

Finning reports Q2 2018 results

Vancouver, B.C. – Finning International Inc. (TSX: FTT) (“Finning” or the “Company”) reported second quarter 2018 results today. All monetary amounts are in Canadian dollars unless otherwise stated.

Q2 2018 HIGHLIGHTS

All comparisons are to restated Q2 2017 results⁽¹⁾ unless indicated otherwise.

- EPS⁽²⁾ of \$0.48 per share was up 44% as revenues increased by 9%.
- Product support revenues were up 11% - strong activity across all regions.
- Canada’s revenues were up 15% reflecting strong market activity, and EBIT⁽²⁾ margin improved by 150 basis points to 8.5%, driven by leverage on fixed costs.
- South America’s revenues increased by 11% in functional currency, driven by 24% revenue growth in Chile.
- Invested capital turnover⁽³⁾ and working capital to sales ratio⁽³⁾ improved as a result of higher sales coupled with supply chain efficiencies.
- Adjusted return on invested capital⁽³⁾⁽⁴⁾ was 14.2%, the highest since Q2 2015.

“I am pleased with the strong earnings leverage and improved return on invested capital we delivered this quarter. We expect positive market momentum to continue in our key regions. Significant infrastructure projects in Western Canada and the mining recovery in Chile are expected to provide further upside in 2019. Our focus remains on growing our business in a profitable and capital-efficient manner,” said Mr. Scott Thomson, president and CEO of Finning International.

Q2 2018 FINANCIAL SUMMARY

All comparisons are to restated Q2 2017 results⁽¹⁾ unless indicated otherwise. There were no significant items in Q2 2018 and Q2 2017.

Quarterly Overview <i>\$ millions, except per share amounts</i>	Q2 2018	Q2 2017 Restated ⁽¹⁾	% change
Revenue	1,729	1,584	9
EBIT	126	97	30
<i>EBIT margin</i>	7.3%	6.1%	
EBITDA ⁽²⁾⁽³⁾	171	145	18
<i>EBITDA margin⁽³⁾</i>	9.9%	9.1%	
Net income	81	55	44
EPS	0.48	0.33	44
Free cash flow ⁽³⁾	(28)	(131)	79

Q2 2018 EBIT and EBITDA by Operation <i>\$ millions, except per share amounts</i>	Canada	South America	UK & Ireland	Corporate & Other	Finning Total	EPS
EBIT / EPS	77	47	14	(12)	126	0.48
<i>EBIT margin</i>	8.5%	8.5%	5.3%	-	7.3%	
EBITDA	99	62	21	(11)	171	
<i>EBITDA margin</i>	11.0%	11.2%	7.9%	-	9.9%	

Q2 2017 EBIT and EBITDA by Operation <i>\$ millions, except per share amounts; restated⁽¹⁾</i>	Canada	South America	UK & Ireland	Corporate & Other	Finning Total	EPS
EBIT / EPS	55	42	13	(13)	97	0.33
<i>EBIT margin</i>	7.0%	8.1%	4.6%	-	6.1%	
EBITDA	81	57	20	(13)	145	
<i>EBITDA margin</i>	10.3%	11.0%	7.0%	-	9.1%	

- Revenue was up 9%, with higher revenues in all lines of business except used equipment. New equipment sales increased by 12%, driven mostly by higher sales in construction and mining in Canada. Product support revenues grew by 11% as a result of improved customer activity in the Canadian construction and South American mining industries. Used equipment sales were down 19% (lower in all regions), reflecting a tighter supply environment. Rental revenues increased by 6%.
- Gross profit increased by 10%. Gross profit margin of 26.9% was slightly ahead of 26.6% in Q2 2017 on improved margins in rental, service, and new equipment.
- SG&A⁽²⁾ costs as a percentage of revenue declined by 100 basis points from Q2 2017 to 19.9%, mostly due to lower SG&A as a percentage of revenue in Canada. EBIT was up 30% to \$126 million and EBIT margin increased by 120 basis points to 7.3%, driven largely by improved profitability in Canada.
- EPS of \$0.48 per share was up 44% from \$0.33 per share in Q2 2017, reflecting higher EBIT from increased revenues in Canada and South America and improved profitability in all operations.
- Q2 2018 free cash flow was (\$28) million use of cash compared to (\$131) million use of cash in Q2 2017 as a result of higher EBITDA and improved collections.

Invested Capital⁽³⁾ and ROIC⁽²⁾⁽³⁾	Q2 2018	Q4 2017 restated⁽¹⁾	Q2 2017 restated⁽¹⁾
Invested capital (<i>\$ millions</i>)			
Consolidated	3,362	2,830	3,108
Canada	1,840	1,621	1,764
South America (U.S. dollars)	890	784	807
UK & Ireland (U.K. pound sterling)	214	147	182
Invested capital turnover (<i>times</i>)	2.13	2.09	1.97
Working capital to sales ratio	26.9%	27.4%	29.1%
Inventory turns⁽³⁾ (<i>times</i>)	2.57	2.82	2.52
Adjusted ROIC (%)			
Consolidated	14.2	13.1	11.1
Canada	15.1	13.2	11.0
South America	17.7	18.1	16.0
UK & Ireland	13.2	12.8	13.9

- Excluding the impact of foreign exchange, invested capital was up 17% from Q4 2017, primarily due to higher inventory requirements to meet stronger demand across most markets. A decrease in accounts payable balances in South America due to timing and investment in rental equipment in Canada also contributed to higher invested capital levels compared to Q4 2017.
- Invested capital turnover and working capital to sales ratio improved from Q4 2017, driven mostly by higher sales.
- Adjusted ROIC increased by 110 basis points from Q4 2017, driven mostly by Canada, and was the highest Adjusted ROIC since Q2 2015.

Q2 2018 HIGHLIGHTS BY OPERATION

All comparisons are to restated Q2 2017 results⁽¹⁾ unless indicated otherwise. All numbers are in functional currency: South America – U.S. dollar; UK & Ireland – U.K. pound sterling.

Canada

- Revenues were up 15%, reflecting strong market activity. New equipment sales increased by 29% with higher deliveries to construction and mining customers, while used equipment sales were 16% lower due to constrained supply of used equipment. Product support revenues were up 13%, driven primarily by stronger demand for parts in the construction sectors.
- SG&A as a percentage of revenue declined by 210 basis points, reflecting leverage of incremental revenues on fixed costs and cost discipline. As a result, EBIT of \$77 million increased by 39% and EBIT margin of 8.5% improved by 150 basis points from Q2 2017.

South America

- Revenues were up 11%, reflecting strong growth in Chile - up 24%. Product support revenues increased by 14%, driven by Chilean mining. New equipment sales were up 9%. Higher sales in all sectors in Chile were partly offset by lower construction sales in Argentina due to economic uncertainty and reduced government infrastructure spending.
- EBIT increased by 16%; EBIT margin was 8.5%, up from 8.1% in Q2 2017.

United Kingdom & Ireland

- Revenues declined by 5% largely due to delayed new equipment deliveries to certain construction customers. Product support revenues were up 2%, driven by higher parts sales, particularly in power systems.
- EBIT was up 10% and EBIT margin increased by 70 basis points to 5.3% due to improved margins in most lines of business, a higher proportion of product support in the revenue mix, and more parts sales through lower-cost e-commerce channels.

CORPORATE AND BUSINESS DEVELOPMENTS

Dividend

The Board of Directors has approved a quarterly dividend of \$0.20 per share, payable on September 6, 2018 to shareholders of record on August 23, 2018. This dividend will be considered an eligible dividend for Canadian income tax purposes.

SELECTED CONSOLIDATED FINANCIAL INFORMATION

\$ millions, except per share amounts

	Three months ended June 30			Six months ended June 30		
	2018	2017 restated ⁽¹⁾	% change fav (unfav)	2018	2017 restated ⁽¹⁾	% change fav (unfav)
New equipment	623	556	12	1,207	981	23
Used equipment	78	96	(19)	174	169	3
Equipment rental	57	54	6	107	105	2
Product support	968	874	11	1,904	1,723	10
Other	3	4		7	7	
Total revenue	1,729	1,584	9	3,399	2,985	14
Gross profit	466	422	10	906	815	11
Gross profit margin	26.9%	26.6%		26.6%	27.3%	
SG&A	(345)	(331)	(4)	(673)	(638)	(5)
SG&A as a percentage of revenue	(19.9)%	(20.9)%		(19.8)%	(21.4)%	
Equity earnings of joint ventures & associate	5	5		6	4	
Other income	-	1		-	2	
EBIT	126	97	30	239	183	31
EBIT margin	7.3%	6.1%		7.0%	6.1%	
Adjusted EBIT ⁽³⁾⁽⁴⁾	126	97	30	232	183	27
Adjusted EBIT margin ⁽³⁾⁽⁴⁾	7.3%	6.1%		6.8%	6.1%	
Net income	81	55	44	152	102	48
Basic EPS	0.48	0.33	44	0.90	0.61	48
Adjusted EPS ⁽³⁾⁽⁴⁾	0.48	0.33	44	0.87	0.61	43
EBITDA	171	145	18	328	276	19
EBITDA margin	9.9%	9.1%		9.7%	9.2%	
Adjusted EBITDA ⁽³⁾⁽⁴⁾	171	145	18	321	276	16
Adjusted EBITDA margin ⁽³⁾⁽⁴⁾	9.9%	9.1%		9.4%	9.2%	
Free cash flow	(28)	(131)	79	(291)	(207)	(41)
	June 30, 2018	Dec 31, 2017 restated ⁽¹⁾				
Invested capital	3,362	2,830				
Invested capital turnover (times)	2.13	2.09				
Net debt to invested capital ⁽³⁾	37.0%	30.2%				
ROIC	14.3%	13.1%				
Adjusted ROIC	14.2%	13.1%				

Q2 2018 INVESTOR CALL

The Company will hold an investor call on August 8, 2018 at 11:00 am Eastern Time. Dial-in numbers: 1-800-319-4610 (Canada and US), 1-416-915-3239 (Toronto area), 1-604-638-5340 (international). The call will be webcast live and archived for three months at http://www.finning.com/en_CA/company/investors.html. Finning no longer provides a phone playback recording; please use the webcast to access the archived call.

ABOUT FINNING

Finning International Inc. (TSX: FTT) is the world's largest Caterpillar equipment dealer delivering unrivalled service to customers for 85 years. Finning sells, rents, and provides parts and service for equipment and engines to help customers maximize productivity. Headquartered in Vancouver, B.C., the Company operates in Western Canada, Chile, Argentina, Bolivia, the United Kingdom and Ireland.

CONTACT INFORMATION

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FOOTNOTES

- (1) The 2017 comparative results described in this earnings release 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) Earnings Before Finance Costs and Income Taxes (EBIT); Basic Earnings per Share (EPS); Earnings Before Finance Costs, Income Taxes, Depreciation and Amortization (EBITDA); Selling, General & Administrative Expenses (SG&A); Return on Invested Capital (ROIC).
- (3) These financial metrics, referred to as "non-GAAP financial measures", do not have a standardized meaning under International Financial Reporting Standards (IFRS), which are also referred to herein as Generally Accepted Accounting Principles (GAAP), and therefore may not be comparable to similar measures presented by other issuers. For additional information regarding these financial metrics, including definitions and reconciliations from each of these non-GAAP financial measures to their most directly comparable measure under GAAP, where available, see the heading "Description of Non-GAAP Financial Measures and Reconciliations" in the Company's Q2 2018 management discussion and analysis (the Interim MD&A). Management believes that providing certain non-GAAP financial measures provides users of the Company's consolidated financial statements with important information regarding the operational performance and related trends of the Company's business. By considering these measures in combination with the comparable IFRS measures set out in the Interim 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.
- (4) Certain 2018 and 2017 financial metrics were impacted by significant items management does not consider indicative of operational and financial trends either by nature or amount; these significant items are described on page 30-32 of the Interim MD&A. The financial metrics which have been adjusted to take into account these items are referred to as "Adjusted" metrics.

FORWARD-LOOKING DISCLAIMER

This news release 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 market momentum in the Company's key regions, further upside in 2019 from infrastructure projects in Western Canada and mining recovery in Chile; and the Company's continuing focus on growing its business in a profitable and capital-efficient manner. 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 news release and the Interim 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 news release and the Interim MD&A 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 the Interim 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 annual 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.

MANAGEMENT'S DISCUSSION AND ANALYSIS

August 8, 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 (CAD), 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.

Second Quarter Overview

(\$ millions, except for earnings per share data)	Q2 2018	Q2 2017 (Restated)	% change fav (unfav)
Revenue	\$ 1,729	\$ 1,584	9%
Gross profit	466	422	10%
Selling, general & administrative expenses (SG&A)	(345)	(331)	(4)%
Equity earnings of joint ventures and associate	5	5	n/m
Other income	—	1	n/m
Earnings before finance costs and income taxes (EBIT)	\$ 126	\$ 97	30%
Net income	\$ 81	\$ 55	44%
Basic earnings per share (EPS)	\$ 0.48	\$ 0.33	44%
Earnings before finance costs, income taxes, depreciation, and amortization (EBITDA) ⁽¹⁾	\$ 171	\$ 145	18%
Free cash flow ⁽¹⁾	\$ (28)	\$ (131)	79%
<i>Gross profit margin</i>	26.9%	26.6%	
<i>SG&A as a percentage of revenue</i>	19.9%	20.9%	
<i>EBIT margin</i>	7.3%	6.1%	
<i>EBITDA margin</i> ⁽¹⁾	9.9%	9.1%	

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.

2018 Second Quarter Highlights

- Revenue of \$1.7 billion was up 9% from Q2 2017 reflecting an increase in most lines of business, driven primarily by higher product support and new equipment revenues. The Company's Canadian operations accounted for over 80% of the increase in revenue, reporting strong performance in the construction and mining sectors.
- Gross profit of \$466 million was 10% higher than the prior year with overall gross profit margin slightly higher than Q2 2017 with a relatively consistent revenue mix year over year.
- SG&A as a percentage of revenue was lower than Q2 2017 on a consolidated basis primarily due to the strong leverage of incremental revenues on fixed costs.
- EBIT of \$126 million was up 30% from Q2 2017 and EBIT margin of 7.3% was up from 6.1% earned in the prior year comparable period.
- EBITDA was \$171 million and EBITDA margin was 9.9% in Q2 2018, higher than the \$145 million and 9.1%, respectively, earned in the same period last year. The increase reflects improved activity in all market sectors and leverage of incremental revenues on fixed costs. All regions reported improved EBITDA margin this quarter over the same quarter in the prior year.
- Basic EPS in Q2 2018 was \$0.48, an increase of 44% from \$0.33 in Q2 2017.
- Free cash flow use of \$28 million in Q2 2018 reflected lower use of cash in the Company's Canadian and South American operations compared with the Q2 2017 free cash flow use of \$131 million. This improvement in Q2 2018 primarily reflects higher sales volumes and improved cash collections, partly offset by higher new equipment inventory purchases to support demand.
- Adjusted return on invested capital ⁽¹⁾ was 14.2%, the highest since Q2 2015.

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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.

Strategic Framework

The Company's customer-centric growth strategy is based on three pillars – Develop, Perform, Innovate – which provide a strong foundation for the Company's five Global Strategic Priorities which are summarized below:

- Customer Centricity – be our customers' trusted partner by providing consistent and innovative services that add value to their business;
- Lean & Agile Global Finning – maintain relentless focus on productivity, efficiency, and our customers' total cost of equipment ownership;
- Global Supply Chain – transform our globally-leveraged supply chain to enhance omni-channel customer experience while increasing working capital efficiencies and generation of free cash flow;
- Digital Enterprise – advance the use of technology to improve our customers' experience, enable data-driven decisions, and reduce cost to serve; and,
- Growth and Diversification – achieve profitable and capital efficient growth.

All regions are committed to delivering our strategy by focusing on these Global Strategic Priorities.

PURPOSE

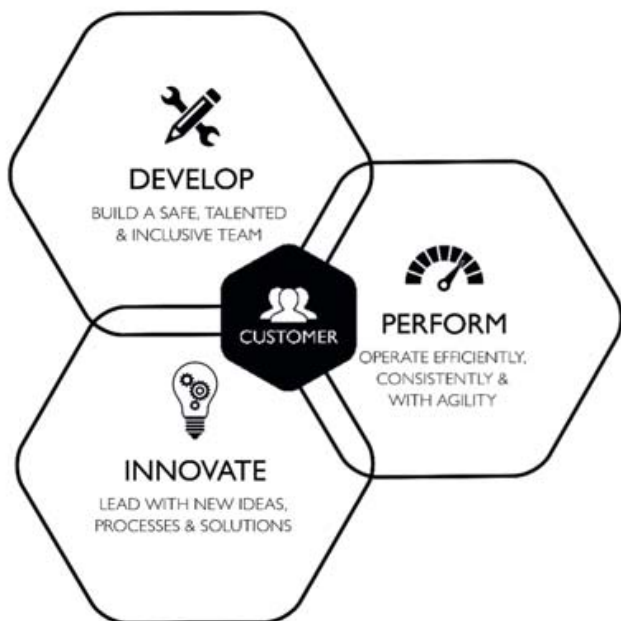
We believe in partnering and innovating to build and power a better world.

VISION

Leveraging our global expertise and insight, we are a trusted partner in transforming our customers' performance.

VALUES

We are trusted
We are collaborative
We are innovative
We are passionate



GLOBAL STRATEGIC PRIORITIES



Customer Centricity



Lean & Agile Global Finning



Global Supply Chain

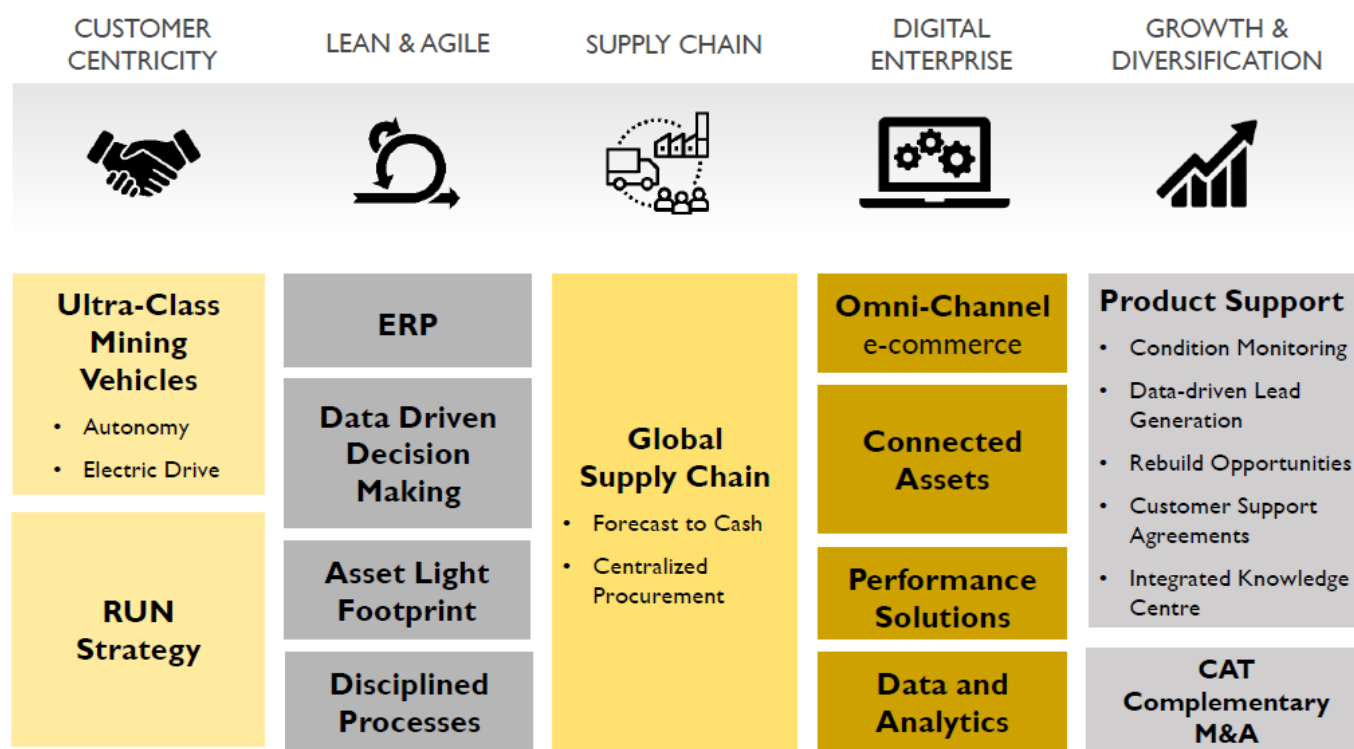


Digital Enterprise



Growth and Diversification

The Company's capital investments and allocation of resources are directly linked to the five Global Strategic Priorities and the key investments planned for 2018-2020 are summarized below. A large portion of the investment in strategic initiatives is success-based.



RUN - Rental, Used, New

Finning is committed to improving return on invested capital (ROIC)⁽¹⁾ in an upcycle. A significantly reduced cost structure and sustainable operating improvements are expected to generate earnings torque, while supply chain initiatives are expected to increase capital efficiencies.

⁽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.

Sustainability

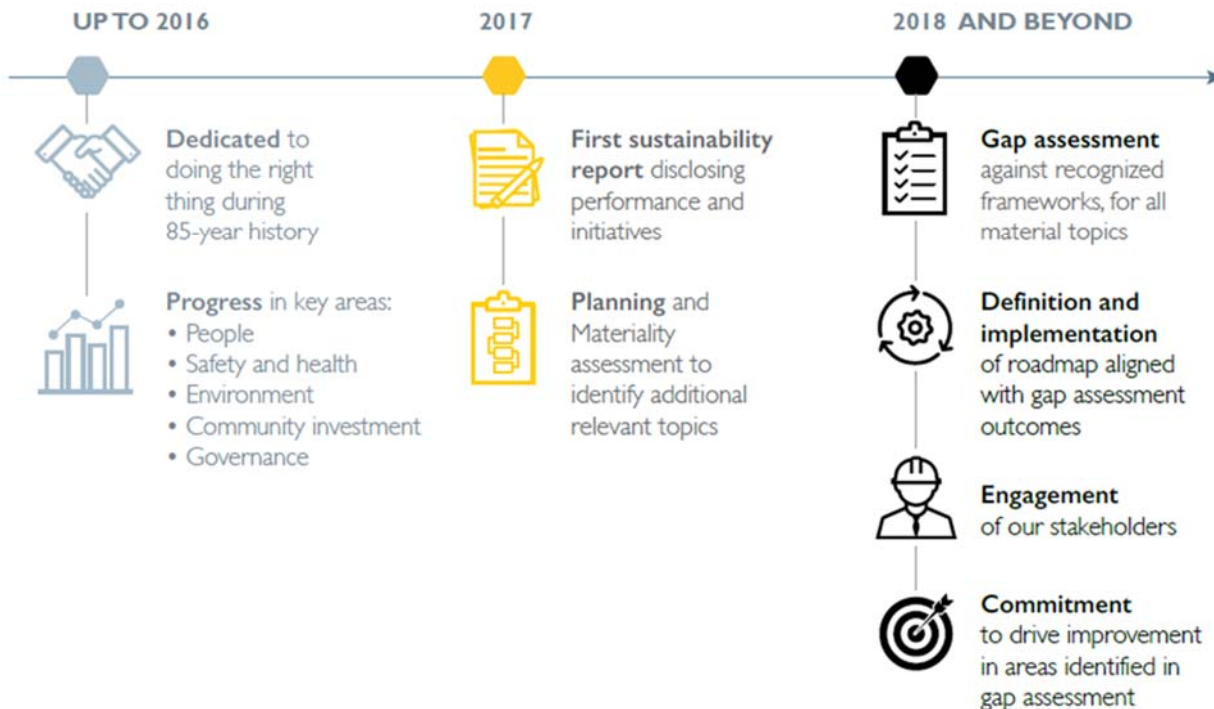
Sustainability is an integral part of Finning's purpose, vision and values, and is embedded in the Company's strategy and operations.

During its 85-year history, Finning has worked hard to strengthen its governance, improve safety, reduce environmental impact, engage employees, and create a positive impact in communities.

In 2017, the Company formalized its sustainability focus, and in May 2018, Finning published its first Sustainability Report. The Sustainability Report covers the sustainability topics that are most important to Finning and its stakeholders: governance, safety & health, environment (including greenhouse gas (GHG) emissions), people & workplace (including employee engagement, talent development, inclusion and diversity), and community. The Company's performance in key sustainability metrics – highlighted below – is calculated using standard industry and regulatory methodologies.

- Reduced total recordable injury frequency by 57 percent from 2013 to 2017. Achieved zero recordable spills across all regions and locations in 2017.
- Established a GHG measurement protocol to ensure consistent tracking and reporting of GHG emissions in each of its regions.
- Developed a five-year plan to increase inclusion and diversity in our business:
 - Attract, retain, and advance women at all levels of the organization, with a spotlight on women in leadership and operational roles; and,
 - Aim to have at least 30 percent women representation on the Board of Directors.
- Focused community investment efforts on promoting STEM (science, technology, engineering, and mathematics) education by collaborating with non-profit partners.

Going forward, Finning will define and implement a five-year sustainability roadmap which prioritizes actions to address gaps with best standards and recognized practices, and strengthens engagement with stakeholders. The Company expects the content of future reports to evolve as it implements the sustainability roadmap.



Finning is committed to creating value for all its stakeholders by operating and growing in a sustainable manner. For more information on the Company's sustainability journey and to access the Sustainability Report, please visit: www.finning.com/en_CA/company/sustainability.html.

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 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. Financial metrics that have been adjusted take into account these significant items and are referred to as "Adjusted" metrics. Adjusted 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.

There were no significant items identified by management to adjust the results of the Company for the three months ended June 30, 2018 and 2017. Significant items identified in prior periods, described on pages 29 - 31 of this MD&A, impact certain reported metrics for Q2 2018 and Q2 2017 periods included in the Quarterly Key Performance Measurements.

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		
	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2
ROIC ⁽²⁾									
Consolidated	14.3 %	13.7 %	13.1 %	10.1 %	9.3 %	7.1 %	5.6 %	(6.6)%	(6.4)%
Canada	15.5 %	14.5 %	13.3 %	9.2 %	8.1 %	6.6 %	5.3 %	4.3 %	4.0 %
South America	17.5 %	17.6 %	17.8 %	15.5 %	14.9 %	14.5 %	13.3 %	(18.1)%	(17.0)%
UK & Ireland	13.2 %	13.4 %	12.8 %	12.9 %	13.9 %	(0.5)%	(4.5)%	(17.4)%	(15.7)%
EBIT ⁽²⁾ (\$ millions)									
Consolidated	126	113	109	100	97	86	18	73	29
Canada	77	71	67	57	55	46	(3)	37	28
South America	47	46	50	48	42	44	27	40	38
UK & Ireland	14	10	8	9	13	7	8	10	(26)
EBIT Margin ⁽²⁾									
Consolidated	7.3 %	6.8 %	6.3 %	6.5 %	6.1 %	6.1 %	1.3 %	5.4 %	2.3 %
Canada	8.5 %	8.4 %	7.8 %	7.7 %	7.0 %	6.7 %	(0.3)%	5.9 %	4.4 %
South America	8.5 %	8.4 %	8.6 %	8.6 %	8.1 %	8.8 %	5.0 %	8.7 %	8.8 %
UK & Ireland	5.3 %	3.7 %	3.0 %	3.5 %	4.6 %	3.3 %	3.3 %	3.8 %	(10.5)%
Invested Capital ⁽³⁾ (\$ millions)									
Consolidated	3,362	3,226	2,830	3,095	3,108	2,940	2,797	2,917	3,041
Canada	1,840	1,778	1,621	1,746	1,764	1,630	1,595	1,650	1,695
South America	1,172	1,140	983	1,069	1,047	1,029	996	1,021	1,072
UK & Ireland	372	322	250	311	307	286	216	253	263
Invested Capital Turnover ⁽³⁾									
Consolidated	2.13x	2.13x	2.09x	2.01x	1.97x	1.89x	1.90x	1.85x	1.78x
Canada	1.92x	1.87x	1.82x	1.74x	1.70x	1.62x	1.70x	1.66x	1.68x
South America	2.05x	2.08x	2.09x	2.03x	1.97x	1.87x	1.80x	1.74x	1.61x
UK & Ireland	3.44x	3.65x	3.56x	3.47x	3.66x	3.69x	3.54x	3.41x	2.98x
Inventory (\$ millions)	1,968	1,906	1,708	1,744	1,789	1,650	1,601	1,726	1,688
Inventory Turns ⁽³⁾ (times)	2.57x	2.80x	2.82x	2.60x	2.52x	2.61x	2.49x	2.26x	2.43x
Working Capital to Sales Ratio ⁽³⁾	26.9 %	27.1 %	27.4 %	28.6 %	29.1 %	30.5 %	30.4 %	31.5 %	32.4 %
Free Cash Flow (\$ millions)	(28)	(263)	350	22	(131)	(76)	113	163	64
Net Debt to Invested Capital Ratio ⁽³⁾	37.0 %	36.1 %	30.2 %	37.4 %	37.2 %	34.3 %	32.0 %	35.0 %	37.9 %
EBITDA ⁽²⁾ (\$ millions)	171	157	154	146	145	131	65	119	77
Net Debt to EBITDA Ratio ⁽²⁾⁽³⁾	2.0	1.9	1.5	2.4	2.5	2.6	2.5	109.4	71.5

⁽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 29 - 31 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 29 - 31 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		
	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2
Adjusted ROIC ⁽²⁾									
Consolidated	14.2 %	13.5 %	13.1 %	11.8 %	11.1 %	10.0 %	9.3 %	9.2 %	9.4 %
Canada	15.1 %	14.0 %	13.2 %	12.0 %	11.0 %	10.2 %	9.3 %	8.7 %	9.3 %
South America	17.7 %	17.8 %	18.1 %	16.5 %	16.0 %	15.6 %	15.0 %	15.6 %	14.2 %
UK & Ireland	13.2 %	13.4 %	12.8 %	12.9 %	13.9 %	7.7 %	5.9 %	3.4 %	3.3 %
Adjusted EBIT ⁽²⁾ (\$ millions)									
Consolidated	126	106	110	100	97	86	70	73	63
Canada	77	64	66	57	55	46	44	37	40
South America	47	46	52	48	42	44	37	40	39
UK & Ireland	14	10	8	9	13	7	8	10	(5)
Adjusted EBIT Margin ⁽²⁾									
Consolidated	7.3 %	6.4 %	6.4 %	6.5 %	6.1 %	6.1 %	4.8 %	5.4 %	4.9 %
Canada	8.5 %	7.5 %	7.6 %	7.7 %	7.0 %	6.7 %	6.2 %	5.9 %	6.3 %
South America	8.5 %	8.4 %	9.1 %	8.6 %	8.1 %	8.8 %	7.0 %	8.7 %	9.1 %
UK & Ireland	5.3 %	3.7 %	3.0 %	3.5 %	4.6 %	3.3 %	3.3 %	3.8 %	(1.9)%
Adjusted EBITDA ⁽²⁾	171	150	155	146	145	131	117	119	111
Net Debt to Adjusted EBITDA Ratio ⁽²⁾	2.0	2.0	1.5	2.1	2.3	2.1	1.9	2.1	2.2

⁽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.

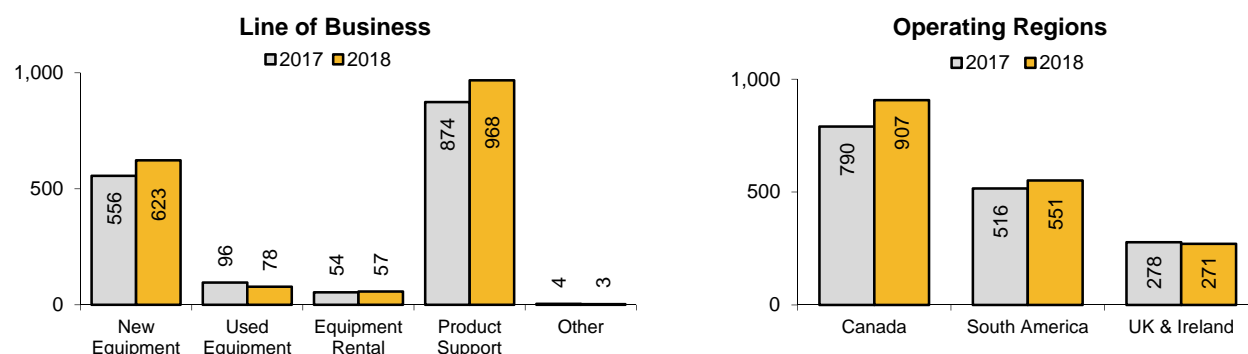
⁽²⁾ These are non-GAAP financial measures that do not have a standardized meaning under IFRS, and therefore may not be comparable to similar measures presented by other issuers. For additional information regarding these financial metrics, including definitions and reconciliations from each of these 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.

Second Quarter Results

Revenue

Revenue by Line of Business and by Operation

3 months ended June 30
(\$ millions) (2017 restated)



The Company generated revenue of \$1.7 billion during the second quarter of 2018, an increase of 9% over the same period in the prior year primarily due to higher product support revenues and new equipment sales. Revenue was up in the Company's Canadian and South American operations, partly offset by lower revenues in UK & Ireland.

The stronger CAD relative to the U.S. Dollar (USD) was partly offset by the weaker CAD relative to the U.K. Pound Sterling (GBP) on average in Q2 2018 compared to the same prior year period. This resulted in a negative foreign currency translation impact on revenue in Q2 2018 of approximately \$20 million and was not significant at the EBIT level.

New equipment sales increased by 12% compared to the second quarter of 2017, and was higher in the Company's Canadian and South American operations. In the Company's Canadian operations, demand in construction and mining sectors continued to be strong. Higher demand for new equipment sales in the Chilean mining sector drove the growth in the Company's South American operations. In the Company's UK & Ireland operations, equipment delivery delays to certain construction customers resulted in lower new equipment revenues.

Equipment backlog remained robust at \$1.5 billion at June 30, 2018, compared to \$1.6 billion at March 31, 2018 and \$1.3 billion at December 31, 2017. Deliveries in Q2 2018 were higher than recent quarters and more than offset strong order intake resulting in slightly lower equipment backlog levels at June 30, 2018 compared to March 31, 2018.

Product support revenue was up 11% compared to the second quarter of 2017, up in all of the Company's operations. Demand for parts was strong in all markets, particularly in the construction sector in the Company's Canadian operations and strong rebuild activity in the mining sector in the Company's South American operations.

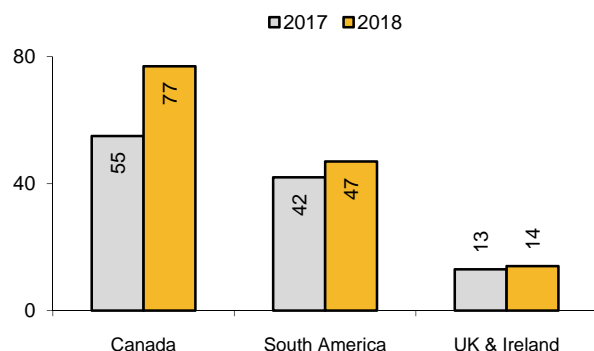
Rental revenues were 6% higher than the prior year comparable period.

Used equipment sales were down 19%, down in all of the Company's operations, reflecting a tighter supply environment.

Earnings Before Finance Costs and Income Taxes

Q2 2018 gross profit of \$466 million was up 10% compared to the same period in the prior year primarily driven by higher sales volumes. Gross profit margin of 26.9% was modestly higher than the 26.6% earned in Q2 2017 reflecting higher margins on new equipment, rental, and service revenues.

EBIT by Operation ⁽¹⁾
3 months ended June 30
(\$ millions) (2017 restated)



⁽¹⁾ Excluding the corporate and other operations segment

SG&A in the second quarter of 2018 was 4% higher than the same period in the prior year. This increase was primarily due to higher variable costs driven by increased activity as well as higher people costs including short-term incentive plan costs as well as inflationary and statutory salary increases in the Company's South American operations. SG&A as a percentage of revenue was down 100 basis points over the same period in the prior year, which is attributable to the leverage of incremental revenues on fixed costs and disciplined spending.

The Company reported EBIT of \$126 million and EBIT margin of 7.3% in the second quarter of 2018 compared to EBIT of \$97 million and EBIT margin of 6.1% earned in Q2 2017. The Company's improved EBIT and EBIT margin in Q2 2018 compared to Q2 2017, were mainly due to improved market conditions and higher sales volumes as well as lower SG&A relative to revenue. Higher EBIT and EBIT margin were reported in Q2 2018 in all operations.

EBITDA

EBITDA for Q2 2018 was \$171 million and EBITDA margin was 9.9% (Q2 2017: EBITDA was \$145 million and EBITDA margin was 9.1%). The increase in EBITDA reflected higher sales and the improvement in EBITDA margin was due to leverage of incremental revenues on fixed costs.

The net debt to EBITDA ratio at June 30, 2018 was 2.0 times and improved from 2.5 times at June 30, 2017.

Finance Costs

Finance costs in the second quarter of 2018 were \$18 million and lower than Q2 2017 finance costs of \$23 million. Lower finance costs in the current year period are primarily due to 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.

Provision for Income Taxes

The effective income tax rate for Q2 2018 was 25.3%, compared to 24.2% in Q2 2017. The higher tax rate in Q2 2018 was primarily the result of a higher proportion of earnings in higher tax jurisdictions.

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

Net Income

Net income was \$81 million in Q2 2018, compared to \$55 million earned in the same period last year. Basic EPS of \$0.48 per share was 44% higher than the \$0.33 per share earned in Q2 2017. The increase in net income and EPS in the second quarter of 2018 compared to the prior year period results was driven by higher sales volumes from better market conditions, as well as improved profitability.

Year-to-Date Overview

(\$ millions, except for earnings per share data)	YTD 2017		% change fav (unfav)
	YTD 2018	(Restated) ⁽¹⁾	
Revenue	\$ 3,399	\$ 2,985	14%
Gross profit	906	815	11%
SG&A	(673)	(638)	(5)%
Equity earnings of joint ventures and associate	6	4	n/m
Other income	—	2	n/m
EBIT	\$ 239	\$ 183	31%
Net income	\$ 152	\$ 102	48%
EPS	\$ 0.90	\$ 0.61	48%
EBITDA	\$ 328	\$ 276	19%
Free cash flow	\$ (291)	\$ (207)	41%
Adjusted EBIT	\$ 232	\$ 183	27%
Adjusted net income ⁽²⁾⁽³⁾	\$ 147	\$ 102	43%
Adjusted EPS ⁽²⁾	\$ 0.87	\$ 0.61	43%
Adjusted EBITDA	\$ 321	\$ 276	16%
<i>Gross profit margin</i>	26.6%	27.3%	
<i>SG&A as a percentage of revenue</i>	19.8%	21.4%	
<i>EBIT margin</i>	7.0%	6.1%	
<i>EBITDA margin</i>	9.7%	9.2%	
<i>Adjusted EBIT margin</i>	6.8%	6.1%	
<i>Adjusted EBITDA margin⁽²⁾</i>	9.4%	9.2%	

⁽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⁾ 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.

⁽³⁾ Certain 2018 financial metrics were impacted by a significant item that management does not consider indicative of operational and financial trends either by nature or amount; this significant item is described below and the financial metrics that have been adjusted to take into account this item is referred to as "Adjusted metrics". There were no significant items adjusted in the six months ended June 30, 2017 therefore the adjusted metrics above for 2017 are the same as the metrics reported in accordance with IFRS ("reported metrics").

A significant item that affected the reported results of the Company for the six months ended June 30, 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:

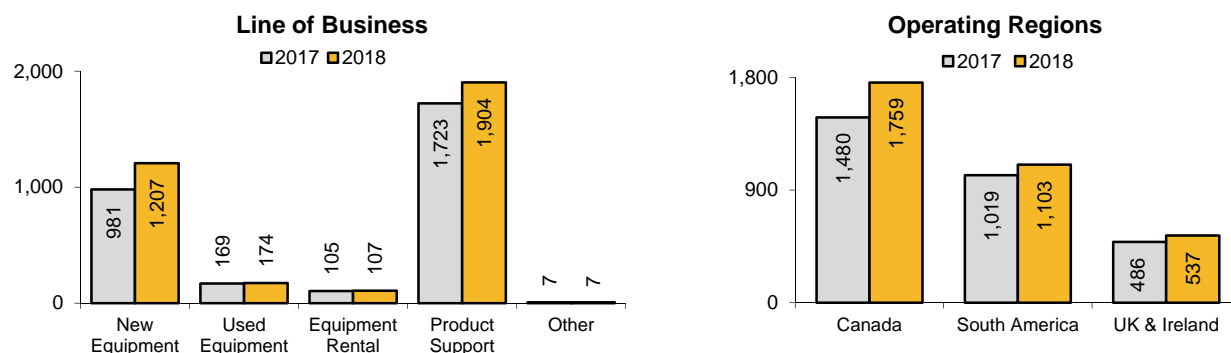
6 months ended June 30, 2018 (\$ millions except per share amounts)	EBIT				Net	EPS
					Income	
	Canada	South America	UK & Ireland	Consol ⁽¹⁾	Consol	Consol
EBIT, net income, and EPS	\$ 148	\$ 93	\$ 24	\$ 239	\$ 152	\$ 0.90
Significant item:						
Impact from Alberta wildfires						
– insurance proceeds	(7)	—	—	(7)	(5)	(0.03)
Adjusted EBIT, Adjusted net income, and Adjusted EPS	\$ 141	\$ 93	\$ 24	\$ 232	\$ 147	\$ 0.87

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

Revenue

Revenue by Line of Business and Operation

6 months ended June 30
(\$ millions) (2017 restated)



The Company generated revenue of \$3.4 billion during the six months ended June 30, 2018, an increase of 14% over the same period last year. Revenue was up in all of the Company's operations and in all lines of business, particularly in new equipment and product support reflecting strong activity in all market segments.

The stronger CAD relative to the USD was partly offset by the weaker CAD relative to the GBP on average in the year-to-date period compared to the same period last year. This resulted in a negative foreign currency translation impact on revenue in the first six months of 2018 of approximately \$25 million and was not significant at the EBIT level.

New equipment sales were up 23% during the six months ended June 30, 2018, compared to the same period in 2017, up in all operations, particularly the Company's Canadian operations. The Company's Canadian operations reported increased activity in the mining and construction sectors while the Company's South American and UK & Ireland operations reported strong activity in the power systems and construction sectors.

Product support sales in the six months ended June 30, 2018 were up 10% compared to the first six months of 2017, up in all operations. This increase was driven primarily by strong demand in the construction sector in Canada and strong parts demand in the mining sector of the Company's South American operations in the current year.

Earnings Before Finance Costs and Income Taxes

Gross profit in the first six months of 2018 of \$906 million was up 11% from the comparative prior year period primarily due to higher volumes from improved market activity. Gross profit margin of 26.6% was down from 27.3% earned in the first six months of 2017 due to a revenue mix shift to higher new equipment sales which typically earn lower margins.

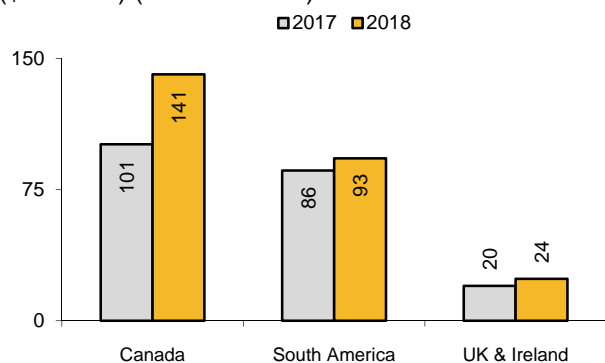
SG&A for the first six months of 2018 included the favourable impact of \$7 million of additional insurance proceeds received by the Company's Canadian operations in Q1 2018 in relation to the business interruption resulting from the Alberta wildfires in 2016. Excluding the benefit of the insurance proceeds in the current six-month period, SG&A was 7% higher than the same period of the prior year. This increase is due to higher sales volumes and people related increases such as higher short-term incentive plan costs in all operations and inflationary and statutory salary increases in the Company's South American operations. Excluding the insurance proceeds in the current six-month period, SG&A was down 140 basis points relative to revenue, reflecting the leverage of incremental revenues on fixed costs and controlled spending.

Equity earnings of joint ventures and associates for the six months ended 2018 were up \$2 million from the prior year comparable period reflecting improved results from the Company's joint venture investment, Pipeline Machinery International.

Other income of \$2 million reported in 2017 was a gain on the Company's investment in IronPlanet Holdings Inc., which was disposed of in the second quarter of 2017.

Adjusted EBIT by Operation ⁽¹⁾

6 months ended June 30
(\$ millions) (2017 restated)



⁽¹⁾ Excluding the corporate and other operations segment

The Company reported EBIT of \$239 million and EBIT margin of 7.0% in the first six months of 2018, compared to \$183 million and 6.1% earned in the first six months of 2017. Excluding the insurance proceeds received in Q1 2018 as described on page 11, Adjusted EBIT was \$232 million and Adjusted EBIT margin was 6.8%, higher than the same period in 2017. The increase in Adjusted EBIT in the first six of 2018 compared to the same period in the prior year was primarily due to higher sales volumes in the current year, as well as lower SG&A relative to revenue reflecting leverage of incremental revenues on fixed costs.

EBITDA

EBITDA for the first six months of 2018 was \$328 million and EBITDA margin was 9.7% (2017 year-to-date EBITDA was \$276 million and EBITDA margin was 9.2%). Excluding the insurance proceeds received in Q1 2018 noted above, 2018 year-to-date Adjusted EBITDA was \$321 million and Adjusted EBITDA margin was 9.4%. EBITDA and Adjusted EBITDA was up from the prior year period mainly due to higher earnings from all of the Company's operations.

Finance Costs

Finance costs in the six months ended June 30, 2018 were \$36 million, lower than the \$45 million in the same period in 2017. This reduction is due to lower long-term debt outstanding, combined with lower interest rates due to the early redemption and refinancing of long-term debt in Q3 2017.

Provision for Income Taxes

The effective income tax rate for the first half of 2018 was 25.3%, which was comparable to 25.7% in the same period of the prior year.

Net Income

Net income was \$152 million in the first six months of 2018, compared to \$102 million earned in the same period last year and basic EPS was \$0.90 per share compared with \$0.61 per share in 2017. Excluding the insurance proceeds noted above, Adjusted net income in 2018 was \$147 million and Adjusted EPS was \$0.87. There were no significant items identified by management adjusting the results reported in the six months of 2017. The increase in Adjusted net income and Adjusted EPS compared to the prior year results was primarily due to higher revenues from improved market activity and higher profitability.

Invested Capital

(\$ millions, unless otherwise stated)	June 30, 2018	March 31 2018	Increase from March 31 2018	December 31, 2017 (Restated) ⁽¹⁾	Increase from December 31, 2017
Consolidated	\$ 3,362	\$ 3,226	\$ 136	\$ 2,830	\$ 532
Canada	\$ 1,840	\$ 1,778	\$ 62	\$ 1,621	\$ 219
South America	\$ 1,172	\$ 1,140	\$ 32	\$ 983	\$ 189
UK & Ireland	\$ 372	\$ 322	\$ 50	\$ 250	\$ 122
<i>South America (U.S. dollar)</i>	\$ 890	\$ 884	\$ 6	\$ 784	\$ 106
<i>UK & Ireland (U.K. pound sterling)</i>	£ 214	£ 178	£ 36	£ 147	£ 67

⁽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 \$532 million increase in consolidated invested capital from December 31, 2017 to June 30, 2018 includes a foreign exchange impact of approximately \$65 million in translating the invested capital balances of the Company's South American and UK & Ireland operations. The foreign exchange impact was primarily the result of the 5% weaker CAD relative to the USD.

Excluding the impact of foreign exchange, consolidated invested capital increased by \$468 million from December 31, 2017 to June 30, 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;
- a decrease in accounts payable balances in the Company's South American operations due to timing; and
- higher spend on rental equipment, primarily in the Company's Canadian operations

Compared to March 31, 2018:

The \$136 million increase in consolidated invested capital from March 31, 2018 to June 30, 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 2% weaker CAD relative to the USD partly offset by the 4% stronger CAD relative to the GBP at June 30, 2018 compared to the rate at March 31, 2018.

Excluding the impact of foreign exchange, consolidated invested capital increased by \$128 million from March 31, 2018 to June 30, 2018 reflecting:

- an increase in new equipment inventory in the Company's South American and UK & Ireland operations and higher parts inventory in the Company's Canadian operations, attributable to increased demand; and
- higher spend on rental equipment, primarily in the Company's Canadian operations.

ROIC and Invested Capital Turnover

	June 30, 2018	March 31, 2018	December 31, 2017 (Restated) ⁽¹⁾	June 30, 2017 (Restated) ⁽¹⁾
ROIC				
Consolidated	14.3 %	13.7 %	13.1 %	9.3 %
Canada	15.5 %	14.5 %	13.3 %	8.1 %
South America	17.5 %	17.6 %	17.8 %	14.9 %
UK & Ireland	13.2 %	13.4 %	12.8 %	13.9 %
Adjusted ROIC				
Consolidated	14.2 %	13.5 %	13.1 %	11.1 %
Canada	15.1 %	14.0 %	13.2 %	11.0 %
South America	17.7 %	17.8 %	18.1 %	16.0 %
UK & Ireland ⁽²⁾	13.2 %	13.4 %	12.8 %	13.9 %
Invested Capital Turnover (times)				
Consolidated	2.13x	2.13x	2.09x	1.97x
Canada	1.92x	1.87x	1.82x	1.70x
South America	2.05x	2.08x	2.09x	1.97x
UK & Ireland	3.44x	3.65x	3.56x	3.66x

⁽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 have been no significant items adjusted in the UK & Ireland operations since Q2 2016, therefore the Adjusted ROIC for all periods presented above is the same as the reported metric.

Return on Invested Capital

On a consolidated basis, ROIC was 14.3% at June 30, 2018, compared to 13.1% at December 31, 2017 and 9.3% at June 30, 2017. Adjusting for significant items that management does not consider indicative of operational and financial trends, as noted on pages 29 - 31 of this MD&A, Adjusted ROIC at June 30, 2018 was 14.2%, an increase from Adjusted ROIC of 13.1% at December 31, 2017. The increase in Adjusted ROIC compared to the prior year end reflects improved invested capital turnover as revenue growth achieved by the Company in recent quarters exceeded invested capital increases. Adjusted ROIC at June 30, 2018 was higher in both the Company's Canadian and UK & Ireland operations compared to December 31, 2017. Adjusted ROIC at June 30, 2018 was lower in the Company's South American operations compared to December 31, 2017 due to higher average invested capital levels mainly from new equipment inventory levels.

Adjusted ROIC at June 30, 2018 of 14.2% improved significantly from Adjusted ROIC of 11.1% at June 30, 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 June 30, 2018 was higher both in the Company's Canadian and South American operations compared to June 30, 2017. This reflects Adjusted EBIT growth in the last twelve months that outpaced the increase in average invested capital levels, demonstrating capital efficiency. Adjusted ROIC at June 30, 2018 was lower in the Company's UK & Ireland operations compared to June 30, 2017 due to higher average invested capital levels.

Invested capital turnover

Consolidated invested capital turnover at June 30, 2018 was 2.13 times, up from 2.09 times at December 31, 2017, reflecting an increase in the invested capital turnover rate in the Company's Canadian operations. Invested capital turnover in the Company's South American and UK & Ireland operations was lower than December 31, 2017 due to higher average invested capital levels, reflecting increased new equipment inventory levels, outpacing revenue growth in the last twelve-month period.

Consolidated invested capital turnover at June 30, 2018 of 2.13 times was up from 1.97 times at June 30, 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 June 30, 2018 has improved in all quarterly periods since the end of 2016 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 lower compared to June 30, 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 June 30, 2018					
(\$ millions)	Canada	South America	UK & Ireland	Consol	Revenue percentage
New equipment	\$ 308	\$ 145	\$ 170	\$ 623	36%
Used equipment	52	9	17	78	5%
Equipment rental	33	15	9	57	3%
Product support	513	381	74	968	56%
Other	1	1	1	3	0%
Total	\$ 907	\$ 551	\$ 271	\$ 1,729	100%
Revenue percentage by operation	52%	32%	16%	100%	
3 months ended June 30, 2017					
(\$ millions) (Restated) ⁽¹⁾	Canada	South America	UK & Ireland	Consol	Revenue percentage
New equipment	\$ 240	\$ 139	\$ 177	\$ 556	35%
Used equipment	62	14	20	96	6%
Equipment rental	33	13	8	54	3%
Product support	454	349	71	874	56%
Other	1	1	2	4	0%
Total	\$ 790	\$ 516	\$ 278	\$ 1,584	100%
Revenue percentage by operation	50%	33%	17%	100%	
6 months ended June 30, 2018					
(\$ millions)	Canada	South America	UK & Ireland	Consol	Revenue percentage
New equipment	\$ 576	\$ 298	\$ 333	\$ 1,207	36%
Used equipment	108	32	34	174	5%
Equipment rental	63	27	17	107	3%
Product support	1,011	744	149	1,904	56%
Other	1	2	4	7	0%
Total	\$ 1,759	\$ 1,103	\$ 537	\$ 3,399	100%
Revenue percentage by operation	52%	32%	16%	100%	
6 months ended June 30, 2017					
(\$ millions) (Restated) ⁽¹⁾	Canada	South America	UK & Ireland	Consol	Revenue percentage
New equipment	\$ 405	\$ 281	\$ 295	\$ 981	33%
Used equipment	108	26	35	169	6%
Equipment rental	64	26	15	105	3%
Product support	902	684	137	1,723	58%
Other	1	2	4	7	0%
Total	\$ 1,480	\$ 1,019	\$ 486	\$ 2,985	100%
Revenue percentage by operation	50%	34%	16%	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:

(\$ millions)	3 months ended June 30		6 months ended June 30	
	2018	2017 (Restated) ⁽¹⁾	2018	2017 (Restated) ⁽¹⁾
Revenue from external sources	\$ 907	\$ 790	\$ 1,759	\$ 1,480
Operating costs	(813)	(715)	(1,577)	(1,337)
Depreciation and amortization	(22)	(26)	(44)	(50)
Equity earnings of joint venture	5	6	10	8
EBIT	\$ 77	\$ 55	\$ 148	\$ 101
EBIT margin	8.5%	7.0%	8.4%	6.8%
EBITDA	\$ 99	\$ 81	\$ 192	\$ 151
EBITDA margin	11.0%	10.3%	10.9%	10.2%
Adjusted EBIT ⁽²⁾	\$ 77	\$ 55	\$ 141	\$ 101
Adjusted EBIT margin ⁽²⁾	8.5%	7.0%	8.0%	6.8%
Adjusted EBITDA ⁽²⁾	\$ 99	\$ 81	\$ 185	\$ 151
Adjusted EBITDA margin ⁽²⁾	11.0%	10.3%	10.5%	10.2%

(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 six months ended June 30, 2018 which management does not consider to be indicative of operational and financial trends are described on page 11 of this MD&A. There were no significant items adjusted in Q2 2018 and the three and six months ended June 30, 2017, therefore the adjusted metrics above for Q2 2018 and the three and six months ended June 30, 2017 are the same as the reported metrics.

Second Quarter Overview

Second quarter 2018 revenue increased 15% to \$907 million compared to Q2 2017. This increase was primarily driven by higher revenues in new equipment and product support lines of business reflecting improved market conditions.

New equipment revenue was up 29% from the second quarter of 2017, driven by higher activity in the construction markets and some large mining deliveries to customers. Equipment backlog at June 30, 2018 was down slightly from March 31, 2018 and while order intake remained very robust, particularly in the construction sector, it was more than offset by strong equipment deliveries during the quarter.

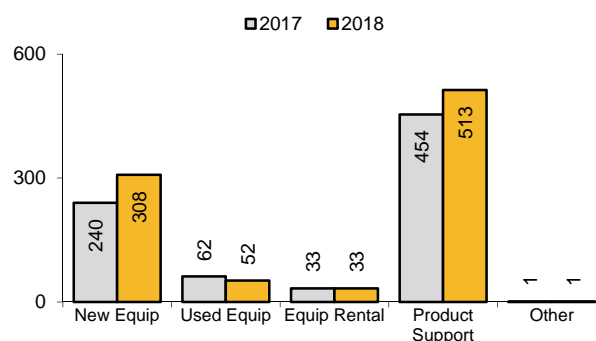
Product support revenue was up 13% from Q2 2017 with continued strong demand for parts, particularly in the construction and oil & gas sectors.

Used equipment revenue was down 16% from Q2 2017 primarily due to constrained supply.

Gross profit in Q2 2018 was higher than the same period in the prior year, reflecting higher sales volumes, partially offset by lower overall gross profit margin. Gross profit margin decreased in Q2 2018 compared to the same period in the prior year, primarily due to a revenue mix shift to higher new equipment sales.

SG&A increased 4% in Q2 2018 compared to the same period in the prior year, due to higher variable and people-related costs arising from increased activity, as well as higher short-term incentive plan costs compared with Q2

Canada – Revenue by Line of Business
3 months ended June 30
(\$ millions) (2017 restated)



2017. SG&A as a percentage of revenue was lower in Q2 2018 compared to Q2 2017 due to the leverage of incremental revenues on fixed costs and disciplined spending.

The Canadian operations contributed EBIT of \$77 million in Q2 2018, compared to \$55 million in Q2 2017 due to improved market conditions in all sectors and cost discipline. EBIT margin was 8.5%, up from 7.0% earned in the same period in 2017 primarily driven by strong operational leverage and cost containment.

Year-to-Date Overview

Revenue of just under \$1.8 billion for the six months ended June 30, 2018 increased by 19% compared to the same period last year, primarily due to higher new equipment and product support revenues.

New equipment revenue was up 43% in the first six months of 2018 compared to the same period in 2017, driven by higher activity in the mining and construction sectors.

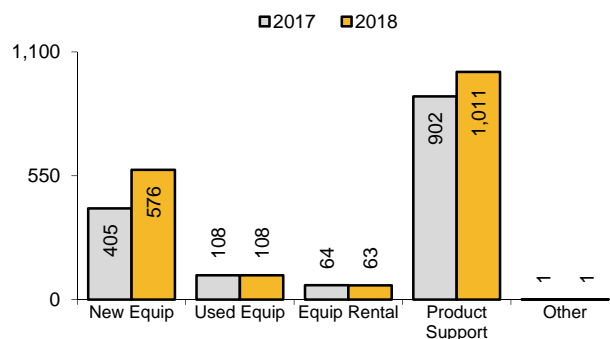
Product support revenue for the six months ended June 30, 2018 was up 12% from the same period in 2017, with strong parts volumes in all markets, particularly the construction sector.

Gross profit increased in the first half of 2018 compared to the first half of 2017, largely due to higher volumes partly offset by lower overall gross profit margin due to the revenue shift to higher new equipment sales.

SG&A for the first six months of 2018 included the favourable impact of \$7 million of additional insurance proceeds received in Q1 2018 in relation to the business interruption resulting from the Alberta wildfires in 2016. Excluding these insurance proceeds, SG&A was up 4% compared to the same period in 2017, on revenue growth of 19%. This increase was primarily due to higher variable costs associated with strong revenue growth. SG&A costs relative to revenue were down from the prior year period, reflecting leverage of incremental revenues and controlled spending.

The Canadian operations contributed EBIT of \$148 million for the six months ended June 30, 2018 compared to \$101 million earned in the same period in the prior year. EBIT margin was 8.4%, compared to the 6.8% earned in the same period in 2017. Excluding insurance proceeds for the Alberta wildfires, Adjusted EBIT margin for the first six months of 2018 was 8.0%, higher than the same period in the prior year reflecting strong market activity and managing fixed costs.

Canada – Revenue by Line of Business
6 months ended June 30
(\$ millions) (2017 restated)



South American Operations

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

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

(\$ millions)	3 months ended June 30		6 months ended June 30	
	2018	2017 (Restated) ⁽¹⁾	2018	2017 (Restated) ⁽¹⁾
Revenue from external sources	\$ 551	\$ 516	\$ 1,103	\$ 1,019
Operating costs	(489)	(459)	(980)	(903)
Depreciation and amortization	(15)	(15)	(30)	(30)
EBIT	\$ 47	\$ 42	\$ 93	\$ 86
EBIT margin	8.5%	8.1%	8.4%	8.5%
EBITDA	\$ 62	\$ 57	\$ 123	\$ 116
EBITDA margin	11.2%	11.0%	11.1%	11.4%

⁽¹⁾ The 2017 comparative results 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.

Second Quarter Overview

Second quarter 2018 revenue in the Company's South American operations increased 7% to \$551 million compared to Q2 2017 (up 11% in functional currency). This increase was driven primarily by higher product support revenue in Chile partly offset by lower revenues from Argentina due to economic uncertainty and reduced government infrastructure spending.

The stronger CAD relative to the USD on average in Q2 2018 compared to the same quarter last year had an unfavourable foreign currency translation impact on revenue of approximately \$25 million and was not significant at the EBIT level.

Product support revenue was up 9% (up 14% in functional currency) from the prior year quarter, largely driven by stronger parts sales in the mining sector in Chile.

New equipment revenue in Q2 2018 was up 4% (9% in functional currency) from Q2 2017 primarily due to higher activity in all market segments in Chile partly offset by lower demand for construction equipment in Argentina due to a curtailment of infrastructure spend. Equipment backlog at June 30, 2018 remained high with strong order intake in the quarter, particularly in the construction sector, but was down slightly from March 31, 2018 due to strong deliveries in Q2 2018.

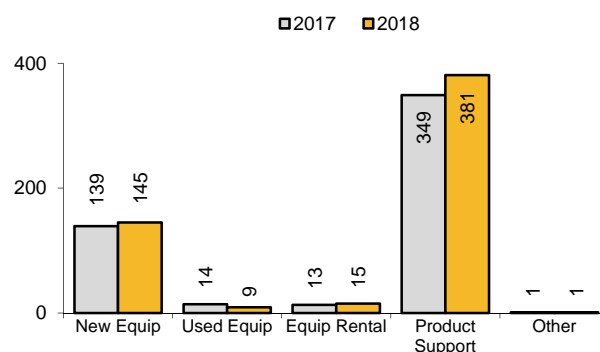
Gross profit increased compared to the second quarter of 2017, due to higher sales volumes across all lines of business. Gross profit margin in Q2 2018 was comparable to prior year quarter, reflecting a relatively consistent revenue mix.

SG&A (in functional currency) in Q2 2018 increased by 10% compared to the prior year period. The increase in SG&A was primarily due to higher variable costs due to an increase in sales volumes as well as higher costs due to inflationary and statutory salary increases. SG&A as a percentage of revenue was slightly lower in Q2 2018 compared to Q2 2017 due to the leverage of incremental revenues on fixed costs.

For the three months ended June 30, 2018, the Company's South American operations reported EBIT of \$47 million compared to EBIT of \$42 million in Q2 2017. EBIT margin of 8.5% was higher than the 8.1% earned in the same period in the prior year primarily due to leverage of incremental revenues on fixed costs.

South America – Revenue by Line of Business

3 months ended June 30
(\$ millions) (2017 restated)



Year-to-Date Overview

For the six months ended June 30, 2018, revenue increased 8% to \$1.1 billion compared to 2017 (up 13% in functional currency). This increase was primarily driven by higher product support and new equipment revenues in Chile partly offset by lower revenues in Argentina.

The stronger CAD relative to the USD on average in the year-to-date period compared to the same period last year had a negative foreign currency translation impact on revenue in the first six months of 2018 of approximately \$50 million and was not significant at the EBIT level.

Product support revenue was up 9% in the first six months of 2018 (up 13% in functional currency) compared to the same period in the prior year, primarily driven by stronger activity in the mining sector in Chile. Product support revenue in the first six months of 2017 was negatively impacted by a 7-week labour dispute at the Escondida mine.

New equipment revenues increased 6% (11% in functional currency) compared to the same period last year due to higher activity in the construction sector in Chile.

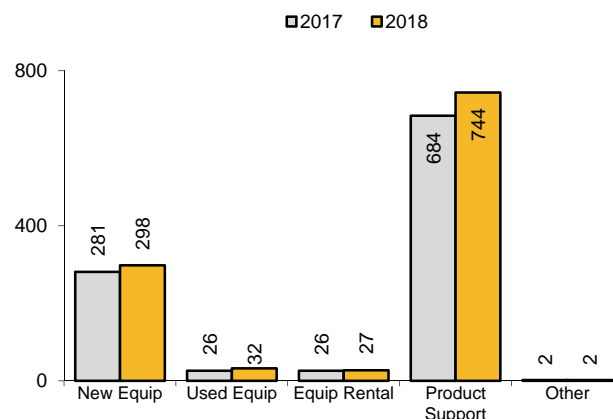
Gross profit was higher than the first six months of 2017, reflecting higher sales volumes across all lines of business. Gross profit margin is comparable in both six-month periods ended June 30, 2018 and 2017, reflecting a relatively consistent revenue mix.

SG&A (in functional currency) in the first half of 2018 increased by 15% compared to the same period in the prior year. The increase in SG&A was due in large part to higher variable costs from increased sales volumes as well as inflationary and statutory salary increases. SG&A relative to sales was relatively consistent in the first six months of 2018 compared to the same period in the prior year.

For the six months ended June 30, 2018, the Company's South American operations reported EBIT of \$93 million compared to \$86 million for the comparable prior year period. EBIT margin of 8.4% for the six months ended June 30, 2018 was comparable to 8.5% earned in the same period in the prior year.

South America – Revenue by Line of Business

6 months ended June 30
(\$ millions) (2017 restated)



UK & Ireland Operations

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

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

(\$ millions)	3 months ended June 30		6 months ended June 30	
	2018	2017 (Restated) ⁽¹⁾	2018	2017 (Restated) ⁽¹⁾
Revenue from external sources	\$ 271	\$ 278	\$ 537	\$ 486
Operating costs	(250)	(258)	(499)	(453)
Depreciation and amortization	(7)	(7)	(14)	(13)
EBIT	\$ 14	\$ 13	\$ 24	\$ 20
EBIT margin	5.3%	4.6%	4.5%	4.0%
EBITDA	\$ 21	\$ 20	\$ 38	\$ 33
EBITDA margin	7.9%	7.0%	7.1%	6.8%

(1) The 2017 comparative results 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.

Second Quarter Overview

Revenues for the second quarter of 2018 decreased 3% to \$271 million in the Company's UK and Ireland operations from the same period in 2017 (down 5% in functional currency), driven primarily by delayed new equipment deliveries.

The weaker CAD relative to the GBP on average in the quarter compared to the same quarter last year had a positive foreign currency translation impact on revenue in the second quarter of 2018 of approximately \$5 million and was not significant at the EBIT level.

New equipment revenue was lower than the prior year period, largely due to delayed deliveries to some construction customers. There continues to be a high level of equipment backlog, consistent with the levels in March 31, 2018 as market demand remains strong.

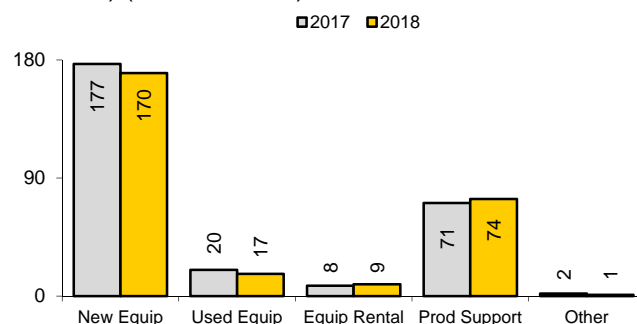
Product support revenue was up 2% (in functional currency) from the same period in the prior year, primarily due to increased parts sales across all sectors.

Despite lower revenues, gross profit was higher in Q2 2018 than the prior year period, reflecting improved margins and a revenue mix shift to higher product support revenues.

SG&A (in functional currency) was 5% higher in Q2 2018 compared to the same period in the prior year, largely due to higher people-related costs, such as increased headcount to support revenue growth in Electric Power operations and inflationary salary increases.

For the quarter ended June 30, 2018, the Company's UK & Ireland operations contributed EBIT of \$14 million, compared to EBIT of \$13 million in Q2 2017, despite lower revenues. EBIT margin was 5.3% in Q2 2018, its highest EBIT margin in the last five years, compared to 4.6% earned in the second quarter of 2017. EBIT margin for Q2 2018 was higher than the same period in the prior year due to improved margins in most lines of business, a higher proportion of product support revenue in the revenue mix, and more parts sales through lower cost e-commerce channels.

UK & Ireland – Revenue by Line of Business
3 months ended June 30
(\$ millions) (2017 restated)



Year-to-Date Overview

For the six months ended June 30, 2018, revenue of \$537 million was 10% higher than the same period in 2017 (up 6% in functional currency). This increase was driven primarily by higher new equipment sales due to stronger market demand and activity.

The weaker CAD had a positive foreign currency translation impact on revenue in the first six months of 2018 of approximately \$25 million and was not significant at the EBIT level.

New equipment revenue increased 13% (up 8% in functional currency) from the prior year comparable period. Increased revenue was driven primarily by higher new equipment sales in both the power systems and construction sectors.

Product support revenue was up 9% from the same period in the prior year (up 4% in functional currency) primarily driven by higher parts sales in the construction and power systems sectors.

Gross profit was higher than the first six months of 2017, reflecting higher sales volumes, as well as higher overall gross profit margin despite a revenue mix shift to higher new equipment sales.

SG&A (in functional currency) was 7% higher in the first six months of 2018 compared to 2017, reflecting higher variable costs, primarily people-related costs, due to revenue growth.

For the six months ended June 30, 2018, the Company's UK & Ireland operations reported EBIT of \$24 million, compared to EBIT of \$20 million in 2017. EBIT margin of 4.5% was higher than 4.0% earned in the same period in 2017 due to improved profitability reflecting strong product support margins.

Corporate and Other Operations

Net operating costs before finance costs and income taxes of the Company's Corporate and other operations segment were \$12 million in the second quarter of 2018 (year-to-date 2018: \$26 million) compared to \$13 million in Q2 2017 (year-to-date 2017: \$24 million). 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 (Energyst).

Net operating costs in Q2 2018 were \$1 million lower than Q2 2017 due to:

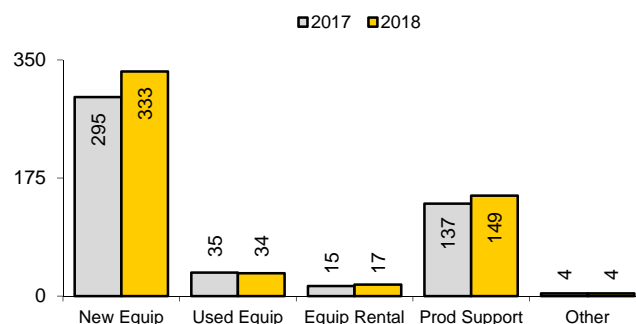
- \$1 million lower equity loss from Energyst;
- \$1 million lower corporate operating costs;
- Partly offset by \$1 million gain in the second quarter of 2017 on the disposition of the Company's investment in IronPlanet Holdings Inc.

Net operating costs in the first six months of 2018 were \$2 million higher than 2017 as the Company recorded a gain in 2017 on the disposition of its investment in IronPlanet Holdings Inc.

As part of a strategic restructuring to concentrate its business to the European power rental market, Energyst sold its wholly-owned subsidiary in Argentina on July 3, 2018. This will result in the Company recording a loss in the third quarter of 2018 of approximately \$10 million, primarily due to a reclassification of cumulative foreign translation losses from accumulated other comprehensive income to the income statement. While the Company believes Energyst's revised strategy is viable, the Company is currently performing a review of the strategic fit of its investment in Energyst, which is recorded at approximately \$20 million on the statement of financial position at June 30, 2018.

UK & Ireland – Revenue by Line of Business

6 months ended June 30
(\$ millions) (2017 restated)



Outlook

The Company is committed to improving ROIC in an upcycle. A reduced cost structure and sustainable operating improvements are expected to generate earnings torque, while global supply chain initiatives are expected to continue to increase capital efficiencies and support positive annual free cash flow. The Company's capital investments and resource allocation are directly linked to the Global Strategic Priorities described on page 3 of the MD&A, and are mostly success-based.

Canada

In Canada, the Company projects an increase in new equipment deliveries to mining producers and contractors in the second half of 2018, including oil sands customers. Demand for parts and service, including component rebuilds, is expected to remain strong in mining.

Current construction activity is robust across all provinces, driving strong equipment sales and product support. The Company expects some large infrastructure projects to proceed, notably the Trans Mountain pipeline and LNG Canada, which should create incremental future demand for construction equipment and product support.

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

South America

In Chile, increased copper production and fleet utilization are having a positive impact on product support activity, including component rebuilds. Growing business confidence is expected to result in improved demand for mining equipment. The potential effect of trade wars on the price of copper and near-term labour negotiations at copper mines pose a risk. The Company has plans in place to mitigate the impact of any labour disruptions and remains constructive on the long-term outlook for copper.

The Chilean government's business-friendly policies and plans to invest in infrastructure are expected to support an improved long-term outlook for equipment sales and product support in the construction sector.

In Argentina, the economy has weakened in Q2 2018 and the government has curtailed infrastructure spend, resulting in significantly lower demand for construction equipment compared to 2017. Despite current economic uncertainty in Argentina, the Company expects oil and gas development to proceed.

The Company continues to invest in a new enterprise resource planning (ERP) system in the South American operations, which is on plan to go live in all three countries 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, the Company is capitalizing on strong demand for power systems in the industrial and electric power segments. Activity levels in the quarry, general construction, and plant hire sectors are expected to generate steady demand for new equipment and product support.

In early 2017, the UK started a two year process to exit the European Union (Brexit), and there remain significant uncertainties around the impact and final outcome. While Brexit has not had a material impact on activity levels to this point, the resulting economic uncertainties continue 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. Any devaluation of the Canadian dollar increases earnings translated from the Company's foreign subsidiaries; the opposite is true for any appreciation of the Canadian dollar. Transactional gains or losses are dependent on the Company's hedging activities and general market conditions.

Liquidity and Capital Resources

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

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

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

(\$ millions)	3 months ended June 30			6 months ended June 30		
	2018	2017	Increase (Decrease) in cash	2018	2017	Increase (Decrease) in cash
			from 2017			from 2017
Cash provided by (used in) operating activities	\$ 18	\$ (112)	\$ 130	\$ (224)	\$ (170)	\$ (54)
Cash used in investing activities	\$ (47)	\$ (14)	\$ (33)	\$ (68)	\$ (35)	\$ (33)
Cash provided by financing activities	\$ —	\$ 54	\$ (54)	\$ 117	\$ 33	\$ 84
Free Cash Flow	\$ (28)	\$ (131)	\$ 103	\$ (291)	\$ (207)	\$ (84)

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

	Quarter over Quarter	Year over Year
Cash provided by (used in) operating activities	<ul style="list-style-type: none"> • higher earnings from all operations reflecting improving market conditions • strong collections in the Company's Canadian and South American operations • lower parts inventory in the Company's Canadian and South American operations reflecting stronger product support revenues • partly offset by higher net spend on rental equipment, primarily in the Company's Canadian operations 	<ul style="list-style-type: none"> • higher supplier payments and inventory spend in the Company's Canadian and South American operations • higher net spend on rental equipment in all operations, most notably in the Company's Canadian operations • partly offset by higher earnings from all operations as well as strong collections in the Company's Canadian operations
Cash used in investing activities	<ul style="list-style-type: none"> • higher capital expenditures in the current year quarter primarily from Digital initiatives, investment in a new ERP system in the Company's South American operations, and large mining vehicles in the Company's Canadian operations • cash provided by proceeds on disposal of investment in Q2 2017 	<ul style="list-style-type: none"> • higher capital expenditures in the first six months of 2018 primarily from an investment in a new ERP system in the Company's South American operations • cash provided by proceeds on disposal of investment in Q2 2017
Cash provided by financing activities	<ul style="list-style-type: none"> • lower cash provided by short-term debt • \$34 million of dividends paid in Q2 2018 was higher than the comparable period • repurchase of common shares for \$10 million of which \$9 million was paid in Q2 2018 	<ul style="list-style-type: none"> • \$194 million cash provided by short-term debt during the first six months of 2018 was higher than comparable period in 2017 • \$66 million of dividends paid in 2018 was higher than 2017 reflecting increases in the quarterly dividend rate • Higher use of cash to repurchase common shares than prior year comparable period
Free Cash Flow use	<ul style="list-style-type: none"> • lower use of cash in operating activities for the reasons outlined above 	<ul style="list-style-type: none"> • higher use of cash in operating activities for the reasons outlined above

Capital resources and management

The Company's cash and cash equivalents balance at June 30, 2018 was \$300 million (December 31, 2017: \$458 million; June 30, 2017: \$411 million). To complement the internally generated funds from operating and investing activities, the Company has \$1.9 billion in unsecured credit facilities. Included in this amount is a syndicated committed credit facility totaling \$1.0 billion with various Canadian and global financial institutions, \$0.8 billion was available at June 30, 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	
	June 30, 2018	December 31, 2017	June 30, 2018	December 31, 2017
DBRS	BBB (high)	BBB (high)	R-2 (high)	R-2 (high)
S&P	BBB+	BBB+	N/A	N/A

During the first half of 2018, the Company repurchased 314,693 Finning common shares for cancellation at an average price of \$32.87 per share through a share repurchase program by way of a Normal Course Issuer Bid (NCIB) ⁽²⁾. In the first half of 2017, the Company repurchased 89,900 common shares for cancellation at an average price of \$25.45 per share under the NCIB in effect at that time.

Net Debt to Invested Capital

	June 30, 2018	March 31, 2018	December 31, 2017 (Restated) ^(a)	June 30, 2017 (Restated) ^(a)
Net debt to invested capital	37.0%	36.1%	30.2%	37.2%

^(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 Q2 2018.

Accounting Policies and Pronouncements

New Accounting Policies and Interpretations

Effective January 1, 2018, the Company adopted IFRS 15, *Revenue from Contracts with Customers* and IFRS 9, *Financial Instruments*, and IFRIC 22, *Foreign Currency Transactions and Advance Consideration*. The Company's new accounting policies and the impact of the adoption of new accounting policies and interpretation 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⁾ The Company renewed its NCIB for a further year effective May 11, 2018. A copy of the NCIB notice is available on request from the Company. Direct your request to the Corporate Secretary, 1000-666 Burrard Street, Vancouver, BC V6C 2X8 (effective August 13, 2018: 300-565 Great Northern Way, Vancouver BC V5T 0H8).

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	June 30			December 31		3 months ended June 30 – average			6 months ended June 30 – average		
	2018	2017	Change	2017	Change	2018	2017	Change	2018	2017	Change
USD/CAD	1.3168	1.2977	(1)%	1.2545	(5)%	1.2911	1.3449	4 %	1.2781	1.3343	4 %
GBP/CAD	1.7357	1.6862	(3)%	1.6961	(2)%	1.7563	1.7211	(2)%	1.7582	1.6806	(5)%
USD/CLP	647.95	663.21	2 %	615.22	(5)%	620.48	664.24	7 %	611.43	659.97	7 %
USD/ARS	28.85	16.63	(73)%	18.65	(55)%	23.21	15.73	(48)%	21.35	15.70	(36)%

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 June 30, 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 August 2, 2018

Common shares outstanding	168,185,561
Options outstanding	3,232,907

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 interim 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 11 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		
	Jun 30	Mar 31	Dec 31	Sep 30	Jun 30	Mar 31	Dec 31	Sep 30	Jun 30
EBIT	\$ 126	\$ 113	\$ 109	\$ 100	\$ 97	\$ 86	\$ 18	\$ 73	\$ 29
Depreciation and amortization	45	44	45	46	48	45	47	46	48
EBITDA	\$ 171	\$ 157	\$ 154	\$ 146	\$ 145	\$ 131	\$ 65	\$ 119	\$ 77
EBITDA – last 12 months	\$ 628	\$ 602	\$ 576	\$ 487	\$ 460	\$ 392	\$ 357	\$ 10	\$ 16
EBIT	\$ 126	\$ 113	\$ 109	\$ 100	\$ 97	\$ 86	\$ 18	\$ 73	\$ 29
Significant items:									
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 project provisions, estimated loss on disputes and alleged fraudulent activity by a customer	—	—	—	—	—	—	10	—	5
Loss on sale of non-core business	—	—	—	—	—	—	—	—	5
Gain on investment	—	—	—	—	—	—	(5)	—	—
Adjusted EBIT	\$ 126	\$ 106	\$ 110	\$ 100	\$ 97	\$ 86	\$ 70	\$ 73	\$ 63
Depreciation and amortization	45	44	45	46	48	45	47	46	48
Adjusted EBITDA	\$ 171	\$ 150	\$ 155	\$ 146	\$ 145	\$ 131	\$ 117	\$ 119	\$ 111
Adjusted EBIT – last 12 months	\$ 442	\$ 413	\$ 393	\$ 353	\$ 326	\$ 292	\$ 273	\$ 285	\$ 309
Adjusted EBITDA – last 12 months	\$ 622	\$ 596	\$ 577	\$ 539	\$ 512	\$ 478	\$ 465	\$ 487	\$ 527

⁽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		
	Jun 30	Mar 31	Dec 31	Sep 30	Jun 30	Mar 31	Dec 31	Sep 30	Jun 30
EBIT	\$ 77	\$ 71	\$ 67	\$ 57	\$ 55	\$ 46	\$ (3)	\$ 37	\$ 28
Depreciation and amortization	22	22	24	25	26	24	24	24	25
EBITDA	\$ 99	\$ 93	\$ 91	\$ 82	\$ 81	\$ 70	\$ 21	\$ 61	\$ 53
EBITDA – last 12 months	\$ 365	\$ 347	\$ 324	\$ 254	\$ 233	\$ 205	\$ 187	\$ 185	\$ 192
EBIT	\$ 77	\$ 71	\$ 67	\$ 57	\$ 55	\$ 46	\$ (3)	\$ 37	\$ 28
Significant items:									
Impact from Alberta wildfires									
– insurance proceeds	—	(7)	(4)	—	—	—	—	—	—
– unavoidable costs	—	—	—	—	—	—	—	—	11
Severance costs	—	—	3	—	—	—	15	—	1
Facility closures and restructuring costs	—	—	—	—	—	—	32	—	—
Adjusted EBIT	\$ 77	\$ 64	\$ 66	\$ 57	\$ 55	\$ 46	\$ 44	\$ 37	\$ 40
Depreciation and amortization	22	22	24	25	26	24	24	24	25
Adjusted EBITDA	\$ 99	\$ 86	\$ 90	\$ 82	\$ 81	\$ 70	\$ 68	\$ 61	\$ 65
Adjusted EBIT – last 12 months	\$ 264	\$ 242	\$ 224	\$ 202	\$ 182	\$ 167	\$ 154	\$ 149	\$ 163

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		
	Jun 30	Mar 31	Dec 31	Sep 30	Jun 30	Mar 31	Dec 31	Sep 30	Jun 30
EBIT	\$ 47	\$ 46	\$ 50	\$ 48	\$ 42	\$ 44	\$ 27	\$ 40	\$ 38
Depreciation and amortization	15	15	15	13	15	15	16	15	15
EBITDA	\$ 62	\$ 61	\$ 65	\$ 61	\$ 57	\$ 59	\$ 43	\$ 55	\$ 53
EBITDA – last 12 months	\$ 249	\$ 244	\$ 242	\$ 220	\$ 214	\$ 210	\$ 199	\$ (123)	\$ (126)
EBIT	\$ 47	\$ 46	\$ 50	\$ 48	\$ 42	\$ 44	\$ 27	\$ 40	\$ 38
Significant items:									
Severance costs	—	—	2	—	—	—	—	—	1
Estimated loss on alleged fraudulent activity by a customer	—	—	—	—	—	—	10	—	—
Adjusted EBIT	\$ 47	\$ 46	\$ 52	\$ 48	\$ 42	\$ 44	\$ 37	\$ 40	\$ 39
Depreciation and amortization	15	15	15	13	15	15	16	15	15
Adjusted EBITDA	\$ 62	\$ 61	\$ 67	\$ 61	\$ 57	\$ 59	\$ 53	\$ 55	\$ 54
Adjusted EBIT – last 12 months	\$ 193	\$ 188	\$ 186	\$ 171	\$ 163	\$ 160	\$ 155	\$ 164	\$ 166

(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		
	Jun 30	Mar 31	Dec 31	Sep 30	Jun 30	Mar 31	Dec 31	Sep 30	Jun 30
EBIT	\$ 14	\$ 10	\$ 8	\$ 9	\$ 13	\$ 7	\$ 8	\$ 10	\$ (26)
Depreciation and amortization	7	7	6	7	7	6	7	7	8
EBITDA	\$ 21	\$ 17	\$ 14	\$ 16	\$ 20	\$ 13	\$ 15	\$ 17	\$ (18)
EBITDA – last 12 months	\$ 68	\$ 67	\$ 63	\$ 64	\$ 65	\$ 27	\$ 18	\$ (21)	\$ (23)
EBIT	\$ 14	\$ 10	\$ 8	\$ 9	\$ 13	\$ 7	\$ 8	\$ 10	\$ (26)
Significant items:									
Severance costs	—	—	—	—	—	—	—	—	7
Facility closures and restructuring costs	—	—	—	—	—	—	—	—	4
Power systems project provisions and estimated loss on disputes	—	—	—	—	—	—	—	—	5
Loss on sale of non-core business	—	—	—	—	—	—	—	—	5
Adjusted EBIT	\$ 14	\$ 10	\$ 8	\$ 9	\$ 13	\$ 7	\$ 8	\$ 10	\$ (5)
Depreciation and amortization	7	7	6	7	7	6	7	7	8
Adjusted EBITDA	\$ 21	\$ 17	\$ 14	\$ 16	\$ 20	\$ 13	\$ 15	\$ 17	\$ 3
Adjusted EBIT – last 12 months	\$ 41	\$ 40	\$ 37	\$ 37	\$ 38	\$ 20	\$ 16	\$ 11	\$ 12

⁽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		
	Jun 30	Mar 31	Dec 31	Sep 30	Jun 30	Mar 31	Dec 31	Sep 30	Jun 30
Cash flow (used in) provided by operating activities ⁽¹⁾	\$ 18	\$ (242)	\$ 398	\$ 55	\$ (112)	\$ (58)	\$ 131	\$ 177	\$ 75
Additions to property, plant, and equipment and intangible assets ⁽¹⁾	(46)	(32)	(49)	(33)	(20)	(19)	(20)	(17)	(17)
Proceeds on disposal of property, plant, and equipment ⁽¹⁾	—	11	1	—	1	1	2	3	6
Free cash flow	\$ (28)	\$ (263)	\$ 350	\$ 22	\$ (131)	\$ (76)	\$ 113	\$ 163	\$ 64

⁽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		
	Jun 30	Mar 31	Dec 31	Sep 30	Jun 30	Mar 31	Dec 31	Sep 30	Jun 30
Cost of sales – annualized	\$ 4,987	\$ 5,056	\$ 4,862	\$ 4,590	\$ 4,342	\$ 4,240	\$ 4,150	\$ 3,862	\$ 4,160
Inventory – 2 quarter average	\$ 1,937	\$ 1,807	\$ 1,726	\$ 1,767	\$ 1,720	\$ 1,624	\$ 1,663	\$ 1,707	\$ 1,714
Inventory turns (number of times)	2.57	2.80	2.82	2.60	2.52	2.61	2.49	2.26	2.43

Invested Capital Turnover

Invested capital turnover is used by management as a measure of efficiency in the use of the Company's invested capital and is calculated as total revenue for the last twelve months divided by invested capital, defined on page 33, based on an average of the last four quarters, as follows:

(\$ millions, except as noted)	2018		2017 (Restated) ⁽¹⁾				2016		
	Jun 30	Mar 31	Dec 31	Sep 30	Jun 30	Mar 31	Dec 31	Sep 30	Jun 30
Consolidated									
Revenue – last 12 months	\$ 6,670	\$ 6,525	\$ 6,256	\$ 6,014	\$ 5,809	\$ 5,535	\$ 5,628	\$ 5,674	\$ 5,858
Invested capital – 4 quarter average	\$ 3,128	\$ 3,065	\$ 2,993	\$ 2,989	\$ 2,944	\$ 2,927	\$ 2,960	\$ 3,071	\$ 3,292
Invested capital turnover (number of times)	2.13	2.13	2.09	2.01	1.97	1.89	1.90	1.85	1.78
Canada									
Revenue – last 12 months	\$ 3,351	\$ 3,234	\$ 3,072	\$ 2,932	\$ 2,815	\$ 2,659	\$ 2,821	\$ 2,819	\$ 2,943
Invested capital – 4 quarter average	\$ 1,746	\$ 1,727	\$ 1,690	\$ 1,684	\$ 1,660	\$ 1,643	\$ 1,656	\$ 1,697	\$ 1,753
Invested capital turnover (number of times)	1.92	1.87	1.82	1.74	1.70	1.62	1.70	1.66	1.68
South America									
Revenue – last 12 months	\$ 2,241	\$ 2,206	\$ 2,157	\$ 2,103	\$ 2,015	\$ 1,930	\$ 1,857	\$ 1,850	\$ 1,898
Invested capital – 4 quarter average	\$ 1,091	\$ 1,060	\$ 1,032	\$ 1,036	\$ 1,024	\$ 1,031	\$ 1,030	\$ 1,062	\$ 1,178
Invested capital turnover (number of times)	2.05	2.08	2.09	2.03	1.97	1.87	1.80	1.74	1.61
UK & Ireland									
Revenue – last 12 months	\$ 1,078	\$ 1,085	\$ 1,027	\$ 979	\$ 979	\$ 946	\$ 950	\$ 1,005	\$ 1,017
Invested capital – 4 quarter average	\$ 314	\$ 298	\$ 288	\$ 282	\$ 267	\$ 256	\$ 268	\$ 294	\$ 342
Invested capital turnover (number of times)	3.44	3.65	3.56	3.47	3.66	3.69	3.54	3.41	2.98

⁽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		
	Jun 30	Mar 31	Dec 31	Sep 30	Jun 30	Mar 31	Dec 31	Sep 30	Jun 30
Cash and cash equivalents	\$ (300)	\$ (325)	\$ (458)	\$ (516)	\$ (411)	\$ (489)	\$ (593)	\$ (460)	\$ (384)
Short-term debt	213	169	18	32	102	16	2	8	65
Current portion of long-term debt	—	—	—	350	350	—	—	—	—
Long-term debt	1,330	1,322	1,296	1,291	1,116	1,481	1,487	1,474	1,470
Net debt	1,243	1,166	856	1,157	1,157	1,008	896	1,022	1,151
Shareholders' equity	2,119	2,060	1,974	1,938	1,951	1,932	1,901	1,895	1,890
Invested capital	\$ 3,362	\$ 3,226	\$ 2,830	\$ 3,095	\$ 3,108	\$ 2,940	\$ 2,797	\$ 2,917	\$ 3,041
Net debt to invested capital	37.0%	36.1%	30.2%	37.4%	37.2%	34.3%	32.0%	35.0%	37.9%

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		
	Jun 30	Mar 31	Dec 31	Sep 30	Jun 30	Mar 31	Dec 31	Sep 30	Jun 30
Net debt	\$ 1,243	\$ 1,166	\$ 856	\$ 1,157	\$ 1,157	\$ 1,008	\$ 896	\$ 1,022	\$ 1,151
EBITDA – last 12 months	\$ 628	\$ 602	\$ 576	\$ 487	\$ 460	\$ 392	\$ 357	\$ 10	\$ 16
Net Debt to EBITDA Ratio ⁽²⁾	2.0	1.9	1.5	2.4	2.5	2.6	2.5	109.4	71.5
Net debt	\$ 1,243	\$ 1,166	\$ 856	\$ 1,157	\$ 1,157	\$ 1,008	\$ 896	\$ 1,022	\$ 1,151
Adjusted EBITDA – last 12 months	\$ 622	\$ 596	\$ 577	\$ 539	\$ 512	\$ 478	\$ 465	\$ 487	\$ 527
Net Debt to Adjusted EBITDA Ratio	2.0	2.0	1.5	2.1	2.3	2.1	1.9	2.1	2.2

⁽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 29 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		
	Jun 30	Mar 31	Dec 31	Sep 30	Jun 30	Mar 31	Dec 31	Sep 30	Jun 30
Consolidated									
EBIT – last 12 months	\$ 448	\$ 419	\$ 392	\$ 301	\$ 274	\$ 206	\$ 165	\$ (202)	\$ (212)
Adjusted EBIT – last 12 months	\$ 442	\$ 413	\$ 393	\$ 353	\$ 326	\$ 292	\$ 273	\$ 285	\$ 309
Invested capital – 4 quarter average	\$ 3,128	\$ 3,065	\$ 2,993	\$ 2,989	\$ 2,944	\$ 2,927	\$ 2,960	\$ 3,071	\$ 3,292
ROIC	14.3%	13.7%	13.1%	10.1%	9.3%	7.1%	5.6%	(6.6)%	(6.4)%
Adjusted ROIC	14.2%	13.5%	13.1%	11.8%	11.1%	10.0%	9.3%	9.2%	9.4%
Canada									
EBIT – last 12 months	\$ 272	\$ 250	\$ 225	\$ 155	\$ 135	\$ 108	\$ 87	\$ 73	\$ 70
Adjusted EBIT – last 12 months	\$ 264	\$ 242	\$ 224	\$ 202	\$ 182	\$ 167	\$ 154	\$ 149	\$ 163
Invested capital – 4 quarter average	\$ 1,746	\$ 1,727	\$ 1,690	\$ 1,684	\$ 1,660	\$ 1,643	\$ 1,656	\$ 1,697	\$ 1,753
ROIC	15.5%	14.5%	13.3%	9.2%	8.1%	6.6%	5.3%	4.3%	4.0%
Adjusted ROIC	15.1%	14.0%	13.2%	12.0%	11.0%	10.2%	9.3%	8.7%	9.3%
South America									
EBIT – last 12 months	\$ 191	\$ 186	\$ 184	\$ 161	\$ 153	\$ 149	\$ 137	\$ (193)	\$ (201)
Adjusted EBIT – last 12 months	\$ 193	\$ 188	\$ 186	\$ 171	\$ 163	\$ 160	\$ 155	\$ 164	\$ 166
Invested capital – 4 quarter average	\$ 1,091	\$ 1,060	\$ 1,032	\$ 1,036	\$ 1,024	\$ 1,031	\$ 1,030	\$ 1,062	\$ 1,178
ROIC	17.5%	17.6%	17.8%	15.5%	14.9%	14.5%	13.3%	(18.1)%	(17.0)%
Adjusted ROIC	17.7%	17.8%	18.1%	16.5%	16.0%	15.6%	15.0%	15.6%	14.2%
UK & Ireland									
EBIT – last 12 months	\$ 41	\$ 40	\$ 37	\$ 37	\$ 38	\$ (1)	\$ (12)	\$ (51)	\$ (54)
Adjusted EBIT – last 12 months	\$ 41	\$ 40	\$ 37	\$ 37	\$ 38	\$ 20	\$ 16	\$ 11	\$ 12
Invested capital – 4 quarter average	\$ 314	\$ 298	\$ 288	\$ 282	\$ 267	\$ 256	\$ 268	\$ 294	\$ 342
ROIC	13.2%	13.4%	12.8%	12.9%	13.9%	(0.5)%	(4.5)%	(17.4)%	(15.7)%
Adjusted ROIC	13.2%	13.4%	12.8%	12.9%	13.9%	7.7%	5.9%	3.4%	3.3%

⁽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		
	Jun 30	Mar 31	Dec 31	Sep 30	Jun 30	Mar 31	Dec 31	Sep 30	Jun 30
Total current assets	\$ 3,763	\$ 3,687	\$ 3,531	\$ 3,566	\$ 3,493	\$ 3,389	\$ 3,378	\$ 3,319	\$ 3,252
Cash and cash equivalents	(300)	(325)	(458)	(516)	(411)	(489)	(593)	(460)	(384)
Total current assets ⁽²⁾	\$ 3,463	\$ 3,362	\$ 3,073	\$ 3,050	\$ 3,082	\$ 2,900	\$ 2,785	\$ 2,859	\$ 2,868
Total current liabilities	\$ 1,742	\$ 1,626	\$ 1,545	\$ 1,648	\$ 1,703	\$ 1,232	\$ 1,233	\$ 1,194	\$ 1,113
Short-term debt	(213)	(169)	(18)	(32)	(102)	(16)	(2)	(8)	(65)
Current portion of long-term debt	—	—	—	(350)	(350)	—	—	—	—
Total current liabilities ⁽³⁾	\$ 1,529	\$ 1,457	\$ 1,527	\$ 1,266	\$ 1,251	\$ 1,216	\$ 1,231	\$ 1,186	\$ 1,048
Working capital	\$ 1,934	\$ 1,905	\$ 1,546	\$ 1,784	\$ 1,831	\$ 1,684	\$ 1,554	\$ 1,673	\$ 1,820
Working capital – 4 quarter average	\$ 1,793	\$ 1,767	\$ 1,712	\$ 1,717	\$ 1,690	\$ 1,687	\$ 1,709	\$ 1,785	\$ 1,899
Revenue – last 12 months ended	\$ 6,670	\$ 6,525	\$ 6,256	\$ 6,014	\$ 5,809	\$ 5,535	\$ 5,628	\$ 5,674	\$ 5,858
Working capital to sales	26.9%	27.1%	27.4%	28.6%	29.1%	30.5%	30.4%	31.5%	32.4%

⁽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	
	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3
Revenue from operations								
Canada	\$ 907	\$ 852	\$ 856	\$ 736	\$ 790	\$ 690	\$ 716	\$ 619
South America	551	552	589	549	516	503	535	461
UK & Ireland	271	266	288	253	278	208	240	253
Total revenue	\$ 1,729	\$ 1,670	\$ 1,733	\$ 1,538	\$ 1,584	\$ 1,401	\$ 1,491	\$ 1,333
Net income ⁽²⁾	\$ 81	\$ 71	\$ 64	\$ 50	\$ 55	\$ 47	\$ 9	\$ 36
Earnings Per Share ⁽²⁾								
Basic EPS	\$ 0.48	\$ 0.42	\$ 0.38	\$ 0.29	\$ 0.33	\$ 0.28	\$ 0.05	\$ 0.22
Diluted EPS	\$ 0.48	\$ 0.42	\$ 0.38	\$ 0.29	\$ 0.33	\$ 0.28	\$ 0.05	\$ 0.22
Total assets	\$ 5,457	\$ 5,254	\$ 5,069	\$ 5,111	\$ 5,002	\$ 4,882	\$ 4,910	\$ 4,886
Long-term debt								
Current	\$ —	\$ —	\$ —	\$ 350	\$ 350	\$ —	\$ —	\$ —
Non-current	1,330	1,322	1,296	1,291	1,116	1,481	1,487	1,474
Total long-term debt ⁽³⁾	\$ 1,330	\$ 1,322	\$ 1,296	\$ 1,641	\$ 1,466	\$ 1,481	\$ 1,487	\$ 1,474
Cash dividends paid per common share	20.00¢	19.00¢	19.00¢	19.00¢	18.25¢	18.25¢	18.25¢	18.25¢
Common shares outstanding (000's)	168,184	168,401	168,267	168,118	168,097	168,083	168,167	168,134
Options outstanding (000's)	3,241	3,301	3,864	4,574	4,755	4,501	4,564	4,823

- 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.
- Results were impacted by the following significant items:

(\$ millions except per share amounts)	2018 ^(a)		2017 ^(a)		2016 ^(a)	
	Q1	Q4	Q3	Q4	Q3	Q4
Impact from Alberta wildfires						
- insurance proceeds	\$ (7)	\$ (4)	\$ —	\$ —	\$ —	\$ —
Severance costs	—	5	—	15	—	15
Facility closures and restructuring costs	—	—	—	32	—	32
Power systems provisions, estimated loss on disputes and alleged fraudulent activity by a customer	—	—	—	10	—	10
Gain on investment	—	—	—	(5)	—	(5)
Impact of significant items on EBIT:	\$ (7)	\$ 1	\$ —	\$ 52	\$ —	\$ 52
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	\$ —	\$ 0.23

(a) There were no adjustments in Q2 2018, Q1 and Q2 2017, and Q3 2016.

- 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; in Canada, activity levels from mining producers and contractors, demand for mining, oil sands, construction and pipeline equipment, parts and services, demand for power systems products, expected deliveries of new equipment, competitive market conditions, upcoming infrastructure projects, and activity in the oil and gas sector; in South America, expected demand for mining equipment and product support as a result of copper production and fleet utilization, expected impact of trade wars on the price of copper, expectations of increased investment in infrastructure by the new Chilean government and resultant activity in the construction sector, growing business confidence in Chile and its impact on demand for mining equipment, expectations regarding the Argentina government's continuing level of public investment in infrastructure and the expectation that oil and gas development will proceed in Argentina despite current economic uncertainty, 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, demand for power systems in the industrial and electric power segments, activity levels in the quarry, general construction, and plant hire sectors; the impact of Brexit; expected impact of and volatility in foreign exchange markets; expected revenue and free cash flow; expected profitability levels; Finning's belief that it continues to have sufficient liquidity to meet operational needs and planned growth and development; 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 improving ROIC; Finning's commitment to define and implement a five-year sustainability roadmap which prioritizes actions to address gaps with best standard and recognized practices, and strengthen engagements with stakeholders; the development of a five-year plan to increase inclusion and diversity; timing and delivery of innovative customer solutions; the Global Strategic Priorities; use of technology to improve customer experience, enable data-driven decisions and reduce cost to serve; the expected impact of recently adopted accounting standards and interpretation or future expected changes; expected results from execution of the Company's strategic framework; expected viability from execution of Energyst's strategic restructuring; and Finning's plans to manage its financial risks and uncertainties. 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.

UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(Canadian \$ millions)	June 30, 2018	December 31, 2017	January 1, 2017
		(Restated - Note 1)	(Restated - Note 1)
ASSETS			
Current assets			
Cash and cash equivalents	\$ 300	\$ 458	\$ 593
Accounts receivable	979	934	814
Unbilled work in progress	203	162	177
Inventories	1,968	1,708	1,597
Other assets	313	269	214
Total current assets	3,763	3,531	3,395
Property, plant, and equipment	592	572	606
Rental equipment	463	385	363
Goodwill	120	119	118
Intangible assets	141	117	71
Distribution network	100	100	100
Investments in joint ventures and associate	99	92	88
Other assets	179	153	152
Total assets	\$ 5,457	\$ 5,069	\$ 4,893
LIABILITIES			
Current liabilities			
Short-term debt	\$ 213	\$ 18	\$ 2
Accounts payable and accruals	1,116	1,160	946
Deferred revenue	355	296	233
Provisions	42	35	47
Other liabilities	16	36	7
Total current liabilities	1,742	1,545	1,235
Long-term debt	1,330	1,296	1,487
Net post-employment obligation	83	78	84
Other liabilities	183	176	172
Total liabilities	\$ 3,338	\$ 3,095	\$ 2,978
SHAREHOLDERS' EQUITY			
Share capital	\$ 585	\$ 580	\$ 573
Contributed surplus	—	—	2
Accumulated other comprehensive income	238	195	243
Retained earnings	1,296	1,199	1,097
Total shareholders' equity	2,119	1,974	1,915
Total liabilities and shareholders' equity	\$ 5,457	\$ 5,069	\$ 4,893

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

UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENTS OF NET INCOME

(Canadian \$ millions, except share and per share amounts)	3 months ended June 30		6 months ended June 30	
	2018	2017	2018	2017
		(Restated Note 1)		(Restated Note 1)
Revenue				
New equipment	\$ 623	\$ 556	\$ 1,207	\$ 981
Used equipment	78	96	174	169
Equipment rental	57	54	107	105
Product support	968	874	1,904	1,723
Other	3	4	7	7
Total revenue	1,729	1,584	3,399	2,985
Cost of sales	(1,263)	(1,162)	(2,493)	(2,170)
Gross profit	466	422	906	815
Selling, general, and administrative expenses	(345)	(331)	(673)	(638)
Equity earnings of joint ventures and associate	5	5	6	4
Other income (Note 4)	—	1	—	2
Earnings before finance costs and income taxes	126	97	239	183
Finance costs (Note 5)	(18)	(23)	(36)	(45)
Income before provision for income taxes	108	74	203	138
Provision for income taxes	(27)	(19)	(51)	(36)
Net income	\$ 81	\$ 55	\$ 152	\$ 102
Earnings per share (Note 3)				
Basic	\$ 0.48	\$ 0.33	\$ 0.90	\$ 0.61
Diluted	\$ 0.48	\$ 0.33	\$ 0.90	\$ 0.61
Weighted average number of shares outstanding				
Basic	168,410,113	168,090,761	168,377,884	168,112,969
Diluted	169,124,130	168,324,870	169,150,039	168,348,652

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

UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Canadian \$ millions)	3 months ended		6 months ended	
	June 30		June 30	
	2018	2017 (Restated Note 1)	2018	2017 (Restated Note 1)
Net income	\$ 81	\$ 55	\$ 152	\$ 102
Other comprehensive income (loss), net of income tax				
Items that may be subsequently reclassified to net income:				
Foreign currency translation adjustments	14	(32)	76	(39)
Share of foreign currency translation adjustments of joint ventures and associate	(1)	—	(1)	(3)
(Loss) gain on net investment hedges	(9)	16	(34)	21
Impact of foreign currency translation and net investment hedges, net of income tax	4	(16)	41	(21)
Gain (loss) on cash flow hedges	1	(4)	—	(4)
Loss on cash flow hedges, reclassified to net income	—	—	1	—
Income tax recovery on cash flow hedges	—	2	—	2
Impact of cash flow hedges, net of income tax	1	(2)	1	(2)
Items that will not be subsequently reclassified to net income:				
Actuarial gain (Note 7)	20	15	30	23
Income tax expense on actuarial gain	(4)	(3)	(5)	(4)
Actuarial gain, net of income tax	16	12	25	19
Total comprehensive income	\$ 102	\$ 49	\$ 219	\$ 98

UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

(Canadian \$ millions, except number of shares)	Share Capital			Accumulated Other Comprehensive Income				Total Shareholders' Equity (Restated Note 1)
	Number of shares	Amount	Contributed Surplus	Impact of Foreign Currency Translation and Net Investment Hedges	Impact of Cash Flow Hedges (Restated Note 1)	Retained Earnings (Restated Note 1)	Total Shareholders' Equity (Restated Note 1)	
Balance, January 1, 2017	168,167,202	\$ 573	\$ 2	\$ 243	\$ —	\$ 1,097	\$ 1,915	
Net income	—	—	—	—	—	102	102	
Other comprehensive (loss) income	—	—	—	(21)	(2)	19	(4)	
Total comprehensive (loss) income	—	—	—	(21)	(2)	121	98	
Issued on exercise of share options	20,062	1	(1)	—	—	—	—	
Share option expense	—	—	2	—	—	—	2	
Hedging gain transferred to balance sheet	—	—	—	—	(1)	—	(1)	
Repurchase of common shares	(89,900)	—	(2)	—	—	—	(2)	
Dividends on common shares	—	—	—	—	—	(61)	(61)	
Balance, June 30, 2017	168,097,364	\$ 574	\$ 1	\$ 222	\$ (3)	\$ 1,157	\$ 1,951	
Balance, January 1, 2018	168,266,582	\$ 580	\$ —	\$ 195	\$ —	\$ 1,199	\$ 1,974	
Net income	—	—	—	—	—	152	152	
Other comprehensive income	—	—	—	41	1	25	67	
Total comprehensive income	—	—	—	41	1	177	219	
Issued on exercise of share options	231,979	6	(1)	—	—	(5)	—	
Share option expense	—	—	1	—	—	—	1	
Hedging loss transferred to balance sheet	—	—	—	—	1	—	1	
Repurchase of common shares	(314,693)	(1)	—	—	—	(9)	(10)	
Dividends on common shares	—	—	—	—	—	(66)	(66)	
Balance, June 30, 2018	168,183,868	\$ 585	\$ —	\$ 236	\$ 2	\$ 1,296	\$ 2,119	

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

UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOW

(Canadian \$ millions)	3 months ended June 30		6 months ended June 30	
	2018	2017 (Restated Note 1)	2018	2017 (Restated Note 1)
OPERATING ACTIVITIES				
Net income	\$ 81	\$ 55	\$ 152	\$ 102
Adjusting for:				
Depreciation and amortization	45	48	89	93
Gain on sale of rental equipment and property, plant, and equipment	—	—	(3)	—
Equity earnings of joint ventures and associate	(5)	(5)	(6)	(4)
Share-based payment expense	11	10	16	10
Provision for income taxes	27	19	51	36
Finance costs	18	23	36	45
Net benefit cost of post-employment benefit plans (Note 7)	7	4	11	8
Other	—	—	—	(1)
Changes in operating assets and liabilities (Note 8)	(43)	(174)	(372)	(312)
Additions to rental equipment	(114)	(90)	(180)	(151)
Proceeds on disposal of rental equipment	30	49	62	78
Interest paid	(20)	(29)	(35)	(40)
Income tax paid	(19)	(22)	(45)	(34)
Cash flow provided by (used in) operating activities	18	(112)	(224)	(170)
INVESTING ACTIVITIES				
Additions to property, plant, and equipment and intangible assets	(46)	(20)	(78)	(39)
Proceeds on disposal of property, plant, and equipment	—	1	11	2
Proceeds on disposal of investment (Note 4)	—	7	—	7
Advances to and investment in joint ventures and associate	(1)	(2)	(1)	(5)
Cash flow used in investing activities	(47)	(14)	(68)	(35)
FINANCING ACTIVITIES				
Increase in short-term debt (Note 8)	44	86	194	100
Decrease in finance liabilities (Note 8)	(1)	(2)	(2)	(4)
Repurchase of common shares	(9)	—	(9)	(2)
Dividends paid	(34)	(30)	(66)	(61)
Cash flow provided by financing activities	—	54	117	33
Effect of currency translation on cash balances	4	(6)	17	(10)
Decrease in cash and cash equivalents	(25)	(78)	(158)	(182)
Cash and cash equivalents, beginning of period	325	489	458	593
Cash and cash equivalents, end of period (Note 8)	\$ 300	\$ 411	\$ 300	\$ 411

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

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

These unaudited interim condensed consolidated financial statements (“Interim Statements”) of Finning International Inc. and its subsidiaries (together, “Finning” or the “Company”) have been prepared in accordance with International Accounting Standard (IAS) 34, *Interim Financial Reporting*, as issued by the International Accounting Standard Board (IASB). Accordingly, certain information and footnote disclosure normally included in annual financial statements prepared in accordance with International Financial Reporting Standards (IFRS) have been omitted or condensed, and therefore these Interim Statements should be read in conjunction with the December 31, 2017 audited annual consolidated financial statements and the notes to such financial statements.

These Interim Statements are based on the IFRS issued and effective as of August 8, 2018, the date these Interim Statements were authorized for issuance by the Company’s Board of Directors, and follow the same accounting policies and methods of computation as the most recent annual consolidated financial statements, except for the impact of the changes in accounting policies disclosed below:

(a) New Accounting Standards, Interpretations, and Amendments to Standards

The Company has adopted the following new accounting standards and interpretation:

- IFRS 15, *Revenue from Contracts with Customers* (effective date January 1, 2018) requires companies to recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. IFRS 15 supersedes existing standards and interpretations, including IAS 18, *Revenue* and IAS 11, *Construction Contracts*. Additionally, IFRS 15 significantly increases disclosures related to revenue recognition.

Management evaluated the new standard, completed its assessment, and determined that the new standard has the following impact on the timing and pattern of revenue recognition:

- Revenue for sales of new equipment, used equipment, and parts remains unchanged.
- Revenue for complex power and energy systems projects and servicing of equipment is recognized over time in a pattern that reflects the measure of progress. While the total amount of revenue recognized under IFRS 15 does not change materially, the timing of revenue recognized can differ to reflect the measure of progress or allocation of the transaction price.
- Revenue for non-complex power and energy systems projects is recognized at points in time as the performance obligations are satisfied (upon delivery of the equipment to the customer or commissioning of the power system project).
- Revenue for rental equipment is excluded from the scope of the new revenue standard and therefore remains unchanged upon adoption of IFRS 15.

The Company applied some of the practical expedients available under IFRS 15 such as, the Company did not restate financial statements for any contracts completed prior to January 1, 2017 and management used the transaction price at the date the contract was completed rather than estimating variable consideration amounts in the comparative reporting periods. Also, modifications of contracts prior to January 1, 2017 were appropriately assessed and reflected in the identified performance obligations, estimated transaction price, and allocation of the transaction price to those performance obligations. Management applied the new standard retrospectively to each reporting period presented.

The impact of IFRS 15 on the comparative periods in the consolidated financial statements is shown in the tables on pages 9 – 11.

The Company's accounting policy for Revenue is as follows:

Revenue Recognition

Revenue is recognized when or as the Company transfers control of goods or services to a customer at the amount the Company expects to be entitled.

Revenue is recognized when control of the goods is transferred to the customer at a point-in-time for the following revenue streams:

- Revenue from sales of new and used equipment (except for complex power and energy systems) is presented as new equipment revenue and used equipment revenue, respectively. Revenue is recognized when control passes to the customer, which is generally at the time of shipment of the equipment to the customer or when commissioning of equipment is complete. Revenue is recorded at the estimated amount of consideration the Company is expected to be entitled, including any non-cash consideration when used equipment is accepted for trade-in value.
- Revenue from sales of parts inventory is presented as product support revenue and recognized when control of the part is transferred to the customer, which is generally upon shipment to the customer or when the customer collects their purchase from one of the Company's locations. Revenue from the sales of parts inventory is initially recorded at the estimated amount of consideration the Company is expected to be entitled. If applicable, management recognizes an obligation for items such as refunds, incentives, and discounts with a corresponding reduction in product support revenue. The value of the obligation is estimated based on the terms of the contract, customary business practices, and historical experience.

Revenue is recognized in a manner that best reflects the Company's performance over-time for the following revenue streams:

- Revenue from sales of complex power and energy systems involving the design, installation, and assembly of power and energy systems is presented as new equipment revenue and estimated as the amount of consideration to which the Company is expected to be entitled. Revenue is recognized on a percentage of completion basis proportionate to the work that has been completed and is based on associated costs incurred.
- Revenue from sales of parts and labour when servicing equipment both under and not under a long-term contract is presented as product support revenue. For sale of parts through servicing of equipment, revenue is recognized as the service work is performed based on parts list price and standard billing labour rates. Product support is also offered to customers in the form of long-term contracts. For these contracts, revenue is recognized on a basis proportionate to the service work that has been performed based on associated costs incurred. For certain long-term product support contracts where flat-rate labour or a monthly subscription service is provided, the Company recognizes revenue for labour on a straight-line basis. Revenue from product support under long-term contracts is estimated based on the number and types of services expected to be performed using the pricing terms set out in the contract.
- Revenue from equipment rentals and operating leases is presented as equipment rental revenue and in accordance with the terms of the relevant agreement with the customer, either recognized evenly over the term of that agreement or on a usage basis such as the number of hours that the equipment is used.

Periodically, revenue from customers under long-term contracts may be recognized in advance of billing the customer. To the extent the Company has a right to receive consideration for the good or service transferred to the customer, the Company recognizes a contract asset. Similarly, amounts may be received from customers under long-term contracts in advance of the work being performed and the Company recognizes a contract liability. These amounts are recorded on the consolidated statement of financial position as Unbilled Work in Progress and Deferred Revenue, respectively.

If it is expected that the unavoidable costs required to satisfy the remaining performance obligations of a revenue contract will exceed its expected economic benefits, the Company recognizes an onerous provision with a corresponding loss in the consolidated statement of net income.

- IFRS 9, *Financial Instruments* (IFRS 9) (effective January 1, 2018) introduced new requirements for the classification and measurement of financial assets and financial liabilities, impairment of financial assets, and hedge accounting. The Company applied this standard retrospectively. Under the new standard, management utilizes a provision matrix, permitted under the simplified approach, to estimate expected credit losses for trade and other receivables and unbilled work in progress. There is no adjustment on transition for this change in methodology from incurred credit losses under the previous standard IAS 39, *Financial Instruments: Recognition and Measurement* (IAS 39).

Management elected to apply the hedge accounting requirements of IFRS 9 to its existing hedging relationships. As a result, cash flow hedges of certain highly probable forecast transactions did not meet the requirements under IFRS 9, therefore any effective portion of such hedges previously recognized in other comprehensive income was restated to the consolidated statement of net income in the comparative period.

Under IAS 39, if a hedged forecast transaction subsequently resulted in the recognition of a non-financial asset or non-financial liability, the Company reclassified that amount and included it directly in the initial cost of the asset or the liability with an offsetting entry in other comprehensive income, referred to as a basis adjustment. Upon adoption of IFRS 9, the Company is required to remove the basis adjustment related to non-financial instruments directly from accumulated other comprehensive income as it is not considered a reclassification adjustment and therefore will no longer impact other comprehensive income.

The impact of IFRS 9 on the comparative periods in the consolidated financial statements is shown in the tables on pages 9 – 11.

The Company's accounting policy for Financial Instruments is as follows:

Financial Assets

Classification and measurement

Cash and cash equivalents, accounts receivable, unbilled work in progress, supplier claims receivable, instalment and other notes receivable, and Value Added Tax receivable are classified as amortized cost and measured using the effective interest method.

Financial assets classified as amortized cost are assessed for impairment at the end of each reporting period and a loss allowance is measured by estimating the lifetime expected credit losses. Certain categories of financial assets, such as trade receivables, that are considered not to be impaired individually are also assessed for impairment on a collective basis. Estimates of expected credit losses take into account the Company's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period, as well as observable changes in and forecasts of future economic conditions that correlate with default on receivables. The carrying amount of trade receivables is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognized in the consolidated statement of net income. At the point when the Company is satisfied that no recovery of the amount owing is possible, the amount is considered not recoverable and the financial asset is written off.

Derivative assets are classified as fair value through profit or loss and are recorded on the consolidated statement of financial position at fair value. Changes in fair value are recognized in the consolidated statement of net income except for changes in fair value related to derivative assets which are effectively designated as hedging instruments which are recognized in other comprehensive income.

Financial Liabilities

Classification and measurement

Short-term and long-term debt and accounts payable are classified as amortized cost and are measured using the effective interest method.

Derivative liabilities are classified as fair value through profit or loss and are recorded on the consolidated statement of financial position at fair value. Changes in fair value are recognized in the consolidated statement of net income except for changes in fair value related to derivative liabilities which are effectively designated as hedging instruments which are recognized in other comprehensive income.

Hedging

Hedges

The Company utilizes derivative financial instruments and foreign currency debt in order to manage its foreign currency and interest rate exposure. The Company uses derivative financial instruments only in connection with managing related risk positions and does not use them for trading or speculative purposes.

The Company determines whether to formally designate, for accounting purposes, eligible hedging relationships between hedging instruments and hedged items. This process includes linking derivatives to specific risks from assets or liabilities on the statement of financial position, specific firm commitments, or forecasted transactions. For hedges designated as such for accounting purposes, at inception, the Company documents the hedging relationship, its risk management objective and strategy for undertaking the hedge, and how the Company will assess whether the Company meets the hedge effectiveness requirements. When derivative instruments have been designated as a hedge and are highly effective in offsetting the identified hedged risk, hedge accounting is applied to the derivative instruments. The ineffective portion of hedging gains and losses of highly effective hedges is reported in the consolidated statement of net income.

Gains and losses relating to derivative financial instruments that are not designated as hedges for accounting purposes are recorded in the consolidated statement of income as selling, general, and administrative expenses or finance costs, as appropriate.

Cash Flow Hedges

The Company uses foreign exchange forward contracts and, at times, may use options to hedge the currency risk associated with certain foreign currency purchase commitments, payroll, and associated accounts payable and accounts receivable for periods up to two years in advance. The effective portion of hedging gains and losses associated with these cash flow hedges is recorded, net of tax, in other comprehensive income and recognized in earnings in the same period as the hedged item. For cash flow hedges of non-financial items, these gains and losses are included in the initial carrying cost of the hedged asset or hedged liability. The gain or loss relating to any ineffective portion is recognized immediately in the consolidated statement of income.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any accumulated gain or loss recorded in other comprehensive income at that time remains in accumulated other comprehensive income until the originally hedged transaction affects net income. When a forecasted transaction is no longer expected to occur, the accumulated gain or loss that was reported in other comprehensive income is immediately recorded in the consolidated statement of income.

Net Investment Hedges

The Company uses foreign currency debt to hedge foreign currency gains and losses on its long-term net investments in foreign operations. The effective portion of the gain or loss of such instruments associated with the hedged risk is recorded in other comprehensive income. These gains or losses are recognized in the consolidated statement of net income upon the disposal of a foreign operation, a disposal that involves loss of control of a subsidiary that includes a foreign operation, loss of joint control over a jointly controlled entity that includes a foreign operation, or loss of significant influence over an associate that includes a foreign operation.

The impact of IFRS 15 on the statements of financial position for January 1, 2017 is presented below. IFRS 9 did not impact the statements of financial position for January 1, 2017.

January 1, 2017 (\$ millions)	Previously reported	Adjustments for IFRS 15	Adjustments for IFRS 9	Restated
Accounts receivable	\$ 869	\$ (55)	\$ —	\$ 814
Unbilled work in progress	\$ 101	\$ 76	\$ —	\$ 177
Inventories	\$ 1,601	\$ (4)	\$ —	\$ 1,597
Other assets (non-current)	\$ 186	\$ (34)	\$ —	\$ 152
Total assets	\$ 4,910	\$ (17)	\$ —	\$ 4,893
Deferred revenue	\$ 231	\$ 2	\$ —	\$ 233
Other liabilities (non-current)	\$ 205	\$ (33)	\$ —	\$ 172
Total liabilities	\$ 3,009	\$ (31)	\$ —	\$ 2,978
Retained earnings	\$ 1,083	\$ 14	\$ —	\$ 1,097
Shareholders' equity	\$ 1,901	\$ 14	\$ —	\$ 1,915

The impact of IFRS 15 and IFRS 9 on the statement of financial position for December 31, 2017 is as follows:

December 31, 2017 (\$ millions)	Previously reported	Adjustments for IFRS 15	Adjustments for IFRS 9	Restated
Accounts receivable	\$ 957	\$ (23)	\$ —	\$ 934
Unbilled work in progress	\$ 124	\$ 38	\$ —	\$ 162
Inventories	\$ 1,705	\$ 3	\$ —	\$ 1,708
Other assets (non-current)	\$ 194	\$ (41)	\$ —	\$ 153
Total assets	\$ 5,092	\$ (23)	\$ —	\$ 5,069
Deferred revenue	\$ 291	\$ 5	\$ —	\$ 296
Other liabilities (non-current)	\$ 215	\$ (39)	\$ —	\$ 176
Total liabilities	\$ 3,129	\$ (34)	\$ —	\$ 3,095
Accumulated other comprehensive income	\$ 193	\$ —	\$ 2	\$ 195
Retained earnings	\$ 1,190	\$ 11	\$ (2)	\$ 1,199
Shareholders' equity	\$ 1,963	\$ 11	\$ —	\$ 1,974

The impact of IFRS 15 and IFRS 9 on the statements of net income and comprehensive income for the three and six months ended June 30, 2017 and year ended December 31, 2017 is as follows:

For 3 months ended June 30, 2017 (\$ millions)	Previously reported	Adjustments for IFRS 15	Adjustments for IFRS 9	Restated
New equipment revenue	\$ 550	\$ 6	\$ —	\$ 556
Product support revenue	\$ 877	\$ (3)	\$ —	\$ 874
Total revenue	\$ 1,581	\$ 3	\$ —	\$ 1,584
Cost of sales	\$ (1,159)	\$ (3)	\$ —	\$ (1,162)
Gross profit	\$ 422	\$ —	\$ —	\$ 422
Selling, general, and administrative expenses	\$ (330)	\$ —	\$ (1)	\$ (331)
Earnings before finance costs and income taxes	\$ 98	\$ —	\$ (1)	\$ 97
Net income	\$ 56	\$ —	\$ (1)	\$ 55
Other comprehensive income	\$ (8)	\$ —	\$ 2	\$ (6)
Comprehensive income	\$ 48	\$ —	\$ 1	\$ 49
For 6 months ended June 30, 2017 (\$ millions)	Previously reported	Adjustments for IFRS 15	Adjustments for IFRS 9	Restated
New equipment revenue	\$ 973	\$ 8	\$ —	\$ 981
Product support revenue	\$ 1,729	\$ (6)	\$ —	\$ 1,723
Total revenue	\$ 2,983	\$ 2	\$ —	\$ 2,985
Cost of sales	\$ (2,168)	\$ (2)	\$ —	\$ (2,170)
Gross profit	\$ 815	\$ —	\$ —	\$ 815
Selling, general, and administrative expenses	\$ (637)	\$ —	\$ (1)	\$ (638)
Earnings before finance costs and income taxes	\$ 184	\$ —	\$ (1)	\$ 183
Net income	\$ 103	\$ —	\$ (1)	\$ 102
Other comprehensive income	\$ (6)	\$ —	\$ 2	\$ (4)
Comprehensive income	\$ 97	\$ —	\$ 1	\$ 98
For year ended December 31, 2017 (\$ millions)	Previously reported	Adjustments for IFRS 15	Adjustments for IFRS 9	Restated
New equipment revenue	\$ 2,169	\$ 6	\$ —	\$ 2,175
Product support revenue	\$ 3,496	\$ (15)	\$ —	\$ 3,481
Total revenue	\$ 6,265	\$ (9)	\$ —	\$ 6,256
Cost of sales	\$ (4,608)	\$ 6	\$ —	\$ (4,602)
Gross profit	\$ 1,657	\$ (3)	\$ —	\$ 1,654
Selling, general, and administrative expenses	\$ (1,267)	\$ —	\$ (4)	\$ (1,271)
Earnings before finance costs and income taxes	\$ 399	\$ (3)	\$ (4)	\$ 392
Provision for income taxes	\$ (78)	\$ —	\$ 2	\$ (76)
Net income	\$ 221	\$ (3)	\$ (2)	\$ 216
Other comprehensive income	\$ (35)	\$ —	\$ (1)	\$ (36)
Comprehensive income	\$ 186	\$ (3)	\$ (3)	\$ 180

The impact on basic and diluted EPS for the three and six months ended June 30, 2017, and year ended December 31, 2017 is as follows:

For the 3 months ended June 30, 2017	Previously reported	Adjustments for IFRS 15	Adjustments for IFRS 9	Restated
Basic and Diluted EPS	\$ 0.34	\$ —	\$ (0.01)	\$ 0.33

For the 6 months ended June 30, 2017	Previously reported	Adjustments for IFRS 15	Adjustments for IFRS 9	Restated
Basic EPS	\$ 0.62	\$ —	\$ (0.01)	\$ 0.61
Diluted EPS	\$ 0.61	\$ —	\$ —	\$ 0.61

For year ended December 31, 2017	Previously reported	Adjustments for IFRS 15	Adjustments for IFRS 9	Restated
Basic and Diluted EPS	\$ 1.31	\$ (0.01)	\$ (0.02)	\$ 1.28

- IFRIC 22, *Foreign Currency Transactions and Advance Consideration* (effective January 1, 2018) clarifies the appropriate exchange rate to use on initial recognition of an asset, expense or income when advance consideration is paid or received in a foreign currency. This IFRIC clarifies the exchange rate used to translate deposits made on inventory purchases or advances received for equipment sales denominated in a foreign currency. Management elected to apply this interpretation prospectively to all in-scope assets, expenses, and income recognized on or after January 1, 2018. The future impact on the initial measurement of inventory and revenue will depend on movements in exchange rates.

(b) Future Accounting Pronouncements

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

- IFRS 16, *Leases* (effective January 1, 2019) introduces new requirements for the classification and measurement of leases. Management is currently assessing the impact of the new standard but expects IFRS 16 will result in materially higher non-current assets and non-current liabilities recorded on the consolidated statement of financial position. Also, management expects lower selling, general, and administrative expense and higher finance costs under this new standard due to lower operating lease expense partially offset by higher depreciation expense and higher interest expense, respectively. IFRS 16 allows policy options for full or modified retrospective application. At this time, the Company is assessing which transition approach it will apply.
- IFRIC 23, *Uncertainty over Income Tax Treatments* (effective January 1, 2019) provides guidance when there is uncertainty over income tax treatments including, but not limited to, whether uncertain tax treatments should be considered separately; assumptions made about the examination of tax treatments by tax authorities; the determination of taxable profit, tax bases, unused tax losses, unused tax credits, and tax rates; and, the impact of changes in facts and circumstances. Management is currently assessing the impact of the new interpretation.

2. SEGMENTED INFORMATION

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

3 months ended June 30, 2018 (\$ millions)	Canada	South America	UK & Ireland	Other	Consolidated
Revenue					
New equipment	\$ 308	\$ 145	\$ 170	\$ —	\$ 623
Used equipment	52	9	17	—	78
Equipment rental	33	15	9	—	57
Product support	513	381	74	—	968
Other	1	1	1	—	3
Total revenue from external sources	\$ 907	\$ 551	\$ 271	\$ —	\$ 1,729
Operating costs	(813)	(489)	(250)	(11)	(1,563)
Depreciation and amortization	(22)	(15)	(7)	(1)	(45)
Equity earnings of joint ventures and associate	5	—	—	—	5
Earnings (loss) before finance costs and income taxes	\$ 77	\$ 47	\$ 14	\$ (12)	\$ 126
Finance costs					(18)
Provision for income taxes					(27)
Net income					\$ 81
Invested capital ⁽¹⁾	\$ 1,840	\$ 1,172	\$ 372	\$ (22)	\$ 3,362
Capital and rental equipment ⁽²⁾	\$ 612	\$ 413	\$ 151	\$ 20	\$ 1,196
Gross capital expenditures ⁽²⁾⁽³⁾	\$ 21	\$ 17	\$ 2	\$ 7	\$ 47
Gross rental asset expenditures ⁽³⁾	\$ 78	\$ 15	\$ 21	\$ —	\$ 114

3 months ended June 30, 2017 (\$ millions) (Restated - Note 1)	Canada	South America	UK & Ireland	Other	Consolidated
Revenue					
New equipment	\$ 240	\$ 139	\$ 177	\$ —	\$ 556
Used equipment	62	14	20	—	96
Equipment rental	33	13	8	—	54
Product support	454	349	71	—	874
Other	1	1	2	—	4
Total revenue from external sources	\$ 790	\$ 516	\$ 278	\$ —	\$ 1,584
Operating costs	(715)	(459)	(258)	(13)	(1,445)
Depreciation and amortization	(26)	(15)	(7)	—	(48)
Equity earnings (loss) of joint ventures and associate	6	—	—	(1)	5
Other income	—	—	—	1	1
Earnings (loss) before finance costs and income taxes	\$ 55	\$ 42	\$ 13	\$ (13)	\$ 97
Finance costs					(23)
Provision for income taxes					(19)
Net income					\$ 55
Invested capital ⁽¹⁾	\$ 1,764	\$ 1,047	\$ 307	\$ (10)	\$ 3,108
Capital and rental equipment ⁽²⁾	\$ 584	\$ 344	\$ 119	\$ 5	\$ 1,052
Gross capital expenditures ⁽²⁾⁽³⁾	\$ 8	\$ 9	\$ 2	\$ 1	\$ 20
Gross rental asset expenditures ⁽³⁾	\$ 67	\$ 17	\$ 6	\$ —	\$ 90

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

⁽²⁾ Capital includes property, plant and equipment and intangible assets

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

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

6 months ended June 30, 2018 (\$ millions)	Canada	South America	UK & Ireland	Other	Consolidated
Revenue					
New equipment	\$ 576	\$ 298	\$ 333	\$ —	\$ 1,207
Used equipment	108	32	34	—	174
Equipment rental	63	27	17	—	107
Product support	1,011	744	149	—	1,904
Other	1	2	4	—	7
Revenue from external sources	\$ 1,759	\$ 1,103	\$ 537	\$ —	\$ 3,399
Operating costs	(1,577)	(980)	(499)	(21)	(3,077)
Depreciation and amortization	(44)	(30)	(14)	(1)	(89)
Equity earnings (loss) of joint ventures and associate	10	—	—	(4)	6
Earnings (loss) before finance costs and income taxes	\$ 148	\$ 93	\$ 24	\$ (26)	\$ 239
Finance costs					(36)
Provision for income taxes					(51)
Net income					\$ 152
Invested capital ⁽¹⁾	\$ 1,840	\$ 1,172	\$ 372	\$ (22)	\$ 3,362
Capital and rental equipment ⁽²⁾	\$ 612	\$ 413	\$ 151	\$ 20	\$ 1,196
Gross capital expenditures ⁽²⁾⁽³⁾	\$ 28	\$ 36	\$ 4	\$ 11	\$ 79
Gross rental asset expenditures ⁽³⁾	\$ 122	\$ 30	\$ 28	\$ —	\$ 180
6 months ended June 30, 2017 (\$ millions) (Restated - Note 1)	Canada	South America	UK & Ireland	Other	Consolidated
Revenue					
New equipment	\$ 405	\$ 281	\$ 295	\$ —	\$ 981
Used equipment	108	26	35	—	169
Equipment rental	64	26	15	—	105
Product support	902	684	137	—	1,723
Other	1	2	4	—	7
Revenue from external sources	\$ 1,480	\$ 1,019	\$ 486	\$ —	\$ 2,985
Operating costs	(1,337)	(903)	(453)	(22)	(2,715)
Depreciation and amortization	(50)	(30)	(13)	—	(93)
Equity earnings (loss) of joint venture and associate	8	—	—	(4)	4
Other income (Note 4)	—	—	—	2	2
Earnings (loss) before finance costs and income taxes	\$ 101	\$ 86	\$ 20	\$ (24)	\$ 183
Finance costs					(45)
Provision for income taxes					(36)
Net income					\$ 102
Invested capital ⁽¹⁾	\$ 1,764	\$ 1,047	\$ 307	\$ (10)	\$ 3,108
Capital and rental equipment ⁽²⁾	\$ 584	\$ 344	\$ 119	\$ 5	\$ 1,052
Gross capital expenditures ⁽²⁾⁽³⁾	\$ 13	\$ 21	\$ 3	\$ 2	\$ 39
Gross rental asset expenditures ⁽³⁾	\$ 120	\$ 22	\$ 9	\$ —	\$ 151

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

⁽²⁾ Capital includes property, plant and equipment and intangible assets

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

3. EARNINGS PER SHARE

(\$ millions, except share and per share amounts) 2018	3 months ended June 30			6 months ended June 30		
	Income	Shares	Per Share	Income	Shares	Per Share
Basic Earnings per share (EPS):						
Net income, weighted average shares outstanding, EPS	\$ 81	168,410,113	\$ 0.48	\$ 152	168,377,884	\$ 0.90
Effect of dilutive securities: share options	—	714,017	—	—	772,155	—
Diluted EPS:						
Net income and assumed conversions	\$ 81	169,124,130	\$ 0.48	\$ 152	169,150,039	\$ 0.90
2017 (Restated - Note 1)						
Basic EPS:						
Net income, weighted average shares outstanding, EPS	\$ 55	168,090,761	\$ 0.33	\$ 102	168,112,969	\$ 0.61
Effect of dilutive securities: share options	—	234,109	—	—	235,683	—
Diluted EPS:						
Net income and assumed conversions	\$ 55	168,324,870	\$ 0.33	\$ 102	168,348,652	\$ 0.61

Share options granted to employees that are anti-dilutive are excluded from the weighted average number of ordinary shares for the purpose of calculating diluted earnings per share. Anti-dilutive share options related to the three and six months ended June 30, 2018 were not significant (2017: 1.5 million and 1.4 million, respectively).

4. OTHER INCOME

(\$ millions)	3 months ended June 30		6 months ended June 30	
	2018	2017	2018	2017
Gain on investment (a)	\$ —	\$ 1	\$ —	\$ 2
Total other income	\$ —	\$ 1	\$ —	\$ 2

(a) The Company recognized a gain upon the disposal of its investment in IronPlanet Holdings, Inc in the second quarter of 2017.

5. SHORT-TERM DEBT AND FINANCE COSTS

At June 30, 2018, short-term debt includes \$170 million drawn on the Company's syndicated committed credit facility and local bank borrowings in the Company's Ireland operations of \$23 million and Argentina operations of \$20 million. At December 31, 2017, short-term debt represented local bank borrowings in the Company's Argentina operations of \$18 million.

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

(\$ millions)	3 months ended June 30		6 months ended June 30	
	2018	2017	2018	2017
Interest on short-term debt	\$ 3	\$ 1	\$ 6	\$ 2
Interest on long-term debt	12	17	25	34
Interest on debt securities	15	18	31	36
Other finance related expenses	3	5	5	9
Finance costs	\$ 18	\$ 23	\$ 36	\$ 45

6. SHARE-BASED PAYMENTS

The Company has a number of share-based compensation plans in the form of share options and other share-based payment plans noted below.

Share Options

Details of the share option plans are as follows:

6 months ended	June 30, 2018		June 30, 2017	
	Options	Weighted Average	Options	Weighted Average
Options outstanding, beginning of period	3,864,338	\$ 25.45	4,563,871	\$ 25.20
Granted	349,509	\$ 33.68	434,806	\$ 26.79
Exercised ⁽¹⁾	(969,280)	\$ 25.94	(146,999)	\$ 23.09
Forfeited	(1,667)	\$ 25.44	(97,118)	\$ 27.56
Expired	(2,350)	\$ 28.29	—	\$ —
Options outstanding, end of period	3,240,550	\$ 26.18	4,754,560	\$ 25.36
Options exercisable, end of period	2,411,823	\$ 25.32	3,488,081	\$ 25.50

⁽¹⁾ Under the Stock Option Plan, exercises generally utilize the cashless method, whereby the actual number of shares issued is based on the premium between the fair value at the time of exercise and the grant value, and the equivalent value of the number of options up to the grant value is withheld. Share options exercised in the six months ended June 30, 2018 comprised both cash and cashless exercises.

In the three months ended June 30, 2018, the Company granted 349,509 common share options to senior executives and management of the Company (three months ended June 30, 2017: 434,806 common share options). The Company only grants and prices share options when all material information has been disclosed to the market.

In the six months ended June 30, 2018, 969,280 options were exercised resulting in 231,979 common shares being issued; 737,301 options were withheld and returned to the option pool for future issues/grants (six months ended June 30, 2017: 146,999 options were exercised resulting in 20,062 common shares issued; 126,937 options were withheld and returned).

The fair value of the options granted in 2018 has been estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted-average assumptions:

	2018 Grant	2017 Grant
Dividend yield	2.80%	2.72%
Expected volatility ⁽²⁾	27.13%	29.34%
Risk-free interest rate	2.31%	1.09%
Expected life	5.38 years	5.56 years

⁽²⁾ Expected volatility is based on historical share price volatility of Finning shares.

The weighted average grant date fair value of options granted during the three and six months ended June 30, 2018 was \$6.87 (2017: \$5.48).

Other Share-Based Payment Plans

The Company has other share-based payment plans in the form of deferred share units, performance share units, and restricted share units that use notional common share units. Grants under these plans are as follows:

(share units granted)	3 months ended June 30		6 months ended June 30	
	2018	2017	2018	2017
Executive Deferred Share Unit Plan	—	—	4,747	9,589
Directors' Deferred Share Unit Plan A	11,004	14,174	23,744	29,558
Performance Share Unit Plan ⁽³⁾	369,844	443,334	369,844	443,334
Restricted Share Unit Plan	162,439	193,760	162,439	193,760

⁽³⁾ Based on 100% vesting.

7. POST-EMPLOYMENT BENEFITS

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

	June 30, 2018			June 30, 2017		
	Canada	UK	South America	Canada	UK	South America
Discount rate – obligation	3.3%	2.8%	1.6%	3.2%	2.7%	1.4%
Discount rate – expense ⁽¹⁾	3.4%	2.5%	1.8%	3.7%	2.7%	1.3%
Retail price inflation – obligation ⁽²⁾	n/m	3.2%	n/a	n/m	3.3%	n/a
Retail price inflation – expense ⁽¹⁾⁽²⁾	n/m	3.3%	n/a	n/m	3.4%	n/a

⁽¹⁾ Used to determine the net interest cost and expense for the six months ended June 30, 2018 and June 30, 2017

⁽²⁾ n/m – not a material assumption used in the valuation

n/a – not applicable

The net benefit cost and actuarial loss (gain) for the Company's defined benefit pension plans and other post-employment benefit plans in South America are as follows:

3 months ended (\$ millions)	June 30, 2018				June 30, 2017			
	Canada	UK	South America	Total	Canada	UK	South America	Total
Current service cost and administration costs, net of employee contributions	\$ 2	\$ 1	\$ 4	\$ 7	\$ 1	\$ 1	\$ 2	\$ 4
Net benefit cost	\$ 2	\$ 1	\$ 4	\$ 7	\$ 1	\$ 1	\$ 2	\$ 4
Actuarial (gain) loss on plan assets	\$ (11)	\$ 9	\$ —	\$ (2)	\$ (23)	\$ 6	\$ —	\$ (17)
Actuarial loss (gain) on plan liabilities	11	(29)	—	(18)	18	(14)	(2)	2
Total actuarial gain recognized in other comprehensive income	\$ —	\$ (20)	\$ —	\$ (20)	\$ (5)	\$ (8)	\$ (2)	\$ (15)

6 months ended (\$ millions)	June 30, 2018				June 30, 2017			
	Canada	UK	South America	Total	Canada	UK	South America	Total
Current service cost and administration costs, net of employee contributions	\$ 4	\$ 1	\$ 6	\$ 11	\$ 3	\$ 1	\$ 4	\$ 8
Net benefit cost	\$ 4	\$ 1	\$ 6	\$ 11	\$ 3	\$ 1	\$ 4	\$ 8
Actuarial (gain) loss on plan assets	\$ (6)	\$ 18	\$ —	\$ 12	\$ (29)	\$ (11)	\$ —	\$ (40)
Actuarial loss (gain) on plan liabilities	11	(53)	—	(42)	31	(13)	(1)	17
Total actuarial loss (gain) recognized in other comprehensive income	\$ 5	\$ (35)	\$ —	\$ (30)	\$ 2	\$ (24)	\$ (1)	\$ (23)

In March 2017, the Company invested a portion of its Canadian defined benefit plan assets in annuity contracts (totaling \$97 million) in order to partly mitigate the Company's exposure to investment and longevity risk. This change in investments resulted in an actuarial loss on plan assets of approximately \$3 million that was recognized in other comprehensive income in the six months ended June 30, 2017.

8. SUPPLEMENTAL CASH FLOW INFORMATION

The components of cash and cash equivalents are as follows:

June 30 (\$ millions)	2018		2017	
Cash	\$	220	\$	203
Cash equivalents		80		208
Cash and cash equivalents	\$	300	\$	411

The changes in operating assets and liabilities are as follows:

(\$ millions)	3 months ended June 30		6 months ended June 30	
	2018	2017 (Restated Note 1)	2018	2017 (Restated Note 1)
Accounts receivable	\$ 7	\$ (56)	\$ (22)	(61)
Unbilled work in progress	(13)	4	(38)	2
Inventories	(59)	(156)	(227)	(214)
Other assets	(12)	10	(26)	(18)
Accounts payable and accruals	(5)	39	(70)	7
Other liabilities	39	(15)	11	(28)
Changes in operating assets and liabilities	\$ (43)	\$ (174)	\$ (372)	\$ (312)

The changes in liabilities arising from financing and operating activities for the six month period ending June 30 are as follows:

(\$ millions)	Short-term debt	Long-term debt	Finance lease liability	Total
Balance, January 1, 2018	\$ 18	\$ 1,296	\$ 34	\$ 1,348
Cash flows provided by (used in)				
Financing activities	194	—	(2)	192
Total cash movements	\$ 194	\$ —	\$ (2)	\$ 192
Non-cash changes				
Foreign exchange rate changes	1	34	—	35
Total non-cash movements	\$ 1	\$ 34	\$ —	\$ 35
Balance, June 30, 2018	\$ 213	\$ 1,330	\$ 32	\$ 1,575

(\$ millions)	Short-term debt	Long-term debt	Finance lease liability	Total
Balance, January 1, 2017	\$ 2	\$ 1,487	\$ 39	\$ 1,528
Cash flows provided by (used in)				
Financing activities	100	—	(4)	96
Operating activities	—	—	(1)	(1)
Total cash movements	\$ 100	\$ —	\$ (5)	\$ 95
Non-cash changes				
Interest expense	—	—	1	1
Foreign exchange rate changes	—	(21)	—	(21)
Total non-cash movements	\$ —	\$ (21)	\$ 1	\$ (20)
Balance, June 30, 2017	\$ 102	\$ 1,466	\$ 35	\$ 1,603

9. SUBSEQUENT EVENT

The Company has a 28.8% ownership interest in Energyst B.V. (Energyst) and an investment of approximately \$20 million is recorded on the statement of financial position. On July 3, 2018, Energyst sold its wholly-owned subsidiary in Argentina which will result in the Company recording a loss of approximately \$10 million for the three months ended September 30, 2018. This loss is primarily due to a reclassification of foreign currency translation losses from accumulated other comprehensive income to net income.