



**FINNING®**

2023

**FINNING INTERNATIONAL INC.**

Financial report

# MANAGEMENT'S DISCUSSION AND ANALYSIS

February 6, 2024

This **MD&A** should be read in conjunction with our **Annual Financial Statements** and the accompanying notes thereto for the year ended December 31, 2023, 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.sedarplus.ca](http://www.sedarplus.ca) and in the investors section of our website at [www.finning.com](http://www.finning.com).

Finning (**TSX:FTT**) is the largest dealer of **Caterpillar** products in the world, serving customers for more than 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 48. 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)			% change
	2023	2022	<i>fav</i> ( <i>unfav</i> )
Revenue	<b>10,527</b>	9,279	13%
Net revenue <sup>(1)</sup>	<b>9,543</b>	8,215	16%
Gross profit	<b>2,576</b>	2,223	16%
<b>SG&amp;A</b>	<b>(1,643)</b>	(1,458)	(13)%
Equity earnings of joint ventures	<b>9</b>	3	
Other income	<b>54</b>	—	
Other expenses	<b>(86)</b>	—	
<b>EBIT</b>	<b>910</b>	768	19%
Net income attributable to shareholders of Finning	<b>523</b>	503	4%
<b>EPS</b>	<b>3.55</b>	3.25	9%
Free cash flow <sup>(2)</sup>	<b>66</b>	(170)	<i>n/m</i>
Adjusted EBIT <sup>(2)(3)</sup>	<b>942</b>	768	23%
Adjusted EPS <sup>(1)(3)</sup>	<b>3.91</b>	3.25	20%
<i>Gross profit as a percentage of net revenue <sup>(1)</sup></i>	<b>27.0%</b>	27.1%	
<i>SG&amp;A as a percentage of net revenue <sup>(1)</sup></i>	<b>(17.2)%</b>	(17.7)%	
<i>EBIT as a percentage of net revenue <sup>(1)</sup></i>	<b>9.5%</b>	9.3%	
<i>Adjusted EBIT as a percentage of net revenue <sup>(1)(3)</sup></i>	<b>9.9%</b>	9.3%	
<i>Adjusted ROIC <sup>(1)(3)</sup></i>	<b>20.0%</b>	18.7%	

(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 5, 14 and 33 - 38 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.

## Highlights

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- 2023 revenue was \$10.5 billion. Net revenue of \$9.5 billion was up 16% from 2022, reflecting higher volumes in all lines of business, driven primarily by product support revenue and new equipment sales in Canada and South America.
- 2023 gross profit of \$2.6 billion was 16% higher than 2022 and gross profit as a percentage of net revenue was comparable year over year. 2023 SG&A of \$1.6 billion was 13% higher than 2022 on 16% net revenue growth. 2023 SG&A as a percentage of net revenue of 17.2% improved 50 basis points from the prior year due to productivity and process improvements and the leverage of fixed costs on higher revenues.
- 2023 EBIT was \$910 million and EBIT as a percentage of net revenue was 9.5%. Excluding significant items not considered indicative of operational and financial trends as described on page 5, Adjusted EBIT was \$942 million and Adjusted EBIT as a percentage of net revenue was 9.9%, a 23% and 60 basis point improvement, respectively, from 2022. Higher Adjusted EBIT in 2023 was driven by the successful execution of our product support growth strategy and productivity improvements. 2023 Adjusted EBIT as a percentage of net revenue was 10.4% in Canada, 12.1% in South America, and 4.9% in the **UK & Ireland**.
- EPS was \$3.55 in 2023 compared to \$3.25 in 2022. Excluding significant items not considered indicative of operational and financial trends as described on page 5, Adjusted EPS was \$3.91 in 2023. 2023 Adjusted EPS increased significantly from 2022 as a result of strong earnings in Canada and South America, partially offset by lower earnings in the UK & Ireland and higher finance costs. EPS and Adjusted EPS in 2023 were at record levels.
- 2023 free cash flow was a cash generation of \$66 million compared to a use of cash of \$170 million in 2022, reflecting strong collections on product support growth and the delivery of our significant equipment backlog. Free cash flow included a higher spend on inventory and rental equipment with purchase options to support demand. Net debt to Adjusted **EBITDA**<sup>(1)(2)</sup> at December 31, 2023 was 1.7 times, up slightly from December 31, 2022.
- Adjusted ROIC at December 31, 2023 was 20.0%, an improvement of 130 basis points from December 31, 2022, driven by higher earnings in our South American and Canadian operations.
- Consolidated equipment backlog<sup>(1)</sup> was \$2.0 billion at December 31, 2023, a reduction of 19% compared to December 31, 2022, driven by deliveries outpacing order intake, mainly in the mining sector.

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

(2) Reported financial measures may be impacted by significant items described on pages 33 - 38 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.

## Table of Contents

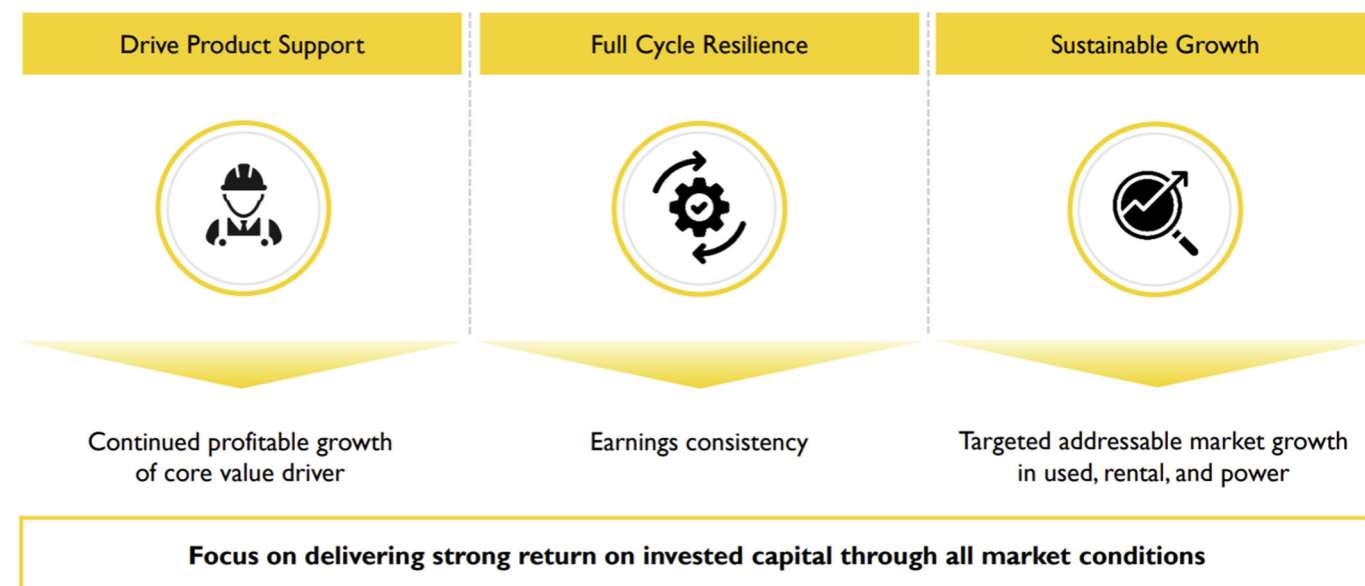
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Annual Overview.....	1
Highlights .....	2
Strategic Priorities.....	4
Adjusted Measures .....	5
Annual Key Performance Measures.....	6
Annual Results.....	7
Selected Key Performance Measures – Balance Sheet .....	9
Results by Reportable Segment.....	10
Fourth Quarter Overview .....	14
Fourth Quarter Adjusted Measures .....	14
Quarterly Key Performance Measures .....	15
Fourth Quarter Results .....	16
Market Update and Business Outlook .....	20
Liquidity and Capital Resources .....	21
Accounting and Estimates .....	24
Risk Factors and Management.....	27
Contingencies and Guarantees .....	30
Outstanding Share Data .....	30
Controls and Procedures Certification.....	31
Description of Specified Financial Measures and Reconciliations .....	32
Selected Annual Information .....	43
Selected Quarterly Information.....	44
Forward-Looking Information Disclaimer.....	45
Glossary of Defined Terms.....	48

## Strategic Priorities

Our refreshed strategy, announced at our 2023 Investor Day, builds on our success and focuses on the following priorities: drive product support, full-cycle resilience, and sustainable growth.

We are committed to providing a safe, secure, and prosperous place to work, and empowering our people to make decisions that build long-term customer loyalty. Our go-forward strategy is focused on generating long-term value for our customers, employees, and shareholders.



Driving product support remains our primary strategic objective. Product support is our key value driver and remains by far our largest opportunity for resilient, profitable growth. We are working to capture a greater share of product support across the full asset life cycle through further growth in customer value agreements, expanding our rebuild business, and continuing to strategically grow our equipment population.

Full cycle resilience will enable us to deliver more reliable and consistent earnings through all market conditions. We are continuing to optimize and variabilize our cost structure. We are also implementing initiatives that increase our invested capital velocity while concurrently improving customer service levels. These initiatives include an increased focus on inventory management as well as review and exit of lower ROIC activities and investments.

We are building a sustainable growth platform from our core business and expanding our addressable market in used equipment, rental, and power systems. These segments are resilient and strategically important, and growing them will increase our equipment population and help us drive additional product support growth.

All three elements of our refreshed go-forward strategy are integrated and designed to drive a fundamentally improved range of ROIC and earnings capacity through all market conditions.

## Sustainability

Sustainability is integral to our everyday operations, strategies, and long-term plans. We work to continuously improve our sustainability performance and help our customers enhance theirs. We continued to work 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 lower emissions equipment, renewable power solutions, biofuels, extension of equipment life through remanufacturing, and our CUBIQ™ Sustainability Dashboard, which enables the monitoring, benchmarking and tracking of fuel consumption and emissions. For more information, please review our Sustainability Report, which can be found in the sustainability section of [www.finning.com](http://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. We exclude these significant items when evaluating the operational performance and related trends of our business. Financial measures that have been adjusted to take into account these significant items 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 “Description of Specified Financial Measures and Reconciliations” on pages 32 - 42 of this MD&A.

### 2023 significant items:

- On December 13, 2023, the newly-elected Argentine government devalued the **ARS** official exchange rate by 118% from 366.5 ARS to 800 ARS for **USD** 1. As a result of prolonged government currency restrictions, including no material access to USD starting in late August 2023, our ARS exposure increased and during this period economic hedges were not available. As a result of the growth in our ARS exposure and the significant devaluation of the ARS in the quarter, our South American operations incurred a foreign exchange loss of \$56 million which exceeds the typical foreign exchange impact in the region.
- We executed various transactions to simplify and adjust our organizational structure. We wound up two wholly owned subsidiaries, recapitalized and repatriated \$170 million of profits from our South American operations, and incurred severance costs in each region as we reduced corporate overhead costs and simplified our operating model. As a result of these activities, our financial results were impacted by significant items that we do not consider indicative of operational and financial trends:
  - Net foreign currency translation gain and income tax expense were reclassified to net income on the wind up of foreign subsidiaries;
  - Withholding tax payable related to the repatriation of profits; and,
  - Severance costs incurred in all of our operations.
- We began to implement our invested capital improvement plan as outlined at our 2023 Investor Day, which targets selling and optimizing real estate and exiting low-ROIC activities. In the three months ended December 31, 2023:
  - Our South American operations sold a property in Chile and recorded a gain of \$13 million on the sale; and,
  - Following an evaluation of the business needs of our operations and related intangible assets, several software and technology assets have been or will be decommissioned, and as a result, we derecognized previously capitalized costs of \$12 million.

The significant items are noted below together with a reconciliation of the Adjusted measures to their most directly comparable **GAAP financial measures**:

Year ended December 31, 2023 (\$ millions, except for per share amounts)					EBIT	EPS
	Canada	South America	UK & Ireland	Other	Consol	Consol
EBIT and EPS	516	337	58	(1)	910	3.55
Significant items:						
Foreign exchange and tax impact of devaluation of ARS	—	56	—	—	56	0.36
Gain on wind up of foreign subsidiaries	—	—	—	(41)	(41)	(0.21)
Severance costs	4	7	2	5	18	0.09
Withholding tax on repatriation of profits	—	—	—	—	—	0.12
Gain on sale of property, plant, and equipment	—	(13)	—	—	(13)	(0.06)
Write-off of intangible assets	5	4	3	—	12	0.06
Adjusted EBIT and Adjusted EPS	525	391	63	(37)	942	3.91

There were no significant items identified by management for adjustment in the year ended December 31, 2022.

## Annual Key Performance Measures

We utilize the following **KPIs** to enable consistent measurement of performance across the organization. KPIs may be impacted by significant items described on pages 5 and 33 - 38 of this MD&A. KPIs that have been adjusted to take these items into account are referred to as “Adjusted measures”.

	2023	2022	2021	2020	2019
EBIT (\$ millions)	<b>910</b>	768	552	392	425
Adjusted EBIT (\$ millions)	<b>942</b>	768	537	328	457
EBIT as a % of net revenue					
Consolidated	<b>9.5%</b>	9.3%	8.2%	6.8%	5.8%
Canada	<b>10.2%</b>	10.5%	9.7%	9.7%	7.5%
South America	<b>10.5%</b>	11.3%	9.4%	6.3%	5.4%
UK & Ireland	<b>4.5%</b>	5.5%	4.7%	1.8%	4.1%
Adjusted EBIT as a % of net revenue					
Consolidated	<b>9.9%</b>	9.3%	8.0%	5.7%	6.3%
Canada	<b>10.4%</b>	10.5%	9.4%	7.0%	8.0%
South America	<b>12.1%</b>	11.3%	9.4%	7.4%	5.9%
UK & Ireland	<b>4.9%</b>	5.5%	4.7%	2.2%	4.1%
EPS	<b>3.55</b>	3.25	2.26	1.43	1.48
Adjusted EPS	<b>3.91</b>	3.25	2.18	1.14	1.65
Invested capital <sup>(1)</sup> (\$ millions)	<b>4,765</b>	4,170	3,326	3,067	3,591
ROIC <sup>(1)</sup> (%)					
Consolidated	<b>19.3%</b>	18.7%	16.8%	11.4%	11.2%
Canada	<b>18.6%</b>	18.7%	17.5%	14.6%	13.7%
South America	<b>23.8%</b>	24.5%	20.3%	11.0%	9.6%
UK & Ireland	<b>11.3%</b>	17.0%	14.8%	4.5%	12.1%
Adjusted ROIC (%)					
Consolidated	<b>20.0%</b>	18.7%	16.4%	9.6%	12.0%
Canada	<b>19.0%</b>	18.7%	16.9%	10.5%	14.4%
South America	<b>27.6%</b>	24.5%	20.3%	12.9%	10.5%
UK & Ireland	<b>12.3%</b>	17.0%	14.8%	5.5%	12.1%
Invested capital turnover <sup>(1)</sup> (times)	<b>2.03</b>	2.01	2.04	1.68	1.92
Inventory (\$ millions)	<b>2,844</b>	2,461	1,687	1,477	1,990
Inventory turns (dealership) <sup>(1)</sup> (times)	<b>2.45</b>	2.61	3.09	2.79	2.53
Working capital to net revenue <sup>(1)</sup>	<b>28.7%</b>	27.4%	22.9%	28.3%	27.8%
Free cash flow (\$ millions)	<b>66</b>	(170)	300	870	42
Net debt to Adjusted EBITDA (times)	<b>1.7</b>	1.6	1.1	1.4	2.0

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

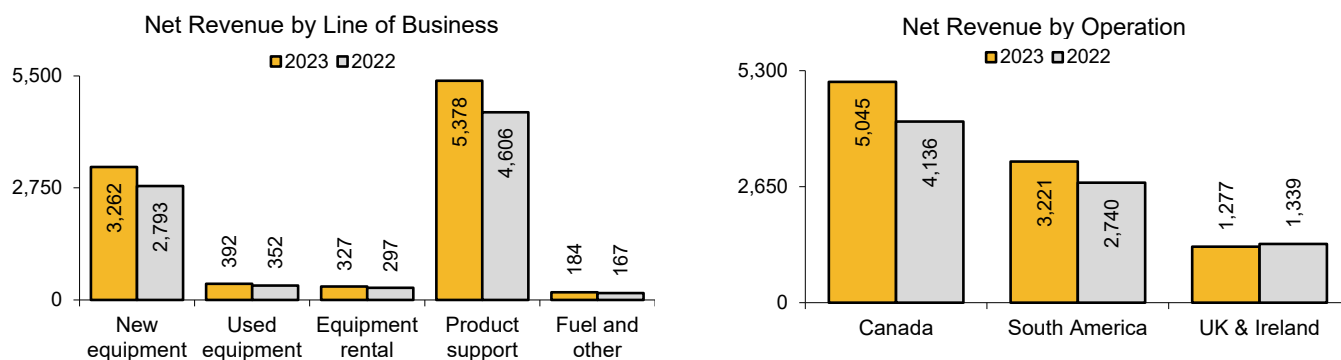
## Annual Results

### Revenue

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

Years ended December 31

(\$ millions)



Revenue was \$10.5 billion in 2023 compared to \$9.3 billion in 2022. Net revenue of \$9.5 billion increased 16% from the prior year with an increase in all market sectors, primarily the mining sectors of our Canadian and South American operations.

Product support revenue in 2023 was 17% higher than 2022, up in all operations and all market sectors driven by the successful execution of our product support strategy.

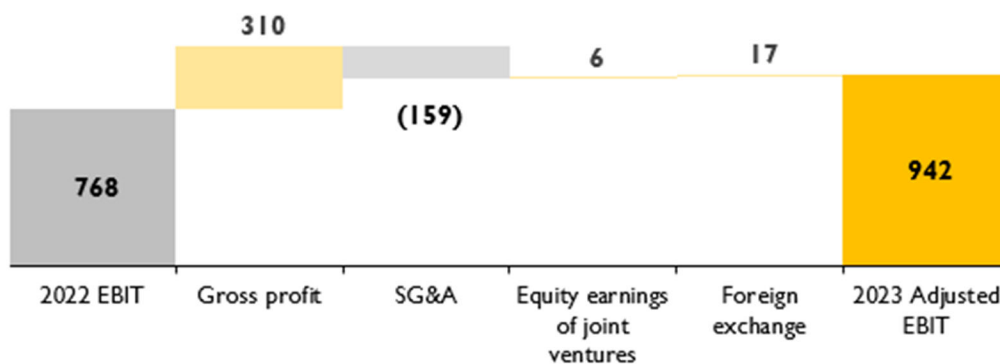
New equipment revenue in 2023 was 17% higher than the prior year, up in all market sectors and primarily driven by our Canadian operations. This was partially offset by lower revenue in the construction sector in UK & Ireland.

Equipment backlog at December 31, 2023 of \$2.0 billion was down from \$2.5 billion at December 31, 2022, with strong deliveries outpacing order intake.

### EBIT

Gross profit in 2023 of \$2.6 billion was 16% higher than the prior year, in line with net revenue growth.

Overall gross profit as a percentage of net revenue of 27.0% was comparable to 2022.



SG&A in 2023 of \$1.6

billion was 13% higher than

the prior year primarily due to higher people-related costs, variable costs to support revenue growth, and facility costs. This increase was partially offset by lower **LTIP** expense in 2023 compared to 2022. 2023 SG&A as a percentage of net revenue of 17.2% improved 50 basis points from the prior year as our operations realized productivity improvements, mainly in Canada and South America.



EBIT was \$910 million and EBIT as a percentage of net revenue was 9.5% in 2023, compared to \$768 million and 9.3%, respectively, in 2022. Excluding significant items not considered indicative of financial and operational trends as described on page 5, Adjusted EBIT in 2023 was \$942 million and Adjusted EBIT as a percentage of net revenue was 9.9%. Higher Adjusted EBIT was driven by higher earnings in Canada and South America. The increase in Adjusted EBIT as a percentage of net revenue was mainly driven by improved profitability in South America. 2023 Adjusted EBIT as a percentage of net revenue was 10.4% in Canada, 12.1% in South America, and 4.9% in the UK & Ireland.

### Finance Costs

Finance costs for 2023 of \$161 million were higher than \$95 million in 2022 due to higher interest rates and increased average net debt levels in the current year.

### Provision for Income Taxes

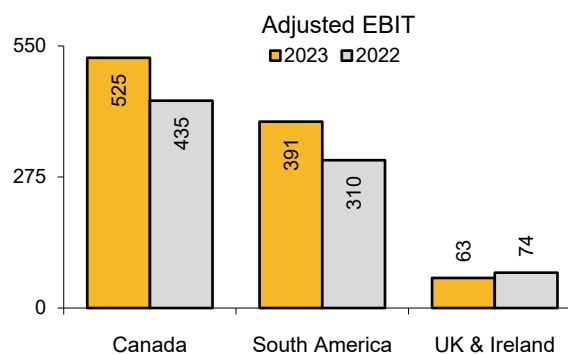
The effective income tax rate for 2023 of 30.4% included the impact of various transactions undertaken to simplify and adjust our organizational structure as well as the impact of the significant devaluation of the ARS relative to the USD. Excluding the significant items not considered indicative of financial and operational trends described on page 5, the effective income tax rate for 2023 would have been 26.4% compared to 25.6% for 2022.

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 \$523 million and EPS was \$3.55 in 2023, compared to \$503 million and \$3.25, respectively, in 2022. Excluding the significant items not considered indicative of financial and operational trends described on page 5, Adjusted EPS was \$3.91 in 2023, 20% higher than 2022 EPS driven by a 16% increase in net revenue and higher operating margins, partially offset by higher finance costs.

**Adjusted EBIT by Operation <sup>(1)</sup>**  
Years ended December 31  
(\$ millions)



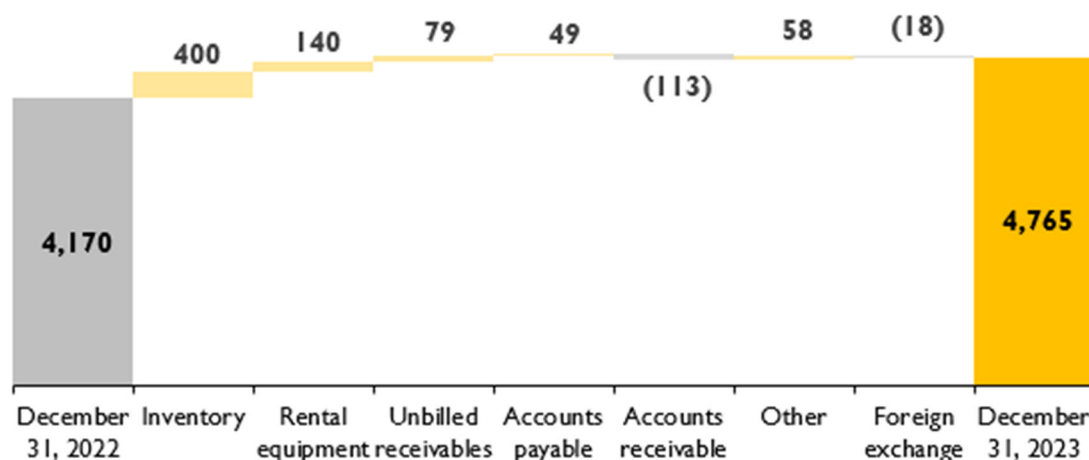
<sup>(1)</sup> Excluding Other operations

## Selected Key Performance Measures – Balance Sheet

(\$ millions, unless otherwise stated)	December 31, 2023	December 31, 2022
<b>Invested capital</b>		
Consolidated	4,765	4,170
Canada	2,852	2,447
South America	1,381	1,281
UK & Ireland	510	428
<i>South America (USD)</i>	1,044	946
<i>UK &amp; Ireland (GBP)</i>	303	262
<b>Adjusted ROIC</b>		
Consolidated	20.0%	18.7%
Canada	19.0%	18.7%
South America	27.6%	24.5%
UK & Ireland	12.3%	17.0%
<b>Invested capital turnover (times)</b>		
Consolidated	2.03	2.01
Canada	1.83	1.77
South America	2.27	2.16
UK & Ireland	2.51	3.09
<b>Inventory turns (dealership) (times)</b>	2.45	2.61
<b>Working capital to net revenue</b>	28.7%	27.4%

### Compared to December 31, 2022:

The \$595 million increase in consolidated invested capital from December 31, 2022 to December 31, 2023 includes a foreign exchange impact of \$18 million in translating the invested capital balances of our South American and UK & Ireland operations. The foreign exchange impact was primarily the result of the 2% stronger CAD relative to the USD partially offset by the 3% weaker CAD relative to the GBP compared to December 31, 2022.



Excluding the impact of foreign exchange, consolidated invested capital increased by \$613 million from December 31, 2022 to December 31, 2023 reflecting:

- higher inventory in all regions, especially new and used equipment in Canada and new equipment in South America and UK & Ireland, as well as higher parts and supplies inventory in South America and Canada, driven by higher demand for equipment and product support;
- an increase in rental equipment in Canada, driven by an increase in customer demand for rental equipment with purchase options;
- an increase in unbilled receivables, mainly driven by an increase in demand and activity in South America;
- a decrease in accounts payable due to payments for inventory and other suppliers;
- partially offset by a decrease in accounts receivable in all regions, primarily from strong cash collections in Canada.

On a consolidated basis, Adjusted ROIC of 20.0% at December 31, 2023 improved 130 basis points from Adjusted ROIC at December 31, 2022. Consolidated invested capital turnover of 2.03 at December 31, 2023 was higher than 2.01 at December 31, 2022. The improvements over the same prior year period are the result of higher Adjusted EBIT outpacing the increase in average invested capital levels.

Inventory turns (dealership) at December 31, 2023 were lower than December 31, 2022, down in all regions, mainly due to higher inventory levels to deliver equipment backlog.

Working capital to net revenue was 28.7% at December 31, 2023, up from 27.4% at December 31, 2022 due to higher average working capital balances, including an investment in inventory, which outpaced net revenue growth over the last twelve months.

## 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. Our reportable segments are Canada, South America, UK & Ireland, and Other.

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

Year ended December 31, 2023 (\$ millions)	Canada	South America	UK & Ireland	Other	Consol	Net Revenue % (1)
New equipment	1,520	1,021	721	—	3,262	34%
Used equipment	261	53	78	—	392	4%
Equipment rental	206	77	44	—	327	4%
Product support	2,875	2,069	434	—	5,378	56%
Fuel and other	183	1	—	—	184	2%
Net revenue	5,045	3,221	1,277	—	9,543	100%
Operating costs	(4,322)	(2,706)	(1,171)	(32)	(8,231)	
Depreciation and amortization	(207)	(124)	(43)	(5)	(379)	
Equity earnings of joint ventures	9	—	—	—	9	
Other income	—	13	—	41	54	
Other expenses	(9)	(67)	(5)	(5)	(86)	
EBIT	516	337	58	(1)	910	
Net revenue percentage by operation	53%	34%	13%	—	100%	
Adjusted EBIT	525	391	63	(37)	942	
<i>EBIT as a % of net revenue</i>	<i>10.2%</i>	<i>10.5%</i>	<i>4.5%</i>		<i>9.5%</i>	
<i>Adjusted EBIT as a % of net revenue</i>	<i>10.4%</i>	<i>12.1%</i>	<i>4.9%</i>		<i>9.9%</i>	

Year ended December 31, 2022 (\$ millions)	Canada	South America	UK & Ireland	Other	Consol	Net Revenue %
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%
Operating costs	(3,513)	(2,333)	(1,224)	(47)	(7,117)	
Depreciation and amortization	(191)	(97)	(41)	(4)	(333)	
Equity earnings of joint ventures	3	—	—	—	3	
EBIT	435	310	74	(51)	768	
Net revenue percentage by operation	51%	33%	16%	—	100%	
<i>EBIT as a % of net revenue</i>	<i>10.5%</i>	<i>11.3%</i>	<i>5.5%</i>		<i>9.3%</i>	

(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.

### 2023 Annual Overview

2023 net revenue of \$5.0 billion was 22% higher than 2022, up in all lines of business and all market sectors.

2023 new equipment revenue was 52% higher than 2022, an increase in all market sectors, primarily in the mining sector. Equipment backlog at December 31, 2023 was lower than December 31, 2022, as strong deliveries outpaced strong order intake. Equipment backlog was lower in the mining and power systems sectors and higher in the construction sector.

Product support revenue in 2023 was up 14% from 2022 driven by higher mining and power systems activity.

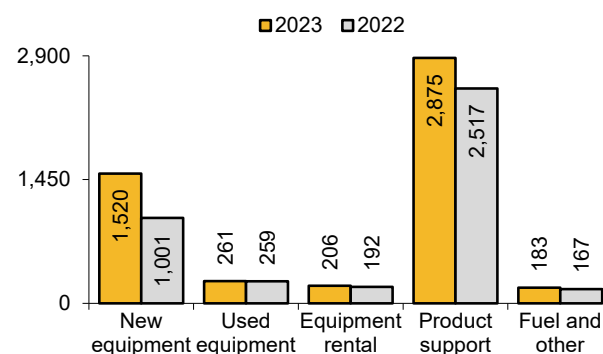
Gross profit in 2023 increased from 2022. Gross profit as a percentage of net revenue in 2023 was lower than 2022, reflecting a higher proportion of new equipment revenue in the revenue mix (2023: 30% compared with 2022: 24%).

2023 SG&A was up compared to the prior year mainly due to higher people-related and variable costs to support volume growth. SG&A as a percentage of net revenue improved over the prior year, benefiting from improvements in labour and facility productivity.

2023 EBIT from our Canadian operations was \$516 million and EBIT as a percentage of net revenue was 10.2%. Excluding significant items not considered indicative of financial and operational trends as described on page 5, Adjusted EBIT in 2023 was \$525 million and Adjusted EBIT as a percentage of net revenue was 10.4%, compared to \$435 million and 10.5%, respectively, in 2022.

### Net Revenue by Line of Business Canadian Operations

Years ended December 31  
(\$ millions)



## 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 weaker CAD relative to the USD on average in 2023 compared to 2022 had a favourable foreign currency translation impact on 2023 net revenue of approximately \$110 million and on EBIT of approximately \$15 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 the operational performance of the reporting segment.*

### 2023 Annual Overview

2023 net revenue was 14% higher than 2022, largely driven by higher revenue in all market sectors, primarily in mining.

Product support revenue in 2023 increased 17% from 2022 in all market sectors, primarily in Chile mining where there continued to be strong demand for component exchanges, equipment overhauls, and fleet maintenance.

New equipment revenue in 2023 was 7% higher than the same prior year period, driven by an increase in deliveries to mining customers as well as higher revenues in the power systems sector. Equipment backlog at December 31, 2023 was lower than December 31, 2022, with deliveries outpacing order intake, primarily in the mining and construction sectors.

Gross profit in 2023 increased from 2022 mainly due to increased volumes. Gross profit as a percentage of net revenue in 2023 was higher than 2022 mainly due to a slightly higher proportion of product support revenue in the revenue mix.

2023 SG&A costs were up from 2022 mainly due to higher variable costs to support volumes, as well as higher people-related and facility costs.

2023 EBIT was \$337 million and EBIT as a percentage of net revenue was 10.5%. Excluding significant items not considered indicative of financial and operational trends as described on page 5, Adjusted EBIT in 2023 was \$391 million and Adjusted EBIT as a percentage of net revenue was 12.1%, higher than \$310 million and 11.3%, respectively, in 2022. 2023 Adjusted EBIT as a percentage of net revenue improved by 80 basis points from 2022 reflecting improved productivity and operating leverage of fixed costs on strong revenue growth.

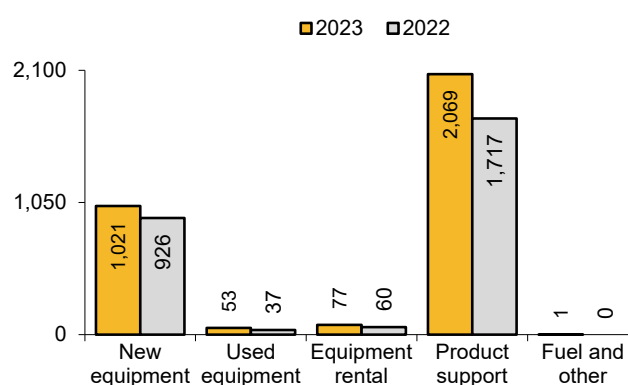
### Other Developments

In Argentina, we have been operating in an environment of high inflation, currency restrictions, and import regulations that has challenged our business over the past few years. We have previously managed and mitigated these risks by adjusting our prices and by managing our ARS exposure to a low level with hedging instruments.

During the election process in Q3 2023, the government froze the exchange rate (pegged at 350 ARS for USD 1) and restricted access to the USD beginning in August 2023. As a result, our ability to manage our ARS exposure was challenged and our ARS exposure increased. In addition, due to volatility and uncertainty in the market with the Presidential election process underway, economic hedges were not available to offset our increasing ARS exposure.

On December 13, 2023, the newly-elected Argentine government devalued the ARS official exchange rate 118% from 366.5 ARS to 800 ARS for USD 1. As a result of prolonged government currency restrictions, including no material access to USD starting in late August 2023, combined with the unavailability of economic hedges, the impact of the significant devaluation of the ARS on our higher ARS exposure resulted in a net foreign exchange loss of \$56 million which exceeds the typical foreign exchange impact in the region. This devaluation also resulted in a lower tax recovery primarily relating to the negative impact from the revaluation of deferred tax balances.

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



## UK & Ireland Operations

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

*The weaker CAD relative to the GBP on average in 2023 compared to 2022 had a favourable foreign currency translation impact on 2023 net revenue of approximately \$55 million and did not have a significant impact on EBIT.*

*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 the operational performance of the reporting segment.*

### 2023 Annual Overview

2023 net revenue was 9% lower than 2022, primarily due to lower new equipment sales partially offset by higher product support revenue.

New equipment revenue decreased 21% from 2022, primarily in the construction sector, as construction sales in 2022 benefited from **HS2** deliveries. Equipment backlog at December 31, 2023 was lower than December 31, 2022 due to deliveries outpacing order intake in the construction sector.

2023 product support revenue increased 11% from the prior year, higher in the construction and power systems sectors, reflecting the execution of our product support strategy and including a full year's contribution from the acquisition of **Hydraquip**.

Gross profit in 2023 was up from the prior year, despite a decline in net revenue. Gross profit as a percentage of net revenue was higher than the prior year primarily due to a higher proportion of product support revenue in the revenue mix (2023: 34% compared to 2022: 28%).

SG&A and SG&A as a percentage of net revenue were higher in 2023 compared to 2022. This increase was primarily driven by higher people-related and variable costs due to inflationary increases in the year.

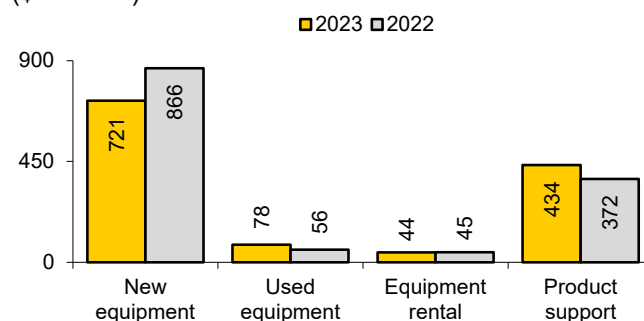
2023 EBIT was \$58 million and EBIT as a percentage of net revenue was 4.5%. Excluding significant items not considered indicative of financial and operational trends as described on page 5, Adjusted EBIT in 2023 was \$63 million and Adjusted EBIT as a percentage of net revenue was 4.9%, lower than \$74 million and 5.5%, respectively, in 2022, driven by the proportion of fixed costs on lower volumes.

### Other Operations

Our Other operations includes corporate operating costs.

2023 EBIT was a loss of \$1 million. Excluding significant items not considered indicative of operational and financial trends as described on page 5, Adjusted EBIT in 2023 was a loss of \$37 million, lower than a loss of \$51 million in 2022, primarily due to lower people-related costs, including LTIP expense.

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



## Fourth Quarter Overview

(\$ millions, except per share amounts)			% change
	Q4 2023	Q4 2022	fav (unfav)
Revenue	2,664	2,653	0%
Net revenue	2,403	2,368	1%
Gross profit	640	628	2%
SG&A	(409)	(416)	2%
Equity earnings of joint ventures	1	2	
Other income	13	—	
Other expenses	(68)	—	
EBIT	177	214	(17)%
Net income attributable to shareholders of Finning	85	136	(37)%
EPS	0.59	0.89	(34)%
Free cash flow	280	332	(16)%
Adjusted EBIT	232	214	9%
Adjusted EPS	0.96	0.89	7%
<i>Gross profit as a % of net revenue</i>	26.6%	26.5%	
<i>SG&amp;A as a % of net revenue</i>	(17.0)%	(17.6)%	
<i>EBIT as a % of net revenue</i>	7.4%	9.0%	
<i>Adjusted EBIT as a % of net revenue</i>	9.6%	9.0%	
<i>Adjusted ROIC</i>	20.0%	18.7%	

## Fourth Quarter Adjusted Measures

Significant items affecting our reported results for the three months ended December 31, 2023 which we do not consider to be indicative of operational and financial trends, either by nature or amount, are detailed below.

### Q4 2023 significant items:

- Foreign exchange loss of \$56 million due to the significant devaluation of the ARS relative to the USD.
- Gain of \$13 million on the sale of a property in Chile.
- Derecognition of \$12 million of previously capitalized costs for software and technology assets.

3 months ended December 31, 2023 (\$ millions, except per share amounts)					EBIT	EPS
	Canada	South America	UK & Ireland	Other	Consol	Consol
EBIT and EPS	117	55	6	(1)	177	0.59
Significant items:						
Foreign exchange and tax impact of devaluation of ARS	—	56	—	—	56	0.37
Gain on sale of property, plant, and equipment	—	(13)	—	—	(13)	(0.06)
Write-off of intangible assets	5	4	3	—	12	0.06
Adjusted EBIT and Adjusted EPS	122	102	9	(1)	232	0.96

There were no significant items identified by management for adjustment in the three months ended December 31, 2022.



## Quarterly Key Performance Measures

KPIs may be impacted by significant items described on pages 14 and 33 - 38 of this MD&A. KPIs that have been adjusted to take these items into account are referred to as "Adjusted measures".

	2023				2022			2021	
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4
EBIT (\$ millions)	<b>177</b>	252	242	239	214	224	190	140	157
Adjusted EBIT (\$ millions)	<b>232</b>	252	242	216	214	224	190	140	157
EBIT as a % of net revenue									
Consolidated	<b>7.4%</b>	10.3%	9.4%	11.2%	9.0%	10.7%	9.4%	8.1%	8.9%
Canada	<b>9.3%</b>	10.8%	9.9%	11.0%	11.0%	11.7%	10.0%	9.1%	10.1%
South America	<b>6.7%</b>	12.3%	12.1%	10.5%	11.4%	12.3%	10.1%	11.4%	10.1%
UK & Ireland	<b>1.8%</b>	5.9%	5.5%	5.1%	4.4%	6.2%	6.4%	5.0%	4.3%
Adjusted EBIT as a % of net revenue									
Consolidated	<b>9.6%</b>	10.3%	9.4%	10.1%	9.0%	10.7%	9.4%	8.1%	8.9%
Canada	<b>9.7%</b>	10.8%	9.9%	11.3%	11.0%	11.7%	10.0%	9.1%	10.1%
South America	<b>12.6%</b>	12.3%	12.1%	11.5%	11.4%	12.3%	10.1%	11.4%	10.1%
UK & Ireland	<b>2.7%</b>	5.9%	5.5%	5.7%	4.4%	6.2%	6.4%	5.0%	4.3%
EPS	<b>0.59</b>	1.07	1.00	0.89	0.89	0.97	0.80	0.59	0.66
Adjusted EPS	<b>0.96</b>	1.07	1.00	0.89	0.89	0.97	0.80	0.59	0.66
Invested capital (\$ millions)	<b>4,765</b>	4,897	4,630	4,545	4,170	4,358	4,076	3,777	3,326
ROIC (%)									
Consolidated	<b>19.3%</b>	20.7%	20.8%	20.2%	18.7%	18.3%	17.5%	17.0%	16.8%
Canada	<b>18.6%</b>	19.8%	20.1%	19.4%	18.7%	18.2%	17.4%	17.4%	17.5%
South America	<b>23.8%</b>	27.1%	25.9%	24.0%	24.5%	22.7%	22.3%	21.7%	20.3%
UK & Ireland	<b>11.3%</b>	13.7%	15.5%	17.0%	17.0%	16.6%	16.2%	15.7%	14.8%
Adjusted ROIC									
Consolidated	<b>20.0%</b>	20.2%	20.2%	19.7%	18.7%	18.3%	17.5%	17.0%	16.4%
Canada	<b>19.0%</b>	19.9%	20.2%	19.6%	18.7%	18.2%	17.4%	17.4%	16.9%
South America	<b>27.6%</b>	27.6%	26.4%	24.6%	24.5%	22.7%	22.3%	21.7%	20.3%
UK & Ireland	<b>12.3%</b>	14.1%	15.9%	17.4%	17.0%	16.6%	16.2%	15.7%	14.8%
Invested capital turnover (times)	<b>2.03</b>	2.08	2.07	2.01	2.01	1.96	2.00	2.03	2.04
Inventory (\$ millions)	<b>2,844</b>	2,919	2,764	2,710	2,461	2,526	2,228	2,101	1,687
Inventory turns (dealership) (times)	<b>2.45</b>	2.58	2.49	2.51	2.61	2.52	2.50	2.66	3.09
Working capital to net revenue	<b>28.7%</b>	27.6%	27.5%	28.0%	27.4%	27.1%	25.1%	23.8%	22.9%
Free cash flow (\$ millions)	<b>280</b>	—	31	(245)	332	(57)	(142)	(303)	148
Net debt to Adjusted EBITDA ratio (times)	<b>1.7</b>	1.8	1.8	1.7	1.6	1.8	1.8	1.6	1.1

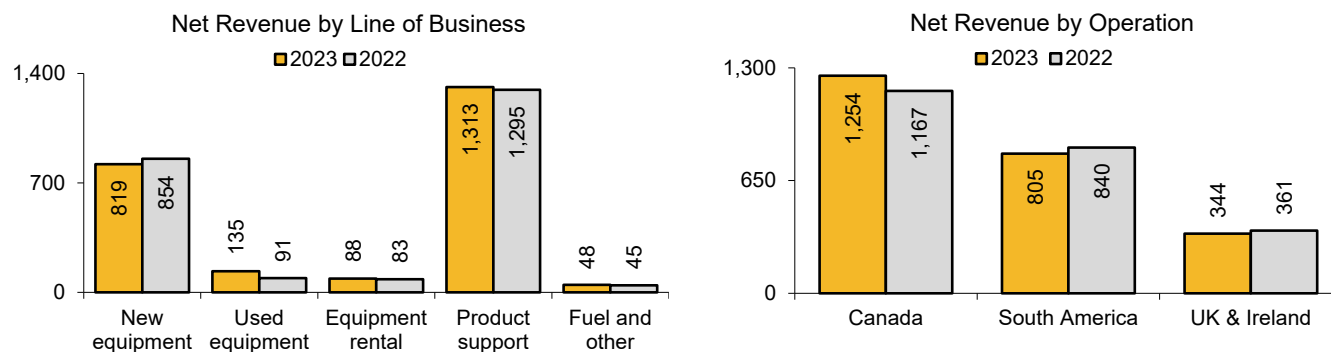


## Fourth Quarter Results

### Revenue

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

3 months ended December 31  
(\$ millions)



Q4 2023 revenue was \$2.7 billion. Net revenue of \$2.4 billion in the fourth quarter of 2023 was up 1% from Q4 2022, with higher used equipment and product support revenues and lower new equipment sales.

Q4 2023 used equipment revenue was 48% higher than Q4 2022, up in all market sectors mainly in the construction sector in all regions.

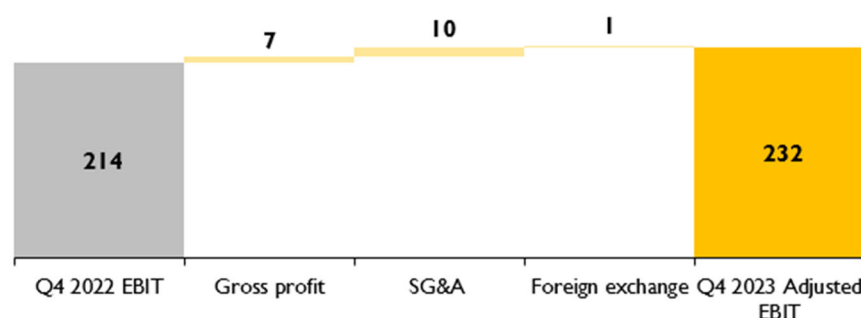
Product support revenue was up 1% in Q4 2023 from the same prior year period, with an increase in mining and power systems partially offset by lower product support revenue in the construction sector. In Canada, the completion of several major projects as well as unseasonably warm weather that delayed the start of winter programs and reduced equipment utilization, reduced our product support growth rate.

Q4 2023 new equipment revenue was 4% lower than the same prior year period, with lower equipment sales to construction customers in South America and lower power system project deliveries in the UK & Ireland. Q4 2023 included higher new equipment revenue in all market sectors in Canada compared to the same prior year period.

### EBIT

Q4 2023 gross profit of \$640 million was 2% higher than the same period in the prior year, in line with net revenue growth. Gross profit as a percentage of net revenue was 26.6% in Q4 2023 and was comparable to Q4 2022.

SG&A in Q4 2023 of \$409 million was 2% lower than Q4 2022. This decrease was driven by lower LTIP expense, primarily in the Other operations segment, partially offset by higher people-related and variable costs to support revenue growth. SG&A as a percentage of net revenue was 17.0%, a 60 basis-point improvement over the same prior year.



Q4 2023 EBIT was \$177 million and EBIT as a percentage of net revenue was 7.4%. Excluding significant items not considered indicative of financial and operational trends as described on page 14, Adjusted EBIT in Q4 2023 was \$232 million and Adjusted EBIT as a percentage of net revenue was 9.6%, higher than \$214 million and 9.0%, respectively, in Q4 2022.

### Finance Costs

Finance costs in Q4 2023 were \$44 million, up from \$33 million in Q4 2022 due to an increase in average net debt levels and higher interest rates.

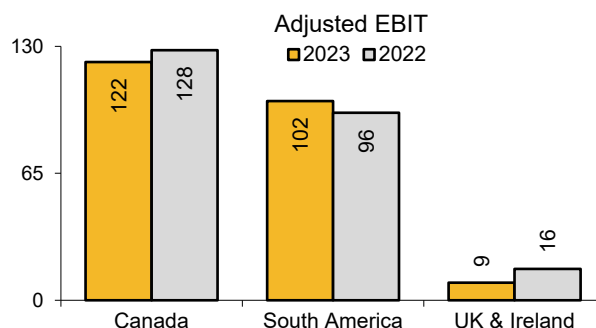
### Provision for Income Taxes

The effective income tax rate in Q4 2023 was 35.8% and included the impact of the significant devaluation of the ARS relative to the USD. Excluding the significant items not considered indicative of financial and operational trends described on page 14, the effective income tax rate for Q4 2023 would have been 26.4% compared to 25.3% in Q4 2022.

### Net Income Attributable to Shareholders of Finning and EPS

Q4 2023 net income attributable to shareholders of Finning was \$85 million and EPS was \$0.59. Excluding the significant items not considered indicative of financial and operational trends described on page 14, Adjusted EPS was \$0.96 in Q4 2023 and was 7% higher than EPS in 2022 due to higher earnings in South America and lower LTIP expense partially offset by higher finance costs.

### Adjusted EBIT by Operation <sup>(1)</sup> 3 months ended December 31 (\$ millions)



Excluding Other operations

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

<b>3 months ended December 31, 2023</b>		<b>South</b>		<b>UK</b>		<b>Net Revenue</b>	
<b>(\$ millions)</b>		<b>Canada</b>	<b>America</b>	<b>&amp; Ireland</b>	<b>Other</b>	<b>Consol</b>	<b>%</b>
New equipment	374	239	206	—	819	34%	
Used equipment	84	20	31	—	135	5%	
Equipment rental	58	20	10	—	88	4%	
Product support	691	525	97	—	1,313	55%	
Fuel and other	47	1	—	—	48	2%	
Net revenue	1,254	805	344	—	2,403	100%	
Operating costs	(1,077)	(672)	(324)	—	(2,073)		
Depreciation and amortization	(56)	(31)	(11)	(1)	(99)		
Equity earnings of joint ventures	1	—	—	—	1		
Other income	—	13	—	—	13		
Other expenses	(5)	(60)	(3)	—	(68)		
EBIT	117	55	6	(1)	177		
Net revenue percentage by operation	52%	34%	14%	—	100%		
Adjusted EBIT	122	102	9	(1)	232		
<i>EBIT as a % of net revenue</i>	9.3%	6.7%	1.8%		7.4%		
<i>Adjusted EBIT as a % of net revenue</i>	9.7%	12.6%	2.7%		9.6%		

<b>3 months ended December 31, 2022</b>		<b>South</b>		<b>UK</b>		<b>Net Revenue</b>	
<b>(\$ millions)</b>		<b>Canada</b>	<b>America</b>	<b>&amp; Ireland</b>	<b>Other</b>	<b>Consol</b>	<b>%</b>
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 of joint ventures	2	—	—	—	2		
EBIT	128	96	16	(26)	214		
Net revenue percentage by operation	49%	36%	15%	—	100%		
<i>EBIT as a % of net revenue</i>	11.0%	11.4%	4.4%		9.0%		

*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 2023 net revenue of \$1.3 billion was 7% higher than Q4 2022. New equipment sales were up 22%, with strong deliveries across all sectors. Used equipment sales were up 34% from Q4 2022, with strong sales across each of retail and wholesale channels. Product support revenue in Q4 2023 was down 1% as unseasonably warm weather delayed the start of winter programs reducing equipment utilization in the construction and mining sectors. The completion of several major projects has also slowed some construction activities in the near-term. In addition, Q4 2022 product support included revenues related to the autonomy conversion of the 797 fleet of an oil sands operator, which did not repeat in Q4 2023.

Gross profit in Q4 2023 was higher than Q4 2022, mostly driven by higher volumes in new and used equipment sales. Overall gross profit as a percentage of net revenue in Q4 2023 was lower than Q4 2022 mainly due to a higher proportion of new and used equipment sales in the revenue mix (Q4 2023: 37% compared to Q4 2022: 32%).

Q4 2023 SG&A increased from Q4 2022 mainly driven by higher people-related costs and higher variable costs to support volumes. Q4 2023 SG&A as a percentage of net revenue was comparable to Q4 2022.

Q4 2023 EBIT was \$117 million and EBIT as a percentage of net revenue was 9.3%. Excluding significant items not considered indicative of financial and operational trends described on page 14, Adjusted EBIT in Q4 2023 was \$122 million and Adjusted EBIT as a percentage of net revenue was 9.7%, lower than \$128 million and 11.0%, respectively, in Q4 2022. This decrease was driven by lower gross profit as a percentage of net revenue, relating to the higher proportion of new and used equipment sales in the revenue mix.

### **South America Operations**

*The marginally weaker CAD relative to the USD on average in Q4 2023 compared to Q4 2022 did not have a significant foreign currency translation impact at the net revenue or EBIT level.*

Q4 2023 net revenue was down 4% from Q4 2022. New equipment revenue in Q4 2023 was 24% lower than the prior year quarter, reflecting challenging market conditions in Argentina and lower sales to mining contractors in Chile. Product support revenue in Q4 2023 was up 5% from Q4 2022, led by mining.

Gross profit in Q4 2023 increased from Q4 2022, despite lower net revenue. Gross profit as a percentage of net revenue increased in the current period reflecting a higher proportion of product support revenue in the revenue mix (Q4 2023: 65% compared to Q4 2022: 60%), as well as higher new equipment gross profit margins.

Q4 2023 SG&A costs were up from Q4 2022 primarily driven by a higher people-related and variable costs to support growth in product support and facility costs.

Q4 2023 EBIT was \$55 million and EBIT as a percentage of net revenue was 6.7%. Excluding significant items not considered indicative of financial and operational trends described on pages 12 and 14, Adjusted EBIT in Q4 2023 was \$102 million and Adjusted EBIT as a percentage of net revenue was 12.6%, higher than \$96 million and 11.4%, respectively, in Q4 2022, primarily due to a shift in revenue mix to product support.

### **UK & Ireland Operations**

*The weaker CAD relative to the GBP on average in Q4 2023 compared to Q4 2022 had a favourable foreign currency translation impact on Q4 2023 net revenue of approximately \$20 million and was not significant at the EBIT level.*

Fourth quarter 2023 net revenue was 10% lower than the same period in 2022, a decrease in most lines of business. New equipment revenue in Q4 2023 was 16% lower than Q4 2022, as Q4 2022 benefitted from higher power systems project deliveries and HS2 deliveries. Q4 2023 product support revenue was down 6% from the same prior year period, primarily driven by slower activity in the construction sector. Net revenue from used equipment sales in Q4 2023 increased 48% from Q4 2022 reflecting the execution of our strategy.

Q4 2023 gross profit and gross profit as a percentage of net revenue were lower than the same prior year period. The decrease in Q4 2023 gross profit as a percentage of net revenue was mainly due to lower new and used equipment margins partially offset by a slightly higher proportion of product support in the revenue mix. SG&A in Q4 2023 was down slightly from Q4 2022.

Q4 2023 EBIT was \$6 million and EBIT as a percentage of net revenue was 1.8%. Excluding significant items not considered indicative of financial and operational trends described on page 14, Adjusted EBIT in Q4 2023 was \$9 million and Adjusted EBIT as a percentage of net revenue was 2.7%, lower than \$16 million and 4.4%, respectively, in Q4 2022. The proportion of fixed costs in SG&A on lower volumes as well as persistently high inflation contributed to lower Adjusted EBIT as a percentage of net revenue.

## Market Update and Business Outlook

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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 45 of this MD&A. Actual outcomes and results may vary significantly.

### Canada Operations

Our outlook for Western Canada is positive. While the completion of major pipelines has slowed some construction activities in the near-term, it creates additional capacity to move heavy oil and liquefied natural gas to end markets, and we expect to see increased activity in the energy sector and production growth going forward. Our mining and energy customers are expected to increase spending levels, including investment to renew, maintain, and rebuild aging fleets. In the oil sands, based on customer commitments and discussions, we anticipate strong demand for product support, including component remanufacturing and rebuilds.

We expect ongoing commitments from federal and provincial governments to infrastructure development to support activity in the construction sector. In addition, growing demand for reliable, efficient, and sustainable electric power solutions across communities in Western Canada creates opportunities for our power systems business.

### South America Operations

In Chile, our strong outlook is underpinned by growing global demand for copper, the recent approvals of large-scale brownfield expansions, and increasing customer confidence to invest in brownfield and greenfield projects. Mining activity is expected to remain strong, driving demand for equipment, product support, and technology solutions.

In the Chilean construction sector, we continue to see healthy demand from large contractors supporting mining operations, and we expect infrastructure construction to remain stable. In the power systems sector, activity remains strong in the industrial and data centre markets, and we are well positioned to benefit from growing demand for electric power solutions.

In Argentina, steps are being taken by the new government to rapidly address the fiscal imbalances in the country with the goal of ultimately stabilizing inflation and opening the economy for free import and export of goods in the long-term. However, the near-term steps of significantly devaluing the currency, containing public spending, reducing subsidies, and lowering spending on public works are driving continued challenging market and operating conditions. Starting in January 2024, currency restrictions have been significantly reduced for new imports, and economic hedging alternatives are once again available. In early February, we began a series of transactions to reduce our ARS cash balance to zero, the cost of this program is being covered with support from our key suppliers. While our currency access, exposure, and risk of losses are much lower today than in Q4 2023, new government rules and policies as well as economic conditions are subject to change, and we require ongoing support from key suppliers to return to profitability. We are actively monitoring the new rules and policies and continue to evolve our operating model, taking a low-risk approach in 2024.

### UK & Ireland Operations

With the HS2 project deliveries completed and low **GDP** growth projected in the UK in 2024, we expect demand for new construction equipment to remain soft. We expect a growing contribution from used equipment and power systems as we continue to execute on our strategy. In power systems, we expect continued healthy demand for primary and backup power generation, including in the data centre market and short-term capacity power for utilities and other applications.

We expect our product support business in the UK & Ireland to remain resilient, driven by steady machine utilization, rebuilds, and growth in Customer Value Agreements.

### Execution Focus and Building on Strong 2023 Results

We are committed to growing our business in 2024 while building more resilience into our operating model and progressing towards the Investor Day targets. We are working to increase our invested capital velocity, with the goal to unlock over \$450 million of capital by 2025 from Q2 2023. We expect our 2024 net capital expenditures and net rental fleet additions to be in the \$290 million to \$340 million range, reflecting the overall steady growth environment we expect in 2024.

## 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 and free cash flow were as follows:

(\$ millions)	3 months ended December 31		Years ended December 31	
	2023	2022	2023	2022
Operating activities	291	410	228	1
Investing activities	(53)	(79)	(229)	(268)
Financing activities	(207)	(160)	(71)	(13)
Operating activities	291	410	228	1
Additions to property, plant, and equipment and intangible assets	(51)	(78)	(220)	(171)
Proceeds on disposal of property, plant, and equipment	40	—	58	—
Free cash flow	280	332	66	(170)

The most significant contributors to the changes in cash flows for 2023 over 2022 were as follows (all events described were in the current quarter or annual period, unless otherwise stated):

	Quarter over Quarter	Year over Year
Free cash flow	<ul style="list-style-type: none"> <li>• higher spend on inventory in Canada and other supplier payments in Canada and South America;</li> <li>• \$73 million higher net spend on rental equipment, mainly on rental equipment with purchase options in Canada; partially offset by,</li> <li>• higher collections in all regions, primarily in Canada; and,</li> <li>• \$67 million lower net spend on property, plant, and equipment</li> </ul>	<ul style="list-style-type: none"> <li>• higher collections from increased revenues in Canada and South America; partially offset by,</li> <li>• higher spend on inventory to support increased demand in Canada and South America;</li> <li>• higher payroll and other supplier payments in Canada and South America;</li> <li>• \$120 million higher net spend on rental equipment, mainly on rental equipment with purchase options in Canada; as well as,</li> <li>• higher payments for income tax and interest</li> </ul>
Investing activities (excluding net spend on property, plant, and equipment)	<ul style="list-style-type: none"> <li>• \$42 million increase in short-term investments in South America in Q4 2023</li> </ul>	<ul style="list-style-type: none"> <li>• \$101 million net cash consideration paid in 2022 to acquire Hydraquip and other smaller businesses in Canada and the UK &amp; Ireland; partially offset by,</li> <li>• \$54 million increase in short-term investments in 2023 in South America</li> </ul>
Financing activities	<ul style="list-style-type: none"> <li>• \$92 million higher repayment of short-term borrowings; partially offset by,</li> <li>• \$29 million lower repurchases of common shares under our <b>NCIB</b>; and,</li> <li>• \$15 million repayment of long-term borrowings in Q4 2022</li> </ul>	<ul style="list-style-type: none"> <li>• \$424 million lower cash provided by short-term borrowings;</li> <li>• \$57 million higher repurchases of common shares under our <b>NCIB</b>; partially offset by,</li> <li>• \$348 million cash provided by long-term borrowings; and,</li> <li>• \$81 million lower repayment of long-term borrowings</li> </ul>

## Capital Resources and Management

Our cash and cash equivalents balance at December 31, 2023 was \$152 million (December 31, 2022: \$288 million). In May 2023, we issued \$350 million of 4.445% senior unsecured notes due May 16, 2028 and we settled £70 million of 3.40% senior notes which were due on May 22, 2023. At December 31, 2023, to complement internally generated funds from operating and investing activities, we had approximately \$2.7 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 and an additional \$300 million committed revolving credit facility which is set to mature in October 2024. At December 31, 2023, approximately \$455 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, 2023.

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 <sup>(1)</sup> by both **DBRS** and **S&P**:

December 31	Long-term debt		Short-term debt	
	2023	2022	2023	2022
DBRS	BBB (high)	BBB (high)	R-2 (high)	R-2 (high)
S&P	BBB+	BBB+	n/a	n/a

In April 2023, DBRS affirmed our BBB (high) long-term rating and R-2 (high) commercial paper rating both with stable trends. In May 2023, S&P affirmed our BBB+ long-term rating with stable outlook. In February 2024, our long-term rating was confirmed at BBB (high) and BBB+ by DBRS and S&P, respectively.

During the year ended December 31, 2023, we repurchased 7,216,763 common shares for cancellation for \$272 million, at an average cost of \$37.75 per share, through our NCIB <sup>(2)</sup>. 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.

## 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. 2023 net debt to Adjusted EBITDA was up slightly from 2022 and higher than expected due to increased working capital.

	Finning long-term target	Dec 31, 2023	Dec 31, 2022
Net debt to Adjusted EBITDA (times)	< 3.0	1.7	1.6

<sup>(1)</sup> 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.

<sup>(2)</sup> 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)	2024	2025	2026	2027	2028	Thereafter	Total
Short-term debt	1,239	—	—	—	—	—	1,239
Long-term debt	244	41	221	294	366	257	1,423
Lease liabilities	82	64	46	35	28	93	348
Total contractual obligations	1,565	105	267	329	394	350	3,010

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 2023, we contributed \$6 million towards the defined benefit pension plans. Based on the most recently completed valuations, we expect to contribute approximately \$2 million to the defined benefit pension plans during the year ended December 31, 2024.

## Capital and Rental Expenditures

Our net spend on capital expenditures and rental fleet additions during the year ended December 31, 2024 is expected to be in the range of \$290 million to \$340 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, 2023, 77%, 79% 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, 2023, 40% 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, 2023, 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, 2023. 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 areas of estimation uncertainty and significant judgments involved in preparing our Annual Financial Statements for the year ended December 31, 2023 were:

- determination of the functional currency of each Finning subsidiary;
- 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 and rental equipment;
- estimation of useful lives of 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, 2023.

### 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 economic incentive is expected, revenue is recognized over the term of the contract. Significant assumptions are made in estimating residual values, which 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. When the sales of parts and labour for servicing equipment under a long-term contract 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 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.

### **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 reviews 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 reviews 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 where we operate 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 where 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 CGUs 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 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, cash-generating ability of the assets, discount rates, and growth rates.

## 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**

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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 the diversified customer base and geographical dispersion. We limit our exposure to credit risk from accounts receivable by establishing a maximum payment period for customers. We also 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 an ongoing 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 growth, 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.

In Argentina, we have experienced government currency restrictions in the past that have impacted our ability to meet our USD financial obligations as they fall due. We have been and continue to work with our key suppliers to manage payment terms and are evaluating the new rules and policies of the newly-elected government. While our access to USD in Argentina has improved since Q4 2023, new government rules and policies as well as economic conditions are subject to change, and may impact our ability to manage our liquidity risk.

## 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 foreign currency debt, derivative financial instruments, and short-term investments 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.

### Foreign Exchange Risk

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 are translation and transaction exposure.

#### *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 2% stronger CAD relative to the USD partially offset by the 3% weaker CAD relative to the GBP at December 31, 2023 compared to December 31, 2022 resulted in a foreign currency translation loss of \$21 million recorded in 2023. This was partially offset by an \$8 million foreign exchange gain on net investment hedges.

### Transaction Exposure

Many of our operations purchase, sell, rent, and lease assets and 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 in our Canadian operations.

The results of our operations are impacted by the translation of foreign-denominated transactions; the results of our Canadian operations are most impacted by USD based revenue and costs, and the results of our South American operations are most 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, primarily the USD/CAD in Canada and USD/CLP and USD/ARS in South America. We enter into forward exchange contracts, short-term investments, and short-term borrowings 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. Government currency restrictions that remain in place in Argentina may continue to impact our ARS exposure and cost to hedge.

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. In this scenario, a 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. Also in this environment, our SG&A in South America, which is largely denominated in local currency, is lower 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			12 months ended		
	2023	2022	Change	December 31 – average			December 31 – average		
				2023	2022	Change	2023	2022	Change
USD/CAD	<b>1.3226</b>	1.3544	2%	<b>1.3624</b>	1.3578	(0)%	<b>1.3497</b>	1.3013	(4)%
GBP/CAD	<b>1.6837</b>	1.6322	(3)%	<b>1.6913</b>	1.5950	(6)%	<b>1.6784</b>	1.6076	(4)%
USD/CLP	<b>877.12</b>	855.86	(2)%	<b>894.77</b>	913.66	2%	<b>837.57</b>	870.73	4%
USD/ARS	<b>808.45</b>	177.16	(356)%	<b>394.06</b>	161.84	(143)%	<b>260.80</b>	127.71	(104)%

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 some of our interest-bearing financial assets. Our floating-rate financial assets comprise cash and cash equivalents and short-term investments. Due to the short-term nature of these financial assets, 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.

We are exposed to changes in interest rates on our variable interest-bearing financial liabilities, primarily from short-term debt. 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 costs 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, but no assurance can be given that these efforts will fully offset all risk.

### **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 2023. In response to an application by the Canadian government, in April 2021, in September 2022, and in September 2023 in a final vote, the member states of the **WCO** voted by a significant margin in favour of the tariff classification used by our Argentina operations. These results have been filed or are being filed in the appeals of the Argentina Customs Authority claims. The final record of the WCO's decision is expected to be available in March 2024. We are confident the Courts in Argentina will follow the decision of the WCO. 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, 2023, the total estimated value of these contracts outstanding was \$91 million (2022: \$113 million) coming due at periods ranging from 2024 to 2033. 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, 2023 was \$1 million (2022: \$2 million).

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

### **Outstanding Share Data**

#### **January 31, 2024**

Common shares outstanding	144,007,263
Options outstanding	1,149,866



## Controls and Procedures Certification

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### 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, 2023 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, 2023, 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, 2023.



## Description of Specified Financial Measures and Reconciliations

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### **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 36 of this MD&A.

### **Adjusted EBIT and Adjusted 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.

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

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

Significant items identified by management that affected our results were as follows:

- In Q4 2023, the newly-elected Argentine government devalued the ARS official exchange rate by 118% from 366.5 ARS to 800 ARS for USD 1. As a result of prolonged government currency restrictions, including no material access to USD starting in late August 2023, our ARS exposure increased and during this period economic hedges were not available. As a result of the growth in our ARS exposure and the significant devaluation of the ARS in the quarter, our South American operations incurred a foreign exchange loss of \$56 million which exceeds the typical foreign exchange impact in the region.
- We began to implement our invested capital improvement plan as outlined at our 2023 Investor Day, which targets selling and optimizing real estate and exiting low-ROIC activities. In Q4 2023:
  - Our South American operations sold a property in Chile and recorded a gain of \$13 million on the sale; and,
  - Following an evaluation of the business needs of our operations and related intangible assets, several software and technology assets have been or will be decommissioned, and as a result, we derecognized previously capitalized costs of \$12 million.
- In Q1 2023, we executed various transactions to simplify and adjust our organizational structure. We wound up two wholly owned subsidiaries, recapitalized and repatriated \$170 million of profits from our South American operations, and incurred severance costs in each region as we reduced corporate overhead costs and simplified our operating model. As a result of these activities, our Q1 2023 financial results were impacted by significant items that we do not consider indicative of operational and financial trends:
  - Net foreign currency translation gain and income tax expense were reclassified to net income on the wind up of foreign subsidiaries;
  - Withholding tax payable related to the repatriation of profits; and,
  - Severance costs incurred in all of our operations.
- Finning qualified for and recorded a benefit from Q2 2020 to 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.
- In 2019, the Company recorded severance costs related to workforce reductions and restructuring costs related to planned facility closures in Canada and South America as well as acquisition costs related to the purchase of 4Refuel. In addition, the ARS experienced a significant devaluation relative to the USD in the third quarter of 2019 losing approximately 35% of its value (annual devaluation of approximately 60%). This devaluation resulted in higher tax expense due to the revaluation of deferred taxes in September 2019.

A reconciliation from EBIT to Adjusted EBIT and Adjusted EBITDA for our consolidated operations for the last twelve quarters and years ended December 31, 2020 and 2019 is as follows:

(\$ millions)	2023				2022				3 months ended				Years ended				
	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	2021	2020	2019
EBIT	177	252	242	239	214	224	190	140	157	150	137	108	392	425			
Significant items:																	
Foreign exchange and tax impact of devaluation of ARS	56	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Gain on sale of property, plant, and equipment	(13)	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Write-off of intangible assets	12	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Gain on wind up of foreign subsidiaries	—	—	—	(41)	—	—	—	—	—	—	—	—	—	—	—	—	—
Severance costs	—	—	—	18	—	—	—	—	—	—	—	—	42	20	—	—	—
CEWS support	—	—	—	—	—	—	—	—	—	—	—	(10)	(115)	—	—	—	—
Return on Energyst investment	—	—	—	—	—	—	—	—	—	—	—	(5)	—	—	—	—	—
Facility closures, restructuring costs, and impairment losses	—	—	—	—	—	—	—	—	—	—	—	—	9	8	—	—	—
Acquisition costs related to 4Refuel	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	4
Adjusted EBIT	232	252	242	216	214	224	190	140	157	150	137	93	328	457			
Depreciation and amortization	99	94	94	92	87	84	81	81	84	80	78	77	308	293			
Adjusted EBITDA <sup>(1)</sup>	331	346	336	308	301	308	271	221	241	230	215	170	636	750			

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

The impact on provision for (recovery of) income taxes of significant items for the last twelve quarters and years ended December 31, 2020 and 2019 was as follows:

(\$ millions)	2023				2022				3 months ended				Years ended	
	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:														
Foreign exchange and tax impact of devaluation of ARS	(3)	—	—	—	—	—	—	—	—	—	—	—	—	—
Gain on sale of property, plant, and equipment	4	—	—	—	—	—	—	—	—	—	—	—	—	—
Write-off of intangible assets	(3)	—	—	—	—	—	—	—	—	—	—	—	—	—
Gain on wind up of foreign subsidiaries	—	—	—	9	—	—	—	—	—	—	—	—	—	—
Severance costs	—	—	—	(5)	—	—	—	—	—	—	—	—	(10)	(6)
Withholding tax on repatriation of profits	—	—	—	19	—	—	—	—	—	—	—	—	—	—
CEWS support	—	—	—	—	—	—	—	—	—	—	—	2	30	—
Facility closures, restructuring costs, and impairment losses	—	—	—	—	—	—	—	—	—	—	—	—	(2)	(3)
Tax impact - devaluation of ARS	—	—	—	—	—	—	—	—	—	—	—	—	—	4
(Recovery of) provision for taxes on the significant items	(2)	—	—	23	—	—	—	—	—	—	—	2	18	(5)

A reconciliation from EPS to Adjusted EPS for our consolidated operations for the last twelve quarters and years ended December 31, 2020 and 2019 is as follows:

(\$)	2023				2022				3 months ended 2021				Years ended	
	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 <sup>(1)</sup>	<b>0.59</b>	1.07	1.00	0.89	0.89	0.97	0.80	0.59	0.66	0.61	0.56	0.43	1.43	1.48
Significant items:														
Foreign exchange and tax impact of devaluation of ARS	<b>0.37</b>	—	—	—	—	—	—	—	—	—	—	—	—	—
Gain on sale of property, plant, and equipment	<b>(0.06)</b>	—	—	—	—	—	—	—	—	—	—	—	—	—
Write-off of intangible assets	<b>0.06</b>	—	—	—	—	—	—	—	—	—	—	—	—	—
Gain on wind up of foreign subsidiaries	—	—	—	(0.21)	—	—	—	—	—	—	—	—	—	—
Severance costs	—	—	—	0.09	—	—	—	—	—	—	—	—	0.20	0.09
Withholding tax on repatriation of profits	—	—	—	0.12	—	—	—	—	—	—	—	—	—	—
CEWS support	—	—	—	—	—	—	—	—	—	—	—	(0.05)	(0.53)	—
Return on Energyst investment	—	—	—	—	—	—	—	—	—	—	—	(0.03)	—	—
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
<b>Adjusted EPS</b>	<b>0.96</b>	1.07	1.00	0.89	0.89	0.97	0.80	0.59	0.66	0.61	0.56	0.35	1.14	1.65

<sup>(1)</sup> 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 Adjusted EBIT for our Canadian operations for the last twelve quarters and years ended December 31, 2020 and 2019 is as follows:

(\$ millions)	2023				2022				3 months ended 2021				Years ended	
	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	117	137	136	126	128	125	102	80	92	84	82	69	288	296
Significant items:														
Write-off of intangible assets	5	—	—	—	—	—	—	—	—	—	—	—	0	—
Severance costs	—	—	—	4	—	—	—	—	—	—	—	—	20	10
CEWS support	—	—	—	—	—	—	—	—	—	—	—	(10)	(108)	—
Facility closures, restructuring costs, and impairment losses	—	—	—	—	—	—	—	—	—	—	—	—	5	7
Adjusted EBIT	122	137	136	130	128	125	102	80	92	84	82	59	205	313

A reconciliation from EBIT to Adjusted EBIT for our South American operations for the last twelve quarters and years ended December 31, 2020 and 2019 is as follows:

(\$ millions)	2023				2022				3 months ended 2021				Years ended	
	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	55	104	104	74	96	85	64	65	59	58	51	41	121	120
Significant items:														
Foreign exchange and tax impact of devaluation of ARS	56	—	—	—	—	—	—	—	—	—	—	—	—	—
Gain on sale of property, plant, and equipment	(13)	—	—	—	—	—	—	—	—	—	—	—	—	—
Write-off of intangible assets	4	—	—	—	—	—	—	—	—	—	—	—	—	—
Severance costs	—	—	—	7	—	—	—	—	—	—	—	—	17	10
Facility closures, restructuring costs, and impairment losses	—	—	—	—	—	—	—	—	—	—	—	—	4	1
Adjusted EBIT	102	104	104	81	96	85	64	65	59	58	51	41	142	131

A reconciliation from EBIT to Adjusted EBIT for our UK & Ireland operations for the last twelve quarters and years ended December 31, 2020 and 2019 is as follows:

(\$ millions)	2023				2022				3 months ended 2021				Years ended 2020 2019	
	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	6	19	18	15	16	21	23	14	12	17	17	7	16	46
Significant items:														
Write-off of intangible assets	3	—	—	—	—	—	—	—	—	—	—	—	—	—
Severance costs	—	—	—	2	—	—	—	—	—	—	—	—	4	—
Adjusted EBIT	9	19	18	17	16	21	23	14	12	17	17	7	20	46

A reconciliation from EBIT to Adjusted EBIT for our Other operations for the last twelve quarters and years ended December 31, 2020 and 2019 is as follows:

(\$ millions)	2023				2022				3 months ended 2021				Years ended 2020 2019	
	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)	(8)	(16)	24	(26)	(7)	1	(19)	(6)	(9)	(13)	(9)	(33)	(37)
Significant items:														
Gain on wind up of foreign subsidiaries	—	—	—	(41)	—	—	—	—	—	—	—	—	—	—
Severance costs	—	—	—	5	—	—	—	—	—	—	—	—	1	—
Return on Energyst investment	—	—	—	—	—	—	—	—	—	—	—	(5)	—	—
CEWS support	—	—	—	—	—	—	—	—	—	—	—	—	(7)	—
Acquisition costs related to 4Refuel	—	—	—	—	—	—	—	—	—	—	—	—	—	4
Adjusted EBIT	(1)	(8)	(16)	(12)	(26)	(7)	1	(19)	(6)	(9)	(13)	(14)	(39)	(33)

### 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:

(\$ millions)	2023				2022				3 months ended 2021				Years ended 2020 2019	
	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	291	37	66	(166)	410	(24)	(112)	(273)	193	212	8	12	962	191
Additions to property, plant, and equipment and intangible assets	(51)	(50)	(40)	(79)	(78)	(33)	(30)	(30)	(45)	(38)	(17)	(33)	(115)	(154)
Proceeds on disposal of property, plant, and equipment	40	13	5	—	—	—	—	—	—	2	5	1	23	5
Free cash flow	280	—	31	(245)	332	(57)	(142)	(303)	148	176	(4)	(20)	870	42

## 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 inventory related to the mobile refuelling operations), 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 (\$ millions)	2023				2022				2021				2020	2019
	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	2,024	2,044	2,125	1,758	2,025	1,807	1,761	1,463	1,465	1,443	1,396	1,189	1,248	1,483
Cost of sales related to the mobile refuelling operations	(278)	(283)	(237)	(253)	(302)	(293)	(300)	(231)	(190)	(170)	(153)	(140)	(129)	(168)
Cost of sales related to the dealership <sup>(1)</sup>	1,746	1,761	1,888	1,505	1,723	1,514	1,461	1,232	1,275	1,273	1,243	1,049	1,119	1,315

(\$ millions)	2023				2022				2021				2020	2019
	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	2,844	2,919	2,764	2,710	2,461	2,526	2,228	2,101	1,687	1,627	1,643	1,593	1,477	1,990
Inventory related to the mobile refuelling operations	(12)	(17)	(14)	(12)	(12)	(12)	(13)	(11)	(9)	(6)	(3)	(3)	(3)	(3)
Inventory related to the dealership <sup>(1)</sup>	2,832	2,902	2,750	2,698	2,449	2,514	2,215	2,090	1,678	1,621	1,640	1,590	1,474	1,987

<sup>(1)</sup> 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:

(\$ millions)	2023				2022				2021				2020		2019
	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	Dec 31
Cash and cash equivalents	(152)	(168)	(74)	(129)	(288)	(120)	(170)	(295)	(502)	(518)	(378)	(469)	(539)	(268)	
Short-term debt	1,239	1,372	1,142	1,266	1,068	1,087	992	804	374	419	114	103	92	226	
Long-term debt															
Current	199	203	199	253	114	106	110	63	190	191	386	326	201	200	
Non-current	949	955	949	675	815	836	807	909	921	923	903	973	1,107	1,318	
Net debt <sup>(1)</sup>	2,235	2,362	2,216	2,065	1,709	1,909	1,739	1,481	983	1,015	1,025	933	861	1,476	
Total equity	2,530	2,535	2,414	2,480	2,461	2,449	2,337	2,296	2,343	2,320	2,252	2,244	2,206	2,115	
Invested capital	4,765	4,897	4,630	4,545	4,170	4,358	4,076	3,777	3,326	3,335	3,277	3,177	3,067	3,591	

<sup>(1)</sup> 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 at the reporting date 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, 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 EBIT as a % of net revenue using Adjusted EBIT 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, 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:

(\$ millions)	2023				2022				3 months ended 2021				Years ended 2020		2019
	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	Dec 31
Total revenue	<b>2,664</b>	2,704	2,779	2,380	2,653	2,384	2,289	1,953	1,949	1,904	1,845	1,596	6,196	7,817	
Cost of fuel	<b>(261)</b>	(267)	(220)	(236)	(285)	(277)	(285)	(217)	(175)	(156)	(140)	(127)	(428)	(527)	
Net revenue	<b>2,403</b>	2,437	2,559	2,144	2,368	2,107	2,004	1,736	1,774	1,748	1,705	1,469	5,768	7,290	

**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:

(\$ millions)	2023				2022				2021				2020	2019
	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	<b>4,930</b>	5,217	4,985	4,974	4,781	4,652	4,098	4,030	3,619	3,620	3,416	3,319	3,214	3,659
Cash and cash equivalents	<b>(152)</b>	(168)	(74)	(129)	(288)	(120)	(170)	(295)	(502)	(518)	(378)	(469)	(539)	(268)
Total current assets in working capital	<b>4,778</b>	5,049	4,911	4,845	4,493	4,532	3,928	3,735	3,117	3,102	3,038	2,850	2,675	3,391
Total current liabilities	<b>3,485</b>	3,690	3,569	3,763	3,401	3,196	2,789	2,647	2,155	2,156	1,942	1,817	1,623	2,026
Short-term debt	<b>(1,239)</b>	(1,372)	(1,142)	(1,266)	(1,068)	(1,087)	(992)	(804)	(374)	(419)	(114)	(103)	(92)	(226)
Current portion of long-term debt	<b>(199)</b>	(203)	(199)	(253)	(114)	(106)	(110)	(63)	(190)	(191)	(386)	(326)	(201)	(200)
Total current liabilities in working capital	<b>2,047</b>	2,115	2,228	2,244	2,219	2,003	1,687	1,780	1,591	1,546	1,442	1,388	1,330	1,600
Working capital <sup>(1)</sup>	<b>2,731</b>	2,934	2,683	2,601	2,274	2,529	2,241	1,955	1,526	1,556	1,596	1,462	1,345	1,791

<sup>(1)</sup> 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)	2023	2022	2021
Revenue from operations			
Canada	<b>6,029</b>	5,200	3,969
South America	<b>3,221</b>	2,740	2,214
UK & Ireland <sup>(1)</sup>	<b>1,277</b>	1,339	1,111
<b>Total revenue</b>	<b>10,527</b>	9,279	7,294
Net income attributable to shareholders of Finning <sup>(1)(2)</sup>	<b>523</b>	503	364
Earnings per share <sup>(1)(2)</sup>			
EPS	<b>3.55</b>	3.25	2.26
Diluted earnings per share	<b>3.54</b>	3.25	2.25
Total assets <sup>(1)</sup>	<b>7,557</b>	7,269	5,971
Long-term debt			
Current	<b>199</b>	114	190
Non-current	<b>949</b>	815	921
<b>Total long-term debt <sup>(3)</sup></b>	<b>1,148</b>	929	1,111
Cash dividends declared per common share	<b>98.6¢</b>	93.3¢	86.0¢

(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 2023 and 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 33 - 38 of this MD&A.

(3) In October 2022, we secured an additional \$300 million committed revolving credit facility which was previously set to mature in October 2023 and has been extended to October 2024.

In May 2023, we issued \$350 million of 4.445% senior unsecured notes due May 16, 2028.

In May 2023, we settled our 3.40% £70 million senior notes which were due May 22, 2023.

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 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.

## Selected Quarterly Information

(\$ millions, except for share, per share, and option amounts)	2023				2022			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Revenue								
Canada	1,515	1,535	1,593	1,386	1,452	1,349	1,298	1,101
South America	805	853	856	707	840	692	637	571
UK & Ireland <sup>(1)</sup>	344	316	330	287	361	343	354	281
Total revenue	2,664	2,704	2,779	2,380	2,653	2,384	2,289	1,953
Net income attributable to shareholders of Finning <sup>(1)(2)</sup>	85	156	148	134	136	149	126	92
Earnings per share <sup>(1)(2)</sup>								
EPS	0.59	1.07	1.00	0.89	0.89	0.97	0.80	0.59
Diluted earnings per share	0.59	1.06	1.00	0.89	0.89	0.97	0.80	0.59
Total assets <sup>(1)</sup>	7,557	7,738	7,508	7,512	7,269	7,024	6,470	6,402
Long-term debt								
Current	199	203	199	253	114	106	110	63
Non-current	949	955	949	675	815	836	807	909
Total long-term debt <sup>(3)</sup>	1,148	1,158	1,148	928	929	942	917	972
Cash dividends paid per common share	25.0¢	25.0¢	25.0¢	23.6¢	23.6¢	23.6¢	23.6¢	22.5¢
Common shares outstanding (000's)	144,007	145,256	146,704	149,584	151,041	153,248	154,272	156,249
Options outstanding (000's)	1,150	1,191	1,240	1,281	1,567	1,796	1,789	1,545

<sup>(1)</sup> 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.

<sup>(2)</sup> These reported financial measures in Q4 and Q1 2023 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 33 - 38 of this MD&A.

<sup>(3)</sup> In October 2022, we secured an additional \$300 million committed revolving credit facility which was previously set to mature in October 2023 and has been extended to October 2024.

In May 2023, we issued \$350 million of 4.445% senior unsecured notes due May 16, 2028.

In May 2023, we settled our 3.40% £70 million senior notes which were due May 22, 2023.

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 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.

## Forward-Looking Information Disclaimer

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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 expectations with respect to the economy, markets and activities and the associated impact on our financial results; the expected benefits of our refreshed strategic plan on generating long-term value for our customers, employees, and shareholders; our expectation that driving product support is our largest opportunity for resilient, profitable growth; our expectation that further growth in customer value agreements, expanding our rebuild business, and continuing to strategically grow our equipment population will capture a greater share of product support across the full asset life cycle; our belief that full cycle resilience will enable us to deliver more reliable and consistent earnings through all market conditions; our expectation that we will continue to optimize and variabilize our cost structure; our expectation that growing our addressable market in used equipment, rental and power systems will increase our equipment population and help us drive additional product support growth; our expectation that we will continue to work towards meeting our commitment to reduce our absolute GHG emissions by 40% by 2027 from our 2017 baseline; our expectation that we will continue to provide customers with equipment and solutions to improve safety and enhance performance by combining leading technology with data driven insights, while reducing their environmental footprint; our expectation that our effective tax rate generally be within the 25-30% range on an annual basis; our expectation that the impact of foreign exchange due to fluctuations in the value of CAD relative to USD, GBP, CLP, and ARS will continue to affect our results; our ability to execute on our strategic priorities; the expected transition to cleaner sources of energy; all information in the section entitled “Market Update and Business Outlook” starting on page 20 of this MD&A, including for our Canada operations: our outlook for Western Canada being positive; our expectation for increased activity in the energy sector and production growth going forward (based on assumptions of additional capacity created by the completion of major pipelines); our expectations for mining and energy customers increasing their spending levels including investment to renew, maintain, and rebuild aging fleets; in the oil sands, our expectation for strong demand for product support, including component remanufacturing and rebuilds; our expectation of ongoing commitment from federal and provincial governments to infrastructure development to support activity in the construction sector; our expectations for growing demand for reliable, efficient, and sustainable electric power solutions across communities in Western Canada, and that growing demand creates opportunities for our power systems business; for our South America operations: in Chile, our strong outlook based on growing global demand for copper, recent approvals of large-scale brownfield expansions and increasing customer confidence to invest in brownfield and greenfield projects; our expectation of mining activity remaining strong, driving demand for equipment, product support, and technology solutions, our expectation that infrastructure construction in Chile will remain stable (based on assumptions of continued healthy demand from large contractors supporting mining operations); in the power systems sector, our expectation for activity remaining strong in the industrial and data centre markets, and that we are well positioned to benefit from growing demand for electric power solutions; in Argentina, our expected low-risk approach in Argentina in 2024; our expectation that steps are being taken by the new government to rapidly address the fiscal imbalances in the country with the goal of ultimately stabilizing inflation and opening the economy for free import and export of goods in the long-term; our expectation that near-term steps taken by the Argentina government of significantly devaluing the currency, containing public spending, reducing subsidies, and lowering spending on public works are driving continued challenging market and operating conditions; our expectation that we will reduce our ARS cash balance to zero; for our UK & Ireland operations: our expectation that demand for new construction equipment to remain soft; our expectation of a growing contribution from used equipment and power systems as we continue to execute on our strategy; in power systems, our expectation of continued healthy demand for primary and backup power generation, including in the data centre market and short-term capacity power for utilities and other applications; our expectation of our product support business to remain resilient, driven by steady machine utilization, rebuilds, and growth in Customer Value Agreements; and overall: our expectation of growing our business in 2024 and building more resilience into our operating model; our expectations and progress towards the Investor Day targets; our goal to increase our invested capital velocity, with the goal to unlock over \$450 million of capital by 2025 from Q2 2023; our expectation for our 2024 net capital expenditures and net rental fleet additions to be in the \$290 million to \$340 million range; our expectation 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 expectation that we will contribute approximately \$2 million to the defined benefit pension plans in Canada during the year ended December 31, 2024; our expectations that product support growth is important in mitigating the effects of downturns in the business cycle; and the belief that the claims and order issued by the

Argentina Customs Authority are without merit, that the WCO (as defined below) decision will be upheld again, and that there are mitigation measures available to us.

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, and supply chain challenges; general economic and market conditions, including increasing inflationary cost pressure, and economic and market conditions in the regions where we operate; perspectives of renewed investments in the oil and gas and mining projects in Argentina; government approvals of large-scale brownfield expansions; support and commitment by Canadian federal and provincial governments in infrastructure development; 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 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 deliver our equipment backlog; 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 our 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; 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; and 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 volatile commodity prices, high inflation, increasing interest rates, and supply chain challenges, and successfully execute our strategies to win customers, achieve full cycle resilience (based on assumptions that steps to reduce corporate overhead, drive productivity and optimize working capital while supporting strong business growth will be successful and sustainable) and continue business momentum (based on assumptions that we will be able to continue to source and hire technicians, build capabilities and capacity and successfully and sustainably improve workshop efficiencies); 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 equipment backlog; our ability to successfully execute our plans and intentions, including our strategic priorities as



outlined at our 2023 Investor Day; that we will successfully execute initiatives to reduce our GHG emissions and to support our customers on their individual GHG reduction pathways; 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; our current good relationships with Caterpillar, our customers and our suppliers, service providers and other third parties will be maintained and that Caterpillar and such other suppliers will deliver quality, competitive products with supply chain continuity; sustainment of strengthened oil prices and the Alberta government will not re-impose production curtailments; completion of major pipelines and the resulting increased activity in the energy sector; that demand for sustainable electric power solutions in Western Canada will continue to grow; quoting activity for requests for proposals for equipment and product support is reflective of opportunities; and strong recoveries in the regions that we operate.

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

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

## 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 2023.

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, 2024  
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, 2023 and 2022, 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 material accounting policy information (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, 2023 and 2022, 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, 2023. 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 contract 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, 2024

## CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

December 31 (Canadian \$ millions)	2023	2022
<b>ASSETS</b>		
Current assets		
Cash and cash equivalents (Note 22)	152	288
Accounts receivable (Note 8)	1,012	1,129
Unbilled receivables (Note 4)	496	422
Inventory (Note 12)	2,844	2,461
Other assets (Note 14)	426	481
<b>Total current assets</b>	<b>4,930</b>	<b>4,781</b>
Property, plant, and equipment (Note 15)	976	973
Rental equipment (Note 15)	608	469
Goodwill (Note 18)	329	325
Intangible assets (Note 17)	309	333
Net post-employment assets (Note 21)	109	98
Distribution network (Note 18)	100	100
Investment in joint ventures	87	83
Other assets (Note 14)	109	107
<b>Total assets</b>	<b>7,557</b>	<b>7,269</b>
<b>LIABILITIES</b>		
Current liabilities		
Short-term debt (Note 7)	1,239	1,068
Accounts payable and accruals (Note 8)	1,315	1,373
Deferred revenue (Note 4)	507	544
Current portion of long-term debt (Note 7)	199	114
Other liabilities (Note 19)	225	302
<b>Total current liabilities</b>	<b>3,485</b>	<b>3,401</b>
Long-term debt (Note 7)	949	815
Long-term lease liabilities	235	255
Deferred tax liabilities	160	153
Other liabilities (Note 19)	198	184
<b>Total liabilities</b>	<b>5,027</b>	<b>4,808</b>
Commitments and contingencies (Note 26)		
<b>EQUITY</b>		
Share capital	516	536
Accumulated other comprehensive income	220	273
Retained earnings	1,778	1,634
<b>Equity attributable to shareholders of Finning International Inc.</b>	<b>2,514</b>	<b>2,443</b>
Non-controlling interests	16	18
<b>Total equity</b>	<b>2,530</b>	<b>2,461</b>
<b>Total liabilities and equity</b>	<b>7,557</b>	<b>7,269</b>

Approved by the Board of Directors on February 6, 2024

/s/ S.L. Levenick

S.L. Levenick, Director

/s/ H.N. Kvisle

H.N. Kvisle, Director

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



## CONSOLIDATED STATEMENTS OF NET INCOME

<b>Years ended December 31</b>		
<b>(Canadian \$ millions, except share and per share amounts)</b>	<b>2023</b>	<b>2022</b>
Revenue		
New equipment	<b>3,262</b>	2,793
Used equipment	<b>392</b>	352
Equipment rental	<b>327</b>	297
Product support	<b>5,378</b>	4,606
Fuel and other	<b>1,168</b>	1,231
Total revenue (Note 4)	<b>10,527</b>	9,279
Cost of sales	<b>(7,951)</b>	(7,056)
Gross profit	<b>2,576</b>	2,223
Selling, general, and administrative expenses	<b>(1,643)</b>	(1,458)
Equity earnings of joint ventures	<b>9</b>	3
Other income (Note 6)	<b>54</b>	—
Other expenses (Note 6)	<b>(86)</b>	—
Earnings before finance costs and income taxes	<b>910</b>	768
Finance costs (Note 7)	<b>(161)</b>	(95)
Income before provision for income taxes	<b>749</b>	673
Provision for income taxes (Note 13)	<b>(228)</b>	(172)
Net income	<b>521</b>	501
Net income (loss) attributable to:		
Shareholders of Finning International Inc.	<b>523</b>	503
Non-controlling interests	<b>(2)</b>	(2)
Earnings per share (Note 5)		
Basic	<b>3.55</b>	3.25
Diluted	<b>3.54</b>	3.25

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)	2023	2022
Net income	521	501
Other comprehensive (loss) income, net of income tax		
Items that may be subsequently reclassified to net income:		
Foreign currency translation adjustments	(21)	79
Share of foreign currency translation adjustments of joint ventures	—	(1)
Gain (loss) on net investment hedges	8	(22)
Foreign currency translation adjustments net of net investment hedges, reclassified to net income (Note 6)	(41)	—
Provision for income taxes on foreign currency translation adjustments, reclassified to net income (Note 6)	9	—
Impact of foreign currency translation and net investment hedges, net of income tax	(45)	56
Gain on cash flow hedges	—	15
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
Items that will not be subsequently reclassified to net income:		
Actuarial loss (Note 21)	(5)	(83)
Recovery of income taxes on actuarial loss	1	21
Actuarial loss, net of income tax	(4)	(62)
<b>Total comprehensive income</b>	<b>472</b>	<b>510</b>
Total comprehensive income (loss) attributable to:		
Shareholders of Finning International Inc.	474	512
Non-controlling interests	(2)	(2)

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

## CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

(Canadian \$ millions)	Attributable to shareholders of Finning International Inc.						
	Share capital	Contributed surplus	Accumulated other comprehensive income	Retained earnings	Total	Non-controlling interests	Total
Balance, January 1, 2022	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)
Automatic share purchase plan commitment (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
Net income (loss)	—	—	—	523	523	(2)	521
Other comprehensive loss	—	—	(45)	(4)	(49)	—	(49)
Total comprehensive (loss) income	—	—	(45)	519	474	(2)	472
Exercise of share options	3	(2)	—	(1)	—	—	—
Share option expense	—	2	—	—	2	—	2
Hedging gain transferred to statement of financial position	—	—	(8)	—	(8)	—	(8)
Repurchase of common shares (Note 10)	(25)	—	—	(247)	(272)	—	(272)
Decrease in automatic share purchase plan commitment (Note 10)	2	—	—	19	21	—	21
Dividends on common shares	—	—	—	(146)	(146)	—	(146)
Balance, December 31, 2023	516	—	220	1,778	2,514	16	2,530

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

## CONSOLIDATED STATEMENTS OF CASH FLOWS

Years ended December 31 (Canadian \$ millions)	2023	2022
<b>OPERATING ACTIVITIES</b>		
Net income	521	501
Adjusting for:		
Depreciation and amortization	379	333
(Gain) loss on disposal of property, plant, and equipment	(25)	2
Derecognition of intangible assets (Note 6d)	12	—
Impairment of long-lived assets (Note 15)	2	—
Equity earnings of joint ventures	(9)	(3)
Share-based payment expense (Note 11)	26	36
Provision for income taxes	228	172
Finance costs	161	95
Net benefit cost of defined benefit pension plans and other post-employment benefit plans (Note 21)	17	16
Gain on wind up of foreign subsidiaries (Note 6a)	(41)	—
Other	—	(1)
Changes in operating assets and liabilities (Note 22)	(349)	(738)
Additions to rental fleet	(182)	(151)
Additions to rental equipment with purchase options	(229)	(90)
Proceeds on disposal of rental fleet	57	39
Proceeds on disposal of rental equipment with purchase options	89	57
Interest paid	(165)	(96)
Income tax paid	(264)	(171)
Cash flows provided by operating activities	228	1
<b>INVESTING ACTIVITIES</b>		
Additions to property, plant, and equipment and intangible assets	(220)	(171)
Proceeds on disposal of property, plant, and equipment	58	—
Consideration paid for business acquisitions, net of cash acquired	(13)	(101)
(Increase) decrease in short-term and long-term investments	(54)	4
Cash flows used in investing activities	(229)	(268)
<b>FINANCING ACTIVITIES</b>		
Increase in short-term debt (Note 22)	206	630
Issuance of long-term debt, net of issue costs (Notes 7 and 22)	348	—
Repayment of long-term debt (Note 22)	(122)	(203)
Decrease in lease liabilities (Note 22)	(82)	(78)
Repurchase of common shares	(275)	(218)
Dividends paid	(146)	(144)
Cash flows used in financing activities	(71)	(13)
Effect of currency translation on cash balances	(64)	66
Decrease in cash and cash equivalents	(136)	(214)
Cash and cash equivalents, beginning of year	288	502
Cash and cash equivalents, end of year (Note 22)	152	288

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

1. GENERAL INFORMATION .....	11
2. MATERIAL ACCOUNTING POLICY INFORMATION, KEY ASSUMPTIONS, AND SIGNIFICANT JUDGMENTS.....	11
3. SEGMENTED INFORMATION .....	15
4. REVENUE.....	17
5. EARNINGS PER SHARE .....	20
6. OTHER INCOME AND OTHER EXPENSES .....	20
7. SHORT-TERM AND LONG-TERM DEBT AND FINANCE COSTS .....	21
8. FINANCIAL INSTRUMENTS.....	22
9. MANAGEMENT OF CAPITAL .....	32
10. SHARE CAPITAL .....	33
11. SHARE-BASED PAYMENTS .....	34
12. INVENTORY .....	39
13. INCOME TAXES.....	40
14. OTHER ASSETS.....	43
15. PROPERTY, PLANT, AND EQUIPMENT AND RENTAL EQUIPMENT .....	44
16. LEASES .....	46
17. INTANGIBLE ASSETS .....	48
18. IMPAIRMENT .....	50
19. OTHER LIABILITIES .....	52
20. PROVISIONS.....	52
21. POST-EMPLOYMENT BENEFITS .....	53
22. SUPPLEMENTAL CASH FLOW INFORMATION .....	59
23. ACQUISITION.....	61
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. MATERIAL ACCOUNTING POLICY INFORMATION, 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, 2024. 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 2023 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		Functional currency <sup>(1)</sup>
		2023	2022	
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

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

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

## (b) Joint Ventures

### Accounting Policy

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

### 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.

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

December 31 Name	Nature of Relationship	Principal place of Business	% ownership		Functional currency
			2023	2022	
PLM	Joint Venture	United States	25.0%	25.0%	USD
Agriterra	Joint Venture	Canada	20.0%	20.0%	CAD

The Company's joint ventures 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, a disposal that involves loss of control of a subsidiary that includes a foreign operation, or loss of joint control over a jointly controlled entity 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

The Company is required to make judgments in determining the functional currency of each subsidiary of the Company. Management considers the currency that mainly influences sales prices for goods and services, the currency of the country whose competitive forces and regulations mainly determine the sales price of its goods and services, and the currency that mainly influences labour, material, and other costs of providing goods or services.

#### **(d) New Accounting Standard and Amendments to Standards**

The Company has adopted the following new accounting standard and amendments to IFRS:

- 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. The adoption of this standard did not have any impact on 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. The adoption of these amendments did not have any impact on the disclosure of material accounting policy information for the Company's 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. The adoption of these amendments did not have any impact on the Company's financial statements.
- Amendments to IAS 12, *Income Taxes*:
  - 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 (effective January 1, 2023) 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. The adoption of these amendments did not have any impact on the Company's financial statements.
  - Scope in income taxes arising from tax law enacted or substantively enacted to implement the Pillar Two model rules published by the Organization for Economic Co-operation and Development. The amendments (effective for the Company's June 30, 2023 Interim Financial Statements) provide temporary relief from accounting for and disclosure of deferred income taxes arising from this international tax reform. The Company has applied the temporary exception from the accounting requirements for deferred taxes in relation to Pillar Two legislation. The amendments also introduce targeted disclosure requirements for current tax arising from this international tax reform. Refer to Note 13 for additional information.



### (e) Future Accounting Pronouncements

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

- 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 determined the amendment will impact the presentation of certain of the Company's share-based payment arrangements. Deferred Share Units (DSUs) are cash-settled share-based payment arrangements. DSUs are issued to certain executives and board members, usually vest at the time of issuance, and are redeemable by December of the year following the year in which cessation of employment or service on the Board of Directors (Board) occurs. The Company does not have the ability to defer settlement of its vested DSUs for a period of twelve months after cessation of employment or service on the Board. As a result, effective January 1, 2024, the Company will reclassify its vested DSU liabilities as current liabilities. These amendments will be applied retrospectively. The impact of the amendments to IAS 1 on the date of initial application is expected to be as shown in the table below.

(\$ millions)	December 31, 2023	January 1, 2023
Increase in other liabilities (current)	31	24
Decrease in other liabilities (non-current)	(31)	(24)

Except as outlined in the table above, management does not expect the adoption of these amendments to result in any other changes to the consolidated statement of financial position.

- Clarify that only covenants with which an entity must comply on or before the reporting date will affect the classification of a liability as current or non-current. In addition, the amendments require a company to disclose information in the notes to the financial statements when liabilities are classified as non-current when the right to defer settlement of those liabilities is subject to complying with covenants within twelve months after the reporting date. Management expects no changes will be required to the Company's classification as a result of these amendments.
- Amendments to IAS 7, *Statement of Cash Flows* and IFRS 7, *Financial Instruments: Disclosures* (effective January 1, 2024) add disclosure requirements that require companies to provide qualitative and quantitative information about supplier finance arrangements that will assist users of financial statements to assess the effects of the company's supplier finance arrangements on its liabilities and cash flows. Management expects that adoption of these amendments will not have a significant impact on the Company's disclosures and will continue to assess the impact on the disclosures of all supplier finance arrangements in scope 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). Management expects that adoption of these amendments will not have a significant impact on the Company's financial statements and will continue to assess the impact on the accounting treatment of all sale and leaseback transactions in scope of these amendments.

### 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. 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, 2023 (\$ millions)	Canada	South America	UK & Ireland	Other	Total
Revenue					
New equipment	1,520	1,021	721	—	3,262
Used equipment	261	53	78	—	392
Equipment rental	206	77	44	—	327
Product support	2,875	2,069	434	—	5,378
Fuel and other	1,167	1	—	—	1,168
<b>Total revenue</b>	<b>6,029</b>	<b>3,221</b>	<b>1,277</b>	<b>—</b>	<b>10,527</b>
Cost of fuel	(984)	—	—	—	(984)
<b>Net revenue</b>	<b>5,045</b>	<b>3,221</b>	<b>1,277</b>	<b>—</b>	<b>9,543</b>
Operating costs <sup>(1)</sup>	(4,322)	(2,706)	(1,171)	(32)	(8,231)
Depreciation and amortization	(207)	(124)	(43)	(5)	(379)
Equity earnings of joint ventures	9	—	—	—	9
Other income	—	13	—	41	54
Other expenses	(9)	(67)	(5)	(5)	(86)
<b>Earnings (loss) before finance costs and income taxes</b>	<b>516</b>	<b>337</b>	<b>58</b>	<b>(1)</b>	<b>910</b>
Finance costs					(161)
Provision for income taxes					(228)
<b>Net income</b>					<b>521</b>
Invested capital <sup>(2)</sup>	2,852	1,381	510	22	4,765
Gross capital expenditures <sup>(3)(4)</sup>	132	104	12	22	270
Gross rental equipment spend <sup>(4)</sup>	314	65	38	—	417

(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, 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
<b>Total revenue</b>	<b>5,200</b>	<b>2,740</b>	<b>1,339</b>	<b>—</b>	<b>9,279</b>
Cost of fuel	(1,064)	—	—	—	(1,064)
<b>Net revenue</b>	<b>4,136</b>	<b>2,740</b>	<b>1,339</b>	<b>—</b>	<b>8,215</b>
Operating costs <sup>(1)</sup>	(3,513)	(2,333)	(1,224)	(47)	(7,117)
Depreciation and amortization	(191)	(97)	(41)	(4)	(333)
Equity earnings of joint ventures	3	—	—	—	3
<b>Earnings (loss) before finance costs and income taxes</b>	<b>435</b>	<b>310</b>	<b>74</b>	<b>(51)</b>	<b>768</b>
Finance costs					(95)
Provision for income taxes					(172)
<b>Net income</b>					<b>501</b>
Invested capital <sup>(2)</sup>	2,447	1,281	428	14	4,170
Gross capital expenditures <sup>(3)(4)</sup>	123	82	9	28	242
Gross rental equipment spend <sup>(4)</sup>	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.

Total revenue and non-current assets <sup>(5)</sup> by location of operations

(\$ millions)	Total revenue		Non-current assets	
	Year ended December 31		at December 31	
	2023	2022	2023	2022
Canada	<b>5,877</b>	5,044	<b>1,610</b>	1,495
Chile	<b>2,677</b>	2,216	<b>358</b>	364
United Kingdom	<b>1,154</b>	1,219	<b>295</b>	281
Argentina	<b>449</b>	436	<b>92</b>	88
Other countries	<b>370</b>	364	<b>107</b>	105

- (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 incentives (for example, 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 sales of new equipment, 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 economic incentive is expected, revenue is recognized over the term of the contract. Significant assumptions are made in estimating residual values, which 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. When the sales of parts and labour for servicing equipment under a long-term contract 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 recorded revenue from the transfer of goods and services at a point-in-time and over time in the following lines of business:

Years ended December 31 (\$ millions)	2023			2022		
	Point-in-time	Over-time	Total	Point-in-time	Over-time	Total
New equipment	2,992	270	3,262	2,618	175	2,793
Used equipment	392	—	392	352	—	352
Equipment rental	—	327	327	—	297	297
Product support	2,418	2,960	5,378	2,151	2,455	4,606
Fuel and other	1,157	11	1,168	1,224	7	1,231
<b>Total revenue</b>	<b>6,959</b>	<b>3,568</b>	<b>10,527</b>	<b>6,345</b>	<b>2,934</b>	<b>9,279</b>

The Company recorded the following unbilled receivables from customers:

December 31 (\$ millions)	2023	2022
Product support	429	365
New equipment	61	53
Other	6	4
<b>Total unbilled receivables</b>	<b>496</b>	<b>422</b>

Invoices for sales of parts and labour when servicing equipment under long-term contracts were 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 were issued when the work was complete. Invoices for sales of complex power and energy systems were issued in accordance with milestone payments as agreed in each sales contract with the customer.

The Company recorded the following contract liabilities:

December 31 (\$ millions)	2023			2022		
	Current	Non-current	Total	Current	Non-current	Total
Product support	231	—	231	249	—	249
Deposits from customers for new equipment	156	—	156	218	—	218
Extended warranty	32	36	68	30	35	65
Complex power and energy systems	80	—	80	41	—	41
Other	8	2	10	6	—	6
<b>Total deferred revenue</b>	<b>507</b>	<b>38</b>	<b>545</b>	<b>544</b>	<b>35</b>	<b>579</b>

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)	2023		2022	
	Basic	Diluted	Basic	Diluted
Net income attributable to shareholders of Finning	523	523	503	503
Weighted average shares outstanding (WASO)	147,472,530	147,472,530	154,740,313	154,740,313
Effect of dilutive share options		254,355		331,525
WASO with assumed conversions		147,726,885		155,071,838
Earnings per share	3.55	3.54	3.25	3.25

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, 2023 were not significant (2022: 1 million).

## 6. OTHER INCOME AND OTHER EXPENSES

Years ended December 31 (\$ millions)	2023	2022
Gain on wind up of foreign subsidiaries (a)	41	—
Gain on sale of property, plant, and equipment (b)	13	—
Other income	54	—

Years ended December 31 (\$ millions)	2023	2022
Foreign exchange impact of devaluation of ARS (c)	(56)	—
Severance costs (a)	(18)	—
Write-off of intangible assets (d)	(12)	—
Other expenses	(86)	—

- (a) In the three months ended March 31, 2023, the Company executed various transactions to simplify and adjust its organizational structure. The Company wound up two wholly owned subsidiaries and incurred severance costs in each region as the Company reduced corporate overhead costs and simplified its operating model. As a result of these activities, the Company recorded the following:
- Net foreign currency translation gain of \$41 million and income tax expense of \$9 million (Note 13) were reclassified to net income on the wind up of foreign subsidiaries; and
  - Severance costs.
- (b) The South American operations sold a property in Chile and recorded a gain of \$13 million on the sale.
- (c) On December 13, 2023, the newly-elected Argentine government devalued the Argentine peso (ARS) official exchange rate by 118% from 366.5 ARS to 800 ARS for USD 1. As a result of prolonged government currency restrictions, including no material access to USD starting in late August 2023, the Company's ARS exposure increased and during this period economic hedges were not available. As a result of the growth in the Company's ARS exposure and the significant devaluation of the ARS in the three months ended December 31, 2023, the South American operations incurred a foreign exchange loss of \$56 million.
- (d) Following an evaluation of the business needs of the operations and related intangible assets, several software and technology assets have been or will be decommissioned, and as a result, the Company derecognized previously capitalized costs of \$12 million.



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

December 31 (\$ millions)	2023	2022
<b>Short-term debt</b>	<b>1,239</b>	1,068
<b>Long-term debt</b>		
3.40% £70 million, due May 22, 2023, Series F	—	114
4.08% USD 100 million, due January 19, 2024, Series B	132	135
4.28% USD 50 million, due April 3, 2024, Series D	66	68
2.626%, \$200 million, due August 14, 2026	180	184
4.53% USD 200 million, due April 3, 2027, Series E	264	271
4.445%, \$350 million, due May 16, 2028	349	—
5.077% \$150 million, due June 13, 2042	150	149
Other term loans	7	8
<b>Total long-term debt</b>	<b>1,148</b>	929
Current portion of long-term debt	199	114
Non-current portion of long-term debt	949	815

### Short-Term Debt

At December 31, 2023, short-term debt included \$1.1 billion drawn on the Company's committed sustainability-linked revolving credit facility (2022: \$1.0 billion). 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 2023 was 7.0% (2022: 3.5%).

### Long-Term Debt

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

In January 2024, the Company repaid its 4.08%, USD 100 million note due January 19, 2024.

In May 2023, the Company issued \$350 million of 4.445% senior unsecured notes due May 16, 2028. Proceeds of this issuance were used to repay existing debt, including its 3.40%, £70 million senior notes due May 22, 2023, and for general corporate purposes.

During the three months ended December 31, 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. The Company repurchased \$4 million notional value of its notes under this plan.

The effective interest rate on the consolidated long-term debt for 2023 was 4.3% (2022: 4.1%).

### Finance Costs

The components of finance costs were as follows:

Years ended December 31 (\$ millions)	2023	2022
Interest on short-term debt	93	32
Interest on long-term debt	46	39
Interest on debt	139	71
Interest on lease liabilities	12	11
Other finance related expenses	10	13
<b>Finance costs</b>	<b>161</b>	95



## 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:

<b>December 31</b>		
<b>(\$ millions)</b>	<b>2023</b>	<b>2022</b>
Cash and cash equivalents	<b>152</b>	288
Accounts receivable	<b>1,012</b>	1,129
Unbilled receivables	<b>496</b>	422
Supplier claims receivable	<b>127</b>	156
<b>Exposure to credit risk</b>	<b>1,787</b>	1,995

### *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*

Credit risk associated with accounts receivable and unbilled receivables from customers is minimized because of the diversification of the Company's operations as well as the diversified customer base and 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:

<b>December 31</b>	<b>2023</b>	<b>2022</b>
<b>(\$ millions)</b>		
Canada	<b>535</b>	626
Chile	<b>273</b>	287
UK	<b>109</b>	109
Argentina	<b>44</b>	50
Other	<b>51</b>	57
<b>Total</b>	<b>1,012</b>	1,129

#### Impairment Losses

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

<b>December 31</b>	<b>2023</b>		<b>2022</b>	
	<b>Gross</b>	<b>Allowance</b>	<b>Gross</b>	<b>Allowance</b>
<b>(\$ millions)</b>				
Not past due	<b>735</b>	—	866	—
Past due 1 – 30 days	<b>222</b>	—	169	—
Past due 31 – 90 days	<b>34</b>	<b>1</b>	82	1
Past due 91 – 120 days	<b>13</b>	—	7	1
Past due greater than 120 days	<b>53</b>	<b>44</b>	48	41
<b>Total</b>	<b>1,057</b>	<b>45</b>	1,172	43

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

<b>Years ended December 31</b>	<b>2023</b>	<b>2022</b>
<b>(\$ millions)</b>		
Balance, beginning of year	<b>43</b>	35
Additional allowance and unused amounts reversed, net	<b>4</b>	8
Receivables written off	<b>(2)</b>	(1)
Foreign exchange rate changes	<b>—</b>	1
<b>Balance, end of year</b>	<b>45</b>	43

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 growth, 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. 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 Finning's control, such as uncertainty in the capital markets, depressed commodity prices or country risk factors.

At December 31, 2023, the Company had approximately \$2.7 billion (2022: \$2.5 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 had a one-year term and could be used for general corporate purposes. In September 2023, this committed revolving credit facility was extended to October 2024.

At December 31, 2023, \$455 million was available collectively under the \$1.3 billion committed sustainability-linked revolving credit facility and \$300 million committed revolving credit facility (2022: \$551 million). The Company is subject to certain covenants under its committed revolving credit facilities. At December 31, 2023 and 2022, the Company was in compliance with these covenants.

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, 2023 and December 31, 2022. In addition, the Company maintains other bank credit facilities, including overdrafts and letters of credit, to support its subsidiary operations.

In Argentina, the Company has experienced government currency restrictions in the past that have impacted Finning's ability to meet USD financial obligations as they fall due. The Company has been and continues to work with key suppliers to manage payment terms and are evaluating the new rules and policies of the newly-elected government. While the Company's access to USD in Argentina has improved since December 31, 2023, new government rules and policies as well as economic conditions are subject to change, and may impact Finning's ability to manage its liquidity risk.

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, 2023	Contractual cash flows				
		2024	2025	2026	2027	2028 Thereafter
<b>Non-derivative financial liabilities</b>						
Accounts payable and accruals	(1,315)	(1,315)	—	—	—	—
Short-term debt (Note 7)	(1,239)	(1,239)	—	—	—	—
Long-term debt (Note 7)	(1,148)	(244)	(41)	(221)	(294)	(366)
Lease liabilities	(309)	(82)	(64)	(46)	(35)	(28)
<b>Total non-derivative financial liabilities</b>	<b>(4,011)</b>	<b>(2,880)</b>	<b>(105)</b>	<b>(267)</b>	<b>(329)</b>	<b>(394)</b>
<b>Derivative financial instruments</b>						
Forward foreign currency contracts and swaps						
Sell CAD	(14)	(1,384)	—	—	—	—
Buy USD	—	1,370	—	—	—	—
Sell GBP	—	(5)	—	—	—	—
Buy CAD	—	5	—	—	—	—
Sell ARS	—	(58)	—	—	—	—
Buy USD	1	55	—	—	—	—
Sell GBP	—	(1)	—	—	—	—
Buy USD	—	1	—	—	—	—
Sell EUR	—	(4)	—	—	—	—
Buy GBP	—	4	—	—	—	—
<b>Total derivative financial instruments</b>	<b>(13)</b>	<b>(17)</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>

## (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. 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. 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.

#### Hedges

The Company utilizes foreign currency debt, derivative financial instruments, and short-term investments 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 and debt 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.

If hedge accounting is applied to the hedges, 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 or a disposal that involves loss of control of a subsidiary 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

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 are translation and transaction exposure.

#### *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 \$462 million (2022: \$588 million).

#### *Transaction Exposure*

Many of the Company's operations purchase, sell, rent, and lease assets and 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 operations. During the year ended December 31, 2023 the Company entered into forward exchange contracts for inventory purchases of USD 561 million (2022: USD 633 million).

The results of the Company's operations are impacted by the translation of foreign-denominated transactions; the results of the Canadian operations are most impacted by USD based revenue and costs, and the results of the South American operations are most 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, primarily the USD/CAD in Canada and USD/CLP and USD/ARS in South America. The Company enters into forward exchange contracts, short-term investments, and short-term borrowings 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. Government currency restrictions that remain in place in Argentina may continue to impact the South American operations ARS exposure and cost to hedge.

### Exposure to Foreign Exchange Risk

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

<b>December 31, 2023</b>					
<b>(millions)</b>	<b>CAD</b>	<b>USD</b>	<b>GBP</b>	<b>CLP <sup>(1)</sup></b>	<b>ARS</b>
Cash and cash equivalents	8	43	11	28,356	17,642
Accounts receivable	464	159	64	132,183	2,892
Short-term investments	—	—	—	—	15,325
Short-term and long-term debt	(856)	(1,160)	(12)	—	—
Accounts payable and accruals	(435)	(404)	(86)	(50,441)	(3,936)
Lease liabilities	(245)	(2)	(14)	(24,919)	—
<b>Net statement of financial position exposure</b>	<b>(1,064)</b>	<b>(1,364)</b>	<b>(37)</b>	<b>85,179</b>	<b>31,923</b>

<b>December 31, 2022</b>					
<b>(millions)</b>	<b>CAD</b>	<b>USD</b>	<b>GBP</b>	<b>CLP <sup>(1)</sup></b>	<b>ARS</b>
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)
<b>Net statement of financial position exposure</b>	<b>(533)</b>	<b>(1,222)</b>	<b>(120)</b>	<b>79,255</b>	<b>(1,391)</b>

<sup>(1)</sup> 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 pre-tax other comprehensive income by the amounts shown below. This analysis uses estimated forecast foreign exchange rates for the upcoming year and assumes that all other variables, in particular volumes, relative pricing, interest rates, and hedging activities are unchanged.

<b>December 31, 2023</b>	<b>Weakening</b>	<b>Pre-tax</b>	<b>Pre-tax other</b>
<b>(\$ millions)</b>	<b>of CAD</b>	<b>income</b>	<b>comprehensive</b>
			<b>income</b>
USD/CAD	10%	7	(26)
GBP/CAD	10%	1	—
CLP/CAD <sup>(2)</sup>	25%	38	—
ARS/CAD	60%	(1)	—

<sup>(2)</sup> 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, 2023 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 some of its interest-bearing financial assets. The Company's floating-rate financial assets comprise cash and cash equivalents and short-term investments. Due to the short-term nature of these financial assets, 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 variable interest-bearing financial liabilities, primarily from short-term debt. 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 costs 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, but no assurance can be given that these efforts will fully offset all risk.

### *Profile*

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

<b>December 31</b>		
<b>(\$ millions)</b>	<b>2023</b>	<b>2022</b>
<b>Fixed rate instruments</b>		
Financial assets	71	73
Financial liabilities	(1,457)	(1,260)
<b>Variable rate instruments</b>		
Financial assets	177	288
Financial liabilities	(1,239)	(1,068)

### *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 decrease income by \$11 million with a 1.0% decrease having the opposite effect. This analysis assumes that all other variables, in particular foreign currency exchange rates and volumes, 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, 2023 and 2022.

##### 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 (\$ millions)	2023		2022	
	Carrying value	Fair value	Carrying value	Fair value
Long-term debt	1,148	1,143	929	899

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. 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 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, rental equipment spend, 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 2023, 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 may enter into 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 2023 and 2022.

The Company monitors net debt to Adjusted earnings before finance costs, income taxes, depreciation and amortization (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.

<b>December 31</b>	<b>Company long-term target</b>	<b>2023</b>	<b>2022</b>
Net debt to Adjusted EBITDA (times)	<b>&lt; 3.0</b>	<b>1.7</b>	<b>1.6</b>

Net debt to Adjusted EBITDA is calculated as net debt at the reporting date 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:

<b>December 31 (\$ millions)</b>	<b>2023</b>	<b>2022</b>
Cash and cash equivalents	<b>(152)</b>	(288)
Short-term debt	<b>1,239</b>	1,068
Long-term debt		
Current	<b>199</b>	114
Non-current	<b>949</b>	815
<b>Net debt</b>	<b>2,235</b>	<b>1,709</b>

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

<b>Years ended December 31 (\$ millions)</b>	<b>2023</b>	<b>2022</b>
Earnings before finance costs and income taxes	<b>910</b>	768
Depreciation and amortization	<b>379</b>	333
<b>EBITDA</b>	<b>1,289</b>	<b>1,101</b>
Significant items:		
Gain on wind up of foreign subsidiaries (Note 6a)	<b>(41)</b>	—
Gain on sale of property, plant, and equipment (Note 6b)	<b>(13)</b>	—
Foreign exchange impact of devaluation of ARS (Note 6c)	<b>56</b>	—
Severance costs (Note 6a)	<b>18</b>	—
Write-off of intangible assets (Note 6d)	<b>12</b>	—
<b>Adjusted EBITDA</b>	<b>1,321</b>	<b>1,101</b>

## 10. SHARE CAPITAL

### Accounting Policy

Common shares repurchased by the Company are recognized as a reduction in share capital and contributed surplus (and retained earnings once contributed surplus is fully drawn down) on the date of repurchase. A liability is recognized for any committed repurchases that have not yet settled at a reporting period end. The cash consideration paid to repurchase common shares is presented as a financing activity in the statement of cash flows. 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, 2023 and 2022.

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)	2023	2022
Balance, beginning of year	151,041,250	157,808,102
Exercise of share options	182,776	174,187
Repurchase of common shares	(7,216,763)	(6,941,039)
Balance, end of year	144,007,263	151,041,250

During the year ended December 31, 2023, the Company repurchased 7,216,763 common shares for cancellation for \$272 million, at an average cost of \$37.75 per share, through the Company's NCIB. In 2022, 6,941,039 common shares were repurchased for cancellation for \$219 million, at an average cost of \$31.51 per share. At December 31, 2023, the Company did not enter into an ASPP and therefore, no obligation was recorded for the repurchase of shares (2022: \$21 million). 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 DSUs, Performance Share Units (PSUs), and Restricted Share Units (RSUs). Cash-settled share-based awards are measured at fair value. Except for Total Shareholder Return Performance Share Units (TSR PSUs), the fair value of all cash-settled share-based awards are estimated using the Company's share price on the Toronto Stock Exchange (TSX:FTT). The fair value of vested TSR PSUs are estimated using a 5-day volume-weighted average price and the fair value of unvested TSR PSUs are estimated using the Monte Carlo model. 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 at the time of grant. 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 are expected to vest.

The Company uses the Monte Carlo pricing model to estimate the fair value of PSUs at each reporting date. Inputs to the model for TSR PSUs include the historical share prices of a specified peer group (S&P/TSX Capped Industrials Index) and estimates of the relative ranking of the Company's total shareholder return compared with the specified peer group. Inputs to the model for ROIC PSUs include the Company's projected 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 7,470,000 common shares pursuant to the exercise of share options. At December 31, 2023, 3,609,124 (2022: 3,374,598) 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 2023 comprised both cash and cashless exercises.

Details of the Stock Option Plan were as follows:

Years ended December 31	2023		2022	
	Share options	Weighted average exercise price	Share options	Weighted average exercise price
Share options outstanding, beginning of year	1,567,168	\$ 27.63	1,772,547	\$ 25.12
Granted	278,878	\$ 35.63	339,689	\$ 33.90
Exercised	(600,296)	\$ 26.25	(522,205)	\$ 23.27
Forfeited	(95,884)	\$ 30.51	(21,753)	\$ 25.42
Expired	—	\$ —	(1,110)	\$ 25.44
Share options outstanding, end of year	1,149,866	\$ 30.06	1,567,168	\$ 27.63
Share options exercisable, end of year	586,739	\$ 25.71	779,731	\$ 26.12

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

	2023	2022
Dividend yield	3.2%	3.1%
Expected volatility <sup>(1)</sup>	33.9%	31.8%
Risk-free interest rate	3.3%	2.8%
Expected life (in years)	5.02	5.11
Grant date fair value of share options	\$ 9.05	\$ 7.98
Share price	\$ 35.63	\$ 33.90

<sup>(1)</sup> 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, 2023:

Range of exercise prices	Share options outstanding			Share options exercisable	
	Number outstanding	Weighted average remaining life	Weighted average exercise Price	Number outstanding	Weighted average exercise price
\$17.75 - \$20.03	186,070	3.36 years	\$ 17.75	186,070	\$ 17.75
\$20.04 - \$33.10	181,923	1.74 years	\$ 24.36	178,693	\$ 24.29
\$33.11 - \$33.79	263,151	3.63 years	\$ 33.25	165,105	\$ 33.34
\$33.80 - \$34.83	251,942	5.38 years	\$ 34.02	56,871	\$ 34.02
\$34.84 - \$35.63	266,780	6.38 years	\$ 35.63	—	\$ —
Total	1,149,866	4.31 years	\$ 30.06	586,739	\$ 25.71

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

Range of exercise prices	Share options Outstanding			Share options Exercisable	
	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

## Other Share-Based Payment Plans

The Company has other share-based payment plans in the form of DSUs, PSUs, and RSUs 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 DSUs 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 DSUs. 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 31<sup>st</sup> of the year following the year in which the cessation occurred. Each DSU 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 50,329 DSUs in 2023 (2022: 58,445), which were expensed over the calendar year as the units were issued. An additional 24,636 DSUs (2022: 27,969) were issued in lieu of cash compensation payable for service as a Director. A further 17,292 DSUs (2022: 18,322) were granted to Directors during 2023 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 DSUs and may be awarded DSUs 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 DSUs 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 DSUs based on the dividends paid on the Company's common shares.

Executives were granted a total of 6,025 DSUs in 2023 (2022: 471) as remuneration of their annual bonus payment and 1,184 DSUs (2022: 1,378) 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 DSUs 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 DSUs are redeemable for cash or for common shares of the Company before December 31<sup>st</sup> of the year following the year in which cessation of employment with the Company occurred. DSUs expire if they have not vested within five years from the grant-date. Only vested units accumulate notional dividends in the form of additional DSUs based on the dividends paid on the Company's common shares.

During 2023, 900 DSUs (2022: 966) 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 2023 and 2022 were divided equally into two categories. Half of the awards were 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 was 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, 2023, a total of 307,822 performance share units were granted to certain employees, based on 100% vesting (2022: 346,723), and 43,922 notional units (2022: 69,025) 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.

### **2023 Grant**

The specified levels and respective vesting percentages for the 2023 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 (2023);
- 1/3 of the grant is based on the Company's total shareholder return for year 2 of the grant (2024); and
- 1/3 of the grant is based on the Company's total shareholder return for year 3 of the grant (2025).

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

#### **ROIC PSUs**

- 1/3 of the grant is based on the Company's ROIC performance for year 1 of the grant (2023);
- 1/3 of the grant is based on the Company's ROIC performance for year 2 of the grant (2024)<sup>(1)</sup>; and
- 1/3 of the grant is based on the Company's ROIC performance for year 3 of the grant (2025)<sup>(1)</sup>.

Performance level	2023 ROIC	Proportion of PSUs vesting
Below Threshold	< 14.3%	Nil
Threshold	14.3%	50%
Target	20.4%	100%
Maximum	26.5% or more	200%

<sup>(1)</sup> The return on invested capital performance level targets for 2024 and 2025 will be determined by the end of February of each of these years.

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

#### **ROIC PSUs**

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

Performance level	2022 ROIC	2023 ROIC	Proportion of PSUs vesting
Below Threshold	< 12.0%	< 14.3%	Nil
Threshold	12.0%	14.3%	50%
Target	17.2%	20.4%	100%
Maximum	22.4% or more	26.5% or more	200%

<sup>(2)</sup> The return on invested capital performance level targets for 2024 will be determined by the end of February 2024.



### Restricted Share Unit (RSU) Plan

Under the RSU Plan, certain employees of the Company may be awarded RSUs as approved by the Board. This plan utilizes notional units that vest in accordance with terms set at the time of grant (typically three years from grant date). 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.

RSUs 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, 2023, a total of 193,235 restricted share units were granted to certain employees (2022: 259,779) and 26,996 notional units (2022: 24,518) are issuable as payment for dividends upon vesting.

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

Year ended December 31, 2023	Exec					Total
Units	DSU	DSU-B	DDSU	PSU	RSU	Total
Outstanding, beginning of year	42,157	34,589	683,113	1,525,700	796,037	3,081,596
Additions	7,209	900	92,257	297,283	211,887	609,536
Exercised	(1,144)	—	(47,556)	(747,123)	(307,581)	(1,103,404)
Forfeited	—	—	—	(126,397)	(104,809)	(231,206)
Outstanding, end of year	48,222	35,489	727,814	949,463	595,534	2,356,522
Vested, beginning of year	42,157	34,589	683,113	765,986	—	1,525,845
Vested	7,209	900	92,257	326,450	307,581	734,397
Exercised	(1,144)	—	(47,556)	(747,123)	(307,581)	(1,103,404)
Forfeited	—	—	—	(18,863)	—	(18,863)
Vested, end of year	48,222	35,489	727,814	326,450	—	1,137,975

Liability (\$ millions)						
Balance, beginning of year	1	1	23	37	15	77
Expensed	1	—	7	12	9	29
Exercised	—	—	(2)	(25)	(11)	(38)
Forfeited	—	—	—	(3)	(2)	(5)
Balance, end of year	2	1	28	21	11	63

Year ended December 31, 2022	Exec					Total
Units	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

The per unit fair value of the DSUs, ROIC PSUs, and RSUs outstanding at December 31, 2023 was \$38.32 (2022: \$33.66). The per unit fair value of TSR PSUs outstanding at December 31, 2023 was \$39.81 (2022: \$35.68).

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

<b>Years ended December 31</b>		
<b>(\$ millions)</b>	<b>2023</b>	<b>2022</b>
<b>Consolidated Statements of Net Income</b>		
Compensation expense arising from equity-settled share-based payments	2	3
Compensation expense arising from cash-settled share-based payments	24	33
<b>Total share-based payment expense</b>	<b>26</b>	<b>36</b>
<b>Consolidated Statements of Financial Position</b>		
Liability for cash-settled share-based payments (current)	16	36
Liability for cash-settled share-based payments (non-current) (Note 19)	47	41

The total intrinsic value of vested and outstanding share-based payments was \$42 million (2022: \$50 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 reviews 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 reviews parts inventory estimates based on market demand, parts turns, discontinued items, ability to return to the vendor, and surplus/excess items.

<b>December 31</b>		
<b>(\$ millions)</b>	<b>2023</b>	<b>2022</b>
On-hand equipment	1,266	919
Parts and supplies	1,110	1,030
Internal service work in progress	468	512
<b>Total inventory</b>	<b>2,844</b>	<b>2,461</b>

For the year ended December 31, 2023, on-hand equipment, parts, supplies, and internal service work in progress recognized as an expense in cost of sales amounted to \$7.3 billion (2022: \$6.5 billion). For the year ended December 31, 2023, the write-down of inventory to net realizable value, included in cost of sales, was \$24 million (2022: \$23 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. Deferred tax liabilities are recognized for taxable temporary differences associated with investments in subsidiaries, 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.

Deferred tax assets and liabilities are not recognized if the temporary difference arises from:

- initial recognition of goodwill;
- initial recognition of assets and liabilities in a transaction (other than in a business combination) that affects neither taxable profit nor the accounting profit; or,
- transactions that give rise to equal and offsetting temporary differences.

The Company has applied the temporary exception from the accounting requirements for deferred taxes in relation to Pillar Two tax legislation. Accordingly, the Company neither recognizes nor discloses information about deferred tax assets and liabilities related to Pillar Two income taxes.

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 where the Company operates 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.

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 where 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.

## Provision for income taxes

The Company recognized the following provisions for income taxes:

Year ended December 31, 2023			
(\$ millions)	Canada	International	Total
Current	93	129	222
Adjustment for prior periods recognized in the current year	(3)	—	(3)
Total current tax expense	90	129	219
Deferred			
Origination and reversal of timing differences	2	3	5
Decrease due to tax rate changes	—	(2)	(2)
Change in valuation allowance	—	5	5
Adjustment for prior periods recognized in the current year	2	(1)	1
Total deferred tax expense	4	5	9
Provision for income taxes	94	134	228

Year ended December 31, 2022			
(\$ millions)	Canada	International	Total
Current	75	99	174
Adjustment for prior periods recognized in the current year	(5)	1	(4)
Total current tax expense	70	100	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	76	96	172

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)	2023		2022	
Combined Canadian federal and provincial income taxes at the statutory tax rate	183	24.4 %	165	24.5 %
(Decrease) increase resulting from:				
Differences in tax rates in foreign jurisdictions	(13)	(1.7)%	(11)	(1.7)%
Withholding taxes	36	4.8 %	12	1.8 %
Non-taxable/non-deductible foreign exchange in Argentina	25	3.3 %	12	1.8 %
Change in valuation allowance	5	0.7 %	(10)	(1.4)%
Inflationary adjustment	(2)	(0.2)%	(2)	(0.2)%
Non-deductible share-based payment expense	1	0.1 %	1	0.1 %
Utilization of capital loss	(1)	(0.1)%	(1)	(0.1)%
Non-taxable capital gain	(1)	(0.1)%	—	—
Other	(5)	(0.8)%	6	0.8 %
Provision for income taxes	228	30.4 %	172	25.6 %

As part of the organizational restructuring described in Note 6a, the provision for income taxes included a \$9 million expense related to the wind up of foreign subsidiaries and a \$19 million expense for withholding taxes on the repatriation of \$170 million of profits from the Company's South American operations.

Including the \$19 million, the Company recorded \$36 million (2022: \$12 million) of dividend withholding taxes related to the repatriation of profits from the Company's South American operations.

The following tax changes impacting the Company were substantively enacted in 2023:

- On June 20, 2023, Pillar Two legislation was substantively enacted in the UK to be effective January 1, 2024.
- On November 22, 2023, Pillar Two legislation was substantively enacted in Ireland to be effective January 1, 2024.

### Pillar Two income taxes

The Company is subject to Pillar Two legislation and has operations in the UK and Ireland, which have substantively enacted the Pillar Two legislation effective January 1, 2024. Since the Pillar Two legislation was not effective at the reporting date, there is no current tax impact for the year ended December 31, 2023.

The Company has applied the temporary exception from the accounting requirements for deferred taxes in relation to Pillar Two legislation. Accordingly, the Company neither recognizes nor discloses information about deferred tax assets and liabilities related to Pillar Two income taxes.

Under the Pillar Two legislation, the Company is liable to pay a top-up tax for the difference between its Global Anti-Base Erosion Model Rules effective tax rate per jurisdiction and the 15% minimum rate. If the substantively enacted tax legislation were effective in 2023, applying Pillar Two legislation to these subsidiaries' profits would not have a material impact on the Company's consolidated financial statements.

The Company will continue to assess the impact of Pillar Two legislation as it becomes substantively enacted in its other jurisdictions.

### 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)	2023	2022
Accounting provisions not currently deductible for tax purposes	56	51
Share-based payments	12	14
Loss carry-forwards	8	13
<b>Deferred tax assets</b>	<b>76</b>	<b>78</b>
Property, plant and equipment, rental equipment, right-of-use assets, and intangible assets	(157)	(143)
Distribution network	(16)	(15)
Employee benefits	(6)	(7)
Other	(1)	(9)
<b>Deferred tax liabilities</b>	<b>(180)</b>	<b>(174)</b>
<b>Net deferred tax liability</b>	<b>(104)</b>	<b>(96)</b>

Deferred taxes were not recognized on retained profits of approximately \$1.5 billion (2022: \$1.6 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 \$10 million does not expire and \$18 million expires between 2036 and 2043.

<b>December 31</b> <b>(\$ millions)</b>	<b>2023</b>	<b>2022</b>
Canada	18	12
International	10	32

At December 31, 2023, the Company had unrecognized capital and non-capital loss carry-forwards of \$86 million (2022: \$67 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:

<b>Years ended December 31</b> <b>(\$ millions)</b>	<b>2023</b>	<b>2022</b>
Deferred tax recovery	(1)	(16)
Recovery of income taxes recognized in other comprehensive income	(1)	(16)

#### 14. OTHER ASSETS

<b>December 31</b> <b>(\$ millions)</b>	<b>2023</b>	<b>2022</b>
Supplier claims receivable	127	156
Equipment deposits	73	114
Finance assets	64	66
Prepaid expenses	45	47
Short-term investments	25	—
Income tax recoverable	17	26
Commodity taxes receivable	12	26
Other	63	46
<b>Total other assets – current</b>	<b>426</b>	<b>481</b>

<b>December 31</b> <b>(\$ millions)</b>	<b>2023</b>	<b>2022</b>
Deferred tax assets	56	57
Prepaid expenses	28	28
Finance assets (a)	12	9
Other	13	13
<b>Total other assets – non-current</b>	<b>109</b>	<b>107</b>

(a) Finance assets include equipment leased to customers under long-term financing leases. Depreciation expense for equipment leased to customers of \$2 million was recorded in 2023 (2022: \$3 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 Estimation Uncertainty

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

December 31, 2023	Vehicles and			Total	Rental
(\$ millions)	Land	Buildings	Equipment	PP&E	Equipment
<b>Cost</b>					
Balance, beginning of year	86	1,133	817	2,036	798
Additions of owned assets	4	34	100	138	325
Additions of right-of-use assets	—	4	45	49	6
Remeasurement of right-of-use assets	—	6	(1)	5	—
Transfers from inventory	—	—	10	10	90
Transfers to inventory	—	—	(18)	(18)	(252)
Reclassification to other assets	(1)	(21)	—	(22)	—
Disposals	(5)	(58)	(47)	(110)	(43)
Foreign exchange rate changes	(1)	(5)	(5)	(11)	1
Balance, end of year	83	1,093	901	2,077	925
<b>Accumulated depreciation and impairment losses</b>					
Balance, beginning of year	(10)	(526)	(527)	(1,063)	(329)
Depreciation of owned assets	—	(33)	(51)	(84)	(121)
Depreciation of right-of-use assets	—	(31)	(46)	(77)	(9)
Transfers to inventory	—	—	7	7	106
Reclassification to other assets	—	14	—	14	—
Disposals	3	50	45	98	36
Impairment loss	—	(2)	—	(2)	—
Foreign exchange rate changes	—	3	3	6	—
Balance, end of year	(7)	(525)	(569)	(1,101)	(317)
<b>Net book value</b>					
Balance, beginning of year	76	607	290	973	469
Balance, end of year	76	568	332	976	608
<b>December 31, 2022</b>					
(\$ millions)	Land	Buildings	Vehicles and equipment	Total PP&E	Rental equipment
<b>Cost</b>					
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
<b>Accumulated depreciation and impairment losses</b>					
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)
<b>Net book value</b>					
Balance, beginning of year	74	584	256	914	434
Balance, end of year	76	607	290	973	469



## 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 and an estimate of costs to be incurred by the lessee in dismantling and removing the underlying asset, restoring the site on which it is located, or restoring the underlying asset to the condition required by the terms and conditions of the lease. 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:

<b>December 31</b> <b>(\$ millions)</b>	<b>Land</b>	<b>Buildings</b>	<b>Vehicles and equipment</b>	<b>Total PP&amp;E</b>	<b>Rental equipment</b>
2023	<b>8</b>	<b>133</b>	<b>126</b>	<b>267</b>	<b>11</b>
2022	8	153	129	290	19

## 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
Tradenname	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 Estimation Uncertainty

Amortization expense is dependent on the estimated useful life determined for each type of asset. Actual lives may vary depending on a number of factors including technological innovation and prospective use.

December 31, 2023 (\$ millions)	Contracts and customer relationships	Software and technology	Tradename	Total
<b>Cost</b>				
Balance, beginning of year	367	407	33	807
Additions	46	27	—	73
Additions through business combinations	2	—	—	2
Derecognized	—	(22)	—	(22)
Foreign exchange rate changes	(5)	(2)	—	(7)
Balance, end of year	410	410	33	853
<b>Accumulated amortization</b>				
Balance, beginning of year	(234)	(235)	(5)	(474)
Amortization for the year	(37)	(48)	(1)	(86)
Derecognized	—	10	—	10
Foreign exchange rate changes	5	1	—	6
Balance, end of year	(266)	(272)	(6)	(544)
<b>Net book value</b>				
Balance, beginning of year	133	172	28	333
Balance, end of year	144	138	27	309
<b>December 31, 2022 (\$ millions)</b>				
<b>Cost</b>				
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
<b>Accumulated amortization</b>				
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)
<b>Net book value</b>				
Balance, beginning of year	110	174	22	306
Balance, end of year	133	172	28	333

## 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. The recoverable amount is the higher of an asset's fair value less costs of disposal and value-in-use. 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 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, cash generating ability of the assets, discount rates, and growth rates.

### Overview of annual impairment tests

The annual impairment tests were completed to support April 1, 2023 net asset values. Management's methodology for impairment testing utilizes cash flows from financial budgets to estimate recoverable value.

### Recoverable value

The recoverable value of each CGU or group of CGUs was estimated based on a value-in-use calculation. The value-in-use calculation used cash flow projections based on financial budgets which included 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 were 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 were 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:

(\$ millions, except rates)	2023				2022			
	Goodwill	Distribution network	After-tax WACC rate	Growth rate	Goodwill	Distribution network	After-tax WACC rate	Growth rate
Canada	212	—	10%	2%	209	—	8%	3%
Canada Mining	—	98	10%	2%	—	98	8%	3%
Chile	4	—	10%	4%	5	—	9%	3%
UK & Ireland	113	2	10%	2%	111	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, 2023, 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 2023 or 2022 related to goodwill or distribution network. There were no impairment reversals in 2023 or 2022 related to the distribution network in the Company's South American operations.

## 19. OTHER LIABILITIES

December 31 (\$ millions)	2023	2022
Lease liabilities	74	76
Provisions (Note 20)	65	60
Commodity taxes payable	37	73
Income tax payable	25	80
Other	24	13
<b>Total other liabilities – current</b>	<b>225</b>	<b>302</b>
December 31 (\$ millions)	2023	2022
Net post-employment obligation (Note 21)	89	75
Share-based payments (Note 11)	47	41
Deferred revenue (Note 4)	38	35
Other	24	33
<b>Total other liabilities – non-current</b>	<b>198</b>	<b>184</b>

## 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, 2023 (\$ millions)	Warranty claims	Other	Total
Balance, beginning of year	47	18	65
New provisions	40	16	56
Charges against provisions	(40)	(11)	(51)
Foreign exchange rate changes	—	(1)	(1)
<b>Balance, end of year</b>	<b>47</b>	<b>22</b>	<b>69</b>
Current portion	47	18	65
Non-current portion	—	4	4
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
<b>Balance, end of year</b>	<b>47</b>	<b>18</b>	<b>65</b>
Current portion	47	13	60
Non-current portion	—	5	5

## 21. POST-EMPLOYMENT BENEFITS

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The Company offers a number of benefit plans 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.

- 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 (ESAP) 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 comprises 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 and ESAP in Canada are accounted for as unfunded DB plans. The cost of the PEB is determined by independent actuaries using the projected unit credit method.

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 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.

### **Areas of Estimation Uncertainty**

Actuarial valuations of the Company's DB and Other PEB plans are based on assumptions 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 loss for the Company's post-employment benefit plans were as follows:

Years ended December 31 (\$ millions)	2023			2022		
	DB and Other PEB plans	DC plans	Total	DB and Other PEB plans	DC plans	Total
Selling, general, and administrative expenses	17	52	69	16	46	62
Net interest income	(1)	—	(1)	(1)	—	(1)
Total benefit cost recognized in net income	16	52	68	15	46	61
Total actuarial loss recognized in other comprehensive income	5	—	5	83	—	83

Other financial information about the Company's DB plans and Other PEB plans was as follows:

Years ended December 31 (\$ millions)	2023				2022			
	Canada	UK	South America	Total	Canada	UK	South America	Total
<b>Accrued benefit obligation</b>								
Balance, beginning of year	(155)	(380)	(75)	(610)	(201)	(613)	(55)	(869)
Current service cost	(4)	—	(12)	(16)	(5)	—	(9)	(14)
Interest cost	(8)	(18)	(4)	(30)	(6)	(11)	(3)	(20)
Benefits paid	7	19	4	30	5	25	3	33
Remeasurements:								
- Actuarial gain (loss) from change in demographic assumptions	—	14	—	14	(1)	—	—	(1)
- Actuarial (loss) gain from change in financial assumptions	(11)	(9)	—	(20)	53	203	(2)	254
Experience (loss) gain	—	(9)	2	(7)	—	(23)	(5)	(28)
Foreign exchange rate changes	—	(13)	5	(8)	—	39	(4)	35
Balance, end of year	(171)	(396)	(80)	(647)	(155)	(380)	(75)	(610)
<b>Plan assets</b>								
Balance, beginning of year	155	478	—	633	195	802	—	997
Return on plan assets:								
- Interest income	8	23	—	31	6	15	—	21
- Actuarial gain (loss) on plan assets	5	3	—	8	(41)	(267)	—	(308)
Employer contributions	1	6	4	11	—	5	3	8
Benefits paid	(7)	(19)	(4)	(30)	(5)	(25)	(3)	(33)
Administration costs	—	(1)	—	(1)	—	(2)	—	(2)
Foreign exchange rate changes	—	15	—	15	—	(50)	—	(50)
Balance, end of year	162	505	—	667	155	478	—	633
Net post-employment (obligation) asset	(9)	109	(80)	20	—	98	(75)	23

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)	2023				2022			
	Canada	UK	South America	Total	Canada	UK	South America	Total
Accrued benefit obligation	(49)	—	(80)	(129)	(48)	—	(75)	(123)
Plan assets	32	—	—	32	33	—	—	33
Funded status - plan deficit	(17)	—	(80)	(97)	(15)	—	(75)	(90)

## 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:

Years ended December 31	2023			2022		
	Canada	UK	South America	Canada	UK	South America
Discount rate – obligation	4.6%	4.5%	5.3%	5.2%	4.8%	5.3%
Discount rate – expense <sup>(1)</sup>	5.2%	4.8%	5.3%	3.0%	2.0%	2.2%
Retail price inflation – obligation	n/m <sup>(2)</sup>	2.8%	n/a <sup>(2)</sup>	n/m <sup>(2)</sup>	3.0%	n/a <sup>(2)</sup>
Retail price inflation – expense <sup>(1)</sup>	n/m <sup>(2)</sup>	3.0%	n/a <sup>(2)</sup>	n/m <sup>(2)</sup>	3.0%	n/a <sup>(2)</sup>
Average staff turnover – obligation	n/m <sup>(2)</sup>	n/m <sup>(2)</sup>	7.9%	n/m <sup>(2)</sup>	n/m <sup>(2)</sup>	7.9%
Rate of compensation increase – obligation	n/m <sup>(2)</sup>	n/a <sup>(2)</sup>	6.6%	n/m <sup>(2)</sup>	n/a <sup>(2)</sup>	6.6%

<sup>(1)</sup> Used to determine the net interest cost and expense for the years ended December 31, 2023 and 2022.

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

n/a – not applicable.

Assumptions regarding future mortality are required for the DB plans and were set based on management's best estimate in accordance with published statistics and experience in each country. Assumptions for future mortality are not applicable to the Other PEB plans in South America. Assumptions for future mortality for Canada and the UK translate into an average life expectancy (in years) as follows:

December 31	2023		2022	
	Canada	UK	Canada	UK
Life expectancy for male currently aged 65	22	22	22	22
Life expectancy for female currently aged 65	24	24	24	24
Life expectancy at 65 for male currently aged 45	23	23	23	23
Life expectancy at 65 for female currently aged 45	25	25	25	25

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.

(\$ millions)	Change in assumption	(Decrease) increase in accrued benefit obligation		
		Canada	UK	South America
Discount rate	+0.25%	(6)	(14)	(2)
Retail price inflation	+0.25%	n/m <sup>(3)</sup>	10	n/m <sup>(3)</sup>
Average staff turnover	+0.25%	n/m <sup>(3)</sup>	n/m <sup>(3)</sup>	(2)
Rate of compensation increase	+0.25%	n/m <sup>(3)</sup>	n/a <sup>(3)</sup>	2

<sup>(3)</sup> n/m – not a material assumption used in the valuation.

n/a – not applicable.

A 0.25% decrease in the discount rate, retail price inflation, rate of compensation increase, and average staff turnover would have an approximately equivalent but opposite effect on the 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 the end of 2023.

Based on the most recent formal valuations completed, the Company expects to contribute approximately \$2 million to the DB plans during the year ended December 31, 2024. 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 <sup>(1)</sup>
Canada – Regular & Executive Supplemental Income Plan	December 31, 2020 <sup>(1)</sup>
Finning UK DB Scheme	December 31, 2020 <sup>(1)</sup>
Finning South America Pension Arrangements	December 31, 2023

<sup>(1)</sup> The December 31, 2023 actuarial valuation is in progress at February 6, 2024.

## 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, 2023 were principally invested in the following securities (segregated by geography):

	Canada		UK	
	Canada	Global <sup>(1)</sup>	UK	Global <sup>(1)</sup>
Fixed-income	62%	—	87%	9%
Equity	6%	21%	—	—
Infrastructure	—	1%	—	—
Cash and cash equivalents	10%	—	4%	—

<sup>(1)</sup> 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, 2023 and 2022.

## 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. The plans invest in various asset categories such as 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 may 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:

<b>December 31, 2023</b> <b>(\$ millions)</b>	<b>2024</b>	<b>2025</b>	<b>2026</b>	<b>2027</b>	<b>2028</b>	<b>Thereafter</b>
DB plans	27	29	30	31	32	1,006
Other PEB benefits	7	5	5	7	6	167
<b>Total</b>	<b>34</b>	<b>34</b>	<b>35</b>	<b>38</b>	<b>38</b>	<b>1,173</b>

## 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 \$173 million at December 31, 2023 (2022: \$169 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:

<b>December 31</b> <b>(\$ millions)</b>	<b>2023</b>	<b>2022</b>
Cash	124	288
Cash equivalents	28	—
<b>Cash and cash equivalents</b>	<b>152</b>	<b>288</b>

The changes in operating assets and liabilities were as follows:

<b>Years ended December 31</b> <b>(\$ millions)</b>	<b>2023</b>	<b>2022</b>
Accounts receivable	112	(265)
Unbilled receivables	(78)	(139)
Inventory	(408)	(715)
Other assets	70	(161)
Accounts payable and accruals	14	408
Other liabilities	(59)	134
<b>Changes in operating assets and liabilities</b>	<b>(349)</b>	<b>(738)</b>

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

<b>Year ended December 31, 2023</b> <b>(\$ millions)</b>	<b>Short-term</b> <b>debt</b>	<b>Long-term</b> <b>debt</b>	<b>Lease</b> <b>liabilities</b>	<b>Total</b>
Balance, beginning of year	1,068	929	331	2,328
Cash flows provided by (used in)				
Financing activities	206	226	(82)	350
Operating activities	—	—	(12)	(12)
Total cash movements	206	226	(94)	338
Non-cash changes				
Additions	—	—	57	57
Remeasurement of liability and disposals	—	—	1	1
Interest expense	—	—	12	12
Foreign exchange rate changes	(35)	(7)	2	(40)
Total non-cash movements	(35)	(7)	72	30
Balance, end of year	1,239	1,148	309	2,696
<b>Year ended December 31, 2022</b> <b>(\$ millions)</b>	<b>Short-term</b> <b>debt</b>	<b>Long-term</b> <b>debt</b>	<b>Lease</b> <b>liabilities</b>	<b>Total</b>
Balance, beginning of year	374	1,111	328	1,813
Cash flows 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 combinations	—	—	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

Dividends of \$0.986 (2022: \$0.933) per share were paid during the year. In February 2024, the Board approved a quarterly dividend of \$0.25 per share payable on March 7, 2024 to shareholders of record on February 22, 2024. This dividend will be considered an eligible dividend for Canadian income tax purposes. At December 31, 2023, the Company had not recognized a liability for this dividend.

## 23. ACQUISITION

### 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. (together, 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. In the year ended December 31, 2023, the Company paid \$8 million (£5 million) of deferred and contingent consideration. 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 year 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 <sup>(1)</sup>	3
Property, plant & equipment	6
Intangible assets	29
Goodwill	80
Lease liabilities	(3)
Deferred tax liabilities	(8)
<b>Net assets acquired</b>	<b>117</b>

<sup>(1)</sup> 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 December 31, 2022, the acquiree earned \$38 million of revenue and \$4 million of earnings before finance costs and income taxes (£24 million and £3 million, respectively).



## 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:

<b>Years ended December 31 (\$ millions)</b>	<b>2023</b>	<b>2022</b>
Share-based payments	7	4
<b>Total</b>	<b>7</b>	<b>4</b>

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

<b>Years ended December 31 (\$ millions)</b>	<b>2023</b>	<b>2022</b>
Salaries and benefits	9	11
Post-employment benefits	1	2
Share-based payments	8	17
Termination payments	1	—
<b>Total</b>	<b>19</b>	<b>30</b>

Total staff costs, including salaries, benefits, pension, share-based payments, termination payments, and commissions are \$1.4 billion (2022: \$1.2 billion). This amount includes staff costs associated with key management personnel noted above.

## 26. COMMITMENTS AND CONTINGENCIES

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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

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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, 2023, the total estimated value of these contracts outstanding was \$91 million (2022: \$113 million) coming due at periods ranging from 2024 to 2033. The Company's experience to date has been that the estimated fair value of the equipment at the exercise date of the contract is generally greater than the repurchase price 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, 2023 was \$1 million (2022: \$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, 2023, the maximum potential amount of future payments that the Company could be required to make under the guarantees was \$27 million (2022: \$14 million), covering various periods up to 2029. At December 31, 2023, the Company has recognized a liability of less than \$1 million for these guarantees (2022: \$5 million).

The Company has issued certain guarantees to Caterpillar Finance to guarantee certain borrowers' obligations. The guarantees would be enforceable in the event that the borrowers defaulted on their obligations to Caterpillar Finance, to the extent that any net proceeds from the recovery and sale of collateral securing repayment of the borrowers' obligations is insufficient to meet those obligations. At December 31, 2023, the maximum potential amount of future payments that the Company could be required to make under the guarantees, before any amounts that may possibly be recovered under recourse or collateralization provisions in the guarantees, was \$11 million (2022: \$3 million), covering various periods up to 2028. At December 31, 2023, the Company has recognized a liability of \$3 million for these guarantees (2022: \$1 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, 2023 was \$320 million (2022: \$332 million) principally related to performance and advance payment guarantees on delivery for prepaid equipment and other operational commitments in Chile.



**FINNING**<sup>®</sup>

Finning International Inc.  
19100 94 Ave, Surrey, BC V4N 5C3  
[finning.com](http://finning.com)