

MANAGEMENT'S DISCUSSION AND ANALYSIS

May 4, 2016

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 on the SEDAR (System for Electronic Document Analysis and Retrieval) website at www.sedar.com.

Management determined that it would be appropriate to voluntarily change 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 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. Further disclosure can be found in note 1 of the Company's interim condensed consolidated financial statements.

First Quarter Overview

	Q1 2016 (\$ millions)	Q1 2015 (Restated)	Q1 2016 (% of revenue)	Q1 2015 (Restated)
Revenue	\$ 1,494	\$ 1,541		
Gross profit	381	414	25.5%	26.9%
Selling, general & administrative expenses (SG&A)	(337)	(340)	(22.5)%	(22.1)%
Equity earnings of joint venture and associate	1	1	0.0%	0.1%
Earnings before finance costs and income taxes (EBIT)	45	75	3.0%	4.9%
Finance costs	(22)	(19)	(1.5)%	(1.3)%
Provision for income taxes	(8)	(3)	(0.5)%	(0.2)%
Net income	\$ 15	\$ 53	1.0%	3.4%
Basic earnings per share (EPS)	\$ 0.09	\$ 0.31		
Earnings before finance costs, income taxes, depreciation and amortization (EBITDA) ⁽¹⁾	\$ 96	\$ 126	6.4%	8.2%
Free cash flow ⁽¹⁾	\$ 30	\$ (232)		

2016 First Quarter Highlights

- Free cash flow in Q1 2016 of \$30 million was a significant increase to the cash use of \$232 million in Q1 2015, reflecting strong cash generation from the Company's Canadian operations as a result of lower inventory spend and higher equipment deliveries.
- Revenue of \$1.5 billion was down 3% from Q1 2015 primarily due to a 7% decrease in new equipment revenue and a 3% decrease in product support revenue, reflecting lower demand from mining and construction sectors in the Company's South American operations, a result of the continued weak market conditions. The Company's Canadian operations reported higher new and used equipment revenues compared to the prior year period.
- Product support margins were higher compared to the prior year despite challenging market conditions reflecting improved service profitability as a result of operational excellence initiatives implemented in prior periods.
- Actions taken by the Company to align its cost structure to market conditions included the decision to further reduce the global workforce by approximately 525 people (435 reduction to date), resulting in \$17 million of severance and restructuring costs (Q1 2015 severance and restructuring costs of \$19 million).
- EBIT was \$45 million and EBIT margin⁽¹⁾ was 3.0% in Q1 2016. EBITDA in Q1 2016 was \$96 million with a net debt to EBITDA ratio⁽¹⁾ of 12.0x. Excluding significant items⁽²⁾, EBIT would have been \$67 million, EBIT margin would have been 4.5%, EBITDA would have been \$118 million, and net debt to EBITDA ratio for Q1 2016 would have been 2.0x, reflecting balance sheet strength and resilience.
- Basic EPS earned in Q1 2016 of \$0.09 was impacted by significant items⁽²⁾ which are severance and restructuring costs (\$0.07 per share) and higher than expected loss provisions on certain power system projects in the UK (\$0.03 per share).

(1) These financial metrics do not have a standardized meaning under IFRS, which are also referred to herein as Generally Accepted Accounting Principles (GAAP). For additional information regarding these financial metrics, see the heading "Description of Non-GAAP Measures" later in this MD&A.

(2) Certain Q1 2016 and annual 2015 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 19 in this MD&A.

Quarterly Key Performance Measures

The Company's operational improvement priorities include: customer & market leadership; supply chain optimization; service excellence; and asset utilization. The Company's 2016 incentive plans are aligned with the following KPIs to consistently measure performance across the organization and monitor progress in improving Return on Invested Capital (ROIC)⁽¹⁾.

	2016	2015				2014			
	Q1 ⁽²⁾	Q4 ⁽²⁾	Q3	Q2	Q1	Q4	Q3	Q2	Q1
ROIC									
Consolidated	(4.0)%	(3.0)%	11.0%	12.9%	14.1%	15.3%	15.4%	16.0%	15.4%
Canada	5.4%	5.5%	10.9%	13.9%	15.3%	17.1%	16.8%	16.6%	15.7%
South America	(14.9)%	(12.8)%	13.2%	13.6%	14.4%	14.6%	15.8%	17.4%	17.0%
UK & Ireland	(4.5)%	(1.4)%	10.5%	13.2%	14.7%	16.3%	15.6%	15.9%	16.3%
EBIT (\$ millions)									
Consolidated	45	(349)	63	106	75	142	114	137	111
Canada	25	(17)	34	52	29	73	80	77	54
South America	32	(303)	32	52	45	59	32	57	50
UK & Ireland	(4)	(31)	7	12	7	11	14	14	12
EBIT Margin ⁽³⁾									
Consolidated	3.0%	(22.7)%	4.2%	6.3%	4.9%	7.9%	6.8%	7.8%	6.6%
Canada	3.0%	(2.4)%	4.5%	6.1%	3.6%	7.7%	9.2%	8.3%	6.0%
South America	7.3%	(57.3)%	6.4%	9.4%	9.2%	9.8%	6.2%	10.0%	9.0%
UK & Ireland	(1.9)%	(10.6)%	2.7%	4.2%	3.1%	4.3%	4.8%	5.1%	4.9%
Invested Capital ⁽¹⁾ (\$ millions)									
Consolidated	3,085	3,240	3,802	3,536	3,541	3,106	3,340	3,334	3,414
Canada	1,685	1,760	1,871	1,745	1,794	1,475	1,714	1,756	1,682
South America	1,033	1,122	1,485	1,402	1,417	1,348	1,298	1,274	1,443
UK & Ireland	340	321	442	381	330	284	344	309	296
Invested Capital Turnover ⁽¹⁾⁽³⁾ (times)									
Consolidated	1.82x	1.78x	1.88x	1.99x	2.06x	2.10x	2.09x	2.12x	2.06x
Canada	1.80x	1.74x	1.96x	2.09x	2.14x	2.19x	2.15x	2.20x	2.11x
South America	1.59x	1.52x	1.51x	1.57x	1.63x	1.66x	1.71x	1.74x	1.73x
UK & Ireland	2.81x	2.93x	2.93x	3.21x	3.40x	3.43x	3.43x	3.43x	3.41x
Inventory (\$ millions)	1,740	1,800	1,995	1,919	1,973	1,661	1,806	1,835	1,945
Inventory Turns ⁽¹⁾⁽³⁾ (times)	2.58x	2.38x	2.39x	2.44x	2.72x	2.81x	2.64x	2.56x	2.61x
Working Capital to Sales Ratio ⁽¹⁾⁽³⁾	31.4%	32.2%	30.1%	28.2%	26.9%	26.1%	26.0%	25.5%	26.3%
Free Cash Flow (\$ millions)	30	347	140	69	(232)	385	109	123	(134)
Net Debt to Invested Capital Ratio ⁽¹⁾	37.0%	36.7%	38.7%	35.4%	36.0%	31.4%	39.4%	40.9%	42.9%
EBITDA	96	(282)	125	157	126	194	170	190	166
Net Debt to EBITDA Ratio	12.0	9.5	2.4	1.9	1.9	1.4	1.8	1.8	2.0

- (1) These financial metrics do not have a standardized meaning under IFRS. For additional information regarding these financial metrics, including definitions, see the heading "Description of Non-GAAP Measures" later in this MD&A.
- (2) Q1 2016 and Q4 2015 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 19 in this MD&A. Of the significant items described, \$10 million was recorded in depreciation and amortization expense in Q4 2015. Excluding the significant items not included in depreciation and amortization, Q4 2015 EBITDA would have been \$139 million and Net Debt to EBITDA ratio would have been 2.0x and Q1 2016 EBITDA would have been \$118 million and Net Debt to EBITDA ratio would have been 2.0x.
- (3) Management determined that it would be appropriate to voluntarily change its presentation of certain expenses to provide reliable and more relevant information to users of its financial statements and better align with industry comparable companies. In addition, management concluded that certain cost recoveries are better reflected as revenues. Certain line items and key performance metrics have been restated in the 2015 quarterly periods but the impact of restatement is not significant. Further disclosure can be found in note 1 of the Company's interim condensed consolidated financial statements.

Revenue

The Company generated revenue of \$1.5 billion during the first three months of 2016, a decrease of 3% from Q1 2015. Revenue was up in the Company's Canadian operation, driven by higher new and used equipment sales, but these increases were more than offset by lower revenues from the Company's South American and UK & Ireland operations.

New equipment sales declined by 7% compared to the first quarter of 2015, driven by the Company's South America and UK & Ireland operations as a result of the weaker construction and mining sectors as well as lower demand for power systems. The decline in copper prices has resulted in a reduction in mining and construction activities and a delay of investments in infrastructure projects in the Company's South American operations. In the UK & Ireland operations, demand for equipment in the Company's key markets has weakened, most notably in coal, steel, and oil and gas.

Reflecting weak market conditions, equipment order backlog ⁽¹⁾ was \$0.5 billion at the end of March 2016, comparable to backlog at the end of 2015.

Product support revenue was down 3% compared to the first quarter of 2015, primarily in South America due to a decrease in parts revenue from the Chilean mining sector as customers continue to delay maintenance work. Product support revenue in the Company's UK & Ireland operations was down slightly in functional currency (U.K. pound sterling) due to a decrease in parts revenue in the mining sector, primarily coal. Product support revenue was comparable year over year in the Company's Canadian operations. On a consolidated basis, product support revenue as a portion of the overall sales mix was comparable to the prior year period.

Used equipment revenue was up 45%, primarily in Canada, reflecting the successful efforts by the Company to sell used equipment inventory in response to weak rental market conditions.

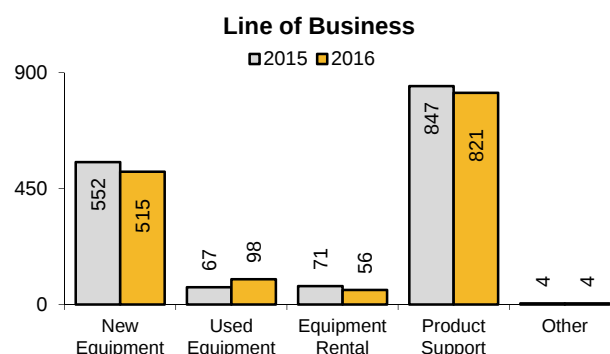
A 21% decrease in rental revenue was a result of further weakness in the rental market and increased

Earnings Before Finance Costs and Income Taxes

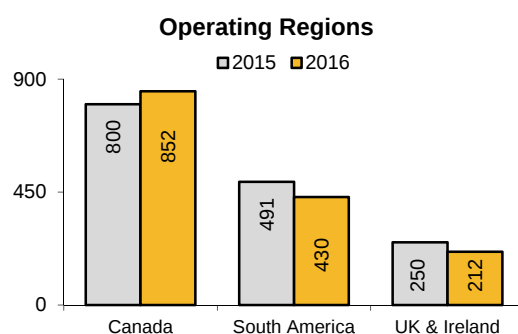
Q1 2016 gross profit of \$381 million was down 8% compared to the comparative prior year period, with increased competitive pressures and customers continuing to focus on reducing operating costs in challenging economic conditions. Gross profit margin ⁽¹⁾ of 25.5% was down from 26.9% earned in Q1 2015. Lower margins on new, used, and rental equipment were largely due to a competitive market and lower margins earned on large equipment sales. These lower margins were partly offset by improved service margins from all operations due to the successful implementation of operational excellence initiatives.

1) These financial metrics do not have a standardized meaning under IFRS. For additional information regarding these financial metrics, including definitions, see the heading "Description of Non-GAAP Measures" later in this MD&A.

Three months ended March 31
(Restated - \$ millions)



Three months ended March 31
(Restated - \$ millions)

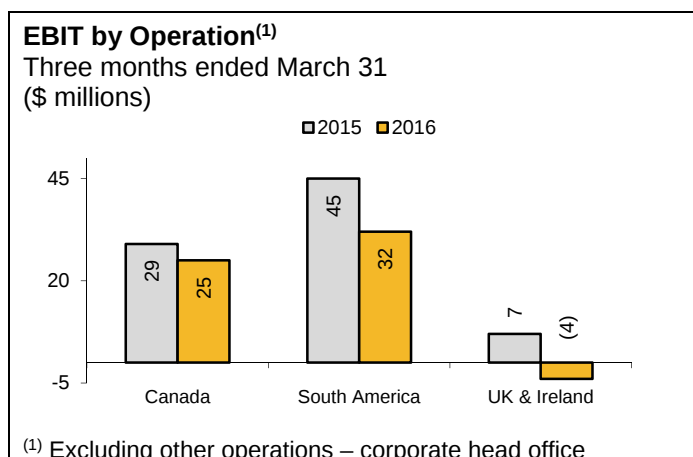


competition in the Company's Canadian operations relative to a year ago. Rental revenue in South America and the UK & Ireland was largely unchanged in the first quarter of 2016 compared to the prior year period.

Foreign currency translation of the results of the Company's South American and UK & Ireland operations had a positive impact on revenue of approximately \$50 million, primarily due to the 11% weaker Canadian dollar relative to the U.S. dollar and 5% weaker Canadian dollar relative to the U.K. pound sterling in 2016 compared to last year. However, the foreign currency translation impact on EBIT was minimal.

Contributing to lower gross profit margins were provisions on certain power system projects in the UK and large equipment sales in Canada at lower margins.

SG&A costs in the first quarter of 2016 were slightly lower than the prior year and included severance and restructuring costs of \$17 million related to the planned global workforce reduction of approximately 525 people (prior year included \$19 million in severance and restructuring costs). Excluding severance and restructuring costs, as well as the costs relating to the recently acquired Saskatchewan dealership, SG&A was down 4% compared to the prior year period.



Cost savings were reported from all operations as a result of the execution of operational excellence initiatives and cost reduction measures. Lower SG&A costs in the current year period also reflected workforce reductions and volume-related decreases, partially offset by inflationary and statutory salary increases, primarily in the Company's South American operations.

The Company reported EBIT of \$45 million in the first quarter of 2016, which was lower than the \$75 million earned in Q1 2015, primarily due to the Company's South American and UK & Ireland operations. Reduced mining and construction activities were a result of weaker commodity markets, particularly relating to the copper, steel, coal, oil and gas sectors. During the quarter, management in the UK and Ireland completed a detailed review of power systems contracts and projects. Based on changes in estimate as well as new information, management recorded certain adjustments that reduced the profitability of those projects by \$5 million. Management does not consider these adjustments to be indicative of future operational or financial trends for the power systems division in the UK and Ireland.

Excluding \$17 million of severance costs and \$5 million of power system projects provisions, which are considered significant items not indicative of operational results, Q1 2016 EBIT would have been \$67 million (excluding severance and restructuring costs, Q1 2015 EBIT would have been \$94 million).

The Company's EBIT margin was 3.0% in the first quarter of 2016, compared to 4.9% in the same period of 2015, mainly due to lower gross profit margin from large equipment sales in the Company's Canadian operations and provisions taken in the UK & Ireland on certain power system projects. In addition, SG&A costs are not decreasing as quickly as the revenue decline in the Company's South American and UK & Ireland operations. Benefits from the cost and restructuring initiatives implemented in the current quarter have not yet been fully realized. Excluding significant items as noted above, Q1 2016 EBIT margin would have been 4.5% (Q1 2015 EBIT margin would have been 6.1%).

EBITDA

EBITDA for Q1 2016 was \$96 million and EBITDA margin was 6.4% (Q1 2015: EBITDA was \$126 million and EBITDA margin was 8.2%). Excluding significant items such as severance and restructuring costs and power system project provisions, Q1 2016 EBITDA would have been \$118 million and EBITDA margin would have been 7.9% (excluding severance and restructuring costs of \$19 million in Q1 2015, EBITDA would have been \$145 million and EBITDA margin would have been 9.4%). EBITDA was down from the prior year period mainly due to lower earnings from the Company's South American and UK & Ireland operations.

The net debt to EBITDA ratio at Q1 2016 was 12.0x. Excluding significant items not indicative of operational results, as noted on page 19 of this MD&A, net debt to EBITDA ratio would have been 2.0x, which is comparable to the prior year period.

Finance Costs

Finance costs in the first three months of 2016 were \$22 million and slightly above \$19 million in Q1 2015.

Provision for Income Taxes

The effective income tax rate for Q1 2016 was 34.5%, compared to 5.1% in the prior year. The tax rate in 2016 was primarily the result of a higher estimated annual effective tax rate for Argentina due to the devaluation of the Argentine peso. During Q1 2015, the Company's provision for income taxes included a \$10 million benefit from previously unrecognized tax losses offsetting taxable amounts recorded in Q1 2015. Adjusting for the benefit, the effective tax rate in Q1 2015 would have been 22.6%.

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

Net Income

Net income was \$15 million in Q1 2016, down from \$53 million earned in the same period last year. Basic EPS was \$0.09 per share compared with \$0.31 per share in the Q1 2015. Excluding significant items (severance and restructuring costs of \$0.07 per share and power system provisions of \$0.03 per share), basic EPS earned in Q1 2016 would have been \$0.19 per share. Excluding severance and restructuring costs (\$0.08 per share) and the benefit of previously unrecognized tax losses (\$0.06 per share), Q1 2015 EPS would have been \$0.33 per share. The decrease in net income and basic EPS compared to the prior year period was primarily due to lower sales volumes and lower profit margins, reflecting the impact of large equipment deals in Canada as well as the challenging economic conditions in all regions.

Invested Capital

(\$ millions, unless otherwise stated)	March 31, 2016	December 31, 2015	Increase (Decrease) from Dec 31, 2015	March 31, 2015	Increase (Decrease) from Mar 31, 2015
Consolidated	\$ 3,085	\$ 3,240	\$ (155)	\$ 3,541	\$ (456)
Canada	\$ 1,685	\$ 1,760	\$ (75)	\$ 1,794	\$ (109)
South America	\$ 1,033	\$ 1,122	\$ (89)	\$ 1,417	\$ (384)
UK & Ireland	\$ 340	\$ 321	\$ 19	\$ 330	\$ 10
<i>South America (U.S. dollar)</i>	\$ 796	\$ 811	\$ (15)	\$ 1,117	\$ (321)
<i>UK & Ireland (U.K. pound sterling)</i>	£ 182	£ 157	£ 25	£ 175	£ 7

The \$155 million decrease in consolidated invested capital from December 31, 2015 to March 31, 2016 reflects the impact of approximately \$100 million of foreign exchange as a result of the 6% stronger Canadian dollar (CAD) relative to the U.S. dollar (USD) and the 9% stronger CAD relative to the U.K. pound sterling (GBP) in translating the Company's South American and UK & Ireland operations' invested capital balances.

Excluding the impact of foreign exchange, consolidated invested capital decreased by \$55 million from December 31, 2015 primarily driven by:

- decrease in rental equipment as a result of disposal of underutilized fleet and a decrease in equipment inventory from delivery of mining equipment in the quarter, from the Company's Canadian operations
- decrease in other assets reflecting lower parts returns and claims receivables as well as lower short-term investments, mainly from the Company's South American operations

These decreases were partly offset by:

- a decrease in accounts payable balances in the Company's Canadian operations as a result of lower inventory purchases made during the period
- higher equipment inventory levels in the Company's UK & Ireland operations, reflecting the slowdown in market activity

	March 31, 2016	December 31, 2015	March 31, 2015
Return on Invested Capital			
Consolidated	(4.0)%	(3.0)%	14.1%
Canada	5.4%	5.5%	15.3%
South America	(14.9)%	(12.8)%	14.4%
UK & Ireland	(4.5)%	(1.4)%	14.7%
Invested Capital Turnover ⁽¹⁾			
Consolidated	1.82x	1.78x	2.06x
Canada	1.80x	1.74x	2.14x
South America	1.59x	1.52x	1.63x
UK & Ireland	2.81x	2.93x	3.40x

(1) Management determined that it would be appropriate to voluntarily change its presentation of certain expenses to provide reliable and more relevant information to users of its financial statements and better align with industry comparable companies. In addition, management concluded that certain cost recoveries are better reflected as revenues. Certain line items and key performance metrics have been restated in the 2015 quarterly periods but the impact of restatement is not significant. Further disclosure can be found in note 1 of the Company's interim condensed consolidated financial statements.

Return on invested capital (ROIC)

ROIC for Q1 2016 was (4.0)%, a decrease from Q4 2015 of (3.0)% and Q1 2015 of 14.1%. The decline in ROIC reflects the negative impact the downturn in resources and construction sectors has had on the Company's earnings. Negatively impacting the Company's 2016 and 2015 ROIC were significant items not considered by management to be indicative of operational results (such as severance and restructuring costs and provisions on power system projects in Q1 2016 as well as impairment losses on the shovels and drills distribution network and goodwill in Q4 2015) as further described on page 19 of this MD&A. The Company will continue to monitor business conditions closely in all its operations and further align its invested capital with expected activity levels as necessary.

- The Company's Canadian operations reported ROIC of 5.4% compared to 15.3% in Q1 2015, driven primarily by lower earnings, which included \$40 million in restructuring costs in the fourth quarter of 2015 as well as lower margins and challenging market conditions, combined with a higher average invested capital. Average invested capital levels were higher compared to the prior year period mainly due to higher new equipment inventory levels and lower accounts payables, partly offset by lower accounts receivables and parts inventory levels.
- The Company's South American operations reported ROIC of (14.9)% compared to 14.4% in Q1 2015. The decrease was due to lower EBIT in the last twelve months, which included a \$324 million impairment loss on the Company's distribution network and goodwill. In functional currency, average invested capital decreased by approximately US\$200 million compared to the prior year period mainly due to the impairment loss on the shovels and drills distribution network and goodwill, lower inventory levels, other current assets and accounts receivables, partly offset by lower accounts payables. In functional currency, there was a decrease in working capital balances compared to the prior year period, reflecting the continued focus on inventory management.
- The Company's UK & Ireland operations reported ROIC of (4.5)% in Q1 2016 compared to 14.7% in Q1 2015. The decrease was primarily driven by a decline in EBIT for the last twelve months, which included a \$14 million goodwill impairment loss and a \$5 million provision related to certain power system projects as well as a slight increase in average invested capital compared to the prior year period.

Invested capital turnover

- Invested capital turnover at March 31, 2016 was 1.82x, up from December 31, 2015, reflecting an increase in the Company's Canadian and South American operations invested capital turnover rates.
- Invested capital turnover at March 31, 2016 was down from the prior year period primarily due to reduced sales volumes in the last twelve months as well as higher average invested capital levels (primarily due to higher equipment inventories and lower accounts payables), reflecting the challenging market conditions. Compared to the prior year period, all operations reported a lower invested capital turnover.

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 (beginning July 1, 2015), Yukon, the Northwest Territories, and a portion of Nunavut.
- *South American operations:* Chile, Argentina, Uruguay (up to December 1, 2015), and Bolivia.
- *UK & Ireland operations:* England, Scotland, Wales, Northern Ireland, and the Republic of Ireland.

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

Three 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 operations	57%	29%	14%	100%	

Three months ended March 31, 2015 (Restated - \$ millions)	Canada	South America	UK & Ireland	Consol	Revenue percentage
New equipment	\$ 306	\$ 103	\$ 143	\$ 552	36%
Used equipment	43	8	16	67	4%
Equipment rental	47	17	7	71	5%
Product support	404	361	82	847	55%
Other	—	2	2	4	0%
Total	\$ 800	\$ 491	\$ 250	\$ 1,541	100%
Revenue percentage by operations	52%	32%	16%	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 sells, services, and rents mainly Caterpillar equipment and engines in British Columbia, Alberta, Saskatchewan (beginning July 1, 2015), 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:

Three months ended March 31 (\$ millions)	2016	2015 (Restated)
Revenue from external sources	\$ 852	\$ 800
Operating costs	(801)	(746)
Depreciation and amortization	(27)	(25)
Equity earnings of joint venture	1	—
EBIT	\$ 25	\$ 29
EBIT margin	3.0%	3.6%
EBITDA	\$ 52	\$ 54
EBITDA margin	6.1%	6.8%

First quarter 2016 revenues of \$852 million, were 6% higher than the first quarter of 2015, driven by increases in new and used equipment sales.

New equipment revenue was up 11% in the first quarter of 2016 compared to the same period in 2015, mainly due to delivery of equipment related to certain construction projects and significant mining deliveries. Order intake was very strong in the quarter, but this was more than offset by deliveries which resulted in lower order backlog levels at March 31, 2016.

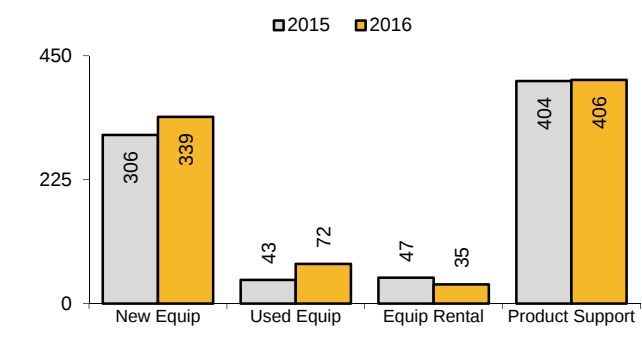
Product support revenue was comparable to the first quarter of 2015, with higher parts volumes largely offset by lower service revenues. Higher parts volumes were driven by higher component rebuilds for the mining sector and a positive contribution from the Saskatchewan dealership, partly offset by a decrease in the construction sector, primarily oil and gas customers in Alberta. Product support revenue comprised 48% of total revenue in the first quarter of 2016 compared to 50% last year.

As a result of the challenging market conditions in Western Canada due to weaker oil prices, oil sands customers have continued to reduce mining activity and delay maintenance work as well as insourcing some service-related activities, resulting in lower service revenues compared to the prior year quarter. The continued downturn in commodity markets have also negatively impacted other sectors of the economy, in particular, construction and oil and gas. With reduced infrastructure projects and lower rig count utilization, the demand for product support and capital spending for equipment is lower.

Used equipment revenue was up 65% in Q1 2016 compared to the prior year period reflecting the successful efforts by the Company's Canadian operations to sell used equipment inventory in response to weak rental market conditions. In addition, there is an increased market demand as customers look for more cost effective equipment purchasing options. Rental revenues were down from last year as a result of weaker demand across all sectors.

Difficult market conditions, including lower commodity prices and the weaker Canadian dollar, have led to increased competition and challenging pricing dynamics. Despite higher revenues reported in Q1 2016, gross profit decreased compared to the prior year period, reflecting lower margins earned on most lines of business.

Canada – Revenue by Line of Business Three months ended March 31 (Restated - \$ millions)



Gross profit margin in Q1 2016 was lower than the prior year due to a revenue shift to higher new equipment sales, a higher proportion of lower margin large equipment sales, pricing pressures in the construction and mining sectors and a weaker rental market. Used equipment margins in 2016 were negatively impacted by auction sales and rental conversions, which earned lower margins. Offsetting these declines in gross profit margins were higher service margins in 2016 compared to the prior year reflecting the implementation of operational improvements.

SG&A costs were lower in Q1 2016 compared to the prior year, primarily due to a reduced workforce, cost savings initiatives, and the benefit from the execution of the operational excellence agenda. In order to further align its cost structure to lower market activity, the Company's Canadian operations is reducing its workforce by approximately 265 people. Related to the restructuring were severance costs of \$8 million (Q1 2015: \$15 million severance costs and \$2 million restructuring costs). Excluding severance and restructuring costs, as well as the costs relating to the recently acquired Saskatchewan dealership, SG&A was down 9% compared to the prior year period.

The Canadian operations contributed EBIT of \$25 million in Q1 2016, lower than the \$29 million earned in the prior year period. EBIT margin was 3.0%, down from 3.6% earned in the same period in 2015.

Excluding severance and restructuring costs noted above, EBIT margin for Q1 2016 would have been 4.0% and Q1 2015 EBIT margin would have been 5.7%. EBIT margin was down from the prior year period primarily due to lower gross profit margins earned on most lines of business reflecting challenging market conditions and lower margins related to certain large mining and construction project deliveries.

South American Operations

Finning's South American operations sell, service, and rent mainly Caterpillar equipment and engines in Chile, Argentina, Uruguay (up to December 1, 2015) 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:

Three months ended March 31 (\$ millions)	2016	2015 (Restated)
Revenue from external sources	\$ 430	\$ 491
Operating costs	(382)	(427)
Depreciation and amortization	(16)	(19)
EBIT	\$ 32	\$ 45
EBIT margin	7.3%	9.2%
EBITDA	\$ 48	\$ 64
EBITDA margin	11.1%	13.1%

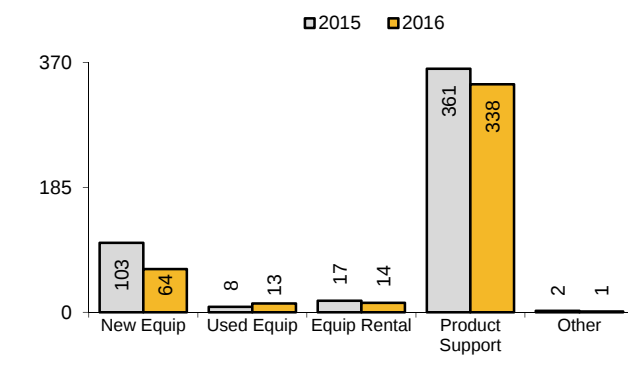
Q1 2016 revenues decreased 12% to \$430 million compared to Q1 2015 (down 21% in functional currency). This decrease was primarily driven by a 37% decline in new equipment revenue (down 43% in functional currency) reflecting reduced construction and mining activity. Product support revenue was down 7% (down 15% in functional currency) reflecting reduced mining activity as producers continue to implement cost reductions and delay maintenance.

The weaker Canadian dollar relative to the U.S. dollar compared to last year had a positive foreign currency translation impact on revenue in Q1 2016 of approximately \$40 million and was not significant at the EBIT level.

Gross profit, in functional currency, decreased compared to the first three months of 2015, reflecting lower sales volumes. Despite the downturn in market conditions, gross profit margin increased in Q1 2016 compared to last year, reflecting improved product support margins as well as a mix shift to higher margin product support revenues. Higher product support margins were achieved in the current year quarter compared to the prior year, due primarily to improved operational performance in mining contracts, reflecting cost efficiency and operational excellence initiatives implemented. Product support revenue comprised 79% of total revenue in the first quarter of 2016 compared to 74% in Q1 2015.

The Company's South American operations has announced a further reduction in its workforce of approximately 230 people, which resulted in severance costs of \$7 million (Q1 2015: \$1 million severance costs). Excluding severance costs, SG&A costs (in functional currency) in Q1 2016 decreased by 9%

South America – Revenue by Line of Business
Three months ended March 31
(Restated - \$ millions)



compared to the prior year period. The decrease in SG&A in functional currency was primarily due to lower operating costs from the weaker Argentine and Chilean pesos relative to the U.S. dollar, lower variable costs from reduced sales volumes, and cost savings from a reduced workforce. These reductions were partially offset by inflationary and statutory salary increases. The full benefit of recently announced workforce reductions will not be realized until future quarters.

For the three months ended March 31, 2016, the Company's South American operations reported an EBIT of \$32 million and an EBIT margin of 7.3%. Excluding severance costs, Q1 2016 EBIT margin would have been 8.9%, slightly below Q1 2015 EBIT margin of 9.4% (excluding severance costs). Higher gross profit margins achieved in the current year were more than offset by higher SG&A costs relative to sales as a result of the significant decline in revenue.

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:

Three months ended March 31 (\$ millions)	2016	2015 (Restated)
Revenue from external sources	\$ 212	\$ 250
Operating costs	(208)	(236)
Depreciation and amortization	(8)	(7)
EBIT	\$ (4)	\$ 7
EBIT margin	(1.9)%	3.1%
EBITDA	\$ 4	\$ 14
EBITDA margin	1.9%	5.7%

Revenues in the first quarter of 2016 of \$212 million were 15% lower than the same period in 2015 (down 19% in functional currency), driven primarily by decreases in new equipment revenue, reflecting weaker market conditions in the coal, steel and oil & gas sectors. Market conditions continue to be highly competitive for equipment in the general construction sector.

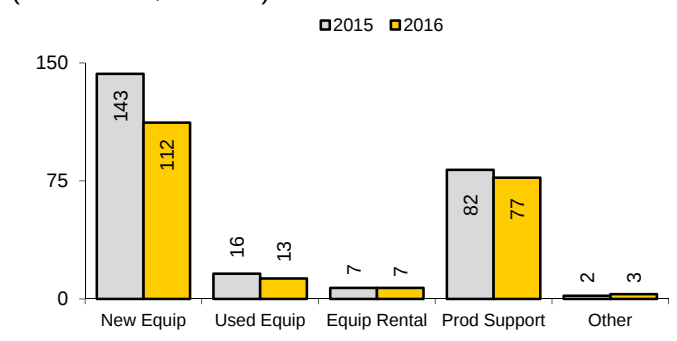
The weaker Canadian dollar relative to the U.K. pound sterling had a positive foreign currency translation impact on revenue of approximately \$10 million in the quarter, and was not significant at the EBIT level.

Q1 2016 gross profit, in functional currency, was down compared to the prior year period by more than the revenue decline due to competitive pressures resulting in lower margins in most lines of business. Gross profit margin was also down compared to last year, primarily due to lower margins on new and used equipment sales, mainly from the power systems sector. During the quarter, management in the UK and Ireland completed a detailed review of power systems contracts and projects. Based on changes in estimate as well as new information, management recorded certain adjustments that reduced profitability. Management does not consider these adjustments to be indicative of future operational or financial trends for the power systems division in the UK and Ireland. Product support gross profit margins were comparable to the prior year despite weaker market conditions.

SG&A costs were slightly higher in Q1 2016 compared to 2015 but comparable in functional currency.

The UK & Ireland operations reported an EBIT loss of \$4 million in Q1 2016 compared to EBIT income of \$7

UK & Ireland – Revenue by Line of Business
Three months ended March 31
(Restated - \$ millions)



million in 2015. Excluding significant items such as severance of \$2 million (Q1 2015 severance of \$1 million) and \$5 million of provisions on certain power system projects, Q1 2016 EBIT would have been \$3 million and Q1 2015 EBIT (excluding severance costs) would have been \$8 million. EBIT was lower than the prior year due to lower gross profit, reflecting decreased sales volumes and competitive pressures on margins, a result of weak business activity in the Company's key markets in the UK & Ireland region.

The UK & Ireland operations reported EBIT margin of (1.9)% compared to 3.1% earned in the first quarter of 2015. Excluding the significant items as noted above, EBIT margin for Q1 2016 would have been 1.5% and Q1 2015 EBIT margin would have been 3.4%. Current period EBIT margin was lower than the prior year primarily due to higher SG&A costs relative to declining sales.

Corporate and Other Operations

Net operating costs before finance costs and income taxes from the Company's Corporate and Other Operations were \$8 million in the first quarter of 2016 compared to \$6 million in 2015. Included in this segment are corporate operating costs, as well as equity earnings from the Company's 28.8% investment in Energyst B.V.

Outlook

Canada

The mining outlook in Western Canada remains uncertain due to low commodity prices, specifically in oil, natural gas, and coal. The resulting slowdown in the economy has intensified competitive pricing pressures and is impacting all segments of Finning's business: mining, construction and power systems. While the Company delivered several substantial mining equipment packages in the first quarter, overall demand for mining equipment is expected to remain soft for the remainder of the year. Mining customers continue to minimize capital and operating expenditures. The oil sands producers and other mining customers have parked portions of their fleets, insourced some service-related work, and continue postponing non-production mining activities and maintenance. Although part sales have improved, the Company believes the recovery will be slow and dependent on world commodity markets.

In construction, demand for core equipment and product support is very soft due to reduced customer activity as a result of the broad economic consequences of low oil and other commodity prices. While the market size for construction equipment has shrunk significantly, the Company has been successful in growing market share and winning significant deals. In power systems, demand has slowed further across most sectors, most notably in the oil field drilling and servicing industries.

Finning Canada continues to transform its business to deliver improved financial and customer results. Since the end of 2014, the Company has implemented significant workforce reductions and facility closures to align its cost structure to reduced business volumes and position the organization for sustainable profitability. 2016 annual fixed costs savings from these reductions and business transformation initiatives are expected to meaningfully exceed \$150 million from 2014. The Canadian workforce, facilities footprint, and annual SG&A costs will be reduced by approximately 20% between 2014 and 2016 and support improved profitability going forward. The Company may take further cost reduction measures if business conditions were to continue to weaken.

South America

In South America, concerns regarding lower demand and price for copper continue to delay investments in new projects by Finning's customers. The Company has not yet seen any significant benefit from the Chilean government's announced infrastructure spending plans. As a result, order intake across the mining and construction sectors is very low, and the overall demand for new equipment is expected to remain weak.

Demand for parts and service has been negatively impacted by reduced mining activity and lower fleet

utilization. Mining customers continue to defer component purchases and major repairs and are implementing a new wave of cost reductions. In response to decreased market activity across all segments, the South American operations has implemented several rounds of workforce reductions and has announced plans for further reductions in early 2016. Going forward, the Company continues to focus on capturing product support business and proactively managing costs to maintain profitability during the downturn.

UK & Ireland

In the UK & Ireland, demand for equipment in the Company's key markets has weakened, most notably in coal, steel, and oil & gas. Uncertainty related to Britain's June 23, 2016 in-out referendum on European Union membership is impacting business confidence and investment decisions. In the general construction segment, the equipment market continues to be highly competitive. The Company sees opportunities to participate in ongoing infrastructure projects and the robust quarry sector.

The outlook for power systems in the U.K. is uncertain. The decline in the price of oil has negatively impacted power systems activity at North Sea rigs. The marine market remains mixed; however, the industrial market is healthy and the Company continues to see electric power generation opportunities in the capacity market and data centres.

The UK & Ireland operations are implementing workforce reductions and other initiatives to align the cost structure with reduced sales volumes. Management is committed to returning the operations to historic profitability levels by the end of 2016.

Operational Focus

As the Company manages through the downturn, it continues to advance on its operational excellence agenda in all operations. Initiatives to increase EBIT are primarily focused on growing market share across all product lines, permanently reducing fixed SG&A costs, and increasing the profitability of service operations. The expected improvement in capital efficiency will be driven through optimization of the supply chain and facility network to reduce working capital and improve asset utilization.

The Company remains committed to improving ROIC over time; however, difficult and uncertain market conditions across all operations continue to negatively impact current ROIC performance.

The Company expects on-going volatility in foreign exchange markets to continue impacting its results. While the devaluation of the Canadian dollar increases earnings translated from the Company's foreign subsidiaries, transactional gains or losses will be dependent on hedging activities and general market conditions.

Liquidity and Capital Resources

Management assesses liquidity in terms of Finning'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, commercial paper, long-term debt, and other capital market activities, providing both short and long-term financing.

Three months ended March 31 (\$ millions)	2016	2015	Increase (Decrease) in cash from 2015
Cash provided by (used in) operating activities	\$ 57	\$ (224)	\$ 281
Cash used in investing activities	\$ (5)	\$ (12)	\$ 7
Cash used in financing activities	\$ (72)	\$ (29)	\$ (43)
Free Cash Flow	\$ 30	\$ (232)	\$ 262

The most significant contributors to the changes in cash flows over Q1 2015 were as follows:

Cash provided by operating activities higher by \$281 million	• primarily due to higher cash generation from equipment inventory from the Company's Canadian operations, reflecting lower equipment spend and higher deliveries of mining equipment in the quarter • lower supplier payments, reflecting lower purchases due to market conditions and improved supply chain management and lower employee-related costs as a result of global workforce reductions taken in previous periods
Cash used in investing activities lower by \$7 million	• higher cash generation from reducing short-term investments, partly offset by higher intangible assets
Cash used in financing activities higher by \$43 million	• approximately \$41 million of cash used for repayment of short-term debt • \$31 million of dividends paid in 2016 was comparable to 2015
Free Cash Flow generation higher by \$262 million	• largely due to much lower purchases of inventory in 2016 due to lower market activity; focus on supply chain management as well as higher inventory deliveries of mining equipment from the Company's Canadian operations • lower supplier payments, reflecting lower purchases and the Company's focus on supply chain management • more proceeds as a result of higher disposal of rental assets in the Company's Canadian operations • partly offset by lower earnings from all operations reflecting difficult market conditions

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. At March 31, 2016, \$0.9 billion was available under this global credit facility.

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.

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

	Long-term debt		Short-term debt	
	Mar 31, 2016	Dec 31, 2015	Mar 31, 2016	Dec 31, 2015
S&P	BBB+	BBB+	N/A	N/A
DBRS	BBB (high)	A (low)	R-2 (high)	R-1 (low)

In March 2016, DBRS downgraded the Company's long term rating to BBB (high) from A (low) and changed the trends on all ratings to Stable. The change was primarily due to the difficult operating environment in key mining and energy sectors and weakness in commodity markets in the Company's territories.

In March 2016, S&P re-confirmed the Company's rating but revised its Outlook from Stable to Negative noting the Company's exposure to cyclical end markets as a significant factor driving the change.

Dividends paid to shareholders in Q1 2016 were \$31 million, consistent with the first quarter of 2015.

Net Debt to Invested Capital

Net Debt to Invested capital %	Mar 31, 2016	Dec 31, 2015	Mar 31, 2015
	37.0%	36.7%	36.0%
Company's target range 35-45%			

Net Debt to Invested Capital ratio at March 31, 2016 was comparable to December 31, 2015.

The Company is subject to a maximum Net Debt to Invested Capital level of 62.5% pursuant to a covenant within its syndicated bank credit facility. The Company was in compliance with this covenant at the end of Q1 2016.

Accounting Policies and Pronouncements

Changes in Accounting Policies

Management determined that it would be appropriate to voluntarily change 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 concluded that certain cost recoveries are better reflected as revenues. Certain line items have been restated in the comparative 2015 periods but the impact of restatement is not significant. For more information on the impact to financial statements, please refer to note 1 of the Company's interim condensed consolidated financial statements.

The adoption of recent amendments to accounting standards and new IFRS had no impact on the Company's financial results. For more details on recent changes in accounting policy, please refer to note 1 of the Company's interim condensed consolidated financial statements.

Future accounting pronouncements and effective dates are also contained in note 1 of the interim condensed consolidated financial statements.

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. All key financial risks are disclosed in the MD&A and other key business risks are disclosed in the Company's AIF.

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

Exchange rate	March 31			December 31		Three months ended March 31 – average		
	2016	2015	Variance	2015	Variance	2016	2015	Variance
CAD/USD	1.2971	1.2683	-2.3%	1.3840	6.3%	1.3732	1.2411	-10.6%
CAD/GBP	1.8652	1.8834	1.0%	2.0407	8.6%	1.9648	1.8792	-4.6%
CLP/USD	675.10	626.87	-7.7%	710.16	4.9%	702.06	624.42	-12.4%
ARS/USD	14.70	8.82	-66.6%	13.04	-12.7%	14.43	8.69	-66.0%

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

The impact of foreign exchange due to fluctuation in the value of the Canadian dollar relative to the U.S. dollar, U.K. pound sterling, Chilean peso, and Argentine peso 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 would have been known to them, and by others, within those entities.

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.
- A Disclosure Committee, consisting of senior management and external 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 all 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. Except for the change noted below, there has been no change in the design of the Company's internal control over financial reporting during the quarter ended March 31, 2016, that would materially affect, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

Effective July 1, 2015 the Company acquired the operating assets of Kramer Ltd. and became the approved Caterpillar dealer in Saskatchewan. As part of the post-closing integration, the Company is engaged in harmonizing the internal controls and processes of the acquired business with those of the Company. In keeping with scope limitation provisions of applicable securities laws, management has limited the design of disclosure controls and procedures and internal control over financial reporting to exclude

controls, policies and procedures of the business acquired from Kramer Ltd. from its interim assessment. Since the date of acquisition, the acquired dealership business contributed revenues of \$156 million and net income of \$9 million (revenues of \$49 million and net income of \$3 million for the three months ended March 31, 2016). Working capital assets of \$122 million (comprising inventory, receivables and payables), property, plant equipment and rental equipment of \$88 million, and intangible assets and goodwill of \$31 million (totalling \$241 million) were included in the Company's balance sheet as at the acquisition date.

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 April 29, 2016

Common shares outstanding	168,099,520
Options outstanding	4,801,655

Description of Non-GAAP Measures

Non-GAAP Measures

Management believes that providing certain non-GAAP 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 below, 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.

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

Net Debt to Invested Capital

Net Debt to Invested Capital 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, 2016	December 31, 2015
Cash and cash equivalents	\$ (425)	\$ (475)
Short-term debt	76	117
Long-term debt	1,492	1,548
Net debt	1,143	1,190
Shareholders' equity	1,942	2,050
Invested capital	\$ 3,085	\$ 3,240
Net debt to invested capital	37.0%	36.7%

EBITDA

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.

A reconciliation between net income and EBITDA is as follows:

Three months ended March 31 (\$ millions)	2016	2015
Net income	\$ 15	\$ 53
Depreciation and amortization	51	51
Finance costs	22	19
Provision for income taxes	8	3
EBITDA	\$ 96	\$ 126

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, based on an average of the last four quarters.

Management views ROIC (at a consolidated and 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.

March 31 (\$ millions, except as noted)	2016	2015
EBIT – last twelve months	\$ (135)	\$ 468
Invested capital – four quarter average	\$ 3,416	\$ 3,330
ROIC	(4.0)%	14.1%

Working Capital

Working capital is defined as total current assets (excluding cash) 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.

(\$ millions)	March 31, 2016	December 31, 2015
Total current assets	\$ 3,294	\$ 3,460
Cash and cash equivalents	(425)	(475)
Total current assets ⁽¹⁾	\$ 2,869	\$ 2,985
Total current liabilities	\$ 1,158	\$ 1,243
Short-term debt	(76)	(117)
Total current liabilities ⁽²⁾	\$ 1,082	\$ 1,126
Working capital	\$ 1,787	\$ 1,859

(1) Excluding cash and cash equivalents

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

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 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:

Three months ended March 31 (\$ millions)	2016	2015
Cash flow provided by (used in) operating activities	\$ 57	\$ (224)
Additions to property, plant, and equipment and intangible assets	(38)	(9)
Proceeds on disposal of property, plant, and equipment	11	1
Free cash flow	\$ 30	\$ (232)

Key Performance Indicators

Management uses key performance indicators to consistently measure performance against the Company's priorities across the organization. The Company's KPIs include gross profit margin, EBIT margin, inventory turns, invested capital turnover, working capital to sales ratio, order backlog, and net debt to EBITDA ratio. Although some of these KPIs are expressed as ratios, they 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.

Gross Profit Margin

This measure is defined as gross profit divided by total revenue.

EBIT and EBITDA Margin

This measure is defined as EBIT divided by total revenue and EBITDA divided by total revenue and is utilized by management to assess and evaluate the financial performance or profitability of its operating segments.

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 goods sold for the last six months divided by average inventory, based on an average of the last two quarters.

(\$ millions, except as noted)	March 31, 2016	December 31, 2015 (Restated)
Cost of sales – annualized	\$ 4,562	\$ 4,524
Inventory – two quarter average	\$ 1,770	\$ 1,897
Inventory turns (number of times)	2.58	2.38

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, based on an average of the last four quarters.

(\$ millions, except as noted)	March 31, 2016	December 31, 2015 (Restated)
Revenue – last twelve months	\$ 6,228	\$ 6,275
Invested capital – four quarter average	\$ 3,416	\$ 3,530
Invested capital turnover	1.82	1.78

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.

(\$ millions, except as noted)	March 31, 2016	December 31, 2015 (Restated)
Working capital – four quarter average	\$ 1,957	\$ 2,023
Revenue – last twelve months	\$ 6,228	\$ 6,275
Working capital to sales	31.4%	32.2%

Order Backlog

The Company's global order book, or order backlog, is defined as the retail value of new equipment units ordered by customers for future deliveries. Management uses order backlog as a measure of projecting future new equipment deliveries. There is no directly comparable IFRS measure for order backlog.

Net Debt to EBITDA Ratio

This ratio is calculated as net debt, defined and calculated above, divided by EBITDA for the last twelve months. This ratio is used by management in assessing the Company's operating leverage and ability to repay its debt. This ratio approximates the length of time, in years, that it would take the Company to repay its debt, with net debt and EBITDA held constant.

(\$ millions, except as noted)	March 31, 2016	December 31, 2015
Net debt	\$ 1,143	\$ 1,190
EBITDA – last twelve months	\$ 96	\$ 126
Net Debt to EBITDA ⁽¹⁾	12.0	9.5

⁽¹⁾ Included in 2016 and 2015 results are significant items that management does not consider indicative of operational and financial trends by nature or amount. Excluding these significant items (as disclosed on page 19 of this MD&A), Net Debt to EBITDA ratio would have been 2.0x as at March 31, 2016 and December 31, 2015.

Selected Quarterly Information

\$ millions (except for share and option data)	2016	2015 (Restated)				2014		
	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2
Revenue from operations ⁽¹⁾								
Canada	\$ 852	\$ 714	\$ 743	\$ 869	\$ 800	\$ 946	\$ 866	\$ 930
South America	430	528	509	539	491	593	517	568
UK & Ireland	212	295	265	272	250	264	287	270
Total revenue	\$ 1,494	\$ 1,537	\$ 1,517	\$ 1,680	\$ 1,541	\$ 1,803	\$ 1,670	\$ 1,768
Net income (loss) ^{(1) (2) (3)}	\$ 15	\$ (309)	\$ 33	\$ 62	\$ 53	\$ 107	\$ 57	\$ 86
Earnings Per Share ^{(1) (2) (3)}								
Basic EPS	\$ 0.09	\$ (1.82)	\$ 0.19	\$ 0.36	\$ 0.31	\$ 0.62	\$ 0.33	\$ 0.50
Diluted EPS	\$ 0.09	\$ (1.82)	\$ 0.19	\$ 0.36	\$ 0.31	\$ 0.62	\$ 0.33	\$ 0.50
Total assets ⁽¹⁾	\$ 4,870	\$ 5,108	\$ 5,520	\$ 5,324	\$ 5,354	\$ 5,273	\$ 5,237	\$ 5,196
Long-term debt								
Current	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 1	\$ 1
Non-current	1,492	1,548	1,553	1,482	1,477	1,418	1,408	1,373
Total long-term debt ⁽⁴⁾	\$ 1,492	\$ 1,548	\$ 1,553	\$ 1,482	\$ 1,477	\$ 1,418	\$ 1,409	\$ 1,374
Cash dividends paid per common share	18.25¢	18.25¢	18.25¢	18.25¢	17.75¢	17.75¢	17.75¢	17.75¢
Common shares outstanding (000's)	168,034	168,031	169,612	171,692	172,374	172,370	172,369	172,182
Options outstanding (000's)	5,102	5,171	5,315	5,390	4,145	4,226	4,237	5,437

- 1) In July 2015, the Company's Canadian operations acquired the assets of Kramer Ltd. 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.
- 2) Q1 2016 and 2015 results were impacted by the following significant items:

(\$ millions except per share amounts)	Q1 2016	Annual 2015	Q4 2015	Q3 2015	Q2 2015	Q1 2015
Distribution network and goodwill impairment	—	\$ 338	\$ 338	—	—	—
Facility closures and restructuring costs	—	53	45	6	—	2
Severance costs ^(a)	17	48	2	25	6	17
Provision on certain power system projects in the UK	5	—	—	—	—	—
Inventory and other asset impairments	—	42	42	—	—	—
FX and tax impact on devaluation of ARS	—	12	12	—	—	—
Acquisition and disposal of businesses, net	—	(5)	(8)	3	—	—
Impact of significant items ^{(a)(b)} on EBIT:	\$ 22	\$ 488	\$ 431	\$ 34	\$ 6	\$ 19
Capital loss utilized / tax rate change impact on EPS:	—	—	—	—	\$ 0.01	\$ (0.06)
Impact of significant items ^(a) on EPS:	\$ 0.10	\$ 2.23	\$ 2.05	\$ 0.15	\$ 0.04	\$ 0.02

(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.

- 3) 2014 results were impacted by the following significant items:
- Q4 2014 results were positively impacted by an inflationary adjustment to reduce income tax expense in Argentina by \$0.07 per share.
 - Q3 2014 results were negatively impacted by the write-off of previously capitalized ERP costs in the Company's South American operations by \$0.06 per share, severance costs of \$0.03 per share, a one-time revaluation adjustment of the Company's deferred income tax balances of \$0.04 per share, labour disruption costs (\$0.01 per share) and higher annual effective tax rate in Argentina (\$0.03 per share).
 - Q2 2014 results were negatively impacted by severance costs of \$0.02 per share.
- 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 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: expectations with respect to the economy and associated impact on the Company's financial results; workforce reductions; distribution network and goodwill impairment charges; facility closures; expected revenue; expected free cash flow; EBIT margin; expected profitability levels; expected range of the effective tax rate; ROIC; market share growth; expected results from service excellence action plans; anticipated asset utilization; inventory turns and parts service levels; the expected target range of the Company's net debt to invested capital ratio; and the expected financial impact from acquisitions. 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 May 4, 2016. 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 dependence on the continued market acceptance of products and 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, availability and benefits from information technology and the data processed by that technology. 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 this MD&A. 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 hereof. 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.