

UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

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

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

UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENTS OF NET INCOME

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

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UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

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

UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

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

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UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOW

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

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1. SIGNIFICANT ACCOUNTING POLICIES, KEY ASSUMPTIONS, AND SIGNIFICANT JUDGMENTS

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

These Interim Statements are based on the IFRS issued and effective as of May 9, 2017, the date these Interim Statements were authorized for issuance by the Company's Board of Directors, and follow the same accounting policies and methods of computation as the most recent annual consolidated financial statements, except for the impact of the changes in accounting policy disclosed below:

(a) Amendments to Standards

The Company has adopted the following amendments to standards:

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

(b) Future Accounting Pronouncements

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

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

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

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

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

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

2. SEGMENTED INFORMATION

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

3 months ended March 31, 2017 (\$ millions)	Canada	South America	UK & Ireland	Other	Consolidated
Revenue from external sources	\$ 691	\$ 500	\$ 211	\$ —	\$ 1,402
Operating costs	(622)	(443)	(197)	(9)	(1,271)
Depreciation and amortization	(24)	(15)	(6)	—	(45)
Equity earnings (loss) of joint ventures and associate	2	—	—	(3)	(1)
Other income	—	—	—	1	1
Earnings (loss) before finance costs and income taxes	\$ 47	\$ 42	\$ 8	\$ (11)	\$ 86
Finance costs					(22)
Provision for income taxes					(17)
Net income					\$ 47
Invested capital ⁽¹⁾	\$ 1,629	\$ 1,022	\$ 280	\$ (5)	\$ 2,926
Capital and rental equipment ⁽²⁾	\$ 573	\$ 350	\$ 117	\$ 5	\$ 1,045
Gross capital expenditures ⁽³⁾	\$ 5	\$ 12	\$ 1	\$ 1	\$ 19
Gross rental asset expenditures ⁽³⁾	\$ 53	\$ 5	\$ 3	\$ —	\$ 61
3 months ended March 31, 2016 (\$ millions)	Canada	South America	UK & Ireland	Other	Consolidated
Revenue from external sources	\$ 852	\$ 430	\$ 212	\$ —	\$ 1,494
Operating costs	(801)	(382)	(208)	(8)	(1,399)
Depreciation and amortization	(27)	(16)	(8)	—	(51)
Equity earnings of joint venture and associate	1	—	—	—	1
Earnings (loss) before finance costs and income taxes	\$ 25	\$ 32	\$ (4)	\$ (8)	\$ 45
Finance costs					(22)
Provision for income taxes					(8)
Net income					\$ 15
Invested capital ⁽¹⁾	\$ 1,685	\$ 1,033	\$ 340	\$ 27	\$ 3,085
Capital and rental equipment ⁽²⁾	\$ 620	\$ 349	\$ 134	\$ —	\$ 1,103
Gross capital expenditures ⁽³⁾	\$ 7	\$ 30	\$ 1	\$ —	\$ 38
Gross rental asset expenditures ⁽³⁾	\$ 25	\$ 6	\$ 6	\$ —	\$ 37

⁽¹⁾ Invested capital is calculated as total assets less total liabilities, excluding net debt. Net debt is calculated as short-term debt and long-term debt, net of cash.

⁽²⁾ Capital includes property, plant and equipment and intangibles

⁽³⁾ Includes finance leases and borrowing costs capitalized and excludes additions through business acquisitions

3. EARNINGS PER SHARE

3 months ended March 31				
(\$ millions, except share and per share amounts)				
2017	Income	Shares	Per Share	
Basic EPS:				
Net income, weighted average shares outstanding, EPS	\$ 47	168,135,424	\$	0.28
Effect of dilutive securities: share options	—	237,314		—
Diluted EPS:				
Net income and assumed conversions	\$ 47	168,372,738	\$	0.28
2016				
Basic EPS:				
Net income, weighted average shares outstanding, EPS	\$ 15	168,032,131	\$	0.09
Effect of dilutive securities: share options	—	44,379		—
Diluted EPS:				
Net income and assumed conversions	\$ 15	168,076,510	\$	0.09

4. FINANCE COSTS

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

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

5. POST-EMPLOYMENT BENEFITS

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

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

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

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

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

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

6. SUPPLEMENTAL CASH FLOW INFORMATION

The components of cash and cash equivalents are as follows:

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

The changes in operating assets and liabilities are as follows:

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

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

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