

## MANAGEMENT'S DISCUSSION AND ANALYSIS

November 6, 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](http://www.sedar.com).

### Third Quarter Overview

| (\$ millions, except for share data)   | Q3 2017      | Q3 2016  | % change<br>fav (unfav) |
|--|--------------|----------|-------------------------|
| Revenue  | \$ 1,547     | \$ 1,333 | 16%                     |
| Gross profit   | 406          | 369      | 10%                     |
| Selling, general & administrative expenses (SG&A)  | (305)        | (295)    | (4)%                    |
| Equity (loss) earnings of joint ventures and associate   | 2            | (1)      | n/m                     |
| Earnings before finance costs and income taxes (EBIT)  | \$ 103       | \$ 73    | 42%                     |
| Net income   | \$ 52        | \$ 36    | 41%                     |
| Basic earnings per share (EPS)   | \$ 0.31      | \$ 0.22  | 41%                     |
| Earnings before finance costs, income taxes, depreciation and amortization (EBITDA) <sup>(1)</sup> | \$ 149       | \$ 119   | 26%                     |
| Free cash flow <sup>(1)</sup>  | \$ 22        | \$ 163   | (87)%                   |
| Adjusted net income <sup>(1)(2)</sup>  | \$ 59        | \$ 36    | 59%                     |
| Adjusted EPS <sup>(1)(2)</sup>   | \$ 0.35      | \$ 0.22  | 59%                     |
| <i>Gross profit margin</i>   | <b>26.3%</b> | 27.7%    |                         |
| <i>SG&amp;A as a percentage of revenue</i>   | <b>19.8%</b> | 22.2%    |                         |
| <i>EBIT margin</i>   | <b>6.6%</b>  | 5.4%     |                         |
| <i>EBITDA margin <sup>(1)</sup></i>  | <b>9.6%</b>  | 8.9%     |                         |

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 2017 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 of 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 Q3 2016, therefore the adjusted metrics above for Q3 2016 are the same as the metrics reported in accordance with IFRS ("reported metrics").

## 2017 Third Quarter Highlights

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- Revenue of \$1.5 billion was up 16% from Q3 2016 reflecting a 25% increase in new equipment sales and a 13% increase in product support revenue. All operations reported higher revenue compared to the prior year period, with the Company's Canadian operations accounting for more than half of this increase in revenue, reporting strong performance in all key markets and lines of business.
- Overall gross profit was up 10%, albeit on lower margins than Q3 2016, with all operations reporting a mix shift to higher new equipment sales which typically generate lower margins than product support. New equipment and product support margins were lower year over year, but were partly offset by higher margins on used equipment and rental.
- SG&A costs relative to revenue were lower than Q3 2016 in all operations, and down 240 basis points on a consolidated basis.
- EBIT of \$103 million and EBIT margin of 6.6% reported in Q3 2017 were higher than the \$73 million and 5.4% earned in the same period last year, mainly due to leverage of incremental revenues on fixed costs. On an adjusted basis, this was the highest EBIT and EBIT margin reported since Q2 2015.
- EBITDA was up 26% from Q3 2016.
- Basic EPS in Q3 2017 was \$0.31, compared to \$0.22 in Q3 2016. Q3 2017 finance costs include an early redemption premium of \$9 million related to the October 2017 redemption of the \$350 million, 6.02% Medium Term Notes (MTN) due June 1, 2018.
- Q3 2017 Adjusted EPS was \$0.35, adjusting for the early redemption cost noted above.
- Free cash flow of \$22 million in Q3 2017 reflected lower cash generation in all operations compared with Q3 2016, largely due to a net increase in working capital in the Company's South American and Canadian operations to meet higher demand.

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## 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, 2015 and 2016, and during Q3 of 2017, 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 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 companies.

A significant item that affected the results of the Company for the three months ended September 30, 2017 which was not considered by management to be indicative of operational and financial trends was the redemption cost related to the early redemption of the \$350 million 6.02% MTN due June 1, 2018. Both the principal and the redemption cost of this debt were paid in October 2017.

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

| 3 months ended September 30, 2017<br>(\$ millions except per share amounts) | EBIT   |               |              |                       | Net    | EPS     |
|---|--------|---------------|--------------|-----------------------|--------|---------|
|   |        |               |              |                       | Income |         |
|   | Canada | South America | UK & Ireland | Consol <sup>(1)</sup> | Consol | Consol  |
| EBIT, net income, and EPS   | \$ 59  | \$ 47         | \$ 11        | \$ 103                | \$ 52  | \$ 0.31 |
| Significant items:  |        |               |              |                       |        |         |
| Redemption cost on early repayment of long-term debt                        | —      | —             | —            | —                     | 7      | 0.04    |
| Adjusted EBIT, Adjusted net income, and Adjusted EPS                        | \$ 59  | \$ 47         | \$ 11        | \$ 103                | \$ 59  | \$ 0.35 |

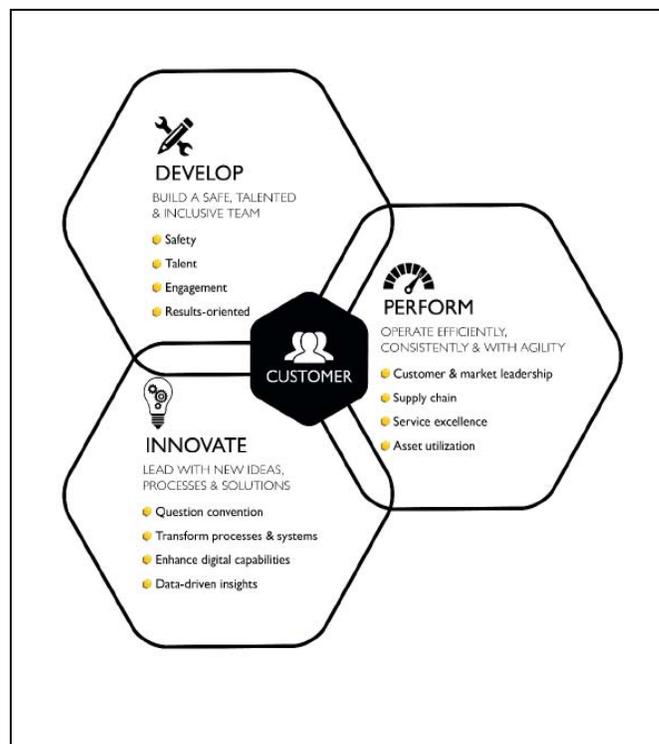
<sup>(1)</sup> Consolidated (Consol) results include other operations – corporate head office

There were no significant items identified by management to adjust the results of the Company for the three months ended September 30, 2016.

## Strategic Direction

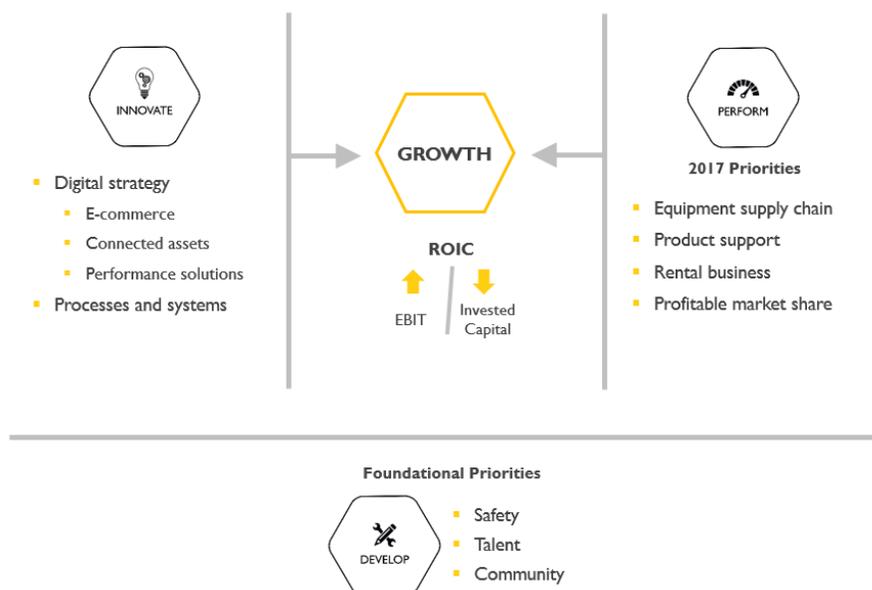
Finning’s purpose statement is **‘We believe in partnering and innovating to build and power a better world’**. The Company’s customer-centric growth strategy is comprised of three pillars – develop, perform and innovate. This strategic framework aims to advance the company-wide commitment towards developing 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.’**

The Company’s significantly reduced cost structure and sustainable improvements are expected to drive higher profitability as demand strengthens. Higher profitability and increased capital discipline are consistent with the Company’s commitment to grow return on invested capital.



## 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)<sup>(1)</sup>. 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 investment in Finning Digital, a global division within Finning, is expected to accelerate delivery of innovative customer solutions, improve customer experience, and generate new revenue opportunities.



<sup>(1)</sup> 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    |        |
|---|--------|--------|--------|--------|---------|---------|---------|---------|--------|
|   | Q3     | Q2     | Q1     | Q4     | Q3      | Q2      | Q1      | Q4      | Q3     |
| ROIC <sup>(1)</sup>                               |        |        |        |        |         |         |         |         |        |
| Consolidated                                      | 10.3 % | 9.4 %  | 7.1 %  | 5.6 %  | (6.6)%  | (6.4)%  | (4.0)%  | (3.0)%  | 11.0 % |
| Canada  | 9.5 %  | 8.3 %  | 6.6 %  | 5.3 %  | 4.3 %   | 4.0 %   | 5.4 %   | 5.5 %   | 10.9 % |
| South America                                     | 15.4 % | 14.9 % | 14.3 % | 13.3 % | (18.1)% | (17.0)% | (14.9)% | (12.8)% | 13.2 % |
| UK & Ireland                                      | 13.7 % | 14.0 % | 0.0 %  | (4.5)% | (17.4)% | (15.7)% | (4.5)%  | (1.4)%  | 10.5 % |
| EBIT <sup>(1)</sup> (\$ millions)                 |        |        |        |        |         |         |         |         |        |
| Consolidated                                      | 103    | 98     | 86     | 18     | 73      | 29      | 45      | (349)   | 63     |
| Canada  | 59     | 57     | 47     | (3)    | 37      | 28      | 25      | (17)    | 34     |
| South America                                     | 47     | 43     | 42     | 27     | 40      | 38      | 32      | (303)   | 32     |
| UK & Ireland                                      | 11     | 11     | 8      | 8      | 10      | (26)    | (4)     | (31)    | 7      |
| EBIT Margin <sup>(1)(3)</sup>                     |        |        |        |        |         |         |         |         |        |
| Consolidated                                      | 6.6 %  | 6.2 %  | 6.1 %  | 1.3 %  | 5.4 %   | 2.3 %   | 3.0 %   | (22.7)% | 4.2 %  |
| Canada  | 7.9 %  | 7.2 %  | 6.8 %  | (0.3)% | 5.9 %   | 4.4 %   | 3.0 %   | (2.4)%  | 4.5 %  |
| South America                                     | 8.5 %  | 8.4 %  | 8.4 %  | 5.0 %  | 8.7 %   | 8.8 %   | 7.3 %   | (57.3)% | 6.4 %  |
| UK & Ireland                                      | 4.1 %  | 4.1 %  | 3.8 %  | 3.3 %  | 3.8 %   | (10.5)% | (1.9)%  | (10.6)% | 2.7 %  |
| Invested Capital <sup>(2)</sup> (\$ millions)     |        |        |        |        |         |         |         |         |        |
| Consolidated                                      | 3,083  | 3,094  | 2,926  | 2,797  | 2,917   | 3,041   | 3,085   | 3,240   | 3,802  |
| Canada  | 1,746  | 1,764  | 1,629  | 1,595  | 1,650   | 1,695   | 1,685   | 1,760   | 1,871  |
| South America                                     | 1,063  | 1,041  | 1,022  | 996    | 1,021   | 1,072   | 1,033   | 1,122   | 1,485  |
| UK & Ireland                                      | 305    | 300    | 280    | 216    | 253     | 263     | 340     | 321     | 442    |
| Invested Capital Turnover <sup>(2)(3)</sup>       |        |        |        |        |         |         |         |         |        |
| Consolidated                                      | 2.02x  | 1.98x  | 1.90x  | 1.90x  | 1.85x   | 1.78x   | 1.82x   | 1.78x   | 1.88x  |
| Canada  | 1.74x  | 1.70x  | 1.62x  | 1.70x  | 1.66x   | 1.68x   | 1.80x   | 1.74x   | 1.96x  |
| South America                                     | 2.04x  | 1.97x  | 1.88x  | 1.80x  | 1.74x   | 1.61x   | 1.59x   | 1.52x   | 1.51x  |
| UK & Ireland                                      | 3.59x  | 3.73x  | 3.75x  | 3.54x  | 3.41x   | 2.98x   | 2.81x   | 2.93x   | 2.93x  |
| Inventory (\$ millions)                           | 1,742  | 1,795  | 1,653  | 1,601  | 1,726   | 1,688   | 1,740   | 1,800   | 1,995  |
| Inventory Turns <sup>(2)(3)</sup> (times)         | 2.60x  | 2.51x  | 2.61x  | 2.49x  | 2.26x   | 2.43x   | 2.58x   | 2.38x   | 2.39x  |
| Working Capital to Sales Ratio <sup>(2)(3)</sup>  | 28.3 % | 28.9 % | 30.3 % | 30.4 % | 31.5 %  | 32.4 %  | 31.4 %  | 32.2 %  | 30.1 % |
| Free Cash Flow (\$ millions)                      | 22     | (131)  | (76)   | 113    | 163     | 64      | 30      | 347     | 140    |
| Net Debt to Invested Capital Ratio <sup>(2)</sup> | 37.5 % | 37.4 % | 34.5 % | 32.0 % | 35.0 %  | 37.9 %  | 37.0 %  | 36.7 %  | 38.7 % |
| EBITDA <sup>(1)</sup> (\$ millions)               | 149    | 146    | 131    | 65     | 119     | 77      | 96      | (282)   | 125    |
| Net Debt to EBITDA Ratio <sup>(1)(2)</sup>        | 2.4    | 2.5    | 2.6    | 2.5    | 109.4   | 71.5    | 12.0    | 9.5     | 2.4    |

<sup>(1)</sup> 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 29 - 31 of this MD&A and the financial metrics which have been adjusted to take into account these items are referred to as "Adjusted" metrics.

<sup>(2)</sup> 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.

<sup>(3)</sup> 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 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 29 - 31 of this MD&A and the financial metrics which have been adjusted to take these items into account are referred to as “Adjusted” metrics. The impact of these items on certain key performance measures is shown below:

|   | 2017          |        |        | 2016   |        |        |        | 2015   |        |
|---|---------------|--------|--------|--------|--------|--------|--------|--------|--------|
|   | Q3            | Q2     | Q1     | Q4     | Q3     | Q2     | Q1     | Q4     | Q3     |
| Adjusted ROIC <sup>(1)</sup>                        |               |        |        |        |        |        |        |        |        |
| Consolidated  | <b>12.0 %</b> | 11.2 % | 10.0 % | 9.3 %  | 9.2 %  | 9.4 %  | 10.4 % | 10.9 % | 12.8 % |
| Canada  | <b>12.3 %</b> | 11.2 % | 10.2 % | 9.3 %  | 8.7 %  | 9.3 %  | 10.1 % | 10.6 % | 13.1 % |
| South America                                       | <b>16.4 %</b> | 15.9 % | 15.4 % | 15.0 % | 15.6 % | 14.2 % | 14.5 % | 14.0 % | 14.3 % |
| UK & Ireland  | <b>13.7 %</b> | 14.0 % | 8.2 %  | 5.9 %  | 3.4 %  | 3.3 %  | 7.4 %  | 9.0 %  | 11.9 % |
| Adjusted EBIT <sup>(2)</sup> (\$ millions)          |               |        |        |        |        |        |        |        |        |
| Consolidated  | <b>103</b>    | 98     | 86     | 70     | 73     | 63     | 67     | 82     | 97     |
| Canada  | <b>59</b>     | 57     | 47     | 44     | 37     | 40     | 33     | 39     | 51     |
| South America                                       | <b>47</b>     | 43     | 42     | 37     | 40     | 39     | 39     | 46     | 42     |
| UK & Ireland  | <b>11</b>     | 11     | 8      | 8      | 10     | (5)    | 3      | 3      | 11     |
| Adjusted EBIT Margin <sup>(2)(3)</sup>              |               |        |        |        |        |        |        |        |        |
| Consolidated  | <b>6.6 %</b>  | 6.2 %  | 6.1 %  | 4.8 %  | 5.4 %  | 4.9 %  | 4.5 %  | 5.3 %  | 6.4 %  |
| Canada  | <b>7.9 %</b>  | 7.2 %  | 6.8 %  | 6.2 %  | 5.9 %  | 6.3 %  | 4.0 %  | 5.5 %  | 6.9 %  |
| South America                                       | <b>8.5 %</b>  | 8.4 %  | 8.4 %  | 7.0 %  | 8.7 %  | 9.1 %  | 8.9 %  | 9.0 %  | 8.3 %  |
| UK & Ireland  | <b>4.1 %</b>  | 4.1 %  | 3.8 %  | 3.3 %  | 3.8 %  | (1.9)% | 1.5 %  | 0.8 %  | 4.1 %  |
| Adjusted EBITDA <sup>(2)(4)</sup>                   | <b>149</b>    | 146    | 131    | 117    | 119    | 111    | 118    | 139    | 159    |
| Net Debt to Adjusted EBITDA Ratio <sup>(1)(4)</sup> | <b>2.1</b>    | 2.3    | 2.1    | 1.9    | 2.1    | 2.2    | 2.0    | 2.0    | 2.2    |

- <sup>(1)</sup> 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.
- <sup>(2)</sup> There were no significant items for which adjustments were made in Q3 2016, Q1 2017, and Q2 2017, therefore the adjusted metrics above for Q3 2016, Q1 2017, and Q2 2017 are the same as the reported metrics.
- <sup>(3)</sup> 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 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.
- <sup>(4)</sup> Of the significant items described on pages 29 - 31, \$10 million was recorded in depreciation and amortization expense in Q4 2015.

## Revenue

The Company generated revenue of \$1.5 billion during the third quarter of 2017, an increase of 16% over the same period in the prior year. Revenue was up in all operations and lines of business with higher new equipment and product support sales in all operations. New equipment sales increased by 25% compared to the third quarter of 2016, and were higher in all operations and all key markets due to improving market conditions. In the Company's South American operations, improvement in all markets, particularly construction in Argentina, contributed to the growth in new equipment volumes. The Company's Canadian operations also reported higher new equipment deliveries, primarily in the mining and construction markets. In the Company's UK & Ireland operations, demand for new equipment has also strengthened, particularly in the power systems market, both in the electric power generation and industrial sectors. On a consolidated basis, in the third quarter of 2017, new equipment revenue as a percentage of overall revenue was 35%, compared to 32% in the prior year period.

With improving market conditions in 2017, equipment backlog <sup>(1)</sup> was \$0.9 billion at September 30, 2017, comparable to June 30, 2017 and almost double the backlog as at September 30, 2016, reflecting improved order intake <sup>(1)</sup> over the recent quarters.

Product support revenue was up 13% compared to the third quarter of 2016, with the Company's Canadian operations accounting for almost 75% of this increase, resulting from strong demand for product support, particularly parts, in all key markets. Parts revenue in both the Company's UK & Ireland and South American operations was also up compared to the prior year quarter.

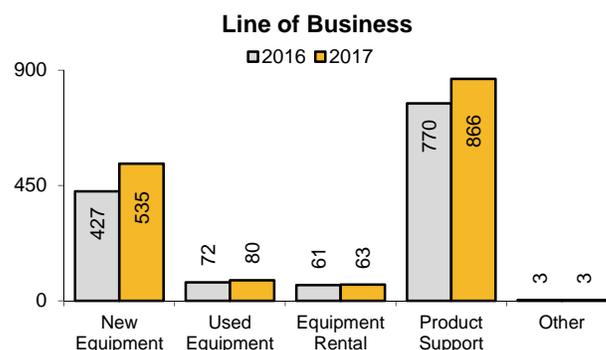
## Earnings Before Finance Costs and Income Taxes

Q3 2017 gross profit of \$406 million was up 10% compared to the same period in the prior year, reflecting higher sales volumes. Gross profit margin of 26.3% was lower than the 27.7% gross profit margin earned in Q3 2016 with a mix shift to higher new equipment revenue. Lower new equipment and product support margins, due to an active but competitive market, were partly offset by higher margins on used equipment and rental. All operations reported lower overall gross profit margin.

### Revenue by Line of Business

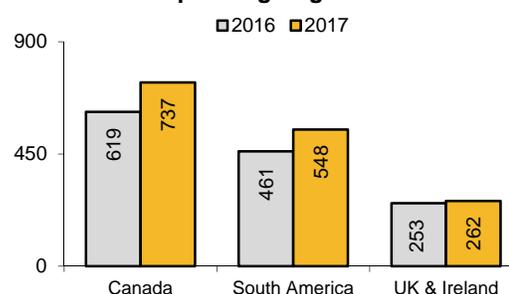
3 months ended September 30

(\$ millions)



### Revenue by Operation

Operating Regions



The 4% stronger Canadian dollar relative to the U.S. dollar and U.K. pound sterling in the quarter compared to the same period in the prior year had an adverse impact on revenue of approximately \$30 million. However, the foreign currency translation impact on EBIT was minimal.

<sup>(1)</sup> 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.

As a percentage of revenue, SG&A is down by 240 basis points over the same period of the prior year, reflecting the leverage of incremental revenues on fixed costs.

The Company reported EBIT of \$103 million and EBIT margin of 6.6% in the third quarter of 2017 compared to EBIT of \$73 million and EBIT margin of 5.4% earned in Q3 2016. Higher EBIT was reported in Q3 2017 in all operations compared to the same period in the prior year. On an adjusted basis, this was the highest consolidated EBIT and EBIT margin reported since Q2 2015. The Company's improved EBIT and EBIT margin in Q3 2017 compared to Q3 2016 were mainly due to the higher sales volumes and lower SG&A costs relative to revenue.

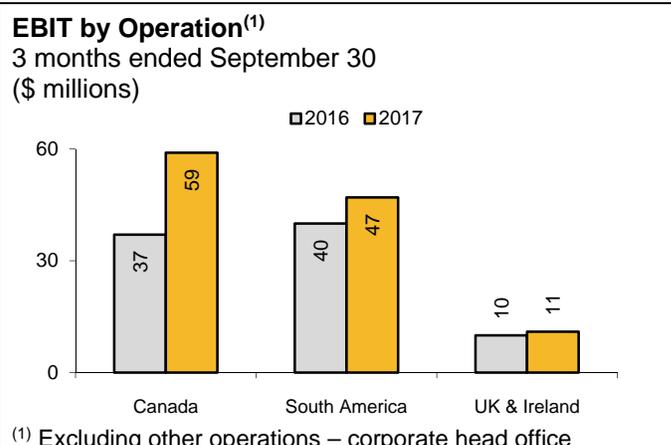
### EBITDA

EBITDA for Q3 2017 was \$149 million and EBITDA margin was 9.6% (Q3 2016: EBITDA was \$119 million and EBITDA margin was 8.9%). EBITDA and EBITDA margin were up from the prior year period due to higher EBIT from all the Company's operations in Q3 2017.

The net debt to EBITDA ratio at Q3 2017 was 2.4 times. Excluding significant items not indicative of operational and financial trends, as noted on page 29 of this MD&A, net debt to Adjusted EBITDA ratio was 2.1 times, which is comparable to the net debt to Adjusted EBITDA reported in the prior year period. The net debt to Adjusted EBITDA ratio is comparable as the impact of higher earnings is offset by an increase in net debt resulting from higher working capital levels to meet demand.

### Finance Costs

Finance costs in the third quarter of 2017 were \$33 million and higher than the \$22 million of finance costs reported in Q3 2016. The current quarter includes a redemption premium of \$9 million related to the early redemption of the \$350 million 6.02% MTN due June 1, 2018.



### Provision for Income Taxes

The effective income tax rate for Q3 2017 was 25.5%, compared to 28.7% in Q3 2016. The higher tax rate in 2016 was primarily the result of a higher proportion of earnings in higher tax jurisdictions.

Management expects the Company's effective tax rate to generally be within the 25-30% range on an annual basis. The rate may fluctuate from period to period as a result of changes in the 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 \$52 million in Q3 2017, compared to \$36 million earned in the same period last year. Basic EPS was \$0.31 per share compared with \$0.22 per share in Q3 2016. Excluding the early redemption premium recorded in Q3 2017 as noted on page 3, Adjusted net income in Q3 2017 was \$59 million and Adjusted EPS was \$0.35. The increase in Adjusted net income and Adjusted EPS in the third quarter of 2017 compared to the prior year period results was driven by higher sales volumes and improved profitability due to savings from cost reduction measures and leverage of incremental revenues on fixed costs.

## Year-to-Date Overview

| (\$ millions, except for share data)            | YTD 2017     | YTD 2016 | % change fav (unfav) |
|---|--------------|----------|----------------------|
| Revenue   | \$ 4,530     | \$ 4,137 | 10%                  |
| Gross profit                                    | 1,221        | 1,093    | 12%                  |
| SG&A  | (942)        | (947)    | 1%                   |
| Equity earnings of joint ventures and associate | 6            | 6        | —                    |
| Other income                                    | 2            | —        | n/m                  |
| Other expense                                   | —            | (5)      | n/m                  |
| EBIT  | \$ 287       | \$ 147   | 96%                  |
| Net income                                      | \$ 155       | \$ 56    | 176%                 |
| EPS   | \$ 0.92      | \$ 0.33  | 176%                 |
| EBITDA  | \$ 426       | \$ 292   | 46%                  |
| Free cash flow                                  | \$ (185)     | \$ 257   | (172)%               |
| Adjusted EBIT <sup>(1)</sup>                    | \$ 287       | \$ 203   | 42%                  |
| Adjusted net income <sup>(1)</sup>              | \$ 162       | \$ 100   | 60%                  |
| Adjusted EPS <sup>(1)</sup>                     | \$ 0.96      | \$ 0.60  | 60%                  |
| Adjusted EBITDA <sup>(1)</sup>                  | \$ 426       | \$ 348   | 23%                  |
| <i>Gross profit margin</i>                      | <b>27.0%</b> | 26.4%    |                      |
| <i>SG&amp;A as a percentage of revenue</i>      | <b>20.8%</b> | 22.9%    |                      |
| <i>EBIT margin</i>                              | <b>6.3%</b>  | 3.5%     |                      |
| <i>EBITDA margin</i>                            | <b>9.4%</b>  | 7.1%     |                      |
| <i>Adjusted EBIT margin <sup>(1)</sup></i>      | <b>6.3%</b>  | 4.9%     |                      |
| <i>Adjusted EBITDA margin <sup>(1)</sup></i>    | <b>9.4%</b>  | 8.4%     |                      |

<sup>(1)</sup> Certain 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 below and on page 10 of this MD&A and the financial metrics which have been adjusted to take into account these items are referred to as "Adjusted" metrics.

Significant items that affected the results of the Company for the nine months ended September 30, 2017 and 2016 which are not considered by management to be indicative of operational and financial trends are detailed below.

### Year-to-date 2017 significant items:

- Redemption costs on the early repayment of long-term debt.

### Year-to-date 2016 significant items:

- Unavoidable costs incurred during the evacuation and cessation of operations in the Fort McMurray, Alberta area due to wildfires for a six week period in May and June 2016.
- Severance costs related to the global workforce reduction as the Company aligned its cost structure to lower market activity.
- Restructuring costs incurred in the UK operations related to facility closures and consolidations.
- As part of the restructuring and repositioning of the power systems business in the Company's UK & Ireland operations, management completed a detailed review of power systems contracts and projects. As a result, management recorded provisions on certain power systems contracts in Q1 2016, as well as estimated losses on disputes regarding two power systems projects in Q2 2016.
- Following a strategic review of the Company's operations in the UK & Ireland, it was determined that engineering and construction services for the water utility industry no longer represented a core sector for Finning's power systems division. The Company recorded a write-down of net assets and other costs in Q2 2016 related to the sale of this business in August 2016.

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:

| 9 months ended September 30, 2017<br>(\$ millions except per share amounts) | EBIT   |                  |                 |        | Net    | EPS     |
|---|--------|------------------|-----------------|--------|--------|---------|
|   | Canada | South<br>America | UK &<br>Ireland | Consol | Income |         |
|   |        |                  |                 |        | Consol | Consol  |
| EBIT, net income, and EPS   | \$ 163 | \$ 132           | \$ 30           | \$ 287 | \$ 155 | \$ 0.92 |
| Significant items:  |        |                  |                 |        |        |         |
| Redemption costs on the early repayment<br>of long-term debt                | —      | —                | —               | —      | 7      | 0.04    |
| Adjusted EBIT, Adjusted net income, and<br>Adjusted EPS                     | \$ 163 | \$ 132           | \$ 30           | \$ 287 | \$ 162 | \$ 0.96 |

| 9 months ended September 30, 2016<br>(\$ millions except per share amounts) | EBIT   |                  |                 |        | Net    | EPS     |
|---|--------|------------------|-----------------|--------|--------|---------|
|   | Canada | South<br>America | UK &<br>Ireland | Consol | Income |         |
|   |        |                  |                 |        | Consol | Consol  |
| EBIT, net income, and EPS   | \$ 90  | \$ 110           | \$ (20)         | \$ 147 | \$ 56  | \$ 0.33 |
| Significant items:  |        |                  |                 |        |        |         |
| Impact from Alberta wildfires –<br>unavoidable costs                        | 11     | —                | —               | 11     | 8      | 0.05    |
| Severance costs   | 9      | 8                | 9               | 26     | 20     | 0.12    |
| Facility closures and restructuring costs                                   | —      | —                | 4               | 4      | 3      | 0.02    |
| Power systems project provisions and<br>estimated loss on disputes          | —      | —                | 10              | 10     | 8      | 0.05    |
| Write-down of net assets –<br>sale of non-core business                     | —      | —                | 5               | 5      | 5      | 0.03    |
| Adjusted EBIT, Adjusted net income, and<br>Adjusted EPS                     | \$ 110 | \$ 118           | \$ 8            | \$ 203 | \$ 100 | \$ 0.60 |

## Revenue

The Company generated revenue of \$4.5 billion during the nine months ended September 30, 2017, an increase of 10% over the same period last year. Revenue was up in all operations driven by higher product support and new equipment sales. The Company's South American operations, accounting for over 60% of the overall increase, reported revenue that was 20% higher than the prior year period in functional currency, driven by higher new equipment revenue.

Product support sales were up 10% during the nine months ended September 30, 2017, compared to the first nine months of 2016, up in all operations in functional currency, but driven primarily by the Company's Canadian operations, with strong parts activity in all markets in the current year.

New equipment sales were up 14% during the nine months ended September 30, 2017, compared to the same period in 2016, driven by the Company's South American and UK & Ireland operations. New equipment sales in the Company's South American operations in the first nine months of the year were 87% higher than the levels of the comparative prior year period in functional currency, reflecting stronger activity in all markets, particularly construction in Argentina and mining in Chile. In the UK & Ireland, demand for equipment in all the Company's markets has strengthened, most notably in the power systems market. The Company's Canadian operations reported a decline in new equipment revenue mainly due to the delivery of equipment related to certain construction projects and significant mining deliveries in the first quarter of the prior year period, partly offset by strong power systems activity in 2017.

Used equipment sales in the nine months ended September 30, 2017 were 8% lower than 2016, mainly due to the Company's Canadian operations, with

## Earnings Before Finance Costs and Income Taxes

Gross profit in the first nine months of 2017 of \$1.2 billion was up 12% from the comparative prior year period, with higher volumes from improved market activity, and higher margins in most lines of business. Gross profit margin of 27.0% was up from 26.4% earned in the first nine months of 2016.

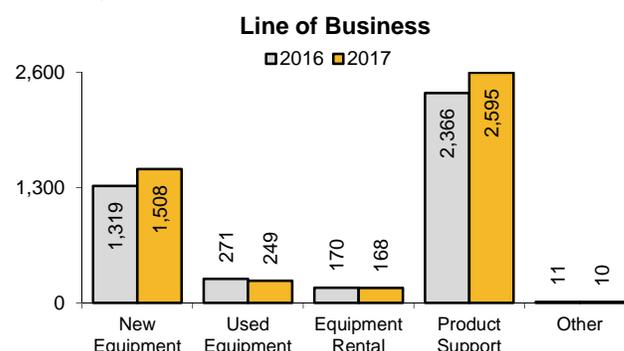
Contributing to lower gross profit margins in the first nine months of 2016 were provisions on certain power systems projects in the UK & Ireland, large equipment sales in Canada at lower margins and a slight shift in revenue mix to higher new equipment revenue in the first nine months of 2017.

SG&A in the first nine months of 2017 was lower than the same period in the prior year. The prior year included \$30 million in severance and restructuring costs and \$11 million of unavoidable costs related to

### Revenue by Line of Business

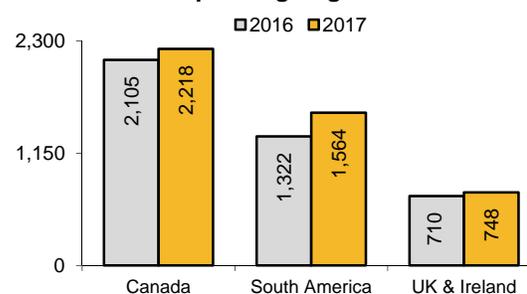
9 months ended September 30

(\$ millions)



### Revenue by Operation

Operating Regions



stronger used equipment mining sales in the same period of the prior year.

The 9% stronger Canadian dollar relative to the U.K. pound sterling and 1% stronger Canadian dollar relative to the U.S. dollar compared to the same period in the prior year had an adverse impact on revenue of approximately \$90 million. However, the foreign currency translation impact on EBIT was minimal.

the Alberta wildfires. Excluding these costs in the prior year period, SG&A in the first nine months of 2017 was up 4% compared to the same period in the prior year. Higher SG&A in the current year period reflects higher variable costs from increased sales volumes in all operations, higher short term and long term incentive plan costs, and inflationary and statutory salary increases in the Company's South American operations.

As a percentage of revenue, SG&A is down by 210 basis points over the same period in the prior year. Excluding the impact of the significant items noted above, SG&A, as a percentage of revenue, in the first nine months of 2017 is down by 110 basis points over the same period of the prior year, reflecting the leverage of incremental revenues on fixed costs.

Other income of \$2 million reported in 2017 is a gain on the Company's investment in IronPlanet Holdings Inc., which was disposed of in the second quarter of 2017. Other expense of \$5 million in 2016 is a write-down of net assets and other costs related to the sale of a non-core business in the Company's UK & Ireland operations.

The Company reported EBIT of \$287 million and EBIT margin of 6.3% in the first nine months of 2017, higher than the \$147 million and 3.5% earned in the first nine months of 2016. Excluding the significant items noted on pages 9 and 10 in this MD&A, 2016 year-to-date Adjusted EBIT was \$203 million and Adjusted EBIT margin was 4.9%.

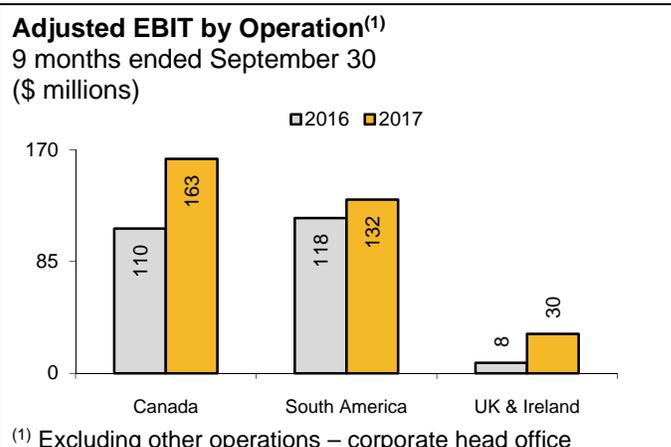
The 42% increase in EBIT in the first nine months of 2017 compared to Adjusted EBIT in the prior year period was up in all operations, primarily due to higher sales volumes in the current year, as well as lower SG&A costs relative to revenue in all operations.

### EBITDA

EBITDA for the first nine months of 2017 was \$426 million and EBITDA margin was 9.4% (2016 year-to-date EBITDA was \$292 million and EBITDA margin was 7.1%). Excluding significant items as noted on pages 9 and 10, 2016 year-to-date Adjusted EBITDA was \$348 million and Adjusted EBITDA margin was 8.4%. EBITDA was up from the same period in the prior year primarily due to higher EBIT in the current year-to-date period.

### Finance Costs

Finance costs in the nine months ended September 30, 2017 were \$78 million, higher than the \$65 million in the same period in 2016, due to the \$9 million early redemption premium noted above for the current quarter.



### Provision for Income Taxes

The effective income tax rate for the first nine months of 2017 was 25.7%, compared to 31.6% in the same period of the prior year. The higher tax rate in 2016 was due to the higher estimated annual effective tax rate in Argentina as well as not recognizing a tax benefit for certain capital losses recorded in the second quarter of 2016.

### Net Income

Net income was \$155 million in the first nine months of 2017, compared to \$56 million earned in the same period last year. Basic EPS was \$0.92 per share compared with \$0.33 per share in 2016. Excluding significant items noted on pages 9 and 10 in this MD&A, Adjusted net income in the first nine months of 2017 was \$162 million and Adjusted EPS was \$0.96, higher than Adjusted net income of \$100 million and Adjusted EPS of \$0.60 in the same period in 2016. The increase in Adjusted net income and Adjusted EPS compared to the adjusted prior year-to-date results was primarily due to higher sales volumes and savings from cost reduction measures, as well as the leverage of incremental revenues on fixed costs.

## Invested Capital

| (\$ millions,<br>unless otherwise stated)     | September 30,<br>2017 | June 30,<br>2017 | Increase<br>(Decrease) from |                      | Increase<br>from<br>December 31,<br>2016 |
|---|-----------------------|------------------|-----------------------------|----------------------|--|
|   |                       |                  | June 30,<br>2017            | December 31,<br>2016 |  |
| Consolidated                                  | \$ 3,083              | \$ 3,094         | \$ (11)                     | \$ 2,797             | \$ 286                                   |
| Canada  | \$ 1,746              | \$ 1,764         | \$ (18)                     | \$ 1,595             | \$ 151                                   |
| South America                                 | \$ 1,063              | \$ 1,041         | \$ 22                       | \$ 996               | \$ 67                                    |
| UK & Ireland                                  | \$ 305                | \$ 300           | \$ 5                        | \$ 216               | \$ 89                                    |
| <i>South America (U.S. dollar)</i>            | \$ 852                | \$ 802           | \$ 50                       | \$ 741               | \$ 111                                   |
| <i>UK &amp; Ireland (U.K. pound sterling)</i> | £ 182                 | £ 178            | £ 4                         | £ 130                | £ 52                                     |

### Compared to December 31, 2016:

The \$286 million increase in consolidated invested capital from December 31, 2016 to September 30, 2017 is net of a foreign exchange impact of approximately \$80 million in translating the invested capital balances of the Company's foreign operations. The foreign exchange impact was primarily as a result of the 7% stronger Canadian dollar (CAD) relative to the U.S. dollar (USD) at September 30, 2017 compared to the rate at December 31, 2016.

Excluding the impact of foreign exchange, consolidated invested capital increased by \$364 million from December 31, 2016 to September 30, 2017 reflecting:

- an increase in parts inventory in both the Company's Canadian and South American operations due to increased customer demand for product support, as well as a higher volume of rebuild activity and preparation for large overhauls in the Company's Canadian operations;
- 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; and
- an increase in new equipment inventory in both the Company's South American and UK & Ireland operations to meet higher demand.

### Compared to June 30, 2017:

The \$11 million decrease in consolidated invested capital from June 30, 2017 to September 30, 2017 is net of a foreign exchange impact of approximately \$45 million in translating the invested capital balances of the Company's foreign operations. The foreign exchange impact was primarily as a result of the 4% stronger CAD relative to the USD at September 30, 2017 compared to the rate at June 30, 2017.

Excluding the impact of foreign exchange, consolidated invested capital increased by \$34 million from June 30, 2017 to September 30, 2017 reflecting:

- an increase in accounts receivable balances in both the Company's South American and UK & Ireland operations from strong sales in the quarter; and
- an increase in intangible assets in the Company's South American operations, primarily due to investment in the new ERP system.

## ROIC and Invested Capital Turnover

|  | September 30,<br>2017 | June 30,<br>2017 | December 31,<br>2016 | September 30,<br>2016 |
|--|-----------------------|------------------|----------------------|-----------------------|
| <b>ROIC</b>                              |                       |                  |                      |                       |
| Consolidated                             | 10.3 %                | 9.4 %            | 5.6 %                | (6.6)%                |
| Canada                                   | 9.5 %                 | 8.3 %            | 5.3 %                | 4.3 %                 |
| South America                            | 15.4 %                | 14.9 %           | 13.3 %               | (18.1)%               |
| UK & Ireland                             | 13.7 %                | 14.0 %           | (4.5)%               | (17.4)%               |
| <b>Adjusted ROIC</b>                     |                       |                  |                      |                       |
| Consolidated                             | 12.0 %                | 11.2 %           | 9.3 %                | 9.2 %                 |
| Canada                                   | 12.3 %                | 11.2 %           | 9.3 %                | 8.7 %                 |
| South America                            | 16.4 %                | 15.9 %           | 15.0 %               | 15.6 %                |
| UK & Ireland <sup>(1)</sup>              | 13.7 %                | 14.0 %           | 5.9 %                | 3.4 %                 |
| <b>Invested Capital Turnover (times)</b> |                       |                  |                      |                       |
| Consolidated                             | 2.02x                 | 1.98x            | 1.90x                | 1.85x                 |
| Canada                                   | 1.74x                 | 1.70x            | 1.70x                | 1.66x                 |
| South America                            | 2.04x                 | 1.97x            | 1.80x                | 1.74x                 |
| UK & Ireland                             | 3.59x                 | 3.73x            | 3.54x                | 3.41x                 |

<sup>(1)</sup> There were no significant items adjusted in the UK & Ireland operations for the twelve month period ended September 30, 2017 and June 30, 2017, therefore the adjusted ROIC at September 30, 2017 and June 30, 2017 is the same as the reported metric.

### Return on Invested Capital

On a consolidated basis, ROIC was 10.3% at September 30, 2017, compared to 5.6% at December 31, 2016 and (6.6)% at September 30, 2016. Adjusting for significant items that management does not consider indicative of operational and financial trends, as noted on pages 29 - 31 of this MD&A, Adjusted ROIC at September 30, 2017 was 12.0%, 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 strong EBIT achieved by the Company in 2017 and improved capital efficiency. Adjusted ROIC was higher in all operations compared to December 31, 2016.

Adjusted ROIC at September 30, 2017 improved compared to Adjusted ROIC at September 30, 2016 in all operations, and is further discussed below.

### Canadian operations

- Reported ROIC of 9.5% (September 30, 2016: 4.3%) and Adjusted ROIC of 12.3% (September 30, 2016: 8.7%).
- Higher Adjusted ROIC at September 30, 2017 reflected higher earnings in the last twelve month period as well as slightly lower average invested capital levels.

### South American operations

- Reported ROIC of 15.4% (September 30, 2016: (18.1)%) and Adjusted ROIC of 16.4% (September 30, 2016: 15.6%).
- \$324 million impairment loss on the shovels and drills distribution network and goodwill recorded in Q4 2015 has negatively impacted the reported ROIC at September 30, 2016.
- Higher Adjusted ROIC at September 30, 2017 was primarily due to lower average invested capital levels as well as slightly higher earnings in the last twelve month period.

### **UK & Ireland operations**

- Reported ROIC of 13.7% (September 30, 2016: (17.4)%). Adjusted ROIC as at September 30, 2016 was 3.4%.
- \$14 million goodwill impairment recorded in Q4 2015 has negatively impacted reported ROIC at September 30, 2016.
- Higher Adjusted ROIC at September 30, 2017 was due to significantly improved earnings.

### **Invested capital turnover**

- Consolidated invested capital turnover at September 30, 2017 was 2.02 times, up from 1.85 times at September 30, 2016, primarily reflecting higher revenues in the last twelve month period, as well as lower average invested capital levels.
- All operations reported improved invested capital turnover rates compared to September 30, 2016. In functional currency, all operations reported higher last twelve month revenues. Invested capital turnover in the Company's Canadian and South American operations also improved against September 30, 2016 due to a reduction in average invested capital levels.

## Results by Reportable Segment

The Company and its subsidiaries operate primarily in one principal business: the sale, service and rental 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.

| <b>3 months ended September 30, 2017</b> |                 |                      |                         |                 |                           |
|--|-----------------|----------------------|-------------------------|-----------------|---------------------------|
| <b>(\$ millions)</b>                     | <b>Canada</b>   | <b>South America</b> | <b>UK &amp; Ireland</b> | <b>Consol</b>   | <b>Revenue percentage</b> |
| New equipment                            | \$ 194          | \$ 170               | \$ 171                  | \$ 535          | 35%                       |
| Used equipment                           | 51              | 14                   | 15                      | 80              | 5%                        |
| Equipment rental                         | 43              | 12                   | 8                       | 63              | 4%                        |
| Product support                          | 449             | 351                  | 66                      | 866             | 56%                       |
| Other                                    | —               | 1                    | 2                       | 3               | 0%                        |
| <b>Total</b>                             | <b>\$ 737</b>   | <b>\$ 548</b>        | <b>\$ 262</b>           | <b>\$ 1,547</b> | <b>100%</b>               |
| Revenue percentage by operation          | 48%             | 35%                  | 17%                     | 100%            |                           |
| <b>3 months ended September 30, 2016</b> |                 |                      |                         |                 |                           |
| <b>(\$ millions)</b>                     | <b>Canada</b>   | <b>South America</b> | <b>UK &amp; Ireland</b> | <b>Consol</b>   | <b>Revenue percentage</b> |
| New equipment                            | \$ 160          | \$ 107               | \$ 160                  | \$ 427          | 32%                       |
| Used equipment                           | 41              | 14                   | 17                      | 72              | 5%                        |
| Equipment rental                         | 40              | 12                   | 9                       | 61              | 5%                        |
| Product support                          | 378             | 327                  | 65                      | 770             | 58%                       |
| Other                                    | —               | 1                    | 2                       | 3               | 0%                        |
| <b>Total</b>                             | <b>\$ 619</b>   | <b>\$ 461</b>        | <b>\$ 253</b>           | <b>\$ 1,333</b> | <b>100%</b>               |
| Revenue percentage by operation          | 46%             | 35%                  | 19%                     | 100%            |                           |
| <b>9 months ended September 30, 2017</b> |                 |                      |                         |                 |                           |
| <b>(\$ millions)</b>                     | <b>Canada</b>   | <b>South America</b> | <b>UK &amp; Ireland</b> | <b>Consol</b>   | <b>Revenue percentage</b> |
| New equipment                            | \$ 589          | \$ 452               | \$ 467                  | \$ 1,508        | 33%                       |
| Used equipment                           | 159             | 40                   | 50                      | 249             | 6%                        |
| Equipment rental                         | 107             | 38                   | 23                      | 168             | 4%                        |
| Product support                          | 1,362           | 1,031                | 202                     | 2,595           | 57%                       |
| Other                                    | 1               | 3                    | 6                       | 10              | 0%                        |
| <b>Total</b>                             | <b>\$ 2,218</b> | <b>\$ 1,564</b>      | <b>\$ 748</b>           | <b>\$ 4,530</b> | <b>100%</b>               |
| Revenue percentage by operation          | 49%             | 35%                  | 16%                     | 100%            |                           |
| <b>9 months ended September 30, 2016</b> |                 |                      |                         |                 |                           |
| <b>(\$ millions)</b>                     | <b>Canada</b>   | <b>South America</b> | <b>UK &amp; Ireland</b> | <b>Consol</b>   | <b>Revenue percentage</b> |
| New equipment                            | \$ 656          | \$ 245               | \$ 418                  | \$ 1,319        | 32%                       |
| Used equipment                           | 179             | 41                   | 51                      | 271             | 7%                        |
| Equipment rental                         | 106             | 40                   | 24                      | 170             | 4%                        |
| Product support                          | 1,163           | 994                  | 209                     | 2,366           | 57%                       |
| Other                                    | 1               | 2                    | 8                       | 11              | 0%                        |
| <b>Total</b>                             | <b>\$ 2,105</b> | <b>\$ 1,322</b>      | <b>\$ 710</b>           | <b>\$ 4,137</b> | <b>100%</b>               |
| Revenue percentage by operation          | 51%             | 32%                  | 17%                     | 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:

| (\$ millions)                         | 3 months ended September 30 |        | 9 months ended September 30 |          |
|---------------------------------------|-----------------------------|--------|-----------------------------|----------|
|                                       | 2017                        | 2016   | 2017                        | 2016     |
| Revenue from external sources         | \$ 737                      | \$ 619 | \$ 2,218                    | \$ 2,105 |
| Operating costs                       | (655)                       | (558)  | (1,990)                     | (1,946)  |
| Depreciation and amortization         | (25)                        | (24)   | (75)                        | (76)     |
| Equity earnings of joint venture      | 2                           | —      | 10                          | 7        |
| EBIT                                  | \$ 59                       | \$ 37  | \$ 163                      | \$ 90    |
| EBIT margin                           | 7.9%                        | 5.9%   | 7.3%                        | 4.3%     |
| EBITDA <sup>(1)</sup>                 | \$ 84                       | \$ 61  | \$ 238                      | \$ 166   |
| EBITDA margin                         | 11.4%                       | 9.8%   | 10.7%                       | 7.9%     |
| Adjusted EBIT <sup>(2)</sup>          | \$ 59                       | \$ 37  | \$ 163                      | \$ 110   |
| Adjusted EBIT margin <sup>(2)</sup>   | 7.9%                        | 5.9%   | 7.3%                        | 5.2%     |
| Adjusted EBITDA <sup>(2)</sup>        | \$ 84                       | \$ 61  | \$ 238                      | \$ 186   |
| Adjusted EBITDA margin <sup>(2)</sup> | 11.4%                       | 9.8%   | 10.7%                       | 8.8%     |

<sup>(1)</sup> EBITDA is calculated by adding depreciation and amortization to EBIT

<sup>(2)</sup> There were no significant items adjusted in EBIT in 2017 and Q3 2016, therefore the adjusted metrics above for the three and nine months ended September 30, 2017 and three months ended September 30, 2016 are the same as the reported metrics. Significant items that affected results for the nine months ended September 30, 2016 which management does not consider to be indicative of operational and financial trends are described on pages 9 and 10 of this MD&A.

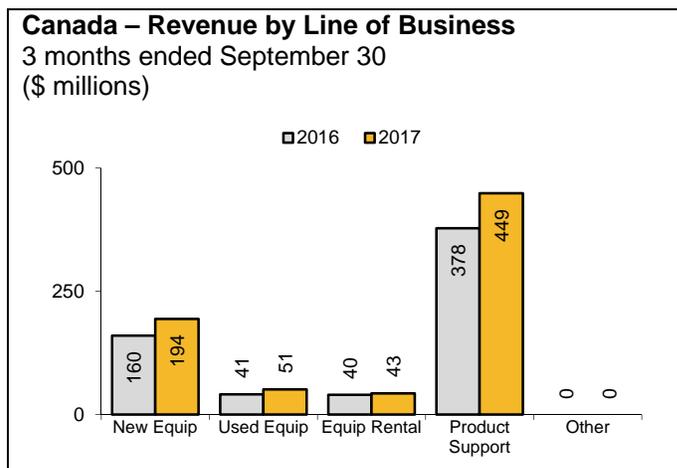
### Third Quarter Overview

Third quarter 2017 revenue of \$737 million was 19% higher than the third quarter of 2016, reflecting higher demand across all markets and all lines of business, but driven primarily by higher product support revenue.

Product support revenue was up 19% in the third quarter of 2017 compared to the same period in 2016, primarily due to strong parts activity in mining, construction and oil and gas markets. New equipment revenue was up 21% in the third quarter of 2017 compared to the third quarter of 2016, with higher deliveries predominantly in the mining and construction markets. Used equipment and rental revenue was also up in Q3 2017, benefitting from the integrated management of used equipment and rental fleets as well as a recovery in general construction markets.

Gross profit in Q3 2017 was higher than the prior year, reflecting higher sales volumes, partially offset by lower gross profit margin. Gross profit margin decreased in Q3 2017 compared to last year, resulting from lower product support and new equipment margins, partly offset by higher margins in all other lines of business.

SG&A was higher in Q3 2017 compared to the same period in the prior year, due in large part to higher variable costs from increased sales volumes.



The Canadian operations contributed EBIT of \$59 million in Q3 2017, compared to \$37 million earned in the same period in the prior year, and was the highest EBIT over the last eleven quarters. EBIT margin was 7.9%, up from 5.9% earned in the same period in Q3 2016 primarily due to leverage of incremental revenues on fixed costs.

## Other Developments

Finning Canada and the International Association of Machinists and Aerospace Workers – Vancouver Lodge 692 (IAMAW), representing approximately 600 hourly employees in British Columbia and the Yukon have ratified a new collective agreement effective September 20, 2017 to April 14, 2020.

## Year-to-Date Overview

Revenue for the nine months ended September 30, 2017 increased by 5% to \$2.2 billion compared to the same period last year, largely driven by higher product support revenue, and partly offset by lower new and used equipment revenue. Product support revenue was up 17% from the comparative period of 2016. Excluding the estimated impact of the Alberta wildfires in Q2 2016, product support revenue in 2017 would have been 14% higher compared to the first nine months of 2016. This increase is primarily due to strong parts activity in all markets in the current year.

New equipment revenue was down 10% in the first nine months of 2017 compared to the same period in 2016. This was mainly due to the delivery of equipment in the first quarter of 2016 related to certain construction projects and significant mining deliveries, partly offset by strong power systems activity in 2017 to date.

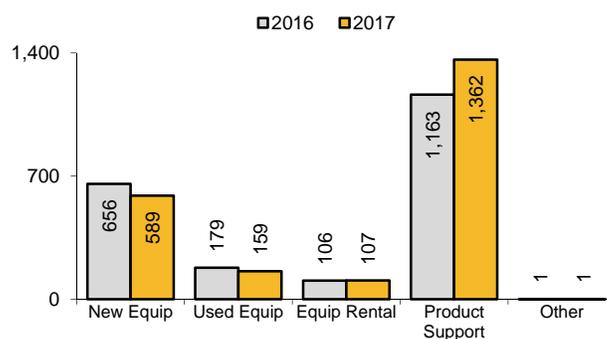
Used equipment revenue was down 11% in the first nine months of 2017 compared to the prior year period, reflecting stronger mining sales in the prior year, partly offset by higher ex-rental fleet sales to date in 2017 from the integrated management of used equipment and rental fleets.

Gross profit increased in the first nine months of 2017 compared to the same period in 2016 due to higher sales, a revenue mix shift to higher product support sales as well as higher gross profit margins in most lines of business.

## Canada – Revenue by Line of Business

9 months ended September 30

(\$ millions)



SG&A for the first nine months of 2017 was higher than the same period in 2016. In the first nine months of 2016, the Company reduced its Canadian workforce in order to align its cost structure to lower market activity, which resulted in severance and restructuring costs of \$9 million. Excluding these severance and restructuring costs and \$11 million of estimated unavoidable costs of the 2016 wildfires noted above, SG&A in the first nine months of 2017 was up 5% from the comparative period in 2016. This increase was primarily due to higher variable costs and was in line with revenue growth.

The Canadian operations contributed EBIT of \$163 million for the nine months ended September 30, 2017 compared to the \$90 million earned in the prior year period. EBIT margin was 7.3%, compared to the 4.3% earned in the same period in 2016. Excluding severance costs and the estimated unavoidable costs of the Alberta wildfires, Adjusted EBIT margin for the first nine months of 2016 was 5.2%. EBIT margin of 7.3% for the first nine months of 2017 was higher than the comparative prior year period due to higher gross profit margins achieved in the current year.

## 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:

| (\$ millions)                         | 3 months ended September 30 |        | 9 months ended September 30 |          |
|---------------------------------------|-----------------------------|--------|-----------------------------|----------|
|                                       | 2017                        | 2016   | 2017                        | 2016     |
| Revenue from external sources         | \$ 548                      | \$ 461 | \$ 1,564                    | \$ 1,322 |
| Operating costs                       | (488)                       | (406)  | (1,389)                     | (1,166)  |
| Depreciation and amortization         | (13)                        | (15)   | (43)                        | (46)     |
| EBIT                                  | \$ 47                       | \$ 40  | \$ 132                      | \$ 110   |
| EBIT margin                           | 8.5%                        | 8.7%   | 8.4%                        | 8.3%     |
| EBITDA                                | \$ 60                       | \$ 55  | \$ 175                      | \$ 156   |
| EBITDA margin                         | 11.1%                       | 11.9%  | 11.2%                       | 11.8%    |
| Adjusted EBIT <sup>(1)</sup>          | \$ 47                       | \$ 40  | \$ 132                      | \$ 118   |
| Adjusted EBIT margin <sup>(1)</sup>   | 8.5%                        | 8.7%   | 8.4%                        | 8.9%     |
| Adjusted EBITDA <sup>(1)</sup>        | \$ 60                       | \$ 55  | \$ 175                      | \$ 164   |
| Adjusted EBITDA margin <sup>(1)</sup> | 11.1%                       | 11.9%  | 11.2%                       | 12.4%    |

<sup>(1)</sup> There were no significant items adjusted in EBIT in 2017 and Q3 2016, therefore the adjusted metrics above for the three and nine months ended September 30, 2017 and three months ended September 30, 2016 are the same as the reported metrics. Significant items that affected results for the nine months ended September 30, 2016 which management does not consider to be indicative of operational and financial trends are described on pages 9 and 10 of this MD&A.

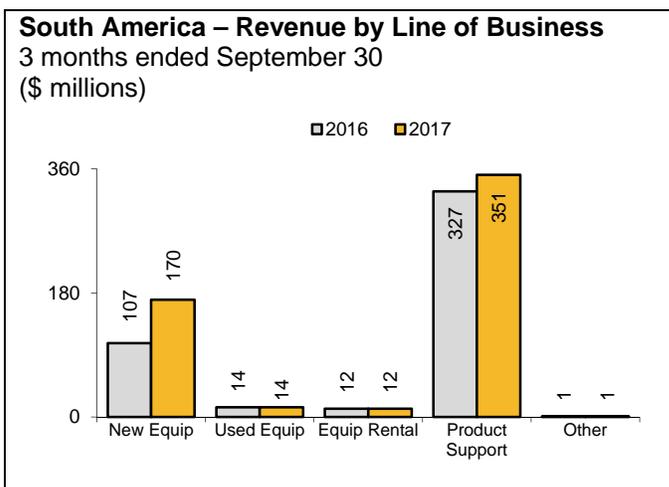
### Third Quarter Overview

Third quarter 2017 revenue increased 19% to \$548 million compared to Q3 2016 (up 24% in functional currency). This increase was driven primarily by higher new equipment revenue. New equipment sales were up 60% (up 66% in functional currency) reflecting improvement in all markets, particularly construction activity in Argentina.

Product support revenue was also up from the prior year quarter, reflecting stronger parts sales in all markets, but particularly in the mining market in Chile, due to improved equipment utilization.

The stronger Canadian dollar relative to the U.S. dollar on average in the quarter compared to the same quarter last year had an unfavourable foreign currency translation impact on revenue in Q3 2017 of approximately \$20 million and was not significant at the EBIT level.

Gross profit increased compared to the third quarter of 2016, reflecting higher sales volumes, partially offset by lower overall gross profit margin. Gross profit margin decreased in Q3 2017 compared to last year, reflecting a revenue mix shift to higher new equipment sales, lower new and used equipment margins, and slightly lower product support margins. New equipment revenue comprised 31% of total revenue in the third quarter of Q3 2017 compared to 23% in Q3 2016.



SG&A costs (in functional currency) in Q3 2017 increased by 10% compared to the prior year period. The increase in SG&A was primarily due to variable costs from increased sales volumes, including higher short term incentive plan costs, as well as inflationary and statutory salary increases. SG&A costs relative to sales were lower in Q3 2017 compared to the prior year period.

For the three months ended September 30, 2017, the Company's South American operations reported an EBIT of \$47 million compared to EBIT of \$40 million in Q3 2016, which was the highest EBIT over the last 7 quarters on an adjusted basis. EBIT margin was 8.5%, lower than the 8.7% earned in the same period in the prior year primarily due to a higher proportion of new equipment sales resulting in lower overall gross profit margin, partly offset by a lower percentage of SG&A costs relative to revenue.

### Year-to-Date Overview

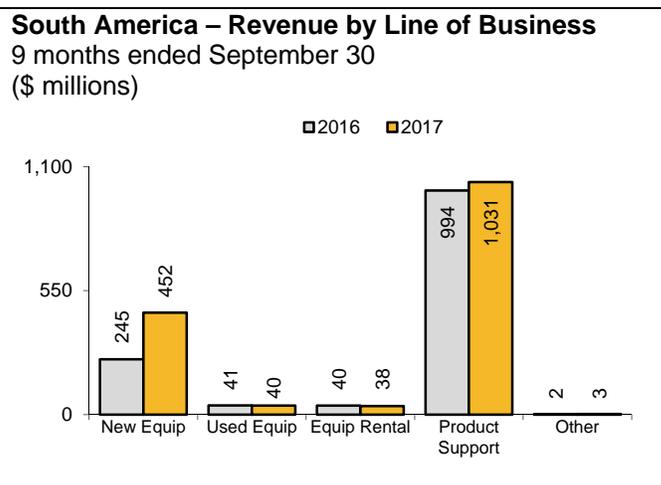
For the nine months ended September 30, 2017 revenue increased 18% to \$1.6 billion compared to 2016 (up 20% in functional currency). This increase was primarily driven by higher new equipment revenue, up 85% over the prior year period, reflecting stronger activity in all markets, particularly construction in Argentina and mining in Chile.

The stronger Canadian dollar relative to the U.S. dollar on average in the year-to-date period compared to the same period last year had a negative foreign currency translation impact on revenue in the first nine months of 2017 of approximately \$20 million and was not significant at the EBIT level.

Product support revenue was also up modestly compared to the first nine months of 2016 (up 5% in functional currency), resulting from stronger activity in all markets, particularly mining and construction in Argentina, and mining in Chile.

Gross profit was higher than in the first nine months of 2016, reflecting higher sales volumes, partially offset by lower overall gross profit margin. Gross profit margin decreased in the first nine months of 2017 compared to the first nine months of 2016, reflecting a revenue mix shift to higher new equipment sales.

The Company's South American operations reduced its workforce in the first nine months of the prior year which resulted in severance costs of \$8 million.



Excluding severance costs incurred in 2016, SG&A costs (in functional currency) in the first nine months of 2017 increased by 9% compared to the prior year period. The increase in SG&A was due in large part to inflationary and statutory salary increases and higher variable costs from increased sales volumes, including higher short term incentive plan costs. SG&A costs relative to sales were lower in the first nine months of 2017 compared to the prior year due to the leverage of incremental revenues on fixed costs.

For the nine months ended September 30, 2017, the Company's South American operations reported an EBIT of \$132 million and an EBIT margin of 8.4% compared to EBIT of \$110 million and an EBIT margin of 8.3% in the prior year period. Excluding severance costs, Adjusted EBIT margin for the first nine months of 2016 was 8.9%. EBIT margin was lower in the first nine months of 2017 compared to the Adjusted EBIT margin in the prior year due to the lower gross profit margin achieved in the current year from mix of sales, partly offset by the lower percentage of SG&A costs relative to 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 quarrying, construction, power systems and mining.

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

| (\$ millions)                         | 3 months ended September 30 |        | 9 months ended September 30 |         |
|---------------------------------------|-----------------------------|--------|-----------------------------|---------|
|                                       | 2017                        | 2016   | 2017                        | 2016    |
| Revenue from external sources         | \$ 262                      | \$ 253 | \$ 748                      | \$ 710  |
| Operating costs                       | (244)                       | (236)  | (698)                       | (702)   |
| Depreciation and amortization         | (7)                         | (7)    | (20)                        | (23)    |
| Other expenses                        | —                           | —      | —                           | (5)     |
| EBIT                                  | \$ 11                       | \$ 10  | \$ 30                       | \$ (20) |
| EBIT margin                           | 4.1%                        | 3.8%   | 4.0%                        | (2.7)%  |
| EBITDA                                | \$ 18                       | \$ 17  | \$ 50                       | \$ 3    |
| EBITDA margin                         | 6.5%                        | 6.5%   | 6.6%                        | 0.5%    |
| Adjusted EBIT <sup>(1)</sup>          | \$ 11                       | \$ 10  | \$ 30                       | \$ 8    |
| Adjusted EBIT margin <sup>(1)</sup>   | 4.1%                        | 3.8%   | 4.0%                        | 1.2%    |
| Adjusted EBITDA <sup>(1)</sup>        | \$ 18                       | \$ 17  | \$ 50                       | \$ 31   |
| Adjusted EBITDA margin <sup>(1)</sup> | 6.5%                        | 6.5%   | 6.6%                        | 4.4%    |

<sup>(1)</sup> There were no significant items adjusted in EBIT in 2017 and Q3 2016, therefore the adjusted metrics above for the three and nine months ended September 30, 2017 and three months ended September 30, 2016 are the same as the reported metrics. Significant items that affected results for the nine months ended September 30, 2016 which management does not consider to be indicative of operational and financial trends are described on pages 9 and 10 of this MD&A.

### Third Quarter Overview

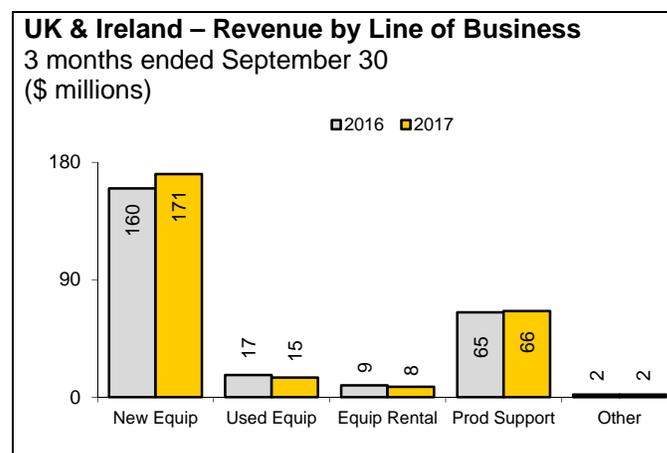
Revenue in the third quarter of 2017 of \$262 million was 4% higher than the same period in 2016 (up 8% in functional currency), driven primarily by higher new equipment sales, reflecting continued market demand and robust market activity, particularly in the power systems market, both in the electric power generation and industrial sectors.

Product support sales were also higher than Q3 2016, reflecting stronger parts sales primarily in the power system business.

The stronger Canadian dollar relative to the U.K. pound sterling on average in the quarter compared to last year had a negative foreign currency translation impact on revenue in the third quarter of 2017 of approximately \$10 million and was not significant at the EBIT level.

Q3 2017 gross profit was higher than the prior year period, reflecting higher sales volumes, partially offset by slightly lower overall gross profit margin. Gross profit margin decreased in Q3 2017 compared to last year, reflecting a revenue mix shift to higher new equipment sales, as well as lower new equipment margins. New equipment revenue comprised 65% of total revenue in the third quarter of 2017 compared to 63% in Q3 2016.

SG&A costs in Q3 2017 were comparable to the same period in the prior year, and lower relative to sales.



For the quarter ended September 30, 2017, the Company's UK & Ireland operations reported EBIT of \$11 million, compared to EBIT of \$10 million in Q3 2016. EBIT margin was 4.1% in Q3 2017 compared to 3.8% earned in the third quarter of 2016. EBIT margin for Q3 2017 was higher due to leverage of incremental revenue on fixed costs, partly offset by lower gross profit margin due to mix of sales.

## Year-to-Date Overview

For the nine months ended September 30, 2017, revenue of \$748 million was 5% higher than the same period in 2016 (up 15% in functional currency), driven primarily by higher new equipment sales due to stronger market demand, most notably in the power systems market.

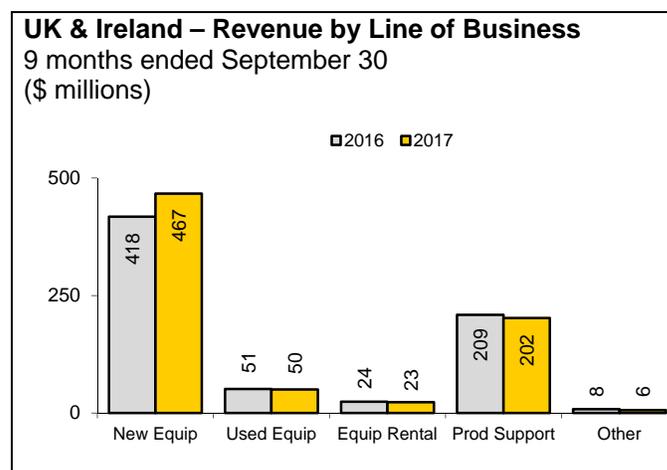
The stronger Canadian dollar relative to the U.K. pound sterling on average in the year to date period compared to last year had a negative foreign currency translation impact on revenue in the first nine months of 2017 of approximately \$70 million and was not significant at the EBIT level.

Gross profit was higher than the first nine months of 2016, reflecting higher sales volumes, as well as higher overall gross profit margin from higher new and used equipment margins, partly offset by a revenue mix shift to new equipment sales.

As part of the restructuring and repositioning of the UK's power systems business, management in the UK & Ireland completed a detailed review of power systems contracts and projects in 2016. As a result of this review, management recorded a provision of \$10 million in the first half of 2016 relating to certain power systems contracts and projects, unfavourably impacting gross profit margins in the prior year, and contributing to the comparative improvement in the current year.

SG&A costs were lower in the first nine months of 2017 compared to the same period in 2016. Excluding severance and restructuring costs of \$13 million in the prior year period, SG&A in 2017 was 11% lower than the prior year period, and comparable in functional currency.

Following a strategic review in 2016 of the Company's operations in the UK, it was determined that



engineering and construction services for the water utility industry no longer represented a core sector for Finning's power systems division in the UK. As a result, the Company recorded a charge in other expenses of approximately \$5 million in the second quarter of 2016, representing the write-down of net assets and other costs related to the August 2016 sale of this business.

For the nine months ended September 30, 2017, the Company's UK & Ireland operations reported EBIT of \$30 million, compared to an EBIT loss of \$20 million in 2016. EBIT margin was 4.0% compared to (2.7)% earned in 2016. Excluding significant items noted above in the prior year period, Adjusted EBIT margin for 2016 was 1.2%, lower than the significantly improved 4.0% EBIT margin achieved for 2017. EBIT margin was higher in 2017 due to lower SG&A costs relative to sales as a result of higher volumes and a reduced cost structure, as well as higher gross profit margin achieved in the current year from higher new and used equipment margins.

## Corporate and Other Operations

Net operating costs before finance costs and income taxes of the Company's corporate and other operations segment were \$14 million in the third quarter of 2017 (year-to-date 2017: \$38 million) compared to \$14 million in Q3 2016 (year-to-date 2016: \$33 million). 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 September 30, 2017, corporate operating costs were comparable to the prior year period.

For the nine months ended September 30, 2017, corporate operating costs were \$5 million higher than the comparative prior year period, due primarily to higher long-term incentive plan costs. The Company's equity earnings from Energyst B.V. were \$3 million lower in 2017, which were partly offset by a \$2 million gain in 2017 relating to the Company's investment in IronPlanet Holdings Inc.

## Outlook

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### Canada

Producer and contractor activity in mining continues to generate strong demand for parts and service, including component rebuilds. While demand for mining equipment is expected to improve modestly, the equipment landscape remains highly competitive.

In British Columbia, demand for core equipment remains robust, despite continued uncertainty regarding significant infrastructure projects. In Alberta, current and proposed infrastructure projects are expected to support steady activity in heavy construction markets. In Saskatchewan, new pipeline projects are starting to translate into improved demand for equipment. Product support activity has strengthened in the heavy construction and pipeline sectors in all provinces.

Demand for power systems products, parts, and services has increased as a result of significantly improved activity in the oil and gas sector.

Equipment markets remain very competitive across all sectors in Western Canada. The Company believes the rate of recovery will continue to be dependent on the commodity markets and timing of significant infrastructure projects.

### South America

New equipment sales to the mining sector are starting to improve, but order intake remains low by historic standards. Mining fleet utilization continues to increase gradually, providing stability and opportunities to the Company's product support business, including component rebuilds.

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

In Argentina, the Company is successfully selling equipment into the growing but competitive construction market. The Company believes that the outcome of the recent elections in Argentina will sustain this growth momentum. The government is expected to complete economic and institutional reforms which should lower the cost of doing business. The Company expects the current level of public investment in infrastructure will continue, and oil and gas development will accelerate going forward.

The Company is investing in a new ERP system in the South American operations, which is expected to go live in 2018.

### 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 restructured its operating model to lower its cost structure and increase supply chain velocity. While activity levels in the quarry, general construction, and plant hire sectors generate

robust demand for new equipment and product support, competitive pricing pressure remains intense. In the power systems sector, the Company continues to capitalize on strong demand for standby and short-term capacity power solutions.

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.

### 2017 Outlook

The Company expects year-over-year revenue growth in Q4 2017 to moderate relative to the year-to-date increase due to strength at the end of 2016. In addition, EBIT margin in Canada is expected to moderate somewhat in Q4 2017 as a result of a larger mix of new equipment sales relative to product support.

To meet increased demand for equipment and parts, inventory levels, including some large orders for early 2018 delivery, are higher than anticipated. As a result, free cash flow for 2017 is now expected to be at the low end of the targeted range of \$150 to \$200 million.

### Operational Focus

As demand strengthens, the Company expects to drive higher profitability through achieved sustainable operational improvements and a reduced cost structure. Higher profitability and increased capital discipline are consistent with the Company's commitment to grow return on invested capital.

The Company continues to transform its global equipment supply chain, grow product support from its large installed equipment population and improve the financial performance of its rental business.

In addition, the Company's investment in Finning Digital, a global division within Finning, is expected to accelerate delivery of innovative customer solutions. Finning Digital is focused on improving the customer experience and pursuing new opportunities for revenue generation in digitally-enabled services.

### Foreign Exchange Exposure

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:

| (\$ millions)                                   | 3 months ended<br>September 30 |         |                        | 9 months ended<br>September 30 |          |                        |
|---|--------------------------------|---------|------------------------|--------------------------------|----------|------------------------|
|   | 2017                           | 2016    | Increase<br>(Decrease) | 2017                           | 2016     | Increase<br>(Decrease) |
| Cash provided by (used in) operating activities | \$ 55                          | \$ 177  | \$ (122)               | \$ (115)                       | \$ 309   | \$ (424)               |
| Cash used in investing activities               | \$ (33)                        | \$ (14) | \$ (19)                | \$ (68)                        | \$ (75)  | \$ 7                   |
| Cash provided by (used in) financing activities | \$ 98                          | \$ (89) | \$ 187                 | \$ 131                         | \$ (218) | \$ 349                 |
| Free Cash Flow                                  | \$ 22                          | \$ 163  | \$ (141)               | \$ (185)                       | \$ 257   | \$ (442)               |

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

|   | Quarter over Quarter   | Year over Year   |
|---|--|--|
| Cash provided by (used in) operating activities | <ul style="list-style-type: none"> <li>• higher supplier payments, reflecting higher inventory purchases in the Company's Canadian and South American operations due to improving market conditions and demand</li> <li>• higher receivable balances from timing of collections after a successful quarter with higher sales volumes compared to the prior year period</li> <li>• partly offset by higher cash generation from equipment sales from the Company's Canadian and South American operations, and parts sales in the Company's South American operations.</li> </ul> | <ul style="list-style-type: none"> <li>• higher parts purchases in the Company's Canadian and South American operations, reflecting increased product support demand</li> <li>• higher spend on equipment inventory in all operations, supporting increased demand</li> <li>• higher receivable balances from timing of collections and higher sales volumes</li> <li>• higher spend on rental equipment, primarily in the Company's Canadian operations</li> <li>• partly offset by higher earnings from all operations reflecting improving market conditions</li> </ul> |
| Cash used in investing activities               | <ul style="list-style-type: none"> <li>• slightly higher capital expenditures</li> </ul>   | <ul style="list-style-type: none"> <li>• higher cash use in the prior year due to investments in short-term instruments</li> <li>• partly offset by lower proceeds from disposals of fixed assets in 2017</li> </ul>   |
| Cash provided by (used in) financing activities | <ul style="list-style-type: none"> <li>• \$200 million additional cash provided by long-term debt issuance in September 2017</li> </ul>  | <ul style="list-style-type: none"> <li>• \$200 million additional cash provided by long-term debt issuance in September 2017</li> <li>• \$109 million of cash used for repayment of short-term debt in the first nine months of 2016 compared to \$31 million of cash generated by increased borrowing in the comparative period of 2017</li> </ul>  |

|                                 | Quarter over Quarter  | Year over Year   |
|---------------------------------|---|--|
| Free Cash Flow generation (use) | <ul style="list-style-type: none"> <li>higher use of cash in operating activities for the reasons outlined above</li> <li>slightly higher capital expenditures</li> </ul> | <ul style="list-style-type: none"> <li>higher use of cash in operating activities for the reasons outlined above</li> <li>lower proceeds from disposals of fixed assets</li> </ul> |

### Capital resources and management

The Company's cash and cash equivalents balance at September 30, 2017 was \$516 million (December 31, 2016: \$593 million; September 30, 2016: \$460 million). To complement the internally generated funds from operating and investing activities, the Company has \$1.7 billion in unsecured credit facilities. Included in this amount is a syndicated committed credit facility totaling \$1.0 billion with various Canadian and other global financial institutions, the full amount of which was available at September 30, 2017.

In October 2017, the Company completed a two-year extension to its \$1.0 billion syndicated committed credit facility, extending the maturity date to October 2022.

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.

In September 2017, the Company issued \$200 million of 2.84% senior unsecured Notes due September 29, 2021. On October 16, 2017, proceeds from the Notes were used to redeem, prior to maturity, all of the outstanding \$350 million 6.02% MTN due June 1, 2018. The total redemption price included an early redemption premium of approximately \$9 million which was recorded in finance costs in Q3 2017.

The Company is rated <sup>(1)</sup> by both Dominion Bond Rating Service (DBRS) and Standard & Poor's (S&P):

|      | Long-term debt |              | Short-term debt |              |
|------|----------------|--------------|-----------------|--------------|
|      | Sep 30, 2017   | Dec 31, 2016 | Sep 30, 2017    | Dec 31, 2016 |
| S&P  | BBB+           | BBB+         | N/A             | N/A          |
| DBRS | BBB (high)     | BBB (high)   | R-2 (high)      | R-2 (high)   |

During the nine month period ended September 30, 2017, the Company repurchased 89,900 shares at an average price of \$25.45 (no shares were repurchased in 2016) through a share repurchase program by way of its normal course issuer bid (NCIB) <sup>(2)</sup>.

Dividends paid to shareholders in Q3 2017 were \$33 million (year-to-date 2017 \$94 million), comparable with the third quarter of 2016 (year-to-date 2016 \$92 million).

### Net Debt to Invested Capital

| Net Debt to Invested capital % | Sep 30, 2017 | Jun 30, 2017 | Dec 31, 2016 | Sep 30, 2016 |
|--------------------------------|--------------|--------------|--------------|--------------|
|                                | 37.5%        | 37.4%        | 32.0%        | 35.0%        |

The Company is subject to a maximum Net Debt to Invested Capital level of 62.5% pursuant to a covenant in its syndicated committed credit facility. The Company was in compliance with this covenant at the end of Q3 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 8 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) A copy of the NCIB notice is available upon request. Direct your request to the Corporate Secretary, 1000-666 Burrard Street, Vancouver, BC, V6C 2X8.

## 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](http://www.sedar.com) and in the investors section of the Company's website at [www.finning.com](http://www.finning.com).

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

| Exchange rate | September 30  |        |        | December 31 |        |               | 3 months ended<br>September 30 – average |        |               | 9 months ended<br>September 30 – average |        |  |
|---------------|---------------|--------|--------|-------------|--------|---------------|--|--------|---------------|--|--------|--|
|               | 2017          | 2016   | Change | 2016        | Change | 2017          | 2016                                     | Change | 2017          | 2016                                     | Change |  |
| USD/CAD       | <b>1.2480</b> | 1.3117 | 5 %    | 1.3427      | 7 %    | <b>1.2528</b> | 1.3050                                   | 4 %    | <b>1.3074</b> | 1.3218                                   | 1 %    |  |
| GBP/CAD       | <b>1.6716</b> | 1.7069 | 2 %    | 1.6564      | (1)%   | <b>1.6396</b> | 1.7124                                   | 4 %    | <b>1.6671</b> | 1.8412                                   | 9 %    |  |
| USD/CLP       | <b>636.85</b> | 659.08 | 3 %    | 667.29      | 5 %    | <b>642.54</b> | 661.31                                   | 3 %    | <b>654.36</b> | 680.05                                   | 4 %    |  |
| USD/ARS       | <b>17.31</b>  | 15.31  | (13)%  | 15.89       | (9)%   | <b>17.29</b>  | 14.94                                    | (16)%  | <b>16.17</b>  | 14.52                                    | (11)%  |  |

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, reviews all financial information prepared for communication to the public to ensure it meets all regulatory requirements. The Disclosure Committee is responsible for raising any outstanding issues it believes require the attention of the Audit Committee for that Committee's approval prior to recommending disclosure.

### **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 September 30, 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 to provide reasonable assurance that the objectives of the control systems are met, they are aware that these controls and procedures may not prevent all errors and fraud. A control system, no matter how well conceived or operated, can only provide reasonable, not absolute, assurance that the objectives of the control system are met.

### **Outstanding Share Data**

#### **As at November 2, 2017**

|                           |             |
|---------------------------|-------------|
| Common shares outstanding | 168,138,070 |
| Options outstanding       | 4,451,960   |

## 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 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 and nine months ended September 30 is as follows:

| (\$ millions)                 | 3 months ended September 30 |        | 9 months ended September 30 |        |
|-------------------------------|-----------------------------|--------|-----------------------------|--------|
|                               | 2017                        | 2016   | 2017                        | 2016   |
| EBIT                          | \$ 103                      | \$ 73  | \$ 287                      | \$ 147 |
| Depreciation and amortization | 46                          | 46     | 139                         | 145    |
| EBITDA                        | \$ 149                      | \$ 119 | \$ 426                      | \$ 292 |

A reconciliation between EBIT, Adjusted EBIT, and Adjusted EBITDA for the three and nine months ended September 30 is as follows:

| (\$ millions)                    | 3 months ended September 30 |        | 9 months ended September 30 |        |
|----------------------------------|-----------------------------|--------|-----------------------------|--------|
|                                  | 2017                        | 2016   | 2017                        | 2016   |
| EBIT                             | \$ 103                      | \$ 73  | \$ 287                      | \$ 147 |
| Significant items <sup>(1)</sup> | —                           | —      | —                           | 56     |
| Adjusted EBIT                    | \$ 103                      | \$ 73  | \$ 287                      | \$ 203 |
| Depreciation and amortization    | 46                          | 46     | 139                         | 145    |
| Adjusted EBITDA                  | \$ 149                      | \$ 119 | \$ 426                      | \$ 348 |

<sup>(1)</sup> 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 pages 9 and 10 of 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<br>(\$ millions)  | 2017   |        |        | 2016   |        |        | 2015   |          |        |
|--|--------|--------|--------|--------|--------|--------|--------|----------|--------|
|  | Sep 30 | Jun 30 | Mar 31 | Dec 31 | Sep 30 | Jun 30 | Mar 31 | Dec 31   | Sep 30 |
| EBIT   | \$ 103 | \$ 98  | \$ 86  | \$ 18  | \$ 73  | \$ 29  | \$ 45  | \$ (349) | \$ 63  |
| Significant items:   |        |        |        |        |        |        |        |          |        |
| Severance costs  | —      | —      | —      | 15     | —      | 9      | 17     | 2        | 25     |
| Facility closures and restructuring costs  | —      | —      | —      | 32     | —      | 4      | —      | 45       | 6      |
| 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 and estimated loss on disputes and<br>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  | \$ 103 | \$ 98  | \$ 86  | \$ 70  | \$ 73  | \$ 63  | \$ 67  | \$ 82    | \$ 97  |
| Depreciation and amortization <sup>(1)</sup>   | 46     | 48     | 45     | 47     | 46     | 48     | 51     | 57       | 62     |
| Adjusted EBITDA  | \$ 149 | \$ 146 | \$ 131 | \$ 117 | \$ 119 | \$ 111 | \$ 118 | \$ 139   | \$ 159 |
| Adjusted EBIT – 12 months  | \$ 357 | \$ 327 | \$ 292 | \$ 273 | \$ 285 | \$ 309 | \$ 358 | \$ 383   | \$ 445 |
| Adjusted EBITDA – 12 months  | \$ 543 | \$ 513 | \$ 478 | \$ 465 | \$ 487 | \$ 527 | \$ 579 | \$ 604   | \$ 661 |

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

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

| 3 months ended<br>(\$ millions)                   | 2017   |        |        | 2016   |        |        | 2015   |         |        |
|---|--------|--------|--------|--------|--------|--------|--------|---------|--------|
|   | Sep 30 | Jun 30 | Mar 31 | Dec 31 | Sep 30 | Jun 30 | Mar 31 | Dec 31  | Sep 30 |
| EBIT  | \$ 59  | \$ 57  | \$ 47  | \$ (3) | \$ 37  | \$ 28  | \$ 25  | \$ (17) | \$ 34  |
| Significant items:                                |        |        |        |        |        |        |        |         |        |
| Severance costs                                   | —      | —      | —      | 15     | —      | 1      | 8      | —       | 11     |
| Facility closures and restructuring costs         | —      | —      | —      | 32     | —      | —      | —      | 40      | 6      |
| Inventory and other asset impairments             | —      | —      | —      | —      | —      | —      | —      | 16      | —      |
| Impact from Alberta wildfires – unavoidable costs | —      | —      | —      | —      | —      | 11     | —      | —       | —      |
| Adjusted EBIT                                     | \$ 59  | \$ 57  | \$ 47  | \$ 44  | \$ 37  | \$ 40  | \$ 33  | \$ 39   | \$ 51  |
| Depreciation and amortization <sup>(1)</sup>      | 25     | 26     | 24     | 24     | 24     | 25     | 27     | 31      | 34     |
| Adjusted EBITDA                                   | \$ 84  | \$ 83  | \$ 71  | \$ 68  | \$ 61  | \$ 65  | \$ 60  | \$ 70   | \$ 85  |
| Adjusted EBIT – 12 months                         | \$ 207 | \$ 185 | \$ 168 | \$ 154 | \$ 149 | \$ 163 | \$ 178 | \$ 189  | \$ 225 |

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<br>(\$ millions)                             | 2017   |        |        | 2016   |        |        | 2015   |          |        |
|---|--------|--------|--------|--------|--------|--------|--------|----------|--------|
|   | Sep 30 | Jun 30 | Mar 31 | Dec 31 | Sep 30 | Jun 30 | Mar 31 | Dec 31   | Sep 30 |
| EBIT  | \$ 47  | \$ 43  | \$ 42  | \$ 27  | \$ 40  | \$ 38  | \$ 32  | \$ (303) | \$ 32  |
| Significant items:  |        |        |        |        |        |        |        |          |        |
| Severance costs   | —      | —      | —      | —      | —      | 1      | 7      | —        | 10     |
| 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   | \$ 47  | \$ 43  | \$ 42  | \$ 37  | \$ 40  | \$ 39  | \$ 39  | \$ 46    | \$ 42  |
| Depreciation and amortization <sup>(1)</sup>                | 13     | 15     | 15     | 16     | 15     | 15     | 16     | 19       | 20     |
| Adjusted EBITDA   | \$ 60  | \$ 58  | \$ 57  | \$ 53  | \$ 55  | \$ 54  | \$ 55  | \$ 65    | \$ 62  |
| Adjusted EBIT – 12 months                                   | \$ 169 | \$ 162 | \$ 158 | \$ 155 | \$ 164 | \$ 166 | \$ 182 | \$ 190   | \$ 202 |

<sup>(1)</sup> 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

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<br>(\$ millions)                                 | 2017   |        |        | 2016   |        |         | 2015   |         |        |
|---|--------|--------|--------|--------|--------|---------|--------|---------|--------|
|   | Sep 30 | Jun 30 | Mar 31 | Dec 31 | Sep 30 | Jun 30  | Mar 31 | Dec 31  | Sep 30 |
| EBIT  | \$ 11  | \$ 11  | \$ 8   | \$ 8   | \$ 10  | \$ (26) | \$ (4) | \$ (31) | \$ 7   |
| Significant items:  |        |        |        |        |        |         |        |         |        |
| Severance costs   | —      | —      | —      | —      | —      | 7       | 2      | 2       | 4      |
| 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   | \$ 11  | \$ 11  | \$ 8   | \$ 8   | \$ 10  | \$ (5)  | \$ 3   | \$ 3    | \$ 11  |
| Depreciation and amortization                                   | 7      | 7      | 6      | 7      | 7      | 8       | 8      | 7       | 8      |
| Adjusted EBITDA   | \$ 18  | \$ 18  | \$ 14  | \$ 15  | \$ 17  | \$ 3    | \$ 11  | \$ 10   | \$ 19  |
| Adjusted EBIT – 12 months                                       | \$ 38  | \$ 37  | \$ 21  | \$ 16  | \$ 11  | \$ 12   | \$ 29  | \$ 33   | \$ 42  |

### 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:

| (\$ millions)  | 3 months ended<br>September 30 |        | 9 months ended<br>September 30 |        |
|--|--------------------------------|--------|--------------------------------|--------|
|  | 2017                           | 2016   | 2017                           | 2016   |
| Cash flow provided by (used in) operating activities <sup>(1)</sup>              | \$ 55                          | \$ 177 | \$ (115)                       | \$ 309 |
| Additions to property, plant, and equipment and intangible assets <sup>(1)</sup> | (33)                           | (17)   | (72)                           | (72)   |
| Proceeds on disposal of property, plant, and equipment <sup>(1)</sup>            | —                              | 3      | 2                              | 20     |
| Free cash flow   | \$ 22                          | \$ 163 | \$ (185)                       | \$ 257 |

<sup>(1)</sup> 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)    | September 30,<br>2017 | December 31,<br>2016 |
|-----------------------------------|-----------------------|----------------------|
| Cost of sales – annualized        | \$ 4,600              | \$ 4,150             |
| Inventory – two quarter average   | \$ 1,769              | \$ 1,663             |
| Inventory turns (number of times) | 2.60                  | 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 33, based on an average of the last four quarters, as follows:

| (\$ millions, except as noted)          | September 30,<br>2017 | December 31,<br>2016 |
|---|-----------------------|----------------------|
| Revenue – last twelve months            | \$ 6,021              | \$ 5,628             |
| Invested capital – four quarter average | \$ 2,975              | \$ 2,960             |
| Invested capital turnover               | 2.02                  | 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)    | September 30,<br>2017 | December 31,<br>2016 |
|-----------------------------------|-----------------------|----------------------|
| Cash and cash equivalents         | \$ (516)              | \$ (593)             |
| Short-term debt                   | 32                    | 2                    |
| Current portion of long-term debt | 350                   | —                    |
| Long-term debt                    | 1,291                 | 1,487                |
| Net debt                          | 1,157                 | 896                  |
| Shareholders' equity              | 1,926                 | 1,901                |
| Invested capital                  | \$ 3,083              | \$ 2,797             |
| Net debt to invested capital      | 37.5%                 | 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)          | September 30,<br>2017 | December 31,<br>2016 |
|---|-----------------------|----------------------|
| Net debt                                | \$ 1,157              | \$ 896               |
| EBITDA – 12 months ended                | \$ 491                | \$ 357               |
| Net Debt to EBITDA Ratio <sup>(1)</sup> | 2.4                   | 2.5                  |
| Net debt                                | \$ 1,157              | \$ 896               |
| Adjusted EBITDA – 12 months ended       | \$ 543                | \$ 465               |
| Net Debt to Adjusted EBITDA Ratio       | 2.1                   | 1.9                  |

<sup>(1)</sup> 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 29 of 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)                           | September 30,<br>2017 | December 31,<br>2016 |
|---|-----------------------|----------------------|
| EBIT – 12 months ended                  | \$ 305                | \$ 165               |
| Invested capital – four quarter average | \$ 2,975              | \$ 2,960             |
| ROIC                                    | 10.3 %                | 5.6 %                |

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

| (\$ millions, except as<br>noted) | 2017     |          |          | 2016     |          |          | 2015     |          |          |
|-----------------------------------|----------|----------|----------|----------|----------|----------|----------|----------|----------|
|                                   | Sep 30   | Jun 30   | Mar 31   | Dec 31   | Sep 30   | Jun 30   | Mar 31   | Dec 31   | Sep 30   |
| Consolidated                      |          |          |          |          |          |          |          |          |          |
| Adjusted EBIT                     |          |          |          |          |          |          |          |          |          |
| – 12 months ended                 | \$ 357   | \$ 327   | \$ 292   | \$ 273   | \$ 285   | \$ 309   | \$ 358   | \$ 383   | \$ 445   |
| Invested capital                  |          |          |          |          |          |          |          |          |          |
| – four quarter average            | \$ 2,975 | \$ 2,934 | \$ 2,920 | \$ 2,960 | \$ 3,071 | \$ 3,292 | \$ 3,416 | \$ 3,530 | \$ 3,496 |
| Adjusted ROIC                     | 12.0%    | 11.2%    | 10.0%    | 9.3%     | 9.2%     | 9.4%     | 10.4%    | 10.9%    | 12.8%    |
| Canada                            |          |          |          |          |          |          |          |          |          |
| Adjusted EBIT                     |          |          |          |          |          |          |          |          |          |
| – 12 months ended                 | \$ 207   | \$ 185   | \$ 168   | \$ 154   | \$ 149   | \$ 163   | \$ 178   | \$ 189   | \$ 225   |
| Invested capital                  |          |          |          |          |          |          |          |          |          |
| – four quarter average            | \$ 1,683 | \$ 1,659 | \$ 1,642 | \$ 1,656 | \$ 1,697 | \$ 1,753 | \$ 1,765 | \$ 1,792 | \$ 1,721 |
| Adjusted ROIC                     | 12.3%    | 11.2%    | 10.2%    | 9.3%     | 8.7%     | 9.3%     | 10.1%    | 10.6%    | 13.1%    |
| South America                     |          |          |          |          |          |          |          |          |          |
| Adjusted EBIT                     |          |          |          |          |          |          |          |          |          |
| – 12 months ended                 | \$ 169   | \$ 162   | \$ 158   | \$ 155   | \$ 164   | \$ 166   | \$ 182   | \$ 190   | \$ 202   |
| Invested capital                  |          |          |          |          |          |          |          |          |          |
| – four quarter average            | \$ 1,030 | \$ 1,020 | \$ 1,028 | \$ 1,030 | \$ 1,062 | \$ 1,178 | \$ 1,261 | \$ 1,357 | \$ 1,413 |
| Adjusted ROIC                     | 16.4%    | 15.9%    | 15.4%    | 15.0%    | 15.6%    | 14.2%    | 14.5%    | 14.0%    | 14.3%    |
| UK & Ireland                      |          |          |          |          |          |          |          |          |          |
| Adjusted EBIT                     |          |          |          |          |          |          |          |          |          |
| – 12 months ended                 | \$ 38    | \$ 37    | \$ 21    | \$ 16    | \$ 11    | \$ 12    | \$ 29    | \$ 33    | \$ 42    |
| Invested capital                  |          |          |          |          |          |          |          |          |          |
| – four quarter average            | \$ 275   | \$ 262   | \$ 253   | \$ 268   | \$ 294   | \$ 342   | \$ 371   | \$ 369   | \$ 359   |
| Adjusted ROIC                     | 13.7%    | 14.0%    | 8.2%     | 5.9%     | 3.4%     | 3.3%     | 7.4%     | 9.0%     | 11.9%    |

## 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)                            | September 30,<br>2017 | December 31,<br>2016 |
|--|-----------------------|----------------------|
| Total current assets                     | \$ 3,558              | \$ 3,378             |
| Cash and cash equivalents                | (516)                 | (593)                |
| Total current assets <sup>(1)</sup>      | \$ 3,042              | \$ 2,785             |
| Total current liabilities                | \$ 1,653              | \$ 1,233             |
| Short-term debt                          | (32)                  | (2)                  |
| Current portion of long-term debt        | (350)                 | —                    |
| Total current liabilities <sup>(2)</sup> | \$ 1,271              | \$ 1,231             |
| Working capital                          | \$ 1,771              | \$ 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)         | September 30,<br>2017 | December 31,<br>2016 |
|--|-----------------------|----------------------|
| Working capital – four quarter average | \$ 1,703              | \$ 1,709             |
| Revenue – 12 months ended              | \$ 6,021              | \$ 5,628             |
| Working capital to sales               | 28.3 %                | 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, per share, and option amounts) | 2017            |                 |                 | 2016            |                 |                 | 2015 (Restated) |                 |
|--|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|
|  | Q3              | Q2              | Q1              | Q4              | Q3              | Q2              | Q1              | Q4              |
| Revenue from operations <sup>(1)</sup>                         |                 |                 |                 |                 |                 |                 |                 |                 |
| Canada   | \$ 737          | \$ 790          | \$ 691          | \$ 716          | \$ 619          | \$ 634          | \$ 852          | \$ 714          |
| South America  | 548             | 516             | 500             | 535             | 461             | 431             | 430             | 528             |
| UK & Ireland   | 262             | 275             | 211             | 240             | 253             | 245             | 212             | 295             |
| <b>Total revenue</b>   | <b>\$ 1,547</b> | <b>\$ 1,581</b> | <b>\$ 1,402</b> | <b>\$ 1,491</b> | <b>\$ 1,333</b> | <b>\$ 1,310</b> | <b>\$ 1,494</b> | <b>\$ 1,537</b> |
| Net income (loss) <sup>(2)</sup>                               | \$ 52           | \$ 56           | \$ 47           | \$ 9            | \$ 36           | \$ 5            | \$ 15           | \$ (309)        |
| Earnings Per Share <sup>(2)</sup>                              |                 |                 |                 |                 |                 |                 |                 |                 |
| Basic EPS  | \$ 0.31         | \$ 0.34         | \$ 0.28         | \$ 0.05         | \$ 0.22         | \$ 0.03         | \$ 0.09         | \$ (1.82)       |
| Diluted EPS  | \$ 0.31         | \$ 0.34         | \$ 0.28         | \$ 0.05         | \$ 0.22         | \$ 0.03         | \$ 0.09         | \$ (1.82)       |
| Total assets   | \$ 5,140        | \$ 5,029        | \$ 4,901        | \$ 4,910        | \$ 4,886        | \$ 4,754        | \$ 4,870        | \$ 5,108        |
| Long-term debt   |                 |                 |                 |                 |                 |                 |                 |                 |
| Current  | \$ 350          | \$ 350          | \$ —            | \$ —            | \$ —            | \$ —            | \$ —            | \$ —            |
| Non-current  | 1,291           | 1,116           | 1,481           | 1,487           | 1,474           | 1,470           | 1,492           | 1,548           |
| <b>Total long-term debt <sup>(3) (4)</sup></b>                 | <b>\$ 1,641</b> | <b>\$ 1,466</b> | <b>\$ 1,481</b> | <b>\$ 1,487</b> | <b>\$ 1,474</b> | <b>\$ 1,470</b> | <b>\$ 1,492</b> | <b>\$ 1,548</b> |
| Cash dividends paid per common share                           | 19.00¢          | 18.25¢          | 18.25¢          | 18.25¢          | 18.25¢          | 18.25¢          | 18.25¢          | 18.25¢          |
| Common shares outstanding (000's)                              | 168,118         | 168,097         | 168,083         | 168,167         | 168,134         | 168,102         | 168,034         | 168,031         |
| Options outstanding (000's)                                    | 4,574           | 4,755           | 4,501           | 4,564           | 4,823           | 5,026           | 5,102           | 5,171           |

- 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 concluded that certain cost recoveries were 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) 2017, 2016 and 2015 results were impacted by the following significant items:

| (\$ millions except per share amounts)  | 2017 <sup>(a)</sup> |                | 2016           |             |                | 2015           |                |                |
|---|---------------------|----------------|----------------|-------------|----------------|----------------|----------------|----------------|
|   | Q3                  | Annual         | Q4             | Q3          | Q2             | Q1             | Annual         | Q4             |
| 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             |
| Severance costs   | —                   | 41             | 15             | —           | 9              | 17             | 48             | 2              |
| Power systems provisions and 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)            |
| <b>Impact of significant items <sup>(b)</sup> on EBIT:</b>  | <b>\$ —</b>         | <b>\$ 108</b>  | <b>\$ 52</b>   | <b>\$ —</b> | <b>\$ 34</b>   | <b>\$ 22</b>   | <b>\$ 488</b>  | <b>\$ 431</b>  |
| Early redemption costs on long-term debt, capital loss utilized, and tax rate change impact on EPS:   | 0.04                | —              | —              | —           | —              | —              | 0.02           | 0.07           |
| <b>Impact of significant items on EPS:</b>  | <b>\$ 0.04</b>      | <b>\$ 0.50</b> | <b>\$ 0.23</b> | <b>\$ —</b> | <b>\$ 0.17</b> | <b>\$ 0.10</b> | <b>\$ 2.23</b> | <b>\$ 2.05</b> |

(a) There were no adjustments in Q1 and Q2 2017.

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

- 3) In September 2017, the Company issued \$200 million of 2.84% senior unsecured Notes due September 29, 2021. In October 2017, proceeds from the Notes were used to redeem, prior to maturity, all of the outstanding \$350 million 6.02% MTN due June 1, 2018.
- 4) In October 2017, the Company completed a two-year extension to its \$1.0 billion syndicated committed credit facility, extending the maturity date to October 2022.

## 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, financial impact from the Alberta wildfires, competitive market conditions, dependence on commodity markets, upcoming infrastructure projects, activity in the oil and gas sector, core equipment demand in British Columbia, heavy construction markets in Alberta, and new pipeline projects in Saskatchewan; in South America, sales to the mining sector, product support activity, expectations for construction activity in Chile and the impact of upcoming elections in Chile, the outcome of the recent elections and potential reforms in Argentina, expectations regarding the Argentina government's economic and institutional reforms and their effect on the cost of doing business, the continuing public investment in infrastructure in Argentina and the acceleration of oil and gas development in Argentina; in the UK & Ireland, the shift to general construction, demand for new equipment and product support, demand in the power systems sector, the impact of Brexit, competitive pricing pressure, and the activity levels in the quarry, general construction, and plant hire sectors; expected impact of and volatility in foreign exchange markets; expected revenue and free cash flow; expected deliveries of equipment in 2017 and 2018; expected profitability levels; expected range of the Company's effective tax rate; expected results from cost reductions; sustainability improvements and the Company's commitment to grow return on invested capital; expected results from execution of the Company's strategy; the Company's priorities; inventory turns; timing and delivery of innovative customer solutions; planned activities and anticipated results of Finning Digital; investment in a new ERP system for the South American business, and the financial performance of its rental 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.