</i>	11.6%	11.8%	
Free cash flow	(20)	(50)	60
	Mar 31, 2021	Dec 31, 2020	
Invested capital	3,177	3,067	
Invested capital turnover (times)	1.78	1.68	
Net debt to EBITDA ratio ⁽²⁾	1.3	1.2	
Net debt to Adjusted EBITDA ratio ⁽²⁾⁽³⁾	1.5	1.4	
ROIC	12.5%	11.4%	
Adjusted ROIC	10.0%	9.6%	

To access Finning's complete Q1 2021 results in PDF, please visit our website at https://www.finning.com/en_CA/company/investors.html

Q1 2021 INVESTOR CALL

The Company will hold an investor call on May 11, 2021 at 10:00 am Eastern Time. Dial-in numbers: 1-800-319-4610 (Canada and US), 1-416-915-3239 (Toronto area), 1-604-638-5340 (international). The investor call will be webcast live and archived for three months. The webcast and accompanying presentation can be accessed at https://www.finning.com/en_CA/company/investors.html.

ABOUT FINNING

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

CONTACT INFORMATION

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FOOTNOTES

- (1) Earnings Before Finance Costs and Income Taxes (EBIT); Basic Earnings per Share (EPS); Earnings Before Finance Costs, Income Taxes, Depreciation and Amortization (EBITDA); Selling, General & Administrative Expenses (SG&A); Return on Invested Capital (ROIC); not meaningful (n/m).
- (2) These financial metrics, referred to as “non-GAAP financial measures”, do not have a standardized meaning under International Financial Reporting Standards (IFRS), which are also referred to herein as Generally Accepted Accounting Principles (GAAP), and therefore may not be comparable to similar measures presented by other issuers. For additional information regarding these financial metrics, including definitions and reconciliations from each of these non-GAAP financial measures to their most directly comparable measure under GAAP, where available, see the heading “Description of Non-GAAP Financial Measures and Reconciliations” in the Company's Q1 2021 management discussion and analysis (MD&A). Management believes that providing certain non-GAAP financial measures provides users of the Company's MD&A and consolidated financial statements with important information regarding the operational performance and related trends of the Company's business. By considering these measures in combination with the comparable IFRS financial measures (where available) set out in the MD&A, management believes that users are provided a better overall understanding of the Company's business and its financial performance during the relevant period than if they simply considered the IFRS financial measures alone.
- (3) Certain financial metrics were impacted by significant items management does not consider indicative of operational and financial trends either by nature or amount; these significant items are described on pages 5 and 24-25 of the MD&A. The financial metrics that have been adjusted to take into account these items are referred to as “Adjusted” metrics.

FORWARD-LOOKING INFORMATION CAUTION

This news release contains information that is forward-looking. Information is forward-looking when we use what we know and expect today to give information about the future. In particular, the discussion under the heading “Q1 2021 Market Update and Business Outlook” section of this news release is forward-looking information and is subject to this disclaimer including the assumptions and material risk factors referred to below. Forward-looking information in this news release includes, but is not limited to, the following: our expectations to start delivering trucks to Codelco’s Radomiro Tomic copper mine in the second half of 2021 and related to piloting Caterpillar’s AHS technology to enable autonomous operations at Codelco’s Ministro Hales copper mine; that we are optimistic about market recovering gaining momentum in the second half of 2021 (based on our assumption about COVID-19 vaccine rollout ramping up in each of our regions); that we have positioned the business for strong performance going forward; our expectation that in 2021 we will benefit from operating leverage in a recovering market, product support growth in all regions, significant progress towards our mid-cycle target of 17% SG&A as a percentage of net revenue, and the effective allocation of capital; our expectation that our business will continue demonstrating improved earnings capacity in the upcoming quarters as we execute on our profitability drivers; our expectation that our 2021 earnings will exceed 2019; our supply, through 4Refuel, of fuel to Kicking Horse Canyon Constructors Joint Venture over the next three years for highway upgrades through the Kicking Horse Canyon in British Columbia; the Canadian income tax treatment of the quarterly dividend; and potential purchases of our common shares under our normal course issuer bid. All such forward-looking statements are made pursuant to the ‘safe harbour’ provisions of applicable Canadian securities laws.

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

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

Forward-looking information made in this news release is based on a number of assumptions that we believed were reasonable on the day the information was given, including but not limited to the specific assumptions stated above; that we will be able to successfully manage our business through the current challenging times involving the effects of the COVID-19 response and low and/or volatile commodity prices and successfully implement our COVID-19 risk

management plans; An undisrupted market recovery, for example, undisrupted by COVID-19 impacts, commodity price volatility or social unrest; the successful execution of our profitability drivers; that our cost actions to drive earnings capacity in a recovery can be sustained; that commodity prices will remain at constructive levels; that our customers will not curtail their increasing capital expenditures; that general economic and market conditions will improve; that the level of customer confidence and spending, and the demand for, and prices of, our products and services will be maintained; our ability to successfully execute our plans and intentions; our ability to attract and retain skilled staff; market competition will remain at similar levels; the products and technology offered by our competitors will be as expected; that identified opportunities for growth will result in revenue; consistent and stable legislation in the various countries in which we operate; no disruptive changes in the technology environment and that our current good relationships with Caterpillar, our customers and our suppliers, service providers and other third parties will be maintained; sustainment of strengthened oil prices and the Alberta government will not re-impose production curtailments; quoting activity for requests for proposals for equipment and product support is reflective of opportunities; and strong recoveries particularly in Chile and the UK. Some of the assumptions, risks, and other factors which could cause results to differ materially from those expressed in the forward-looking statements contained in this news release are discussed in our current AIF and in our annual MD&A for the financial risks, including for updated risks related to the COVID-19 pandemic.

We caution readers that the risks described in the AIF and in the annual and most recent quarterly MD&A are not the only ones that could impact the Company. We cannot accurately predict the full impact that COVID-19 will have on our business, results of operations, financial condition or the demand for our services, due in part to the uncertainties relating to the ultimate geographic spread of the virus, the severity of the disease, the duration of the outbreak, the steps our customers and suppliers may take in current circumstances, including slowing or halting operations, the duration of travel and quarantine restrictions imposed by governments of affected countries and other steps that may be taken by such governments to respond to the pandemic. Additional risks and uncertainties not currently known to us or that are currently deemed to be immaterial may also have a material adverse effect on our business, financial condition, or results of operation.

MANAGEMENT'S DISCUSSION AND ANALYSIS

May 10, 2021

This **MD&A** should be read in conjunction with our **Interim Financial Statements** and the accompanying notes thereto for the three months ended March 31, 2021, which have been prepared in accordance with **IAS 34, Interim Financial Reporting**, and our **Annual Financial Statements** and the accompanying notes thereto for the year ended December 31, 2020. In this MD&A, unless context otherwise requires, the terms we, us, our, and **Finning** refer to Finning International Inc. and/or its subsidiaries. All dollar amounts presented in this MD&A are expressed in **CAD**, unless otherwise stated. Additional information relating to Finning, including our **AIF** and MD&A, can be found under our profile on the **SEDAR** website at www.sedar.com and in the investors section of our website at www.finning.com.

A glossary of defined terms is included on page 36. The first time a defined term is used in this MD&A, it is shown in bold italics.

First Quarter Overview

(\$ millions, except for per share amounts)	Q1 2021	Q1 2020	% change <i>fav (unfav)</i>
Revenue	\$ 1,596	\$ 1,558	2%
Net revenue ⁽¹⁾	\$ 1,469	\$ 1,439	2%
Gross profit	\$ 407	\$ 418	(3)%
SG&A	(314)	(325)	3%
Equity earnings of joint ventures	—	1	n/m
Other income	15	—	n/m
EBIT	\$ 108	\$ 94	15%
Net income	\$ 70	\$ 54	30%
Basic EPS	\$ 0.43	\$ 0.33	30%
EBITDA ⁽¹⁾	\$ 185	\$ 170	9%
Free cash flow ⁽¹⁾	\$ (20)	\$ (50)	60%
Adjusted EBIT ⁽¹⁾⁽²⁾	\$ 93	\$ 94	(2)%
Adjusted net income ⁽¹⁾⁽²⁾	\$ 57	\$ 54	6%
Adjusted basic EPS ⁽¹⁾⁽²⁾	\$ 0.35	\$ 0.33	6%
Adjusted EBITDA ⁽¹⁾⁽²⁾	\$ 170	\$ 170	—
<i>Gross profit as a % of net revenue</i> ⁽¹⁾	27.7%	29.1%	
<i>SG&A as a % of net revenue</i> ⁽¹⁾	21.4%	22.6%	
<i>EBIT as a % of net revenue</i> ⁽¹⁾	7.4%	6.6%	
<i>EBITDA as a % of net revenue</i> ⁽¹⁾	12.6%	11.8%	
<i>Adjusted EBIT as a % of net revenue</i> ⁽¹⁾⁽²⁾	6.3%	6.6%	
<i>Adjusted EBITDA as a % of net revenue</i> ⁽¹⁾⁽²⁾	11.6%	11.8%	
<i>Adjusted ROIC</i> ⁽¹⁾⁽²⁾	10.0%	12.0%	

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

(2) Reported financial metrics may be impacted by significant items described on pages 5 and 25 - 26 of this MD&A. Financial metrics that have been adjusted to take into account these items are referred to as "Adjusted" metrics. See "Description of Non-GAAP Financial Measures and Reconciliations" later in this MD&A.

First Quarter Highlights

- Q1 2021 revenue of \$1.6 billion and net revenue of \$1.5 billion were up 2% from Q1 2020, higher in all of our operations. An increase in new and used equipment revenue was partially offset by lower product support revenue, mostly due to the impact of **COVID-19** restrictions in Chile and Canada.
- Q1 2021 EBIT was \$108 million and EBIT as a percentage of net revenue was 7.4%. Excluding significant items not considered indicative of operational and financial trends, Adjusted EBIT was \$93 million and Adjusted EBIT as a percentage of net revenue was 6.3%, compared to \$94 million and 6.6%, respectively in Q1 2020.
- Adjusted EBITDA was \$170 million in Q1 2021 and Q1 2020. A decline in gross profit in Q1 2021 was offset by lower SG&A year over year. SG&A was down by 3% compared to Q1 2020 reflecting the successful execution of global cost initiatives and operating efficiencies. Excluding **LTIP** expense in Q1 2021 and LTIP benefit in Q1 2020, first quarter SG&A was down \$35 million or 10% year over year. Adjusted EBITDA as a percentage of net revenue of 11.6% in Q1 2021 was comparable to Q1 2020 with an improvement in SG&A as a percentage of net revenue offset by lower gross profit as a percentage of net revenue due to a revenue mix shift to lower product support revenue.
- Q1 2021 basic EPS was \$0.43 per share and included \$0.05 per share of **CEWS** and \$0.03 per share for the final return on our investment in **Energyst**. Excluding these two items, Q1 2021 Adjusted basic EPS was \$0.35 per share, a 6% increase from Q1 2020.
- Q1 2021 free cash flow was a use of cash of \$20 million compared to a use of cash of \$50 million in Q1 2020. Over the last twelve months, we have generated \$900 million of free cash flow, significantly strengthening our balance sheet.
- Adjusted ROIC at March 31, 2021 was 10.0%, a decrease from Adjusted ROIC of 12.0% at March 31, 2020, with lower Adjusted ROIC in our Canadian and **UK & Ireland** operations, partially offset by an improvement in our South American operations. March 31, 2021 Adjusted ROIC for South America was the highest since September 30, 2018. All regions showed an improvement in Adjusted ROIC compared to December 31, 2020.
- Consolidated equipment backlog ⁽¹⁾ increased 57% from December 31, 2020 to \$1.2 billion at March 31, 2021, the highest backlog since December 31, 2018. Consolidated order intake ⁽¹⁾ was up by 33% from Q4 2020 and was the highest since Q1 2018, with all operations reporting a significant increase in order intake. In the UK & Ireland, March 31, 2021 backlog was at record levels, driven by strong equipment order intake in construction, including additional orders for the **HS2** project, and a significant backlog of power system projects for data centre customers.

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

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Strategic Framework

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

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

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

STRATEGIC PILLARS



OUR PURPOSE

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

OUR VISION

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

OUR VALUES

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

We are collaborative: We build diverse and respectful partnerships.

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

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

Strategic Focus Areas

Our focus areas to support our strategy are: to capture growth in mining through a focus on lowest total cost of ownership and in construction through aftermarket leadership; and to improve performance through transforming service, accelerating supply chain capabilities and lowering our cost to serve. Our decisions about capital investments and allocation of resources are focused on initiatives that we believe best align with our global strategic priorities and our strategic areas of focus.

Sustainability

Sustainability is an integral part of our business, and is woven through our strategy and operations. We live our values every day, and they guide our behaviour in every interaction we have. Living our values means that how we do things is just as important as what we do. Our approach to sustainability is closely aligned with our purpose and covers all of our material sustainability topics discussed in our Sustainability Report. Our Sustainability Report can be found in the sustainability section of our website at www.finning.com.

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

Impact of COVID-19

On March 11, 2020, the COVID-19 outbreak was declared a pandemic by the World Health Organization. COVID-19 had an impact on the Company's business beginning in Q1 2020. In 2020, the most significant impacts on our operations from disruptions related to COVID-19 included delayed equipment deliveries in all regions, lower parts sales in the construction sector and lower rental utilization in all regions, reduced productivity at our component repair facilities and lower labour recovery at our branches due to shift separation and distancing measures, temporary closure of certain facilities in South America, and additional allowances for doubtful accounts related to an increase in customer credit risk. In response to the negative economic impact of COVID-19, various government programs were announced to provide financial relief to affected businesses. The Government of Canada introduced the CEWS program, which subsidizes a portion of employee wages (up to a specified maximum) for Canadian employers whose businesses have met eligibility criteria. The program is intended to help employers rehire previously laid off workers, prevent job losses, and better position Canadian businesses to resume normal operations. To encourage companies to retain employees, the Government of the UK introduced the **CJRS** to pay a portion of salaries for employees (up to a specified maximum) who were furloughed (on paid leave). We have utilized CEWS, and in 2020 we utilized CJRS and tax deferral programs that governments in most regions where we operate made available. These government programs have supported us in retaining key technical talent and positioned us well for an economic recovery.

Refer to the Market Update and Business Outlook section in our 2020 annual MD&A and AIF for further discussion of the potential impact of the COVID-19 pandemic and volatile commodity prices on our operations and financial results.

Adjusted Metrics

Reported financial metrics may be impacted by significant items we do not consider indicative of operational and financial trends by either nature or amount; these are referred to as "Adjusted metrics". Adjusted metrics are considered non-GAAP financial measures and do not have a standardized meaning under *IFRS*, and therefore may not be comparable to similar measures presented by other issuers. For additional information regarding these financial metrics, including definitions and reconciliations from each of these Adjusted metrics to their most directly comparable measure under GAAP, where available, see the heading "Description of Non-GAAP Financial Measures and Reconciliations" on pages 24 - 32 of this MD&A.

Significant items that affected our reported results for the three months ended March 31, 2021, which we do not consider to be indicative of operational and financial trends, either by nature or amount, are detailed below.

Q1 2021 significant items:

- Finning qualified for and recorded a benefit related to the CEWS program.
- Final return on our investment in Energyst (described on page 17).

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

3 months ended March 31, 2021 (\$ millions, except per share amounts)	EBIT				Net	Basic
	Canada	South America	UK & Ireland	Consol ⁽¹⁾	Income	EPS
EBIT, net income, and basic EPS	\$ 69	\$ 41	\$ 7	\$ 108	\$ 70	\$ 0.43
Significant items:						
CEWS support	(10)	—	—	(10)	(8)	(0.05)
Final return on our investment in Energyst	—	—	—	(5)	(5)	(0.03)
Adjusted EBIT, Adjusted net income, and Adjusted basic EPS	\$ 59	\$ 41	\$ 7	\$ 93	\$ 57	\$ 0.35

⁽¹⁾ Includes Other segment

There were no significant items identified by management that affected our results for the three months ended March 31, 2020.

Quarterly Key Performance Measures

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

	2021	2020				2019			
	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
ROIC ⁽¹⁾⁽²⁾ (%)									
Consolidated	12.5%	11.4%	10.7%	10.0%	11.9%	11.2%	11.3%	10.7%	10.8%
Canada	15.6%	14.6%	14.3%	13.3%	14.2%	13.7%	14.2%	14.5%	14.6%
South America	12.3%	11.0%	9.5%	9.3%	11.9%	9.6%	8.1%	7.9%	8.6%
UK & Ireland	6.5%	4.5%	2.9%	3.7%	8.4%	12.1%	14.1%	14.5%	14.8%
EBIT ⁽¹⁾ (\$ millions)									
Consolidated	108	108	138	52	94	97	129	137	62
Canada	69	72	93	63	60	72	82	92	50
South America	41	41	40	2	38	31	42	41	6
UK & Ireland	7	11	9	(5)	1	5	14	14	13
EBIT as a % of net revenue ⁽¹⁾									
Consolidated	7.4%	6.9%	9.6%	3.9%	6.6%	5.5%	7.1%	6.9%	3.6%
Canada	8.9%	9.3%	12.8%	8.9%	7.9%	7.4%	8.5%	8.5%	5.5%
South America	8.6%	8.3%	8.2%	0.5%	7.8%	6.0%	7.3%	6.5%	1.2%
UK & Ireland	3.2%	3.7%	4.1%	(3.2)%	0.5%	1.9%	5.1%	4.8%	4.4%
EBITDA ⁽¹⁾ (\$ millions)									
Consolidated	185	185	215	130	170	170	201	213	134
Canada	115	119	141	110	103	114	125	138	93
South America	61	61	59	24	60	51	62	62	26
UK & Ireland	17	20	18	4	11	15	22	23	22
EBITDA as a % of net revenue ⁽¹⁾									
Consolidated	12.6%	11.9%	14.9%	9.7%	11.8%	9.7%	11.1%	10.7%	7.8%
Canada	14.9%	15.4%	19.3%	15.6%	13.7%	11.8%	12.8%	12.9%	10.2%
South America	12.8%	12.2%	12.2%	5.2%	12.4%	10.0%	10.8%	9.8%	5.2%
UK & Ireland	7.9%	7.0%	7.9%	2.7%	5.2%	5.4%	8.3%	7.7%	7.3%
Invested capital ⁽²⁾ (\$ millions)									
Consolidated	3,177	3,067	3,284	3,495	3,883	3,591	3,907	3,964	3,753
Canada	1,832	1,819	1,921	2,037	2,093	2,026	2,209	2,285	2,148
South America	982	931	1,035	1,106	1,330	1,192	1,276	1,287	1,243
UK & Ireland	350	327	323	349	428	361	416	390	361
Invested capital turnover ⁽²⁾ (times)									
Consolidated	1.78	1.68	1.68	1.71	1.83	1.92	1.99	2.04	2.06
Canada	1.56	1.50	1.56	1.63	1.75	1.81	1.91	1.95	1.98
South America	1.90	1.75	1.67	1.67	1.73	1.78	1.77	1.80	1.78
UK & Ireland	2.66	2.49	2.39	2.32	2.60	2.98	3.18	3.27	3.25
Inventory (\$ millions)	1,593	1,477	1,626	1,893	2,152	1,990	2,215	2,366	2,356
Inventory turns (dealership) ⁽²⁾ (times)	2.83	2.79	2.30	1.97	2.25	2.53	2.49	2.36	2.46
Working capital to net revenue ⁽²⁾	25.9%	28.3%	29.2%	29.9%	28.9%	27.8%	26.9%	26.7%	26.7%
Free cash flow (\$ millions)	(20)	292	316	312	(50)	386	165	(162)	(347)
Net debt to EBITDA ratio ⁽¹⁾⁽²⁾ (times)	1.3	1.2	1.6	2.0	2.2	2.1	2.6	3.0	2.9

⁽¹⁾ Certain of these reported financial metrics have been impacted in some quarters in this table by significant items management does not consider indicative of operational and financial trends either by nature or amount. Financial metrics that have been adjusted to take into account these items are referred to as "Adjusted" metrics and are summarized on page 7 of this MD&A.

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

Adjusted KPIs

KPIs may be impacted by significant items described on pages 5 and 25 - 26 of this MD&A. KPIs that have been adjusted to take these items into account are referred to as "Adjusted" KPIs and were as follows:

	2021	2020				2019			
	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Adjusted ROIC									
Consolidated	10.0%	9.6%	9.3%	9.7%	12.0%	12.0%	12.2%	12.3%	12.5%
Canada	10.8%	10.5%	10.8%	11.6%	14.2%	14.4%	15.0%	15.4%	15.5%
South America	14.4%	12.9%	11.3%	11.2%	12.2%	10.5%	9.0%	8.5%	9.2%
UK & Ireland	7.6%	5.5%	3.9%	4.6%	8.4%	12.1%	14.1%	14.5%	14.8%
Adjusted EBIT (\$ millions)									
Consolidated	93	94	101	39	94	97	132	137	91
Canada	59	59	58	28	60	72	82	92	67
South America	41	41	40	23	38	31	45	41	14
UK & Ireland	7	11	9	(1)	1	5	14	14	13
Adjusted EBIT as a % of net revenue									
Consolidated	6.3%	6.1%	7.0%	2.9%	6.6%	5.5%	7.3%	6.9%	5.3%
Canada	7.7%	7.7%	8.1%	4.0%	7.9%	7.4%	8.5%	8.5%	7.4%
South America	8.6%	8.3%	8.2%	5.1%	7.8%	6.0%	7.8%	6.5%	2.7%
UK & Ireland	3.2%	3.7%	4.1%	(1.0)%	0.5%	1.9%	5.1%	4.8%	4.4%
Adjusted EBITDA (\$ millions)									
Consolidated	170	171	178	117	170	170	204	213	163
Canada	105	106	106	75	103	114	125	138	110
South America	61	61	59	45	60	51	65	62	34
UK & Ireland	17	20	18	8	11	15	22	23	22
Adjusted EBITDA as a % of net revenue									
Consolidated	11.6%	11.0%	12.3%	8.8%	11.8%	9.7%	11.2%	10.7%	9.4%
Canada	13.6%	13.7%	14.6%	10.6%	13.7%	11.8%	12.8%	12.9%	12.1%
South America	12.8%	12.2%	12.2%	9.8%	12.4%	10.0%	11.2%	9.8%	6.7%
UK & Ireland	7.9%	7.0%	7.9%	4.9%	5.2%	5.4%	8.3%	7.7%	7.3%
Net debt to Adjusted EBITDA ratio (times)	1.5	1.4	1.7	2.1	2.2	2.0	2.5	2.8	2.6

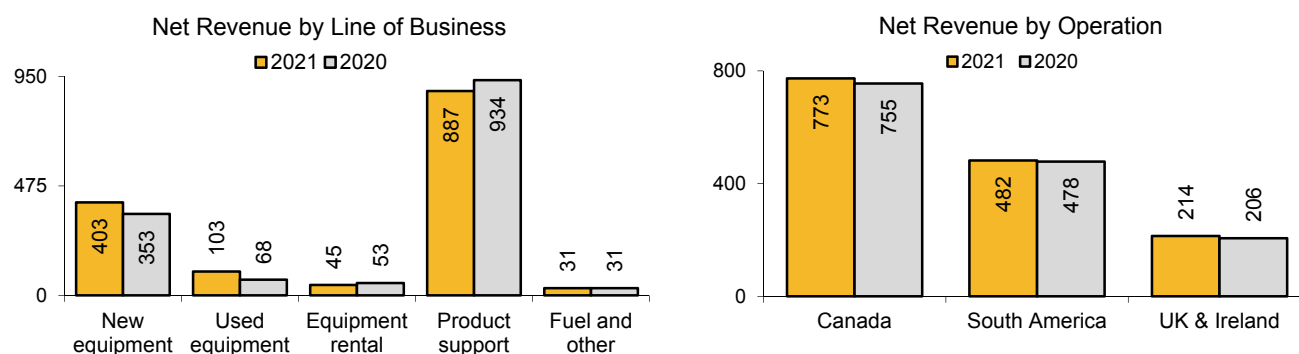
First Quarter Results

Revenue

Net Revenue by Line of Business and by Operation

3 months ended March 31

(\$ millions)



Revenue of \$1.6 billion and net revenue of \$1.5 billion in the first quarter of 2021 were both up 2% from the first quarter of 2020, an increase in all of our operations primarily driven by higher new and used equipment sales in the construction sectors in South America and Canada.

First quarter 2021 new equipment revenue was 14% higher than the same prior year period primarily driven by higher volumes in the construction sector. Equipment backlog of approximately \$1.2 billion at March 31, 2021 was up 57% from December 31, 2020 and was the highest since December 31, 2018. Q1 2021 equipment order intake, the highest since Q1 2018, increased 33% from Q4 2020 and outpaced deliveries in all of our operations.

Product support revenue was down 5% in Q1 2021 from the same prior year period mainly in the mining sectors in Canada and South America. Industry activity has not yet returned to pre-COVID-19 levels and continues to be affected by COVID-19 restrictions. Our product support business continues to be resilient, increasing sequentially since Q2 2020.

Q1 2021 used equipment revenue was up 51% from Q1 2020, primarily due to strong demand in Canada across all market sectors.

EBIT and EBITDA

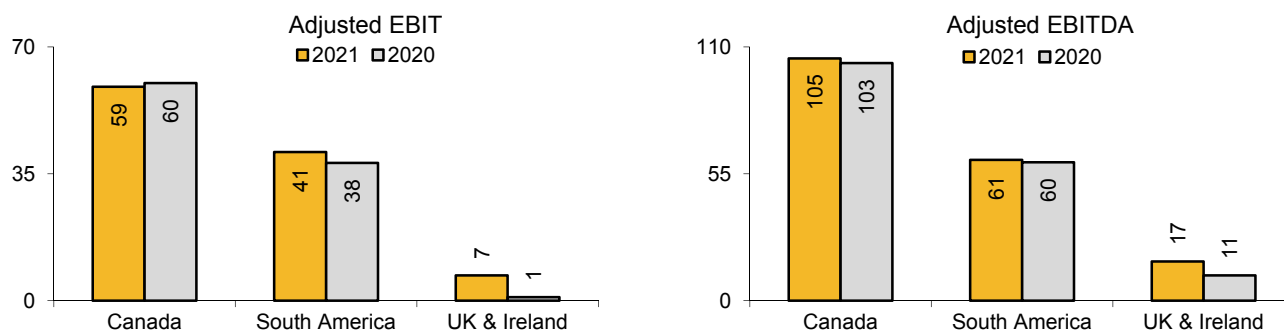
Q1 2021 gross profit of \$407 million was 3% lower than the same period in the prior year. Overall gross profit as a percentage of net revenue was 27.7% in Q1 2021, down from 29.1% in Q1 2020, mainly due to a revenue mix shift to lower product support revenue (Q1 2021: 60% compared to Q1 2020: 65%) which typically generates higher margins.

SG&A in Q1 2021 of \$314 million was 3% lower than Q1 2020 on 2% net revenue growth. Lower SG&A in Q1 2021 was due to lower people-related costs, variable costs, and provisions for customer receivables. This was partly offset by \$24 million higher LTIP expense in Q1 2021 compared to the prior year quarter due to an improved share price performance in 2021. Excluding the impact of LTIP, SG&A was down \$35 million or 10% in Q1 2021 compared to Q1 2020. SG&A as a percentage of net revenue was 21.4%, a 120 basis point improvement over the same prior year period, reflecting savings from global cost initiatives and operating efficiencies.

Adjusted EBIT and Adjusted EBITDA by Operation ⁽¹⁾

3 months ended March 31

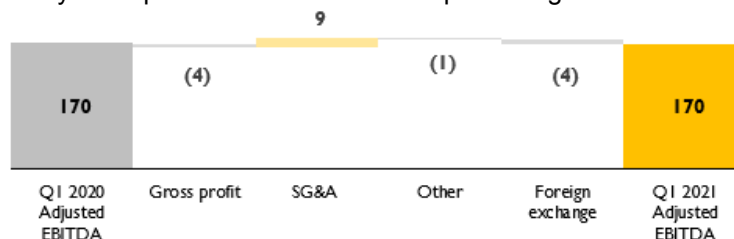
(\$ millions)



⁽¹⁾ Excluding Other operations

Q1 2021 EBIT was \$108 million and EBIT as a percentage of net revenue was 7.4%. Excluding the significant items not indicative of operational and financial trends described on page 5, Q1 2021 Adjusted EBIT was \$93 million and Adjusted EBIT as a percentage of net revenue was 6.3%, compared to \$94 million and 6.6%, respectively, in Q1 2020. Adjusted EBIT as a percentage of net revenue was lower than the same prior year period due to the lower proportion of product support revenue partially offset by an improvement in SG&A as a percentage of net revenue.

Adjusted EBITDA in Q1 2021 and Q1 2020 was \$170 million. Higher Adjusted EBITDA in Q1 2021 in all of our regions compared to Q1 2020 was offset by higher LTIP expense primarily in our Other segment. Adjusted EBITDA as a percentage of net revenue of 11.6% in Q1 2021 was slightly lower than Q1 2020.



The net debt to Adjusted EBITDA ratio at March 31, 2021 was 1.5 times, an improvement from 2.2 times at March 31, 2020, primarily due to strong free cash flow generated over the last twelve months which reduced average debt levels.

Finance Costs

Finance costs in Q1 2021 were \$19 million, down from \$21 million in Q1 2020 due to lower average debt levels.

Provision for Income Taxes

The effective income tax rate in Q1 2021 was 21.6% compared to 26.6% in Q1 2020. The effective income tax rate in Q1 2021 was lower due to a higher proportion of earnings from low tax jurisdictions and the final return on our investment in Energyst not being taxable.

We expect our effective tax rate generally to be within the 25-30% range on an annual basis. The rate may fluctuate from period to period as a result of changes in relative income from the various jurisdictions in which we carry on business, sources of income, changes in the estimation of tax reserves, outcomes of any tax audits, or changes in tax rates and tax legislation.

Net Income and Basic EPS

Net income was \$70 million and basic EPS was \$0.43 in Q1 2021. Q1 2021 Adjusted net income was \$57 million and Adjusted basic EPS was \$0.35, up from \$54 million and \$0.33, respectively, in Q1 2020. Q1 2021 results were up from Q1 2020 due to lower finance costs and a lower effective tax rate due to the mix of earnings.

Invested Capital

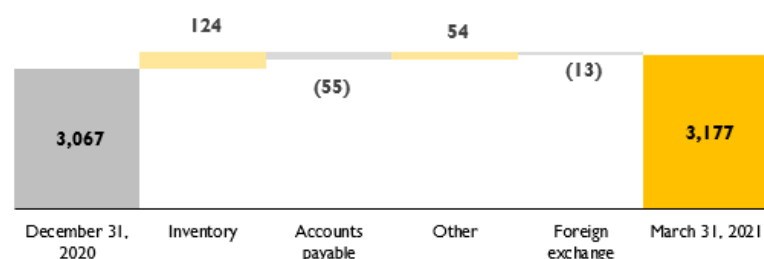
(\$ millions, unless otherwise stated)			Increase from		Decrease from	
	March 31, 2021	December 31, 2020	December 31, 2020	March 31, 2020	March 31, 2020	December 31, 2020
Consolidated	\$ 3,177	\$ 3,067	\$ 110	\$ 3,883	\$ (706)	
Canada	\$ 1,832	\$ 1,819	\$ 13	\$ 2,093	\$ (261)	
South America	\$ 982	\$ 931	\$ 51	\$ 1,330	\$ (348)	
UK & Ireland	\$ 350	\$ 327	\$ 23	\$ 428	\$ (78)	
South America (USD)	\$ 781	\$ 731	\$ 50	\$ 937	\$ (156)	
UK & Ireland (GBP)	£ 202	£ 188	£ 14	£ 243	£ (41)	

Compared to December 31, 2020:

The \$110 million increase in consolidated invested capital from December 31, 2020 to March 31, 2021 includes a foreign exchange impact of \$13 million in translating the invested capital balances of our South American and UK & Ireland operations. The foreign exchange impact was primarily the result of the 1% stronger CAD relative to the USD at March 31, 2021 compared to the rates at December 31, 2020.

Excluding the impact of foreign exchange, consolidated invested capital increased by \$123 million from December 31, 2020 to March 31, 2021 reflecting:

- an increase in parts inventory in South America and Canada as well as new equipment inventory in Canada and UK & Ireland, driven by business activity recoveries; partially offset by,
- higher accounts payable related to an increase in inventory purchases, mainly in Canada

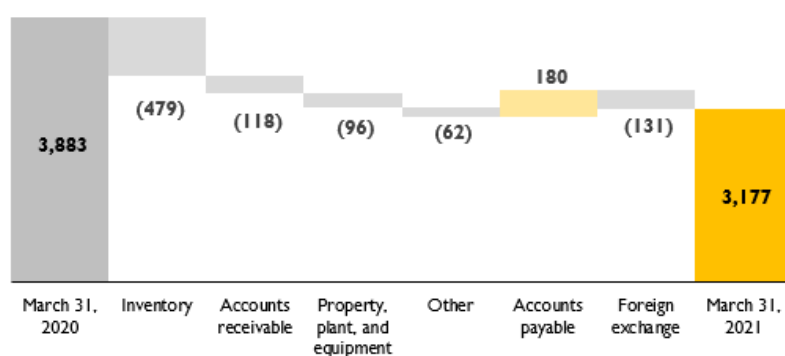


Compared to March 31, 2020:

The \$706 million decrease in consolidated invested capital from March 31, 2020 to March 31, 2021 includes a foreign exchange impact of \$131 million in translating the invested capital balances of our South American and UK & Ireland operations. The foreign exchange impact was primarily the result of the 11% stronger CAD relative to the USD at March 31, 2021 compared to the rates at March 31, 2020.

Excluding the impact of foreign exchange, consolidated invested capital decreased by \$575 million from March 31, 2020 to March 31, 2021 reflecting:

- a decrease in inventories, primarily new equipment in all regions and parts in South America and Canada from strong inventory management;
- lower accounts receivable reflecting higher collections, primarily in South America;
- lower property, plant, and equipment in Canada mainly from lower capital spend through 2020; partially offset by,
- lower accounts payable related to lower inventory purchases, primarily in South America



Adjusted ROIC and Invested Capital Turnover

	March 31, 2021	December 31, 2020	March 31, 2020
Adjusted ROIC			
Consolidated	10.0%	9.6%	12.0%
Canada	10.8%	10.5%	14.2%
South America	14.4%	12.9%	12.2%
UK & Ireland	7.6%	5.5%	8.4%
Invested Capital Turnover (times)			
Consolidated	1.78	1.68	1.83
Canada	1.56	1.50	1.75
South America	1.90	1.75	1.73
UK & Ireland	2.66	2.49	2.60

Adjusted ROIC

On a consolidated basis, Adjusted ROIC at March 31, 2021 was higher than December 31, 2020 primarily due to the reduction in average invested capital levels in all of our operations demonstrating improved capital efficiency.

On a consolidated basis, the decrease in Adjusted ROIC at March 31, 2021 compared to March 31, 2020 reflects lower Adjusted EBIT for the last twelve-month period outpacing a reduction in average invested capital levels in our Canadian and UK & Ireland operations. Adjusted ROIC at March 31, 2021 in South America was up 220 basis points from March 31, 2020, the highest since September 30, 2018, driven by improved working capital performance, including the sale of excess inventory.

Invested Capital Turnover

Consolidated invested capital turnover at March 31, 2021 improved from December 31, 2020 due to lower average invested capital levels and higher net revenue over the last twelve-month period in all of our operations.

Consolidated invested capital turnover at March 31, 2021 was lower than at March 31, 2020. In our Canadian operations, business activity in most of 2020 was significantly impacted by COVID-19 and lower commodity prices, and the reduction in net revenue in the last twelve-month period outpaced the decline in average invested capital levels. March 31, 2021 invested capital turnover in our South American and UK & Ireland operations was higher than March 31, 2020 as the reduction in average invested capital levels outpaced the net revenue reduction in the last twelve-month period.

Results by Reportable Segment

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

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

3 months ended March 31, 2021 (\$ millions)	Canada	South America	UK & Ireland	Consol	Net Revenue %
New equipment	\$ 166	\$ 126	\$ 111	\$ 403	28%
Used equipment	73	14	16	103	7%
Equipment rental	27	8	10	45	3%
Product support	476	334	77	887	60%
Fuel and other	31	—	—	31	2%
Net revenue	\$ 773	\$ 482	\$ 214	\$ 1,469	100%
Net revenue % by operation	53%	33%	14%	100%	

3 months ended March 31, 2020 (\$ millions)	Canada	South America	UK & Ireland	Consol	Net Revenue %
New equipment	\$ 162	\$ 85	\$ 106	\$ 353	24%
Used equipment	33	15	20	68	5%
Equipment rental	33	12	8	53	4%
Product support	497	366	71	934	65%
Fuel and other	30	—	1	31	2%
Net revenue	\$ 755	\$ 478	\$ 206	\$ 1,439	100%
Net revenue % by operation	53%	33%	14%	100%	

Canada Operations

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

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

3 months ended March 31		
(\$ millions)	2021	2020
Net revenue	\$ 773	\$ 755
Operating costs	(668)	(653)
Equity earnings of joint ventures	—	1
Other income	10	—
EBITDA	\$ 115	\$ 103
Depreciation and amortization	(46)	(43)
EBIT	\$ 69	\$ 60
Adjusted EBITDA	\$ 105	\$ 103
Adjusted EBIT	\$ 59	\$ 60
<i>EBITDA as a % of net revenue</i>	14.9%	13.7%
<i>EBIT as a % of net revenue</i>	8.9%	7.9%
<i>Adjusted EBITDA as a % of net revenue</i>	13.6%	13.7%
<i>Adjusted EBIT as a % of net revenue</i>	7.7%	7.9%

First Quarter Overview

Q1 2021 net revenue of \$773 million was 2% higher than Q1 2020, primarily driven by strong used equipment volumes, partially offset by lower product support revenue.

Q1 2021 used equipment revenue more than doubled from the prior year comparable period driven by stronger market conditions, particularly in the mining sector. Q1 2021 new equipment revenue was up 2% from Q1 2020.

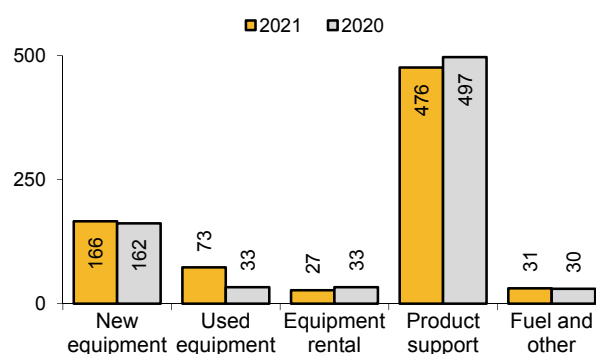
Product support revenue in Q1 2021 was down 4% compared to the same prior year period due to the continued capital and cost constraints of our customers in the oil sands and softer market conditions in construction at the start of the quarter compared to Q1 2020. Although volumes were lower, we are seeing market conditions beginning to improve in the oil sands. Q1 2021 product support revenue was up 4% from Q4 2020, driven by improved demand and stronger rebuild activity in the construction sector, demonstrating the resiliency of our product support business.

Rental revenue was down 19% from the prior year comparable period due to work stoppages at certain pipeline and construction sites to mitigate the spread of COVID-19.

Overall gross profit as a percentage of net revenue in Q1 2021 was lower than Q1 2020 primarily due to a lower proportion of product support revenue in the revenue mix. In addition, gross margins in Q1 2021 were lower across most of our lines of business.

Net revenue by Line of Business

Canada Operations
3 months ended March 31
(\$ millions)



Q1 2021 SG&A was down 7% compared to the prior year period, primarily due to lower people-related costs as well as lower variable and travel costs partially offset by higher LTIP expense. We continued to qualify for CEWS and recorded \$10 million of this wage subsidy in Q1 2021, which allowed us to preserve jobs, and rehire and retrain our workforce. We have rehired close to 150 technicians since June 2020. Our OEM Remanufacturing facility in Edmonton has returned to a 3-shift operation, and we have been able to continue delivering our apprentice program throughout the pandemic. The costs related to rehired and retained employees were included in SG&A and offset some of the reductions noted above, and the CEWS benefit was included in other income. Our strong financial position is enabling us to make strategic investments early in the recovery cycle, including capacity expansions and the construction of new facilities in partnership with local Indigenous communities. SG&A as a percentage of net revenue was down 210 basis points compared to the prior year period reflecting the benefit of strategies taken to align our cost structure with market activity, which includes an improvement in employee and facility productivity.

Excluding the benefit of CEWS, our Canadian operations contributed Adjusted EBITDA of \$105 million in Q1 2021, up 2% from the same period in the prior year, consistent with the increase in net revenues. Adjusted EBITDA as a percentage of net revenue of 13.6% in Q1 2021 was comparable to Q1 2020 with the improvement in SG&A as a percentage of net revenue offset by lower gross profit as a percentage of net revenue.

South America Operations

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

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

3 months ended March 31		
(\$ millions)	2021	2020
Net revenue	\$ 482	\$ 478
Operating costs	(421)	(418)
EBITDA	\$ 61	\$ 60
Depreciation and amortization	(20)	(22)
EBIT	\$ 41	\$ 38
<i>EBITDA as a % of net revenue</i>	12.8%	12.4%
<i>EBIT as a % of net revenue</i>	8.6%	7.8%

The stronger CAD relative to the USD on average in Q1 2021 compared to Q1 2020 had an unfavourable foreign currency translation impact on net revenue in Q1 2021 of approximately \$30 million and was not significant at the EBITDA level.

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

First Quarter Overview

Q1 2021 net revenue was 7% higher than Q1 2020, driven by higher new equipment revenue in Chile partially offset by lower demand for product support in the Chilean mining sector.

New equipment revenue in Q1 2021 was 58% higher than the prior year quarter, primarily in the construction and mining sectors in Chile, which included deliveries to **Teck's QB2** project. Equipment backlog at March 31, 2021 was higher than all quarters since June 2013. Strong order intake in the quarter, the highest since Q3 2019, outpaced deliveries in all sectors.

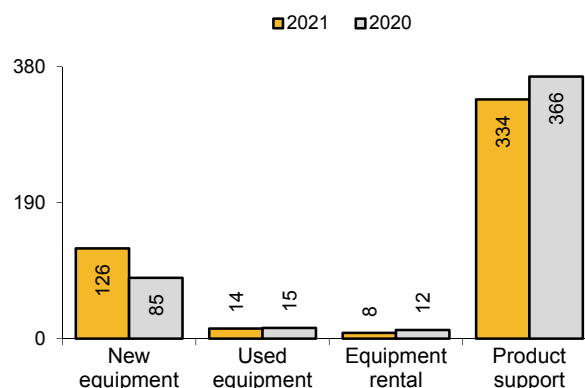
Product support revenue in Q1 2021 was down 3% from Q1 2020, reflecting COVID-19 related restrictions limiting the capacity of Chilean mining operations which has led to lower copper production.

Gross profit in Q1 2021 was comparable with the same period in the prior year. Gross profit as a percentage of net revenue in Q1 2021 was down compared to Q1 2020 primarily due to the shift to higher new equipment revenue in the revenue mix.

Q1 2021 SG&A was down 5% from Q1 2020 despite a 7% growth in net revenue reflecting lower people-related costs due to restructuring activities and increased operating efficiencies, partially offset by higher LTIP expense. Also, Q1 2020 SG&A included higher provisions for customer receivables to reflect an increase in collection risk related to market conditions, including COVID-19. SG&A as a percentage of net revenue decreased 240 basis points from Q1 2020 demonstrating improved execution to capture growth opportunities.

Q1 2021 EBITDA was 11% higher than Q1 2020. This improvement from the same prior year period was primarily due to lower SG&A. Q1 2021 EBITDA as a percentage of net revenue of 12.8% was 40 basis points higher than Q1 2020 reflecting the benefit of a lower cost base and operating efficiencies.

**Net revenue by Line of Business
South America Operations**
3 months ended March 31
(\$ millions)



UK & Ireland Operations

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

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

3 months ended March 31 (\$ millions)	2021	2020
Net revenue	\$ 214	\$ 206
Operating costs	(197)	(195)
EBITDA	\$ 17	\$ 11
Depreciation and amortization	(10)	(10)
EBIT	\$ 7	\$ 1
<i>EBITDA as a % of net revenue</i>	7.9%	5.2%
<i>EBIT as a % of net revenue</i>	3.2%	0.5%

The weaker CAD relative to the GBP on average in Q1 2021 compared to Q1 2020 did not have a significant foreign currency translation impact on net revenue or EBITDA in Q1 2021 when compared to Q1 2020.

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

First Quarter Overview

First quarter 2021 net revenue was 2% higher than the same period in 2020, up in most lines of business and primarily in the power systems sector.

Q1 2021 product support revenue increased 7% from the same prior year period, with strong activity in both the construction and power systems sectors.

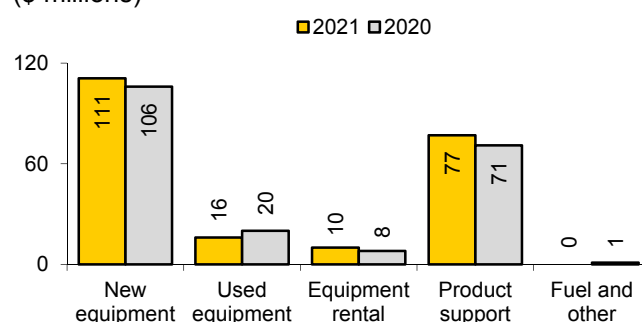
New equipment revenue was 2% higher than the first quarter of 2020, driven primarily by power systems project deliveries to data centre customers partially offset by lower sales in the construction sector. Equipment backlog at March 31, 2021 was at record levels, driven by strong order intake, higher than all quarters over the last three years, and reflected strong demand for standby power solutions for data centre customers and additional equipment orders for the HS2 project.

The increase in gross profit in Q1 2021 outpaced net revenue growth. Overall gross profit as a percentage of net revenue increased from the same prior year period, mainly due to improved gross profit as a percentage of net revenue in most lines of business and a higher proportion of product support revenue in the revenue mix.

SG&A and SG&A as a percentage of net revenue in Q1 2021 were comparable to the prior year period. Cost savings and operating efficiencies in Q1 2021 when compared to Q1 2020 were offset by additional costs in relation to the Energyst business acquisition that completed in January 2021 (described on page 17) as well as higher LTIP expense.

Q1 2021 EBITDA was 56% higher than the same prior year period on 2% higher net revenue. EBITDA as a percentage of net revenue of 7.9% was higher than 5.2% in Q1 2020 primarily due to higher gross profit as a percentage of net revenue.

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



Other Segment

Our Other segment includes corporate operating costs.

Q1 2021 EBITDA of this segment was a loss of \$8 million compared to a loss of \$4 million in Q1 2020. Excluding the \$5 million final return on our investment in Energyst, Q1 2021 EBITDA was a loss of \$13 million. The higher loss in Q1 2021 compared to Q1 2020 was due to \$15 million higher LTIP expense due to a stronger share price performance in Q1 2021, partially offset by cost reductions and operating efficiencies.

Other Developments

Energyst was the exclusive Caterpillar dealer in Europe for rental power and temperature control solutions. In December 2020, the shareholders of Energyst, which included Finning, decided to restructure the company and convert its rental activities into four separate regional organizations which were sold in January 2021. A plan is in place to sell any remaining assets and wind-up Energyst, with the net proceeds from the sale to be distributed to Energyst's shareholders. During the three months ended March 31, 2021, we recorded a \$5 million return on our investment in Energyst.

On January 7, 2021, our UK & Ireland operations acquired the Energyst rental business operations in the UK and Ireland, one of the four regional organizations, and is now the authorized supplier of rental services for Caterpillar power generation in these territories. Other Caterpillar dealers acquired the other three regional organizations. Cash consideration of \$14 million (€9 million) was paid at the date of acquisition, funded with cash on hand. Net assets acquired include \$1 million cash, \$2 million of net working capital (comprising receivables, inventory, and payables), and \$11 million of rental assets. The purchase price allocation is not final but we expect to finalize it no later than December 31, 2021.

Subsequent to the quarter, our South American operation received a notice of award from Chilean state-owned copper mining company, Codelco, to deliver new trucks, product support, and an autonomous technology pilot to its mining operations in northern Chile. We will supply 22 Caterpillar 797F off-highway trucks to the Radomiro Tomic open pit copper mine and support the fleet under a 5-year maintenance and repair contract. We expect to start delivering the trucks in the second half of 2021. In addition, we have secured a 5-year extension of our existing product support contract with Codelco's Ministro Hales copper mine, which operates 39 Caterpillar ultra-class trucks, 6 Caterpillar shovels, and a fleet of Caterpillar support equipment. We will also work closely with Caterpillar and Codelco's Ministro Hales Division to pilot Caterpillar's Autonomous Haulage System to enable autonomous operations at the Ministro Hales copper mine.

Market Update and Business Outlook

The discussion of our expectations relating to the market and business outlook in this section is forward-looking information that is based upon the assumptions and subject to the material risks discussed under the heading “Forward-Looking Information Disclaimer” beginning on page 34 of this MD&A. Actual outcomes and results may vary significantly.

Canada Operations

In the oil sands, our customers are increasing production while remaining disciplined on capital expenditures, which is expected to drive improved demand for rental equipment and increased fleet utilization. We expect higher product support activity in the oil sands in 2021 compared to 2020. Our expectation assumes sustainment of strong oil prices and that the Alberta government will not re-impose oil production curtailments. The improved outlook for copper, precious and base metals is expected to continue supporting increased mining activity in Western Canada. We are actively quoting on multiple requests for proposals for equipment and product support, including projects in the Golden Triangle of British Columbia, which represent significant greenfield opportunities. The large and aging mining equipment population is expected to drive opportunities for future fleet renewals, rebuilds, autonomy conversions, and continued demand for product support. We are also well positioned to help our mining customers reduce cost per ton and improve operating efficiencies through initiatives such as autonomy and leveraging our technology solutions. Approximately 7% of large and ultra-class Caterpillar off-highway trucks operated by our mining customers in Western Canada are currently autonomous, and we expect this ratio to increase to 10% by the end of 2021.

The federal and provincial governments’ fiscal stimulus programs are expected to have a positive impact on construction activity as major projects are awarded. Significant private sector investment in LNG and power projects are expected to continue to drive demand for equipment, product support, heavy rentals, and prime and standby electric power generation in 2021. We are seeing an increase in order intake for construction equipment and are capturing increased product support market share in the construction sector by leveraging our rebuild programs and technology solutions. We expect improved utilization of our heavy rental equipment at pipeline construction sites during the second quarter as our customers have resumed work. Although COVID-19 restrictions at customer sites have eased, high infection rates continue to pose a near-term risk given slower than expected vaccine rollout in western Canada.

South America Operations

We remain optimistic about mining recovery in Chile. We are actively quoting on multiple opportunities for new mining equipment and autonomous solutions for both brownfield expansions and greenfield projects. According to Cochilco, the Chilean Copper Commission, Chile’s portfolio of mining projects includes about USD \$20 billion of investment in brownfield project expansions over the next two years.

In the near term, COVID-19 restrictions are expected to continue to limit the capacity of mining operations. We are monitoring the mining industry’s response to a second wave and expect mining product support revenue to recover in the second half of 2021 as customers resume major maintenance work. We reached agreements with our own unions, and we are closely monitoring our customers’ upcoming union negotiations.

The outlook for the Chilean construction industry is positive, supported by the government’s public investment in infrastructure. We are seeing improved customer activity and order intake in the construction markets in Chile. We continue to monitor the political and economic reform process in Chile leading up to general elections in November 2021.

In Argentina, we expect recovery in construction activity in 2021 and stable activity in gold mining and oil and gas. We expect the overall business environment in Argentina to remain challenging, and are actively managing key risks, including **ARS** devaluation.

UK & Ireland Operations

The outlook for general construction equipment markets in the UK has improved, driven by optimism about a post-COVID economic recovery, a ramp-up of HS2 construction activity, and the UK government’s tax incentives. Our backlog at March 31, 2021 includes £83 million of equipment orders related to HS2, and we expect to start delivering equipment to this project in Q2 2021.

Strong demand for our power systems solutions, particularly in the data centre market, is expected to continue. We expect power systems project deliveries to accelerate in the second half of 2021 and into 2022.

Improved Earnings Capacity in a Recovery

Our overall outlook for 2021 remains positive, underpinned by our strong backlog. We are optimistic about market recovery gaining momentum in the second half of 2021 as the COVID-19 vaccine rollout ramps up in each of our regions. However, we expect 2021 revenue to remain below 2019 levels.

In 2021, we expect to benefit from several profitability drivers, including operating leverage in a recovering market, product support growth in all regions, significant progress towards our mid-cycle SG&A target, and effective allocation of capital. Despite slower than anticipated vaccine rollout in Canada and continued challenges related to COVID-19, we expect our 2021 earnings to exceed 2019.

We expect to deliver strong annual free cash flow in 2021. However, with increased inventory purchases and related cash usage, our annual EBITDA to free cash flow conversion ⁽¹⁾ is projected to be modestly below 50% for the year.

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

Liquidity and Capital Resources

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

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

3 months ended March 31 (\$ millions)	2021	2020	Increase (Decrease) in cash flow
Operating activities	\$ 12	\$ (14)	\$ 26
Investing activities	\$ (32)	\$ (36)	\$ 4
Financing activities	\$ (44)	\$ (1)	\$ (43)
Free Cash Flow	\$ (20)	\$ (50)	\$ 30

The most significant contributors to the changes in cash flows for Q1 2021 over Q1 2020 were as follows (all events described were in the current quarter, unless otherwise stated):

Operating activities	<ul style="list-style-type: none"> higher earnings driven by South America and UK & Ireland lower net spend on rental fleet and rental equipment with purchase options in Canada
Investing activities	<ul style="list-style-type: none"> lower net spend on capital expenditures \$13 million net cash consideration paid to acquire the UK & Ireland rental business operations of Energyst was offset by cash received in relation to our investment in Energyst
Financing activities	<ul style="list-style-type: none"> approximately \$70 million less cash provided by short-term borrowings \$23 million cash used to repurchase common shares in Q1 2020
Free Cash Flow use	<ul style="list-style-type: none"> lower use of free cash flow in Q1 2021 due to higher cash from operating activities as outlined above

Capital resources and management

Our cash and cash equivalents balance at March 31, 2021 was \$469 million (December 31, 2020: \$539 million). At March 31, 2021, to complement internally generated funds from operating and investing activities, we had approximately \$2.1 billion in unsecured committed and uncommitted credit facilities. Included in this amount is a committed revolving credit facility totaling \$1.3 billion with various Canadian and global financial institutions, of which approximately \$1.2 billion was available at March 31, 2021. We are subject to certain covenants under our committed revolving credit facilities and we were in compliance with these covenants as at March 31, 2021.

We continue to evaluate the impact of COVID-19 on our business and adapt and adjust to daily changes, as needed. We continuously monitor actual and forecasted cash flows, manage the maturity profiles of our financial liabilities and maintain committed and uncommitted credit facilities. In March 2021, we cancelled the \$500 million committed revolving credit facility that we secured in April 2020 because we are comfortable with our liquidity position utilizing our existing committed credit facility. We believe that based on cash on hand, available credit facilities and the discretionary nature of certain cash flows, such as rental and capital expenditures, we have sufficient liquidity to meet operational needs.

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

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

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

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

We have renewed our **NCIB** for a further year effective May 13, 2021 ⁽²⁾.

Net Debt to Adjusted EBITDA

We monitor net debt to Adjusted EBITDA to assess our operating leverage and ability to repay debt. This ratio approximates the length of time, in years, that it would take us to repay our debt, with net debt ⁽³⁾ and Adjusted EBITDA held constant.

March 31	Finning long-term target	2021	2020
Net debt to Adjusted EBITDA ratio (times)	< 3.0	1.5	2.2

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

⁽²⁾ A copy of the NCIB notice is available on request directed to the Corporate Secretary, 300 – 565 Great Northern Way, Vancouver, BC V5T 0H8.

⁽³⁾ These are "non-GAAP financial measures". See "Description of Non-GAAP Financial Measures and Reconciliations" later in this MD&A.

Accounting Policies and Pronouncements

New Accounting Pronouncements

The adoption of recent amendments to IFRS had no impact on our financial position. For more details on recent amendments to IFRS adopted effective January 1, 2021 as well as future accounting pronouncements and effective dates, please refer to note 1 of our Interim Financial Statements.

Risk Factors and Management

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

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

Foreign Exchange Risk

Key exchange rates that impacted our results were as follows:

Exchange rate	March 31			December 31		3 months ended March 31 – average		
	2021	2020	Change	2020	Change	2021	2020	Change
USD/CAD	1.2575	1.4187	11 %	1.2732	1 %	1.2660	1.3449	6 %
GBP/CAD	1.7337	1.7604	2 %	1.7381	—	1.7457	1.7184	(2)%
USD/CLP	732.11	846.30	13 %	711.24	(3)%	724.14	802.91	10 %
USD/ARS	92.00	64.47	(43)%	84.15	(9)%	88.63	61.56	(44)%

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

Outstanding Share Data

As at May 6, 2021

Common shares outstanding	162,392,992
Options outstanding	2,104,947

Controls and Procedures Certification

Disclosure Controls and Procedures

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

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

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

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

Internal Control over Financial Reporting

We are responsible for establishing and maintaining adequate internal control over financial reporting. We have designed internal control over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements in accordance with IFRS. In March 2020, we instituted remote work arrangements for the majority of our finance workforce due to the COVID-19 pandemic. Although this has continued through subsequent financial close periods, there has been no change in the design of our internal controls over financial reporting during the quarter ended March 31, 2021 that would materially affect, or is reasonably likely to materially affect, our internal control over financial reporting. We have taken additional steps to ensure key financial internal controls remained in place during the financial reporting period and these controls were completed electronically.

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

Description of Non-GAAP Financial Measures and Reconciliations

Non-GAAP Financial Measures

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

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

There may be significant items that we do not consider indicative of our operational and financial trends, either by nature or amount. We exclude these items when evaluating our operating financial performance. These items may not be non-recurring, but we believe that excluding these significant items from GAAP results provides a better understanding of our financial performance when considered in conjunction with the GAAP results. Financial metrics that have been adjusted to take into account these significant items are referred to as “Adjusted” metrics. Adjusted metrics are non-GAAP financial measures and are intended to provide additional information to readers of the MD&A.

A description of the non-GAAP financial measures used by us in this MD&A is set out below. A quantitative reconciliation from each non-GAAP financial measure to their most directly comparable measure, where available, specified, defined, or determined under GAAP and used in our consolidated financial statements (GAAP measures) can be found on pages 25 - 32 of this MD&A.

Adjusted net income and Adjusted basic EPS

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

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

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

EBITDA, Adjusted EBITDA, and Adjusted EBIT

EBITDA is defined as earnings before finance costs, income taxes, depreciation, and amortization. We use EBITDA to assess and evaluate the financial performance of our reportable segments. We believe that EBITDA improves comparability between periods by eliminating the impact of finance costs, income taxes, depreciation, and amortization.

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

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

The most directly comparable GAAP measure to EBITDA is EBIT.

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

3 months ended (\$ millions)	2021	2020				2019			
	Mar 31	Dec 31	Sep 30	Jun 30	Mar 31	Dec 31	Sep 30	Jun 30	Mar 31
EBIT	108	108	138	52	94	97	129	137	62
Depreciation and amortization	77	77	77	78	76	73	72	76	72
EBITDA	185	185	215	130	170	170	201	213	134
EBITDA – last 12 months	715	700	685	671	754	718	688	629	587
EBIT	108	108	138	52	94	97	129	137	62
Significant items:									
CEWS support	(10)	(14)	(37)	(64)	—	—	—	—	—
Final return on our investment in Energyst	(5)	—	—	—	—	—	—	—	—
Severance costs	—	—	—	42	—	—	2	—	18
Facility closures, restructuring costs, and impairment losses	—	—	—	9	—	—	1	—	7
Acquisition costs related to 4Refuel	—	—	—	—	—	—	—	—	4
Adjusted EBIT	93	94	101	39	94	97	132	137	91
Depreciation and amortization	77	77	77	78	76	73	72	76	72
Adjusted EBITDA	170	171	178	117	170	170	204	213	163
Adjusted EBIT – last 12 months	327	328	331	362	460	457	451	442	431
Adjusted EBITDA – last 12 months	636	636	635	661	757	750	720	688	646

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

3 months ended (\$ millions)	2021	2020			2019				
	Mar 31	Dec 31	Sep 30	Jun 30	Mar 31	Dec 31	Sep 30	Jun 30	Mar 31
EBIT	69	72	93	63	60	72	82	92	50
Significant items:									
CEWS support	(10)	(13)	(35)	(60)	—	—	—	—	—
Severance costs	—	—	—	20	—	—	—	—	10
Facility closures, restructuring costs, and impairment losses	—	—	—	5	—	—	—	—	7
Adjusted EBIT	59	59	58	28	60	72	82	92	67
Depreciation and amortization	46	47	48	47	43	42	43	46	43
Adjusted EBITDA	105	106	106	75	103	114	125	138	110
Adjusted EBIT – last 12 months	204	205	218	242	306	313	312	308	293

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

3 months ended (\$ millions)	2021	2020			2019				
	Mar 31	Dec 31	Sep 30	Jun 30	Mar 31	Dec 31	Sep 30	Jun 30	Mar 31
EBIT	41	41	40	2	38	31	42	41	6
Significant items:									
Severance costs	—	—	—	17	—	—	2	—	8
Facility closures, restructuring costs, and impairment losses	—	—	—	4	—	—	1	—	—
Adjusted EBIT	41	41	40	23	38	31	45	41	14
Depreciation and amortization	20	20	19	22	22	20	20	21	20
Adjusted EBITDA	61	61	59	45	60	51	65	62	34
Adjusted EBIT – last 12 months	145	142	132	137	155	131	112	104	110

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

3 months ended (\$ millions)	2021	2020			2019				
	Mar 31	Dec 31	Sep 30	Jun 30	Mar 31	Dec 31	Sep 30	Jun 30	Mar 31
EBIT	7	11	9	(5)	1	5	14	14	13
Significant item:									
Severance costs	—	—	—	4	—	—	—	—	—
Adjusted EBIT	7	11	9	(1)	1	5	14	14	13
Depreciation and amortization	10	9	9	9	10	10	8	9	9
Adjusted EBITDA	17	20	18	8	11	15	22	23	22
Adjusted EBIT – last 12 months	26	20	14	19	34	46	53	54	54

EBITDA to Free Cash Flow Conversion

EBITDA to free cash flow conversion is calculated as free cash flow (defined and calculated below) divided by EBITDA (defined and calculated on pages 24 - 25). We use EBITDA to free cash flow conversion to assess our efficiency in turning EBITDA into cash.

Equipment Backlog and Order Intake

Our global equipment backlog is defined as the retail value of new equipment units ordered by customers for future deliveries. Order intake represents committed new equipment orders. We use equipment backlog and order intake as measures of projecting future new equipment deliveries. There are no directly comparable IFRS measures for equipment backlog and order intake.

Free Cash Flow

Free cash flow is defined as cash flow provided by or used in operating activities less net additions to property, plant, and equipment and intangible assets, as disclosed in our Interim Financial Statements. We use free cash flow to assess cash operating performance and the ability to raise and service debt. A reconciliation of free cash flow is as follows:

3 months ended (\$ millions)	2021	2020				2019			
	Mar 31	Dec 31	Sep 30	Jun 30	Mar 31	Dec 31	Sep 30	Jun 30	Mar 31
Cash flow provided by (used in) operating activities	12	317	340	319	(14)	438	204	(127)	(324)
Additions to property, plant, and equipment and intangible assets	(33)	(34)	(26)	(17)	(38)	(54)	(40)	(37)	(23)
Proceeds on disposal of property, plant, and equipment	1	9	2	10	2	2	1	2	—
Free cash flow	(20)	292	316	312	(50)	386	165	(162)	(347)

Inventory Turns (Dealership)

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

(\$ millions, except as noted)	2021	2020				2019			
	Mar 31	Dec 31	Sep 30	Jun 30	Mar 31	Dec 31	Sep 30	Jun 30	Mar 31
Cost of sales (3 months ended)	1,189	1,248	1,163	1,075	1,140	1,483	1,500	1,655	1,380
Cost of sales related to mobile refueling operations (3 months ended)	(140)	(129)	(124)	(95)	(133)	(168)	(156)	(156)	(99)
Cost of sales related to the dealership (3 months ended)	1,049	1,119	1,039	980	1,007	1,315	1,344	1,499	1,281
Inventory	1,593	1,477	1,626	1,893	2,152	1,990	2,215	2,366	2,356
Fuel inventory	(3)	(3)	(2)	(2)	(3)	(3)	(3)	(3)	(3)
Inventory related to the dealership	1,590	1,474	1,624	1,891	2,149	1,987	2,212	2,363	2,353
Cost of sales related to the dealership – annualized	4,336	4,319	4,039	3,973	4,644	5,317	5,686	5,559	5,420
Inventory related to the dealership – 2 quarter average	1,532	1,549	1,757	2,020	2,068	2,099	2,287	2,359	2,208
Inventory turns (dealership) (number of times)	2.83	2.79	2.30	1.97	2.25	2.53	2.49	2.36	2.46

Invested Capital

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

(\$ millions, except as noted)	2021	2020				2019			
	Mar 31	Dec 31	Sep 30	Jun 30	Mar 31	Dec 31	Sep 30	Jun 30	Mar 31
Cash and cash equivalents	(469)	(539)	(453)	(338)	(260)	(268)	(252)	(160)	(290)
Short-term debt	103	92	217	158	329	226	532	751	658
Current portion of long-term debt	326	201	200	200	200	200	200	—	—
Non-current portion of long-term debt	973	1,107	1,136	1,348	1,381	1,318	1,325	1,321	1,341
Net debt	933	861	1,100	1,368	1,650	1,476	1,805	1,912	1,709
Shareholders' equity	2,244	2,206	2,184	2,127	2,233	2,115	2,102	2,052	2,044
Invested capital	3,177	3,067	3,284	3,495	3,883	3,591	3,907	3,964	3,753

Invested Capital Turnover

We use invested capital turnover to measure the efficiency of our invested capital and is calculated as net revenue (defined and calculated on page 30) for the last twelve months divided by invested capital (defined and calculated on page 28) based on an average of the last four quarters, as follows:

(\$ millions, except as noted)	2021	2020				2019			
	Mar 31	Dec 31	Sep 30	Jun 30	Mar 31	Dec 31	Sep 30	Jun 30	Mar 31
Consolidated									
Net revenue – last 12 months	5,798	5,768	5,974	6,350	7,010	7,290	7,375	7,311	7,045
Invested capital – 4 quarter average	3,256	3,432	3,563	3,719	3,836	3,804	3,697	3,578	3,427
Invested capital turnover (number of times)	1.78	1.68	1.68	1.71	1.83	1.92	1.99	2.04	2.06
Canada									
Net revenue – last 12 months	2,977	2,959	3,156	3,406	3,775	3,927	3,964	3,896	3,729
Invested capital – 4 quarter average	1,902	1,967	2,019	2,091	2,153	2,167	2,079	1,999	1,888
Invested capital turnover (number of times)	1.56	1.50	1.56	1.63	1.75	1.81	1.91	1.95	1.98
South America									
Net revenue – last 12 months	1,926	1,922	1,944	2,042	2,199	2,226	2,217	2,198	2,123
Invested capital – 4 quarter average	1,014	1,100	1,166	1,226	1,271	1,250	1,249	1,223	1,195
Invested capital turnover (number of times)	1.90	1.75	1.67	1.67	1.73	1.78	1.77	1.80	1.78
UK & Ireland									
Net revenue – last 12 months	895	887	874	902	1,036	1,137	1,194	1,217	1,193
Invested capital – 4 quarter average	337	357	365	389	399	382	376	373	368
Invested capital turnover (number of times)	2.66	2.49	2.39	2.32	2.60	2.98	3.18	3.27	3.25

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

These ratios are calculated, respectively, as net debt (defined and calculated on page 28) divided by EBITDA, and net debt divided by Adjusted EBITDA, for the last twelve months. We use these ratios to assess operating leverage and ability to repay debt. These ratios approximate the length of time, in years, that it would take us to repay debt, with net debt and EBITDA or Adjusted EBITDA held constant. These ratios are calculated as follows:

(\$ millions, except as noted)	2021	2020				2019			
	Mar 31	Dec 31	Sep 30	Jun 30	Mar 31	Dec 31	Sep 30	Jun 30	Mar 31
Net debt	933	861	1,100	1,368	1,650	1,476	1,805	1,912	1,709
EBITDA – last 12 months	715	700	685	671	754	718	688	629	587
Adjusted EBITDA – last 12 months	636	636	635	661	757	750	720	688	646
Net debt to EBITDA ratio	1.3	1.2	1.6	2.0	2.2	2.1	2.6	3.0	2.9
Net debt to Adjusted EBITDA ratio	1.5	1.4	1.7	2.1	2.2	2.0	2.5	2.8	2.6

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

Net revenue is defined as total revenue less the cost of fuel related to the mobile refueling operations in our Canadian operations. As these fuel costs are pass-through in nature for this business, we view net revenue as more representative in assessing the performance of the business because the rack price for the cost of fuel is fully passed through to the customer and is not in our control. For our South American and UK & Ireland operations, net revenue is the same as total revenue.

We use these measures, including KPIs and ratios, to assess and evaluate the financial performance or profitability of our reportable segments. We may also calculate these financial measures using an Adjusted EBITDA and Adjusted EBIT to exclude significant items that are not considered to be indicative of operational and financial trends either by nature or amount to provide a better overall understanding of our underlying business performance.

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

3 months ended (\$ millions, except as noted)	2021	2020				2019			
	Mar 31	Dec 31	Sep 30	Jun 30	Mar 31	Dec 31	Sep 30	Jun 30	Mar 31
Total revenue	1,596	1,666	1,553	1,419	1,558	1,911	1,959	2,137	1,810
Cost of fuel	(127)	(115)	(110)	(84)	(119)	(154)	(140)	(142)	(91)
Net revenue	1,469	1,551	1,443	1,335	1,439	1,757	1,819	1,995	1,719
Gross profit	407	418	390	344	418	428	459	482	430
Gross profit as a % of net revenue	27.7%	26.9%	27.0%	25.7%	29.1%	24.3%	25.3%	24.1%	25.0%
SG&A	314	324	290	306	325	334	333	350	343
SG&A as a % of net revenue	21.4%	20.9%	20.1%	22.9%	22.6%	19.0%	18.3%	17.5%	20.0%
EBITDA	185	185	215	130	170	170	201	213	134
EBITDA as a % of net revenue	12.6%	11.9%	14.9%	9.7%	11.8%	9.7%	11.1%	10.7%	7.8%
Adjusted EBITDA	170	171	178	117	170	170	204	213	163
Adjusted EBITDA as a % of net revenue	11.6%	11.0%	12.3%	8.8%	11.8%	9.7%	11.2%	10.7%	9.4%
EBIT	108	108	138	52	94	97	129	137	62
EBIT as a % of net revenue	7.4%	6.9%	9.6%	3.9%	6.6%	5.5%	7.1%	6.9%	3.6%
Adjusted EBIT	93	94	101	39	94	97	132	137	91
Adjusted EBIT as a % of net revenue	6.3%	6.1%	7.0%	2.9%	6.6%	5.5%	7.3%	6.9%	5.3%

ROIC and Adjusted ROIC

ROIC is defined as EBIT for the last twelve months divided by invested capital (calculated on page 28) based on an average of the last four quarters, expressed as a percentage.

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

ROIC and Adjusted ROIC are calculated as follows:

(\$ millions, except as noted)	2021	2020				2019			
	Mar 31	Dec 31	Sep 30	Jun 30	Mar 31	Dec 31	Sep 30	Jun 30	Mar 31
Consolidated									
EBIT – last 12 months	406	392	381	372	457	425	419	383	372
Adjusted EBIT – last 12 months	327	328	331	362	460	457	451	442	431
Invested capital – 4 quarter average	3,256	3,432	3,563	3,719	3,836	3,804	3,697	3,578	3,427
ROIC	12.5%	11.4%	10.7%	10.0%	11.9%	11.2%	11.3%	10.7%	10.8%
Adjusted ROIC	10.0%	9.6%	9.3%	9.7%	12.0%	12.0%	12.2%	12.3%	12.5%
Canada									
EBIT – last 12 months	297	288	288	277	306	296	295	291	276
Adjusted EBIT – last 12 months	204	205	218	242	306	313	312	308	293
Invested capital – 4 quarter average	1,902	1,967	2,019	2,091	2,153	2,167	2,079	1,999	1,888
ROIC	15.6%	14.6%	14.3%	13.3%	14.2%	13.7%	14.2%	14.5%	14.6%
Adjusted ROIC	10.8%	10.5%	10.8%	11.6%	14.2%	14.4%	15.0%	15.4%	15.5%
South America									
EBIT – last 12 months	124	121	111	113	152	120	101	96	102
Adjusted EBIT – last 12 months	145	142	132	137	155	131	112	104	110
Invested capital – 4 quarter average	1,014	1,100	1,166	1,226	1,271	1,250	1,249	1,223	1,195
ROIC	12.3%	11.0%	9.5%	9.3%	11.9%	9.6%	8.1%	7.9%	8.6%
Adjusted ROIC	14.4%	12.9%	11.3%	11.2%	12.2%	10.5%	9.0%	8.5%	9.2%
UK & Ireland									
EBIT – last 12 months	22	16	10	15	34	46	53	54	54
Adjusted EBIT – last 12 months	26	20	14	19	34	46	53	54	54
Invested capital – 4 quarter average	337	357	365	389	399	382	376	373	368
ROIC	6.5%	4.5%	2.9%	3.7%	8.4%	12.1%	14.1%	14.5%	14.8%
Adjusted ROIC	7.6%	5.5%	3.9%	4.6%	8.4%	12.1%	14.1%	14.5%	14.8%

Working Capital & Working Capital to Net Revenue Ratio

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

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

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

(\$ millions, except as noted)	2021	2020				2019			
	Mar 31	Dec 31	Sep 30	Jun 30	Mar 31	Dec 31	Sep 30	Jun 30	Mar 31
Total current assets	3,319	3,214	3,261	3,416	3,828	3,659	3,959	4,217	4,187
Cash and cash equivalents	(469)	(539)	(453)	(338)	(260)	(268)	(252)	(160)	(290)
Total current assets in working capital ⁽¹⁾	2,850	2,675	2,808	3,078	3,568	3,391	3,707	4,057	3,897
Total current liabilities	1,817	1,623	1,717	1,735	2,112	2,026	2,331	2,584	2,574
Short-term debt	(103)	(92)	(217)	(158)	(329)	(226)	(532)	(751)	(658)
Current portion of long-term debt	(326)	(201)	(200)	(200)	(200)	(200)	(200)	—	—
Total current liabilities in working capital ⁽²⁾	1,388	1,330	1,300	1,377	1,583	1,600	1,599	1,833	1,916
Working capital	1,462	1,345	1,508	1,701	1,985	1,791	2,108	2,224	1,981
Working capital – 4 quarter average	1,504	1,635	1,746	1,896	2,026	2,026	1,986	1,950	1,878
Net revenue – last 12 months	5,798	5,768	5,974	6,350	7,010	7,290	7,375	7,311	7,045
Working capital to net revenue	25.9%	28.3%	29.2%	29.9%	28.9%	27.8%	26.9%	26.7%	26.7%

(1) Excluding cash and cash equivalents.

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

Selected Quarterly Information

(\$ millions, except for share, per share, and option amounts)	2021		2020				2019		
	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2	
Revenue									
Canada	\$ 900	\$ 886	\$ 838	\$ 789	\$ 874	\$ 1,122	\$ 1,118	\$ 1,216	
South America	482	496	479	469	478	518	577	626	
UK & Ireland	214	284	236	161	206	271	264	295	
Total revenue	\$ 1,596	\$ 1,666	\$ 1,553	\$ 1,419	\$ 1,558	\$ 1,911	\$ 1,959	\$ 2,137	
Net income ⁽¹⁾	\$ 70	\$ 72	\$ 88	\$ 18	\$ 54	\$ 50	\$ 76	\$ 88	
Earnings per share ⁽¹⁾									
Basic EPS	\$ 0.43	\$ 0.45	\$ 0.54	\$ 0.12	\$ 0.33	\$ 0.31	\$ 0.46	\$ 0.54	
Diluted EPS	\$ 0.43	\$ 0.44	\$ 0.54	\$ 0.12	\$ 0.33	\$ 0.31	\$ 0.46	\$ 0.54	
Total assets	\$ 5,524	\$ 5,458	\$ 5,535	\$ 5,716	\$ 6,255	\$ 5,990	\$ 6,253	\$ 6,473	
Long-term debt									
Current	\$ 326	\$ 201	\$ 200	\$ 200	\$ 200	\$ 200	\$ 200	\$ —	
Non-current	973	1,107	1,136	1,348	1,381	1,318	1,325	1,321	
Total long-term debt ⁽²⁾	\$ 1,299	\$ 1,308	\$ 1,336	\$ 1,548	\$ 1,581	\$ 1,518	\$ 1,525	\$ 1,321	
Cash dividends paid per common share	20.5¢	20.5¢	20.5¢	20.5¢	20.5¢	20.5¢	20.5¢	20.5¢	
Common shares outstanding (000's)	162,391	162,107	162,104	162,104	162,104	163,319	163,310	163,310	
Options outstanding (000's)	2,116	3,683	3,760	3,758	3,353	3,416	3,547	3,550	

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

(\$ millions except per share amounts)	2021		2020 ^(a)		2019 ^(a)
	Q1	Q4	Q3	Q2	Q3
CEWS support	\$ (10)	\$ (14)	\$ (37)	\$ (64)	\$ —
Final return on our investment in Energyst	(5)	—	—	—	—
Severance costs	—	—	—	42	2
Facility closures, restructuring costs, and impairment losses	—	—	—	9	1
Impact of significant items on EBIT ^(a)	\$ (15)	\$ (14)	\$ (37)	\$ (13)	\$ 3
Significant items impacting EBIT - impact on basic EPS ^(b)	\$ (0.08)	\$ (0.07)	\$ (0.17)	\$ (0.06)	\$ 0.01
Significant items impacting net income only - impact on basic EPS ^(b) :					
Tax impact of devaluation of ARS ^(c)	—	—	—	—	0.02
Impact of significant items on basic EPS ^(b) :	\$ (0.08)	\$ (0.07)	\$ (0.17)	\$ (0.06)	\$ 0.03

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

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

(c) Tax impact of devaluation of ARS Q3 2019 (\$4 million).

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

In April 2020, we secured an additional \$500 million committed revolving credit facility, which provided further financial flexibility and liquidity. This facility had a term of two years, could be used for general corporate purposes, and had substantially the same terms and conditions of the existing \$1.3 billion committed revolving credit facility. In March 2021, we cancelled this facility.

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

In August 2019, we issued \$200 million of 2.626% senior unsecured notes due August 14, 2026. Proceeds of the issuance were used to reduce outstanding short-term debt under our committed revolving credit facility.

Forward-Looking Information Disclaimer

This report contains information about our business outlook, objectives, plans, strategic priorities and other information that is not historical fact. Information is forward-looking when we use what we know and expect today to give information about the future. Forward-looking information may include terminology such as aim, anticipate, assumption, believe, could, expect, goal, guidance, intend, may, objective, outlook, plan, project, seek, should, strategy, strive, target, and will, and variations of such terminology. In particular, the discussion under the heading “Market Update and Business Outlook” on pages 18-19 of this MD&A is forward-looking information and is subject to this disclaimer including the assumptions and material risk factors. Forward-looking information in this report also includes, but is not limited to, the following: our belief that we are positioned well for an economic recovery; expected results from the execution of our strategic framework, including our global strategic priorities, strategic pillars, and strategic focus areas; our expectation 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; that we are seeing market conditions in our Canadian operations beginning to improve driven by commodity price improvements; that our effective tax rate will generally be within the 25-30% range on an annual basis; the plan to wind-up Energyst; the expected timing of the purchase price allocation; that we continue to have sufficient liquidity to meet operational needs; our expectations about the impact of the COVID-19 pandemic on our operations; and about our plans to manage the risks and uncertainties associated with the spread of COVID-19.

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

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

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

Forward-looking statements made in this report are based on a number of assumptions that we believed were reasonable on the day we made the forward-looking statements including but not limited to: the specific assumptions identified in connection with certain forward-looking statements made in this MD&A; 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; an undisrupted market recovery, for example, undisrupted by COVID-19 impacts, commodity price volatility or social unrest, and successful execution of our profitability drivers; that our cost actions to drive earnings capacity in a recovery can be sustained; that general economic and market conditions will improve; that the level of customer confidence and spending, and the demand for, and prices of, our products and services will be maintained; our expectations to start delivering trucks to Codelco's Radomiro Tomic copper mine in the second half of 2021 and related to piloting Caterpillar's Autonomous Haulage System to enable autonomous operations at Codelco's Ministro Hales copper mine; our ability to successfully execute our plans and intentions; our ability to successfully attract and retain skilled staff; market competition will remain at similar levels; the products and technology offered by our competitors will be as expected; that identified opportunities for growth will result in revenue; consistent and stable legislation in the various countries in which we operate; no disruptive changes in the technology environment and that our current good relationships with Caterpillar, our customers and our suppliers, service providers and other third parties will be maintained; sustainment of strengthened oil prices and the Alberta government will not re-impose production curtailments; quoting activity for request for proposals for equipment and product support is reflective of opportunities; and strong recoveries particularly in Chile and the UK . Some of the assumptions, risks, and other factors, which could cause results to differ materially from those expressed in the forward-looking information contained in this report, are discussed in Section 4 of the current AIF and in the annual MD&A for the financial risks.

We caution readers that the risks described in the MD&A and the AIF are not the only ones that could impact us. We cannot accurately predict the full impact that COVID-19 will have on our business, results of operations, financial condition or the demand for our services, due in part to the uncertainties relating to the ultimate geographic spread of the virus, the severity of the disease, the duration of the outbreak, the steps our customers and suppliers may take in current circumstances, including slowing or halting operations, the duration of travel and quarantine restrictions imposed by governments and other steps that may be taken by such governments to respond to the pandemic. Additional risks and uncertainties not currently known to us or that are currently deemed to be immaterial may also have a material adverse effect on our business, financial condition, or results of operation.

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

Glossary of Defined Terms

4Refuel	4Refuel Canada and 4Refuel US
AIF	Annual Information Form
Annual Financial Statements	Audited annual consolidated financial statements
ARS	Argentine Peso
Audit Committee	Audit Committee of the Board of Directors of Finning
Board	Board of Directors of Finning
CAD	Canadian dollar
Caterpillar	Caterpillar Inc.
CEO	Chief Executive Officer
CEWS	Canadian Emergency Wage Subsidy
CFO	Chief Financial Officer
CJRS	Coronavirus Job Retention Scheme
CLP	Chilean Peso
Consol	Consolidated
COVID-19	Novel Coronavirus
DBRS	Dominion Bond Rating Service
EBIT	Earnings (loss) before finance costs and income tax
EBITDA	Earnings (loss) before finance costs, income tax, depreciation, and amortization
Energyst	Energyst B.V.
EPS	Earnings per share
ERM	Enterprise risk management
fav	Favourable
Finning	Finning International Inc.
Finning (Canada)	A division of Finning, with dealer territories in British Columbia, Alberta, Saskatchewan, the Yukon Territory, the Northwest Territories, and a portion of Nunavut
GAAP	Generally accepted accounting principles
GBP	UK pound sterling
HS2	High Speed 2, a planned high speed railway in the UK the first phase of which is planned to connect London to Birmingham
IAS	International Accounting Standards
IFRS	International Financial Reporting Standards
Interim Financial Statements	Interim condensed consolidated financial statements
KPI	Key performance indicator
LTIP	Long-term incentive plan
MD&A	Management's Discussion and Analysis
n/a	not applicable
n/m	% change not meaningful
NCIB	Normal course issuer bid
OEM	OEM Remanufacturing Company Inc.
PLM	PipeLine Machinery International ULC
ROIC	Return on invested capital
S&P	Standard and Poor's
SEDAR	System for Electronic Document Analysis
SG&A	Selling, general, and administrative costs
Teck's QB2	Teck Resources Limited's Quebrada Blanca Phase 2
UK	United Kingdom
unfav	Unfavourable
US	United States of America
USD	US dollar

UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(Canadian \$ millions)	March 31, 2021	December 31, 2020
ASSETS		
Current assets		
Cash and cash equivalents	\$ 469	\$ 539
Accounts receivable	728	730
Unbilled receivables	233	231
Inventory	1,593	1,477
Other assets	296	237
Total current assets	3,319	3,214
Property, plant, and equipment	860	867
Rental equipment	420	430
Intangible assets	314	322
Goodwill	205	205
Distribution network	100	100
Investment in joint ventures and associate	83	85
Other assets	223	235
Total assets	\$ 5,524	\$ 5,458
LIABILITIES		
Current liabilities		
Short-term debt	\$ 103	\$ 92
Accounts payable and accruals	813	761
Deferred revenue	405	374
Current portion of long-term debt	326	201
Other liabilities	170	195
Total current liabilities	1,817	1,623
Long-term debt	973	1,107
Long-term lease liabilities	202	216
Net post-employment obligation	78	97
Other liabilities	210	209
Total liabilities	\$ 3,280	\$ 3,252
SHAREHOLDERS' EQUITY		
Share capital	\$ 575	\$ 566
Contributed surplus	—	1
Accumulated other comprehensive income	207	218
Retained earnings	1,462	1,421
Total shareholders' equity	2,244	2,206
Total liabilities and shareholders' equity	\$ 5,524	\$ 5,458

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

UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENTS OF NET INCOME

3 months ended March 31		
(Canadian \$ millions, except share and per share amounts)	2021	2020
Revenue		
New equipment	\$ 403	\$ 353
Used equipment	103	68
Equipment rental	45	53
Product support	887	934
Fuel and other	158	150
Total revenue	1,596	1,558
Cost of sales	(1,189)	(1,140)
Gross profit	407	418
Selling, general, and administrative expenses	(314)	(325)
Equity earnings of joint ventures	—	1
Other income (Note 4)	15	—
Earnings before finance costs and income taxes	108	94
Finance costs (Note 5)	(19)	(21)
Income before provision for income taxes	89	73
Provision for income taxes	(19)	(19)
Net income	\$ 70	\$ 54
Earnings per share (Note 3)		
Basic	\$ 0.43	\$ 0.33
Diluted	\$ 0.43	\$ 0.33
Weighted average number of shares outstanding (Note 3)		
Basic	162,225,560	162,850,641
Diluted	162,910,375	162,851,963

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

UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

3 months ended March 31 (Canadian \$ millions)	2021	2020
Net income	\$ 70	\$ 54
Other comprehensive (loss) income, net of income tax		
Items that may be subsequently reclassified to statement of net income:		
Foreign currency translation adjustments	(21)	149
Share of foreign currency translation adjustments of joint ventures	—	(2)
Gain (loss) on net investment hedges	9	(63)
Impact of foreign currency translation and net investment hedges, net of income tax	(12)	84
(Loss) gain on cash flow hedges	(1)	5
Gain on cash flow hedges, reclassified to statement of net income	—	(2)
Impact of cash flow hedges, net of income tax	(1)	3
Items that will not be subsequently reclassified to statement of net income:		
Actuarial gain (Note 6)	16	45
Provision for income taxes on actuarial gain	(4)	(10)
Actuarial gain, net of income tax	12	35
Total comprehensive income	\$ 69	\$ 176

UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

(Canadian \$ millions, except number of shares)	Share Capital			Accumulated Other Comprehensive Income (Loss)			Total Shareholders' Equity
	Number of shares	Amount	Contributed Surplus	Investment and Net Hedges	Impact of Foreign Currency Translation and Net Hedges	Impact of Cash Flow Hedges	
Balance, January 1, 2020	163,319,120	\$ 570	\$ 2	\$ 230	\$ (2)	\$ 1,315	\$ 2,115
Net income	—	—	—	—	—	54	54
Other comprehensive income	—	—	—	84	3	35	122
Total comprehensive income	—	—	—	84	3	89	176
Hedging gain transferred to statement of financial position	—	—	—	—	—	(1)	(1)
Repurchase of common shares	(1,215,617)	(5)	(2)	—	—	(16)	(23)
Dividends on common shares	—	—	—	—	—	(34)	(34)
Balance, March 31, 2020	162,103,503	\$ 565	\$ —	\$ 314	\$ 1	\$ 1,353	\$ 2,233
Balance, January 1, 2021	162,107,484	\$ 566	\$ 1	\$ 221	\$ (3)	\$ 1,421	\$ 2,206
Net income	—	—	—	—	—	70	70
Other comprehensive income	—	—	—	(12)	(1)	12	(1)
Total comprehensive income	—	—	—	(12)	(1)	82	69
Issued on exercise of share options	283,821	9	(2)	—	—	(7)	—
Share option expense	—	—	1	—	—	—	1
Hedging loss transferred to statement of financial position	—	—	—	—	2	—	2
Dividends on common shares	—	—	—	—	—	(34)	(34)
Balance, March 31, 2021	162,391,305	\$ 575	\$ —	\$ 209	\$ (2)	\$ 1,462	\$ 2,244

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

UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOW

3 months ended March 31 (Canadian \$ millions)	2021	2020
OPERATING ACTIVITIES		
Net income	\$ 70	\$ 54
Adjusting for:		
Depreciation and amortization	77	76
Loss on disposal of property, plant, and equipment	1	—
Impairment of long-lived assets	—	1
Final return on investment in Energyst B.V. (Note 8)	(5)	—
Equity earnings of joint ventures	—	(1)
Share-based payment expense (recovery)	14	(10)
Provision for income taxes	19	19
Finance costs	19	21
Net benefit cost of post-employment benefit plans in selling, general, and administrative expenses (Note 6)	4	4
Changes in operating assets and liabilities (Note 7)	(143)	(113)
Additions to rental fleet	(19)	(23)
Additions to rental equipment with purchase options	(13)	(16)
Proceeds on disposal of rental fleet	17	18
Proceeds on disposal of rental equipment with purchase options	10	2
Interest paid	(21)	(23)
Income tax paid	(18)	(23)
Cash flow provided by (used in) operating activities	12	(14)
INVESTING ACTIVITIES		
Additions to property, plant, and equipment and intangible assets	(33)	(38)
Proceeds on disposal of property, plant, and equipment	1	2
Consideration paid for business acquisition, net of cash acquired (Note 8)	(13)	—
Decrease in long-term investment	7	—
Return on investment in Energyst B.V.	6	—
Cash flow used in investing activities	(32)	(36)
FINANCING ACTIVITIES		
Increase in short-term debt (Note 7)	11	78
Decrease in lease liabilities (Note 7)	(21)	(22)
Repurchase of common shares	—	(23)
Dividends paid	(34)	(34)
Cash flow used in financing activities	(44)	(1)
Effect of currency translation on cash balances	(6)	43
Decrease in cash and cash equivalents	(70)	(8)
Cash and cash equivalents, beginning of period	539	268
Cash and cash equivalents, end of period (Note 7)	\$ 469	\$ 260

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

1. SIGNIFICANT ACCOUNTING POLICIES, KEY ASSUMPTIONS, AND SIGNIFICANT JUDGMENTS

These unaudited interim condensed consolidated financial statements (Interim Statements) of Finning International Inc. and its subsidiaries (together, Finning or the Company) have been prepared in accordance with International Accounting Standard (IAS) 34, *Interim Financial Reporting*, as issued by the International Accounting Standards Board (IASB). Accordingly, certain information and footnote disclosure normally included in annual financial statements prepared in accordance with International Financial Reporting Standards (IFRS) have been omitted or condensed, and therefore these Interim Statements should be read in conjunction with the December 31, 2020 audited annual consolidated financial statements and the notes to such financial statements.

These Interim Statements are based on the IFRS issued and effective for the current year. The Interim Statements were authorized for issuance by the Company's Board of Directors on May 10, 2021. The Company has applied the same accounting policies and methods of computation as the most recent annual consolidated financial statements, except for the impact of the changes in accounting policies disclosed below:

a) Amendments to Standards

The Company has adopted the following amendments to IFRS:

- Amendments to IFRS 9, *Financial Instruments*, IAS 39, *Financial Instruments: Recognition and Measurement*, IFRS 7, *Financial Instruments: Disclosures*, IFRS 4, *Insurance Contracts*, and IFRS 16, *Leases*, collectively named 'Interest Rate Benchmark Reform – Phase 2' (effective January 1, 2021). The amendments provide relief for modifications of financial contracts and leases and the discontinuation of hedge accounting required solely by Interest Rate Benchmark Reform. The amendments include a practical expedient to apply the change in the basis for determining the contractual cash flows prospectively by revising the effective interest rate. A similar practical expedient is also provided for modifications of the cash flows of lease liabilities. In relation to hedge accounting, the amendments introduce an exception to the existing requirements so that changes in the formal designation of a hedge accounting relationship that are needed to reflect the changes required by Interest Rate Benchmark Reform do not result in the discontinuation of hedge accounting or the designation of a new hedging relationship. These amendments did not impact the Company's financial statements.

b) Future Accounting Pronouncements

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

- Amendments to IAS 37, *Provisions, Contingent Liabilities and Contingent Assets* (effective January 1, 2022) clarify that the 'costs of fulfilling a contract' when assessing whether a contract is onerous comprise both the incremental costs and an allocation of other costs that relate directly to fulfilling the contract. The amendments apply to contracts existing at the date when the amendments are first applied. Management is currently assessing the impact of these amendments.
- Amendments to IAS 1, *Presentation of Financial Statements* (effective January 1, 2023):
 - Clarify the presentation of liabilities in the consolidated statement of financial position. The classification of liabilities as current or non-current is based on contractual rights that are in existence at the end of the reporting period and is unaffected by expectations about whether an entity will exercise its right to defer or accelerate settlement. A liability not due over the next twelve months is classified as non-current even if management intends or expects to settle the liability within twelve months. The amendments also introduce a definition of 'settlement' to make clear that settlement refers to the transfer of cash, equity instruments, other assets, or services to the counterparty. Management is currently assessing the impact of these amendments.
 - Require entities to disclose their material accounting policy information rather than significant accounting policy information. The amendments provide guidance on how an entity can identify material accounting policy information and clarifies that information may be material because of its nature, even if the related amounts are immaterial. Management will review and update the Company's financial statements to disclose material accounting policy information as appropriate.
- Amendments to IAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors* (effective January 1, 2023) introduce a definition of 'accounting estimates' and clarifies the difference between changes in accounting policies and changes in accounting estimates. These amendments will impact changes in accounting policies and changes in accounting estimates made after these amendments are adopted by the Company.

2. SEGMENTED INFORMATION

The Company views net revenue (calculated as total revenue less cost of fuel) as most representative in assessing business performance as the cost of fuel is not in the Company's control and is fully passed through to the customer.

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

3 months ended March 31, 2021 (\$ millions)	Canada	South America	UK & Ireland	Other	Total
Revenue					
New equipment	\$ 166	\$ 126	\$ 111	\$ —	\$ 403
Used equipment	73	14	16	—	103
Equipment rental	27	8	10	—	45
Product support	476	334	77	—	887
Fuel and other	158	—	—	—	158
Total revenue	\$ 900	\$ 482	\$ 214	\$ —	\$ 1,596
Cost of fuel	(127)	—	—	—	(127)
Net revenue	\$ 773	\$ 482	\$ 214	\$ —	\$ 1,469
Operating costs ⁽¹⁾	(668)	(421)	(197)	(13)	(1,299)
Other income (Note 4)	10	—	—	5	15
Earnings (loss) before finance costs, income taxes, depreciation and amortization	\$ 115	\$ 61	\$ 17	\$ (8)	\$ 185
Depreciation and amortization	(46)	(20)	(10)	(1)	(77)
Earnings (loss) before finance costs and income taxes	\$ 69	\$ 41	\$ 7	\$ (9)	\$ 108
Finance costs					(19)
Provision for income taxes					(19)
Net income					\$ 70
Invested capital ⁽²⁾	\$ 1,832	\$ 982	\$ 350	\$ 13	\$ 3,177
Capital and rental equipment ⁽³⁾	\$ 943	\$ 398	\$ 162	\$ 91	\$ 1,594
Gross capital expenditures ⁽³⁾⁽⁴⁾	\$ 24	\$ 14	\$ 4	\$ 4	\$ 46
Gross rental equipment spend ⁽⁴⁾	\$ 25	\$ 4	\$ 3	\$ —	\$ 32

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

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

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

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

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

3 months ended March 31, 2020 (\$ millions)	Canada	South America	UK & Ireland	Other	Total
Revenue					
New equipment	\$ 162	\$ 85	\$ 106	\$ —	\$ 353
Used equipment	33	15	20	—	68
Equipment rental	33	12	8	—	53
Product support	497	366	71	—	934
Fuel and other	149	—	1	—	150
Total revenue	\$ 874	\$ 478	\$ 206	\$ —	\$ 1,558
Cost of fuel	(119)	—	—	—	(119)
Net revenue	\$ 755	\$ 478	\$ 206	\$ —	\$ 1,439
Operating costs ⁽¹⁾	(653)	(418)	(195)	(4)	(1,270)
Equity earnings of joint ventures	1	—	—	—	1
Earnings (loss) before finance costs, income taxes, depreciation and amortization	\$ 103	\$ 60	\$ 11	\$ (4)	\$ 170
Depreciation and amortization	(43)	(22)	(10)	(1)	(76)
Earnings (loss) before finance costs and income taxes	\$ 60	\$ 38	\$ 1	\$ (5)	\$ 94
Finance costs					(21)
Provision for income taxes					(19)
Net income					\$ 54
Invested capital ⁽²⁾	\$ 2,093	\$ 1,330	\$ 428	\$ 32	\$ 3,883
Capital and rental equipment ⁽³⁾	\$ 1,043	\$ 489	\$ 180	\$ 79	\$ 1,791
Gross capital expenditures ⁽³⁾⁽⁴⁾	\$ 15	\$ 23	\$ 7	\$ 4	\$ 49
Gross rental equipment spend ⁽⁴⁾	\$ 28	\$ 6	\$ 5	\$ —	\$ 39

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

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

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

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

3. EARNINGS PER SHARE

3 months ended March 31 (\$ millions, except share and per share amounts)	Net	Shares	EPS
2021	Income		
Basic EPS:			
Net income, weighted average shares outstanding, EPS	\$ 70	162,225,560	\$ 0.43
Effect of dilutive securities: share options	—	684,815	—
Diluted EPS:			
Net income and assumed conversions	\$ 70	162,910,375	\$ 0.43
2020			
Basic EPS:			
Net income, weighted average shares outstanding, EPS	\$ 54	162,850,641	\$ 0.33
Effect of dilutive securities: share options	—	1,322	—
Diluted EPS:			
Net income and assumed conversions	\$ 54	162,851,963	\$ 0.33

Share options granted to employees that were anti-dilutive were excluded from the weighted average number of shares for the purpose of calculating diluted earnings per share. Anti-dilutive share options related to the three months ended March 31, 2021 were not significant (2020: 3 million).

4. OTHER INCOME

3 months ended March 31 (\$ millions)	2021	2020
Canada Emergency Wage Subsidy (a)	\$ 10	\$ —
Final return on investment in Energyst B.V. (Note 8)	5	—
Other income	\$ 15	\$ —

(a) In response to the negative economic impact of the novel coronavirus (COVID-19), various government programs were introduced to provide financial relief to affected businesses, including wage-subsidy programs for eligible entities that meet certain criteria. The Company records government grants and subsidies when it is reasonably assured that the Company will comply with the relevant conditions and that the amount will be received. In the three months ended March 31, 2021, the Company qualified for and recorded a \$10 million benefit from the Canada Emergency Wage Subsidy for its Canadian entities for the December 20, 2020 to March 13, 2021 period.

5. DEBT AND FINANCE COSTS

In April 2020, the Company secured a \$500 million committed revolving credit facility for general corporate purposes, which had a term of two years. In March 2021, the Company cancelled this facility and expensed \$1 million of capitalized debt issue costs related to this facility in finance costs in the three months ended March 31, 2021.

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

3 months ended March 31 (\$ millions)	2021	2020
Interest on short-term debt	\$ 1	\$ 5
Interest on long-term debt	12	14
Interest on debt securities	13	19
Interest on lease liabilities	2	3
Other finance related expenses (recovery)	4	(1)
Finance costs	\$ 19	\$ 21

6. POST-EMPLOYMENT BENEFITS

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

	March 31, 2021			March 31, 2020		
	Canada	UK	South America	Canada	UK	South America
Discount rate – obligation	3.4%	2.1%	0.6%	3.6%	2.3%	0.7%
Discount rate – expense ⁽¹⁾	2.7%	1.4%	(0.2)%	3.1%	2.0%	0.4%
Retail price inflation – obligation	n/m ⁽²⁾	3.0%	n/a ⁽²⁾	n/m ⁽²⁾	2.6%	n/a ⁽²⁾
Retail price inflation – expense ⁽¹⁾	n/m ⁽²⁾	2.6%	n/a ⁽²⁾	n/m ⁽²⁾	3.0%	n/a ⁽²⁾
Average staff turnover – obligation	n/m ⁽²⁾	n/m ⁽²⁾	7.9%	n/m ⁽²⁾	n/m ⁽²⁾	9.4%
Rate of compensation increase – obligation	n/m ⁽²⁾	n/a ⁽²⁾	3.0%	n/m ⁽²⁾	n/a ⁽²⁾	3.0%

⁽¹⁾ Used to determine the net interest cost and expense for the three months ended March 31, 2021 and March 31, 2020

⁽²⁾ n/m – not a material assumption used in the valuation
n/a – not applicable

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

3 months ended (\$ millions)	March 31, 2021				March 31, 2020			
	Canada	UK	South America	Total	Canada	UK	South America	Total
Current service cost and administration costs, net of employee contributions	\$ 2	\$ —	\$ 2	\$ 4	\$ 2	\$ —	\$ 2	\$ 4
Net benefit cost	\$ 2	\$ —	\$ 2	\$ 4	\$ 2	\$ —	\$ 2	\$ 4
Actuarial loss on plan assets	\$ 11	\$ 47	\$ —	\$ 58	\$ 19	\$ 15	\$ —	\$ 34
Actuarial (gain) loss on accrued benefit obligation	(22)	(46)	(6)	(74)	(19)	(66)	6	(79)
Total actuarial (gain) loss recognized in other comprehensive income	\$ (11)	\$ 1	\$ (6)	\$ (16)	\$ —	\$ (51)	\$ 6	\$ (45)

7. SUPPLEMENTAL CASH FLOW INFORMATION

The components of cash and cash equivalents were as follows:

March 31 (\$ millions)	2021	2020
Cash	\$ 167	\$ 91
Cash equivalents	302	169
Cash and cash equivalents	\$ 469	\$ 260

The changes in operating assets and liabilities were as follows:

3 months ended March 31 (\$ millions)	2021	2020
Accounts receivable	\$ 2	\$ 75
Unbilled receivables	(5)	(3)
Inventory	(124)	(85)
Other assets	(66)	4
Accounts payable and accruals	56	(66)
Other liabilities	(6)	(38)
Changes in operating assets and liabilities	\$ (143)	\$ (113)

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

(\$ millions)	Short-term debt	Long-term debt	Lease liabilities	Total
Balance, January 1, 2021	\$ 92	\$ 1,308	\$ 298	\$ 1,698
Cash flows provided by (used in)				
Financing activities	11	—	(21)	(10)
Operating activities	—	—	(2)	(2)
Total cash movements	\$ 11	\$ —	\$ (23)	\$ (12)
Non-cash changes				
Additions	—	—	13	13
Disposals and remeasurement of liability	—	—	(6)	(6)
Interest expense	—	—	2	2
Foreign exchange rate changes	—	(9)	(1)	(10)
Total non-cash movements	\$ —	\$ (9)	\$ 8	\$ (1)
Balance, March 31, 2021	\$ 103	\$ 1,299	\$ 283	\$ 1,685

(\$ millions)	Short-term debt	Long-term debt	Lease liabilities	Total
Balance, January 1, 2020	\$ 226	\$ 1,518	\$ 357	\$ 2,101
Cash flows provided by (used in)				
Financing activities	78	—	(22)	56
Operating activities	—	—	(3)	(3)
Total cash movements	\$ 78	\$ —	\$ (25)	\$ 53
Non-cash changes				
Additions	—	—	12	12
Disposals and remeasurement of liability	—	—	4	4
Interest expense	—	—	3	3
Foreign exchange rate changes	25	63	3	91
Total non-cash movements	\$ 25	\$ 63	\$ 22	\$ 110
Balance, March 31, 2020	\$ 329	\$ 1,581	\$ 354	\$ 2,264

8. INVESTMENT AND ACQUISITION

Energyst B.V. (“Energyst”) was the exclusive Caterpillar dealer in Europe for rental power and temperature control solutions. In December 2020, the shareholders of Energyst, which included Finning, decided to restructure the company and convert its rental activities into four separate regional organizations which were sold in January 2021. A plan is in place to sell any remaining assets and wind-up Energyst, with the net proceeds from the sale to be distributed to Energyst’s shareholders. During the three months ended March 31, 2021, the Company recorded a \$5 million final return on its investment in Energyst.

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

Cash consideration of \$14 million (€9 million) was paid at the date of acquisition, funded with cash on hand. Net assets acquired include \$1 million cash, \$2 million of net working capital (comprising receivables, inventory, and payables), and \$11 million of rental assets. The purchase price allocation is not final as management is continuing to identify assets acquired and obtaining and verifying information required to determine the fair value of certain assets and liabilities, goodwill (if appropriate), and the related amount of deferred income taxes arising on their recognition. The Company expects to finalize the amounts recognized as it obtains the information necessary to complete the analysis, but no later than December 31, 2021.