FINNING

Q1 2017 EARNINGS RELEASE **May 10, 2017**

Finning reports Q1 2017 results

Vancouver, B.C. – Finning International Inc. (TSX: FTT) ("Finning" or the "Company") reported first quarter 2017 results today. All monetary amounts are in Canadian dollars unless otherwise stated.

HIGHLIGHTS

- EPS[1] was $0.28 per share.
- Strong operating performance in all regions.
  - Canada achieved the highest profitability over the last six quarters, driven by stronger product support revenues and a reduced cost structure.
  - South America reported the highest EBIT[1] since Q4 2015, with strong new equipment sales in Argentina and solid product support in Chile.
  - Reduced cost structure and higher revenues (in functional currency) resulted in significantly improved performance in the UK & Ireland.
- Equipment backlog[3] rose by 60% from Q4 2016 to over $700 million, driven mostly by improved order intake[3] in Canada.

"Our first quarter results provide a solid start to the year, reflecting strong execution to advance our operational priorities and the positive impact of a reduced cost base across our operations. While total revenues declined from last year, product support increased and profitability improved," said Scott Thomson, president and CEO of Finning International Inc. "Despite an encouraging increase in equipment backlog, we expect new equipment markets to remain soft and competitive in the near term. Given continued uncertainty in our territories, we maintain our expectation that 2017 revenue will be essentially flat relative to last year."

"Despite continued top line pressures, each of our regions is achieving meaningful progress in working capital efficiencies, driven in large part by improvement in our equipment supply chain. This gives me confidence in our ability to demonstrate a significantly improved return on invested capital when demand recovers," concluded Mr. Thomson.

Q1 2017 FINANCIAL SUMMARY

Quarterly Overview *$ millions, except per share amounts*	**Q1 2017**	Q1 2016	% change
Revenue	**1,402**	1,494	(6)
EBIT	**86**	45	92
EBIT margin	***6.1%***	*3.0%*	
EBITDA[1][3]	**131**	96	37
EBITDA margin[3]	***9.3%***	*6.4%*	
Net income	**47**	15	218
Basic EPS	**0.28**	0.09	218
Free cash flow	**(76)**	30	n/m

n/m – percentage change not meaningful

Q1 2017 EBIT and EBITDA by Operation *$ millions, except per share amounts*	Canada	South America	UK & Ireland	Corporate & Other	Finning Total	EPS
EBIT / EPS	47	42	8	(11)	86	0.28
EBIT margin	*6.8%*	*8.4%*	*3.8%*	-	*6.1%*	
EBITDA	71	57	14	(11)	131	
EBITDA margin	*10.2%*	*11.4%*	*6.9%*	-	*9.3%*	

Included in Q1 2016 results were the following significant items that management does not consider indicative of operational and financial trends either by nature or amount. These significant items are summarized below and described in more detail on page 3 of the Company's Management's Discussion and Analysis ("MD&A"). There were no significant items in Q1 2017.

Q1 2016 EBIT and EBITDA by Operation *$ millions, except per share amounts*	Canada	South America	UK & Ireland	Corporate & Other	Finning Total	EPS
EBIT / EPS	25	32	(4)	(8)	45	0.09
Severance costs	8	7	2	-	17	0.07
Power systems project provisions	-	-	5	-	5	0.03
Adjusted EBIT[(2)(3)] / Adjusted EPS[(2)(3)]	33	39	3	(8)	67	0.19
Adjusted EBITDA[(2)(3)]	60	55	11	(8)	118	
EBIT margin	*3.0%*	*7.3%*	*(1.9)%*	-	*3.0%*	
Adjusted EBIT margin[(2)(3)]	*4.0%*	*8.9%*	*1.5%*	-	*4.5%*	
Adjusted EBITDA margin[(2)(3)]	*7.1%*	*12.8%*	*5.3%*	-	*7.9%*	

- Revenues were down 6% from Q1 2016 due to lower revenues in Canada and the negative impact of the foreign currency translation on revenues from the UK & Ireland and South America. New equipment sales declined by 18%, as sales in Canada were lower compared to a very strong Q1 2016. This was partly offset by higher new equipment volumes in South America and the UK & Ireland. Product support revenues increased by 4%, driven by Canada. In functional currencies, product support showed modest improvement in South America and the UK & Ireland, however, it was lower when translated into Canadian dollars.

- Gross profit was up modestly on lower revenues compared to Q1 2016, reflecting a shift in revenue mix to product support, as well as higher margins in new and used equipment, and rental operations.

- EBIT increased by $19 million from Adjusted EBIT in Q1 2016, driven by higher gross profit and a reduced cost structure. SG&A[(1)] was down 4% from Q1 2016, excluding severance. All operations achieved higher EBIT, with the most significant improvement in Canada - up $14 million from Adjusted Q1 2016.

- EPS was $0.28 per share, up from Adjusted EPS of $0.19 in Q1 2016.

- Q1 free cash flow was ($76) million use of cash, reflecting an increase in internal service work in progress inventory to meet higher demand, as well as previously reported acceleration of free cash flow in Q4 2016.

Invested Capital[3] and ROIC[1][3]	**Q1 2017**	Q4 2016	Q1 2016
Invested capital *($ millions)*			
Consolidated	**2,926**	2,797	3,085
Canada	**1,629**	1,595	1,685
South America (U.S. dollars)	**768**	741	796
UK & Ireland (U.K. pound sterling)	**168**	130	182
Invested capital turnover[3] *(times)*	**1.90**	1.90	1.82
Adjusted ROIC[2][3] *(%)*			
Consolidated	**10.0**	9.3	10.4
Canada	**10.2**	9.3	10.1
South America	**15.4**	15.0	14.5
UK & Ireland	**8.2**	5.9	7.4

- A $129 million increase in invested capital from Q4 2016 was mostly attributable to higher internal service work in progress inventory, primarily in Canada in line with growing demand for product support, as well as lower accounts payable balances in South America.

- Invested capital turnover of 1.90 times was up from 1.82 times in Q1 2016, despite a decline in revenues. This was driven by higher inventory turns and lower working capital to sales ratio from Q1 2016, reflecting the progress in improving supply chain efficiencies.

- Adjusted ROIC increased in all regions compared to Adjusted ROIC in Q4 2016 and Q1 2016, driven by lower average invested capital levels.

Q1 2017 HIGHLIGHTS BY OPERATION

Canada

- Revenues declined by 19% primarily due to lower new equipment sales - down 53% compared to a strong Q1 2016, which included large mining deliveries in the oil sands and construction equipment deliveries to Site C in British Columbia. Product support revenues increased by 12% driven primarily by higher parts sales in the oil sands and other mining segments, as customers were resuming maintenance following a period of deferrals. Improved activity in the pipeline and oil & gas sectors also contributed to stronger product support.

- Canada reported improved gross profit on lower revenues compared to Q1 2016, driven by a shift in revenue mix to product support, as well as higher margins in new and used equipment, and rental operations. Combined with lower SG&A costs relative to Q1 2016, this resulted in a significantly improved EBIT performance. EBIT of $47 million was 40% higher than Adjusted EBIT in Q1 2016, and was the highest Adjusted EBIT over the last six quarters. Canada achieved an EBIT margin of 6.8% in Q1 2017, driven by stronger product support revenues and a reduced cost structure.

South America

- Revenues were up 16% (up 21% in functional currency, US dollars) on stronger new equipment sales which more than doubled from Q1 2016. This was driven mostly by higher construction sales in Argentina, as well as the delivery of a few large machines to mining customers. In functional currency, product support revenues grew modestly from Q1 2016, despite a 7-week labour dispute at the Escondida mine, as a result of an increase in product support revenues from other customers, as well as the successful implementation of a mitigation plan with Escondida. Since it will take some time for the Escondida mine to return to full capacity, the Company expects an adverse impact on its product support business in Q2 2017.

- EBIT of $42 million was up 9% from Adjusted EBIT in Q1 2016. EBIT margin of 8.4% was below Adjusted EBIT margin of 8.9% in Q1 2016, primarily due to the shift in revenue mix to new equipment sales.

United Kingdom & Ireland

- UK & Ireland successfully capitalized on healthy market activity in Q1 2017, particularly in the quarrying, infrastructure, and power generation segments. In functional currency (UK Pound Sterling), revenues were up 18% from Q1 2016, driven by higher new equipment and engine sales, as well as improved activity in the used equipment markets. Product support revenues were up modestly in functional currency on higher parts volumes. However, due to the negative translation impact of a weaker UK Pound Sterling to Canadian dollar, reported total revenues in Canadian dollars were slightly below Q1 2016.

- EBIT of $8 million and EBIT margin of 3.8% improved significantly from Adjusted EBIT results in Q1 2016, primarily due to a reduced cost structure. In functional currency, UK and Ireland's SG&A costs were down 3% from Q1 2016 (excluding severance), while revenues increased in all lines of business. Management remains focused on improving ROIC performance in a very competitive market environment. Q1 2017 Adjusted ROIC of 8.2% was the highest over the last five quarters.

CORPORATE AND BUSINESS DEVELOPMENTS

Dividend

The Board of Directors has approved a quarterly dividend of $0.1825 per share, payable on June 8, 2017 to shareholders of record on May 25, 2017. This dividend will be considered an eligible dividend for Canadian income tax purposes.

SELECTED CONSOLIDATED FINANCIAL INFORMATION

$ millions, except per share amounts	**Three months ended Mar 31**		
	2017	2016	% change fav (unfav)
New equipment	**423**	515	(18)
Used equipment	**73**	98	(25)
Equipment rental	**51**	56	(10)
Product support	**852**	821	4
Other	**3**	4	-
Total revenue	**1,402**	1,494	(6)
Gross profit	**393**	381	3
Gross profit margin	***28.0%***	*25.5%*	
SG&A	**(307)**	(337)	9
SG&A as a percentage of revenue	***(21.9)%***	*(22.5)%*	
Equity (loss) earnings of joint ventures and associate	**(1)**	1	
Other income	**1**	-	
EBIT	**86**	45	92
EBIT margin	***6.1%***	*3.0%*	
Adjusted EBIT	**86**	67	29
Adjusted EBIT margin	***6.1%***	*4.5%*	
Net income	**47**	15	218
Basic EPS	**0.28**	0.09	218
Adjusted EPS	**0.28**	0.19	49
EBITDA	**131**	96	37
EBITDA margin	***9.3%***	*6.4%*	
Adjusted EBITDA	**131**	118	11
Adjusted EBITDA margin	***9.3%***	*7.9%*	
Free cash flow	**(76)**	30	n/m

	Mar 31, 2017	Dec 31, 2016
Invested capital	**2,926**	2,797
Invested capital turnover (times)	**1.90**	1.90
Net debt to invested capital	**34.5%**	32.0%
ROIC	**7.1%**	5.6%
Adjusted ROIC	**10.0%**	9.3%

n/m – percentage change not meaningful

Q1 2017 INVESTOR CALL

The Company will hold an investor call on May 10 at 10:00 am Eastern Time. Dial-in numbers: 1-800-319-4610 (Canada and US), 1-416-915-3239 (Toronto area), 1-604-638-5340 (international). The call will be webcast live and archived for three months at http://www.finning.com/en_CA/company/investors.html. Finning no longer provides a phone playback recording; please use the webcast to access the archived call.

ABOUT FINNING

Finning International Inc. (TSX: FTT) is the world's largest Caterpillar equipment dealer delivering unrivalled service to customers for over 80 years. Finning sells, rents, and provides parts and services for equipment and engines to help customers maximize productivity. Headquartered in Vancouver, B.C., the Company operates in Western Canada, Chile, Argentina, Bolivia, the United Kingdom and Ireland.

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FOOTNOTES

(1) Earnings Before Finance Costs and Income Taxes (EBIT); Basic Earnings per Share (EPS); Earnings Before Finance Costs, Income Taxes, Depreciation and Amortization (EBITDA); Selling, General & Administrative Expenses (SG&A); Return on Invested Capital (ROIC).

(2) Reported metrics may be impacted by significant items management does not consider indicative of operational and financial trends either by nature or amount; these significant items are summarized on page 2 of this news release and described on pages 23 to 25 of the Company's MD&A. The financial metrics that have been adjusted to take these items into account are referred to as "Adjusted" metrics. There were no significant items adjusted in Q1 2017.

(3) These financial metrics, referred to as "non-GAAP financial measures" do not have a standardized meaning under International Financial Reporting Standards (IFRS), which are also referred to herein as Generally Accepted Accounting Principles (GAAP), and therefore may not be comparable to similar measures presented by other issuers. For additional information regarding these financial metrics, including definitions and reconciliations from each of these non-GAAP financial measures to their most directly comparable measure under GAAP, where applicable, see the heading "Description of Non-GAAP Financial Measures and Reconciliations" in the Company's MD&A. Management believes that providing certain non-GAAP financial measures provides users of the Company's consolidated financial statements with important information regarding the operational performance and related trends of the Company's business. By considering these measures in combination with the comparable IFRS measures set out in the Company's MD&A, management believes that users are provided a better overall understanding of the Company's business and its financial performance during the relevant period than if they simply considered the IFRS measures alone.

FORWARD-LOOKING DISCLAIMER

This report contains statements about the Company's business outlook, objectives, plans, strategic priorities and other statements that are not historical facts. A statement Finning makes is forward-looking when it uses what the Company knows and expects today to make a statement about the future. Forward-looking statements may include words such as aim, anticipate, assumption, believe, could, expect, goal, guidance, intend, may, objective, outlook, plan, project, seek, should, strategy, strive, target, and will. Forward-looking statements in this report include, but are not limited to, statements with respect to: expected revenue levels compared to last year; expectation for new equipment markets to remain soft and competitive in the near term; expectation for continued uncertainty in Finning's territories; the impact of the Escondida mine returning to full capacity and the expected adverse impact on the Company's product support business; and the UK and Ireland's focus on improving ROIC performance in a very competitive market. All such forward-looking statements are made pursuant to the 'safe harbour' provisions of applicable Canadian securities laws.

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

Forward-looking statements, by their very nature, are subject to numerous risks and uncertainties and are based on several assumptions which give rise to the possibility that actual results could differ materially from the expectations expressed in or implied by such forward-looking statements and that Finning's business outlook, objectives, plans, strategic priorities and other statements that are not historical facts may not be achieved. As a result, Finning cannot guarantee that any forward-looking statement will materialize. Factors that could cause actual results or events to differ materially from those expressed in or implied by these forward-looking statements include: general economic and market conditions; foreign exchange rates; commodity prices; the level of customer confidence and spending, and the demand for, and prices of, Finning's products and services; Finning's ability to maintain its relationship with Caterpillar Inc.; Finning's dependence on the continued market acceptance of its products, including Caterpillar products, and the timely supply of parts and equipment; Finning's ability to continue to improve productivity and operational efficiencies while continuing to maintain customer service; Finning's ability to manage cost pressures as growth in revenue occurs; Finning's ability to reduce costs in response to slowing activity levels; Finning's ability to attract sufficient skilled labour resources as market conditions, business strategy or technologies change; Finning's ability to negotiate and renew collective bargaining agreements with satisfactory terms for Finning's employees and the Company; the intensity of competitive activity; Finning's ability to raise the capital needed to implement its business plan; regulatory initiatives or proceedings, litigation and changes in laws or regulations; stock market volatility; changes in political and economic environments for operations; the integrity, reliability and availability of, and benefits from information technology and the data processed by that technology; and Finning's ability to protect itself from cybersecurity threats or incidents. Forward-looking statements are provided in this report for the purpose of giving information about management's current expectations and plans and allowing investors and others to get a better understanding of Finning's operating environment. However, readers are cautioned that it may not be appropriate to use such forward-looking statements for any other purpose.

Forward-looking statements made in this report are based on a number of assumptions that Finning believed were reasonable on the day the Company made the forward-looking statements. Refer in particular to the Outlook section of the MD&A for forward-looking statements. Some of the assumptions, risks, and other factors which could cause results to differ materially from those expressed in the forward-looking statements contained in this report are discussed in Section 4 of the Company's current AIF and in the annual MD&A for the financial risks.

Finning cautions readers that the risks described in the MD&A and the AIF are not the only ones that could impact the Company. Additional risks and uncertainties not currently known to the Company or that are currently deemed to be immaterial may also have a material adverse effect on Finning's business, financial condition, or results of operations.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS

May 9, 2017

This Management's Discussion and Analysis (MD&A) of Finning International Inc. (Finning or the Company) should be read in conjunction with the interim condensed consolidated financial statements and the accompanying notes thereto, which have been prepared in accordance with International Accounting Standard (IAS) 34, *Interim Financial Reporting*. All dollar amounts presented in this MD&A are expressed in Canadian dollars, unless otherwise stated. Additional information relating to the Company, including its current Annual Information Form (AIF), can be found under the Company's profile on the SEDAR (System for Electronic Document Analysis and Retrieval) website at www.sedar.com.

First Quarter Overview

($ millions, except for share data)	Q1 2017	Q1 2016	% Change fav (unfav)
Revenue	**$ 1,402**	$ 1,494	(6)%
Gross profit	**393**	381	3%
Selling, general & administrative expenses (SG&A)	**(307)**	(337)	9%
Equity (loss) earnings of joint ventures and associate	**(1)**	1	n/m
Other income	**1**	—	n/m
Earnings before finance costs and income taxes (EBIT)	**$ 86**	$ 45	92%
Net income	**$ 47**	$ 15	218%
Basic earnings per share (EPS)	**0.28**	0.09	218%
Earnings before finance costs, income taxes, depreciation and amortization (EBITDA) (1)	**$ 131**	$ 96	37%
Free cash flow (1)	**$ (76)**	$ 30	n/m
Adjusted EBIT (1)(2)	**$ 86**	$ 67	29%
Adjusted net income (1)(2)	**$ 47**	$ 31	49%
Adjusted EPS (1)(2)	**$ 0.28**	$ 0.19	49%
Adjusted EBITDA (1)(2)	**$ 131**	$ 118	11%
Gross profit margin	**28.0%**	25.5%	
SG&A as a percentage of revenue	**21.9%**	22.5%	
EBIT margin	**6.1%**	3.0%	
EBITDA margin	**9.3%**	6.4%	
Adjusted EBIT margin (1)(2)	**6.1%**	4.5%	
Adjusted EBITDA margin (1)(2)	**9.3%**	7.9%	

n/m = % change not meaningful

(1) These financial metrics, referred to as "non-GAAP financial measures", do not have a standardized meaning under International Financial Reporting Standards (IFRS), which are also referred to herein as Generally Accepted Accounting Principles (GAAP), and therefore may not be comparable to similar measures presented by other issuers. For additional information regarding these financial metrics, including definitions and reconciliations from each of these non-GAAP financial measures to their most directly comparable measure under GAAP, where available, see the heading "Description of Non-GAAP Financial Measures and Reconciliations" later in this MD&A.

(2) Certain 2016 financial metrics were impacted by significant items management does not consider indicative of operational and financial trends either by nature or amount; these significant items are described on page 3 in this MD&A and the financial metrics which have been adjusted to take into account these items are referred to as "Adjusted" metrics. There were no significant items adjusted in Q1 2017, therefore the adjusted metrics above for Q1 2017 are the same as the metrics reported in accordance with IFRS ("reported metrics").

2017 First Quarter Highlights

- Revenue of $1.4 billion was down 6% from Q1 2016 primarily due to an 18% decrease in new equipment revenue, partially offset by a 4% increase in product support, up in all operations. New equipment revenue was more than double the Q1 2016 level in the Company's South American operations, but this was more than offset by a reduction in new equipment revenue in the Company's Canadian operations due to large mining and core equipment deliveries last year.
- Overall gross profit margin was higher than Q1 2016, with a mix shift to higher margin product support revenues as well as improved margins from most lines of business.
- EBIT of $86 million and EBIT margin of 6.1% reported in Q1 2017 were higher than the $45 million and 3.0% earned in the same period last year. Q1 2016 results included $17 million of severance costs resulting from restructuring actions taken by the Company to align its cost structure to lower market activity as well as $5 million of provisions on certain power systems contracts in the Company's UK operations.
- Excluding the impact of these significant items in the prior year, EBIT of $86 million and EBIT margin of 6.1% in Q1 2017 increased 29% over the Adjusted EBIT of $67 million and 160 basis points from the Adjusted EBIT margin of 4.5% in the prior year. EBIT margin improved mainly due to higher gross profit margin achieved in the current quarter.
- EBITDA was up 11% from Adjusted EBITDA in Q1 2016.
- Basic EPS in Q1 2017 was $0.28, compared to $0.09 in the prior period. Adjusting the prior period for the impact of severance costs and provisions on certain power systems contracts as noted above, Q1 2016 Adjusted EPS was $0.19.
- Free cash flow use of $76 million in Q1 2017, reflected higher use of cash in all operations, largely due to increased internal service work in progress inventory to meet higher demand, as well as previously reported acceleration of free cash flow in Q4 2016. Q1 2016 free cash flow of $30 million was largely driven by much lower purchases of inventory in 2016 due to lower market activity, as well as higher deliveries of mining equipment from the Company's Canadian operations.
- Equipment backlog[(1)] was $0.7 billion at the end of March 2017 compared to $0.5 billion at the end of December 2016 driven mostly by improved order intake[(1)] in the Company's Canadian operations during the first quarter of 2017.

Non-GAAP Financial Measures

Management believes that providing certain non-GAAP financial measures provides users of the Company's consolidated financial statements with important information regarding the operational performance and related trends of the Company's business. By considering these measures in combination with the comparable IFRS measures set out in this MD&A, management believes that users are provided a better overall understanding of the Company's business and its financial performance during the relevant period than if they simply considered the IFRS measures alone.

During the years ended December 31, 2016 and 2015, there were a number of significant items that management does not consider to be indicative of future financial trends of the Company either by nature or amount. As a result, management excludes these items when evaluating its consolidated operating financial performance and the performance of each of its operations. These items may not be non-recurring, but management believes that excluding these significant items from financial results reported solely in accordance with GAAP provides a better understanding of the Company's consolidated financial performance for the current period when considered along with the GAAP results. Adjusted financial metrics are intended to provide additional information to users of the MD&A. This information should not be considered in isolation or as a substitute for financial measures prepared in accordance with GAAP. In addition, because non-GAAP financial measures do not have a standardized meaning under GAAP, they may not be comparable to similar measures presented by other issuers.

(1) These are non-GAAP financial measures that do not have a standardized meaning under IFRS, and therefore may not be comparable to similar measures presented by other issuers. For additional information regarding these financial metrics, including definition and reconciliation from each of these non-GAAP financial measures to their most directly comparable measure under GAAP, where available, see the heading "Description of Non-GAAP Financial Measures and Reconciliations" later in this MD&A.

There were no significant items identified by management to adjust the results of the Company for the three months ended March 31, 2017.

Significant items that affected the results of the Company for the three months ended March 31, 2016 which are not considered by management to be indicative of operational and financial trends were:

- Severance costs related to the global workforce reduction during the quarter, as the Company continued to align its cost structure to lower market activity.
- As part of the restructuring and repositioning of the Company's UK Power Systems business, management in the UK & Ireland completed a detailed review of power systems contracts and projects. As a result, management recorded provisions on certain power systems contracts during the quarter.

The magnitude of each of these items, and reconciliation of the non-GAAP metrics to the closest equivalent GAAP metrics, is shown in the following table:

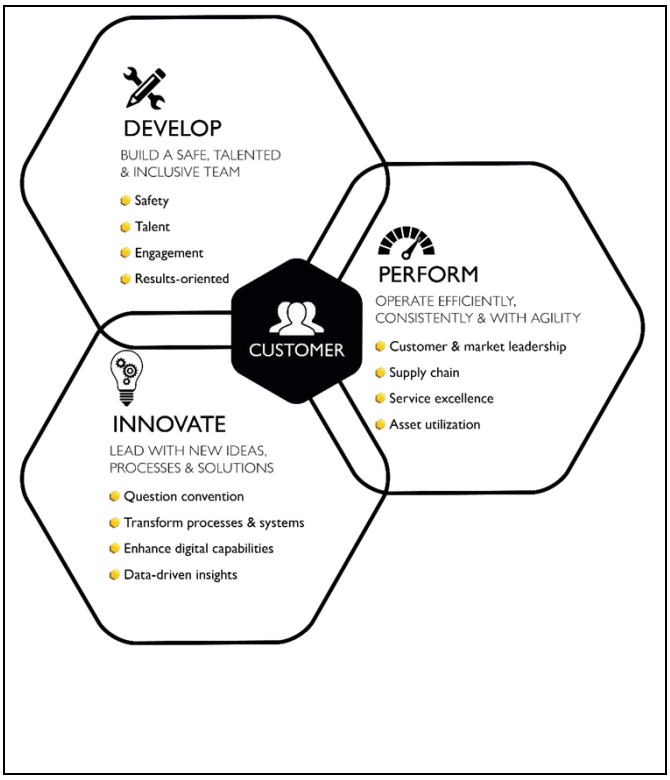
	EBIT				Net Income	EPS
3 months ended March 31, 2016 ($ millions except per share amounts)	**Canada**	**South America**	**UK & Ireland**	**Consol[1]**	**Consol**	**Consol**
EBIT, net income, and EPS	$ 25	$ 32	$ (4)	$ 45	$ 15	$ 0.09
Significant items:						
Severance costs	8	7	2	17	12	0.07
Power systems project provisions	—	—	5	5	4	0.03
Adjusted EBIT, Adjusted net income, and Adjusted EPS	$ 33	$ 39	$ 3	$ 67	$ 31	$ 0.19

(1) Consolidated results include other operations – corporate head office

Strategic Direction

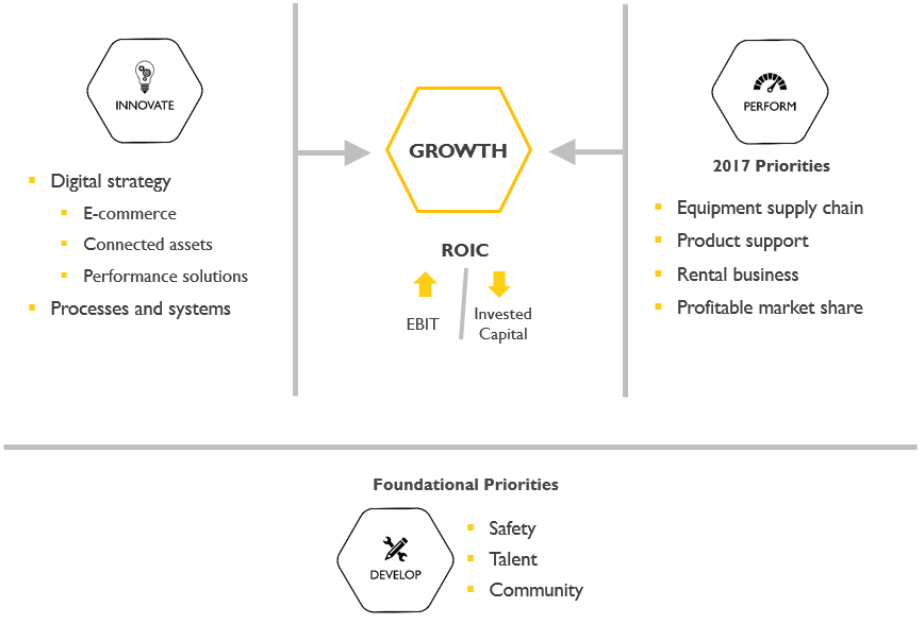
Finning's strategy is to continue to build on its strong foundation of safety and talent management, while earning customer loyalty and advancing its operational excellence agenda. Significantly reduced cost structure and sustainable improvements across the organization are expected to drive higher profitability as demand strengthens. Capital discipline and improved working capital management are expected to contribute to positive annual free cash flow through the cycle.

As part of the Company's strategy update in 2016, Finning launched a new purpose statement – ***'We believe in partnering and innovating to build and power a better world'.*** Going forward, Finning's customer-centric growth strategy is comprised of three pillars – develop, perform and innovate. This strategic framework will advance the company-wide commitment towards developing a safe, talented and inclusive team; drive efficient and consistent operating performance across Finning's operations; and encourage innovation in all areas of the business, including broadening digital capabilities and improving processes and systems. Execution of this strategy is expected to generate greater customer value, contribute to the company's financial goals, and support achievement of Finning's vision: ***'Leveraging our global expertise and insight, we are a trusted partner in transforming our customers' performance.'***



Profitable and Capital Efficient Growth

Finning's focus on profitable and capital efficient growth is consistent with its commitment to improve return on invested capital (ROIC)[1]. In 2017, the Company's priorities include transforming its global equipment supply chain, growing product support from its large installed equipment population and improving the financial performance of its rental business. In addition, the Company's modest investment in Finning Digital, a new global division within Finning, is expected to accelerate delivery of innovative customer solutions, improve customer experience, and generate new revenue opportunities.



[1] This is a non-GAAP financial measure that does not have a standardized meaning under IFRS, and therefore may not be comparable to similar measures presented by other issuers. For additional information regarding this financial metric, including definition and reconciliation from this non-GAAP financial measure to its most directly comparable measure under GAAP, where available, see the heading "Description of Non-GAAP Financial Measures and Reconciliations" later in this MD&A.

Quarterly Key Performance Measures

The Company utilizes the following Key Performance Indicators (KPIs) to consistently measure performance across the organization and monitor progress in improving ROIC. The Company's 2017 incentive plans are aligned with these KPIs.

	2017	2016				2015			
	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
ROIC [1]									
Consolidated	**7.1 %**	5.6 %	(6.6)%	(6.4)%	(4.0)%	(3.0)%	11.0 %	12.9 %	14.1 %
Canada	**6.6 %**	5.3 %	4.3 %	4.0 %	5.4 %	5.5 %	10.9 %	13.9 %	15.3 %
South America	**14.3 %**	13.3 %	(18.1)%	(17.0)%	(14.9)%	(12.8)%	13.2 %	13.6 %	14.4 %
UK & Ireland	**0.0 %**	(4.5)%	(17.4)%	(15.7)%	(4.5)%	(1.4)%	10.5 %	13.2 %	14.7 %
EBIT [1] ($ millions)									
Consolidated	**86**	18	73	29	45	(349)	63	106	75
Canada	**47**	(3)	37	28	25	(17)	34	52	29
South America	**42**	27	40	38	32	(303)	32	52	45
UK & Ireland	**8**	8	10	(26)	(4)	(31)	7	12	7
EBIT Margin [1][3]									
Consolidated	**6.1 %**	1.3 %	5.4 %	2.3 %	3.0 %	(22.7)%	4.2 %	6.3 %	4.9 %
Canada	**6.8 %**	(0.3)%	5.9 %	4.4 %	3.0 %	(2.4)%	4.5 %	6.1 %	3.6 %
South America	**8.4 %**	5.0 %	8.7 %	8.8 %	7.3 %	(57.3)%	6.4 %	9.4 %	9.2 %
UK & Ireland	**3.8 %**	3.3 %	3.8 %	(10.5)%	(1.9)%	(10.6)%	2.7 %	4.2 %	3.1 %
Invested Capital [2] ($ millions)									
Consolidated	**2,926**	2,797	2,917	3,041	3,085	3,240	3,802	3,536	3,541
Canada	**1,629**	1,595	1,650	1,695	1,685	1,760	1,871	1,745	1,794
South America	**1,022**	996	1,021	1,072	1,033	1,122	1,485	1,402	1,417
UK & Ireland	**280**	216	253	263	340	321	442	381	330
Invested Capital Turnover [2][3]									
Consolidated	**1.90x**	1.90x	1.85x	1.78x	1.82x	1.78x	1.88x	1.99x	2.06x
Canada	**1.62x**	1.70x	1.66x	1.68x	1.80x	1.74x	1.96x	2.09x	2.14x
South America	**1.88x**	1.80x	1.74x	1.61x	1.59x	1.52x	1.51x	1.57x	1.63x
UK & Ireland	**3.75x**	3.54x	3.41x	2.98x	2.81x	2.93x	2.93x	3.21x	3.40x
Inventory ($ millions)	**1,653**	1,601	1,726	1,688	1,740	1,800	1,995	1,919	1,973
Inventory Turns [2][3] (times)	**2.61x**	2.49x	2.26x	2.43x	2.58x	2.38x	2.39x	2.44x	2.72x
Working Capital to Sales Ratio [2][3]	**30.3 %**	30.4 %	31.5 %	32.4 %	31.4 %	32.2 %	30.1 %	28.2 %	26.9 %
Free Cash Flow ($ millions)	**(76)**	113	163	64	30	347	140	70	(232)
Net Debt to Invested Capital Ratio [2]	**34.5 %**	32.0 %	35.0 %	37.9 %	37.0 %	36.7 %	38.7 %	35.4 %	36.0 %
EBITDA [1] ($ millions)	**131**	65	119	77	96	(282)	125	157	126
Net Debt to EBITDA Ratio [1][2]	**2.6**	2.5	109.4	71.5	12.0	9.5	2.4	1.9	1.9

[1] Reported financial metrics may be impacted by significant items management does not consider indicative of operational and financial trends either by nature or amount; these significant items are described on pages 23 - 25 in this MD&A and the financial metrics which have been adjusted to take into account these items are referred to as "Adjusted" metrics.

[2] These are non-GAAP financial measures that do not have a standardized meaning under IFRS, and therefore may not be comparable to similar measures presented by other issuers. For additional information regarding these financial metrics, including definitions and reconciliations from each of these non-GAAP financial measures to their most directly comparable measure under GAAP, where available, see the heading "Description of Non-GAAP Financial Measures and Reconciliations" later in this MD&A.

[3] In 2016, management voluntarily changed its presentation of certain expenses to provide reliable and more relevant information to users of the financial statements and better align with industry comparable companies. In addition, management has concluded that certain cost recoveries are better reflected as revenues. Certain line items and key performance metrics have been restated in the comparative 2015 period but the impact of restatement is not significant.

Quarterly Key Performance Measures – Adjusted

Reported financial metrics may be impacted by significant items management does not consider indicative of operational and financial trends either by nature or amount; these significant items are described on pages 23 - 25 in this MD&A and the financial metrics which have been adjusted to take into account these items are referred to as "Adjusted" metrics. The impact of these items on certain key performance measures is shown below:

	2017	2016				2015			
	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Adjusted ROIC [1]									
Consolidated	**10.0 %**	9.3 %	9.2 %	9.4 %	10.4 %	10.9 %	12.8 %	14.3 %	15.5 %
Canada	**10.2 %**	9.3 %	8.7 %	9.3 %	10.1 %	10.6 %	13.1 %	15.3 %	16.7 %
South America	**15.4 %**	15.0 %	15.6 %	14.2 %	14.5 %	14.0 %	14.3 %	15.2 %	16.0 %
UK & Ireland	**8.2 %**	5.9 %	3.4 %	3.3 %	7.4 %	9.0 %	11.9 %	13.9 %	15.3 %
Adjusted EBIT [2] ($ millions)									
Consolidated	**86**	70	73	63	67	82	97	112	94
Canada	**47**	44	37	40	33	39	51	55	46
South America	**42**	37	40	39	39	46	42	55	46
UK & Ireland	**8**	8	10	(5)	3	3	11	12	8
Adjusted EBIT Margin [2][3]									
Consolidated	**6.1 %**	4.8 %	5.4 %	4.9 %	4.5 %	5.3 %	6.4 %	6.6 %	6.1 %
Canada	**6.8 %**	6.2 %	5.9 %	6.3 %	4.0 %	5.5 %	6.9 %	6.3 %	5.7 %
South America	**8.4 %**	7.0 %	8.7 %	9.1 %	8.9 %	9.0 %	8.3 %	10.0 %	9.4 %
UK & Ireland	**3.8 %**	3.3 %	3.8 %	(1.9)%	1.5 %	0.8 %	4.1 %	4.3 %	3.4 %
Adjusted EBITDA [2][4]	**131**	117	119	111	118	139	159	163	145
Net Debt to Adjusted EBITDA Ratio [1][4]	**2.1**	1.9	2.1	2.2	2.0	2.0	2.2	1.8	1.8

[1] These are non-GAAP financial measures that do not have a standardized meaning under IFRS, and therefore may not be comparable to similar measures presented by other issuers. For additional information regarding these financial metrics, including definitions and reconciliations from each of these non-GAAP financial measures to their most directly comparable measure under GAAP, where available, see the heading "Description of Non-GAAP Financial Measures and Reconciliations" later in this MD&A.

[2] There were no significant items for which adjustments were made in Q3 2016 and Q1 2017, therefore the adjusted metrics above for Q3 2016 and Q1 2017 are the same as the reported metrics.

[3] In 2016, management voluntarily changed its presentation of certain expenses to provide reliable and more relevant information to users of the financial statements and better align with industry comparable companies. In addition, management has concluded that certain cost recoveries are better reflected as revenues. Certain line items and key performance metrics have been restated in the comparative 2015 period but the impact of restatement is not significant.

[4] Of the significant items described on pages 23-25, $10 million was recorded in depreciation and amortization expense in Q4 2015.

Revenue

The Company generated revenue of $1.4 billion during the first three months of 2017, a decrease of 6% from Q1 2016. Revenue was up in the Company's South American and UK & Ireland operations in functional currency, driven by higher new equipment sales, but these increases were more than offset by lower new equipment revenues from the Company's Canadian operations and the negative impact of foreign currency translation.

The 17% stronger Canadian dollar relative to the U.K. pound sterling and 4% stronger Canadian dollar relative to the U.S. dollar in the quarter had an adverse impact on revenue of approximately $60 million. However, the foreign currency translation impact on EBIT was minimal.

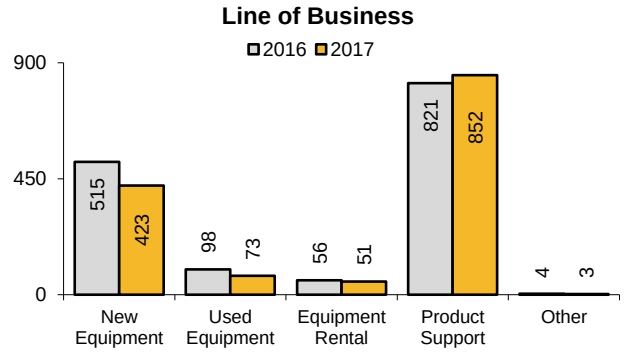
New equipment sales declined by 18% compared to the first quarter of 2016 mainly due to the delivery of equipment related to certain construction projects and significant mining deliveries in the first quarter of 2016 in the Company's Canadian operations. Improved construction activity and economic conditions in Argentina, as well as higher activity in all other sectors of the Company's South American operations helped offset part of this decline. In the UK & Ireland operations, demand for equipment in the Company's construction and power systems markets has also strengthened.

Equipment backlog was $0.7 billion at March 31, 2017, compared to $0.5 billion at the end of 2016 due to solid order intake in all operations, in particular in the Company's Canadian operations which recorded the highest order intake since Q1 2014.

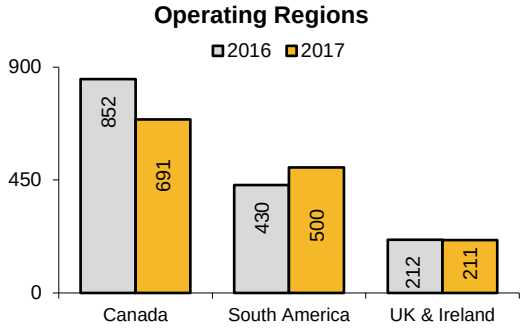
Product support revenue was up 4% compared to the first quarter of 2016, up in all operations but primarily in the Company's Canadian operations due to strong parts revenue reflecting higher demand, notably in the oil sands and other mining segments, as well as improved activity in the construction and power systems sectors. On a consolidated basis, product support revenue made up 61% of total revenues, compared to 55% in the same period in the prior year.

Used equipment revenue was down 25%, primarily in the Company's Canadian operations, reflecting the successful efforts in the prior year by the Company in selling used equipment inventory in response to weak market conditions.

Revenue by Line of Business
3 months ended March 31
($ millions)



Revenue by Operation



Earnings Before Finance Costs and Income Taxes

Q1 2017 gross profit of $393 million was up 3% compared to the same period in the prior year, with the benefit of a revenue mix shift to higher margin product support revenues in the Company's Canadian operations more than offsetting the impact of lower revenues in 2017. Consolidated margins improved in most lines of business, and were comparable in product support. Gross profit margin of 28.0% was up from 25.5% earned in Q1 2016. Higher overall gross profit margin in the Company's Canadian operations was partly offset by lower gross profit margin earned in the Company's South American operations due to a revenue mix shift to higher new equipment revenues as well as lower margins earned on new equipment and product support sales. Gross profit margin in the Company's UK & Ireland operations was lower in the same period in the prior year due to the impact of $5 million of provisions on certain power systems contracts.

SG&A costs in the first quarter of 2017 were lower than the same period in the prior year. Excluding prior year severance costs of $17 million, SG&A costs were down 4% compared to the prior year period.

Lower SG&A costs in the current year period reflect workforce and other cost reduction measures as well as volume-related decreases, partially offset by inflationary and statutory salary increases and higher operating costs from the stronger Chilean peso relative to the U.S. dollar in the Company's South American operations.

The Company reported EBIT of $86 million in the first quarter of 2017 compared to $45 million earned in Q1 2016. EBIT margin was 6.1% in the first quarter of 2017 and 3.0% in the comparable period last year. Excluding the Q1 2016 global severance costs of $17 million, and $5 million of provisions reducing the profitability of power systems contracts in the UK operations noted above, prior period Adjusted EBIT was $67 million with an Adjusted EBIT margin of 4.5%. The increase in EBIT in Q1 2017 compared to Adjusted EBIT in Q1 2016 was primarily due to lower SG&A costs in the current year period, as well as higher gross profit margin reflecting a higher mix of product support revenues and improved gross margins from most lines of business, which more than offset the impact of lower volumes.

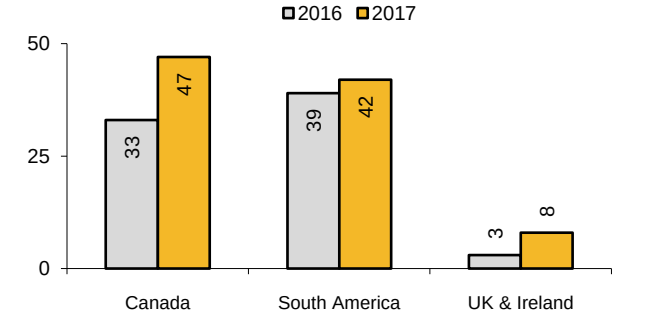
The Company's improved EBIT margin in Q1 2017 compared to Adjusted EBIT margin in Q1 2016 was mainly due to higher gross profit margin noted above.

EBITDA

EBITDA for Q1 2017 was $131 million and EBITDA margin was 9.3% (Q1 2016: EBITDA was $96 million and EBITDA margin was 6.4%). Excluding prior year significant items noted on page 3 of this MD&A and above, prior period Adjusted EBITDA was $118 million and Adjusted EBITDA margin was 7.9%. EBITDA margin in Q1 2017 was up from the prior year period mainly due to higher EBITDA margins from the Company's Canadian and UK & Ireland operations.

The net debt to EBITDA ratio at Q1 2017 was 2.6x. Excluding significant items not indicative of operational results, as noted on page 23 of this MD&A, net debt to Adjusted EBITDA ratio was 2.1 times, which is comparable to 2.0 times net debt to Adjusted EBITDA reported in the prior year period.

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



[1] Excluding other operations – corporate head office

Finance Costs

Finance costs in the first quarter of 2017 were $22 million and comparable to Q1 2016.

Provision for Income Taxes

The effective income tax rate for Q1 2017 was 27.3%, compared to 34.5% in the same period in the prior year. The higher tax rate in Q1 2016 was primarily the result of a higher estimated annual effective tax rate for Argentina.

Management expects the Company's effective tax rate to generally be within the 25-30% range on an annual basis, but it may fluctuate from period to period as a result of changes in the source of income from various jurisdictions, relative income from the various jurisdictions in which the Company carries on business, changes in the estimation of tax reserves, and changes in tax rates and tax legislation.

Net Income

Net income was $47 million in Q1 2017, compared to $15 million earned in the same period last year. Basic EPS was $0.28 per share compared with $0.09 per share in the Q1 2016. Excluding prior year significant items noted on page 3 of this MD&A, Adjusted net income in Q1 2016 was $31 million and Adjusted EPS was $0.19. The increase in net income and EPS in Q1 2017 compared to the prior year period was primarily due to higher gross profit margins.

Invested Capital

($ millions, unless otherwise stated)	**March 31, 2017**	December 31, 2016	Increase from Dec 31, 2016	March 31, 2016	Decrease from March 31, 2016
Consolidated [1]	**$ 2,926**	$ 2,797	$ 129	$ 3,085	$ (159)
Canada	**$ 1,629**	$ 1,595	$ 34	$ 1,685	$ (56)
South America	**$ 1,022**	$ 996	$ 26	$ 1,033	$ (11)
UK & Ireland	**$ 280**	$ 216	$ 64	$ 340	$ (60)
South America (U.S. dollar)	***$ 768***	*$ 741*	*$ 27*	*$ 796*	*$ (28)*
UK & Ireland (U.K. pound sterling)	***£ 168***	*£ 130*	*£ 38*	*£ 182*	*£ (14)*

[1] Including corporate head office

Compared to December 31, 2016:

The $129 million increase in consolidated invested capital from December 31, 2016 to March 31, 2017 reflects higher invested capital in all operations, primarily driven by:

- an increase in internal service work in progress inventories in all operations, primarily the Company's Canadian operations, attributable to increased demand in the quarter; and
- a decrease in accounts payable balances in the Company's South American operations.

Compared to March 31, 2016:

The $159 million decrease in consolidated invested capital from March 31, 2016 to March 31, 2017 reflects lower invested capital in all operations, primarily driven by:

- a decrease in equipment inventory; primarily in the Company's Canadian operations, reflecting efforts to reduce surplus inventories last year;
- an increase in accounts payable balances, primarily in the Company's Canadian and South American operations due to increased customer demand;
- a decrease in property, plant and equipment in all operations, but primarily in the Company's Canadian and UK operations due to facility closures; and
- partly offset by an increase in accounts receivable balances in the Company's Canadian operations, as well as higher internal service work in progress inventories in all operations reflecting increased demand.

ROIC and Invested Capital Turnover

	March 31, 2017	December 31, 2016	March 31, 2016
ROIC			
Consolidated [1]	**7.1%**	5.6%	(4.0)%
Canada	**6.6%**	5.3%	5.4%
South America	**14.3%**	13.3%	(14.9)%
UK & Ireland	**0.0%**	(4.5)%	(4.5)%
Adjusted ROIC			
Consolidated [1]	**10.0%**	9.3%	10.4%
Canada	**10.2%**	9.3%	10.1%
South America	**15.4%**	15.0%	14.5%
UK & Ireland	**8.2%**	5.9%	7.4%
Invested Capital Turnover (times)			
Consolidated [1]	**1.90x**	1.90x	1.82x
Canada	**1.62x**	1.70x	1.80x
South America	**1.88x**	1.80x	1.59x
UK & Ireland	**3.75x**	3.54x	2.81x

[1] Including corporate head office

Return on Invested Capital

On a consolidated basis, ROIC was 7.1% at March 31, 2017, compared to 5.6% at December 31, 2016 and (4.0)% at March 31, 2016. Adjusting for significant items that management does not consider indicative of operational and financial trends, as noted on pages 23 - 25 of this MD&A, Adjusted ROIC at March 31, 2017 was 10.0%, an increase from Adjusted ROIC at December 31, 2016 of 9.3%. The increase in Adjusted ROIC compared to the prior year end reflects the solid EBIT margin achieved by the Company in Q1 2017. Adjusted ROIC was higher in all operations compared to December 31, 2016.

Adjusted ROIC at March 31, 2017 in all operations improved compared to Adjusted ROIC at March 31, 2016, and is further discussed below. In spite of this, the consolidated Adjusted ROIC at March 31, 2017 is lower compared to March 31, 2016, due to higher costs at the Corporate head office related to the Company's long term incentive plan as well as strategic digital initiatives.

Canadian operations

- Reported ROIC of 6.6% (March 31, 2016: 5.4%) and Adjusted ROIC of 10.2% (March 31, 2016: 10.1%).
- Increase in ROIC was a result of lower average invested capital levels, as well as lower earnings in the prior year reflecting significant items noted above.
- Slightly higher Adjusted ROIC was driven primarily by lower average invested capital levels, partially offset by lower last twelve month earnings. Lower invested capital reflects concerted efforts to align invested capital with expected activity levels. Average invested capital levels were lower compared to the prior year period mainly due to lower new equipment inventory levels, as well as lower rental and fixed assets.

South American operations

- Reported ROIC of 14.3% (March 31, 2016: (14.9)%) and Adjusted ROIC of 15.4% (March 31, 2016: 14.5%).
- $324 million impairment loss on the shovels and drills distribution network and goodwill recorded in Q4 2015 has negatively impacted the reported ROIC at March 31, 2016.
- Higher Adjusted ROIC was primarily due to lower average invested capital levels. In functional currency, average invested capital decreased by US$182 million compared to the prior year due to the impairment loss on the shovels and drills distribution network and goodwill in Q4 2015, and lower inventory levels, as well as higher accounts payables.

UK & Ireland operations

- Reported ROIC of nil as EBIT reported for the 12 months ended March 31, 2017 was break even (March 31, 2016: (4.5)%) and Adjusted ROIC of 8.2% (March 31, 2016: 7.4%).
- $14 million goodwill impairment recorded in Q4 2015 has negatively impacted reported ROIC for March 31, 2016.
- Higher Adjusted ROIC was due to lower average invested capital levels and partly offset by lower last twelve month earnings. In functional currency, average invested capital decreased by £38 million compared to the prior year due to lower inventory levels as well as lower accounts receivable.

Invested capital turnover

- Consolidated invested capital turnover at March 31, 2017 was 1.90 times, comparable to December 31, 2016 and up from 1.82 times at March 31, 2016, reflecting an increase in the invested capital turnover rate of the Company's South American and UK & Ireland operations. The invested capital turnover rate in the Company's South American and UK operations has improved in all quarterly periods over the last twelve months due to focused efforts on lowering invested capital. Invested capital turnover in the Company's Canadian operations is lower compared to December 31, 2016 and March 31, 2016 as the decline in revenue outpaced the reduction in average invested capital levels.

Results by Reportable Segment

The Company and its subsidiaries operate primarily in one principal business: the selling, servicing, and renting of heavy equipment, engines, and related products in various markets worldwide as noted below. Finning's reportable segments are as follows:

- *Canadian operations:* British Columbia, Alberta, Saskatchewan, Yukon, the Northwest Territories, and a portion of Nunavut.
- *South American operations:* Chile, Argentina, and Bolivia.
- *UK & Ireland operations:* England, Scotland, Wales, Northern Ireland, and the Republic of Ireland.
- *Other:* Corporate head office

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

3 months ended March 31, 2017 ($ millions)	**Canada**	**South America**	**UK & Ireland**	**Consol**	**Revenue percentage**
New equipment	**$ 160**	**$ 143**	**$ 120**	**$ 423**	**30%**
Used equipment	**46**	**12**	**15**	**73**	**5%**
Equipment rental	**31**	**13**	**7**	**51**	**4%**
Product support	**454**	**331**	**67**	**852**	**61%**
Other	**—**	**1**	**2**	**3**	**0%**
Total	**$ 691**	**$ 500**	**$ 211**	**$ 1,402**	**100%**
Revenue percentage by operation	**49%**	**36%**	**15%**	**100%**	

3 months ended March 31, 2016 ($ millions)	Canada	South America	UK & Ireland	Consol	Revenue percentage
New equipment	$ 339	$ 64	$ 112	$ 515	35%
Used equipment	72	13	13	98	6%
Equipment rental	35	14	7	56	4%
Product support	406	338	77	821	55%
Other	—	1	3	4	0%
Total	$ 852	$ 430	$ 212	$ 1,494	100%
Revenue percentage by operation	57%	29%	14%	100%	

Canadian Operations

The Canadian reporting segment includes Finning (Canada), OEM Remanufacturing Company Inc. (OEM), and a 25% interest in Pipeline Machinery International (PLM). The Canadian operations sell, service, and rent mainly Caterpillar equipment and engines in British Columbia, Alberta, Saskatchewan, Yukon, the Northwest Territories, and a portion of Nunavut. The Canadian operations' markets include mining (including the oil sands), construction, conventional oil and gas, forestry, and power systems.

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

3 months ended March 31 **($ millions)**		**2017**		2016
Revenue from external sources	**$**	**691**	$	852
Operating costs		**(622)**		(801)
Depreciation and amortization		**(24)**		(27)
Equity earnings of joint venture		**2**		1
EBIT	**$**	**47**	$	25
EBIT margin		**6.8%**		3.0%
EBITDA [1]	**$**	**71**	$	52
EBITDA margin		**10.2%**		6.1%
Adjusted EBIT [2]	**$**	**47**	$	33
Adjusted EBIT margin [2]		**6.8%**		4.0%
Adjusted EBITDA [2]	**$**	**71**	$	60
Adjusted EBITDA margin [2]		**10.2%**		7.1%

[1] EBITDA is calculated by adding depreciation and amortization to EBIT

[2] There were no significant items adjusted in Q1 2017, therefore the adjusted metrics above for Q1 2017 are the same as the reported metrics. Significant items that affected results for the three months ended March 31, 2016 which management does not consider to be indicative of operational results are described on page 3 of this MD&A.

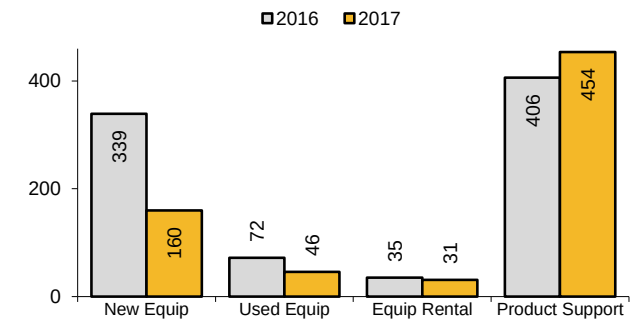
First quarter 2017 revenues of $691 million were 19% lower than the first quarter of 2016, reflecting significantly lower new equipment revenue.

New equipment revenue was down 53% in the first quarter of 2017 compared to the same period in 2016, mainly due to delivery of equipment related to certain construction projects and significant mining deliveries in the Canadian operations in the first quarter of 2016. However, order intake was very strong in the quarter, resulting in notably higher equipment backlog levels at March 31, 2017, the highest level recorded since March 31, 2015.

Product support revenue was up 12% compared to the first quarter of 2016, primarily due to strong parts revenue reflecting higher demand, notably in the oil sands and other mining segments, as customers were resuming maintenance following a period of deferrals. Additionally, there was improved activity in the construction and power systems sectors. Product support revenue comprised 66% of total revenue in the first quarter of 2017 compared to 48% last year.

Used equipment revenue was down 36% in the first quarter of 2017 compared to the same period in 2016, reflecting the Canadian operations successful efforts to meet customer demand for lower cost options in the prior year.

Canada – Revenue by Line of Business
3 months ended March 31
($ millions)



Gross profit increased compared to the first quarter of 2016, in spite of lower revenues, reflecting a revenue mix shift to higher product support sales. Used equipment margins were lower in Q1 2016 due to lower margins earned in auction sales. Rental gross profit margin in Q1 2017 was higher than the comparative

prior year period, a function of the stronger heavy rental market.

SG&A costs were lower in Q1 2017 compared to the prior year, reflecting the successful execution of cost reduction initiatives.

The Canadian operations contributed EBIT of $47 million for Q1 2017 compared to $25 million earned in the same period in the prior year, and was the highest EBIT over the last six quarters. EBIT margin was 6.8% in Q1 2017 and 3.0% in Q1 2016. Excluding severance costs incurred in the prior year of $8 million, Adjusted EBIT for Q1 2016 was $33 million. The increase in EBIT in Q1 2017 compared to Adjusted EBIT in Q1 2016 was driven by higher gross profit margin reflecting a higher mix of product support revenues and improved or comparable margins from most lines of business, as well as lower SG&A costs, which more than offset the impact of lower volumes.

Adjusted EBIT margin for Q1 2016 was 4.0%. EBIT margin was higher in Q1 2017 primarily due to the higher gross profit margin noted above, partly offset by higher SG&A costs relative to revenue.

Other Developments

The collective agreement between the Company and the International Association of Machinists and Aerospace Workers (IAM) – Vancouver Lodge 692 expired on April 14, 2017. Negotiations are currently underway with the union. The Company is committed to the collective bargaining process and concluding a fair contract for its employees and Finning.

South American Operations

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

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

3 months ended March 31 ($ millions)		**2017**		2016
Revenue from external sources	**$**	**500**	$	430
Operating costs		**(443)**		(382)
Depreciation and amortization		**(15)**		(16)
EBIT	**$**	**42**	$	32
EBIT margin		**8.4%**		7.3%
EBITDA [1]	**$**	**57**	$	48
EBITDA margin		**11.4%**		11.1%
Adjusted EBIT [2]	**$**	**42**	$	39
Adjusted EBIT margin [2]		**8.4%**		8.9%
Adjusted EBITDA [2]	**$**	**57**	$	55
Adjusted EBITDA margin [2]		**11.4%**		12.8%

[1] EBITDA is calculated by adding depreciation and amortization to EBIT

[2] There were no significant items adjusted in Q1 2017, therefore the adjusted metrics above for Q1 2017 are the same as the reported metrics. Significant items that affected results for the three months ended March 31, 2016 which management does not consider to be indicative of operational results are described on page 3 of this MD&A.

Q1 2017 revenues increased 16% to $500 million compared to Q1 2016 (up 21% in functional currency). This increase was primarily driven by higher new equipment revenue in all sectors, particularly due to improved construction activity in Argentina, as well as delivery of a few large machines to mining customers.

In functional currency, product support revenues grew modestly from Q1 2016, despite a 7-week labour dispute at the Escondida mine, as a result of an increase in product support revenues from other customers, as well as the successful implementation of a mitigation plan with Escondida.

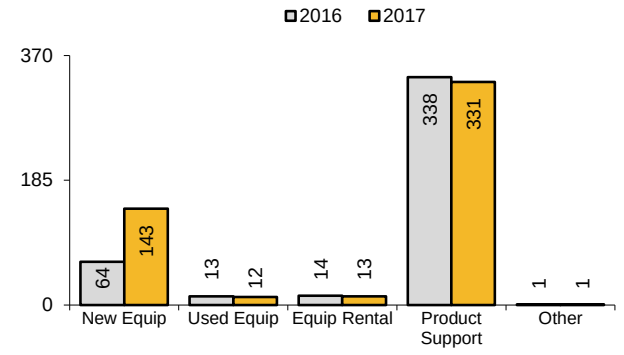
The stronger Canadian dollar relative to the U.S. dollar compared to last year had a negative foreign currency translation impact on revenue in Q1 2017 of approximately $20 million and was not significant at the EBIT level.

Gross profit increased compared to the first quarter of 2016, reflecting higher sales volumes, partially offset by lower gross profit margins. Gross profit margin decreased in Q1 2017 compared to last year, resulting from a revenue mix shift to higher new equipment sales including a higher proportion of lower margin large mining equipment. Product support revenue comprised 66% of total revenue in the first quarter of 2017 compared to 79% in Q1 2016.

SG&A costs were lower in Q1 2017 compared to Q1 2016. Excluding severance costs of $7 million in the prior year period, SG&A costs (in functional currency) in Q1 2017 increased by 3% compared to the prior year period. The increase in SG&A in functional currency was primarily due to higher variable costs from increased sales volumes, higher operating costs from the stronger Chilean peso relative to the U.S. dollar, and inflationary and statutory salary increases. These increased costs were partially offset by savings from workforce reductions in prior quarters.

For the quarter ended March 31, 2017, the Company's South American operations reported an EBIT of $42 million compared to $32 million earned in the prior year period. EBIT margin was 8.4% in Q1 2017 and 7.3% in Q1 2016. Excluding severance costs in the prior year, EBIT margin of 8.4% achieved for Q1 2017 was lower than the Adjusted EBIT margin for Q1 2016 of 8.9%. EBIT margin was lower in Q1 2017 primarily due to a much higher proportion of new equipment sales as well as the impact of the Escondida strike.

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



UK & Ireland Operations

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

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

3 months ended March 31 ($ millions)		**2017**		2016
Revenue from external sources	**$**	**211**	$	212
Operating costs		**(197)**		(208)
Depreciation and amortization		**(6)**		(8)
EBIT	**$**	**8**	$	(4)
EBIT margin		**3.8%**		(1.9)%
EBITDA [1]	**$**	**14**	$	4
EBITDA margin		**6.9%**		1.9%
Adjusted EBIT [2]	**$**	**8**	$	3
Adjusted EBIT margin [2]		**3.8%**		1.5%
Adjusted EBITDA [2]	**$**	**14**	$	11
Adjusted EBITDA margin [2]		**6.9%**		5.3%

[1] EBITDA is calculated by adding depreciation and amortization to EBIT

[2] There were no significant items adjusted in Q1 2017, therefore the adjusted metrics above for Q1 2017 are the same as the reported metrics. Significant items that affected results for the three months ended March 31, 2016 which management does not consider to be indicative of operational results are described on page 3 of this MD&A.

First quarter 2017 revenues of $211 million were comparable to the same period in 2016 but up 18% in functional currency. Increased revenue in functional currency was driven primarily by higher new equipment sales in both the equipment and power systems businesses, reflecting improved market demand and healthy market activity, particularly in the quarrying, infrastructure and power generation segments. Also, order intake was very strong in the quarter, resulting in notably higher equipment backlog levels at March 31, 2017, the highest level recorded since March 31, 2015.

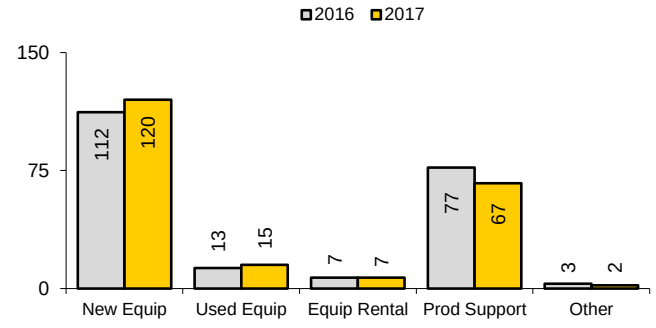
The stronger Canadian dollar relative to the U.K. pound sterling had a negative foreign currency translation impact on revenue of approximately $40 million in the quarter, and was not significant at the EBIT level.

Q1 2017 gross profit, in functional currency, was higher than the prior year period, reflecting higher sales volumes and higher overall gross profit margin, as well as higher provisions recorded in Q1 2016.

During Q1 2016, management in the UK and Ireland completed a detailed review of power systems contracts and projects, and recorded certain adjustments that reduced profitability. Excluding these adjustments from prior period results, gross profit margin in Q1 2017 was lower than Q1 in the prior year, primarily reflecting a revenue mix shift to higher new equipment sales.

SG&A costs were lower in Q1 2017. Excluding severance costs of $2 million in the prior year quarter, SG&A costs (in functional currency) in Q1 2017 decreased by 3% compared to the prior year period. SG&A is down compared to the prior year period on higher revenues due to the successful implementation of transformation initiatives focused on lowering the costs to serve our customers.

UK & Ireland – Revenue by Line of Business
3 months ended March 31
($ millions)



For the quarter ended March 31, 2017, the Company's UK & Ireland operations reported EBIT of $8 million, compared to an EBIT loss of $(4) million in Q1 2016. EBIT margin was 3.8% in Q1 2017 compared to (1.9)% earned in the first quarter of 2016. Excluding significant items in the comparative prior year period (severance of $2 million and $5 million of provisions on certain power system projects), Adjusted EBIT margin for Q1 2016 was 1.5%, below the solid and significantly improved EBIT margin of 3.8% achieved for Q1 2017. EBIT margin was higher in Q1 2017 due to lower SG&A costs relative to sales as a result of higher volumes and a reduced cost structure, which were partly offset by lower gross profit margin achieved in the current year.

Corporate and Other Operations

Net operating costs before finance costs and income taxes from the Company's Corporate and Other operations were $11 million in the first quarter of 2017 compared to $8 million in Q1 2016. Included in this segment are corporate operating costs, as well as equity earnings (loss) from the Company's 28.8% investment in Energyst B.V. For the three months ended March 31, 2017, results from Energyst were $3 million lower, due primarily to restructuring costs incurred as well as lower operating results. This was partly offset by a $1 million mark-to-market gain in the first quarter of 2017 relating to the Company's investment in IronPlanet Holdings Inc.

Outlook

Canada

A recent increase in producer and contractor mining activity has generated robust demand for parts and service, including component rebuilds. The Company has a healthy backlog of product support business, but expects demand for mining equipment to remain soft in the near term as uncertainty regarding the sustainability of stronger commodity prices continues.

In heavy construction, there is a noticeable optimism among customers regarding upcoming infrastructure projects, including pipelines. Demand for core equipment has strengthened in British Columbia, and is improving in Alberta, but remains weak in Saskatchewan. Product support activity in the heavy construction and pipeline sectors is strengthening.

Demand for power systems products has increased as a result of improving activity in the oil and gas sector.

Competitive equipment pricing pressure continues to be intense and is impacting all segments of the Canadian business. The Company believes the recovery will be gradual and dependent on the commodity markets and timing of significant infrastructure projects.

South America

In mining, the Company is maintaining a strong share of a very weak market. While the Company is seeing increased quoting activity for new mining equipment, the order intake remains low. Fleet utilization has been improving, and the Company continues to capture product support business by providing innovative solutions to customers and improving operating efficiencies. The Company is seeing signs of improving product support activity, including component rebuilds. However, the 7 week strike at the Escondida mine, which ended on March 24, 2017, offset most of this improvement in Q1 2017. Since it will take some time for the Escondida mine to return to full capacity, the Company expects an adverse impact on its product support business in Q2 2017. The recovery in the price of copper has strengthened the Chilean peso relative to the US dollar, which increased the Company's labour costs. Without an immediate corresponding benefit to revenues, this puts pressure on profitability.

In Chile, the Company does not expect any meaningful improvement in construction activity until after the presidential elections held in November 2017.

In Argentina, the Company is encouraged by an increase in infrastructure activity following the change in government policies, and is successfully selling equipment into the competitive construction market.

UK & Ireland

In the UK & Ireland, the equipment market has undergone a structural shift away from the coal mining and oil & gas sectors towards general construction. The Company has successfully implemented a strategy to lower its cost structure and increase supply chain velocity by optimizing its facility footprint and restructuring its operating model. While activity levels in the quarry, general construction, and plant hire sectors mean demand for new equipment and product support is robust, competitive pricing pressure remains intense. In the power systems sector, the order intake for standby and short term capacity power solutions is strong.

On March 29, 2017, the UK triggered Article 50 of the Lisbon Treaty. This begins a two year process to exit the European Union (Brexit), and there are significant uncertainties around the impact and final outcome. While Brexit has not had a material impact on activity levels to this point, it resulted in a sharp devaluation of the U.K. pound sterling and economic uncertainty that continues to impact customer confidence and future investment decisions. To help offset reduced business confidence, the UK government is accelerating infrastructure investments and approvals, including large-scale rail, power, road, and airport infrastructure projects.

Operational Focus

As market conditions recover, the Company aims to drive profitable and capital efficient growth, consistent with its commitment to improve ROIC.

Significantly reduced cost structure and transformational improvements achieved across the organization are expected to yield operating leverage in an upcycle, resulting in higher profitability levels. Capital discipline and improved inventory turns are expected to continue to drive positive annual free cash flow.

In 2017, the Company will be focused on transforming its global equipment supply chain, growing product support from its large installed equipment population and improving the financial performance of its rental business. In addition, the Company's modest investment in Finning Digital, a new global division within Finning, is expected to accelerate delivery of innovative customer solutions going forward. Finning Digital will focus on improving the customer experience, along with pursuing new opportunities for revenue generation in the digitally enabled value added services area. The Company is also investing in a new ERP system in the South American operations.

The Company expects on-going volatility in foreign exchange markets to continue impacting its results. The devaluation of the Canadian dollar increases earnings translated from the Company's foreign subsidiaries; the opposite is true for the appreciation of the Canadian dollar. Transactional gains or losses are dependent on the Company's hedging activities and general market conditions.

Liquidity and Capital Resources

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

- operating activities, including the level of accounts receivable, inventories, accounts payable, rental equipment, and financing provided to customers;
- investing activities, including property, plant, and equipment and intangible asset expenditures, acquisitions of complementary businesses, and divestitures of non-core businesses; and
- financing activities, including bank credit facilities, long-term debt, and other capital market activities, providing both short and long-term financing.

The magnitude of each of these items is shown in the following table:

3 months ended March 31 ($ millions)	**2017**	2016	(Decrease) Increase cash from 2016
Cash (used in) provided by operating activities	**$ (58)**	$ 57	$ (115)
Cash used in investing activities	**$ (21)**	$ (5)	$ (16)
Cash used in financing activities	**$ (21)**	$ (72)	$ 51
Free Cash Flow	**$ (76)**	$ 30	$ (106)

The most significant contributors to the changes in cash flows for Q1 2017 over Q1 2016 were as follows:

Cash used in operating activities	• higher use of cash for higher inventory levels, primarily internal service work in progress inventories with major overhauls in progress in the Company's Canadian operations • increased investment in rental equipment, and lower proceeds on disposals, primarily in the Company's Canadian operations • partly offset by higher earnings from all operations
Cash used in investing activities	• lower cash used in prior year due to proceeds from the maturity of short-term investments • partly offset by lower capital expenditures in the current year
Cash used in financing activities	• approximately $55 million higher cash from short-term borrowings
Free Cash Flow (use) generation	• higher use of cash largely due to higher purchases of inventory in 2017 reflecting improved demand as well as increased investment in rental equipment • partly offset by higher earnings from all operations as well as lower capital expenditures

Capital resources and management

To complement the internally generated funds from operating and investing activities, the Company has $1.9 billion in unsecured credit facilities. Included in this amount is a committed global credit bank facility totaling $1.0 billion with various Canadian and other global financial institutions, the full amount of which was available at March 31, 2017.

Based on the availability of these facilities, the Company's business operating plans, and the discretionary nature of some of the cash outflows, such as rental and capital expenditures, the Company believes it continues to have sufficient liquidity to meet operational needs and planned growth and development.

The Company is rated [1] by both Dominion Bond Rating Service (DBRS) and Standard & Poor's (S&P):

	Long-term debt		Short-term debt	
	Mar 31, 2017	Dec 31, 2016	Mar 31, 2017	Dec 31, 2016
S&P	BBB+	BBB+	N/A	N/A
DBRS	BBB (high)	BBB (high)	R-2 (high)	R-2 (high)

In March 2017, S&P re-confirmed the Company's rating, noting the Company's strong market position as the largest Caterpillar equipment dealer, its diversification by geography and the earnings stability driven by the after-sales parts and services business.

During the first quarter of 2017, the Company repurchased 89,900 shares at an average price of $25.45 through a share repurchase program by way of a Normal Course Issuer Bid (NCIB) [2].

Dividends paid to shareholders in Q1 2017 were $31 million, consistent with the first quarter of 2016.

Net Debt to Invested Capital

Net Debt to Invested capital %	Mar 31, 2017	Dec 31, 2016	Mar 31, 2016
	34.5%	32.0%	37.0%

The Company is subject to a maximum Net Debt to Invested Capital level of 62.5% pursuant to a covenant in its syndicated bank credit facility. The Company was in compliance with this covenant at the end of Q1 2017.

Accounting Policies and Pronouncements

Changes in Accounting Policies

The adoption of recent amendments to IAS 7 Statement of Cash Flows had no impact on the Company's financial results, but the Company has disclosed changes in liabilities arising from financing activities as required by the amendments in Note 6 of the Company's interim condensed consolidated financial statements. For more details on recent changes in accounting policies, please refer to note 1 of the Company's interim condensed consolidated financial statements.

The effect of future accounting pronouncements and effective dates are also discussed in note 1 of the interim condensed consolidated financial statements.

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

(2) The Company is renewing its NCIB for a further year effective May 11, 2017. A copy of the NCIB notice is available on request from the Company's Corporate Secretary at 1000-666 Burrard Street, Vancouver, BC V6C 2X8. See the Company's news release announcing the share repurchase plan for a summary of material terms, which is filed on SEDAR at www.sedar.com and on the Company's website.

Risk Factors and Management

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

The Company is dedicated to a strong risk management culture to protect and enhance shareholder value. On a quarterly basis, the Audit Committee reviews the Company's process with respect to risk assessment and management of key risks, including the Company's major financial risks and exposures and the steps taken to monitor and control such exposures. The Audit Committee also reviews the adequacy of disclosures of key risks in the Company's AIF, MD&A, and consolidated financial statements. Key financial risks are disclosed in the annual MD&A and other key business risks are disclosed in the Company's AIF. Copies of the Company's MD&A and AIF are available on SEDAR at www.sedar.com and in the investors section of the Company's website at www.finning.com.

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

	March 31			December 31		3 months ended March 31 – average		
Exchange rate	**2017**	2016	Change	2016	Change	**2017**	2016	Change
CAD/USD	**1.3310**	1.2971	(3) %	1.3427	1%	**1.3238**	1.3732	4%
CAD/GBP	**1.6650**	1.8652	11 %	1.6564	(1)%	**1.6402**	1.9648	17%
CLP/USD	**662.66**	675.10	2 %	667.29	1%	**655.68**	702.06	7%
ARS/USD	**15.41**	14.70	(5)%	15.89	3%	**15.67**	14.43	(9)%

The impact of foreign exchange due to fluctuation in the value of the Canadian dollar (CAD) relative to the U.S. dollar (USD), U.K. pound sterling (GBP), Chilean peso (CLP), and Argentine peso (ARS) is expected to continue to affect Finning's results.

Controls and Procedures Certification

Disclosure Controls and Procedures

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

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

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

Internal Control over Financial Reporting

Management is responsible for establishing and maintaining adequate internal control over financial reporting. Management has designed internal control over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements in accordance with IFRS. There has been no change in the design of the Company's internal control over financial reporting during the quarter ended March 31, 2017, that would materially affect, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

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

Outstanding Share Data

As at May 5, 2017	
Common shares outstanding	168,089,618
Options outstanding	4,439,810

Description of Non-GAAP Financial Measures and Reconciliations

Non-GAAP Financial Measures

Management believes that providing certain non-GAAP financial measures provides users of the Company's consolidated financial statements with important information regarding the operational performance and related trends of the Company's business. By considering these measures in combination with the comparable IFRS financial measures, where available, management believes that users are provided a better overall understanding of the Company's business and its financial performance during the relevant period than if they simply considered the IFRS financial measures alone.

The non-GAAP financial measures used by management do not have any standardized meaning prescribed by IFRS and therefore may not be comparable to similar measures presented by other issuers. Accordingly, these measures should not be considered as a substitute or alternative for GAAP measures as determined in accordance with IFRS.

Set out below is a description of the non-GAAP financial measures used by the Company in this MD&A and a quantitative reconciliation from each non-GAAP financial measure to the most directly comparable measure, where available, specified, defined, or determined under GAAP and used in the Company's condensed consolidated financial statements (GAAP measures).

Key Performance Indicators

Management uses key performance indicators (KPIs) to consistently measure performance against the Company's priorities across the organization. The Company's KPIs include, among others, ROIC, net debt to invested capital, inventory turns, invested capital turnover, working capital to sales ratio, equipment backlog, and net debt to EBITDA ratio. These KPIs, including those that are expressed as ratios, are non-GAAP financial measures that do not have a standardized meaning under IFRS and may not be comparable to similar measures used by other issuers.

EBITDA, Adjusted EBITDA, and Adjusted EBIT

EBITDA is defined as earnings before finance costs, income taxes, depreciation, and amortization and is utilized by management to assess and evaluate the financial performance of its operating segments. Management believes that EBITDA improves comparability between periods by eliminating the impact of finance costs, income taxes, depreciation, and amortization. EBITDA is also commonly regarded as an indirect measure of operating cash flow, a significant indicator of success for many businesses and is a common valuation metric.

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

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

The most comparable GAAP financial measure to EBITDA is EBIT. A reconciliation between EBIT and EBITDA for the three months ended March 31 is as follows:

3 months ended March 31 ($ millions)	**2017**	2016
EBIT	**$ 86**	$ 45
Depreciation and amortization	**45**	51
EBITDA	**$ 131**	$ 96

A reconciliation between EBIT, Adjusted EBIT, and Adjusted EBITDA for the three months ended March 31 is as follows:

3 months ended March 31 ($ millions, except as noted)	**2017**	2016
EBIT	**$ 86**	$ 45
Significant items [(1)]	**—**	22
Adjusted EBIT	**86**	67
Depreciation and amortization	**45**	51
Adjusted EBITDA	**$ 131**	$ 118

(1) Q1 2016 results were impacted by significant items management does not consider indicative of operational and financial trends either by nature or amount; these significant items are described on page 3 in this MD&A.

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

3 months ended	**2017**	2016				2015			
($ millions)	**Mar 31**	Dec 31	Sep 30	Jun 30	Mar 31	Dec 31	Sep 30	Jun 30	Mar 31
EBIT	**$ 86**	$ 18	$ 73	$ 29	$ 45	$ (349)	$ 63	$ 106	$ 75
Significant items:									
Severance costs	**—**	15	—	9	17	2	25	6	17
Facility closures and restructuring costs	**—**	32	—	4	—	45	6	—	2
Impairment loss on distribution network and goodwill	**—**	—	—	—	—	338	—	—	—
Inventory and other asset impairments	**—**	—	—	—	—	42	—	—	—
Impact from Alberta wildfires – unavoidable costs	**—**	—	—	11	—	—	—	—	—
Power systems project provisions, estimated loss on disputes and alleged fraudulent activity by a customer	**—**	10	—	5	5	—	—	—	—
Loss on sale of non-core business	**—**	—	—	5	—	—	—	—	—
Acquisitions and disposal of business, net	**—**	—	—	—	—	(8)	3	—	—
Gain on investment	**—**	(5)	—	—	—	—	—	—	—
ARS devaluation	**—**	—	—	—	—	12	—	—	—
Adjusted EBIT	**$ 86**	$ 70	$ 73	$ 63	$ 67	$ 82	$ 97	$ 112	$ 94
Depreciation and amortization [1]	**45**	47	46	48	51	57	62	51	51
Adjusted EBITDA	**$ 131**	$ 117	$ 119	$ 111	$ 118	$ 139	$ 159	$ 163	$ 145
Adjusted EBIT – 12 months[2]	**$ 292**	$ 273	$ 285	$ 309	$ 358	$ 383	$ 445	$ 483	$ 514
Adjusted EBITDA – 12 months[2]	**$ 478**	$ 465	$ 487	$ 527	$ 579	$ 604	$ 661	$ 693	$ 726

(1) Of the significant items described above, $10 million was recorded in depreciation and amortization expense in Q4 2015

(2) Due to rounding differences, quarterly amounts may not add to the 12 month total.

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

3 months ended	**2017**	2016				2015			
($ millions)	**Mar 31**	Dec 31	Sep 30	Jun 30	Mar 31	Dec 31	Sep 30	Jun 30	Mar 31
EBIT	**$ 47**	$ (3)	$ 37	$ 28	$ 25	$ (17)	$ 34	$ 52	$ 29
Significant items:									
Severance costs	**—**	15	—	1	8	—	11	3	15
Facility closures and restructuring costs	**—**	32	—	—	—	40	6	—	2
Inventory and other asset impairments	**—**	—	—	—	—	16	—	—	—
Impact from Alberta wildfires – unavoidable costs	**—**	—	—	11	—	—	—	—	—
Adjusted EBIT	**$ 47**	$ 44	$ 37	$ 40	$ 33	$ 39	$ 51	$ 55	$ 46
Depreciation and amortization [1]	**24**	24	24	25	27	31	34	26	25
Adjusted EBITDA	**$ 71**	$ 68	$ 61	$ 65	$ 60	$ 70	$ 85	$ 81	$ 71
Adjusted EBIT – 12 months[2]	**$ 168**	$ 154	$ 149	$ 163	$ 178	$ 189	$ 225	$ 257	$ 281

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

3 months ended	**2017**	2016				2015			
($ millions)	**Mar 31**	Dec 31	Sep 30	Jun 30	Mar 31	Dec 31	Sep 30	Jun 30	Mar 31
EBIT	**$ 42**	$ 27	$ 40	$ 38	$ 32	$ (303)	$ 32	$ 52	$ 45
Significant items:									
Severance costs	**—**	—	—	1	7	—	10	3	1
Facility closures and restructuring costs	**—**	—	—	—	—	3	—	—	—
Impairment loss on distribution network and goodwill	**—**	—	—	—	—	324	—	—	—
Inventory and other asset impairments	**—**	—	—	—	—	10	—	—	—
Estimated loss on alleged fraudulent activity by a customer	**—**	10	—	—	—	—	—	—	—
ARS devaluation	**—**	—	—	—	—	12	—	—	—
Adjusted EBIT	**$ 42**	$ 37	$ 40	$ 39	$ 39	$ 46	$ 42	$ 55	$ 46
Depreciation and amortization [1]	**15**	16	15	15	16	19	20	19	19
Adjusted EBITDA	**$ 57**	$ 53	$ 55	$ 54	$ 55	$ 65	$ 62	$ 74	$ 65
Adjusted EBIT – 12 months[2]	**$ 158**	$ 155	$ 164	$ 166	$ 182	$ 190	$ 202	$ 209	$ 214

(1) Of the significant items described above, $5 million was recorded in depreciation and amortization expense in Q4 2015 in each of the Canadian and South American operations

(2) Due to rounding differences, quarterly amounts may not add to the 12 month total

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

3 months ended	**2017**	2016				2015			
($ millions)	**Mar 31**	Dec 31	Sep 30	Jun 30	Mar 31	Dec 31	Sep 30	Jun 30	Mar 31
EBIT	**$ 8**	$ 8	$ 10	$ (26)	$ (4)	$ (31)	$ 7	$ 12	$ 7
Significant items:									
Severance costs	**—**	—	—	7	2	2	4	—	1
Facility closures and restructuring costs	**—**	—	—	4	—	2	—	—	—
Impairment loss on distribution network and goodwill	**—**	—	—	—	—	14	—	—	—
Inventory and other asset impairments	**—**	—	—	—	—	16	—	—	—
Power systems project provisions and estimated loss on disputes	**—**	—	—	5	5	—	—	—	—
Loss on sale of non-core business	**—**	—	—	5	—	—	—	—	—
Adjusted EBIT	**$ 8**	$ 8	$ 10	$ (5)	$ 3	$ 3	$ 11	$ 12	$ 8
Depreciation and amortization	**6**	7	7	8	8	7	8	6	7
Adjusted EBITDA	**$ 14**	$ 15	$ 17	$ 3	$ 11	$ 10	$ 19	$ 18	$ 15
Adjusted EBIT – 12 months[1]	**$ 21**	$ 16	$ 11	$ 12	$ 29	$ 33	$ 42	$ 45	$ 47

(1) Due to rounding differences, quarterly amounts may not add to the 12 month total

Adjusted EBIT Margin, EBITDA Margin, and Adjusted EBITDA Margin

These measures are defined, respectively, as Adjusted EBIT divided by total revenue, EBITDA divided by total revenue, and Adjusted EBITDA divided by total revenue, using total revenue as disclosed in the Company's condensed consolidated statement of income. These measures are utilized by management to assess and evaluate the financial performance or profitability of its operating segments.

Free Cash Flow

Free cash flow is defined as cash flow provided by (used in) operating activities less net additions to property, plant, and equipment and intangible assets, as disclosed in the Company's condensed consolidated statement of cash flow. Free cash flow is a measure used by the Company to assess cash operating performance and the ability to raise and service debt. A reconciliation of free cash flow is as follows:

3 months ended March 31 **($ millions)**		**2017**		2016
Cash flow (used in) provided by operating activities [1]	**$**	**(58)**	$	57
Additions to property, plant, and equipment and intangible assets [1]		**(19)**		(38)
Proceeds on disposal of property, plant, and equipment [1]		**1**		11
Free cash flow	**$**	**(76)**	$	30

[1] As disclosed in the Company's condensed consolidated statement of cash flow

Inventory Turns

Inventory turns is the number of times the Company's inventory is sold and replaced over a period and is used by management as a measure of asset utilization. Inventory turns is calculated as annualized cost of sales for the last six months divided by average inventory, based on an average of the last two quarters, as follows:

($ millions, except as noted)		**March 31, 2017**		December 31, 2016
Cost of sales – annualized	**$**	**4,242**	$	4,150
Inventory – two quarter average	**$**	**1,627**	$	1,663
Inventory turns (number of times)		**2.61**		2.49

Invested Capital Turnover

Invested capital turnover is used by management as a measure of efficiency in the use of the Company's invested capital and is calculated as total revenue for the last twelve months divided by invested capital, defined on page 27, based on an average of the last four quarters, as follows:

($ millions, except as noted)		**March 31, 2017**		December 31, 2016
Revenue – last twelve months	**$**	**5,536**	$	5,628
Invested capital – four quarter average	**$**	**2,920**	$	2,960
Invested capital turnover		**1.90**		1.90

Net Debt to Invested Capital Ratio

Net Debt to Invested Capital is a ratio that is calculated as net debt divided by invested capital (both defined below), and is used by management as a measurement of the Company's financial leverage.

Net debt is calculated as short-term and long-term debt, net of cash. Invested capital is net debt plus all components of shareholders' equity (share capital, contributed surplus, accumulated other comprehensive income, and retained earnings). Invested capital is also calculated as total assets less total liabilities, excluding net debt. Invested capital is used by management as a measure of the total cash investment made in the Company and each operating segment. Management uses invested capital in a number of different measurements in assessing financial performance against other companies and between reportable segments.

The calculation of Net Debt to Invested Capital is as follows:

($ millions, except as noted)	**March 31, 2017**	December 31, 2016
Cash and cash equivalents	**$ (489)**	$ (593)
Short-term debt	**16**	2
Long-term debt	**1,481**	1,487
Net debt	**1,008**	896
Shareholders' equity	**1,918**	1,901
Invested capital	**$ 2,926**	$ 2,797
Net debt to invested capital	**34.5%**	32.0%

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

These ratios are calculated, respectively, as net debt, defined and calculated above, divided by EBITDA, and net debt divided by Adjusted EBITDA, for the last twelve months. These ratios are used by management in assessing the Company's operating leverage and ability to repay its debt. These ratios approximate the length of time, in years, that it would take the Company to repay its debt, with net debt and EBITDA or Adjusted EBITDA held constant. These ratios are calculated as follows:

($ millions, except as noted)	**March 31, 2017**	December 31, 2016
Net debt	**$ 1,008**	$ 896
EBITDA – 12 months ended	**$ 392**	$ 357
Net Debt to EBITDA Ratio [(1)]	**2.6**	2.5
Net debt	**$ 1,008**	$ 896
Adjusted EBITDA – 12 months ended	**$ 478**	$ 465
Net Debt to Adjusted EBITDA Ratio	**2.1**	1.9

(1) 2016 results were impacted by significant items management does not consider indicative of operational and financial trends either by nature or amount; these significant items are described on page 23 in this MD&A.

Adjusted net income and Adjusted EPS

Adjusted net income excludes from net income (as disclosed in the Company's condensed consolidated statement of income) the after-tax amounts of significant items that are not considered to be indicative of operational and financial trends either by nature or amount to provide a better overall understanding of the Company's underlying business performance.

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

An example of a reconciliation between net income and EPS (the nearest GAAP measures) and Adjusted net income and Adjusted EPS can be found on page 3 of this MD&A.

ROIC and Adjusted ROIC

Return on Invested Capital, or ROIC, is defined as earnings before finance costs and income taxes (EBIT) for the last twelve months divided by invested capital (a non-GAAP financial measure defined above), based on an average of the last four quarters, expressed as a percentage.

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

ROIC for the consolidated operations is calculated as follows:

($ millions)	**March 31, 2017**	December 31, 2016
EBIT – 12 months ended	**$ 206**	$ 165
Invested capital – four quarter average	**$ 2,920**	$ 2,960
ROIC	**7.1 %**	5.6 %

Adjusted ROIC, on a consolidated and segmented basis is calculated as follows:

($ millions, except as noted)	**2017**	2016				2015			
	Mar 31	Dec 31	Sep 30	Jun 30	Mar 31	Dec 31	Sep 30	Jun 30	Mar 31
Consolidated									
Adjusted EBIT – 12 months ended	**$ 292**	$ 273	$ 285	$ 309	$ 358	$ 383	$ 445	$ 483	$ 514
Invested capital – four quarter average	**$ 2,920**	$ 2,960	$ 3,071	$ 3,292	$ 3,416	$ 3,530	$ 3,496	$ 3,381	$ 3,330
Adjusted ROIC	**10.0%**	9.3%	9.2%	9.4%	10.4%	10.9%	12.8%	14.3%	15.5%
Canada									
Adjusted EBIT – 12 months ended	**$ 168**	$ 154	$ 149	$ 163	$ 178	$ 189	$ 225	$ 257	$ 281
Invested capital – four quarter average	**$ 1,642**	$ 1,656	$ 1,697	$ 1,753	$ 1,765	$ 1,792	$ 1,721	$ 1,682	$ 1,685
Adjusted ROIC	**10.2%**	9.3%	8.7%	9.3%	10.1%	10.6%	13.1%	15.3%	16.7%
South America									
Adjusted EBIT – 12 months ended	**$ 158**	$ 155	$ 164	$ 166	$ 182	$ 190	$ 202	$ 209	$ 214
Invested capital – four quarter average	**$ 1,028**	$ 1,030	$ 1,062	$ 1,178	$ 1,261	$ 1,357	$ 1,413	$ 1,366	$ 1,334
Adjusted ROIC	**15.4%**	15.0%	15.6%	14.2%	14.5%	14.0%	14.3%	15.2%	16.0%
UK & Ireland									
Adjusted EBIT – 12 months ended	**$ 21**	$ 16	$ 11	$ 12	$ 29	$ 33	$ 42	$ 45	$ 47
Invested capital – four quarter average	**$ 253**	$ 268	$ 294	$ 342	$ 371	$ 369	$ 359	$ 335	$ 316
Adjusted ROIC	**8.2%**	5.9%	3.4%	3.3%	7.4%	9.0%	11.9%	13.9%	15.3%

Working Capital

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

($ millions)	**March 31, 2017**	December 31, 2016
Total current assets	**$ 3,373**	$ 3,378
Cash and cash equivalents	**(489)**	(593)
Total current assets [1]	**$ 2,884**	$ 2,785
Total current liabilities	**$ 1,231**	$ 1,233
Short-term debt	**(16)**	(2)
Total current liabilities [2]	**$ 1,215**	$ 1,231
Working capital	**$ 1,669**	$ 1,554

(1) Excluding cash and cash equivalents
(2) Excluding short-term debt and current portion of long-term debt

Working Capital to Sales Ratio

This ratio is calculated as working capital, based on an average of the last four quarters, divided by total revenue for the last twelve months. This is a useful KPI for management in assessing the Company's efficiency in its use of working capital to generate sales. The Working Capital to Sales Ratio is calculated as follows:

($ millions, except as noted)	**March 31, 2017**	December 31, 2016
Working capital – four quarter average	**$ 1,679**	$ 1,709
Revenue – 12 months ended	**$ 5,536**	$ 5,628
Working capital to sales	**30.3 %**	30.4 %

Equipment Backlog and Order Intake

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

Selected Quarterly Information

$ millions (except for share and option	2017	2016				2015 (Restated) [1]		
	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2
Revenue from operations [2]								
Canada	**$ 691**	$ 716	$ 619	$ 634	$ 852	$ 714	$ 743	$ 869
South America	**500**	535	461	431	430	528	509	539
UK & Ireland	**211**	240	253	245	212	295	265	272
Total revenue	**$ 1,402**	$ 1,491	$ 1,333	$ 1,310	$ 1,494	$ 1,537	$ 1,517	$ 1,680
Net income (loss) [2][3]	**$ 47**	$ 9	$ 36	$ 5	$ 15	$ (309)	$ 33	$ 62
Earnings Per Share [2][3]								
Basic EPS	**$ 0.28**	$ 0.05	$ 0.22	$ 0.03	$ 0.09	$ (1.82)	$ 0.19	$ 0.36
Diluted EPS	**$ 0.28**	$ 0.05	$ 0.22	$ 0.03	$ 0.09	$ (1.82)	$ 0.19	$ 0.36
Total assets [2]	**$ 4,901**	$ 4,910	$ 4,886	$ 4,754	$ 4,870	$ 5,108	$ 5,520	$ 5,324
Long-term debt								
Non-current	**1,481**	1,487	1,474	1,470	1,492	1,548	1,553	1,482
Total long-term debt [4]	**$ 1,481**	$ 1,487	$ 1,474	$ 1,470	$ 1,492	$ 1,548	$ 1,553	$ 1,482
Cash dividends paid per common share	**18.25¢**	18.25¢	18.25¢	18.25¢	18.25¢	18.25¢	18.25¢	18.25¢
Common shares outstanding (000's)	**168,083**	168,167	168,134	168,102	168,034	168,031	169,612	171,692
Options outstanding (000's)	**4,501**	4,564	4,823	5,026	5,102	5,171	5,315	5,390

1) In 2016, management voluntarily changed its presentation of certain expenses to provide reliable and more relevant information to users of the financial statements and better align with industry comparable companies. In addition, management has concluded that certain cost recoveries are better reflected as revenues. Certain line items and key performance metrics have been restated in the comparative 2015 period but the impact of restatement is not significant.

2) In July 2015, the Company's Canadian operations acquired the assets of the Saskatchewan dealership and became the approved Caterpillar dealer in Saskatchewan. The results of operations and financial position of this acquired business have been included in the figures above since the date of acquisition.

3) 2016 and 2015 results were impacted by the following significant items:

($ millions except per share amounts)	**2017**	2016					2015			
	Q1	Annual	Q4	Q3	Q2	Q1	Annual	Q4	Q3	Q2
Distribution network and goodwill impairment	**$ —**	$ —	$ —	$ —	$ —	$ —	$ 338	$ 338	$ —	$ —
Impact from Alberta wildfires - unavoidable costs	**—**	11	—	—	11	—	—	—	—	—
Facility closures and restructuring costs	**—**	36	32	—	4	—	53	45	6	—
Severance costs[a]	**—**	41	15	—	9	17	48	2	25	6
Power systems provisions, estimated loss on disputes and alleged fraudulent activity by a customer	**—**	20	10	—	5	5	—	—	—	—
Inventory and other asset impairments	**—**	—	—	—	—	—	42	42	—	—
Gain on investment	**—**	(5)	(5)	—	—	—	—	—	—	—
FX impact on devaluation of ARS	**—**	—	—	—	—	—	12	12	—	—
Acquisition and disposal of businesses, net	**—**	5	—	—	5	—	(5)	(8)	3	—
Impact of significant items [a][b] on EBIT:	**$ —**	$ 108	52	—	34	22	488	431	34	6
Capital loss utilized/tax rate change impact on EPS:	**—**	—	—	—	—	—	0.02	0.07	—	0.01
Impact of significant items [a] on EPS:	**$ —**	$ 0.50	0.23	—	0.17	0.10	2.23	2.05	0.15	0.04

(a) Due to rounding differences, quarterly amounts may not add to the annual total.
(b) Of the significant items described above, $10 million was recorded in depreciation and amortization expense in Q4 2015.

4) In October 2015 the Company closed a three-year extension to its $1.0 billion global operating credit facility, extending the maturity date to October 2020 from the previous maturity in September 2017.

Forward-Looking Disclaimer

This report contains statements about the Company's business outlook, objectives, plans, strategic priorities and other statements that are not historical facts. A statement Finning makes is forward-looking when it uses what the Company knows and expects today to make a statement about the future. Forward-looking statements may include terminology such as aim, anticipate, assumption, believe, could, expect, goal, guidance, intend, may, objective, outlook, plan, project, seek, should, strategy, strive, target, and will, and variations of such terminology. Forward-looking statements in this report include, but are not limited to, statements with respect to: expectations with respect to the economy, markets and activities and the associated impact on the Company's financial results; in Canada, demand for mining equipment, power systems products and core equipment, upcoming infrastructure projects, activity in the oil and gas sector, and the Company's collective agreement negotiations with the International Association of Machinists and Aerospace Workers (IAM) – Vancouver Lodge 692; in South America, product support activity, the impact of the Escondida mine returning to full capacity, expectations for construction activity in Chile and infrastructure activity in Argentina; in the UK and Ireland, the shift to general construction, demand for new equipment and product support and competitive pricing pressure; expected impact of and volatility in foreign exchange markets; expected free cash flow and liquidity; expected profitability levels; expected range of the effective tax rate; market share growth; expected results from cost reductions, capital discipline, improved working capital management and transformation initiatives; expected results from execution of the Company's strategy; inventory turns; timing and delivery of innovative customer solutions; planned activities and anticipated results of Finning Digital; and investment in a new ERP system for the South American business. All such forward-looking statements are made pursuant to the 'safe harbour' provisions of applicable Canadian securities laws

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

Forward-looking statements, by their very nature, are subject to numerous risks and uncertainties and are based on several assumptions which give rise to the possibility that actual results could differ materially from the expectations expressed in or implied by such forward-looking statements and that Finning's business outlook, objectives, plans, strategic priorities and other statements that are not historical facts may not be achieved. As a result, Finning cannot guarantee that any forward-looking statement will materialize. Factors that could cause actual results or events to differ materially from those expressed in or implied by these forward-looking statements include: general economic and market conditions; foreign exchange rates; commodity prices; the level of customer confidence and spending, and the demand for, and prices of, Finning's products and services; Finning's ability to maintain its relationship with Caterpillar; Finning's dependence on the continued market acceptance of its products, including Caterpillar products, and the timely supply of parts and equipment; Finning's ability to continue to improve productivity and operational efficiencies while continuing to maintain customer service; Finning's ability to manage cost pressures as growth in revenue occurs; Finning's ability to reduce costs in response to slowing activity levels; Finning's ability to attract sufficient skilled labour resources as market conditions, business strategy or technologies change; Finning's ability to negotiate and renew collective bargaining agreements with satisfactory terms for Finning's employees and the Company; the intensity of competitive activity; Finning's ability to raise the capital needed to implement its business plan; regulatory initiatives or proceedings, litigation and changes in laws or regulations; stock market volatility; changes in political and economic environments for operations; the integrity, reliability and availability of, and benefits from information technology and the data processed by that technology; and Finning's ability to protect itself from cybersecurity threats or incidents. Forward-looking statements are provided in this report for the purpose of giving information about management's current expectations and plans and allowing investors and others to get a better understanding of Finning's operating environment. However, readers are cautioned that it may not be appropriate to use such forward-looking statements for any other purpose.

Forward-looking statements made in this report are based on a number of assumptions that Finning believed were reasonable on the day the Company made the forward-looking statements. Refer in particular to the Outlook section in this MD&A for forward-looking statements. Some of the assumptions, risks, and other factors which could cause results to differ materially from those expressed in the forward-looking statements contained in this report are discussed in Section 4 of the Company's current AIF and in the annual MD&A for the financial risks.

Finning cautions readers that the risks described in the MD&A and the AIF are not the only ones that could impact the Company. Additional risks and uncertainties not currently known to the Company or that are currently deemed to be immaterial may also have a material adverse effect on Finning's business, financial

condition, or results of operations. Except as otherwise indicated, forward-looking statements do not reflect the potential impact of any non-recurring or other unusual items or of any dispositions, mergers, acquisitions, other business combinations or other transactions that may be announced or that may occur after the date of this report. The financial impact of these transactions and non-recurring and other unusual items can be complex and depends on the facts particular to each of them.

Finning therefore cannot describe the expected impact in a meaningful way or in the same way Finning presents known risks affecting its business.

UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(Canadian $ millions)	March 31, 2017	December 31, 2016
ASSETS		
Current assets		
Cash and cash equivalents	**$ 489**	$ 593
Accounts receivable	**862**	869
Service work in progress	**115**	101
Inventories	**1,653**	1,601
Other assets	**254**	214
Total current assets	**3,373**	3,378
Property, plant, and equipment	**602**	606
Rental equipment	**372**	363
Goodwill	**118**	118
Distribution network	**100**	100
Intangible assets	**71**	71
Investments in joint ventures and associate	**88**	88
Other assets	**177**	186
Total assets	**$ 4,901**	$ 4,910
LIABILITIES		
Current liabilities		
Short-term debt	**$ 16**	$ 2
Accounts payable and accruals	**920**	946
Deferred revenue	**240**	231
Provisions	**43**	47
Other liabilities	**12**	7
Total current liabilities	**1,231**	1,233
Long-term debt	**1,481**	1,487
Net post-employment obligation	**75**	84
Other liabilities	**196**	205
Total liabilities	**$ 2,983**	$ 3,009
SHAREHOLDERS' EQUITY		
Share capital	**$ 573**	$ 573
Contributed surplus	**1**	2
Accumulated other comprehensive income	**238**	243
Retained earnings	**1,106**	1,083
Total shareholders' equity	**1,918**	1,901
Total liabilities and shareholders' equity	**$ 4,901**	$ 4,910

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

UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENTS OF NET INCOME

3 months ended March 31 **(Canadian $ millions, except share and per share amounts)**		**2017**		2016
Revenue				
New equipment	**$**	**423**	$	515
Used equipment		**73**		98
Equipment rental		**51**		56
Product support		**852**		821
Other		**3**		4
Total revenue		**1,402**		1,494
Cost of sales		**(1,009)**		(1,113)
Gross profit		**393**		381
Selling, general, and administrative expenses		**(307)**		(337)
Equity (loss) earnings of joint ventures and associate		**(1)**		1
Other income		**1**		—
Earnings before finance costs and income taxes		**86**		45
Finance costs (Note 4)		**(22)**		(22)
Income before provision for income taxes		**64**		23
Provision for income taxes		**(17)**		(8)
Net income	**$**	**47**	$	15
Earnings per share (Note 3)				
Basic	**$**	**0.28**	$	0.09
Diluted	**$**	**0.28**	$	0.09
Weighted average number of shares outstanding (Note 3)				
Basic		**168,135,424**		168,032,131
Diluted		**168,372,738**		168,076,510

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

UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

3 months ended March 31 **(Canadian $ millions)**	**2017**	2016
Net income	**$ 47**	$ 15
Other comprehensive income (loss), net of income tax		
Items that may be subsequently reclassified to net income:		
Foreign currency translation adjustments	**(7)**	(137)
Share of foreign currency translation adjustments of joint ventures and associate	**(3)**	(1)
Unrealized gain on net investment hedges	**5**	55
Impact of foreign currency translation and net investment hedges, net of income tax	**(5)**	(83)
Unrealized loss on cash flow hedges	**—**	(3)
Realized loss on cash flow hedges, reclassified to earnings	**—**	1
Income tax recovery on cash flow hedges	**—**	1
Impact of cash flow hedges, net of income tax	**—**	(1)
Items that will not be subsequently reclassified to net income:		
Actuarial gain (loss) (Note 5)	**8**	(13)
Income tax (expense) recovery on actuarial gain (loss)	**(1)**	4
Actuarial gain (loss), net of income tax	**7**	(9)
Total comprehensive income (loss)	**$ 49**	$ (78)

UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

	Share Capital			**Accumulated Other Comprehensive Income (Loss)**			
(Canadian $ millions, except number of shares)	**Number of shares**	**Amount**	**Contributed Surplus**	**Impact of Foreign Currency Translation and Net Investment Hedges**	**Impact of Cash Flow Hedges**	**Retained Earnings**	**Total**
Balance, January 1, 2016	168,031,428	$ 570	$ —	$ 327	$ (1)	$ 1,154	$ 2,050
Net income	—	—	—	—	—	15	15
Other comprehensive loss	—	—	—	(83)	(1)	(9)	(93)
Total comprehensive (loss) income	—	—	—	(83)	(1)	6	(78)
Issued on exercise of share options	2,203	—	—	—	—	—	—
Share option expense	—	—	1	—	—	—	1
Dividends on common shares	—	—	—	—	—	(31)	(31)
Balance, March 31, 2016	168,033,631	$ 570	$ 1	$ 244	$ (2)	$ 1,129	$ 1,942
Balance, January 1, 2017	**168,167,202**	**$ 573**	**$ 2**	**$ 243**	**$ —**	**$ 1,083**	**$ 1,901**
Net income	**—**	**—**	**—**	**—**	**—**	**47**	**47**
Other comprehensive (loss) income	**—**	**—**	**—**	**(5)**	**—**	**7**	**2**
Total comprehensive (loss) income	**—**	**—**	**—**	**(5)**	**—**	**54**	**49**
Issued on exercise of share options	**5,972**	**—**	**—**	**—**	**—**	**—**	**—**
Share option expense	**—**	**—**	**1**	**—**	**—**	**—**	**1**
Repurchase of common shares	**(89,900)**	**—**	**(2)**	**—**	**—**	**—**	**(2)**
Dividends on common shares	**—**	**—**	**—**	**—**	**—**	**(31)**	**(31)**
Balance, March 31, 2017	**168,083,274**	**$ 573**	**$ 1**	**$ 238**	**$ —**	**$ 1,106**	**$ 1,918**

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

UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOW

3 months ended March 31 (Canadian $ millions)	**2017**	2016
OPERATING ACTIVITIES		
Net income	**$ 47**	$ 15
Adjusting for:		
Depreciation and amortization	**45**	51
Gain on disposal of rental equipment and property, plant, and equipment	**—**	(2)
Mark-to-market adjustment on investment	**(1)**	—
Equity loss (earnings) of joint ventures and associate	**1**	(1)
Share-based payment expense	**—**	2
Provision for income taxes	**17**	8
Finance costs	**22**	22
Defined benefit and other post-employment benefit expense (Note 5)	**4**	3
Changes in operating assets and liabilities (Note 6)	**(138)**	(31)
Additions to rental equipment	**(61)**	(37)
Proceeds on disposal of rental equipment	**29**	49
Interest paid	**(11)**	(12)
Income tax paid	**(12)**	(10)
Cash flow (used in) provided by operating activities	**(58)**	57
INVESTING ACTIVITIES		
Additions to property, plant, and equipment and intangible assets	**(19)**	(38)
Proceeds on disposal of property, plant, and equipment	**1**	11
Investment in joint ventures and associate	**(3)**	—
Proceeds from disposal of short-term investments	**—**	22
Cash flow used in investing activities	**(21)**	(5)
FINANCING ACTIVITIES		
Increase (decrease) in short-term debt (Note 6)	**14**	(41)
Increase in long-term debt (Note 6)	**—**	1
Decrease in finance lease liabilities (Note 6)	**(2)**	(1)
Repurchase of common shares	**(2)**	—
Dividends paid	**(31)**	(31)
Cash flow used in financing activities	**(21)**	(72)
Effect of currency translation on cash balances	**(4)**	(30)
Decrease in cash and cash equivalents	**(104)**	(50)
Cash and cash equivalents, beginning of period	**593**	475
Cash and cash equivalents, end of period (Note 6)	**$ 489**	$ 425

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

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

These unaudited interim condensed consolidated financial statements ("Interim Statements") of Finning International Inc. and its subsidiaries (together, "Finning" or the "Company") have been prepared in accordance with International Accounting Standard ("IAS") 34, *Interim Financial Reporting,* as issued by the International Accounting Standard Board ("IASB"). Accordingly, certain information and footnote disclosure normally included in annual financial statements prepared in accordance with International Financial Reporting Standards ("IFRS") have been omitted or condensed, and therefore these Interim Statements should be read in conjunction with the December 31, 2016 audited annual consolidated financial statements and the notes.

These Interim Statements are based on the IFRS issued and effective as of May 9, 2017, the date these Interim Statements were authorized for issuance by the Company's Board of Directors, and follow 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 policy disclosed below:

(a) Amendments to Standards

The Company has adopted the following amendments to standards:

- IAS 7, *Statement of Cash Flows* (effective January 1, 2017) introduces new requirements to disclose changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash flows. The required disclosures have been added to Note 6 of the Company's Interim Statements.

(b) Future Accounting Pronouncements

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

- IFRS 9, *Financial Instruments* (effective January 1, 2018) introduces new requirements for the classification and measurement of financial assets and financial liabilities, impairment of financial assets, and hedge accounting. Management's preliminary assessment is the new standard will not have a material impact on the Company's recognition and measurement of financial instruments. Management expects to apply the simplified approach for impairment losses of trade receivables permitted under IFRS 9. Management is still assessing the impact of this guidance on its loss allowance for trade and other receivables.
- IFRS 15, *Revenue from Contracts with Customers* (effective date January 1, 2018) requires companies to recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. IFRS 15 will supersede existing standards and interpretations, including IAS 18, *Revenue* and IAS 11, *Construction Contracts*. Additionally, IFRS 15 will significantly increase disclosures related to revenue recognition. Entities are permitted to apply the amendments either retrospectively to each prior reporting period presented or retrospectively with the cumulative effect of initially applying IFRS 15 at the date of initial application.

  Management is evaluating the new standard and to date, has completed an initial assessment and review of a representative sample of existing revenue contracts with its customers. Management has determined, on a preliminary basis, that the new standard will have the following impact on the timing and pattern of revenue recognition:

  - Revenue for sales of new equipment, used equipment, and parts will remain largely unchanged;
  - Revenue for sales of complex power systems projects and servicing of equipment under a long-term product support contract, for an individual contract, may experience a shift in the profile of revenue recognition (ie. deferred and recognized at a later point in the contract). The overall impact of these revenue streams on revenue recognition depends on the population of contracts and the terms and stage of the contract and therefore, the impact on a single contract cannot be extrapolated to the entire population of contracts with customers;
  - Revenue for servicing of equipment not under a long-term contract and certain power systems activities is currently recognized using percentage of completion and is still currently under review.
  - Revenue for rental equipment is excluded from the scope of the new revenue standard and therefore, will remain unchanged upon adoption of IFRS 15.

  Once the necessary accounting policies, processes, and systems are in place and estimates and judgments are made, management will estimate the impact of the new standard. It is not possible to quantify the effects of the new standard at this time.

- IFRIC 22, *Foreign Currency Transactions and Advance Consideration* (effective January, 1, 2018) clarifies the appropriate exchange rate to use on initial recognition of an asset, expense or income when advance consideration is paid or received in a foreign currency. Management expects this IFRIC may change the exchange rate used to translate deposits made on inventory purchases or advances received for equipment sales denominated in a foreign currency. The impact on the initial measurement of inventory and revenue would depend on the movements in exchange rates.
- IFRS 16, *Leases* (effective January 1, 2019) introduces new requirements for the classification and measurement of leases. Management is currently assessing the impact of the new standard.

2. Segmented Information

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

3 months ended March 31, 2017 ($ millions)	**Canada**	**South America**	**UK & Ireland**	**Other**	**Consolidated**
Revenue from external sources	**$ 691**	**$ 500**	**$ 211**	**$ —**	**$ 1,402**
Operating costs	**(622)**	**(443)**	**(197)**	**(9)**	**(1,271)**
Depreciation and amortization	**(24)**	**(15)**	**(6)**	**—**	**(45)**
Equity earnings (loss) of joint ventures and associate	**2**	**—**	**—**	**(3)**	**(1)**
Other income	**—**	**—**	**—**	**1**	**1**
Earnings (loss) before finance costs and income taxes	**$ 47**	**$ 42**	**$ 8**	**$ (11)**	**$ 86**
Finance costs					**(22)**
Provision for income taxes					**(17)**
Net income					**$ 47**
Invested capital [1]	**$ 1,629**	**$ 1,022**	**$ 280**	**$ (5)**	**$ 2,926**
Capital and rental equipment [2]	**$ 573**	**$ 350**	**$ 117**	**$ 5**	**$ 1,045**
Gross capital expenditures [3]	**$ 5**	**$ 12**	**$ 1**	**$ 1**	**$ 19**
Gross rental asset expenditures [3]	**$ 53**	**$ 5**	**$ 3**	**$ —**	**$ 61**

3 months ended March 31, 2016 ($ millions)	Canada	South America	UK & Ireland	Other	Consolidated
Revenue from external sources	$ 852	$ 430	$ 212	$ —	$ 1,494
Operating costs	(801)	(382)	(208)	$ (8)	$ (1,399)
Depreciation and amortization	(27)	(16)	(8)	—	(51)
Equity earnings of joint venture and associate	1	—	—	—	1
Earnings (loss) before finance costs and income taxes	$ 25	$ 32	$ (4)	$ (8)	$ 45
Finance costs					(22)
Provision for income taxes					(8)
Net income					$ 15
Invested capital [1]	$ 1,685	$ 1,033	$ 340	$ 27	$ 3,085
Capital and rental equipment [2]	$ 620	$ 349	$ 134	$ —	$ 1,103
Gross capital expenditures [3]	$ 7	$ 30	$ 1	$ —	$ 38
Gross rental asset expenditures [3]	$ 25	$ 6	$ 6	$ —	$ 37

(1) 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.
(2) Capital includes property, plant and equipment and intangibles
(3) Includes finance 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)					
2017		**Income**	**Shares**		**Per Share**
Basic EPS:					
Net income, weighted average shares outstanding, EPS	**$**	**47**	**168,135,424**	**$**	**0.28**
Effect of dilutive securities: share options		**—**	**237,314**		**—**
Diluted EPS:					
Net income and assumed conversions	**$**	**47**	**168,372,738**	**$**	**0.28**
2016					
Basic EPS:					
Net income, weighted average shares outstanding, EPS	$	15	168,032,131	$	0.09
Effect of dilutive securities: share options		—	44,379		—
Diluted EPS:					
Net income and assumed conversions	$	15	168,076,510	$	0.09

4. Finance Costs

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

3 months ended March 31 ($ millions)		**2017**		2016
Interest on short-term debt	**$**	**1**	$	1
Interest on long-term debt		**17**		17
Interest on debt securities		**18**		18
Other finance related expenses		**4**		4
Finance costs	**$**	**22**	$	22

5. Post-Employment Benefits

The significant actuarial assumptions used in the valuations of the Company's defined benefit pension plans and other post-employment benefit obligations include:

	March 31, 2017			March 31, 2016		
	Canada	**UK**	**South America**	Canada	UK	South America
Discount rate – obligation	**3.5%**	**2.6%**	**1.2%**	3.6%	3.5%	1.6%
Discount rate – expense [1]	**3.7%**	**2.7%**	**1.3%**	3.9%	3.7%	1.5%
Retail price inflation – obligation	**n/a**	**3.3%**	**n/a**	n/a	3.1%	n/a
Retail price inflation – expense [1]	**n/a**	**3.4%**	**n/a**	n/a	3.2%	n/a

[1] Used to determine the net interest cost and expense for the three months ended March 31, 2017 and March 31, 2016.

The expense and actuarial loss (gain) for the Company's defined benefit pension plans and other post-employment benefit obligations are as follows:

	March 31, 2017				March 31, 2016			
3 months ended ($ millions)	**Canada**	**UK**	**South America**	**Total**	Canada	UK	South America	Total
Current service cost and administration costs, net of employee contributions	**$ 2**	**$ —**	**$ 2**	**$ 4**	$ 2	$ —	$ 1	$ 3
Net benefit cost	**$ 2**	**$ —**	**$ 2**	**$ 4**	$ 2	$ —	$ 1	$ 3
Actuarial gain on plan assets	**$ (6)**	**$ (17)**	**$ —**	**$ (23)**	$ (4)	$ (26)	$ —	$ (30)
Actuarial loss on plan liabilities	**13**	**1**	**1**	**15**	22	13	8	43
Total actuarial loss (gain) recognized in other comprehensive income	**$ 7**	**$ (16)**	**$ 1**	**$ (8)**	$ 18	$ (13)	$ 8	$ 13

In the first quarter of 2017, the Company invested a portion of its Canadian defined benefit plan assets in annuity contracts (totaling $97 million) in order to partly mitigate the Company's exposure to investment and longevity risk. This change in investments resulted in an actuarial loss on plan assets of approximately $3 million that is recognized in other comprehensive income.

6. Supplemental Cash Flow Information

The components of cash and cash equivalents are as follows:

March 31 **($ millions)**	**2017**	2016
Cash	**$ 275**	$ 260
Cash equivalents	**214**	165
Cash and cash equivalents	**$ 489**	$ 425

The changes in operating assets and liabilities are as follows:

3 months ended March 31 **($ millions)**	**2017**	2016
Accounts receivable	**$ 6**	$ (29)
Service work in progress	**(14)**	(12)
Inventories	**(58)**	(6)
Other assets	**(29)**	37
Accounts payable and accruals	**(32)**	(20)
Other liabilities	**(11)**	(1)
Changes in operating assets and liabilities	**$ (138)**	$ (31)

The changes in liabilities arising from financing activities are as follows:

($ millions)	**Short-term debt**	**Long-term debt**	**Finance lease liability**	**Total**
Balance, January 1, 2017	$ 2	$ 1,487	$ 39	$ 1,528
Cash flows provided by (used in)				
Financing activities	14	—	(2)	12
Operating activities	—	—	(1)	(1)
Total cash movements	$ 14	$ —	$ (3)	$ 11
Non-cash changes				
Interest expense	—	—	1	1
Foreign exchange rate changes	—	(6)	—	(6)
Total non-cash movements	$ —	$ (6)	$ 1	$ (5)
Balance, March 31, 2017	$ 16	$ 1,481	$ 37	$ 1,534