

Finning reports Q1 2023 results

Vancouver, B.C. – Finning International Inc. (TSX: FTT) (“Finning”, the “Company”, “we”, “our” or “us”) reported first quarter 2023 results today. All monetary amounts are in Canadian dollars unless otherwise stated.

HIGHLIGHTS

All comparisons are to Q1 2022 results unless indicated otherwise.

- Q1 2023 EPS ⁽¹⁾ was \$0.89, up 51% from Q1 2022, driven by revenue growth and expanded operating margins. We took several actions in Q1 2023 to simplify our operating model described on page 9. These actions had no net impact on Q1 2023 EPS.
- Q1 2023 revenue of \$2.4 billion and net revenue ⁽²⁾ of \$2.1 billion were up 22% and 23%, respectively, from Q1 2022, led by a 27% increase in product support revenue and 18% higher new equipment sales. We continue to hire technicians and increase our workshops' capacity to support growing product support volumes.
- Q1 2023 EBIT ⁽¹⁾ was \$239 million. Excluding the significant items described on page 9, Q1 2023 Adjusted EBIT ⁽³⁾⁽⁴⁾ was \$216 million, up 54% from Q1 2022.
- All regions delivered solid operating leverage. Q1 2023 Adjusted EBIT as a percentage of net revenue ⁽²⁾⁽⁴⁾ was 11.3% in Canada, 11.5% in South America, and 5.7% in the UK & Ireland.
- Q1 2023 Adjusted ROIC ⁽¹⁾⁽²⁾⁽⁴⁾ increased to 19.7%, up 270 basis points from Q1 2022.
- Consolidated equipment backlog ⁽²⁾ increased 6% from December 31, 2022, to \$2.7 billion at March 31, 2023.
- Quarterly dividend was raised by 6% to \$0.25 per share, marking 22 years of consecutive dividend growth.

“Q1 2023 was another great quarter for Finning. Our team once again executed well enabling us to expand operating margins and drive continued improvement of our Adjusted return on invested capital, which is approaching 20%. The combination of our expanding installed equipment base and execution of our product support strategy drove strong product support revenue growth this quarter which was the largest contributor to our strong earnings growth.

In recent months, we have engaged with our leaders to simplify and prioritize our strategy, which will focus on growth by design, full cycle resilience, and empowerment of our regional teams to continue delivering excellent results for our customers. As we reinvest in our business, we will be intentional in targeting and capturing addressable market opportunities, placing continued emphasis on growing share in our aftermarket business, as well as greater focus on attractive opportunities in used equipment, rental, and power systems segments. We will also continue building full cycle resilience into our operations. We took several actions in the first quarter to streamline our operating model and reduce our corporate overhead costs, and we will continue driving productivity improvements, making our cost base more variable, and growing resilient segments of our business so we can deliver strong performance through all market conditions.

Business activity levels and customer confidence remain strong. We are pleased to see a further increase in our equipment backlog, service work in progress, and book of rebuilds as we continue to execute and build on our strong momentum.” said Kevin Parkes, president and CEO.

Q1 2023 FINANCIAL SUMMARY

(\$ millions, except per share amounts)	Three months ended March 31		
	2023	2022	% change fav ⁽¹⁾ (unfav) ⁽¹⁾
New equipment	624	527	18%
Used equipment	92	79	17%
Equipment rental	75	65	16%
Product support	1,308	1,027	27%
Fuel and other	281	255	10%
Revenue	2,380	1,953	22%
Net revenue	2,144	1,736	23%
Gross profit	622	490	27%
<i>Gross profit as a percentage of net revenue⁽²⁾</i>	29.0%	28.2%	
SG&A ⁽¹⁾	(407)	(351)	(16)%
<i>SG&A as a percentage of net revenue⁽²⁾</i>	(19.0)%	(20.2)%	
Equity earnings of joint ventures	1	1	
Other income	41	—	
Other expenses	(18)	—	
EBIT	239	140	70%
<i>EBIT as a percentage of net revenue⁽²⁾</i>	11.2%	8.1%	
Adjusted EBIT	216	140	54%
<i>Adjusted EBIT as a percentage of net revenue</i>	10.1%	8.1%	
Net income attributable to shareholders of Finning	134	92	45%
EPS	0.89	0.59	51%
Adjusted EPS ⁽²⁾	0.89	0.59	51%
Free cash flow ⁽³⁾	(245)	(303)	19%

Q1 2023 EBIT by Operation (\$ millions, except per share amounts)	Canada	South America	UK & Ireland	Other	Finning Total	EPS
EBIT / EPS	126	74	15	24	239	0.89
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
Adjusted EBIT / Adjusted EPS ⁽³⁾⁽⁴⁾	130	81	17	(12)	216	0.89
<i>Adjusted EBIT as a percentage of net revenue⁽²⁾⁽⁴⁾</i>	11.3%	11.5%	5.7%	<i>n/m</i>	10.1%	

Q1 2022 EBIT by Operation (\$ millions, except per share amounts)	Canada	South America	UK & Ireland	Other	Finning Total	EPS
EBIT / EPS	80	65	14	(19)	140	0.59
<i>EBIT as a percentage of net revenue</i>	9.1%	11.4%	5.0%	<i>n/m</i>	8.1%	

QUARTERLY KEY PERFORMANCE MEASURES

	2023				2022				2021
	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
EBIT (\$ millions)	239	214	224	190	140	157	150	137	108
Adjusted EBIT (\$ millions)	216	214	224	190	140	157	150	137	93
EBIT as a % of net revenue									
Consolidated	11.2%	9.0%	10.7%	9.4%	8.1%	8.9%	8.6%	8.0%	7.4%
Canada	11.0%	11.0%	11.7%	10.0%	9.1%	10.1%	10.4%	9.3%	8.9%
South America	10.5%	11.4%	12.3%	10.1%	11.4%	10.1%	9.2%	9.8%	8.6%
UK & Ireland	5.1%	4.4%	6.2%	6.4%	5.0%	4.3%	5.6%	5.3%	3.2%
Adjusted EBIT as a % of net revenue									
Consolidated	10.1%	9.0%	10.7%	9.4%	8.1%	8.9%	8.6%	8.0%	6.3%
Canada	11.3%	11.0%	11.7%	10.0%	9.1%	10.1%	10.4%	9.3%	7.7%
South America	11.5%	11.4%	12.3%	10.1%	11.4%	10.1%	9.2%	9.8%	8.6%
UK & Ireland	5.7%	4.4%	6.2%	6.4%	5.0%	4.3%	5.6%	5.3%	3.2%
EPS	0.89	0.89	0.97	0.80	0.59	0.66	0.61	0.56	0.43
Adjusted EPS ⁽⁴⁾	0.89	0.89	0.97	0.80	0.59	0.66	0.61	0.56	0.35
Invested capital ⁽²⁾ (\$ millions)	4,545	4,170	4,358	4,076	3,777	3,326	3,335	3,277	3,177
ROIC ⁽²⁾ (%)									
Consolidated	20.2%	18.7%	18.3%	17.5%	17.0%	16.8%	15.6%	15.3%	12.5%
Canada	19.4%	18.7%	18.2%	17.4%	17.4%	17.5%	16.5%	17.0%	15.6%
South America	24.0%	24.5%	22.7%	22.3%	21.7%	20.3%	19.0%	17.2%	12.3%
UK & Ireland	17.0%	17.0%	16.6%	16.2%	15.7%	14.8%	14.9%	12.9%	6.5%
Adjusted ROIC									
Consolidated	19.7%	18.7%	18.3%	17.5%	17.0%	16.4%	14.7%	13.3%	10.0%
Canada	19.6%	18.7%	18.2%	17.4%	17.4%	16.9%	15.3%	14.0%	10.8%
South America	24.6%	24.5%	22.7%	22.3%	21.7%	20.3%	19.0%	17.2%	14.4%
UK & Ireland	17.4%	17.0%	16.6%	16.2%	15.7%	14.8%	14.9%	12.9%	7.6%
Invested capital turnover ⁽²⁾ (times)	2.01	2.01	1.96	2.00	2.03	2.04	2.01	1.93	1.78
Inventory (\$ millions)	2,710	2,461	2,526	2,228	2,101	1,687	1,627	1,643	1,593
Inventory turns (dealership) ⁽²⁾ (times)	2.51	2.61	2.52	2.50	2.66	3.09	3.09	2.84	2.83
Working capital to net revenue ⁽²⁾	28.0%	27.4%	27.1%	25.1%	23.8%	22.9%	23.0%	24.0%	25.9%
Free cash flow (\$ millions)	(245)	332	(57)	(142)	(303)	148	176	(4)	(20)
Net debt to Adjusted EBITDA ⁽¹⁾ ratio ⁽²⁾⁽⁴⁾ (times)	1.7	1.6	1.8	1.8	1.6	1.1	1.3	1.4	1.5

Q1 2023 HIGHLIGHTS BY OPERATION

All comparisons are to Q1 2022 results unless indicated otherwise. All numbers, except ROIC, are in functional currency: Canada – Canadian dollar; South America – USD; UK & Ireland – UK pound sterling (GBP). These variances and ratios for South America and UK & Ireland exclude the foreign currency translation impact from the CAD relative to the USD and GBP, respectively, and are therefore considered to be specified financial measures. We believe the variances and ratios in functional currency provide meaningful information about operational performance of the reporting segment.

Canada Operations

- Net revenue increased by 30% from Q1 2022, with broad-based strength across all lines of business.
- New equipment sales were up 52%, driven by mining deliveries and higher volumes in the construction and power systems sectors.
- Product support revenue increased by 26%, led by mining, including increasing rebuild activity.
- Excluding severance costs described on page 9, Adjusted EBIT was up 62% compared to Q1 2022 and Adjusted EBIT as a percentage of net revenue was up 220 basis points to 11.3%. SG&A as a percentage of net revenue declined from Q1 2022.
- Canada's Adjusted ROIC approached 20% in Q1 2023.

South America Operations

- Net revenue increased by 16% from Q1 2022, driven primarily by mining product support.
- New equipment sales were up 8% from Q1 2022 due to higher sales to large contractors supporting mining operations and infrastructure construction in Chile.
- Product support revenue was up 19%, driven by increased demand for component exchanges, equipment overhauls, and fleet maintenance in mining, and higher volumes from new mining product support contracts in Chile.
- We have accelerated productivity initiatives to offset inflationary cost increases. As a result, 120 non-revenue generating managerial and administrative positions are being eliminated. In addition, we have reduced contractor positions and increased utilization of our shared services center in Uruguay.
- Excluding severance costs described on page 9, Adjusted EBIT was up 17% compared to Q1 2022, in line with revenue growth. Adjusted EBIT as a percentage of net revenue of 11.5% was slightly higher than Q1 2022.
- South America generated Adjusted ROIC approaching 25% in Q1 2023.

UK & Ireland Operations

- Net revenue was up 5% from Q1 2022 as growth in product support more than offset lower new equipment sales. Product support revenue was up 36%, driven primarily by increased activity in construction and the full quarter of contribution from Hydraquip ⁽¹⁾, which was acquired in March 2022.
- New equipment sales decreased by 13% due to lower sales in construction, including lower HS2 deliveries compared to last year. In power systems, new equipment sales exceeded Q1 2022.
- Excluding severance costs described on page 9, Adjusted EBIT increased by 19% from Q1 2022 and Adjusted EBIT as a percentage of net revenue increased by 70 basis points to 5.7%, reflecting a higher proportion of product support in the revenue mix and operating leverage.

Corporate and Other Items

- Excluding significant items described on page 9, corporate Adjusted EBIT loss was \$12 million in Q1 2023 compared to an EBIT loss of \$19 million in Q1 2022 primarily due to lower LTIP expense.
- We streamlined our corporate overhead costs by reducing non-revenue generating full-time and contractor roles globally by over 400 people, including a 25% reduction of vice president and above positions globally.
- The Board of Directors has approved a 6% increase in the quarterly dividend to \$0.25 per share from \$0.236 per share, payable on June 8, 2023, to shareholders of record on May 25, 2023. This dividend will be considered an eligible dividend for Canadian income tax purposes.

Renewal of Share Repurchase Program

We have received approval from the Toronto Stock Exchange ("TSX") to renew our NCIB to purchase for cancellation up to 14,900,895 of our common shares, representing 10% of our public float of 149,008,958 common shares as at April 30, 2023. As at April 30, 2023, Finning had a total of 149,311,782 common shares issued and outstanding.

The NCIB, which will begin on May 13, 2023 and end no later than May 12, 2024, will be conducted through the facilities of the TSX or other Canadian alternative trading systems, if eligible, and will conform to their rules and regulations.

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

The average daily trading volume of our common shares over the six-month period ending April 30, 2023, as calculated in accordance with TSX rules, was 375,579 common shares. Consequently, under TSX rules, we will be allowed to purchase daily, through the facilities of the TSX, a maximum of 93,894 common shares representing 25% of such average daily trading volume, subject to certain exceptions for block purchases. All shares purchased pursuant to our NCIB will be cancelled.

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

In connection with the NCIB, we will enter into an automatic share purchase plan ("ASPP") with a designated broker. The ASPP will allow for the purchase of shares under the NCIB at times when we would ordinarily not be permitted to purchase shares due to regulatory restrictions and customary self-imposed blackout restrictions.

The ASPP will provide a set of standard instructions to the designated broker to make purchases under the NCIB in accordance with the limits and other terms set out in the ASPP. The designated broker will determine the timing of these purchases in its sole discretion based on purchasing parameters set by us and subject to the rules of the TSX, applicable securities laws, and the terms of the ASPP. The ASPP has been pre-cleared by the TSX and will be implemented as of May 15, 2023. All purchases made under the ASPP will be included in computing the number of shares purchased and cancelled by us under the NCIB. Outside of pre-determined blackout periods, shares may be purchased under the NCIB based on management's discretion, in compliance with TSX rules, and applicable securities laws.

Under the current NCIB, which expires on May 12, 2023, we obtained approval to purchase up to 8,000,000 common shares. As of April 30, 2023, Finning purchased and cancelled 7,047,291 common shares under the current NCIB on the open market through the facilities of the TSX and other alternative Canadian trading systems at a volume weighted average price paid of \$30.83 per common share (excluding commissions).

MARKET UPDATE AND BUSINESS OUTLOOK

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

Canada Operations

Our outlook for Western Canada is positive, supported by healthy order activity, record backlog, and continued strong demand for product support across all sectors.

In the mining and energy sectors, constructive commodity prices and improved capital budgets are driving investment in renewal of aging fleets and product support opportunities, including growing demand for component remanufacturing and equipment rebuilds. We are pleased to have received an order from Artemis Gold for the previously announced mining equipment package valued at \$134 million, which is expected to be fully included in our Q2 2023 backlog.

In the construction sector, federal and provincial governments’ infrastructure programs and private sector investments in power projects are expected to continue driving healthy demand for construction equipment and product support, rentals, and prime and standby electric power generation.

In the power systems sector, activity levels and order intake from energy customers remain strong, with a continued increase in backlog in Q1 2023 to the highest levels since 2014.

South America Operations

Our outlook for Chile mining remains strong, supported by increasing demand for copper, constructive copper price, and improving political clarity. We are encouraged by the recent government approvals for large-scale brownfield expansions. We are seeing increasing customer confidence for re-investment into existing fleets as well as brownfield and greenfield projects, and we are encouraged by an increase in quoting and request for proposal activity. We also expect continued strong demand for mining product support and technology solutions.

In the construction sector, we continue to see strong demand from large contractors supporting mining operations, particularly in product support. About half our construction business in Chile is related to the mining sector. We now expect infrastructure construction activity in Chile to remain stable compared to 2022 levels.

In the power systems sector, order activity and order intake remain strong, and our backlog includes additional orders for large-scale data centre projects in Chile secured in Q1 2023. We are well positioned to benefit from future opportunities in the growing data centre market.

In Argentina, activity in construction, oil and gas, and mining is expected to remain stable, with significant growth potential and investment in lithium and oil and gas projects contingent on the long-term political and economic climate. We expect high inflation, currency restrictions, and new import regulations to continue impacting our business in Argentina as we manage through the 2023 election process and the challenging fiscal, regulatory, and currency environments.

UK & Ireland Operations

In the construction sector, order activity remains stable and demand for equipment has been resilient to start the year. With deliveries to HS2 largely completed, we expect lower construction new equipment sales in the UK in 2023 compared to 2022. Demand for product support is expected to remain strong, driven by high machine utilization across construction markets and growing contribution from Hydraquip.

We expect continued strong demand for our power systems business in the UK & Ireland, including in the data centre market. We have a solid backlog of power systems projects for delivery in 2023, and we have secured additional orders from data centre customers in Q1 2023 for 2024 delivery.

Executing and Building on Strong Momentum

We are seeing positive momentum in our business, led by increasing confidence and capital spending from our customers. We are encouraged by healthy order intake and backlog build into 2024, as well as strong demand for parts, service, and rebuilds. All our operations continue to hire technicians and build our product support capabilities to capture market growth and share in a disciplined manner.

Looking ahead, we are optimistic about 2023 and expect continued momentum in our business to be underpinned by our record equipment backlog and the successful execution of our product support growth strategy, including increasing rebuild activity.

To access Finning's complete Q1 2023 results, please visit our website at https://www.finning.com/en_CA/company/investors.html

Q1 2023 INVESTOR CALL

The Company will hold an investor call on May 9, 2023 at 10:00 am Eastern Time. Dial-in numbers: 1-800-319-4610 (Canada and US), 1-416-915-3239 (Toronto area), 1-604-638-5340 (international). The investor call will be webcast live and archived for three months. The webcast and accompanying presentation can be accessed at https://www.finning.com/en_CA/company/investors.html

ABOUT FINNING

Finning is the world's largest Caterpillar dealer, delivering unrivalled service to customers for 90 years. Headquartered in Surrey, British Columbia, we provide Caterpillar equipment, parts, services, and performance solutions in Western Canada, Chile, Argentina, Bolivia, the United Kingdom, and Ireland.

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Description of Specified Financial Measures and Reconciliations

Specified Financial Measures

We believe that certain specified financial measures, including non-GAAP⁽¹⁾ financial measures, provide users of our Earnings Release 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 Earnings Release.

Descriptions and components of the specified financial measures we use in this Earnings Release 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 10 of this Earnings Release.

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 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⁽¹⁾, which was introduced by the Government of Canada in response to the COVID-19⁽¹⁾ pandemic for eligible entities that met specific criteria.
- In December 2020, the shareholders of Energyst⁽¹⁾, 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.
- We accelerated existing strategies to further improve employee and facility productivity. As a result, we incurred severance costs related to workforce reductions in all of our operations and restructuring and impairment losses in our Canadian and South American operations in Q2 2020.

A reconciliation from EBIT to Adjusted EBIT and Adjusted EBITDA for our consolidated operations is as follows:

3 months ended (\$ millions)	2023				2022				2021			2020
	Mar 31	Dec 31	Sep 30	Jun 30	Mar 31	Dec 31	Sep 30	Jun 30	Mar 31	Dec 31	Sep 30	Jun 30
EBIT	239	214	224	190	140	157	150	137	108	108	138	52
Significant items:												
Gain on wind up of foreign subsidiaries	(41)	—	—	—	—	—	—	—	—	—	—	—
Severance costs	18	—	—	—	—	—	—	—	—	—	—	42
CEWS support	—	—	—	—	—	—	—	—	(10)	(14)	(37)	(64)
Return on Energyst investment	—	—	—	—	—	—	—	—	(5)	—	—	—
Facility closures, restructuring costs, and impairment losses	—	—	—	—	—	—	—	—	—	—	—	9
Adjusted EBIT	216	214	224	190	140	157	150	137	93	94	101	39
Depreciation and amortization	92	87	84	81	81	84	80	78	77	77	77	78
Adjusted EBITDA ⁽⁴⁾	308	301	308	271	221	241	230	215	170	171	178	117

The impact on provision for income taxes of the significant items was as follows:

3 months ended (\$ millions)	2023				2022				2021
	Mar 31	Dec 31	Sep 30	Jun 30	Mar 31	Dec 31	Sep 30	Jun 30	Mar 31
Significant items:									
Gain on wind up of foreign subsidiaries	9	—	—	—	—	—	—	—	—
Severance costs	(5)	—	—	—	—	—	—	—	—
Withholding tax on repatriation of profits	19	—	—	—	—	—	—	—	—
CEWS support	—	—	—	—	—	—	—	—	2
Provision for income taxes on the significant items	23	—	—	—	—	—	—	—	2

A reconciliation from EPS to Adjusted EPS for our consolidated operations is as follows:

3 months ended (\$)	2023				2022				2021
	Mar 31	Dec 31	Sep 30	Jun 30	Mar 31	Dec 31	Sep 30	Jun 30	Mar 31
EPS ^(a)	0.89	0.89	0.97	0.80	0.59	0.66	0.61	0.56	0.43
Significant items:									
Gain on wind up of foreign subsidiaries	(0.21)	—	—	—	—	—	—	—	—
Severance costs	0.09	—	—	—	—	—	—	—	—
Withholding tax on repatriation of profits	0.12	—	—	—	—	—	—	—	—
CEWS support	—	—	—	—	—	—	—	—	(0.05)
Return on Energyst investment	—	—	—	—	—	—	—	—	(0.03)
Adjusted EPS	0.89	0.89	0.97	0.80	0.59	0.66	0.61	0.56	0.35

^(a) 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 is as follows:

3 months ended (\$ millions)	2023				2022				2021				2020
	Mar 31	Dec 31	Sep 30	Jun 30	Mar 31	Dec 31	Sep 30	Jun 30	Mar 31	Dec 31	Sep 30	Jun 30	Jun 30
EBIT	126	128	125	102	80	92	84	82	69	72	93	63	
Significant items:													
Severance costs	4	—	—	—	—	—	—	—	—	—	—	20	
CEWS support	—	—	—	—	—	—	—	—	(10)	(13)	(35)	(60)	
Facility closures, restructuring costs, and impairment losses	—	—	—	—	—	—	—	—	—	—	—	5	
Adjusted EBIT	130	128	125	102	80	92	84	82	59	59	58	28	

A reconciliation from EBIT to Adjusted EBIT for our South American operations is as follows:

3 months ended (\$ millions)	2023				2022				2021				2020
	Mar 31	Dec 31	Sep 30	Jun 30	Mar 31	Dec 31	Sep 30	Jun 30	Mar 31	Dec 31	Sep 30	Jun 30	Jun 30
EBIT	74	96	85	64	65	59	58	51	41	41	40	2	
Significant items:													
Severance costs	7	—	—	—	—	—	—	—	—	—	—	17	
Facility closures, restructuring costs, and impairment losses	—	—	—	—	—	—	—	—	—	—	—	4	
Adjusted EBIT	81	96	85	64	65	59	58	51	41	41	40	23	

A reconciliation from EBIT to Adjusted EBIT for our UK & Ireland operations is as follows:

3 months ended (\$ millions)	2023				2022				2021				2020
	Mar 31	Dec 31	Sep 30	Jun 30	Mar 31	Dec 31	Sep 30	Jun 30	Mar 31	Dec 31	Sep 30	Jun 30	Jun 30
EBIT	15	16	21	23	14	12	17	17	7	11	9	(5)	
Significant item:													
Severance costs	2	—	—	—	—	—	—	—	—	—	—	4	
Adjusted EBIT	17	16	21	23	14	12	17	17	7	11	9	(1)	

A reconciliation from EBIT to Adjusted EBIT for our Other operations is as follows:

3 months ended (\$ millions)	2023				2022				2021				2020
	Mar 31	Dec 31	Sep 30	Jun 30	Mar 31	Dec 31	Sep 30	Jun 30	Mar 31	Dec 31	Sep 30	Jun 30	Jun 30
EBIT	24	(26)	(7)	1	(19)	(6)	(9)	(13)	(9)	(16)	(4)	(8)	
Significant items:													
Gain on wind up of foreign subsidiaries	(41)	—	—	—	—	—	—	—	—	—	—	—	
Severance costs	5	—	—	—	—	—	—	—	—	—	—	1	
Return on Energyst investment	—	—	—	—	—	—	—	—	(5)	—	—	—	
CEWS support	—	—	—	—	—	—	—	—	—	(1)	(2)	(4)	
Adjusted EBIT	(12)	(26)	(7)	1	(19)	(6)	(9)	(13)	(14)	(17)	(6)	(11)	

Equipment Backlog

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

Free Cash Flow

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

3 months ended (\$ millions)	2023				2022				3 months ended 2021	
	Mar 31	Dec 31	Sep 30	Jun 30	Mar 31	Dec 31	Sep 30	Jun 30	Mar 31	
	Cash flow provided by (used in) operating activities	(166)	410	(24)	(112)	(273)	193	212	8	12
Additions to property, plant, and equipment and intangible assets	(79)	(78)	(33)	(30)	(30)	(45)	(38)	(17)	(33)	
Proceeds on disposal of property, plant, and equipment	—	—	—	—	—	—	2	5	1	
Free cash flow	(245)	332	(57)	(142)	(303)	148	176	(4)	(20)	

Inventory Turns (Dealership)

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

3 months ended (\$ millions)	2023				2022				2021	2020
	Mar 31	Dec 31	Sep 30	Jun 30	Mar 31	Dec 31	Sep 30	Jun 30	Mar 31	Dec 31
Cost of sales	1,758	2,025	1,807	1,761	1,463	1,465	1,443	1,396	1,189	1,248
Cost of sales related to mobile refuelling operations	(253)	(302)	(293)	(300)	(231)	(190)	(170)	(153)	(140)	(129)
Cost of sales related to the dealership ⁽³⁾	1,505	1,723	1,514	1,461	1,232	1,275	1,273	1,243	1,049	1,119

(\$ millions)	2023				2022				2021	2020
	Mar 31	Dec 31	Sep 30	Jun 30	Mar 31	Dec 31	Sep 30	Jun 30	Mar 31	Dec 31
Inventory	2,710	2,461	2,526	2,228	2,101	1,687	1,627	1,643	1,593	1,477
Fuel inventory	(12)	(12)	(12)	(13)	(11)	(9)	(6)	(3)	(3)	(3)
Inventory related to the dealership ⁽³⁾	2,698	2,449	2,514	2,215	2,090	1,678	1,621	1,640	1,590	1,474

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			
	Mar 31	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	Sep 30	Jun 30
Cash and cash equivalents	(129)	(288)	(120)	(170)	(295)	(502)	(518)	(378)	(469)	(539)	(453)	(338)				
Short-term debt	1,266	1,068	1,087	992	804	374	419	114	103	92	217	158				
Long-term debt																
Current	253	114	106	110	63	190	191	386	326	201	200	200				
Non-current	675	815	836	807	909	921	923	903	973	1,107	1,136	1,348				
Net debt ⁽³⁾	2,065	1,709	1,909	1,739	1,481	983	1,015	1,025	933	861	1,100	1,368				
Total equity	2,480	2,461	2,449	2,337	2,296	2,343	2,320	2,252	2,244	2,206	2,184	2,127				
Invested capital	4,545	4,170	4,358	4,076	3,777	3,326	3,335	3,277	3,177	3,067	3,284	3,495				

Invested Capital Turnover

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

Net Debt to Adjusted EBITDA Ratio

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

Net Revenue, Gross Profit as a % of Net Revenue, SG&A as a % of Net Revenue, and EBIT 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 these financial measures 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 most directly comparable GAAP financial measure to net revenue is total revenue. The ratios are calculated, respectively, as gross profit divided by net revenue, SG&A divided by net revenue, and EBIT divided by net revenue. Net revenue is calculated as follows:

3 months ended (\$ millions)	2023				2022				2021				2020			
	Mar 31	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	Sep 30	Jun 30
Total revenue	2,380	2,653	2,384	2,289	1,953	1,949	1,904	1,845	1,596	1,666	1,553	1,419				
Cost of fuel	(236)	(285)	(277)	(285)	(217)	(175)	(156)	(140)	(127)	(115)	(110)	(84)				
Net revenue	2,144	2,368	2,107	2,004	1,736	1,774	1,748	1,705	1,469	1,551	1,443	1,335				

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			
	Mar 31	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	Sep 30	Jun 30
Total current assets	4,974	4,781	4,652	4,098	4,030	3,619	3,620	3,416	3,319	3,214	3,261	3,416				
Cash and cash equivalents	(129)	(288)	(120)	(170)	(295)	(502)	(518)	(378)	(469)	(539)	(453)	(338)				
Total current assets in working capital	4,845	4,493	4,532	3,928	3,735	3,117	3,102	3,038	2,850	2,675	2,808	3,078				
Total current liabilities	3,763	3,401	3,196	2,789	2,647	2,155	2,156	1,942	1,817	1,623	1,717	1,735				
Short-term debt	(1,266)	(1,068)	(1,087)	(992)	(804)	(374)	(419)	(114)	(103)	(92)	(217)	(158)				
Current portion of long-term debt	(253)	(114)	(106)	(110)	(63)	(190)	(191)	(386)	(326)	(201)	(200)	(200)				
Total current liabilities in working capital	2,244	2,219	2,003	1,687	1,780	1,591	1,546	1,442	1,388	1,330	1,300	1,377				
Working capital ⁽³⁾	2,601	2,274	2,529	2,241	1,955	1,526	1,556	1,596	1,462	1,345	1,508	1,701				

FOOTNOTES

- (1) Earnings Before Finance Costs and Income Taxes (EBIT); Basic Earnings per Share (EPS); Earnings Before Finance Costs, Income Taxes, Depreciation and Amortization (EBITDA); Selling, General & Administrative Expenses (SG&A); Return on Invested Capital (ROIC); favourable (fav); unfavourable (unfav); not meaningful (n/m); Hydraquip Hose & Hydraulics Ltd. and Hoses Direct Ltd. (Hydraquip); generally accepted accounting principles (GAAP); Canadian Emergency Wage Subsidy (CEWS); Novel Coronavirus (COVID-19); Energyst B.V. (Energyst).
- (2) See “Description of Specified Financial Measures and Reconciliations” on page 8 of this Earnings Release.
- (3) These are non-GAAP financial measures. See “Description of Specified Financial Measures and Reconciliations” on page 8 of this Earnings Release.
- (4) Certain financial measures were impacted by significant items management does not consider indicative of operational and financial trends either by nature or amount; these significant items are described starting on page 8 of this Earnings Release. The financial measures that have been adjusted to take these items into account are referred to as “Adjusted measures”.

Forward-Looking Information Disclaimer

This news release contains information that is forward-looking. Information is forward-looking when we use what we know and expect today to give information about the future. All forward-looking information in this news release is subject to this disclaimer including the assumptions and material risk factors referred to below. Forward-looking information in this news release includes, but is not limited to, the following: all information in the section entitled “Market Update and Business Outlook”, including for our Canada operations: our expectation of a positive outlook for Western Canada (based on assumptions of healthy order activity, record backlog (and our ability and timing to deliver our backlog), continued strong demand for product support across all sectors, continued constructive commodity prices, improved customer capital budgets, investments in renewals of aging fleets, growing demand for component manufacturing and equipment rebuilds, that the mining equipment package valued at \$134 million for Artemis Gold will be included in our Q2 2023 backlog, and strong activity levels and order intake from energy customers), and continued healthy demand for construction equipment and product support, rentals and prime and standby electric power generation (based on assumptions of federal and provincial governments’ infrastructure programs and private sector investments in power projects); for our South America operations: our expectation of a strong outlook for mining in Chile in 2023 and for continued strong demand for product support and technology solutions (based on assumptions of increasing demand for copper, a constructive copper price, and improved political clarity), increasing customer confidence for re-investment in existing fleets, and brownfield and greenfield projects (assumes approved projects will proceed as anticipated and that increases in quoting and request for proposal activity is reflective of opportunities), our expectation for infrastructure construction activity in Chile to remain stable compared to 2022 levels (based on assumptions of continued strong demand from large contractors supporting mining infrastructure and product support), our expectation to benefit from future opportunities in the growing data centre market (based on assumptions of strong order activity and intake, and our backlog which includes orders for large-scale data centre projects in Chile), and that in Argentina, activity in construction, oil and gas, and mining are expected to remain stable, with significant growth potential and investment in lithium and oil and gas projects, contingent on political and economic climates, and the impact of high inflation, currency restrictions and new import regulations on our and our customers’ businesses (based on assumptions that we and our customers will be able to manage through the challenging fiscal, regulatory, and currency environments); for our UK & Ireland operations: our expectation of lower construction new equipment sales in 2023 (based on deliveries to HS2 being largely completed), continued strong demand for product support (based on the assumption of continued high machine utilization rates across construction markets and growing contribution from Hydraquip); that demand for our power systems business will remain strong, including in the data centre market, that we have a strong backlog of power systems projects for delivery in 2023, and that we have secured additional orders from data centre customers for 2024 delivery (assumes no disruption to our ability to deliver our backlog); and for 2023 overall: that there is positive momentum in our business led by strong business activity levels and increasing confidence and capital spending (based on assumptions of healthy order intake and backlog build into 2024, and strong demand for parts, service and rebuilds), that we will continue to hire technicians and build our product support capabilities to capture market growth and share, our efforts to simplify our strategy to focus on growth by design, full cycle resilience and empowerment of regional teams, and our expectation of continued momentum in our business (based on assumptions of our record equipment backlog, and successful execution of our product support growth strategy, including increasing rebuild activity); our plans to reinvest in our business and potential areas of emphasis such as aftermarket, used equipment, rental and power systems segments, and to drive productivity improvements, make our cost base more variable and grow resiliency through all market conditions; our intention to purchase common shares under our renewed NCIB for a further year and implement an automatic share purchase plan with a designated broker in connection with the renewed NCIB (no assurance is given as to the number of common shares to be purchased under the NCIB, or if any will be purchased); and the Canadian income tax treatment of the quarterly dividend. 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 news release reflects our expectations at the date of this news release. Except as may be required by Canadian securities laws, we do not undertake any obligation to update or revise any forward-looking information, whether as a result of new information, future events, or otherwise.

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

Factors that could cause actual results or events to differ materially from those expressed in or implied by this forward-looking information include: the specific factors noted above; the impact and duration of, and our ability to respond to and manage, high inflation, increasing interest rates, supply chain challenges, and the impacts of the Russia-Ukraine war; general economic and market conditions, including increasing inflationary cost pressure, and economic and market conditions in the regions where we operate; the outcome and impact of Chile's mining royalty bill, constitutional reform process and proposed tax reform bill; foreign exchange rates; commodity prices; the level of customer confidence and spending, and the demand for, and prices of, our products and services; our ability to maintain our relationship with Caterpillar; our dependence on the continued market acceptance of our products, including Caterpillar products, and the timely supply of parts and equipment; our ability to continue to sustainably reduce costs and improve productivity and operational efficiencies while continuing to maintain customer service; our ability to manage cost pressures as growth in revenue occurs; our ability to effectively integrate and realize expected synergies from businesses that we acquire; our ability to deliver our backlog, including under our agreement with Artemis Gold; 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 or regulations, 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 occurrence of 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; 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 news release 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 news release is based on a number of assumptions that we believed were reasonable on the day the information was given, including but not limited to: the specific assumptions stated above; that we will be able to successfully manage our business through the current challenging times involving volatile commodity prices, high inflation, increasing interest rates, supply chain challenges and the impacts of the Russia-Ukraine war, and successfully execute our economic condition and business cyclicity mitigation strategies, including preparing for future waves (if any) of COVID-19; an undisrupted market recovery, for example, undisrupted by further COVID-19 impacts, commodity price volatility or social unrest; the successful execution of our profitability drivers; that our cost actions to drive earnings capacity in a recovery can be sustained; that commodity prices will remain at constructive levels; that our customers will not curtail their activities; that general economic and market conditions will continue to be strong; that the level of customer confidence and spending, and the demand for, and prices of, our products and services will be maintained; that support and demand for renewable energy will continue to grow; that present supply chain and inflationary challenges will not materially impact large project deliveries in our backlog; our ability to successfully execute our plans and intentions; our ability to attract and retain skilled staff; market competition will remain at similar levels; the products and technology offered by our competitors will be as expected; that identified opportunities for growth will result in revenue; 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; that 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; quoting activity for requests for proposals for equipment and product support is reflective of opportunities; and strong recoveries in the regions where we operate. Some of the assumptions, risks, and other factors, which could cause results to differ materially from those expressed in the forward-looking information contained in this news release, 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 news release. The financial impact of these transactions and non-recurring and other unusual items can be complex and depends on the facts particular to each of them. We therefore cannot describe the expected impact in a meaningful way or in the same way we present known risks affecting our business.

MANAGEMENT'S DISCUSSION AND ANALYSIS

May 8, 2023

This **MD&A** should be read in conjunction with our **Interim Financial Statements** and the accompanying notes thereto for the three months ended March 31, 2023, which have been prepared in accordance with **IAS 34, Interim Financial Reporting**, and our **Annual Financial Statements** and the accompanying notes thereto for the year ended December 31, 2022. 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 annual MD&A, can be found under our profile on the **SEDAR** website at www.sedar.com and in the investors section of our website at www.finning.com.

A glossary of defined terms is included on page 30. The first time a defined term is used in this MD&A, it is shown in bold italics.

Overview

(\$ millions, except per share amounts)	Q1 2023	Q1 2022	% change <i>fav (unfav)</i>
Revenue	2,380	1,953	22%
Net revenue ⁽¹⁾	2,144	1,736	23%
Gross profit	622	490	27%
SG&A	(407)	(351)	(16)%
Equity earnings of joint ventures	1	1	<i>n/m</i>
Other income	41	—	<i>n/m</i>
Other expenses	(18)	—	<i>n/m</i>
EBIT	239	140	70%
Net income attributable to shareholders of Finning	134	92	45%
EPS	0.89	0.59	51%
Free cash flow ⁽²⁾	(245)	(303)	19%
Adjusted EBIT ⁽²⁾⁽³⁾	216	140	54%
Adjusted EPS ⁽¹⁾⁽³⁾	0.89	0.59	51%
<i>Gross profit as a % of net revenue ⁽¹⁾</i>	29.0%	28.2%	
<i>SG&A as a % of net revenue ⁽¹⁾</i>	(19.0)%	(20.2)%	
<i>EBIT as a % of net revenue ⁽¹⁾</i>	11.2%	8.1%	
<i>Adjusted EBIT as a % of net revenue ⁽¹⁾⁽³⁾</i>	10.1%	8.1%	
<i>Adjusted ROIC ⁽¹⁾⁽³⁾</i>	19.7%	17.0%	

⁽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 19 - 21 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

- Q1 2023 revenue was \$2.4 billion. Net revenue in Q1 2023 of \$2.1 billion was up 23% from Q1 2022, with higher revenues in all lines of business. This growth was primarily driven by product support revenue which increased 27% from Q1 2022, driven by strong demand and successful execution of our product support growth strategy and 18% higher new equipment sales. We continue to hire technicians and increase our workshops' capacity to support growing product support volumes.
- Gross profit in Q1 2023 was up 27% and gross profit as a percentage of net revenue of 29.0% was 80 basis points higher than Q1 2022. SG&A increased 16% compared to the prior year period on 23% higher net revenue. Q1 2023 SG&A as a percentage of net revenue of 19.0% was 120 points lower than Q1 2022, driven by Canada.
- Q1 2023 EBIT was \$239 million and EBIT as a percentage of net revenue was 11.2%. Excluding significant items described on page 4, Q1 2023 Adjusted EBIT and Adjusted EBIT as a percentage of net revenue were \$216 million and 10.1%, respectively. Q1 2023 Adjusted EBIT was up 54% and Adjusted EBIT as a percentage of net revenue was up 200 basis points from Q1 2022, up in all regions. Q1 2023 Adjusted EBIT as a percentage of net revenue was 11.3% in Canada, 11.5% in South America, and 5.7% in the **UK & Ireland** reflecting solid profitability and earnings leverage.
- Q1 2023 EPS and Adjusted EPS was \$0.89, a 51% increase from Q1 2022 EPS of \$0.59, driven primarily by higher revenues and operating leverage in all of our operations.
- Q1 2023 free cash flow was a use of cash of \$245 million compared to a use of cash of \$303 million in the same prior year period. The lower use of cash in Q1 2023 compared to Q1 2022 was primarily due to higher collections partially offset by higher payments for inventory and to other suppliers.
- Adjusted ROIC at March 31, 2023 was 19.7%, an increase of 270 basis points from Adjusted ROIC at March 31, 2022 and an increase of 100 basis points from Adjusted ROIC at December 31, 2022, with higher Adjusted ROIC in all of our operations, driven by improved profitability.
- Consolidated equipment backlog ⁽¹⁾ of \$2.7 billion at March 31, 2023 increased 6% from December 31, 2022.
- Quarterly dividend was raised by 6% to \$0.25 per share, marking 22 years of consecutive dividend growth.

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

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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 18 - 25 of this MD&A.

Q1 2023 significant items:

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.

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

3 months ended March 31, 2023 (\$ millions, except per share amounts)					EBIT	EPS
	Canada	South America	UK & Ireland	Other	Consol	Consol
EBIT and EPS	126	74	15	24	239	0.89
Significant items:						
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
Adjusted EBIT and Adjusted EPS	130	81	17	(12)	216	0.89

There were no significant items identified by management that affected our results for the three months ended March 31, 2022.

Quarterly 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 4 and 19 - 21 of this MD&A. KPIs that have been adjusted to take these items into account are referred to as “Adjusted” KPIs.

	2023				2022				2021
	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
EBIT (\$ millions)	239	214	224	190	140	157	150	137	108
Adjusted EBIT (\$ millions)	216	214	224	190	140	157	150	137	93
EBIT as a % of net revenue									
Consolidated	11.2%	9.0%	10.7%	9.4%	8.1%	8.9%	8.6%	8.0%	7.4%
Canada	11.0%	11.0%	11.7%	10.0%	9.1%	10.1%	10.4%	9.3%	8.9%
South America	10.5%	11.4%	12.3%	10.1%	11.4%	10.1%	9.2%	9.8%	8.6%
UK & Ireland	5.1%	4.4%	6.2%	6.4%	5.0%	4.3%	5.6%	5.3%	3.2%
Adjusted EBIT as a % of net revenue									
Consolidated	10.1%	9.0%	10.7%	9.4%	8.1%	8.9%	8.6%	8.0%	6.3%
Canada	11.3%	11.0%	11.7%	10.0%	9.1%	10.1%	10.4%	9.3%	7.7%
South America	11.5%	11.4%	12.3%	10.1%	11.4%	10.1%	9.2%	9.8%	8.6%
UK & Ireland	5.7%	4.4%	6.2%	6.4%	5.0%	4.3%	5.6%	5.3%	3.2%
EPS	0.89	0.89	0.97	0.80	0.59	0.66	0.61	0.56	0.43
Adjusted EPS	0.89	0.89	0.97	0.80	0.59	0.66	0.61	0.56	0.35
Invested capital ⁽¹⁾ (\$ millions)	4,545	4,170	4,358	4,076	3,777	3,326	3,335	3,277	3,177
ROIC ⁽¹⁾ (%)									
Consolidated	20.2%	18.7%	18.3%	17.5%	17.0%	16.8%	15.6%	15.3%	12.5%
Canada	19.4%	18.7%	18.2%	17.4%	17.4%	17.5%	16.5%	17.0%	15.6%
South America	24.0%	24.5%	22.7%	22.3%	21.7%	20.3%	19.0%	17.2%	12.3%
UK & Ireland	17.0%	17.0%	16.6%	16.2%	15.7%	14.8%	14.9%	12.9%	6.5%
Adjusted ROIC									
Consolidated	19.7%	18.7%	18.3%	17.5%	17.0%	16.4%	14.7%	13.3%	10.0%
Canada	19.6%	18.7%	18.2%	17.4%	17.4%	16.9%	15.3%	14.0%	10.8%
South America	24.6%	24.5%	22.7%	22.3%	21.7%	20.3%	19.0%	17.2%	14.4%
UK & Ireland	17.4%	17.0%	16.6%	16.2%	15.7%	14.8%	14.9%	12.9%	7.6%
Invested capital turnover ⁽¹⁾ (times)	2.01	2.01	1.96	2.00	2.03	2.04	2.01	1.93	1.78
Inventory (\$ millions)	2,710	2,461	2,526	2,228	2,101	1,687	1,627	1,643	1,593
Inventory turns (dealership) ⁽¹⁾ (times)	2.51	2.61	2.52	2.50	2.66	3.09	3.09	2.84	2.83
Working capital to net revenue ⁽¹⁾	28.0%	27.4%	27.1%	25.1%	23.8%	22.9%	23.0%	24.0%	25.9%
Free cash flow (\$ millions)	(245)	332	(57)	(142)	(303)	148	176	(4)	(20)
Net debt to Adjusted EBITDA ratio ⁽¹⁾⁽²⁾ (times)	1.7	1.6	1.8	1.8	1.6	1.1	1.3	1.4	1.5

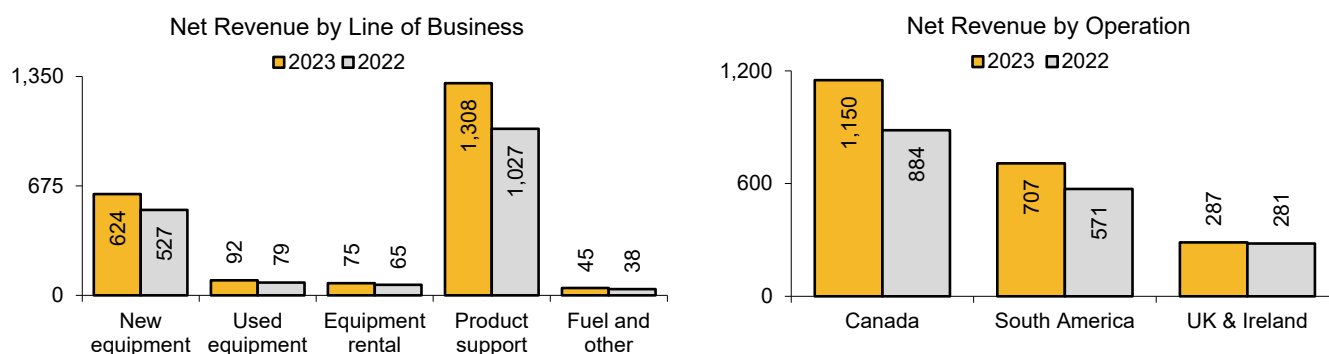
⁽¹⁾ See “Description of Specified Financial Measures and Reconciliations” in this MD&A.

⁽²⁾ Reported financial measures may be impacted by significant items described on pages 19 - 21 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.

First Quarter Results

Revenue

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



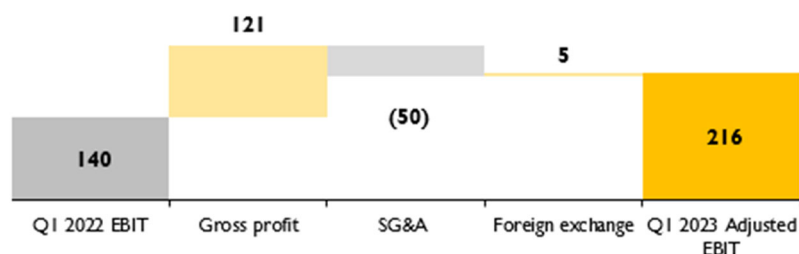
Q1 2023 revenue was \$2.4 billion. Net revenue of \$2.1 billion in the first quarter of 2023 was up 23% from Q1 2022, an increase in all our operations, primarily driven by strong product support and new equipment revenue.

Product support revenue in Q1 2023 was up 27% from the same prior year period, higher in all of our regions, mainly in the mining sectors of Canada and South America.

Q1 2023 new equipment revenue was 18% higher than the same prior year period mainly due to higher demand in all market segments in Canada. Equipment backlog of \$2.7 billion at March 31, 2023 was up 6% from December 31, 2022, primarily due to higher order intake than deliveries in all market segments, particularly the power systems sector in the UK & Ireland and the construction sector in Canada.

EBIT

Q1 2023 gross profit of \$622 million was 27% higher than the same period in the prior year. Overall gross profit as a percentage of net revenue of 29.0% in Q1 2023 was up 80 basis points from Q1 2022, primarily due to improved product support gross margins and a revenue mix shift to a higher proportion of product support revenue.



SG&A in Q1 2023 of \$407 million was 16% higher than the same period in the prior year. The increase in SG&A was driven primarily by higher people-related and variable costs to support revenue growth, as well as inflationary increases, partially offset by lower *LTIP* expense in Q1 2023 compared to Q1 2022. SG&A as a percentage of net revenue in Q1 2023 was 19.0%, a 120 basis point improvement over the same prior year period, reflecting the leverage of fixed costs on a higher revenue base, driven by Canada.

We streamlined our corporate overhead costs by reducing non-revenue generating full-time and contractor roles globally by over 400 people, including a 25% reduction of vice president and above positions globally.

EBIT and EBIT as a percentage of net revenue in Q1 2023 were \$239 million and 11.2%, respectively. Excluding significant items described on page 4, Q1 2023 Adjusted EBIT and Adjusted EBIT as a percentage of net revenue were \$216 million and 10.1%, respectively, higher than EBIT and EBIT as a percentage of net revenue in Q1 2022 of \$140 million and 8.1%, respectively. Each region delivered solid profitability and operating leverage in the quarter with Adjusted EBIT as a percentage of net revenue higher in Q1 2023 compared to the same period in the prior year.

Finance Costs

Finance costs in Q1 2023 of \$35 million were higher than the \$18 million in Q1 2022 due to higher interest rates and an increase in average short-term debt levels.

Provision for Income Taxes

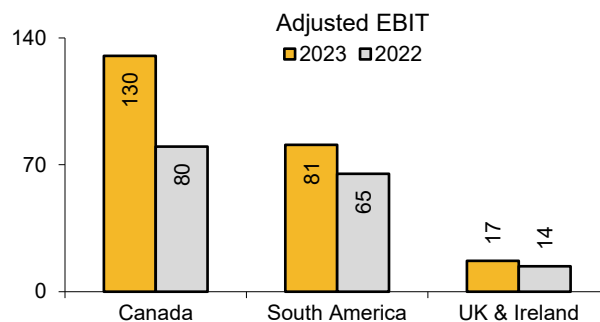
The effective income tax rate in Q1 2023 of 34.6% included the impact of various transactions undertaken to simplify and adjust our organizational structure in Q1 2023, including withholding taxes related to the repatriation of profits from South America and the reclassification of tax on the foreign currency translation gain related to the wind up of foreign subsidiaries. Excluding these significant items, the effective income tax rate would have been 26.2% in Q1 2023, and was higher compared to 24.6% in Q1 2022 due to a higher proportion of earnings from higher tax jurisdictions.

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

Net Income Attributable to Shareholders of Finning and EPS

Q1 2023 net income attributable to shareholders of Finning was \$134 million, an increase of 45% from Q1 2022. Q1 2023 EPS and Adjusted EPS was \$0.89, a significant increase from EPS of \$0.59 in Q1 2022, due to strong revenue growth and earnings leverage in each region, primarily our Canadian operations.

Adjusted EBIT by Operation ⁽¹⁾ 3 months ended March 31 (\$ millions)



(1) Excluding Other operations

Selected Key Performance Measures – Balance Sheet

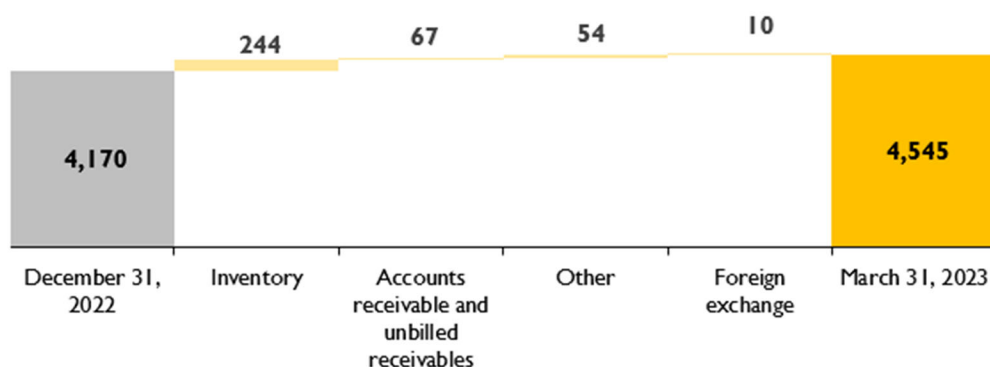
(\$ millions, unless otherwise stated)	March 31, 2023	December 31, 2022
Invested capital		
Consolidated	4,545	4,170
Canada	2,704	2,447
South America	1,392	1,281
UK & Ireland	460	428
<i>South America (USD)</i>	1,028	946
<i>UK & Ireland (GBP)</i>	275	262
Adjusted ROIC		
Consolidated	19.7%	18.7%
Canada	19.6%	18.7%
South America	24.6%	24.5%
UK & Ireland	17.4%	17.0%
Invested capital turnover (times)		
Consolidated	2.01	2.01
Canada	1.78	1.77
South America	2.16	2.16
UK & Ireland	3.08	3.09
Inventory turns (dealership) (times)	2.51	2.61
Working capital to net revenue	28.0%	27.4%

Compared to December 31, 2022:

The \$375 million increase in consolidated invested capital from December 31, 2022 to March 31, 2023 includes a foreign exchange impact of \$10 million in translating the invested capital balances of our UK & Ireland and South American operations. The foreign exchange impact was primarily the result of the 2% weaker CAD relative to the GBP compared to December 31, 2022.

Excluding the impact of foreign exchange, consolidated invested capital increased by \$365 million from December 31, 2022 to March 31, 2023 reflecting:

- higher inventory in all regions, especially new equipment proactively ordered and sourced to meet growing customer demand, as well as an increase in parts and supplies and service inventory driven by product support demand; and,
- an increase in accounts receivable and unbilled receivables in all operations, primarily in South America, driven by an increase in demand and sales activity.



On a consolidated basis, Adjusted ROIC at March 31, 2023 improved 100 basis points from Adjusted ROIC at December 31, 2022. Higher Adjusted EBIT for the last twelve-month period, reflecting higher revenue and improved profitability in all of our operations, outpaced the increase in average invested capital levels.

Consolidated invested capital turnover of 2.01 at March 31, 2023 was comparable to December 31, 2022, with a slight improvement from 2.03 at March 31, 2022.

Inventory turns (dealership) at March 31, 2023 is down slightly from December 31, 2022 largely driven by higher inventory levels to meet customer demand and higher backlog in all of our regions.

Working capital to net revenue at March 31, 2023 increased 60 basis points from December 31, 2022 due to higher average working capital balances, including an investment in inventory, outpacing 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.

3 months ended March 31, 2023						Net Revenue
(\$ millions)	Canada	South America	UK & Ireland	Other	Consol	% ⁽¹⁾
New equipment	281	194	149	—	624	29%
Used equipment	64	11	17	—	92	4%
Equipment rental	47	17	11	—	75	4%
Product support	713	485	110	—	1,308	61%
Fuel and other	45	—	—	—	45	2%
Net revenue	1,150	707	287	—	2,144	100%
Operating costs	(971)	(595)	(260)	(11)	(1,837)	
Depreciation and amortization	(50)	(31)	(10)	(1)	(92)	
Equity earnings	1	—	—	—	1	
Other income	—	—	—	41	41	
Other expenses	(4)	(7)	(2)	(5)	(18)	
EBIT	126	74	15	24	239	
Net revenue percentage by operation	54%	33%	13%	—	100%	
Adjusted EBIT	130	81	17	(12)	216	
<i>EBIT as a % of net revenue</i>	<i>11.0%</i>	<i>10.5%</i>	<i>5.1%</i>		<i>11.2%</i>	
<i>Adjusted EBIT as a % of net revenue</i>	<i>11.3%</i>	<i>11.5%</i>	<i>5.7%</i>		<i>10.1%</i>	

3 months ended March 31, 2022						Net Revenue
(\$ millions)	Canada	South America	UK & Ireland	Other	Consol	%
New equipment	185	167	175	—	527	30%
Used equipment	57	10	12	—	79	5%
Equipment rental	40	14	11	—	65	4%
Product support	564	380	83	—	1,027	59%
Fuel and other	38	—	—	—	38	2%
Net revenue	884	571	281	—	1,736	100%
Operating costs	(758)	(483)	(257)	(18)	(1,516)	
Depreciation and amortization	(47)	(23)	(10)	(1)	(81)	
Equity earnings	1	—	—	—	1	
EBIT	80	65	14	(19)	140	
Net revenue percentage by operation	51%	33%	16%	—	100%	
<i>EBIT as a % of net revenue</i>	<i>9.1%</i>	<i>11.4%</i>	<i>5.0%</i>		<i>8.1%</i>	

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

Canada Operations

First Quarter Overview

Q1 2023 net revenue was 30% higher than Q1 2022, with higher net revenues across all lines of business and market sectors, primarily mining.

Product support revenue in Q1 2023 was up 26% compared to the same prior year period as a result of significant activity and demand for equipment rebuilds in the mining sector.

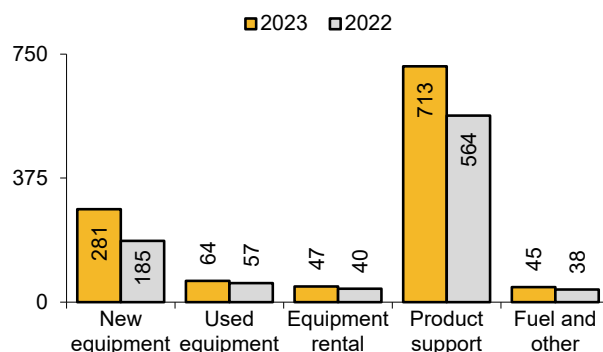
Q1 2023 new equipment revenue was 52% higher than Q1 2022, driven by mining deliveries and higher volumes in the construction and power systems sectors. Equipment backlog at March 31, 2023 was up from December 31, 2022, driven by order intake outpacing deliveries in the construction and power systems sectors.

Gross profit in Q1 2023 increased from the same period in the prior year, in line with revenue growth. Overall gross profit as a percentage of net revenue in Q1 2023 decreased from Q1 2022 reflecting a higher proportion of new equipment in the revenue mix (Q1 2023: 24% compared with Q1 2022: 21%).

Q1 2023 SG&A was up 14% on 30% net revenue growth. Compared to the prior year period, SG&A was up primarily due to higher people-related and variable costs to support volume growth across all lines of business. SG&A as a percentage of net revenue declined from Q1 2022.

Q1 2023 EBIT was \$126 million. Excluding severance costs described on page 4, Q1 2023 Adjusted EBIT was \$130 million, up 62% from the same prior year period, driven by broad-based strength and higher volumes across all lines of business and operating leverage. Q1 2023 Adjusted EBIT as a percentage of net revenue of 11.3% was up from EBIT as a percentage of net revenue of 9.1% in Q1 2022.

**Net Revenue by Line of Business
Canada Operations**
3 months ended March 31
(\$ millions)



South America Operations

The weaker CAD relative to the USD on average in Q1 2023 compared to Q1 2022 had a favourable foreign currency translation impact on Q1 2023 net revenue of approximately \$45 million and \$5 million at the EBIT level.

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

First Quarter Overview

Q1 2023 net revenue was 16% higher than Q1 2022, driven by higher revenue in all lines of business and all market segments, mainly mining.

Product support revenue in Q1 2023 increased 19% from Q1 2022, largely driven by demand for component exchanges, equipment overhauls, and fleet maintenance in the mining sector, and higher volumes from new mining product support contracts in Chile.

New equipment revenue in Q1 2023 was up 8% from the same prior year period, mainly due to higher sales to large contractors supporting mining operations in Chile and healthy general construction activity. Equipment backlog at March 31, 2023 was up from December 31, 2022, driven by strong order intake in all market segments.

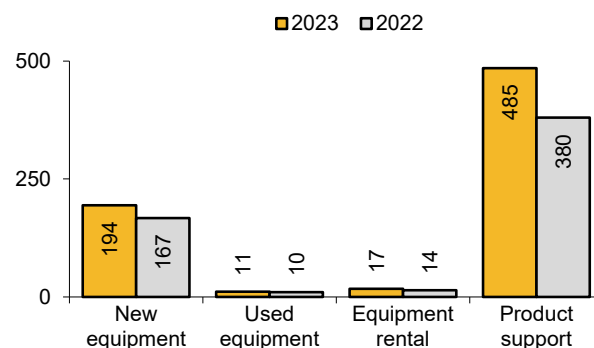
Gross profit in Q1 2023 increased from the same period in the prior year, driven mainly by higher volumes. Gross profit as a percentage of net revenue in Q1 2023 was up compared to Q1 2022 mainly due to a higher proportion of product support in the revenue mix (Q1 2023: 69% compared with Q1 2022: 67%) and an increase in new equipment gross profit margins.

Q1 2023 SG&A was up from Q1 2022 primarily due to higher people-related, facility, and variable costs to support higher volumes, as well as inflationary increases in Argentina. This increase was partially offset by the favourable foreign currency translation impact on SG&A from the devaluation of the **ARS** relative to the USD in Q1 2023 compared to the same prior year period. Q1 2023 SG&A as a percentage of net revenue was higher than Q1 2022, mainly due to a higher proportion of product support revenue which is more SG&A-intensive.

We have accelerated productivity initiatives to offset inflationary cost increases. As a result, 120 non-revenue generating managerial and administrative positions are being eliminated. In addition, we have reduced contractor positions and increased utilization of our shared services center in Uruguay.

Excluding severance costs described on page 4, Q1 2023 Adjusted EBIT improved 17% from Q1 2022, in line with revenue growth. Q1 2023 Adjusted EBIT as a percentage of net revenue of 11.5% was slightly higher than EBIT as a percentage of net revenue in Q1 2022, as the increase in gross profit margins was offset by the increase in SG&A as a percentage of net revenue.

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



UK & Ireland Operations

The stronger CAD relative to the GBP on average in Q1 2023 compared to Q1 2022 did not have a significant impact on Q1 2023 net revenue or 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.

First Quarter Overview

First quarter 2023 net revenue was up 5% from the same period in 2022. The increase in Q1 2023 was primarily due to higher product support revenue partially offset by lower new equipment revenue.

Q1 2023 product support revenue increased 36% from the same prior year period, driven by increased activity in the construction sector and includes a full quarter contribution from **Hydraquip** which was acquired at the end of March 2022.

New equipment revenue decreased 13% year over year due to lower sales in construction, including lower **HS2** deliveries compared to last year. In power systems, new equipment sales exceeded Q1 2022. Equipment backlog at March 31, 2023 was up slightly from December 31, 2022, due to order intake outpacing deliveries in the power systems sector.

Gross profit in Q1 2023 and overall gross profit as a percentage of net revenue in Q1 2023 were up from Q1 2022 mainly due to a higher proportion of product support in the revenue mix (Q1 2023: 38% compared with Q1 2022: 29%).

SG&A in Q1 2023 was up compared to the prior year period primarily due to higher people-related, utilities, and variable costs to support revenue growth as well as inflationary increases.

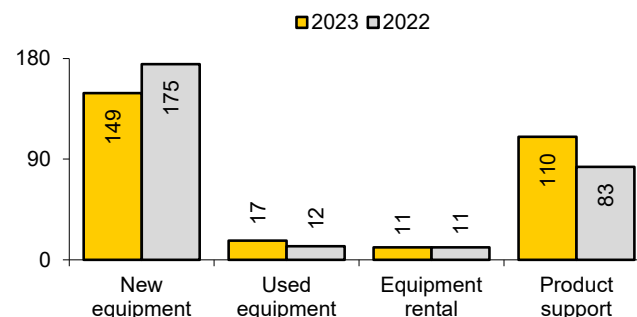
Excluding severance costs described on page 4, Q1 2023 Adjusted EBIT improved 19% from Q1 2022 EBIT primarily due to higher product support revenue partially offset by an increase in SG&A. Q1 2023 Adjusted EBIT as a percentage of net revenue of 5.7% improved from EBIT as a percentage of net revenue of 5.0% in Q1 2022 reflecting operating leverage.

Other Operations

Our Other operations includes corporate operating costs.

Q1 2023 Adjusted EBIT loss was \$12 million compared to Q1 2022 EBIT loss of \$19 million primarily due to lower LTIP expense in Q1 2023 compared to Q1 2022.

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



Market Update and Business Outlook

The discussion of our expectations relating to the market and business outlook in this section is forward-looking information that is based upon the assumptions and subject to the material risks discussed under the heading “Forward-Looking Information Disclaimer” beginning on page 27 of this MD&A. Actual outcomes and results may vary significantly.

Canada Operations

Our outlook for Western Canada is positive, supported by healthy order activity, record backlog, and continued strong demand for product support across all sectors.

In the mining and energy sectors, constructive commodity prices and improved capital budgets are driving investment in renewal of aging fleets and product support opportunities, including growing demand for component remanufacturing and equipment rebuilds. We are pleased to have received an order from Artemis Gold for the previously announced mining equipment package valued at \$134 million, which is expected to be fully included in our Q2 2023 backlog.

In the construction sector, federal and provincial governments’ infrastructure programs and private sector investments in power projects are expected to continue driving healthy demand for construction equipment and product support, rentals, and prime and standby electric power generation.

In the power systems sector, activity levels and order intake from energy customers remain strong, with a continued increase in backlog in Q1 2023 to the highest levels since 2014.

South America Operations

Our outlook for Chile mining remains strong, supported by increasing demand for copper, constructive copper price, and improving political clarity. We are encouraged by the recent government approvals for large-scale brownfield expansions. We are seeing increasing customer confidence for re-investment into existing fleets as well as brownfield and greenfield projects, and we are encouraged by an increase in quoting and request for proposal activity. We also expect continued strong demand for mining product support and technology solutions.

In the construction sector, we continue to see strong demand from large contractors supporting mining operations, particularly in product support. About half our construction business in Chile is related to the mining sector. We now expect infrastructure construction activity in Chile to remain stable compared to 2022 levels.

In the power systems sector, order activity and order intake remain strong, and our backlog includes additional orders for large-scale data centre projects in Chile secured in Q1 2023. We are well positioned to benefit from future opportunities in the growing data centre market.

In Argentina, activity in construction, oil and gas, and mining is expected to remain stable, with significant growth potential and investment in lithium and oil and gas projects contingent on the long-term political and economic climate. We expect high inflation, currency restrictions, and new import regulations to continue impacting our business in Argentina as we manage through the 2023 election process and the challenging fiscal, regulatory, and currency environments.

UK & Ireland Operations

In the construction sector, order activity remains stable and demand for equipment has been resilient to start the year. With deliveries to HS2 largely completed, we expect lower construction new equipment sales in the UK in 2023 compared to 2022. Demand for product support is expected to remain strong, driven by high machine utilization across construction markets and growing contribution from Hydraquip.

We expect continued strong demand for our power systems business in the UK & Ireland, including in the data centre market. We have a solid backlog of power systems projects for delivery in 2023, and we have secured additional orders from data centre customers in Q1 2023 for 2024 delivery.

Executing and Building on Strong Momentum

We are seeing positive momentum in our business, led by increasing confidence and capital spending from our customers. We are encouraged by healthy order intake and backlog build into 2024, as well as strong demand for parts, service, and rebuilds. All our operations continue to hire technicians and build our product support capabilities to capture market growth and share in a disciplined manner.

Looking ahead, we are optimistic about 2023 and expect continued momentum in our business to be underpinned by our record equipment backlog and the successful execution of our product support growth strategy, including increasing rebuild activity.

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 (used in) provided by each of these activities and free cash flow were as follows:

3 months ended March 31		
(\$ millions)	2023	2022
Operating activities	(166)	(273)
Investing activities	(81)	(117)
Financing activities	88	197
Operating activities	(166)	(273)
Additions to property, plant, and equipment and intangible assets	(79)	(30)
Free cash flow	(245)	(303)

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

Free cash flow use	<ul style="list-style-type: none"> • higher collections from increased revenues in all of our operations, particularly in Canada and South America; partially offset by • higher payments for inventory to support increased demand in Canada as well as higher payments to other suppliers and people-related costs in all operations; and, • higher spend on intangible assets in our South American operations
Investing activities (excluding net spend on property, plant, and equipment)	<ul style="list-style-type: none"> • \$84 million net cash consideration paid to acquire Hydraquip in our UK & Ireland operations in Q1 2022
Financing activities	<ul style="list-style-type: none"> • approximately \$240 million lower cash provided by short-term debt; • partially offset by approximately \$120 million lower repayment of long-term debt

Capital Resources and Management

Our cash and cash equivalents balance at March 31, 2023 was \$129 million (December 31, 2022: \$288 million). At March 31, 2023, to complement internally generated funds from operating and investing activities, we had approximately \$2.6 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 2023. At March 31, 2023, \$351 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 March 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 ⁽¹⁾ by both **DBRS** and **S&P**:

	Long-term debt		Short-term debt	
	Mar 31, 2023	Dec 31, 2022	Mar 31, 2023	Dec 31, 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+ rating with stable outlook.

During the three months ended March 31, 2023, we repurchased 1,500,000 common shares for cancellation for \$52 million, at an average cost of \$34.35 per share, through our **NCIB** ⁽²⁾. During the three months ended March 31, 2022, we repurchased 1,625,448 common shares for cancellation for \$61 million, at an average cost of \$37.48 per share.

In connection with our NCIB, we implemented an automatic share purchase plan with a designated broker to enable share repurchases for cancellation during selected blackout periods. At March 31, 2023, we recorded an estimated obligation of \$22 million for the repurchase of shares from April 1, 2023 to May 9, 2023, under this automatic share purchase plan. We will renew our NCIB for a further year effective May 13, 2023 and implement an automatic share purchase plan with a designated broker in connection with the renewed NCIB.

Net Debt to Adjusted EBITDA

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

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

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

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

Accounting Policies and Pronouncements

New Accounting Pronouncements

The adoption of recent amendments to accounting standards had no impact on our financial statements. For more details on the new standard and amendments to IFRS that were effective January 1, 2023 as well as future accounting pronouncements and effective dates, please refer to note 1 of our Interim Financial Statements.

Risk Factors and Management

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

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

Foreign Exchange Risk

Key exchange rates that impacted our results were as follows:

Exchange rate	March 31			December 31		3 months ended March 31 – average		
	2023	2022	Change	2022	Change	2023	2022	Change
USD/CAD	1.3533	1.2496	(8)%	1.3544	0%	1.3525	1.2662	(7)%
GBP/CAD	1.6726	1.6417	(2)%	1.6322	(2)%	1.6440	1.6976	3%
USD/ CLP	790.41	787.16	(0)%	855.86	8%	810.47	808.54	(0)%
USD/ARS	209.01	111.01	(88)%	177.16	(18)%	192.53	106.67	(80)%

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.

Outstanding Share Data

April 30, 2023

Common shares outstanding	149,311,782
Options outstanding	1,281,006

Controls and Procedures Certification

Disclosure Controls and Procedures

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

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

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

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

Internal Control over Financial Reporting

We are responsible for establishing and maintaining adequate internal control over financial reporting. We have designed internal control over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements in accordance with IFRS. There has been no change in the design of our internal controls over financial reporting during the three months ended March 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.

Description of Specified Financial Measures and Reconciliations

Specified Financial Measures

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

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

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

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

Adjusted EPS

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

A reconciliation between EPS (the most directly comparable GAAP financial measure) and Adjusted EPS can be found on page 20 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 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.
- We accelerated existing strategies to further improve employee and facility productivity. As a result, we incurred severance costs related to workforce reductions in all of our operations and restructuring and impairment losses in our Canadian and South American operations in Q2 2020.

A reconciliation from EBIT to Adjusted EBIT and Adjusted EBITDA for our consolidated operations is as follows:

3 months ended (\$ millions)	2023				2022				2021				2020			
	Mar 31	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	Sep 30	Jun 30
EBIT	239	214	224	190	140	157	150	137	108	108	138	52				
Significant items:																
Gain on wind up of foreign subsidiaries	(41)	—	—	—	—	—	—	—	—	—	—	—				
Severance costs	18	—	—	—	—	—	—	—	—	—	—	42				
CEWS support	—	—	—	—	—	—	—	—	(10)	(14)	(37)	(64)				
Return on Energyst investment	—	—	—	—	—	—	—	—	(5)	—	—	—				
Facility closures, restructuring costs, and impairment losses	—	—	—	—	—	—	—	—	—	—	—	9				
Adjusted EBIT	216	214	224	190	140	157	150	137	93	94	101	39				
Depreciation and amortization	92	87	84	81	81	84	80	78	77	77	77	78				
Adjusted EBITDA ⁽¹⁾	308	301	308	271	221	241	230	215	170	171	178	117				

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

The impact on provision for income taxes of the significant items was as follows:

3 months ended (\$ millions)	2023				2022				2021
	Mar 31	Dec 31	Sep 30	Jun 30	Mar 31	Dec 31	Sep 30	Jun 30	Mar 31
Significant items:									
Gain on wind up of foreign subsidiaries	9	—	—	—	—	—	—	—	—
Severance costs	(5)	—	—	—	—	—	—	—	—
Withholding tax on repatriation of profits	19	—	—	—	—	—	—	—	—
CEWS support	—	—	—	—	—	—	—	—	2
Provision for income taxes on the significant items	23	—	—	—	—	—	—	—	2

A reconciliation from EPS to Adjusted EPS for our consolidated operations is as follows:

3 months ended (\$)	2023				2022				2021
	Mar 31	Dec 31	Sep 30	Jun 30	Mar 31	Dec 31	Sep 30	Jun 30	Mar 31
EPS ⁽¹⁾	0.89	0.89	0.97	0.80	0.59	0.66	0.61	0.56	0.43
Significant items:									
Gain on wind up of foreign subsidiaries	(0.21)	—	—	—	—	—	—	—	—
Severance costs	0.09	—	—	—	—	—	—	—	—
Withholding tax on repatriation of profits	0.12	—	—	—	—	—	—	—	—
CEWS support	—	—	—	—	—	—	—	—	(0.05)
Return on Energyst investment	—	—	—	—	—	—	—	—	(0.03)
Adjusted EPS	0.89	0.89	0.97	0.80	0.59	0.66	0.61	0.56	0.35

⁽¹⁾ 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 is as follows:

3 months ended (\$ millions)	2023				2022				2021				2020
	Mar 31	Dec 31	Sep 30	Jun 30	Mar 31	Dec 31	Sep 30	Jun 30	Mar 31	Dec 31	Sep 30	Jun 30	Mar 31
EBIT	126	128	125	102	80	92	84	82	69	72	93	63	
Significant items:													
Severance costs	4	—	—	—	—	—	—	—	—	—	—	20	
CEWS support	—	—	—	—	—	—	—	—	(10)	(13)	(35)	(60)	
Facility closures, restructuring costs, and impairment losses	—	—	—	—	—	—	—	—	—	—	—	5	
Adjusted EBIT	130	128	125	102	80	92	84	82	59	59	58	28	

A reconciliation from EBIT to Adjusted EBIT for our South American operations is as follows:

3 months ended (\$ millions)	2023				2022				2021				2020
	Mar 31	Dec 31	Sep 30	Jun 30	Mar 31	Dec 31	Sep 30	Jun 30	Mar 31	Dec 31	Sep 30	Jun 30	Jun 30
EBIT	74	96	85	64	65	59	58	51	41	41	40	2	
Significant items:													
Severance costs	7	—	—	—	—	—	—	—	—	—	—	17	
Facility closures, restructuring costs, and impairment losses	—	—	—	—	—	—	—	—	—	—	—	4	
Adjusted EBIT	81	96	85	64	65	59	58	51	41	41	40	23	

A reconciliation from EBIT to Adjusted EBIT for our UK & Ireland operations is as follows:

3 months ended (\$ millions)	2023				2022				2021				2020
	Mar 31	Dec 31	Sep 30	Jun 30	Mar 31	Dec 31	Sep 30	Jun 30	Mar 31	Dec 31	Sep 30	Jun 30	Jun 30
EBIT	15	16	21	23	14	12	17	17	7	11	9	(5)	
Significant item:													
Severance costs	2	—	—	—	—	—	—	—	—	—	—	4	
Adjusted EBIT	17	16	21	23	14	12	17	17	7	11	9	(1)	

A reconciliation from EBIT to Adjusted EBIT for our Other operations is as follows:

3 months ended (\$ millions)	2023				2022				2021				2020
	Mar 31	Dec 31	Sep 30	Jun 30	Mar 31	Dec 31	Sep 30	Jun 30	Mar 31	Dec 31	Sep 30	Jun 30	Jun 30
EBIT	24	(26)	(7)	1	(19)	(6)	(9)	(13)	(9)	(16)	(4)	(8)	
Significant items:													
Gain on wind up of foreign subsidiaries	(41)	—	—	—	—	—	—	—	—	—	—	—	
Severance costs	5	—	—	—	—	—	—	—	—	—	—	1	
Return on Energyst investment	—	—	—	—	—	—	—	—	(5)	—	—	—	
CEWS support	—	—	—	—	—	—	—	—	—	(1)	(2)	(4)	
Adjusted EBIT	(12)	(26)	(7)	1	(19)	(6)	(9)	(13)	(14)	(17)	(6)	(11)	

Equipment Backlog

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

Free Cash Flow

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

3 months ended (\$ millions)	2023				2022				2021
	Mar 31	Dec 31	Sep 30	Jun 30	Mar 31	Dec 31	Sep 30	Jun 30	Mar 31
Cash flow provided by (used in) operating activities	(166)	410	(24)	(112)	(273)	193	212	8	12
Additions to property, plant, and equipment and intangible assets	(79)	(78)	(33)	(30)	(30)	(45)	(38)	(17)	(33)
Proceeds on disposal of property, plant, and equipment	—	—	—	—	—	—	2	5	1
Free cash flow	(245)	332	(57)	(142)	(303)	148	176	(4)	(20)

Inventory Turns (Dealership)

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

3 months ended (\$ millions)	2023				2022				2021	2020
	Mar 31	Dec 31	Sep 30	Jun 30	Mar 31	Dec 31	Sep 30	Jun 30	Mar 31	Dec 31
Cost of sales	1,758	2,025	1,807	1,761	1,463	1,465	1,443	1,396	1,189	1,248
Cost of sales related to mobile refuelling operations	(253)	(302)	(293)	(300)	(231)	(190)	(170)	(153)	(140)	(129)
Cost of sales related to the dealership ⁽¹⁾	1,505	1,723	1,514	1,461	1,232	1,275	1,273	1,243	1,049	1,119

(\$ millions)	2023				2022				2021	2020
	Mar 31	Dec 31	Sep 30	Jun 30	Mar 31	Dec 31	Sep 30	Jun 30	Mar 31	Dec 31
Inventory	2,710	2,461	2,526	2,228	2,101	1,687	1,627	1,643	1,593	1,477
Fuel inventory	(12)	(12)	(12)	(13)	(11)	(9)	(6)	(3)	(3)	(3)
Inventory related to the dealership ⁽¹⁾	2,698	2,449	2,514	2,215	2,090	1,678	1,621	1,640	1,590	1,474

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	
	Mar 31	Dec 31	Sep 30	Jun 30	Mar 31	Dec 31	Sep 30	Jun 30	Mar 31	Dec 31	Sep 30	Jun 30	Mar 31	Jun 30
Cash and cash equivalents	(129)	(288)	(120)	(170)	(295)	(502)	(518)	(378)	(469)	(539)	(453)	(338)		
Short-term debt	1,266	1,068	1,087	992	804	374	419	114	103	92	217	158		
Long-term debt														
Current	253	114	106	110	63	190	191	386	326	201	200	200		
Non-current	675	815	836	807	909	921	923	903	973	1,107	1,136	1,348		
Net debt ⁽¹⁾	2,065	1,709	1,909	1,739	1,481	983	1,015	1,025	933	861	1,100	1,368		
Total equity	2,480	2,461	2,449	2,337	2,296	2,343	2,320	2,252	2,244	2,206	2,184	2,127		
Invested capital	4,545	4,170	4,358	4,076	3,777	3,326	3,335	3,277	3,177	3,067	3,284	3,495		

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

Invested Capital Turnover

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

Net Debt to Adjusted EBITDA Ratio

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

Net Revenue, Gross Profit as a % of Net Revenue, SG&A as a % of Net Revenue, 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:

3 months ended (\$ millions)	2023				2022				2021				2020			
	Mar 31	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	Sep 30	Jun 30
Total revenue	2,380	2,653	2,384	2,289	1,953	1,949	1,904	1,845	1,596	1,666	1,553	1,419				
Cost of fuel	(236)	(285)	(277)	(285)	(217)	(175)	(156)	(140)	(127)	(115)	(110)	(84)				
Net revenue	2,144	2,368	2,107	2,004	1,736	1,774	1,748	1,705	1,469	1,551	1,443	1,335				

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			
	Mar 31	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	Sep 30	Jun 30
Total current assets	4,974	4,781	4,652	4,098	4,030	3,619	3,620	3,416	3,319	3,214	3,261	3,416				
Cash and cash equivalents	(129)	(288)	(120)	(170)	(295)	(502)	(518)	(378)	(469)	(539)	(453)	(338)				
Total current assets in working capital	4,845	4,493	4,532	3,928	3,735	3,117	3,102	3,038	2,850	2,675	2,808	3,078				
Total current liabilities	3,763	3,401	3,196	2,789	2,647	2,155	2,156	1,942	1,817	1,623	1,717	1,735				
Short-term debt	(1,266)	(1,068)	(1,087)	(992)	(804)	(374)	(419)	(114)	(103)	(92)	(217)	(158)				
Current portion of long-term debt	(253)	(114)	(106)	(110)	(63)	(190)	(191)	(386)	(326)	(201)	(200)	(200)				
Total current liabilities in working capital	2,244	2,219	2,003	1,687	1,780	1,591	1,546	1,442	1,388	1,330	1,300	1,377				
Working capital ⁽¹⁾	2,601	2,274	2,529	2,241	1,955	1,526	1,556	1,596	1,462	1,345	1,508	1,701				

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

Selected Quarterly Information

(\$ millions, except for share, per share, and option amounts)	2023			2022			2021	
	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2
Revenue								
Canada	1,386	1,452	1,349	1,298	1,101	1,089	961	1,019
South America	707	840	692	637	571	582	638	512
UK & Ireland ⁽¹⁾	287	361	343	354	281	278	305	314
Total revenue	2,380	2,653	2,384	2,289	1,953	1,949	1,904	1,845
Net income attributable to shareholders of Finning ⁽¹⁾⁽²⁾	134	136	149	126	92	104	99	91
Earnings per share ⁽¹⁾⁽²⁾								
EPS	0.89	0.89	0.97	0.80	0.59	0.66	0.61	0.56
Diluted earnings per share	0.89	0.89	0.97	0.80	0.59	0.65	0.61	0.56
Total assets ⁽¹⁾	7,512	7,269	7,024	6,470	6,402	5,971	5,936	5,615
Long-term debt								
Current	253	114	106	110	63	190	191	386
Non-current	675	815	836	807	909	921	923	903
Total long-term debt ⁽³⁾	928	929	942	917	972	1,111	1,114	1,289
Cash dividends paid per common share	23.6¢	23.6¢	23.6¢	23.6¢	22.5¢	22.5¢	22.5¢	20.5¢
Common shares outstanding (000's)	149,584	151,041	153,248	154,272	156,249	157,808	159,659	161,419
Options outstanding (000's)	1,281	1,567	1,796	1,789	1,545	1,773	1,926	2,105

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

⁽²⁾ These reported financial measures in Q1 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 19 - 21 of this MD&A.

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

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

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

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

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

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

Forward-Looking Information Disclaimer

This report contains information about our business outlook, objectives, plans, strategic priorities and other information that is not historical fact. Information is forward-looking when we use what we know and expect today to give information about the future. Forward-looking information may include terminology such as aim, anticipate, assumption, believe, could, expect, goal, guidance, intend, may, objective, outlook, plan, project, seek, should, strategy, strive, target, and will, and variations of such terminology. All forward-looking information in this MD&A is subject to this disclaimer including the assumptions and material risk factors discussed and referred to below. Forward-looking information in this report also includes, but is not limited to, the following: our expectation that 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; all information in the section entitled “Market Update and Business Outlook” starting on page 13 of this MD&A, including for our Canada operations: our expectation of a positive outlook for Western Canada (based on assumptions of healthy order activity, record backlog (and our ability and timing to deliver our backlog), continued strong demand for product support across all sectors, continued constructive commodity prices, improved customer capital budgets, investments in renewals of aging fleets, growing demand for component manufacturing and equipment rebuilds, that the mining equipment package valued at \$134 million for Artemis Gold will be included in our Q2 2023 backlog, and strong activity levels and order intake from energy customers), and continued healthy demand for construction equipment and product support, rentals and prime and standby electric power generation (based on assumptions of federal and provincial governments’ infrastructure programs and private sector investments in power projects); for our South America operations: our expectation of a strong outlook for mining in Chile in 2023 and for continued strong demand for product support and technology solutions (based on assumptions of increasing demand for copper, a constructive copper price, and improved political clarity), increasing customer confidence for re-investment in existing fleets, and brownfield and greenfield projects (assumes approved projects will proceed as anticipated and that increases in quoting and request for proposal activity is reflective of opportunities), our expectation for infrastructure construction activity in Chile to remain stable compared to 2022 levels (based on assumptions of continued strong demand from large contractors supporting mining infrastructure and product support), our expectation to benefit from future opportunities in the growing data centre market (based on assumptions of strong order activity and intake, and our backlog which includes orders for large-scale data centre projects in Chile), and that in Argentina, activity in construction, oil and gas, and mining are expected to remain stable, with significant growth potential and investment in lithium and oil and gas projects, contingent on political and economic climates, and the impact of high inflation, currency restrictions and new import regulations on our and our customers’ businesses (based on assumptions that we and our customers will be able to manage through the challenging fiscal, regulatory, and currency environments); for our UK & Ireland operations: our expectation of lower construction new equipment sales in 2023 (based on deliveries to HS2 being largely completed), continued strong demand for product support (based on the assumption of continued high machine utilization rates across construction markets and growing contribution from Hydraquip); that demand for our power systems business will remain strong, including in the data centre market, that we have a strong backlog of power systems projects for delivery in 2023, and that we have secured additional orders from data centre customers for 2024 delivery (assumes no disruption to our ability to deliver our backlog); and for 2023 overall: that there is positive momentum in our business led by strong business activity levels and increasing confidence and capital spending from our mining and power systems customers (based on assumptions of healthy order intake and backlog build into 2024, and strong demand for parts, service and rebuilds), that we will continue to hire technicians and build our product support capabilities to capture market growth and share, and our expectation of continued momentum in our business (based on assumptions of our record equipment backlog, and successful execution of our product support growth strategy, including increasing rebuild activity); 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); and our intention to purchase common shares under our renewed NCIB for a further year and that we will enter into an automatic share purchase plan in connection with our NCIB (no assurance is given as to the number of common shares to be purchased under the NCIB, or if any will be purchased).

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

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

Factors that could cause actual results or events to differ materially from those expressed in or implied by this forward-looking information include: the specific factors stated above; the impact and duration of, and our ability to respond to and manage, high inflation, increasing interest rates, supply chain challenges, and the impacts of the Russia-Ukraine war; general economic and market conditions, including increasing inflationary cost pressure, and economic and market conditions in the regions where we operate; the outcome and impact of Chile's mining royalty bill, constitutional reform process and proposed tax reform bill; foreign exchange rates; commodity prices; interest rates; the level of customer confidence and spending, and the demand for, and prices of, our products and services; our ability to maintain our relationship with Caterpillar; our dependence on the continued market acceptance of our products, including Caterpillar products, and the timely supply of parts and equipment; our ability to continue to sustainably reduce costs and improve productivity and operational efficiencies while continuing to maintain customer service; our ability to manage cost pressures as growth in revenue occurs; our ability to effectively integrate and realize expected synergies from businesses that we acquire; our ability to deliver our backlog, including under our agreement with Artemis Gold; 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 the current challenging times involving volatile commodity prices, high inflation, increasing interest rates, supply chain challenges and the impacts of the Russia-Ukraine war, and successfully execute our economic condition and business cyclicity mitigation strategies, including preparing for future waves (if any) of COVID-19; an undisrupted market recovery, for example, undisrupted by further COVID-19 impacts, commodity price volatility or social unrest; the successful execution of our profitability drivers; that our cost actions to drive earnings capacity in a recovery can be sustained; that commodity prices will remain at constructive levels; that our customers will not curtail their activities; that general economic and market conditions will continue to be strong; that the level of customer confidence and spending, and the demand for, and prices of, our products and services will be maintained; that support and demand for renewable energy will continue to grow; that present supply chain and inflationary challenges will not materially impact large project deliveries in our backlog; our ability to successfully execute our plans and intentions; we will successfully execute initiatives to reduce our GHG emissions; our ability to attract and retain skilled staff; market competition will remain at similar levels; the products and technology offered by our competitors will be as expected; identified opportunities for growth will result in revenue; that we have sufficient liquidity to meet operational needs; consistent and stable legislation in the various countries in which we operate; no disruptive changes in the technology environment; 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; 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

AIF	Annual Information Form
Annual Financial Statements	Annual consolidated financial statements
ARS	Argentine Peso
Audit Committee	Audit Committee of the Board of Directors of Finning
Board	Board of Directors of Finning
CAD	Canadian dollar
CEO	Chief Executive Officer
CEWS	Canadian Emergency Wage Subsidy
CFO	Chief Financial Officer
CLP	Chilean Peso
Consol	Consolidated
COVID-19	Novel Coronavirus
DBRS	Dominion Bond Rating Service
EBIT	Earnings (loss) before finance costs and income tax
EBITDA	Earnings (loss) before finance costs, income tax, depreciation, and amortization
Energyst	Energyst B.V.
EPS	Basic earnings per share
ERM	Enterprise risk management
fav	Favourable
Finning	Finning International Inc.
GAAP	Generally accepted accounting principles
GAAP financial measures	A financial measure determined in accordance with GAAP
GBP	UK pound sterling
HS2	High Speed 2, a planned high-speed railway in the UK the first phase of which is planned to connect London to Birmingham
Hydraquip	Hydraquip Hose Ltd. & Hydraulics and Hoses Direct Ltd.
IAS	International Accounting Standards
IFRS	International Financial Reporting Standards
Interim Financial Statements	Condensed interim consolidated financial statements
KPI	Key performance indicator
LTIP	Long-term incentive plan (also referred to as share-based payment)
MD&A	Management's Discussion and Analysis
n/a	not applicable
n/m	% change not meaningful
NCIB	Normal course issuer bid
ROIC	Return on invested capital
S&P	Standard and Poor's
SEDAR	System for Electronic Document Analysis
SG&A	Selling, general, and administrative costs
Specified Financial Measures	As defined in National Instruments 52-112
UK	United Kingdom
unfav	Unfavourable
USD	US dollar

UNAUDITED CONDENSED INTERIM CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(Canadian \$ millions)	March 31, 2023	December 31, 2022
ASSETS		
Current assets		
Cash and cash equivalents	129	288
Accounts receivable	1,164	1,129
Unbilled receivables	459	422
Inventory (Note 8)	2,710	2,461
Other assets	512	481
Total current assets	4,974	4,781
Property, plant, and equipment	993	973
Rental equipment	478	469
Intangible assets	351	333
Goodwill	331	325
Net post-employment assets	101	98
Distribution network	100	100
Investment in joint ventures	84	83
Other assets	100	107
Total assets	7,512	7,269
LIABILITIES		
Current liabilities		
Short-term debt	1,266	1,068
Accounts payable and accruals	1,389	1,373
Deferred revenue	591	544
Current portion of long-term debt	253	114
Other liabilities	264	302
Total current liabilities	3,763	3,401
Long-term debt	675	815
Long-term lease liabilities	254	255
Deferred tax liabilities	152	153
Other liabilities	188	184
Total liabilities	5,032	4,808
EQUITY		
Share capital	532	536
Accumulated other comprehensive income	246	273
Retained earnings	1,685	1,634
Equity attributable to shareholders of Finning International Inc.	2,463	2,443
Non-controlling interests	17	18
Total equity	2,480	2,461
Total liabilities and equity	7,512	7,269

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

UNAUDITED CONDENSED INTERIM CONSOLIDATED STATEMENTS OF NET INCOME

3 months ended March 31 (Canadian \$ millions, except per share amounts)	2023	2022
Revenue		
New equipment	624	527
Used equipment	92	79
Equipment rental	75	65
Product support	1,308	1,027
Fuel and other	281	255
Total revenue	2,380	1,953
Cost of sales	(1,758)	(1,463)
Gross profit	622	490
Selling, general, and administrative expenses	(407)	(351)
Equity earnings of joint ventures	1	1
Other income (Note 4)	41	—
Other expenses (Note 4)	(18)	—
Earnings before finance costs and income taxes	239	140
Finance costs (Note 5)	(35)	(18)
Income before provision for income taxes	204	122
Provision for income taxes (Note 6)	(71)	(30)
Net income	133	92
Net income (loss) attributable to:		
Shareholders of Finning International Inc.	134	92
Non-controlling interests	(1)	—
Earnings per share (Note 3)		
Basic	0.89	0.59
Diluted	0.89	0.59

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

UNAUDITED CONDENSED INTERIM CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

3 months ended March 31 (Canadian \$ millions)	2023	2022
Net income	133	92
Other comprehensive income, net of income tax		
Items that may be subsequently reclassified to net income:		
Foreign currency translation adjustments	10	(38)
(Loss) gain on net investment hedges	(2)	14
Foreign currency translation adjustments, net of net investment hedges, reclassified to net income (Note 4)	(41)	—
Provision for income taxes on foreign currency translation adjustments, reclassified to net income (Note 4)	9	—
Impact of foreign currency translation and net investment hedges, net of income tax	(24)	(24)
Loss on cash flow hedges	—	(2)
Loss on cash flow hedges, reclassified to net income	1	1
Impact of cash flow hedges, net of income tax	1	(1)
Items that will not be subsequently reclassified to net income:		
Actuarial gain (loss)	1	(9)
Recovery of income taxes on actuarial loss	—	2
Actuarial gain (loss), net of income tax	1	(7)
Total comprehensive income	111	60
Total comprehensive income (loss) attributable to:		
Shareholders of Finning International Inc.	112	60
Non-controlling interests	(1)	—

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

UNAUDITED CONDENSED INTERIM 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	—	—	—	92	92	—	92
Other comprehensive loss	—	—	(25)	(7)	(32)	—	(32)
Total comprehensive (loss) income	—	—	(25)	85	60	—	60
Exercise of share options	1	(1)	—	—	—	—	—
Share option expense	—	1	—	—	1	—	1
Hedging gain transferred to statement of financial position	—	—	(2)	—	(2)	—	(2)
Repurchase of common shares (Note 7)	(6)	—	—	(55)	(61)	—	(61)
Automatic share purchase plan commitment (Note 7)	(1)	—	—	(8)	(9)	—	(9)
Dividends on common shares	—	—	—	(36)	(36)	—	(36)
Balance, March 31, 2022	555	—	185	1,536	2,276	20	2,296
Balance, January 1, 2023	536	—	273	1,634	2,443	18	2,461
Net income (loss)	—	—	—	134	134	(1)	133
Other comprehensive (loss) income	—	—	(23)	1	(22)	—	(22)
Total comprehensive income (loss)	—	—	(23)	135	112	(1)	111
Exercise of share options	1	(1)	—	—	—	—	—
Share option expense	—	1	—	—	1	—	1
Hedging gain transferred to statement of financial position	—	—	(4)	—	(4)	—	(4)
Repurchase of common shares (Note 7)	(5)	—	—	(47)	(52)	—	(52)
Increase in automatic share purchase plan commitment (Note 7)	—	—	—	(1)	(1)	—	(1)
Dividends on common shares	—	—	—	(36)	(36)	—	(36)
Balance, March 31, 2023	532	—	246	1,685	2,463	17	2,480

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

UNAUDITED CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CASH FLOW

3 months ended March 31 (Canadian \$ millions)	2023	2022
OPERATING ACTIVITIES		
Net income	133	92
Adjusting for:		
Depreciation and amortization	92	81
Equity earnings of joint ventures	(1)	(1)
Share-based payment expense	5	18
Provision for income taxes	71	30
Finance costs	35	18
Net benefit cost of defined benefit pension plans and other post-employment benefit plans	4	4
Gain on wind up of foreign subsidiaries (Note 4)	(41)	—
Changes in operating assets and liabilities (Note 9)	(321)	(455)
Additions to rental fleet	(33)	(15)
Additions to rental equipment with purchase options	(22)	(14)
Proceeds on disposal of rental fleet	13	10
Proceeds on disposal of rental equipment with purchase options	4	21
Interest paid	(30)	(15)
Income tax paid	(75)	(47)
Cash flow used in operating activities	(166)	(273)
INVESTING ACTIVITIES		
Additions to property, plant, and equipment and intangible assets	(79)	(30)
Consideration paid for business acquisitions, net of cash acquired (Note 10)	(2)	(84)
Increase in short-term and long-term investments	—	(3)
Cash flow used in investing activities	(81)	(117)
FINANCING ACTIVITIES		
Increase in short-term debt (Note 9)	201	438
Decrease in long-term debt (Note 9)	(4)	(125)
Decrease in lease liabilities (Note 9)	(22)	(19)
Repurchase of common shares	(51)	(61)
Dividends paid	(36)	(36)
Cash flow provided by financing activities	88	197
Effect of currency translation on cash balances	—	(14)
Decrease in cash and cash equivalents	(159)	(207)
Cash and cash equivalents, beginning of period	288	502
Cash and cash equivalents, end of period (Note 9)	129	295

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

1. MATERIAL ACCOUNTING POLICY INFORMATION, KEY ASSUMPTIONS, AND SIGNIFICANT JUDGMENTS

These unaudited condensed interim consolidated financial statements (Interim Financial Statements) of Finning International Inc. and its subsidiaries (together, Finning or the Company) have been prepared in accordance with International Accounting Standard (IAS) 34, *Interim Financial Reporting*, as issued by the International Accounting Standards Board (IASB). Accordingly, certain information and footnote disclosure normally included in annual financial statements prepared in accordance with International Financial Reporting Standards (IFRS) have been omitted or condensed, and therefore these Interim Financial Statements should be read in conjunction with the December 31, 2022 audited annual consolidated financial statements and the notes to such financial statements.

These Interim Financial Statements are based on the IFRS issued and effective for the current year. The Interim Financial Statements were authorized for issuance by the Company's Board of Directors on May 8, 2023. The Company has applied the same accounting policies and methods of computation as the most recent annual consolidated financial statements, except for the impact of the changes in accounting policies disclosed below:

a) Amendments to Standards

The Company has adopted the following 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. Management reviewed the Company's accounting policies and does not expect any changes to the disclosure of material accounting policy information for the December 31, 2023 annual financial statements.
- Amendments to IAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors* (effective January 1, 2023) introduce a definition of 'accounting estimates' and clarify the difference between changes in accounting policies and changes in accounting estimates. The adoption of these amendments did not have any impact on the Company's financial statements.
- Amendments to IAS 12, *Income Taxes* (effective January 1, 2023) clarify how companies should account for deferred tax related to assets and liabilities arising from a single transaction, such as leases and decommissioning obligations. The amendments narrow the scope of the initial recognition exemption so that it does not apply to transactions that give rise to equal and offsetting temporary differences. As a result, companies will need to recognize a deferred tax asset and a deferred tax liability for temporary differences arising on initial recognition of the related asset and liability. Management reviewed its global tax provision and concluded that there were no deferred taxes being netted or not recognized from a single tax treatment and has not applied the initial recognition exemption. The adoption of these amendments did not have any impact on the Company's financial statements.

b) Future Accounting Pronouncements

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

- Amendments to IAS 1, *Presentation of Financial Statements* (effective January 1, 2024):
 - Clarify the classification of liabilities as current or non-current based on contractual rights that are in existence at the end of the reporting period and is unaffected by expectations about whether an entity will exercise its right to defer or accelerate settlement. A liability not due over the next twelve months is classified as non-current even if management intends or expects to settle the liability within twelve months. The amendments also introduce a definition of 'settlement' to make clear that settlement refers to the transfer of cash, equity instruments, other assets, or services to the counterparty. Management is currently assessing the impact of these amendments.
 - Clarify that only covenants with which an entity must comply on or before the reporting date will affect a liability's classification as current or non-current. In addition, the amendments require a company to disclose information about these covenants in the notes to the financial statements. Management is currently assessing the impact of these amendments.
- Amendments to IFRS 16, *Leases* (effective January 1, 2024) explain how an entity accounts for a sale and leaseback after the transaction date. The amendments clarify how a seller-lessee should subsequently measure lease liabilities and when it is appropriate to record a gain or loss on these transactions. The amendments apply to all sale and leaseback transactions entered since the effective date of IFRS 16 (January 1, 2019) and the effective date of this amendment. Management will assess the impact of these amendments on the accounting treatment of sale and leaseback transactions prior to the effective date.

2. SEGMENTED INFORMATION

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

3 months ended March 31, 2023 (\$ millions)	Canada	South America	UK & Ireland	Other	Total
Revenue					
New equipment	281	194	149	—	624
Used equipment	64	11	17	—	92
Equipment rental	47	17	11	—	75
Product support	713	485	110	—	1,308
Fuel and other	281	—	—	—	281
Total revenue	1,386	707	287	—	2,380
Cost of fuel	(236)	—	—	—	(236)
Net revenue	1,150	707	287	—	2,144
Operating costs ⁽¹⁾	(971)	(595)	(260)	(11)	(1,837)
Depreciation and amortization	(50)	(31)	(10)	(1)	(92)
Equity earnings of joint ventures	1	—	—	—	1
Other income	—	—	—	41	41
Other expenses	(4)	(7)	(2)	(5)	(18)
Earnings before finance costs and income taxes	126	74	15	24	239
Finance costs					(35)
Provision for income taxes					(71)
Net income					133
Invested capital ⁽²⁾	2,704	1,392	460	(11)	4,545
Gross capital expenditures ⁽³⁾⁽⁴⁾	42	40	4	5	91
Gross rental equipment spend ⁽⁴⁾	33	19	3	—	55
3 months ended March 31, 2022 (\$ millions)	Canada	South America	UK & Ireland	Other	Total
Revenue					
New equipment	185	167	175	—	527
Used equipment	57	10	12	—	79
Equipment rental	40	14	11	—	65
Product support	564	380	83	—	1,027
Fuel and other	255	—	—	—	255
Total revenue	1,101	571	281	—	1,953
Cost of fuel	(217)	—	—	—	(217)
Net revenue	884	571	281	—	1,736
Operating costs ⁽¹⁾	(758)	(483)	(257)	(18)	(1,516)
Depreciation and amortization	(47)	(23)	(10)	(1)	(81)
Equity earnings of joint ventures	1	—	—	—	1
Earnings (loss) before finance costs and income taxes	80	65	14	(19)	140
Finance costs					(18)
Provision for income taxes					(30)
Net income					92
Invested capital ⁽²⁾	2,122	1,139	448	68	3,777
Gross capital expenditures ⁽³⁾⁽⁴⁾	26	11	2	3	42
Gross rental equipment spend ⁽⁴⁾	21	7	2	—	30

(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.

3. EARNINGS PER SHARE

3 months ended March 31 (\$ millions, except share and per share amounts)	2023		2022	
	Basic	Diluted	Basic	Diluted
Net income attributable to shareholders of Finning	134	134	92	92
Weighted average shares outstanding (WASO)	150,646,870	150,646,870	157,287,663	157,287,663
Effect of dilutive share options		316,564		520,709
WASO with assumed conversions		150,963,434		157,808,372
Earnings per share	0.89	0.89	0.59	0.59

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. There were no anti-dilutive share options related to the three months ended March 31, 2023 and March 31, 2022.

4. OTHER INCOME AND OTHER EXPENSES

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 6) were reclassified to net income on the wind up of foreign subsidiaries; and
- Severance costs.

3 months ended March 31 (\$ millions)	2023	2022
Gain on wind up of foreign subsidiaries	41	—
Other income	41	—

3 months ended March 31 (\$ millions)	2023	2022
Severance costs	(18)	—
Other expenses	(18)	—

5. FINANCE COSTS

The components of finance costs were as follows:

3 months ended March 31 (\$ millions)	2023	2022
Interest on short-term debt	19	2
Interest on long-term debt	10	10
Interest on debt	29	12
Interest on lease liabilities	3	3
Other finance related expenses	3	3
Finance costs	35	18

6. INCOME TAXES

As part of the organizational restructuring described in Note 4, the provision for income taxes in the three months ended March 31, 2023 included a \$9 million expense related to the wind up of foreign subsidiaries and a \$19 million expense for withholding taxes payable upon the planned repatriation of \$170 million of profits from the Company's South American operations.

7. SHARE CAPITAL

During the three months ended March 31, 2023, the Company repurchased 1,500,000 Finning common shares for cancellation for \$52 million, at an average cost of \$34.35 per share, through the Company's normal course issuer bid. During the three months ended March 31, 2022, the Company repurchased 1,625,448 common shares for cancellation for \$61 million, at an average cost of \$37.48 per share.

In connection with the normal course issuer bid, the Company implemented an automatic share purchase plan (ASPP) with a designated broker to enable share repurchases for cancellation during selected blackout periods. At March 31, 2023, an estimated obligation of \$22 million was recorded for the repurchase of shares from April 1, 2023 to May 9, 2023 under this ASPP. At March 31, 2022, an estimated obligation of \$9 million was recorded for the repurchase of shares under the ASPP.

8. INVENTORY

(\$ millions)	March 31, 2023	December 31, 2022
On-hand equipment	1,094	919
Parts and supplies	1,065	1,030
Internal service work in progress	551	512
Total inventory	2,710	2,461

9. SUPPLEMENTAL CASH FLOW INFORMATION

The components of cash and cash equivalents were as follows:

March 31 (\$ millions)	2023	2022
Cash	129	119
Cash equivalents	—	176
Cash and cash equivalents	129	295

The changes in operating assets and liabilities were as follows:

3 months ended March 31 (\$ millions)	2023	2022
Accounts receivable	(33)	(74)
Unbilled receivables	(35)	(65)
Inventory	(244)	(430)
Other assets	(53)	(80)
Accounts payable and accruals	1	220
Other liabilities	43	(26)
Changes in operating assets and liabilities	(321)	(455)

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

(\$ millions)	Short-term debt	Long-term debt	Lease liabilities	Total
Balance, January 1, 2023	1,068	929	331	2,328
Cash flows provided by (used in)				
Financing activities	201	(4)	(22)	175
Operating activities	—	—	(3)	(3)
Total cash movements	201	(4)	(25)	172
Non-cash changes				
Additions	—	—	14	14
Remeasurement of liability and disposals	—	—	4	4
Interest expense	—	—	3	3
Foreign exchange rate changes	(3)	3	5	5
Total non-cash movements	(3)	3	26	26
Balance, March 31, 2023	1,266	928	332	2,526

(\$ millions)	Short-term debt	Long-term debt	Lease liabilities	Total
Balance, January 1, 2022	374	1,111	328	1,813
Cash flows provided by (used in)				
Financing activities	438	(125)	(19)	294
Operating activities	—	—	(3)	(3)
Total cash movements	438	(125)	(22)	291
Non-cash changes				
Additions	—	—	12	12
Remeasurement of liability and disposals	—	—	(3)	(3)
Interest expense	—	—	3	3
Foreign exchange rate changes	(8)	(14)	—	(22)
Total non-cash movements	(8)	(14)	12	(10)
Balance, March 31, 2022	804	972	318	2,094

10. ACQUISITION

Hydraquip Hose & Hydraulics Ltd. 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. 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 ⁽¹⁾	3
Property, plant & equipment	6
Intangible assets	29
Goodwill	80
Lease liabilities	(3)
Deferred tax liabilities	(8)
Net assets acquired	117

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

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