# 2015 ANNUAL REPORT

FINNING®

## Table of Contents

About Finning
Value proposition
Message from chairman of the board
Message from president and CEO
Management's discussion and analysis
Financial statements and notes
5-year financial summary
Board of directors and executive officers
Shareholder information

## About Finning

Finning International (TSX: FTT) is the world's largest Caterpillar dealer delivering unrivalled services for over 80 years.

Finning sells, rents and provides parts and service for equipment and engines to customers in various industries, including mining, construction, petroleum, forestry and a wide range of power systems applications. Finning delivers solutions that enable customers to achieve the lowest cost of equipment ownership and operations while maximizing uptime.

Headquartered in Vancouver, British Columbia, Canada, Finning employs approximately 13,000 people worldwide and operates in three geographies:

- Western Canada: British Columbia, Alberta, Saskatchewan, Yukon, the Northwest Territories, and a portion of Nunavut
- South America: Chile, Argentina, and Bolivia
- The United Kingdom and Ireland

## 2015 Financial Statistics

*$ millions, except where specified*

| | |
|---|---|
| Revenue | 6,190 |
| EBITDA [(1)(2)(3)] | 604 |
| Free cash flow [(1)] | 325 |
| Invested capital [(1)] | 3,240 |
| Net debt [(1)] | 1,190 |
| Net debt to EBITDA ratio [(1)(3)] | 2.0 |
| Basic EPS [(2)(3)] ($) | 1.29 |
| Annual dividend per share ($) | 0.73 |
| Outstanding shares (# millions) | 168 |

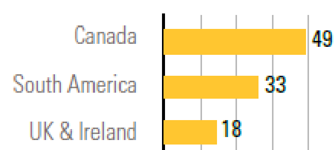
[(1)] These financial metrics do not have a standardized meaning under International Financial Reporting Standards, and may not be comparable to similar measures used by other issuers. For additional information and definitions of these financial metrics, see "Description of Non-GAAP Measures" in Finning's Management's Discussion and Analysis (MD&A).

[(2)] Earnings Before Finance Costs, Income Taxes, Depreciation and Amortization (EBITDA), Earnings per Share (EPS).

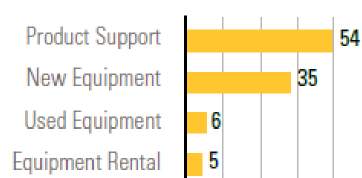
[(3)] Excluding significant items which management does not does not consider indicative of operational and financial trends either by nature or amount. These significant items are described on page 3 of the MD&A ($10 million of these significant items was recorded in depreciation and amortization expense). Reported EBITDA was $126 million; reported net debt to EBITDA ratio was 9.5; reported basic EPS was $(0.94).

## 2015 Revenue Profile (%)

### By Region

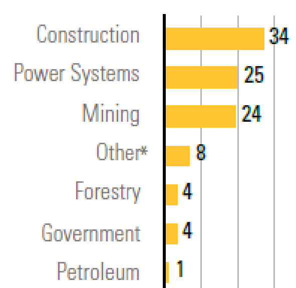



### By Line of Business




### By Industry

*New equipment deliveries*



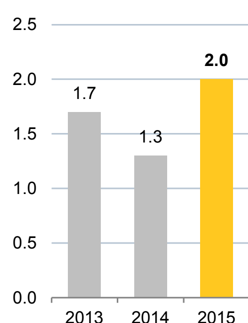

* Industrial segments and agriculture

## Compelling Value Proposition

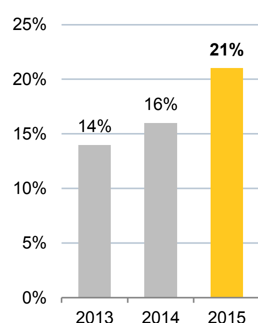
- Great products and territories
  - Aligned with Caterpillar – world's best heavy equipment company
  - Operating in high-quality regions with significant growth opportunities
- Resilient business model
  - Machine population drives stable product support business
  - Customer diversification across many sectors
  - Cost discipline and decisive actions to navigate through market downturn
  - Advancing operational priorities to transform the business for sustainable profitability
- Relatively consistent EBITDA and strong free cash flow conversion throughout the business cycle
- Strong financial position and attractive dividend yield

| *$ millions, except where specified* | 2013 | 2014 | **2015** |
|---|---|---|---|
| EBITDA[1] | 737 | 749 | **604** |
| Net rental expenditures[2] | (73) | (35) | **(24)** |
| Net capital expenditures[3] | (74) | (63) | **(54)** |
| Free cash flow (FCF) | 441 | 483 | **325** |
| FCF conversion[4] | 60% | 64% | **54%** |

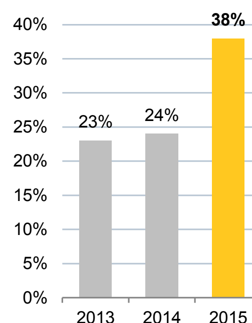
**Net debt to EBITDA ratio[1]**




**Dividends as % of EBITDA[1]**




**Dividends as % of FCF**




[1] Excluding significant items in 2015 and 2014
[2] Additions to rental equipment less proceeds on disposal of rental equipment
[3] Additions to property, plant, and equipment, intangible assets, and distribution network less proceeds on disposal of property, plant, and equipment
[4] Free cash flow divided by EBITDA

## Message from Chairman of the Board

In the nearly two decades that I have been proudly associated with Finning, I have watched the company move through dynamic markets and ever-changing economic cycles. No matter what the market delivers, Finning adapts and ultimately emerges stronger and more resilient.

There are many examples of the company's evolution. Finning has continued to diversify and grow and the acquisition of the Saskatchewan dealership in 2015 furthers this strategy giving us access to more geographic territories, end markets and revenue streams. The product support business has expanded in size and sophistication, helping to sustain Finning through economic downturns. And Finning's enviable business model continues to deliver strong returns and strong cash flow even through the down cycle. We saw this in 2015 as the company generated strong EBITDA[1] and cash flow despite the headwinds created by weak commodity prices. I am very pleased with the structural changes Finning's leadership team is making to move the company toward improved operating performance.

Like the company, Finning's Board of Directors also evolves to meet changing needs. It is the duty of the board to provide the strategic oversight as Finning implements its strategies, and we are charged with protecting and enhancing shareholder value. We believe board renewal is an essential ingredient in our ability to fulfill these duties and provide sound corporate governance. We must ensure the board has the optimal composition to support the strategic priorities of the business and reflect the diversity of our stakeholders.

To this end, we have welcomed four new directors to the Finning Board in the past two years, each of whom brings a unique and extensive set of skills and experience. Most recently, we appointed Stuart Levenick as a director in March 2016. Stuart brings a wealth of corporate executive experience gained over the course of his 37-year career at Caterpillar, which included 10 years as Group President prior to his retirement from the company. He has a strong background in marketing and general management, as well as broad global experience gained from assignments in the United States, Canada, Russia, Asia Pacific and Japan. Stuart has been a valuable partner to the Finning organization in his past role and we look forward to leveraging his direct industry experience and knowledge to ensure Finning continues to deliver value for its customers while advancing its operational priorities.

In February 2016, we also announced that I will be stepping down as Chairman of the Board and Mike Wilson will be taking over this role. Mike joined Finning's Board of Directors in January 2013 bringing decades of international and executive leadership experience, including 10 years as President and Chief Executive Officer of Agrium. I am confident that his vast experience and skills will serve Mike well as he takes on this role and continues to support management in their commitment to driving shareholder value creation.

It has been a pleasure serving as Chairman of the Finning Board and to participate in the evolution of this strong and resilient company. I also look forward to my continued association with Finning as a Board member.

In closing, I would like to thank Finning employees for their dedication through a challenging but successful year. I would also like to thank Caterpillar for being a strong strategic partner and my fellow Board members and the Finning executive team for their ongoing leadership.

For more information about our corporate governance policies, please review the Finning management proxy circular and visit the corporate governance section at www.finning.com

On behalf of your Board of Directors,

**Doug Whitehead**
Chairman of the Board

[1] Excluding significant items as described on page 3 of the Company's MD&A.

## Message from President and CEO

Finning's trademark resilience and determination underlined our performance in 2015 as we took decisive action to reduce our cost structure amidst a challenging macro-economic backdrop while accelerating the pace of implementing operational improvements to set the stage for future success. Due to our diligent focus on the factors we control, we realized our best ever safety performance, generated strong EBITDA[1] and free cash flow, achieved sustainable operating improvements and maintained a solid balance sheet.

**Transforming the business for sustainable profitability**
Well before the drop in commodity prices, we were working hard to make Finning a stronger company by advancing an agenda focused on safety and talent management, customer and market leadership, service excellence, supply chain, and asset utilization. Against a challenging backdrop that saw oil and copper prices fall to multi-year lows during the year, we made real progress advancing these operational imperatives to transform our business for sustainable profitability. While we recognize that there is more work ahead of us to improve our operating performance over time as measured by an increased return on invested capital, we have built significant positive momentum and this was reflected in an increase in customer loyalty in each of our regions. I am also particularly proud of the steps we have taken to strengthen the safety of our operations. Through various initiatives and increased collaboration, Finning achieved a 21 percent decline in total reportable injury frequency in 2015 relative to 2014. This marks a new record and moves us closer to our goal of ensuring every one of our people goes home safely each and every day.

Importantly, Finning also moved quickly to adjust to the market conditions we faced in 2015. As mining activity in South America and Canada slowed, the impact on new equipment demand was felt not only in the mining and oil and gas sectors, but in general construction and other market segments as well. Taking our cue from our South American region's 2014 market response, we knew that having the right cost structure in place would be essential to protecting Finning through the market downturn. Facing lower revenues, we made the difficult but disciplined decision to reduce our global workforce by approximately 15 percent in 2015. In light of continuing low commodity prices, we announced a further reduction in February 2016. By mid-2016, we will have reduced our global workforce by 20 percent since peak employment levels in 2013.

Our initiatives also included an assessment of our Canadian facilities to determine how we can support our customers with a more effective and efficient network. To this end, we are in the process of closing 33 facilities effectively reducing our Canadian facilities footprint by over 20 percent.

I am keenly aware that these are difficult decisions for our employees. However, given the environment and our view that markets will remain depressed for a prolonged period, these moves were necessary to ensure Finning is able to deliver value for our customers. And while the economic environment has been a catalyst for these actions, we have been deliberate about how we are restructuring and redistributing our activities. We are reshaping Finning in a way that maintains and improves our customer support capabilities in line with our commitment to earning customer loyalty. We are not just cutting costs. We are structurally improving our processes, transforming our supply chain and taking actions to consistently deliver service excellence to our customers.

We are creating a leaner, more agile organization that can better support customers through economic volatility. In the process, we expect to improve our own profitability through the cycle creating a company that is exceptionally well-positioned when the challenges of today abate.

**Committed to generating strong free cash flow and returning capital to shareholders**
At the outset of this letter, I noted that our 2015 achievements included strong cash flow generation. Since 2013, Finning has generated nearly $1.3 billion in free cash flow, including $325 million in 2015. This strong performance reflects our ability to convert EBITDA to free cash flow through our capital discipline and focus on working capital management. This in turn has supported our ability to complete a strategic acquisition and maintain our track record of returning capital to shareholders while preserving a strong financial position:

[1] Excluding significant items as described on page 3 of the Company's MD&A.

- During 2015, we acquired the Caterpillar dealership in Saskatchewan for cash consideration of $241 million. This acquisition is a great strategic fit for Finning, representing a compelling growth opportunity for our employees, customers, and shareholders. In addition, the expansion into Saskatchewan offers a diversification into new markets, including agriculture, potash and uranium mining.
- We increased our annualized dividend by 2 cents to $0.73 per share.
- We also launched a share repurchase program, acquiring over $90 million worth of our shares through the year. We consider share buybacks to be an effective us of excess cash when our shares are trading at a significant discount.

As we move into 2016, we are on track to continue generating strong free cash flow while maintaining a healthy financial position.

**Strengthening our company for future success**
Looking ahead, we expect to see continued uncertainty in the global economy. While we are not immune to this reality, I am confident that the step change in how we run our business will result in Finning coming out of the downturn stronger than ever. We are already on track to achieve $150 million in permanent SG&A savings in our Canadian business in 2016 relative to 2014 levels, and we expect further structural savings from cost reductions announced in February 2016.

As we continue to strengthen Finning, we have a strong team in place to guide us. In March 2015, we welcomed Steve Nielsen as our Chief Financial Officer. More recently, Chad Hiley was appointed as our Chief Human Resources Officer, and Kevin Parkes stepped into the role of Managing Director for Finning UK & Ireland. Ultimately, it is the 13,000 employees across all of our operations who are the cornerstone of our success and our commitment to our customers. I thank every one of you for helping us do more for our customers and doing it better than ever in 2015.

I would also like to take this opportunity to thank Caterpillar for their ongoing partnership, our customers and shareholders for your loyalty and support, as well as our Board of Directors for their guidance. I especially want to express my gratitude to Doug Whitehead, who is stepping down from his role as Chairman of the Board. Prior to becoming the Chairman of the Board in 2008, Doug served as CEO of Finning and I look forward to continuing to benefit from his valuable experience in his role as a member of the Board.

We are on the right path to transforming our business to drive long-term value. Our business model is robust and we will control what we can. We will continue to advance our operational priorities to make Finning a leaner, more agile organization focused on partnering with our customers for mutual success.

**Scott Thomson**
President and Chief Executive Officer

# 2015 MANAGEMENT'S DISCUSSION & ANALYSIS

FINNING

# MANAGEMENT'S DISCUSSION AND ANALYSIS

February 17, 2016

This Management's Discussion and Analysis (MD&A) of Finning International Inc. (Finning or the Company) should be read in conjunction with the audited annual consolidated financial statements for the year ended December 31, 2015 and the accompanying notes thereto, which have been prepared in accordance with International Financial Reporting Standards (IFRS). All dollar amounts presented in this MD&A are expressed in Canadian dollars, unless otherwise stated. Additional information relating to the Company, including its current Annual Information Form (AIF), can be found on the SEDAR (System for Electronic Document Analysis and Retrieval) website at www.sedar.com.

Finning International Inc. (TSX:FTT) is the world's largest Caterpillar Inc. (Caterpillar) dealer delivering unrivalled service for over 80 years. The Company sells, rents, and provides parts and service for equipment and engines to customers in various industries, including mining, construction, petroleum, forestry, and a wide range of power systems applications. Finning delivers solutions that enable customers to achieve the lowest equipment owning and operating costs while maximizing uptime.

## 2015 Annual Highlights

- Significant positive free cash flow[2] of $325 million during 2015 (2014: $483 million cash generation)
- Revenue of $6.2 billion was down 11% from 2014 due to a 24% decrease in new equipment revenue, reflecting lower demand from mining and construction sectors in the Company's Canadian and South American operations, a result of the decline in copper and oil prices.
- Product support revenues and margins were comparable to the prior year despite challenging market conditions reflecting improved service profitability as a result of operational excellence initiatives implemented throughout the year.
- EBIT[1] was a loss of $(105) million and EBIT margin[2] was (1.7)% in 2015. 2014 EBIT was $504 million and EBIT margin was 7.3%. A difficult macro economic environment and prolonged weak market conditions in the current and foreseeable future, together with the resultant actions taken by the Company to align its cost structure to lower market activity and improve operational results in the long-term, had the following significant impacts to the Company's 2015 results:
    - $338 million impairment loss related to the shovels and drills distribution network and goodwill in the Company's South American and UK & Ireland operations
    - $53 million in costs relating to the restructuring of the facilities footprint, primarily in the Canadian operations
    - $48 million in severance costs due to the global workforce reduction of approximately 1,900 people or 13%
    - $42 million of higher than usual inventory and other asset impairment charges
- Excluding costs relating to the impairment loss, facilities restructuring, severance, inventory and asset impairment charges noted above, as well as $7 million of net costs related to a foreign exchange loss in Argentina and other investing activities, 2015 EBIT would have been $383 million and EBIT margin would have been 6.2%. Operationally, after taking into account these significant adjustments, EBIT was down compared to the prior year mainly due to reduced sales volumes in the mining and construction sectors, lower margins from new, used and rental equipment as a result of challenging market conditions.
- EBITDA[1][2] in 2015 was $126 million with a net debt to EBITDA ratio[2] of 9.5x. Excluding the significant items noted above (not included in depreciation and amortization), 2015 EBITDA would have been $604 million with a net debt to EBITDA ratio of 2.0x, reflecting balance sheet strength.
- During 2015 the Company repurchased 4.4 million of its common shares for cancellation at a cost of approximately $91 million.
- The Company acquired the operating assets of Kramer Ltd. for cash consideration of $241 million and became the approved Caterpillar dealer in Saskatchewan. During Q4 2015 the Company sold its business in Uruguay and recorded a gain on sale of $8 million.

(1) Earnings Before Finance Costs and Income Taxes (EBIT); Earnings Before Finance Costs, Income taxes, Depreciation and Amortization (EBITDA).

(2) These financial metrics do not have a standardized meaning under IFRS, which are also referred to herein as Generally Accepted Accounting Principles (GAAP). For additional information regarding these financial metrics, see the heading "Description of Non-GAAP Measures" later in this MD&A. 2015 annual results were impacted by a number of significant items management does not consider indicative of operational and financial trends either by nature or amount. These significant items are described on page 3 in this MD&A; of the significant items described, $10 million was recorded in depreciation and amortization expense.

## Operational Excellence Agenda & Key Performance Measures

The Company is focused on building shareholder value by improving return on invested capital. With safety and talent management as the foundation, management is executing on the following operational priorities: customer & market leadership; supply chain optimization; service excellence; and asset utilization. These priorities are linked directly to improving EBIT performance and capital efficiency.

| Years ended December 31 | **2015** [3] | 2014 | 2013 | 2012 (restated)[1] | 2011 (restated)[1] |
|---|---|---|---|---|---|
| Return on Invested Capital [2] (%) | | | | | |
| Consolidated | **(3.0)%** | 15.3% | 15.7% | 16.5% | 16.0% |
| Canada | **5.5%** | 17.1% | 15.9% | 15.7% | 14.4% |
| South America | **(12.8)%** | 14.6% | 17.6% | 19.7% | 20.0% |
| UK & Ireland | **(1.4)%** | 16.3% | 16.4% | 16.3% | 18.3% |
| EBIT [3] ($ millions) | | | | | |
| Consolidated | **(105)** | 504 | 521 | 489 | 374 |
| Canada | **98** | 284 | 263 | 231 | 167 |
| South America | **(174)** | 196 | 249 | 239 | 195 |
| UK & Ireland | **(5)** | 50 | 43 | 45 | 47 |
| EBIT Margin (%) | | | | | |
| Consolidated | **(1.7)%** | 7.3% | 7.7% | 7.4% | 6.3% |
| Canada | **3.2%** | 7.8% | 7.8% | 7.1% | 5.7% |
| South America | **(8.4)%** | 8.8% | 9.9% | 9.9% | 9.2% |
| UK & Ireland | **(0.5)%** | 4.8% | 4.9% | 5.0% | 5.6% |
| Invested Capital [2] ($ millions) | | | | | |
| Consolidated | **3,240** | 3,106 | 3,138 | 3,131 | 2,320 |
| Canada | **1,760** | 1,475 | 1,488 | 1,589 | 1,175 |
| South America | **1,122** | 1,348 | 1,391 | 1,298 | 898 |
| UK & Ireland | **321** | 284 | 265 | 260 | 234 |
| Invested Capital Turnover [2] (times) | | | | | |
| Consolidated | **1.75x** | 2.10x | 2.04x | 2.22x | 2.53x |
| Canada | **1.70x** | 2.19x | 2.03x | 2.22x | 2.53x |
| South America | **1.52x** | 1.66x | 1.78x | 1.98x | 2.18x |
| UK & Ireland | **2.92x** | 3.43x | 3.37x | 3.25x | 3.26x |
| Inventory ($ millions) | **1,800** | 1,661 | 1,756 | 1,930 | 1,443 |
| Inventory Turns (times) [2] | **2.26x** | 2.81x | 2.74x | 2.43x | 2.95x |
| Working Capital to Sales Ratio [2] (%) | **32.7%** | 26.1% | 26.5% | 24.5% | 22.8% |
| Free Cash Flow ($ millions) | **325** | 483 | 441 | (37) | (221) |
| Net Debt to Invested Capital [2] (%) | **36.7%** | 31.4% | 40.8% | 50.0% | 42.0% |
| EBITDA [2] ($ millions) | **126** | 720 | 737 | 701 | 548 |
| Net Debt to EBITDA [2] Ratio | **9.5** | 1.4 | 1.7 | 2.2 | 1.8 |

(1) The 2012 and 2011 comparative results described in this table have been restated to reflect the Company's adoption of the amendments to IAS 19, Employee Benefits, for the financial year beginning January 1, 2013.
(2) These financial metrics do not have a standardized meaning under IFRS. For additional information regarding these financial metrics, including definitions, see the heading "Description of Non-GAAP Measures" later in this MD&A.
(3) 2015 reported financial metrics were impacted by a number of significant items management does not consider indicative of operational and financial trends either by nature or amount. These significant items are described on page 3 in this MD&A; of the significant items described, $10 million was recorded in depreciation and amortization expense. Excluding the significant items not included in depreciation and amortization, annual 2015 EBITDA would have been $604 million and Net Debt to EBITDA ratio would have been 2.0x.

## Annual Overview of Operations and Financial Performance

| For the years ended December 31 | 2015 | 2014 | 2015 | 2014 |
|---|---|---|---|---|
| | ($ millions) | | (% of revenue) | |
| Revenue | **$ 6,190** | $ 6,918 | | |
| Gross profit | **1,814** | 2,062 | **29.3%** | 29.8% |
| Selling, general & administrative expenses (SG&A) | **(1,542)** | (1,556) | **(24.9)%** | (22.5)% |
| Equity earnings of joint venture and associate | **5** | 12 | **0.1%** | 0.2% |
| Other expenses | **(52)** | (14) | **(0.8)%** | (0.2)% |
| Other income | **8** | — | **0.1%** | — |
| Impairment on distribution network and goodwill | **(338)** | — | **(5.5)%** | — |
| EBIT | **(105)** | 504 | **(1.7)%** | 7.3% |
| Finance costs | **(85)** | (85) | **(1.4)%** | (1.2)% |
| Recovery (provision) for income taxes | **29** | (101) | **0.5%** | (1.5)% |
| Net (loss) income | **$ (161)** | $ 318 | **(2.6)%** | 4.6% |
| Basic earnings per share (EPS) | **$ (0.94)** | $ 1.85 | | |
| EBITDA | **$ 126** | $ 720 | **2.0%** | 10.4% |
| Free cash flow | **$ 325** | $ 483 | | |

Significant items that affected reported annual 2015 and 2014 results which are not considered by management to be indicative of operational and financial trends included:

2015 significant items:

- Due to a difficult macro economic environment in the current and foreseeable future, the Company recorded a total impairment loss of $338 million related to its shovels and drills distribution network related and goodwill.
- Restructured its facility footprint in all operations and recorded $53 million in costs related to facility closures and consolidations.
- Recorded severance costs of $48 million related to the global workforce reduction during the year as the Company aligns its cost structure to lower market activity.
- $42 million higher than usual inventory and other asset impairments primarily related to aged and industry specific inventory and rental assets due to prolonged weak market conditions.
- $12 million foreign exchange (FX) loss due to the significant devaluation of the Argentine peso (ARS) to the U.S. dollar (USD)
- $8 million gain on sale of Uruguay business; $3 million acquisition costs related to the purchase of Kramer Ltd.
- Recognition of tax benefits from capital losses and higher tax expense from change in statutory tax rate in its Canadian operations.

| **For the year ended December 31, 2015 ($ millions except per share amounts)** | **Canada** | **South America** | **UK & Ireland** | **Other** | **Consol** | **EPS** |
|---|---|---|---|---|---|---|
| Distribution network and goodwill impairment | **—** | **324** | **14** | **—** | **338** | 1.54 |
| Facility closures and restructuring costs | **48** | **3** | **2** | **—** | **53** | 0.23 |
| Severance costs | **27** | **15** | **6** | **—** | **48** | 0.21 |
| Inventory and other asset impairments | **16** | **10** | **16** | **—** | **42** | 0.19 |
| FX and tax impact on devaluation of ARS | **—** | **12** | **—** | **—** | **12** | 0.14 |
| Acquisition and disposal of businesses, net | **—** | **—** | **—** | **(5)** | **(5)** | (0.03) |
| Capital loss utilized and tax rate change | **—** | **—** | **—** | **—** | **—** | (0.05) |
| Impact of significant items[1] on EBIT and EPS: | **$ 91** | **$ 364** | **$ 38** | **$ (5)** | **$ 488** | **$ 2.23** |

[1] Of the significant items described above, $10 million was recorded in depreciation and amortization expense.

| For the year ended December 31, 2014 ($ millions except per share amounts) | Canada | South America | UK & Ireland | Other | Consol | EPS |
|---|---|---|---|---|---|---|
| Severance and labour disruption costs | 6 | 10 | 1 | — | 17 | 0.07 |
| ERP write-off in South American operations | — | 12 | — | — | 12 | 0.06 |
| Impact of significant items on EBIT and EPS: | $ 6 | $ 22 | $ 1 | $ — | $ 29 | $ 0.13 |

## Revenue

The Company generated revenue of $6.2 billion during 2015, a decrease of 11% from 2014. Revenue was down in all operations, particularly in new equipment sales in the Company's Canadian and South American operations due to weaker market conditions resulting from the downturn in commodity markets.

New equipment sales declined by 24% compared to 2014, driven by the Company's Canadian and South America operations as a result of the weaker construction, mining and power systems sectors. The decline in oil and copper prices have resulted in a reduction in mining and construction activities and a delay of investments in infrastructure projects.

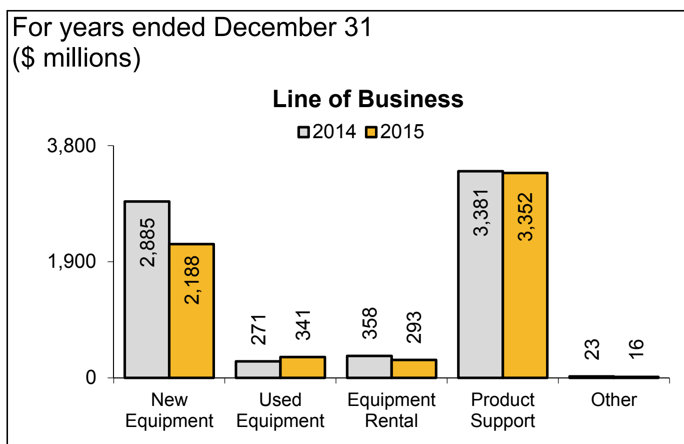
Reflecting weak market conditions, equipment order backlog [1] was $500 million at the end of 2015, down from $1.0 billion at the end of 2014.

Product support revenue was comparable to the same period in 2014. Increases in the Company's South American and UK & Ireland operations, as a result of translating revenue with a weaker Canadian dollar, were partially offset by an 8% decrease in the Company's Canadian operations due primarily to lower activity levels from construction and mining sectors as some customers delayed maintenance work.

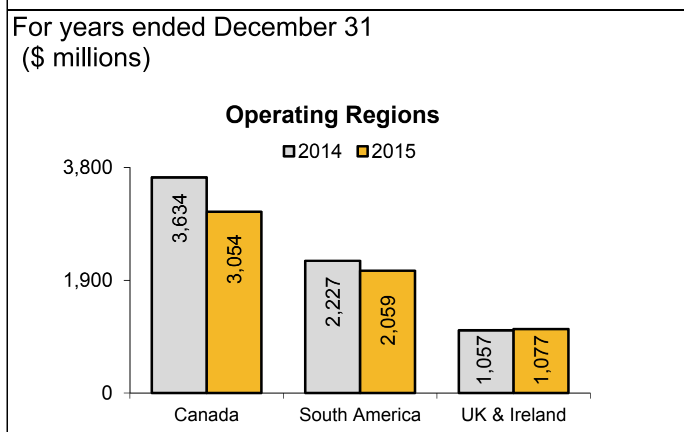
Product support revenue in the Company's South American operations was down 7% in functional currency (U.S. dollars), primarily due to a decrease in parts revenue from the Chilean mining sector. Product support revenue in the Company's UK & Ireland operations was down slightly in functional currency (U.K. pound sterling) due to a decrease in parts revenue in most sectors.

Used equipment revenue was up 26%, reflecting market demand and efforts to reduce used equipment inventory. An 18% decrease in rental revenue was a result of the weaker short-term rental market and increased competition in the Company's Canadian operations relative to a year ago. Rental revenue in South America and the UK & Ireland was largely unchanged in 2015 compared to the prior year period.

For years ended December 31
($ millions)




For years ended December 31
($ millions)




Foreign currency translation of the results of the Company's South American and UK & Ireland operations had a positive impact on revenue of approximately $300 million, primarily due to the 16% weaker Canadian dollar relative to the U.S. dollar and 7% weaker Canadian dollar relative to the U.K. pound sterling in 2015 compared to last year. However, the foreign currency translation impact on EBIT was minimal.

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

## Earnings Before Finance Costs and Income Taxes

| For years ended December 31 ($ millions) | Consol |
|---|---|
| 2014 EBIT | $ 504 |
| Operating variance | (150) |
| Distribution network and goodwill impairment | (338) |
| Facility closures and restructuring costs | (53) |
| Inventory and other asset impairments | (42) |
| Higher severance costs | (31) |
| FX loss on devaluation of ARS | (12) |
| Acquisition and disposal of businesses | 5 |
| ERP write-off (2014) | 12 |
| 2015 EBIT | $ (105) |

Gross profit of $1.8 billion in 2015 was down 12% compared to 2014 and in line with lower revenues, with customers focusing on reducing operating costs in a challenging economic environment and increased competitive pressures.

Gross profit margin of 29.3% was down slightly from 2014 despite a revenue mix shift to higher margin product support sales. Product support revenue comprised 54% of total revenue in 2015 compared to 49% in 2014. Lower margins earned on new, used, and rental equipment due to a competitive market were partly offset by improved service margins earned from all operations due to the implementation of operational excellence initiatives. Contributing to lower gross profit margins were higher than usual inventory and rental asset impairments due to the prolonged weak global market conditions, particularly in the mining and oil and gas sectors.

SG&A costs in 2015 were slightly lower than the prior year. Cost savings achieved from all operations as a result of the execution of operational excellence programs, cost reduction measures, and lower sales volumes were offset by $31 million higher global severance costs, a $12 million foreign exchange loss on the significant devaluation of the Argentine peso, and a $6 million write-off of an intangible asset. Excluding severance, Argentine peso foreign exchange loss and the impairment noted above, SG&A decreased by approximately 5% from 2014. This decrease reflects global cost savings from operational improvements, headcount reductions and volume-related decreases, partially offset by inflationary and statutory salary increases.

The Company reported an EBIT loss of $(105) million in 2015 compared to $504 million earned in 2014. Excluding the significant items noted on page 3 of this MD&A, 2015 EBIT would have been $383 million, lower compared to the prior year period primarily due to the Company's Canadian and South American operations, as a result of reduced mining and construction activity.

The Company's EBIT margin was negative (1.7)% in 2015, compared to 7.3% earned in 2014. Excluding the significant items noted on page 3 of this MD&A, EBIT margin for 2015 would have been 6.2% and lower compared to the prior year mainly due to SG&A costs not decreasing as quickly as the revenue decline, as benefits from cost and restructuring initiatives recently implemented have not yet been fully realized. Excluding the higher than usual inventory and rental asset impairments recorded in the year, the total gross profit margin would have been comparable to the prior year, reflecting the benefit from a mix shift to higher margin product support revenues.

### EBITDA

EBITDA for 2015 was $126 million (2014: $720 million) and net debt to EBITDA ratio was 9.5x. Excluding the significant items (not included in depreciation and amortization) noted on page 3 of this MD&A, EBITDA for 2015 would have been $604 million and the net debt to EBITDA ratio would have been 2.0x and was down from the prior year period mainly due to the lower earnings from the Company's Canadian operations.

### Finance Costs

Finance costs in 2015 were $85 million and comparable to the prior year period. Prior year finance costs included a $4 million gain on a foreign currency swap contract.

### Provision for Income Taxes

Income tax recovery for the year ended 2015 was $29 million (2014 tax expense: $101 million).

Finning's effective income tax rate for 2015 was 15.7%, down from 24.1% in the prior year, mainly due to non-deductible goodwill impairment losses, partly offset by a higher annual effective tax rate for Argentina due to the significant devaluation of the Argentine peso.

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

### Net Income

The Company reported a net loss of $(161) million or basic EPS of $(0.94) per share in 2015 compared to a net income of $318 million or basic EPS of $1.85 per share in 2014. Excluding the significant items noted on page 3 of this MD&A, annual 2015 EPS would have been $1.29, lower than the prior year primarily due to lower sales volumes and compressed profit margins, reflecting the challenging economic conditions in all regions.

## Invested Capital

| ($ millions, unless otherwise stated) | **December 31, 2015** | September 30, 2015 | Increase (Decrease) from September 30, 2015 | December 31, 2014 | Increase (Decrease) from December 31, 2014 |
|---|---|---|---|---|---|
| Consolidated | **$ 3,240** | $ 3,802 | $ (562) | $ 3,106 | $ 134 |
| Canada | **$ 1,760** | $ 1,871 | $ (111) | $ 1,475 | $ 285 |
| South America | **$ 1,122** | $ 1,485 | $ (363) | $ 1,348 | $ (226) |
| UK & Ireland | **$ 321** | $ 442 | $ (121) | $ 284 | $ 37 |
| *South America (U.S. dollar)* | ***$ 811*** | *$ 1,108* | *$ (297)* | *$ 1,162* | *$ (351)* |
| *UK & Ireland (U.K. pound sterling)* | ***£ 157*** | *£ 219* | *£ (62)* | *£ 157* | *£ 0* |

The $134 million increase in consolidated invested capital from 2014 to 2015 was affected by approximately $200 million of foreign exchange, as a result of the 19% weaker Canadian dollar (CAD) relative to the U.S. dollar (USD) and the 13% weaker CAD relative to the U.K. pound sterling (GBP) in translating the Company's South American and UK & Ireland operations' invested capital balances.

Excluding the impact of foreign exchange, consolidated invested capital decreased by $66 million from 2014 primarily driven by:

- decrease in accounts receivable balances from the Company's South American and Canadian operations as a result of higher collections combined with lower sales volumes during the year
- decrease in intangible assets reflecting the impairment loss recognized on the distribution network and goodwill in the South American and UK & Ireland operations in 2015
- decrease in fixed assets mainly due to facility closures in the Company's Canadian operations

These decreases were partly offset by:

- a decrease in accounts payable balances in the Company's South American and Canadian operations as a result of lower inventory purchases made during the year
- higher equipment inventory levels in the Company's Canadian operations, reflecting the slowdown in market activity, were largely offset by lower parts levels in the Company's Canadian and South American operations due to the execution of supply chain initiatives
- the $241 million acquisition of the operating assets of Kramer Ltd. in the Company's Canadian operations, primarily made up of inventory, rental equipment and accounts receivable

Compared to December 2014, in functional currency, invested capital in the Company's South American operations was down 30% (down 17% in CAD) and was unchanged in the UK & Ireland operations (up 13% in CAD).

Consolidated invested capital decreased by $562 million from Q3 2015 to Q4 2015 primarily driven by:

- decrease in intangible assets reflecting the impairment loss recognized on the distribution network and goodwill in the South American and UK & Ireland operations in Q4 2015
- decrease in inventory in all operations, primarily new equipment inventory in the South American and UK & Ireland operations, and a reduction in parts inventory in the Canadian operations, reflecting a focused effort to manage working capital and align inventory levels to current market demand
- decrease in fixed assets as a result of facility closures and impairment on properties in all the operations and a decrease in rental assets

| | **December 31, 2015** | September 30, 2015 | December 31, 2014 |
|---|---|---|---|
| **Return on invested capital** | | | |
| Consolidated | **(3.0)%** | 11.0% | 15.3% |
| Canada | **5.5%** | 10.9% | 17.1% |
| South America | **(12.8)%** | 13.2% | 14.6% |
| UK & Ireland | **(1.4)%** | 10.5% | 16.3% |
| **Invested Capital Turnover** | | | |
| Consolidated | **1.75x** | 1.85x | 2.10x |
| Canada | **1.70x** | 1.92x | 2.19x |
| South America | **1.52x** | 1.50x | 1.66x |
| UK & Ireland | **2.92x** | 2.91x | 3.43x |

**Return on invested capital (ROIC)**

ROIC at Q4 2015 was (3.0)%, a decrease from Q3 2015 of 11.0% and Q4 2014 of 15.3%. The decline in ROIC reflects the negative impact the downturn in resources and construction sectors have had on the Company's earnings. Also negatively impacting the Company's 2015 ROIC were significant items as described on page 3 of this MD&A. The Company will continue to monitor business conditions closely in all its operations and further align its invested capital with expected activity levels when necessary.

- In the Company's Canadian operations, ROIC decreased to 5.5% from 10.9% in Q3 2015 and 17.1% in Q4 2014, driven primarily by lower earnings compared to the prior year period combined with a higher average invested capital. Average invested capital levels were higher compared to the prior year period mainly due to higher new equipment inventory levels and lower accounts payables, partly offset by lower accounts receivables.
- In the Company's South American operations, ROIC of (12.8)% decreased compared to 13.2% in Q3 2015 and 14.6% in Q4 2014 primarily due to lower 2015 EBIT, which included a $324 million impairment loss on its distribution network and goodwill. In functional currency, average invested capital decreased by US$165 million or 14% from Q4 2014 and was mainly due to the impairment loss on the shovels and drills distribution network and goodwill, lower inventory levels and accounts receivables, partly offset by lower accounts payables. In functional currency, there was a decrease in working capital balances compared to the prior year period, reflecting the continued focus on inventory management.
- In the Company's UK & Ireland operations, ROIC of (1.4)% in Q4 2015 was down compared to Q4 2014, driven by the decline in EBIT for the last year, which included a $14 million goodwill impairment loss, as average invested capital increased slightly compared to the prior year period.

**Invested capital turnover**

- Invested capital turnover at December 31, 2015 was 1.75 times, down from December 31, 2014 and September 30, 2015, primarily due to reduced sales volumes in 2015 as well as higher invested capital (driven by higher equipment inventories), reflecting the challenging market conditions. Compared to the prior year, all operations reported a lower invested capital turnover.

## Other developments

Effective July 1, 2015 the Company acquired the operating assets of Kramer Ltd. and became the approved Caterpillar dealer in Saskatchewan. The acquired dealership business in Saskatchewan adds to Finning's Western Canadian operations in British Columbia, Alberta, Yukon, the Northwest Territories, and part of Nunavut. This diversifies the Company's revenue base into sectors such as potash and uranium and provides a platform for long-term growth opportunities and diversification into new markets. Cash consideration of $241 million was paid at the time of acquisition. The purchase price represents the fair value of assets acquired and liabilities assumed. Acquisition costs of approximately $3 million were included in Q3 2015 results. The results of the newly acquired dealership business in Saskatchewan have been included in the Company's Canadian operations' reportable segment since the date of acquisition.

As part of a broader repositioning of the Caterpillar dealership network, on December 1, 2015, the Company sold the shares of its wholly owned subsidiary, Finning Uruguay S.A. (Uruguay dealership) for proceeds of $22 million, of which $15 million was received in cash and the remaining balance recognized as a receivable in the Company's statement of financial position. The sale resulted in a gain of approximately $8 million, including $4 million of foreign cumulative translation gains reclassified to earnings.

## Annual Results by Reportable Segment

The Company and its subsidiaries operate primarily in one principal business: the selling, servicing, and renting of heavy equipment, engines, and related products in various markets worldwide as noted below. Finning's reportable segments are as follows:

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

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

| **For year ended December 31, 2015**<br>($ millions) | **Canada** | **South America** | **UK & Ireland** | **Consolidated** | **Revenue percentage** |
|---|---|---|---|---|---|
| New equipment | **$ 1,072** | **$ 474** | **$ 642** | **$ 2,188** | **35%** |
| Used equipment | **221** | **45** | **75** | **341** | **6%** |
| Equipment rental | **194** | **67** | **32** | **293** | **5%** |
| Product support | **1,565** | **1,469** | **318** | **3,352** | **54%** |
| Other | **2** | **4** | **10** | **16** | **0%** |
| Total | **$ 3,054** | **$ 2,059** | **$ 1,077** | **$ 6,190** | **100%** |
| Revenue percentage by operations | **49%** | **33%** | **18%** | **100%** | |

| For year ended December 31, 2014<br>($ millions) | Canada | South America | UK & Ireland | Consolidated | Revenue percentage |
|---|---|---|---|---|---|
| New equipment | $ 1,467 | $ 751 | $ 667 | $ 2,885 | 42% |
| Used equipment | 192 | 34 | 45 | 271 | 4% |
| Equipment rental | 261 | 68 | 29 | 358 | 5% |
| Product support | 1,708 | 1,372 | 301 | 3,381 | 49% |
| Other | 6 | 2 | 15 | 23 | 0% |
| Total | $ 3,634 | $ 2,227 | $ 1,057 | $ 6,918 | 100% |
| Revenue percentage by operations | 53% | 32% | 15% | 100% | |

## Canadian Operations

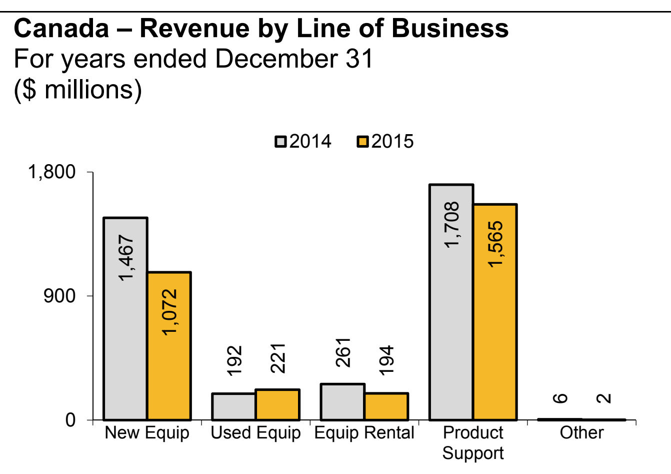
The Canadian reportable segment includes Finning (Canada), OEM Remanufacturing Company Inc. (OEM), and a 25% interest in Pipeline Machinery International (PLM). Finning (Canada) sells, services, and rents mainly Caterpillar equipment and engines in British Columbia, Alberta, Saskatchewan, Yukon, the Northwest Territories, and a portion of Nunavut. The Canadian operations' markets include mining (including the oil sands), construction, conventional oil and gas, forestry, and power systems.

Effective July 1, 2015, the Company acquired the operating assets of Kramer Ltd. in Saskatchewan which is included in the results of the Company's Canadian operations' segment below.

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

| **For years ended December 31 ($ millions)** | **2015** | 2014 |
|---|---|---|
| Revenue from external sources | **$ 3,054** | $ 3,634 |
| Operating costs | **(2,793)** | (3,246) |
| Depreciation and amortization | **(121)** | (112) |
| Equity earnings of joint venture | **4** | 8 |
| Other expenses | **(46)** | — |
| EBIT | **$ 98** | $ 284 |
| EBIT margin | **3.2%** | 7.8% |
| EBITDA | **$ 219** | $ 396 |

Revenues for the year ended December 31, 2015 were $3.1 billion, a 16% decline from the prior year, driven by decreases in new equipment sales and product support, reflecting the downturn in mining, energy, and construction sectors. As a result of the volatility and significant decline of oil prices through 2015, oil sands customers reduced mining activity, delayed non-essential maintenance work, and have insourced some service-related activities. The downturn in commodity markets also negatively impacted other sectors of the economy, in particular, construction and oil and gas. With reduced infrastructure projects and lower rig count utilization, the demand for product support and capital spending for equipment is lower.




New equipment revenue was down 27% compared with 2014, largely as a result of reduced construction and mining activity in 2015. Deliveries exceeded order intake for the fifth consecutive quarter, which resulted in lower order backlog levels at December 31, 2015, down 56% from December 2014.

Product support revenue was down 8% from 2014, driven mainly by lower demand in the construction and mining sectors partially offset by the positive contribution from the Saskatchewan dealership. Product support revenue comprised 51% of total revenue in 2015 compared to 47% last year.

Rental revenues were down significantly from 2014 as a result of weaker demand and more competition. Used equipment revenue was up from the prior year mainly due to market demand as customers looked for more cost effective options.

Difficult market conditions, including lower commodity prices and the weaker Canadian dollar, have led to increased competition and challenging pricing dynamics. Gross profit decreased compared to 2014, reflecting lower sales volumes and lower margins earned on most lines of business. Further affecting gross profit in 2015 was a $16 million impairment relating to aged and industry specific inventory and rental assets due to prolonged weak market conditions.

Gross profit margin in 2015 was lower than the prior year despite a revenue shift to higher margin product support sales. This was a result of a higher proportion of lower-margin equipment in the sales mix, pricing pressures in the construction and mining sectors, a weaker and competitive rental market and inventory and rental asset impairments noted above.

Offsetting these declines in gross profit margin were higher service margins in 2015 compared to the prior year reflecting the implementation of operational improvements.

Actions taken by the Company's Canadian operations in 2015 to reduce its cost structure to align with lower market activity and to improve its service to customers included:

- workforce reduction of approximately 1,100 or 20% which resulted in severance costs of $27 million (2014: $6 million severance costs)
- reduction of the Company's footprint in Western Canada by about 20% by late 2016 which resulted in $48 million of facility closures and restructuring costs: announced closures/consolidation of 32 facilities and branches, including the centralization of the Canadian head office operations from two buildings to one

Severance costs were included in SG&A and facility closure costs and other related costs were primarily recorded in other expenses.

Excluding the severance and facility restructuring costs, SG&A costs decreased nearly 12% compared to 2014. Decrease in SG&A costs are primarily due to workforce reductions, cost savings initiatives, the benefit from the execution of the operational excellence agenda and lower variable costs due to reduced sales activity, partially offset by costs from the newly acquired Saskatchewan business.

The Canadian operations contributed EBIT of $98 million in 2015, lower than the $284 million earned in the same period of 2014. EBIT margin in 2015 was 3.2%, down from 7.8% earned in 2014. Excluding the significant items summarized on page 3 of this MD&A, 2015 EBIT would have been $189 million and 2015 EBIT margin would have been 6.2%, reflecting the decrease in sales activity and gross profit margins, partially offset by lower SG&A costs.

## South American Operations

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

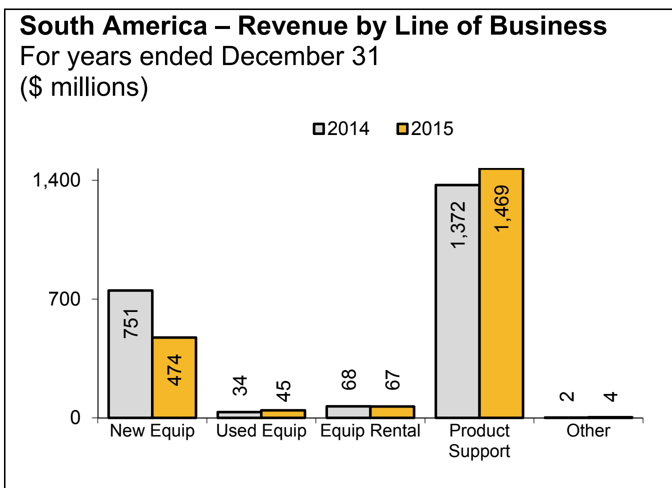
As part of a broader repositioning of the Caterpillar dealership network, Finning sold its business in Uruguay effective December 1, 2015, which generated approximately US$30 million in annual revenue.

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

| **For years ended December 31<br>($ millions)** | **2015** | 2014 |
|---|---|---|
| Revenue from external sources | **$ 2,059** | $ 2,227 |
| Operating costs | **(1,824)** | (1,945) |
| Depreciation and amortization | **(82)** | (72) |
| Impairment of distribution network and goodwill | **(324)** | — |
| Capitalized ERP costs written off | **—** | (12) |
| Other expenses | **(3)** | (2) |
| EBIT | **$ (174)** | $ 196 |
| EBIT margin | **(8.4)%** | 8.8% |
| EBITDA | **$ (92)** | $ 268 |

In 2015, revenue decreased 8% to $2.1 billion compared to 2014 (down 20% in functional currency). This decrease was primarily driven by a 37% decline in new equipment revenue (down 45% in functional currency) reflecting reduced mining activity. Product support revenue was up 7% (down 7% in functional currency).

The positive translation impact on revenue in the year from the weaker Canadian dollar relative to the U.S. dollar was partially offset by the negative translation impact from the weaker Chilean peso against the U.S. dollar compared to 2014. As a result, the net positive impact on revenue from foreign currency translation was approximately $230 million.



Gross profit, in functional currency, decreased compared to 2014 reflecting lower sales volumes. Contributing to the lower gross profit was a $4 million impairment relating to aged, industry specific used equipment inventory, reflecting challenging market conditions. However, despite the downturn in market conditions, gross profit margin increased in 2015 compared to last year, reflecting improved product support margins as well as a mix shift to higher margin product support revenues.

SG&A costs were up 9% in 2015 (down 6% in functional currency). The Company's South American operations took the following actions in 2015 to align its cost structure to reduced activity levels:

- reduced its workforce by approximately 700 people or 10%, which resulted in severance costs of $15 million (2014: $10 million severance and labour disruption costs)
- optimized facility/branch network and recorded a related impairment loss of $3 million in other expenses

In December 2015, the new government in Argentina removed controls on foreign exchange, resulting in a significant 30% devaluation of the peso. As a result, the Company's South American operations recorded a foreign exchange loss of approximately $12 million in SG&A costs in the current year. 2015 SG&A also included an intangible asset impairment of $6 million.

Excluding significant items noted above (such as severance costs, the foreign exchange loss on devaluation of the Argentine peso and the intangible asset impairment), SG&A, in functional currency, decreased by 10% from the prior year period. The decrease in SG&A, in functional currency, was primarily due to lower operating costs from the weaker Argentine and Chilean pesos relative to the U.S. dollar, lower variable costs from reduced sales volumes, and cost savings from the reduced workforce. These reductions were partially offset by inflationary and statutory salary increases.

Due to the difficult macro economic environment, the Company recognized a total impairment loss of $324 million related to its shovels and drills distribution network and goodwill in 2015:

- $286 million impairment of the distribution network in Chile
- $38 million impairment of goodwill and distribution network in Argentina and Bolivia

For more information on the key assumptions used by the Company to value goodwill and intangible assets, please see note 20 of the consolidated financial statements.

For the year ended December 31, 2015, the Company's South American operations reported an EBIT loss of $(174) million and an EBIT margin of negative (8.4)%. Excluding the significant items summarized on page 3 of this MD&A, EBIT in functional currency would have decreased by 24% compared to the prior year, reflecting lower sales volumes and gross profit, partially offset by lower SG&A costs. Excluding the significant items noted on page 3 of this MD&A, EBIT margin for 2015 would have been 9.3% and EBIT margin for 2014 would have been 9.8%.

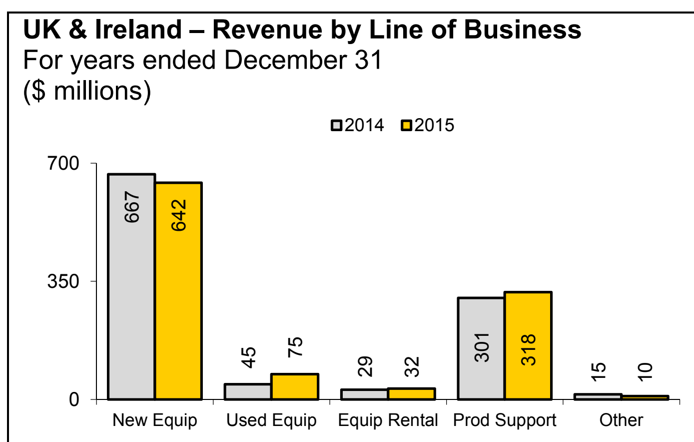
The weaker Chilean and Argentine pesos relative to the U.S. dollar, combined with the weaker Canadian dollar against the U.S. dollar had a minimal foreign currency translation impact on EBIT.

## UK & Ireland Operations

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

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

| **For years ended December 31 ($ millions)** | **2015** | 2014 |
|---|---|---|
| Revenue from external sources | **$ 1,077** | $ 1,057 |
| Operating costs | **(1,040)** | (975) |
| Depreciation and amortization | **(28)** | (32) |
| Goodwill impairment | **(14)** | — |
| EBIT | **$ (5)** | $ 50 |
| EBIT margin | **(0.5)%** | 4.8% |
| EBITDA | **$ 23** | $ 82 |




In 2015, revenue of $1.1 billion was comparable to the same period last year. In functional currency, total revenue was down 5% compared to 2014. A decrease in new equipment revenue in the power systems sector was partly offset by higher used equipment sales during the year.

The weaker Canadian dollar relative to the U.K. pound sterling had a positive foreign currency translation impact on revenue of approximately $70 million in 2015, which was not significant at the EBIT level.

Gross profit, in functional currency, in 2015 was down compared to 2014 by more than the revenue decline due to competitive pressures resulting in lower margins in all lines of business. Gross profit margin was down compared to last year, primarily due to lower margins on new and used equipment sales, mainly from the power systems sector. Further affecting gross profit margin was a $16 million impairment relating to aged inventory and other assets due to weak market conditions. Product support gross profit margins were comparable to the prior year despite weaker market conditions.

The Company took actions to optimize its workforce and branch network and align its cost structure to current market conditions. As a result, the UK & Ireland operations:

- reduced their workforce in 2015 by approximately 200 people or 9% which resulted in severance costs of $6 million recorded in SG&A
- recorded a property impairment loss of $2 million in SG&A

SG&A costs were 12% higher in 2015 compared to 2014 (up 4% in functional currency), driven primarily by higher employee-related costs such as severance and a property impairment loss.

Excluding severance costs and the property impairment loss, SG&A in functional currency was comparable to the prior year. During the year ended December 31, 2015, the Company's UK & Ireland operations recognized a goodwill impairment loss of $14 million. For information on the key assumptions used by the Company to value goodwill and intangible assets, please see note 20 in the consolidated financial statements.

The UK & Ireland operations reported an EBIT loss of $(5) million in 2015 compared to EBIT of $50 million in 2014. Excluding the significant items, as summarized on page 3 of this MD&A, 2015 EBIT would have been $33 million, reflecting lower gross profit from decreased sales volumes and lower margins, a result of weak business activity in the Company's key markets in the UK & Ireland region.

The UK & Ireland operations reported a negative EBIT margin of (0.5)% in 2015 compared to 4.8% earned in 2014. Excluding the significant items noted on page 3 of this MD&A, 2015 EBIT margin would have been 3.1% and was lower than the prior year due to lower gross profit margins on new and used equipment for the reasons noted above.

## Corporate and Other Operations

Net operating costs before finance costs and income taxes from the Company's Corporate and Other Operations were $24 million in 2015 compared to $26 million in 2014. Included in this segment are corporate operating costs, as well as equity earnings from the Company's 28.8% investment in Energyst B.V. which were lower in 2015 compared to the prior year period. Included in the 2015 results was the gain on the sale of the Uruguay business of $8 million and costs of $3 million related to the acquisition of Kramer Ltd.

## Fourth Quarter Overview

| | Q4 2015 (1) | Q4 2014 | Q4 2015 | Q4 2014 |
|---|---|---|---|---|
| | ($ millions) | | (% of revenue) | |
| Revenue | **$ 1,518** | $ 1,803 | | |
| Gross profit | **413** | 529 | **27.2%** | 29.3% |
| SG&A | **(390)** | (393) | **(25.7)%** | (21.8)% |
| Equity earnings of joint venture and associate | **1** | 6 | **0.1%** | 0.4% |
| Other expenses | **(43)** | — | **(2.8)%** | — |
| Other income | **8** | — | **0.5%** | — |
| Goodwill impairment | **(338)** | — | **(22.3)%** | — |
| EBIT | **(349)** | 142 | **(23.0)%** | 7.9% |
| Finance costs | **(22)** | (20) | **(1.5)%** | (1.1)% |
| Recovery (provision) for income taxes | **62** | (15) | **4.2%** | (0.9)% |
| Net (loss) income | **$ (309)** | $ 107 | **(20.3)%** | 5.9% |
| Basic EPS | **$ (1.82)** | $ 0.62 | | |
| EBITDA | **$ (282)** | $ 194 | **(18.6)%** | 10.7% |
| Free cash flow | **$ 347** | $ 385 | | |

(1) Included in 2015 results are significant items that management does not consider indicative of operational and financial trends either by nature or amount. These items are described on page 14 of this MD&A. Of the significant items described, $10 million was recorded in depreciation and amortization expense.

## 2015 Fourth Quarter Highlights

- Generated positive free cash flow of $347 million; reduced its Net Debt to Invested Capital ratio to 36.7%.
- Revenue of $1.5 billion was down 16% from Q4 2014 due primarily to a 28% decrease in new equipment revenue, reflecting lower demand from construction and mining sectors in the Company's Canadian and South American operations, a result of the continued weak market conditions.
- Product support margins in Q4 2015 improved compared to the prior year period and Q3 2015. Service profitability improvements were realized due to the execution of the operational excellence agenda.
- EBIT loss of $(349) million and EBIT margin of (23.0)% reported in Q4 2015 was lower than the $142 million and 7.9% earned in Q4 2014. The difficult macro economic environment and weak market conditions in the current and foreseeable future, coupled with actions taken by the Company to align its cost structure and improve operational results in the long-term, had the following significant impacts to the Company's Q4 2015 results:
    - $338 million impairment loss related to its shovels and drills distribution network and goodwill in the Company's South American and UK & Ireland operations
    - $45 million restructuring and property impairment costs related to the optimization of facilities and branch networks in all operations and $2 million of severance costs
    - $42 million of higher than usual inventory and other asset impairment charges
- Excluding costs relating to the impairment loss, facilities restructuring, severance, inventory and asset impairment charges as noted above, as well as $4 million of net costs related to a foreign exchange loss in Argentina and investment activities, Q4 2015 EBIT would have been $82 million and EBIT margin would have been 5.4%. Earnings were down compared to prior year mainly due to reduced sales volumes in mining and construction sectors and lower equipment and rental margins as a result of challenging market conditions.
- Q4 2015 EBITDA loss was $(282) million. Excluding the significant items as noted above (not included in depreciation and amortization), EBITDA would have been $139 million, reflecting balance sheet strength.
- In Q4 2015, the Company repurchased 1.2 million of its common shares for cancellation bringing the total share repurchases in 2015 to 4.4 million common shares or $91 million.
- During Q4 2015 the Company sold its wholly owned subsidiary in Uruguay and recorded a gain on sale of $8 million.

During the three months ended December 31, 2015, certain significant items affected the Company's reported results which are not considered by management to be indicative of operational and financial trends either by nature or amount. The significant items that affected reported Q4 2015 and 2014 results are as follows:

Q4 2015 significant items:

- Total impairment loss of $338 million related to its shovels and drills distribution network and goodwill in the Company's South American and UK & Ireland operations
- Facility closure and restructuring costs of $45 million
- $42 million higher than usual inventory and other asset impairments primarily related to aged and industry specific inventory and rental assets due to prolonged weak market conditions
- $12 million foreign exchange loss resulting from the significant devaluation of the Argentine peso and a higher annual effective tax rate from the Company's Argentine operations
- $8 million gain on sale of Uruguay business
- Severance costs of $2 million

| For the 3 months ended December 31, 2015 ($ millions except per share amounts) | Canada | South America | UK & Ireland | Other | Consol | EPS |
|---|---|---|---|---|---|---|
| Distribution network and goodwill impairment | — | 324 | 14 | — | 338 | 1.56 |
| Facility closures and restructuring costs | 40 | 3 | 2 | — | 45 | 0.19 |
| Inventory and other asset impairments | 16 | 10 | 16 | — | 42 | 0.19 |
| FX and tax expense on devaluation of ARS | — | 12 | — | — | 12 | 0.14 |
| Sale of business | — | — | — | (8) | (8) | (0.04) |
| Severance costs | — | — | 2 | — | 2 | 0.01 |
| Impact of significant items[(1)] on EBIT and EPS: | $ 56 | $ 349 | $ 34 | $ (8) | $ 431 | $ 2.05 |

(1) Of the significant items described above, $10 million was recorded in depreciation and amortization expense

Q4 2014 significant items:

- Positive tax impact from an inflation adjustment and lower than expected annual effective tax rate from the Company's Argentine operations ($0.07 per share).

## Quarterly Key Performance Measures

The Company's operational improvement priorities include: customer & market leadership; supply chain optimization; service excellence; and asset utilization The Company's 2015 incentive plans are aligned with the following KPIs to consistently measure performance across the organization and monitor progress in improving Return on Invested Capital.

| | 2015 | | | | 2014 | | | | 2013 |
|---|---|---|---|---|---|---|---|---|---|
| | **Q4 [(1)]** | Q3 | Q2 | Q1 | Q4 | Q3 | Q2 | Q1 | Q4 |
| ROIC | | | | | | | | | |
| Consolidated | **(3.0)%** | 11.0% | 12.9% | 14.1% | 15.3% | 15.4% | 16.0% | 15.4% | 15.7% |
| Canada | **5.5%** | 10.9% | 13.9% | 15.3% | 17.1% | 16.8% | 16.6% | 15.7% | 15.9% |
| South America | **(12.8)%** | 13.2% | 13.6% | 14.4% | 14.6% | 15.8% | 17.4% | 17.0% | 17.6% |
| UK & Ireland | **(1.4)%** | 10.5% | 13.2% | 14.7% | 16.3% | 15.6% | 15.9% | 16.3% | 16.4% |
| EBIT ($ millions) | | | | | | | | | |
| Consolidated | **(349)** | 63 | 106 | 75 | 142 | 114 | 137 | 111 | 145 |
| Canada | **(17)** | 34 | 53 | 29 | 73 | 80 | 77 | 54 | 69 |
| South America | **(303)** | 32 | 51 | 45 | 59 | 32 | 57 | 50 | 76 |
| UK & Ireland | **(31)** | 7 | 11 | 7 | 11 | 14 | 14 | 12 | 8 |
| EBIT Margin | | | | | | | | | |
| Consolidated | **(23.0)%** | 4.2% | 6.4% | 5.0% | 7.9% | 6.8% | 7.8% | 6.6% | 8.1% |
| Canada | **(2.4)%** | 4.6% | 6.2% | 3.7% | 7.7% | 9.2% | 8.3% | 6.0% | 7.9% |
| South America | **(57.5)%** | 6.4% | 9.5% | 9.3% | 9.8% | 6.2% | 10.0% | 9.0% | 11.3% |
| UK & Ireland | **(10.7)%** | 2.7% | 4.2% | 3.1% | 4.3% | 4.8% | 5.1% | 4.9% | 3.3% |
| Invested Capital ($ millions) | | | | | | | | | |
| Consolidated | **3,240** | 3,802 | 3,536 | 3,541 | 3,106 | 3,340 | 3,334 | 3,414 | 3,138 |
| Canada | **1,760** | 1,871 | 1,745 | 1,794 | 1,475 | 1,714 | 1,756 | 1,682 | 1,488 |
| South America | **1,122** | 1,485 | 1,402 | 1,417 | 1,348 | 1,298 | 1,274 | 1,443 | 1,391 |
| UK & Ireland | **321** | 442 | 381 | 330 | 284 | 344 | 309 | 296 | 265 |
| Invested Capital Turnover (times) | | | | | | | | | |
| Consolidated | **1.75x** | 1.85x | 1.97x | 2.03x | 2.10x | 2.09x | 2.12x | 2.06x | 2.04x |
| Canada | **1.70x** | 1.92x | 2.05x | 2.09x | 2.19x | 2.15x | 2.20x | 2.11x | 2.03x |
| South America | **1.52x** | 1.50x | 1.56x | 1.62x | 1.66x | 1.71x | 1.74x | 1.73x | 1.78x |
| UK & Ireland | **2.92x** | 2.91x | 3.20x | 3.38x | 3.43x | 3.43x | 3.43x | 3.41x | 3.37x |
| Inventory ($ millions) | **1,800** | 1,995 | 1,918 | 1,973 | 1,661 | 1,806 | 1,835 | 1,945 | 1,756 |
| Inventory Turns (times) | **2.26x** | 2.26x | 2.30x | 2.57x | 2.81x | 2.64x | 2.56x | 2.61x | 2.74x |
| Working Capital to Sales Ratio | **32.7%** | 30.5% | 28.6% | 27.3% | 26.1% | 26.0% | 25.5% | 26.3% | 26.5% |
| Free Cash Flow ($ millions) | **347** | 140 | 69 | (232) | 385 | 109 | 123 | (134) | 365 |
| Net Debt to Invested Capital Ratio | **36.7%** | 38.7% | 35.4% | 36.0% | 31.4% | 39.4% | 40.9% | 42.9% | 40.8% |
| EBITDA | **(282)** | 125 | 157 | 126 | 194 | 170 | 190 | 166 | 200 |
| Net Debt to EBITDA Ratio | **9.5** | 2.4 | 1.9 | 1.9 | 1.4 | 1.8 | 1.8 | 2.0 | 1.7 |

(1) Q4 2015 financial metrics were impacted by significant items management does not consider indicative of operational and financial trends either by nature or amount; these significant items are described on page 14 in this MD&A. Of the significant items described, $10 million was recorded in depreciation and amortization expense. Excluding the significant items not included in depreciation and amortization, Q4 2015 EBITDA would have been $139 million and Net Debt to EBITDA ratio would have been 2.0x.

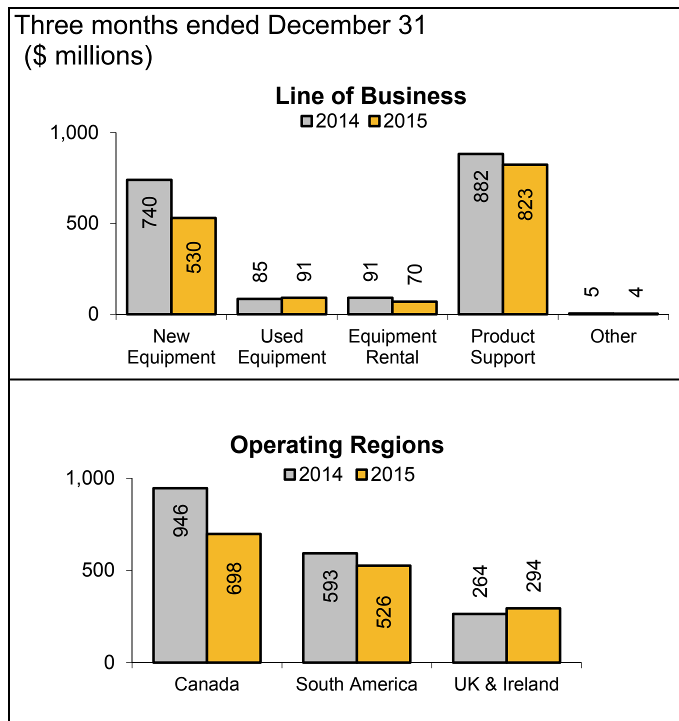
## Revenue

For the three months ended December 31, 2015, the Company generated revenue of $1.5 billion, a 16% decrease over Q4 2014, reflecting lower revenues from the Company's Canadian and South American operations. New equipment revenues were down 28% due to weak economic conditions in all regions compared to the prior year. Product support revenues decreased by 7%, down in all operations in functional currency.

New equipment sales were down compared to the prior year primarily due to the Company's Canadian operations, driven by lower activity in the mining, construction and power system sectors. Equipment revenue was down in the Company's South American operations, primarily driven by lower activity in the Chilean mining sector.

Product support revenue was down over the same period in 2014 reflecting reduced demand for parts in the mining sector in the Company's South American operations and reduced services in the Company's Canadian operations. Product support revenues in the Company's UK & Ireland operations were up slightly, but modestly down in functional currency.

Foreign currency translation of the results of the Company's South American and UK & Ireland operations had a positive impact on revenue of approximately $100 million. Compared to the same period last year, the Canadian dollar weakened 18% relative to the U.S. dollar and 13% relative to the U.K. pound sterling.




## Earnings Before Finance Costs and Income Taxes

| For the 3 months ended December 31 ($ millions) | Consol |
|---|---|
| Q4 2014 EBIT | $ 142 |
| Operating variance | (60) |
| Distribution network and goodwill impairment | (338) |
| Facility closures and restructuring costs | (45) |
| Inventory and other asset impairments | (42) |
| FX loss on devaluation of ARS | (12) |
| Sale of business | 8 |
| Severance costs | (2) |
| Q4 2015 EBIT | $ (349) |

The Company reported an EBIT loss of $(349) million for the three months ended December 31, 2015 compared to EBIT of $142 million in the prior year. Excluding significant items described on page 14 in this MD&A, Q4 2015 EBIT would have been $82 million, down $60 million from Q4 2014, driven by lower volumes across all lines of business as a result of lower demand principally in the mining and construction sectors in both the Company's Canadian and South American operations. Gross profit decreased by 22% to $413 million compared to the same period in 2014, due to lower volumes across all lines of business, except used equipment. Also impacting gross profit were higher than usual inventory and other asset impairments recorded in Q4 2015.

The Company's EBIT margin in Q4 2015 was negative (23.0)% compared to 7.9% earned in the prior year period. Excluding the significant items described on page 14 in this MD&A, the Company would have earned a Q4 2015 EBIT margin of 5.4%, primarily due to a lower gross profit margin reflecting pricing pressures of a challenging economic environment. In addition, benefits from cost and restructuring initiatives recently implemented have not yet been fully realized. Also contributing to the lower EBIT in Q4 2015 was $5 million lower equity earnings from Energyst compared to the prior year period.

Gross profit margin was 27.2%, down from 29.3% in the prior year quarter. Excluding the significant items that affected gross profit, being $36 million higher than usual inventory and other asset impairments recorded in the quarter, total gross profit margin in Q4 2015 would have been comparable to the prior year period. Approximately 50% of the $36 million adjustment relates to used inventory and rental equipment.

Despite the challenging market conditions, the Company's product support business achieved higher gross profit margins in Q4 2015 compared to the prior

year period. In particular, service profitability improved in the Company's Canadian and South American operations, reflecting successful implementation of the operational excellence and supply chain initiatives throughout the year. The higher margins achieved from the product support business were offset by:

- lower new equipment margins from all operations, reflecting challenging market conditions and pricing pressures
- lower rental margins due to a weaker demand and increased competition for short-term and heavy rentals in the Canadian rental market
- lower used equipment margins primarily due to low margins in the UK & Ireland and South American operations

SG&A costs were $390 million and comparable to the same period last year. Cost savings from lower sales volumes, headcount reductions, and operational excellence programs were primarily offset by certain significant costs from the Company's South American operations including $12 million of foreign exchange loss on the significant devaluation of the Argentine peso and $6 million impairment on other assets. Excluding these significant items, consolidated SG&A in Q4 2015 would have been 6% lower compared to the prior year.

## EBITDA

The Company reported an EBITDA loss of $(282) million in Q4 2015 (Q4 2014: $194 million). Excluding the significant items (not included in depreciation and amortization) summarized on page 14 of this MD&A, EBITDA for Q4 2015 would have been $139 million, a decrease of 28% compared to the prior year period mainly due to lower earnings from the Company's Canadian operations.

## Finance Costs

Finance costs in the three months ended December 31, 2015 of $22 million were up slightly from the $20 million reported in the fourth quarter of 2014.

## Provision for Income Taxes

Income tax recovery for Q4 2015 totaled $62 million (Q4 2014 income tax expense of $15 million).

The effective income tax rate for the fourth quarter of 2015 was 17.1%, up from 12.1% in the comparable period of 2014. In Q4 2015, net income and EPS was negatively impacted by a higher annual effective tax rate in Argentina due to the significant devaluation of the Argentine peso.

The low effective tax rate in Q4 2014 was primarily the result of the Company applying an adjustment to reduce taxable income in Argentina to compensate for the loss of purchasing power due to inflation and a lower annual effective tax rate in Argentina.

## Net Income

The Company reported a net loss of $(309) million or basic EPS of $(1.82) per share in Q4 2015, compared to $107 million of net income or basic EPS of $0.62 per share in the same period last year. The lower EPS was primarily due to a number of significant items resulting from a difficult macro economic environment and prolonged weak market conditions.

Excluding the significant items as noted on page 14 of this MD&A, EPS would have been $0.23 and lower than the prior year period, primarily due to lower volumes reflecting the challenging economic conditions in all regions as well as costs related to reducing Finning's cost structure.

In Q4 2014, net income and EPS were positively impacted by an inflation adjustment in the Company's Argentine operations and lower than expected annual effective tax rate in Argentina ($0.07 per share).

## Quarterly Results by Reportable Segment

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

| **For three months ended December 31, 2015 ($ millions)** | | **Canada** | | **South America** | | **UK & Ireland** | | **Other** | | **Consol** | **Revenue %** |
|---|---|---|---|---|---|---|---|---|---|---|---|
| New equipment | **$** | **211** | **$** | **135** | **$** | **184** | **$** | **—** | **$** | **530** | **35%** |
| Used equipment | | **58** | | **9** | | **24** | | **—** | | **91** | **6%** |
| Equipment rental | | **46** | | **16** | | **8** | | **—** | | **70** | **5%** |
| Product support | | **382** | | **365** | | **76** | | **—** | | **823** | **54%** |
| Other | | **1** | | **1** | | **2** | | **—** | | **4** | **0%** |
| Total revenues | **$** | **698** | **$** | **526** | **$** | **294** | **$** | **—** | **$** | **1,518** | **100%** |
| Operating costs | | **(642)** | | **(477)** | | **(304)** | | **(5)** | | **(1,428)** | |
| Depreciation and amortization | | **(35)** | | **(25)** | | **(7)** | | **—** | | **(67)** | |
| Equity earnings | | **2** | | **—** | | **—** | | **(1)** | | **1** | |
| Other expenses | | **(40)** | | **(3)** | | **—** | | **—** | | **(43)** | |
| Other income | | **—** | | **—** | | **—** | | **8** | | **8** | |
| Distribution network and goodwill impairment | | **—** | | **(324)** | | **(14)** | | **—** | | **(338)** | |
| Earnings (loss) before finance costs and taxes (EBIT) [(1)] | **$** | **(17)** | **$** | **(303)** | **$** | **(31)** | **$** | **2** | **$** | **(349)** | |
| Revenue percentage by operations | | **46%** | | **35%** | | **19%** | | **—** | | **100%** | |
| EBIT [(1)] | | | | | | | | | | | |
| - percentage of revenue | | **(2.4)%** | | **(57.5)%** | | **(10.7)%** | | **—** | | **(23.0)%** | |
| EBITDA [(1)] | **$** | **18** | **$** | **(278)** | **$** | **(24)** | **$** | **2** | **$** | **(282)** | |

(1) 2015 results were impacted by significant items management does not consider indicative of operational and financial trends either by nature or amount; these significant items have been disclosed on page 14 in this MD&A.

| For three months ended December 31, 2014 ($ millions) | | Canada | | South America | | UK & Ireland | | Other | | Consol | Revenue % |
|---|---|---|---|---|---|---|---|---|---|---|---|
| New equipment | $ | 392 | $ | 176 | $ | 172 | $ | — | $ | 740 | 41% |
| Used equipment | | 63 | | 12 | | 10 | | — | | 85 | 5% |
| Equipment rental | | 67 | | 16 | | 8 | | — | | 91 | 5% |
| Product support | | 423 | | 388 | | 71 | | — | | 882 | 49% |
| Other | | 1 | | 1 | | 3 | | — | | 5 | 0% |
| Total revenues | $ | 946 | $ | 593 | $ | 264 | $ | — | $ | 1,803 | 100% |
| Operating costs | | (849) | | (516) | | (245) | | (5) | | (1,615) | |
| Depreciation and amortization | | (26) | | (18) | | (8) | | — | | (52) | |
| Equity earnings | | 2 | | — | | — | | 4 | | 6 | |
| Earnings (loss) before finance costs and taxes (EBIT) | $ | 73 | $ | 59 | $ | 11 | $ | (1) | $ | 142 | |
| Revenue percentage by operations | | 52% | | 33% | | 15% | | — | | 100% | |
| EBIT | | | | | | | | | | | |
| - percentage of revenue | | 7.7% | | 9.8% | | 4.3% | | — | | 7.9% | |
| EBITDA | $ | 99 | $ | 77 | $ | 19 | $ | (1) | $ | 194 | |

## Quarterly Overview by Reportable Segment

### Canada

Revenues were down 26% compared to the prior year quarter reflecting weaker market conditions across all sectors. The slowdown in the oil and gas and mining sectors drove down new equipment sales and related maintenance work. With reduced infrastructure projects, the Canadian operations saw decreased customer activity in the construction sector and associated contractor businesses. The weaker demand for rental assets continued into Q4 2015 negatively impacting the Company's rental business. Other factors contributing to lower rental revenues in Q4 2015 compared to the prior year period were large power contracts that expired and were not renewed and an unseasonably warm winter in Alberta, which resulted in reduced demand for heat products.

Gross profit was lower than Q4 2014, in line with lower volumes. Gross profit margin was comparable to the prior year as the benefit from a revenue mix shift to higher margin product support (product support revenues comprised 55% of revenues in Q4 2015 compared to 45% in the prior year) and improved service margins were partly offset by higher inventory impairments taken in the quarter. Service margins were higher due to operational improvements implemented during 2015. Excluding the higher inventory impairments taken in Q4 2015, new equipment margins would have been comparable to the prior year period. Rental margins in the current year quarter were lower compared to the prior year due to lower utilization of short-term and heavy rentals reflecting the competitive rental market and partly due to the rental asset impairment taken in the current period.

SG&A expenses decreased by 11% compared to Q4 2014, reflecting cost savings initiatives, execution of the Company's operational excellence agenda, and lower variable costs from reduced sales activity. These reduced costs were partially offset by costs from the newly acquired Saskatchewan business.

Q4 2015 EBIT included approximately $40 million of facility closure-related costs and $16 million higher than usual inventory impairments, primarily customized equipment for the oil and gas sector and rental asset impairments. Facility closure costs recorded were higher than previously expected due to certain property impairment charges finalized in Q4 2015. Excluding these significant items as summarized on page 14 of this MD&A, EBIT for Q4 2015 would have been $39 million and EBIT margin would have been 5.7%, reflecting lower volumes as a result of difficult market conditions. In Q4 2014, the Company's Canadian operations reported EBIT of $73 million and EBIT margin of 7.7%.

### South America

Revenues declined by 11% (down 24% in functional currency) as market conditions in the region remained challenging and mining customers have continued to focus on reducing operating costs. New equipment sales were down by 35% in functional currency, mainly due to reduced demand from the mining sector. Product support revenues were down 20% in functional currency, driven by lower parts sales as mining customers reduced and delayed maintenance work.

Product support margins in Q4 2015 were higher compared to the prior year period, reflecting improvements in cost efficiencies and service profitability. Excluding the higher inventory impairments taken in Q4 2015, gross profit margins would have been higher compared to the prior year period, reflecting improved product support profitability in mining contracts.

Excluding the significant items noted on page 14 of this MD&A, Q4 2015 EBIT would have been $46 million compared to Q4 2014 EBIT of $59 million (down 31% in functional currency). EBIT margin was negative (57.5)% compared to 9.8% in the same period last year. Excluding significant items noted on page 14 of this MD&A, EBIT margin in Q4 2015 would have been 9.0% compared to 9.8% in the comparative period. Although revenue decreased more quickly than the realization of cost reductions, the South American operations still earned a solid EBIT margin, excluding the significant items previously noted, reflecting the Company's ability to manage costs and deliver strong product support margins during challenging market conditions.

### UK & Ireland

Revenues increased by 11% but were down slightly in functional currency as higher used equipment sales were offset by lower new equipment and parts revenues. New equipment sales were up 7% (down 6% in functional currency) and product support revenues were up 7% (down 5% in functional currency). The decline in new equipment was driven by reduced demand in the power systems sector. Higher used equipment sales were a result of auctions held in the current year quarter, although these were achieved at significantly lower margins, contributing to the lower EBIT margin compared to Q4 2014.

Q4 2015 EBIT margin of negative (10.7)% compared to 4.3% in Q4 2014. Excluding the significant items summarized on page 14, Q4 2015 EBIT margin would have been 0.8%, a result of lower sales from the decline in many sectors, including mining, construction, infrastructure and plant hire as well as lower used equipment margins. Activity levels in the power systems sectors were down as well.

## Outlook

### Canada

The mining outlook in Western Canada remains uncertain due to lower commodity prices, specifically in oil, gas and coal. As a result, the slow-down in the economy is impacting all segments of our business: mining, construction and power. Mining customers continue to minimize capital and operating expenditures in response to the low price of oil. As a result, demand for mining equipment has remained very slow. While current production levels are expected to be maintained and a number of significant long-term projects have been confirmed, the oil sands producers continue to postpone non-production related mining activities, such as overburden removal. Mining customers have parked portions of their fleets, insourced some service-related activities, and continue to defer non-essential maintenance. This has negatively impacted demand for parts and service. The Company believes that the reduced spend on product support is not sustainable in the long run.

In construction, demand for core equipment and product support has declined further, most significantly in Alberta, due to reduced customer activity as a result of the broad economic consequences of low oil and other commodity prices. In power systems, demand has also slowed considerably across most sectors most notably those related to oil field drilling and servicing.

Finning Canada continues to transform its business to deliver improved financial and customer results. During 2015, the Company implemented significant workforce reductions and facility closures to align its cost structure to reduced business volumes and position the organization for sustainable profitability. The Company may take further cost reduction measures if weakened business conditions were to continue for longer.

### South America

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

Copper production levels have declined, and mining customers continue to defer component purchases and major repairs to reduce operating costs, which negatively impacts demand for parts and service. In response to a further decline in market activity across all segments, the South American operations announced significant workforce reductions during 2015. Going forward, the Company continues to focus on capturing product support business and reducing costs to maintain profitability during the downturn.

### UK & Ireland

In the UK & Ireland, the equipment solutions division is operating in the highly competitive general construction segment. The demand for equipment in the Company's key markets has weakened, most notably in residential and commercial construction, energy, rail, and plant hire. In addition, some major infrastructure projects have been delayed due to economic uncertainty. The coal mining industry continues to be very weak, and the steel industry has softened considerably. The Company's focus on reducing used equipment inventory had a negative impact on margins in Q4 2015.

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

During 2015, the Company implemented workforce reductions and other cost initiatives to align its cost structure to reduced sales volumes. Going forward, the UK & Ireland operations are expected to return to historic profitability levels.

### Operational Focus

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

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

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

## Liquidity and Capital Resources

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

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

| For years ended December 31<br>($ millions, except percentage amounts) | | **2015** | | 2014 | Increase (Decrease) from 2014 |
|---|---|---|---|---|---|
| Cash provided by operating activities | **$** | **379** | $ | 546 | (167) |
| Cash used in investing activities | **$** | **(306)** | $ | (81) | (225) |
| Cash used in financing activities | **$** | **(107)** | $ | (203) | 96 |
| | | | | | |
| Free Cash Flow | **$** | **325** | $ | 483 | (158) |

The most significant contributors to the changes in cash flows over 2014 were as follows:

| | |
|---|---|
| Cash provided by operating activities lower by $167 million | • primarily due to lower earnings from all operations<br>• higher collections, partly offset by higher supplier payments<br>• lower cash generation from equipment inventory, partly offset by higher cash generation from parts and supplies inventory |
| Cash used in investing activities higher by $225 million | • used $241 million of cash to acquire Kramer Ltd. in the Company's Canadian operations<br>• $15 million of cash was received from the $22 million sale of the Uruguay dealership (remaining $7 million to be received in 2016)<br>• net capital expenditures were $9 million lower compared to the prior year period |
| Cash used by financing activities lower by $96 million | • $110 million cash provided by short-term debt in 2015 ($84 million repayment in 2014)<br>• $124 million dividends paid in 2015 was slightly higher than 2014<br>• repurchase $91 million of common shares |
| | |
| Free Cash Flow generation lower by $158 million | • due to lower earnings from all operations and lower cash generation from inventory on hand, reflecting lower volumes as a result of difficult market conditions<br>• higher cash inflow from higher collections, partly offset by higher supplier payments, reflecting the Company's focus on supply chain management and a strong balance sheet<br>• net capital and rental expenditures lower compared to prior year, as a result of the Company's commitment to closely manage capital spend |

### Capital resources and management

To complement the internally generated funds from operating and investing activities, the Company has $1.9 billion in unsecured credit facilities. Included in this amount are committed bank facilities totaling $1.1 billion with various Canadian, U.S., and South American financial institutions. At December 31, 2015, $0.9 million was available under these committed facilities. In October 2015, the Company completed a three-year extension to its $1.0 billion global operating credit facility, extending the maturity date to October 2020 from the previous maturity in September 2017.

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

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

| | Long-term debt | | Short-term debt | |
|---|---|---|---|---|
| At Dec 31 | 2015 | 2014 | 2015 | 2014 |
| S&P | BBB+ | BBB+ | N/A | N/A |
| DBRS | A (low) | A (low) | R-1 (low) | R-1 (low) |

In November 2015, DBRS confirmed the Company's rating but changed the trend from Stable to Negative noting the Company's exposure to cyclical end markets as a significant factor driving the trend change.

The Company continues to utilize the Canadian commercial paper market, as well as borrowings under its credit facilities as its principal sources of short-term funding.

In the second quarter of 2015, the Company launched a Normal Course Issuer Bid (NCIB) [(1)] to purchase its common shares for cancellation. During 2015, the Company repurchased 4.4 million Finning common shares for cancellation at an average cost of $20.75.

The NCIB was implemented to take advantage of Finning's strong balance sheet and cash balance in periods of broader market volatility and the resulting negative impact on the Company's share price. Execution of the NCIB is governed by rules established by the Toronto Stock Exchange.

Dividends paid to shareholders in 2015 were $124 million, up 5% compared to 2014, reflecting the 3% increase to a quarterly dividend of $0.1825 per share announced in May 2015.

**Net Debt to Invested Capital**

| | Dec 31 2015 | Sept 30 2015 | Dec 31 2014 |
|---|---|---|---|
| Net Debt to Invested capital % | 36.7% | 38.7% | 31.4% |
| Company's target range 35-45% | | | |

Net Debt to Invested Capital ratio at December 31, 2015 decreased from September 30, 2015, primarily due to strong free cash flow generation. Net debt to invested capital ratio was up primarily due to the acquisition of the Saskatchewan dealership (effective July 1, 2015), from 31.4% at December 31, 2014, an all-time low.

The Company is subject to a maximum Net Debt to Invested Capital level of 62.5% pursuant to a covenant within its syndicated bank credit facility. The Company was in compliance with this covenant at the end of 2015.

**Contractual Obligations**

Payments on contractual obligations in each of the next five years and thereafter are as follows:

| ($ millions) | 2016 | 2017 | 2018 | 2019 | 2020 | Thereafter | Total |
|---|---|---|---|---|---|---|---|
| Short-term debt | | | | | | | |
| - principal repayment | $ 117 | $ — | $ — | $ — | $ — | $ — | $ 117 |
| Long-term debt | | | | | | | |
| - principal repayment | — | — | 350 | — | 214 | 984 | 1,548 |
| - interest | 70 | 70 | 59 | 48 | 48 | 301 | 596 |
| Operating leases [(2)] | 74 | 53 | 38 | 30 | 23 | 84 | 302 |
| Finance leases | 6 | 6 | 6 | 5 | 11 | 16 | 50 |
| Total contractual obligations | $ 267 | $ 129 | $ 453 | $ 83 | $ 296 | $ 1,385 | $ 2,613 |

(2) The Company recognized a liability of $16 million, $4 million in accrued liabilities and $12 million in non-current other liabilities, related to future minimum lease payments due under certain operating leases that were considered to be onerous at December 31, 2015 (2014: $nil).

The above table does not include obligations to fund pension benefits, although the Company is making regular contributions to its registered defined benefit pension plans in Canada and the U.K. in order to fund the pension plans as required. Funding levels are monitored regularly and reset with new actuarial funding valuations performed by the Company's (or plan Trustees') actuaries that occur at least every three years. In 2015, approximately $21 million was contributed by the Company towards the defined benefit pension plans. Defined benefit plan contributions currently expected to be paid during the financial year ended December 31, 2016 amount to approximately $26 million.

(1) A copy of the NCIB notice is available on request. Direct your request to the Corporate Secretary, 1000-666 Burrard Street, Vancouver, BC V6C 2X8.

### Employee Share Purchase Plan

The Company has employee share purchase plans for its Canadian and South American employees. Under the terms of these plans, eligible employees may purchase common shares of the Company in the open market at the then current market price. The Company pays a portion of the purchase price to a maximum of 2% of employee earnings. At December 31, 2015, approximately 74%, 71% and 2% of eligible employees in the Company's Corporate, Canadian and South American operations, respectively, were contributing to these plans.

The Company also has an All Employee Share Purchase Ownership Plan for its employees in Finning UK & Ireland. Under the terms of this plan, the Company will provide one common share, purchased in the open market, for every three shares the employee purchases. Finning (UK) employees may contribute up to 10% of their salary to a maximum of £70 per month. At December 31, 2015, approximately 30% of eligible employees in Finning (UK) were contributing to this plan. Finning (Ireland) employees may contribute from €10 of their salary to a maximum of €70 per month. At December 31, 2015, approximately 22% of eligible employees in Finning (Ireland) were contributing to this plan. These plans may be cancelled by Finning at any time.

### Related Party Transactions

Related party transactions and balances incurred in the normal course of business between the Company and its subsidiaries have been eliminated on consolidation and are not considered material for disclosure. Information on the Company's wholly owned subsidiaries and the main countries they operate in are contained in note 2 of the consolidated financial statements. Compensation of key management personnel are disclosed in note 27 of the consolidated financial statement.

## Significant Accounting Estimates and Contingencies

### Accounting, Valuation, and Reporting

Changes in the rules or standards governing accounting can impact Finning's financial reporting. The Company employs professionally qualified accountants throughout its finance group and all of the operating unit financial officers have a reporting relationship to the Company's Chief Financial Officer (CFO). Senior financial representatives are assigned to all significant projects that impact financial accounting and reporting. Policies are in place to ensure completeness and accuracy of reported transactions. Key transaction controls are in place, and there is a segregation of duties between transaction initiation, processing, and cash receipt or disbursement. Accounting, measurement, valuation, and reporting of accounts, which involve estimates and / or valuations, are reviewed quarterly by the CFO and SVP, Corporate Controller, as well as the Audit Committee of the Board of Directors. Significant accounting and financial topics and issues are presented and discussed with the Audit Committee.

Management's discussion and analysis of the Company's financial condition and results of operations are based on the Company's consolidated financial statements, which have been prepared in accordance with IFRS. The Company's significant accounting policies are contained in the notes to the consolidated financial statements for the year ended December 31, 2015. Certain policies require management to make judgments, estimates, and assumptions in respect of the application of accounting policies and the reported amounts of assets, liabilities, revenues, expenses, and disclosure of contingent assets and liabilities. These policies may require particularly subjective and complex judgments to be made as they relate to matters that are inherently uncertain and because there is a likelihood that materially different amounts could be reported under different conditions or using different assumptions. The Company has discussed the development, selection, and application of its key accounting policies, and the critical accounting estimates and assumptions they involve, with the Audit Committee.

The more significant estimates include:

- recoverable values for goodwill and other asset impairment tests
- determination of the value of separable identifiable intangible assets other than goodwill acquired in a business combination
- allowance for doubtful accounts
- reserves for warranty
- provisions for income tax
- the determination of post-employment employee benefits
- provisions for inventory obsolescence
- the useful lives of the rental fleet and capital assets and related residual values
- revenues and costs associated with long term contracts (primarily power systems and maintenance and repair contracts)
- revenues and costs associated with the sale of assets with either repurchase commitments or rental purchase options
- determination of the functional currency of each entity of the Company
- estimation uncertainty for the fair value of certain share-based payments

**Goodwill and intangible assets**

The Company performs impairment tests on its goodwill and intangible assets with indefinite lives at the appropriate level (cash generating unit or group of cash generating units) at least annually or when events or changes in circumstances indicate that their value may not be fully recoverable. Any potential goodwill or intangible asset impairment is identified by comparing the recoverable amount of the cash generating unit to its carrying value. If the recoverable amount of the cash generating unit exceeds its carrying value, goodwill and/or the intangible asset are considered not to be impaired. If the recoverable amount of the cash generating unit is less than the carrying amount, then the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the cash generating unit and then to the other assets of the cash generating unit pro-rata on the basis of the carrying amount of each asset in the cash generating unit. Any impairment loss is recognized immediately in the consolidated statement of income. Impairment losses recognized for goodwill are never reversed.

The Company determines the recoverable amount of a cash generating unit using a discounted cash flow model. The process of determining these recoverable amounts requires management to make estimates and assumptions including, but not limited to, future cash flows, growth projections, associated economic risk assumptions and estimates of key operating metrics and drivers, and the weighted average cost of capital rates. Cash flow projections are based on financial budgets presented to the Company's Board of Directors. Projected cash flows are discounted using a weighted average cost of capital. These estimates are subject to change due to uncertain competitive and economic market conditions or changes in business strategies.

The Company performed its assessment of goodwill and intangible assets with indefinite lives and as a result, recognized an impairment loss of $338 million as at December 31, 2015 (no impairment at December 31, 2014). The South American operations recorded an impairment loss of $324 million related to the distribution network and goodwill and the UK & Ireland operations recorded goodwill impairment loss of $14 million. Please refer to note 20 in the consolidated financial statements for further details.

**Income tax asset or liability**

Estimations of the tax asset or liability require assessments to be made based on the potential tax treatment of certain items that will only be resolved once finally agreed with the relevant tax authorities. Significant judgment is required as income tax laws and regulations can be complex and are potentially subject to different interpretation between the Company and the respective tax authority. Due to the number of variables associated with the differing tax laws and regulations across the multiple jurisdictions the Company operates in, the precision and reliability of the resulting estimates are subject to uncertainties and may change as additional information becomes known. Net income in subsequent periods may be impacted by the amount that estimates differ from the final tax return.

Deferred tax assets and liabilities comprise the tax effect of temporary differences between the carrying amount and tax basis of assets and liabilities, as well as the tax effect of undeducted tax losses.

Assumptions underlying the composition of deferred tax assets and liabilities include estimates of future results of operations and the timing of reversal of temporary differences as well as the substantively enacted tax rates and laws in each respective jurisdiction at the time of the expected reversal. The composition of deferred tax assets and liabilities is reasonably likely to change from period to period due to the uncertainties surrounding these assumptions and changes in tax rates or regimes could have a material adverse effect on expected results.

**New Accounting Pronouncements**

The adoption of recent amendments to accounting standards and new IFRS had no impact on the Company's financial position. For more details on recent changes in accounting policy, please refer to note 2 of the Company's consolidated financial statements. Future accounting pronouncements and effective dates are also contained in note 2 of the consolidated financial statements.

## Risk Factors and Management

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

The Company is dedicated to a strong risk management culture to protect and enhance shareholder value. On a quarterly basis, the Audit Committee reviews the Company's process with respect to risk assessment and management of key risks, including the Company's major financial risks and exposures and the steps taken to monitor and control such exposures. The Audit Committee also reviews the adequacy of disclosures of key risks in the Company's AIF, MD&A, and consolidated financial statements. All key financial risks are disclosed in the MD&A and other key business risks are disclosed in the Company's AIF. For more information on the Company's financial

instruments, including relevant risk sensitivities, please refer to note 7 of the Company's consolidated annual financial statements.

**Market Risk and Hedging**

Market risk is the risk that changes in the market, such as foreign exchange rates, interest rates and commodity prices, will affect the Company's income or the fair value of its financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters.

The Company utilizes derivative financial instruments and foreign currency debt in order to manage its market risks (such as foreign currency and interest rate exposures).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 continually evaluates and manages risks associated with financial derivatives, which includes counterparty credit exposure. All such transactions are carried out within the guidelines set by the Company and approved by the Company's Audit Committee. For more information on the Company's accounting policy on financial instruments, please refer to note 7 of the consolidated financial statements.

Foreign Exchange Risk

The Company is geographically diversified, with significant investments in several different countries. The Company transacts business in multiple currencies, the most significant of which are the Canadian dollar (CAD), U.S. dollar (USD), U.K. pound sterling (GBP), Chilean peso (CLP), and Argentine peso (ARS). As a result, the Company has foreign currency exposure with respect to items denominated in foreign currencies which can be categorized into two main types:

*Translation Exposure*

The Company's consolidated financial statements are presented in CAD; therefore, the most significant foreign exchange impact to the Company's net income and other comprehensive income is the translation of all the Company's foreign subsidiaries' operating results (i.e. foreign currency based earnings and net assets or liabilities) into CAD. Exchange rates in the USD/CAD and GBP/CAD will impact the consolidated results of the South American and UK & Ireland operations in CAD terms. The results of the Company's South American operations, whose functional currency is USD, are affected by changes in the USD/CLP and USD/ARS relationships. The Company does not hedge its exposure to foreign exchange risk with regard to foreign currency earnings.

Foreign denominated net asset or net liability positions may exist on an operation's statement of financial position. The Company does not fully hedge balance sheet exposure so this may result in unrealized foreign exchange gains or losses until the net position is settled.

*Transaction Exposure*

Many of the Company's operations purchase, sell, rent, and lease products as well as incur costs in currencies other than their functional currency. As exchange rates fluctuate, this mismatch of currencies creates transactional exposure at the operational level, which may affect the Company's profitability. For example, the Company's Canadian operating results are exposed to volatility in USD/CAD exchange rates between the timing of equipment and parts purchases and the ultimate sale to customers. A portion of these exposures are hedged through the use of forward exchange contracts as well as managed through pricing practices. In December 2015, the Company started to apply hedge accounting to these hedges of inventory purchases in its Canadian operations.

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

The Company's competitive position may also be impacted as relative currency movements affect the business practices and/or pricing strategies of the Company's competitors. The Company is also exposed to currency risks related to the future cash flows on its non-Canadian denominated short-term and long-term debt. For further information on the Company's foreign exchange risk, refer to note 7 in the consolidated financial statements.

*Investment in Foreign Operations*

Assets and liabilities of the Company's foreign operations, which have functional currencies other than the CAD, are translated into CAD using the exchange rates in effect at the statement of financial position dates. Any unrealized translation gains and losses are recorded as foreign currency translation adjustments in other comprehensive income. Currency translation adjustments arise as a result of fluctuations in foreign currency exchange rates at the period reporting date compared to the previous period reporting date. The unrealized currency translation gain of $355 million recorded in 2015 resulted primarily from the 19% weaker CAD relative to the USD and 13% weaker relative to the GBP at December 31, 2015 compared to December 31, 2014. This was partially offset by $138 million (after-tax) of unrealized foreign exchange losses on net investment hedges. For more details, refer to the annual consolidated statements of comprehensive income.

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

| | December 31 | | | Three months ended December 31 – average | | | Year ended December 31 - average | | |
|---|---|---|---|---|---|---|---|---|---|
| **Exchange rate** | **2015** | 2014 | Variance | **2015** | 2014 | Variance | **2015** | 2014 | Variance |
| CAD/USD | **1.3840** | 1.1601 | -19.3% | **1.3354** | 1.1356 | -17.6% | **1.2787** | 1.1045 | -15.8% |
| CAD/GBP | **2.0407** | 1.8071 | -12.9% | **2.0255** | 1.7978 | -12.7% | **1.9540** | 1.8190 | -7.4% |
| CLP/USD | **710.16** | 606.75 | -17.0% | **697.85** | 598.14 | -16.7% | **653.38** | 562.47 | -16.2% |
| ARS/USD | **13.04** | 8.55 | -52.5% | **10.00** | 8.51 | -17.5% | **9.21** | 8.10 | -13.8% |

Interest Rate Risk

Changes in market interest rates will cause fluctuations in the fair value or future cash flows of financial instruments. The Company is exposed to changes in interest rates on its interest bearing financial assets including cash and cash equivalents and instalment and other notes receivable. The short-term nature of investments included in cash and cash equivalents limits the impact to fluctuations in fair value, but interest income earned will be impacted. Instalment and other notes receivable bear interest at a fixed rate thus their fair value will fluctuate prior to maturity but, absent monetization, future cash flows do not change.

The Company is exposed to changes in interest rates on its interest bearing financial liabilities primarily from short-term and long-term debt. The Company's debt portfolio comprises both fixed and floating rate debt instruments, with terms to maturity ranging up to June 2042. Floating rate debt, due to its short-term nature, exposes the Company to limited fluctuations in changes to fair value, but finance expense and cash flows will increase or decrease as interest rates change. The fair value of the Company's fixed rate debt obligations fluctuate with changes in interest rates, but absent early settlement, related cash flows do not change. The Company is exposed to changes in future interest rates upon refinancing of any debt prior to or at maturity.

The Company manages its interest rate risk by balancing its portfolio of fixed and floating rate debt, as well as managing the term to maturity of its debt portfolio. At certain times the Company may utilize derivative instruments such as interest rate swaps to adjust the balance of fixed and floating rate debt. For more information on the Company's interest-bearing financial instruments and sensitivity analysis, refer to note 7 of the consolidated financial statements.

Commodity Prices

The Company provides equipment, parts and service to customers in resource and construction industries. In the resource sector, fluctuations in commodity prices and changes in long-term outlook for commodities impact customer decisions for capital expenditures and production levels, which determine demand for equipment, parts and service. In the construction sector, publicly funded infrastructure spending is indirectly impacted by fluctuations in commodity prices, particularly in regions with resource-based economies (such as the prices of copper, gold and other metals; the prices of coal, thermal and metallurgical; natural gas, and lumber). In Canada, the Company's customers are exposed to the price of oil, mostly in the oil sands in Northern Alberta. In South America, the Company's customers are primarily exposed to the price of copper and, to a much lesser extent, the prices of gold, other metals, and natural gas. In the U.K. and Ireland, the Company's resource sector customers operate in thermal coal and off-shore oil & gas. Significant fluctuations in these commodity prices could have a material impact on the Company's financial results.

With significantly lower commodity prices, demand is reduced as development of new projects is slowed or stopped and production from existing projects can be curtailed, both leading to less demand for equipment. However, product support growth has been, and is expected to continue to be, important in mitigating the effects of downturns in the business cycle. Alternatively, if commodity prices rapidly increase, customer demand for Finning's products and services could increase and apply pressure on the Company's ability to supply the products or skilled technicians on a timely and cost efficient basis. To assist in mitigating the impacts of fluctuations in demand for its products, Finning management works closely with Caterpillar to ensure an adequate and timely supply of product or offers customers alternative solutions and has implemented human resources recruiting strategies to ensure adequate staffing levels are achieved.

**Credit Risk**

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally in respect of the Company's cash and cash equivalents, short-term investments, receivables from customers and suppliers, instalment and other notes receivable, and derivative assets.

The Company manages risks associated with cash and cash equivalents and short-term investments by ensuring that these financial assets are held with major financial institutions with strong investment grade ratings and by monitoring the exposures with any single institution. An ongoing review is performed to evaluate the changes in the credit rating of counterparties. Credit risk on receivables from customers and suppliers is

minimized because of the diversification of the Company's operations as well as its large diversified customer base and its geographical dispersion.

Credit risk exposure arising from its derivative instruments relating to counterparties defaulting on their obligations is minimized by ensuring there is no excessive concentration of credit risk with any single counterparty, by active credit monitoring, and by dealing primarily with major financial institutions that have a credit rating of at least A from S&P and/or Moody's. For more information on the Company's financial assets and exposure to credit risk, refer to note 7 of the consolidated financial statements.

**Liquidity Risk**

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company's approach to managing liquidity is to ensure, as far as possible, that it will have sufficient liquid financial resources to fund its operations and meet its commitments and obligations. The Company maintains bilateral and syndicated bank credit facilities, a commercial paper program, continuously monitors actual and forecast cash flows, and manages maturity profiles of financial liabilities. Based on the availability of credit facilities, the Company's business operating plans, and the discretionary nature of some of the cash outflows, such as rental and capital expenditures, the Company believes it continues to have sufficient liquidity to meet operational needs. For more information on the Company's financial liabilities and liquidity risk, refer to note 7 of the consolidated financial statements.

Financing Arrangements

The Company will require capital to finance its future growth and to refinance its outstanding debt obligations as they come due for repayment. If the cash generated from the Company's operations is not sufficient to fund future capital and debt repayment requirements, the Company will require additional debt or equity financing in the capital markets. The Company's ability to access capital markets on terms that are acceptable will be dependent upon prevailing market conditions, as well as the Company's future financial condition. Further, the Company's ability to increase the level of debt financing may be limited by its financial covenants or its credit rating objectives. Although the Company does not anticipate any difficulties in raising necessary funds in the future, there can be no assurance that capital will be available on suitable terms and conditions, or that borrowing costs and credit ratings will not be adversely affected. In addition, the Company's current financing arrangements contain certain restrictive covenants that may impact the Company's future operating and financial flexibility.

**Share-Based Payment Risk**

Share-based payment plans are an integral part of the Company's employee compensation program, and can be in the form of the Company's common shares or cash payments that reflect the value of the shares. Share-based payment plans are accounted for at fair value, and the expense associated with these plans can therefore vary as the Company's share price, share price volatility, and employee exercise behavior change. For further details on the Company's share-based payments, please refer to note 10 of the Company's consolidated financial statements.

## Contingencies and Guarantees

Due to the size, complexity, and nature of the Company's operations, various legal, customs, and tax matters are pending. These include a number of claims from the Argentina Customs Authority associated with the export of agricultural product. The Company has appealed these claims, believes they are without merit, and is confident in its position.

These pending matters may take a number of years to resolve. Should the ultimate resolution of these matters differ from management's assessment, a material adjustment could arise and impact the Company's financial position. However, it is the current opinion of management that these matters will not have a material effect on the Company's consolidated financial position or results of operations.

The Company enters into contracts with rights of return, in certain circumstances, for the repurchase of equipment sold to customers for an amount which is generally based on a discount from the estimated future fair value of that equipment. As at December 31, 2015, the total estimated value of these contracts outstanding is $138 million (2014: $125 million) coming due at periods ranging from 2016 to 2018. The Company's experience to date has been that the equipment at the exercise date of the contract is generally worth more than the repurchase amount. The total amount recognized as a provision against these contracts is $2 million (2014: $1 million).

For further information on the Company's contingencies, commitments, guarantees, and indemnifications, refer to notes 29 and 30 of the notes to the consolidated financial statements.

## Outstanding Share Data

| As at February 12, 2016 | |
|---|---|
| Common shares outstanding | 168,031,428 |
| Options outstanding | 5,154,859 |

## Controls and Procedures Certification

### Disclosure Controls and Procedures

Management is responsible for establishing and maintaining a system of controls and procedures over the public disclosure of financial and non-financial information regarding the Company. Such controls and procedures are designed to provide reasonable assurance that all relevant information is gathered and reported to senior management, including the Chief Executive Officer (CEO) and Chief Financial Officer (CFO), on a timely basis so that appropriate decisions can be made regarding public disclosure.

The CEO and the CFO, together with other members of management, have designed the Company's disclosure controls and procedures in order to provide reasonable assurance that material information relating to the Company and its consolidated subsidiaries would have been known to them, and by others, within those entities.

The Company has a Disclosure Policy and a Disclosure Committee in place to mitigate risks associated with the disclosure of inaccurate or incomplete information, or failure to disclose required information.

- The Disclosure Policy sets out accountabilities, authorized spokespersons, and Finning's approach to the determination, preparation, and dissemination of material information. The policy also defines restrictions on insider trading and the handling of confidential information.
- A Disclosure Committee, consisting of senior management, and external legal counsel review all financial information prepared for communication to the public to ensure it meets all regulatory requirements. The Disclosure Committee is responsible for raising all outstanding issues it believes require the attention of the Audit Committee prior to recommending disclosure for that Committee's approval.

### Internal Control over Financial Reporting

Management is responsible for establishing and maintaining adequate internal control over financial reporting. Management has designed internal control over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements in accordance with IFRS. Except for the change noted below, there has been no change in the design of the Company's internal control over financial reporting during the year ended December 31, 2015, that would materially affect, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

Effective July 1, 2015 the Company acquired the operating assets of Kramer Ltd. and became the approved Caterpillar dealer in Saskatchewan. As part of the post-closing integration, the Company is engaged in harmonizing the internal controls and processes of the acquired business with those of the Company. In keeping with scope limitation provisions of applicable securities laws, management has excluded the design and operating effectiveness assessment of internal control over financial reporting of the business acquired from Kramer Ltd. from its annual assessment of the effectiveness of the Company's internal control over financial reporting for 2015. During this period of transition, the acquired dealership business contributed revenues of $107 million and net income of $6 million for the six months ended December 31, 2015. Working capital assets of $119 million (comprising inventory, receivables and payables), property, plant equipment and rental equipment of $87 million, and intangible assets and goodwill of $35 million (totalling $241 million) were included in the Company's balance sheet as at the acquisition date.

Regular involvement of the Company's internal audit function and quarterly reporting to the Audit Committee assist in providing reasonable assurance that the objectives of the control system are met. While the officers of the Company have designed the Company's disclosure controls and procedures and internal control over financial reporting, they are aware that these controls and procedures may not prevent all errors and fraud. A control system, no matter how well conceived or operated, can only provide reasonable, not absolute, assurance that the objectives of the control system are met.

### Evaluation of Effectiveness

As required by National Instrument 52-109, *Certification of Disclosure in Issuers' Annual and Interim Filings* (NI 52-109) issued by the Canadian Securities regulatory authorities, an evaluation of the design and testing of the effectiveness of the operation of the Company's disclosure controls and procedures and internal control over financial reporting were conducted as of December 31, 2015, by and under the supervision of management. In making the assessment of the effectiveness of the Company's disclosure controls and procedures and internal control over financial reporting, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in *Internal Control – Integrated Framework (2013 edition)*. The evaluation included documentation review, enquiries, testing, and other procedures considered by management to be appropriate in the circumstances. Based on that evaluation, excluding the disclosure controls and procedures and internal control over financial reporting of the business acquired from Kramer Ltd., the CEO and CFO have concluded that the Company's disclosure controls and procedures and internal control over financial reporting were effective as of December 31, 2015.

## Description of Non-GAAP Measures

### Non-GAAP Measures

Management believes that providing certain non-GAAP measures provides users of the Company's consolidated financial statements with important information regarding the operational performance and related trends of the Company's business. By considering these measures in combination with the comparable IFRS measures set out below, management believes that users are provided a better overall understanding of the Company's business and its financial performance during the relevant period than if they simply considered the IFRS measures alone.

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

### Net Debt to Invested Capital

Net Debt to Invested Capital is calculated as net debt divided by invested capital (both defined below), and is used by management as a measurement of the Company's financial leverage.

Net debt is calculated as short-term and long-term debt, net of cash. Invested capital is net debt plus all components of shareholders' equity (share capital, contributed surplus, accumulated other comprehensive income, and retained earnings). Invested capital is also calculated as total assets less total liabilities, excluding net debt. Invested capital is used by management as a measure of the total cash investment made in the Company and each operating segment. Management uses invested capital in a number of different measurements in assessing financial performance against other companies and between reportable segments.

The calculation of Net Debt to Invested Capital is as follows:

| **December 31<br>($ millions, except as noted)** | **2015** | 2014 |
|---|---|---|
| Cash and cash equivalents | **$ (475)** | $ (450) |
| Short-term debt | **117** | 7 |
| Long-term debt | **1,548** | 1,418 |
| Net debt | **1,190** | 975 |
| Shareholders' equity | **2,050** | 2,131 |
| Invested capital | **$ 3,240** | $ 3,106 |
| Net debt to invested capital | **36.7%** | 31.4% |

### EBITDA

EBITDA is defined as earnings before finance costs, income taxes, depreciation and amortization and is utilized by management to assess and evaluate the financial performance of its operating segments. Management believes that EBITDA improves comparability between periods by eliminating the impact of finance costs, income taxes, depreciation, and amortization. EBITDA is also commonly regarded as an indirect measure of operating cash flow, a significant indicator of success for many businesses and is a common valuation metric.

A reconciliation between net income and EBITDA is as follows:

| | **Three months ended December 31** | | **Twelve months ended December 31** | |
|---|---|---|---|---|
| **($ millions)** | **2015** | 2014 | **2015** | 2014 |
| Net (loss) income | **$ (309)** | $ 107 | **$ (161)** | $ 318 |
| Depreciation and amortization | **67** | 52 | **231** | 216 |
| Finance costs | **22** | 20 | **85** | 85 |
| Provision (recovery) for income taxes | **(62)** | 15 | **(29)** | 101 |
| EBITDA [1] | **$ (282)** | $ 194 | **$ 126** | $ 720 |

[1] Included in 2015 results are significant items that management does not consider indicative of operational and financial trends either by nature or amount. Of these significant items disclosed on pages 3 and 14 of this MD&A, $10 million was recorded in depreciation and amortization expenses. Excluding these significant items not included in depreciation and amortization, Q4 2015 EBITDA would have been $139 million and annual 2015 EBITDA would have been $604 million.

### ROIC

Return on Invested Capital, or ROIC, is defined as earnings before finance costs and income taxes (EBIT) for the last twelve months divided by invested capital, based on an average of the last four quarters.

Management views ROIC (at a consolidated and segment level), as a useful measure for supporting investment and resource allocation decisions, as it adjusts for certain items that may affect comparability between certain competitors and segments.

| **December 31 ($ millions, except as noted)** | | **2015** | | 2014 |
|---|---|---|---|---|
| EBIT – last twelve months | **$** | **(105)** | $ | 504 |
| Invested capital – four quarter average | **$** | **3,530** | $ | 3,298 |
| ROIC | | **(3.0)%** | | 15.3% |

### Working Capital

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

| **December 31 ($ millions)** | | **2015** | | 2014 |
|---|---|---|---|---|
| Total current assets | **$** | **3,460** | $ | 3,477 |
| Cash and cash equivalents | | **(475)** | | (450) |
| Total current assets [(1)] | **$** | **2,985** | $ | 3,027 |
| | | | | |
| Total current liabilities | **$** | **1,243** | $ | 1,372 |
| Short-term debt | | **(117)** | | (7) |
| Total current liabilities [(2)] | **$** | **1,126** | $ | 1,365 |
| | | | | |
| Working capital | **$** | **1,859** | $ | 1,662 |

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

### Free Cash Flow

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

| | **Three months ended December 31** | | | | **Twelve months ended December 31** | | | |
|---|---|---|---|---|---|---|---|---|
| **($ millions)** | | **2015** | | 2014 | | **2015** | | 2014 |
| Cash flow provided by operating activities | **$** | **370** | $ | 403 | **$** | **379** | $ | 546 |
| Additions to property, plant, and equipment and intangible assets | | **(34)** | | (20) | | **(76)** | | (81) |
| Proceeds on disposal of property, plant, and equipment | | **11** | | 2 | | **22** | | 18 |
| Free cash flow | **$** | **347** | $ | 385 | **$** | **325** | $ | 483 |

## Key Performance Indicators

Management uses key performance indicators to consistently measure performance against the Company's priorities across the organization. The Company's KPIs include gross profit margin, EBIT margin, inventory turns, invested capital turnover, working capital to sales ratio, order backlog, and net debt to EBITDA ratio. Although some of these KPIs are expressed as ratios, they are non-GAAP financial measures that do not have a standardized meaning under IFRS and may not be comparable to similar measures used by other issuers.

### Gross Profit Margin

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

### EBIT and EBITDA Margin

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

### Inventory Turns

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

| **December 31**<br>**($ millions, except as noted)** | | **2015** | | 2014 |
|---|---|---|---|---|
| Cost of sales – annualized | **$** | **4,285** | $ | 4,868 |
| Inventory – two quarter average | **$** | **1,897** | $ | 1,734 |
| Inventory turns (number of times) | | **2.26** | | 2.81 |

### Invested Capital Turnover

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

| **December 31**<br>**($ millions, except as noted)** | | **2015** | | 2014 |
|---|---|---|---|---|
| Revenue – last twelve months | **$** | **6,190** | $ | 6,918 |
| Invested capital – four quarter average | **$** | **3,530** | $ | 3,298 |
| Invested capital turnover | | **1.75** | | 2.10 |

### Working Capital to Sales Ratio

This ratio is calculated as working capital, based on an average of the last four quarters, divided by total revenue for the last twelve months. This is a useful KPI for management in assessing the Company's efficiency in its use of working capital to generate sales.

| **December 31**<br>**($ millions, except as noted)** | | **2015** | | 2014 |
|---|---|---|---|---|
| Working capital – four quarter average | **$** | **2,023** | $ | 1,807 |
| Revenue – last twelve months | **$** | **6,190** | $ | 6,918 |
| Working capital to sales | | **32.7%** | | 26.1% |

### Order Backlog

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

### Net Debt to EBITDA Ratio

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

| **December 31**<br>**($ millions, except as noted)** | | **2015** | | 2014 |
|---|---|---|---|---|
| Net debt | **$** | **1,190** | $ | 975 |
| EBITDA – last twelve months | **$** | **126** | $ | 720 |
| Net Debt to EBITDA [(1)] | | **9.5** | | 1.4 |

[(1)] Included in 2015 results are significant items that management does not consider indicative of operational and financial trends by nature of amount. Excluding these significant items (as disclosed on page 3 of this MD&A), Net Debt to EBITDA would have been 2.0x.

## Selected Annual Information

| ($ millions, except for share data) | | 2015 | | 2014 | | 2013 |
|---|---|---|---|---|---|---|
| Total revenue from external sources [1] | **$** | **6,190** | $ | 6,918 | $ | 6,756 |
| Net (loss) income [1] | **$** | **(161)** | $ | 318 | $ | 335 |
| Earnings Per Share [1] | | | | | | |
| Basic EPS | **$** | **(0.94)** | $ | 1.85 | $ | 1.95 |
| Diluted EPS | **$** | **(0.94)** | $ | 1.84 | $ | 1.94 |
| Total assets [1] | **$** | **5,108** | $ | 5,273 | $ | 5,058 |
| Long-term debt | | | | | | |
| Current | **$** | **—** | $ | — | $ | 1 |
| Non-current | | **1,548** | | 1,418 | | 1,366 |
| Total long-term debt [2] | **$** | **1,548** | $ | 1,418 | $ | 1,367 |
| Cash dividends declared per common share | **$** | **0.7250** | $ | 0.6850 | $ | 0.5975 |

1) In July 2015, the Company acquired the operating assets of Kramer Ltd. The results of the newly acquired dealership business in Saskatchewan have been included in the Company's Canadian operations segment since the date of acquisition.

   In December 2015, the Company sold its wholly owned subsidiary, Finning Uruguay S.A. (Uruguay dealership). The results of the Uruguay dealership have been included in the Company's South American operations segment up until the date of sale.

   Results in 2015 were impacted by the following significant items:
   a) $338 million impairment loss recognized on the distribution network and goodwill in the Company's South American operations of $324 million and UK & Ireland operations of $14 million ($1.54 per share)
   b) Facility closures and restructuring costs and impairment on other assets totalling $53 million ($0.23 per share)
   c) Severance costs of $48 million recorded in all operations ($0.21 per share)
   d) $42 million higher than usual inventory and other asset impairments, principally aged or customized inventories, recorded in the year ($0.19 per share)
   e) $12 million foreign exchange loss on the significant devaluation of the Argentine peso as well as a higher annual effective tax rate in Argentina ($0.14 per share)
   f) Sale of business in Uruguay in Q4 2015 resulted in a gain of $8 million ($0.04 per share); partly offset by Saskatchewan acquisition costs of $3 million ($0.01 per share).
   g) The Company benefited from previously unrecognized tax losses in Q1 2015 and recorded a tax rate change in the Canadian operations in Q2 2015 (net positive impact of $0.05 per share)
   h) For a complete description of significant items, please refer to page 3 of this MD&A.

   In July 2014, the Company's UK & Ireland operations acquired SITECH. The results of operations and financial position of these acquired businesses have been included in the figures above since the date of acquisition.

   Results in 2014 were negatively impacted by:
   (a) write-off of previously capitalized ERP costs in the Company's South American operations by $0.06 per share
   (b) severance and labour disruption costs of $17 million recorded in operations ($0.07 per share)

   Results in 2013 were impacted by:
   a) a benefit from previously unrecognized tax losses of positive $0.03 per share
   b) offset by the negative impact from the write-off of previously capitalized ERP costs in the Company's UK & Ireland operations of $0.02 per share

2) In October 2015 the Company closed a three-year extension to its $1.0 billion global operating credit facility, extending the maturity date to October 2020 from the previous maturity in September 2017.

   In July 2013, the Company issued unsecured $200 million MTN due July 3, 2020. Proceeds from the issuance were used to early redeem the Company's $250 million MTN due September 30, 2013.

   In May 2013, the Company refinanced its £70 million Eurobond, due May 30, 2013, with the issuance of £70 million in unsecured notes in the U.S. private placement market.

## Selected Quarterly Information

| $ millions (except for share and option data) | 2015 Q4 | 2015 Q3 | 2015 Q2 | 2015 Q1 | 2014 Q4 | 2014 Q3 | 2014 Q2 | 2014 Q1 |
|---|---|---|---|---|---|---|---|---|
| Revenue from operations [1] | | | | | | | | |
| Canada | **$ 698** | $ 727 | $ 848 | $ 781 | $ 946 | $ 866 | $ 930 | $ 891 |
| South America | **526** | 507 | 538 | 489 | 593 | 517 | 568 | 550 |
| UK & Ireland | **294** | 264 | 270 | 249 | 264 | 287 | 270 | 235 |
| Total revenue | **$ 1,518** | $ 1,498 | $ 1,656 | $ 1,519 | $ 1,803 | $ 1,670 | $ 1,768 | $ 1,676 |
| Net (loss) income [1] [2] | **$ (309)** | $ 33 | $ 61 | $ 53 | $ 107 | $ 57 | $ 86 | $ 68 |
| Earnings Per Share [1] [2] | | | | | | | | |
| Basic EPS | **$ (1.82)** | $ 0.19 | $ 0.36 | $ 0.31 | $ 0.62 | $ 0.33 | $ 0.50 | $ 0.39 |
| Diluted EPS | **$ (1.82)** | $ 0.19 | $ 0.36 | $ 0.31 | $ 0.62 | $ 0.33 | $ 0.50 | $ 0.39 |
| Total assets [1] | **$ 5,108** | $ 5,520 | $ 5,324 | $ 5,354 | $ 5,273 | $ 5,237 | $ 5,196 | $ 5,353 |
| Long-term debt | | | | | | | | |
| Current | **$ —** | $ — | $ — | $ — | $ — | $ 1 | $ 1 | $ 1 |
| Non-current | **1,548** | 1,553 | 1,482 | 1,477 | 1,418 | 1,408 | 1,373 | 1,393 |
| Total long-term debt[3] | **$ 1,548** | $ 1,553 | $ 1,482 | $ 1,477 | $ 1,418 | $ 1,409 | $ 1,374 | $ 1,394 |
| Cash dividends paid per common share | **18.25¢** | 18.25¢ | 18.25¢ | 17.75¢ | 17.75¢ | 17.75¢ | 17.75¢ | 15.25¢ |
| Common shares outstanding (000's) | **168,031** | 169,612 | 171,692 | 172,374 | 172,370 | 172,369 | 172,182 | 172,126 |
| Options outstanding (000's) | **5,171** | 5,315 | 5,390 | 4,145 | 4,226 | 4,237 | 5,437 | 5,381 |

1) In July 2015, the Company's Canadian operations acquired the assets of Kramer Ltd. and became the approved Caterpillar dealer in Saskatchewan. In July 2014, the Company's UK & Ireland operations acquired SITECH. The results of operations and financial position of these acquired businesses have been included in the figures above since the date of acquisition.

2) Q4 2015 results were impacted by the following significant items:
   a) $338 million impairment loss recognized on the distribution network and goodwill in the Company's South American operations of $324 million and UK & Ireland operations of $14 million ($1.56 per share)
   b) Facility closures and restructuring costs and impairment on other assets totaling $45 million ($0.19 per share)
   c) $42 million higher than usual inventory and other asset impairments, principally aged or customized inventories, recorded in the year ($0.19 per share)
   d) $12 million foreign exchange loss on the significant devaluation of the Argentine peso as well as a higher annual effective tax rate in Argentina ($0.14 per share)
   e) Sale of business in Uruguay in Q4 2015 resulted in a gain of $8 million ($0.04 per share)
   f) Severance costs of $2 million ($0.01 per share)
   g) For a complete description of significant items for Q4 2015, please see page 14 of this MD&A.

   Q3 2015 results were negatively impacted by severance costs of $0.11 per share, loss on a building sublease of $0.03 per share and acquisition costs of $0.01 per share.

   Q2 2015 results were negatively impacted by severance costs of $0.03 per share and higher tax rate change in the Canadian operations of $0.01 per share.

   Q1 2015 results were positively impacted from previously unrecognized tax losses ($0.06 per share), offset by severance costs of $0.07 per share and facility closure costs of $0.01 per share.

   Q4 2014 results were positively impacted by an inflationary adjustment to reduce income tax expense in Argentina by $0.07 per share.

   Q3 2014 results were negatively impacted by the write-off of previously capitalized ERP costs in the Company's South American operations by $0.06 per share, severance costs of $0.03 per share, a one-time revaluation adjustment of the Company's deferred income tax balances of $0.04 per share, labour disruption costs ($0.01 per share) and higher annual effective tax rate in Argentina ($0.03 per share).

   Q2 2014 results were negatively impacted by severance costs of $0.02 per share.

3) In October 2015 the Company closed a three-year extension to its $1.0 billion global operating credit facility, extending the maturity date to October 2020 from the previous maturity in September 2017.

## Forward-Looking Disclaimer

This report contains statements about the Company's business outlook, objectives, plans, strategic priorities and other statements that are not historical facts. A statement Finning makes is forward-looking when it uses what the Company knows and expects today to make a statement about the future. Forward-looking statements may include words such as aim, anticipate, assumption, believe, could, expect, goal, guidance, intend, may, objective, outlook, plan, project, seek, should, strategy, strive, target, and will. Forward-looking statements in this report include, but are not limited to, statements with respect to: expectations with respect to the economy and associated impact on the Company's financial results; workforce reductions; distribution network and goodwill impairment charges; facility closures; expected revenue; expected free cash flow; EBIT margin; expected range of the effective tax rate; ROIC; market share growth; expected results from service excellence action plans; anticipated asset utilization; inventory turns and parts service levels; the expected target range of the Company's net debt to invested capital ratio; and the expected financial impact from acquisitions. All such forward-looking statements are made pursuant to the 'safe harbour' provisions of applicable Canadian securities laws.

Unless otherwise indicated by us, forward-looking statements in this report reflect Finning's expectations at February 17, 2016. Except as may be required by Canadian securities laws, Finning does not undertake any obligation to update or revise any forward-looking statement, whether as a result of new information, future events, or otherwise.

Forward-looking statements, by their very nature, are subject to numerous risks and uncertainties and are based on several assumptions which give rise to the possibility that actual results could differ materially from the expectations expressed in or implied by such forward-looking statements and that Finning's business outlook, objectives, plans, strategic priorities and other statements that are not historical facts may not be achieved. As a result, Finning cannot guarantee that any forward-looking statement will materialize. Factors that could cause actual results or events to differ materially from those expressed in or implied by these forward-looking statements include: general economic and market conditions; foreign exchange rates; commodity prices; the level of customer confidence and spending, and the demand for, and prices of, Finning's products and services; Finning's dependence on the continued market acceptance of products and timely supply of parts and equipment; Finning's ability to continue to improve productivity and operational efficiencies while continuing to maintain customer service; Finning's ability to manage cost pressures as growth in revenue occurs; Finning's ability to reduce costs in response to slowing activity levels; Finning's ability to attract sufficient skilled labour resources as market conditions, business strategy or technologies change; Finning's ability to negotiate and renew collective bargaining agreements with satisfactory terms for Finning's employees and the Company; the intensity of competitive activity; Finning's ability to raise the capital needed to implement its business plan; regulatory initiatives or proceedings, litigation and changes in laws or regulations; stock market volatility; changes in political and economic environments for operations; the integrity, reliability, availability and benefits from information technology and the data processed by that technology. Forward-looking statements are provided in this report for the purpose of giving information about management's current expectations and plans and allowing investors and others to get a better understanding of Finning's operating environment. However, readers are cautioned that it may not be appropriate to use such forward-looking statements for any other purpose.

Forward-looking statements made in this report are based on a number of assumptions that Finning believed were reasonable on the day the Company made the forward-looking statements. Refer in particular to the Outlook section of this MD&A. Some of the assumptions, risks, and other factors which could cause results to differ materially from those expressed in the forward-looking statements contained in this report are discussed in Section 4 of the Company's current AIF.

Finning cautions readers that the risks described in the MD&A and the AIF are not the only ones that could impact the Company. Additional risks and uncertainties not currently known to the Company or that are currently deemed to be immaterial may also have a material adverse effect on Finning's business, financial condition, or results of operations.

Except as otherwise indicated, forward-looking statements do not reflect the potential impact of any non-recurring or other unusual items or of any dispositions, mergers, acquisitions, other business combinations or other transactions that may be announced or that may occur after the date hereof. The financial impact of these transactions and non-recurring and other unusual items can be complex and depends on the facts particular to each of them. Finning therefore cannot describe the expected impact in a meaningful way or in the same way Finning presents known risks affecting its business.

# **2015** FINANCIAL STATEMENTS & NOTES

FINNING

## MANAGEMENT'S REPORT TO THE SHAREHOLDERS

The accompanying Consolidated Financial Statements and Management's Discussion and Analysis (MD&A) are the responsibility of the management of Finning International Inc. (the Company). The Consolidated Financial Statements have been prepared in accordance with International Financial Reporting Standards which recognize the necessity of relying on management's best estimates and informed judgments. The financial information presented in the Company's MD&A is consistent with that in the Consolidated Financial Statements. The Consolidated Financial Statements and MD&A have, in management's opinion, been properly prepared within reasonable limits of materiality.

The Company maintains an accounting system and related controls to provide management with reasonable assurance that transactions are executed and recorded in accordance with its authorizations, that assets are properly safeguarded and accounted for, and that financial records are reliable for preparation of financial statements.

The Company's independent auditors, Deloitte LLP, have audited the Consolidated Financial Statements, as reflected in their report for 2015.

The Board of Directors oversees management's responsibilities for the Consolidated Financial Statements primarily through the activities of its Audit Committee. The Audit Committee of the Board of Directors is composed solely of directors who are neither officers nor employees of the Company. The Audit Committee meets regularly during the year with management of the Company and the Company's independent auditors to review the Company's interim and annual consolidated financial statements and MD&A. The Audit Committee also reviews internal accounting controls, risk management, internal and external audit results and accounting principles and practices. The Audit Committee is responsible for approving the remuneration and terms of engagement of the Company's independent auditors. The Audit Committee also meets with the independent auditors, without management present, to discuss the results of their audit and the quality of financial reporting. On a quarterly basis, the Audit Committee reports its findings to the Board of Directors, and recommends approval of the interim and annual Consolidated Financial Statements.

*/s/ L. Scott Thomson*

**L. Scott Thomson**
President and Chief Executive Officer

*/s/ Steven M. Nielsen*

**Steven M. Nielsen**
Executive Vice President and Chief Financial Officer

February 17, 2016
1000-666 Burrard Street, Vancouver, BC, V6C 2X8, Canada

## INDEPENDENT AUDITOR'S REPORT

To the Shareholders of
Finning International Inc.

We have audited the accompanying consolidated financial statements of Finning International Inc., which comprise the consolidated statements of financial position as at December 31, 2015 and December 31, 2014, and the consolidated statements of net (loss) income, comprehensive (loss) income, shareholders' equity and cash flow for the years then ended, and a summary of significant accounting policies and other explanatory information.

### Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

### Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

### Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Finning International Inc. as at December 31, 2015 and December 31, 2014, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

*/s/ Deloitte LLP*

Chartered Professional Accountants
February 17, 2016
Vancouver, Canada

## CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

| **December 31**<br>**(Canadian $ millions)** | | **2015** | | 2014 |
|---|---|---|---|---|
| **ASSETS** | | | | |
| Current assets | | | | |
| Cash and cash equivalents (Note 24) | **$** | **475** | $ | 450 |
| Accounts receivable | | **837** | | 972 |
| Service work in progress | | **99** | | 106 |
| Inventories (Note 11) | | **1,800** | | 1,661 |
| Other assets (Note 14) | | **249** | | 288 |
| Total current assets | | **3,460** | | 3,477 |
| Property, plant, and equipment (Note 16) | | **677** | | 675 |
| Rental equipment (Note 16) | | **441** | | 379 |
| Distribution network (Note 17) | | **101** | | 341 |
| Goodwill (Note 18) | | **129** | | 132 |
| Intangible assets (Note 19) | | **49** | | 56 |
| Investments in joint venture and associate (Note 15) | | **103** | | 89 |
| Other assets (Note 14) | | **148** | | 124 |
| Total assets | **$** | **5,108** | $ | 5,273 |
| | | | | |
| **LIABILITIES** | | | | |
| Current liabilities | | | | |
| Short-term debt (Note 6) | **$** | **117** | $ | 7 |
| Accounts payable and accruals | | **801** | | 1,019 |
| Deferred revenue | | **259** | | 265 |
| Provisions (Note 21) | | **60** | | 63 |
| Other liabilities (Note 22) | | **6** | | 18 |
| Total current liabilities | | **1,243** | | 1,372 |
| Long-term debt (Note 6) | | **1,548** | | 1,418 |
| Net employee benefit obligations (Note 23) | | **82** | | 157 |
| Provisions (Note 21) | | **5** | | 5 |
| Other liabilities (Note 22) | | **180** | | 190 |
| Total liabilities | **$** | **3,058** | $ | 3,142 |
| Commitments and contingencies (Notes 29 and 30) | | | | |
| | | | | |
| **SHAREHOLDERS' EQUITY** | | | | |
| Share capital (Note 9) | **$** | **570** | $ | 583 |
| Contributed surplus | | **—** | | 39 |
| Accumulated other comprehensive income | | **326** | | 101 |
| Retained earnings | | **1,154** | | 1,408 |
| Total shareholders' equity | | **2,050** | | 2,131 |
| Total liabilities and shareholders' equity | **$** | **5,108** | $ | 5,273 |

Approved by the Directors February 17, 2016

*/s/ K. M. O'Neill* — K.M. O'Neill, Director

*/s/ D.W.G. Whitehead* — D.W.G. Whitehead, Director

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

## CONSOLIDATED STATEMENTS OF NET (LOSS) INCOME

| **For years ended December 31**<br>**(Canadian $ millions, except share and per share amounts)** | **2015** | 2014 |
|---|---|---|
| Revenue | | |
| New equipment | **$ 2,188** | $ 2,885 |
| Used equipment | **341** | 271 |
| Equipment rental | **293** | 358 |
| Product support | **3,352** | 3,381 |
| Other | **16** | 23 |
| Total revenue | **6,190** | 6,918 |
| Cost of sales | **(4,376)** | (4,856) |
| Gross profit | **1,814** | 2,062 |
| Selling, general, and administrative expenses | **(1,542)** | (1,556) |
| Impairment loss on distribution network and goodwill (Note 20) | **(338)** | — |
| Equity earnings of joint venture and associate (Note 15) | **5** | 12 |
| Other income (Note 5) | **8** | — |
| Other expenses (Note 5) | **(52)** | (14) |
| (Loss) earnings before finance costs and income taxes | **(105)** | 504 |
| Finance costs (Note 6) | **(85)** | (85) |
| (Loss) income before provision for income taxes | **(190)** | 419 |
| Recovery of (provision for) income taxes (Note 13) | **29** | (101) |
| Net (loss) income | **$ (161)** | $ 318 |

| | | |
|---|---|---|
| (Loss) earnings per share (Note 4) | | |
| Basic | **$ (0.94)** | $ 1.85 |
| Diluted | **$ (0.94)** | $ 1.84 |

| | | |
|---|---|---|
| Weighted average number of shares outstanding | | |
| Basic | **171,141,863** | 172,215,955 |
| Diluted | **171,285,134** | 172,968,100 |

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

## CONSOLIDATED STATEMENTS OF COMPREHENSIVE (LOSS) INCOME

| For years ended December 31 (Canadian $ millions) | 2015 | 2014 |
|---|---|---|
| Net (loss) income | **$ (161)** | $ 318 |
| Other comprehensive income (loss), net of income tax | | |
| Items that may be subsequently reclassified to net income: | | |
| Foreign currency translation adjustments | **355** | 138 |
| Foreign currency translation adjustments, reclassified to earnings (Note 5) | **(4)** | — |
| Unrealized loss on net investment hedges | **(128)** | (52) |
| Income tax expense on foreign currency translation adjustments and net investment hedges | **(10)** | — |
| Net gain on foreign currency translation and net investment hedges, net of income tax | **213** | 86 |
| Unrealized loss on cash flow hedges | **(6)** | (9) |
| Realized loss on cash flow hedges, reclassified to earnings | **10** | 10 |
| Income tax expense on cash flow hedges | **(1)** | — |
| Gain on cash flow hedges, net of income tax | **3** | 1 |
| Items that will not be subsequently reclassified to net income: | | |
| Actuarial gain (loss) (Note 23) | **77** | (29) |
| Income tax (expense) recovery on actuarial gain (loss) | **(15)** | 6 |
| Actuarial gain (loss), net of income tax | **62** | (23) |
| Total comprehensive income | **$ 117** | $ 382 |

## CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

| | Share Capital | | | Accumulated Other Comprehensive Income (Loss) | | | |
|---|---|---|---|---|---|---|---|
| (Canadian $ millions, except share amounts) | Shares | Amount | Contributed Surplus | Foreign Currency Translation and Loss on Net Investment Hedges | Gain (Loss) on Cash Flow Hedges | Retained Earnings | Total |
| Balance, January 1, 2014 | 172,014,230 | $ 573 | $ 40 | $ 28 | $ (14) | $ 1,231 | $ 1,858 |
| Net income | — | — | — | — | — | 318 | 318 |
| Other comprehensive income (loss) | — | — | — | 86 | 1 | (23) | 64 |
| Total comprehensive income (loss) | — | — | — | 86 | 1 | 295 | 382 |
| Issued on exercise of share options | 356,025 | 10 | (10) | — | — | — | — |
| Share option expense | — | — | 9 | — | — | — | 9 |
| Dividends on common shares | — | — | — | — | — | (118) | (118) |
| Balance, December 31, 2014 | 172,370,255 | $ 583 | $ 39 | $ 114 | $ (13) | $ 1,408 | $ 2,131 |
| Net loss | **—** | **—** | **—** | **—** | **—** | **(161)** | **(161)** |
| Other comprehensive income | **—** | **—** | **—** | **213** | **3** | **62** | **278** |
| Total comprehensive income (loss) | **—** | **—** | **—** | **213** | **3** | **(99)** | **117** |
| Issued on exercise of share options | **44,343** | **1** | **—** | **—** | **—** | **—** | **1** |
| Share option expense | **—** | **—** | **7** | **—** | **—** | **—** | **7** |
| Repurchase of common shares (Note 8) | **(4,383,170)** | **(14)** | **(46)** | **—** | **—** | **(31)** | **(91)** |
| Dividends on common shares | **—** | **—** | **—** | **—** | **—** | **(124)** | **(124)** |
| Adjustment for change in accounting policy (Note 2d) | **—** | **—** | **—** | **—** | **9** | **—** | **9** |
| Balance, December 31, 2015 | **168,031,428** | **$ 570** | **$ —** | **$ 327** | **$ (1)** | **$ 1,154** | **$ 2,050** |

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

## CONSOLIDATED STATEMENTS OF CASH FLOW

| For years ended December 31 (Canadian $ millions) | | **2015** | | 2014 |
|---|---|---|---|---|
| **OPERATING ACTIVITIES** | | | | |
| Net (loss) income | **$** | **(161)** | $ | 318 |
| Adjusting for: | | | | |
| Depreciation and amortization | | **231** | | 216 |
| Gain on disposal of rental equipment and property, plant, and equipment | | **(34)** | | (27) |
| Impairment of distribution network and goodwill (Note 20) | | **338** | | — |
| Impairment long-lived assets (Note 16) | | **26** | | — |
| Derecognition of intangible assets (Note 5d) | | **—** | | 12 |
| Gain on disposal of subsidiary (Note 5a) | | **(8)** | | — |
| Equity earnings of joint venture and associate | | **(5)** | | (12) |
| Share-based payment expense | | **1** | | 10 |
| (Recovery of) provision for income taxes | | **(29)** | | 101 |
| Finance costs | | **85** | | 85 |
| Defined benefit and other post-employment benefit expense (Note 23) | | **17** | | 13 |
| Changes in operating assets and liabilities (Note 24) | | **76** | | (18) |
| Additions to rental equipment | | **(231)** | | (264) |
| Proceeds on disposal of rental equipment | | **207** | | 229 |
| Interest paid | | **(73)** | | (70) |
| Income tax paid | | **(61)** | | (47) |
| Cash flow provided by operating activities | | **379** | | 546 |
| **INVESTING ACTIVITIES** | | | | |
| Additions to property, plant, and equipment, intangible assets, and distribution network | | **(76)** | | (81) |
| Proceeds on disposal of property, plant, and equipment | | **22** | | 18 |
| Proceeds on disposal of subsidiary (Note 5a) | | **15** | | — |
| Investment in and advances to associate | | **—** | | (4) |
| Net payment for acquisitions (Note 25) | | **(243)** | | (14) |
| Increase in short-term investments | | **(24)** | | — |
| Cash flow used in investing activities | | **(306)** | | (81) |
| **FINANCING ACTIVITIES** | | | | |
| Increase (decrease) in short-term debt | | **110** | | (84) |
| Decrease in long-term debt | | **(1)** | | (1) |
| Debt issuance costs | | **(1)** | | — |
| Repurchase of common shares (Note 8) | | **(91)** | | — |
| Dividends paid | | **(124)** | | (118) |
| Cash flow used in financing activities | | **(107)** | | (203) |
| Effect of currency translation on cash balances | | **59** | | 12 |
| Increase in cash and cash equivalents | | **25** | | 274 |
| Cash and cash equivalents, beginning of year | | **450** | | 176 |
| Cash and cash equivalents, end of year (Note 24) | **$** | **475** | $ | 450 |

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

1. GENERAL INFORMATION ........ 8
2. SIGNIFICANT ACCOUNTING POLICIES, KEY ASSUMPTIONS, AND SIGNIFICANT JUDGMENTS ........ 8
3. SEGMENTED INFORMATION ........ 13
4. EARNINGS PER SHARE ........ 15
5. OTHER INCOME AND OTHER EXPENSES ........ 16
6. SHORT-TERM AND LONG-TERM DEBT AND FINANCE COSTS ........ 17
7. FINANCIAL INSTRUMENTS ........ 19
8. MANAGEMENT OF CAPITAL ........ 28
9. SHARE CAPITAL ........ 29
10. SHARE-BASED PAYMENTS ........ 30
11. INVENTORIES ........ 35
12. POWER SYSTEMS CONSTRUCTION CONTRACTS ........ 35
13. INCOME TAXES ........ 36
14. OTHER ASSETS ........ 39
15. JOINT VENTURE AND ASSOCIATE ........ 40
16. PROPERTY, PLANT AND EQUIPMENT AND RENTAL EQUIPMENT ........ 41
17. DISTRIBUTION NETWORK ........ 44
18. GOODWILL ........ 44
19. INTANGIBLE ASSETS ........ 45
20. ASSET IMPAIRMENT ........ 47
21. PROVISIONS ........ 49
22. OTHER LIABILITIES ........ 49
23. POST-EMPLOYMENT EMPLOYEE BENEFITS ........ 50
24. SUPPLEMENTAL CASH FLOW INFORMATION ........ 57
25. ACQUISITIONS ........ 58
26. ECONOMIC RELATIONSHIPS ........ 60
27. RELATED PARTY TRANSACTIONS AND TOTAL STAFF COSTS ........ 60
28. LEASES ........ 61
29. COMMITMENTS AND CONTINGENCIES ........ 62
30. GUARANTEES AND INDEMNIFICATIONS ........ 62

## 1. General Information

Finning International Inc. ("Finning") is a widely held, publicly traded corporation, listed on the Toronto Stock Exchange (TSX: FTT). The registered and head office of the Company is located at Suite 1000, Park Place, 666 Burrard Street, Vancouver, British Columbia, Canada. The Company's principal business is the sale of equipment, power and energy systems, rental of equipment and providing product support including sales of parts and servicing of equipment.

## 2. Significant Accounting Policies, Key Assumptions, and Significant Judgments

These consolidated financial statements of Finning and its subsidiaries (together, the "Company") have been prepared in accordance with International Financial Reporting Standards (IFRS), as issued by the International Accounting Standard Board (IASB) issued and effective as of February 17, 2016, the date these financial statements were authorized for issuance by the Company's Board of Directors. The Company has applied the same accounting policies consistently to all periods presented unless otherwise noted.

The preparation of financial statements in conformity with IFRS requires management to make judgments, estimates, and assumptions in respect of the application of accounting policies and the reported amounts of assets, liabilities, income, and expenses. Actual results may differ from those judgments, estimates, and assumptions.

Certain of the Company's accounting policies that relate to the financial statements as a whole, as well as estimates and judgments it has made and how they affect the amounts reported in the consolidated financial statements, are incorporated in this section. This note also describes new standards, amendments or interpretations that are effective and applied by the Company during 2015 or are not yet effective. Where an accounting policy, estimate, and judgment are applicable to a specific note to the accounts, they are described within that note.

These consolidated financial statements were prepared under the historical cost basis except for derivative financial instruments, short-term investments, contingent consideration, and liabilities for share-based payment arrangements, which have been measured at fair value.

### (a) Principles of Consolidation

**Accounting Policy**

The consolidated financial statements include the accounts of the Company, which includes the Finning (Canada) division and Finning's wholly owned subsidiaries. Subsidiaries are those entities over which Finning has the power over the investee, is exposed, or has rights, to variable returns from its involvement with the investee, and has the ability to use its power to affect its returns, generally accompanying a shareholding that confers more than half of the voting rights. The consolidated financial statements include the operating results of acquired or disposed subsidiaries from the date the Company obtains control or the date control is lost.

The Company's principal wholly owned subsidiaries, and the main countries in which they operate, are as follows:

| Name | Principal place of business | % ownership | Functional currency |
|---|---|---|---|
| Finning (UK) Ltd | United Kingdom | 100% | GBP |
| Finning Chile S.A. | Chile | 100% | USD |
| Finning Argentina S.A. | Argentina | 100% | USD |
| Finning Soluciones Mineras S.A. | Argentina | 100% | USD |
| Moncouver S.A. | Uruguay | 100% | USD |
| Finning Bolivia S.A. | Bolivia | 100% | USD |
| OEM Remanufacturing Company Inc. | Canada | 100% | CAD |

In December 2015, the Company sold its wholly owned subsidiary, Finning Uruguay S.A.

All shareholdings are of ordinary shares or other equity capital. Other subsidiaries, while included in the consolidated financial statements, are not material.

## 2. SIGNIFICANT ACCOUNTING POLICIES, KEY ASSUMPTIONS, AND SIGNIFICANT JUDGMENTS (CONTINUED )

### (b) Foreign Currency Translation

**Accounting Policy**

These consolidated financial statements are presented in Canadian dollars, which is the functional currency of the parent company. Transactions undertaken in foreign currencies are translated into Canadian dollars at exchange rates prevailing at the time the transactions occurred. Account balances denominated in foreign currencies are translated into Canadian dollars as follows:

- Monetary items are translated at exchange rates in effect at the statement of financial position dates and non-monetary items are translated at historical exchange rates; and
- Foreign exchange gains and losses are included in income except where the exchange gain or loss arises from the translation of monetary items designated as hedges. The effective portion of hedging gains and losses associated with these cash flow hedges is recorded, net of tax, in other comprehensive income until it is reclassified to include it in the initial carrying cost of the hedged asset or hedged liability and recognized in earnings on the same basis as the hedged item.

Financial statements of foreign operations are translated from the functional currency of the foreign operation into Canadian dollars as follows:

- Assets and liabilities are translated using the exchange rates in effect at the statement of financial position dates;
- Revenue and expense items are translated at average exchange rates prevailing during the period that the transactions occurred; and
- Foreign currency translation adjustments and gains and losses on net investment hedges are reported within other comprehensive income. Cumulative foreign currency translation adjustments, net of gains and losses on net investment hedges, are recognized in net income upon the disposal of a foreign operation (i.e. a disposal of the Company's entire interest in a foreign operation, or 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 Company has hedged some of its investments in foreign subsidiaries using foreign currency denominated borrowings. Foreign exchange gains or losses arising from the translation of these hedging instruments are accounted for as items of other comprehensive income and presented on the consolidated statement of financial position. Foreign exchange gains or losses arising from net investment hedging instruments are recognized in net income upon the disposal of a foreign operation. See Note 7 for further details on the Company's hedge accounting policy.

**Areas of Significant Judgment**

Management has made judgments with regard to the determination of the functional currency of each entity of the Company.

## 2. Significant Accounting Policies, Key Assumptions, and Significant Judgments (continued)

### (c) Revenue Recognition

**Accounting Policy**

Revenue recognition occurs when there is an arrangement with a customer, primarily in the form of a contract or purchase order, a fixed or determinable sales price is established with the customer, performance requirements are achieved, and it is probable that economic benefits associated with the transaction will flow to the Company. Revenue is measured at fair value of the consideration received or receivable net of any incentives offered.

Revenue is recognized as performance requirements are achieved in accordance with the following:

- Revenue from sales of equipment is recognized at the time title to the equipment and significant risks and rewards of ownership passes to the customer, which is generally at the time of shipment of the product to the customer;
- Revenue from equipment rentals and operating leases is recognized in accordance with the terms of the relevant agreement with the customer, either evenly over the term of that agreement or on a usage basis such as the number of hours that the equipment is used;
- Revenue from product support includes sales of parts and servicing of equipment. For sales of parts, revenue is recognized when the part is shipped to the customer or when the part is installed in the customer's equipment. For servicing of equipment, revenue is recognized as the service work is performed. Product support is also offered to customers in the form of long-term maintenance and repair contracts. For these contracts, revenue is recognized on a basis proportionate to the service work that has been performed based on the parts and labour service provided. Parts revenue is recognized based on parts list price and service revenue is recognized based on standard billing labour rates. Any losses estimated during the term of a long-term maintenance and repair contract are recognized when identified.
- The revenue recognition accounting policy for construction contracts with customers is described in Note 12.

If an arrangement with a customer involves the provision of multiple elements, the total arrangement value is allocated to each element as a separate unit of accounting based on their fair values if:

a. The delivered item has value to the customer on a stand-alone basis;
b. There is objective and reliable evidence of the fair value of the undelivered item; and
c. The arrangement includes a general right of return relative to the delivered item and delivery or performance of the undelivered item is considered probable and substantially in the control of the Company.

## 2. Significant Accounting Policies, Key Assumptions, and Significant Judgments (continued)

### Areas of Estimation Uncertainty

Long-Term Contracts

Where the outcome of a long-term contract (primarily power systems and maintenance and repair contracts) can be estimated reliably, revenue and costs are recognized by reference to the stage of completion of the contract activity at the statement of financial position date and is measured primarily based on the proportion of contract costs incurred for work performed to date relative to the estimated total contract costs. Variations in contract work, claims and incentive payments are included to the extent that they have been agreed with the customer. Where the outcome of a long-term contract cannot be estimated reliably, contract revenue is recognized in the current period to the extent that it is probable that contract costs will be recoverable. Contract costs are recognized as expenses in the period in which they are incurred. When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognized as an expense immediately.

Repurchase Commitments

Guaranteed residual values are periodically given in connection with repurchase commitments provided to customers. The likelihood of the repurchase commitments being exercised is assessed at the inception of the contract to determine whether significant risks and rewards have been transferred to the customer and if revenue should be recognized. The likelihood of the repurchase commitments being exercised, and quantification of the possible loss, if any, on resale of the equipment, is assessed at the inception of the contract and at each reporting period thereafter. Significant assumptions are made in estimating residual values. These are assessed based on past experience and take into account expected future market conditions and projected disposal values.

### Areas of Significant Judgment

Rental Purchase Options

Rental purchase options (RPOs) are rental agreements with customers which include an option to purchase the equipment at the end of the rental term. The Company periodically sells portfolios of RPOs to financial institutions, and is required to make judgments as to whether the risks and rewards of ownership of the underlying assets have been transferred in such circumstances. The level of residual value risk retained by the Company, the continuing managerial involvement of the Company in the assets, and the transfer of title to the assets are all considered when assessing whether the risks and rewards of ownership have been transferred to third parties and hence whether revenue should be recognized on the sale of the assets and associated rental contracts.

## 2. Significant Accounting Policies, Key Assumptions, and Significant Judgments (continued)

### (d) Changes in Accounting Policy

In December 2015, the Company started to apply hedge accounting to hedges of certain inventory purchases in its Canadian operations. At the same time the Company voluntarily changed its accounting policy for its accounting treatment of the effective portion of hedging gains and losses associated with cash flow hedges of non-financial items. Previously, the Company recorded these amounts, net of tax, in other comprehensive income and reclassified from accumulated other comprehensive income to earnings when the hedged item affects income. Under the new policy, the effective portion of these hedges will be reclassified and included in the initial carrying cost of the hedged asset or hedged liability (ie. basis adjustment) and therefore recognized in earnings on the same basis as the hedged item. Management believes the new accounting policy is reliable and provides more relevant information because the basis adjustment results in the hedged item being recognized at the hedged rate in the balance sheet.

In accordance with the requirements of IAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors*, the Company has retrospectively applied this change in accounting policy. In 2012, the Company's Canadian operations entered into a cash flow hedge to hedge the foreign currency risk related to its purchase from Caterpillar of the distribution and support business formerly operated by Bucyrus International Inc. In accordance with the Company's previous accounting policy, the Company retained the effective portion of the hedge of $9 million in accumulated other comprehensive income. The impact of retrospectively applying the new accounting policy is the Company reclassified the effective portion out of accumulated other comprehensive income and increased the carrying cost of goodwill (Note 18).

The Company has adopted the following amendments to standards:

- Amendments to IFRS 8, *Operating Segments* (effective January 1, 2015) require disclosure of the judgments made by management in aggregating operating segments. This includes a description of the segments which have been aggregated and the economic indicators which have been assessed in determining that the aggregated segments share similar economic characteristics. This amendment did not impact the Company's annual financial statement disclosures.

### (e) Future Accounting Pronouncements

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

- Amendments to IAS 19, *Employee Benefits* (effective January 1, 2016) clarify that the high quality corporate bonds used in estimating the discount rate for post-employment employee benefits should be denominated in the same currency as the benefits to be paid. This amendment will not have an impact on the Company's financial statements.
- Amendments to IAS 1, *Presentation of Financial Statements* (effective January 1, 2016) are designed to encourage companies to apply professional judgment in determining what information to disclose in their financial statements. For example, the amendments make clear that materiality applies to the whole of financial statements and that the inclusion of immaterial information can inhibit the usefulness of financial disclosures. Management is currently assessing the impact of the amendment on its financial statement disclosures.
- IFRS 9, *Financial Instruments* (effective January 1, 2018) introduces new requirements for the classification and measurement of financial assets and financial liabilities, impairment of financial assets, and hedge accounting. Management is currently assessing the impact of the new requirements on its financial statements.
- IFRS 15, *Revenue from Contracts with Customers* (effective date January 1, 2018) outlines a single comprehensive model for companies to use in accounting for revenue arising from contracts with customers. Management is currently assessing the impact of the new standard.
- 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 requirements on its consolidated financial statements.

## 3. Segmented Information

The Company and its subsidiaries have operated primarily in one principal business during the year, that being the selling, servicing, and renting of heavy equipment, engines, and related products.

Information reported to the chief operating decision maker for the purposes of resource allocation and assessment of segment performance primarily focuses on the dealership territories in which the Company operates.

The reporting segments, which are the same as the Company's operating 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.

Revenue, results, and other information by reporting segment

| For year ended December 31, 2015 ($ millions) | Canada | South America | UK & Ireland | Other | Consolidated |
|---|---|---|---|---|---|
| Revenue from external sources | $ 3,054 | $ 2,059 | $ 1,077 | $ — | $ 6,190 |
| Operating costs | (2,793) | (1,824) | (1,040) | (30) | (5,687) |
| Depreciation and amortization | (121) | (82) | (28) | — | (231) |
| Impairment loss on goodwill and distribution network | — | (324) | (14) | — | (338) |
| Equity earnings | 4 | — | — | 1 | 5 |
| Other income | — | — | — | 8 | 8 |
| Other expenses | (46) | (3) | — | (3) | (52) |
| Earnings (loss) before finance costs and income taxes | $ 98 | $ (174) | $ (5) | $ (24) | $ (105) |
| Finance costs | | | | | (85) |
| Income tax recovery | | | | | 29 |
| Net loss | | | | | $ (161) |
| Invested capital [1] | $ 1,760 | $ 1,122 | $ 321 | $ 37 | $ 3,240 |
| Total assets | $ 2,370 | $ 1,991 | $ 671 | $ 76 | $ 5,108 |
| Capital and rental equipment [2] | $ 662 | $ 358 | $ 147 | $ — | $ 1,167 |
| Gross capital expenditures [3] | $ 30 | $ 43 | $ 6 | $ — | $ 79 |
| Gross rental asset expenditures [3] | $ 192 | $ 25 | $ 35 | $ — | $ 252 |

(1) Invested capital is calculated as total assets less total liabilities, excluding net debt
(2) Capital includes property, plant and equipment, and intangibles
(3) Includes finance leases capitalized and excludes additions through business acquisitions

### 3. SEGMENTED INFORMATION (CONTINUED)

| For year ended December 31, 2014 ($ millions) | Canada | South America | UK & Ireland | Other | Consolidated |
|---|---|---|---|---|---|
| Revenue from external sources | $ 3,634 | $ 2,227 | $ 1,057 | $ — | $ 6,918 |
| Operating costs | (3,246) | (1,945) | (975) | (30) | (6,196) |
| Depreciation and amortization | (112) | (72) | (32) | — | (216) |
| Equity earnings | 8 | — | — | 4 | 12 |
| Other expenses | — | (14) | — | — | (14) |
| Earnings (loss) before finance costs and income taxes | $ 284 | $ 196 | $ 50 | $ (26) | $ 504 |
| Finance costs | | | | | (85) |
| Provision for income taxes | | | | | (101) |
| Net income | | | | | $ 318 |
| Invested capital [1] | $ 1,475 | $ 1,348 | $ 284 | $ (1) | $ 3,106 |
| Total assets | $ 2,400 | $ 2,112 | $ 619 | $ 142 | $ 5,273 |
| Capital and rental equipment [2] | $ 643 | $ 344 | $ 122 | $ 1 | $ 1,110 |
| Gross capital expenditures [3] | $ 37 | $ 35 | $ 12 | $ — | $ 84 |
| Gross rental asset expenditures [3] | $ 230 | $ 20 | $ 14 | $ — | $ 264 |

[1] Invested capital is calculated as total assets less total liabilities, excluding net debt
[2] Capital includes property, plant and equipment, and intangibles
[3] Includes finance leases and borrowing costs capitalized and excludes additions through business acquisitions

Revenue and non-current assets [4] by location of operations

| ($ millions) | Revenues Year ended December 31 | | Non-current assets [4] As at December 31 | |
|---|---|---|---|---|
| | **2015** | 2014 | **2015** | 2014 |
| Canada | **$ 3,054** | $ 3,634 | **$ 997** | $ 933 |
| Chile | **$ 1,562** | $ 1,671 | **$ 268** | $ 510 |
| United Kingdom | **$ 1,025** | $ 1,000 | **$ 211** | $ 178 |
| Argentina | **$ 332** | $ 359 | **$ 88** | $ 97 |
| Other countries | **$ 217** | $ 254 | **$ 26** | $ 35 |

[4] Non-current assets exclude deferred tax assets

## 4. Earnings Per Share

**Accounting Policy**

Basic earnings per share (EPS) is calculated by dividing net income available to common shareholders by the weighted average number of common shares outstanding during the year. Diluted EPS is determined by dividing net income available to common shareholders by the weighted average number of common shares outstanding, adjusted for the effects of all potentially dilutive common shares, which comprise share options granted to employees.

| ($ millions, except share and per share amounts) 2015 | Income | Shares | Per Share |
|---|---|---|---|
| **Basic EPS:** | | | |
| Net loss | **$ (161)** | **171,141,863** | **$ (0.94)** |
| Effect of dilutive securities: share options | — | **143,271** | — |
| **Diluted EPS:** | | | |
| Net loss and assumed conversions | **$ (161)** | **171,285,134** | **$ (0.94)** |
| 2014 | | | |
| **Basic EPS:** | | | |
| Net income | $ 318 | 172,215,955 | $ 1.85 |
| Effect of dilutive securities: share options | — | 752,145 | — |
| **Diluted EPS:** | | | |
| Net income and assumed conversions | $ 318 | 172,968,100 | $ 1.84 |

Share options granted to employees of 4.0 million (2014: 1.7 million) are anti-dilutive and are excluded from the weighted average number of ordinary shares for the purpose of calculating diluted earnings per share.

## 5. Other Income and Other Expenses

| For years ended December 31 ($ millions) | | 2015 | | 2014 |
|---|---|---|---|---|
| Gain on sale of Uruguay dealership (a) | **$** | **8** | $ | — |
| Total other income | **$** | **8** | $ | — |

(a) On December 1, 2015, the Company sold the shares of its wholly owned subsidiary, Finning Uruguay S.A. (Uruguay dealership) for proceeds of $22 million and received $11 million for the settlement of a payable due to Finning Chile S.A. For the sale of the shares, the Company received $15 million in cash and the remaining balance is recognized as a receivable in the Company's statement of financial position. The sale resulted in a gain of approximately $8 million, including a $4 million reclassification of foreign cumulative translation gains to earnings.

| For years ended December 31 ($ millions) | | 2015 | | 2014 |
|---|---|---|---|---|
| Impairment loss on long-lived assets (b) | **$** | **(24)** | $ | — |
| Provision for onerous contracts and restructuring costs (b) | | **(25)** | | — |
| Acquisition costs (c) | | **(3)** | | — |
| Derecognition of ERP implementation costs (d) | | **—** | | (12) |
| Project costs | | **—** | | (2) |
| Total other expenses | **$** | **(52)** | $ | (14) |

(b) As part of the actions taken by the Company to reduce costs, the Company reduced its global workforce and exited a number of facilities, primarily in its Canadian operations. Impairment losses relate to exited properties that are either owned or on finance lease (Note 16). Provisions are recognized for the unavoidable costs from exited properties that are under an operating lease and for expenditures related to the Company's restructuring plans.

(c) Acquisition costs relate to the acquisition of the operating assets of Kramer Ltd (Note 25).

(d) Following an evaluation of the business needs of the Company's South American operations and a capability analysis, management determined that the implementation of a full ERP system in its South American operations would not occur in the near future. Although existing system maintenance requirements are being reviewed, the delay in the implementation of a full ERP system led to an accounting review and a decision to derecognize the previously capitalized costs of $12 million.

## 6. Short-term and Long-term Debt and Finance Costs

| December 31<br>($ millions) | | 2015 | | 2014 |
|---|---|---|---|---|
| **Short-term debt** | **$** | **117** | $ | 7 |
| **Long-term debt:** | | | | |
| 6.02%, $350 million, due June 1, 2018 | | **350** | | 349 |
| 3.232%, $200 million, due July 3, 2020 | | **199** | | 199 |
| 5.077% $150 million, due June 13, 2042 | | **149** | | 149 |
| 3.98% U.S. $100 million, due January 19, 2022, Series A | | **138** | | 116 |
| 4.08% U.S. $100 million, due January 19, 2024, Series B | | **138** | | 116 |
| 4.18% U.S. $50 million, due April 3, 2022, Series C | | **69** | | 58 |
| 4.28% U.S. $50 million, due April 3, 2024, Series D | | **69** | | 58 |
| 4.53% U.S. $200 million, due April 3, 2027, Series E | | **276** | | 231 |
| 3.40% £70 million, due May 22, 2023, Series F | | **142** | | 126 |
| Other term loans (a) | | **18** | | 16 |
| Total long-term debt | | **1,548** | | 1,418 |
| Non-current portion of long-term debt | **$** | **1,548** | $ | 1,418 |

(a) Other term loans include $14 million (€9 million) (2014: €9 million) of unsecured borrowings under committed bank facilities that are classified as long-term debt. Other term loans also include $4 million (£2 million) (2014: £2 million) of unsecured term loans primarily from supplier merchandising programs.

The Company has an unsecured syndicated committed operating credit facility of up to $1.0 billion. The facility is available in multiple borrowing jurisdictions and may be drawn by a number of the Company's principal operating subsidiaries. Borrowings under this facility are available in multiple currencies and at various floating rates of interest. The facility contains annual options, subject to mutual consent of the syndicate bank lenders and the Company, to extend the maturity date on terms reflecting market conditions at the time of the extension. In October 2015, the Company completed a three-year extension to this facility, extending the maturity date to October 2020 from the previous maturity in September 2017.

### Short-Term Debt

In 2015, short-term debt comprises foreign currency denominated unsecured term loans from supplier merchandising programs of U.S. $6 million (Canadian equivalent $8 million) that matures within one year (2014: U.S. $6 million (Canadian equivalent $7 million)).

The Company maintains a maximum authorized commercial paper program of $600 million which is utilized as the Company's principal source of short-term funding. As at December 31, 2015, there was $109 million of commercial paper outstanding (2014: $nil). This commercial paper program is backstopped by credit available under the $1.0 billion committed credit facility. In addition, the Company maintains certain other committed and uncommitted bank credit facilities, such as overdrafts and letters of credit, to support its subsidiary operations.

The average interest rate applicable to the consolidated short-term debt for 2015 was 2.9% (2014: 5.1%).

### Long-Term Debt

The Company's Canadian dollar denominated Medium Term Notes (MTN) are unsecured, and interest is payable semi-annually with the principal due on maturity.

At December 31, 2015, $14 million (2014: $13 million) was drawn on the global credit facility.

The average interest rate applicable to the consolidated long-term debt for 2015 was 4.5% (2014: 4.5%).

## 6. Short-term and Long-term Debt and Finance Costs (continued)

### Long-Term Debt Repayments

Principal repayments of long-term debt (carrying amount) in each of the next five years and thereafter are as follows:

| December 31<br>($ millions) | | |
|---|---|---|
| 2016 | $ | — |
| 2017 | | — |
| 2018 | | 350 |
| 2019 | | — |
| 2020 | | 214 |
| Thereafter | | 984 |
| | $ | 1,548 |

### Finance Costs

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

| For years ended December 31<br>($ millions) | | **2015** | | 2014 |
|---|---|---|---|---|
| Interest on short-term debt | **$** | **4** | $ | 12 |
| Interest on long-term debt | | **67** | | 63 |
| Interest on debt securities | | **71** | | 75 |
| Gain on foreign currency swap contracts | | **—** | | (4) |
| Net interest cost on post-employment benefit obligations (Note 23) | | **5** | | 5 |
| Other finance related expenses | | **9** | | 9 |
| Finance costs | **$** | **85** | $ | 85 |

## 7. FINANCIAL INSTRUMENTS

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 Annual Information Form, Management's Discussion and Analysis, and Consolidated Financial Statements.

This note presents information about the Company's exposure to credit, liquidity, and market risks and the Company's objectives, policies, and processes for managing these risks.

### (a) Financial Assets and Credit Risk

**Accounting Policy**

Classification and measurement

Cash and cash equivalents, accounts receivable, instalment and other notes receivable, and supplier claims receivable are classified as loans and receivables. They are measured at amortized cost using the effective interest method.

Financial assets that are measured at amortized cost are assessed for impairment at the end of each reporting period. For certain categories of financial assets, such as trade receivables, assets that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include 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 national or local 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 net income. When the Company is satisified that no recovery of the amount owing is possible; at that point the amount is considered not recoverable and the financial asset is written off.

Derivative assets and short-term investments are recorded on the consolidated statement of financial position at fair value.

**Areas of Estimation Uncertainty**

Allowance for Doubtful Accounts

The Company makes estimates for allowances that represent its estimate of potential losses in respect of trade and other receivables and service work in progress. The main components of these allowances are a specific loss component that relates to individually significant exposures, and a collective loss component established for groups of similar assets in respect of losses that may have been incurred but not yet specifically identified. The collective loss allowance is estimated based on historical data of payment statistics for similar financial assets, adjusted for current economic conditions.

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally in respect of the Company's cash and cash equivalents, short-term investments, receivables from customers and suppliers, instalment and other notes receivable, and derivative assets.

## 7. FINANCIAL INSTRUMENTS (CONTINUED )

Exposure to Credit Risk

The carrying amount of financial assets and service work in progress represents the maximum credit exposure. The Company's exposure to credit risk at the reporting date was:

| December 31<br>($ millions) | | 2015 | | 2014 |
|---|---|---|---|---|
| Cash and cash equivalents | **$** | **475** | $ | 450 |
| Accounts receivable – trade | | **725** | | 872 |
| Accounts receivable – other | | **112** | | 100 |
| Service work in progress | | **99** | | 106 |
| Supplier claims receivable | | **76** | | 114 |
| Instalment notes receivable | | **40** | | 50 |
| Short-term investment | | **23** | | — |
| Value Added Tax receivable | | **11** | | 14 |
| Derivative assets | | **7** | | — |
| | **$** | **1,568** | $ | 1,706 |

Cash and Cash Equivalents and Short-Term Investments

Credit risk associated with cash and cash equivalents and short-term investments is managed by ensuring that these financial assets are held with major financial institutions with strong investment grade ratings and by monitoring the exposures with any single institution. An ongoing review is performed to evaluate the changes in the credit rating of counterparties.

Accounts Receivable, Service Work in Progress, and Other Receivables

Accounts receivable comprises trade accounts and non-trade accounts. Service work in progress relates to unbilled work in progress for external customers and represents the costs incurred plus recognized profits, net of any recognized losses and progress billings.

The Company has a large, diversified customer base, and is not dependent on any single customer or group of customers. Credit risk associated with receivables from customers and suppliers is minimized because of the diversification of the Company's operations as well as its large customer base and its geographical dispersion.

The maximum exposure to credit risk for trade receivables at the reporting date by geographic location of customer was:

| December 31<br>($ millions) | | 2015 | | 2014 |
|---|---|---|---|---|
| Canada | **$** | **313** | $ | 417 |
| Chile | | **209** | | 237 |
| U.K. | | **110** | | 113 |
| Argentina | | **66** | | 60 |
| Other | | **27** | | 45 |
| | **$** | **725** | $ | 872 |

## 7. FINANCIAL INSTRUMENTS (CONTINUED )

Impairment Losses

The aging of trade receivables at the reporting date was:

| December 31 | 2015 | | 2014 | |
|---|---|---|---|---|
| ($ millions) | Gross | Allowance | Gross | Allowance |
| Not past due | $ 528 | $ — | $ 611 | $ — |
| Past due 1 – 30 days | 134 | — | 182 | — |
| Past due 31 – 90 days | 53 | 1 | 57 | — |
| Past due 91 – 120 days | 10 | 2 | 10 | 1 |
| Past due greater than 120 days | 23 | 20 | 35 | 22 |
| Total | $ 748 | $ 23 | $ 895 | $ 23 |

The movement in the allowance for doubtful accounts in respect of trade receivables during the year was as follows:

| For years ended December 31<br>($ millions) | 2015 | 2014 |
|---|---|---|
| Balance, beginning of year | $ 23 | $ 25 |
| Additional allowance | 11 | 9 |
| Receivables written off | (14) | (11) |
| Foreign exchange translation adjustment | 3 | — |
| Balance, end of year | $ 23 | $ 23 |

Derivative Assets

The Company does have a certain degree of credit exposure arising from its derivative instruments relating to counterparties defaulting on their obligations. However, the Company minimizes this risk by ensuring there is no excessive concentration of credit risk with any single counterparty, by active credit monitoring, and by dealing primarily with major financial institutions that have a credit rating of at least A from Standard & Poor's and/or Moody's.

### (b) Financial Liabilities and Liquidity Risk

**Accounting Policy**

Classification and measurement

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

Derivative liabilities are recorded on the consolidated statement of financial position at fair value.

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company's approach to managing liquidity is to ensure, as far as possible, that it will have sufficient liquid financial resources to fund its operations and meet its commitments and obligations. Based on this, the Company believes that it has good access to capital markets. The Company maintains bilateral and syndicated bank credit facilities, a commercial paper program, continuously monitors actual and forecast cash flows, and manages maturity profiles of financial liabilities. At December 31, 2015, the Company had approximately $1,926 million (2014: $1,789 million) of unsecured credit facilities. Included in this amount are committed bank facilities totaling $1,125 million (2014: $1,199 million) with various Canadian, U.S., and South American financial institutions. At December 31, 2015, $877 million (2014: $987 million) was available under these committed facilities.

## 7. FINANCIAL INSTRUMENTS (CONTINUED)

The following are the contractual maturities of non-derivative financial liabilities and derivative financial instruments. The amounts presented represent the future undiscounted principal and interest cash flows, and therefore, do not equate to the carrying amount on the consolidated statement of financial position.

| ($ millions) | Carrying amount December 31, 2015 | Contractual cash flows 2016 | 2017-2018 | 2019-2020 | Thereafter |
|---|---|---|---|---|---|
| **Non-derivative financial liabilities** | | | | | |
| Short-term debt | $ (117) | $ (117) | $ — | $ — | $ — |
| Unsecured $700 million MTN | (698) | (35) | (410) | (228) | (314) |
| U.S. $500 million Notes | (690) | (30) | (59) | (59) | (816) |
| £70 million Notes | (142) | (5) | (10) | (10) | (155) |
| Unsecured bank facilities | (14) | — | — | (14) | — |
| Other term loans | (4) | (1) | (1) | (1) | (2) |
| Finance lease obligations | (35) | (6) | (12) | (16) | (16) |
| Accounts payable and accruals (excluding current portion of finance lease obligations) | (797) | (797) | — | — | — |
| Total non-derivative financial liabilities | $ (2,497) | $ (991) | $ (492) | $ (328) | $ (1,303) |
| **Derivatives** | | | | | |
| Forward foreign currency contracts and swaps | | | | | |
| Sell CAD | $ 2 | $ (56) | $ — | $ — | $ — |
| Buy USD | — | 58 | — | — | — |
| Sell CAD | — | (49) | — | — | — |
| Buy USD | — | 49 | — | — | — |
| Sell USD | — | (3) | — | — | — |
| Buy CAD | — | 3 | — | — | — |
| Sell CLP | — | (56) | — | — | — |
| Buy USD | — | 57 | — | — | — |
| Sell USD | (2) | (17) | — | — | — |
| Buy CLP | — | 15 | — | — | — |
| Sell USD | 5 | (24) | — | — | — |
| Buy ARS | — | 21 | — | — | — |
| Total derivatives | $ 5 | $ (2) | $ — | $ — | $ — |

Canadian dollar (CAD), United States dollar (USD), Chilean peso (CLP), Argentine peso (ARS)

## 7. FINANCIAL INSTRUMENTS (CONTINUED)

### (c) Hedging and Market Risk

**Accounting Policy**

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 or not 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 or specific firm commitments or forecasted transactions. For hedges designated as such for accounting purposes, the Company documents and formally assesses, both at inception and on an ongoing basis, whether the hedging instrument is highly effective in offsetting changes in fair value or cash flows associated with the identified hedged items. 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 net income.

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 reclassified and 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 is discontinued or 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 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.

Gains and losses relating to foreign exchange forward contracts 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.

Net Investment Hedges

The Company typically 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 net income upon the disposal of a foreign operation (i.e. a disposal of the Company’s entire interest in a foreign operation, or 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).

## 7. Financial Instruments (continued)

Market risk is the risk that changes in the market, such as foreign exchange rates and interest rates, will affect the Company's income or the fair value of its financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters.

Foreign Exchange Risk

The Company is geographically diversified, with significant investments in several different countries. The Company transacts business in multiple currencies, the most significant of which are the CAD, USD, U.K. pound sterling (GBP), CLP, and ARS.

As a result, the Company has foreign currency exposure with respect to items denominated in foreign currencies. The main types of foreign exchange risk of the Company can be categorized as follows:

*Translation Exposure*

The most significant foreign exchange impact on the Company's other comprehensive income is the translation of foreign currency based earnings and net assets or liabilities into Canadian dollars, which is the Company's presentation currency. The Company's South American and UK & Ireland operations have functional currencies other than the Canadian dollar, and as a result foreign currency gains and losses arise in the cumulative translation adjustment account from the translation of the Company's net investment in these operations. Therefore, exchange rate movements in the USD and GBP relative to the CAD will impact the consolidated results of the South American and UK & Ireland operations in CAD terms. To the extent practical, it is the Company's objective to manage this exposure. The Company has hedged a portion of its foreign investments with foreign currency denominated loans.

The fair value of the Company's long-term debt that is designated as net investment hedging instruments is $813 million (2014: $730 million).

*Transaction Exposure*

The most significant foreign exchange impact on the Company's net income is the purchase, sale, rent, and lease of products as well as costs denominated in currencies other than its functional currency. This mismatch of currencies creates transactional exposure, which may affect the Company's profitability as exchange rates fluctuate. For example, the Company's Canadian operating results are exposed to volatility in foreign exchange rates (USD/CAD) between the timing of equipment and parts purchases and the ultimate sale to customers. A portion of this exposure is hedged through the use of forward exchange contracts as well as managed through pricing practices. In December 2015, the Company started to apply hedge accounting to these hedges of inventory purchases in its Canadian operations. The Company's competitive position may also be impacted as relative currency movements affect the business practices and/or pricing strategies of the Company's competitors.

The results of the Company's operations are impacted by the translation of its foreign-denominated earnings; the results of the Canadian operations are impacted by USD based earnings and the results of the South American operations are impacted by CLP and ARS based revenues and costs. The Company does not hedge its exposure to foreign exchange risk with regard to foreign currency earnings.

The Company is also exposed to currency risks related to the future cash flows on its foreign-denominated financial assets and financial liabilities. The Company enters into forward exchange contracts to manage some mismatches in foreign currency cash flows. Since management does not fully hedge balance sheet exposures, any un-hedged positions result in unrealized foreign exchange gains or losses until the financial assets and financial liabilities are settled.

The fair value of derivative instruments designated as cash flow hedging instruments is $2 million (2014: $4 million).

## 7. FINANCIAL INSTRUMENTS (CONTINUED )

*Exposure to Foreign Exchange Risk*

The currencies of the Company's significant financial instruments were as follows:

| **December 31, 2015 (millions)** | **CAD** | **USD** | **GBP** | **CLP** | **ARS** |
|---|---|---|---|---|---|
| Cash and cash equivalents | **—** | **246** | **30** | **23,403** | **63** |
| Accounts receivable | **256** | **99** | **55** | **107,158** | **—** |
| Short-term and long-term debt | **(822)** | **(504)** | **(72)** | **—** | **—** |
| Accounts payable and accruals | **(210)** | **(129)** | **(70)** | **(121,866)** | **(166)** |
| Net statement of financial position exposure | **(776)** | **(288)** | **(57)** | **8,695** | **(103)** |
| Foreign exchange forward contracts and swaps | **102** | **104** | **—** | **21** | **—** |

| December 31, 2014 (millions) | CAD | USD | GBP | CLP | ARS |
|---|---|---|---|---|---|
| Cash and cash equivalents | 170 | 146 | 21 | 23,403 | 131 |
| Accounts receivable | 378 | 112 | 64 | 124,113 | — |
| Short-term and long-term debt | (698) | (504) | (72) | — | — |
| Accounts payable and accruals | (373) | (190) | (81) | (123,748) | (136) |
| Net statement of financial position exposure | (523) | (436) | (68) | 23,768 | (5) |
| Foreign exchange forward contracts and swaps | (136) | 105 | — | (5,423) | — |

*Sensitivity Analysis to Foreign Exchange Risk*

As a result of foreign exchange gains or losses on the translation of foreign currency denominated financial instruments, a 5% weakening of the CAD against the following currencies would increase (decrease) pre-tax income and other comprehensive income by the amounts shown below. This analysis assumes that all other variables, in particular volumes, relative pricing, interest rates, and hedging activities are unchanged.

| **December 31, 2015 ($ millions)** | **Income** | **Other Comprehensive Income** |
|---|---|---|
| CAD/USD | **$ 6** | **$ (35)** |
| CAD/GBP | **$ —** | **$ (7)** |
| CAD/CLP | **$ 1** | **$ —** |
| CAD/ARS | **$ (1)** | **$ —** |

A 5% strengthening of the CAD against the above currencies relative to the December 31, 2015 month end rates would have an equivalent but opposite effect on the above accounts in the amounts shown on the basis that all other variables are unchanged.

## 7. FINANCIAL INSTRUMENTS (CONTINUED )

Interest Rate Risk

Changes in market interest rates will cause fluctuations in the fair value or future cash flows of financial instruments.

The Company is exposed to changes in interest rates on its interest bearing financial assets including cash and cash equivalents and instalment and other notes receivable. The short-term nature of investments included in cash and cash equivalents limits the impact to fluctuations in fair value, but interest income earned will be impacted. Instalment and other notes receivable bear interest at a fixed rate thus their fair value will fluctuate prior to maturity but, absent monetization, future cash flows do not change.

The Company is exposed to changes in interest rates on its interest bearing financial liabilities, primarily from short-term and long-term debt. The Company's debt portfolio comprises both fixed and floating rate debt instruments, with terms to maturity ranging up to June 2042. Floating rate debt, due to its short-term nature, exposes the Company to limited fluctuations in changes to fair value, but finance expense and cash flows will increase or decrease as interest rates change.

The fair value of the Company's fixed rate debt obligations fluctuate with changes in interest rates, but absent early settlement, related cash flows do not change. The Company is exposed to changes in future interest rates upon refinancing of any debt prior to or at maturity.

The Company manages its interest rate risk by balancing its portfolio of fixed and floating rate debt, as well as managing the term to maturity of its debt portfolio. At certain times the Company may utilize derivative instruments such as interest rate swaps to adjust the balance of fixed and floating rate debt.

*Profile*

At the reporting date the interest rate profile of the Company's interest-bearing financial instruments are as follows:

| **December 31**<br>**($ millions)** | **2015** | 2014 |
|---|---|---|
| **Fixed rate instruments** | | |
| Financial assets | **$ 40** | $ 50 |
| Financial liabilities | **(1,566)** | (1,421) |
| **Variable rate instruments** | | |
| Financial assets | **$ 475** | $ 450 |
| Financial liabilities | **(135)** | (24) |

*Fair Value Sensitivity Analysis for Fixed Rate Instruments*

The Company does not account for any fixed rate financial assets and liabilities at fair value through the income statement, and the Company does not currently have any derivatives designated as hedging instruments under a fair value hedge accounting model, or any derivative interest rate instruments for which fair value changes are recognized in other comprehensive income. Therefore a change in interest rates at the reporting date would not affect net income or other comprehensive income.

*Pre-tax Income Sensitivity Analysis for Variable Rate Instruments*

The Company's variable rate instruments are in a net asset position; therefore, an increase of 1.0% in interest rates for a full year relative to the interest rates at the reporting date would have increased income by approximately $3 million with a 1.0% decrease having the opposite effect. This analysis assumes that all other variables, in particular foreign currency exchange rates, remain constant.

## 7. FINANCIAL INSTRUMENTS (CONTINUED )

### (d) Fair Values

Financial instruments measured at fair value are grouped into Levels 1 to 3 based on the degree to which fair value is observable:

Level 1 – quoted prices in active markets for identical securities
Level 2 – significant observable inputs other than quoted prices included in Level 1
Level 3 – significant unobservable inputs

The Company's only financial instruments measured at fair value are derivative instruments, short-term investments, and contingent consideration. All of the derivative instruments are measured at fair value using Level 2 inputs. Contingent consideration is measured at fair value using Level 3 inputs. The Company did not move any instruments between levels of the fair value hierarchy during the years ended December 31, 2015 and 2014.

Derivative Instruments and Short-Term Investments (Level 2)

The fair value of foreign currency forward contracts is determined by discounting contracted future cash flows using a discount rate derived from swap curves for comparable assets and liabilities. Contractual cash flows are calculated using a forward price at the maturity date derived from observed forward prices.

The fair values of other derivative instruments and short-term investments are determined using present value techniques applied to estimated future cash flows. These techniques utilize a combination of quoted prices and market observable inputs. Where appropriate, fair values are adjusted for credit risk based on observed credit default spreads or fair market yield curves for counterparties for financial assets and based on the Company's credit risk when for financial liabilities. The Company's credit risk is derived from yield spreads on the Company's market quoted debt.

Contingent Consideration (Level 3)

The fair value of the contingent consideration of $6 million (£3 million) was estimated by discounting cash flows based on probability-adjusted profit in SITECH (Note 25).

Long-Term Debt

The carrying value and fair value of the Company's long-term debt is estimated as follows:

| December 31 | 2015 | | 2014 | |
|---|---|---|---|---|
| ($ millions) | **Carrying Value** | **Fair Value** | Carrying Value | Fair Value |
| Long-term debt | **$ 1,548** | **$ 1,578** | $ 1,418 | $ 1,512 |

The fair value of the Company's long-term debt is based on the present value of future cash flows required to settle the debt which is derived from the actual interest accrued to date. The present value of future cash flows is discounted using the yield to maturity rate as at the measurement date. This technique utilizes a combination of quoted prices and market observable inputs (Level 2).

Accounts Receivable, Instalment Notes Receivables, Short-Term Debt, and Accounts Payable

The recorded values of accounts receivable, instalment notes receivable, short-term debt, and accounts payable approximate their fair values due to the short-term maturities of these instruments.

## 8. MANAGEMENT OF CAPITAL

The Company's objective when managing capital is to maintain a flexible capital structure which optimizes the cost of capital at an acceptable risk. The Company includes cash and cash equivalents, short-term debt and long-term debt, and shareholders' equity in the definition of capital.

The Company manages its capital structure and makes adjustments to it in light of actual and forecast cash flows, actual and anticipated capital expenditures and investments, changes in economic conditions and the risk characteristics of its underlying assets. In order to maintain or adjust the capital structure, the Company may purchase shares for cancellation pursuant to normal course issuer bids, issue new shares, issue new debt, repay debt, issue new debt to replace existing debt with different characteristics, or adjust the amount of dividends paid to shareholders. During the year ended December 31, 2015, the Company launched a Normal Course Issuer Bid and repurchased 4.4 million Finning common shares for cancellation at an average cost of $20.75 per share.

The Company monitors net debt to invested capital. The Company's target range at December 31, 2015 is shown below. The Company's strategy is to meet target ranges over a longer-term average basis. Management is currently in the process of reviewing its target ranges to ensure they continue to be appropriate and help to support access to capital at a reasonable cost.

| **As at and for years ended December 31** | **Company Targets** | **2015** | 2014 |
|---|---|---|---|
| Net debt to invested capital | **35 – 45%** | **36.7%** | 31.4% |

Net debt to invested capital is calculated as net debt divided by invested capital. 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.

| **December 31 ($ millions)** | **2015** | 2014 |
|---|---|---|
| Cash and cash equivalents | **$ (475)** | $ (450) |
| Short-term debt | **117** | 7 |
| Long-term debt | **1,548** | 1,418 |
| Net debt | **1,190** | 975 |
| Shareholders' equity | **2,050** | 2,131 |
| Invested capital | **$ 3,240** | $ 3,106 |

### Covenant

The Company is subject to a maximum net debt to invested capital level of 62.5% pursuant to a covenant within its syndicated bank credit facility. As at December 31, 2015 and 2014, the Company is in compliance with this covenant.

## 9. SHARE CAPITAL

### Accounting Policy

Common shares repurchased by the Company are recognized as a reduction in share capital and contributed surplus (and retained earnings once contributed surplus is fully drawn down) on the date of repurchase. A liability is recognized for any committed repurchases but not yet settled at a reporting period end with a corresponding reduction in contributed surplus (or retained earnings). The cash consideration paid to repurchase shares is presented as a financing activity in the Statement of Cash Flows. Details of the transaction (number of shares repurchased and amount deducted from equity) are disclosed in the Statement of Shareholder's Equity.

The Company is authorized to issue an unlimited number of preferred shares without par value, of which 4.4 million are designated as cumulative redeemable preferred shares. The Company had no preferred shares outstanding for the years ended December 31, 2015 and 2014.

The Company is authorized to issue an unlimited number of common shares. All issued shares have no par value and are fully paid.

A shareholders' rights plan is in place which is intended to provide all holders of common shares with the opportunity to receive full and fair value for all of their shares in the event a third party attempts to acquire a significant interest in the Company. The Company's dealership agreements with subsidiaries of Caterpillar Inc. (Caterpillar) are fundamental to its business and a change in control of Finning, which significantly impacts the Company, may result in Caterpillar exercising its right to terminate those dealership agreements.

The plan provides that one share purchase right has been issued for each common share and will trade with the common shares until such time as any person or group, other than a "permitted bidder", bids to acquire or acquires 20% or more of the Company's common shares, at which time the plan rights become exercisable. The rights may also be triggered by a third party proposal for a merger, amalgamation or a similar transaction. In May 2014, the rights plan was extended for three years such that it will automatically terminate at the end of the Company's Annual Meeting of shareholders in 2017 unless further extended by the shareholders prior to that time.

The plan will not be triggered if a bid meets certain criteria (a permitted bid). These criteria include that:

- the offer is made for all outstanding voting shares of the Company;
- more than 50% of the voting shares have been tendered by independent shareholders pursuant to the bid (voting shares tendered may be withdrawn until taken up and paid for); and
- the bid expires not less than 60 days after the date of the bid circular.

## 10. SHARE-BASED PAYMENTS

### Accounting Policy

The Company has share option plans and other share-based compensation plans for directors and certain eligible employees. Total Shareholder Return Performance Share Units are measured at fair value using the Monte Carlo model and all other share-based awards are measured at fair value using the Black-Scholes model.

For equity settled share-based payments, fair value is determined on the grant date of the share option and recorded over the vesting period, based on the Company's estimate of options that will vest, with a corresponding increase to contributed surplus. When share options are exercised, the proceeds received by the Company, together with any related amount recorded in contributed surplus, are credited to share capital.

Cash settled share-based compensation plans are recognized as a liability. Compensation expense which arises from vesting and fluctuations in the fair value of the Company's cash settled share-based compensation plans is recognized in selling, general, and administrative expense in the consolidated statement of income with the corresponding liability recorded on the consolidated statement of financial position in long-term obligations.

### Areas of Estimation Uncertainty

The Company uses inputs in the option pricing models to determine the fair value of certain share-based payments. Inputs to the model are subject to various estimates relating to volatility, interest rates, dividend yields and expected life of the units issued. Fair value inputs are subject to market factors as well as internal estimates. The Company considers historic trends together with any new information to determine the best estimate of fair value at the date of grant. Separate from the fair value calculation, the Company is required to estimate the expected forfeiture rate of equity-settled share-based payments. The Company has assessed forfeitures to be insignificant based on the underlying terms of its payment plans.

In 2015 and 2014, long-term incentives for executives and senior management were a combination of share options, performance share units, and deferred share units.

### Share Options

The Company has one share option plan for certain employees with vesting occurring over a three-year period. The exercise price of each option is based on the weighted average trading price of the common shares of the Company on the date prior to the grant. Options granted after January 1, 2004 are exercisable over a seven-year period. Options granted prior to January 1, 2004 were exercisable over a ten-year period. Under the 2005 Stock Option Plan, the Company may issue up to 7.5 million common shares pursuant to the exercise of share options. At December 31, 2015, 1 million common shares remain eligible to be issued in connection with future grants under this Stock Option Plan.

Details of the share option plans are as follows:

| | **2015** | | 2014 | |
|---|---|---|---|---|
| **For years ended December 31** | **Options** | **Weighted Average Exercise Price** | Options | Weighted Average Exercise Price |
| Options outstanding, beginning of year | **4,225,873** | **$ 24.65** | 5,684,770 | $ 24.93 |
| Granted | **1,618,180** | **$ 25.33** | 1,020,100 | $ 29.23 |
| Exercised (a) | **(139,880)** | **$ 15.57** | (1,654,280) | $ 25.22 |
| Forfeited | **(533,484)** | **$ 27.79** | (824,717) | $ 31.09 |
| Options outstanding, end of year | **5,170,689** | **$ 24.78** | 4,225,873 | $ 24.65 |
| Exercisable at end of year | **2,567,826** | **$ 23.78** | 2,020,477 | $ 23.24 |

(a) Share options exercised in 2015 comprised both cash and cashless exercises. Under the 2005 Stock Option Plan, exercises generally utilize the cashless method, whereby the actual number of shares issued is represented by 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. 139,880 options were exercised in 2015 under the 2005 Stock Option Plan resulting in 44,343 common shares issued; 95,537 options were withheld and returned to the option pool for future issues/grants.

## 10. SHARE-BASED PAYMENTS (CONTINUED )

In 2015, the Company granted 1,618,180 common share options to senior executives and management of the Company (2014: 1,020,100 common share options). The Company's practice is to grant and price share options only when it is felt that all material information has been disclosed to the market.

The fair value of the options granted has been estimated on the date of grant using the following weighted-average assumptions:

| | **2015 Grant** | 2014 Grant |
|---|---|---|
| Dividend yield | **2.33%** | 2.39% |
| Expected volatility [(1)] | **29.09%** | 33.82% |
| Risk-free interest rate | **1.16%** | 1.65% |
| Expected life | **5.39 years** | 5.59 years |

[(1)] Expected volatility is based on historical share price volatility of Finning shares

The weighted average grant date fair value of options granted during the year was $5.42 (2014: $7.58).

The following table summarizes information about share options outstanding at December 31, 2015:

| | **Options Outstanding** | | | **Options Exercisable** | |
|---|---|---|---|---|---|
| **Range of exercise prices** | **Number outstanding** | **Weighted Average Remaining Life** | **Weighted Average Exercise Price** | **Number Outstanding** | **Weighted Average Exercise Price** |
| **$14.64 - $18.59** | **445,697** | **1.00 years** | **$ 16.35** | **445,697** | **$ 16.35** |
| **$18.60 - $25.52** | **3,299,466** | **5.13 years** | **$ 24.27** | **1,358,510** | **$ 23.68** |
| **$25.53 - $29.06** | **518,009** | **3.24 years** | **$ 27.48** | **459,676** | **$ 27.67** |
| **$29.07 - $30.72** | **876,987** | **5.39 years** | **$ 29.17** | **293,767** | **$ 29.17** |
| **$30.73 - $32.38** | **30,530** | **5.55 years** | **$ 31.09** | **10,176** | **$ 31.09** |
| | **5,170,689** | **4.63 years** | **$ 24.78** | **2,567,826** | **$ 23.78** |

### Other Share-Based Payment Plans

The Company has other share-based payment plans in the form of deferred share units and performance share units that use notional common share units.

Details of the plans are as follows:

Directors

*Directors' Deferred Share Unit Plan A (DDSU)*

The Company offers a Directors' Deferred Share Unit Plan (DDSU) for members of the Board of Directors. Under the DDSU Plan, non-employee Directors of the Company may also elect to allocate all or a portion of their annual compensation as deferred share units. These units are fully vested upon issuance. These units accumulate dividend equivalents in the form of additional units based on the dividends paid on the Company's common shares.

Units are redeemable for cash or shares only following cessation of service on the Board of Directors and must be redeemed by December 31st of the year following the year in which the cessation occurred. The value of the deferred share units when converted to cash will be equivalent to the market value of the Company's common shares at the time the conversion takes place.

Non-employee Directors of the Company were granted a total of 36,451 share units in 2015 (2014: 32,709 share units), and expensed over the calendar year as the units were issued. An additional 28,133 (2014: 12,124) DDSUs were issued in lieu of cash compensation payable for service as a Director. A further 9,310 (2014: 6,952) DDSUs were granted to Directors during 2015 as payment for notional dividends.

## 10. SHARE-BASED PAYMENTS (CONTINUED)

Executive

*Deferred Share Unit Plan B (DSU-B)*

Under the DSU-B Plan, executives of the Company may be awarded deferred share units as approved by the Board of Directors. This plan utilizes notional units that may become vested in accordance with terms set at the time of grant. Vested deferred share units are redeemable for a period of 30 days after cessation of employment, or by December 31st of the year following the year of retirement, death, or disability. The notional deferred share units that have not vested within five years from the date that they were granted expire. Only vested units accumulate dividend equivalents in the form of additional units based on the dividends paid on the Company's common shares.

During 2015, 8,544 (2014: 5,825) DSU-Bs were granted to Executives as payment for notional dividends.

*Performance Share Unit Plan (PSU)*

Under the 2015 and 2014 PSU Plan, executives of the Company were awarded performance share units as approved by the Board of Directors. This plan utilizes notional units that become vested dependent on achieving future specified performance levels. All PSUs granted in 2014 and 2015 were divided equally into two categories. Half of the awards are based on the extent to which the Company's average return on invested capital achieves or exceeds the specified performance levels over a three-year period (ROIC PSUs). The remaining half of the awards is based on the performance of the Company's share price over the three-year period relative to the performance of the share prices of all companies in the S&P/TSX Capped Industrials Index (TSR PSUs). Under the PSU Plan prior to 2014, awards vested based on the extent to which the Company's average return on equity achieved or exceeded the specified performance levels over a three-year period.

Vested performance share units are redeemable in cash based on the common share price at the end of the performance period. Executives of the Company were granted a total of 451,450 performance share units in 2015, based on 100% vesting (2014: 341,610 performance share units).

Compensation expense for the PSU Plan is recorded over the three-year performance period. The amount of compensation expense is adjusted over the three-year performance period to reflect the fair value of the PSU units and the number of PSU units anticipated to vest.

The specified levels and respective vesting percentages for the 2015 and 2014 grant are as follows:

TSR PSUs

| Percentile Rank | < 25th Percentile | 25th Percentile | 50th Percentile | 75th Percentile | 100th Percentile |
|---|---|---|---|---|---|
| TSR PSUs Vested | 0% | 50% | 100% | 150% | 200% |

ROIC PSUs

The specified levels and respective vesting percentages for the 2015 grant are as follows:

| Performance Level | Average Return on Invested Capital (over three-year period) | Proportion of PSUs Vesting |
|---|---|---|
| Below Threshold | < 15.5% | Nil |
| Threshold | 15.5% | 50% |
| Target | 16.5% | 100% |
| Maximum | 18.5% or more | 200% |

The specified levels and respective vesting percentages for the 2014 grant are as follows:

| Performance Level | Average Return on Invested Capital (over three-year period) | Proportion of PSUs Vesting |
|---|---|---|
| Below Threshold | < 17% | Nil |
| Threshold | 17% | 50% |
| Target | 18.5% | 100% |
| Maximum | 21.5% or more | 200% |

**10. SHARE-BASED PAYMENTS (CONTINUED )**

Details of the deferred share unit and performance share unit plans are as follows:

| **For year ended December 31, 2015**<br>**Units** | **DSU-B** | **DDSU** | **PSU** | **Total** |
|---|---|---|---|---|
| Outstanding, beginning of year | **273,587** | **313,324** | **521,566** | **1,108,477** |
| Additions (decreases) [(1)] | **8,544** | **73,885** | **(351,668)** | **(269,239)** |
| Exercised | **(9,389)** | **(110,066)** | **—** | **(119,455)** |
| Forfeited | **—** | **—** | **(6,454)** | **(6,454)** |
| Outstanding, end of year | **272,742** | **277,143** | **163,444** | **713,329** |
| | | | | |
| Vested, beginning of year | **251,746** | **313,324** | **—** | **565,070** |
| Vested | **21,853** | **73,885** | **—** | **95,738** |
| Exercised | **(9,389)** | **(110,066)** | **—** | **(119,455)** |
| Vested, end of year | **264,210** | **277,143** | **—** | **541,353** |

| **Liability**<br>**($ millions)** | | | | |
|---|---|---|---|---|
| Balance, beginning of year | **$ 6** | **$ 7** | **$ 7** | **$ 20** |
| Recovery | **(1)** | **—** | **(5)** | **(6)** |
| Exercised | **—** | **(3)** | **—** | **(3)** |
| Forfeited | **—** | **—** | **—** | **—** |
| Balance, end of year | **$ 5** | **$ 4** | **$ 2** | **$ 11** |

| For year ended December 31, 2014<br>Units | DSU-B | DDSU | PSU | Total |
|---|---|---|---|---|
| Outstanding, beginning of year | 267,762 | 316,939 | 1,007,672 | 1,592,373 |
| Additions (decreases) [(1)] | 5,825 | 51,785 | (136,595) | (78,985) |
| Exercised | — | (55,400) | (340,893) | (396,293) |
| Forfeited | — | — | (8,618) | (8,618) |
| Outstanding, end of year | 273,587 | 313,324 | 521,566 | 1,108,477 |
| | | | | |
| Vested, beginning of year | 241,655 | 316,939 | — | 558,594 |
| Vested | 10,091 | 51,785 | 340,893 | 402,769 |
| Exercised | — | (55,400) | (340,893) | (396,293) |
| Vested, end of year | 251,746 | 313,324 | — | 565,070 |

| Liability<br>($ millions) | | | | |
|---|---|---|---|---|
| Balance, beginning of year | $ 6 | $ 8 | $ 12 | $ 26 |
| Expense | — | 1 | 4 | 5 |
| Exercised | — | (2) | (9) | (11) |
| Forfeited | — | — | — | — |
| Balance, end of year | $ 6 | $ 7 | $ 7 | $ 20 |

[(1)] The unit adjustment for PSUs (based on the performance level) is a decrease of 483,825 units for the year ended December 31, 2015 (2014: 338,497 units).

## 10. SHARE-BASED PAYMENTS (CONTINUED)

The fair value of the DSU-B, DDSU, and PSU units outstanding has been estimated using the following weighted-average assumptions:

| **December 31, 2015** | **DSU-B** | **DDSU** | **PSU** |
|---|---|---|---|
| Dividend yield | **2.43%** | **2.43%** | **2.69%** |
| Expected volatility | **29.65%** | **29.57%** | **27.98%** |
| Risk-free interest rate | **0.87%** | **0.88%** | **0.49%** |
| Expected life | **5.92 years** | **6.04 years** | **3.00 years** |
| Share price at December 31, 2015 | **$ 18.68** | **$ 18.68** | **$ 18.68** |
| Estimated fair value per unit at year-end | **$ 16.18** | **$ 16.13** | **$ 22.91** |

| December 31, 2014 | DSU-B | DDSU | PSU |
|---|---|---|---|
| Dividend yield | 2.35% | 2.26% | 2.34% |
| Expected volatility | 34.59% | 28.64% | 26.54% |
| Risk-free interest rate | 1.47% | 1.34% | 1.07% |
| Expected life | 6.77 years | 4.87 years | 3.00 years |
| Share price at December 31, 2014 | $ 25.23 | $ 25.23 | $ 25.23 |
| Estimated fair value per unit at year-end | $ 21.52 | $ 22.60 | $ 23.52 |

The impact of the share-based payment plans on the Company's financial statements is as follows:

| **For years ended December 31 ($ millions)** | **2015** | 2014 |
|---|---|---|
| **Consolidated statement of income** | | |
| Compensation expense arising from equity-settled share option incentive plan | **$ 7** | $ 9 |
| Compensation (recovery) expense arising from cash-settled share based payments | **(6)** | 5 |
| Impact of variable rate share forward contract | **—** | (4) |
| | **$ 1** | $ 10 |
| **Consolidated statement of financial position** | | |
| Current liability for cash-settled share-based payments | **$ —** | $ 5 |
| Non-current liability for cash-settled share-based payments (to be incurred within 1-5 years) (Note 22) | **11** | 15 |

The total intrinsic value of vested but not settled share-based payments was $10 million (2014: $14 million).

## 11. INVENTORIES

**Accounting Policy**

Inventories are assets held for sale in the ordinary course of business, in the process of production for sale, or in the form of materials or supplies to be consumed in the production process or in the rendering of services. Inventories are stated at the lower of cost and net realizable value. Cost is determined on a specific item basis for on-hand equipment, and on a weighted average cost basis for parts and supplies. The cost of inventories includes all costs of purchase, conversion costs, and other costs incurred in bringing inventories to their existing location and condition. In the case of internal service work in progress on equipment, cost includes an appropriate share of overhead costs based on normal operating capacity.

**Areas of Estimation Uncertainty**

The Company makes estimates of the provision required to reflect slow-moving and obsolescence of inventory. These estimates are determined on the basis of age, redundancy, and stock levels. For equipment inventory, estimates are determined on a specific item basis.

| **December 31**<br>**($ millions)** | | **2015** | | 2014 |
|---|---|---|---|---|
| On-hand equipment | **$** | **930** | $ | 782 |
| Parts and supplies | | **660** | | 674 |
| Internal service work in progress | | **210** | | 205 |
| | **$** | **1,800** | $ | 1,661 |

For the year ended December 31, 2015, on-hand equipment, parts, supplies, and internal service work in progress recognized as an expense in cost of sales amounted to $4,027 million (2014: $4,489 million). For the year ended December 31, 2015, the write-down of inventories to net realizable value, included in cost of sales, amounted to $84 million (2014: $52 million).

## 12. POWER SYSTEMS CONSTRUCTION CONTRACTS

**Accounting Policy**

Revenue from sales of equipment includes construction contracts with customers that involve the design, installation, and assembly of power and energy equipment systems. Revenue is recognized on a percentage of completion basis proportionate to the work that has been completed which is based on associated costs incurred, except where this would not be representative of the stage of completion (when revenue is recognized in accordance with the specific acts outlined in the contract). If it is expected that the overall contract will incur a loss, this loss is recognized immediately in the income statement.

Periodically, amounts are received from customers under long-term contracts in advance of the associated contract work being performed. These amounts are recorded on the consolidated statement of financial position as deferred revenue.

Information about the Company's long-term power system construction contracts is summarized below:

| **December 31**<br>**($ millions)** | | **2015** | | 2014 |
|---|---|---|---|---|
| Aggregate of contract costs for contracts in progress | **$** | **369** | $ | 222 |
| Aggregate of profits for contracts in progress | **$** | **31** | $ | 29 |
| Advances from customers under construction contracts | **$** | **(2)** | $ | (14) |
| Amounts due from customers under construction contracts | **$** | **38** | $ | 42 |
| Amounts due to customers under construction contracts | **$** | **(3)** | $ | (6) |
| Retentions held by customers for contract work | **$** | **2** | $ | 2 |

For the year ended December 31, 2015, the amount of contract revenue recognized in the year was $154 million (2014: $156 million).

## 13. INCOME TAXES

### Accounting Policy

The balance sheet liability method of tax allocation is used in accounting for income taxes. Under this method, the carry forward of unused tax losses and unused tax credits and the temporary differences arising from the difference between the tax basis of an asset and a liability and its carrying amount on the statement of financial position are used to calculate deferred tax assets or liabilities. Deferred tax liabilities are recognized for all taxable temporary differences and deferred tax assets are recognized to the extent that it is probable that taxable profits will be available against which the carry forward of unused tax losses, unused tax credits, and the deductible temporary differences can be utilized. Such deferred tax assets and liabilities are not recognized if the temporary difference arises from the initial recognition of goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither taxable profit nor the accounting profit. Deferred tax liabilities are recognized for taxable temporary differences associated with investments in subsidiaries and associates, and interests in joint ventures, except where the Company is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets or liabilities are calculated using tax rates anticipated to be in effect in the periods that the asset is expected to be realized or the liability is expected to be settled based on the laws that have been enacted or substantively enacted by the reporting date. The effect of a change in income tax rates on deferred tax assets and liabilities is recognized in income and/or equity in the period that the change becomes enacted or substantively enacted.

The charge for current tax is based on the results for the year as adjusted for items which are non-assessable or disallowed using tax rates enacted or substantively enacted by the statement of financial position date.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Company intends to settle its tax assets and liabilities on a net basis.

Current and deferred tax are recognized in net income, except when they relate to items that are recognized in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognized in other comprehensive income or directly in equity, respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination. The Company records the deferred tax impact of foreign exchange gains or losses arising on the translation of foreign denominated non-monetary assets and non-monetary liabilities in provision for income tax in the consolidated statement of income.

### Areas of Estimation Uncertainty

Estimations of the tax asset or liability require assessments to be made based on the potential tax treatment of certain items that will only be resolved once finally agreed with the relevant tax authorities.

Assumptions underlying the composition of deferred tax assets and liabilities include estimates of future results of operations and the timing of reversal of temporary differences as well as the substantively enacted tax rates and laws in each respective jurisdiction at the time of the expected reversal. The composition of deferred tax assets and liabilities change from period to period due to the uncertainties surrounding these assumptions and changes in tax rates or regimes could have a material adverse effect on expected results.

### Areas of Significant Judgment

Judgment is required as income tax laws and regulations can be complex and are potentially subject to different interpretation between the Company and the respective tax authority. Due to the number of variables associated with the differing tax laws and regulations across the multiple jurisdictions the Company operates in, the precision and reliability of the resulting estimates are subject to uncertainties and may change as additional information becomes known. Net income in subsequent periods may be impacted by the amount that estimates differ from the final tax return.

## 13. INCOME TAXES (CONTINUED )

### Provision for Income Taxes

The components of the Company's income tax provision are as follows:

| **For year ended December 31, 2015 ($ millions)** | | **Canada** | | **International** | | **Total** |
|---|---|---|---|---|---|---|
| Current | **$** | **(3)** | **$** | **45** | **$** | **42** |
| Adjustment for prior periods recognized in the current year | | **3** | | **(1)** | | **2** |
| Total current tax | | **—** | | **44** | | **44** |
| Deferred | | | | | | |
| Origination and reversal of timing differences | | **(6)** | | **(56)** | | **(62)** |
| Increase due to tax rate changes | | **2** | | **(12)** | | **(10)** |
| Adjustment for prior periods recognized in the current year | | **(3)** | | **2** | | **(1)** |
| Total deferred tax | | **(7)** | | **(66)** | | **(73)** |
| Recovery of income taxes | **$** | **(7)** | **$** | **(22)** | **$** | **(29)** |

| For year ended December 31, 2014 ($ millions) | | Canada | | International | | Total |
|---|---|---|---|---|---|---|
| Current | $ | 27 | $ | 34 | $ | 61 |
| Adjustment for prior periods recognized in the current year | | (5) | | (2) | | (7) |
| Total current tax | | 22 | | 32 | | 54 |
| Deferred | | | | | | |
| Origination and reversal of timing differences | | 23 | | 11 | | 34 |
| Increase due to tax rate changes | | — | | 7 | | 7 |
| Adjustment for prior periods recognized in the current year | | 5 | | 1 | | 6 |
| Total deferred tax | | 28 | | 19 | | 47 |
| Provision for income taxes | $ | 50 | $ | 51 | $ | 101 |

The provision for income taxes differs from the amount that would have resulted from applying the Canadian statutory income tax rates to income before income taxes as follows:

| **For years ended December 31 ($ millions)** | | **2015** | | | 2014 | |
|---|---|---|---|---|---|---|
| Combined Canadian federal and provincial income taxes at the statutory tax rate | **$** | **(50)** | **26.1%** | $ | 106 | 25.3% |
| Increase (decrease) resulting from: | | | | | | |
| Lower statutory rates on the earnings of foreign subsidiaries | | **(3)** | **1.4%** | | (13) | (3.0)% |
| Income not subject to tax | | **(3)** | **1.9%** | | (8) | (1.8)% |
| Changes in statutory tax rates | | **(10)** | **5.5%** | | 7 | 1.7% |
| Non-deductible goodwill impairment loss | | **16** | **(8.1)%** | | — | — |
| Non-deductible share-based payment expense | | **2** | **(1.1)%** | | 2 | 0.4% |
| Non-taxable capital gain | | **—** | **—** | | (1) | (0.2)% |
| Recognition of capital tax losses | | **(12)** | **6.4%** | | — | — |
| Unrecognized intercompany profits | | **1** | **(0.3)%** | | 3 | 0.6% |
| Non-taxable/non-deductible foreign exchange in Argentina | | **25** | **(13.2)%** | | 15 | 3.5% |
| Inflationary adjustment | | **—** | **—** | | (9) | (2.2)% |
| Other | | **5** | **(2.9)%** | | (1) | (0.2)% |
| (Recovery) provision for income taxes | **$** | **(29)** | **15.7%** | $ | 101 | 24.1% |

## 13. INCOME TAXES (CONTINUED)

In addition to the increased combined statutory Canadian federal and provincial income tax rate referred to above, the Company recognized the impact of the following substantively enacted corporate income tax rate changes:

- In July 2015, the Alberta provincial government increased the provincial corporate income tax rate from 10% to 12% effective July 1, 2015
- In November, 2015, UK government reduced its corporate tax rate from 20% to 19% effective April 1, 2017 and 18% effective April 1, 2020

**Deferred Tax Asset and Liability**

Temporary differences and tax loss carry-forwards that give rise to deferred tax assets and liabilities are as follows:

| **December 31<br>($ millions)** | **2015** | 2014 |
|---|---|---|
| **Deferred tax assets:** | | |
| Accounting provisions not currently deductible for tax purposes | **$ 56** | $ 41 |
| Employee benefits | **17** | 32 |
| Share-based payments | **1** | 3 |
| Loss carry-forwards | **6** | 3 |
| | **80** | 79 |
| **Deferred tax liabilities:** | | |
| Property, plant and equipment, rental, leased, and other intangible assets | **(45)** | (45) |
| Distribution network | **(9)** | (61) |
| Other | **(5)** | (4) |
| | **(59)** | (110) |
| Net deferred tax asset (liability) | **$ 21** | $ (31) |

Deferred taxes are not recognized on retained profits of approximately $1.6 billion (2014: $1.5 billion) of foreign subsidiaries, as it is the Company's intention to invest these profits to maintain and expand the business of the relevant companies.

The Company has recognized the benefit of the following tax loss carry-forwards available to reduce future taxable income of which $17 million do not expire and $5 million expire in 2018.

| **December 31<br>($ millions)** | **2015** | 2014 |
|---|---|---|
| International | **$ 22** | $ 11 |

As at December 31, 2015, the Company has unrecognized net operating losses and capital loss carry-forwards of $6 million and $74 million, respectively, to reduce future taxable income. These amounts do not expire.

The tax expense (recovery) relating to components of other comprehensive income is as follows:

| **For years ended December 31<br>($ millions)** | **2015** | 2014 |
|---|---|---|
| Current tax | **$ 10** | $ — |
| Deferred tax | **16** | (6) |
| Tax expense (recovery) recognized in other comprehensive income | **$ 26** | $ (6) |

## 14. Other Assets

| December 31<br>($ millions) | | 2015 | | 2014 |
|---|---|---|---|---|
| Supplier claims receivable | **$** | **76** | $ | 114 |
| Equipment deposits | | **28** | | 45 |
| Prepaid expenses | | **48** | | 43 |
| Current portion of finance assets | | **35** | | 44 |
| Short-term investments | | **23** | | — |
| Value Added Tax receivable | | **11** | | 14 |
| Income tax recoverable | | **1** | | 13 |
| Derivative assets | | **7** | | — |
| Indemnification asset (a) | | **6** | | 6 |
| Other | | **14** | | 9 |
| Total other assets - current | **$** | **249** | $ | 288 |

| December 31<br>($ millions) | | 2015 | | 2014 |
|---|---|---|---|---|
| Deferred tax assets (Note 13) | | **58** | | 43 |
| Indemnification asset (a) | | **34** | | 38 |
| Prepaid expenses | | **29** | | 22 |
| Finance assets (b) | | **20** | | 16 |
| Other | | **7** | | 5 |
| Total other assets – non-current | **$** | **148** | $ | 124 |

(a) In 2012, the Company acquired from Caterpillar the distribution and support business formerly operated by Bucyrus International Inc. (Bucyrus) in the Company's dealership territories in South America, Canada and in the U.K. As part of the acquisition, the Company assumed non-financial liabilities which were not previously recognized by Bucyrus relating to long-term contracts, commitments related to prime product sales, and employee related liabilities. Caterpillar agreed to indemnify the Company for any below market returns on certain long term contracts (covering various periods up to 2023), to an amount equal to the liabilities assumed. The liabilities were measured at fair value by using management's best estimate, at the acquisition date, of the difference between market-rate returns and the contracted returns expected under the long-term contracts. The related indemnification asset was measured on the same basis as the liability up to an amount collectible from Caterpillar.

(b) Finance assets include equipment leased to customers under long-term financing leases. Depreciation expense for equipment leased to customers of $10 million was recorded in 2015 (2014: $15 million) and is recognized in equal monthly amounts over the terms of the individual leases.

## 15. JOINT VENTURE AND ASSOCIATE

### Accounting Policy

A joint venture is a contractual arrangement whereby the Company and other parties undertake an economic activity that is subject to joint control (i.e. when the strategic, financial and operating policy decisions relating to the activities of the joint venture require the unanimous consent of the parties sharing control). An associate is an entity over which the Company has significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

The Company has a 25% interest in PipeLine Machinery International (PLM), a joint venture, and a 28.8% interest in an associate, Energyst B.V. (Energyst). The Company accounts for its joint venture and associate in which the Company has an interest using the equity method. The joint venture and associate follow accounting policies that are materially consistent with the Company's accounting policies. Where the Company transacts with its joint venture or associate, unrealized profits or losses are eliminated to the extent of the Company's interest in the joint venture or associate.

### Nature of Relationship

PLM is a strategic partnership that sells and rents both purpose-built pipeline and traditional Caterpillar products to mainline pipeline construction customers worldwide.

Energyst is a pan-European company formed by Caterpillar and ten of its dealers to be the exclusive Caterpillar dealer in Europe for innovative and responsive rental power and temperature control solutions. Energyst provides coverage worldwide by collaborating with local Caterpillar dealers.

The Company's proportion of ownership interest in its joint venture and associate is as follows:

| December 31<br>Name of Venture | Type of Venture | Principal place of business/country of incorporation | Proportion of Ownership Interest Held<br>2015 | 2014 |
|---|---|---|---|---|
| PLM | Jointly Controlled Entity | United States | 25.0% | 25.0% |
| Energyst | Associate | Netherlands | 28.8% | 28.8% |

Information about the Company's joint venture and associate that are not considered individually material to the Company:

| **For year ended December 31, 2015 ($ millions)** | **Energyst** | **PLM** | **Total** |
|---|---|---|---|
| Company's share of profit | **$ 1** | **$ 4** | **$ 5** |
| Carrying amount of the Company's interests in joint venture and associate | **$ 40** | **$ 63** | **$ 103** |

| For year ended December 31, 2014 ($ millions) | Energyst | PLM | Total |
|---|---|---|---|
| Company's share of profit | $ 4 | $ 8 | $ 12 |
| Carrying amount of the Company's interests in joint venture and associate | $ 37 | $ 52 | $ 89 |

## 16. PROPERTY, PLANT AND EQUIPMENT AND RENTAL EQUIPMENT

### Accounting Policy

Property, plant, and equipment and rental equipment are recorded at cost, net of accumulated depreciation and any impairment losses. Depreciation of property, plant and equipment is recorded in selling, general, and administrative expenses for all assets except standby equipment, which is recorded in cost of sales, in the consolidated statement of income. Depreciation of rental equipment is recorded in cost of sales in the consolidated statement of income.

Depreciation commences when the asset becomes available for use, and ceases when the asset is derecognized or classified as held for sale. Rental equipment that becomes available for sale after being removed from rental fleets is transferred to inventory. Where significant components of an asset have different useful lives, depreciation is calculated on each separate part.

All classes of property, plant, and equipment and rental equipment are depreciated over their estimated useful lives to their estimated residual value on a straight-line basis using the following:

| | |
|---|---|
| Buildings | 10 - 50 years |
| Equipment and vehicles | 3 - 10 years |
| Rental equipment | 2 - 5 years |

Property, plant, and equipment and rental equipment held under finance lease are depreciated over the lesser of its useful life or the term of the relevant lease.

Property, plant, and equipment and rental equipment are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value-in-use. Where an impairment loss is recognized for an item of property, plant, and equipment and rental equipment, the asset is reviewed for possible reversal of the impairment at the end of each subsequent reporting period.

### Areas of Estimation Uncertainty

Depreciation expense is sensitive to the estimated useful life determined for each type of asset. Actual lives and residual values may vary depending on a number of factors including technological innovation, product life cycles and physical condition of the asset, prospective use, and maintenance programs.

**16. PROPERTY, PLANT AND EQUIPMENT AND RENTAL EQUIPMENT (CONTINUED )**

| December 31, 2015 ($ millions) | Land | Buildings | Vehicles and Equipment | Total | Rental Equipment |
|---|---|---|---|---|---|
| **Cost** | | | | | |
| Balance, beginning of year | $ 73 | $ 676 | $ 325 | $ 1,074 | $ 660 |
| Additions | 10 | 27 | 19 | 56 | 207 |
| Additions through business combinations (Note 25) | — | — | 10 | 10 | 77 |
| Transfers from inventory | — | — | — | — | 63 |
| Disposals | (3) | (12) | (38) | (53) | (305) |
| Foreign exchange rate changes | 9 | 45 | 30 | 84 | 48 |
| **Balance, end of year** | $ 89 | $ 736 | $ 346 | $ 1,171 | $ 750 |

| December 31, 2015 ($ millions) | Land | Buildings | Vehicles and Equipment | Total | Rental Equipment |
|---|---|---|---|---|---|
| **Accumulated depreciation and impairment losses** | | | | | |
| Balance, beginning of year | $ — | $ (185) | $ (214) | $ (399) | $ (281) |
| Depreciation for the year | — | (28) | (35) | (63) | (117) |
| Disposals | — | 6 | 23 | 29 | 112 |
| Impairment loss | (5) | (21) | — | (26) | — |
| Foreign exchange rate changes | — | (14) | (21) | (35) | (23) |
| **Balance, end of year** | $ (5) | $ (242) | $ (247) | $ (494) | $ (309) |

| ($ millions) | Land | Buildings | Vehicles and Equipment | Total | Rental Equipment |
|---|---|---|---|---|---|
| **Net book value** | | | | | |
| **January 1, 2015** | $ 73 | $ 491 | $ 111 | $ 675 | $ 379 |
| **December 31, 2015** | $ 84 | $ 494 | $ 99 | $ 677 | $ 441 |

Impairment losses

During the year ended December 31, 2015, the Company exited certain owned and finance-leased properties and made the decision to prepare certain properties for sale. These decisions prompted management to review these assets for impairment.

In total, the Company recognized $26 million of impairment losses, of which $24 million was recognized in other expenses and $2 million recognized in selling, general, administrative expenses. An impairment loss of $21 million related to the Company's Canadian reporting segment, for a property under a finance lease and one owned property. The remaining impairment losses of $3 million and $2 million relate to owned properties in the Company's South American and UK and Ireland reporting segments, respectively. In Canada, the property under a finance lease was written down to its recoverable value, based on a value-in-use calculation utilizing sublease payments secured for the remaining term of the lease contract. For owned properties, asset values were written down to its recoverable value based on an independent valuation assessment. These valuations utilize unobservable inputs and are classified as a level 3 fair value.

Finance leases

Land, buildings, and equipment under finance leases of $5 million (2014: $11 million), which are net of accumulated depreciation of $1 million (2014: $4 million), are included above, of which $2 million (2014: $2 million) was acquired during the year.

Rental equipment under finance leases of $23 million (2014: $1 million), which are net of accumulated depreciation of $18 million (2014: $10 million), are included above.

Assets under construction

There were no property, plant and equipment assets under construction (2014: $9 million). No depreciation was recognized on these assets under construction in 2014.

### 16. PROPERTY, PLANT AND EQUIPMENT AND RENTAL EQUIPMENT (CONTINUED)

| December 31, 2014<br>($ millions) | Land | Buildings | Vehicles and Equipment | Total | Rental Equipment |
|---|---|---|---|---|---|
| Cost | | | | | |
| Balance, beginning of year | $ 68 | $ 636 | $ 325 | $ 1,029 | $ 694 |
| Additions | 2 | 33 | 28 | 63 | 243 |
| Additions through business combinations (Note 25) | — | — | — | — | 3 |
| Transfers from inventory / rental equipment | — | — | 6 | 6 | 21 |
| Disposals | — | (7) | (49) | (56) | (318) |
| Foreign exchange rate changes | 3 | 14 | 15 | 32 | 17 |
| Balance, end of year | $ 73 | $ 676 | $ 325 | $ 1,074 | $ 660 |

| December 31, 2014<br>($ millions) | Land | Buildings | Vehicles and Equipment | Total | Rental Equipment |
|---|---|---|---|---|---|
| Accumulated depreciation | | | | | |
| Balance, beginning of year | $ — | $ (160) | $ (201) | $ (361) | $ (280) |
| Depreciation for the year | — | (25) | (34) | (59) | (112) |
| Disposals | — | 3 | 30 | 33 | 118 |
| Foreign exchange rate changes | — | (3) | (9) | (12) | (7) |
| Balance, end of year | $ — | $ (185) | $ (214) | $ (399) | $ (281) |

| ($ millions) | Land | Buildings | Vehicles and Equipment | Total | Rental Equipment |
|---|---|---|---|---|---|
| Net book value | | | | | |
| January 1, 2014 | $ 68 | $ 476 | $ 124 | $ 668 | $ 414 |
| December 31, 2014 | $ 73 | $ 491 | $ 111 | $ 675 | $ 379 |

## 17. DISTRIBUTION NETWORK

**Accounting Policy**

Distribution network is recorded at the acquisition date fair value, net of any impairment losses. Distribution network is an intangible asset with an indefinite life and therefore not amortized. The distribution network is estimated to have an indefinite life because it is expected to generate cash flows indefinitely. Refer to Note 20 for the Company's policy on impairment reviews.

| **December 31, 2015 ($ millions)** | **Canada** | **South America** | **UK & Ireland** | **Consolidated** |
|---|---|---|---|---|
| Balance, beginning of year | **$ 94** | **$ 244** | **$ 3** | **$ 341** |
| Acquired (a) | **4** | **—** | **—** | **4** |
| Impairment loss (Note 20) | **—** | **(288)** | **—** | **(288)** |
| Foreign exchange rate changes | **—** | **44** | **—** | **44** |
| **Balance, end of year** | **$ 98** | **$ —** | **$ 3** | **$ 101** |

(a) The Company acquired, from Caterpillar, the distribution rights for the shovels and drills business in Finning's dealership territory in Saskatchewan.

| December 31, 2014 ($ millions) | Canada | South America | UK & Ireland | Consolidated |
|---|---|---|---|---|
| Balance, beginning of year | $ 94 | $ 223 | $ 3 | $ 320 |
| Foreign exchange rate changes | — | 21 | — | 21 |
| Balance, end of year | $ 94 | $ 244 | $ 3 | $ 341 |

## 18. GOODWILL

**Accounting Policy**

Goodwill represents the excess of the acquisition-date fair value of consideration transferred over the fair value of the identifiable net assets acquired in a business combination. Goodwill is not amortized. Refer to Note 20 for the Company's policy on impairment reviews.

| **December 31, 2015 ($ millions)** | **Canada** | **South America** | **UK & Ireland** | **Consolidated** |
|---|---|---|---|---|
| Balance, beginning of year | **$ 51** | **$ 35** | **$ 46** | **$ 132** |
| Acquired (Note 25) | **25** | **—** | **—** | **25** |
| Adjustment (Note 2d) | **9** | **—** | **—** | **9** |
| Impairment loss (Note 20) | **—** | **(36)** | **(14)** | **(50)** |
| Foreign exchange rate changes | **—** | **6** | **7** | **13** |
| **Balance, end of year** | **$ 85** | **$ 5** | **$ 39** | **$ 129** |

| December 31, 2014 ($ millions) | Canada | South America | UK & Ireland | Consolidated |
|---|---|---|---|---|
| Balance, beginning of year | $ 51 | $ 32 | $ 31 | $ 114 |
| Acquired (Note 25) | — | — | 14 | 14 |
| Foreign exchange rate changes | — | 3 | 1 | 4 |
| Balance, end of year | $ 51 | $ 35 | $ 46 | $ 132 |

## 19. Intangible Assets

### Accounting Policy

Intangible assets are recorded at cost, net of any accumulated depreciation and any impairment losses. Intangible assets with finite lives are amortized on a straight-line basis over the periods during which they are expected to generate benefits. Amortization is recorded in selling, general, and administrative expenses in the consolidated statement of income using the following estimated useful lives:

| | |
|---|---|
| Software and Technology | 2 – 5 years |
| Contracts and Customer relationships | 2 – 10 years |

| December 31, 2015 ($ millions) | Contracts and Customer relationships | Software and Technology | Total |
|---|---|---|---|
| **Cost** | | | |
| Balance, beginning of year | $ 95 | $ 72 | $ 167 |
| Additions | 5 | 15 | 20 |
| Additions through business combinations (Note 25) | 9 | 1 | 10 |
| Disposals | — | (1) | (1) |
| Foreign exchange rate changes | 15 | 3 | 18 |
| **Balance, end of year** | **$ 124** | **$ 90** | **$ 214** |

| December 31, 2015 ($ millions) | Contracts and Customer relationships | Software and Technology | Total |
|---|---|---|---|
| **Accumulated depreciation** | | | |
| Balance, beginning of year | $ (61) | $ (50) | $ (111) |
| Depreciation for the year | (27) | (14) | (41) |
| Disposals | — | — | — |
| Foreign exchange rate changes | (11) | (2) | (13) |
| **Balance, end of year** | **$ (99)** | **$ (66)** | **$ (165)** |

| ($ millions) | Contracts and Customer relationships | Software and Technology | Total |
|---|---|---|---|
| **Net book value** | | | |
| **January 1, 2015** | **$ 34** | **$ 22** | **$ 56** |
| **December 31, 2015** | **$ 25** | **$ 24** | **$ 49** |

## 19. INTANGIBLE ASSETS (CONTINUED )

| December 31, 2014 ($ millions) | Contracts and Customer relationships | Software | Total |
|---|---|---|---|
| Cost | | | |
| Balance, beginning of year | $ 77 | $ 76 | $ 153 |
| Additions | 10 | 7 | 17 |
| Additions through business combinations (Note 25) | 2 | — | 2 |
| Disposals | — | (1) | (1) |
| Derecognized (Note 5d) | — | (12) | (12) |
| Foreign exchange rate changes | 6 | 2 | 8 |
| Balance, end of year | $ 95 | $ 72 | $ 167 |

| December 31, 2014 ($ millions) | Contracts and Customer relationships | Software | Total |
|---|---|---|---|
| Accumulated depreciation | | | |
| Balance, beginning of year | $ (40) | $ (37) | $ (77) |
| Depreciation for the year | (18) | (12) | (30) |
| Foreign exchange rate changes | (3) | (1) | (4) |
| Balance, end of year | $ (61) | $ (50) | $ (111) |

| ($ millions) | Contracts and Customer relationships | Software | Total |
|---|---|---|---|
| Net book value | | | |
| January 1, 2014 | $ 37 | $ 39 | $ 76 |
| December 31, 2014 | $ 34 | $ 22 | $ 56 |

## 20. Asset Impairment

### Accounting Policy

Goodwill and intangible assets with indefinite lives are subject to an assessment for impairment at least annually and when events or changes in circumstances indicate that their value may not be fully recoverable, in which case the assessment is done at that time. Assets which do not have separate identifiable cash flows are allocated to cash generating units (CGUs). CGUs are subject to assessment for impairment whenever there is an indication they may be impaired. For the purpose of impairment testing, goodwill is allocated to each of the Company's CGUs or group of CGUs expected to benefit from the acquisition. The level at which goodwill is allocated represents the lowest level at which goodwill is monitored for internal management purposes and is not higher than an operating segment. If the recoverable amount of the CGU is less than the carrying amount, then the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit, unless the impairment loss would reduce the carrying amount of an individual asset below the highest of its fair value less costs of disposal; its value-in-use; or, zero. Any impairment is recognized immediately in the consolidated statement of net (loss) income.

### Areas of Significant Judgment

Judgment is used in identifying an appropriate discount rate and growth rate for these calculations, identifying the CGUs to which the intangible assets should be allocated to, and the CGU or group of CGUs at which goodwill is monitored for internal management purposes.

### Areas of Estimation Uncertainty

The impairment calculations require the use of estimates related to the future operating results and cash generating ability of the assets.

Recoverable value

The recoverable amount of all CGUs and groups of CGUs are determined based on a value-in-use calculation. The value-in-use calculation uses cash flow projections based on financial budgets which employ the following key assumptions: future cash flows and growth projections, associated economic risk assumptions, and estimates of achieving key operating metrics and drivers.

The cash flow projection key assumptions are based upon the Company's financial budgets, which span a three-year period and are discounted using post-tax weighted average cost of capital (WACC) rates. For 2015 annual impairment testing valuation purposes, the cash flows subsequent to the three-year projection period are extrapolated using growth rates based on estimated long-term real gross domestic product and inflation (where appropriate) in the markets in which the Company operates.

Carrying amount and CGU allocation

Goodwill and distribution network was allocated to the following CGUs or groups of CGUs for impairment testing purposes:

| ($ millions) | Canada | Argentina | Chile | UK & Ireland | UK & Ireland Damar | UK & Ireland Power Systems | Bolivia |
|---|---|---|---|---|---|---|---|
| Goodwill [1] | $ 85 | $ 30 | $ 5 | $ 31 | $ 14 | $ 8 | $ 6 |

| ($ millions) | Canada Mining | Chile Mining | UK & Ireland Equipment Solutions | Argentina |
|---|---|---|---|---|
| Distribution network [1] | $ 98 | $ 286 | $ 3 | $ 2 |

[1] Goodwill and distribution network translated at the December 2015 monthly average foreign exchange rates of USD/CAD 1.3705 and GBP/CAD 2.0534

## 20. ASSET IMPAIRMENT (CONTINUED)

Key assumptions

The significant assumptions used in the Company's value-in-use calculations for each CGU or group of CGUs are as follows:

| | **2015** | | 2014 | |
|---|---|---|---|---|
| **For years ended December 31** | **Post-tax WACC rate** | **Growth rate** | Post-tax WACC rate | Growth rate |
| Canada | 8.7% | 1.9% | 9.9% | 2.1% |
| Canada Mining | 8.8% | 1.9% | 9.9% | 2.1% |
| Argentina | 14.7% | 3.5% | 15.5% | 2.0% |
| Chile | 10.2% | 2.4% | 8.8% | 3.7% |
| Chile Mining | 10.5% | 2.0% | 8.8% | 3.7% |
| UK & Ireland | 9.6% | 2.1% | 8.5% | 2.4% |
| UK & Ireland Damar | 10.7% | 2.1% | — | — |
| UK & Ireland Power Systems | 9.7% | 2.1% | 8.5% | 2.4% |
| UK & Ireland Equipment Solutions | 9.6% | 2.1% | 8.5% | 2.4% |
| Bolivia | 13.0% | 3.5% | 11.5% | 5.0% |

Impairment losses

Due to a difficult macro economic environment and prolonged weak market conditions in the current and foreseeable future, including lower copper prices and the ongoing economic uncertainty, management anticipates a weaker mining sector in South America as well as lower activity in UK & Ireland. Although lower commodity prices were also anticipated in the prior year assumptions, management estimates that commodity prices will remain low for a longer period of time and that impact has been included in its financial budgets. Growth in Chile is expected to recover but is still below historically low levels. These are some of the key factors resulting in the carrying values of the Chile Mining, Argentina, UK & Ireland Damar, and Bolivia CGUs exceeding their recoverable amounts. The recoverable values in the annual impairment tests supported each of the remaining CGU carrying amounts.

During the year ended December 31, 2015, the Company recognized impairment losses of $324 million in the South America reporting segment comprising:

- $286 million distribution network in Chile Mining CGU
- $2 million distribution network in the Argentina CGU
- $30 million goodwill in the Argentina CGU
- $6 million goodwill in the Bolivia CGU

The recoverable value of the Company's Chile Mining CGU and Argentina CGU is estimated to be $623 million and $218 million, respectively. The Company also recognized a goodwill impairment loss of $14 million in the UK & Ireland reporting segment.

Sensitivities to key assumptions

Sensitivity testing was conducted as part of the 2015 annual impairment test, including stress testing the WACC rate with all other assumptions being held constant. Except for the impairment losses identified, management believes that any reasonable change in the key assumptions used to determine the recoverable amount would not cause the carrying amount of any other cash generating unit or group of cash generating units to exceed its recoverable amount. Management believes its assumptions are reasonable. If future events were to adversely differ from management's best estimate, key assumptions and associated cash flows could be materially adversely affected and the Company could potentially experience future material impairment charges in respect of the intangibles with indefinite lives and goodwill.

## 21. PROVISIONS

### Accounting Policy

Provisions are made for estimated warranty claims in respect of certain equipment, spare parts, and service supplied to customers which are still under warranty at the end of the reporting period. These claims are expected to be settled in the next financial year.

Also, provisions are recognized if it is expected that a long-term service or construction contract will incur a loss. The expected loss is recognized as a provision with a corresponding expense in the income statement.

### Areas of Estimation Uncertainty

Management estimates the warranty provision based on claims notified and past experience. Factors that could impact the estimated claim include the quality of the equipment and spare parts and labour costs.

| **For year ended December 31, 2015 ($ millions)** | **Warranty Claims** | **Other** | **Total** |
|---|---|---|---|
| Balance, beginning of year | **$ 48** | **$ 20** | **$ 68** |
| New provisions | **66** | **50** | **116** |
| Charges against provisions | **(78)** | **(49)** | **(127)** |
| Foreign exchange rate changes | **5** | **3** | **8** |
| **Balance, end of year** | **$ 41** | **$ 24** | **$ 65** |
| Current portion | **$ 41** | **$ 19** | **$ 60** |
| Non-current portion | **$ —** | **$ 5** | **$ 5** |

| For year ended December 31, 2014 ($ millions) | Warranty Claims | Other | Total |
|---|---|---|---|
| Balance, beginning of year | $ 80 | $ 20 | $ 100 |
| New provisions | 105 | 16 | 121 |
| Charges against provisions | (139) | (17) | (156) |
| Foreign exchange rate changes | 2 | 1 | 3 |
| Balance, end of year | $ 48 | $ 20 | $ 68 |
| Current portion | $ 48 | $ 15 | $ 63 |
| Non-current portion | $ — | $ 5 | $ 5 |

## 22. OTHER LIABILITIES

| **December 31 ($ millions)** | **2015** | 2014 |
|---|---|---|
| Income tax payable | **$ 4** | $ 13 |
| Derivative liabilities | **2** | 5 |
| Total other liabilities - current | **$ 6** | $ 18 |

| **December 31 ($ millions)** | **2015** | 2014 |
|---|---|---|
| Deferred revenue | **$ 48** | $ 42 |
| Deferred tax liabilities (Note 13) | **37** | 74 |
| Liability for long-term contracts (Note 14a) | **34** | 38 |
| Finance leasing obligations (a) (Note 28) | **31** | 17 |
| Onerous contracts | **13** | — |
| Share-based payments (Note 10) | **11** | 15 |
| Other | **6** | 4 |
| Total other liabilities – non-current | **$ 180** | $ 190 |

(a) Finance leases were issued at varying rates of interest from 6% - 10% and mature on various dates up to 2078.

## 23. POST-EMPLOYMENT EMPLOYEE BENEFITS

The Company and its subsidiaries offer a number of benefit plans that provide pension and other benefits to many of its employees in Canada, the U.K. and the Republic of Ireland. These plans include defined benefit and defined contribution plans.

The defined benefit pension plans include both registered and non-registered pension plans that provide a pension based on the members' final average earnings and years of service while participating in the pension plan.

- In Canada, closed defined benefit pension plans exist for eligible employees. Final average earnings are based on the highest 3 or 5 year average salary depending on employment category and there is no standard indexation feature. Effective July 1, 2004, non-executive members of the defined benefit pension plan were offered a voluntary opportunity to convert their benefits to a defined contribution pension plan. The registered defined benefit pension plan was subsequently closed to all new non-executive employees, who became eligible to enter one of the Company's defined contribution pension plans. Effective January 1, 2010, the defined benefit pension plan was closed to new executive employees as well, who became eligible to join a defined contribution pension plan. Pension benefits under the registered defined benefit pension plans' formula that exceed the maximum taxation limits are provided from a non-registered supplemental pension plan. Benefits under this plan are partially funded by a Retirement Compensation Arrangement.
- Finning (UK) provided a defined benefit pension plan for eligible employees hired prior to January 2003. Under this plan, final average earnings are based on the highest 3-year period and benefits are indexed annually with inflation subject to limits. Effective January 2003, this plan was closed to new employees who became eligible to join a defined contribution pension plan. In December 2011, the UK defined benefit pension plan was further amended to cease future accruals for existing members from April 2012 at which time affected members began accruing benefits under a defined contribution pension plan.

The defined contribution pension plans are pension plans under which the Company pays fixed contributions, as a percentage of earnings, into the plans, where an account exists for each plan member.

- In Canada, the defined contribution pension plans are registered pension plans that offer a base Company contribution rate for all members. The Company will also partially match non-executive employee contributions to a maximum additional Company contribution of 1% of employee earnings. The registered defined contribution pension plan for executive employees is supplemented by an unfunded supplementary accumulation plan. Where contributions under the registered plan would otherwise exceed the maximum taxation limit, the excess contributions are provided through this supplemental plan.
- In the UK, the defined contribution pension plans offer a match of employee contributions, within a required range, plus 1%. The Company's Irish subsidiary has a defined contribution pension plan, which offers a match of employee contributions at a level set by the Company.

The Company's South American employees do not participate in employer pension plans but are covered by country specific legislation with respect to post-employment benefit plans. The Company's South American post-employment benefit plans are not funded. The Company accrues its obligations to employees under these arrangements based on the actuarial valuation of anticipated payments to employees.

## 23. POST-EMPLOYMENT EMPLOYEE BENEFITS (CONTINUED)

**Accounting Policy**

Defined benefit plans

The cost of pensions and other retirement benefits is determined by independent actuaries using the projected unit credit method.

Current service costs and administration costs (net of employee contributions) are recognized in selling, general, and administrative expenses and net interest costs are recognized finance costs in the consolidated statement of income. Net interest cost is calculated by applying the discount rate at the beginning of the period to the net defined benefit liability or asset and contributions to and benefit payments from the plan during the year.

Actuarial gains and losses arising from experience and changes in actuarial assumptions are recognized directly in other comprehensive income in the period in which they occur.

The amount recognized in the consolidated statement of financial position represents the present value of the defined benefit obligation reduced by the fair value of plan assets. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using high-quality corporate bond yields that approximate the timing of the related pension obligation.

Defined contribution plans

The cost of pension benefits includes the current service cost, which comprise the actual contributions made and accrued by the Company during the year. These contributions are based on a fixed percentage of member earnings for the year and are charged to the consolidated statement of income as they become due.

**Areas of Significant Judgment**

Actuarial valuations of the Company's defined benefit and other post-employment benefit plans are based on assumptions requiring significant judgment, such as mortality rates, inflation (which is particularly relevant in the UK), estimates of future salary increases, and employee turnover. Judgment is exercised in setting these assumptions. These assumptions combined with the high quality corporate bond yield, used to discount the estimated future cash flows, impact the measurement of the net employee benefit obligation, the net benefit cost, the actuarial gains and losses recognized in other comprehensive income, and funding levels in Canada and the UK.

The net benefit cost for the Company's post-employment benefit plans, primarily for pension benefits, is as follows:

| For years ended December 31 ($ millions) | 2015 Canada | 2015 UK & Ireland | 2015 Total | 2014 Canada | 2014 UK & Ireland | 2014 Total |
|---|---|---|---|---|---|---|
| **Defined contribution (DC) pension plans** | | | | | | |
| Net benefit cost | **$ 34** | **$ 10** | **$ 44** | $ 37 | $ 9 | $ 46 |
| **Defined benefit (DB) pension plans** | | | | | | |
| Current service cost, net of employee contributions | **9** | **—** | **9** | 7 | — | 7 |
| Administration costs | **—** | **2** | **2** | — | 1 | 1 |
| Net interest cost | **2** | **2** | **4** | 2 | 2 | 4 |
| Net benefit cost | **11** | **4** | **15** | 9 | 3 | 12 |
| Net DC and DB benefit cost recognized in net income | **$ 45** | **$ 14** | **$ 59** | $ 46 | $ 12 | $ 58 |
| Actuarial (gain) loss on plan assets | **$ (8)** | **$ 14** | **$ 6** | $ (29) | $ (76) | $ (105) |
| Actuarial (gain) loss on plan liabilities | **(9)** | **(78)** | **(87)** | 49 | 97 | 146 |
| Total actuarial (gain) loss recognized in other comprehensive income | **$ (17)** | **$ (64)** | **$ (81)** | $ 20 | $ 21 | $ 41 |

## 23. POST-EMPLOYMENT EMPLOYEE BENEFITS (CONTINUED )

Information about the Company's defined benefit pension plans is as follows:

| For years ended December 31 | 2015 | | | 2014 | | |
|---|---|---|---|---|---|---|
| ($ millions) | Canada | UK | Total | Canada | UK | Total |
| **Accrued benefit obligation** | | | | | | |
| Balance, beginning of year | $ 518 | $ 692 | $ 1,210 | $ 459 | $ 574 | $ 1,033 |
| Current service cost | 10 | — | 10 | 8 | — | 8 |
| Interest cost | 19 | 25 | 44 | 21 | 26 | 47 |
| Benefits paid | (26) | (23) | (49) | (19) | (19) | (38) |
| Remeasurements: | | | | | | |
| - Actuarial (gain) loss from change in demographic assumptions | — | (5) | (5) | 7 | — | 7 |
| - Actuarial (gain) loss from change in financial assumptions | (6) | (38) | (44) | 51 | 96 | 147 |
| Experience (gain) loss | (3) | (35) | (38) | (9) | 1 | (8) |
| Foreign exchange rate changes | — | 86 | 86 | — | 14 | 14 |
| Balance, end of year | $ 512 | $ 702 | $ 1,214 | $ 518 | $ 692 | $ 1,210 |
| **Plan assets** | | | | | | |
| Fair value at beginning of year | $ 465 | $ 625 | $ 1,090 | $ 415 | $ 521 | $ 936 |
| Return on plan assets: | | | | | | |
| - Return on plan assets included in net interest cost | 17 | 23 | 40 | 19 | 24 | 43 |
| - Actuarial gain (loss) on plan assets | 8 | (14) | (6) | 29 | 76 | 105 |
| Employer contributions | 9 | 12 | 21 | 20 | 11 | 31 |
| Employees contributions | 1 | — | 1 | 1 | — | 1 |
| Benefits paid | (26) | (23) | (49) | (19) | (19) | (38) |
| Administration costs | — | (2) | (2) | — | (1) | (1) |
| Foreign exchange rate changes | — | 81 | 81 | — | 13 | 13 |
| Fair value at end of year | $ 474 | $ 702 | $ 1,176 | $ 465 | $ 625 | $ 1,090 |
| Net defined benefit obligation | $ 38 | $ — | $ 38 | $ 53 | $ 67 | $ 120 |

Included in the accrued benefit obligation and fair value of plan assets at the year-end are the following amounts in respect of plans that are not fully funded:

| For years ended December 31 | 2015 | | | 2014 | | |
|---|---|---|---|---|---|---|
| ($ millions) | Canada | UK | Total | Canada | UK | Total |
| Accrued benefit obligation | $ 507 | $ 702 | $ 1,209 | $ 513 | $ 692 | $ 1,205 |
| Fair value of plan assets | 467 | 702 | 1,169 | 459 | 625 | 1,084 |
| Funded status – plan deficit | $ 40 | $ — | $ 40 | $ 54 | $ 67 | $ 121 |

## 23. POST-EMPLOYMENT EMPLOYEE BENEFITS (CONTINUED)

### Key Assumptions and Related Sensitivities

The significant actuarial assumptions used in the valuations of the Company's defined benefit pension plans include:

| | 2015 | | 2014 | |
|---|---|---|---|---|
| **For years ended December 31** | **Canada** | **UK** | Canada | UK |
| Discount rate – obligation | **3.9%** | **3.7%** | 3.8% | 3.4% |
| Discount rate – expense [(1)] | **3.8%** | **3.4%** | 4.6% | 4.5% |
| Retail price inflation – obligation | **n/a** | **3.2%** | n/a | 3.2% |
| Retail price inflation – expense [(1)] | **n/a** | **3.2%** | n/a | 3.5% |

[(1)] Used to determine the net interest cost and expense for the years ended December 31, 2015 and December 31, 2014.

Assumptions regarding future mortality are set based on management's best estimate in accordance with published statistics and experience in each country. During 2015 and 2014, the mortality tables were updated to reflect newly available estimated mortality rates in the UK and Canada, respectively. These assumptions translate into an average life expectancy (in years) as follows:

| | **Canada** | **UK** |
|---|---|---|
| Life expectancy for male currently aged 65 | **22** | **22** |
| Life expectancy for female currently aged 65 | **24** | **25** |
| Life expectancy at 65 for male currently aged 45 | **23** | **24** |
| Life expectancy at 65 for female currently aged 45 | **25** | **26** |

Discount rates are determined based on high quality corporate bonds at the measurement date, December 31, 2015 and 2014. The accrued defined benefit pension obligation and expense are sensitive to changes in the discount rate, among other assumptions. At the end of the most recent calendar year, the weighted average duration of the obligation in Canada is 14 years and in the U.K. is 19 years. A 0.25% increase in the discount rate and in retail price inflation would impact the defined benefit obligation by the amounts shown below.

| | | Increased (decreased) defined benefit obligation | |
|---|---|---|---|
| **($ millions)** | **Change in assumption** | **Canada** | **UK** |
| Discount rate | + 0.25% | $ (17) | $ (31) |
| Retail price inflation | + 0.25% | n/a | $ 24 |

A 0.25% decrease in the discount rate and retail price inflation would have an approximately equivalent but opposite effect on the above accounts in the amounts shown.

The sensitivity analysis is based on a change in an assumption while holding all other assumptions constant. In practice, this is unlikely to occur, as changes in some of the assumptions may be correlated. When calculating the sensitivity of the defined benefit obligation to significant actuarial assumptions, the same method (i.e. present value of the defined benefit obligation calculated with the projected unit credit method at the end of the reporting period) has been applied as when calculating the pension liability recognized within the statement of financial position.

The methods and types of assumptions used in preparing the sensitivity analysis did not change compared to the previous period.

## 23. POST-EMPLOYMENT EMPLOYEE BENEFITS (CONTINUED )

### Funding and Valuations of Defined Benefit Plans

In Canada, the Company is funding its obligations in accordance with pension legislation requiring funding of going concern deficits over a fifteen year period and solvency deficits over a five year period. In the U.K., at the last formal valuation a ten year schedule was set out. The contributions expected to be paid during the financial year ended December 31, 2016 amount to approximately $26 million for the defined benefit pension plans. Funding levels are monitored regularly and reset with new valuations that occur at least every three years. Defined benefit pension plans are country and entity specific. The valuation dates of the Company's material defined benefit pension plans are as follows:

| Defined Benefit Pension Plan | Last Actuarial Valuation Date | Next Actuarial Valuation Date |
|---|---|---|
| Canada – BC Regular & Executive Plan | December 31, 2013 | December 31, 2016 |
| Canada – Executive Supplemental Income Plan | December 31, 2015 | December 31, 2018 |
| Canada – Alberta Defined Benefit Plan | December 31, 2013 | December 31, 2016 |
| Finning UK Defined Benefit Scheme | December 31, 2014 [(1)] | December 31, 2017 |

[(1)] The December 31, 2014 actuarial valuation is in progress as at February 17, 2016.

### Plan Assets

The fair values of plan assets are determined using a combination of quoted prices and market observable inputs except for investments in real estate and annuity contracts. The fair values of investments in real estate are determined using un-quoted inputs. Annuity contracts invested in by the plan will have cashflows that exactly match the amount and timing of certain benefits payable under the plans. The value of these contracts is deemed to be the present value of the related obligations. Plan assets are principally invested in the following securities (segregated by geography):

| | Canada | | | UK | | |
|---|---|---|---|---|---|---|
| | Canada | US | International | UK | US | International |
| Fixed-income [(1)] | 63% | — | — | 59% | — | — |
| Equity | 8% | 12% | 10% | 3% | 15% | 14% |
| Real estate | 4% | — | — | 8% | — | — |
| Cash and cash equivalents | 3% | — | — | 1% | — | — |

[(1)] Fixed-income includes investments in annuity contracts in Canada.

Plan assets do not include a direct investment in common shares of the Company at December 31, 2015 and 2014.

## 23. POST-EMPLOYMENT EMPLOYEE BENEFITS (CONTINUED)

### Key Risks

Through its defined benefit pension plans, the Company is exposed to a number of risks, the most significant of which are detailed below:

Investment Risk (i.e. asset volatility)

The plan liabilities are calculated using a discount rate set with reference to high quality corporate bond yields; if plan assets underperform this yield, this will create a deficit. Both the Canadian and U.K. plans invest in various asset categories including primarily equities, fixed income, and real estate. These investments, in aggregate, are expected to outperform corporate bonds in the long-term but may result in volatility in the shorter-term.

To help mitigate this risk, in selecting the portfolios and the weightings in each category, the Company considers and monitors how the duration and the expected yield of the investments match the expected cash outflows arising from the pension obligations. A framework has been developed and adopted for each of the Canadian and U.K. defined benefit pension plans whereby the investments will be adjusted over time as plan funding positions improve. The planned adjustments are intended to improve the asset-liability match over time. This is to be accomplished primarily by reducing the exposure to equity investments over time and increasing exposure to investments such as long-term fixed interest securities with maturities that better match the benefit payments as they fall due. Recent progress included investments in annuity contracts in Canada and liability matching funds in the U.K.

Equity investments still remain in the plans, as the Company believes that equities offer higher returns over the long term with an acceptable level of risk considering the proportion of assets held in this category and the long-term nature of the liabilities. Investments remain well diversified, such that the failure of any single investment would not have a material impact on the overall level of assets.

Discount Rate Risk (i.e. changes in bond yields)

A decrease in corporate bond yields will increase the value placed on the plan liabilities. This risk is managed by selecting certain investments that aim to better match assets and liabilities. For example, a liability increase that results from a decrease in corporate bond yields will be partially offset by an increase in the value of the plans' bond holdings.

Inflation Risk

The majority of the pension obligations in the U.K. are linked to inflation. Higher inflation will lead to higher liabilities (although, in most cases, caps on the level of inflationary increases are in place to protect the plan against extreme inflation). While some of the plan's assets are either unaffected by (fixed interest bonds) or loosely correlated with (equities) inflation, in recent years, the plan has increased its investments in assets that have a direct correlation with inflation (e.g. real estate, index-linked gilts and liability matching funds) in order to further manage this risk.

In the Canadian plans, the pension payments are not linked to inflation, so this is not a direct risk. However, to the extent that future benefits are based on final average earnings and salaries are generally linked to inflation to some degree, an increase in inflation beyond expectations will result in higher liabilities. With a relatively small number of employees still earning benefits in a defined benefit plan, this risk is limited. The risk is managed to some degree through investments correlated with inflation (e.g. real estate, and, to a lesser degree, equities).

Longevity Risk (i.e. increasing life expectancy)

The plans provide benefits for the life of the member after retirement, so increases in life expectancy will result in an increase in the plans' liabilities. This is particularly significant in the U.K. plan, where inflationary increases result in higher sensitivity to changes in life expectancy.

The Company has partially mitigated this risk in Canada with the purchase of annuity contracts which provide cashflows that exactly match the amount and timing of certain benefit payments under the plans.

## 23. POST-EMPLOYMENT EMPLOYEE BENEFITS (CONTINUED)

### Other Post-Employment Benefit Obligations

Employment terms at some of the Company's South American operations provide for a payment when an employment contract comes to an end under certain conditions, which can be considered a post-employment benefit. This is typically at the rate of one month of final salary for each year of service (subject in most cases to a cap as to the number of qualifying years of service and a cap on the salary rate). This post-employment benefit obligation is treated as an unfunded defined benefit pension plan, and the obligation recognized is based on valuations performed and regularly updated through independent actuarial calculations by using the projected unit credit method. The obligation recognized in the consolidated statement of financial position represents the present value of the post-employment benefit obligation. Actuarial gains and losses are immediately recognized in the consolidated statement of other comprehensive income.

The most recent actuarial valuation date was December 31, 2015.

The main assumptions used to determine the actuarial present value of the benefit obligation were as follows:

| **December 31** | **2015** | 2014 |
|---|---|---|
| Discount rate – obligation | **1.5%** | 2.2% |
| Rate of compensation increase | **3.0%** | 3.0% |
| Average staff turnover | **6.0%** | 13.2% |

| **For years ended December 31 ($ millions)** | | **2015** | | 2014 |
|---|---|---|---|---|
| **Movement in the present value of the other post-employment benefit obligation was as follows:** | | | | |
| Balance at the beginning of the year | **$** | **37** | $ | 48 |
| Current service cost | | **6** | | 5 |
| Interest cost | | **1** | | 1 |
| Remeasurement (gains) losses recognized in other comprehensive income: | | | | |
| - Change in demographic assumptions | | **3** | | (12) |
| - Change in financial assumptions | | **2** | | 1 |
| - Experience gains | | **(1)** | | (1) |
| Paid in the year | | **(6)** | | (5) |
| Foreign exchange rate changes | | **2** | | — |
| Balance at the end of the year | **$** | **44** | $ | 37 |

### Maturity Analysis

Expected maturity analysis of undiscounted pension and other post-employment benefit obligations of the Company's operations in Canada, U.K. and Ireland, and South America are as follows:

| **December 31, 2015 ($ millions)** | | **Less than a year** | | **Between 1-2 years** | | **Between 2-5 years** | | **Over 5 years** | | **Total** |
|---|---|---|---|---|---|---|---|---|---|---|
| Defined benefit pension plans | **$** | **45** | **$** | **46** | **$** | **150** | **$** | **2,116** | **$** | **2,357** |
| Other post-employment benefits | | **9** | | **5** | | **11** | | **60** | | **85** |
| Total | **$** | **54** | **$** | **51** | **$** | **161** | **$** | **2,176** | **$** | **2,442** |

### Accumulated Remeasurement Losses

The accumulated actuarial loss, net of tax, of the post-employment benefit obligations in the Company's operations in Canada, U.K. and Ireland, and South America recognized directly in retained earnings is $215 million as at December 31, 2015 (December 31, 2014: $277 million).

## 24. Supplemental Cash Flow Information

**Accounting Policy**

Cash and cash equivalents comprise cash on hand together with short-term investments, consisting of highly rated and liquid money market instruments with original maturities of three months or less, and are classified as loans and receivables.

The components of cash and cash equivalents are as follows:

| December 31<br>($ millions) | | 2015 | | 2014 |
|---|---|---|---|---|
| Cash | $ | 184 | $ | 199 |
| Cash equivalents | | 291 | | 251 |
| Cash and cash equivalents | $ | 475 | $ | 450 |

The changes in operating assets and liabilities are as follows:

| For years ended<br>($ millions) | | 2015 | | 2014 |
|---|---|---|---|---|
| Accounts receivable and other assets | $ | 341 | $ | 16 |
| Service work in progress | | 13 | | (1) |
| Inventories – on-hand equipment | | (17) | | 109 |
| Inventories – parts and supplies | | 91 | | 58 |
| Instalment notes receivable | | 15 | | (14) |
| Accounts payable and accruals and other liabilities | | (382) | | (183) |
| Income tax recoverable/payable | | 15 | | (3) |
| Changes in operating assets and liabilities | $ | 76 | $ | (18) |

Dividends of $0.725 (2014: $0.685) per share were paid during the year. Subsequent to year end in February 2016, the Board of Directors approved a quarterly dividend of $0.1825 per share payable on March 17, 2016 to shareholders of record on March 3, 2016. This dividend will be considered an eligible dividend for Canadian income tax purposes. As at December 31, 2015, the Company has not recognized a liability for this dividend.

## 25. ACQUISITIONS

**Accounting Policy**

The acquisition method of accounting is used to account for all business combinations, regardless of whether equity instruments or other assets are acquired. The consideration for the acquisition of a subsidiary is:

- fair values of the assets transferred, and
- fair value of an asset or liability resulting from a contingent consideration arrangement

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at the acquisition-date fair value.

The excess of the consideration transferred over the fair value of the net identifiable assets acquired is recorded as goodwill. Acquisition-related costs are expensed as incurred.

### Saskatchewan dealership

Effective July 1, 2015 the Company acquired the operating assets of Kramer Ltd. for cash consideration of $241 million and became the approved Caterpillar dealer in Saskatchewan. The acquisition expands Finning's Western Canadian operations into a contiguous territory, diversifies the Company's revenue base into sectors such as potash and uranium, and provides a platform for long-term growth opportunities and diversification into new markets.

This purchase is accounted for as a business combination. Management is currently in the process of estimating the acquisition-date fair values of certain tangible assets acquired and measuring the acquired intangible assets. The preliminary allocation of the purchase price, based on management's best estimate at February 17, 2016, is as follows:

| Preliminary purchase price allocation ($ millions) | | |
|---|---|---|
| Inventory | $ | 96 |
| Rental equipment | | 77 |
| Accounts and other receivables | | 38 |
| Property, plant, and equipment | | 10 |
| Intangible assets | | 10 |
| Service work in progress | | 2 |
| Goodwill | | 25 |
| Accounts payable and other liabilities | | (16) |
| Deferred income tax liability | | (1) |
| **Net assets acquired** | **$** | **241** |

The intangible assets acquired represent customer relationships of $9 million and technology of $1 million and are being amortized on a straight-line basis over their estimated life of 10 years and 3 years, respectively. Goodwill relates to the expected synergies by combining complementary capabilities, customer bases and highly skilled employees across Finning's territory in British Columbia, Alberta, Yukon, Northwest Territories and part of Nunavut with Kramer's presence in Saskatchewan. The goodwill is assigned to the Company's Canada operating segment. Goodwill recognized is not deductible for tax purposes.

Acquisition costs of $3 million were paid on the transaction and recorded as an expense in the consolidated statement of income of 2015.

Since the acquisition date to the end of the reporting period, the acquiree earned $107 million of revenue and $6 million in net income.

## 25. ACQUISITIONS (CONTINUED)

### SITECH

On July 4, 2014, the Company's UK & Ireland operations acquired 100% of the shares of Reaction One Limited (UK) and Alveton Limited (Ireland). With these acquisitions, the newly formed company named SITECH sells and services Trimble Navigation Limited's (Trimble) heavy and highway machine control and monitoring products in all of its dealership territories (rights in the Company's Canadian and South American dealership operations were acquired in 2011). Trimble is Caterpillar's global technologies joint venture partner in construction and other industries.

The fair value of the total consideration at the acquisition date was $20 million (£11 million) with $14 million (£8 million) paid in cash at the time of acquisition. Further contingent consideration with a possible range of £nil - £4 million may be paid after acquisition, contingent upon the profitability of the acquired business over the next three years. The Company recognized $6 million (£3 million) of contingent consideration as a liability on the consolidated statement of financial position. Acquisition costs of $1 million (£0.4 million) were paid on the transaction and were recorded as an expense in the consolidated statement of income of 2014.

The purchase has been accounted for as a business combination. The allocation of the purchase price is as follows:

| Purchase price allocation ($ millions) | | |
|---|---|---|
| Working capital | $ | 1 |
| Rental equipment | | 3 |
| Intangible assets | | 2 |
| Goodwill | | 14 |
| **Net assets acquired** | **$** | **20** |

The intangible assets acquired represent customer relationships valued at $2 million (£1 million) and are being amortized on a straight-line basis over their estimated life of 2 years. Goodwill recognized relates to expected synergies from combining the operations of Finning UK & Ireland and SITECH which will provide a total solutions and technology strategy to ensure greater productivity to customers within the U.K. and Ireland. The goodwill is assigned to the UK & Ireland Equipment Solutions cash-generating unit. Goodwill recognized is not deductible for tax purposes.

### Other acquisitions

Cash paid in relation to other acquisitions in 2015 totalled $2 million (2014: $nil).

## 26. Economic Relationships

The Company distributes and services heavy equipment, engines, and related products. The Company has dealership agreements with numerous equipment manufacturers, of which the most significant are with subsidiaries of Caterpillar. Distribution and servicing of Caterpillar products account for the major portion of the Company's operations. Finning has a strong relationship with Caterpillar that has been ongoing since 1933.

## 27. Related Party Transactions and Total Staff Costs

Balances and transactions between the Company and its subsidiaries, joint venture, and associate, which are related parties, have been eliminated on consolidation and are not disclosed in this note.

The remuneration of the Board of Directors during the year was as follows:

| **For years ended December 31 ($ millions)** | **2015** | 2014 |
|---|---|---|
| Short-term benefits | **$ 1** | $ 1 |
| Share-based payments | **—** | 1 |
| Total | **$ 1** | $ 2 |

The remuneration of key management personnel excluding the Board of Directors (defined as officers of the Company and country presidents) during the year was as follows:

| **For years ended December 31 ($ millions)** | **2015** | 2014 |
|---|---|---|
| Salaries and benefits | **$ 9** | $ 10 |
| Post-employment benefits | **1** | 1 |
| Share-based payments | **2** | 7 |
| Termination payments | **—** | 1 |
| Total | **$ 12** | $ 19 |

Total staff costs, including salaries, benefits, pension, share-based payments, termination payments, and commissions are $1,306 million (2014: $1,404 million). This amount includes staff costs associated with key management personnel noted above.

## 28. LEASES

### Accounting Policy

Leases are classified as either finance or operating leases. Leases where substantially all of the benefits and risks of ownership of property rest with the lessee are accounted for as finance leases; all other leases are classified as operating leases.

**The Company as Lessee**

Assets held under finance leases are initially recognized as assets of the Company at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation. Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Contingent rental payments are recognized as expenses in the periods in which they are triggered.

Operating lease payments are recognized as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. In the event that lease incentives are received to enter into operating leases, such incentives are recognized as a liability. The aggregate benefit of incentives is recognized as a reduction of rental expense on a straight-line basis over the term of the lease, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

Future minimum lease payments due under finance lease contracts and payments due under various operating lease contracts are as follows:

| For years ended December 31 ($ millions) | Finance Leases | Operating Leases (1) |
|---|---|---|
| 2016 | $ 6 | $ 74 |
| 2017 | 6 | 53 |
| 2018 | 6 | 38 |
| 2019 | 5 | 30 |
| 2020 | 11 | 23 |
| Thereafter | 16 | 84 |
| | $ 50 | $ 302 |
| Less imputed interest | (15) | |
| Total finance lease obligation | 35 | |
| Less current portion of finance lease obligation | (4) | |
| Non-current portion of finance lease obligation | $ 31 | |

(1) The Company recognized a liability of $16 million, $4 million in accrued liabilities and $12 million in non-current other liabilities, related to future minimum lease payments due under certain operating leases that were considered to be onerous at December 31, 2015 (2014: $nil).

Minimum lease payments recognized as lease expense for the year ended December 31, 2015 is $95 million (2014: $109 million).

## 29. Commitments and Contingencies

Due to the size, complexity, and nature of the Company's operations, various legal, customs, and tax matters are pending. These include a number of claims from the Argentina Customs Authority associated with export of agricultural product. The Company has appealed these claims, believes they are without merit, and is confident in its position.

These pending matters may take a number of years to resolve. Should the ultimate resolution of these matters differ from management's assessment, a material adjustment could arise and impact the Company's financial position. However, it is the current opinion of management, that these matters will not have a material effect on the Company's consolidated financial position or results of operations.

## 30. Guarantees and Indemnifications

The Company enters into contracts with rights of return, in certain circumstances, for the repurchase of equipment sold to customers for an amount which is generally based on a discount from the estimated future fair value of that equipment. As at December 31, 2015, the total estimated value of these contracts outstanding is $138 million (2014: $125 million) coming due at periods ranging from 2016 to 2018. The Company's experience to date has been that the equipment at the exercise date of the contract is generally worth more than the repurchase amount. The total amount recognized as a provision against these contracts is $2 million (2014: $1 million).

The Company has issued certain guarantees to Caterpillar Finance to guarantee certain borrowers' obligations. The guarantees would be enforceable in the event that the borrowers defaulted on their obligations to Caterpillar Finance, to the extent that any net proceeds from the recovery and sale of collateral securing repayment of the borrowers' obligations is insufficient to meet those obligations. As at December 31, 2015, the maximum potential amount of future payments that the Company could be required to make under the guarantees, before any amounts that may possibly be recovered under recourse or collateralization provisions in the guarantees, is $26 million, covering various periods up to 2022. As at December 31, 2015 and 2014, the Company has not recognized a liability for these guarantees.

The Company has also issued guarantees for certain equipment sold to third parties to guarantee their residual values. The guarantees would be enforceable in the event that the market value of equipment at the time of its ultimate disposal is below the residual value guarantee issued by the Company. As at December 31, 2015, the maximum potential amount of future payments that the Company could be required to make under the guarantees is $17 million, covering various periods up to 2020. As at December 31, 2015, the Company has recognized a liability of $5 million for these guarantees (2014: $2 million).

As part of the Hewden Purchase and Sale Agreement in 2010, the Company provided indemnifications to the third party purchaser, covering breaches of representation and warranties as well as litigation and other matters set forth in the agreement. Claims may be made by the third party purchaser under the agreement for various periods of time depending on the nature of the claim, up to six years. The maximum potential exposure of the Company under these indemnifications is 100% of the purchase price. As at December 31, 2015, the Company has not recognized a liability for these indemnifications.

In connection with the sale of the Materials Handling Division in 2006, the Company provided a guarantee to a third party with respect to a property lease. If the lessee were to default, the Company would be required to make the annual lease payments of approximately $1 million to the end of the lease term in 2020. The Company has not recognized a liability for this guarantee in 2015 or 2014.

In the normal course of operations, the Company has several long-term maintenance and repair contracts with various customers which contain cost per hour guarantees.

During the year, the Company entered into various other commercial letters of credit in the normal course of operations. The total issued and outstanding letters of credit at December 31, 2015 was $126 million (2014: $199 million) all related to letters of credit issued in Chile (2014: $198 million), principally related to performance guarantees on delivery for prepaid equipment and other operational commitments.

# Five Year Financial Summary

| For years ended December 31 | 2015 [1] | 2014 | 2013 | 2012 | 2011 |
|---|---|---|---|---|---|
| **OPERATING RESULTS** ($ millions) | | | | | |
| Revenue [2] [3] [4] | | | | | |
| Canadian operations | $ 3,054 | $ 3,634 | $ 3,358 | $ 3,278 | $ 2,944 |
| South American operations [4] | 2,059 | 2,227 | 2,514 | 2,397 | 2,120 |
| UK & Ireland | 1,077 | 1,057 | 884 | 901 | 831 |
| Other | | | | | |
| **Total consolidated** | **$ 6,190** | **$ 6,918** | **$ 6,756** | **$ 6,576** | **$ 5,895** |
| EBITDA [2] [3] [5] | $ 126 | $ 720 | $ 737 | $ 701 | $ 548 |
| As a percent of revenue (EBITDA margin) | 2.0% | 10.4% | 10.9% | 10.7% | 9.3% |
| EBIT [2] [3] [5] | $ (105) | $ 504 | $ 521 | $ 489 | $ 374 |
| As a percent of revenue (EBIT margin) | (1.7)% | 7.3% | 7.7% | 7.4% | 6.3% |
| Net income [2] [3] [5] | $ (161) | $ 318 | $ 335 | $ 327 | $ 251 |
| As a percent of revenue | (2.6)% | 4.6% | 5.0% | 5.0% | 4.3% |
| Invested capital | $ 3,240 | $ 3,106 | $ 3,138 | $ 3,131 | $ 2,320 |
| Inventory | $ 1,800 | $ 1,661 | $ 1,756 | $ 1,930 | $ 1,443 |
| Free cash flow | $ 325 | $ 483 | $ 441 | $ (37) | $ (221) |
| **RATIOS** [7] | | | | | |
| Return on invested capital | (3.0)% | 15.3% | 15.7% | 16.5% | 16.0% |
| Invested capital turnover | 1.75x | 2.10x | 2.04x | 2.22x | 2.53x |
| Inventory turns | 2.26x | 2.81x | 2.74x | 2.43x | 2.95x |
| Working capital to sales | 32.7% | 26.1% | 26.5% | 24.5% | 22.8% |
| Net debt to invested capital | 36.7% | 31.4% | 40.8% | 50.0% | 42.0% |
| Net debt to EBITDA | 9.5 | 1.4 | 1.7 | 2.2 | 1.8 |
| **SHARE AND PER SHARE DATA** | | | | | |
| Earnings per common share [2] [3] [5] | | | | | |
| Basic | $ (0.94) | $ 1.85 | $ 1.95 | $ 1.90 | $ 1.47 |
| Diluted | $ (0.94) | $ 1.84 | $ 1.94 | $ 1.90 | $ 1.46 |
| Dividends per common share | $ 0.7250 | $ 0.6850 | $ 0.5975 | $ 0.55 | $ 0.51 |
| Common Share Price | | | | | |
| High | $ 25.67 | $ 33.90 | $ 27.68 | $ 29.97 | $ 30.25 |
| Low | $ 17.60 | $ 23.09 | $ 20.37 | $ 21.68 | $ 18.55 |
| Year end | $ 18.68 | $ 25.23 | $ 27.15 | $ 24.57 | $ 22.21 |
| Common shares outstanding (thousands) | 168,031 | 172,370 | 172,014 | 171,910 | 171,574 |
| **NUMBER OF EMPLOYEES** [6] | | | | | |
| Canada | 5,017 | 5,703 | 5,698 | 6,061 | 5,435 |
| South America | 6,253 | 6,937 | 7,463 | 7,422 | 6,453 |
| UK and Ireland | 1,660 | 1,790 | 1,677 | 1,814 | 1,626 |
| Head Office | 73 | 65 | 86 | 85 | 78 |
| **Total** | **13,003** | **14,495** | **14,924** | **15,382** | **13,592** |
| Revenue per employee [7] [8] | $ 476 | $ 477 | $ 453 | $ 427 | $ 434 |
| Net income per employee [7] [8] | $ (12) | $ 22 | $ 22 | $ 21 | $ 18 |

These results have been prepared in accordance with International Financial Reporting Standards.

(1) 2015 reported financial metrics were impacted by a number of significant items management does not consider indicative of operational and financial trends either by nature or amount. These significant items are described on page 3 of the Management Discussion & Analysis; of the significant items described, $10 million was recorded in depreciation and amortization expense. Excluding the significant items not included in depreciation and amortization annual 2015 EBITDA would have been $604 million and Net Debt to EBITDA ratio would have been 2.0x.

(2) In July 2015, the Company's Canadian operations acquired the operating assets of Kramer Ltd., the results of the acquired dealership business in Saskatchewan have been included in the Company's Canadian operations segment since the date of acquisition. In July 2014, the Company's UK & Ireland operations acquired SITECH. In February 2012, the Company acquired Damar, an engineering company specializing in the water utility sector in the U.K. In May 2012, the Company acquired the former Bucyrus distribution and support business in its dealership territories of South America and in the U.K. In October 2012, the Company acquired the former Bucyrus distribution and support business in its Canadian dealership territory. The results of operations and financial position of these acquired businesses have been included in the figures above since the date of acquisition.

(3) In December 2015, the Company sold its wholly owned subsidiary, Finning Uruguay S.A. (Uruguay dealership). The results of the Uruguay dealership have been included in the Company's South American operations segment up until the date of sale.

(4) The Company's South American operations began to export an agricultural product from Argentina in 2012 in response to the Argentinean government's efforts to balance imports and exports and to manage access to foreign currency exchange. In 2013, the Company reclassified the export revenues and expenses to other income and other expenses and has restated the results for the year ended December 31, 2012. The Company has not exported agricultural product since Q3 2013.

(5) In 2013, the Company retrospectively applied the amendments to IAS 19, Employee Benefits to January 1, 2010, the date of IFRS adoption and have restated the results for 2012 and 2011.

(6) Number of employees includes all employees up to the point of sale or since acquisition.

(7) These financial metrics do not have a standardized meaning under IFRS, and may not be comparable to similar measures used by other issuers.

(8) Revenue/net income per employee is calculated as revenue/net income divided by total number of employees.

## Board of Directors and Executive Officers

*As of February 18, 2016*

### BOARD OF DIRECTORS

**Marcelo A. Awad**
Santiago, Chile
Director since: 2014

**James E.C. Carter**, O.C.
Edmonton, AB, Canada
Director since: 2007

**Jacynthe Côté**
Candiac, PQ, Canada
Director since: 2014

**Nicholas Hartery**
Limerick, Republic of Ireland
Director since: 2014

**Kevin A. Neveu**
Calgary, AB, Canada
Director since: 2013

**Kathleen M. O'Neill**
Toronto, ON, Canada
Director since: 2007

**Christopher W. Patterson**
Bonita Springs, FL, USA
Director since: 2010

**John M. Reid**
Vancouver, BC, Canada
Director since: 2006

**L. Scott Thomson**
Vancouver, BC, Canada
Director since: 2013

**Douglas W.G. Whitehead**
North Vancouver, BC, Canada
Director since: 1999
*Board Chair*

**Michael M. Wilson**
Bragg Creek, AB, Canada
Director since: 2013

### EXECUTIVE OFFICERS

**David W. Cummings**
Executive Vice President and Chief Information Officer, Finning International Inc.

**Chad Hiley**
Chief Human Resources Officer, Finning International Inc. and Senior Vice President, Human Resources, Finning Canada

**Marcello Marchese**
President, Finning South America

**Anna P. Marks**
Senior Vice President, Corporate Controller and Treasurer, Finning International Inc.

**Steven M. Nielsen**
Executive Vice President and Chief Financial Officer, Finning International Inc.

**Kevin Parkes**
Managing Director, Finning UK & Ireland

**J. Gail Sexsmith**
Corporate Secretary, Finning International Inc.

**L. Scott Thomson**
President and Chief Executive Officer, Finning International Inc.

**Juan Carlos Villegas**
President, Finning Canada and Chief Operating Officer, Finning International Inc.

## Shareholder Information

**Corporate Information**
Finning prepares an Annual Information Form which is filed with the securities commission. The Annual Information Form and quarterly reports are available in the Investors section of www.finning.com.

**Corporate Governance Information**
Please refer to Finning's management proxy circular in connection with the 2016 Annual Meeting of Shareholders and the Governance section of Finning's website at www.finning.com for a full discussion of Finning's corporate governance and corporate policies and practices.

**Code of Conduct**
One important way that Finning promotes our values and communicates the behaviours and actions expected from our employees is through our Code of Conduct. The Code provides a common set of principles and key policies to help guide day-to-day behaviour in support of our values. All employees are required to review the Code and affirm that they understand their role in upholding Finning's ethical standards. The Code of Conduct is available in the Governance section of www.finning.com.

**Annual General Meeting**
May 4, 2016
2:00 pm Pacific Time
Terminal City Club
837 West Hastings Street
Vancouver, British Columbia

**Investor Contact Information**
For inquiries related to Finning's operating activities and financial performance:

*Mauk Breukels*
Vice President, Investor Relations and Corporate Affairs
604-331-4934
investor_relations@finning.ca

For inquiries related to shares or dividends:
*Computershare Investor Services Inc.*

**Company Name**
Finning International Inc.

**Exchange / Symbol**
Toronto Stock Exchange (TSX: FTT)

**Filings**
SEDAR

**Head Office**
Suite 1000, 666 Burrard Street
Vancouver, British Columbia
Canada V6C 2X8
604-691-6444
www.finning.com

**Auditors**
Deloitte LLP

**Solicitors**
Borden Ladner Gervais LLP

**Transfer Agent and Registrar**
Computershare Investor Services Inc.
1-800-564-6253 (North America)
514-982-7555 (International)
service@computershare.com
www.computershare.com