2022

FINNING INTERNATIONAL INC.

Financial report

MANAGEMENT'S DISCUSSION AND ANALYSIS

February 6, 2023

This ***MD&A*** should be read in conjunction with our ***Annual Financial Statements*** and the accompanying notes thereto for the year ended December 31, 2022, which have been prepared in accordance with ***IFRS***. In this MD&A, unless context otherwise requires, the terms we, us, our, and ***Finning*** refer to Finning International Inc. and/or its subsidiaries. All dollar amounts presented in this MD&A are expressed in ***CAD***, unless otherwise stated. Additional information relating to Finning, including our ***AIF*** and MD&A, can be found under our profile on the ***SEDAR*** website at www.sedar.com and in the investors section of our website at www.finning.com.

Finning (***TSX***:FTT) is the largest dealer of ***Caterpillar*** products in the world delivering service to customers for 90 years. We sell, rent, and provide parts and service for Caterpillar equipment and engines and complementary equipment on three continents to customers in various industries, including mining, construction, petroleum, forestry, and a wide range of power systems applications. We aim to consistently deliver solutions that enable customers to achieve the lowest equipment owning and operating costs while maximizing uptime.

A glossary of defined terms is included on page 52. The first time a defined term is used in this MD&A, it is shown in bold italics.

Annual Overview

Years ended December 31 **($ millions, except per share amounts)**	**2022**	2021	% change ***fav (unfav)***
Revenue	**9,279**	7,294	27%
Net revenue [1]	**8,215**	6,696	23%
Gross profit	**2,223**	1,801	23%
SG&A	**(1,458)**	(1,266)	(15)%
Equity earnings of joint ventures	**3**	2	37%
Other income	**—**	15	***n/m***
EBIT	**768**	552	39%
Net income attributable to shareholders of Finning	**503**	364	38%
EPS	**3.25**	2.26	44%
Free cash flow [2]	**(170)**	300	n/m
Adjusted EBIT [2][3]	**768**	537	43%
Adjusted EPS [1][3]	**3.25**	2.18	49%
Gross profit as a % of net revenue [1]	***27.1%***	*26.9%*	
SG&A as a % of net revenue [1]	***(17.7)%***	*(18.9)%*	
EBIT as a % of net revenue [1]	***9.3%***	*8.2%*	
Adjusted EBIT as a % of net revenue [1][3]	***9.3%***	*8.0%*	
*Adjusted **ROIC*** [1][3][4]	***18.7%***	*16.4%*	

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

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

(3) Reported financial measures may be impacted by significant items described on pages 38 - 42 of this MD&A. Financial measures that have been adjusted to take these items into account are referred to as "Adjusted measures". See "Description of Specified Financial Measures and Reconciliations" in this MD&A.

(4) There were no significant items identified by management that affected our EBIT for the twelve months ended December 31, 2022 and therefore, December 31, 2022 ROIC is the same as Adjusted ROIC.

Annual Highlights

- 2022 revenue was $9.3 billion. Net revenue of $8.2 billion was up 23% from 2021, reflecting higher volumes in most lines of business, driven primarily by product support revenue and new equipment sales in all regions.
- 2022 EBIT was $768 million and EBIT as a percentage of net revenue was 9.3%. Excluding significant items not considered indicative of operational and financial trends, Adjusted EBIT and Adjusted EBIT as a percentage of net revenue were $537 million and 8.0%, respectively, in 2021. Higher EBIT in 2022 was driven by healthy market conditions, the successful execution of our product support growth strategy and productivity improvements. EBIT as a percentage of net revenue improved in all regions with lower SG&A relative to net revenue compared to 2021.
- EPS was $3.25 in 2022 compared to $2.26 in 2021. Excluding significant items not considered indicative of operational and financial trends, Adjusted EPS was $2.18 in 2021. 2022 EPS increased significantly from 2021 as a result of strong earnings across all operations and disciplined operational execution.
- Adjusted ROIC at December 31, 2022 was 18.7%, an improvement of 230 basis points from December 31, 2021, driven by improved profitability in all of our operations.
- 2022 free cash flow was a use of cash of $170 million compared to a generation of $300 million of cash in 2021, reflecting increased working capital requirements to support the delivery of our significant equipment backlog and strong product support growth.
- Consolidated equipment backlog [1] was a record $2.5 billion at December 31, 2022. Compared to December 31, 2021, backlog was up 35%, driven by higher order intake in mining and power systems.

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

Table of Contents

Annual Overview 1
Annual Highlights 2
Strategic Framework 4
Adjusted Measures 5
Annual Key Performance Measures 6
Annual Results 8
Invested Capital 10
Adjusted Return on Invested Capital and Invested Capital Turnover 11
Results by Reportable Segment 12
Acquisition 16
Fourth Quarter Overview 17
Fourth Quarter Highlights 17
Quarterly Key Performance Measures 18
Fourth Quarter Results 20
Market Update and Business Outlook 24
Liquidity and Capital Resources 26
Accounting and Estimates 29
Risk Factors and Management 32
Contingencies and Guarantees 35
Outstanding Share Data 35
Controls and Procedures Certification 36
Description of Specified Financial Measures and Reconciliations 37
Selected Annual Information 47
Selected Quarterly Information 48
Forward-Looking Information Disclaimer 49
Glossary of Defined Terms 52

Strategic Framework

Our strategic plan is based on our Purpose, Vision, and Values, which have been articulated with the input of our employees and comprise our strategic framework:

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

Simple Execution Plan

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

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

Sustainability

At Finning, we are committed to sustainability. We focus on a business model that creates value for all our stakeholders, including employees, communities, customers and shareholders. We work to create positive impacts in the communities where we operate, reduce our environmental footprint, help our customers reduce their emissions and environmental footprint, and continually evolve to address the needs of our stakeholders.
In 2022, we continued making progress in our sustainability journey. We focused on the sustainability topics that are most relevant to our business, including people, environment, customers, communities, ethics, governance and cybersecurity. Our performance and progress in our journey are highlighted in our annual Sustainability Report and through the implementation of our sustainability roadmap, which is overseen by our global sustainability committee comprised of representatives from Human Resources, Communications, Investor Relations, Legal, Business, Supply Chain, Enterprise Risk Management, and Health, Safety and Environment. In 2022, we continued to make good progress towards achieving our ***GHG*** emissions reduction target set in 2021 to reduce our absolute GHG emissions by 40% by 2027 (from a 2017 baseline). Additionally, we continue to provide customers with equipment and solutions to improve safety and enhance performance by combining leading technology with data-driven insights, all while reducing their environmental footprint. This includes low emissions equipment, renewable power solutions, low emissions fuels, extension of equipment life through remanufacturing, and our CUBIQ™ Sustainability Dashboard, which enables monitoring, benchmarking and tracking of fuel consumption and emissions. In 2022, we continued our efforts to support the United Nations Sustainable Development Goals by continuing to align our Sustainability Report with these commitments. We are also evolving the disclosure of our climate-related risks and opportunities. We have aligned our Sustainability Report information with the Task Force on Climate-Related Financial Disclosures and the Sustainability Accounting Standards Board. We continue to disclose to the Carbon Disclosure Project annually. Our Sustainability Report meets the Global Reporting Initiative core standard.

Our 2022 Sustainability Report will be published in March 2023. The previous Sustainability Reports and related disclosures are available on our website at www.finning.com.

Adjusted Measures

Reported financial measures may be impacted by significant items we do not consider indicative of operational and financial trends either by nature or amount; these are referred to as “Adjusted measures”. Adjusted measures are considered non-GAAP financial measures, do not have a standardized meaning under IFRS, and therefore may not be comparable to similar measures presented by other issuers. For additional information regarding these financial measures, including definitions and reconciliations from each of these Adjusted measures to their most directly comparable measure under GAAP, where available, see the heading “Description of Specified Financial Measures and Reconciliations” on pages 37 - 46 of this MD&A.

There were no significant items identified by management that affected our 2022 results.

2021 significant items:

- Finning qualified for and recorded a benefit in Q1 2021 related to ***CEWS***, which was introduced by the Government of Canada in response to the ***COVID-19*** pandemic for eligible entities that met specific criteria.
- In December 2020, the shareholders of ***Energyst***, which included Finning, decided to restructure the company. A plan was put in place to sell any remaining assets and wind-up Energyst, with net proceeds from the sale to be distributed to Energyst’s shareholders. In Q1 2021, we recorded a return on our investment in Energyst.

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

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

Annual Key Performance Measures

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

	2022	2021	2020	2019	2018 [1]
ROIC [2][3] (%)					
Consolidated	**18.7%**	16.8%	11.4%	11.2%	12.8%
Canada	**18.7%**	17.5%	14.6%	13.7%	16.6%
South America	**24.5%**	20.3%	11.0%	9.6%	12.2%
UK & Ireland	**17.0%**	14.8%	4.5%	12.1%	14.2%
EBIT [2] ($ millions)					
Consolidated	**768**	552	392	425	423
Canada	**435**	327	288	296	297
South America	**310**	209	121	120	142
UK & Ireland	**74**	53	16	46	51
EBIT as a % of net revenue [2]					
Consolidated	**9.3%**	8.2%	6.8%	5.8%	6.0%
Canada	**10.5%**	9.7%	9.7%	7.5%	8.1%
South America	**11.3%**	9.4%	6.3%	5.4%	6.6%
UK & Ireland	**5.5%**	4.7%	1.8%	4.1%	4.4%
EBITDA [2][4] ($ millions)					
Consolidated	**1,101**	871	700	718	610
Canada	**626**	518	473	470	393
South America	**407**	293	204	201	204
UK & Ireland	**115**	94	53	82	79
EBITDA as a % of net revenue [2][3]					
Consolidated	**13.4%**	13.0%	12.1%	9.9%	8.7%
Canada	**15.1%**	15.3%	16.0%	12.0%	10.7%
South America	**14.8%**	13.2%	10.6%	9.0%	9.4%
UK & Ireland	**8.6%**	8.5%	6.0%	7.2%	6.9%
EPS [2]	**3.25**	2.26	1.43	1.48	1.38
Invested capital [3] ($ millions)					
Consolidated	**4,170**	3,326	3,067	3,591	3,163
Canada	**2,447**	1,876	1,819	2,026	1,675
South America	**1,281**	1,026	931	1,192	1,190
UK & Ireland	**428**	381	327	361	336
Invested capital turnover [3] (times)					
Consolidated	**2.01**	2.04	1.68	1.92	2.12
Canada	**1.77**	1.80	1.50	1.81	2.05
South America	**2.16**	2.15	1.75	1.78	1.86
UK & Ireland	**3.09**	3.11	2.49	2.98	3.22
Inventory ($ millions)	**2,461**	1,687	1,477	1,990	2,061
Inventory turns (dealership) [3] (times)	**2.61**	3.09	2.79	2.53	2.68
Working capital to net revenue [3]	**27.4%**	22.9%	28.3%	27.8%	26.6%
Free cash flow ($ millions)	**(170)**	300	870	42	78

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

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

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

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

Adjusted Annual KPIs

KPIs may be impacted by significant items described on pages 5 and 38 - 42 of this MD&A. KPIs that have been adjusted to take these items into account, referred to as Adjusted KPIs, were as follows:

	2022	2021	2020	2019	2018 [1]
Adjusted ROIC (%)					
Consolidated	**18.7%**	16.4%	9.6%	12.0%	13.5%
Canada	**18.7%**	16.9%	10.5%	14.4%	16.2%
South America	**24.5%**	20.3%	12.9%	10.5%	12.2%
UK & Ireland	**17.0%**	14.8%	5.5%	12.1%	14.2%
Adjusted EBIT ($ millions)					
Consolidated	**768**	537	328	457	446
Canada	**435**	317	205	313	290
South America	**310**	209	142	131	142
UK & Ireland	**74**	53	20	46	51
Adjusted EBIT as a % of net revenue					
Consolidated	**9.3%**	8.0%	5.7%	6.3%	6.4%
Canada	**10.5%**	9.4%	7.0%	8.0%	7.9%
South America	**11.3%**	9.4%	7.4%	5.9%	6.6%
UK & Ireland	**5.5%**	4.7%	2.2%	4.1%	4.4%
Adjusted EBITDA [2] ($ millions)					
Consolidated	**1,101**	856	636	750	633
Canada	**626**	508	390	487	386
South America	**407**	293	225	212	204
UK & Ireland	**115**	94	57	82	79
Adjusted EBITDA as a % of net revenue [3]					
Consolidated	**13.4%**	12.8%	11.0%	10.3%	9.0%
Canada	**15.1%**	15.1%	13.2%	12.4%	10.5%
South America	**14.8%**	13.2%	11.7%	9.5%	9.4%
UK & Ireland	**8.6%**	8.5%	6.5%	7.2%	6.9%
Adjusted EPS	**3.25**	2.18	1.14	1.65	1.65
Net debt to Adjusted EBITDA ratio [3] (times)	**1.6**	1.1	1.4	2.0	1.7

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

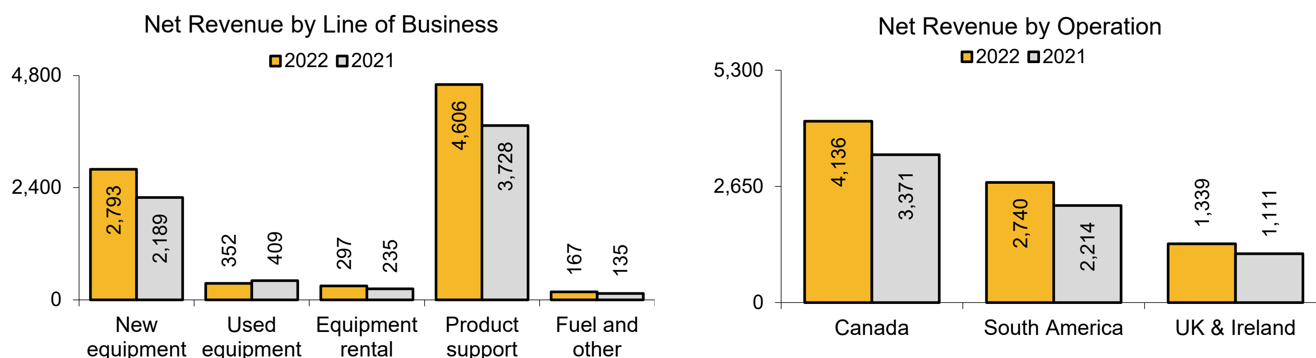
(2) These are non-GAAP financial measures. See “Description of Specified Financial Measures and Reconciliations” in this MD&A.

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

Annual Results

Revenue

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

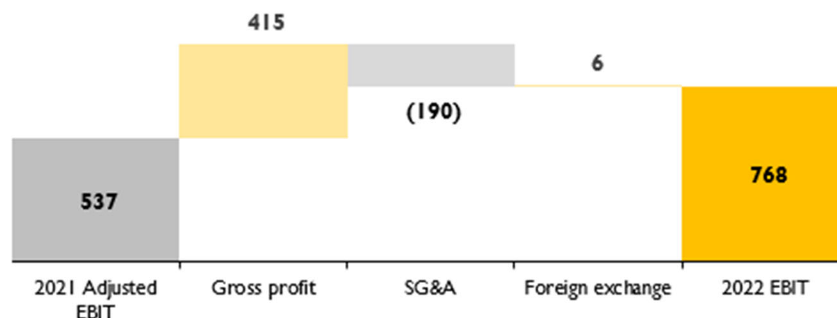


Revenue was $9.3 billion in 2022 compared to $7.3 billion during 2021. Net revenue of $8.2 billion increased 23% from the prior year, largely driven by strong market activity in the mining and construction sectors in all of our regions.

Product support revenue in 2022 was 24% higher than 2021, up in all operations with higher demand in all market sectors, primarily in the mining sector in Canada and South America and the construction sector in all of our regions.

New equipment revenue in 2022 was 28% higher than the prior year, up in all regions, driven by higher demand in the mining sector in Canada and South America and the construction sector in UK & Ireland. Equipment backlog at December 31, 2022 was $2.5 billion, up from $1.9 billion at December 31, 2021 due to extremely strong order intake in 2022, which outpaced strong equipment deliveries in all of our operations.

EBIT

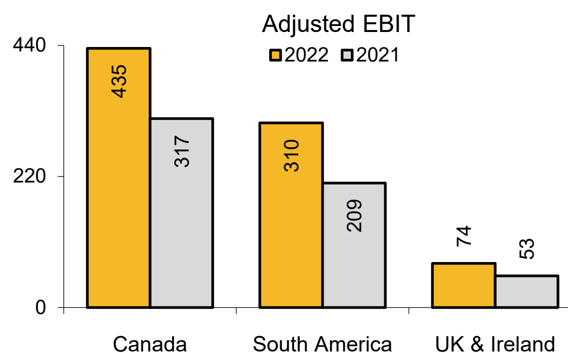


Gross profit in 2022 of $2.2 billion was 23% higher than the prior year, in line with net revenue growth. Overall gross profit as a percentage of net revenue of 27.1% was up slightly from 2021.

SG&A in 2022 of $1.5 billion was 15% higher than the prior year primarily due to higher people-related costs, asset and facility costs, and variable costs to support revenue growth. This increase was partially offset by the favourable foreign currency translation impact on SG&A of our South American operations from the devaluation of the ***CLP*** and ***ARS*** relative to the ***USD*** in 2022 compared to 2021. Although SG&A costs were higher in the current year, SG&A as a percentage of net revenue of 17.7% improved 120 basis points from the prior year as all of our operations realized productivity improvements.

EBIT was $768 million and EBIT as a percentage of net revenue was 9.3% in 2022, compared to $552 million and 8.2%, respectively, in 2021. Excluding significant items not indicative of financial and operational trends described on page 5, Adjusted EBIT in 2021 was $537 million and 8.0%, respectively. All of our operations contributed significantly higher earnings and Adjusted EBIT as a percentage of net revenue in 2022.

Adjusted EBIT by Operation (1)
Years ended December 31
($ millions)



(1) Excluding Other operations

Finance Costs

Finance costs for 2022 of $95 million were higher than $75 million in 2021 due to higher interest rates on higher average short-term debt levels in the current year.

Provision for Income Taxes

The effective income tax rate for 2022 of 25.6% was up from 23.9% for 2021. The effective income tax rate was lower in 2021 due to a higher proportion of earnings from lower tax jurisdictions compared to the current year.

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

Net Income Attributable to Shareholders of Finning and EPS

Net income attributable to shareholders of Finning was $503 million and EPS was $3.25 in 2022, compared to $364 million and $2.26, respectively, in 2021. Excluding the significant items not indicative of financial and operational trends described on page 5, Adjusted EPS was $2.18 in 2021. EPS of $3.25 in 2022 was 49% higher than Adjusted EPS in 2021 due to large deliveries from our backlog, strong product support growth rates, healthy market conditions, and improved profitability due to productivity improvements in all regions.

Invested Capital

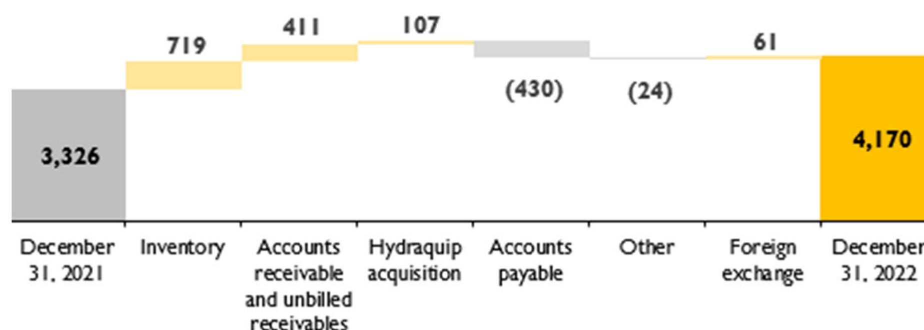
($ millions, unless otherwise stated)	December 31, 2022	December 31, 2021	Increase from December 31, 2021
Consolidated	**4,170**	3,326	844
Canada	**2,447**	1,876	571
South America	**1,281**	1,026	255
UK & Ireland	**428**	381	47
South America (USD)	***946***	*809*	*137*
UK & Ireland (**GBP**)	***262***	*222*	*40*

Compared to December 31, 2021:

The $844 million increase in consolidated invested capital from December 31, 2021 to December 31, 2022 includes a foreign exchange impact of $61 million in translating the invested capital balances of our UK & Ireland and South American operations. The foreign exchange impact was the result of the 7% weaker CAD relative to the USD partially offset by the 5% stronger CAD relative to the GBP at December 31, 2022 compared to December 31, 2021.

Excluding the impact of foreign exchange, consolidated invested capital increased by $783 million from December 31, 2021 to December 31, 2022 reflecting:

- higher new equipment and parts inventory in all operations, especially in Canada and South America to support customer demand and product support growth;
- an increase in accounts receivable and unbilled receivables in all operations, primarily in Canada, driven by an increase in demand and sales activity;
- an increase in net assets from the acquisition of ***Hydraquip*** in the UK & Ireland;
- partially offset by higher accounts payable in all operations related to higher inventory purchases.



Adjusted ROIC and Invested Capital Turnover

	December 31, 2022	December 31, 2021
Adjusted ROIC		
Consolidated	**18.7%**	16.4%
Canada	**18.7%**	16.9%
South America	**24.5%**	20.3%
UK & Ireland	**17.0%**	14.8%
Invested Capital Turnover (times)		
Consolidated	**2.01**	2.04
Canada	**1.77**	1.80
South America	**2.16**	2.15
UK & Ireland	**3.09**	3.11

Adjusted ROIC

On a consolidated basis, ROIC at December 31, 2022 improved 230 basis points from Adjusted ROIC at December 31, 2021. Higher EBIT for the last twelve-month period, reflecting higher volumes and improved profitability in all of our operations, outpaced the increase in average invested capital levels. Consolidated ROIC of 18.7% was the highest since Q2 2011. South America reached an all-time high ROIC of 24.5%.

Invested Capital Turnover

Consolidated invested capital turnover at December 31, 2022 of 2.01 was down slightly from December 31, 2021, lower in Canada and UK & Ireland, as the increase in average invested capital levels outpaced the increase in net revenue over the last twelve-month period. Invested capital turnover in South America was comparable to the prior year.

Results by Reportable Segment

We operate primarily in one principal business: the sale, service, and rental of heavy equipment, engines, and related products in various markets on three continents as described on pages 13 - 16. Our reportable segments are Canada, South America, UK & Ireland, and Other.

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

Year ended December 31, 2022 ($ millions)	Canada	South America	UK & Ireland	Consol	Net Revenue % [1]
New equipment	**1,001**	**926**	**866**	**2,793**	**34%**
Used equipment	**259**	**37**	**56**	**352**	**4%**
Equipment rental	**192**	**60**	**45**	**297**	**4%**
Product support	**2,517**	**1,717**	**372**	**4,606**	**56%**
Fuel and other	**167**	**—**	**—**	**167**	**2%**
Net revenue	**4,136**	**2,740**	**1,339**	**8,215**	**100%**
Net revenue % by operation [1]	**51%**	**33%**	**16%**	**100%**	

Year ended December 31, 2021 ($ millions)	Canada	South America	UK & Ireland	Consol	Net Revenue %
New equipment	774	711	704	2,189	33%
Used equipment	310	48	51	409	6%
Equipment rental	153	40	42	235	3%
Product support	1,999	1,415	314	3,728	56%
Fuel and other	135	—	—	135	2%
Net revenue	3,371	2,214	1,111	6,696	100%
Net revenue % by operation	50%	33%	17%	100%	

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

Canada Operations

Our Canadian reporting segment includes ***Finning (Canada)***, ***OEM***, ***4Refuel***, and a 25% interest in ***PLM***. Our Canadian operations sell, service, and rent mainly Caterpillar equipment and engines in British Columbia, Alberta, Saskatchewan, the Yukon Territory, the Northwest Territories, and a portion of Nunavut, and also provide mobile on-site refuelling services in most of the provinces of Canada, as well as in Texas, ***US***. Our Canadian operations' markets include mining (including the oil sands), construction, conventional oil and gas, forestry, and power systems.

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

Years ended December 31 ($ millions)	2022	2021
Net revenue	**4,136**	3,371
Operating costs	**(3,513)**	(2,865)
Depreciation and amortization	**(191)**	(191)
Equity earnings of joint ventures	**3**	2
Other income	**—**	10
EBIT	**435**	327
Adjusted EBIT	**435**	317
EBIT as a % of net revenue	***10.5%***	*9.7%*
Adjusted EBIT as a % of net revenue	***10.5%***	*9.4%*

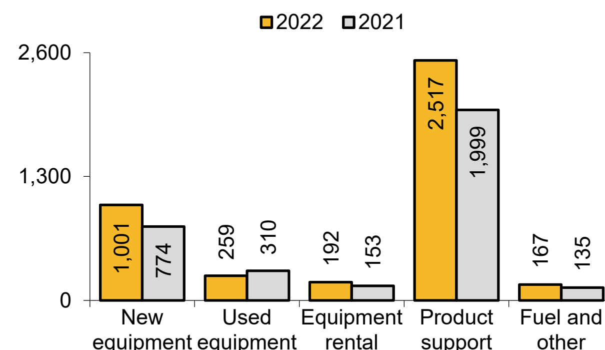
2022 Annual Overview

2022 net revenue of $4.1 billion was 23% higher than 2021, up in most lines of business due to strong market conditions in Western Canada.

Product support revenue in 2022 was up 26% from 2021 driven by strong demand in all sectors and successful execution of our product support growth strategy, including the positive impact of supplier cost passthrough.

2022 new equipment revenue was 29% higher than 2021, up in all market sectors but primarily in mining, driven by strong sales and conversion of rental equipment with purchase options, as well as mining customers renewing their aging fleets. Equipment backlog at December 31, 2022 was higher than December 31, 2021 as strong order intake outpaced deliveries, primarily in the construction and mining sectors.

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



2022 used equipment revenue decreased 16% from 2021 due to the supply of used equipment remaining tight in Western Canada.

Gross profit in 2022 increased from 2021, in line with increased volumes. Overall gross profit as a percentage of net revenue in 2022 was down slightly from 2021, reflecting lower product support and new equipment gross profit as a percentage of net revenue partially offset by a higher proportion of product support revenue in the revenue mix.

2022 SG&A was up 15% compared to the prior year on 23% net revenue growth. 2022 SG&A increased mainly due to higher people and variable costs to support volume growth. SG&A as a percentage of net revenue improved over the prior year, benefiting from an improvement in labour and facility productivity.

Our Canadian operations contributed EBIT of $435 million in 2022, up 37% from Adjusted EBIT of $317 million in the prior year on 23% higher net revenues. EBIT as a percentage of net revenue in 2022 was 10.5%, an improvement of 110 basis points from Adjusted EBIT as a percentage of net revenue in 2021. This increase in profitability reflected strong execution and operating leverage on strong revenue growth.

South America Operations

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

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

Years ended December 31 ($ millions)	2022	2021
Net revenue	**2,740**	2,214
Operating costs	**(2,333)**	(1,921)
Depreciation and amortization	**(97)**	(84)
EBIT	**310**	209
EBIT as a % of net revenue	***11.3%***	*9.4%*

The weaker CAD relative to the USD on average in 2022 compared to 2021 had a favourable foreign currency translation impact on 2022 net revenue of approximately $110 million and on EBIT of approximately $10 million.

All $ figures in this section are in CAD as this is our reporting currency. All variances and ratios in this section are based on the functional currency of our South American operations, which is the USD. These variances and ratios exclude the foreign currency translation impact from the CAD relative to the USD and are therefore considered to be specified financial measures. We believe the variances and ratios in functional currency provide meaningful information about operational performance of the reporting segment.

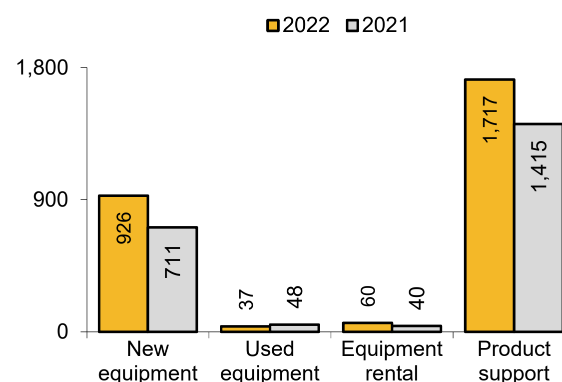
2022 Annual Overview

2022 net revenue was 19% higher than 2021, largely driven by stronger market activity in the mining and construction sectors.

Product support revenue in 2022 increased 17% from 2021, mainly due to solid market activity and volumes, primarily in Chile where there continued to be strong demand for component exchanges, equipment overhauls, and fleet maintenance.

New equipment revenue in 2022 was 25% higher than the same prior year period, driven by significant mining deliveries in Chile as well as higher demand in the construction sector in Argentina. Equipment backlog at December 31, 2022 was up from December 31, 2021, primarily due to demand in the mining and construction sectors, and order intake outpacing deliveries.

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



Gross profit in 2022 increased from 2021 mainly due to increased volumes. Gross profit as a percentage of net revenue in 2022 was higher than 2021 mainly due to higher gross profit as a percentage of net revenue in all lines of business, partially offset by a shift to higher new equipment sales in the revenue mix.

2022 SG&A costs were up 11% from 2021 on 19% higher net revenue. 2022 SG&A increased mainly due to higher variable costs to support volumes, including people-related, and facility costs. This increase was partially offset by the favourable foreign currency translation impact on SG&A from the devaluation of the CLP and ARS relative to the USD in 2022 compared to 2021. 2022 SG&A as a percentage of net revenue was lower than 2021 due to the improved cost structure and service profitability.

2022 EBIT of $310 million was higher than 2021 EBIT of $209 million. 2022 EBIT as a percentage of net revenue of 11.3% improved by 190 basis points from 2021 EBIT reflecting increased profitability and operating leverage on strong revenue growth.

Other Developments

During the three months ended December 31, 2022, approximately 1,500 hourly employees in our Chilean operations represented by three unions voted in support of new collective agreements. The new three-year collective agreements will expire in Q4 2025.

UK & Ireland Operations

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

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

Years ended December 31 ($ millions)	2022	2021
Net revenue	**1,339**	1,111
Operating costs	**(1,224)**	(1,017)
Depreciation and amortization	**(41)**	(41)
EBIT	**74**	53
EBIT as a % of net revenue	***5.5%***	*4.7%*

The stronger CAD relative to the GBP on average in 2022 compared to 2021 had an unfavourable foreign currency translation impact on 2022 net revenue of approximately $100 million and on EBIT of approximately $5 million.

All $ figures in this section are in CAD as this is our reporting currency. All variances and ratios in this section are based on the functional currency of our UK & Ireland operations, which is the GBP. These variances and ratios exclude the foreign currency translation impact from the CAD relative to the GBP and are therefore considered to be specified financial measures. We believe the variances and ratios in functional currency provide meaningful information about operational performance of the reporting segment.

2022 Annual Overview

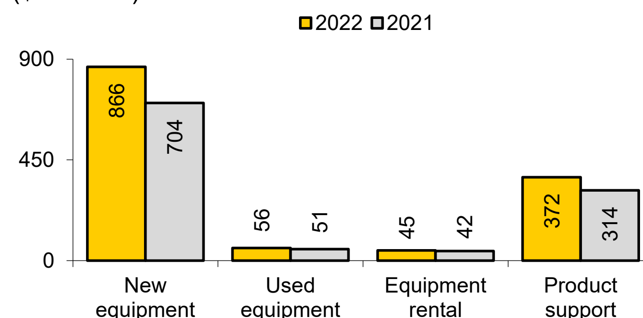
2022 net revenue was up 30% from 2021, up in all lines of business, mainly due to higher new equipment revenue.

New equipment revenue was 32% higher than 2021, primarily in the construction sector which included deliveries to the ***HS2*** project. Equipment backlog at December 31, 2022 was lower than December 31, 2021 due to strong deliveries in the construction sector.

2022 product support revenue increased 28% from the prior year, mainly in the construction sector, and includes the contribution from Hydraquip since its acquisition at the end of March 2022.

Gross profit in 2022 was up from the prior year, in line with revenue growth. Overall gross profit as a percentage of net revenue was comparable to the prior year.

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



SG&A was up 20% in 2022 compared to 2021 on 30% net revenue growth. The increase in SG&A reflected additional costs from Hydraquip, as well as variable costs to support volumes including higher people-related costs. SG&A as a percentage of net revenue was lower in 2022 compared to 2021 primarily due to the leverage of fixed costs on significant revenue growth.

2022 EBIT of $74 million was higher than 2021 EBIT of $53 million. EBIT as a percentage of net revenue of 5.5% in 2022 was 80 basis points higher than EBIT as a percentage of net revenue in the prior year reflecting operating leverage on strong revenue growth and structural profitability improvements, as well as the addition of Hydraquip.

Other Developments

During the year ended December 31, 2022, approximately 600 hourly employees in the Service and Parts groups in our UK & Ireland operations represented by two unions voted in support of new collective agreements. The new two-year collective agreements were effective April 1, 2021 and will expire on March 31, 2023.

Other Operations

Our Other operations includes corporate operating costs.

2022 EBIT loss was $51 million compared to 2021 Adjusted EBIT loss of $42 million due to higher people-related costs, including our short-term incentive plan expense, this year compared to 2021.

Acquisition

Hydraquip

On March 22, 2022, our UK & Ireland operations acquired a 100% ownership interest in Hydraquip, the UK's second largest hose replacement and repair company. Hydraquip earns approximately 60% of its revenue from on-site mobile hose services and the remaining 40% from selling hydraulic and fluid power products and parts. Hydraquip's revenue is included in our product support line of business. This purchase has been accounted for as a business combination using the acquisition method of accounting.

The fair value of the total consideration at the acquisition date was estimated to be $117 million (£70 million). Cash consideration of $84 million, net of $10 million cash acquired, was paid in the three months ended March 31, 2022. The fair value of deferred consideration was $19 million. The vendors may qualify for additional consideration (possible range of £nil to £11 million) based on the acquired business unit achieving specified levels of financial performance. The acquisition-date fair value of the contingent consideration was estimated to be $4 million (£2 million). The deferred and contingent consideration was recognized as a liability on the consolidated statement of financial position and is payable in annual instalments over a period of three years after the acquisition. Following finalization of the purchase price allocation, any changes in the estimated fair value of the contingent consideration will be recognized in the consolidated statement of income.

The acquisition was funded with existing credit facilities and any deferred and contingent consideration will be funded through credit facilities or cash on hand or a combination of both. We finalized the purchase price allocation during the three months ended December 31, 2022. The acquisition-date fair values of net assets acquired were estimated to be $10 million of cash and cash equivalents, $3 million of working capital [(1)], $6 million of property, plant, and equipment, $29 million of intangible assets, $80 million of goodwill, $3 million of lease liabilities, and $8 million of deferred tax liabilities.

Goodwill relates to the expected synergies from combining complementary capabilities that help customers maximize uptime and reduce operating costs and the expected growth potential for product support revenue. Hydraquip expands our service capabilities across multiple industries and equipment types to both new and existing customers.

(1) Working capital comprises accounts receivable, inventory, other assets, accounts payable and accruals, and provisions.

Fourth Quarter Overview

($ millions, except per share amounts)	Q4 2022	Q4 2021	% change fav (unfav)
Revenue	**2,653**	1,949	36%
Net revenue	**2,368**	1,774	34%
Gross profit	**628**	484	30%
SG&A	**(416)**	(328)	(27)%
Equity earnings of joint ventures	**2**	1	n/m
EBIT	**214**	157	36%
Net income attributable to shareholders of Finning	**136**	104	30%
EPS	**0.89**	0.66	36%
Free cash flow	**332**	148	125%
Gross profit as a % of net revenue	***26.5%***	*27.3%*	
SG&A as a % of net revenue	***(17.6)%***	*(18.5)%*	
EBIT as a % of net revenue	***9.0%***	*8.9%*	
Adjusted ROIC	***18.7%***	*16.4%*	

Fourth Quarter Highlights

- Q4 2022 revenue was $2.7 billion. Q4 2022 net revenue of $2.4 billion was 34% higher than Q4 2021 with higher revenue in most lines of business driven by large deliveries from our backlog, strong product support growth rates, and healthy market conditions in all of our regions.
- Q4 2022 EBIT was $214 million and EBIT as a percentage of net revenue was 9.0%, higher than $157 million and 8.9%, respectively, in Q4 2021. All regions improved their operating leverage in Q4 2022 compared to the prior year comparable quarter with Q4 2022 EBIT as a percentage of net revenue of 11.4% in South America, 11.0% in Canada, and 4.4% in the UK & Ireland.
- Q4 2022 EPS was $0.89, up 36% from Q4 2021 EPS of $0.66. This increase was driven by strong revenue growth and operational execution.
- Q4 2022 free cash flow generation of $332 million was higher than $148 million in Q4 2021, mainly due to higher collections from increased revenues partially offset by higher inventory purchases.

Quarterly Key Performance Measures

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

	2022				2021				2020
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4
ROIC [1] (%)									
Consolidated	**18.7%**	18.3%	17.5%	17.0%	16.8%	15.6%	15.3%	12.5%	11.4%
Canada	**18.7%**	18.2%	17.4%	17.4%	17.5%	16.5%	17.0%	15.6%	14.6%
South America	**24.5%**	22.7%	22.3%	21.7%	20.3%	19.0%	17.2%	12.3%	11.0%
UK & Ireland	**17.0%**	16.6%	16.2%	15.7%	14.8%	14.9%	12.9%	6.5%	4.5%
EBIT [1] ($ millions)									
Consolidated	**214**	224	190	140	157	150	137	108	108
Canada	**128**	125	102	80	92	84	82	69	72
South America	**96**	85	64	65	59	58	51	41	41
UK & Ireland	**16**	21	23	14	12	17	17	7	11
EBIT as a % of net revenue [1]									
Consolidated	**9.0%**	10.7%	9.4%	8.1%	8.9%	8.6%	8.0%	7.4%	6.9%
Canada	**11.0%**	11.7%	10.0%	9.1%	10.1%	10.4%	9.3%	8.9%	9.3%
South America	**11.4%**	12.3%	10.1%	11.4%	10.1%	9.2%	9.8%	8.6%	8.3%
UK & Ireland	**4.4%**	6.2%	6.4%	5.0%	4.3%	5.6%	5.3%	3.2%	3.7%
EBITDA [1] ($ millions)									
Consolidated	**301**	308	271	221	241	230	215	185	185
Canada	**178**	172	149	127	142	132	129	115	119
South America	**122**	110	87	88	81	80	71	61	61
UK & Ireland	**26**	32	33	24	23	27	27	17	20
EBITDA as a % of net revenue [1]									
Consolidated	**12.7%**	14.6%	13.5%	12.7%	13.6%	13.2%	12.6%	12.6%	11.9%
Canada	**15.2%**	16.1%	14.7%	14.3%	15.5%	16.5%	14.7%	14.9%	15.4%
South America	**14.5%**	15.9%	13.7%	15.4%	14.0%	12.5%	13.7%	12.8%	12.2%
UK & Ireland	**7.3%**	9.1%	9.3%	8.7%	8.3%	9.0%	8.5%	7.9%	7.0%
EPS [1]	**0.89**	0.97	0.80	0.59	0.66	0.61	0.56	0.43	0.45
Invested capital ($ millions)									
Consolidated	**4,170**	4,358	4,076	3,777	3,326	3,335	3,277	3,177	3,067
Canada	**2,447**	2,450	2,319	2,122	1,876	1,922	1,861	1,832	1,819
South America	**1,281**	1,438	1,203	1,139	1,026	1,057	1,058	982	931
UK & Ireland	**428**	400	458	448	381	339	358	350	327
Invested capital turnover (times)									
Consolidated	**2.01**	1.96	2.00	2.03	2.04	2.01	1.93	1.78	1.68
Canada	**1.77**	1.77	1.76	1.79	1.80	1.74	1.70	1.56	1.50
South America	**2.16**	2.07	2.19	2.15	2.15	2.11	1.97	1.90	1.75
UK & Ireland	**3.09**	2.98	3.00	3.09	3.11	3.25	3.09	2.66	2.49
Inventory ($ millions)	**2,461**	2,526	2,228	2,101	1,687	1,627	1,643	1,593	1,477
Inventory turns (dealership) (times)	**2.61**	2.52	2.50	2.66	3.09	3.09	2.84	2.83	2.79
Working capital to net revenue	**27.4%**	27.1%	25.1%	23.8%	22.9%	23.0%	24.0%	25.9%	28.3%
Free cash flow ($ millions)	**332**	(57)	(142)	(303)	148	176	(4)	(20)	292

[1] Certain of these reported financial measures have been impacted in some quarters in this table by significant items management does not consider indicative of operational and financial trends either by nature or amount. Financial measures that have been adjusted to take into account these items are referred to as "Adjusted measures" and are summarized on page 19 of this MD&A.

Adjusted Quarterly KPIs

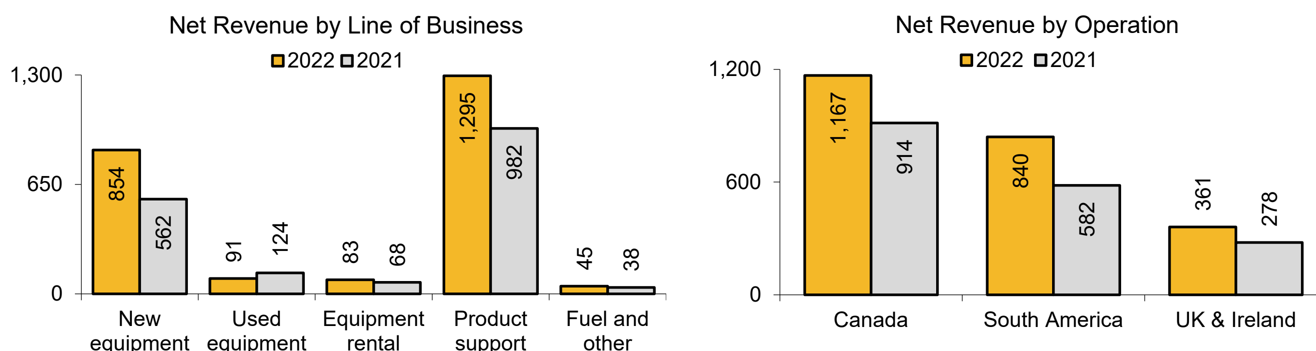
KPIs may be impacted by significant items described on pages 5 and 38 - 42 of this MD&A. KPIs that have been adjusted to take these items into account, referred to as Adjusted KPIs, were as follows:

	2022				2021				2020
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4
Adjusted ROIC									
Consolidated	**18.7%**	18.3%	17.5%	17.0%	16.4%	14.7%	13.3%	10.0%	9.6%
Canada	**18.7%**	18.2%	17.4%	17.4%	16.9%	15.3%	14.0%	10.8%	10.5%
South America	**24.5%**	22.7%	22.3%	21.7%	20.3%	19.0%	17.2%	14.4%	12.9%
UK & Ireland	**17.0%**	16.6%	16.2%	15.7%	14.8%	14.9%	12.9%	7.6%	5.5%
Adjusted EBIT ($ millions)									
Consolidated	**214**	224	190	140	157	150	137	93	94
Canada	**128**	125	102	80	92	84	82	59	59
South America	**96**	85	64	65	59	58	51	41	41
UK & Ireland	**16**	21	23	14	12	17	17	7	11
Adjusted EBIT as a % of net revenue									
Consolidated	**9.0%**	10.7%	9.4%	8.1%	8.9%	8.6%	8.0%	6.3%	6.1%
Canada	**11.0%**	11.7%	10.0%	9.1%	10.1%	10.4%	9.3%	7.7%	7.7%
South America	**11.4%**	12.3%	10.1%	11.4%	10.1%	9.2%	9.8%	8.6%	8.3%
UK & Ireland	**4.4%**	6.2%	6.4%	5.0%	4.3%	5.6%	5.3%	3.2%	3.7%
Adjusted EBITDA ($ millions)									
Consolidated	**301**	308	271	221	241	230	215	170	171
Canada	**178**	172	149	127	142	132	129	105	106
South America	**122**	110	87	88	81	80	71	61	61
UK & Ireland	**26**	32	33	24	23	27	27	17	20
Adjusted EBITDA as a % of net revenue									
Consolidated	**12.7%**	14.6%	13.5%	12.7%	13.6%	13.2%	12.6%	11.6%	11.0%
Canada	**15.2%**	16.1%	14.7%	14.3%	15.5%	16.5%	14.7%	13.6%	13.7%
South America	**14.5%**	15.9%	13.7%	15.4%	14.0%	12.5%	13.7%	12.8%	12.2%
UK & Ireland	**7.3%**	9.1%	9.3%	8.7%	8.3%	9.0%	8.5%	7.9%	7.0%
Adjusted EPS	**0.89**	0.97	0.80	0.59	0.66	0.61	0.56	0.35	0.38
Net debt to Adjusted EBITDA ratio (times)	**1.6**	1.8	1.8	1.6	1.1	1.3	1.4	1.5	1.4

Fourth Quarter Results

Revenue

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



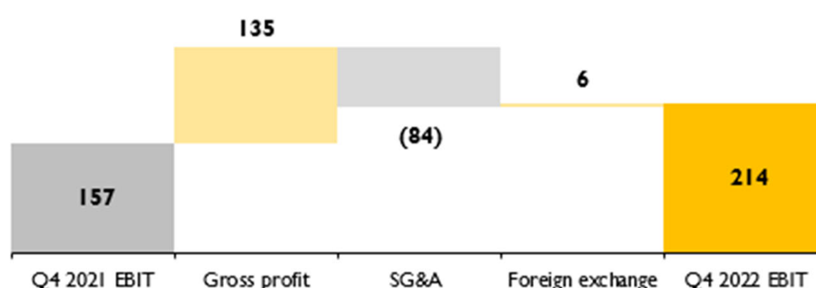
Q4 2022 revenue was $2.7 billion. Net revenue of $2.4 billion in the fourth quarter of 2022 was up 34% from Q4 2021, with higher revenues in most lines of business driven by disciplined operational execution and strong market activity.

Product support revenue was up 32% in Q4 2022 from the same prior year period, up in all market sectors and also up in all our operations, particularly in the mining sectors of Canada and South America. Product support revenue in the construction sector in Q4 2022 increased 25% over the comparable period in the prior year as a result of our strategic focus to capture market share in this sector.

Q4 2022 new equipment revenue was 52% higher than the same prior year period, up in all of our operations, driven primarily by significant mining deliveries to customers in Canada and higher deliveries to construction customers in Chile and Argentina.

EBIT

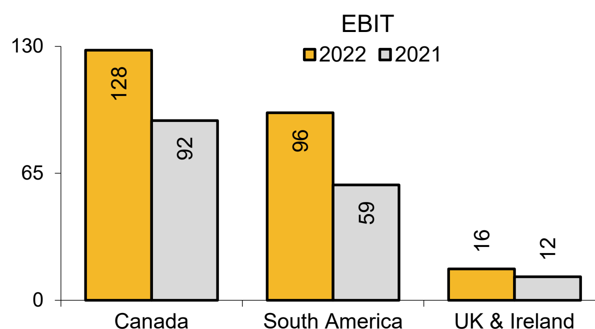
Q4 2022 gross profit of $628 million was 30% higher than the same period in the prior year, in line with net revenue growth. Overall gross profit as a percentage of net revenue was 26.5% in Q4 2022, down from 27.3% in Q4 2021, mainly due to a higher proportion of new equipment sales in the revenue mix and a higher number of lower margin mining equipment packages delivered in Q4 2022.



SG&A in Q4 2022 of $416 million was 27% higher than Q4 2021 on 34% net revenue growth. The increase in SG&A was driven primarily by higher people-related costs and variable costs to support revenue growth, and higher ***LTIP*** expense of $19 million, primarily in our Other operations segment. SG&A as a percentage of net revenue was 17.6%, a 90 basis point improvement over the same prior year period, demonstrating improved execution to capture growth opportunities and continued productivity improvements.

EBIT and EBIT as a percentage of net revenue in Q4 2022 were $214 million and 9.0%, respectively. Q4 2021 EBIT was $157 million and EBIT as a percentage of net revenue was 8.9%. EBIT was up in all our operations primarily from strong market activity as well as productivity improvements.

EBIT by Operation (1)
3 months ended December 31
($ millions)



Excluding Other operations

Finance Costs

Finance costs in Q4 2022 were $33 million, up from $19 million in Q4 2021 due to higher interest rates on higher average short-term debt levels in the current year period.

Provision for Income Taxes

The effective income tax rate in Q4 2022 was 25.3%, comparable to 25.0% in Q4 2021.

Net Income Attributable to Shareholders of Finning and EPS

Q4 2022 net income attributable to shareholders of Finning was $136 million, an increase of 30% from Q4 2021. Q4 2022 EPS was $0.89, a significant improvement from EPS of $0.66 in Q4 2021, driven by higher revenues and the disciplined execution of our strategic plan which improved our earnings capacity, partially offset by $0.10 per share higher LTIP expense.

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

3 months ended December 31, 2022 ($ millions)	**Canada**	**South America**	**UK & Ireland**	**Other**	**Consol**	**Net Revenue %**
New equipment	**308**	**313**	**233**	**—**	**854**	**36%**
Used equipment	**62**	**9**	**20**	**—**	**91**	**4%**
Equipment rental	**54**	**17**	**12**	**—**	**83**	**3%**
Product support	**698**	**501**	**96**	**—**	**1,295**	**55%**
Fuel and other	**45**	**—**	**—**	**—**	**45**	**2%**
Net revenue	**1,167**	**840**	**361**	**—**	**2,368**	**100%**
Operating costs	**(991)**	**(718)**	**(335)**	**(25)**	**(2,069)**	
Depreciation and amortization	**(50)**	**(26)**	**(10)**	**(1)**	**(87)**	
Equity earnings	**2**	**—**	**—**	**—**	**2**	
EBIT	**128**	**96**	**16**	**(26)**	**214**	
Net revenue percentage by operation	**49%**	**36%**	**15%**	**—**	**100%**	
EBIT as a % of net revenue	***11.0%***	***11.4%***	***4.4%***		***9.0%***	

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

All variances and ratios in this section are based on the functional currency of each operation (Canada: CAD, South America: USD, UK & Ireland: GBP).

Canada Operations

Q4 2022 net revenue of $1.2 billion was 28% higher than Q4 2021, with higher net revenue across all market segments driven by continued strong market conditions in Western Canada. Product support revenue in Q4 2022 was up 30% compared to the same prior year period, reflecting strong demand in all market segments and successful execution of our product support growth strategy, including the positive impact of the passthrough of supplier costs. The 56% increase in new equipment sales was mainly due to mining deliveries to customers in the oil sands and higher volumes in the construction and power system sectors. Used equipment sales were down 36% from record levels in Q4 2021, which saw large used equipment deals in mining and construction sectors.

Gross profit in Q4 2022 was higher than Q4 2021, mostly driven by higher volumes across most lines of business. Overall gross profit as a percentage of net revenue in Q4 2022 was lower than Q4 2021 mainly due to a higher proportion of new equipment sales in the revenue mix and a higher number of lower margin mining equipment packages delivered in 2022.

Q4 2022 SG&A was 17% higher than Q4 2021 on 28% net revenue growth. Higher SG&A reflected higher costs to support volumes, including people-related costs. SG&A as a percentage of net revenue was down 190 basis points from the same prior year period driven by improved operating leverage.

Q4 2022 EBIT was $128 million, up 39% from Q4 2021 EBIT of $92 million. This improvement was driven by net revenue growth as well as productivity improvements. As a result of these productivity improvements and the leverage of higher revenues to our fixed cost base, EBIT as a percentage of net revenue in Q4 2022 of 11.0% was higher than the 10.1% in Q4 2021.

South America Operations

The weaker CAD relative to the USD on average in Q4 2022 compared to Q4 2021 had a favourable foreign currency translation impact on Q4 2022 net revenue of approximately $60 million and on EBIT of approximately $5 million.

Q4 2022 net revenue was up 34% from Q4 2021. New equipment revenue in Q4 2022 was 54% higher than the prior year quarter, driven by higher deliveries to copper producers and large contractors supporting mining operations in Chile. In addition, we were able to catch up on some backlog deliveries from Q3 2022 which were delayed due to supply chain constraints. Product support revenue in Q4 2022 was up 25% from Q4 2021, driven by strong overall demand and higher volumes from new and expanded mining product support contracts in Chile, as well as the benefit of the passthrough of supplier costs in all market sectors.

Gross profit in Q4 2022 increased from Q4 2021, in line with higher net revenue. Gross profit as a percentage of net revenue decreased in the current period reflecting the higher proportion of new equipment sales in the revenue mix.

Q4 2022 SG&A costs were 17% higher than Q4 2021 on 34% net revenue growth, reflecting an improved cost structure and service productivity, as well as the favourable impact of the devaluation of the CLP. As a result, Q4 2022 SG&A as a percentage of net revenue was down significantly from Q4 2021.

Q4 2022 EBIT was $96 million, up from $59 million in Q4 2021 primarily due to revenue growth and productivity improvements. Q4 2022 EBIT as a percentage of net revenue of 11.4% was 130 basis points higher than Q4 2021, benefiting from improved operating leverage.

UK & Ireland Operations

The stronger CAD relative to the GBP on average in Q4 2022 compared to Q4 2021 had an unfavourable foreign currency translation impact on Q4 2022 net revenue of approximately $25 million and was not significant at the EBIT level.

Fourth quarter 2022 net revenue was 38% higher than the same period in 2021, an increase in all lines of business. New equipment sales were up 39%, driven by higher power systems project deliveries, higher HS2 deliveries, and robust demand in the construction sector. Q4 2022 product support revenue was up 38% from the same prior year period, reflecting solid activity in all end markets, strong execution of our product support growth strategy, including the positive impact of the passthrough of supplier costs, and the contribution from Hydraquip since its acquisition in March 2022.

Q4 2022 gross profit was higher than the same prior year period, in line with increased volumes. Gross profit as a percentage of net revenue in Q4 2022 was comparable to Q4 2021.

SG&A was up 39% in Q4 2022 compared to the prior year period, mainly due to the addition of Hydraquip, as well as higher variable and people-related costs to support volumes. SG&A as a percentage of net revenue in Q4 2022 was consistent with Q4 2021.

Q4 2022 EBIT was 40% higher than Q4 2021, driven by higher sales volumes. Q4 2022 EBIT as a percentage of net revenue of 4.4% was slightly higher than Q4 2021.

Market Update and Business Outlook

The discussion of our expectations relating to the market and business outlook in this section is forward-looking information that is based upon the assumptions and subject to the material risks discussed under the heading "Forward-Looking Information Disclaimer" beginning on page 49 of this MD&A. Actual outcomes and results may vary significantly.

Canada Operations

We expect market activity across Western Canada to remain healthy, supported by the strength in the mining and energy sectors.

Constructive commodity prices and improved capital budgets are expected to drive investment in renewal of aging fleets and product support opportunities in the oil sands and other mining. We expect to see growing demand for component remanufacturing, equipment rebuilds, and autonomy implementation as mining customers are looking to extend the life of their assets and improve productivity.

In the construction sector, federal and provincial governments' infrastructure programs and private sector investments in natural gas, carbon capture, utilization and storage, and various power projects are expected to continue driving demand for construction equipment and product support, rentals, and prime and standby electric power generation.

In the power systems sector, higher activity levels from energy customers are driving a notable increase in quoting and order intake. Our power systems backlog in Canada is at its highest levels since 2014.

South America Operations

We continue to closely monitor the Chilean constitutional reform, including the process for approval of the proposal for a revised mining royalty framework. We are encouraged by the latest moderated proposal. However, we expect the timing of investment decisions related to greenfield and new expansion projects to remain uncertain until the new royalty proposal is approved. Longer term, we expect Chile will remain an attractive place to invest as electrification trends drive increasing global demand for copper.

We expect a strengthening copper price to support positive mining outlook in Chile in 2023. Mining deliveries are expected to be driven by our recent wins with ***BHP*** and ***Codelco***, as well as committed medium-term investment in fleet replacements across our mining customer base. We also expect to see continued strong demand for mining product support and technology solutions, including autonomy.

Slowing economic growth and higher interest rates are expected to continue impacting construction activity in Chile in 2023.

In Argentina, activity in construction, oil and gas, and mining is expected to remain stable. However, high inflation, currency restrictions, and new import regulations will continue to impact our business in Argentina as we manage through the challenging fiscal, regulatory, and currency environments.

UK & Ireland Operations

As equipment deliveries to HS2 have largely been completed, we expect lower construction new equipment sales in the UK in 2023 compared to 2022. In addition, overall demand for construction equipment in the UK is expected to decline in 2023 due to slowing economic growth rates. However, we expect strong demand for product support to continue, driven by HS2 activity and high machine utilization rates across broader construction markets.

We expect demand for our power systems business in the UK & Ireland to remain robust, including in the data centre market. We have a solid backlog of power systems projects for delivery in 2023, and we are well positioned to capture further opportunities.

Considerations for 2023

We are mindful of the uncertain global business environment, including slowing rates of growth, and we are reinforcing our mid-cycle operating cost and capital model. Overall, we expect constructive demand conditions in our diverse end markets to be supported by favourable commodity prices and strong demand from mining and energy customers.

We are reducing our capital expenditures budget in 2023 with a higher proportion allocated to reinvestment in rental fleet and strategic investments in electric drive mining trucks for demonstration purposes. Our 2023 net capital expenditures and net rental fleet additions are expected to be in the range of $190 million to $240 million, which represents about 25% reduction from 2022. In 2023, we will be placing a higher priority on debt repayment and reduction in our net debt to Adjusted EBITDA ratio.

We are seeing continued momentum at the start of 2023 and expect growth in the first half of the year compared to the first half of 2022, underpinned by our record equipment backlog, very busy workshops, and growth in rebuilds driven by the strong execution of our product support strategy.

Liquidity and Capital Resources

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

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

	3 months ended December 31			Years ended December 31		
($ millions)	**2022**	2021	Increase (Decrease)	**2022**	2021	(Decrease) Increase
Operating activities	**410**	193	217	**1**	425	(424)
Investing activities	**(79)**	(39)	(40)	**(268)**	(151)	(117)
Financing activities	**(160)**	(167)	7	**(13)**	(300)	287
Free cash flow	**332**	148	184	**(170)**	300	(470)

The most significant contributors to the changes in cash flows for 2022 over 2021 were as follows (all events described were in the current quarter or annual period, unless otherwise stated):

	Quarter over Quarter	Year over Year
Operating activities	• higher collections from increased revenues in all of our operations; • partially offset by higher inventory purchases and other supplier payments to support increased demand in all of our operations	• higher inventory purchases to support increased demand in all of our operations; • higher other supplier payments across all regions; • partially offset by higher collections driven by increased revenues in all of our operations
Investing activities	• approximately $30 million higher net spend on property, plant, and equipment and intangible assets	• $101 million net cash consideration related to business acquisitions in our UK & Ireland and Canadian operations in 2022 compared to $27 million net cash consideration paid in 2021; • approximately $45 million higher net spend on property, plant, and equipment and intangible assets
Financing activities	• $27 million lower repayment of short-term borrowings; • $14 million higher repayment of long-term borrowings; • $7 million higher use of cash to repurchase common shares	• $350 million higher cash provided by short-term borrowings; • $218 million use of cash to repurchase common shares in 2022 compared to $155 million in 2021
Free cash flow	• free cash flow generation in Q4 2022 was $332 million compared with $148 million in Q4 2021 due to higher cash generated from operating activities for the reasons outlined above	• free cash flow in 2022 was a use of cash of $170 million compared to cash generation of $300 million in the prior year due to higher use of cash in operating activities for the reasons outlined above

Capital resources and management

Our cash and cash equivalents balance at December 31, 2022 was $288 million (December 31, 2021: $502 million). At December 31, 2022, to complement internally generated funds from operating and investing activities, we had approximately $2.5 billion in unsecured committed and uncommitted credit facilities. Included in this amount is a committed sustainability-linked revolving credit facility totaling $1.3 billion with various Canadian and global financial institutions which is set to mature in September 2026. In October 2022, we obtained an additional $300 million committed revolving credit facility that has a one-year term and can be used for general corporate purposes. At December 31, 2022, $551 million was available collectively under these committed revolving credit facilities. We are subject to certain covenants under our committed revolving credit facilities and were in compliance with these covenants at December 31, 2022.

We continuously monitor actual and forecasted cash flows, manage the maturity profiles of our financial liabilities, and maintain committed and uncommitted credit facilities. We believe that based on cash on hand, available credit facilities, and the discretionary nature of certain cash flows, such as rental and capital expenditures, we have sufficient liquidity to meet operational needs.

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

	Long-term debt		**Short-term debt**	
December 31	**2022**	2021	**2022**	2021
DBRS	BBB (high)	BBB (high)	R-2 (high)	R-2 (high)
S&P	BBB+	BBB+	***n/a***	n/a

In April 2022, S&P affirmed our BBB+ rating with stable outlook, citing robust market demand, increased business efficiencies, and improved working capital management.

In August 2022, DBRS reconfirmed our BBB (high) long-term rating and R-2 (high) commercial paper rating both with stable trends.

During the year ended December 31, 2022, we repurchased 6,941,039 common shares for cancellation for $219 million, at an average cost of $31.51 per share, through our ***NCIB*** [2]. In 2021, we repurchased 4,779,340 common shares for cancellation for $157 million, at an average cost of $32.81 per share.

In connection with our NCIB, we implemented an automatic share purchase plan with a designated broker to enable share repurchases for cancellation during selected blackout periods. At December 31, 2022, we recorded an obligation of $21 million for the repurchase of shares from January 1, 2023 to February 7, 2023, under this automatic share purchase plan.

Net Debt to Adjusted EBITDA

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

	Finning long-term target	**2022**	2021
Net debt to Adjusted EBITDA ratio (times)	**< 3.0**	**1.6**	1.1

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

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

Contractual Obligations

Payments on contractual obligations in each of the next five years are shown in the table below. The amounts presented represent the future undiscounted principal and interest cash flows, and therefore, do not necessarily equal the carrying amount on the consolidated statement of financial position.

($ millions)	2023	2024	2025	2026	2027	Thereafter	Total
Short-term debt	1,068	—	—	—	—	—	1,068
Long-term debt	151	234	26	210	285	265	1,171
Lease liabilities	82	64	47	33	26	106	358
Total contractual obligations	1,301	298	73	243	311	371	2,597

The above table does not include obligations to fund pension benefits. We make regular contributions to our registered defined benefit pension plans in Canada and the UK in order to fund the pension obligations as required. Funding levels are monitored regularly and reset with new actuarial funding valuations at least every three years. In 2022, we contributed $5 million towards the defined benefit pension plans. Based on the most recently completed valuations, we expect to contribute approximately $5 million to the defined benefit pension plans during the year ended December 31, 2023.

We implemented an automatic purchase plan for our 2.626%, $200 million note due August 14, 2026 and our 5.077%, $150 million note due June 13, 2042 for the period January 3, 2023 to February 7, 2023. As of February 2, 2023, we repurchased $3 million in notional value of our notes under this plan. The above table does not include payments under this automatic purchase plan.

Capital and Rental Expenditures

Our net spend on capital expenditures and rental fleet additions during the year ended December 31, 2023 is expected to be in the range of $190 million to $240 million. These are planned but not legally committed expenditures and include strategic capital investments in our Canadian facility network, our digital capabilities, and rental fleet additions.

Employee Share Purchase Plans

We have employee share purchase plans for our Canadian and South American employees. Under the terms of these plans, eligible employees may purchase common shares of Finning in the open market at the then current market price. We pay a portion of the purchase price to a maximum of 2% of employee earnings. At December 31, 2022, 72%, 76% and 3% of eligible employees in our Corporate, Canadian, and South American operations, respectively, were contributing to these plans.

We also have an All Employee Share Purchase Ownership Plan for our employees in Finning UK & Ireland. Under the terms of this plan, we provide one common share, purchased in the open market, for every three shares purchased by Finning (UK) employees and for every one share purchased by Finning (Ireland) employees. Finning (UK) employees may contribute from £10 to £150 of their salary per month. At December 31, 2022, 34% of eligible employees in Finning (UK) were contributing to this plan. Finning (Ireland) employees may contribute from €10 to €70 of their salary per month. At December 31, 2022, 15% of eligible employees in Finning (Ireland) were contributing to this plan.

We may cancel these plans at any time.

Accounting and Estimates

We employ professionally qualified accountants throughout our finance group globally and all of our operating unit financial officers report directly to our ***CFO***. Senior financial representatives are assigned to all significant projects that impact financial accounting and reporting. Policies are in place to ensure completeness and accuracy of reported transactions. Key transaction controls are in place, and there is a segregation of duties between transaction initiation, processing, and cash receipt or disbursement. Accounting, measurement, valuation, and reporting of accounts, which involve estimates and/or valuations, are reviewed quarterly by the CFO, the Senior Vice President, Corporate Controller, and the ***Audit Committee***. Significant accounting and financial topics and issues are presented to and discussed with the Audit Committee.

Management's discussion and analysis of our financial condition and results of operations is based on our Annual Financial Statements, which have been prepared in accordance with IFRS. Our significant accounting policies are included in the notes to the Annual Financial Statements for the year ended December 31, 2022. Certain policies require management to make judgments, estimates, and assumptions in respect of the application of accounting policies and the reported amounts of assets, liabilities, revenues, expenses, and disclosure of contingent assets and liabilities. These policies may require particularly subjective and complex judgments to be made as they relate to matters that are inherently uncertain and because there is a likelihood that materially different amounts could be reported under different conditions or using different assumptions. We have discussed the development, selection, and application of our key accounting policies, and the critical accounting estimates and assumptions involved, with the Audit Committee.

The critical estimates and judgments involved in preparing our Annual Financial Statements for the year ended December 31, 2022 were:

- determination of the functional currency of each Finning entity;
- estimation of revenues and costs associated with long-term product support contracts and complex power and energy systems;
- determination of when control transfers to customers for revenue contracts;
- determination of whether a significant economic incentive exists for sales of assets with repurchase commitments;
- identification of performance obligations in revenue contracts with customers where long-term contracts are sold bundled together with the sale of equipment;
- estimation of allowance for doubtful accounts;
- estimation of fair value of derivative financial instruments;
- inputs to the models to measure the fair value of certain share-based payments;
- estimation of provisions for slow-moving and obsolete inventory;
- estimation of provisions for income tax;
- estimation of useful lives and residual values of property, plant, and equipment, rental equipment, and intangible assets;
- determination of lease terms;
- identification of the ***CGU*** to which assets should be allocated for impairment testing;
- estimation of recoverable values for goodwill and other indefinite-lived intangible assets;
- estimation of provisions for warranty; and,
- assumptions in the actuarial valuation models to measure post-employment benefits.

For additional information on the above judgments, estimates, and assumptions made, please refer to the notes to the Annual Financial Statements for the year ended December 31, 2022.

Revenue Recognition from Long-Term Product Support Contracts and Sales of Complex Power and Energy Systems

Where the outcome of performance obligations for long-term product support contracts and sales of complex power and energy systems can be estimated reliably, revenue is recognized. Revenue is measured primarily based on the proportion of contract costs incurred for work performed to-date relative to the estimated total contract costs. Variations in contract work, claims, and incentive payments are included to the extent that they have been agreed with the customer. Where the outcome of performance obligations cannot be reliably measured, contract revenue is recognized in the current period to the extent that costs have been incurred until such time that the outcome of the performance obligations can be reasonably measured. Significant assumptions are required to estimate total contract costs, which are recognized as expenses in the period in which they are incurred. When it is probable that total contract costs will exceed total contract revenue, the expected loss is immediately recognized in the consolidated statement of net income.

Determination of When Control Transfers to Customers for Revenue Contracts

The Company is required to make judgments when determining when control is transferred to the customer. For the sale of new and used equipment and parts inventory, generally, control passes to the customer at the time of shipment of the equipment or parts to the customer or when commissioning of equipment is complete. In certain circumstances, management must determine if control transfers before or after the goods are shipped to the customer (for example, bill-and-hold arrangements). In making this determination, management considers whether the Company has transferred significant risks and rewards related to the product, legal title has transferred, the Company has the ability to direct or sell the product to another customer, the product is ready for physical transfer, or the product is in a condition of being capable of operating in the manner intended.

Revenue Recognition for Sales of Equipment with Repurchase Commitments

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

Identifying Performance Obligations in Revenue Contracts

The Company is required to make judgments when identifying the performance obligations in contracts with customers. For sales of parts and labour when servicing equipment under a long-term contract that are sold bundled together with the sale of equipment to a customer, management typically concludes that these are two separate performance obligations as each of the promises to transfer equipment and provide services is capable of being distinct and separately identifiable.

Allowance for Doubtful Accounts

The Company records allowance for doubtful accounts that represents management's best estimate of potential losses in respect of accounts receivables and unbilled receivables. The main components of these allowances are a specific loss component that relates to individually significant exposures, and a collective loss component established for groups of similar assets in respect of losses that are expected to occur.

The collective loss allowance is estimated based on historical data of payment statistics for similar financial assets, adjusted for current and forecasted future economic conditions.

Expected credit losses related to the current economic environment have been incorporated in management's estimate of its allowance for doubtful accounts. No assurance can be given that this will be sufficient or that the Company will not suffer material credit losses that will adversely affect its results. The Company allocates each exposure to a credit risk grade based on data that is determined to be predictive of the risk of loss (including but not limited to aging of receivable balances, external credit ratings, publicly available information about customers, expectation of customer bankruptcies, and the impact of inflation and interest rate increases on customers ability to pay) and applying experienced credit judgment. Exposures within each credit risk grade are segmented by geographic region, industry classification, and risk categorization. An expected credit loss rate is calculated for each segment.

Provisions for Slow-Moving and Obsolete Inventory

The Company makes estimates of the provision required to reflect net realizable value of slow-moving and obsolete inventory. These estimates are determined on the basis of age, redundancy, and stock levels. For equipment inventory, estimates are determined on a specific item basis. Management reviewed equipment values with equipment specialists taking into account current market demand, market supply of equipment, market prices, and the age and condition of equipment. Management reviewed parts inventory estimates based on market demand, parts turns, discontinued items, ability to return to the vendor, and surplus/excess items.

Provisions for Income Tax

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

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

Judgment is required as income tax laws and regulations can be complex and are potentially subject to a different interpretation between us and the respective tax authority. Due to the number of variables associated with the differing tax laws and regulations across the multiple jurisdictions in which we operate, the precision and reliability of the resulting estimates are subject to uncertainties and may change as additional information becomes known. Net income in subsequent periods may be impacted by the amount that estimates differ from the final tax return or from any subsequent re-assessment.

Goodwill and Intangible Assets with Indefinite Lives

The recoverable value of each CGU or group of CGUSs is estimated using a discounted cash flow model. The process of determining these recoverable values requires estimates and assumptions including, but not limited to, future cash flows, growth projections, associated economic risk assumptions and estimates of key operating metrics and drivers, and ***WACC*** rates. Cash flow projections are based on financial budgets approved by our ***Board***. Projected cash flows are discounted using WACC rates. These estimates are subject to change due to uncertain competitive and economic market conditions or changes in business strategies.

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

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

Related Party Transactions

Related party transactions incurred in the normal course of business between us and our subsidiaries have been eliminated on consolidation and are not considered material for disclosure. Information on our wholly owned subsidiaries and the main countries in which they operate is contained in Note 2 of the Annual Financial Statements. Compensation of key management personnel is disclosed in Note 25 of the Annual Financial Statements.

New Accounting Pronouncements

The adoption of recent amendments to accounting standards had no impact on our financial statements. Future accounting pronouncements and effective dates are included in Note 2 of our Annual Financial Statements.

Risk Factors and Management

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

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

Commodity Prices

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

In periods of significantly lower commodity prices, demand is reduced as development of new projects is slowed or stopped and production from existing projects can be curtailed, leading to less demand for equipment. However, product support growth has been, and is expected to continue to be, important in mitigating the effects of downturns in the business cycle. Alternatively, if commodity prices rapidly increase, customer demand for our products and services could increase and apply pressure on our ability to supply the products or skilled technicians on a timely and cost-efficient basis. To assist in mitigating the impacts of fluctuations in demand for our products and services, we work closely with Caterpillar to achieve an adequate and timely supply of product and have implemented human resources recruiting and workforce management strategies to achieve adequate staffing levels.

Financial Instruments Risk

We are exposed to risks through our operations that arise from the use of financial instruments, which include credit risk and liquidity risk. Under the normal course of operations, we have mitigation strategies to minimize these risks. In the current economic climate, we have heightened exposure to these risks.

Credit Risk

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

Credit risk associated with cash and cash equivalents is managed by ensuring that these financial assets are held with major financial institutions with strong investment grade ratings and by monitoring the exposures with any single institution. An ongoing review is performed to evaluate the changes in the credit rating of counterparties.

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

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

Liquidity Risk

Liquidity risk is the risk that we will not be able to meet our financial obligations as they fall due. Our approach to managing liquidity is to ensure, as far as possible, that we will have sufficient liquid financial resources to fund operations and meet commitments and obligations. We maintain bilateral and syndicated credit facilities, continuously monitor actual and forecast cash flows, and manage maturity profiles of financial liabilities. Based on the availability of credit facilities, our business operating plans, and the discretionary nature of some cash outflows, such as rental and capital expenditures, we believe we continue to have sufficient liquidity to meet operational needs.

We will require capital to finance future growth and to refinance outstanding debt obligations as they come due for repayment. If the cash generated from our operations is not sufficient to fund future capital and debt repayment requirements, we will require additional debt or equity financing. Our ability to access capital markets for additional debt or equity on terms that are acceptable will be dependent upon prevailing market conditions, as well as our financial condition. Further, our ability to increase the level of debt financing may be limited by financial covenants or credit rating objectives. The ability to raise additional financing for future activities may be impaired, or such financing may not be available on favourable terms, due to conditions beyond our control, such as uncertainty in the capital markets, depressed commodity prices or country risk factors.

Market Risk and Hedging

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

We utilize derivative financial instruments and foreign currency debt in order to manage our foreign currency and interest rate exposures. We use derivative financial instruments only in connection with managing related risk positions and do not use them for trading or speculative purposes. All such transactions are carried out within the guidelines set by us and approved by the Audit Committee. For more information on our accounting policy on financial instruments, please refer to Note 8 of the Annual Financial Statements.

<u>Foreign Exchange Risk</u>

We are geographically diversified, with significant investments in several different countries. We transact business in multiple currencies, the most significant of which are the CAD, USD, GBP, CLP, and ARS. The functional currency of our South American operations is USD and the functional currency of our UK & Ireland operations is primarily GBP (Finning Ireland's functional currency is the Euro). As a result, we have foreign currency exposure with respect to items denominated in foreign currencies. Our main types of foreign exchange risk can be categorized as follows:

Translation Exposure

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

Assets and liabilities of our South American and UK & Ireland operations are translated into CAD using the exchange rates in effect at the consolidated statement of financial position dates. Any translation gains and losses are recorded as foreign currency translation adjustments in other comprehensive income. To the extent practical, it is our objective to manage this exposure by hedging a portion of our foreign investments with loans denominated in foreign currencies. The 7% weaker CAD relative to the USD partially offset by the 5% stronger CAD relative to the GBP at December 31, 2022 compared to December 31, 2021 resulted in a foreign currency translation gain of $79 million recorded in 2022. This was partially offset by a $22 million unrealized foreign exchange loss on net investment hedges.

Transaction Exposure

Many of our operations purchase, sell, rent, and lease assets as well as incur costs in currencies other than their functional currency. This mismatch of currencies creates transactional exposure, which may affect our profitability as exchange rates fluctuate. For example, our Canadian operating results are exposed to volatility in USD/CAD rates between the timing of equipment and parts purchases that are made in USD and the ultimate sale to customers made in CAD. A portion of this exposure is hedged through the use of forward exchange contracts as well as managed through pricing practices. We apply hedge accounting to hedges of certain inventory purchases and sales of complex power and energy systems in our Canadian and UK & Ireland operations, respectively.

The results of our operations are impacted by the translation of foreign-denominated transactions; the results of our Canadian operations are impacted by USD based revenue and costs, and the results of our South American operations are impacted by CLP and ARS based revenues and costs.

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

The CAD has historically been positively correlated to certain commodity prices. In a scenario of declining commodity prices, our resource industry customers may curtail capital expenditures and decrease production which can result in reduced demand for equipment, parts, and services. At the same time, the weaker CAD to USD positively impacts our financial results when USD based revenues and earnings are translated into CAD reported revenues and earnings, although lags may occur.

The results of our South American operations are affected by changes in the USD/CLP and USD/ARS relationships. Historically, the CLP has been positively correlated to the price of copper. As the price of copper declines, the value of the CLP versus the USD declines as well. In such an environment, our revenue may be impacted as mining customers curtail their equipment and product support spend. Our SG&A in South America, which is largely denominated in local currency, is reduced when translated into USD, partly offsetting the impact on revenue. The reverse holds true in an environment where the copper price strengthens, although generally there is a lag between the increase in SG&A and the improvement in revenue. These impacts are partially offset by our hedging programs.

Our competitive position may also be impacted as relative currency movements affect the business practices and/or pricing strategies of our competitors.

Key exchange rates that impacted our results were as follows:

Exchange rate	December 31			3 months ended December 31 – average			Years ended December 31 – average		
	2022	2021	Change	**2022**	2021	Change	**2022**	2021	Change
USD/CAD	**1.3544**	1.2678	(7)%	**1.3578**	1.2603	(8)%	**1.3013**	1.2535	(4)%
GBP/CAD	**1.6322**	1.7132	5%	**1.5950**	1.6990	6%	**1.6076**	1.7246	7%
USD/CLP	**855.86**	850.25	(1)%	**913.66**	824.93	(11)%	**870.73**	756.68	(15)%
USD/ARS	**177.16**	102.72	(72)%	**161.84**	100.49	(61)%	**127.71**	94.89	(35)%

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

Interest Rate Risk

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

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

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

The fair value of our fixed rate debt obligations fluctuates with changes in interest rates, but absent early settlement, related cash flows do not change. We are exposed to changes in future interest rates upon refinancing of any debt prior to or at maturity.

We manage our interest rate risk by balancing our portfolio of fixed and floating rate debt, as well as managing the term to maturity of our debt portfolio.

Share-Based Payment Risk

Share-based payment plans are an integral part of our employee compensation program and can be in the form of our common shares or cash payments that reflect the value of our shares and the extent we are able to achieve or exceed specified performance levels. Share-based payment plans are accounted for at fair value, and the expense associated with these plans can therefore vary as our share price, share price volatility, performance, and employee exercise behaviour change. For further details on our share-based payment plans, please refer to Note 11 of the Annual Financial Statements.

Contingencies and Guarantees

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

We began to export an agricultural animal feed product from Argentina in the third quarter of 2012 in response to the Argentine government's efforts to balance imports and exports and to manage access to foreign currency. These exports enabled us to import goods into Argentina to satisfy customer demand, while meeting the government's requirements. We have not exported agricultural animal feed product since the third quarter of 2013. The Argentina Customs Authority has made a number of claims against us associated with the export of this agricultural animal feed product over this period and has also issued an order that could result in up to a one-year suspension of imports into Argentina by a portion of the business. The essence of these claims is related to the tariff classification of this product and therefore the export duty payable. We are appealing these claims and the order, believe they are without merit, and are confident in our position. Mitigation measures are also available to us in the unlikely event our appeal of the potential imports suspension order is not successful. These pending matters may take a number of years to resolve. No progress was made on these appeals in 2022. In response to an application by the Canadian government, in April 2021 and, following a reservation by Argentina, again in September 2022 the member states of the World Customs Organization voted by a significant margin in favour of the tariff classification used by our South American operations. These results have been filed in the appeals of the Argentina Customs Authority claims. Argentina has filed a further, and final, reservation and the matter will come before the World Customs Organization again in 2023. We are confident the decision will be upheld again. Should the ultimate resolution of these matters differ from our assessment and, in the case of the potential suspension of imports into Argentina by a portion of the business, the mitigation measures not be effective, this could have a material negative impact on our financial position.

In certain circumstances, we enter into contracts with rights of return (at the customer's discretion) for the repurchase or trade-in of equipment sold to customers for an amount which is generally based on a discount from the estimated future fair value of that equipment. At December 31, 2022, the total estimated value of these contracts outstanding was $113 million (2021: $146 million) coming due at periods ranging from 2023 to 2027. Our experience to date has been that the estimated fair value of the equipment at the exercise date of the contract is generally greater than the repurchase price or trade-in amount, however, there can be no assurance that this experience will continue in the future. The total amount recognized as a provision against these contracts at December 31, 2022 was $2 million (2021: $2 million).

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

Outstanding Share Data

February 2, 2023	
Common shares outstanding	150,958,834
Options outstanding	1,366,712

Controls and Procedures Certification

Disclosure Controls and Procedures

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

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

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

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

Internal Control over Financial Reporting

We are responsible for establishing and maintaining adequate internal control over financial reporting. We have designed internal control over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements in accordance with IFRS. There has been no change in the design of our internal controls over financial reporting during the year ended December 31, 2022 that would materially affect, or is reasonably likely to materially affect, our internal control over financial reporting.

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

Evaluation of Effectiveness

As required by National Instrument 52-109, *Certification of Disclosure in Issuers' Annual and Interim Filings* issued by the Canadian securities regulatory authorities, an evaluation of the design and testing of the effectiveness of the operation of the Company's disclosure controls and procedures and internal control over financial reporting was conducted as of December 31, 2022, by and under the supervision of management. In making the assessment of the effectiveness of the Company's disclosure controls and procedures and internal control over financial reporting, we used the criteria set forth by the ***COSO*** in *Internal Control – Integrated Framework (2013 edition)*. The evaluation included documentation review, enquiries, testing, and other procedures considered by us to be appropriate in the circumstances.

Based on that evaluation, the CEO and CFO have concluded that the Company's disclosure controls and procedures and internal control over financial reporting were effective as of December 31, 2022.

Description of Specified Financial Measures and Reconciliations

Specified Financial Measures

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

We use KPIs to consistently measure performance against our priorities across the organization. Some of our KPIs are specified financial measures.

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

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

Adjusted EPS

Adjusted EPS excludes the after-tax per share impact of significant items that we do not consider to be indicative of operational and financial trends either by nature or amount to provide a better overall understanding of our underlying business performance. The tax impact of each significant item is calculated by applying the relevant applicable tax rate for the jurisdiction in which the significant item occurred. The after-tax per share impact of significant items is calculated by dividing the after-tax amount of significant items by the weighted average number of common shares outstanding during the period.

A reconciliation between EPS (the most directly comparable GAAP financial measure) and Adjusted EPS can be found on page 40 of this MD&A.

Adjusted EBIT, Adjusted EBITDA, and EBITDA

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

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

The most directly comparable GAAP financial measure to EBITDA, Adjusted EBITDA, and Adjusted EBIT is EBIT.

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

												3 months ended	Years ended	
				2022				2021				2020	2019	2018
($ millions)	**Dec 31**	Sep 30	Jun 30	Mar 31	Dec 31	Sep 30	Jun 30	Mar 31	Dec 31	Sep 30	Jun 30	Mar 31	Dec 31	Dec 31
EBIT [(1)]	**214**	224	190	140	157	150	137	108	108	138	52	94	425	423
Depreciation and amortization [(1)]	**87**	84	81	81	84	80	78	77	77	77	78	76	293	187
EBITDA [(1)]	**301**	308	271	221	241	230	215	185	185	215	130	170	718	610
EBIT	**214**	224	190	140	157	150	137	108	108	138	52	94	425	423
Significant items:														
CEWS support	**—**	—	—	—	—	—	—	(10)	(14)	(37)	(64)	—	—	—
Return on Energyst investment	**—**	—	—	—	—	—	—	(5)	—	—	—	—	—	—
Severance costs	**—**	—	—	—	—	—	—	—	—	—	42	—	20	—
Facility closures, restructuring costs, and impairment losses	**—**	—	—	—	—	—	—	—	—	—	9	—	8	—
Acquisition costs related to 4Refuel	**—**	—	—	—	—	—	—	—	—	—	—	—	4	—
Write-off and loss related to Energyst	**—**	—	—	—	—	—	—	—	—	—	—	—	—	30
Insurance proceeds from Alberta wildfires	**—**	—	—	—	—	—	—	—	—	—	—	—	—	(7)
Adjusted EBIT [(1)]	**214**	224	190	140	157	150	137	93	94	101	39	94	457	446
Depreciation and amortization [(1)]	**87**	84	81	81	84	80	78	77	77	77	78	76	293	187
Adjusted EBITDA [(1)]	**301**	308	271	221	241	230	215	170	171	178	117	170	750	633

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

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

											3 months ended		Years ended	
				2022				2021				2020	2019	2018
($ millions)	**Dec 31**	Sep 30	Jun 30	Mar 31	Dec 31	Sep 30	Jun 30	Mar 31	Dec 31	Sep 30	Jun 30	Mar 31	Dec 31	Dec 31
Significant items:														
CEWS support	**—**	—	—	—	—	—	—	2	4	10	16	—	—	—
Severance costs	**—**	—	—	—	—	—	—	—	—	—	(10)	—	(6)	—
Facility closures, restructuring costs, and impairment losses	**—**	—	—	—	—	—	—	—	—	—	(2)	—	(3)	—
Tax impact - devaluation of ARS	**—**	—	—	—	—	—	—	—	—	—	—	—	4	20
Insurance proceeds from Alberta wildfires	**—**	—	—	—	—	—	—	—	—	—	—	—	—	2
Provision for (recovery of) income taxes on the significant items	—	—	—	—	—	—	—	2	4	10	4	—	(5)	22

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

A reconciliation from EPS to Adjusted EPS for our consolidated operations for the last twelve quarters and years ended December 31, 2019 and 2018 is as follows:

	3 months ended												Years ended	
	2022				2021				2020				2019	2018
($)	**Dec 31**	Sep 30	Jun 30	Mar 31	Dec 31	Sep 30	Jun 30	Mar 31	Dec 31	Sep 30	Jun 30	Mar 31	Dec 31	Dec 31
EPS [1][2]	**0.89**	0.97	0.80	0.59	0.66	0.61	0.56	0.43	0.45	0.54	0.12	0.33	1.48	1.38
Significant items:														
CEWS support	**—**	—	—	—	—	—	—	(0.05)	(0.07)	(0.17)	(0.30)	—	—	—
Return on Energyst investment	**—**	—	—	—	—	—	—	(0.03)	—	—	—	—	—	—
Severance costs	**—**	—	—	—	—	—	—	—	—	—	0.20	—	0.09	—
Facility closures, restructuring costs, and impairment losses	**—**	—	—	—	—	—	—	—	—	—	0.04	—	0.03	—
Acquisition costs related to 4Refuel	**—**	—	—	—	—	—	—	—	—	—	—	—	0.03	—
Tax impact - devaluation of ARS	**—**	—	—	—	—	—	—	—	—	—	—	—	0.02	0.12
Write-off and loss related to Energyst	**—**	—	—	—	—	—	—	—	—	—	—	—	—	0.18
Insurance proceeds from Alberta wildfires	**—**	—	—	—	—	—	—	—	—	—	—	—	—	(0.03)
Adjusted EPS [1][2]	**0.89**	0.97	0.80	0.59	0.66	0.61	0.56	0.35	0.38	0.37	0.06	0.33	1.65	1.65

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

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

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

												3 months ended	Years ended	
				2022				2021				2020	2019	2018
($ millions)	**Dec 31**	Sep 30	Jun 30	Mar 31	Dec 31	Sep 30	Jun 30	Mar 31	Dec 31	Sep 30	Jun 30	Mar 31	Dec 31	Dec 31
EBIT [1]	**128**	125	102	80	92	84	82	69	72	93	63	60	296	297
Depreciation and amortization [1]	**50**	47	47	47	50	48	47	46	47	48	47	43	174	96
EBITDA [1]	**178**	172	149	127	142	132	129	115	119	141	110	103	470	393
EBIT [1]	**128**	125	102	80	92	84	82	69	72	93	63	60	296	297
Significant items:														
CEWS support	**—**	—	—	—	—	—	—	(10)	(13)	(35)	(60)	—	—	—
Severance costs	**—**	—	—	—	—	—	—	—	—	—	20	—	10	—
Facility closures, restructuring costs, and impairment losses	**—**	—	—	—	—	—	—	—	—	—	5	—	7	—
Insurance proceeds from Alberta wildfires	**—**	—	—	—	—	—	—	—	—	—	—	—	—	(7)
Adjusted EBIT [1]	**128**	125	102	80	92	84	82	59	59	58	28	60	313	290
Depreciation and amortization [1]	**50**	47	47	47	50	48	47	46	47	48	47	43	174	96
Adjusted EBITDA [1]	**178**	172	149	127	142	132	129	105	106	106	75	103	487	386

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

												3 months ended	Years ended	
				2022				2021				2020	2019	2018
($ millions)	**Dec 31**	Sep 30	Jun 30	Mar 31	Dec 31	Sep 30	Jun 30	Mar 31	Dec 31	Sep 30	Jun 30	Mar 31	Dec 31	Dec 31
EBIT [1]	**96**	85	64	65	59	58	51	41	41	40	2	38	120	142
Depreciation and amortization [1]	**26**	25	23	23	22	22	20	20	20	19	22	22	81	62
EBITDA [1]	**122**	110	87	88	81	80	71	61	61	59	24	60	201	204
EBIT [1]	**96**	85	64	65	59	58	51	41	41	40	2	38	120	142
Significant items:														
Severance costs	**—**	—	—	—	—	—	—	—	—	—	17	—	10	—
Facility closures, restructuring costs, and impairment losses	**—**	—	—	—	—	—	—	—	—	—	4	—	1	—
Adjusted EBIT [1]	**96**	85	64	65	59	58	51	41	41	40	23	38	131	142
Depreciation and amortization [1]	**26**	25	23	23	22	22	20	20	20	19	22	22	81	62
Adjusted EBITDA [1]	**122**	110	87	88	81	80	71	61	61	59	45	60	212	204

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

A reconciliation from EBIT to EBITDA, Adjusted EBIT, and Adjusted EBITDA for our UK & Ireland operations for the last twelve quarters and years ended December 31, 2019 and 2018 is as follows:

	3 months ended												Years ended	
	2022				2021				2020				2019	2018
($ millions)	**Dec 31**	Sep 30	Jun 30	Mar 31	Dec 31	Sep 30	Jun 30	Mar 31	Dec 31	Sep 30	Jun 30	Mar 31	Dec 31	Dec 31
EBIT [1]	**16**	21	23	14	12	17	17	7	11	9	(5)	1	46	51
Depreciation and amortization [1]	**10**	11	10	10	11	10	10	10	9	9	9	10	36	28
EBITDA [1]	**26**	32	33	24	23	27	27	17	20	18	4	11	82	79
EBIT [1]	**16**	21	23	14	12	17	17	7	11	9	(5)	1	46	51
Significant item:														
Severance costs	**—**	—	—	—	—	—	—	—	—	—	4	—	—	—
Adjusted EBIT [1]	**16**	21	23	14	12	17	17	7	11	9	(1)	1	46	51
Depreciation and amortization [1]	**10**	11	10	10	11	10	10	10	9	9	9	10	36	28
Adjusted EBITDA [1]	**26**	32	33	24	23	27	27	17	20	18	8	11	82	79

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

	3 months ended												Years ended	
	2022				2021				2020				2019	2018
($ millions)	**Dec 31**	Sep 30	Jun 30	Mar 31	Dec 31	Sep 30	Jun 30	Mar 31	Dec 31	Sep 30	Jun 30	Mar 31	Dec 31	Dec 31
EBIT [1]	**(26)**	(7)	1	(19)	(6)	(9)	(13)	(9)	(16)	(4)	(8)	(5)	(37)	(67)
Depreciation and amortization [1]	**1**	1	1	1	1	—	1	1	1	1	—	1	2	1
EBITDA [1]	**(25)**	(6)	2	(18)	(5)	(9)	(12)	(8)	(15)	(3)	(8)	(4)	(35)	(66)
EBIT [1]	**(26)**	(7)	1	(19)	(6)	(9)	(13)	(9)	(16)	(4)	(8)	(5)	(37)	(67)
Significant items:														
CEWS support	**—**	—	—	—	—	—	—	—	(1)	(2)	(4)	—	—	—
Return on Energyst investment	**—**	—	—	—	—	—	—	(5)	—	—	—	—	—	—
Severance costs	**—**	—	—	—	—	—	—	—	—	—	1	—	—	—
Acquisition costs related to 4Refuel	**—**	—	—	—	—	—	—	—	—	—	—	—	4	—
Write-off and loss related to Energyst	**—**	—	—	—	—	—	—	—	—	—	—	—	—	30
Adjusted EBIT [1]	**(26)**	(7)	1	(19)	(6)	(9)	(13)	(14)	(17)	(6)	(11)	(5)	(33)	(37)
Depreciation and amortization [1]	**1**	1	1	1	1	—	1	1	1	1	—	1	2	1
Adjusted EBITDA [1]	**(25)**	(6)	2	(18)	(5)	(9)	(12)	(13)	(16)	(5)	(11)	(4)	(31)	(36)

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

Equipment Backlog

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

Free Cash Flow

Free cash flow is defined as cash flow provided by or used in operating activities less net additions to property, plant, and equipment and intangible assets, as disclosed in our financial statements. We use free cash flow to assess cash operating performance, including working capital efficiency. Consistent positive free cash flow generation enables us to re-invest capital to grow our business and return capital to shareholders. A reconciliation from cash flow used in or provided by operating activities to free cash flow is as follows:

												3 months ended	Years ended	
				2022				2021				2020	2019	2018
($ millions)	**Dec 31**	Sep 30	Jun 30	Mar 31	Dec 31	Sep 30	Jun 30	Mar 31	Dec 31	Sep 30	Jun 30	Mar 31	Dec 31	Dec 31
Cash flow provided by (used in) operating activities [(1)]	**410**	(24)	(112)	(273)	193	212	8	12	317	340	319	(14)	191	260
Additions to property, plant, and equipment and intangible assets	**(78)**	(33)	(30)	(30)	(45)	(38)	(17)	(33)	(34)	(26)	(17)	(38)	(154)	(201)
Proceeds on disposal of property, plant, and equipment	**—**	—	—	—	—	2	5	1	9	2	10	2	5	19
Free cash flow [(1)]	**332**	(57)	(142)	(303)	148	176	(4)	(20)	292	316	312	(50)	42	78

Inventory Turns (Dealership)

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

3 months ended				2022				2021				2020	2019	2018
($ millions)	**Dec 31**	Sep 30	Jun 30	Mar 31	Dec 31	Sep 30	Jun 30	Mar 31	Dec 31	Sep 30	Jun 30	Mar 31	Dec 31	Dec 31
Cost of sales [(1)]	**2,025**	1,807	1,761	1,463	1,465	1,443	1,396	1,189	1,248	1,163	1,075	1,140	1,483	1,429
Cost of sales related to mobile refuelling operations	**(302)**	(293)	(300)	(231)	(190)	(170)	(153)	(140)	(129)	(124)	(95)	(133)	(168)	—
Cost of sales related to the dealership [(1)(2)]	**1,723**	1,514	1,461	1,232	1,275	1,273	1,243	1,049	1,119	1,039	980	1,007	1,315	1,429

				2022				2021				2020	2019	2018
($ millions)	**Dec 31**	Sep 30	Jun 30	Mar 31	Dec 31	Sep 30	Jun 30	Mar 31	Dec 31	Sep 30	Jun 30	Mar 31	Dec 31	Dec 31
Inventory	**2,461**	2,526	2,228	2,101	1,687	1,627	1,643	1,593	1,477	1,626	1,893	2,152	1,990	2,061
Fuel inventory	**(12)**	(12)	(13)	(11)	(9)	(6)	(3)	(3)	(3)	(2)	(2)	(3)	(3)	—
Inventory related to the dealership [(2)]	**2,449**	2,514	2,215	2,090	1,678	1,621	1,640	1,590	1,474	1,624	1,891	2,149	1,987	2,061

(1) Comparative results prior to 2019 have not been restated for our adoption of IFRS 16, *Leases* effective for the financial year beginning January 1, 2019.
(2) These are non-GAAP financial measures. See “Description of Specified Financial Measures and Reconciliations” in this MD&A.

Invested Capital

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

				2022				2021				2020	2019	2018
($ millions)	**Dec 31**	Sep 30	Jun 30	Mar 31	Dec 31	Sep 30	Jun 30	Mar 31	Dec 31	Sep 30	Jun 30	Mar 31	Dec 31	Dec 31
Cash and cash equivalents	**(288)**	(120)	(170)	(295)	(502)	(518)	(378)	(469)	(539)	(453)	(338)	(260)	(268)	(454)
Short-term debt	**1,068**	1,087	992	804	374	419	114	103	92	217	158	329	226	154
Long-term debt														
Current	**114**	106	110	63	190	191	386	326	201	200	200	200	200	—
Non-current	**815**	836	807	909	921	923	903	973	1,107	1,136	1,348	1,381	1,318	1,354
Net debt [1]	**1,709**	1,909	1,739	1,481	983	1,015	1,025	933	861	1,100	1,368	1,650	1,476	1,054
Total equity	**2,461**	2,449	2,337	2,296	2,343	2,320	2,252	2,244	2,206	2,184	2,127	2,233	2,115	2,109
Invested capital	**4,170**	4,358	4,076	3,777	3,326	3,335	3,277	3,177	3,067	3,284	3,495	3,883	3,591	3,163

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

Invested Capital Turnover

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

Net Debt to Adjusted EBITDA Ratio

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

Net Revenue, Gross Profit as a % of Net Revenue, SG&A as a % of Net Revenue, EBITDA as a % of Net Revenue, EBIT as a % of Net Revenue, Net Revenue by Line of Business as a % of Net Revenue, and Net Revenue by Operation as a % of Net Revenue

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

We use these specified financial measures to assess and evaluate the financial performance or profitability of our reportable segments. We may also calculate EBITDA as a % of net revenue and EBIT as a % of net revenue using Adjusted EBITDA and Adjusted EBIT, respectively, to exclude significant items we do not consider to be indicative of operational and financial trends either by nature or amount to provide a better overall understanding of our underlying business performance.

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

											3 months ended		Years ended	
				2022				2021				2020	2019	2018
($ millions)	**Dec 31**	Sep 30	Jun 30	Mar 31	Dec 31	Sep 30	Jun 30	Mar 31	Dec 31	Sep 30	Jun 30	Mar 31	Dec 31	Dec 31
Total revenue	**2,653**	2,384	2,289	1,953	1,949	1,904	1,845	1,596	1,666	1,553	1,419	1,558	7,817	6,996
Cost of fuel	**(285)**	(277)	(285)	(217)	(175)	(156)	(140)	(127)	(115)	(110)	(84)	(119)	(527)	—
Net revenue	**2,368**	2,107	2,004	1,736	1,774	1,748	1,705	1,469	1,551	1,443	1,335	1,439	7,290	6,996

ROIC and Adjusted ROIC

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

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

Working Capital & Working Capital to Net Revenue Ratio

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

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

Working capital is calculated as follows:

				2022				2021				2020	2019	2018
($ millions)	**Dec 31**	Sep 30	Jun 30	Mar 31	Dec 31	Sep 30	Jun 30	Mar 31	Dec 31	Sep 30	Jun 30	Mar 31	Dec 31	Dec 31
Total current assets [1]	**4,781**	4,652	4,098	4,030	3,619	3,620	3,416	3,319	3,214	3,261	3,416	3,828	3,659	3,924
Cash and cash equivalents	**(288)**	(120)	(170)	(295)	(502)	(518)	(378)	(469)	(539)	(453)	(338)	(260)	(268)	(454)
Total current assets in working capital	**4,493**	4,532	3,928	3,735	3,117	3,102	3,038	2,850	2,675	2,808	3,078	3,568	3,391	3,470
Total current liabilities [1]	**3,401**	3,196	2,789	2,647	2,155	2,156	1,942	1,817	1,623	1,717	1,735	2,112	2,026	1,992
Short-term debt	**(1,068)**	(1,087)	(992)	(804)	(374)	(419)	(114)	(103)	(92)	(217)	(158)	(329)	(226)	(154)
Current portion of long-term debt	**(114)**	(106)	(110)	(63)	(190)	(191)	(386)	(326)	(201)	(200)	(200)	(200)	(200)	—
Total current liabilities in in working capital	**2,219**	2,003	1,687	1,780	1,591	1,546	1,442	1,388	1,330	1,300	1,377	1,583	1,600	1,838
Working capital [1][2]	**2,274**	2,529	2,241	1,955	1,526	1,556	1,596	1,462	1,345	1,508	1,701	1,985	1,791	1,632

(1) Comparative results prior to 2019 have not been restated for our adoption of IFRS 16, *Leases* effective for the financial year beginning January 1, 2019.
(2) These are non-GAAP financial measures. See "Description of Specified Financial Measures and Reconciliations" in this MD&A.

Selected Annual Information

($ millions, except for per share amounts)	2022	2021	2020
Revenue from operations			
Canada	**5,200**	3,969	3,387
South America	**2,740**	2,214	1,922
UK & Ireland [1]	**1,339**	1,111	887
Total revenue	**9,279**	7,294	6,196
Net income attributable to shareholders of Finning [1][2]	**503**	364	232
Earnings per share [1][2]			
EPS	**3.25**	2.26	1.43
Diluted earnings per share	**3.25**	2.25	1.43
Total assets [1]	**7,269**	5,971	5,458
Long-term debt			
Current	**114**	190	201
Non-current	**815**	921	1,107
Total long-term debt [3]	**929**	1,111	1,308
Cash dividends declared per common share	**93.3¢**	86.0¢	82.0¢

(1) In March 2022, we acquired Hydraquip in our UK & Ireland reportable segment. The results of operations and financial position of this acquired business have been included in the figures since the date of acquisition.

(2) These reported financial measures in 2021 and 2020 have been impacted by significant items management does not consider indicative of operational and financial trends either by nature of amount. These significant items are summarized on pages 38 - 40 of this MD&A.

(3) In the three months ended December 31, 2022, we settled $15 million notional value of our 2.626% $200 million note due August 14, 2026, on the secondary market.

In October 2022, we secured an additional $300 million committed revolving credit facility. This facility has a one-year term and can be used for general corporate purposes.

In April 2022, we settled our 4.18% USD $50 million note which was due April 3, 2022.

In January 2022, we settled our 3.98% USD $100 million note which was due January 19, 2022.

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

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

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

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

Selected Quarterly Information

($ millions, except for share, per share, and option amounts)				2022				2021
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Revenue								
Canada	**1,452**	1,349	1,298	1,101	1,089	961	1,019	900
South America	**840**	692	637	571	582	638	512	482
UK & Ireland [1]	**361**	343	354	281	278	305	314	214
Total revenue	**2,653**	2,384	2,289	1,953	1,949	1,904	1,845	1,596
Net income attributable to shareholders of Finning [1][2]	**136**	149	126	92	104	99	91	70
Earnings per share [1][2]								
EPS	**0.89**	0.97	0.80	0.59	0.66	0.61	0.56	0.43
Diluted earnings per share	**0.89**	0.97	0.80	0.59	0.65	0.61	0.56	0.43
Total assets [1]	**7,269**	7,024	6,470	6,402	5,971	5,936	5,615	5,524
Long-term debt								
Current	**114**	106	110	63	190	191	386	326
Non-current	**815**	836	807	909	921	923	903	973
Total long-term debt [3]	**929**	942	917	972	1,111	1,114	1,289	1,299
Cash dividends paid per common share	**23.6¢**	23.6¢	23.6¢	22.5¢	22.5¢	22.5¢	20.5¢	20.5¢
Common shares outstanding (000's)	**151,041**	153,248	154,272	156,249	157,808	159,659	161,419	162,391
Options outstanding (000's)	**1,567**	1,796	1,789	1,545	1,773	1,926	2,105	2,116

(1) In March 2022, we acquired Hydraquip in our UK & Ireland reportable segment. The results of operations and financial position of this acquired business have been included in the figures since the date of acquisition.

(2) These reported financial measures in Q1 2021 have been impacted by significant items management does not consider indicative of operational and financial trends either by nature of amount. These significant items are summarized on pages 38 - 40 of this MD&A.

(3) In the three months ended December 31, 2022, we settled $15 million notional value of our 2.626% $200 million note due August 14, 2026, on the secondary market.

In October 2022, we secured an additional $300 million committed revolving credit facility. This facility has a one-year term and can be used for general corporate purposes.

In April 2022, we settled our 4.18% USD $50 million note which was due April 3, 2022.

In January 2022, we settled our 3.98% USD $100 million note which was due January 19, 2022.

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

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

Forward-Looking Information Disclaimer

This report contains information about our business outlook, objectives, plans, strategic priorities and other information that is not historical fact. Information is forward-looking when we use what we know and expect today to give information about the future. Forward-looking information may include terminology such as aim, anticipate, assumption, believe, could, expect, goal, guidance, intend, may, objective, outlook, plan, project, seek, should, strategy, strive, target, and will, and variations of such terminology. All forward-looking information in this MD&A is subject to this disclaimer including the assumptions and material risk factors discussed and referred to below. Forward-looking information in this report also includes, but is not limited to, the following: our expectation that the execution of our strategic plan, based on our Purpose, Vision and Values, and the Simple Plan outlined at our 2021 Investor Day, will result in the achievement of our financial and customer service and performance goals, including the expected benefits of our CUBIQ™ platform, our plans to reduce our cost base by becoming more efficient and agile in serving our customers and driving supply chain improvement, and our plans to reinvest our free cash flow to compound our earnings and potentially drive earnings through organic growth, acquisitions and return of capital to shareholders; our target to reduce our absolute GHG by 40% by 2027 (from a 2017 baseline); our aim to publish our 2022 Sustainability Report in March 2023 (assumes no delays in finalizing the information in that report); the possibility that we will pay additional consideration of £nil to £11 million to the vendors of Hydraquip over a three year period after the acquisition based on the acquired business unit achieving specified levels of financial performance; the expected expanded opportunities and synergies from the Hydraquip acquisition from the combination of complementary capabilities and the expected growth potential for product support revenue; our belief that improved capital budgets will drive investments in renewal of aging fleets, product support opportunities, and productivity improvements; our expectation that our effective tax rate generally be within the 25-30% range on an annual basis; all information in the section entitled “Market Update and Business Outlook” starting on page 24 of this MD&A, including for our Canada operations: our expectation of healthy market activity across Western Canada (based on assumptions of continued strength in the mining and energy sectors, continued constructive commodity prices, improved customer capital budgets, mining customers’ continued interest in extending the life of their assets and improving productivity, and the federal and provincial governments’ infrastructure programs and private sector investments in natural gas, carbon capture, utilization and storage, and various power projects), including renewal of aging fleets, product support opportunities in the oil sands and other mining and growing demand for component remanufacturing, equipment rebuilds and autonomy implementation; demand for construction equipment and product support, rentals, and prime and standby electric power generation; for our South America operations: our positive outlook for mining in Chile in 2023 and belief that Chile will remain an attractive place to invest (based on assumptions of a strengthening copper price, that the timing of investment decisions related to greenfield and new expansion project will remain uncertain until the new mining royalty proposal is approved, and that the electrification trend will continue and will drive increasing global demand for copper); our expectations for mining deliveries in Chile and continued strong demand for mining product support and technology solutions, including autonomy (based on assumptions that deliveries will be driven by our recent wins with BHP and Codelco and committed medium-term investment in fleet replacements across our mining customer base); that slowing economic growth and higher interest rates will continue impacting construction activity in Chile in 2023; and that in Argentina, activity in construction, oil and gas, and mining are expected to remain stable, however, high inflation, currency restrictions and new import regulations will continue to impact our business (based on assumptions that we will be able to manage through the challenging fiscal, regulatory, and currency environments); for our UK & Ireland operations: our expectation of lower construction new equipment sales in 2023 and that overall demand for construction equipment in the UK will decline in 2023 (based on assumptions of slowing economic growth rates), but continued strong demand for product support (driven by HS2 activity and the assumption of continued high machine utilization rates across broader construction markets); and that demand for our power systems business will remain robust, including in the data centre market, that we have a strong backlog of power systems projects for delivery in 2023, and that we are well positioned to capture further opportunities; and for 2023 overall: there is an uncertain global business environment, including slowing rates of growth, and we are reinforcing our mid-cycle operating cost and capital model, but we expect demand conditions in our diverse end markets will be constructive (based on assumptions of continued favourable commodity prices and strong demand from mining and energy customers); our plan to reduce our capital expenditures budget in 2023 and allocate a higher proportion to reinvestment in rental fleet and strategic investments in electric drive mining trucks for demonstration purposes; that our 2023 net capital expenditures and net rental fleet additions will be in the range of $190 million to $240 million; that we will be placing a higher priority on debt repayment and reduction in our net debt to Adjusted EBITDA ratio; and that we are seeing continued momentum at the start of 2023 and expect growth in the first half of the year compared to the first half of 2022 (based on our record equipment backlog, busy workshops and growth in rebuilds driven by the strong execution of our product support growth strategy); that we will have sufficient liquidity to meet operational needs (based on cash on hand, available credit facilities and the discretionary nature of certain cash flows, such as rental and capital expenditures); our expected contribution of approximately $5 million to our defined benefit pension plans over 2023 and that we have the financial capacity to fully fund our accrued obligations under those plans (based on the most

recently completed valuations); our expectation that foreign exchange fluctuations will continue to affect our results; and our belief that the claims and order issued by the Argentina Customs Authority described on page 35 of this report are without merit, that the World Customs Organization decision in favour of our tariff classification of certain historical animal feed exports will be upheld again and that there will be no further reservations, and that there are mitigation measures available to us, which we will effectively execute, if the order, currently not in effect, to suspend imports into Argentina by a portion of the business is upheld on appeal.

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

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

Factors that could cause actual results or events to differ materially from those expressed in or implied by this forward-looking information include: the specific factors stated above; the impact and duration of, and our ability to respond to and manage, high inflation, increasing interest rates, supply chain challenges, and the impacts of the Russia-Ukraine war; general economic and market conditions, including increasing inflationary cost pressure, and economic and market conditions in the regions where we operate; the outcome of Chile's constitutional reform process and proposed tax reform bill, including the proposal for a revised mining royalty framework; foreign exchange rates; commodity prices; interest rates; 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 effectively integrate and realize expected synergies from businesses that we acquire; 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 drive continuous cost efficiency in a recovering market; our ability to attract sufficient skilled labour resources as market conditions, business strategy or technologies change; our ability to negotiate and renew collective bargaining agreements with satisfactory terms for our employees and us; the intensity of competitive activity; our ability to maintain a safe and healthy work environment across all regions; our ability to raise the capital needed to implement the business plan; business disruption resulting from business process change, systems change and organizational change; regulatory initiatives or proceedings, litigation and changes in laws, regulations or policies, including with respect to environmental protection and/or energy transition; stock market volatility; changes in political and economic environments in the regions where we carry on business; our ability to respond to climate change-related risks; the availability of carbon neutral technology or renewable power; the cost of climate change initiatives; the occurrence of one or more natural disasters, pandemic outbreaks, geo-political events, acts of terrorism, social unrest or similar disruptions; fluctuations in defined benefit pension plan contributions and related pension expenses; the availability of insurance at commercially reasonable rates and whether the amount of insurance coverage will be adequate to cover all liability or loss that we incur; the potential of warranty claims being greater than we anticipate; the integrity, reliability and availability of, and benefits from, information technology and the data processed by that technology; and our ability to protect our business from cybersecurity threats or incidents.

Forward-looking information is provided in this report to give information about our current expectations and plans and allow investors and others to get a better understanding of our operating environment. However, readers are cautioned that it may not be appropriate to use such forward-looking information for any other purpose.

Forward-looking information provided in this report is based on a number of assumptions that we believed were reasonable on the day the information was given, including but not limited to: the specific assumptions stated above; that we will be able to successfully manage our business through the current challenging times involving volatile commodity prices, high inflation, increasing interest rates, supply chain challenges and the impacts of the Russia-Ukraine war, and successfully execute our economic condition and business cyclicality mitigation strategies, including preparing for future waves (if any) of COVID-19; an undisrupted market recovery, for example, undisrupted by further COVID-19 impacts, commodity price volatility or social unrest; the successful execution of our profitability drivers; that our cost actions to drive earnings capacity in a recovery can be sustained; that commodity prices will remain at constructive levels; that our customers will not curtail their activities; that general economic and market

conditions will continue to be strong; that the level of customer confidence and spending, and the demand for, and prices of, our products and services will be maintained; that support and demand for renewable energy will continue to grow; that present supply chain and inflationary challenges will not materially impact large project deliveries in our backlog; our ability to successfully execute our plans and intentions; we will successfully execute initiatives to reduce our GHG emissions; our ability to attract and retain skilled staff; market competition will remain at similar levels; the products and technology offered by our competitors will be as expected; identified opportunities for growth will result in revenue; that we have sufficient liquidity to meet operational needs; consistent and stable legislation in the various countries in which we operate; no disruptive changes in the technology environment and that our current good relationships with Caterpillar, our customers and our suppliers, service providers and other third parties will be maintained; sustainment of strengthened oil prices and the Alberta government will not re-impose production curtailments; quoting activity for requests for proposals for equipment and product support is reflective of opportunities; and strong recoveries in our regions, particularly in Chile and the UK.

Some of the assumptions, risks, and other factors that could cause results to differ materially from those expressed in the forward-looking information contained in this report are discussed in our current AIF and in our annual and most recent quarterly MD&A for the financial risks. We caution readers that the risks described in the annual and most recent quarterly MD&A and in the AIF are not the only ones that could impact us. Additional risks and uncertainties not currently known to us or that are currently deemed to be immaterial may also have a material adverse effect on our business, financial condition, or results of operation.

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

Glossary of Defined Terms

4Refuel	4Refuel Canada and 4Refuel US
AIF	Annual Information Form
Annual Financial Statements	Annual consolidated financial statements
ARS	Argentine Peso
Audit Committee	Audit Committee of the Board of Directors of Finning
BHP	BHP Group Limited
Board	Board of Directors of Finning
CAD	Canadian dollar
Caterpillar	Caterpillar Inc.
CEO	Chief Executive Officer
CEWS	Canadian Emergency Wage Subsidy
CFO	Chief Financial Officer
CGU	Cash-generating unit
CLP	Chilean Peso
Codelco	National Copper Corporation of Chile (Corporacion Nacional del Cobre de Chile)
Consol	Consolidated
COSO	Commission of Sponsoring Organizations of the Treadway Commission
COVID-19	Novel Coronavirus
DBRS	Dominion Bond Rating Service
EBIT	Earnings (loss) before finance costs and income tax
EBITDA	Earnings (loss) before finance costs, income tax, depreciation, and amortization
Energyst	Energyst B.V.
EPS	Basic earnings per share
ERM	Enterprise risk management
fav	Favourable
Finning	Finning International Inc.
Finning (Canada)	A division of Finning, with dealer territories in British Columbia, Alberta, Saskatchewan, the Yukon Territory, the Northwest Territories, and a portion of Nunavut
GAAP	Generally accepted accounting principles
GAAP financial measures	A financial measure determined in accordance with GAAP
GBP	UK pound sterling
GHG	Greenhouse gas
HS2	High Speed 2, a planned high-speed railway in the UK the first phase of which is planned to connect London to Birmingham
Hydraquip	Hydraquip Hose & Hydraulics and Hoses Direct Ltd.
IFRS	International Financial Reporting Standards
KPI	Key performance indicator
LTIP	Long-term incentive plan (also referred to as share-based payment)
MD&A	Management's Discussion and Analysis
n/a	not applicable
n/m	% change not meaningful
NCIB	Normal course issuer bid
OEM	OEM Remanufacturing Company Inc.
PLM	PipeLine Machinery International ULC
ROIC	Return on invested capital
S&P	Standard and Poor's
SEDAR	System for Electronic Document Analysis
SG&A	Selling, general, and administrative costs
Specified Financial Measures	As defined in National Instruments 52-112
TSX	Toronto Stock Exchange
UK	United Kingdom
unfav	Unfavourable
US	United States of America
USD	US dollar
WACC	Weighted average cost of capital

MANAGEMENT'S REPORT TO THE SHAREHOLDERS

The audited annual consolidated financial statements (Annual Financial Statements) and Management's Discussion and Analysis (MD&A) are the responsibility of the management of Finning International Inc. (the Company). The Annual Financial Statements have been prepared in accordance with International Financial Reporting Standards which recognize the necessity of relying on management's best estimates and informed judgments. The financial information presented in the Company's MD&A is consistent with that in the Annual Financial Statements. The Annual Financial Statements and MD&A have, in management's opinion, been properly prepared within reasonable limits of materiality.

The Company maintains an accounting system and related controls to provide management with reasonable assurance that transactions are executed and recorded in accordance with its authorizations, that assets are properly safeguarded and accounted for, and that financial records are reliable for preparation of financial statements.

The Company's independent auditors, Deloitte LLP, have audited the Annual Financial Statements, as reflected in their report for 2022.

The Board of Directors oversees management's responsibilities for the Annual Financial Statements primarily through the activities of its Audit Committee. The Audit Committee of the Board of Directors is composed solely of directors who are neither officers nor employees of the Company. The Audit Committee meets regularly during the year with management of the Company and the Company's independent auditors to review the Company's unaudited condensed interim consolidated financial statements (Interim Financial Statements), Annual Financial Statements, and MD&A. The Audit Committee also reviews internal accounting controls, risk management, internal and external audit results and accounting principles and practices. The Audit Committee is responsible for approving the remuneration and terms of engagement of the Company's independent auditors. The Audit Committee also meets with the independent auditors, without management present, to discuss the results of their audit and the quality of financial reporting. On a quarterly basis, the Audit Committee reports its findings to the Board of Directors, and recommends approval of the Interim Financial Statements or Annual Financial Statements, as well as the MD&A.

/s/ Kevin Parkes

Kevin Parkes
President and Chief Executive Officer

/s/ Greg Palaschuk

Greg Palaschuk
Executive Vice President and Chief Financial Officer

February 6, 2023
19100 94 Avenue, Surrey, BC, V4N 5C3, Canada

Independent Auditor’s Report

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

Opinion

We have audited the consolidated financial statements of Finning International Inc. (the "Company"), which comprise the consolidated statements of financial position as at December 31, 2022 and 2021, and the consolidated statements of net income, comprehensive income, changes in equity and cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies (collectively referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2022 and 2021, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards ("IFRS").

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards ("Canadian GAAS"). Our responsibilities under those standards are further described in the *Auditor’s Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matter

A key audit matter is a matter that, in our professional judgment, was of most significance in our audit of the consolidated financial statements for the year ended December 31, 2022. This matter was addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on this matter.

Revenue from sales of parts and labour when servicing equipment under long-term contracts and revenue from sales of complex power and energy systems - Refer to Note 4 to the financial statements

Key Audit Matter Description

The Company recognizes long-term contracts revenue in a manner that best reflects the Company’s performance over-time for revenue from sales of parts and labour when servicing equipment under long-term contracts and revenue from sales of complex power and energy systems, which are presented as product support and new equipment revenue, respectively, in the financial statements.

Revenue is recorded primarily based on the proportion of contract costs incurred for work performed to-date relative to the estimated total contract costs. The accounting for servicing equipment under long-term contracts and for complex power and energy system contracts that are not complete at the reporting date (collectively the “uncompleted contracts”) involves significant judgments to estimate total contract costs. This required extensive audit effort and a high degree of auditor attention in applying the audit procedures to audit management’s estimates and evaluating the results of those procedures.

How the Key Audit Matter Was Addressed in the Audit

Our audit procedures related to management's estimated total contract costs for uncompleted contracts included the following, among others:

- For a selection of uncompleted contracts, we:
  - Obtained and inspected the executed contract agreements and amendments, and confirmed key terms with management and contract personnel.
  - Conducted inquiries with management and operational personnel to gain an understanding of the status of contract activities.
  - Evaluated costs to complete by testing key components of the estimated total contract costs, including parts and labour.
  - Compared management's estimated total contract costs to those of similar contracts, when applicable.
  - Evaluated management's ability to achieve the estimated total contract costs by performing corroborative inquiry with the Company's operational personnel and by comparing the estimates to management's work plans and costs incurred to date.
- Evaluated management's ability to estimate total contract costs accurately by comparing actual costs to management's historical estimates for completed contracts.

Other Information

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

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

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

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

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

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

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

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

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

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

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Raj S. Bhogal.

/s/ Deloitte LLP

Chartered Professional Accountants
Vancouver, British Columbia
February 6, 2023

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

December 31 (Canadian $ millions)	2022	2021
ASSETS		
Current assets		
Cash and cash equivalents (Note 22)	**288**	502
Accounts receivable (Note 8)	**1,129**	839
Unbilled receivables (Note 4)	**422**	270
Inventory (Note 12)	**2,461**	1,687
Other assets (Note 14)	**481**	321
Total current assets	**4,781**	3,619
Property, plant, and equipment (Note 15)	**973**	914
Rental equipment (Note 15)	**469**	434
Intangible assets (Note 17)	**333**	306
Goodwill (Note 18)	**325**	237
Distribution network (Note 18)	**100**	100
Net post-employment assets (Note 21)	**98**	189
Investment in joint ventures and associate	**83**	84
Other assets (Note 14)	**107**	88
Total assets	**7,269**	5,971
LIABILITIES		
Current liabilities		
Short-term debt (Note 7)	**1,068**	374
Accounts payable and accruals (Note 8)	**1,373**	908
Deferred revenue (Note 4)	**544**	428
Current portion of long-term debt (Note 7)	**114**	190
Other liabilities (Note 19)	**302**	255
Total current liabilities	**3,401**	2,155
Long-term debt (Note 7)	**815**	921
Long-term lease liabilities	**255**	241
Deferred tax liabilities	**153**	149
Other liabilities (Note 19)	**184**	162
Total liabilities	**4,808**	3,628
Commitments and contingencies (Note 26)		
EQUITY		
Share capital	**536**	561
Accumulated other comprehensive income	**273**	212
Retained earnings	**1,634**	1,550
Equity attributable to shareholders of Finning International Inc.	**2,443**	2,323
Non-controlling interests	**18**	20
Total equity	**2,461**	2,343
Total liabilities and equity	**7,269**	5,971

Approved by the Directors February 6, 2023

/s/ S.L. Levenick — *ls/ H.N. Kvisle*

S.L. Levenick, Director — H.N. Kvisle, Director

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

CONSOLIDATED STATEMENTS OF NET INCOME

Years ended December 31 (Canadian $ millions, except share and per share amounts)	2022	2021
Revenue		
New equipment	**2,793**	2,189
Used equipment	**352**	409
Equipment rental	**297**	235
Product support	**4,606**	3,728
Fuel and other	**1,231**	733
Total revenue (Note 4)	**9,279**	7,294
Cost of sales	**(7,056)**	(5,493)
Gross profit	**2,223**	1,801
Selling, general, and administrative expenses	**(1,458)**	(1,266)
Equity earnings of joint ventures	**3**	2
Other income (Note 6)	**—**	15
Earnings before finance costs and income taxes	**768**	552
Finance costs (Note 7)	**(95)**	(75)
Income before provision for income taxes	**673**	477
Provision for income taxes (Note 13)	**(172)**	(114)
Net income	**501**	363
Net income (loss) attributable to:		
Shareholders of Finning International Inc.	**503**	364
Non-controlling interests	**(2)**	(1)
Earnings per share (Note 5)		
Basic	**3.25**	2.26
Diluted	**3.25**	2.25

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

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

Years ended December 31 (Canadian $ millions)	**2022**	2021
Net income	**501**	363
Other comprehensive income, net of income tax		
Items that may be subsequently reclassified to net income:		
Foreign currency translation adjustments	**79**	(14)
Share of foreign currency translation adjustments of joint ventures	**(1)**	—
(Loss) gain on net investment hedges	**(22)**	4
Impact of foreign currency translation and net investment hedges, net of income tax	**56**	(10)
Gain on cash flow hedges	**15**	2
Loss on cash flow hedges, reclassified to statement of net income	**5**	—
Provision for income taxes on cash flow hedges	**(5)**	—
Impact of cash flow hedges, net of income tax	**15**	2
Items that will not be subsequently reclassified to net income:		
Actuarial (loss) gain (Note 21)	**(83)**	82
Recovery of (provision for) income taxes on actuarial (loss) gain	**21**	(29)
Actuarial (loss) gain, net of income tax	**(62)**	53
Total comprehensive income	**510**	408
Total comprehensive income (loss) attributable to:		
Shareholders of Finning International Inc.	**512**	409
Non-controlling interests	**(2)**	(1)

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

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Attributable to shareholders of Finning International Inc.						
(Canadian $ millions)	**Share capital**	**Contributed surplus**	**Accumulated other comprehensive income**	**Retained earnings**	**Total**	**Non-controlling interests**	**Total**
Balance, January 1, 2021	566	1	218	1,421	2,206	—	2,206
Net income (loss)	—	—	—	364	364	(1)	363
Other comprehensive (loss) income	—	—	(8)	53	45	—	45
Total comprehensive (loss) income	—	—	(8)	417	409	(1)	408
Exercise of share options	12	(3)	—	(9)	—	—	—
Share option expense	—	2	—	—	2	—	2
Hedging loss transferred to							—
statement of financial position	—	—	2	—	2	—	2
Non-controlling interests on acquisition of subsidiary (Note 23)	—	—	—	—	—	21	21
Repurchase of common shares (Note 10)	(17)	—	—	(140)	(157)	—	(157)
Dividends on common shares	—	—	—	(139)	(139)	—	(139)
Balance, December 31, 2021	561	—	212	1,550	2,323	20	2,343
Net income (loss)	**—**	**—**	**—**	**503**	**503**	**(2)**	**501**
Other comprehensive income (loss)	**—**	**—**	**71**	**(62)**	**9**	**—**	**9**
Total comprehensive income (loss)	**—**	**—**	**71**	**441**	**512**	**(2)**	**510**
Exercise of share options	**2**	**(2)**	**—**	**—**	**—**	**—**	**—**
Share option expense	**—**	**2**	**—**	**—**	**2**	**—**	**2**
Hedging gain transferred to statement of financial position	**—**	**—**	**(10)**	**—**	**(10)**	**—**	**(10)**
Repurchase of common shares (Note 10)	**(25)**	**—**	**—**	**(194)**	**(219)**	**—**	**(219)**
Share repurchase commitment under the automatic share purchase program (Note 10)	**(2)**	**—**	**—**	**(19)**	**(21)**	**—**	**(21)**
Dividends on common shares	**—**	**—**	**—**	**(144)**	**(144)**	**—**	**(144)**
Balance, December 31, 2022	**536**	—	**273**	**1,634**	**2,443**	**18**	**2,461**

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

CONSOLIDATED STATEMENTS OF CASH FLOW

Years ended December 31 (Canadian $ millions)	2022	2021
OPERATING ACTIVITIES		
Net income	**501**	363
Adjusting for:		
Depreciation and amortization	**333**	319
Loss on disposal of property, plant, and equipment	**2**	3
Return on investment in Energyst B.V.	**—**	(5)
Equity earnings of joint ventures	**(3)**	(2)
Share-based payment expense (Note 11)	**36**	36
Provision for income taxes	**172**	114
Finance costs	**95**	75
Net benefit cost of defined benefit pension plans and other post-employment benefit plans (Note 21)	**16**	14
Other (Note 7)	**(1)**	—
Changes in operating assets and liabilities (Note 22)	**(738)**	(277)
Additions to rental fleet	**(151)**	(137)
Additions to rental equipment with purchase options	**(90)**	(91)
Proceeds on disposal of rental fleet	**39**	62
Proceeds on disposal of rental equipment with purchase options	**57**	66
Interest paid	**(96)**	(74)
Income tax paid	**(171)**	(41)
Cash flow provided by operating activities	**1**	425
INVESTING ACTIVITIES		
Additions to property, plant, and equipment and intangible assets	**(171)**	(133)
Proceeds on disposal of property, plant, and equipment	**—**	8
Consideration paid for business acquisitions, net of cash acquired (Note 23)	**(101)**	(27)
Decrease (increase) in short-term and long-term investments	**4**	(7)
Return on investment in Energyst B.V.	**—**	8
Cash flow used in investing activities	**(268)**	(151)
FINANCING ACTIVITIES		
Increase in short-term debt (Note 22)	**630**	280
Decrease in long-term debt (Note 22)	**(203)**	(201)
Decrease in lease liabilities (Note 22)	**(78)**	(84)
Credit facility fee	**—**	(1)
Repurchase of common shares	**(218)**	(155)
Dividends paid	**(144)**	(139)
Cash flow used in financing activities	**(13)**	(300)
Effect of currency translation on cash balances	**66**	(11)
Decrease in cash and cash equivalents	**(214)**	(37)
Cash and cash equivalents, beginning of year	**502**	539
Cash and cash equivalents, end of year (Note 22)	**288**	502

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

1. GENERAL INFORMATION 11
2. SIGNIFICANT ACCOUNTING POLICIES, KEY ASSUMPTIONS, AND SIGNIFICANT JUDGMENTS 11
3. SEGMENTED INFORMATION 14
4. REVENUE 16
5. EARNINGS PER SHARE 19
6. OTHER INCOME 19
7. SHORT-TERM AND LONG-TERM DEBT AND FINANCE COSTS 20
8. FINANCIAL INSTRUMENTS 21
9. MANAGEMENT OF CAPITAL 31
10. SHARE CAPITAL 32
11. SHARE-BASED PAYMENTS 33
12. INVENTORY 38
13. INCOME TAXES 39
14. OTHER ASSETS 42
15. PROPERTY, PLANT, AND EQUIPMENT AND RENTAL EQUIPMENT 43
16. LEASES 45
17. INTANGIBLE ASSETS 47
18. IMPAIRMENT 49
19. OTHER LIABILITIES 50
20. PROVISIONS 51
21. POST-EMPLOYMENT BENEFITS 52
22. SUPPLEMENTAL CASH FLOW INFORMATION 58
23. ACQUISITIONS 60
24. ECONOMIC RELATIONSHIPS 62
25. RELATED PARTY TRANSACTIONS AND TOTAL STAFF COSTS 62
26. COMMITMENTS AND CONTINGENCIES 63
27. GUARANTEES AND INDEMNIFICATIONS 63

1. General Information

Finning International Inc. ("Finning") is a widely held, publicly traded corporation, listed on the Toronto Stock Exchange (TSX: FTT). The registered and head office of the Company is located at 19100 94 Avenue, Surrey, British Columbia, Canada. The Company's principal business is the sale of heavy equipment and power and energy systems, rental of equipment, and providing product support including sales of parts and servicing of equipment.

2. Significant Accounting Policies, Key Assumptions, and Significant Judgments

These annual consolidated financial statements (Annual Financial Statements) of Finning and its subsidiaries (together, the "Company") have been prepared in accordance with International Financial Reporting Standards (IFRS) issued and effective for the current year. The Annual Financial Statements were authorized for issuance by the Company's Board of Directors (the Board) on February 6, 2023. The Company has applied the same accounting policies consistently to all periods presented unless otherwise noted.

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

Certain of the Company's accounting policies that relate to the financial statements, as well as estimates and judgments the Company has made and how they affect the amounts reported in the Annual Financial Statements, are incorporated in this section. This note also describes new standards, amendments, or interpretations that are effective and applied by the Company during 2022 or are not yet effective. Where an accounting policy, estimate, or judgment is applicable to a specific note to the Annual Financial Statements, it is described within that note.

These Annual Financial Statements were prepared under the historical cost basis except as otherwise described in the notes to these Annual Financial Statements.

(a) Principles of Consolidation

Accounting Policy

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

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

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

Name	Principal place of business	% ownership 2022	% ownership 2021	Functional currency [1]
OEM Remanufacturing Company Inc.	Canada	100%	100%	CAD
4Refuel Canada LP	Canada	100%	100%	CAD
Compression Technology Corporation (ComTech)	Canada	54.5%	54.5%	CAD
Finning Argentina S.A.	Argentina	100%	100%	USD
Finning Soluciones Mineras S.A.	Argentina	100%	100%	USD
Finning Bolivia S.A.	Bolivia	100%	100%	USD
Finning Chile S.A.	Chile	100%	100%	USD
Moncouver S.A.	Uruguay	100%	100%	USD
Finning (UK) Ltd.	United Kingdom (UK)	100%	100%	GBP
Finning (Ireland) Limited	Republic of Ireland	100%	100%	EUR

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

All shareholdings are of ordinary shares or other equity capital. Other subsidiaries, while included in the Annual Financial Statements, are not considered material.

(b) Joint Ventures and Associate

Accounting Policy

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

Description of Business and Nature of Relationships

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

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

Enerygst B.V. (Energyst) was the exclusive Caterpillar dealer in Europe for rental power and temperature control solutions. Energyst was dissolved on December 30, 2022.

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

December 31	Nature of	Principal place of	% ownership		Functional
Name	Relationship	Business	2022	2021	currency
PLM	Joint Venture	United States	**25.0%**	25.0%	USD
Agriterra	Joint Venture	Canada	**20.0%**	20.0%	CAD
Energyst	Associate	Netherlands	**—**	31.4%	EUR

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

(c) Foreign Currency Translation

Accounting Policy

These Annual Financial Statements are presented in CAD, which is the functional currency of the parent company. Transactions undertaken in foreign currencies are translated into the entity's functional currency at exchange rates prevailing at the time the transactions occurred or at the average rate for the period when it is a reasonable approximation.

Account balances denominated in foreign currencies are translated into the entity's functional currency as follows:

- Monetary items are translated at exchange rates in effect at the consolidated statement of financial position dates and non-monetary items are translated at historical exchange rates; and
- Foreign exchange gains and losses are recorded in the consolidated statement of net income except where the exchange gain or loss arises from the translation of monetary items designated as hedges. Refer to Note 8c for the Company's accounting policy for hedging.

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

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

The Company uses foreign currency debt to hedge foreign currency gains and losses on its long-term net investments in foreign operations. Refer to Note 8c for the Company's accounting policy for hedging.

Areas of Significant Judgment

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

(d) Amendments to Standards

The Company has adopted the following amendments to IFRS:

- Amendments to International Accounting Standard (IAS) 37, Provisions, *Contingent Liabilities and Contingent Assets* (effective January 1, 2022) clarify that the 'costs of fulfilling a contract' when assessing whether a contract is onerous comprise both the incremental costs and an allocation of other costs that relate directly to fulfilling the contract. The amendments apply to contracts existing at the date when the amendments are first applied. On adoption of this amendment, there was no impact to the Company's Annual Financial Statements.

(e) Future Accounting Pronouncements

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

- IFRS 17, *Insurance Contracts* (effective January 1, 2023) replaces IFRS 4, *Insurance Contracts*, and establishes the principles for the recognition, measurement, presentation, and disclosure of insurance contracts. Management expects that adoption of this standard will not impact the Company's financial statements.
- Amendments to IAS 1, *Presentation of Financial Statements* (effective January 1, 2023) require entities to disclose their material accounting policy information rather than significant accounting policy information. The amendments provide guidance on how an entity can identify material accounting policy information and clarify that information may be material because of its nature, even if the related amounts are immaterial. Management reviewed the Company's accounting policies and believes no changes will be required to the disclosure of accounting policy information for the December 31, 2023 annual financial statements.
- Amendments to IAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors* (effective January 1, 2023) introduce a definition of 'accounting estimates' and clarify the difference between changes in accounting policies and changes in accounting estimates. These amendments will impact changes in accounting policies and changes in accounting estimates made after these amendments are adopted by the Company.
- Amendments to IAS 12, *Income Taxes* (effective January 1, 2023) clarify how companies should account for deferred tax related to assets and liabilities arising from a single transaction, such as leases and decommissioning obligations. The amendments narrow the scope of the initial recognition exemption so that it does not apply to transactions that give rise to equal and offsetting temporary differences. As a result, companies will need to recognize a deferred tax asset and a deferred tax liability for temporary differences arising on initial recognition of the related asset and liability. Management reviewed its global tax provision and concluded that there were no deferred taxes being netted or not recognized from a single tax treatment and has not applied the initial recognition exemption. Management expects no changes will be required to the Company's tax provision as a result of these amendments.
- Amendments to IAS 1, *Presentation of Financial Statements* (effective January 1, 2024):
    - Clarify the classification of liabilities as current or non-current based on contractual rights that are in existence at the end of the reporting period and is unaffected by expectations about whether an entity will exercise its right to defer or accelerate settlement. A liability not due over the next twelve months is classified as non-current even if management intends or expects to settle the liability within twelve months. The amendments also introduce a definition of 'settlement' to make clear that settlement refers to the transfer of cash, equity instruments, other assets, or services to the counterparty. Management is currently assessing the impact of these amendments.
    - Clarify that only covenants with which an entity must comply on or before the reporting date will affect a liability's classification as current or non-current. In addition, the amendments require a company to disclose information about these covenants in the notes to the financial statements. Management is currently assessing the impact of these amendments.
- Amendments to IFRS 16, *Leases* (effective January 1, 2024) explain how an entity accounts for a sale and leaseback after the transaction date. The amendments clarify how a seller-lessee should subsequently measure lease liabilities and when it is appropriate to record a gain or loss on these transactions. The amendments apply to all sale and leaseback transactions entered since the effective date of IFRS 16 (January 1, 2019) and the effective date of this amendment. These amendments are not expected to have any impact on the Company's financial statements at this time because from January 1, 2019 to December 31, 2022 the Company did not enter into any sale and leaseback transactions. However, management will consider these amendments in the accounting treatment of future sale and leaseback transactions.

3. Segmented Information

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

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

- Canadian operations: dealership territories in British Columbia, Alberta, Saskatchewan, the Yukon territory, the Northwest Territories, and a portion of Nunavut and mobile on-site refuelling services in most of the provinces of Canada, as well as in Texas, US.
- South American operations: Chile, Argentina, and Bolivia.
- UK & Ireland operations: England, Scotland, Wales, Northern Ireland, and the Republic of Ireland.
- Other: corporate head office.

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

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

Year ended December 31, 2022 ($ millions)	Canada	South America	UK & Ireland	Other	Total
Revenue					
New equipment	**1,001**	**926**	**866**	**—**	**2,793**
Used equipment	**259**	**37**	**56**	**—**	**352**
Equipment rental	**192**	**60**	**45**	**—**	**297**
Product support	**2,517**	**1,717**	**372**	**—**	**4,606**
Fuel and other	**1,231**	**—**	**—**	**—**	**1,231**
Total revenue	**5,200**	**2,740**	**1,339**	**—**	**9,279**
Cost of fuel	**(1,064)**	**—**	**—**	**—**	**(1,064)**
Net revenue	**4,136**	**2,740**	**1,339**	**—**	**8,215**
Operating costs [1]	**(3,513)**	**(2,333)**	**(1,224)**	**(47)**	**(7,117)**
Depreciation and amortization	**(191)**	**(97)**	**(41)**	**(4)**	**(333)**
Equity earnings of joint ventures	**3**	**—**	**—**	**—**	**3**
Earnings (loss) before finance costs and income taxes	**435**	**310**	**74**	**(51)**	**768**
Finance costs					**(95)**
Provision for income taxes					**(172)**
Net income					**501**
Invested capital [2]	**2,447**	**1,281**	**428**	**14**	**4,170**
Gross capital expenditures [3][4]	**123**	**82**	**9**	**28**	**242**
Gross rental equipment spend [4]	**165**	**56**	**20**	**—**	**241**

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

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

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

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

Year ended December 31, 2021 ($ millions)	Canada	South America	UK & Ireland	Other	Total
Revenue					
New equipment	774	711	704	—	2,189
Used equipment	310	48	51	—	409
Equipment rental	153	40	42	—	235
Product support	1,999	1,415	314	—	3,728
Fuel and other	733	—	—	—	733
Total revenue	3,969	2,214	1,111	—	7,294
Cost of fuel	(598)	—	—	—	(598)
Net revenue	3,371	2,214	1,111	—	6,696
Operating costs [(1)]	(2,865)	(1,921)	(1,017)	(39)	(5,842)
Depreciation and amortization	(191)	(84)	(41)	(3)	(319)
Equity earnings of joint ventures	2	—	—	—	2
Other income	10	—	—	5	15
Earnings (loss) before finance costs and income taxes	327	209	53	(37)	552
Finance costs					(75)
Provision for income taxes					(114)
Net income					363
Invested capital [(2)]	1,876	1,026	381	43	3,326
Gross capital expenditures [(3)(4)]	106	62	9	25	202
Gross rental equipment spend [(4)]	171	39	19	—	229

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

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

	Total revenue Year ended December 31		**Non-current assets [(5)] at December 31**	
($ millions)	**2022**	2021	**2022**	2021
Canada	**5,044**	3,860	**1,495**	1,438
Chile	**2,216**	1,873	**364**	328
United Kingdom	**1,219**	996	**281**	183
Argentina	**436**	282	**88**	72
Other countries	**364**	283	**105**	104

(5) Non-current assets shown above exclude deferred tax assets and net post-employment assets.

4. REVENUE

Revenue Recognition

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

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

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

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

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

Revenue from customers may be recognized in advance of billing the customer. The Company recognizes unbilled receivables for sales of new equipment (including complex power and energy systems) and product support revenue (including sales of parts and labour when servicing equipment both under and not under long-term contracts) when revenue recognition criteria are met, and the Company has the right to receive amounts from customers but invoices have not yet been issued. Similarly, the Company recognizes deferred revenue when cash has been collected from customers but control of the goods or services has not yet been transferred. Deferred revenue is recorded when cash is received prior to the transfer of control related to servicing equipment, complex power and energy systems, and extended warranty. Deferred revenue is recorded when deposits are received from customers and in respect of sales of new equipment where the Company has issued a repurchase guarantee and management has determined that it has not transferred control of the equipment.

Areas of Estimation Uncertainty

Long-Term Product Support Contracts and Sales of Complex Power and Energy Systems

Where the outcome of performance obligations for long-term product support contracts and sales of complex power and energy systems can be estimated reliably, revenue is recognized. Revenue is measured primarily based on the proportion of contract costs incurred for work performed to-date relative to the estimated total contract costs. Variations in contract work, claims, and incentive payments are included to the extent that they have been agreed with the customer. Where the outcome of performance obligations cannot be reliably measured, contract revenue is recognized in the current period to the extent that costs have been incurred until such time that the outcome of the performance obligations can be reasonably measured. Significant assumptions are required to estimate total contract costs, which are recognized as expenses in the period in which they are incurred. When it is probable that total contract costs will exceed total contract revenue, the expected loss is immediately recognized in the consolidated statement of net income.

Areas of Significant Judgment

Transfer of Control to the Customer

The Company is required to make judgments when determining when control is transferred to the customer. For the sale of new and used equipment and parts inventory, generally, control passes to the customer at the time of shipment of the equipment or parts to the customer or when commissioning of equipment is complete. In certain circumstances, management must determine if control transfers before or after the goods are shipped to the customer (for example, bill-and-hold arrangements). In making this determination, management considers whether the Company has transferred significant risks and rewards related to the product, legal title has transferred, the Company has the ability to direct or sell the product to another customer, the product is ready for physical transfer, or the product is in a condition of being capable of operating in the manner intended.

Repurchase Commitments

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

Identifying Performance Obligations

The Company is required to make judgments when identifying the performance obligations in contracts with customers. For sales of parts and labour when servicing equipment under a long-term contract that are sold bundled together with the sale of equipment to a customer, management typically concludes that these are two separate performance obligations as each of the promises to transfer equipment and provide services is capable of being distinct and separately identifiable.

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

Years ended December 31			**2022**			2021
($ millions)	**Point-in-time**	**Over-time**	**Total**	Point-in-time	Over-time	Total
New equipment	**2,618**	**175**	**2,793**	2,004	185	2,189
Used equipment	**352**	**—**	**352**	409	—	409
Equipment rental	**—**	**297**	**297**	—	235	235
Product support	**2,151**	**2,455**	**4,606**	1,669	2,059	3,728
Fuel and other	**1,224**	**7**	**1,231**	731	2	733
Total revenue	**6,345**	**2,934**	**9,279**	4,813	2,481	7,294

The Company recorded the following unbilled receivables from customers:

December 31 **($ millions)**	**2022**	2021
Product support	**365**	241
New equipment	**53**	27
Other	**4**	2
Total unbilled receivables	**422**	270

Invoices for sales of parts and labour when servicing equipment under long-term contracts are issued in accordance with the billing arrangement over the contract term. Invoices for sales of parts and labour when servicing equipment not under long-term contracts are issued when the work is complete. Invoices for sales of complex power and energy systems are issued in accordance with milestone payments as agreed in each sales contract with the customer.

The Company recorded the following contract liabilities:

December 31			**2022**			2021
($ millions)	**Current**	**Non-current**	**Total**	Current	Non-current	Total
Product support	**249**	**—**	**249**	238	—	238
Deposits from customers for new equipment	**218**	**—**	**218**	148	—	148
Extended warranty	**30**	**35**	**65**	22	30	52
Complex power and energy systems	**41**	**—**	**41**	14	—	14
Other	**6**	**—**	**6**	6	1	7
Total deferred revenue	**544**	**35**	**579**	428	31	459

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

5. Earnings Per Share

Years ended December 31 ($ millions, except share and per share amounts)	2022 Basic	 Diluted	2021 Basic	 Diluted
Net income attributable to shareholders of Finning	**503**	**503**	364	364
Weighted average shares outstanding (WASO)	**154,740,313**	**154,740,313**	161,088,129	161,088,129
Effect of dilutive share options		**331,525**		554,676
WASO with assumed conversions		**155,071,838**		161,642,805
Earnings per share	**3.25**	**3.25**	2.26	2.25

Share options granted to employees that were anti-dilutive were excluded from the weighted average number of shares for the purpose of calculating diluted earnings per share. Anti-dilutive share options related to the year ended December 31, 2022 were 1 million (2021: 1 million).

6. Other Income

Years ended December 31 ($ millions)	2022	2021
Canada Emergency Wage Subsidy (a)	—	10
Return on investment in Energyst (b)	—	5
Total other income	—	15

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

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

7. Short-term and Long-term Debt and Finance Costs

December 31 ($ millions)	2022	2021
Short-term debt	**1,068**	374
Long-term debt		
2.626%, $200 million, due August 14, 2026	**184**	199
5.077% $150 million, due June 13, 2042	**149**	149
3.98% USD $100 million, due January 19, 2022, Series A	**—**	127
4.08% USD $100 million, due January 19, 2024, Series B	**135**	127
4.18% USD $50 million, due April 3, 2022, Series C	**—**	63
4.28% USD $50 million, due April 3, 2024, Series D	**68**	63
4.53% USD $200 million, due April 3, 2027, Series E	**271**	253
3.40% £70 million, due May 22, 2023, Series F	**114**	120
Other term loans	**8**	10
Total long-term debt	**929**	1,111
Current portion of long-term debt	**114**	190
Non-current portion of long-term debt	**815**	921

Short-Term Debt

At December 31, 2022, short-term debt included $1.0 billion drawn on the Company's committed sustainability-linked revolving credit facility (2021: short-term debt included $370 million drawn on the Company's committed revolving credit facility). Refer to Note 8b for more information on the Company's committed sustainability-linked revolving credit facility.

The effective interest rate on the consolidated short-term debt for 2022 was 3.5% (2021: 1.6%).

Long-Term Debt

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

During Q4 2022, the Company paid $14 million to settle $15 million notional value of its 2.626%, $200 million note due August 14, 2026, on the secondary market. The Company implemented an automatic purchase plan for its 2.626%, $200 million note due August 14, 2026 and its 5.077%, $150 million note due June 13, 2042 for the period January 3, 2023 to February 7, 2023. As of February 2, 2023, the Company repurchased $3 million notional value of its notes under this plan.

The effective interest rate on the consolidated long-term debt for 2022 was 4.1% (2021: 3.8%).

Finance Costs

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

Years ended December 31 ($ millions)	2022	2021
Interest on short-term debt	**32**	3
Interest on long-term debt	**39**	48
Interest on debt	**71**	51
Interest on lease liabilities	**11**	10
Other finance related expenses	**13**	14
Finance costs	**95**	75

8. Financial Instruments

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

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

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

(a) Financial Assets and Credit Risk

Accounting Policy

Classification and measurement

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

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

Areas of Estimation Uncertainty

Allowance for Doubtful Accounts

The Company records allowance for doubtful accounts that represents management's best estimate of potential losses in respect of accounts receivable and unbilled receivables. The main components of these allowances are a specific loss component that relates to individually significant exposures, and a collective loss component established for groups of similar assets in respect of losses that are expected to occur.

The collective loss allowance is estimated based on historical data of payment statistics for similar financial assets, adjusted for current and forecasted future economic conditions.

Expected credit losses related to the current economic environment have been incorporated in management's estimate of its allowance for doubtful accounts. No assurance can be given that this will be sufficient or that the Company will not suffer material credit losses that will adversely affect its results. The Company allocates each exposure to a credit risk grade based on data that is determined to be predictive of the risk of loss (including but not limited to aging of receivable balances, external credit ratings, publicly available information about customers, expectation of customer bankruptcies, and the impact of inflation and interest rate increases on customers ability to pay) and applying experienced credit judgment. Exposures within each credit risk grade are segmented by geographic region, industry classification, and risk categorization. An expected credit loss rate is calculated for each segment.

Credit Risk

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

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

December 31 ($ millions)	**2022**	2021
Cash and cash equivalents	**288**	502
Accounts receivable	**1,129**	839
Unbilled receivables	**422**	270
Supplier claims receivable	**156**	103
Exposure to credit risk	**1,995**	1,714

Cash and Cash Equivalents

Credit risk associated with cash and cash equivalents is managed by ensuring that these financial assets are held with major financial institutions with strong investment grade ratings and by monitoring the exposures with any single institution. An ongoing review is performed to evaluate the changes in the credit rating of counterparties.

Receivables from Customers

The Company has a large, diversified customer base, and is not dependent on any single customer or group of customers. Credit risk associated with accounts receivable and unbilled receivables is minimized because of the diversification of the Company's operations as well as its large customer base and its geographical dispersion.

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

Receivables from Suppliers

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

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

December 31 ($ millions)	2022	2021
Canada	**626**	445
Chile	**287**	212
UK	**109**	97
Argentina	**50**	41
Other	**57**	44
Total	**1,129**	839

Impairment Losses

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

December 31	2022		2021	
($ millions)	**Gross**	**Allowance**	Gross	Allowance
Not past due	**866**	**—**	626	—
Past due 1 – 30 days	**169**	**—**	132	—
Past due 31 – 90 days	**82**	**1**	59	1
Past due 91 – 120 days	**7**	**1**	7	—
Past due greater than 120 days	**48**	**41**	50	34
Total	**1,172**	**43**	874	35

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

Years ended December 31 ($ millions)	2022	2021
Balance, beginning of year	**35**	45
Additional allowance and unused amounts reversed	**8**	(9)
Receivables written off	**(1)**	(1)
Foreign exchange rate changes	**1**	—
Balance, end of year	**43**	35

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

(b) Financial Liabilities and Liquidity Risk

Accounting Policy

Classification and measurement

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

Liquidity Risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company's approach to managing liquidity is to ensure, as far as possible, that it will have sufficient liquid financial resources to fund its operations and meet its commitments and obligations. The Company maintains bilateral and syndicated credit facilities, continuously monitors actual and forecast cash flows, and manages maturity profiles of financial liabilities.

The Company will require capital to finance future growth and to refinance outstanding debt obligations as they come due for repayment. If the cash generated from the Company's operations is not sufficient to fund future capital and debt repayment requirements, the Company will require additional debt or equity financing. The Company's ability to access capital markets for additional debt or equity on terms that are acceptable will be dependent upon prevailing market conditions, as well as the Company's financial condition. Further, Finning's ability to increase the level of debt financing may be limited by financial covenants or credit rating objectives.

At December 31, 2022, the Company had approximately $2.5 billion (2021: $2.1 billion) of unsecured committed and uncommitted credit facilities. Included in this amount is a committed sustainability-linked revolving credit facility totaling $1.3 billion with various Canadian and global financial institutions which is set to mature in September 2026. Borrowings under this facility are available in multiple currencies and at various floating rates of interest. In October 2022, the Company obtained an additional $300 million committed revolving credit facility that has a one-year term and can be used for general corporate purposes.

At December 31, 2022, $551 million was available collectively under the $1.3 billion committed sustainability-linked revolving credit facility and $300 million committed revolving credit facility. At December 31, 2021, $930 million was available under the $1.3 billion committed sustainability-linked revolving credit facility.

The Company's principal source of short-term funding is the committed sustainability-linked revolving credit facility. The Company also maintains a maximum authorized commercial paper program of $600 million, backstopped by credit available under the $1.3 billion committed sustainability-linked revolving credit facility. There was no commercial paper outstanding at December 31, 2022 and December 31, 2021. In addition, the Company maintains other bank credit facilities, including overdrafts and letters of credit, to support its subsidiary operations.

Covenants

The Company is subject to certain covenants under its committed revolving credit facilities. At December 31, 2022 and 2021, the Company was in compliance with these covenants.

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

($ millions)	Carrying amount December 31, 2022	Contractual cash flows 2023	2024	2025	2026	2027	Thereafter
Non-derivative financial liabilities							
Accounts payable and accruals	(1,373)	(1,373)	—	—	—	—	—
Short-term debt	(1,068)	(1,068)	—	—	—	—	—
Long-term debt (Note 7)	(929)	(151)	(234)	(26)	(210)	(285)	(265)
Lease liabilities	(331)	(82)	(64)	(47)	(33)	(26)	(106)
Total non-derivative financial liabilities	(3,701)	(2,674)	(298)	(73)	(243)	(311)	(371)
Derivative financial instruments							
Forward foreign currency contracts and swaps							
Sell CAD	—	(1,400)	—	—	—	—	—
Buy USD	2	1,402	—	—	—	—	—
Sell ARS [1]	(1)	(12)	—	—	—	—	—
Buy USD	—	11	—	—	—	—	—
Total derivative financial instruments	1	1	—	—	—	—	—

[1] Argentine Peso (ARS)

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

Accounting Policy

Derivative Financial Instruments

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

Hedges

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

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

Cash Flow Hedges

The Company uses foreign exchange forward contracts and, at times, may use options to hedge the currency risk associated with certain foreign denominated sales, purchase commitments, cash balances, payables, and receivables. The Company may also use other derivative instruments such as swaps, rate locks, and options to hedge its interest rate exposure.

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

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

Net Investment Hedges

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

Areas of Estimation Uncertainty

Fair Value

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

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

Foreign Exchange Risk

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

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

Translation Exposure

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

Assets and liabilities of the Company's South American and UK & Ireland operations are translated into CAD using the exchange rates in effect at the consolidated statement of financial position dates. Any translation gains and losses are recorded as foreign currency translation adjustments in other comprehensive income. To the extent practical, it is the Company's objective to manage this exposure by hedging a portion of its foreign investments with loans denominated in foreign currencies.

The carrying value of the Company's long-term debt that was designated as net investment hedging instruments was $588 million (2021: $753 million).

Transaction Exposure

Many of the Company's operations purchase, sell, rent, and lease assets as well as incur costs in currencies other than their functional currency. This mismatch of currencies creates transactional exposure, which may affect the Company's profitability as exchange rates fluctuate. For example, the Company's Canadian operating results are exposed to volatility in USD/CAD rates between the timing of equipment and parts purchases that are made in USD and the ultimate sale to customers made in CAD. A portion of this exposure is hedged through the use of forward exchange contracts as well as managed through pricing practices. The Company applies hedge accounting to hedges of certain inventory purchases in its Canadian and UK & Ireland operations. During the year ended December 31, 2022 the Company entered into forward exchange contracts for inventory purchases of USD $633 million (2021: USD $417 million).

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

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

Exposure to Foreign Exchange Risk

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

December 31, 2022 (millions)	**CAD**	**USD**	**GBP**	**CLP [1]**	**ARS**
Cash and cash equivalents	**3**	**113**	**31**	**61,958**	**1,832**
Accounts receivable	**511**	**164**	**71**	**160,244**	**524**
Short-term and long-term debt	**(388)**	**(1,034)**	**(127)**	**—**	**(1,964)**
Accounts payable and accruals	**(404)**	**(462)**	**(77)**	**(115,324)**	**(1,771)**
Lease liabilities	**(255)**	**(3)**	**(18)**	**(27,623)**	**(12)**
Net statement of financial position exposure	**(533)**	**(1,222)**	**(120)**	**79,255**	**(1,391)**

December 31, 2021 (millions)	CAD	USD	GBP	CLP [1]	ARS
Cash and cash equivalents	1	318	11	24,976	1,651
Accounts receivable	423	75	58	136,094	35
Short-term and long-term debt	(655)	(560)	(71)	—	—
Accounts payable and accruals	(330)	(242)	(62)	(82,256)	(780)
Lease liabilities	(254)	(4)	(25)	(17,135)	(8)
Net statement of financial position exposure	(815)	(413)	(89)	61,679	898

[1] Included are the CLP equivalents of amounts denominated in the Unidad de Fomento.

Sensitivity Analysis to Foreign Exchange Risk

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

December 31, 2022 ($ millions)	**Weakening of CAD**	**Pre-tax income**	**Other comprehensive loss**
USD/CAD	**10%**	**3**	**(16)**
GBP/CAD	**10%**	**—**	**(11)**
CLP/CAD [2]	**25%**	**31**	**—**
ARS/CAD	**30%**	**(11)**	**—**

[2] Excluded from this sensitivity are CLP denominated liabilities which are exempt from the financial instrument disclosures.

A strengthening of the CAD against the above currencies relative to the December 31, 2022 month end rates would have an equivalent but opposite effect in the amounts shown on the basis that all other variables are unchanged.

Interest Rate Risk

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

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

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

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

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

Profile

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

December 31 ($ millions)	**2022**	2021
Fixed rate instruments		
Financial assets	**73**	45
Financial liabilities	**(1,260)**	(1,439)
Variable rate instruments		
Financial assets	**288**	502
Financial liabilities	**(1,068)**	(374)

Fair Value Sensitivity Analysis for Fixed Rate Instruments

The Company does not account for any fixed rate financial assets or financial liabilities at fair value through the consolidated statement of net income, and the Company does not currently have any derivatives designated as hedging instruments under a fair value hedge accounting model, or any derivative interest rate instruments for which fair value changes are recognized in other comprehensive income. Therefore, a change in interest rates at the reporting date would not affect net income or other comprehensive income.

Pre-tax Income Sensitivity Analysis for Variable Rate Instruments

The Company's variable rate instruments are in a net liability position; therefore, an increase of 1.0% in interest rates for a full year relative to the interest rates at the reporting date would have decreased income by $8 million with a 1.0% decrease having the opposite effect. This analysis assumes that all other variables, in particular foreign currency exchange rates, remain constant.

(d) Fair Values

Financial instruments measured at fair value are grouped into three levels based on the degree to which fair value is observable:

Level 1 – quoted prices in active markets for identical securities
Level 2 – significant observable inputs other than quoted prices included in Level 1
Level 3 – significant unobservable inputs

The Company's only financial instruments measured at fair value are derivative financial instruments. All of the derivative financial instruments are measured at fair value using Level 2 inputs. The Company did not move any instruments between levels of the fair value hierarchy during the years ended December 31, 2022 and 2021.

Derivative Financial Instruments (Level 2)

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

Where material, fair values are adjusted for credit risk based on observed credit default spreads or market yield spreads for counterparties for financial assets and based on the Company's credit risk for financial liabilities. The Company's credit risk is derived from yield spreads on the Company's market quoted debt.

Long-Term Debt (Level 2)

The carrying value and fair value of the Company's long-term debt was as follows:

December 31		**2022**		2021
($ millions)	**Carrying value**	**Fair value**	Carrying value	Fair value
Long-term debt	**929**	**899**	1,111	1,202

The fair value of the Company's long-term debt is based on the present value of future cash flows required to settle the debt which is derived from the remaining interest payments. The present value of future cash flows is discounted using the yield to maturity rate as at the measurement date. This technique utilizes a combination of quoted prices and market observable inputs.

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

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

9. Management of Capital

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

The Company manages its capital structure and makes adjustments to it in light of actual and forecasted cash flows, actual and anticipated capital expenditures and investments, changes in economic conditions and the risk characteristics of its underlying assets. In order to maintain or adjust the capital structure, the Company may purchase common shares for cancellation pursuant to normal course issuer bids, issue new common shares, issue new debt, repay debt, issue new debt to replace existing debt with different characteristics, or adjust the amount of dividends paid to shareholders. In May 2022, the Company renewed its normal course issuer bid (NCIB) which enables the Company to purchase its common shares for cancellation.

In connection with the NCIB, the Company implemented an automatic share purchase plan (ASPP) with a designated broker to enable share repurchases for cancellation during selected blackout periods. Refer to Note 10 for details of the share repurchases made under the NCIB and ASPP during 2022.

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

December 31	**Company long-term target**	**2022**	2021
Net debt to Adjusted EBITDA Ratio (times)	**< 3.0**	**1.6**	1.1

Net debt to Adjusted EBITDA is calculated as net debt divided by Adjusted EBITDA for the last twelve months. Net debt is calculated as short-term and long-term debt, net of cash. Adjusted EBITDA is calculated by adding depreciation and amortization to earnings before finance costs and income taxes, excluding items that are not considered to be indicative of operational and financial trends, either by nature or amount, to provide a better overall understanding of the Company's underlying business performance.

Net debt was calculated as follows:

December 31 ($ millions)	**2022**	2021
Cash and cash equivalents	**(288)**	(502)
Short-term debt	**1,068**	374
Current portion of long-term debt	**114**	190
Long-term debt	**815**	921
Net debt	**1,709**	983

Adjusted EBITDA reconciles to earnings before finance costs and income tax as follows:

Years ended December 31 ($ millions)	**2022**	2021
Earnings before finance costs and income taxes	**768**	552
Depreciation and amortization	**333**	319
EBITDA	**1,101**	871
Significant items:		
Canadian emergency wage subsidy (Note 6a)	**—**	(10)
Return on investment in Energyst (Note 6b)	**—**	(5)
Adjusted EBITDA	**1,101**	856

10. Share Capital

Accounting Policy

Common shares repurchased by the Company are recognized as a reduction in share capital and contributed surplus (and retained earnings once contributed surplus is fully drawn down) on the date of repurchase. A liability is recognized for any committed repurchases that have not yet settled at a reporting period end. The cash consideration paid to repurchase common shares is presented as a financing activity in the statement of cash flow. The number of repurchased common shares is disclosed below and the amount deducted from equity is disclosed in the statement of changes in equity.

The Company is authorized to issue an unlimited number of preferred shares without par value, of which 4.4 million are designated as cumulative redeemable convertible preferred shares. The Company had no preferred shares outstanding for the years ended December 31, 2022 and 2021.

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

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

The change in the number of common shares in share capital were as follows:

Years ended December 31 (number of common shares)	**2022**	2021
Balance, beginning of year	**157,808,102**	162,107,484
Exercise of share options	**174,187**	479,958
Repurchase of common shares	**(6,941,039)**	(4,779,340)
Balance, end of year	**151,041,250**	157,808,102

During the year ended December 31, 2022, the Company repurchased 6,941,039 common shares for cancellation for $219 million, at an average cost of $31.51 per share, through the Company’s NCIB. In connection with the ASPP, an estimated obligation of $21 million was recorded at December 31, 2022 for the repurchase of common shares from January 1, 2023 to February 7, 2023 under this ASPP. In 2021, 4,779,340 common shares were repurchased for cancellation for $157 million, at an average cost of $32.81 per share. Refer to Note 9 for a description of the Company’s NCIB and ASPP.

11. Share-Based Payments

Accounting Policy

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

Equity-settled share-based payments comprise share options which are measured at fair value using the Black-Scholes option pricing model. The fair value is determined on the grant date of the share option and recorded over the vesting period in selling, general, and administrative expense, based on the Company's estimate of options that will vest, with a corresponding increase to contributed surplus. When share options are exercised, the proceeds received by the Company, together with any related amount recorded in contributed surplus, are credited to share capital.

Cash-settled share-based payments comprise deferred share units, Performance Share Units (PSUs), and restricted share units. Total Shareholder Return Performance Share Units (TSR PSUs) are measured at fair value using the Monte Carlo model and all other cash-settled share-based awards are measured at fair value using the Company's share price on the Toronto Stock Exchange (TSX:FTT). Cash settled share-based compensation plans are recognized as a liability. Compensation expense which arises from vesting and fluctuations in the fair value of the Company's cash settled share-based compensation plans is recognized in selling, general, and administrative expense in the consolidated statement of income with the corresponding liabilities recorded within accounts payable and accruals (current) and long-term other liabilities (non-current) on the consolidated statement of financial position.

Areas of Estimation Uncertainty

The Company uses the Black-Scholes option pricing model to determine the fair value of share options. Inputs to the model are subject to various estimates relating to share price volatility, interest rates, dividend yields and expected life of the units issued. Inputs are subject to market factors as well as internal estimates. The Company considers historical trends together with any new information to determine the best estimates of inputs to the model at the date of grant. Separate from the fair value calculation, the Company is required to estimate the expected forfeiture rate of equity-settled share-based payments in estimating how many units will vest.

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

Share Options

The Company has one share option plan (Stock Option Plan) for senior executives and management of the Company. Options granted under the Stock Option Plan vest over a three-year period and are exercisable over a seven-year period. The exercise price of each option is based on the weighted average trading price of the common shares of the Company on the date prior to the grant. Under the Stock Option Plan, the Company may issue up to approximately 7.5 million common shares pursuant to the exercise of share options. At December 31, 2022, approximately 3 million (2021: approximately 3 million) common shares remained eligible to be issued in connection with future grants.

Under the Stock Option Plan, the Company only grants and prices share options when all material information has been disclosed to the market. The difference between options exercised and common shares issued are withheld and returned to the option pool for future issues or grants. The exercises generally utilize the cashless method, whereby the actual number of common shares issued on exercise is based on the premium between the fair value of common shares at the time of exercise and the grant value, and the equivalent value of the number of share options up to the grant value is withheld. Share options exercised in 2022 comprised both cash and cashless exercises.

Details of the share option plans were as follows:

Years ended December 31	2022 Share options	2022 Weighted average exercise price	2021 Share options	2021 Weighted average exercise price
Share options outstanding, beginning of year	**1,772,547**	**$ 25.12**	3,683,449	$ 24.40
Granted	**339,689**	**$ 33.90**	370,776	$ 33.11
Exercised	**(522,205)**	**$ 23.27**	(2,201,407)	$ 25.18
Forfeited	**(21,753)**	**$ 25.42**	(72,111)	$ 26.74
Expired	**(1,110)**	**$ 25.44**	(8,160)	$ 30.83
Share options outstanding, end of year	**1,567,168**	**$ 27.63**	1,772,547	$ 25.12
Share options exercisable, end of year	**779,731**	**$ 26.12**	794,589	$ 26.41

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

	2022	2021
Dividend yield	**3.1%**	3.2%
Expected volatility [1]	**31.8%**	31.4%
Risk-free interest rate	**2.8%**	1.0%
Expected life (in years)	**5.11**	5.18
Grant date fair value of share options	**$ 7.98**	$ 6.70
Share price	**$ 33.90**	$ 33.11

(1) Expected volatility is based on historical share price volatility of TSX:FTT shares.

The following table summarizes information about share options outstanding at December 31, 2022:

	Share options outstanding			Share options exercisable	
Range of exercise prices	**Number outstanding**	**Weighted average remaining life**	**Weighted average exercise Price**	**Number outstanding**	**Weighted average exercise price**
$17.75 - $17.80	**387,120**	**4.36 years**	**$ 17.75**	**166,895**	**$ 17.75**
$17.81 - $27.11	**308,103**	**2.37 years**	**$ 23.41**	**307,136**	**$ 23.42**
$27.12 - $33.37	**357,176**	**5.30 years**	**$ 32.97**	**123,800**	**$ 32.97**
$33.38 - $33.96	**186,620**	**2.47 years**	**$ 33.69**	**181,900**	**$ 33.68**
$33.97 - $34.02	**328,149**	**6.38 years**	**$ 34.02**	**—**	**$ —**
Total	**1,567,168**	**4.38 years**	**$ 27.63**	**779,731**	**$ 26.12**

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

	Share options Outstanding			Share options Exercisable	
Range of exercise prices	Number outstanding	Weighted average remaining life	Weighted average exercise Price	Number outstanding	Weighted average exercise price
$17.75 - $20.68	565,892	5.13 years	$ 17.84	115,502	$ 18.20
$20.69 - $22.38	371,898	3.80 years	$ 22.22	199,924	$ 22.14
$22.39 - $25.47	123,386	0.62 years	$ 25.26	117,433	$ 25.40
$25.48 - $27.98	98,595	2.33 years	$ 26.76	98,595	$ 26.76
$27.99 - $33.68	612,776	5.09 years	$ 33.31	263,135	$ 33.58
Total	1,772,547	4.37 years	$ 25.12	794,589	$ 26.41

Other Share-Based Payment Plans

The Company has other share-based payment plans in the form of deferred share units, performance share units, and restricted share units that use notional common share units.

Details of the plans are as follows:

Directors

Directors' Deferred Share Unit (DDSU) Plan A

Under the DDSU Plan A, non-employee Directors of the Company may be awarded deferred share units and may also elect to have all or a portion of their cash compensation payable for service as a Director issued in the form of deferred share units. These units are fully vested upon issuance. These units accumulate notional dividends in the form of additional units based on the dividends paid on the Company's common shares.

Units are redeemable for cash or common shares of the Company or a combination of cash and shares (as requested by the holder) only following cessation of service on the Board and must be redeemed by December 31st of the year following the year in which the cessation occurred. Each deferred share unit is redeemable for one common share or if redeemed for cash, the value is determined using the redemption-date market value of the Company's common shares.

Non-employee Directors of the Company were granted a total of 58,445 deferred share units in 2022 (2021: 50,815), which were expensed over the calendar year as the units were issued. An additional 27,969 deferred share units (2021: 24,418) were issued in lieu of cash compensation payable for service as a Director. A further 18,322 deferred share units (2021: 15,244) were granted to Directors during 2022 as notional dividends.

Executive

Executive Deferred Share Unit (Exec DSU) Plan

Under the Exec DSU Plan, executives of the Company may elect to have all or a portion of their annual bonus issued in the form of deferred share units and may be awarded deferred share units as approved by the Board. The Exec DSU Plan utilizes notional units that become fully vested at the time of issuance or in accordance with terms set at the time of grant, if any. Vested deferred share units are redeemable for cash before December 15th of the year following the year in which cessation of employment with the Company occurred. Only vested units accumulate notional dividends in the form of additional deferred share units based on the dividends paid on the Company's common shares.

Executives were granted a total of 471 deferred share units in 2022 (2021: 3,585) as remuneration of their annual bonus payment and 1,378 deferred share units (2021: 1,427) were issued as notional dividends under the Exec DSU Plan.

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

Under the DSU-B Plan, executives of the Company may be awarded deferred share units as approved by the Board. The DSU-B Plan utilizes notional units that become vested in accordance with terms set at the time of grant. Vested deferred share units are redeemable for cash or for common shares of the Company before December 31st of the year following the year in which cessation of employment with the Company occurred. Deferred share units expire if they have not vested within five years from the grant-date. Only vested units accumulate notional dividends in the form of additional deferred share units based on the dividends paid on the Company's common shares.

During 2022, 966 deferred share units (2021: 1,017) were granted to executives as notional dividends under the DSU-B Plan.

PSU Plan

Under the PSU Plan, certain employees of the Company may be awarded performance share units as approved by the Board. This plan utilizes notional units that vest upon achieving future specified performance levels. All units accumulate notional dividends over the life of the grants in the form of additional performance share units based on the dividends paid on the Company's common shares. All units, including notional dividends, are redeemed upon vesting. All PSUs granted in 2022 and 2021 were divided equally into two categories. Half of the awards are based on the extent to which the Company's return on invested capital achieves or exceeds the specified performance levels in each year of a three-year performance period (ROIC PSUs). The other half of the awards is based on the performance of the Company's total shareholder return over the three-year period relative to the performance of the total shareholder return of companies that were in the S&P/TSX Capped Industrials Index for the performance period.

Vested performance share units are redeemable in cash. The per unit payout is based on the volume-weighted average trading price of the Company's common shares on the five days prior to the end of the performance period. During the year ended December 31, 2022, a total of 346,723 performance share units were granted to certain employees, based on 100% vesting (2021: 320,416), and 69,025 notional units (2021: 87,619) were issuable based on 100% vesting as payment for dividends upon vesting.

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

2022 Grant

The specified levels and respective vesting percentages for the 2022 grant were as follows:

TSR PSUs

- 1/3 of the grant is based on the Company's total shareholder return for year 1 of the grant (2022);
- 1/3 of the grant is based on the Company's total shareholder return for year 2 of the grant (2023); and
- 1/3 of the grant is based on the Company's total shareholder return for year 3 of the grant (2024).

Percentile rank	< 25th Percentile	25th Percentile	50th Percentile	75th Percentile	100th Percentile
TSR PSUs Vested	0%	50%	100%	150%	200%

ROIC PSUs

- 1/3 of the grant is based on the Company's ROIC performance for year 1 of the grant (2022);
- 1/3 of the grant is based on the Company's ROIC performance for year 2 of the grant (2023) (1); and
- 1/3 of the grant is based on the Company's ROIC performance for year 3 of the grant (2024) (1).

Performance level	2022 ROIC	Proportion of PSUs vesting
Below Threshold	< 12.0%	Nil
Threshold	12.0%	50%
Target	17.2%	100%
Maximum	22.4% or more	200%

(1) The return on invested capital performance level targets for 2023 and 2024 will be determined by the end of February of each of these years.

2021 Grant

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

TSR PSUs

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

Percentile rank	< 25th Percentile	25th Percentile	50th Percentile	75th Percentile	100th Percentile
TSR PSUs Vested	0%	50%	100%	150%	200%

ROIC PSUs

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

Performance level	2021 ROIC	2022 ROIC	Proportion of PSUs vesting
Below Threshold	< 10.1%	< 12.0%	Nil
Threshold	10.1%	12.0%	50%
Target	14.4%	17.2%	100%
Maximum	18.7% or more	22.4% or more	200%

(2) The return on invested capital performance level targets for 2023 will be determined by the end of February 2023.

Restricted Share Unit (RSU) Plan

Under the RSU Plan, certain employees of the Company may be awarded restricted share units as approved by the Board. This plan utilizes notional units that vest in accordance with terms set at the time of grant. All units accumulate notional dividends over the life of the grants in the form of additional restricted share units based on the dividends paid on the Company's common shares.

Restricted share units that have vested are redeemable in cash and the fair value payout per unit is based on the volume-weighted average trading price of the Company's common shares on the five days prior to the end of the vesting period. During the year ended December 31, 2022, a total of 259,779 restricted share units were granted to certain employees (2021: 209,599) and 24,518 notional units (2021: 21,642) are issuable as payment for dividends upon vesting.

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

Year ended December 31, 2022 Units	**Exec DSU**	**DSU-B**	**DDSU**	**PSU**	**RSU**	**Total**
Outstanding, beginning of year	**376,285**	**39,343**	**623,377**	**1,400,422**	**785,869**	**3,225,296**
Additions	**1,849**	**966**	**104,736**	**542,514**	**284,297**	**934,362**
Exercised	**(69,527)**	**(5,720)**	**(45,000)**	**(322,865)**	**(219,210)**	**(662,322)**
Forfeited	**(266,450)**	**—**	**—**	**(94,371)**	**(54,919)**	**(415,740)**
Outstanding, end of year	**42,157**	**34,589**	**683,113**	**1,525,700**	**796,037**	**3,081,596**
Vested, beginning of year	**50,020**	**39,343**	**623,377**	**353,358**	**—**	**1,066,098**
Vested	**61,664**	**966**	**104,736**	**765,986**	**219,210**	**1,152,562**
Exercised	**(69,527)**	**(5,720)**	**(45,000)**	**(322,865)**	**(219,210)**	**(662,322)**
Forfeited	**—**	**—**	**—**	**(30,493)**	**—**	**(30,493)**
Vested, end of year	**42,157**	**34,589**	**683,113**	**765,986**	**—**	**1,525,845**
Liability ($ millions)						
Balance, beginning of year	**2**	**1**	**20**	**29**	**13**	**65**
Expensed	**2**	**—**	**4**	**20**	**10**	**36**
Exercised	**(3)**	**—**	**(1)**	**(10)**	**(7)**	**(21)**
Forfeited	**—**	**—**	**—**	**(2)**	**(1)**	**(3)**
Balance, end of year	**1**	**1**	**23**	**37**	**15**	**77**

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

The fair value of the DSUs, ROIC PSUs, and RSUs outstanding at December 31, 2022 has been estimated using the period-end closing TSX: FTT share price of $33.66 (December 31, 2021: $31.88).

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

Years ended December 31 ($ millions)	2022	2021
Consolidated Statements of Net Income		
Compensation expense arising from equity-settled share-based payments	**3**	3
Compensation expense arising from cash-settled share-based payments	**33**	33
Total share-based payment expense	**36**	36
Consolidated Statements of Financial Position		
Liability for cash-settled share-based payments (current)	**36**	17
Liability for cash-settled share-based payments (non-current) (Note 19)	**41**	48

The total intrinsic value of vested but not settled share-based payments was $50 million (2021: $34 million).

12. INVENTORY

Accounting Policy

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

Areas of Estimation Uncertainty

The Company makes estimates of the provision required to reflect net realizable value of slow-moving and obsolete inventory. These estimates are determined on the basis of age, redundancy, and stock levels. For equipment inventory, estimates are determined on a specific item basis. Management reviewed equipment values with equipment specialists taking into account current market demand, market supply of equipment, market prices, and the age and condition of equipment. Management reviewed parts inventory estimates based on market demand, parts turns, discontinued items, ability to return to the vendor, and surplus/excess items.

December 31 ($ millions)	2022	2021
On-hand equipment	**919**	540
Parts and supplies	**1,030**	790
Internal service work in progress	**512**	357
Total inventory	**2,461**	1,687

For the year ended December 31, 2022, on-hand equipment, parts, supplies, and internal service work in progress recognized as an expense in cost of sales amounted to $6.5 billion (2021: $4.9 billion). For the year ended December 31, 2022, the write-down of inventory to net realizable value, included in cost of sales, was $23 million (2021: $28 million).

13. INCOME TAXES

Accounting Policy

The balance sheet liability method of tax allocation is used in accounting for income taxes. Under this method, the carry forward of unused tax losses and unused tax credits and the temporary differences arising from the difference between the tax basis of an asset and a liability and its carrying amount on the consolidated statement of financial position are used to calculate deferred tax assets or liabilities. Deferred tax liabilities are recognized for all taxable temporary differences and deferred tax assets are recognized to the extent that it is probable that taxable profits will be available against which the carry forward of unused tax losses, unused tax credits, and the deductible temporary differences can be utilized. Such deferred tax assets and liabilities are not recognized if the temporary difference arises from the initial recognition of goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither taxable profit nor the accounting profit. Deferred tax liabilities are recognized for taxable temporary differences associated with investments in subsidiaries and associates, and interests in joint ventures, except where the Company is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets or liabilities are calculated using tax rates anticipated to be in effect in the periods that the asset is expected to be realized or the liability is expected to be settled based on the laws that have been enacted or substantively enacted by the reporting date. The effect of a change in income tax rates on deferred tax assets and liabilities is recognized in income and/or equity in the period that the change becomes enacted or substantively enacted.

Current tax expense is based on the results for the year as adjusted for items which are non-assessable or disallowed using tax rates enacted or substantively enacted by the consolidated statement of financial position date.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Company intends to settle its tax assets and liabilities on a net basis.

Current and deferred tax are recognized in net income, except when they relate to items that are recognized in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognized in other comprehensive income or directly in equity, respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination. The deferred tax impact of foreign exchange gains or losses arising on the translation of foreign-denominated non-monetary assets and non-monetary liabilities is recorded in provision for income taxes in the consolidated statement of net income.

Areas of Estimation Uncertainty

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

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

Areas of Significant Judgment

Judgment is required as income tax laws and regulations can be complex and are potentially subject to a different interpretation between the Company and the respective tax authority. Due to the number of variables associated with the differing tax laws and regulations across the multiple jurisdictions in which the Company operates, the precision and reliability of the resulting estimates are subject to uncertainties and may change as additional information becomes known. Net income in subsequent periods may be impacted by the amount that estimates differ from the final tax return or from any subsequent re-assessment.

Year ended December 31, 2022 ($ millions)	**Canada**	**International**	**Total**
Current	**87**	**87**	**174**
Adjustment for prior periods recognized in the current year	**(5)**	**1**	**(4)**
Total current tax expense	**82**	**88**	**170**
Deferred			
Origination and reversal of timing differences	**1**	**8**	**9**
Change in valuation allowance	**—**	**(10)**	**(10)**
Adjustment for prior periods recognized in the current year	**5**	**(2)**	**3**
Total deferred tax expense	**6**	**(4)**	**2**
Provision for income taxes	**88**	**84**	**172**

Year ended December 31, 2021 ($ millions)	Canada	International	Total
Current	58	48	106
Adjustment for prior periods recognized in the current year	(2)	2	—
Total current tax expense	56	50	106
Deferred			
Origination and reversal of timing differences	1	4	5
Decrease due to tax rate changes	—	(3)	(3)
Change in valuation allowance	—	7	7
Adjustment for prior periods recognized in the current year	2	(3)	(1)
Total deferred tax expense	3	5	8
Provision for income taxes	59	55	114

The provision for income taxes differs from the amount that would have resulted from applying the Canadian statutory income tax rates to income before income taxes as follows:

Years ended December 31 ($ millions)		**2022**		2021
Combined Canadian federal and provincial income taxes at the statutory tax rate	**165**	**24.5 %**	117	24.4 %
Increase (decrease) resulting from:				
Differences in tax rates in foreign jurisdictions	**1**	**0.1 %**	(4)	(0.8)%
Changes in statutory tax rates	**—**	**—**	(3)	(0.6)%
Non-deductible share-based payment expense	**1**	**0.1 %**	1	0.2 %
Non-taxable/non-deductible foreign exchange in Argentina	**12**	**1.8 %**	7	1.5 %
Inflationary adjustment	**(2)**	**(0.2)%**	(3)	(0.6)%
Change in valuation allowance	**(10)**	**(1.4)%**	7	1.5 %
(Allowable capital loss) taxable capital gain	**(1)**	**(0.1)%**	10	2.1 %
Utilization of previously unrecognized tax loss	**—**	**—**	(9)	(1.9)%
Other	**6**	**0.8 %**	(9)	(1.9)%
Provision for income taxes	**172**	**25.6 %**	114	23.9 %

Deferred Tax Asset and Liability

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

December 31 ($ millions)	2022	2021
Accounting provisions not currently deductible for tax purposes	**51**	51
Share-based payments	**14**	12
Loss carry-forwards	**13**	14
Deferred tax assets	**78**	77
Property, plant and equipment, rental equipment, right-of-use assets, and intangible assets	**(143)**	(130)
Distribution network	**(15)**	(14)
Employee benefits	**(7)**	(33)
Other	**(9)**	(11)
Deferred tax liabilities	**(174)**	(188)
Net deferred tax liability	**(96)**	(111)

Deferred taxes were not recognized on retained profits of approximately $1.6 billion (2021: $1.5 billion) of foreign subsidiaries, as it was the Company's intention to invest these profits to maintain and expand the business of the relevant companies.

The Company recognized the benefit of the following tax loss carry-forwards available to reduce future taxable income, of which $18 million does not expire and $26 million expires between 2026 and 2042.

December 31 ($ millions)	2022	2021
Canada	**12**	—
International	**32**	44

At December 31, 2022, the Company had unrecognized capital and non-capital loss carry-forwards of $67 million (2021: $20 million) to reduce future taxable income. This amount does not expire.

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

Years ended December 31 ($ millions)	2022	2021
Deferred tax (recovery) expense	**(16)**	29
(Recovery of) provision for income taxes recognized in other comprehensive income	**(16)**	29

14. Other Assets

December 31 ($ millions)	2022	2021
Supplier claims receivable	**156**	103
Equipment deposits	**114**	82
Finance assets	**66**	36
Prepaid expenses	**47**	30
Income tax recoverable	**26**	15
Commodity taxes receivable	**26**	5
Other	**46**	50
Total other assets – current	**481**	321

December 31 ($ millions)	2022	2021
Deferred tax assets	**57**	38
Prepaid expenses	**28**	16
Finance assets (a)	**9**	12
Other	**13**	22
Total other assets – non-current	**107**	88

(a) Finance assets include equipment leased to customers under long-term financing leases. Depreciation expense for equipment leased to customers of $3 million was recorded in 2022 (2021: $2 million). Depreciation expense is recognized in equal monthly amounts over the term of the individual leases.

15. Property, Plant, and Equipment and Rental Equipment

Accounting Policy

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

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

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

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

Buildings	10 - 50 years
Vehicles and equipment	3 - 20 years
Rental equipment	2 - 8 years

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

Areas of Significant Judgment

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

December 31, 2022 ($ millions)	**Land**	**Buildings**	**Vehicles and Equipment**	**Total PP&E**	**Rental Equipment**
Cost					
Balance, beginning of year	**84**	**1,060**	**700**	**1,844**	**720**
Additions of owned assets	**—**	**56**	**50**	**106**	**200**
Additions of right-of-use assets	**—**	**22**	**48**	**70**	**1**
Remeasurement of right-of-use assets	**—**	**1**	**1**	**2**	**—**
Additions through business combinations	**—**	**3**	**6**	**9**	**—**
Transfers from inventory	**—**	**—**	**10**	**10**	**41**
Transfers to inventory	**—**	**—**	**(1)**	**(1)**	**(164)**
Disposals	**—**	**(25)**	**(11)**	**(36)**	**—**
Foreign exchange rate changes	**2**	**16**	**14**	**32**	**—**
Balance, end of year	**86**	**1,133**	**817**	**2,036**	**798**
Accumulated depreciation and impairment losses					
Balance, beginning of year	**(10)**	**(476)**	**(444)**	**(930)**	**(286)**
Depreciation of owned assets	**—**	**(33)**	**(43)**	**(76)**	**(103)**
Depreciation of right-of-use assets	**—**	**(31)**	**(41)**	**(72)**	**(9)**
Transfers to inventory	**—**	**—**	**1**	**1**	**68**
Disposals	**—**	**23**	**9**	**32**	**—**
Foreign exchange rate changes	**—**	**(9)**	**(9)**	**(18)**	**1**
Balance, end of year	**(10)**	**(526)**	**(527)**	**(1,063)**	**(329)**
Net book value					
Balance, beginning of year	**74**	**584**	**256**	**914**	**434**
Balance, end of year	**76**	**607**	**290**	**973**	**469**

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

16. LEASES

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

The Company as Lessee

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

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

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

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

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

The Company remeasures the lease liability (and makes a corresponding adjustment to the related ROU asset) whenever:

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

The ROU asset is presented within PP&E and rental equipment and the lease liability is presented within other liabilities (current) and long-term lease liabilities (non-current) on the consolidated statement of financial position.

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

Short-term leases and leases of low-value assets

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

Areas of Significant Judgment

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

The Company as Lessor

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

ROU asset additions and depreciation have been included in PP&E and rental equipment (Note 15). The net book value of ROU assets was as follows:

December 31 ($ millions)	Land	Buildings	Vehicles and equipment	Total PP&E	Rental equipment
2022	**8**	**153**	**129**	**290**	**19**
2021	8	160	124	292	28

Amounts under sublease

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

17. INTANGIBLE ASSETS

Accounting Policy

Intangible assets are recorded at cost or acquisition-date fair value (if acquired through a business acquisition), net of any accumulated amortization and any impairment losses.

Intangible assets with finite lives are amortized on a straight-line basis over the period during which they are expected to generate benefits. Amortization is recorded in selling, general, and administrative expenses in the consolidated statement of net income using the following estimated useful lives:

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

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

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

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

Areas of Significant Judgment

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

December 31, 2022 ($ millions)	**Contracts and customer relationships**	**Software and technology**	**Tradename**	**Total**
Cost				
Balance, beginning of year	**309**	**362**	**25**	**696**
Additions	**20**	**36**	**—**	**56**
Additions through business combinations	**27**	**2**	**8**	**37**
Foreign exchange rate changes	**11**	**7**	**—**	**18**
Balance, end of year	**367**	**407**	**33**	**807**
Accumulated amortization				
Balance, beginning of year	**(199)**	**(188)**	**(3)**	**(390)**
Amortization for the year	**(25)**	**(43)**	**(2)**	**(70)**
Foreign exchange rate changes	**(10)**	**(4)**	**—**	**(14)**
Balance, end of year	**(234)**	**(235)**	**(5)**	**(474)**
Net book value				
Balance, beginning of year	**110**	**174**	**22**	**306**
Balance, end of year	**133**	**172**	**28**	**333**

December 31, 2021 ($ millions)	Contracts and customer relationships	Software and technology	Tradename	Total
Cost				
Balance, beginning of year	302	330	19	651
Additions	3	33	—	36
Additions through business combination	5	1	6	12
Disposals	—	(1)	—	(1)
Foreign exchange rate changes	(1)	(1)	—	(2)
Balance, end of year	309	362	25	696
Accumulated amortization				
Balance, beginning of year	(176)	(151)	(2)	(329)
Amortization for the year	(23)	(38)	(1)	(62)
Disposals	—	1	—	1
Balance, end of year	(199)	(188)	(3)	(390)
Net book value				
Balance, beginning of year	126	179	17	322
Balance, end of year	110	174	22	306

18. Impairment

Accounting Policy

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

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

Areas of Significant Judgment

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

Areas of Estimation Uncertainty

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

Overview of annual impairment tests

The annual impairment tests were completed to support April 1, 2022 net asset values. Management's methodology for impairment testing utilizes cash flows from the financial budgets to estimate recoverable value.

Recoverable value

The recoverable value of each CGU or group of CGUs is estimated based on a value-in-use calculation. The value-in-use calculation uses cash flow projections based on financial budgets approved by the Board which include the following key assumptions: future cash flows and growth projections, associated economic risk assumptions, and estimates of achieving key operating metrics and drivers.

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

Carrying amount, CGU allocation and key assumptions

The carrying value of goodwill and distribution network at December 31, and the significant assumptions used in the Company's value-in-use calculations in the annual impairment tests for each CGU or group of CGUs, were as follows:

				2022				2021
($ millions, except rates)	**Goodwill**	**Distribution network**	**After-tax WACC rate**	**Growth rate**	Goodwill	Distribution network	After-tax WACC rate	Growth rate
Canada	**209**	**—**	**8%**	**3%**	199	—	8%	2%
Canada Mining	**—**	**98**	**8%**	**3%**	—	98	9%	2%
Chile	**5**	**—**	**9%**	**3%**	5	—	9%	3%
UK & Ireland	**111**	**2**	**9%**	**2%**	33	2	9%	2%

Sensitivities to key assumptions

Sensitivity testing is conducted as part of the annual impairment tests, including stress testing the WACC rate with all other assumptions being held constant. Management believes that any reasonable change in the key assumptions used to determine the recoverable amount would not cause the carrying amount of any CGU or group of CGUs to exceed its recoverable amount. Management believes its assumptions are reasonable. If future events were to differ significantly from management's best estimate, key assumptions and associated cash flows could be materially adversely affected and the Company could potentially experience future impairment charges in respect of the intangible assets with indefinite lives and goodwill.

Review for indicators of impairment

The Company's CGUs, as of December 31, 2022, were reviewed for indicators of impairment. Management reviewed recent cash flow projections and macro-economic conditions (including key assumptions used in WACC rates). Based on this review, management concluded there were no indicators of impairment of the Company's CGUs.

Conclusion

There were no impairment losses recognized in 2022 or 2021 related to goodwill or distribution network. There were no impairment reversals in 2022 or 2021 related to the distribution network in the Company's South American operations.

19. Other Liabilities

December 31 ($ millions)	**2022**	2021
Income tax payable	**80**	64
Lease liabilities	**76**	87
Commodity taxes payable	**73**	36
Provisions (Note 20)	**60**	60
Other	**13**	8
Total other liabilities – current	**302**	255

December 31 ($ millions)	**2022**	2021
Net post-employment obligation (Note 21)	**75**	61
Share-based payments (Note 11)	**41**	48
Deferred revenue (Note 4)	**35**	31
Other	**33**	22
Total other liabilities – non-current	**184**	162

20. Provisions

Accounting Policy

Warranty claims

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

Other

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

Areas of Estimation Uncertainty

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

Year ended December 31, 2022 ($ millions)	**Warranty claims**	**Other**	**Total**
Balance, beginning of year	**37**	**28**	**65**
New provisions	**39**	**20**	**59**
Charges against provisions	**(30)**	**(30)**	**(60)**
Foreign exchange rate changes	**1**	**—**	**1**
Balance, end of year	**47**	**18**	**65**
Current portion	**47**	**13**	**60**
Non-current portion	**—**	**5**	**5**

Year ended December 31, 2021 ($ millions)	Warranty claims	Other	Total
Balance, beginning of year	35	18	53
New provisions	26	27	53
Charges against provisions	(24)	(16)	(40)
Foreign exchange rate changes	—	(1)	(1)
Balance, end of year	37	28	65
Current portion	37	23	60
Non-current portion	—	5	5

21. Post-Employment Benefits

The Company offers a number of benefit plans that provide pension and other benefits to many of its employees in Canada, the UK, the Republic of Ireland, and South America. These plans include defined benefit (DB) and defined contribution (DC) pension plans in Canada, the UK and Ireland, and include other post-employment benefits (Other PEB) in South America.

Pension Plans

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

- In the Company's Canadian operations, DB plans exist for eligible employees but are closed to new members. Final average earnings are based on the highest 3 or 5-year average salary depending on employment category and there is no standard indexation feature. Pension benefits under the registered DB plan's formula that exceed the maximum taxation limits are provided from non-registered supplemental pension plans. Benefits under these plans are partially funded by Retirement Compensation Arrangements.
- In the Company's UK operations, a DB plan exists for eligible employees, but is closed to new members and was amended to cease future accruals. Final average earnings are based on the highest 3-year period and benefits are indexed annually with inflation subject to limits.

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

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

Other PEB

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

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

Accounting Policy

Pension Plans

DB Plans:

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

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

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

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

DC Plans:

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

Other PEB

The Company's PEB in South America is accounted for as an unfunded DB plan. Current service costs are recognized in selling, general, and administrative expenses and interest costs are recognized in finance costs in the consolidated statement of net income. Interest costs are calculated by applying the discount rate at the beginning of the period to the post-employment benefit liability and takes into account changes in the other post-employment benefit liability during the period resulting from contributions or benefit payments.

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

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

Areas of Significant Judgment

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

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

			2022			2021
Years ended December 31 ($ millions)	**DB and Other PEB plans**	**DC plans**	**Total**	DB and Other PEB plans	DC plans	Total
Selling, general, and administrative expenses	**16**	**46**	**62**	14	42	56
Net interest income	**(1)**	**—**	**(1)**	(2)	—	(2)
Total benefit cost recognized in net income	**15**	**46**	**61**	12	42	54
Total actuarial loss (gain) recognized in other comprehensive income	**83**	**—**	**83**	(82)	—	(82)

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

Years ended December 31 ($ millions)	**2022** Canada	UK	South America	Total	2021 Canada	UK	South America	Total
Accrued benefit obligation								
Balance, beginning of year	**(201)**	**(613)**	**(55)**	**(869)**	(205)	(677)	(79)	(961)
Current service cost	**(5)**	**—**	**(9)**	**(14)**	(6)	—	(7)	(13)
Interest cost	**(6)**	**(11)**	**(3)**	**(20)**	(5)	(9)	—	(14)
Benefits paid	**5**	**25**	**3**	**33**	5	31	4	40
Remeasurements:								
- Actuarial (loss) gain from change in demographic assumptions	**(1)**	**—**	**—**	**(1)**	(1)	6	—	5
- Actuarial gain (loss) from change in financial assumptions	**53**	**203**	**(2)**	**254**	11	31	16	58
Experience (loss) gain	**—**	**(23)**	**(5)**	**(28)**	—	(3)	2	(1)
Foreign exchange rate changes	**—**	**39**	**(4)**	**35**	—	8	9	17
Balance, end of year	**(155)**	**(380)**	**(75)**	**(610)**	(201)	(613)	(55)	(869)
Plan assets								
Balance, beginning of year	**195**	**802**	**—**	**997**	187	809	—	996
Return on plan assets:								
- Interest income	**6**	**15**	**—**	**21**	5	11	—	16
- Actuarial (loss) gain on plan assets	**(41)**	**(267)**	**—**	**(308)**	5	15	—	20
Employer contributions	**—**	**5**	**3**	**8**	3	9	4	16
Benefits paid	**(5)**	**(25)**	**(3)**	**(33)**	(5)	(31)	(4)	(40)
Administration costs	**—**	**(2)**	**—**	**(2)**	—	(1)	—	(1)
Foreign exchange rate changes	**—**	**(50)**	**—**	**(50)**	—	(10)	—	(10)
Balance, end of year	**155**	**478**	**—**	**633**	195	802	—	997
Net post-employment asset (obligation)	**—**	**98**	**(75)**	**23**	(6)	189	(55)	128

Included in the accrued benefit obligation and plan assets were the following amounts in respect of plans that were not fully funded:

Years ended December 31 ($ millions)	**2022** Canada	UK	South America	Total	2021 Canada	UK	South America	Total
Accrued benefit obligation	**(48)**	**—**	**(75)**	**(123)**	(60)	—	(55)	(115)
Plan assets	**33**	**—**	**—**	**33**	38	—	—	38
Funded status - plan deficit	**(15)**	**—**	**(75)**	**(90)**	(22)	—	(55)	(77)

Key Assumptions and Related Sensitivities

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

			2022			2021
Years ended December 31	**Canada**	**UK**	**South America**	Canada	UK	South America
Discount rate – obligation	**5.2%**	**4.8%**	**5.3%**	3.0%	2.0%	2.2%
Discount rate – expense [1]	**3.0%**	**2.0%**	**2.2%**	2.7%	1.4%	(0.2)%
Retail price inflation – obligation	**n/m [2]**	**3.0%**	**n/a [2]**	n/m [2]	3.0%	n/a [2]
Retail price inflation – expense [1]	**n/m [2]**	**3.0%**	**n/a [2]**	n/m [2]	2.6%	n/a [2]
Average staff turnover – obligation	**n/m [2]**	**n/m [2]**	**7.9%**	n/m [2]	n/m [2]	7.8%
Rate of compensation increase – obligation	**n/m [2]**	**n/a [2]**	**6.6%**	n/m [2]	n/a [2]	3.0%

(1) Used to determine the net interest cost and expense for the years ended December 31, 2022 and 2021.
(2) n/m – not a material assumption used in the valuation.
n/a – not applicable.

Assumptions regarding future mortality are required for the DB plans and were set based on management's best estimate in accordance with published statistics and experience in each country. These assumptions for 2022 and 2021 translate into an average life expectancy (in years) as follows:

December 31	**Canada**	**UK**	**South America**
Life expectancy for male currently aged 65	**22**	**22**	**n/a [3]**
Life expectancy for female currently aged 65	**24**	**24**	**n/a [3]**
Life expectancy at 65 for male currently aged 45	**23**	**23**	**n/a [3]**
Life expectancy at 65 for female currently aged 45	**25**	**25**	**n/a [3]**

(3) n/a – not applicable.

The post-employment benefit obligation and expense are sensitive to changes in the significant actuarial assumptions. At the end of the most recent calendar year, the weighted average duration of the obligation in Canada is 13 years, UK is 15 years, and South America is 7 years. A 0.25% increase in the significant actuarial assumptions would impact the accrued benefit obligations by the amounts shown below.

	Change in	**(Decrease) increase in accrued benefit obligation**		
($ millions)	**assumption**	**Canada**	**UK**	**South America**
Discount rate	+0.25%	**(5)**	**(14)**	**(1)**
Retail price inflation	+0.25%	**n/m [4]**	**10**	**n/a [4]**
Average staff turnover	+0.25%	**n/m [4]**	**n/m [4]**	**(1)**
Rate of compensation increase	+0.25%	**n/m [4]**	**n/a [4]**	**2**

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

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

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

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

Funding and Valuations of DB Plans

In Canada, the Company governs and administers the DB plans. An actuarial valuation of the Canadian registered DB plan is completed at least every three years to determine minimum annual contributions prescribed by applicable legislation. The Company may make voluntary contributions to a Retirement Compensation Arrangement to partially fund benefits for the Canadian non-registered supplemental DB plans. A surplus is recognized on the consolidated statement of financial position to the extent that an economic benefit can be gained by the Company.

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

Based on the most recent formal valuations completed, the Company expects to contribute approximately $5 million to the DB plans during the year ended December 31, 2023. The actuarial valuation dates of the Company's material post-employment benefit plans were as follows:

Post-Employment Benefit Obligations	Last actuarial valuation date
Canada – Regular & Executive DB Plan	December 31, 2020
Canada – Regular & Executive Supplemental Income Plan	December 31, 2020
Finning UK DB Scheme	December 31, 2020
Finning South America Pension Arrangements	December 31, 2021

Plan Assets

The fair values of plan assets are determined using a combination of quoted prices and market observable inputs. Plan assets at December 31, 2022 were principally invested in the following securities (segregated by geography):

	Canada		UK	
	Canada	Global [(1)]	UK	Global [(1)]
Fixed-income	55%	—	73%	20%
Equity	6%	25%	—	—
Infrastructure	—	3%	—	—
Cash and cash equivalents	11%	—	7%	—

(1) Global investments exclude investments in Canadian and UK securities in Canada and UK, respectively.

Plan assets do not include any direct investment in common shares of the Company at December 31, 2022 and 2021.

Key Risks

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

Investment Risk (i.e. asset volatility)

The accrued benefit obligation is calculated using a discount rate set with reference to high quality corporate bond yields; if plan assets underperform this yield, this will create a deficit. Both the Canadian and UK plans invest in various asset categories including equities, fixed income, and infrastructure. These investments, in aggregate, are expected to outperform corporate bonds in the long-term but may result in volatility in the short-term. The UK plan also utilizes industry-standard derivatives and hedging instruments as part of its investment strategy. These tools are implemented to manage interest rate risk by ensuring that the plan's assets match the plan's liabilities. In extreme market scenarios, these derivatives structures are subject to additional risks. These risks are managed through frequent monitoring, limits on the use of leverage, and a relatively conservative approach to collateral management.

To help mitigate this risk, in selecting the portfolios and the weightings in each category, the Company considers and monitors how the duration and the expected yield of the investments match the expected cash outflows arising from the pension obligations. A framework has been developed and adopted for each of the Canadian and UK DB plans whereby the investments will be adjusted over time as plan funding positions change. The planned adjustments are intended to improve the asset-liability match over time.

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

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

A decrease in corporate bond yields will increase the value of the accrued benefit obligation. This risk is managed by selecting certain investments that aim to better match assets and liabilities. For example, an increase in the accrued benefit obligation resulting from a decrease in corporate bond yields will be partially offset by an increase in the fair value of the plans' bond holdings.

Inflation Risk

The majority of the pension obligations in the UK are linked to inflation. Higher inflation will lead to higher liabilities although, in most cases, caps on the level of inflationary increases are in place to protect the plan against extreme inflation. While some of the plan's assets are either unaffected by (i.e. fixed interest bonds) or loosely correlated with (i.e. equities) inflation, in recent years, the plan has increased its investments in assets that have a direct correlation with inflation (e.g. index-linked gilts and liability matching funds) in order to manage this risk.

In the Canadian plans, the pension payments are not linked to inflation, so this is not a direct risk. However, to the extent that future benefits are based on final average earnings and salaries are generally linked to inflation to some degree, an increase in inflation beyond expectations may result in higher liabilities. With a relatively small number of employees still earning benefits in the Canadian DB plan, this risk is limited.

Longevity Risk (i.e. increasing life expectancy)

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

Longevity risk in the UK plan is managed through asset management strategies. To mitigate this risk in the Canadian registered pension plan, the Company may purchase annuity contracts.

Maturity Analysis

Expected maturity analysis of undiscounted pension and Other PEB obligations of the Company's operations in Canada, UK, and South America were as follows:

December 31, 2022 ($ millions)	Less than a year	Between 1-2 years	Between 2-5 years	Over 5 years	Total
DB plans	**26**	**27**	**88**	**1,014**	**1,155**
Other PEB benefits	**6**	**5**	**16**	**158**	**185**
Total	**32**	**32**	**104**	**1,172**	**1,340**

Accumulated Actuarial Gains and Losses

The accumulated actuarial loss, net of tax, of the post-employment benefit obligations in the Company's operations in Canada, UK and Ireland, and South America recognized in retained earnings is $169 million at December 31, 2022 (December 31, 2021: $107 million).

22. Supplemental Cash Flow Information

Accounting Policy

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

The components of cash and cash equivalents were as follows:

December 31 ($ millions)	2022	2021
Cash	**288**	140
Cash equivalents	**—**	362
Cash and cash equivalents	**288**	502

The changes in operating assets and liabilities were as follows:

Years ended December 31 ($ millions)	2022	2021
Accounts receivable	**(265)**	(105)
Unbilled receivables	**(139)**	(41)
Inventory	**(715)**	(210)
Other assets	**(161)**	(70)
Accounts payable and accruals	**408**	145
Other liabilities	**134**	4
Changes in operating assets and liabilities	**(738)**	(277)

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

Year ended December 31, 2022 ($ millions)	**Short-term debt**	**Long-term debt**	**Lease liabilities**	**Total**
Balance, beginning of year	**374**	**1,111**	**328**	**1,813**
Cash flow provided by (used in)				
Financing activities	**630**	**(203)**	**(78)**	**349**
Operating activities	**—**	**—**	**(11)**	**(11)**
Total cash movements	**630**	**(203)**	**(89)**	**338**
Non-cash changes				
Additions	**—**	**—**	**69**	**69**
Additions through business combination	**—**	**—**	**3**	**3**
Remeasurement of liability and disposals	**—**	**—**	**5**	**5**
Interest expense	**—**	**—**	**11**	**11**
Foreign exchange rate changes	**64**	**21**	**4**	**89**
Total non-cash movements	**64**	**21**	**92**	**177**
Balance, end of year	**1,068**	**929**	**331**	**2,328**

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

Dividends of $0.933 (2021: $0.86) per share were paid during the year. In February 2023, the Board approved a quarterly dividend of $0.236 per share payable on March 9, 2023 to shareholders of record on February 23, 2023. This dividend will be considered an eligible dividend for Canadian income tax purposes. At December 31, 2022, the Company had not recognized a liability for this dividend.

23. ACQUISITIONS

Accounting Policy

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

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

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

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

Hydraquip Hose & Hydraulics and Hoses Direct Ltd. (Hydraquip)

On March 22, 2022, the Company's UK & Ireland operations acquired a 100% ownership interest in Hydraquip, UK's second largest hose replacement and repair company. Hydraquip earns approximately 60% of its revenue from on-site mobile hose services and the remaining 40% from selling hydraulic and fluid power products and parts. This purchase has been accounted for as a business combination using the acquisition method of accounting.

The fair value of the total consideration at the acquisition date was estimated to be $117 million (£70 million). Cash consideration of $84 million, net of $10 million cash acquired, was paid in the three months ended March 31, 2022. The fair value of deferred consideration was $19 million. The vendors may qualify for additional consideration (possible range of £nil to £11 million) based on the acquired business unit achieving specified levels of financial performance. The acquisition-date fair value of the contingent consideration was estimated to be $4 million (£2 million). The deferred and contingent consideration was recognized as a liability on the consolidated statement of financial position and is payable in annual instalments over a period of three years after the acquisition. Any changes in the estimated fair value of the contingent consideration will be recognized in the consolidated statement of income.

Management finalized its purchase price allocation during the three months ended December 31, 2022. The acquisition-date fair values of acquired tangible and intangible assets, assumed liabilities, and deferred tax liabilities were estimated to be:

Purchase price allocation ($ millions)	December 31, 2022
Cash and cash equivalents	10
Working capital [1]	3
Property, plant & equipment	6
Intangible assets	29
Goodwill	80
Lease liabilities	(3)
Deferred tax liabilities	(8)
Net assets acquired	117

(1) Working capital comprises accounts receivable, inventory, other assets, accounts payable and accruals, and provisions.

Goodwill relates to the expected synergies from combining complementary capabilities that help customers maximize uptime and reduce operating costs and the expected growth potential for product support revenue. Hydraquip expands Finning's service capabilities across multiple industries and equipment types to both new and existing customers. The goodwill is assigned to the Company's UK & Ireland reportable segment.

Since the acquisition date to the end of the reporting period, the acquiree earned $38 million of revenue and $4 million of earnings before finance costs and income taxes (£24 million and £3 million, respectively).

ComTech

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

Cash consideration for this acquisition was $25 million, which included $20 million cash acquired. The acquisition was funded with cash on hand. As part of this acquisition, Finning also recorded a non-controlling interest in ComTech (45.5% ownership interest) of $21 million.

Management finalized its purchase price allocation during the three months ended September 30, 2022. The acquisition-date fair values of acquired tangible and intangible assets, assumed liabilities, and deferred tax liabilities were estimated to be:

Purchase price allocation ($ millions)	**September 30, 2022**	December 31, 2021
Cash and cash equivalents	**20**	20
Working capital [(1)]	**1**	1
Property, plant & equipment	**20**	17
Intangible assets	**9**	9
Goodwill	**24**	25
Debt	**(11)**	(11)
Lease liabilities	**(15)**	(15)
Deferred tax liabilities	**(2)**	—
Net identifiable assets	**46**	46
Non-controlling interests	**(21)**	(21)
Net assets acquired	**25**	25

(1) Working capital comprises accounts receivable, inventory, other assets, accounts payable and accruals, and provisions.

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

Energyst B.V.

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

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

Management finalized its purchase price allocation during the three months ended December 31, 2021. The acquisition-date fair values of acquired tangible and intangible assets, deferred tax asset, and assumed liabilities were estimated to be:

Purchase price allocation ($ millions)	December 31, 2021
Cash and cash equivalents	1
Working capital [(1)]	2
Rental equipment	9
Property, plant & equipment	1
Deferred tax asset	1
Net assets acquired	14

(1) Working capital comprises accounts receivable, inventory, other assets, accounts payable and accruals, and provisions.

24. Economic Relationships

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

25. Related Party Transactions and Total Staff Costs

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

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

Years ended December 31 ($ millions)	**2022**	2021
Share-based payments	**4**	6
Total	**4**	6

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

Years ended December 31 ($ millions)	**2022**	2021
Salaries and benefits	**11**	10
Post-employment benefits	**2**	1
Share-based payments	**17**	13
Total	**30**	24

Total staff costs, including salaries, benefits, pension, share-based payments, termination payments, and commissions are $1.2 billion (2021: $1.0 billion). This amount includes staff costs associated with key management personnel noted above.

26. Commitments and Contingencies

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

The Company has received a number of claims from the Argentina Customs Authority associated with the export of agricultural animal feed product for five quarters in 2012 and 2013 and an order that could result in up to a one-year suspension of imports into Argentina by a portion of the business. The Company is appealing these claims and the order, believes they are without merit, and is confident in its position. Mitigation measures are also available to the Company in the unlikely event its appeal of the potential imports suspension order is not successful. These pending matters may take a number of years to resolve. Should the ultimate resolution of these matters differ from management's assessment and, in the case of the potential suspension of imports into Argentina by a portion of the business, the mitigation measures not be effective, this could result in a material negative impact on the Company's financial position.

27. Guarantees and Indemnifications

In certain circumstances, the Company enters into contracts with rights of return, at the customer's discretion, for the repurchase or trade-in of equipment sold to customers for an amount which is generally based on a discount from the estimated future fair value of that equipment. At December 31, 2022, the total estimated value of these contracts outstanding was $113 million (2021: $146 million) coming due at periods ranging from 2023 to 2027. The Company's experience to date has been that the equipment at the exercise date of the contract is generally worth more than the repurchase price or trade-in amount, however, there can be no assurance that this experience will continue in the future. The total amount recognized as a provision against these contracts at December 31, 2022 was $2 million (2021: $2 million).

The Company has issued guarantees for certain equipment sold to third parties to guarantee their residual values. The guarantees would be enforceable in the event that the market value of equipment at the time of its ultimate disposal is below the residual value guarantee issued by the Company. At December 31, 2022, the maximum potential amount of future payments that the Company could be required to make under the guarantees was $14 million (2021: $12 million), covering various periods up to 2026. At December 31, 2022, the Company has recognized a liability of $5 million for these guarantees (2021: $4 million).

During the year, the Company entered into various other commercial letters of credit in the normal course of operations. The total issued and outstanding letters of credit at December 31, 2022 was $332 million (2021: $193 million) principally related to performance and advance payment guarantees on delivery for prepaid equipment and other operational commitments in Chile.

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