

Finning reports Q2 2020 results

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

HIGHLIGHTS

All comparisons are to Q2 2019 results unless indicated otherwise.

- Q2 2020 net revenue⁽¹⁾⁽³⁾ of \$1.3 billion was down 33%, including a 24% reduction in Canada’s product support revenue, as many customers parked equipment fleets and temporarily shut operations in response to low commodity prices and COVID-19 restrictions.
- SG&A⁽²⁾ decreased by 12%, down in all operations, driven by effective cost management and lower variable costs.
- The Canada Emergency Wage Subsidy (“CEWS”) program allowed the Company to preserve a significant number of jobs and technical capabilities through a unique period of uncertainty. As a result, the Company recognized \$64 million of wage subsidy in Q2 2020 as other income. Without the benefit of this wage subsidy, the Canadian operations would have taken available alternative actions, which would have reduced SG&A by \$15 to 20 million in Q2 2020, an equivalent of approximately \$0.08 per share.
- Strong free cash flow⁽³⁾ conversion in Q2 2020 resulted in free cash flow of \$312 million, bringing year-to-date free cash flow to \$262 million and further strengthening the Company’s financial and liquidity position. As at June 30, 2020, net debt to Adjusted EBITDA ratio⁽²⁾⁽³⁾⁽⁴⁾ was 2.1, down from 2.8 at June 30, 2019.
- The Company has accelerated existing strategic plans to drive productivity gains in Canada and South America, while maximizing flexibility and competitiveness to serve customers. As a result, the Company expects to reduce the global workforce by 8% by the end of 2020 from the end of 2019.
- Q2 2020 EPS⁽²⁾ of \$0.12 included the benefit of the CEWS program of \$0.30 per share and global severance and restructuring costs of \$0.24 per share.

“I am pleased with how our global teams have been navigating through various stages of lockdowns and re-openings across our regions, with a focus on safely servicing our customers and controlling what we can – costs and capital. In these challenging times, our Total Injury Frequency rate decreased by over 40%, and our customer loyalty scores increased by 20% in Q2 2020 compared to Q2 2019. In Q2 2020, our SG&A⁽²⁾ was down 12% year over year, and our net capital expenditures were minimized to \$7 million. This performance speaks to the resiliency of our business model and adaptability and engagement of our people,” said Scott Thomson, president and CEO of Finning International.

“COVID-19 disruptions have significantly impacted our people, customers, and operations. Our challenges in the second quarter included postponed equipment orders and deliveries, an unprecedented slowdown in product support activity in most sectors, and reduced productivity and labour utilization at our branches. Where we have qualified, the use of government programs has helped us to preserve a significant number of jobs and technical capabilities through a unique period of significant uncertainty, and has provided an effective bridge to enable us to ramp up faster as the economy recovers.”

“While Q2 was difficult and the pace of economic recovery in our regions remains uncertain, we have seen signs of our markets recovering since May, with notable increases in rental activity, machine utilization hours, and product support revenue run rates. With the recent recovery in oil prices, most oil sands producers have put their truck fleets back to work and are expected to be operating at pre-COVID-19 levels by the end of August. The price of copper has also improved, providing continued support and stability for copper mining in Chile. However, increased cases of COVID-19 infections in South America have presented a significant challenge for our customers and our operations in the region, and we have deployed necessary resources and efforts to maintain operations and keep our employees safe. In the UK and Ireland, construction and power systems projects have resumed, and earthmoving work on the High Speed Rail 2 mega-project, which represents a significant opportunity for Finning, is expected to begin later this year.”

“Despite the unique times and numerous challenges we have faced, I am pleased with how our teams have stayed focused on what we set out to do at the beginning of the year, namely improving execution in South America, lowering the cost base in Canada, positioning to capture HS2 opportunities in the UK, and reducing our finance costs. Looking ahead, we are accelerating our strategic plans to position our business to achieve improved productivity, profitability, and ROIC⁽²⁾⁽³⁾ in each region. I am confident that our continued vigilance on costs, improved productivity, and tight management of invested capital will ensure we maintain our financial strength and are well positioned to succeed in the upcoming recovery phase,” concluded Mr. Thomson.

Q2 2020 FINANCIAL SUMMARY

All comparisons are to Q2 2019 results unless indicated otherwise.

Quarterly Overview <i>\$ millions, except per share amounts</i>	Q2 2020	Q2 2019	% change
Revenue	1,419	2,137	(34)
Net revenue	1,335	1,995	(33)
EBIT ⁽²⁾	52	137	(62)
<i>EBIT as a percentage of net revenue⁽³⁾</i>	3.9%	6.9%	
EBITDA ⁽³⁾	130	213	(39)
<i>EBITDA as a percentage of net revenue⁽³⁾</i>	9.7%	10.7%	
Net income	18	88	(79)
EPS	0.12	0.54	(78)
Free cash flow	312	(162)	292

Q2 2020 EBITDA and EBIT by Operation <i>\$ millions, except per share amounts</i>	Canada	South America	UK & Ireland	Corporate & Other	Finning Total	EPS
EBITDA / EPS	110	24	4	(8)	130	0.12
CEWS support	(60)	-	-	(4)	(64)	(0.30)
Severance costs	20	17	4	1	42	0.20
Facilities restructuring costs and impairment losses	5	4	-	-	9	0.04
Adjusted EBITDA ⁽³⁾⁽⁴⁾ / Adjusted EPS ⁽³⁾⁽⁴⁾	75	45	8	(11)	117	0.06
Adjusted EBIT ⁽³⁾⁽⁴⁾	28	23	(1)	(11)	39	
<i>Adjusted EBITDA as a percentage of net revenue⁽³⁾⁽⁴⁾</i>	10.6%	9.8%	4.9%	-	8.8%	
<i>Adjusted EBIT as a percentage of net revenue⁽³⁾⁽⁴⁾</i>	4.0%	5.1%	(1.0%)	-	2.9%	

Q2 2019 EBITDA and EBIT by Operation <i>\$ millions, except per share amounts</i>	Canada	South America	UK & Ireland	Corporate & Other	Finning Total	EPS
EBITDA / EPS	138	62	23	(10)	213	0.54
EBIT	92	41	14	(10)	137	
<i>EBITDA as a percentage of net revenue</i>	12.9%	9.8%	7.7%	-	10.7%	
<i>EBIT as a percentage of net revenue</i>	8.5%	6.5%	4.8%	-	6.9%	

Invested Capital⁽³⁾ and ROIC⁽²⁾⁽³⁾	Q2 2020	Q2 2019	Q4 2019
Invested capital (\$ millions)			
Consolidated	3,495	3,964	3,591
Canada	2,037	2,285	2,026
South America (US dollars)	812	983	918
UK & Ireland (UK pound sterling)	207	235	210
Invested capital turnover⁽³⁾ (times)	1.71	2.04	1.92
Working capital⁽³⁾ to net revenue ratio⁽³⁾	29.9%	26.7%	27.8%
Inventory turns (dealership)⁽³⁾ (times)	1.97	2.36	2.53
Adjusted ROIC⁽³⁾⁽⁴⁾ (%)			
Consolidated	9.7	12.3	12.0
Canada	11.6	15.4	14.4
South America	11.2	8.5	10.5
UK & Ireland	4.6	14.5	12.1

- Excluding the impact of foreign exchange, invested capital decreased by approximately \$517 million from Q2 2019 mostly due to inventory reduction in all regions. Inventory decreased by \$473 million compared to Q2 2019.

Q2 2020 HIGHLIGHTS BY OPERATION

All comparisons are to Q2 2019 results unless indicated otherwise. All numbers are in functional currency: Canada – Canadian dollar; South America – US dollar; UK & Ireland – UK pound sterling (GBP).

Canada

- Net revenue decreased by 34% with lower revenue across all sectors and lines of business reflecting challenging market conditions from COVID-19 and volatility in commodity prices. New equipment sales were down 49% due to significantly reduced customer activity, particularly in Alberta. Product support revenue declined by 24% as customers in the oil sands and other mining operations parked a portion of their fleets during Q2 2020 and postponed major rebuilds and non-essential maintenance. In the construction sector, product support volumes were impacted by parked fleets, lower equipment utilization hours, temporary shutdowns of customer operations, and deferral of some customer projects due to COVID-19. Used equipment sales improved sequentially from Q1 2020. Rental revenue was down 35% from Q2 of last year on lower rental utilization.
- Due to a significant reduction in revenues year over year, the Company's Canadian operations qualified for CEWS and, as a result, recognized \$60 million of this wage subsidy in Q2 2020. The Company estimates that approximately 500 full-time jobs, including technical capabilities and talent, have been preserved in Canada as a result of this program.
- SG&A was reduced by 11% compared to Q2 2019, a lower decrease compared to other regions due in part to the preservation of employment as a result of the above-noted government support program. Without the benefit of the wage subsidy, the Company would have taken available alternative actions in Canada, which would have reduced SG&A by a further \$15 to 20 million in Q2 2020, and SG&A would have been approximately 20% lower than Q2 2019.
- The Canadian operations are taking methodical and strategic actions to continue improving employee and facility productivity. These actions include re-shaping the facilities network and workforce reductions. As a result, the Company's Canadian operations recorded severance and facility restructuring costs totaling \$25 million in Q2 2020. The Canadian workforce is expected to be reduced by 11% by the end of 2020 from the end of 2019.
- The Canadian operations benefitted from the strong performance of 4Refuel in Q2 2020. 4Refuel achieved 5% growth in Adjusted EBITDA on a 4% decline in net revenue compared to Q2 2019 and contributed \$13 million of positive free cash flow in Q2 2020. 4Refuel contributed \$33 million of positive free cash flow since the acquisition

date of February 1, 2019. In July 2020, 4Refuel secured a fueling agreement with AECON for a portion of the Coastal GasLink Project in Northern British Columbia.

South America

- Net revenue decreased by 28% reflecting challenging market conditions across all countries and sectors, primarily as a result of COVID-19 impacts. New equipment sales were down 48% due to lower mining and construction deliveries in Chile, and a slowdown in customer activity in Argentina. Product support revenue declined by 17% as a result of lower product support volumes in Chilean mining operations and very weak market conditions in Argentina compared to Q2 2019.
- Adjusted EBITDA as a percentage of net revenue was similar to Q2 2019. A shift in revenue mix to product support resulted in a higher gross profit margin relative to Q2 2019. The Company is successfully leveraging one common ERP⁽²⁾ system to improve operating efficiencies and reduce cost to serve. SG&A costs decreased by 17% from Q2 2019 driven by improved execution in Chilean mining operations, benefits of one common ERP system, and cost savings from restructuring measures. The Company recorded severance and restructuring costs totaling US\$15 million in South America in Q2 2020. Improved profitability in Chile from Q2 2019 was offset by a loss in Argentina due to a shutdown of the economy to stop the spread of COVID-19.

United Kingdom & Ireland

- Net revenue decreased by 45%, driven by 58% lower new equipment sales. Product support revenue decreased by 21%. Customer activity in construction and power systems markets slowed down significantly in compliance with COVID-19 lockdowns and restrictions. In power systems, the timing of project deliveries in the data centre and electricity capacity markets impacted revenue in Q2 2020. The Company has resumed execution of delayed projects, and expects to deliver additional large power systems projects currently in the backlog during the second half of 2020.
- UK & Ireland's SG&A costs were down by 24% from Q2 2019 reflecting cost reduction measures and a £4 million benefit from the UK government program to offset approximately 80% of furloughed employee salary costs. The Company did not realize any service benefits from employees who were furloughed. Nearly half of UK & Ireland employees were on furlough during Q2 2020.

CORPORATE AND BUSINESS DEVELOPMENTS

Dividend

The Board of Directors has approved a quarterly dividend of \$0.205 per share, payable on September 3, 2020 to shareholders of record on August 20, 2020. This dividend will be considered an eligible dividend for Canadian income tax purposes.

SELECTED CONSOLIDATED FINANCIAL INFORMATION

\$ millions, except per share amounts

	Three months ended June 30			Six months ended June 30		
	2020	2019	% change fav (unfav)	2020	2019	% change fav (unfav)
New equipment	382	774	(51)	736	1,438	(49)
Used equipment	64	106	(39)	132	187	(29)
Equipment rental	41	62	(34)	94	120	(22)
Product support	820	1,023	(20)	1,754	1,919	(9)
Net fuel and other	28	30		58	50	
Net revenue	1,335	1,995	(33)	2,774	3,714	(25)
Gross profit	344	482	(29)	762	912	(16)
<i>Gross profit as a percentage of net revenue</i>	25.7%	24.1%		27.5%	24.6%	
SG&A	(306)	(350)	12	(631)	(693)	9
<i>SG&A as a percentage of net revenue</i>	(22.9)%	(17.5)%		(22.8)%	(18.7)%	
Equity earnings of joint ventures	1	5		2	9	
Other income	64	-		64	-	
Other expenses	(51)	-		(51)	(29)	
EBIT	52	137	(62)	146	199	(27)
<i>EBIT as a percentage of net revenue</i>	3.9%	6.9%		5.3%	5.4%	
Adjusted EBIT	39	137	(72)	133	228	(41)
<i>Adjusted EBIT as a percentage of net revenue</i>	2.9%	6.9%		4.8%	6.1%	
Net income	18	88	(79)	72	116	(38)
Basic EPS	0.12	0.54	(78)	0.45	0.71	(37)
Adjusted EPS	0.06	0.54	(89)	0.39	0.85	(54)
EBITDA	130	213	(39)	300	347	(14)
<i>EBITDA as a percentage of net revenue</i>	9.7%	10.7%		10.8%	9.3%	
Adjusted EBITDA	117	213	(45)	287	376	(24)
<i>Adjusted EBITDA as a percentage of net revenue</i>	8.8%	10.7%		10.4%	10.1%	
Free cash flow	312	(162)	292	262	(509)	151
	June 30, 2020	Dec 31, 2019				
Invested capital	3,495	3,591				
Invested capital turnover (times)	1.71	1.92				
Net debt to Adjusted EBITDA ratio	2.1	2.0				
ROIC	10.0%	11.2%				
Adjusted ROIC	9.7%	12.0%				

To access Finning's complete Q2 2020 results in PDF, please visit our website at https://www.finning.com/en_CA/company/investors.html

Q2 2020 INVESTOR CALL

The Company will hold an investor call on August 5, 2020 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 call will be webcast live and archived for three months 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 over 87 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

Amanda Hobson
Senior Vice President, Investor Relations and Treasury
Phone: 604-331-4865
Email: amanda.hobson@finning.com
<https://www.finning.com>

FOOTNOTES

- (1) Following the acquisition of 4Refuel, management views total revenue less cost of fuel (net revenue) as more representative in assessing the performance of the business as the cost of fuel is fully passed through to the customer and is not in the Company's control. The Company's results and non-GAAP financial measures, including key performance indicators and ratios, previously reported or calculated using total revenue or sales are now reported or calculated using net revenue. For South American and UK & Ireland operations, net revenue is the same as total revenue.
- (2) 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); Enterprise Resource Planning (ERP).
- (3) 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 Q2 2020 management discussion and analysis (MD&A). Management believes that providing certain non-GAAP financial measures provides users of the Company's MD&A and consolidated financial statements with important information regarding the operational performance and related trends of the Company's business. By considering these measures in combination with the comparable IFRS financial measures (where available) set out in the MD&A, management believes that users are provided a better overall understanding of the Company's business and its financial performance during the relevant period than if they simply considered the IFRS financial measures alone.
- (4) Certain 2020 and 2019 financial metrics were impacted by significant items management does not consider indicative of operational and financial trends either by nature or amount; these significant items are described on pages 5 and 36-37 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 STATEMENTS CAUTION

This news release contains statements about our business outlook, objectives, plans, strategic priorities and other statements that are not historical facts. A statement we make is forward-looking when it uses what we know and expect today to make a statement about the future. Forward-looking statements may include terminology such as aim, anticipate, assumption, believe, could, expect, goal, guidance, intend, may, objective, outlook, plan, project, seek, should, strategy, strive, target, and will, and variations of such terminology. Forward-looking statements in this news release include, but are not limited to, statements: that the Company expects to reduce the global workforce by 8% by the end of 2020 from the end of 2019; about our ability to ramp up faster as the economy recovers; about signs of our markets recovering, with notable increases in rental activity, machine utilization hours and product support run rates; that most oil sands producers are expected to be operating at pre-COVID levels by the end of August; that the improved copper price will provide continued support and stability for copper mining in Chile; that earthmoving work on the High Speed Rail 2 mega-project in the UK represents a significant opportunity for Finning and is expected to be later this year; that we are accelerating our strategic plans to position our business to achieve improved productivity, profitability, and ROIC in each region; about our continued vigilance on costs, improved productivity, and tight management of invested capital, and that those measures will ensure we maintain financial strength and are well positioned to succeed in the upcoming recovery phase; and about the Canadian income tax treatment of the quarterly dividend. All such forward-looking statements are made pursuant to the 'safe harbour' provisions of applicable Canadian securities laws.

Unless we indicate otherwise, forward-looking statements in this news release reflect 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 statement, whether as a result of new information, future events, or otherwise.

Forward-looking statements, by their very nature, are subject to numerous risks and uncertainties and are based on 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 statements and that our business outlook, objectives, plans, strategic priorities and other statements that are not historical facts may not be achieved. As a result, we cannot guarantee that any forward-looking statement will materialize. Factors that could cause actual results or events to differ materially from those expressed in or implied by these forward-looking statements include: the impact and duration of the COVID-19 pandemic and measures taken by 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 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 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; 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 incurred by us; the potential of warranty claims being greater than we anticipate; the integrity, reliability and availability of, and benefits from, information technology and the data processed by that technology; and our ability to protect ourselves from cybersecurity threats or incidents. Forward-looking statements are 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 statements for any other purpose.

Forward-looking statements made in this news release are based on a number of assumptions that we believed were reasonable on the day they were made, including but not limited to (i) that we will be able to successfully manage our business through the current challenging times involving the effects of the COVID-19 response and volatile commodity prices; (ii) that we will maintain improved execution in South America and a lower cost base in Canada; (iii) that general economic and market conditions will improve; (iv) that the level of customer confidence and spending, and the demand for, and prices of, our products and services will be maintained; (v) our ability to successfully execute our plans and intentions; (vi) our ability to attract and retain skilled staff; (vii) market competition; (viii) the products and technology offered

by our competitors; and (viii) that our current good relationships with Caterpillar, our suppliers, service providers and other third parties will be maintained. Some of the assumptions, risks, and other factors which could cause results to differ materially from those expressed in the forward-looking statements contained in this news release are discussed in Section 4 of the our current AIF, in the annual MD&A for the financial risks, and in the most recent quarterly MD&A 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

August 4, 2020

This *MD&A* of *Finning* should be read in conjunction with the *Interim Financial Statements* and the accompanying notes thereto for the three and six months ended June 30, 2020, which have been prepared in accordance with *IAS 34, Interim Financial Reporting*. All dollar amounts presented in this MD&A are expressed in *CAD*, unless otherwise stated. Additional information relating to the *Company*, including its current *AIF*, can be found under the Company's profile on the *SEDAR* website at www.sedar.com and in the investors section of the Company's website at www.finning.com.

A glossary of defined terms is included on page 46. The first time a defined term is used in this MD&A, it is shown in bold italics.

Second Quarter Overview

(\$ millions, except for per share amounts)	Q2 2020	Q2 2019	% change <i>fav (unfav)</i>
Revenue	\$ 1,419	\$ 2,137	(34)%
Net revenue ⁽¹⁾	\$ 1,335	\$ 1,995	(33)%
Gross profit	\$ 344	\$ 482	(29)%
SG&A	(306)	(350)	12%
Equity earnings of joint ventures	1	5	(77)%
Other income	64	—	<i>n/m</i>
Other expenses	(51)	—	<i>n/m</i>
EBIT	\$ 52	\$ 137	(62)%
Net income	\$ 18	\$ 88	(79)%
Basic EPS	\$ 0.12	\$ 0.54	(78)%
EBITDA ⁽¹⁾	\$ 130	\$ 213	(39)%
Free Cash Flow ⁽¹⁾	\$ 312	\$ (162)	292%
Adjusted EBIT ⁽¹⁾⁽²⁾	\$ 39	\$ 137	(72)%
Adjusted net income ⁽¹⁾⁽²⁾	\$ 9	\$ 88	(89)%
Adjusted basic EPS ⁽¹⁾⁽²⁾	\$ 0.06	\$ 0.54	(89)%
Adjusted EBITDA ⁽¹⁾⁽²⁾	\$ 117	\$ 213	(45)%
<i>Gross profit as a % of net revenue</i> ⁽¹⁾	25.7%	24.1%	
<i>SG&A as a % of net revenue</i> ⁽¹⁾	22.9%	17.5%	
<i>EBIT as a % of net revenue</i> ⁽¹⁾	3.9%	6.9%	
<i>EBITDA as a % of net revenue</i> ⁽¹⁾	9.7%	10.7%	
<i>Adjusted EBIT as a % of net revenue</i> ⁽¹⁾⁽²⁾	2.9%	6.9%	
<i>Adjusted EBITDA as a % of net revenue</i> ⁽¹⁾⁽²⁾	8.8%	10.7%	
<i>Adjusted ROIC</i> ⁽¹⁾⁽²⁾	9.7%	12.3%	

(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 34 - 35 of this MD&A. Financial metrics that have been adjusted to take into account these items are referred to as "Adjusted" metrics. See "Description of Non-GAAP Financial Measures and Reconciliations" later in this MD&A.

Recent Developments

On March 11, 2020, the **COVID-19** outbreak was declared a pandemic by the World Health Organization. The most significant impacts on our operations related to COVID-19 during the six months ended June 30, 2020 included postponed equipment orders and deliveries, lower equipment utilization hours, temporary shutdowns of customer operations, and postponement of some projects. In addition, product support revenue was impacted by parked truck fleets and support equipment, deferral of non-essential maintenance, lower parts sales in the construction sector, lower labour recovery at our branches due to shift separation and physical distancing measures, and temporary closure of certain facilities in South America. The Company's results were also impacted by volatility in oil and other commodity prices. The timing and pace of market recovery from the effects of both COVID-19 and volatile oil and other commodity prices are unclear. Management expects these factors will have a material negative impact on the Company's 2020 financial results. Measures taken to slow the spread of COVID-19 in Canada and the **UK** have allowed for phased reopening of those economies and a notable increase in associated business activity. In South America, COVID-19 cases continued to grow through the quarter, though started to flatten in late-June, presenting challenges for the Company's customers and operations in that region. The Company deployed necessary resources and efforts to maintain operations and keep employees safe.

In response to the negative economic impact of COVID-19, various government programs have been announced to provide financial relief to affected businesses. The Government of Canada introduced the **CEWS** program, which subsidizes 75% of employee wages (up to a specified maximum) for Canadian employers whose businesses have been affected by COVID-19. The program is intended to help employers rehire previously laid off workers, prevent further job losses, and better position Canadian businesses to resume normal operations. To encourage companies to retain employees, the UK government introduced a support program (Coronavirus Job Retention Scheme) to pay approximately 80% of salaries for employees (up to a specified maximum) who are furloughed (on paid leave). The Company has taken advantage of CEWS and the Coronavirus Job Retention Scheme, as well as tax deferral programs that governments in most regions where the Company operates have made available. These government programs have supported the Company in retaining key technical talent and positioned the Company well for an economic recovery.

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

2020 Second Quarter Highlights

- Revenue was \$1.4 billion in Q2 2020. Net revenue of \$1.3 billion in Q2 2020 was down 33% from Q2 2019 primarily due to the impact of COVID-19 and volatile commodity prices. Net revenue was lower in all of the Company's operations and all lines of business, particularly new equipment revenue.
- Q2 2020 EBIT was \$52 million and EBIT as a percentage of net revenue was 3.9%, compared to \$137 million and 6.9% in Q2 2019, respectively. In the quarter, the Company recorded a benefit from CEWS for its Canadian employees. In addition, the Company incurred restructuring costs to accelerate existing strategies to further improve employee and facility productivity in all regions. Excluding these items, which were not considered indicative of operational and financial trends, Adjusted EBIT and Adjusted EBIT as a percentage of net revenue in Q2 2020 were \$39 million and 2.9%, respectively.
- Adjusted EBITDA was \$117 million and Adjusted EBITDA as a percentage of net revenue was 8.8% in Q2 2020, compared to \$213 million and 10.7%, respectively, earned in Q2 2019. Adjusted EBITDA decreased primarily due to significantly lower volumes in Q2 2020 compared to the prior year due to COVID-19 impacts. Adjusted EBITDA as a percentage of net revenue was lower due to higher SG&A as a percentage of net revenue due to the proportion of fixed costs.
- Q2 2020 basic EPS was \$0.12 compared to Q2 2019 basic EPS of \$0.54. Excluding the \$0.30 per share benefit of CEWS and \$0.24 per share of global severance and restructuring costs, Q2 2020 Adjusted basic EPS was \$0.06.
- Free cash flow generation of \$312 million in Q2 2020 was significantly higher than the \$162 million use of cash in Q2 2019. The Company's financial position remains strong, with sufficient liquidity and access to capital. As at June 30, 2020, net debt to Adjusted EBITDA ⁽¹⁾⁽²⁾ ratio was 2.1, down from 2.8 at June 30, 2019.
- Adjusted ROIC at June 30, 2020 was 9.7%, a decrease from Adjusted ROIC of 12.3% at June 30, 2019, mostly due to lower Adjusted ROIC in the Company's UK & Ireland and Canadian operations partially offset by an improvement in the Company's South American operations.

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

(2) Reported financial metrics may be impacted by significant items described on pages 5 and 34 - 35 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.

Table of Contents

Second Quarter Overview	1
Recent Developments	2
Second Quarter Highlights	2
Strategic Framework.....	4
Adjusted Metrics	5
Quarterly Key Performance Measures	6
Second Quarter Results	8
Year-to-Date Results	10
Invested Capital	14
Adjusted Return on Invested Capital and Invested Capital Turnover	15
Results by Reportable Segment.....	16
Outlook	22
Liquidity and Capital Resources	25
Accounting Policies and Pronouncements	27
Risk Factors and Management.....	29
Controls and Procedures Certification.....	32
Outstanding Share Data	32
Description of Non-GAAP Financial Measures and Reconciliations	33
Selected Quarterly Information.....	42
Forward-Looking Disclaimer	43
Glossary of Defined Terms	46

Strategic Framework

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

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

STRATEGIC PILLARS



OUR PURPOSE

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

OUR VISION

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

OUR VALUES

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

We are collaborative: We build diverse and respectful partnerships.

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

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

Strategic Focus Areas

Finning's focus areas to support our strategy are: capture growth in mining and construction industries through market leadership and improving performance through transforming service; accelerate supply chain capabilities; and lower the cost to serve. Our decisions about capital investments and allocation of resources are focused on initiatives that we believe best align with our Global Strategic Priorities and our strategic areas of focus.

Sustainability

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

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

The Company's Sustainability Report can be found in the sustainability section of the Company's website at www.finning.com.

The Company will continue to pursue its strategy, while maintaining its immediate focus on safety of employees and customers and preserving financial and operational flexibility as it deals with the uncertain impacts of COVID-19.

Adjusted Metrics

Reported financial metrics may be impacted by significant items management does not consider indicative of operational and financial trends either by nature or amount; these are referred to as “Adjusted metrics”. Adjusted metrics are considered non-GAAP financial measures and do not have a standardized meaning under *IFRS*, and therefore may not be comparable to similar measures presented by other issuers. For additional information regarding these financial metrics, including definitions and reconciliations from each of these Adjusted metrics to their most directly comparable measure under GAAP, where available, see the heading “Description of Non-GAAP Financial Measures and Reconciliations” on pages 33 - 41 of this MD&A.

Significant items that affected the reported results for the three months ended June 30, 2020 which are not considered by management to be indicative of operational and financial trends, either by nature or amount, are detailed below.

Q2 2020 significant items:

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

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 June 30, 2020 (\$ millions, except per share amounts)	EBIT				Net Income	Basic EPS
	Canada	South America	UK & Ireland	Consol ⁽¹⁾	Consol ⁽¹⁾	Consol ⁽¹⁾
EBIT, net income, and basic EPS	\$ 63	\$ 2	\$ (5)	\$ 52	\$ 18	\$ 0.12
Significant items:						
CEWS support	(60)	—	—	(64)	(48)	(0.30)
Severance costs	20	17	4	42	32	0.20
Facility closure related restructuring costs and impairment losses	5	4	—	9	7	0.04
Adjusted EBIT, Adjusted net income, and Adjusted basic EPS	\$ 28	\$ 23	\$ (1)	\$ 39	\$ 9	\$ 0.06

(1) Includes Other segment

There were no significant items identified by management for the three months ended June 30, 2019.

Quarterly Key Performance Measures

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

	2020		2019				2018 ⁽¹⁾		
	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2
ROIC ⁽²⁾⁽³⁾ (%)									
Consolidated	10.0%	11.9%	11.2%	11.3%	10.7%	10.8%	12.8%	13.7%	14.3%
Canada	13.3%	14.2%	13.7%	14.2%	14.5%	14.6%	16.6%	16.4%	15.5%
South America	9.3%	11.9%	9.6%	8.1%	7.9%	8.6%	12.2%	16.2%	17.5%
UK & Ireland	3.7%	8.4%	12.1%	14.1%	14.5%	14.8%	14.2%	14.0%	13.2%
EBIT ⁽²⁾ (\$ millions)									
Consolidated	52	94	97	129	137	62	91	93	126
Canada	63	60	72	82	92	50	71	78	77
South America	2	38	31	42	41	6	12	37	47
UK & Ireland	(5)	1	5	14	14	13	12	15	14
EBIT as a % of net revenue ⁽²⁾									
Consolidated	3.9%	6.6%	5.5%	7.1%	6.9%	3.6%	4.9%	5.3%	7.3%
Canada	8.9%	7.9%	7.4%	8.5%	8.5%	5.5%	7.1%	8.6%	8.5%
South America	0.5%	7.8%	6.0%	7.3%	6.5%	1.2%	2.5%	6.7%	8.5%
UK & Ireland	(3.2)%	0.5%	1.9%	5.1%	4.8%	4.4%	3.7%	5.1%	5.3%
EBITDA ⁽²⁾ (\$ millions)									
Consolidated	130	170	170	201	213	134	140	142	171
Canada	110	103	114	125	138	93	97	104	99
South America	24	60	51	62	62	26	29	52	62
UK & Ireland	4	11	15	22	23	22	18	23	21
EBITDA as a % of net revenue ⁽²⁾									
Consolidated	9.7%	11.8%	9.7%	11.1%	10.7%	7.8%	7.6%	8.1%	9.9%
Canada	15.6%	13.7%	11.8%	12.8%	12.9%	10.2%	9.7%	11.4%	11.0%
South America	5.2%	12.4%	10.0%	10.8%	9.8%	5.2%	5.8%	9.3%	11.2%
UK & Ireland	2.7%	5.2%	5.4%	8.3%	7.7%	7.3%	5.7%	7.7%	7.9%
Invested Capital ⁽³⁾ (\$ millions)									
Consolidated	3,495	3,883	3,591	3,907	3,964	3,753	3,163	3,431	3,362
Canada	2,037	2,093	2,026	2,209	2,285	2,148	1,675	1,889	1,840
South America	1,106	1,330	1,192	1,276	1,287	1,243	1,190	1,173	1,172
UK & Ireland	349	428	361	416	390	361	336	404	372
Invested Capital Turnover ⁽³⁾ (times)									
Consolidated	1.71	1.83	1.92	1.99	2.04	2.06	2.12	2.14	2.13
Canada	1.63	1.75	1.81	1.91	1.95	1.98	2.05	1.98	1.92
South America	1.67	1.73	1.78	1.77	1.80	1.78	1.86	2.01	2.05
UK & Ireland	2.32	2.60	2.98	3.18	3.27	3.25	3.22	3.30	3.44
Inventory (\$ millions)	1,893	2,152	1,990	2,215	2,366	2,356	2,061	2,017	1,968
Inventory Turns (Dealership) ⁽³⁾ (times)	1.97	2.25	2.53	2.49	2.36	2.46	2.68	2.58	2.57
Working Capital ⁽³⁾ to Net Revenue ⁽³⁾	29.9%	28.9%	27.8%	26.9%	26.7%	26.7%	26.6%	26.7%	26.9%
Free Cash Flow (\$ millions)	312	(50)	386	165	(162)	(347)	418	(49)	(28)
Net Debt ⁽³⁾ to EBITDA Ratio ⁽²⁾⁽³⁾	2.0	2.2	2.1	2.6	3.0	2.9	1.7	2.1	2.0

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

(2) 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.

(3) 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 34 - 35 of this MD&A. KPIs that have been adjusted to take these items into account are referred to as "Adjusted" KPIs and were as follows:

	2020		2019				2018 ⁽¹⁾		
	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2
Adjusted ROIC									
Consolidated	9.7%	12.0%	12.0%	12.2%	12.3%	12.5%	13.5%	14.5%	14.2%
Canada	11.6%	14.2%	14.4%	15.0%	15.4%	15.5%	16.2%	16.0%	15.1%
South America	11.2%	12.2%	10.5%	9.0%	8.5%	9.2%	12.2%	16.4%	17.7%
UK & Ireland	4.6%	8.4%	12.1%	14.1%	14.5%	14.8%	14.2%	14.0%	13.2%
Adjusted EBIT (\$ millions)									
Consolidated	39	94	97	132	137	91	91	123	126
Canada	28	60	72	82	92	67	71	78	77
South America	23	38	31	45	41	14	12	37	47
UK & Ireland	(1)	1	5	14	14	13	12	15	14
Adjusted EBIT as a % of net revenue									
Consolidated	2.9%	6.6%	5.5%	7.3%	6.9%	5.3%	4.9%	7.0%	7.3%
Canada	4.0%	7.9%	7.4%	8.5%	8.5%	7.4%	7.1%	8.6%	8.5%
South America	5.1%	7.8%	6.0%	7.8%	6.5%	2.7%	2.5%	6.7%	8.5%
UK & Ireland	(1.0)%	0.5%	1.9%	5.1%	4.8%	4.4%	3.7%	5.1%	5.3%
Adjusted EBITDA (\$ millions)									
Consolidated	117	170	170	204	213	163	140	172	171
Canada	75	103	114	125	138	110	97	104	99
South America	45	60	51	65	62	34	29	52	62
UK & Ireland	8	11	15	22	23	22	18	23	21
Adjusted EBITDA as a % of net revenue									
Consolidated	8.8%	11.8%	9.7%	11.2%	10.7%	9.4%	7.6%	9.7%	9.9%
Canada	10.6%	13.7%	11.8%	12.8%	12.9%	12.1%	9.7%	11.4%	11.0%
South America	9.8%	12.4%	10.0%	11.2%	9.8%	6.7%	5.8%	9.3%	11.2%
UK & Ireland	4.9%	5.2%	5.4%	8.3%	7.7%	7.3%	5.7%	7.7%	7.9%
Net Debt to Adjusted EBITDA Ratio	2.1	2.2	2.0	2.5	2.8	2.6	1.7	2.0	2.0

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

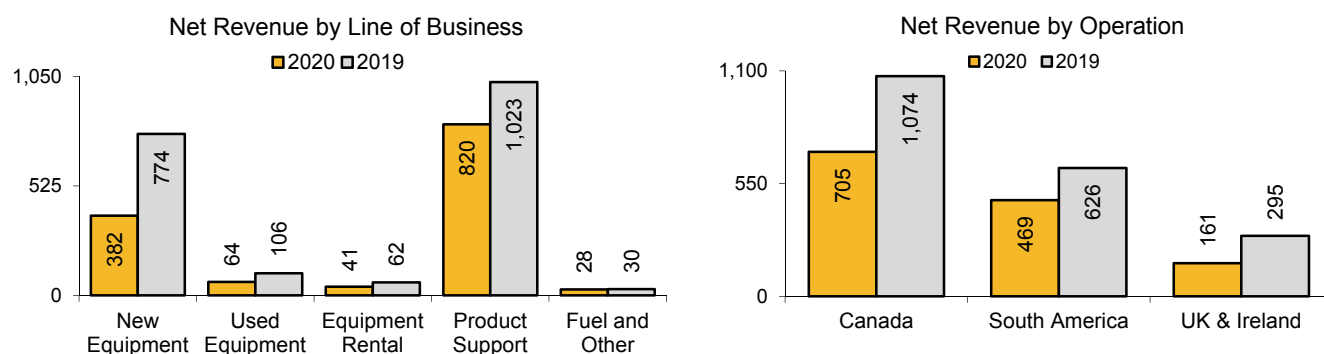
Second Quarter Results

Revenue

Net Revenue by Line of Business and by Operation

3 months ended June 30

(\$ millions)



The Company generated revenue of \$1.4 billion during the second quarter of 2020 and \$2.1 billion in Q2 2019. Q2 2020 net revenue of \$1.3 billion was 33% lower than net revenue of \$2.0 billion in Q2 2019 across all of the Company's operations. Net revenue was down in Q2 2020 primarily due to the negative impact of COVID-19 and volatility in commodity prices, which resulted in cancelled and postponed equipment deliveries and lower customer demand for parts and maintenance services.

Second quarter 2020 new equipment revenue was 51% lower than the same prior year period driven by lower volumes in all industry sectors, particularly in the construction sector in all operations. New equipment revenue also declined in the mining sector in the Company's Canadian and South American operations and the power systems sector in the Company's UK & Ireland operations. Key drivers of this decline were COVID-19 impacts, lower oil and other commodity prices in Canada, economic uncertainty in South America, and the timing of power system project deliveries in the Company's UK & Ireland operations.

Q2 2020 product support revenue was down 20% from the same prior year period driven by the mining and construction sectors of the Company's Canadian and South American operations due to parked trucks and support equipment, deferral of non-essential maintenance in the mining sector, lower machine utilization hours in the construction sector, and slowdown of customer operations due to COVID-19 restrictions.

Equipment backlog⁽¹⁾ of approximately \$700 million at June 30, 2020 was comparable to December 31, 2019, but down from approximately \$800 million at March 31, 2020. Equipment deliveries outpaced order intake⁽¹⁾ in Q2 2020, mainly in the Company's Canadian operations.

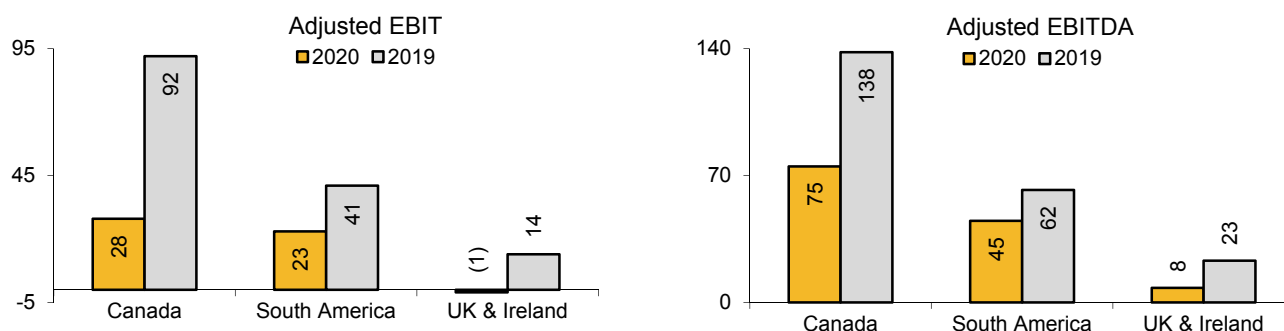
EBIT and EBITDA

Q2 2020 gross profit was \$344 million, 29% lower than the same period in the prior year, driven by lower revenues. Overall gross profit as a percentage of net revenue of 25.7% in Q2 2020 was 160 basis points higher than Q2 2019, mainly due to a revenue mix shift to product support revenue (Q2 2020: 61% compared to Q2 2019: 51%).

SG&A in Q2 2020 of \$306 million was 12% lower than Q2 2019, driven by the benefit of measures taken to reduce costs to serve and discretionary spend and lower variable costs from reduced volumes. In Canada, the Company recognized a wage subsidy of \$64 million. Without the benefit of this wage subsidy, available alternative cost reduction actions would have been taken in the Canadian operations, which would have reduced SG&A by a further \$15 to \$20 million in Q2 2020. Although SG&A was down in all operations compared to Q2 2019, the fixed nature of certain SG&A costs on a much lower revenue base resulted in a 540 basis points increase in SG&A as a percentage of net revenue.

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

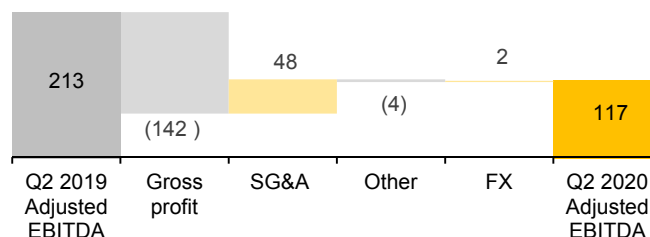
Adjusted EBIT and Adjusted EBITDA by Operation ⁽¹⁾
3 months ended June 30
(\$ millions)



(1) Excluding Other operations

The Company reported EBIT of \$52 million and EBIT as a percentage of net revenue of 3.9% in the second quarter of 2020 compared to \$137 million and 6.9%, respectively, in Q2 2019. Excluding the significant items not considered indicative of operational and financial trends described on page 5, Q2 2020 Adjusted EBIT and Adjusted EBIT as a percentage of net revenue were \$39 million and 2.9%, respectively.

Adjusted EBITDA in Q2 2020 was \$117 million, down 45% from \$213 million Adjusted EBITDA in Q2 2019 with lower earnings in all of the Company's operations primarily due to the negative impacts of COVID-19 and volatile oil and other commodity prices. Adjusted EBITDA as a percentage of net revenue in Q2 2020 was 8.8%, down 190 basis points from 10.7% in Q2 2019 largely driven by higher SG&A as a percentage of net revenue on a much lower revenue base, partially offset by improved gross margin.



The net debt to Adjusted EBITDA ratio at June 30, 2020 was 2.1 times, down from the 2.8 times at June 30, 2019, in part due to lower average debt levels despite a decline in Adjusted EBITDA. This ratio remains below the Company's long-term target of < 3.0.

Finance Costs

Finance costs in Q2 2020 were \$24 million, down from \$27 million Q2 2019 on lower average debt levels.

Provision for Income Taxes

The effective income tax rate in Q2 2020 was 32.8%, compared to 18.8% in Q2 2019. The effective income tax rate in Q2 2020 was higher due to a higher proportion of earnings in higher tax jurisdictions. The effective income tax rate in Q2 2019 was lower due to the substantively enacted tax rate changes in Alberta resulting in a positive one-time revaluation of the Company's deferred tax balances by approximately \$3 million.

Management expects the Company's effective tax rate generally to be within the 25-30% range on an annual basis. The rate may fluctuate from period to period as a result of changes in the relative income from the various jurisdictions in which the Company carries on business, source 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 \$18 million and basic EPS was \$0.12 in Q2 2020, compared to \$88 million and \$0.54, respectively, in Q2 2019. Q2 2020 Adjusted net income was \$9 million and Adjusted basic EPS was \$0.06. Q2 2020 results were lower than Q2 2019 as all of the Company's operations reported lower earnings or losses in Q2 2020.

Year-to-Date Overview

(\$ millions, except for per share amounts)	YTD 2020	YTD 2019	% change fav (unfav)
Revenue	\$ 2,977	\$ 3,947	(25)%
Net revenue	\$ 2,774	\$ 3,714	(25)%
Gross profit	\$ 762	\$ 912	(16)%
SG&A	(631)	(693)	9%
Equity earnings of joint ventures	2	9	(74)%
Other income	64	—	n/m
Other expenses	(51)	(29)	(76)%
EBIT	\$ 146	\$ 199	(27)%
Net income	\$ 72	\$ 116	(38)%
Basic EPS	\$ 0.45	\$ 0.71	(37)%
EBITDA	\$ 300	\$ 347	(14)%
Free cash flow	\$ 262	\$ (509)	151%
Adjusted EBIT	\$ 133	\$ 228	(41)%
Adjusted net income	\$ 63	\$ 138	(54)%
Adjusted basic EPS	\$ 0.39	\$ 0.85	(54)%
Adjusted EBITDA	\$ 287	\$ 376	(24)%
<i>Gross profit as a % of net revenue</i>	27.5%	24.6%	
<i>SG&A as a % of net revenue</i>	22.8%	18.7%	
<i>EBIT as a % of net revenue</i>	5.3%	5.4%	
<i>EBITDA as a % of net revenue</i>	10.8%	9.3%	
<i>Adjusted EBIT as a % of net revenue</i>	4.8%	6.1%	
<i>Adjusted EBITDA as a % of net revenue</i>	10.4%	10.1%	
<i>Adjusted ROIC</i>	9.7%	12.3%	

Significant items that affected the reported results of the Company for the six months ended June 30, 2020 and June 30, 2019 which were not considered by management to be indicative of operational and financial trends, either by nature or amount, are detailed below.

Year-to-date 2020 significant items:

- CEWS from the Canadian government for eligible entities.
- The Company accelerated existing strategies to further improve employee and facility productivity. As a result, the Company incurred:
 - Severance costs related to workforce reductions in all of the Company's operations; and,
 - Restructuring and impairment losses in the Company's Canadian and South American operations.

Year-to-date 2019 significant items:

- Severance costs related to workforce reductions in the Company's Canadian and South American operations as the Company continued to align its cost structure to market activity and drive improved operating efficiency.
- Restructuring costs and impairment losses recorded in the Company's Canadian operations related to planned facility closures and consolidations to optimize the branch network.
- Acquisition costs related to the purchase of **4Refuel**.

The following table shows the magnitude of these items and reconciliations of the non-GAAP financial measures to their most directly comparable GAAP measures:

6 months ended June 30, 2020 (\$ millions, except for per share amounts)	EBIT				Net	EPS
	Canada	South America	UK & Ireland	Consol ⁽¹⁾	Income	Consol ⁽¹⁾
EBIT, net income, and basic EPS	\$ 123	\$ 40	\$ (4)	\$ 146	\$ 72	\$ 0.45
Significant items:						
CEWS support	(60)	—	—	(64)	(48)	(0.30)
Severance costs	20	17	4	42	32	0.20
Facility closure related restructuring costs and impairment losses	5	4	—	9	7	0.04
Adjusted EBIT, Adjusted net income, and Adjusted basic EPS	\$ 88	\$ 61	\$ —	\$ 133	\$ 63	\$ 0.39

6 months ended June 30, 2019 (\$ millions, except for per share amounts)	EBIT				Net	EPS
	Canada	South America	UK & Ireland	Consol ⁽¹⁾	Income	Consol ⁽¹⁾
EBIT, net income, and basic EPS	\$ 142	\$ 47	\$ 27	\$ 199	\$ 116	\$ 0.71
Significant item:						
Severance costs	10	8	—	18	13	0.08
Facility closure related restructuring costs and impairment losses	7	—	—	7	5	0.03
Acquisition costs	—	—	—	4	4	0.03
Adjusted EBIT, Adjusted net income, and Adjusted basic EPS	\$ 159	\$ 55	\$ 27	\$ 228	\$ 138	\$ 0.85

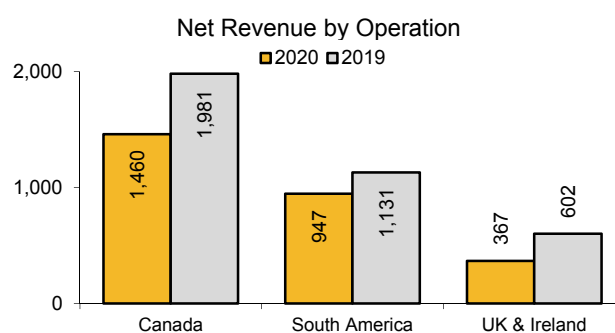
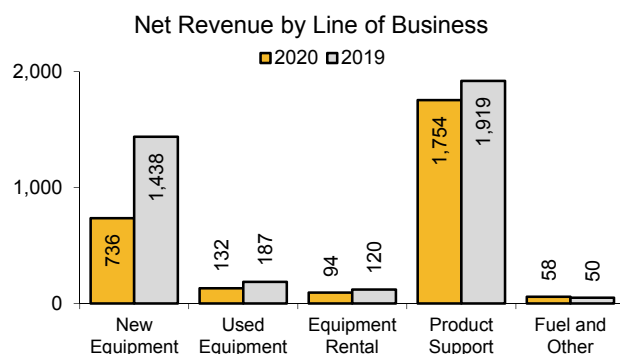
⁽¹⁾ Includes Other segment

Revenue

Net Revenue by Line of Business and by Operation

6 months ended June 30

(\$ millions)



The Company generated revenue of \$3.0 billion in the six months ended June 30, 2020. Net revenue of \$2.8 billion decreased 25% from the same period last year, down in all of the Company's operations due to lower customer demand as a result of volatility in commodity prices and COVID-19. The impact of COVID-19 on the Company's UK & Ireland operations started earlier than the Canadian or South American operations.

New equipment revenue in the six months ended June 30, 2020 was 49% lower than the prior year period, down in all operations. The decline in volumes reflected weak market conditions driven by COVID-19 impacts in all of the Company's operations. In addition, the decline in new equipment revenue was driven by volatile commodity prices and reduced construction activity in Canada; COVID-19 related lockdowns in South America, and the timing of power system projects in the Company's UK & Ireland operations.

Product support revenue in the six months ended June 30, 2020 was 9% lower than the first six months of 2019, primarily due to lower activity as well as customers deferring non-essential maintenance in the construction and mining sectors of the Company's Canadian operations.

EBIT and EBITDA

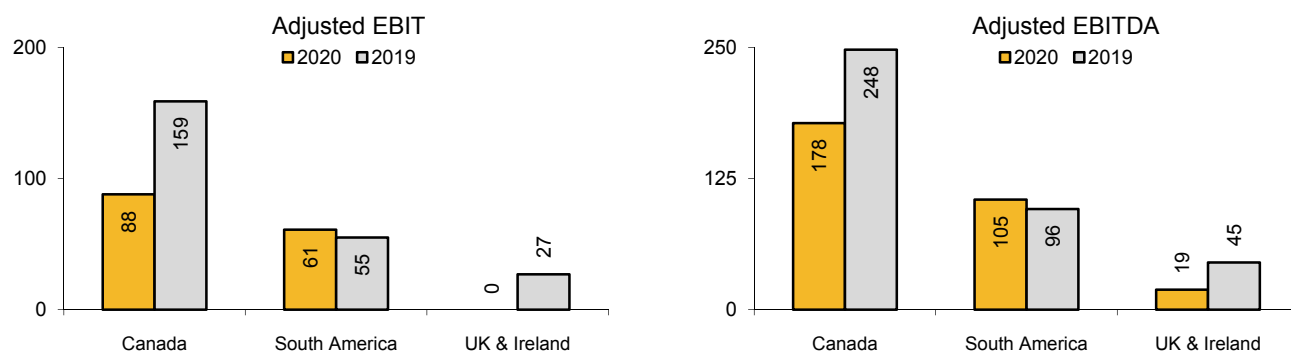
Gross profit in the first six months of 2020 of \$762 million was down from the comparative prior year period largely due to a significant decrease in volumes. Overall gross profit as a percentage of net revenue of 27.5% was up from the first six months of 2019 primarily due to a higher proportion of product support revenue (June 30, 2020: 63%; June 30, 2019: 52%).

SG&A for the first six months of 2020 was \$631 million, 9% lower than the same period of the prior year reflecting lower variable costs associated with a reduction in revenues, the benefit of cost reduction initiatives including lower people-related costs and disciplined spending. Although SG&A was lower, SG&A as a percentage of net revenue was up in all of the Company's operations reflecting the fixed proportion of SG&A on a significantly lower revenue base.

Adjusted EBIT and Adjusted EBITDA by Operation ⁽¹⁾

6 months ended June 30

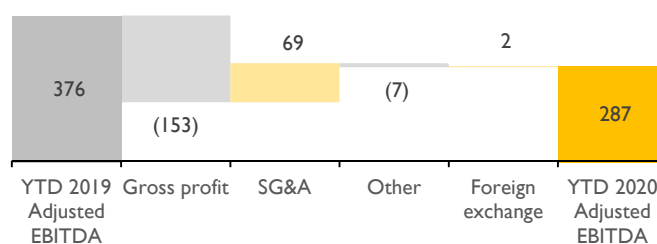
(\$ millions)



⁽¹⁾ Excluding Other operations

The Company reported EBIT of \$146 million and EBIT as a percentage of net revenue of 5.3% in the first six months of 2020, compared to \$199 million and 5.4%, respectively, earned in the first six months of 2019. Excluding significant items not indicative of financial and operational trends described on page 11, Adjusted EBIT in the first six months of 2020 was \$133 million and Adjusted EBIT as a percentage of net revenue was 4.8%, lower than Adjusted EBIT of \$228 million and Adjusted EBIT as a percentage of net revenue of 6.1% in the same period in 2019.

2020 year-to-date Adjusted EBITDA was \$287 million, down from \$376 million in the same prior year period. The 24% decrease was primarily due to lower volumes partially offset by lower SG&A. Adjusted EBITDA as a percentage of net revenue of 10.4% was higher than 10.1% earned in the same prior year period. This increase was largely driven by the gross margin improvement in the Company's South American operations as a result of a higher mix of product support revenue.



Finance Costs

Finance costs for the six months ended June 30, 2020 were \$45 million, lower than the \$51 million in the same period in 2019 due to lower average debt levels.

Provision for Income Taxes

The effective income tax rate for the first six months of 2020 was 28.3% compared to 21.2% in the prior year comparable period. The effective income tax rate was higher in 2020 due to a higher proportion of earnings from high tax jurisdictions compared to the prior year period. The effective income tax rate in 2019 was affected by the tax rate changes in Alberta resulting in a one-time positive revaluation of the Company's deferred tax balances.

Net Income and Basic EPS

Net income was \$72 million in the first six months of 2020, compared to \$116 million earned in the comparable period in 2019 and basic EPS was \$0.45 compared with \$0.71 in 2019. Excluding the significant items not indicative of financial and operational trends described on page 11, Adjusted net income in 2020 was \$63 million and Adjusted basic EPS was \$0.39 compared to Adjusted net income of \$138 million and Adjusted basic EPS of \$0.85 in the same prior year period.

Invested Capital

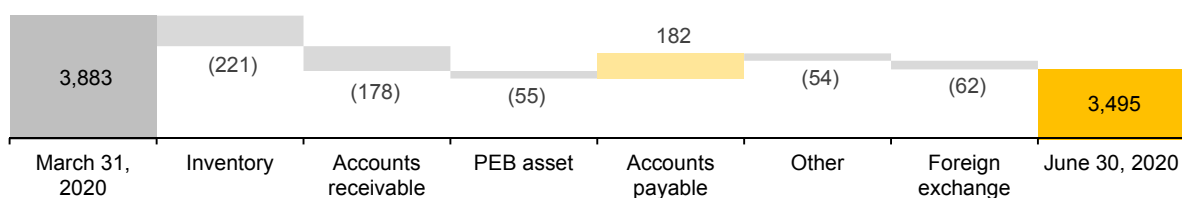
(\$ millions, unless otherwise stated)			Decrease from		(Decrease) Increase from	
	June 30, 2020	March 31, 2020	March 31, 2020	Dec 31, 2019	Dec 31, 2019	2019
Consolidated	\$ 3,495	\$ 3,883	\$ (388)	\$ 3,591	\$ (96)	
Canada	\$ 2,037	\$ 2,093	\$ (56)	\$ 2,026	\$ 11	
South America	\$ 1,106	\$ 1,330	\$ (224)	\$ 1,192	\$ (86)	
UK & Ireland	\$ 349	\$ 428	\$ (79)	\$ 361	\$ (12)	
South America (USD)	\$ 812	\$ 937	\$ (125)	\$ 918	\$ (106)	
UK & Ireland (GBP)	£ 207	£ 243	£ (36)	£ 210	£ (3)	

Compared to March 31, 2020:

The \$388 million decrease in consolidated invested capital from March 31, 2020 to June 30, 2020 includes a foreign exchange impact of \$62 million in translating the invested capital balances of the Company's South American and UK & Ireland operations. The foreign exchange impact was primarily the result of the 4% stronger CAD relative to the USD and 4% stronger CAD relative to the GBP at June 30, 2020 compared to the rates at March 31, 2020.

Excluding the impact of foreign exchange, consolidated invested capital decreased by \$326 million from March 31, 2020 to June 30, 2020 reflecting:

- a decrease in inventories (primarily equipment and parts inventory) in the Company's Canadian and South American operations reflecting inventory management;
- lower accounts receivable in the Company's Canadian and South American operations from lower sales and strong collections;
- a decrease in the **PEB asset** in the Company's UK & Ireland operations, largely due to a higher accrued benefit obligation as a result of updated actuarial assumptions; partially offset by,
- lower accounts payable in all operations, primarily the Company's Canadian operations, reflecting strong inventory management.

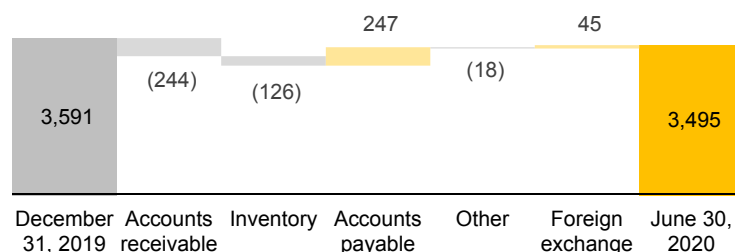


Compared to December 31, 2019:

The \$96 million decrease in consolidated invested capital from December 31, 2019 to June 30, 2020 includes a foreign exchange impact of \$45 million in translating the invested capital balances of the Company's South American and UK & Ireland operations. The foreign exchange impact was primarily the result of the 5% weaker CAD relative to the USD partially offset by the 2% stronger CAD relative to the GBP at June 30, 2020 compared to the rates at December 31, 2019.

Excluding the impact of foreign exchange, consolidated invested capital decreased by \$141 million from December 31, 2019 to June 30, 2020 reflecting:

- lower accounts receivable primarily in the Company's Canadian and South American operations due to a decrease in sales activity;
- a decrease in inventories (primarily new equipment, parts, and service work in progress) driven by the Company's South American operations reflecting strong inventory management; partially offset by,
- lower accounts payable, mainly in the Company's South American and Canadian operations, from reduced inventory purchases.



Adjusted ROIC and Invested Capital Turnover

	June 30, 2020	December 31, 2019	June 30, 2019
Adjusted ROIC			
Consolidated	9.7%	12.0%	12.3%
Canada	11.6%	14.4%	15.4%
South America	11.2%	10.5%	8.5%
UK & Ireland	4.6%	12.1%	14.5%
Invested Capital Turnover (times)			
Consolidated	1.71	1.92	2.04
Canada	1.63	1.81	1.95
South America	1.67	1.78	1.80
UK & Ireland	2.32	2.98	3.27

Adjusted ROIC

On a consolidated basis, Adjusted ROIC at June 30, 2020 was lower than December 31, 2019 primarily due to lower Adjusted EBIT for the last twelve-month period, mostly because of the negative impact of business disruptions related to COVID-19 and the volatility in commodity prices, outpacing a reduction in average invested capital levels, driven by the Company's Canadian and UK & Ireland operations. In the Company's South American operations, Adjusted ROIC at June 30, 2020 was higher than December 31, 2019 due to an improvement in earnings as well as lower average invested capital levels in the last twelve-month period.

On a consolidated basis, the decrease in Adjusted ROIC at June 30, 2020 compared to June 30, 2019 reflects lower Adjusted EBIT for the last twelve-month period as well as higher average invested capital levels. Adjusted ROIC at June 30, 2020 in the Company's UK & Ireland operations decreased significantly compared to the same prior year period reflecting lower earnings due to challenging market conditions, timing of power systems project deliveries, as well as higher average invested capital in part due to a higher PEB asset. June 30, 2020 Adjusted ROIC in the Company's Canadian operations was impacted by lower earnings and higher average invested capital levels. Adjusted ROIC at June 30, 2020 in the Company's South American operations was up 270 basis points from June 30, 2019 primarily due to the higher Adjusted EBIT earned in the last twelve-month period.

Invested Capital Turnover

Consolidated invested capital turnover at June 30, 2020 was down from December 31, 2019 with the decline in net revenue over the last twelve-month period in all of the Company's operations outpacing the reduction in average invested capital levels. The decrease in invested capital turnover in all of the Company's operations was largely driven by the negative impact of the COVID-19 pandemic on net revenues.

Consolidated invested capital turnover at June 30, 2020 was lower than at June 30, 2019 due to a reduction in net revenues in all of the Company's operations compounded by an increase in average invested capital levels.

Results by Reportable Segment

The Company and its subsidiaries operate primarily in one principal business: the sale, service, and rental of heavy equipment, engines, and related products in various markets worldwide as described on pages 17 - 21. Finning's reportable segments are Canada, South America, UK & Ireland, and Other segment.

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

3 months ended June 30, 2020					
(\$ millions)	Canada	South America	UK & Ireland	Consol	Net Revenue %
New equipment	\$ 196	\$ 106	\$ 80	\$ 382	29%
Used equipment	36	12	16	64	5%
Equipment rental	26	9	6	41	3%
Product support	419	342	59	820	61%
Fuel and other	28	—	—	28	2%
Net revenue	\$ 705	\$ 469	\$ 161	\$ 1,335	100%
Net revenue % by operation	53%	35%	12%	100%	
3 months ended June 30, 2019					
(\$ millions)	Canada	South America	UK & Ireland	Consol	Net Revenue %
New equipment	\$ 384	\$ 198	\$ 192	\$ 774	39%
Used equipment	71	16	19	106	5%
Equipment rental	41	12	9	62	3%
Product support	549	400	74	1,023	51%
Fuel and other	29	—	1	30	2%
Net revenue	\$ 1,074	\$ 626	\$ 295	\$ 1,995	100%
Net revenue % by operation	54%	31%	15%	100%	
6 months ended June 30, 2020					
(\$ millions)	Canada	South America	UK & Ireland	Consol	Net Revenue %
New equipment	\$ 358	\$ 191	\$ 187	\$ 736	27%
Used equipment	69	27	36	132	5%
Equipment rental	59	21	14	94	3%
Product support	916	708	130	1,754	63%
Fuel and other	58	—	—	58	2%
Net revenue	\$ 1,460	\$ 947	\$ 367	\$ 2,774	100%
Net revenue % by operation	53%	34%	13%	100%	
6 months ended June 30, 2019					
(\$ millions)	Canada	South America	UK & Ireland	Consol	Net Revenue %
New equipment	\$ 658	\$ 388	\$ 392	\$ 1,438	39%
Used equipment	119	27	41	187	5%
Equipment rental	80	23	17	120	3%
Product support	1,076	693	150	1,919	52%
Other	48	—	2	50	1%
Net revenue	\$ 1,981	\$ 1,131	\$ 602	\$ 3,714	100%
Net revenue % by operation	53%	31%	16%	100%	

Canada Operations

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

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

(\$ millions)	3 months ended June 30	
	2020	2019
Net revenue	\$ 705	\$ 1,074
Operating costs	(631)	(941)
Equity earnings of joint venture	1	5
Other income	60	—
Other expenses	(25)	—
EBITDA	\$ 110	\$ 138
Depreciation and amortization	(47)	(46)
EBIT	\$ 63	\$ 92
Adjusted EBITDA	\$ 75	\$ 138
Adjusted EBIT	\$ 28	\$ 92
<i>EBITDA as a % of net revenue</i>	15.6%	12.9%
<i>EBIT as a % of net revenue</i>	8.9%	8.5%
<i>Adjusted EBITDA as a % of net revenue</i>	10.6%	12.9%
<i>Adjusted EBIT as a % of net revenue</i>	4.0%	8.5%

Second Quarter Overview

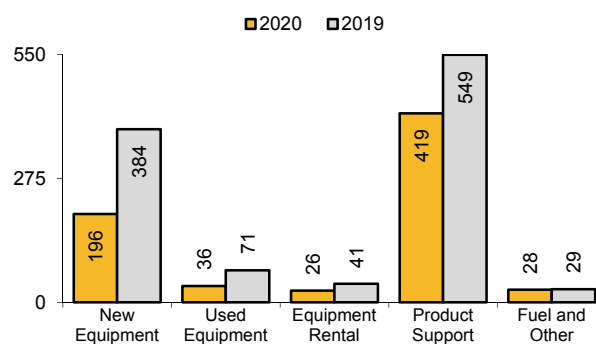
Q2 2020 net revenue of \$705 million was 34% lower than Q2 2019, with challenging market conditions across all lines of business and market sectors. Customers have been significantly impacted by volatile oil prices as well as COVID-19, resulting in some truck fleets being parked for a portion of Q2 2020, the delay of certain projects until 2021, and some contracts being cancelled. In addition, lower demand driven by customers' focus on cost reductions and reduced capital spending contributed to lower demand in Q2 2020.

New equipment revenue was down 49% in Q2 2020 compared to Q2 2019, down in all industry sectors, primarily due to reduced market activity in the construction sector, particularly in Alberta. Decreased volumes in the mining sector and lower demand in gas compression also contributed to a reduction in new equipment revenue compared to the same prior year period. Equipment backlog was down from March 31, 2020 and December 31, 2019 as deliveries outpaced order intake. Q2 2020 order intake was low when compared to prior quarters due in large part to cost containment measures taken by customers as a result of challenging market conditions.

Product support revenue in Q2 2020 was down 24% compared to the same prior year period as customers temporarily shut down operations, parked equipment, lowered equipment utilization, and deferred major component rebuilds and non-essential maintenance.

Gross profit in Q2 2020 was lower than Q2 2019, mostly driven by lower volumes across all of the Company's lines of business. Overall gross profit as a percentage of net revenue increased in Q2 2020 compared to Q2 2019 primarily due to a revenue mix shift to product support.

Net revenue by Line of Business Canada Operations 3 months ended June 30 (\$ millions)



SG&A in Q2 2020 was down 11% compared to the prior year period, primarily due to lower people-related costs, as well as disciplined cost management and lower variable costs related to volumes. This decline was partially offset by higher provisions to reflect an increase in collection risk related to customer trade receivables as a result of current market conditions. The CEWS program allowed the Company to preserve a significant number of jobs and technical capabilities through a unique period of uncertainty. The Canadian operations recognized \$60 million of wage subsidy in Q2 2020. Without the benefit of this wage subsidy, the Company would have taken available alternative cost reduction actions in Canada, which would have reduced SG&A by \$15 to \$20 million in Q2 2020. The costs related to retained employees and other available cost reduction actions were included in SG&A whereas the CEWS benefit was included in other income. SG&A as a percentage of net revenue was up 620 basis points compared to the prior year period driven by certain costs that are fixed or semi-variable in nature combined with a lower labour recovery on significantly lower revenues.

In Q2 2020, the Company accelerated existing strategies to improve employee and facility productivity. This included the further leveraging of back office functions, streamlining the reporting structure, and relocating service work to lower cost operations. The Company is also re-shaping the existing branch structure to a hub and spoke operating model designed to improve customer turnaround, customer experience, labour productivity, and facility utilization, as well as reduce the Company's environmental footprint. This strategy modernizes the Company's service offering resulting in consolidation or relocation of facilities, or exit of certain facilities where leases are maturing.

Excluding the \$60 million benefit of CEWS and \$25 million of severance and facility restructuring costs, the Company's Canadian operations contributed Adjusted EBITDA of \$75 million in Q2 2020, down 46% from the same period in the prior year significantly impacted by challenging market conditions and COVID-19 related business disruptions. Adjusted EBITDA as a percentage of net revenue in Q2 2020 was 10.6%, lower than 12.9% in Q2 2019.

Discussion of the Company's Canadian operation's year-to-date results is included in the Year-to-Date Results section of this MD&A on pages 10 - 13.

South America Operations

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

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

(\$ millions)	3 months ended June 30	
	2020	2019
Net revenue	\$ 469	\$ 626
Operating costs	(424)	(564)
Other expenses	(21)	—
EBITDA	\$ 24	\$ 62
Depreciation and amortization	(22)	(21)
EBIT	\$ 2	\$ 41
Adjusted EBITDA	\$ 45	\$ 62
Adjusted EBIT	\$ 23	\$ 41
<i>EBITDA as a % of net revenue</i>	<i>5.2%</i>	<i>9.8%</i>
<i>EBIT as a % of net revenue</i>	<i>0.5%</i>	<i>6.5%</i>
<i>Adjusted EBITDA as a % of net revenue</i>	<i>9.8%</i>	<i>9.8%</i>
<i>Adjusted EBIT as a % of net revenue</i>	<i>5.1%</i>	<i>6.5%</i>

The weaker CAD relative to the USD on average in Q2 2020 compared to Q2 2019 had a favourable foreign currency translation impact on net revenue in Q2 2020 of approximately \$15 million and was not significant at the EBITDA level.

All \$ figures in this section are in CAD as this is Finning's reporting currency. All variances and ratios in this section are based on the functional currency of the Company's South American operation which is the USD.

Second Quarter Overview

Q2 2020 net revenue was 28% lower than Q2 2019 with a decline in revenues across all lines of business and market sectors. During Q2 2020 there were lockdowns of varying degrees in the Company's South American operations due to COVID-19, including the temporary closure of some branches. These restrictions significantly impacted activity in the construction sector in all countries, and delayed government infrastructure projects.

New equipment revenue in Q2 2020 was 48% lower than the prior year quarter, declining in all countries and market sectors, particularly in the mining and construction market sectors in Chile and in Argentina. Equipment backlog at June 30, 2020 was comparable to December 31, 2019 and was up from March 31, 2020. Rising order intake was driven by strong demand from contractors supporting the mining sector. Equipment backlog includes orders for mining and construction customers expected to be delivered in the second half of 2020, including deliveries to Teck QB2 in Chile.

Product support revenue in Q2 2020 was down 17% from Q2 2019, primarily in the mining sector in Chile. Product support revenue was also lower in the construction sectors of all countries of the Company's South American operations.

Gross profit in Q2 2020 was lower than the same period in the prior year primarily due to lower volumes. Gross profit as a percentage of net revenue increased in Q2 2020 compared to Q2 2019, largely due to a revenue mix shift to higher product support revenue (Q2 2020: 73%; Q2 2019: 64%).

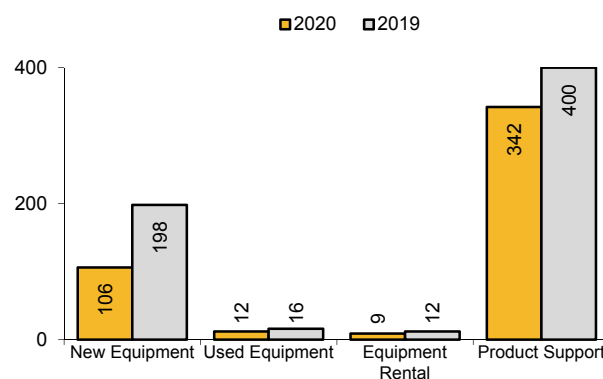
Q2 2020 SG&A was down 17% from Q2 2019, due to cost savings from improved execution in Chilean mining operations and reduced salaries and benefits. SG&A as a percentage of net revenue increased 270 basis points reflecting the fixed proportion of costs on a much lower revenue base.

In Q2 2020, the Company accelerated existing strategies to further improve employee and facility productivity. The Company's operations in South America are now benefiting from one common **ERP** system and realizing operating efficiencies, which has allowed for the restructuring of its workforce. In addition, the Company took actions to consolidate and rationalize its branch network in Chile, Argentina, and Bolivia.

Excluding severance and restructuring costs of \$21 million, Q2 2020 Adjusted EBITDA was \$45 million, down from the same prior year period as lower gross profit exceeded the reduction in SG&A. The Company's improvement in execution and higher profitability in Chile compared to the same prior year period was offset by lower EBITDA from the Company's operations in Argentina and Bolivia. Q2 2020 Adjusted EBITDA as a percentage of net revenue of 9.8% was consistent with Q2 2019.

Discussion of the Company's South American operation's year-to-date results is included in the Year-to-Date Results section of this MD&A on pages 10 - 13.

Net revenue by Line of Business South America Operations 3 months ended June 30 (\$ millions)



UK & Ireland Operations

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

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

(\$ millions)	3 months ended June 30	
	2020	2019
Net revenue	\$ 161	\$ 295
Operating costs	(153)	(272)
Other expenses	(4)	—
EBITDA	\$ 4	\$ 23
Depreciation and amortization	(9)	(9)
EBIT	\$ (5)	\$ 14
Adjusted EBITDA	\$ 8	\$ 23
Adjusted EBIT	\$ (1)	\$ 14
<i>EBITDA as a % of net revenue</i>	2.7%	7.7%
<i>EBIT as a % of net revenue</i>	(3.2)%	4.8%
<i>Adjusted EBITDA as a % of net revenue</i>	4.9%	7.7%
<i>Adjusted EBIT as a % of net revenue</i>	(1.0)%	4.8%

The CAD relative to the GBP on average in the three months ended 2020 and 2019 was relatively the same and, as a result, there was a minimal foreign currency translation impact on net revenue and EBITDA.

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

Second Quarter Overview

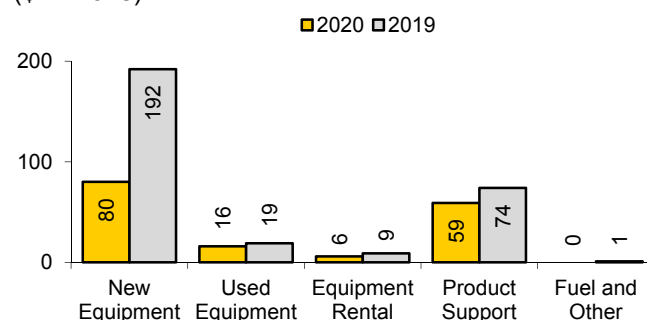
Second quarter 2020 net revenue was 45% lower than the same period in 2019, and was significantly impacted by government-imposed lockdowns and restrictions related to COVID-19. Net revenue was down in all lines of business, primarily new equipment revenues driven by lower customer demand. Product support revenue was also lower as customer activity was reduced to comply with lockdown restrictions.

New equipment revenue was 58% lower than the second quarter of 2019, driven primarily by significantly lower sales in the construction sector, impacted by site closures and market uncertainty caused by COVID-19. In addition, Q2 2020 new equipment revenue was lower as a result of the timing of power system project deliveries, including both the delay of projects under construction in the quarter, and project backlog that is weighted to the second half of 2020. Equipment backlog at June 30, 2020 was comparable to March 31, 2020 and up from December 31, 2019, driven primarily by order intake in the power systems sector outpacing deliveries. Order intake increased in power systems with strong demand from data centre customers and secured business with new strategic accounts.

Q2 2020 gross profit declined from the prior year period driven by lower sales volumes. Overall gross profit as a percentage of net revenue was down slightly from the comparable period in the prior year. Lower margins due to challenging market conditions were partially offset by the revenue mix shift to higher product support revenue.

Net revenue by Line of Business UK & Ireland Operations

3 months ended June 30
(\$ millions)



SG&A was down 24% in Q2 2020 compared to the prior year period reflecting cost reduction measures, lower variable costs, and government support for furloughed employees. In response to COVID-19 and to encourage companies to retain employees, the UK government introduced the Coronavirus Job Retention Scheme to pay approximately 80% of salaries for employees who are furloughed (on paid leave). During Q2 2020, nearly half of the employees in the Company's UK operations were on furlough. The Company was therefore eligible to receive this support which amounted to \$7 million (£4 million) and was recorded in SG&A to offset a portion of the salaries of furloughed employees. As required by the program, Finning did not derive any benefit from employees while they were on furlough. SG&A as a percentage of net revenue was higher in Q2 2020 compared to Q2 2019 primarily due to the fixed nature of much of the Company's SG&A costs on a lower revenue base.

As described on page 5, in Q2 2020, the Company's UK & Ireland operations incurred severance costs of \$4 million which were recorded in other expenses. Excluding these severance costs, in Q2 2020 the Company's UK & Ireland operations contributed Adjusted EBITDA of \$8 million and Adjusted EBITDA as a percentage of net revenue of 4.9%, lower than Q2 2019 EBITDA of \$23 million and EBITDA as a percentage of net revenue of 7.7%. Adjusted EBITDA as a percentage of net revenue was lower in Q2 2020 compared to the prior year period due to higher SG&A relative to net revenue.

Discussion of the Company's UK & Ireland operation's year-to-date results is included in the Year-to-Date Results section of this MD&A on pages 10 - 13.

Other Segment

The Company's Other segment includes corporate operating costs.

Q2 2020 EBITDA of this segment was a loss of \$8 million, lower than the loss of \$10 million in Q2 2019. Support from CEWS was mostly offset by higher long-term incentive plan and severance costs in Q2 2020. In the six months ended June 30, 2020 EBITDA was a loss of \$12 million, down from a loss of \$17 million in the same prior year period, which included \$4 million of acquisition costs related to the purchase of 4Refuel.

Outlook

Canada Operations

In the oil sands, a decrease in oil production and non-production mining activities has resulted in lower fleet utilization and deferral of major rebuilds and non-essential maintenance during Q2 2020 as customers reduced capital spending and implemented cost containment measures. With the recovery in oil prices from March lows, most oil sands producers have put their truck fleets back to work, and are expected to be operating at pre-COVID-19 levels by the end of August. However, the Company expects oil sands contractors to take longer to return to pre-COVID-19 activity levels. Longer term, the aging equipment population is expected to continue to support demand for parts and service, including component rebuilds. The demand for new equipment, however, is expected to remain low until oil price fundamentals improve and the COVID-19 recovery takes hold.

Other mining operations in Western Canada are returning to full capacity as COVID-19 related restrictions are lifted. While the outlook for copper and precious and other metals has improved, coal prices are expected to remain low. Mining customers continue to focus on reducing operating costs and capital spending remains restricted. The Company expects product support activity to slowly return to normal levels as production output recovers from April lows.

The Company is seeing higher quoting activity to forestry customers, driven by the recent increase in lumber prices and higher forestry activity levels.

In construction, the Company is seeing recovery in machine utilization hours and rental utilization as restrictions began to ease in early May. These trends are supportive of the upward trajectory in parts sales in June and the Company's expectation for an improvement in product support activity throughout the second half of the year. Large infrastructure projects in Alberta and British Columbia, including pipelines, are expected to proceed as planned, and additional infrastructure investment has been announced by the Alberta government to re-start the economy. The Company is well positioned to capture equipment and product support opportunities for these projects. However, order intake for large construction equipment remains at low levels, and the pricing environment is expected to be highly competitive in the near term reflecting a surplus of competitive equipment inventories in Western Canada.

In power systems, the Company expects continued strong demand for prime and standby electric power generation for large infrastructure projects.

South America Operations

In Chile, copper mining activity is expected to remain stable, however, the increase in COVID-19 infections in northern Chile in the latter part of Q2 2020 has led to further reductions in on-site workforce and restrictions to contractor access. As a result, some mining customers in Chile have slowed down operations and temporarily parked some of their truck fleets. However, the vast majority of equipment in Chilean copper mining operations is expected to continue being utilized. Strengthening copper prices are expected to lead to strengthening mining activity. Assuming no further business interruptions from COVID-19, the Company expects an improvement in product support activity as customers catch up on maintenance throughout the back half of the year. Longer term, sustained copper production and resumption of suspended mining construction projects are expected to bode well for product support and new equipment demand in Chile.

Activity in construction and power systems markets in Chile is expected to remain soft, impacted by measures to reduce the spread of COVID-19, as well as the overall economic uncertainty related to social unrest and devaluation of the **CLP**. The Company is well positioned to continue serving customers in construction and power systems markets during the COVID-19 outbreak and to grow product support in these sectors when customers return to normal operations.

The Company expects political and economic uncertainty, combined with COVID-19 disruptions, to continue to impact customer confidence and lead to slower economic growth in Chile in the near term. While there has been less evidence of social unrest in Chile in recent months, likely due to the pandemic and as a result of quarantine measures, the social unrest in that country continues to pose a risk. The potential impact of the government's social reform agenda on the Chilean economy and on the cost structure of the Company cannot reasonably be estimated at this time.

In Argentina, market activity is expected to remain at low levels due to a challenging economic environment amidst government efforts to restructure the country's debt and a gradual re-opening following COVID-19 lockdowns. The Company expects most construction customers to operate at about 30% capacity for the near future, and remains focused on delivering product support, while managing its **ARS** currency exposure. The government's restrictive monetary policies combined with capital and import controls are expected to limit the Company's growth opportunities in Argentina for the foreseeable future.

In Bolivia, customers are restarting operations at a very slow pace since the mandatory quarantine imposed by the government began to be lifted in stages starting in early May.

UK & Ireland Operations

Economic activity in the UK & Ireland has been significantly impacted by COVID-19 mitigation measures and has resulted in declining **GDP** and high unemployment rates. Easing of lockdown measures beginning in May has significantly improved business activity levels compared to the levels in April 2020, including increased machine utilization hours and improved product support sales run-rates. Product support sales in July were approaching pre-COVID-19 levels. As a result of lower customer activity due to COVID-19, approximately 35% of employees in the UK & Ireland remain on furlough as at the date of this MD&A. The Company expects to reduce furlough as restrictions are relaxed and customer activity continues to ramp up.

The UK government's formal approval for construction work on the **HS2** project to proceed is expected to drive improved activity in the general construction equipment markets. This multi-year mega-project is expected to require approximately 1,100 units of heavy equipment representing a total direct sales opportunity of approximately £390 million. Leveraging its technology solutions, the Company is well positioned to capture new equipment and product support opportunities related to earthmoving work for HS2, which is expected to begin in late 2020.

In power systems, the Company expects to benefit from continued strong demand in the electric power capacity, combined heat & power, and data centre markets. All projects under construction that had been paused or delayed in Q2 2020 have resumed, and a backlog of high-quality power systems projects is scheduled to be delivered in the second half of 2020.

Brexit, which is scheduled for December 31, 2020, continues to provide a degree of risk and uncertainty for economic activity and supply chain logistics in the UK & Ireland.

Cost Containment

The Company expects that the COVID-19 pandemic and related government, customer, and supplier actions will continue to negatively impact its 2020 financial results. To mitigate these impacts, the Company has taken swift measures to manage its costs in line with expected changes in business activity levels in each region. These measures include **Board** and employee pay reductions, reduced work schedules and furloughs, and workforce reductions in all regions.

The Company has accelerated its strategic plans to drive employee and facility productivity gains in each region, while maximizing flexibility and competitiveness to serve customers. The Company's operations in South America are now successfully leveraging one common ERP system and generating operating efficiencies. This has allowed the restructuring of the operations as well as the consolidation and rationalization of the branch network. In Canada, restructuring plans were accelerated to further leverage back office functions, streamline the reporting structure, and relocate service work to lower cost operations. The Company is also re-shaping the existing branch structure to a hub and spoke operating model designed to improve customer turnaround, customer experience, labour productivity and facility utilization, as well as reduce the Company's environmental footprint. This strategy modernizes the Company's service offering resulting in consolidation or relocation of facilities, or exit of certain facilities where leases are maturing. As a result of these restructuring initiatives, the Company's global workforce is expected to be down by 8% by the end of 2020 compared to 2019. The restructuring initiatives currently underway are expected to result in over \$100 million of annualized cost savings. Approximately one-third of these costs will likely return when market activity fully recovers, however will be incurred in locations with lower operating costs. We expect that the \$51 million of severance and facility restructuring costs incurred in Q2 2020 will have a payback period of less than one year.

In order to preserve jobs and retain technical talent, the Company has been working with its union partners and utilizing the government programs that are available and applicable to its operations in all regions. Refer to page 2 of this MD&A for more information on the Company's use of government subsidies and related benefits. Going forward, the use of government subsidy programs will be determined based on qualifying criteria and the trajectory of business recovery in each region.

Free Cash Flow and Capital Allocation

The Company remains focused on maximizing EBITDA to free cash flow conversion to generate strong annual free cash flow in 2020 and maintain a healthy balance sheet. The Company continues to tightly manage its working capital and has made significant progress in monetizing surplus inventory, particularly in South America. In order to preserve capital through this challenging and uncertain period, the Company expects to reduce its investments in 2020 by minimizing capital expenditures to mission-critical maintenance and information technology systems, as well as selected rental fleet additions. The Company's 2020 net capital expenditures and net rental fleet additions are expected to be in the range of \$90 million to \$140 million.

The Company expects to maintain a strong balance sheet with sufficient liquidity and access to capital. As at June 30, 2020, the Company had \$338 million of cash and cash equivalents on hand and less than \$160 million drawn on its \$1.8 billion global credit facility. The Company expects to continue to have significant headroom in its net debt to total capital covenant under its committed revolving credit facility. While the Company's liquidity capacity provides flexibility for a wide range of stress and opportunity scenarios, the near-term capital allocation priorities remain debt repayment and meeting its continued dividend commitment.

Liquidity and Capital Resources

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

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

(\$ millions)	3 months ended			6 months ended		
	June 30			June 30		
	2020	2019	Increase (Decrease)	2020	2019	Increase (Decrease)
Operating activities	\$ 319	\$ (127)	\$ 446	\$ 305	\$ (451)	\$ 756
Investing activities	\$ (7)	\$ (35)	\$ 28	\$ (43)	\$ (287)	\$ 244
Financing activities	\$ (211)	\$ 39	\$ (250)	\$ (212)	\$ 457	\$ (669)
Free Cash Flow	\$ 312	\$ (162)	\$ 474	\$ 262	\$ (509)	\$ 771

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

	Quarter over Quarter	Year-to-date over Year-to-date
Operating activities	<ul style="list-style-type: none"> • lower inventory spend, mainly equipment, in all of the Company's operations, primarily in the Company's Canadian and South American operations, as a result of strong inventory management • the receipt of approximately \$35 million in government wage subsidies in Canada and the UK & Ireland • lower tax payments due to payment deferrals allowed by global governments in response to COVID-19 • partially offset by lower collections due to reduced sales volumes in the Company's UK & Ireland and Canadian operations 	<ul style="list-style-type: none"> • lower inventory spend, primarily equipment and parts, across all of the Company's operations mainly driven by the strong inventory management • the receipt of approximately \$35 million in government wage subsidies in Canada and the UK & Ireland • lower tax payments due to payment deferrals allowed by global governments in response to COVID-19 • partially offset by lower collections due to reduced sales volumes in the Company's Canadian and UK & Ireland operations
Investing activities	<ul style="list-style-type: none"> • lower net spend on capital expenditures due to the Company's focus on cost management and prioritization of projects 	<ul style="list-style-type: none"> • \$229 million net cash consideration paid to acquire 4Refuel in 2019
Financing activities	<ul style="list-style-type: none"> • approximately \$155 million repayment of short-term debt in Q2 2020 with available funds compared to approximately \$95 million increase in borrowings in 2019 	<ul style="list-style-type: none"> • approximately \$80 million reduction in short-term debt in 2020 compared with \$600 million increase in borrowings in 2019
Free Cash Flow	<ul style="list-style-type: none"> • higher cash generated from operating activities for the reasons outlined above 	<ul style="list-style-type: none"> • higher cash generated from operating activities for the reasons outlined above

Capital resources and management

The Company's cash and cash equivalents balance at June 30, 2020 was \$338 million (December 31, 2019: \$268 million). At June 30, 2020, to complement internally generated funds from operating and investing activities, the Company had approximately \$2.6 billion in unsecured committed and uncommitted credit facilities. Included in this amount is a committed revolving credit facility totaling \$1.8 billion with various Canadian and global financial institutions, of which approximately \$1.6 billion was available at June 30, 2020. The Company is subject to certain covenants within its committed revolving credit facility. As at June 30, 2020, the Company was in compliance with these covenants.

Management is closely evaluating the impact of COVID-19 on the Company's business and is adapting and adjusting daily to changes. The Company continuously monitors actual and forecasted cash flows, manages the maturity profiles of its financial liabilities and maintains committed and uncommitted credit facilities. Management believes that based on cash on hand, available credit facilities and the discretionary nature of certain cash flows, such as rental and capital expenditures, the Company has sufficient liquidity to meet operational needs.

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

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

	Long-term debt		Short-term debt	
	Jun 30, 2020	Dec 31, 2019	Jun 30, 2020	Dec 31, 2019
DBRS	BBB (high)	BBB (high)	R-2 (high)	R-2 (high)
S&P	BBB+	BBB+	<i>n/a</i>	<i>n/a</i>

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

During the first three months of 2020, the Company repurchased 1,215,617 common shares for \$23 million (at costs ranging from \$12.14 to \$22.20 per share and an average cost of \$19.25 per share) through an **NCIB** ⁽²⁾. No common shares were repurchased in Q2 2020. During the first three months of 2019, the Company repurchased 1,073,354 common shares for cancellation for \$27 million (at costs ranging from \$23.15 to \$26.36 per share and an average cost of \$24.75 per share). No common shares were repurchased in Q2 2019.

Net Debt to Adjusted EBITDA

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

June 30	Company long-term target	2020	2019
Net debt to Adjusted EBITDA Ratio	< 3.0	2.1	2.8

(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) The Company renewed its NCIB for a further year effective May 11, 2020. A copy of the NCIB notice is available on request from the Company. Direct your request to the Corporate Secretary, 300 – 565 Great Northern Way, Vancouver, BC V5T 0H8.

Accounting Policies and Pronouncements

Management's discussion and analysis of the Company's financial condition and results of operations is based on the Company's Interim Financial Statements. The Company's significant accounting policies, areas of estimation uncertainty, and significant judgments are contained in the notes to the **Annual Financial Statements** for the year ended December 31, 2019. Certain policies require management to make judgments, estimates and assumptions in respect of the application of accounting policies and the reported amounts of assets, liabilities, revenues, expenses, and disclosure of contingent assets and liabilities. These policies may require particularly subjective and complex judgments to be made as they relate to matters that are inherently uncertain and because there is a likelihood that materially different amounts could be reported under different conditions or using different assumptions. The following summarizes the changes in the areas of estimation uncertainty and significant judgments facing the Company as a result of changing economic conditions, including the impact of COVID-19.

Allowance for Doubtful Accounts

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

Expected credit losses related to the current economic environment have been incorporated in management's estimate of its allowance for doubtful accounts at June 30, 2020. No assurance can be given that this provision will be sufficient or that the Company will not suffer material credit losses that will adversely affect its results. This remains an area that the Company will continue to monitor closely.

Refer to the Risk Factors and Management section later in this MD&A for further discussion of the Company's exposure to credit risk.

Inventory

The Company records a provision to reflect slow-moving and obsolete inventory, which is estimated based on age, redundancy, and stock levels. For equipment inventory, estimates are determined on a specific item basis. The extent of the overall impact of the COVID-19 pandemic on the Company's inventory is unknown at this time and will depend on market activity, customer activity, and the expected outlook for the remainder of the year. The Company has reviewed its inventory provision and concluded that the inventory provision at June 30, 2020 adequately reflects the current economic conditions. This remains an area that the Company will continue to monitor closely.

Goodwill and intangible assets with indefinite lives

The Company performs impairment tests on its goodwill and intangible assets with indefinite lives at the appropriate level (**CGU** or group of CGUs) at least annually or more frequently when events or changes in circumstances, which may include the declaration of the COVID-19 pandemic, indicate that the carrying amount of these assets may not be fully recoverable. Management conducted its annual impairment test in Q2 2020 and estimated the recoverable amount of all CGUs and groups of CGUs based on a value-in-use calculation. Key assumptions included future cash flow and growth projections covering a three-year period, with consideration of additional risk for any uncertainty in the cash flow projections driven by the impact of the COVID-19 pandemic and volatility in commodity prices. These cash flow projections were discounted using after-tax weighted-average cost of capital rates. Cash flows subsequent to the three-year projection period were extrapolated using growth rates based on estimated long-term nominal gross domestic product in the markets in which the Company operates. In addition to the impairment tests performed for goodwill and distribution network, recent economic uncertainty and financial performance triggered an impairment review of the Company's Argentina CGU. At June 30, 2020, management concluded that no impairment losses were required. This remains an area that the Company will continue to monitor closely.

Property, plant, and equipment and rental equipment

Property, plant, and equipment and rental equipment are reviewed for indicators of impairment at the end of each reporting period or whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. The Company's review of its facilities network and long-term strategy prompted a review of its property, plant, and equipment and rental equipment. Impairment losses of \$7 million related to the Company's property, plant, and equipment were recorded in the three months ended June 30, 2020. No impairment losses were recorded on rental equipment. This remains an area that the Company will continue to monitor closely.

Amendments to Accounting Standards

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

- Amendments to IFRS 3, *Business Combinations* assist in determining whether a transaction should be accounted for as a business combination or an asset acquisition. The definition of a business has been amended to include an input and a substantive process that together significantly contribute to the ability to create goods and services provided to customers, generating investment and other income, and to exclude returns in the form of lower costs and other economic benefits. These amendments did not impact the Company's consolidated financial statements.
- Amendments to IFRS 9, *Financial Instruments* and IFRS 7, *Financial Instruments: Disclosures* affect entities that apply the hedge accounting requirements to hedging relationships directly affected by the interest rate benchmark reform. The amendments modify specific hedge accounting requirements, so that entities apply those hedge accounting requirements assuming that the interest rate benchmark is not altered as a result of the interest rate benchmark reform. If a hedging relationship no longer meets the requirements for hedge accounting for reasons other than those specified by the amended standards, then discontinuation of hedge accounting is still required. The Company did not have any hedging relationships directly affected by the interest rate benchmark reform and as a result, these amendments did not impact the Company's consolidated financial statements or disclosures.
- Amendments to IAS 1, *Presentation of Financial Statements* and IAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors* were made to refine the definition of material in IAS 1 and align the definitions used across IFRS Standards and other publications. The concept of 'obscuring' material information with immaterial information has been included as part of the new definition and the threshold for materiality influencing users has been changed from 'could influence' to 'could reasonably be expected to influence'. These amendments did not impact the Company's consolidated financial statements or disclosures.
- Amendment to IFRS 16, *Leases* (effective for annual reporting periods beginning on or after June 1, 2020) allows lessees not to account for rent concessions as lease modifications if they arise as a direct consequence of COVID-19. The Company has elected to early adopt this amendment with retrospective application to April 1, 2020. Upon applying this amendment and in the three-month period ended June 30, 2020, eligible rent concessions in the Company's UK & Ireland operations were not accounted for as rent modifications and as a result, there was no impact to the Company's financial results.

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 direct costs. 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 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 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.

Risk Factors and Management

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

The Company maintains a strong risk management culture to protect and enhance shareholder value. On a quarterly basis, Board level committees review the Company's processes for business risk assessment and the management of key business risks, any changes to key risks and exposures, and the steps taken to monitor and control such exposures. These reviews are reported to the Board quarterly. The Board reviews, in detail, all material risks on an annual basis. The Board also reviews the adequacy of disclosures of key risks in the Company's AIF, MD&A, and financial statements on a quarterly and annual basis. All key financial risks are disclosed in the MD&A and other key business risks are disclosed in the Company's AIF. Key risks arising after the date of the Company's AIF are included in the relevant quarterly MD&A. Key risks impacting the Company in Q2 2020 are described below.

Pandemic Outbreak and Impact on Operations

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

The outbreak of COVID-19 has caused considerable disruption to the world economy, including financial markets and commodity prices. In periods of significantly lower commodity prices, development of new projects can be slowed or stopped and production from existing projects can be curtailed, leading to less demand for equipment or services supplied by the Company. To date, some of the Company's customers have requested to delay equipment deliveries as a result of their halted operations, parked equipment fleets, or delayed projects, and the Company has also received some equipment order cancellations.

All of the Company's operations have been deemed essential services and are currently open. During the six months ended June 30, 2020, a few branches in South America were closed in compliance with local quarantine restrictions but have since re-opened. A localized outbreak of a contagious illness such as COVID-19 could impact operations, risk the health of our employees who continue to work in branches or on customer sites, and result in the temporary closure of one or more of the Company's major facilities. The Company is following the requirements and advice of government and health authorities in each jurisdiction where it operates. All non-critical travel has been eliminated. The Company has applied a risk-based approach to assessing each facility in its global operations. A series of preventative measures have been developed and executed at each facility that at minimum include communication on the COVID-19 response protocol, awareness training, personal and facility specific hygiene practices, physical distancing, and work-from-home arrangements where possible. Further, in South America, given rising infection rates in the second quarter, the Company has taken additional measures to identify and protect high risk individuals, and implement low density transportation, employee testing, contact tracing, and preventative quarantine measures. As certain regions in the Company's operating areas begin to re-open, Finning has outlined a specific set of risk mitigation requirements that must be in place before any employees who are working from home return to office. Rules in all jurisdictions are changing rapidly and further government intervention or quarantine restrictions could impede the Company's ability to continue to manage the business. Similarly, significant curtailment or shutdown of customers' operations could negatively impact the Company's business and financial results.

The Company's financial results for 2020 could be negatively impacted by the actions taken by governments, customers, and/or suppliers, including business disruptions, force majeure, and/or supply chain constraints in response to the pandemic, and there is uncertainty over the severity and duration of any resulting adverse impact on our business, results of operations and financial condition. Actions or failures to act could impede the Company's ability to successfully recover within a reasonable timeframe. Management will continue to evaluate and adapt its business plans as the situation evolves. This includes working with the Board and salaried and hourly employees as well as union partners, and managing costs in line with expected changes in business activity levels in each region. To date, the Company has implemented Board and employee pay reductions, reduced work schedules and furloughs, as well as workforce reductions in all regions. Where the eligibility criteria has been met, the Company has applied for and obtained available government support. The Company will continue evaluating government programs and subsidies in all jurisdictions where we carry on business. The goal is to maximize flexibility and preserve critical talent and capabilities through this disruptive period.

Relationship with Caterpillar – Product and Supply

The majority of Finning's business involves the distribution and servicing of Caterpillar products. Finning is dependent on Caterpillar for the timely supply of parts and equipment to fulfill its deliveries to customers and meet the requirements of Finning's service maintenance contracts. In instances where Caterpillar reduces its production capacity or during periods of intense demand, Caterpillar may find it necessary to allocate its supply of particular products among its dealers. Such allocations of supply have not, in the past, proven to be a significant impediment to Finning in conducting its business. The impact of COVID-19 on the future supply of products is unknown and there can be no assurance that Caterpillar will continue to be able to supply its products in the quantities and timeframes required by Finning's customers. Caterpillar reported that as of mid-July 2020, nearly all of its primary production facilities continued to operate. When supply constraints have occurred in the past, Finning has been successful in utilizing its rental assets, used equipment, and other sources (such as the dealer network) to meet demand, but there can be no assurance of continued success in this area. A significant disruption to the Company's global supply chain could adversely affect the Company's business, results of operations, and financial condition.

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

Cybersecurity

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

Finning's risk of experiencing a cybersecurity incident has increased due to the increase in users working remotely as a result of COVID-19. There is heightened risk that cyber criminals increase social engineering, phishing or ransomware events that may be introduced via emails or websites. To mitigate the heightened risk of cybersecurity incidents, our security monitoring and detection services were expanded and the ability to handle load on the current systems increased. The Company increased the monitoring of network activity and implemented mandatory security awareness training for users. Also, new tools and technologies to assist in the increased system load have been introduced, external based threats are monitored, critical work-from-home technologies have been reviewed to ensure enforcement of multi-factor authentication, and additional licenses for home technologies have been purchased to increase the number of remote users.

Cybersecurity and the continued development and enhancement of controls, processes and practices designed to protect systems, computers, software, data and networks from attack, damage or unauthorized access remain a priority. Although Finning makes significant efforts to maintain the security and integrity of its information technology systems, there can be no assurance that those efforts and measures will be able to prevent all cybersecurity incidents. Finning carries cyber insurance coverage as part of a stand-alone cyber insurance policy, however, there is no assurance that this coverage will apply or fully cover damages incurred in the event of a cyber incident. The occurrence of a significant loss or claim, or a greater number of these losses than anticipated, could have a material adverse impact on Finning. Our risk and exposure to these matters cannot be fully mitigated because of, among other things, the evolving nature of these threats.

Commodity Prices

The Company provides equipment and parts and service to customers in resource and construction industries. In the resource sector, fluctuations in commodity prices and changes in long-term outlook for commodities impact customer decisions regarding capital expenditures and production levels, which determine demand for equipment, parts and service. In the construction sector, publicly funded infrastructure spending is indirectly impacted by fluctuations in commodity prices (such as the prices of copper, gold, and other metals; metallurgical coal; natural gas, oil, and lumber), particularly in regions with resource-based economies. In Canada, the Company's customers, mostly in the oil sands in Northern Alberta, are exposed to the price of oil. In South America, the Company's customers are primarily exposed to the price of copper and, to a much lesser extent, the prices of gold, other metals, and natural gas. In the UK & Ireland, the Company's resource sector customers operate in off-shore oil & gas. Significant fluctuations in these commodity prices could have a material impact on the Company's financial results.

Financial Instruments Risk

The Company is exposed to risks through its operations that arise from its use of financial instruments, which include credit risk and liquidity risk. Under the normal course of operations, the Company has mitigation strategies to minimize these risks for its financial instruments. In the current economic climate, the Company has heightened exposure to these risks.

Credit Risk

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

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

Liquidity Risk

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

The Company will require capital to finance its future growth and to refinance its outstanding debt obligations as they come due for repayment. If the cash generated from the Company's operations is not sufficient to fund future capital and debt repayment requirements, the Company will require additional debt or equity financing in the capital markets. The Company's ability to access capital markets on terms that are acceptable will be dependent upon prevailing market conditions, as well as the Company's financial condition. Further, the Company's ability to increase the level of debt financing may be limited by its financial covenants or its credit rating objectives. The actual and threatened spread of COVID-19 globally could adversely impact the Company's ability to carry out its plans and raise capital. The ability to raise additional financing for future activities may be impaired, or such financing may not be available on favourable terms, due to conditions beyond the control of the Company, such as uncertainty in the capital markets, depressed commodity prices or country risk factors.

Foreign Exchange Risk

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

Exchange rate	June 30			December 31		3 months ended June 30 – average			6 months ended June 30 – average		
	2020	2019	Change	2019	Change	2020	2019	Change	2020	2019	Change
	USD/CAD	1.3628	1.3087	(4)%	1.2988	(5)%	1.3853	1.3377	(4)%	1.3651	1.3336
GBP/CAD	1.6832	1.6624	(1)%	1.7174	2 %	1.7200	1.7197	—	1.7192	1.7256	—
USD/CLP	816.36	679.86	(20)%	744.62	(10)%	822.46	683.44	(20)%	812.71	675.34	(20)%
USD/ARS	70.46	42.46	(66)%	59.89	(18)%	67.62	43.90	(54)%	64.49	41.31	(56)%

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 Finning's results.

Controls and Procedures Certification

Disclosure Controls and Procedures

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

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

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

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

Internal Control over Financial Reporting

Management is responsible for establishing and maintaining adequate internal control over financial reporting. Management has designed internal control over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements in accordance with IFRS. In March 2020, the Company employed remote work arrangements for the majority of its finance workforce. Although this continued through the financial close period, there has been no change in the design of the Company's internal control over financial reporting during the quarters ended March 31, 2020 and June 30, 2020, that would materially affect, or is reasonably likely to materially affect, the Company's internal control over financial reporting. Management has 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 the Company's internal audit function and quarterly reporting to the Audit Committee assist in providing reasonable assurance that the objectives of the control system are met. While the officers of the Company have designed the Company's disclosure controls and procedures and internal control over financial reporting to provide reasonable assurance that the objectives of the control systems are met, they are aware that these controls and procedures may not prevent all errors and fraud. A control system, no matter how well conceived or operated, can only provide reasonable, not absolute, assurance that the objectives of the control system are met.

Outstanding Share Data

As at July 30, 2020

Common shares outstanding	162,103,503
Options outstanding	3,775,257

Description of Non-GAAP Financial Measures and Reconciliations

Non-GAAP Financial Measures

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

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

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

A description of the non-GAAP financial measures used by the Company in this MD&A is set out below. A quantitative reconciliation from each non-GAAP financial measure to their most directly comparable measure, where available, specified, defined, or determined under GAAP and used in the Company's consolidated financial statements (GAAP measures) can be found on pages 34 - 41 of this MD&A.

Adjusted net income and Adjusted basic EPS

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

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

A reconciliation between net income and basic EPS (the most directly comparable GAAP measure) and Adjusted net income and Adjusted basic EPS can be found on pages 5 and 11 of this MD&A.

EBITDA, Adjusted EBITDA, and Adjusted EBIT

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

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

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

The most directly comparable GAAP measure to EBITDA is EBIT.

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

3 months ended (\$ millions)	2020		2019				2018 ⁽¹⁾		
	Jun 30	Mar 31	Dec 31	Sep 30	Jun 30	Mar 31	Dec 31	Sep 30	Jun 30
EBIT	52	94	97	129	137	62	91	93	126
Depreciation and amortization	78	76	73	72	76	72	49	49	45
EBITDA	130	170	170	201	213	134	140	142	171
EBITDA – last 12 months	671	754	718	688	629	587	610	624	628
EBIT	52	94	97	129	137	62	91	93	126
Significant items:									
CEWS support	(64)	—	—	—	—	—	—	—	—
Severance costs	42	—	—	2	—	18	—	—	—
Facility closures, restructuring costs, and impairment losses	9	—	—	1	—	7	—	—	—
Acquisition costs related to 4Refuel	—	—	—	—	—	4	—	—	—
Write-off and loss related to Energyst	—	—	—	—	—	—	—	30	—
Adjusted EBIT	39	94	97	132	137	91	91	123	126
Depreciation and amortization	78	76	73	72	76	72	49	49	45
Adjusted EBITDA	117	170	170	204	213	163	140	172	171
Adjusted EBIT – last 12 months	362	460	457	451	442	431	446	465	442
Adjusted EBITDA – last 12 months	661	757	750	720	688	646	633	648	622

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

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

3 months ended (\$ millions)	2020		2019				2018 ⁽¹⁾		
	Jun 30	Mar 31	Dec 31	Sep 30	Jun 30	Mar 31	Dec 31	Sep 30	Jun 30
EBIT	63	60	72	82	92	50	71	78	77
Significant items:									
CEWS support	(60)	—	—	—	—	—	—	—	—
Severance costs	20	—	—	—	—	10	—	—	—
Facility closures, restructuring costs, and impairment losses	5	—	—	—	—	7	—	—	—
Adjusted EBIT	28	60	72	82	92	67	71	78	77
Depreciation and amortization	47	43	42	43	46	43	26	26	22
Adjusted EBITDA	75	103	114	125	138	110	97	104	99
Adjusted EBIT – last 12 months	242	306	313	312	308	293	290	285	264

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

3 months ended (\$ millions)	2020		2019				2018 ⁽¹⁾		
	Jun 30	Mar 31	Dec 31	Sep 30	Jun 30	Mar 31	Dec 31	Sep 30	Jun 30
EBIT	2	38	31	42	41	6	12	37	47
Significant items:									
Severance costs	17	—	—	2	—	8	—	—	—
Facility closures, restructuring costs, and impairment losses	4	—	—	1	—	—	—	—	—
Adjusted EBIT	23	38	31	45	41	14	12	37	47
Depreciation and amortization	22	22	20	20	21	20	17	15	15
Adjusted EBITDA	45	60	51	65	62	34	29	52	62
Adjusted EBIT – last 12 months	137	155	131	112	104	110	142	182	193

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

3 months ended (\$ millions)	2020		2019				2018 ⁽¹⁾		
	Jun 30	Mar 31	Dec 31	Sep 30	Jun 30	Mar 31	Dec 31	Sep 30	Jun 30
EBIT	(5)	1	5	14	14	13	12	15	14
Significant items:									
Severance costs	4	—	—	—	—	—	—	—	—
Adjusted EBIT	(1)	1	5	14	14	13	12	15	14
Depreciation and amortization	9	10	10	8	9	9	6	8	7
Adjusted EBITDA	8	11	15	22	23	22	18	23	21
Adjusted EBIT – last 12 months	19	34	46	53	54	54	51	47	41

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

Equipment Backlog and Order Intake

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

Free Cash Flow

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

3 months ended (\$ millions)	2020			2019			2018 ⁽¹⁾		
	Jun 30	Mar 31	Dec 31	Sep 30	Jun 30	Mar 31	Dec 31	Sep 30	Jun 30
Cash flow provided by (used in) operating activities	319	(14)	438	204	(127)	(324)	490	(6)	18
Additions to property, plant, and equipment and intangible assets	(17)	(38)	(54)	(40)	(37)	(23)	(77)	(46)	(46)
Proceeds on disposal of property, plant, and equipment	10	2	2	1	2	—	5	3	—
Free Cash Flow	312	(50)	386	165	(162)	(347)	418	(49)	(28)

Inventory Turns (Dealership)

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

(\$ millions, except as noted)	2020			2019			2018 ⁽¹⁾		
	Jun 30	Mar 31	Dec 31	Sep 30	Jun 30	Mar 31	Dec 31	Sep 30	Jun 30
Cost of sales (3 months ended)	1,075	1,140	1,483	1,500	1,655	1,380	1,429	1,306	1,263
Cost of sales related to mobile refueling operations (3 months ended)	(95)	(133)	(168)	(156)	(156)	(99)	—	—	—
Cost of sales related to the dealership (3 months ended)	980	1,007	1,315	1,344	1,499	1,281	1,429	1,306	1,263
Inventory	1,893	2,152	1,990	2,215	2,366	2,356	2,061	2,017	1,968
Fuel inventory	(2)	(3)	(3)	(3)	(3)	(3)	—	—	—
Inventory related to the dealership	1,891	2,149	1,987	2,212	2,363	2,353	2,061	2,017	1,968
Cost of sales related to the dealership – annualized	3,973	4,644	5,317	5,686	5,559	5,420	5,470	5,139	4,987
Inventory related to the dealership – 2 quarter average	2,020	2,068	2,099	2,287	2,359	2,208	2,039	1,992	1,937
Inventory turns (dealership) (number of times)	1.97	2.25	2.53	2.49	2.36	2.46	2.68	2.58	2.57

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

Invested Capital

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

(\$ millions, except as noted)	2020		2019				2018 ⁽¹⁾		
	Jun 30	Mar 31	Dec 31	Sep 30	Jun 30	Mar 31	Dec 31	Sep 30	Jun 30
Cash and cash equivalents	(338)	(260)	(268)	(252)	(160)	(290)	(454)	(221)	(300)
Short-term debt	158	329	226	532	751	658	154	223	213
Current portion of long-term debt	200	200	200	200	—	—	—	—	—
Long-term debt	1,348	1,381	1,318	1,325	1,321	1,341	1,354	1,315	1,330
Net debt	1,368	1,650	1,476	1,805	1,912	1,709	1,054	1,317	1,243
Shareholders' equity	2,127	2,233	2,115	2,102	2,052	2,044	2,109	2,114	2,119
Invested capital	3,495	3,883	3,591	3,907	3,964	3,753	3,163	3,431	3,362

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

Invested Capital Turnover

Invested capital turnover is used by management as a measure of efficiency in the use of the Company's invested capital and is calculated as net revenue (defined and calculated on page 39) for the last twelve months divided by invested capital (defined and calculated on page 37) based on an average of the last four quarters, as follows:

(\$ millions, except as noted)	2020		2019				2018 ⁽¹⁾		
	Jun 30	Mar 31	Dec 31	Sep 30	Jun 30	Mar 31	Dec 31	Sep 30	Jun 30
Consolidated									
Net revenue – last 12 months	6,350	7,010	7,290	7,375	7,311	7,045	6,996	6,887	6,670
Invested capital – 4 quarter average	3,719	3,836	3,804	3,697	3,578	3,427	3,295	3,212	3,128
Invested capital turnover (number of times)	1.71	1.83	1.92	1.99	2.04	2.06	2.12	2.14	2.13
Canada									
Net revenue – last 12 months	3,406	3,775	3,927	3,964	3,896	3,729	3,674	3,525	3,351
Invested capital – 4 quarter average	2,091	2,153	2,167	2,079	1,999	1,888	1,795	1,782	1,746
Invested capital turnover (number of times)	1.63	1.75	1.81	1.91	1.95	1.98	2.05	1.98	1.92
South America									
Net revenue – last 12 months	2,042	2,199	2,226	2,217	2,198	2,123	2,170	2,250	2,241
Invested capital – 4 quarter average	1,226	1,271	1,250	1,249	1,223	1,195	1,169	1,117	1,091
Invested capital turnover (number of times)	1.67	1.73	1.78	1.77	1.80	1.78	1.86	2.01	2.05
UK & Ireland									
Net revenue – last 12 months	902	1,036	1,137	1,194	1,217	1,193	1,152	1,112	1,078
Invested capital – 4 quarter average	389	399	382	376	373	368	358	337	314
Invested capital turnover (number of times)	2.32	2.60	2.98	3.18	3.27	3.25	3.22	3.30	3.44

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

(\$ millions, except as noted)	2020		2019				2018 ⁽¹⁾		
	Jun 30	Mar 31	Dec 31	Sep 30	Jun 30	Mar 31	Dec 31	Sep 30	Jun 30
Net debt	1,368	1,650	1,476	1,805	1,912	1,709	1,054	1,317	1,243
EBITDA – last 12 months	671	754	718	688	629	587	610	624	628
Adjusted EBITDA – last 12 months	661	757	750	720	688	646	633	648	622
Net Debt to EBITDA Ratio	2.0	2.2	2.1	2.6	3.0	2.9	1.7	2.1	2.0
Net Debt to Adjusted EBITDA Ratio	2.1	2.2	2.0	2.5	2.8	2.6	1.7	2.0	2.0

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

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

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

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

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

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

3 months ended (\$ millions, except as noted)	2020		2019				2018 ⁽¹⁾		
	Jun 30	Mar 31	Dec 31	Sep 30	Jun 30	Mar 31	Dec 31	Sep 30	Jun 30
Total revenue	1,419	1,558	1,911	1,959	2,137	1,810	1,842	1,755	1,729
Cost of fuel	(84)	(119)	(154)	(140)	(142)	(91)	—	—	—
Net revenue	1,335	1,439	1,757	1,819	1,995	1,719	1,842	1,755	1,729
Gross profit	344	418	428	459	482	430	413	449	466
<i>Gross profit as a % of net revenue</i>	25.7%	29.1%	24.3%	25.3%	24.1%	25.0%	22.4%	25.6%	26.9%
SG&A	306	325	334	333	350	343	324	330	345
<i>SG&A as a % of net revenue</i>	22.9%	22.6%	19.0%	18.3%	17.5%	20.0%	17.6%	18.9%	19.9%
EBITDA	130	170	170	201	213	134	140	142	171
<i>EBITDA as a % of net revenue</i>	9.7%	11.8%	9.7%	11.1%	10.7%	7.8%	7.6%	8.1%	9.9%
Adjusted EBITDA	117	170	170	204	213	163	140	172	171
<i>Adjusted EBITDA as a % of net revenue</i>	8.8%	11.8%	9.7%	11.2%	10.7%	9.4%	7.6%	9.7%	9.9%
EBIT	52	94	97	129	137	62	91	93	126
<i>EBIT as a % of net revenue</i>	3.9%	6.6%	5.5%	7.1%	6.9%	3.6%	4.9%	5.3%	7.3%
Adjusted EBIT	39	94	97	132	137	91	91	123	126
<i>Adjusted EBIT as a % of net revenue</i>	2.9%	6.6%	5.5%	7.3%	6.9%	5.3%	4.9%	7.0%	7.3%

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

ROIC and Adjusted ROIC

Return on Invested Capital, or ROIC, is defined as EBIT for the last twelve months divided by invested capital (calculated on page 37) based on an average of the last four quarters, expressed as a percentage.

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

ROIC and Adjusted ROIC is calculated as follows:

(\$ millions, except as noted)	2020		2019				2018 ⁽¹⁾		
	Jun 30	Mar 31	Dec 31	Sep 30	Jun 30	Mar 31	Dec 31	Sep 30	Jun 30
Consolidated									
EBIT – last 12 months	372	457	425	419	383	372	423	441	448
Adjusted EBIT – last 12 months	362	460	457	451	442	431	446	465	442
Invested capital – 4 quarter average	3,719	3,836	3,804	3,697	3,578	3,427	3,295	3,212	3,128
ROIC	10.0%	11.9%	11.2%	11.3%	10.7%	10.8%	12.8%	13.7%	14.3%
Adjusted ROIC	9.7%	12.0%	12.0%	12.2%	12.3%	12.5%	13.5%	14.5%	14.2%
Canada									
EBIT – last 12 months	277	306	296	295	291	276	297	293	272
Adjusted EBIT – last 12 months	242	306	313	312	308	293	290	285	264
Invested capital – 4 quarter average	2,091	2,153	2,167	2,079	1,999	1,888	1,795	1,782	1,746
ROIC	13.3%	14.2%	13.7%	14.2%	14.5%	14.6%	16.6%	16.4%	15.5%
Adjusted ROIC	11.6%	14.2%	14.4%	15.0%	15.4%	15.5%	16.2%	16.0%	15.1%
South America									
EBIT – last 12 months	113	152	120	101	96	102	142	180	191
Adjusted EBIT – last 12 months	137	155	131	112	104	110	142	182	193
Invested capital – 4 quarter average	1,226	1,271	1,250	1,249	1,223	1,195	1,169	1,117	1,091
ROIC	9.3%	11.9%	9.6%	8.1%	7.9%	8.6%	12.2%	16.2%	17.5%
Adjusted ROIC	11.2%	12.2%	10.5%	9.0%	8.5%	9.2%	12.2%	16.4%	17.7%
UK & Ireland									
EBIT – last 12 months	15	34	46	53	54	54	51	47	41
Adjusted EBIT – last 12 months	19	34	46	53	54	54	51	47	41
Invested capital – 4 quarter average	389	399	382	376	373	368	358	337	314
ROIC	3.7%	8.4%	12.1%	14.1%	14.5%	14.8%	14.2%	14.0%	13.2%
Adjusted ROIC	4.6%	8.4%	12.1%	14.1%	14.5%	14.8%	14.2%	14.0%	13.2%

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

Working Capital & Working Capital to Net Revenue Ratio

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

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

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

(\$ millions, except as noted)	2020		2019				2018 ⁽¹⁾		
	Jun 30	Mar 31	Dec 31	Sep 30	Jun 30	Mar 31	Dec 31	Sep 30	Jun 30
Total current assets	3,416	3,828	3,659	3,959	4,217	4,187	3,924	3,696	3,763
Cash and cash equivalents	(338)	(260)	(268)	(252)	(160)	(290)	(454)	(221)	(300)
Total current assets in working capital ⁽²⁾	3,078	3,568	3,391	3,707	4,057	3,897	3,470	3,475	3,463
Total current liabilities	1,735	2,112	2,026	2,331	2,584	2,574	1,992	1,734	1,742
Short-term debt	(158)	(329)	(226)	(532)	(751)	(658)	(154)	(223)	(213)
Current portion of long-term debt	(200)	(200)	(200)	(200)	—	—	—	—	—
Total current liabilities in working capital ⁽³⁾	1,377	1,583	1,600	1,599	1,833	1,916	1,838	1,511	1,529
Working capital	1,701	1,985	1,791	2,108	2,224	1,981	1,632	1,964	1,934
Working capital – 4 quarter average	1,896	2,026	2,026	1,986	1,950	1,878	1,859	1,837	1,793
Net revenue – last 12 months	6,350	7,010	7,290	7,375	7,311	7,045	6,996	6,887	6,670
Working capital to net revenue	29.9%	28.9%	27.8%	26.9%	26.7%	26.7%	26.6%	26.7%	26.9%

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

⁽²⁾ Excluding cash and cash equivalents.

⁽³⁾ Excluding short-term debt and current portion of long-term debt.

Selected Quarterly Information

(\$ millions, except for share, per share, and option amounts)	2020		2019				2018 ⁽¹⁾	
	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3
Revenue from operations ⁽²⁾								
Canada	\$ 789	\$ 874	\$ 1,122	\$ 1,118	\$ 1,216	\$ 998	\$ 1,005	\$ 910
South America	469	478	518	577	626	505	509	558
UK & Ireland	161	206	271	264	295	307	328	287
Total revenue	\$ 1,419	\$ 1,558	\$ 1,911	\$ 1,959	\$ 2,137	\$ 1,810	\$ 1,842	\$ 1,755
Net income ⁽²⁾⁽³⁾	\$ 18	\$ 54	\$ 50	\$ 76	\$ 88	\$ 28	\$ 55	\$ 25
Earnings Per Share ⁽²⁾⁽³⁾								
Basic EPS	\$ 0.12	\$ 0.33	\$ 0.31	\$ 0.46	\$ 0.54	\$ 0.17	\$ 0.33	\$ 0.15
Diluted EPS	\$ 0.12	\$ 0.33	\$ 0.31	\$ 0.46	\$ 0.54	\$ 0.17	\$ 0.33	\$ 0.15
Total assets ⁽²⁾	\$ 5,716	\$ 6,255	\$ 5,990	\$ 6,253	\$ 6,473	\$ 6,459	\$ 5,696	\$ 5,413
Long-term debt								
Current	\$ 200	\$ 200	\$ 200	\$ 200	\$ —	\$ —	\$ —	\$ —
Non-current	\$ 1,348	\$ 1,381	\$ 1,318	\$ 1,325	\$ 1,321	\$ 1,341	\$ 1,354	1,315
Total long-term debt⁽⁴⁾	\$ 1,548	\$ 1,581	\$ 1,518	\$ 1,525	\$ 1,321	\$ 1,341	\$ 1,354	1,315
Cash dividends paid per common share	20.5¢	20.5¢	20.5¢	20.5¢	20.5¢	20.0¢	20.0¢	20.0¢
Common shares outstanding (000's)	162,104	162,104	163,319	163,310	163,310	163,310	164,382	168,191
Options outstanding (000's)	3,758	3,353	3,416	3,547	3,550	3,055	3,164	3,226

- (1) Comparative results prior to Q1 2019 have not been restated for the Company's adoption of IFRS 16, Leases effective for the financial year beginning January 1, 2019.
- (2) In February 2019, the Company acquired 4Refuel in its Canadian reportable segment. The results of operations and financial position of this acquired business have been included in the figures since the date of acquisition.
- (3) Results were impacted by the following significant items:

(\$ millions except per share amounts)	2020	2019 ^(a)		2018 ^(a)
	Q2	Q3	Q1	Q3
CEWS support	\$ (64)	\$ —	\$ —	\$ —
Severance costs	42	2	18	—
Facility closures, restructuring costs, and impairment losses	9	1	7	—
Acquisition costs related to 4Refuel	—	—	4	—
Write-off and loss related to Energyst	—	—	—	30
Impact of significant items on EBIT	\$ (13)	\$ 3	\$ 29	\$ 30
Significant items impacting EBIT - impact on basic EPS ^(b)	\$ (0.06)	\$ 0.01	\$ 0.13	\$ 0.18
Significant items impacting net income only - impact on basic EPS ^(b) :				
Tax impact of devaluation of ARS ^(c)	—	0.02	—	0.12
Impact of significant items on basic EPS^(b):	\$ (0.06)	\$ 0.03	\$ 0.13	\$ 0.30

- (a) There were no significant items in Q1 2020, Q4 2019, Q2 2019, and Q4 2018.
- (b) The per share impact for each quarter has been calculated using the weighted average number of shares issued and outstanding during the respective quarters; therefore, quarterly amounts may not add to the annual or year to date total.
- (c) Tax impact of devaluation of ARS Q3 2019 (\$4 million) and Q3 2018 (\$20 million).

- (4) In July 2020, the Company settled its 3.232%, \$200 million note which was due July 3, 2020.
- In April 2020, the Company secured an additional \$500 million committed revolving credit facility, which provides further financial flexibility and liquidity. This facility has a term of two years, can be used for general corporate purposes, and has substantially the same terms and conditions of the existing \$1.3 billion committed revolving credit facility.
- In December 2019, the Company amended the credit facility which was set to fully mature in December 2023 by, among other things, extending the maturity date to December 2024.
- In August 2019, the Company issued \$200 million of 2.626% senior unsecured notes due August 14, 2026. Proceeds of the issuance were used to reduce outstanding short-term debt under the Company's committed revolving credit facility.

Forward-Looking Disclaimer

This report contains statements about the Company's business outlook, objectives, plans, strategic priorities and other statements that are not historical facts. A statement Finning makes is forward-looking when it uses what the Company knows and expects today to make a statement about the future. Forward-looking statements may include terminology such as aim, anticipate, assumption, believe, could, expect, goal, guidance, intend, may, objective, outlook, plan, project, seek, should, strategy, strive, target, and will, and variations of such terminology. Forward-looking statements in this report include, but are not limited to, statements: that the effects of COVID-19 and volatile oil and other commodity prices are expected to have a material negative impact on the Company's 2020 financial results; that the Company is positioned well for an economic recovery; about expected improvements in employee and facility productivity as a results of restructuring; about expected results from execution of the Company's strategic framework, including the Company's Global Strategic Priorities, strategic pillars, and strategic focus areas; that the Company will continue to pursue its strategy, while maintaining its immediate focus on preserving financial flexibility as it deals with the uncertain impacts of COVID-19; that the Company's effective tax rate will generally be within the 25-30% range on an annual basis; that the reshaping by the Company of its existing branch structure to a hub and spoke operating model will improve customer turnaround, customer experience, labour productivity and facility utilization, and reduce the Company's environmental footprint, and result in the consolidation, relocation or exit of certain facilities; about the Company's outlook for its Canada operations, including the expectation that most oil sands producers will be operating at pre-COVID-19 levels by the end of August and that oil sands contractor will take longer to return to pre-COVID-19 activity levels, that longer term, the aging equipment population is expected to continue to support demand for parts and service, including component rebuilds, that demand for new equipment will remain low until oil price fundamentals improve and the COVID-19 recovery takes hold, that other mining operations in Western Canada are returning to full capacity as COVID-19 related restrictions are lifted, that coal prices are expected to remain low, that mining customers continue to focus on reducing operating costs, and capital spending remains restricted, that the Company expects product support activity to slowly return to normal levels as production output recovers from April lows, that the Company expects improvement in product support activity in construction throughout the second half of the year, that large infrastructure projects in Alberta and British Columbia, including pipelines, are expected to proceed as planned, that the Company is well positioned to capture equipment and product support opportunities for these projects, although order intake for large construction equipment remains at low levels and the pricing environment is expected to be highly competitive in the near term reflecting a surplus of competitive equipment inventories in Western Canada, that the demand for small construction equipment and product support is expected to remain soft and dependent on the pace of a broader economic recovery post-COVID-19 disruptions, that in power systems, and the Company expects continued strong demand for prime and standby electric power generation for large infrastructure projects; about the Company's outlook for its South America operations, including, for Chile, that copper mining activity is expected to remain stable, that in spite of some mining customers in Chile having slowed operations and temporarily parked some of their truck fleets because of the increase in COVID-19 infections in northern Chile in the latter part of Q2 2020 the Company expects the vast majority of equipment in Chilean copper mining operations to continue being utilized, that strengthening copper prices are expect to lead to strengthening mining activity, that, assuming no further business interruptions from COVID-19, product support activity will improve as customers catch up on maintenance throughout the back half of the year, that, longer term, sustained copper production and resumption of suspended mining construction projects are expected to bode well for product support and new equipment demand in Chile, that activity in the construction and power systems markets in Chile is expected to remain soft, impacted by measures to reduce the spread of COVID-19, as well as the overall economic uncertainty related to social unrest and devaluation of the CLP, that the Company is well positioned to continue serving customers in construction and power systems markets during the COVID-19 outbreak and to grow product support in these sectors when customers return to normal operations, about the expectation that political and economic uncertainty, combined with COVID-19 disruptions, will continue to impact customer confidence and lead to slower economic growth in Chile in the near term, that social unrest in Chile continues to pose a risk; and for Argentina, that market activity is expected to remain at low levels due to a challenging economic environment amidst government efforts to restructure the country's debt and a gradual re-opening following COVID-19 lockdowns, the Company's expectation that most construction customers will operate at about 30% capacity for the near future, that the Company remains focused on delivering product support, while managing its ARS currency exposure, and that the government's restrictive monetary policies combined with capital and imports controls are expected to limit the Company's growth opportunities in Argentina for the foreseeable future; the Company's outlook for its operations in UK & Ireland, including that the Company expect to reduce furlough of its employees as restrictions are relaxed and customer activity continues to ramp up; that the UK government's formal approval for construction work on the HS2 project to proceed is expected to drive improved activity in the general construction equipment markets, require approximately 1,100 units of heavy

equipment representing a total direct sales opportunity of approximately £390 million and that, leveraging its technology solutions, the Company is well positioned to capture new equipment and product support opportunities related to earthmoving work for HS2, which is expected to begin in late 2020, and that, in power systems, the Company expects to benefit from continued strong demand in the electric power capacity, combined heat & power, and data centre markets and that a backlog of high-quality power systems projects is scheduled to be delivered in the second half of 2020; the Company's outlook for cost containment, including its expectation that the COVID-19 pandemic and related government, customer, and supplier actions will continue to negatively impact its 2020 financial results; that, as a result of the acceleration of its strategic plans, the Company's global workforce is expected to be down by 8% by the end of 2020 compared to 2019, that restructuring initiatives are expected to result in over \$100 million of annualized cost savings and that approximately one-third of those cost will likely return when market activity fully recovers but will be incurred in locations with lower operating costs; and that the Company expects that the \$51 million of severance and facility restructuring costs incurred in Q2 2020 will have a payback period of less than one year; the Company's outlook for free cash flow and capital allocation, including that the Company expects to reduce its investments in 2020 by minimizing capital expenditures to mission-critical maintenance and information technology systems, as well as selected rental fleet additions, and expects 2020 net capital expenditures and net rental fleet additions to be in the range of \$90 million to \$140 million; and that the Company expects to maintain a strong balance sheet with sufficient liquidity and access to capital, continue to have significant headroom in its net debt to total capital covenant under its committed revolving credit facility and maintain near-term capital allocation priorities on debt repayment and meeting its continued dividend commitment; that, based on cash on hand, available credit facilities and the discretionary nature of certain cash flows, such as rental and capital expenditures, the Company has sufficient liquidity to meet operational needs; that the Company continually monitors its significant accounting policies related to allowances for doubtful accounts, inventory, goodwill and intangible assets with indefinite lives, and property, plant, and equipment and rental equipment; that the Company will continue evaluating government programs and subsidies in all jurisdictions where it carries on business, with a goal to maximize flexibility and preserve critical talent and capabilities through this disruptive period; that the Company will continue to closely monitor credit risk; about the impact on results of expected ongoing volatility in foreign exchange markets; Finning's plans to manage its financial risks and uncertainties; and the expected impact of the COVID-19 pandemic on the Company's operations and the Company's plans to manage the risks and uncertainties associated with the spread of COVID-19.

All such forward-looking statements are made pursuant to the 'safe harbour' provisions of applicable Canadian securities laws. Unless otherwise indicated by us, forward-looking statements in this report reflect Finning's expectations at the date in this MD&A. Except as may be required by Canadian securities laws, Finning does not undertake any obligation to update or revise any forward-looking statement, whether as a result of new information, future events, or otherwise.

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

Factors that could cause actual results or events to differ materially from those expressed in or implied by these forward-looking statements include: the impact and duration of the COVID-19 pandemic and measures taken by governments, customers and suppliers in response; general economic and market conditions; foreign exchange rates; commodity prices; the impact of changes in the trade relationship with the European Union; the level of customer confidence and spending, and the demand for, and prices of, Finning's products and services; Finning's ability to maintain its relationship with Caterpillar; Finning's dependence on the continued market acceptance of its products, including Caterpillar products, and the timely supply of parts and equipment; Finning's ability to continue to improve productivity and operational efficiencies while continuing to maintain customer service; Finning's ability to manage cost pressures as growth in revenue occurs; Finning's ability to negotiate satisfactory purchase or investment terms and prices, obtain necessary approvals, and secure financing on attractive terms or at all; Finning's ability to manage its growth strategy effectively; Finning's ability to effectively price and manage long-term product support contracts with its customers; Finning's ability to reduce costs in response to slowing activity levels; Finning's ability to attract sufficient skilled labour resources as market conditions, business strategy or technologies change; Finning's ability to negotiate and renew collective bargaining agreements with satisfactory terms for Finning's employees and the Company; the intensity of competitive activity; Finning's ability to maintain a safe and healthy work environment across all regions, Finning's ability to raise the capital needed to implement its business plan; regulatory initiatives or proceedings, litigation and changes in laws, regulations, or policies; stock market volatility; changes in political and economic environments in the regions where Finning carries on business; Finning's ability to respond to climate change-related risks; the occurrence of one or more natural disasters, pandemic outbreaks, geo-political events, acts of terrorism or similar disruptions; fluctuations in defined benefit pension plan contributions and related pension expenses; the availability of insurance at commercially reasonable

rates; the adequacy of insurance to cover all liability or loss incurred by Finning; the potential of warranty claims being greater than Finning anticipates; the integrity, reliability and availability of, and benefits from, information technology and the data processed by that technology; Finning's ability to protect itself from cybersecurity threats or incidents; and the actual impact of the COVID-19 pandemic and Finning's 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 Finning's operating environment. However, readers are cautioned that it may not be appropriate to use such forward-looking statements for any other purpose.

Forward-looking statements made in this report are based on a number of assumptions that the Company believed were reasonable on the day the Company made the forward-looking statements including but not limited to (i) that Finning will be able to successfully manage its business through the current challenging times involving the effects of the COVID-19 response and low and/or volatile commodity prices and successfully implement its COVID-19 risk management plans; (ii) that general economic and market conditions will improve; (iii) that the level of customer confidence and spending, and the demand for, and prices of, Finning's products and services will be maintained; (iv) Finning's ability to successfully execute its plans and intentions; (v) Finning's ability to successfully attract and retain skilled staff; (vi) market competition will remain at similar levels; (vii) the products and technology offered by the Company's competitors will be as expected; and (viii) that our current good relationships with Caterpillar and with our suppliers, service providers and other third parties will be maintained. Refer in particular to the Outlook section of this MD&A for forward-looking statements. Some of the assumptions, risks, and other factors, which could cause results to differ materially from those expressed in the forward-looking statements contained in this report, are discussed in Section 4 of the Company's current AIF and in the annual MD&A for the financial risks. Finning cautions readers that the risks described in the MD&A and the AIF are not the only ones that could impact the Company. Finning cannot accurately predict the full impact that COVID-19 will have on its business, results of operations, financial condition or the demand for its 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 its 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 the Company or that are currently deemed to be immaterial may also have a material adverse effect on Finning's business, financial condition, or results of operation.

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

Glossary of Defined Terms

4Refuel	4Refuel Canada and 4Refuel US
AIF	Annual Information Form
Annual Financial Statements	Audited annual consolidated financial statements
ARS	Argentine Peso
Audit Committee	Audit Committee of the Board of Directors of Finning
Board	Board of Directors of Finning
Brexit	Withdrawal of the UK from the European Union
CAD	Canadian dollar
Caterpillar	Caterpillar Inc.
CEO	Chief Executive Officer
CEWS	Canadian Emergency Wage Subsidy
CFO	Chief Financial Officer
CGU	Cash-generating unit
CLP	Chilean Peso
Company	Finning International Inc.
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
ERP	Enterprise resource planning
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
GDP	Gross domestic product
HS2	High Speed 2, a partly planned high speed railway in the UK
IAS	International Accounting Standards
IFRS	International Financial Reporting Standards
Interim Financial Statements	Interim condensed consolidated financial statements
KPI	Key performance indicator
MD&A	Management's Discussion and Analysis
n/a	not applicable
n/m	% change not meaningful
NCIB	Normal course issuer bid
OEM	OEM Remanufacturing Company Inc.
PEB asset	Net post-employment benefit asset
PLM	PipeLine Machinery International
ROIC	Return on invested capital
S&P	Standard and Poor's
SEDAR	System for Electronic Document Analysis
SG&A	Selling, general, and administrative costs
UK	United Kingdom
unfav	Unfavourable
US	United States of America
USD	US dollar
YTD	Year-to-date

UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(Canadian \$ millions)	June 30, 2020	December 31, 2019
ASSETS		
Current assets		
Cash and cash equivalents	\$ 338	\$ 268
Accounts receivable	684	919
Unbilled receivables	215	246
Inventories	1,893	1,990
Other assets	286	236
Total current assets	3,416	3,659
Property, plant, and equipment	928	971
Rental equipment	451	457
Intangible assets	333	321
Goodwill	204	204
Distribution network	100	100
Investment in joint ventures and associate	91	94
Other assets	193	184
Total assets	\$ 5,716	\$ 5,990
LIABILITIES		
Current liabilities		
Short-term debt (Note 5)	\$ 158	\$ 226
Accounts payable and accruals (Note 1b)	819	1,040
Deferred revenue	348	360
Current portion of long-term debt	200	200
Other liabilities (Note 1b)	210	200
Total current liabilities	1,735	2,026
Long-term debt	1,348	1,318
Long-term lease liabilities	247	273
Net post-employment obligation	93	76
Other liabilities	166	182
Total liabilities	\$ 3,589	\$ 3,875
SHAREHOLDERS' EQUITY		
Share capital	\$ 565	\$ 570
Contributed surplus	1	2
Accumulated other comprehensive income	266	228
Retained earnings	1,295	1,315
Total shareholders' equity	2,127	2,115
Total liabilities and shareholders' equity	\$ 5,716	\$ 5,990

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

(Canadian \$ millions, except share and per share amounts)	3 months ended		6 months ended	
	June 30		June 30	
	2020	2019	2020	2019
Revenue				
New equipment	\$ 382	\$ 774	\$ 736	\$ 1,438
Used equipment	64	106	132	187
Equipment rental	41	62	94	120
Product support	820	1,023	1,754	1,919
Fuel and other	112	172	261	283
Total revenue	1,419	2,137	2,977	3,947
Cost of sales	(1,075)	(1,655)	(2,215)	(3,035)
Gross profit	344	482	762	912
Selling, general, and administrative expenses	(306)	(350)	(631)	(693)
Equity earnings of joint ventures	1	5	2	9
Other income (Note 4)	64	—	64	—
Other expenses (Note 4)	(51)	—	(51)	(29)
Earnings before finance costs and income taxes	52	137	146	199
Finance costs (Note 5)	(24)	(27)	(45)	(51)
Income before provision for income taxes	28	110	101	148
Provision for income taxes	(10)	(22)	(29)	(32)
Net income	\$ 18	\$ 88	\$ 72	\$ 116
Earnings per share (Note 3)				
Basic	\$ 0.12	\$ 0.54	\$ 0.45	\$ 0.71
Diluted	\$ 0.12	\$ 0.54	\$ 0.45	\$ 0.71
Weighted average number of shares outstanding (Note 3)				
Basic	162,103,503	163,309,985	162,477,072	163,544,283
Diluted	162,103,503	163,355,920	162,478,511	163,611,703

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

UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE (LOSS) INCOME

(Canadian \$ millions)	3 months ended		6 months ended	
	June 30		June 30	
	2020	2019	2020	2019
Net income	\$ 18	\$ 88	\$ 72	\$ 116
Other comprehensive (loss) income, net of income tax				
Items that may be subsequently reclassified to net income:				
Foreign currency translation adjustments	(81)	(49)	68	(82)
Share of foreign currency translation adjustments of joint ventures	1	—	(1)	(1)
Gain (loss) on net investment hedges	33	19	(30)	33
Impact of foreign currency translation and net investment hedges, net of income tax	(47)	(30)	37	(50)
Gain (loss) on cash flow hedges	1	—	6	(3)
Gain on cash flow hedges, reclassified to net income	—	—	(2)	—
Income tax (expense) recovery on cash flow hedges	(1)	—	(1)	1
Impact of cash flow hedges, net of income tax	—	—	3	(2)
Items that will not be subsequently reclassified to net income:				
Actuarial loss (Note 7)	(56)	(18)	(11)	(33)
Income tax recovery on actuarial loss	12	2	2	6
Actuarial loss, net of income tax	(44)	(16)	(9)	(27)
Total comprehensive (loss) income	\$ (73)	\$ 42	\$ 103	\$ 37

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	Impact of Foreign Currency Translation and Net Investment Hedges	Impact of Cash Flow Hedges	Retained Earnings	
Balance, January 1, 2019	164,381,967	\$ 573	\$ —	\$ 279	\$ 3	\$ 1,254	\$ 2,109
Net income	—	—	—	—	—	116	116
Other comprehensive loss	—	—	—	(50)	(2)	(27)	(79)
Total comprehensive (loss) income	—	—	—	(50)	(2)	89	37
Issued on exercise of share options	1,665	—	—	—	—	—	—
Share option expense	—	—	1	—	—	—	1
Hedging gain transferred to statement of financial position	—	—	—	—	(2)	—	(2)
Repurchase of common shares	(1,073,354)	(4)	—	—	—	(23)	(27)
Dividends on common shares	—	—	—	—	—	(66)	(66)
Balance, June 30, 2019	163,310,278	\$ 569	\$ 1	\$ 229	\$ (1)	\$ 1,254	\$ 2,052
Balance, January 1, 2020	163,319,120	\$ 570	\$ 2	\$ 230	\$ (2)	\$ 1,315	\$ 2,115
Net income	—	—	—	—	—	72	72
Other comprehensive income (loss)	—	—	—	37	3	(9)	31
Total comprehensive income	—	—	—	37	3	63	103
Share option expense	—	—	1	—	—	—	1
Hedging gain transferred to statement of financial position	—	—	—	—	(2)	—	(2)
Repurchase of common shares	(1,215,617)	(5)	(2)	—	—	(16)	(23)
Dividends on common shares	—	—	—	—	—	(67)	(67)
Balance, June 30, 2020	162,103,503	\$ 565	\$ 1	\$ 267	\$ (1)	\$ 1,295	\$ 2,127

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

(Canadian \$ millions)	3 months ended June 30		6 months ended June 30	
	2020	2019	2020	2019
OPERATING ACTIVITIES				
Net income	\$ 18	\$ 88	\$ 72	\$ 116
Adjusting for:				
Depreciation and amortization	78	76	154	148
Impairment of long-lived assets	8	—	9	5
Equity earnings of joint ventures	(1)	(5)	(2)	(9)
Share-based payment (recovery) expense	9	6	(1)	5
Provision for income taxes	10	22	29	32
Finance costs (Note 5)	24	27	45	51
Net benefit cost of post-employment benefit plans in selling, general, and administrative expenses (Note 7)	3	5	7	8
Changes in operating assets and liabilities (Note 8)	206	(236)	93	(608)
Additions to rental equipment	(54)	(74)	(93)	(119)
Proceeds on disposal of rental equipment	32	22	52	51
Interest paid	(24)	(28)	(47)	(49)
Income tax refund (paid)	10	(30)	(13)	(82)
Cash flow provided by (used in) operating activities	319	(127)	305	(451)
INVESTING ACTIVITIES				
Additions to property, plant, and equipment and intangible assets	(17)	(37)	(55)	(60)
Proceeds on disposal of property, plant, and equipment	10	2	12	2
Consideration for business acquisition, net of cash acquired (Note 9)	—	—	—	(229)
Cash flow used in investing activities	(7)	(35)	(43)	(287)
FINANCING ACTIVITIES				
(Decrease) increase in short-term debt (Note 8)	(155)	94	(77)	598
Decrease in lease liabilities (Note 8)	(22)	(22)	(44)	(44)
Credit facility fee	(1)	—	(1)	—
Repurchase of common shares	—	—	(23)	(31)
Dividends paid	(33)	(33)	(67)	(66)
Cash flow (used in) provided by financing activities	(211)	39	(212)	457
Effect of currency translation on cash balances	(23)	(7)	20	(13)
Increase (decrease) in cash and cash equivalents	78	(130)	70	(294)
Cash and cash equivalents, beginning of period	260	290	268	454
Cash and cash equivalents, end of period (Note 8)	\$ 338	\$ 160	\$ 338	\$ 160

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, 2019 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 August 4, 2020. 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) Areas of Estimation Uncertainty and Significant Judgments

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

The Company's significant accounting policies, areas of estimation uncertainty, and significant judgments are contained in the notes to the Annual Financial Statements for the year ended December 31, 2019. Certain accounting policies require management to make judgments, estimates and assumptions in respect of the application of accounting policies and the reported amounts of assets, liabilities, revenues, expenses, and disclosure of contingent assets and liabilities. These policies may require particularly subjective and complex judgments to be made as they relate to matters that are inherently uncertain and because there is a likelihood that materially different amounts could be reported under different conditions or using different assumptions. The following summarizes the changes in the areas of estimation uncertainty and significant judgments facing the Company as a result of changing economic conditions, including the impact of COVID-19.

Financial instrument risk

The Company is exposed to risks through its operations that arise from its use of financial instruments, which include credit risk, interest rate risk, market price risk, liquidity risk and foreign exchange risk. Under the normal course of operations, the Company has mitigation strategies to minimize these risks for its financial instruments. In the current economic climate, the Company is further exposed to credit risk related to its accounts receivable.

Allowance for Doubtful Accounts

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

The COVID-19 pandemic has resulted in significant disruptions in financial markets, regional economies and the world economy. It is likely that the pandemic will continue to adversely affect the economies, financial markets, and social stability of many regions and countries in which our customers operate. There can be no assurance that these disruptions will not negatively affect the financial performance of our customers and our ability to collect customer receivables. The extent of the overall impact of the COVID-19 pandemic on our customers is unknown at this time. This will depend on future developments, and the availability of government support programs, all of which are highly uncertain and cannot be predicted with confidence. As a result, the Company's exposure to credit risk related to its accounts receivable has increased. Expected credit losses related to the current economic environment have been incorporated in management's estimate of its allowance for doubtful accounts at June 30, 2020. No assurance can be given that this will be sufficient or that the Company will not suffer material credit losses that will adversely affect its results. This remains an area that the Company will continue to monitor closely.

Inventory

The Company records a provision to reflect slow-moving and obsolete inventory, which is estimated based on age, redundancy, and stock levels. For equipment inventory, estimates are determined on a specific item basis. The extent of the overall impact of the COVID-19 pandemic on the Company's inventory is unknown at this time and will depend on market activity, customer activity, and the expected outlook for the remainder of the year. The Company has reviewed its inventory provision and concluded that the inventory provision at June 30, 2020 adequately reflects the current economic conditions. This remains an area that the Company will continue to monitor closely.

Goodwill and intangible assets with indefinite lives

The Company performs impairment tests on its goodwill and intangible assets with indefinite lives at the appropriate level (cash-generating units (CGUs) or group of cash-generating units); at least annually or more frequently when events or changes in circumstances, which may include the declaration of the COVID-19 pandemic, indicate that the carrying amount of these assets may not be fully recoverable. Management conducted its annual impairment test in Q2 2020 and estimated the recoverable amount of all CGUs and groups of CGUs based on a value-in-use calculation. Key assumptions included future cash flow and growth projections covering a three-year period, with consideration of additional risk for any uncertainty in the cash flow projections driven by the impact of the COVID-19 pandemic and volatility in commodity prices. These cash flow projections were discounted using after-tax weighted-average cost of capital rates. Cash flows subsequent to the three-year projection period were extrapolated using growth rates based on estimated long-term nominal gross domestic product in the markets in which the Company operates. In addition to the impairment tests performed for goodwill and distribution network, recent economic uncertainty and financial performance triggered an impairment review of the Company's Argentina CGU. At June 30, 2020, management concluded that no impairment losses were required. This remains an area that the Company will continue to monitor closely.

Property, plant, and equipment and rental equipment

Property, plant, and equipment and rental equipment are reviewed for indicators of impairment at the end of each reporting period or whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. The Company's review of its facilities network and long-term strategy prompted a review of its property, plant, and equipment and rental equipment. Impairment losses related to the Company's property, plant, and equipment were recorded in the three months ended June 30, 2020 (Note 4b). No impairment losses were recorded on rental equipment. This remains an area that the Company will continue to monitor closely.

(b) Changes to the presentation in the statement of financial position

In the second quarter of 2020, the Company changed the presentation of certain current liabilities in the statement of financial position as management believes it provides users of the financial statements with more relevant information. Previously, the Company presented the current portion of lease liabilities and commodity taxes payable within accounts payable and accruals. Effective June 30, 2020, management presented these items within other liabilities (current portion). To retain consistency in presentation, management reclassified \$129 million from accounts payable and accrued liabilities to other liabilities (current) as at December 31, 2019.

The impact of this reclassification on the December 31, 2019 balances was as follows:

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

⁽¹⁾ Provisions at December 31, 2019 were not significant and have been grouped with other liabilities.

(c) Amendments to Standards

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

- Amendments to IFRS 3, *Business Combinations* assist in determining whether a transaction should be accounted for as a business combination or an asset acquisition. The definition of a business has been amended to include an input and a substantive process that together significantly contribute to the ability to create goods and services provided to customers, generating investment and other income, and to exclude returns in the form of lower costs and other economic benefits. These amendments did not impact the Company's consolidated financial statements.
- Amendments to IFRS 9, *Financial Instruments* and IFRS 7, *Financial Instruments: Disclosures* affect entities that apply the hedge accounting requirements to hedging relationships directly affected by the interest rate benchmark reform. The amendments modify specific hedge accounting requirements, so that entities apply those hedge accounting requirements assuming that the interest rate benchmark is not altered as a result of the interest rate benchmark reform. If a hedging relationship no longer meets the requirements for hedge accounting for reasons other than those specified by the amended standards, then discontinuation of hedge accounting is still required. The Company did not have any hedging relationships directly affected by the interest rate benchmark reform and as a result, these amendments did not impact the Company's consolidated financial statements or disclosures.
- Amendments to IAS 1, *Presentation of Financial Statements* and IAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors* were made to refine the definition of material in IAS 1 and align the definitions used across IFRS Standards and other publications. The concept of 'obscuring' material information with immaterial information has been included as part of the new definition and the threshold for materiality influencing users has been changed from 'could influence' to 'could reasonably be expected to influence'. These amendments did not impact the Company's consolidated financial statements or disclosures.
- Amendment to IFRS 16, *Leases* (effective for annual reporting periods beginning on or after June 1, 2020) allows lessees not to account for rent concessions as lease modifications if they arise as a direct consequence of COVID-19. The Company has elected to early adopt this amendment with retrospective application to April 1, 2020. Upon applying this amendment and in the three-month period ended June 30, 2020, eligible rent concessions in the Company's UK & Ireland operations were not accounted for as rent modifications and as a result, there was no impact to the Company's financial results.

(d) 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 direct costs. 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 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 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.

2. SEGMENTED INFORMATION

On February 1, 2019, the Company acquired 4Refuel Canada and 4Refuel US (4Refuel) (Note 9). 4Refuel is a mobile on-site refuelling company in British Columbia, Alberta, Saskatchewan, Manitoba, Ontario, Quebec, New Brunswick and Nova Scotia and in Texas, US. The results of 4Refuel are included in the Canada reportable segment.

With the acquisition of 4Refuel, the Company views total revenue less cost of fuel (net revenue) as more representative in assessing the performance of this business as the cost of fuel is 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 June 30, 2020 (\$ millions)	Canada	South America	UK & Ireland	Other	Total
Revenue					
New equipment	\$ 196	\$ 106	\$ 80	\$ —	\$ 382
Used equipment	36	12	16	—	64
Equipment rental	26	9	6	—	41
Product support	419	342	59	—	820
Fuel and other	112	—	—	—	112
Total revenue	\$ 789	\$ 469	\$ 161	\$ —	\$ 1,419
Cost of fuel	(84)	—	—	—	(84)
Net revenue	\$ 705	\$ 469	\$ 161	\$ —	\$ 1,335
Operating costs ⁽¹⁾	(631)	(424)	(153)	(11)	(1,219)
Equity earnings of joint ventures	1	—	—	—	1
Other income (Note 4)	60	—	—	4	64
Other expenses (Note 4)	(25)	(21)	(4)	(1)	(51)
Earnings (loss) before finance costs, income taxes, depreciation and amortization	\$ 110	\$ 24	\$ 4	\$ (8)	\$ 130
Depreciation and amortization	(47)	(22)	(9)	—	(78)
Earnings (loss) before finance costs and income taxes	\$ 63	\$ 2	\$ (5)	\$ (8)	\$ 52
Finance costs					(24)
Provision for income taxes					(10)
Net income					\$ 18
Invested capital ⁽²⁾	\$ 2,037	\$ 1,106	\$ 349	\$ 3	\$ 3,495
Capital and rental equipment ⁽³⁾	\$ 1,013	\$ 452	\$ 164	\$ 83	\$ 1,712
Gross capital expenditures ⁽³⁾⁽⁴⁾	\$ 10	\$ 7	\$ 2	\$ 5	\$ 24
Gross rental fleet expenditures ⁽⁴⁾	\$ 13	\$ 6	\$ 1	\$ —	\$ 20
Gross spend on rental equipment with purchase options ⁽⁴⁾	\$ 35	\$ —	\$ —	\$ —	\$ 35

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

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

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

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

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

3 months ended June 30, 2019 (\$ millions)	Canada	South America	UK & Ireland	Other	Total
Revenue					
New equipment	\$ 384	\$ 198	\$ 192	\$ —	\$ 774
Used equipment	71	16	19	—	106
Equipment rental	41	12	9	—	62
Product support	549	400	74	—	1,023
Fuel and other	171	—	1	—	172
Total revenue	\$ 1,216	\$ 626	\$ 295	\$ —	\$ 2,137
Cost of fuel	(142)	—	—	—	(142)
Net revenue	\$ 1,074	\$ 626	\$ 295	\$ —	\$ 1,995
Operating costs ⁽¹⁾	(941)	(564)	(272)	(10)	(1,787)
Equity earnings of joint ventures	5	—	—	—	5
Earnings (loss) before finance costs, income taxes, depreciation and amortization	\$ 138	\$ 62	\$ 23	(10)	\$ 213
Depreciation and amortization	(46)	(21)	(9)	—	(76)
Earnings (loss) before finance costs and income taxes	\$ 92	\$ 41	\$ 14	(10)	\$ 137
Finance costs					(27)
Provision for income taxes					(22)
Net income					\$ 88
Invested capital ⁽²⁾	\$ 2,285	\$ 1,287	\$ 390	\$ 2	\$ 3,964
Capital and rental equipment ⁽³⁾	\$ 1,021	\$ 452	\$ 157	\$ 54	\$ 1,684
Gross capital expenditures ⁽³⁾⁽⁴⁾	\$ 38	\$ 9	\$ 3	\$ 6	\$ 56
Gross rental fleet expenditures ⁽⁴⁾	\$ 37	\$ 6	\$ 10	\$ —	\$ 53
Gross spend on rental equipment with purchase options ⁽⁴⁾	\$ 24	\$ —	\$ —	\$ —	\$ 24

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

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

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

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

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

6 months ended June 30, 2020 (\$ millions)	Canada	South America	UK & Ireland	Other	Total
Revenue					
New equipment	\$ 358	\$ 191	\$ 187	\$ —	\$ 736
Used equipment	69	27	36	—	132
Equipment rental	59	21	14	—	94
Product support	916	708	130	—	1,754
Fuel and other	261	—	—	—	261
Total revenue	\$ 1,663	\$ 947	\$ 367	\$ —	\$ 2,977
Cost of fuel	(203)	—	—	—	(203)
Net revenue	\$ 1,460	\$ 947	\$ 367	\$ —	\$ 2,774
Operating costs ⁽¹⁾	(1,284)	(842)	(348)	(15)	(2,489)
Equity earnings of joint ventures	2	—	—	—	2
Other income (Note 4)	60	—	—	4	64
Other expenses (Note 4)	(25)	(21)	(4)	(1)	(51)
Earnings (loss) before finance costs					
income taxes, depreciation and amortization	\$ 213	\$ 84	\$ 15	\$ (12)	\$ 300
Depreciation and amortization	(90)	(44)	(19)	(1)	(154)
Earnings (loss) before finance costs					
and income taxes	\$ 123	\$ 40	\$ (4)	\$ (13)	\$ 146
Finance costs					(45)
Provision for income taxes					(29)
Net income					\$ 72
Invested capital ⁽²⁾	\$ 2,037	\$ 1,106	\$ 349	\$ 3	\$ 3,495
Capital and rental equipment ⁽³⁾	\$ 1,013	\$ 452	\$ 164	\$ 83	\$ 1,712
Gross capital expenditures ⁽³⁾⁽⁴⁾	\$ 25	\$ 30	\$ 9	\$ 9	\$ 73
Gross rental fleet expenditures ⁽⁴⁾	\$ 25	\$ 12	\$ 6	\$ —	\$ 43
Gross spend on rental equipment with purchase options ⁽⁴⁾	\$ 51	\$ —	\$ —	\$ —	\$ 51

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

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

6 months ended June 30, 2019 (\$ millions)	Canada	South America	UK & Ireland	Other	Total
Revenue					
New equipment	\$ 658	\$ 388	\$ 392	\$ —	\$ 1,438
Used equipment	119	27	41	—	187
Equipment rental	80	23	17	—	120
Product support	1,076	693	150	—	1,919
Fuel and other	281	—	2	—	283
Total revenue	\$ 2,214	\$ 1,131	\$ 602	\$ —	\$ 3,947
Cost of fuel	(233)	—	—	—	(233)
Net revenue	\$ 1,981	\$ 1,131	\$ 602	\$ —	\$ 3,714
Operating costs ⁽¹⁾	(1,742)	(1,035)	(557)	(13)	(3,347)
Equity earnings of joint ventures	9	—	—	—	9
Other expenses (Note 4)	(17)	(8)	—	(4)	(29)
Earnings (loss) before finance costs, income taxes, depreciation and amortization	\$ 231	\$ 88	\$ 45	\$ (17)	\$ 347
Depreciation and amortization	(89)	(41)	(18)	—	(148)
Earnings (loss) before finance costs and income taxes	\$ 142	\$ 47	\$ 27	\$ (17)	\$ 199
Finance costs					(51)
Provision for income taxes					(32)
Net income					\$ 116
Invested capital ⁽²⁾	\$ 2,285	\$ 1,287	\$ 390	\$ 2	\$ 3,964
Capital and rental equipment ⁽³⁾	\$ 1,021	\$ 452	\$ 157	\$ 54	\$ 1,684
Gross capital expenditures ⁽³⁾⁽⁴⁾	\$ 69	\$ 10	\$ 7	\$ 11	\$ 97
Gross rental fleet expenditures ⁽⁴⁾	\$ 68	\$ 9	\$ 14	\$ —	\$ 91
Gross spend on rental equipment with purchase options ⁽⁴⁾	\$ 28	\$ —	\$ —	\$ —	\$ 28

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

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

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

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

3. EARNINGS PER SHARE

(\$ millions, except share and per share amounts) 2020	3 months ended June 30			6 months ended June 30		
	Income	Shares	Per Share	Income	Shares	Per Share
Basic earnings per share (EPS):						
Net income, weighted average shares outstanding, EPS	\$ 18	162,103,503	\$ 0.12	\$ 72	162,477,072	\$ 0.45
Effect of dilutive securities: share options	—	—	—	—	1,439	—
Diluted EPS:						
Net income and assumed conversions	\$ 18	162,103,503	\$ 0.12	\$ 72	162,478,511	\$ 0.45
2019						
Basic EPS:						
Net income, weighted average shares outstanding, EPS	\$ 88	163,309,985	\$ 0.54	\$ 116	163,544,283	\$ 0.71
Effect of dilutive securities: share options	—	45,935	—	—	67,420	—
Diluted EPS:						
Net income and assumed conversions	\$ 88	163,355,920	\$ 0.54	\$ 116	163,611,703	\$ 0.71

Share options granted to employees that were anti-dilutive were excluded from the weighted average number of ordinary shares for the purpose of calculating diluted earnings per share. Anti-dilutive share options related to the three and six months ended June 30, 2020 were 4 million and 3 million respectively (three and six months ended June 30, 2019: 2 million).

4. OTHER INCOME AND EXPENSES

(\$ millions)	3 months ended June 30		6 months ended June 30	
	2020	2019	2020	2019
Canada Emergency Wage Subsidy (a)	\$ 64	\$ —	\$ 64	\$ —
Total other income	\$ 64	\$ —	\$ 64	\$ —
(\$ millions)	3 months ended June 30		6 months ended June 30	
	2020	2019	2020	2019
Severance costs (b)	\$ (42)	\$ —	\$ (42)	\$ (18)
Impairment of long-lived assets (b)	(7)	—	(7)	(5)
Facility closures and restructuring costs (b)	(2)	—	(2)	(2)
Acquisition costs (Note 9)	—	—	—	(4)
Other expenses	\$ (51)	\$ —	\$ (51)	\$ (29)

(a) As a result of COVID-19, some governments made available wage-subsidy programs for eligible entities who meet certain criteria. The Company records government grants when it is reasonably assured that the Company will comply with the relevant conditions and the grant will be received. In the three months ended June 30, 2020, the Company recorded a \$64 million benefit from the Canada Emergency Wage Subsidy for its Canadian entities for the March 15, 2020 to June 30, 2020 period as it was reasonably assured that it complied with the relevant eligibility requirements and conditions of the grant and that the grant would be received.

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

5. DEBT AND FINANCE COSTS

At June 30, 2020, short-term debt included \$157 million drawn on the Company's committed revolving credit facility and \$1 million local bank borrowings in the Company's South American operations (December 31, 2019: \$208 million and \$18 million, respectively).

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

The Company is subject to certain covenants within its syndicated committed revolving credit facility. As at June 30, 2020, the Company was in compliance with these covenants.

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

(\$ millions)	3 months ended		6 months ended	
	June 30		June 30	
	2020	2019	2020	2019
Interest on short-term debt	\$ 5	\$ 10	\$ 10	\$ 17
Interest on long-term debt	15	13	29	26
Interest on debt securities	20	23	39	43
Net interest recovery on pension and other post-employment benefit obligations (Note 7)	(1)	(1)	(1)	(1)
Interest on lease liabilities	3	2	6	5
Other finance related expenses	2	3	1	4
Finance costs	\$ 24	\$ 27	\$ 45	\$ 51

6. SHARE-BASED PAYMENTS

The Company has a number of share-based compensation plans in the form of share options and other share-based payment plans noted below.

Share Options

Details of the share option plans are as follows:

	June 30, 2020		June 30, 2019	
	Options	Weighted Average Exercise Price	Options	Weighted Average Exercise Price
6 months ended				
Options outstanding, beginning of period	3,416,168	\$ 25.66	3,164,352	\$ 26.22
Granted	694,656	\$ 17.75	590,961	\$ 22.31
Exercised	—	\$ —	(42,037)	\$ 22.23
Forfeited	(76,421)	\$ 25.52	(105,034)	\$ 27.21
Expired	(275,937)	\$ 22.06	(57,940)	\$ 25.49
Options outstanding, end of period	3,758,466	\$ 24.46	3,550,302	\$ 25.60
Options exercisable, end of period	2,572,127	\$ 26.18	2,587,900	\$ 25.55

In the three and six months ended June 30, 2020, the Company granted 694,656 common share options to senior executives and management of the Company (three and six months ended June 30, 2019: 590,961 common share options). The Company only grants and prices share options when all material information has been disclosed to the market.

In the six months ended June 30, 2020, no options were exercised (six months ended June 30, 2019: 42,037 options were exercised resulting in 1,665 common shares issued; 40,372 options were withheld and returned to the option pool for future issues/grants).

The fair value of the options granted has been estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted-average assumptions:

3 and 6 months ended June 30	2020	2019
Dividend yield	3.16%	2.88%
Expected volatility ⁽¹⁾	32.22%	27.55%
Risk-free interest rate	0.38%	1.54%
Expected life (in years)	5.34	5.38
Grant date fair value of options	\$ 3.61	\$ 4.28

⁽¹⁾ Expected volatility is based on historical share price volatility of Finning shares

Other Share-Based Payment Plans

The Company has other share-based payment plans in the form of deferred share units, performance share units, and restricted share units that use notional common share units. Grants under these plans were as follows:

(Share units granted)	3 months ended June 30		6 months ended June 30	
	2020	2019	2020	2019
Executive Deferred Share Unit Plan	—	—	9,085	3,791
Directors' Deferred Share Unit Plan A	21,875	17,595	57,110	35,004
Performance Share Unit Plan ⁽²⁾	562,080	540,794	562,080	540,794
Restricted Share Unit Plan	350,912	240,221	350,912	240,221

⁽²⁾ Based on 100% vesting

7. 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:

	June 30, 2020			June 30, 2019		
	Canada	UK	South America	Canada	UK	South America
Discount rate – obligation	2.5%	1.5%	0.0%	3.0%	2.3%	0.8%
Discount rate – expense ⁽¹⁾	3.1%	2.0%	0.4%	3.7%	2.9%	1.5%
Retail price inflation – obligation	n/m ⁽²⁾	2.9%	n/a ⁽²⁾	n/m ⁽²⁾	3.3%	n/a ⁽²⁾
Retail price inflation – expense ⁽¹⁾	n/m ⁽²⁾	3.0%	n/a ⁽²⁾	n/m ⁽²⁾	3.3%	n/a ⁽²⁾
Average staff turnover – obligation	n/m ⁽²⁾	n/m ⁽²⁾	9.4%	n/m ⁽²⁾	n/m ⁽²⁾	9.8%
Rate of compensation increase – obligation	n/m ⁽²⁾	n/a ⁽²⁾	3.0%	n/m ⁽²⁾	n/a ⁽²⁾	3.0%

⁽¹⁾ Used to determine the net interest cost and expense for the three and six months ended June 30, 2020 and June 30, 2019

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

n/a – not applicable

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

3 months ended (\$ millions)	June 30, 2020				June 30, 2019			
	Canada	UK	South America	Total	Canada	UK	South America	Total
Current service cost and administration costs, net of employee contributions	\$ 1	\$ 1	\$ 1	\$ 3	\$ 2	\$ —	\$ 3	\$ 5
Net interest recovery	—	(1)	—	(1)	—	(1)	—	(1)
Net benefit cost (recovery)	\$ 1	\$ —	\$ 1	\$ 2	\$ 2	\$ (1)	\$ 3	\$ 4
Actuarial gain on plan assets	\$ (30)	\$ (84)	\$ —	\$ (114)	\$ (7)	\$ (10)	\$ —	\$ (17)
Actuarial loss on plan liabilities	42	123	5	170	12	23	—	35
Total actuarial loss recognized in other comprehensive income	\$ 12	\$ 39	\$ 5	\$ 56	\$ 5	\$ 13	\$ —	\$ 18

6 months ended (\$ millions)	June 30, 2020				June 30, 2019			
	Canada	UK	South America	Total	Canada	UK	South America	Total
Current service cost and administration costs, net of employee contributions	\$ 3	\$ 1	\$ 3	\$ 7	\$ 4	\$ —	\$ 4	\$ 8
Net interest recovery	—	(1)	—	(1)	—	(1)	—	(1)
Net benefit cost (recovery)	\$ 3	\$ —	\$ 3	\$ 6	\$ 4	\$ (1)	\$ 4	\$ 7
Actuarial gain on plan assets	\$ (11)	\$ (69)	\$ —	\$ (80)	\$ (23)	\$ (53)	\$ —	\$ (76)
Actuarial loss on plan liabilities	23	57	11	91	27	68	14	109
Total actuarial loss (gain) recognized in other comprehensive income	\$ 12	\$ (12)	\$ 11	\$ 11	\$ 4	\$ 15	\$ 14	\$ 33

Subsequent to the second quarter of 2020, the Company elected to settle a portion of the Canadian defined benefit plan liabilities by purchasing buy-out annuities which settled a portion of the Company's liability and reduced both the plan assets and the accrued benefit obligation in the Canadian registered defined benefit plan by approximately \$84 million.

8. SUPPLEMENTAL CASH FLOW INFORMATION

The components of cash and cash equivalents were as follows:

June 30 (\$ millions)	2020	2019
Cash	\$ 105	\$ 136
Cash equivalents	233	24
Cash and cash equivalents	\$ 338	\$ 160

The changes in operating assets and liabilities are as follows:

(\$ millions)	3 months ended June 30		6 months ended June 30	
	2020	2019	2020	2019
Accounts receivable	\$ 175	\$ (163)	\$ 250	(166)
Unbilled receivables	39	(10)	36	(57)
Inventories	217	(40)	132	(350)
Other assets	(45)	15	(41)	(16)
Accounts payable and accruals	(177)	(49)	(243)	28
Other liabilities	(3)	11	(41)	(47)
Changes in operating assets and liabilities	\$ 206	\$ (236)	\$ 93	\$ (608)

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, 2020	\$ 226	\$ 1,518	\$ 357	\$ 2,101
Cash flows provided by (used in)				
Financing activities	(77)	—	(44)	(121)
Operating activities	—	—	(6)	(6)
Total cash movements	\$ (77)	\$ —	\$ (50)	\$ (127)
Non-cash changes				
Additions	—	—	17	17
Disposals and remeasurement of liability	—	—	2	2
Interest expense	—	—	6	6
Foreign exchange rate changes	9	30	(1)	38
Total non-cash movements	\$ 9	\$ 30	\$ 24	\$ 63
Balance, June 30, 2020	\$ 158	\$ 1,548	\$ 331	\$ 2,037

(\$ millions)	Short-term debt	Long-term debt	Lease liabilities	Total
Balance, December 31, 2018	\$ 154	\$ 1,354	\$ 30	\$ 1,538
IFRS 16 Leases adjustment	—	—	278	278
Balance, January 1, 2019	\$ 154	\$ 1,354	\$ 308	\$ 1,816
Cash flows provided by (used in)				
Financing activities	598	—	(44)	554
Operating activities	—	—	(5)	(5)
Total cash movements	\$ 598	\$ —	\$ (49)	\$ 549
Non-cash changes				
Additions through business combination (Note 9)	—	—	30	30
Additions	—	—	37	37
Disposals and remeasurement of liability	—	—	(11)	(11)
Interest expense	—	—	5	5
Foreign exchange rate changes	(1)	(33)	(4)	(38)
Total non-cash movements	\$ (1)	\$ (33)	\$ 57	\$ 23
Balance, June 30, 2019	\$ 751	\$ 1,321	\$ 316	\$ 2,388

9. ACQUISITION

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

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

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

The acquisition-date fair values of acquired tangible and intangible assets, assumed liabilities and deferred tax liabilities were as follows:

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

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

Acquisition costs of \$4 million were paid on the transaction and recorded as other expenses in the consolidated statement of income in the six months ended June 30, 2019.