

MANAGEMENT'S DISCUSSION AND ANALYSIS

May 9, 2018

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.

The 2017 comparative results described in this MD&A have been restated to reflect the Company's adoption of IFRS 15, *Revenue from Contracts with Customers* and IFRS 9, *Financial Instruments* effective for the financial year beginning January 1, 2018. Details of the impact of IFRS 15 and IFRS 9 for the date of initial application and the 2017 comparative period can be found in note 1 of the Company's interim condensed consolidated financial statements.

First Quarter Overview

(\$ millions, except for share data)	Q1 2018	Q1 2017 (Restated)	% change fav (unfav)
Revenue	\$ 1,670	\$ 1,401	19%
Gross profit	440	393	12%
Selling, general & administrative expenses (SG&A)	(328)	(307)	(7)%
Equity earnings (loss) of joint ventures and associate	1	(1)	n/m
Other income	—	1	n/m
Earnings before finance costs and income taxes (EBIT)	\$ 113	\$ 86	32%
Net income	\$ 71	\$ 47	53%
Basic earnings per share (EPS)	0.42	0.28	53%
Earnings before finance costs, income taxes, depreciation and amortization (EBITDA) ⁽¹⁾	\$ 157	\$ 131	20%
Free cash flow ⁽¹⁾	\$ (263)	\$ (76)	(244)%
Adjusted EBIT ⁽¹⁾⁽²⁾	\$ 106	\$ 86	24%
Adjusted net income ⁽¹⁾⁽²⁾	\$ 66	\$ 47	42%
Adjusted EPS ⁽¹⁾⁽²⁾	\$ 0.39	\$ 0.28	42%
Adjusted EBITDA ⁽¹⁾⁽²⁾	\$ 150	\$ 131	15%
<i>Gross profit margin</i>	26.3%	28.0%	
<i>SG&A as a percentage of revenue</i>	19.6%	21.9%	
<i>EBIT margin</i>	6.8%	6.1%	
<i>EBITDA margin</i>	9.4%	9.3%	
<i>Adjusted EBIT margin ⁽¹⁾⁽²⁾</i>	6.4%	6.1%	
<i>Adjusted EBITDA margin ⁽¹⁾⁽²⁾</i>	9.0%	9.3%	

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 2018 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 that have been adjusted to take into account these items are referred to as "Adjusted" metrics. There were no significant items adjusted in Q1 2017, therefore the adjusted metrics above for Q1 2017 are the same as the metrics reported in accordance with IFRS ("reported metrics").

2018 First Quarter Highlights

- Revenue of \$1.7 billion was up 19% from Q1 2017 reflecting a 37% increase in new equipment sales and a 10% increase in product support revenue. All operations reported higher revenue compared to the prior year period, with the Company's Canadian operations accounting for 60% of this increase in revenue, reporting strong performance in all markets.
- Gross profit of \$440 million was 12% higher than the prior year. Overall gross profit margin of 26.3% was lower than Q1 2017, primarily due to a mix shift to higher new equipment sales which typically generate lower margins.
- SG&A relative to revenue was lower than Q1 2017 on a consolidated basis. Q1 2018 results included \$7 million of additional insurance proceeds received to settle the Company's business interruption claim related to the Alberta wildfires in 2016. Excluding the impact of this significant item, SG&A relative to revenue would be 20.1% in Q1 2018 and 180 basis points lower than the same period in the prior year, reflecting the strong leverage of incremental revenues on fixed costs.
- EBIT was \$113 million and EBIT margin was 6.8% in Q1 2018 compared to \$86 million and 6.1% earned in the same period last year. Excluding the impact of the insurance proceeds in the current year period, which management does not consider indicative of operational and financial trends, Adjusted EBIT of \$106 million and Adjusted EBIT margin of 6.4% in Q1 2018 were higher than the EBIT in the prior year period, mainly due to leverage of incremental revenues on fixed costs, partly offset by the impact of lower overall gross margin due to a higher mix of new equipment revenue.
- Adjusted EBITDA of \$150 million was up 15% from EBITDA in Q1 2017.
- Basic EPS in Q1 2018 was \$0.42, compared to \$0.28 in Q1 2017. Adjusting Q1 2018 for the insurance proceeds noted above, Q1 2018 Adjusted EPS was \$0.39, up 42% from the prior quarter.
- Free cash flow use of \$263 million in Q1 2018 reflected higher use of cash in the Company's Canadian and South American operations compared with the Q1 2017 free cash flow use of \$76 million, primarily reflecting higher new equipment inventory purchases to support demand.
- Equipment backlog ⁽¹⁾ was \$1.6 billion at the end of March 2018 compared to \$1.3 billion at the end of December 2017 with strong order intake ⁽¹⁾ in all operations during the first quarter of 2018.
- On May 9, 2018, the annualized dividend was raised by 5.3% to \$0.80 per share, reflecting the expectation of improved market conditions and sustainable earnings growth.

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

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 periods reported and discussed in this MD&A, there were 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 reported results of the Company for the three months ended March 31, 2018 which was not considered by management to be indicative of operational and financial trends, either by nature or amount, was the additional insurance proceeds received related to the settlement of the Company's business interruption claim resulting from the Alberta wildfires in 2016.

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 March 31, 2018 (\$ millions except per share amounts)	EBIT				Net	EPS
	Canada	South America	UK & Ireland	Consol ⁽¹⁾	Income	Consol
EBIT, net income, and EPS	\$ 71	\$ 46	\$ 10	\$ 113	\$ 71	\$ 0.42
Significant items:						
Impact from Alberta wildfires						
– insurance proceeds	(7)	—	—	(7)	(5)	(0.03)
Adjusted EBIT, Adjusted net income, and						
Adjusted EPS	\$ 64	\$ 46	\$ 10	\$ 106	\$ 66	\$ 0.39

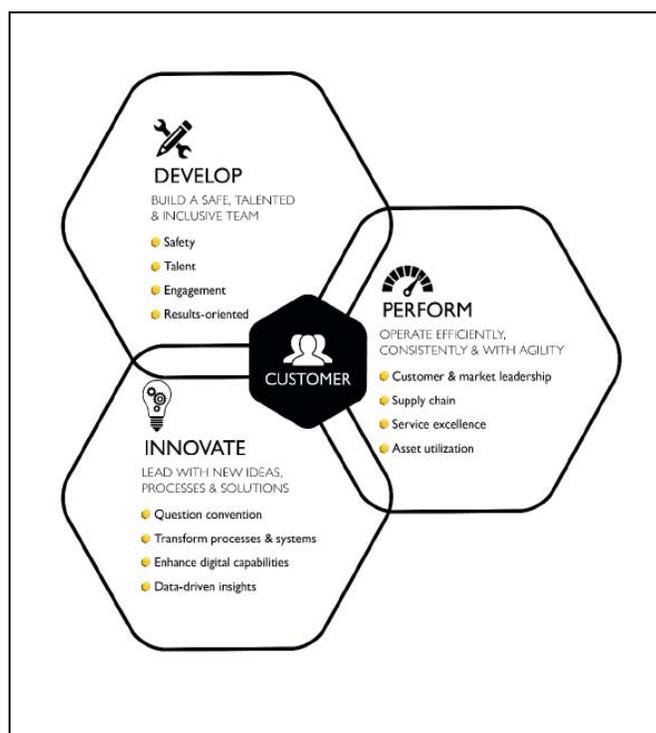
⁽¹⁾ Consolidated (Consol) results include other operations – corporate head office

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

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 (ROIC)⁽¹⁾.



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

Quarterly Key Performance Measures

The Company utilizes the following Key Performance Indicators (KPIs) to consistently measure performance across the organization and monitor progress in improving ROIC.

	2018	2017 (Restated) ⁽¹⁾				2016			
	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
ROIC ⁽²⁾									
Consolidated	13.7 %	13.1 %	10.1 %	9.3 %	7.1 %	5.6 %	(6.6)%	(6.4)%	(4.0)%
Canada	14.5 %	13.3 %	9.2 %	8.1 %	6.6 %	5.3 %	4.3 %	4.0 %	5.4 %
South America	17.6 %	17.8 %	15.5 %	14.9 %	14.5 %	13.3 %	(18.1)%	(17.0)%	(14.9)%
UK & Ireland	13.4 %	12.8 %	12.9 %	13.9 %	(0.5)%	(4.5)%	(17.4)%	(15.7)%	(4.5)%
EBIT ⁽²⁾ (\$ millions)									
Consolidated	113	109	100	97	86	18	73	29	45
Canada	71	67	57	55	46	(3)	37	28	25
South America	46	50	48	42	44	27	40	38	32
UK & Ireland	10	8	9	13	7	8	10	(26)	(4)
EBIT Margin ⁽²⁾									
Consolidated	6.8 %	6.3 %	6.5 %	6.1 %	6.1 %	1.3 %	5.4 %	2.3 %	3.0 %
Canada	8.4 %	7.8 %	7.7 %	7.0 %	6.7 %	(0.3)%	5.9 %	4.4 %	3.0 %
South America	8.4 %	8.6 %	8.6 %	8.1 %	8.8 %	5.0 %	8.7 %	8.8 %	7.3 %
UK & Ireland	3.7 %	2.9 %	3.5 %	4.6 %	3.3 %	3.3 %	3.8 %	(10.5)%	(1.9)%
Invested Capital ⁽³⁾ (\$ millions)									
Consolidated	3,226	2,830	3,095	3,108	2,940	2,797	2,917	3,041	3,085
Canada	1,778	1,621	1,746	1,764	1,630	1,595	1,650	1,695	1,685
South America	1,140	983	1,069	1,047	1,029	996	1,021	1,072	1,033
UK & Ireland	322	250	311	307	286	216	253	263	340
Invested Capital Turnover ⁽³⁾									
Consolidated	2.13x	2.09x	2.01x	1.97x	1.89x	1.90x	1.85x	1.78x	1.82x
Canada	1.87x	1.82x	1.74x	1.70x	1.62x	1.70x	1.66x	1.68x	1.80x
South America	2.08x	2.09x	2.03x	1.97x	1.87x	1.80x	1.74x	1.61x	1.59x
UK & Ireland	3.65x	3.56x	3.47x	3.66x	3.69x	3.54x	3.41x	2.98x	2.81x
Inventory (\$ millions)	1,906	1,708	1,744	1,789	1,650	1,601	1,726	1,688	1,740
Inventory Turns ⁽³⁾ (times)	2.80x	2.82x	2.60x	2.52x	2.61x	2.49x	2.26x	2.43x	2.58x
Working Capital to Sales Ratio ⁽³⁾	27.1 %	27.4 %	28.6 %	29.1 %	30.5 %	30.4 %	31.5 %	32.4 %	31.4 %
Free Cash Flow (\$ millions)	(263)	350	22	(131)	(76)	113	163	64	30
Net Debt to Invested Capital Ratio ⁽³⁾	36.1 %	30.2 %	37.4 %	37.2 %	34.3 %	32.0 %	35.0 %	37.9 %	37.0 %
EBITDA ⁽²⁾ (\$ millions)	157	154	146	145	131	65	119	77	96
Net Debt to EBITDA Ratio ⁽²⁾⁽³⁾	1.9	1.5	2.4	2.5	2.6	2.5	109.4	71.5	12.0

⁽¹⁾ The 2017 comparative results described in this MD&A have been restated to reflect the Company's adoption of IFRS 15, *Revenue from Contracts with Customers* and IFRS 9, *Financial Instruments* effective for the financial year beginning January 1, 2018. More information on the impact of this adoption can be found in note 1 of the Company's interim condensed consolidated financial statements.

⁽²⁾ 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 22 - 24 of this MD&A and the financial metrics that have been adjusted to take into account these items are referred to as "Adjusted" metrics.

⁽³⁾ 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.

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 22 - 24 of this MD&A and the financial metrics that 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:

	2018	2017 (Restated) ⁽¹⁾				2016			
	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Adjusted ROIC ⁽²⁾									
Consolidated	13.5 %	13.1 %	11.8 %	11.1 %	10.0 %	9.3 %	9.2 %	9.4 %	10.4 %
Canada	14.0 %	13.2 %	12.0 %	11.0 %	10.2 %	9.3 %	8.7 %	9.3 %	10.1 %
South America	17.8 %	18.1 %	16.5 %	16.0 %	15.6 %	15.0 %	15.6 %	14.2 %	14.5 %
UK & Ireland	13.4 %	12.8 %	12.9 %	13.9 %	7.7 %	5.9 %	3.4 %	3.3 %	7.4 %
Adjusted EBIT ⁽³⁾ (\$ millions)									
Consolidated	106	110	100	97	86	70	73	63	67
Canada	64	66	57	55	46	44	37	40	33
South America	46	52	48	42	44	37	40	39	39
UK & Ireland	10	8	9	13	7	8	10	(5)	3
Adjusted EBIT Margin ⁽³⁾									
Consolidated	6.4 %	6.4 %	6.5 %	6.1 %	6.1 %	4.8 %	5.4 %	4.9 %	4.5 %
Canada	7.5 %	7.6 %	7.7 %	7.0 %	6.7 %	6.2 %	5.9 %	6.3 %	4.0 %
South America	8.4 %	9.1 %	8.6 %	8.1 %	8.8 %	7.0 %	8.7 %	9.1 %	8.9 %
UK & Ireland	3.7 %	3.0 %	3.5 %	4.6 %	3.3 %	3.3 %	3.8 %	(1.9)%	1.5 %
Adjusted EBITDA ⁽³⁾	150	155	146	145	131	117	119	111	118
Net Debt to Adjusted EBITDA Ratio ⁽²⁾	2.0	1.5	2.1	2.3	2.1	1.9	2.1	2.2	2.0

- ⁽¹⁾ The 2017 comparative results described in this MD&A have been restated to reflect the Company's adoption of IFRS 15, *Revenue from Contracts with Customers* and IFRS 9, *Financial Instruments* effective for the financial year beginning January 1, 2018. More information on the impact of this adoption can be found in note 1 of the Company's interim condensed consolidated financial statements
- ⁽²⁾ These are non-GAAP financial measures that do not have a standardized meaning under IFRS, and therefore may not be comparable to similar measures presented by other issuers. For additional information regarding these financial metrics, including definitions and reconciliations from each of these non-GAAP financial measures to their most directly comparable measure under GAAP, where available, see the heading “Description of Non-GAAP Financial Measures and Reconciliations” later in this MD&A.
- ⁽³⁾ 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.

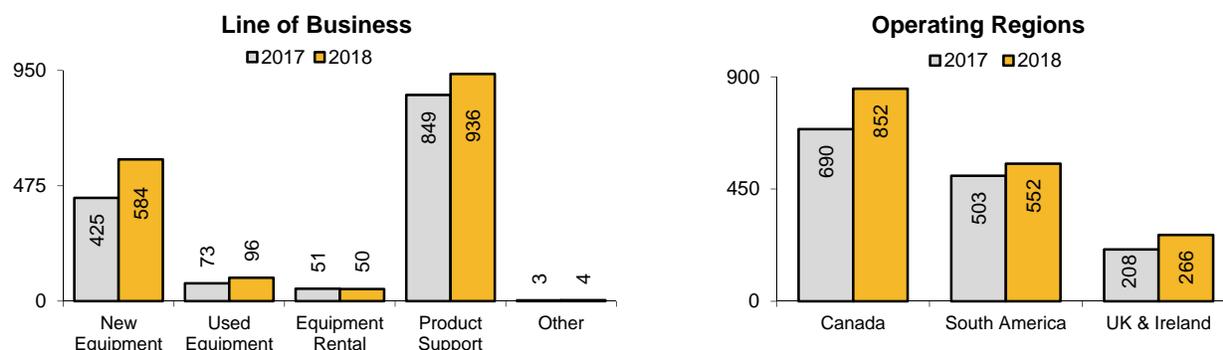
First Quarter Results

Revenue

Revenue by Line of Business and by Operation

3 months ended March 31

(\$ millions) (2017 restated)



The Company generated revenue of \$1.7 billion during the first quarter of 2018, an increase of 19% over the same period in the prior year. Revenue was up in all operations and most lines of business, with higher new equipment and product support sales in all operations.

New equipment sales increased by 37% compared to the first quarter of 2017, and was higher in all operations and all markets, due to strong market conditions. In the Company's Canadian operations, demand in all markets, particularly for mining equipment, was robust. Improved construction activity as well as power systems project deliveries in Chile and Argentina drove the growth in new equipment volumes in the Company's South American operations. In the Company's UK & Ireland operations, demand for new equipment has also strengthened, in both the power systems and construction markets.

On a consolidated basis, in the first quarter of 2018, new equipment revenue as a percentage of overall revenue increased to 35%, from 30% in the prior year period.

Equipment backlog was \$1.6 billion at March 31, 2018, compared to \$1.3 billion at December 31, 2017. Order intake continues to show improvement over recent quarters, with the equipment backlog level reported at March 31, 2018 at the highest level since June 30, 2012, and more than double the level at March 31, 2017.

Product support revenue was up 10% compared to the first quarter of 2017, primarily in the Company's Canadian operations. Demand for parts was strong in all markets, particularly the construction industry and mining industry, with strong rebuild activity. Parts revenue in both the Company's South American and UK & Ireland operations was also up compared to the prior year quarter.

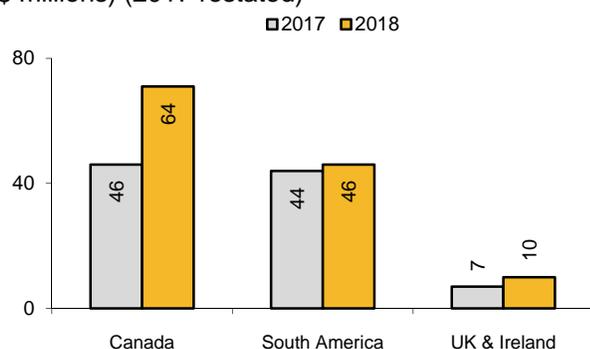
Earnings Before Finance Costs and Income Taxes

Q1 2018 gross profit of \$440 million was up 12% compared to the same period in the prior year, reflecting higher sales volumes. Gross profit margin of 26.3% was lower than the 28.0% earned in Q1 2017 with a mix shift to higher new equipment revenue. Lower used equipment margins, reflecting an active but competitive market, were mostly offset by higher new equipment margins. Higher overall gross profit margin in the Company's South American operations was more than offset by lower gross profit margin earned in the Company's Canadian and UK & Ireland operations primarily due to a revenue mix shift to higher new equipment revenue in both these operations.

Adjusted EBIT by Operation⁽¹⁾

3 months ended March 31

(\$ millions) (2017 restated)



⁽¹⁾ Excluding the corporate and other operations segment

SG&A in the first quarter of 2018 was 7% higher than the same period last year. SG&A in Q1 2018 includes the favourable impact of \$7 million of insurance proceeds related to the settlement of the Company's business interruption claim resulting from the Alberta wildfires in 2016. Excluding the insurance proceeds noted above and on page 3 of this MD&A, SG&A was up 9% in Q1 2018 compared to Q1 2017. This increase reflects volume related cost increases in all operations, higher long term and short term incentive plan costs and inflationary and statutory salary increases in the Company's South American operations.

Excluding the insurance proceeds noted above, SG&A as a percentage of revenue is down by 180 basis points over the same period of the prior year, attributable to the strong leverage of incremental revenues on fixed costs.

The Company reported EBIT of \$113 million and EBIT margin of 6.8% in the first quarter of 2018 compared to EBIT of \$86 million and EBIT margin of 6.1% earned in Q1 2017. Excluding the Q1 2018 insurance proceeds noted above, Adjusted EBIT was \$106 million with an Adjusted EBIT margin of 6.4%. Higher EBIT was reported in Q1 2018 in all operations.

The Company's Adjusted EBIT and Adjusted EBIT margin in Q1 2018 improved from Q1 2017 mainly due to higher sales volumes and lower SG&A relative to revenue.

EBITDA

EBITDA for Q1 2018 was \$157 million and EBITDA margin was 9.4% (Q1 2017: EBITDA was \$131 million and EBITDA margin was 9.3%). Excluding the insurance proceeds noted above, Q1 2018 Adjusted EBITDA was \$150 million and Adjusted EBITDA margin was 9.0%. Adjusted EBITDA margin was lower than the prior year period largely due to the impact of lower gross profit margin primarily from a mix shift to higher new equipment revenue.

The net debt to EBITDA ratio at Q1 2018 was 1.9 times. Excluding the insurance proceeds noted above, net debt to Adjusted EBITDA ratio was 2.0 times, which is comparable to 2.1 times net debt to Adjusted EBITDA reported in the prior year period.

Finance Costs

Finance costs in the first quarter of 2018 were \$18 million and lower than Q1 2017 finance costs of \$22 million. Lower finance costs in the current year period reflect a lower level of long-term debt and related interest cost, due to the early redemption and refinancing of long-term debt in Q3 2017, partly offset by higher levels of short-term debt.

Provision for Income Taxes

The effective income tax rate for Q1 2018 was 25.3%, compared to 27.5% in Q1 2017. The lower tax rate in 2018 was primarily the result of a higher proportion of earnings in lower 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 \$71 million in Q1 2018, compared to \$47 million earned in the same period last year. Basic EPS was \$0.42 per share compared with \$0.28 per share in Q1 2017. Excluding the insurance proceeds noted above, Adjusted net income in Q1 2018 was \$66 million and Adjusted EPS was \$0.39 per share. The increase in Adjusted net income and Adjusted EPS in the first quarter of 2018 compared to the prior year period results was driven by higher sales volumes, as well as improved profitability.

Invested Capital

(\$ millions, unless otherwise stated)	March 31, 2018	December 31, 2017 (Restated) ⁽¹⁾	Increase from December 31, 2017	March 31, 2017 (Restated) ⁽¹⁾	Increase from March 31, 2017
Consolidated	\$ 3,226	\$ 2,830	\$ 396	\$ 2,940	\$ 286
Canada	\$ 1,778	\$ 1,621	\$ 157	\$ 1,630	\$ 148
South America	\$ 1,140	\$ 983	\$ 157	\$ 1,029	\$ 111
UK & Ireland	\$ 322	\$ 250	\$ 72	\$ 286	\$ 36
South America (U.S. dollar)	\$ 884	\$ 784	\$ 100	\$ 773	\$ 111
UK & Ireland (U.K. pound sterling)	£ 178	£ 147	£ 31	£ 172	£ 6

⁽¹⁾ The 2017 comparative results described in this MD&A have been restated to reflect the Company's adoption of IFRS 15, *Revenue from Contracts with Customers* and IFRS 9, *Financial Instruments* effective for the financial year beginning January 1, 2018. More information on the impact of this adoption can be found in note 1 of the Company's interim condensed consolidated financial statements

Compared to December 31, 2017:

The \$396 million increase in consolidated invested capital from December 31, 2017 to March 31, 2018 includes a foreign exchange impact of approximately \$50 million in translating the invested capital balances of the Company's South American and UK & Ireland operations. The foreign exchange impact was a result of the 7% weaker Canadian dollar (CAD) relative to the U.K. pound sterling (GBP), and 3% weaker CAD relative to the U.S. dollar (USD) at March 31, 2018 compared to the rate at December 31, 2017.

Excluding the impact of foreign exchange, consolidated invested capital increased by \$345 million from December 31, 2017 to March 31, 2018 reflecting:

- an increase in new equipment inventory in all operations, as well as an increase in parts inventory in the Company's Canadian operations, attributable to increased demand in the quarter;
- a decrease in accounts payable balances in the Company's South American operations due to timing; and
- an increase in accounts receivable balances primarily in the Company's UK & Ireland and South American operations from strong sales in the quarter.

Compared to March 31, 2017:

The \$286 million increase in consolidated invested capital from March 31, 2017 to March 31, 2018 includes a foreign exchange impact of approximately \$10 million in translating the invested capital balances of the Company's South American and UK & Ireland operations. The foreign exchange impact was a result of the 3% stronger CAD relative to the USD, partly offset by the 9% weaker CAD relative to the GBP at March 31, 2018 compared to the rate at March 31, 2017.

Excluding the impact of foreign exchange, consolidated invested capital increased by \$296 million from March 31, 2017 to March 31, 2018 reflecting:

- an increase in new equipment inventory in all operations, as well as an increase in parts inventory in the Company's Canadian operations, attributable to increased demand;
- an increase in accounts receivable balances in all operations from strong sales in the quarter;
- an increase in intangible assets in the Company's South American operations, relating to the investment in a new Enterprise Resource Planning (ERP) system;
- partly offset by an increase in accounts payable balances, primarily in the Company's Canadian and South American operations, due to increased purchases to support customer demand; and
- an increase in deferred revenue in the Company's South American and UK & Ireland operations.

ROIC and Invested Capital Turnover

	March 31, 2018	December 31, 2017 (Restated) ⁽¹⁾	March 31, 2017 (Restated) ⁽¹⁾
ROIC			
Consolidated	13.7%	13.1%	7.1%
Canada	14.5%	13.3%	6.6%
South America	17.6%	17.8%	14.5%
UK & Ireland	13.4%	12.8%	(0.5)%
Adjusted ROIC			
Consolidated	13.5%	13.1%	10.0%
Canada	14.0%	13.2%	10.2%
South America	17.8%	18.1%	15.6%
UK & Ireland ⁽²⁾	13.4%	12.8%	7.7%
Invested Capital Turnover (times)			
Consolidated	2.13x	2.09x	1.89x
Canada	1.87x	1.82x	1.62x
South America	2.08x	2.09x	1.87x
UK & Ireland	3.65x	3.56x	3.69x

⁽¹⁾ The 2017 comparative results described in this MD&A have been restated to reflect the Company's adoption of IFRS 15, *Revenue from Contracts with Customers* and IFRS 9, *Financial Instruments* effective for the financial year beginning January 1, 2018. More information on the impact of this adoption can be found in note 1 of the Company's interim condensed consolidated financial statements.

⁽²⁾ There were no significant items adjusted in the UK & Ireland for the twelve month periods ended March 31, 2018 and December 31, 2017, therefore the Adjusted ROIC at March 31, 2018 and December 31, 2017 is the same as the reported metric.

Return on Invested Capital

On a consolidated basis, ROIC was 13.7% at March 31, 2018, compared to 13.1% at December 31, 2017 and 7.1% at March 31, 2017. Adjusting for significant items that management does not consider indicative of operational and financial trends, as noted on pages 22 - 24 of this MD&A, Adjusted ROIC at March 31, 2018 was 13.5%, an increase from the 13.1% Adjusted ROIC at December 31, 2017. The increase in Adjusted ROIC compared to the prior year end reflects improved capital efficiency enabled by the growing revenue levels achieved by the Company in recent quarters. Adjusted ROIC at March 31, 2018 was higher in both the Company's Canadian and UK & Ireland operations compared to December 31, 2017. Adjusted ROIC at March 31, 2018 was lower in the Company's South American operations compared to December 31, 2017 due to higher average invested capital levels mainly from higher accounts receivable balances.

Adjusted ROIC at March 31, 2018 of 13.5% improved significantly compared to Adjusted ROIC of 10.0% at March 31, 2017. The increase in Adjusted ROIC compared to the same period in the prior year reflects strong EBIT achieved in recent quarters by the Company on capital deployed. Adjusted ROIC at March 31, 2018 was higher in all operations compared to March 31, 2017, and reflects Adjusted EBIT growth in the last twelve months which outpaced the increase in average invested capital levels, demonstrating capital efficiency.

Invested capital turnover

Consolidated invested capital turnover at March 31, 2018 was 2.13 times, up from 2.09 times at December 31, 2017, reflecting improved or comparable invested capital turnover rates in all operations.

Consolidated invested capital turnover at March 31, 2018 of 2.13 times was up from 1.89 times at March 31, 2017, reflecting an increase in the invested capital turnover rate of the Company's Canadian and South American operations. The invested capital turnover rate in the Company's Canadian operations at March 31, 2018 has improved in all quarterly periods over the last twelve months with higher revenues in the last twelve month period outpacing the growth in average invested capital levels. The invested capital turnover rate in the Company's South American operations at March 31, 2018 has also improved compared to March 31, 2017 with higher revenues in the last twelve month period outpacing the growth in average invested capital levels. Invested capital turnover in the Company's UK & Ireland operations is slightly lower compared to March 31, 2017 as the increase in average invested capital levels, primarily inventory levels, outpaced revenue growth.

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.

3 months ended March 31, 2018 (\$ millions)	Canada	South America	UK & Ireland	Consol	Revenue percentage
New equipment	\$ 268	\$ 153	\$ 163	\$ 584	35%
Used equipment	56	23	17	96	6%
Equipment rental	30	12	8	50	3%
Product support	498	363	75	936	56%
Other	—	1	3	4	0%
Total	\$ 852	\$ 552	\$ 266	\$ 1,670	100%
Revenue percentage by operation	51%	33%	16%	100%	

3 months ended March 31, 2017 (\$ millions) (Restated) ⁽¹⁾	Canada	South America	UK & Ireland	Consol	Revenue percentage
New equipment	\$ 165	\$ 142	\$ 118	\$ 425	30%
Used equipment	46	12	15	73	5%
Equipment rental	31	13	7	51	4%
Product support	448	335	66	849	61%
Other	—	1	2	3	0%
Total	\$ 690	\$ 503	\$ 208	\$ 1,401	100%
Revenue percentage by operation	49%	36%	15%	100%	

⁽¹⁾ The 2017 comparative results have been restated to reflect the Company's adoption of IFRS 15, *Revenue from Contracts with Customers* and IFRS 9, *Financial Instruments* effective for the financial year beginning January 1, 2018. More information on the impact of this adoption can be found in note 1 of the Company's interim condensed consolidated financial statements.

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 Inc. (Caterpillar) equipment and engines in British Columbia, Alberta, Saskatchewan, Yukon, the Northwest Territories, and a portion of Nunavut. The Canadian operations' markets include mining (including the oil sands), construction, conventional oil and gas, forestry, and power systems.

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

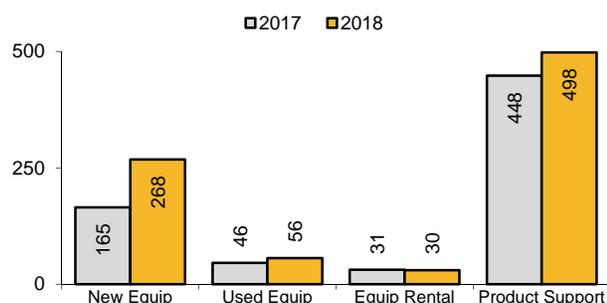
3 months ended March 31 (\$ millions)	2018	2017 (Restated) ⁽¹⁾
Revenue from external sources	\$ 852	\$ 690
Operating costs	(764)	(622)
Depreciation and amortization	(22)	(24)
Equity earnings of joint venture	5	2
EBIT	\$ 71	\$ 46
EBIT margin	8.4%	6.7%
EBITDA	\$ 93	\$ 70
EBITDA margin	10.9%	10.1%
Adjusted EBIT ⁽²⁾	\$ 64	\$ 46
Adjusted EBIT margin ⁽²⁾	7.5%	6.7%
Adjusted EBITDA ⁽²⁾	\$ 86	\$ 70
Adjusted EBITDA margin ⁽²⁾	10.1%	10.1%

(1) The 2017 comparative results have been restated to reflect the Company's adoption of IFRS 15, *Revenue from Contracts with Customers* and IFRS 9, *Financial Instruments* effective for the financial year beginning January 1, 2018. More information on the impact of this adoption can be found in note 1 of the Company's interim condensed consolidated financial statements.

(2) Significant items that affected results for the three months ended March 31, 2018 which management does not consider to be indicative of operational and financial trends are described on page 3 of this MD&A. There were no significant items adjusted in Q1 2017, therefore the adjusted metrics above for Q1 2017 are the same as the reported metrics.

Canada – Revenue by Line of Business

3 months ended March 31
(\$ millions) (2017 restated)



First quarter 2018 revenue of \$852 million was 23% higher than the first quarter of 2017, reflecting higher revenue in most lines of business, particularly new equipment and product support.

New equipment revenue was up 62% in the first quarter of 2018 compared to the same period in 2017, resulting from broad based strength across all market segments driven by increased mining, infrastructure and oil & gas activity. New equipment revenue comprised 31% of total revenue in the first quarter of 2018 compared to 24% in the same period last year. Order intake remained strong in the quarter, resulting in notably higher backlog levels at March 31, 2018, the highest level recorded since September 30, 2011.

Product support revenue was up 11% compared to the first quarter of 2017, primarily a result of higher parts volumes from all markets, which included overhauls, major rebuilds, strong industry activity and return to normal maintenance practices. Product support revenue comprised 59% of total revenue in the first quarter of 2018 compared to 65% last year.

Used equipment revenue was up 21% in the first quarter of 2018 compared to the same period in 2017, benefitting from the integrated management of used equipment and rental fleets, as well as strong demand in the mining and power systems markets.

Gross profit increased compared to the first quarter of 2017, reflecting higher sales volumes, partially offset by lower gross profit margin. Gross profit margin decreased in Q1 2018 compared to the same period in the prior year, resulting primarily from a revenue mix shift to higher new equipment sales.

SG&A in Q1 2018 was comparable to the same period in the prior year. SG&A included \$7 million of additional insurance proceeds received in Q1 2018 in relation to the settlement of the Company's business interruption claim from the Alberta wildfires in 2016. Excluding these insurance proceeds in the current quarter, SG&A was up 4% compared to the prior year period, on revenue growth of 23%. This increase reflects higher variable costs from increased sales volumes, as well as higher long term and short term incentive plan costs, partly offset by a net gain of \$3 million relating to the sale of a building. SG&A as a percentage of revenue is lower in Q1 2018 due to the leverage of incremental revenues on fixed costs.

First quarter 2018 results also included higher equity earnings from the PLM joint venture from improved market activity offset by the impact of an unplanned maintenance outage of testing equipment at OEM.

The Canadian operations contributed EBIT of \$71 million and EBIT margin of 8.4% in Q1 2018, compared to \$46 million and 6.7% earned in the same period in the prior year. Excluding insurance proceeds received in the current quarter, Adjusted EBIT margin for Q1 2018 was 7.5%, higher than the 6.7% achieved for Q1 2017. EBIT margin was higher in Q1 2018 due to the leverage of incremental revenues on fixed costs, partly offset by lower gross profit margin.

South American Operations

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

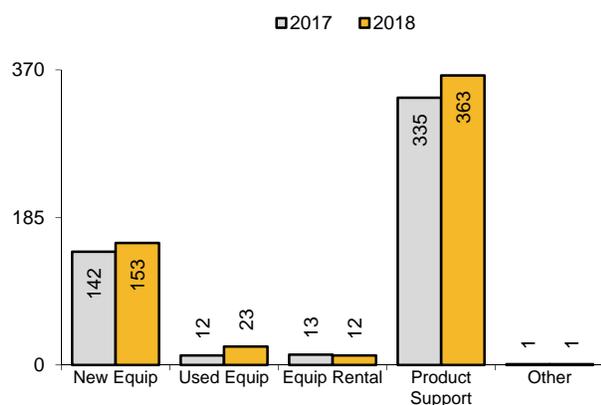
The table below provides details of the results from the South American operations:

3 months ended March 31 (\$ millions)	2018	2017 (Restated) ⁽¹⁾
Revenue from external sources	\$ 552	\$ 503
Operating costs	(491)	(444)
Depreciation and amortization	(15)	(15)
EBIT	\$ 46	\$ 44
EBIT margin	8.4%	8.8%
EBITDA	\$ 61	\$ 59
EBITDA margin	11.1%	11.8%

⁽¹⁾ The 2017 comparative results have been restated to reflect the Company's adoption of IFRS 15, *Revenue from Contracts with Customers* and IFRS 9, *Financial Instruments* effective for the financial year beginning January 1, 2018. More information on the impact of this adoption can be found in note 1 of the Company's interim condensed consolidated financial statements.

South America – Revenue by Line of Business

3 months ended March 31
(\$ millions) (2017 restated)



Q1 2018 revenue increased 10% to \$552 million compared to Q1 2017 (up 15% in functional currency), reflecting higher revenue in most lines of business, particularly product support.

Product support revenue was up 8% (up 13% in functional currency), primarily due to strong activity in the Chilean mining market. In Q1 2017, product support revenues were adversely impacted by the seven week strike at the Escondida mine in Chile, which ended on March 24, 2017.

New equipment revenue was also up 8% (up 12% in functional currency) from the prior year quarter, reflecting strong construction activity and power systems project deliveries in both Chile and Argentina. Order intake remained strong in the quarter, driven by the construction and mining markets, resulting in notably higher equipment backlog levels at March 31, 2018, the highest level recorded since September 30, 2013.

Used equipment revenue was almost double the prior year period level, with most of the growth from the Chilean mining market.

The stronger CAD relative to the USD on average in the quarter compared to the same quarter last year had an unfavourable foreign currency translation impact on revenue in Q1 2018 of approximately \$25 million and was not significant at the EBIT level.

Gross profit increased compared to the first quarter of 2017, reflecting higher sales volumes and higher overall gross profit margin. Gross profit margin increased in Q1 2018 compared to Q1 2017, resulting from higher product support margins, partly offset by lower used equipment margins. Product support revenue comprised 66% of total revenue in the first quarter of 2018, comparable to Q1 2017.

SG&A was up 15% in Q1 2018 (up 20% in functional currency). The increase in SG&A in functional currency was primarily due to higher variable costs from increased sales volumes, higher long term and short term incentive plan costs and inflationary and statutory salary increases, as well as additional costs related to the 2018 ERP implementation.

For the quarter ended March 31, 2018, the Company's South American operations contributed EBIT of \$46 million and EBIT margin of 8.4% compared to EBIT of \$44 million and EBIT margin of 8.8% achieved in Q1 2017. EBIT margin was lower in Q1 2018 due to higher relative SG&A, partly offset by higher gross profit margin achieved in the current year as noted earlier.

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.

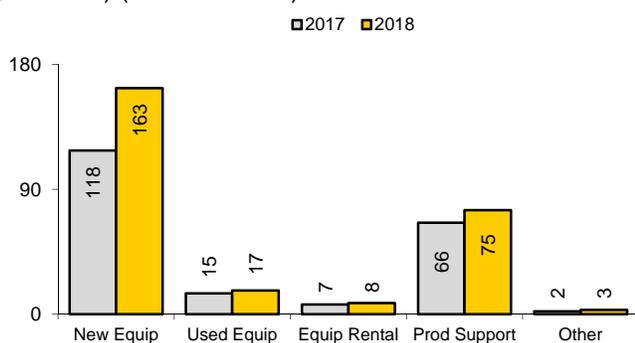
The table below provides details of the results from the UK & Ireland operations:

3 months ended March 31 (\$ millions)	2018	2017 (Restated) ⁽¹⁾
Revenue from external sources	\$ 266	\$ 208
Operating costs	(249)	(195)
Depreciation and amortization	(7)	(6)
EBIT	\$ 10	\$ 7
EBIT margin	3.7%	3.3%
EBITDA	\$ 17	\$ 13
EBITDA margin	6.3%	6.5%

⁽¹⁾ The 2017 comparative results have been restated to reflect the Company's adoption of IFRS 15, *Revenue from Contracts with Customers* and IFRS 9, *Financial Instruments* effective for the financial year beginning January 1, 2018. More information on the impact of this adoption can be found in note 1 of the Company's interim condensed consolidated financial statements.

UK & Ireland – Revenue by Line of Business

3 months ended March 31
(\$ millions) (2017 restated)



First quarter 2018 revenue of \$266 million was 28% higher than the same period in 2017 (up 19% in functional currency). Increased revenue was driven primarily by higher new equipment sales in both the construction and power systems markets, reflecting improved demand. New equipment revenue comprised 62% of total revenue in the first quarter of 2018 compared to 57% in Q1 2017. Order intake was very strong in the quarter, resulting in historically high backlog levels at March 31, 2018.

Product support sales were also higher than Q1 2017, reflecting stronger parts sales in all markets, particularly construction.

The weaker CAD dollar relative to the GBP on average in the quarter compared to last year had a favourable foreign currency translation impact on revenue in the first quarter of 2018 of approximately \$20 million, and was not significant at the EBIT level.

Q1 2018 gross profit was higher than the prior year period, reflecting higher sales volumes, partially offset by lower overall gross profit margin. Gross profit margin decreased in Q1 2018 compared to last year, reflecting a revenue mix shift to higher new equipment sales and lower used equipment margins, partly offset by higher product support margins.

SG&A was up 17% in Q1 2018 (up 8% in functional currency). This increase reflects higher variable costs, primarily personnel related costs, due to revenue growth. SG&A relative to sales was lower in Q1 2018 compared to Q1 2017 due to leverage of fixed costs supporting higher revenues.

For the quarter ended March 31, 2018, the Company's UK & Ireland operations contributed EBIT of \$10 million and EBIT margin of 3.7% compared to EBIT of \$7 million and EBIT margin of 3.3% achieved in Q1 2017. EBIT margin was higher in Q1 2018 due to leverage of incremental revenue on fixed costs, partly offset by lower gross profit margin achieved in the current year quarter, primarily due to mix of sales as noted above.

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 first quarter of 2018 compared to \$11 million in Q1 2017. Included in this segment are corporate operating costs, as well as equity earnings or losses from the Company's 28.8% investment in Energyst B.V.

Net operating costs in Q1 2018 were \$3 million higher than Q1 2017 due to:

- \$3 million higher long-term incentive plan costs due to improved performance against targets;
- \$1 million higher equity loss from Energyst B.V. reflecting \$3 million of impairment losses incurred related to its business in South America;
- \$1 million mark-to-market gain in Q1 2017 relating to the Company's investment in IronPlanet Holdings Inc.; and
- Partly offset by \$2 million lower corporate operating costs.

Outlook

The Company remains focused on generating earnings leverage while investing in profitable growth opportunities and long-term strategic initiatives to transform customer experience. As the Company believes it is in the early stages of an upcycle, SG&A as a percentage of revenue is expected to decline to 18% in the next few years, driven by the focus to improve productivity and lower cost to serve. Continued progress on optimizing the global supply chain is expected to drive further working capital efficiencies and support positive annual free cash flow. The Company remains committed to improving its return on invested capital.

Canada

The gradual recovery of commodity prices is supporting improved activity levels from mining producers and contractors. In 2018, the Company expects an increase in new equipment deliveries to mining customers, including the oil sands. Demand for parts and service, including component rebuilds, is expected to remain strong in mining. Product support activity in the heavy construction and power systems markets has strengthened across all provinces.

In British Columbia, activity levels are robust despite customers remaining cautious about opportunities for any significant infrastructure projects. In Alberta, current and proposed infrastructure projects are expected to drive strong demand for construction equipment. Demand for power systems products, parts and services has increased as a result of significantly improved activity in the oil and gas sector, particularly gas compression. In Saskatchewan, the new pipeline projects are starting to translate into improved demand for equipment.

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

South America

In Chile, copper production levels and fleet utilization continue to improve, which is expected to have a positive impact on future demand for mining equipment and product support, including component rebuilds.

The new Chilean government is expected to be business friendly and to invest in infrastructure, which should support an improved long-term outlook for equipment sales and product support in the construction sector.

In Argentina, the Company has been successfully selling equipment into the growing, but competitive construction market. The Company expects oil and gas development to accelerate going forward.

The Company will continue to invest in a new ERP system in the South American operations, which is expected to go live in 2018. As a result, the Company's EBIT margin in South America is expected to be around 8.5% in 2018.

UK & Ireland

In the UK & Ireland, activity levels in the quarry, general construction, and plant hire sectors are expected to generate steady demand for new equipment and product support. In power systems, the Company continues to capitalize on strong demand in the industrial, marine and electric power segments. Competitive pricing pressures in the UK & Ireland's equipment markets remain intense.

In early 2017, the UK started 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 has resulted in economic uncertainty that continues to impact customer confidence and future investment decisions. To help offset reduced business confidence, the UK government is accelerating investments in large-scale rail, power, road, and airport infrastructure projects.

Foreign Exchange Exposure

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

Liquidity and Capital Resources

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

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

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

3 months ended March 31 (\$ millions)	2018	2017	Increase (Decrease) in cash from 2017
Cash used in operating activities	\$ (242)	\$ (58)	\$ (184)
Cash used in investing activities	\$ (21)	\$ (21)	\$ —
Cash provided by (used in) financing activities	\$ 117	\$ (21)	\$ 138
Free Cash Flow	\$ (263)	\$ (76)	\$ (187)

The most significant contributors to the changes in cash flows for Q1 2018 over Q1 2017 were as follows:

Cash used in operating activities	<ul style="list-style-type: none"> • higher supplier payments for inventory purchases in the Company's South American and Canadian operations due to strong market conditions and demand • partly offset by higher earnings from all operations
Cash used in investing activities	<ul style="list-style-type: none"> • comparable in both periods, with slightly higher net capital expenditures in Q1 2018 offset by the Company's Canadian operations' investment in Agriterro in Q1 2017
Cash provided by (used in) financing activities	<ul style="list-style-type: none"> • approximately \$136 million higher cash generated from short-term borrowings
Free Cash Flow generation	<ul style="list-style-type: none"> • higher use of cash largely due to higher supplier payments for inventory purchases in the Company's South American and Canadian operations due to strong market conditions and demand

Capital resources and management

The Company's cash and cash equivalents balance at March 31, 2018 was \$325 million (December 31, 2017: \$458 million). To complement the internally generated funds from operating and investing activities, the Company has \$1.8 billion in unsecured credit facilities. Included in this amount is a syndicated committed credit facility totaling \$1.0 billion with various Canadian and global financial institutions, \$0.9 billion of which was available at March 31, 2018.

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

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

	Long-term debt		Short-term debt	
	Mar 31, 2018	Dec 31, 2017	Mar 31, 2018	Dec 31, 2017
DBRS	BBB (high)	BBB (high)	R-2 (high)	R-2 (high)
S & P	BBB+	BBB+	N/A	N/A

During the first quarter of 2017, the Company repurchased 89,900 common shares for cancellation at an average price of \$25.45 per share through a Normal Course Issuer Bid (NCIB) ⁽²⁾ which was renewed for a further year in Q2 2017. No shares were repurchased in Q1 2018.

Net Debt to Invested Capital

	March 31, 2018	December 31, 2017 (Restated) ^(a)	March 31, 2017 (Restated) ^(a)
Net debt to invested capital	36.1%	30.2%	34.3%

^(a) The 2017 comparative results have been restated to reflect the Company's adoption of IFRS 15, *Revenue from Contracts with Customers* and IFRS 9, *Financial Instruments* effective for the financial year beginning January 1, 2018. More information on the impact of this adoption can be found in note 1 of the Company's interim condensed consolidated financial statements

The Company is subject to a maximum Net Debt to Invested Capital ratio of 62.5% pursuant to a covenant in its syndicated bank credit facility. The Company was in compliance with this covenant at the end of Q1 2018.

Accounting Policies and Pronouncements

Changes in Accounting Policies

Effective January 1, 2018, the Company adopted IFRS 15, *Revenue from Contracts with Customers* and IFRS 9, *Financial Instruments*. The Company's new accounting policies and the impact of the adoption of new accounting policies on the Company's financial results are disclosed in 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 on request. Direct your request to the Corporate Secretary, 1000-666 Burrard Street, Vancouver, BC V6C 2X8. The Company is renewing its NCIB for a further year effective May 11, 2018. See the Company's news release announcing the share repurchase plan for a summary of material terms, which is filed on SEDAR at www.sedar.com and on the Company's website.

Risk Factors and Management

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

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

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

Exchange rate	March 31			December 31		3 months ended March 31 – average		
	2018	2017	Change	2017	Change	2018	2017	Change
USD/CAD	1.2894	1.3310	3 %	1.2545	(3)%	1.2647	1.3238	4 %
GBP/CAD	1.8106	1.6650	(9)%	1.6961	(7)%	1.7601	1.6402	(7)%
USD/CLP	605.26	662.66	9 %	615.22	2 %	602.16	655.68	8 %
USD/ARS	20.15	15.41	(31)%	18.65	(8)%	19.68	15.67	(26)%

The impact of foreign exchange due to fluctuation in the value of the CAD relative to the USD, 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 March 31, 2018, 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 May 4, 2018

Common shares outstanding	168,404,200
Options outstanding	3,281,508

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.

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. The tax impact of each significant item is calculated by applying the relevant applicable tax rate for the jurisdiction in which the significant item occurred.

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.

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

3 months ended (\$ millions)	2018	2017 (Restated) ⁽¹⁾				2016				
	Mar 31	Dec 31	Sep 30	Jun 30	Mar 31	Dec 31	Sep 30	Jun 30	Mar 31	
EBIT	\$ 113	\$ 109	\$ 100	\$ 97	\$ 86	\$ 18	\$ 73	\$ 29	\$ 45	
Depreciation and amortization	44	45	46	48	45	47	46	48	51	
EBITDA	\$ 157	\$ 154	\$ 146	\$ 145	\$ 131	\$ 65	\$ 119	\$ 77	\$ 96	
EBITDA – last 12 months	602	\$ 576	487	460	392	\$ 357	10	16	96	
EBIT	\$ 113	\$ 109	\$ 100	\$ 97	\$ 86	\$ 18	\$ 73	\$ 29	\$ 45	
Significant items:										
Impact from Alberta wildfires										
– insurance proceeds	(7)	(4)	—	—	—	—	—	—	—	
– unavoidable costs	—	—	—	—	—	—	—	11	—	
Severance costs	—	5	—	—	—	15	—	9	17	
Facility closures and restructuring costs	—	—	—	—	—	32	—	4	—	
Power systems project provisions, estimated loss on disputes and alleged fraudulent activity by a customer	—	—	—	—	—	10	—	5	5	
Loss on sale of non-core business	—	—	—	—	—	—	—	5	—	
Gain on investment	—	—	—	—	—	(5)	—	—	—	
Adjusted EBIT	\$ 106	\$ 110	\$ 100	\$ 97	\$ 86	\$ 70	\$ 73	\$ 63	\$ 67	
Depreciation and amortization	44	45	46	48	45	47	46	48	51	
Adjusted EBITDA	\$ 150	\$ 155	\$ 146	\$ 145	\$ 131	\$ 117	\$ 119	\$ 111	\$ 118	
Adjusted EBIT – last 12 months	\$ 413	\$ 393	\$ 353	\$ 326	\$ 292	\$ 273	\$ 285	\$ 309	\$ 358	
Adjusted EBITDA – last 12 months	\$ 596	\$ 577	\$ 539	\$ 512	\$ 478	\$ 465	\$ 487	\$ 527	\$ 579	

⁽¹⁾ The 2017 comparative results have been restated to reflect the Company's adoption of IFRS 15, *Revenue from Contracts with Customers* and IFRS 9, *Financial Instruments* effective for the financial year beginning January 1, 2018. More information on the impact of this adoption can be found in note 1 of the Company's interim condensed consolidated financial statements.

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

3 months ended (\$ millions)	2018	2017 (Restated) ⁽¹⁾				2016			
	Mar 31	Dec 31	Sep 30	Jun 30	Mar 31	Dec 31	Sep 30	Jun 30	Mar 31
EBIT	\$ 71	\$ 67	\$ 57	\$ 55	\$ 46	\$ (3)	\$ 37	\$ 28	\$ 25
Depreciation and amortization	22	24	25	26	24	24	24	25	27
EBITDA	\$ 93	\$ 91	\$ 82	\$ 81	\$ 70	\$ 21	\$ 61	\$ 53	\$ 52
EBITDA – last 12 months	347	\$ 324	254	233	205	\$ 187	185	192	217
EBIT	\$ 71	\$ 67	\$ 57	\$ 55	\$ 46	\$ (3)	\$ 37	\$ 28	\$ 25
Significant items:									
Impact from Alberta wildfires									
– insurance proceeds	(7)	(4)	—	—	—	—	—	—	—
– unavoidable costs	—	—	—	—	—	—	—	11	—
Severance costs	—	3	—	—	—	15	—	1	8
Facility closures and restructuring costs	—	—	—	—	—	32	—	—	—
Adjusted EBIT	\$ 64	\$ 66	\$ 57	\$ 55	\$ 46	\$ 44	\$ 37	\$ 40	\$ 33
Depreciation and amortization	22	24	25	26	24	24	24	25	27
Adjusted EBITDA	\$ 86	\$ 90	\$ 82	\$ 81	\$ 70	\$ 68	\$ 61	\$ 65	\$ 60
Adjusted EBIT – last 12 months	\$ 242	\$ 224	\$ 202	\$ 182	\$ 167	\$ 154	\$ 149	\$ 163	\$ 178

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

3 months ended (\$ millions)	2018	2017 (Restated) ⁽¹⁾				2016			
	Mar 31	Dec 31	Sep 30	Jun 30	Mar 31	Dec 31	Sep 30	Jun 30	Mar 31
EBIT	\$ 46	\$ 50	\$ 48	\$ 42	\$ 44	\$ 27	\$ 40	\$ 38	\$ 32
Depreciation and amortization	15	15	13	15	15	16	15	15	16
EBITDA	\$ 61	\$ 65	\$ 61	\$ 57	\$ 59	\$ 43	\$ 55	\$ 53	\$ 48
EBITDA – last 12 months	244	\$ 242	220	214	210	\$ 199	(123)	(126)	(108)
EBIT	\$ 46	\$ 50	\$ 48	\$ 42	\$ 44	\$ 27	\$ 40	\$ 38	\$ 32
Significant items:									
Severance costs	—	2	—	—	—	—	—	1	7
Estimated loss on alleged fraudulent activity by a customer	—	—	—	—	—	10	—	—	—
Adjusted EBIT	\$ 46	\$ 52	\$ 48	\$ 42	\$ 44	\$ 37	\$ 40	\$ 39	\$ 39
Depreciation and amortization	15	15	13	15	15	16	15	15	16
Adjusted EBITDA	\$ 61	\$ 67	\$ 61	\$ 57	\$ 59	\$ 53	\$ 55	\$ 54	\$ 55
Adjusted EBIT – last 12 months	\$ 188	\$ 186	\$ 171	\$ 163	\$ 160	\$ 155	\$ 164	\$ 166	\$ 182

(1) The 2017 comparative results have been restated to reflect the Company's adoption of IFRS 15, *Revenue from Contracts with Customers* and IFRS 9, *Financial Instruments* effective for the financial year beginning January 1, 2018. More information on the impact of this adoption can be found in note 1 of the Company's interim condensed consolidated financial statements.

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

3 months ended (\$ millions)	2018		2017 (Restated) ⁽¹⁾				2016			
	Mar 31	Dec 31	Sep 30	Jun 30	Mar 31	Dec 31	Sep 30	Jun 30	Mar 31	
EBIT	\$ 10	\$ 8	\$ 9	\$ 13	\$ 7	\$ 8	\$ 10	\$ (26)	\$ (4)	
Depreciation and amortization	7	6	7	7	6	7	7	8	8	
EBITDA	\$ 17	\$ 14	\$ 16	\$ 20	\$ 13	\$ 15	\$ 17	\$ (18)	\$ 4	
EBITDA – last 12 months	67	\$ 63	64	65	27	\$ 18	(21)	(23)	13	
EBIT	\$ 10	\$ 8	\$ 9	\$ 13	\$ 7	\$ 8	\$ 10	\$ (26)	\$ (4)	
Significant items:										
Severance costs	—	—	—	—	—	—	—	7	2	
Facility closures and restructuring costs	—	—	—	—	—	—	—	4	—	
Power systems project provisions and estimated loss on disputes	—	—	—	—	—	—	—	5	5	
Loss on sale of non-core business	—	—	—	—	—	—	—	5	—	
Adjusted EBIT	\$ 10	\$ 8	\$ 9	\$ 13	\$ 7	\$ 8	\$ 10	\$ (5)	\$ 3	
Depreciation and amortization	7	6	7	7	6	7	7	8	8	
Adjusted EBITDA	\$ 17	\$ 14	\$ 16	\$ 20	\$ 13	\$ 15	\$ 17	\$ 3	\$ 11	
Adjusted EBIT – last 12 months	\$ 40	\$ 37	\$ 37	\$ 38	\$ 20	\$ 16	\$ 11	\$ 12	\$ 29	

⁽¹⁾ The 2017 comparative results have been restated to reflect the Company's adoption of IFRS 15, *Revenue from Contracts with Customers* and IFRS 9, *Financial Instruments* effective for the financial year beginning January 1, 2018. More information on the impact of this adoption can be found in note 1 of the Company's interim condensed consolidated financial statements.

Adjusted EBIT Margin, EBITDA Margin, and Adjusted EBITDA Margin

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

Free Cash Flow

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

3 months ended (\$ millions)	2018		2017				2016			
	Mar 31	Dec 31	Sep 30	Jun 30	Mar 31	Dec 31	Sep 30	Jun 30	Mar 31	
Cash flow (used in) provided by operating activities ⁽¹⁾	\$ (242)	\$ 398	\$ 55	\$ (112)	\$ (58)	\$ 131	\$ 177	\$ 75	\$ 57	
Additions to property, plant, and equipment and intangible assets ⁽¹⁾	(32)	(49)	(33)	(20)	(19)	(20)	(17)	(17)	(38)	
Proceeds on disposal of property, plant, and equipment ⁽¹⁾	11	1	—	1	1	2	3	6	11	
Free cash flow	\$ (263)	\$ 350	\$ 22	\$ (131)	\$ (76)	\$ 113	\$ 163	\$ 64	\$ 30	

⁽¹⁾ As disclosed in the Company's condensed consolidated statement of cash flow

Inventory Turns

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

(\$ millions, except as noted)	2018	2017 (Restated) ⁽¹⁾				2016			
	Mar 31	Dec 31	Sep 30	Jun 30	Mar 31	Dec 31	Sep 30	Jun 30	Mar 31
Cost of sales – annualized	\$ 5,056	\$ 4,862	\$ 4,590	\$ 4,342	\$ 4,240	\$ 4,150	\$ 3,862	\$ 4,160	\$ 4,562
Inventory – 2 quarter average	\$ 1,807	\$ 1,726	\$ 1,767	\$ 1,720	\$ 1,624	\$ 1,663	\$ 1,707	\$ 1,714	\$ 1,770
Inventory turns (number of times)	2.80	2.82	2.60	2.52	2.61	2.49	2.26	2.43	2.58

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 26, based on an average of the last four quarters, as follows:

(\$ millions, except as noted)	2018	2017 (Restated) ⁽¹⁾				2016			
	Mar 31	Dec 31	Sep 30	Jun 30	Mar 31	Dec 31	Sep 30	Jun 30	Mar 31
Consolidated									
Revenue – last 12 months	\$ 6,525	\$ 6,256	\$ 6,014	\$ 5,809	\$ 5,535	\$ 5,628	\$ 5,674	\$ 5,858	\$ 6,228
Invested capital – 4 quarter average	\$ 3,065	\$ 2,993	\$ 2,989	\$ 2,944	\$ 2,927	\$ 2,960	\$ 3,071	\$ 3,292	\$ 3,416
Invested capital turnover	2.13	2.09	2.01	1.97	1.89	1.90	1.85	1.78	1.82
Canada									
Revenue – last 12 months	\$ 3,234	\$ 3,072	\$ 2,932	\$ 2,815	\$ 2,659	\$ 2,821	\$ 2,819	\$ 2,943	\$ 3,178
Invested capital – 4 quarter average	\$ 1,727	\$ 1,690	\$ 1,684	\$ 1,660	\$ 1,643	\$ 1,656	\$ 1,697	\$ 1,753	\$ 1,765
Invested capital turnover	1.87	1.82	1.74	1.70	1.62	1.70	1.66	1.68	1.80
South America									
Revenue – last 12 months	\$ 2,206	\$ 2,157	\$ 2,103	\$ 2,015	\$ 1,930	\$ 1,857	\$ 1,850	\$ 1,898	\$ 2,006
Invested capital – 4 quarter average	\$ 1,060	\$ 1,032	\$ 1,036	\$ 1,024	\$ 1,031	\$ 1,030	\$ 1,062	\$ 1,178	\$ 1,261
Invested capital turnover	2.08	2.09	2.03	1.97	1.87	1.80	1.74	1.61	1.59
UK & Ireland									
Revenue – last 12 months	\$ 1,085	\$ 1,027	\$ 979	\$ 979	\$ 946	\$ 950	\$ 1,005	\$ 1,017	\$ 1,044
Invested capital – 4 quarter average	\$ 298	\$ 288	\$ 282	\$ 267	\$ 256	\$ 268	\$ 294	\$ 342	\$ 371
Invested capital turnover	3.65	3.56	3.47	3.66	3.69	3.54	3.41	2.98	2.81

⁽¹⁾ The 2017 comparative results have been restated to reflect the Company's adoption of IFRS 15, *Revenue from Contracts with Customers* and IFRS 9, *Financial Instruments* effective for the financial year beginning January 1, 2018. More information on the impact of this adoption can be found in note 1 of the Company's interim condensed consolidated financial statements.

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)	2018	2017 (Restated) ⁽¹⁾				2016			
	Mar 31	Dec 31	Sep 30	Jun 30	Mar 31	Dec 31	Sep 30	Jun 30	Mar 31
Cash and cash equivalents	\$ (325)	\$ (458)	\$ (516)	\$ (411)	\$ (489)	\$ (593)	\$ (460)	\$ (384)	\$ (425)
Short-term debt	169	18	32	102	16	2	8	65	76
Current portion of long-term debt	—	—	350	350	—	—	—	—	—
Long-term debt	1,322	1,296	1,291	1,116	1,481	1,487	1,474	1,470	1,492
Net debt	1,166	856	1,157	1,157	1,008	896	1,022	1,151	1,143
Shareholders' equity	2,060	1,974	1,938	1,951	1,932	1,901	1,895	1,890	1,942
Invested capital	\$ 3,226	\$ 2,830	\$ 3,095	\$ 3,108	\$ 2,940	\$ 2,797	\$ 2,917	\$ 3,041	\$ 3,085
Net debt to invested capital	36.1%	30.2%	37.4%	37.2%	34.3%	32.0%	35.0%	37.9%	37.0%

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)	2018	2017 (Restated) ⁽¹⁾				2016			
	Mar 31	Dec 31	Sep 30	Jun 30	Mar 31	Dec 31	Sep 30	Jun 30	Mar 31
Net debt	\$ 1,166	\$ 856	\$ 1,157	\$ 1,157	\$ 1,008	\$ 896	\$ 1,022	\$ 1,151	\$ 1,143
EBITDA – last 12 months	\$ 602	\$ 576	\$ 487	\$ 460	\$ 392	\$ 357	\$ 10	\$ 16	\$ 96
Net Debt to EBITDA Ratio ⁽²⁾	1.9	1.5	2.4	2.5	2.6	2.5	109.4	71.5	12.0
Net debt	\$ 1,166	\$ 856	\$ 1,157	\$ 1,157	\$ 1,008	\$ 896	\$ 1,022	\$ 1,151	\$ 1,143
Adjusted EBITDA – last 12 months	\$ 596	\$ 577	\$ 539	\$ 512	\$ 478	\$ 465	\$ 487	\$ 527	\$ 579
Net Debt to Adjusted EBITDA Ratio	2.0	1.5	2.1	2.3	2.1	1.9	2.1	2.2	2.0

⁽¹⁾ The 2017 comparative results have been restated to reflect the Company's adoption of IFRS 15, *Revenue from Contracts with Customers* and IFRS 9, *Financial Instruments* effective for the financial year beginning January 1, 2018. More information on the impact of this adoption can be found in note 1 of the Company's interim condensed consolidated financial statements.

⁽²⁾ Reported 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 22 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 and Adjusted ROIC is calculated as follows:

(\$ millions, except as noted)	2018	2017 (Restated) ⁽¹⁾				2016			
	Mar 31	Dec 31	Sep 30	Jun 30	Mar 31	Dec 31	Sep 30	Jun 30	Mar 31
Consolidated									
EBIT – last 12 months	\$ 419	\$ 392	\$ 301	\$ 274	\$ 206	\$ 165	\$ (202)	\$ (212)	\$ (135)
Adjusted EBIT – last 12 months	\$ 413	\$ 393	\$ 353	\$ 326	\$ 292	\$ 273	\$ 285	\$ 309	\$ 358
Invested capital – 4 quarter average	\$ 3,065	\$ 2,993	\$ 2,989	\$ 2,944	\$ 2,927	\$ 2,960	\$ 3,071	\$ 3,292	\$ 3,416
ROIC	13.7%	13.1%	10.1%	9.3%	7.1%	5.6%	(6.6)%	(6.4)%	(4.0)%
Adjusted ROIC	13.5%	13.1%	11.8%	11.1%	10.0%	9.3%	9.2%	9.4%	10.4%
Canada									
EBIT – last 12 months	\$ 250	\$ 225	\$ 155	\$ 135	\$ 108	\$ 87	\$ 73	\$ 70	\$ 94
Adjusted EBIT – last 12 months	\$ 242	\$ 224	\$ 202	\$ 182	\$ 167	\$ 154	\$ 149	\$ 163	\$ 178
Invested capital – 4 quarter average	\$ 1,727	\$ 1,690	\$ 1,684	\$ 1,660	\$ 1,643	\$ 1,656	\$ 1,697	\$ 1,753	\$ 1,765
ROIC	14.5%	13.3%	9.2%	8.1%	6.6%	5.3%	4.3%	4.0%	5.4%
Adjusted ROIC	14.0%	13.2%	12.0%	11.0%	10.2%	9.3%	8.7%	9.3%	10.1%
South America									
EBIT – last 12 months	\$ 186	\$ 184	\$ 161	\$ 153	\$ 149	\$ 137	\$ (193)	\$ (201)	\$ (187)
Adjusted EBIT – last 12 months	\$ 188	\$ 186	\$ 171	\$ 163	\$ 160	\$ 155	\$ 164	\$ 166	\$ 182
Invested capital – 4 quarter average	\$ 1,060	\$ 1,032	\$ 1,036	\$ 1,024	\$ 1,031	\$ 1,030	\$ 1,062	\$ 1,178	\$ 1,261
ROIC	17.6%	17.8%	15.5%	14.9%	14.5%	13.3%	(18.1)%	(17.0)%	(14.9)%
Adjusted ROIC	17.8%	18.1%	16.5%	16.0%	15.6%	15.0%	15.6%	14.2%	14.5%
UK & Ireland									
EBIT – last 12 months	\$ 40	\$ 37	\$ 37	\$ 38	\$ (1)	\$ (12)	\$ (51)	\$ (54)	\$ (16)
Adjusted EBIT – last 12 months	\$ 40	\$ 37	\$ 37	\$ 38	\$ 20	\$ 16	\$ 11	\$ 12	\$ 29
Invested capital – 4 quarter average	\$ 298	\$ 288	\$ 282	\$ 267	\$ 256	\$ 268	\$ 294	\$ 342	\$ 371
ROIC	13.4%	12.8%	12.9%	13.9%	(0.5)%	(4.5)%	(17.4)%	(15.7)%	(4.5)%
Adjusted ROIC	13.4%	12.8%	12.9%	13.9%	7.7%	5.9%	3.4%	3.3%	7.4%

⁽¹⁾ The 2017 comparative results have been restated to reflect the Company's adoption of IFRS 15, *Revenue from Contracts with Customers* and IFRS 9, *Financial Instruments* effective for the financial year beginning January 1, 2018. More information on the impact of this adoption can be found in note 1 of the Company's interim condensed consolidated financial statements.

Working Capital and Working Capital to Sales Ratio

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

The working capital to sales ratio is calculated as follows:

(\$ millions, except as noted)	2018	2017 (Restated) ⁽¹⁾				2016			
	Mar 31	Dec 31	Sep 30	Jun 30	Mar 31	Dec 31	Sep 30	Jun 30	Mar 31
Total current assets	\$ 3,687	\$ 3,531	\$ 3,566	\$ 3,493	\$ 3,389	\$ 3,378	\$ 3,319	\$ 3,252	\$ 3,294
Cash and cash equivalents	(325)	(458)	(516)	(411)	(489)	(593)	(460)	(384)	(425)
Total current assets ⁽²⁾	\$ 3,362	\$ 3,073	\$ 3,050	\$ 3,082	\$ 2,900	\$ 2,785	\$ 2,859	\$ 2,868	\$ 2,869
Total current liabilities	\$ 1,626	\$ 1,545	\$ 1,648	\$ 1,703	\$ 1,232	\$ 1,233	\$ 1,194	\$ 1,113	\$ 1,158
Short-term debt	(169)	(18)	(32)	(102)	(16)	(2)	(8)	(65)	(76)
Current portion of long-term debt	—	—	(350)	(350)	—	—	—	—	—
Total current liabilities ⁽³⁾	\$ 1,457	\$ 1,527	\$ 1,266	\$ 1,251	\$ 1,216	\$ 1,231	\$ 1,186	\$ 1,048	\$ 1,082
Working capital	\$ 1,905	\$ 1,546	\$ 1,784	\$ 1,831	\$ 1,684	\$ 1,554	\$ 1,673	\$ 1,820	\$ 1,787
Working capital – four quarter average	\$ 1,767	\$ 1,712	\$ 1,717	\$ 1,690	\$ 1,687	\$ 1,709	\$ 1,785	\$ 1,899	\$ 1,957
Revenue – last 12 months	\$ 6,525	\$ 6,256	\$ 6,014	\$ 5,809	\$ 5,535	\$ 5,628	\$ 5,674	\$ 5,858	\$ 6,228
Working capital to sales	27.1%	27.4%	28.6%	29.1%	30.5%	30.4%	31.5%	32.4%	31.4%

⁽¹⁾ The 2017 comparative results have been restated to reflect the Company's adoption of IFRS 15, *Revenue from Contracts with Customers* and IFRS 9, *Financial Instruments* effective for the financial year beginning January 1, 2018. More information on the impact of this adoption can be found in note 1 of the Company's interim condensed consolidated financial statements.

⁽²⁾ Excluding cash and cash equivalents

⁽³⁾ Excluding short-term debt and current portion of long-term debt

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)	2018		2017 (Restated) ⁽¹⁾				2016		
	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2	
Revenue from operations									
Canada	\$ 852	\$ 856	\$ 736	\$ 790	\$ 690	\$ 716	\$ 619	\$ 634	
South America	552	589	549	516	503	535	461	431	
UK & Ireland	266	288	253	278	208	240	253	245	
Total revenue	\$ 1,670	\$ 1,733	\$ 1,538	\$ 1,584	\$ 1,401	\$ 1,491	\$ 1,333	\$ 1,310	
Net income ⁽²⁾	\$ 71	\$ 64	\$ 50	\$ 55	\$ 47	\$ 9	\$ 36	\$ 5	
Earnings Per Share ⁽²⁾									
Basic EPS	\$ 0.42	\$ 0.38	\$ 0.29	\$ 0.33	\$ 0.28	\$ 0.05	\$ 0.22	\$ 0.03	
Diluted EPS	\$ 0.42	\$ 0.38	\$ 0.29	\$ 0.33	\$ 0.28	\$ 0.05	\$ 0.22	\$ 0.03	
Total assets	\$ 5,254	\$ 5,069	\$ 5,111	\$ 5,002	\$ 4,882	\$ 4,910	\$ 4,886	\$ 4,754	
Long-term debt									
Current	\$ —	\$ —	\$ 350	\$ 350	\$ —	\$ —	\$ —	\$ —	
Non-current	1,322	1,296	1,291	1,116	1,481	1,487	1,474	1,470	
Total long-term debt ⁽³⁾	\$ 1,322	\$ 1,296	\$ 1,641	\$ 1,466	\$ 1,481	\$ 1,487	\$ 1,474	\$ 1,470	
Cash dividends paid per common share	19.00¢	19.00¢	19.00¢	18.25¢	18.25¢	18.25¢	18.25¢	18.25¢	
Common shares outstanding (000's)	168,401	168,267	168,118	168,097	168,083	168,167	168,134	168,102	
Options outstanding (000's)	3,301	3,864	4,574	4,755	4,501	4,564	4,823	5,026	

- 1) The 2017 comparative results have been restated to reflect the Company's adoption of IFRS 15, *Revenue from Contracts with Customers* and IFRS 9, *Financial Instruments* effective for the financial year beginning January 1, 2018. More information on the impact of this adoption can be found in note 1 of the Company's interim condensed consolidated financial statements.
- 2) Results were impacted by the following significant items:

(\$ millions except per share amounts)	2018		2017 ^(a)		2016 ^(a)	
	Q1	Q4	Q3	Q4	Q2	Q2
Impact from Alberta wildfires						
- insurance proceeds	\$ (7)	\$ (4)	\$ —	\$ —	\$ —	\$ —
- unavoidable costs	—	—	—	—	—	11
Severance costs	—	5	—	15	—	9
Facility closures and restructuring costs	—	—	—	32	—	4
Power systems provisions, estimated loss on disputes and alleged fraudulent activity by a customer	—	—	—	10	—	5
Gain on investment	—	—	—	(5)	—	—
Disposal of business	—	—	—	—	—	5
Impact of significant items on EBIT:	\$ (7)	\$ 1	\$ —	\$ 52	\$ 34	\$ 34
Items impacting net income only (below EBIT) - impact on EPS:						
Redemption costs on early repayment of long-term debt (\$7 million after tax)	—	—	0.04	—	—	—
Impact of significant items on EPS:	\$ (0.03)	\$ 0.01	\$ 0.04	\$ 0.23	\$ 0.17	\$ 0.17

(a) There were no adjustments in Q1 and Q2 2017, and Q3 2016.

- 3) In September 2017, the Company issued \$200 million of 2.84% senior unsecured Notes, due September 29, 2021. Proceeds from the issuance of the Notes were used to redeem, prior to maturity, all of the outstanding \$350 million 6.02% Medium Term Notes due June 1, 2018.

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; expectations that the continued progress on global supply chain will drive further working capital efficiencies and supply annual free cash flow; in Canada, recovery of commodity prices, activity levels from mining producers and contractors, expected deliveries of new equipment, demand for parts and services, upcoming infrastructure and pipeline projects, demand for construction equipment and power systems products, activity in the oil and gas sector, and competitive market conditions; the rate of recovery being dependent on commodity markets and timing of significant infrastructure projects; in South America, expected demand for mining equipment and product support as a result of copper production levels and fleet utilization, expectations of increased investment in infrastructure by the new Chilean government and resultant activity in the construction sector, expectations regarding the acceleration of oil and gas development in Argentina and the growing construction market, and Finning's continued investment in a new ERP system expected to go live in 2018 and the impact on EBIT margin; in the UK & Ireland, activity levels in the quarry, general construction, and plant hire sectors and the resultant demand for new equipment and product support, demand in the power systems sector, competitive pricing pressure in the equipment market, and the impact of Brexit; expected impact of and volatility in foreign exchange markets; Finning's belief that it continues to have sufficient liquidity to meet operational needs and planned growth and development; expected range of the Company's effective tax rate; the Company's focus on generating earnings leverage while investing in growth opportunities and long-term strategic initiatives; Finning's belief that it is in the early stages of an upcycle, and SG&A as a percentage of revenue will decline to 18% in the next few years; expected progress on optimizing the global supply chain and its expected results; expected results from cost reductions and sustainability improvements; the Company's commitment to grow return on invested capital; and expected results from execution of the Company's strategy framework. 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 negotiate satisfactory purchase or investment terms and prices, obtain necessary approvals, and secure financing on attractive terms or at all; Finning's ability to manage its growth strategy effectively; Finning's ability to effectively price and manage long-term product support contracts with its customers; 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 occurrence of one or more natural disasters, pandemic outbreaks, geo-political events, acts of terrorism or similar disruptions; fluctuations in defined benefit pension plan contributions and related pension expenses; the availability of insurance at commercially reasonable rates or that the amount of insurance coverage will be adequate to cover all liability or loss incurred by Finning; the potential of warranty claims being greater than Finning anticipates; 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 including but not limited to (i) that general economic and market conditions will be maintained; (ii) that the level of customer confidence and spending, and the demand for, and prices of, Finning's products and services will be maintained; (iii) Finning's ability to successfully execute its plans and intentions; (iv) Finning's ability to attract and retain skilled staff; (v) market competition; (vi) the products and technology offered by the Company's competitors; and (vii) that our current good relationships with Caterpillar, our suppliers, service providers and other third parties will be maintained. Refer in particular to the Outlook section of 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 operation.