

**Finning Reports Q1 2015 Results  
- Announces Acquisition of Caterpillar Dealership in Saskatchewan, Canada -**

**Vancouver, B.C.** – Finning International Inc. (TSX: FTT) reported first quarter 2015 results today (all monetary amounts are in Canadian dollars unless otherwise stated). Concurrent with this earnings release, the Company announced the agreement to purchase the operating assets of the Caterpillar dealership in Saskatchewan, Canada.

**Q1 2015 HIGHLIGHTS**

- Basic EPS<sup>(2)</sup> was \$0.31, which included severance and facility closure costs of \$0.08 per share, and a tax benefit from previously unrecognized tax losses of \$0.06 per share.
- In South America, the Company achieved a solid EBIT margin of 9.3%, up from 9.0% in Q1 2014, despite a 21% decrease in revenue in functional currency.
- In Canada, the Company has swiftly implemented cost reduction measures. As expected, Q1 2015 EBIT margin of 3.7% included significant severance and facility closure costs. Excluding these costs, Canada's EBIT margin of 5.8% was slightly below 6.0% in Q1 2014, while revenues declined by 12%.
- The Company intends to launch a share repurchase program, subject to regulatory approvals, reflecting the expectation of strong annual free cash flow<sup>(1)</sup>.
- The Company raised its annualized dividend by 2 cents to 73 cents per share, reflecting the expectation of strong annual free cash flow and sustainable earnings growth over the long-term.

**ACQUISITION HIGHLIGHTS**

- Finning will purchase the operating assets of the Caterpillar dealership of Kramer Ltd. and become the Caterpillar dealer in Saskatchewan.
- The transaction is valued at approximately \$230 million, subject to working capital adjustments, and will be funded with cash.
- The transaction is expected to close in July 2015, subject to customary closing conditions.
- In 2014, the acquired dealership business generated approximately \$275 million in revenue. The acquisition is immediately accretive to 2015 earnings.
- This acquisition represents a compelling strategic investment for Finning and provides a platform for long-term growth opportunities.

“Our ability to navigate uncertain market conditions during the first quarter of 2015, coupled with the acquisition of the Saskatchewan dealership, demonstrates our agility as we accelerate the execution of our operational excellence agenda and capitalize on this exciting opportunity,” said Scott Thomson, president and chief executive officer of Finning International. “During the first quarter, the South American team increased their profitability despite a significant reduction in new equipment revenue. Our Canadian operations have taken decisive actions to reduce their cost structure to lower activity levels, and will take further steps as necessary to align the organization to expected business conditions. I firmly believe that our continued focus on controlling costs and invested capital will enable us to deliver respectable results during a period of slow demand and strengthen the organization to realize its full potential when demand returns.”

“We continue to expect strong free cash flow in 2015 as we convert inventory into cash. Our healthy balance sheet gives us significant flexibility to fund the acquisition of the operating assets of the Saskatchewan dealership with cash, increase our dividend, and launch a share repurchase program,” continued Scott Thomson.

“This morning, we announced the addition of the Caterpillar dealership in Saskatchewan to our existing territory in Western Canada. This acquisition is a great strategic fit and represents a compelling growth opportunity for our company, employees, customers, and shareholders. We have a lot of respect for the Kramer family legacy and reputation. We will build on their strong heritage by growing the business, providing our customers with a great experience, and contributing to communities in Saskatchewan,” concluded Mr. Thomson.

## Q1 2015 FINANCIAL SUMMARY

\$ millions, except per share amounts	Three months ended Mar 31		
	2015	2014	% change
Revenue	<b>1,519</b>	1,676	(9)
EBIT	<b>75</b>	111	(32)
<i>EBIT margin</i>	<b>5.0%</b>	6.6%	
Net income	<b>53</b>	68	(22)
Basic EPS	<b>0.31</b>	0.39	(21)
EBITDA <sup>(1)(2)</sup>	<b>126</b>	166	(24)
Free cash flow	<b>(232)</b>	(134)	(73)

- Revenues of \$1.5 billion were down 9% from Q1 2014, with lower revenues in Canada and South America being partly offset by higher revenues from the UK & Ireland. New equipment sales decreased by 20% due to significantly lower mining volumes in South America and softer demand for new equipment in Canada, most notably in mining. Despite product support growth in South America and the UK & Ireland, consolidated product support revenues declined slightly, driven by reduced activity levels in Canada across all sectors, particularly in mining.
- Gross profit declined by 8%, in line with lower revenues. Gross profit margin<sup>(1)</sup> was 30.3%, up from 29.8% in Q1 2014, primarily due to a shift in revenue mix to higher margin product support revenues in South America and improved service profitability in Canada. This increase was partially offset by lower gross profit margins in some lines of business compared to Q1 2014, reflecting customer focus on reducing operating costs in a challenging market environment and increased competitive pressures.
- SG&A of \$386 million was comparable to Q1 2014 and included global severance costs of approximately \$17 million, associated with global workforce reduction of just under 600 people, as well as facility closure costs in Canada of about \$2 million. Since the beginning of the year to date, headcount has been reduced by more than 750 people across the organization.
- EBIT of \$75 million declined from \$111 million, and EBIT margin of 5.0% was below 6.6% in Q1 2014. Excluding \$19 million of severance and facility closure costs, Q1 2015 EBIT margin would have been 6.2%.
- Basic EPS declined to \$0.31 per share from \$0.39 per share in Q1 2014. Severance and facility closure costs discussed above reduced Q1 2015 EPS by approximately \$0.08 per share. The effective tax rate was 5.1% compared to 24.8% in Q1 2014, due to a \$10 million tax benefit from previously unrecognized tax losses, which resulted in a \$0.06 per share positive impact on Q1 2015 EPS.
- Quarterly free cash flow was a \$232 million use of cash compared to a \$134 million cash outflow in Q1 2014, reflecting weaker market conditions and higher equipment inventory in Canada. Net debt to invested capital was 36.0% at the end of Q1 2015 compared to 42.9% at Q1 2014.

	Q1 2015	Q4 2014	Q1 2014
Invested capital (\$ millions)	<b>3,541</b>	3,106	3,414
Invested capital turnover <sup>(1)</sup> (times)	<b>2.03</b>	2.10	2.06
<b>Return on invested capital<sup>(1)</sup> (%)</b>			
Consolidated	<b>14.1</b>	15.3	15.4
Canada	<b>15.3</b>	17.1	15.7
South America	<b>14.4</b>	14.6	17.0
UK & Ireland	<b>14.7</b>	16.3	16.3

- Invested capital increased by \$435 million from Q4 2014 (up by approximately \$300 million excluding the impact of foreign exchange), largely due to higher equipment inventory in Canada, reflecting lower than expected sales in Q1 2015 as a result of soft market conditions. Invested capital turnover declined to 2.03 times from 2.10 times in Q4 2014, mostly due to lower revenues and higher equipment inventory levels in Canada. ROIC decreased to 14.1% from 15.3% in Q4 2014, reflecting severance, facility closure costs, and lower earnings in Q1 2015.

- Order backlog<sup>(1)</sup> was \$0.9 billion at the end of Q1 2015, down from \$1.0 billion at the end of Q4 2014, primarily due to lower order intake in Canada in response to softening market conditions. In South America, order intake and backlog remained very low. In the UK & Ireland, order intake has strengthened in Q1 2015, driving order backlog to record levels.

## **Q1 2015 HIGHLIGHTS BY OPERATION**

### ***Canada***

- Revenues declined by 12%, reflecting lower revenues in all lines of business, except used equipment. Product support revenues were down 14%, primarily as a result of lower parts sales across all sectors, particularly in mining, as well as lower service revenues. New equipment sales decreased by 10% due to lower mining volumes compared to Q1 2014, and reduced demand from construction, which was partly offset by higher power systems deliveries. Rental revenues were 26% below Q1 2014, reflecting softening in the short-term rental market and increased competition.
- Gross profit declined, reflecting lower revenues and lower margins in most lines of business. Difficult market conditions, accompanied by a sharp and rapid depreciation of the Canadian dollar relative to the U.S. dollar, led to increased competition and challenging pricing dynamics. In addition, customer focus on reducing equipment maintenance and repair costs has put pressure on parts margins, most notably in mining. However, gross profit margins in service improved from Q1 2014 as a result of continued progress with the execution of the operational excellence agenda.
- The Canadian operations took decisive steps in Q1 2015 to align its cost structure with lower activity levels. Since the beginning of the year to date, the Canadian workforce has been reduced by more than 600 employees or over 10%. The workforce reduction in Q1 totalled nearly 550 employees, resulting in severance costs of approximately \$15 million. In addition, the Company incurred about \$2 million of facility closure costs in Q1 2015. The Canadian operations closed 10 facilities during Q1 2015, and announced the closure of additional 5 facilities expected by the end of Q2 2015. SG&A costs decreased 7%, reflecting lower sales volumes, cost savings from the execution of the operational excellence agenda, and the benefit of greater hedging activity to manage U.S. dollar exposures. These were partially offset by severance and facility closure costs mentioned above. EBIT decreased to \$29 million from \$54 million in Q1 2014 as a result of lower revenues and gross profit, as well as severance and facility closure costs. EBIT margin of 3.7% was below 6.0% in Q1 2014. Excluding \$17 million of severance and facility closure costs, EBIT margin would have been 5.8%. The Company will continue to reduce costs and streamline its branch network as necessary to align with expected activity levels.
- Invested capital increased by about \$320 million from Q4 2014, primarily driven by higher equipment inventory due to lower than expected sales in Q1 2015 and the arrival of equipment ordered before the unexpected drop in demand late in 2014. This increase, combined with lower revenues, resulted in a decline in invested capital turnover to 2.09 times from 2.19 times in Q4 2014. The Canadian operations are focused on reducing inventory levels to match lower demand. ROIC decreased to 15.3% from 17.1% in Q4 2014, reflecting lower earnings and severance and facility closure costs in Q1 2015, combined with slightly higher average invested capital over the last four quarters.

### ***South America***

- Revenues declined by 11% (down 21% in functional currency – US dollars), driven by a 52% reduction in new equipment sales (down 58% in functional currency), mainly due to significantly lower demand from mining. New equipment sales to construction and power systems sectors were also below Q1 2014. Product support revenues were up 16% (3% in functional currency), driven by higher parts sales in mining, as mining customers continue to maintain production levels while focusing on controlling operating costs.
- EBIT declined by 8% to \$45 million (down 19% in functional currency), reflecting lower new equipment sales. EBIT margin of 9.3% was up from 9.0% in Q1 2014, primarily due to the shift in revenue mix to higher margin product support, as well as cost reduction measures taken in 2014.
- Invested capital was up by about \$70 million compared to Q4 2014. In functional currency, invested capital was down by US\$45 million, driven mostly by lower accounts receivable in line with reduced volumes. Invested capital turnover of 1.62 times and ROIC of 14.4% declined slightly from Q4 2014 due to reduced revenues and EBIT.

## **United Kingdom & Ireland**

- Revenues rose by 6% (up 3% in functional currency – U.K. Pound Sterling). In functional currency, new equipment sales were up slightly, and product support revenues were 5% higher, driven primarily by power systems.
- EBIT of \$7 million was \$4 million below Q1 2014. EBIT margin was 3.1% compared to 4.9% a year ago, reflecting a lower gross profit margin due to a low-margin power systems contract, severance costs, and a very competitive market.
- Invested capital rose by \$46 million from Q4 2014 (up £18 million in functional currency), driven by higher new equipment inventory, which is supported by strong order intake in Q1 2015.

## **CORPORATE AND BUSINESS DEVELOPMENTS**

### **Acquisition of Caterpillar Dealership in Saskatchewan**

On May 6, 2015, Finning announced that it has been approved to become the Caterpillar dealer in Saskatchewan in July 2015, subject to customary closing conditions. The Company has reached an agreement to purchase the operating assets of the Caterpillar dealership of Kramer Ltd., for approximately \$230 million, subject to working capital adjustments. In 2014, the acquired dealership business generated approximately \$275 million in revenue. The acquisition is immediately accretive to Finning's 2015 earnings, and will be funded with cash. After 70 years of service in Saskatchewan, the Kramer family has decided to retire from the equipment dealership business.

This transaction represents a compelling strategic investment for Finning given the highly complementary market segments and customer bases of the Kramer and Finning organizations. The acquisition expands Finning's Western Canada operations into a contiguous territory, and provides a platform for long-term growth opportunities and diversification into new markets. Kramer's well-established customer relationships and understanding of the local market, combined with Finning's product support infrastructure and capabilities along the Alberta and Saskatchewan border, are expected to drive growth and enhance value for customers.

As part of a broader repositioning of the Caterpillar dealership network, Finning expects to transition out of Uruguay, which generates approximately US\$30 million in annual revenue. The Company will provide further updates as they become available. During this transition period, Finning will continue as Caterpillar's dealer in Uruguay until a new one is selected that will ensure continuity of unmatched support for customers.

### **Dividend**

The Board of Directors has approved a 2.8% increase in the quarterly dividend to \$0.1825 per share from \$0.1775 per share, payable on June 4, 2015 to shareholders of record on May 21, 2015. This dividend will be considered an eligible dividend for Canadian income tax purposes.

### **CFO appointment**

On March 30, 2015, Finning appointed Steven M. Nielsen as the Company's executive vice president and chief financial officer. Mr. Nielsen brings to Finning extensive executive leadership experience in finance and operations roles across diverse industries. As chief financial officer for Univar, a global distributor of chemicals with over \$10 billion in revenue, Mr. Nielsen played an instrumental role in leading the organization to higher growth and spearheading the company's efforts to improve working capital performance. Prior to Univar, Mr. Nielsen gained significant executive experience in various senior roles at Sprint Nextel Corporation, a U.S. telecommunications company with over \$35 billion in revenue. Mr. Nielsen is a Chartered Global Management Accountant (CGMA) and member of the American Institute of Certified Public Accountants (AICPA) and holds a Bachelor of Arts degree.

**SELECTED CONSOLIDATED FINANCIAL INFORMATION**  
**(C\$ millions, except per share amounts)**

	<b>Three months ended Mar 31</b>		
	<b>2015</b>	2014	% change
Revenue			
New equipment	<b>551</b>	693	(20)
Used equipment	<b>67</b>	59	14
Equipment rental	<b>71</b>	87	(19)
Product support	<b>826</b>	830	(1)
Other	<b>4</b>	7	
<b>Total revenue</b>	<b>1,519</b>	1,676	(9)
<b>Gross profit</b>	<b>460</b>	499	(8)
<i>Gross profit margin</i>	<b>30.3%</b>	29.8%	
SG&A	<b>(386)</b>	(388)	1
<i>SG&amp;A as a percentage of revenue</i>	<b>(25.4)%</b>	(23.2)%	
Equity earnings of joint venture and associate	<b>1</b>	1	
Other expenses	<b>0</b>	(1)	
<b>EBIT</b>	<b>75</b>	111	(32)
<i>EBIT margin</i>	<b>5.0%</b>	6.6%	
<b>Net income</b>	<b>53</b>	68	(22)
<b>Basic EPS</b>	<b>0.31</b>	0.39	(21)
<b>EBITDA</b>	<b>126</b>	166	(24)
<b>Free cash flow</b>	<b>(232)</b>	(134)	(73)
	<b>Mar 31, 15</b>	Dec 31, 14	
Invested capital	<b>3,541</b>	3,106	
Invested capital turnover (times)	<b>2.03</b>	2.10	
Net debt to invested capital	<b>36.0%</b>	31.4%	
Return on invested capital	<b>14.1%</b>	15.3%	

To download Finning's complete Q1 2015 results in PDF, please open the following link:  
<http://media3.marketwire.com/docs/FinningQ115results.pdf>

## **Q1 2015 RESULTS INVESTOR CALL**

The Company will hold an investor call on Wednesday, May 6 at 11:00 am Eastern Time. Dial-in numbers: 1-800-766-6630 (within Canada and the US) or 416-340-8527 (Toronto area and overseas). The call will be webcast live and subsequently archived at [www.finning.com](http://www.finning.com). Playback recording will be available at 1-800-408-3053 until May 13, 2015. The pass code to access the playback recording is 2002822 followed by the number sign.

## **ABOUT FINNING**

Finning International Inc. (TSX: FTT) is the world's largest Caterpillar equipment dealer delivering unrivalled service to customers for over 80 years. Finning sells, rents, and provides parts and services for equipment and engines to help customers maximize productivity. Headquartered in Vancouver, B.C., the Company operates in Western Canada, Chile, Argentina, Bolivia, Uruguay, as well as in the United Kingdom and Ireland.

## **CONTACT INFORMATION**

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## **FOOTNOTES**

- (1) These financial metrics do not have a standardized meaning under International Financial Reporting Standards, which are also referred to herein as generally accepted accounting principles (GAAP), and may not be comparable to similar measures used by other issuers. The Company's Management's Discussion and Analysis (MD&A) includes additional information regarding these financial metrics, including definitions, under the heading "Description of Non-GAAP and Additional GAAP Measures".
- (2) Earnings Before Finance Costs and Income Taxes (EBIT); Earnings per Share (EPS); Earnings Before Finance Costs, Income Taxes, Depreciation and Amortization (EBITDA); Selling, General & Administrative Expenses (SG&A); Return on Invested Capital (ROIC).

## 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; expected revenue; expected free cash flow; EBIT margin; 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 timing and financial impact from the proposed acquisition of the operating assets of the Caterpillar dealership in Saskatchewan. 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 May 6, 2015. 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 Caterpillar's products and Caterpillar's 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 revenues occur; Finning's ability to reduce costs in response to slowing activity levels; Finning's ability to attract sufficient skilled labour resources to meet growing product support demand; 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 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.

# MANAGEMENT'S DISCUSSION AND ANALYSIS

May 6, 2015

This Management's Discussion and Analysis (MD&A) of Finning International Inc. (Finning or the Company) should be read in conjunction with the interim condensed consolidated financial statements and accompanying notes thereto, which have been prepared in accordance with International Accounting Standard (IAS) 34, *Interim Financial Reporting*. All dollar amounts presented in this MD&A are expressed in Canadian dollars, unless otherwise stated. Additional information relating to the Company, including its current Annual Information Form (AIF), can be found on the SEDAR (System for Electronic Document Analysis and Retrieval) website at [www.sedar.com](http://www.sedar.com).

## 2015 First Quarter Overview

	2015	2014	2015	2014
	(\$ millions)		(% of revenue)	
Revenue	\$ 1,519	\$ 1,676		
Gross profit	460	499	30.3%	29.8%
Selling, general & administrative expenses (SG&A)	(386)	(388)	(25.4)%	(23.2)%
Equity earnings of joint venture and associate	1	1	0.1%	0.1%
Other expenses	—	(1)	0.0%	(0.1)%
Earnings before finance costs and income taxes (EBIT) <sup>(1)</sup>	75	111	5.0%	6.6%
Finance costs	(19)	(21)	(1.3)%	(1.2)%
Provision for income taxes	(3)	(22)	(0.2)%	(1.3)%
Net income	\$ 53	\$ 68	3.5%	4.1%
Basic earnings per share (EPS)	\$ 0.31	\$ 0.39		
Earnings before finance costs, income taxes, depreciation and amortization (EBITDA) <sup>(1)</sup>	\$ 126	\$ 166	8.3%	9.9%
Free cash flow <sup>(1)</sup>	\$ (232)	\$ (134)		

## 2015 First Quarter Highlights

- Revenues of \$1.5 billion were down 9% from Q1 2014 driven mainly by a 20% decrease in new equipment revenues, reflecting reduced mining activity in the Company's South American and Canadian operations. Product support revenues were slightly below Q1 2014, with a decline across all sectors in the Company's Canadian operations offsetting the increase from the Company's South American and UK & Ireland operations.
- EBIT of \$75 million, down from \$111 million in Q1 2014, included severance and facility closure costs of \$19 million. These costs were reflected in a lower EBIT margin<sup>(1)</sup> of 5.0% compared to 6.6% earned in the first quarter of 2014. Excluding these costs, EBIT and EBIT margin would have been \$94 million and 6.2%.
  - In Canada, the Company implemented cost reduction measures and made progress on the execution of its operational excellence agenda. Severance and facility closure costs were \$17 million, reflecting actions taken by the Company's Canadian operations to align its cost structure to lower activity levels.
  - The Company's South American operations achieved a solid EBIT margin of 9.3% despite a 21% decrease in revenue in functional currency, reflecting actions taken in 2013 and 2014 to align costs to lower activity levels.
- Basic EPS decreased to \$0.31 from \$0.39 earned in Q1 2014 with lower operating results and the negative impact from severance and facility closure costs of \$0.08 per share partially offset by a tax benefit from previously unrecognized capital tax losses of \$0.06 per share.
- The Company's free cash flow in Q1 2015 was a use of cash of \$232 million compared to \$134 million in Q1 2014, reflecting higher equipment inventory in the Company's Canadian operations due to lower than expected sales and the arrival of equipment ordered in 2014 before the unexpected drop in demand.
- Return on invested capital (ROIC)<sup>(1)</sup> decreased to 14.1% from 15.3% in Q4 2014, reflecting severance, facility closure costs, and lower earnings on slightly higher average invested capital levels.
- The Company intends to launch a share repurchase program, subject to regulatory approvals, reflecting the strong expectation of free cash flow.

<sup>(1)</sup> These financial metrics do not have a standardized meaning under International Financial Reporting Standards (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 and Additional GAAP Measures" later in this MD&A.



## Acquisition Highlights

- Finning will purchase the operating assets of the Caterpillar dealership of Kramer Ltd. and become the Caterpillar dealer in Saskatchewan.
- The transaction is valued at approximately \$230 million, subject to working capital adjustments, and will be funded with cash. The transaction is expected to close in July 2015, subject to customary closing conditions.
- In 2014, the acquired dealership business generated approximately \$275 million in revenue. The acquisition is immediately accretive to 2015 earnings.
- This acquisition represents a compelling strategic investment for Finning and provides a platform for long-term growth opportunities.

## Key Performance Measures

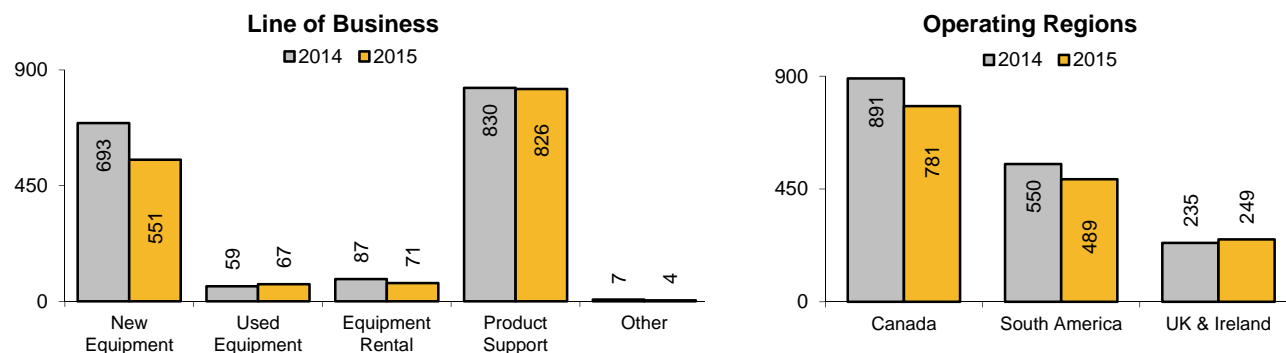
The Company is focused on building shareholder value by improving return on invested capital. With safety and talent management as the foundation, management is executing on the following operational priorities: customer & market leadership; supply chain optimization; service excellence; and asset utilization. These priorities are linked directly to improving EBIT performance and capital efficiency. The Company has aligned its 2015 employee incentive plans to these priorities, and defined the following key performance indicators (KPIs) to consistently measure progress on performance across the organization.

	2015	2014				2013			
	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
<b>Return on Invested Capital</b>									
Consolidated	14.1%	15.3%	15.4%	16.0%	15.4%	15.7%	15.8%	15.8%	16.2%
Canada	15.3%	17.1%	16.8%	16.6%	15.7%	15.9%	15.9%	15.5%	16.3%
South America	14.4%	14.6%	15.8%	17.4%	17.0%	17.6%	17.9%	18.1%	18.4%
UK & Ireland	14.7%	16.3%	15.6%	15.9%	16.3%	16.4%	16.8%	15.4%	15.3%
<b>EBIT</b>									
EBIT (\$ millions)									
Consolidated	75	142	114	137	111	145	136	123	117
Canada	29	73	80	77	54	69	76	61	57
South America	45	59	32	57	50	76	56	59	57
UK & Ireland	7	11	14	14	12	8	12	13	10
EBIT Margin									
Consolidated	5.0%	7.9%	6.8%	7.8%	6.6%	8.1%	7.6%	7.6%	7.5%
Canada	3.7%	7.7%	9.2%	8.3%	6.0%	7.9%	7.9%	7.9%	7.5%
South America	9.3%	9.8%	6.2%	10.0%	9.0%	11.3%	9.4%	9.5%	9.3%
UK & Ireland	3.1%	4.3%	4.8%	5.1%	4.9%	3.3%	5.3%	5.7%	5.4%
<b>Invested Capital</b>									
Invested Capital <sup>(1)</sup> (\$ millions)									
Consolidated	3,541	3,106	3,340	3,334	3,414	3,138	3,342	3,443	3,317
Canada	1,794	1,475	1,714	1,756	1,682	1,488	1,716	1,740	1,663
South America	1,417	1,348	1,298	1,274	1,443	1,391	1,379	1,454	1,419
UK & Ireland	330	284	344	309	296	265	268	259	256
Invested Capital Turnover <sup>(1)</sup> (times)									
Consolidated	2.03x	2.10x	2.09x	2.12x	2.06x	2.04x	2.03x	2.01x	2.12x
Canada	2.09x	2.19x	2.15x	2.20x	2.11x	2.03x	1.95x	1.92x	2.13x
South America	1.62x	1.66x	1.71x	1.74x	1.73x	1.78x	1.86x	1.87x	1.88x
UK & Ireland	3.38x	3.43x	3.43x	3.43x	3.41x	3.37x	3.27x	3.12x	3.13x
Inventory (\$ millions)									
Consolidated	1,973	1,661	1,806	1,835	1,945	1,756	1,904	1,978	1,911
Inventory Turns <sup>(1)</sup> (times)									
Consolidated	2.57x	2.81x	2.64x	2.56x	2.61x	2.74x	2.44x	2.23x	2.38x
Working Capital to Sales Ratio <sup>(1)</sup>									
Consolidated	27.3%	26.1%	26.0%	25.5%	26.3%	26.5%	26.7%	27.0%	25.4%
Free Cash Flow (\$ millions)									
Consolidated	(232)	385	109	123	(134)	365	163	6	(93)
Net Debt to Invested Capital Ratio <sup>(1)</sup>									
Consolidated	36.0%	31.4%	39.4%	40.9%	42.9%	40.8%	47.8%	50.6%	51.1%
Net Debt to EBITDA Ratio <sup>(1)</sup>									
Consolidated	1.9	1.4	1.8	1.8	2.0	1.7	2.2	2.4	2.3

<sup>(1)</sup> 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 and Additional GAAP Measures" later in this MD&A.

## Revenue

Three months ended March 31  
(\$ millions)



The Company generated revenue of \$1.5 billion during the first three months of 2015, a decrease of 9% from Q1 2014, driven primarily by a decrease in new equipment revenues in the Company's South American and Canadian operations, as well as a decrease in product support in the Company's Canadian operations.

Foreign exchange had a positive impact on revenue of approximately \$100 million, mainly due to the 12% weaker Canadian dollar relative to the U.S. dollar and 3% weaker Canadian dollar relative to the U.K. pound sterling for the first quarter of 2015 compared to last year.

New equipment sales were down 20% compared to the first quarter of 2014. In South America, concerns regarding the price of copper, driven by lower demand, and higher production costs in copper mining continue to delay investments in new projects. As a result, demand for new equipment in the South American mining sector is down significantly from early 2014. In Canada, new equipment revenue was also down as a result of higher mining deliveries in the first quarter of 2014, with increased power systems demand in 2015 offset by a decrease in construction. In the UK & Ireland, new equipment revenue was relatively flat compared to the prior year.

The equipment order backlog<sup>(1)</sup> was \$0.9 billion at the end of March 2015, down from \$1.0 billion at the end of 2014, primarily due to lower order intake in Canada in response to softening market conditions. In South America, order intake and backlog remained very low. Order intake strengthened in the UK & Ireland, driving order backlog to record levels.

Rental revenue decreased by 19% compared to the first three months of 2014, primarily due to softening in the 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 compared to the first quarter of 2014.

Product support revenue was down slightly from the same period in 2014 with increases in the Company's South American and UK & Ireland operations, together with the foreign exchange benefit from translating revenues with a weaker Canadian dollar, being more than offset by a 14% decrease in the Company's Canadian operations, due principally to a slowdown in the Canadian mining sector. Product support revenue in the Company's South American operations was up 16% in Canadian dollars and 3% in functional currency (U.S. dollars), primarily due to an increase in parts revenue in the mining sector. Product support revenue in the Company's UK & Ireland operations was up 8% in Canadian dollars and 5% in functional currency (U.K. pound sterling).

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

## Earnings Before Finance Costs and Income Taxes

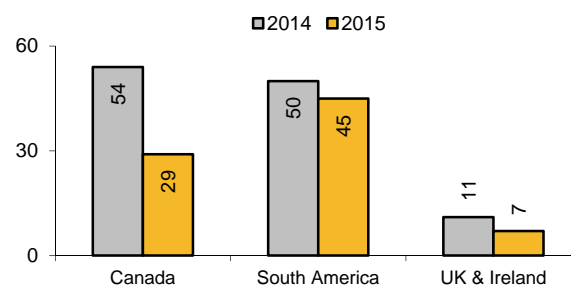
On a consolidated basis, EBIT of \$75 million in the first three months of 2015 was 32% lower than the \$111 million earned in the same period of 2014, reflecting severance and facility closure costs of \$19 million, and lower earnings primarily from the Company's Canadian operations as a result of reduced market activity.

Gross profit of \$460 million in the first quarter of 2015 was down 8% compared to 2014, primarily due to lower new equipment and rental volumes, described above. Gross profit margin<sup>(2)</sup> was 30.3%, up from 29.8% in the first three months of 2014, primarily due to a favourable revenue mix shift to higher margin product support revenues in the Company's South American operations and improved service profitability in the Company's Canadian operations. This increase was partially offset by lower gross profit margins in some lines of business compared to Q1 2014, reflecting customers' focus on reducing operating costs in a challenging market environment and increased competitive pressures.

SG&A costs of \$386 million were comparable to the first quarter of 2014 on 9% lower revenues. Actions have been taken across all operations to reduce our cost structure to reflect lower market activity. As a result, SG&A in Q1 2015 included severance costs in all operations of \$17 million and facility closure costs in the Company's Canadian operations of \$2 million, an increase from \$2 million of severance costs incurred in Q1 2014. Volume-related decreases, global costs savings from operational improvements, and the benefit from greater hedging activity in Canada to manage U.S. dollar exposures were partially offset by inflationary cost increases in South America.

The Company's EBIT margin was 5.0% in the first quarter of 2015, down from 6.6% in the same period of 2014, driven mainly by the actions taken in the quarter to reduce the Company's cost structure, as discussed above. Excluding severance and facility closure costs, EBIT margin would have been 6.2% in Q1 2015.

**EBIT by Operation<sup>(1)</sup>**  
Three months ended March 31  
(\$ millions)



## Finance Costs

Finance costs in the first three months ended March 31, 2015 of \$19 million were marginally lower than the \$21 million reported in the same period of 2014.

## Provision for Income Taxes

The effective income tax rate for the first quarter of 2015 was 5.1%, down from 24.8% in the prior year. During the first quarter of 2015, the Company's provision for income taxes included a \$10 million benefit from previously unrecognized tax losses to offset taxable amounts recorded in the first quarter of 2015. Adjusting for this benefit, the effective tax rate in the first quarter of 2015 would have been 22.6%.

## Net Income

Net income was \$53 million in the first quarter of 2015, down from the \$68 million of net income earned in the same period last year. Basic EPS was \$0.31 per share compared with \$0.39 per share in the first quarter of 2014. The decrease in net income and basic EPS compared to the first quarter of 2014 was primarily the result of lower EBIT, reflecting the challenging economic conditions in Canada and South America. In addition, the first quarter 2015 results included severance and facility closure costs (\$0.08 per share), which were partially offset by a lower provision for income taxes (\$0.06 per share).

<sup>(1)</sup> Excluding other operations – corporate head office

<sup>(2)</sup> These financial metrics do not have a standardized meaning under IFRS. For additional information regarding these financial metrics, see the heading "Description of Non-GAAP and Additional GAAP Measures" later in this MD&A.

## Invested Capital

(\$ millions, unless otherwise stated)	March 31, 2015	December 31, 2014	Increase (Decrease) from December 31, 2014	March 31, 2014	Increase (Decrease) from March 31, 2014
Consolidated	\$ 3,541	\$ 3,106	\$ 435	\$ 3,414	\$ 127
Canada	\$ 1,794	\$ 1,475	\$ 319	\$ 1,682	\$ 112
South America	\$ 1,417	\$ 1,348	\$ 69	\$ 1,443	\$ (26)
UK & Ireland	\$ 330	\$ 284	\$ 46	\$ 296	\$ 34
South America (U.S. dollar)	\$ 1,117	\$ 1,162	\$ (45)	\$ 1,306	\$ (189)
UK & Ireland (U.K. pound sterling)	£ 175	£ 157	£ 18	£ 161	£ 14

The increase in consolidated invested capital of \$435 million from Q4 2014 to Q1 2015 was impacted by approximately \$135 million of foreign exchange, primarily from a 9% weakening of the Canadian dollar relative to the U.S. dollar in translating the Company's South American operations' invested capital balances. Excluding the impact of foreign exchange, consolidated invested capital increased by approximately \$300 million primarily the result of higher equipment inventory in the Company's Canadian operations due to lower than expected sales and the arrival of equipment ordered in 2014 before the unexpected drop in demand.

In functional currency, invested capital in the Company's South American operations decreased 4% (increased 5% in Canadian dollars), primarily the result of lower accounts receivable in line with reduced volumes. Invested capital was up 11% (up 16% in Canadian dollars) in the UK & Ireland operations from December 2014, driven by higher new equipment inventory, which is supported by strong order intake in Q1 2015.

Revenue levels declined more than anticipated due to weaker market conditions, while average invested capital levels increased slightly over the last four quarters. As a result, invested capital turnover in the first quarter of 2015 declined to 2.03 times from 2.10 times in Q4 2014. The decline in invested capital turnover, together with lower EBIT margin, resulted in ROIC of 14.1% in Q1 2015, down from 15.3% in Q4 2014.

## 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, Yukon, Northwest Territories, and a portion of Nunavut.
- *South American operations:* Chile, Argentina, Uruguay, 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.

Three months ended March 31, 2015 (\$ millions)	Canada	South America	UK & Ireland	Consolidated	Revenue percentage
New equipment	\$ 305	\$ 103	\$ 143	\$ 551	36%
Used equipment	44	8	15	67	4%
Equipment rental	47	17	7	71	5%
Product support	385	360	81	826	55%
Other	—	1	3	4	0%
<b>Total</b>	<b>\$ 781</b>	<b>\$ 489</b>	<b>\$ 249</b>	<b>\$ 1,519</b>	<b>100%</b>
Revenue percentage by operations	52%	32%	16%	100%	

Three months ended March 31, 2014 (\$ millions)	Canada	South America	UK & Ireland	Consolidated	Revenue percentage
New equipment	\$ 340	\$ 216	\$ 137	\$ 693	41%
Used equipment	42	5	12	59	4%
Equipment rental	63	18	6	87	5%
Product support	444	311	75	830	50%
Other	2	—	5	7	0%
<b>Total</b>	<b>\$ 891</b>	<b>\$ 550</b>	<b>\$ 235</b>	<b>\$ 1,676</b>	<b>100%</b>
Revenue percentage by operations	53%	33%	14%	100%	

## Canadian Operations

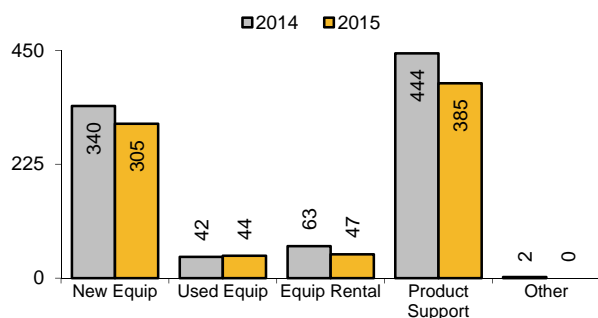
The Canadian reportable segment includes Finning (Canada), OEM Remanufacturing Company Inc. (OEM), and a 25% interest in Pipeline Machinery International (PLM). Finning (Canada) sells, services, and rents mainly Caterpillar equipment and engines in British Columbia, Alberta, Yukon, Northwest Territories,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

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

Three months ended March 31 (\$ millions)	2015	2014
Revenue from external sources	\$ 781	\$ 891
Operating costs	(727)	(811)
Depreciation and amortization	(25)	(28)
Equity earnings of joint venture	—	2
<b>Earnings before finance costs and income taxes</b>	<b>\$ 29</b>	<b>\$ 54</b>
EBIT		
- as a percentage of revenue	3.7%	6.0%
- as a percentage of consolidated EBIT	38%	49%

## Canada – Revenue by Line of Business

Three months ended March 31  
(\$ millions)



First quarter 2015 revenues of \$781 million decreased 12% compared to the first quarter of 2014. Softening market conditions across most lines of business, combined with the rapid and significant weakening of the Canadian dollar relative to the U.S. dollar in Q1 2015, have led to increased competition and challenging pricing dynamics. Lower commodity prices contributed to a slowdown in the oil and gas sector. This slowdown has impacted the oil sands and associated contractor business, with producers reducing capital spending, insourcing some service-related activities, and postponing maintenance.

Product support revenue was down in all markets and decreased 14% from the first quarter of 2014, driven primarily by lower demand for parts.

New equipment revenue was down 10% in the first three months of 2015 compared with the same period in 2014, largely as a result of higher mining deliveries in the first quarter of 2014 and reduced demand from construction in Q1 2015 offsetting increased power systems revenues.

Order intake was down approximately 40% from Q4 2014. This decline was reflected in lower order backlog levels at March 31, 2015, down 22% from December 2014.

Difficult economic and market conditions, including the weakening Canadian dollar and lower commodity prices, have led to increased competition and challenging pricing dynamics. The weaker Canadian dollar had a positive impact on translating U.S. dollar revenues in the first three months of 2015 compared to the same period in 2014 of approximately \$50 million compared to the same period in 2014, which was largely offset by the negative foreign exchange impact on the cost of equipment and parts.

Gross profit decreased compared to the first quarter of 2014, reflecting lower sales volumes and margins across most lines of business. Gross profit margin decreased from the same period of 2014, largely due to pricing pressures from mining customers, as well as a weaker short-term rental market. These reductions were partially offset by the positive impact from higher service margins, reflecting progress on the Company's ongoing operational improvement initiatives.

SG&A costs decreased 7% compared to the same period of 2014, reflecting lower sales volumes, cost savings from the execution of the operational excellence agenda, and the benefit from greater hedging activity to manage U.S. dollar exposures. These were partially offset by severance and facility closure costs in response to reduced activity levels. The Company reduced its Canadian workforce by nearly 550 employees, or about 10%, resulting in severance costs of \$15 million this quarter. During Q1 2015, the Company's Canadian operations recorded restructuring charges of \$2 million related to these facility closures. The Company closed ten facilities during the first quarter of 2015 and to date has announced the closure of an additional five facilities expected by the end of Q2 2015.

The Company will continue to reduce costs and invested capital in its Canadian operations as necessary to align with expected activity levels. The Company successfully negotiated a two-year extension to its existing British Columbia/Yukon collective agreement until April 2017 with wage increases of 0% in 2015 and 1.5% in 2016. The collective agreement covers over 600 hourly union employees in British Columbia and the Yukon.

The Canadian operations contributed EBIT of \$29 million in the first quarter of 2015, lower than the \$54 million earned in the same period of 2014, with the decrease in gross profit and lower equity earnings from PLM partially offset by lower SG&A costs. EBIT margin in the first quarter of 2015 was 3.7%, down from 6.0% earned in the same period in 2014. Excluding severance costs (\$15 million) and facility closure costs (\$2 million), EBIT margin would have been 5.8% in Q1 2015.

### Other developments

On May 6, 2015, Finning announced that it has been approved to become the Caterpillar dealer in Saskatchewan in July 2015, subject to customary closing conditions. The Company has reached an agreement to purchase the operating assets of the Caterpillar dealership of Kramer Ltd. for approximately \$230 million, subject to working capital adjustments. In 2014, the acquired dealership business generated approximately \$275 million in revenue. The acquisition is immediately accretive to Finning's 2015 earnings, and will be funded with cash. After 70 years of service in Saskatchewan, the Kramer family has decided to retire from the equipment dealership business.

This transaction represents a compelling strategic investment for Finning given the highly complementary market segments and customer bases of the Kramer and Finning organizations. The acquisition expands Finning's Western Canada operations into a contiguous territory, and provides a platform for long-term growth opportunities and diversification into new markets. Kramer's well-established customer relationships and understanding of the local market, combined with Finning's product support infrastructure and capabilities along the Alberta and Saskatchewan border, are expected to drive growth and enhance value for customers.

As part of a broader repositioning of the Caterpillar dealership network, Finning expects to transition out of Uruguay, which generates approximately US\$30 million in annual revenue. The Company will provide further updates as they become available. During this transition period, Finning will continue as Caterpillar's dealer in Uruguay until a new one is selected that will ensure continuity of unmatched support for customers.

## 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, and power systems.

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

Three months ended March 31 (\$ millions)	2015	2014
Revenue from external sources	\$ 489	\$ 550
Operating costs	(425)	(481)
Depreciation and amortization	(19)	(18)
Other income (expenses)		
ERP system implementation costs	—	(1)
<b>Earnings before finance costs and income taxes</b>	<b>\$ 45</b>	<b>\$ 50</b>
<b>EBIT</b>		
- as a percentage of revenue	<b>9.3%</b>	9.0%
- as a percentage of consolidated EBIT	<b>60%</b>	45%

First quarter 2015 revenues decreased 11% to \$489 million compared to the first three months of 2014 (down 21% in functional currency), primarily driven by lower new equipment revenues.

New equipment revenue was down 52% (58% in functional currency) compared to the first quarter of 2014, reflecting continued weakness in the Chilean mining sector. New equipment order intake and backlog remained low at March 31, 2015.

Product support revenue was up 16% over the same period last year (up 3% in functional currency), reflecting higher parts revenue, with an increase in the mining sector offsetting a decrease in the construction sector.

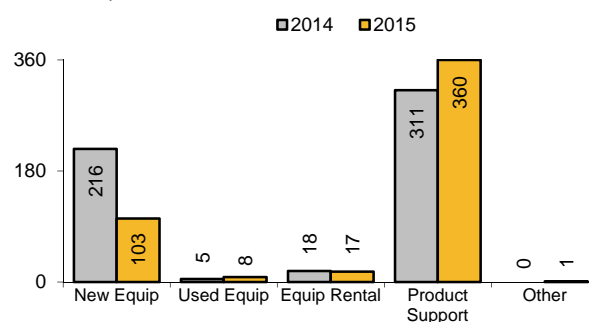
The positive impact on total revenue in the first quarter of 2015 from the weaker Canadian dollar relative to the U.S. dollar was partially offset by the negative impact from the weaker Chilean and Argentine pesos against the U.S. dollar compared to 2014. The net positive impact on total revenue was approximately \$45 million.

Gross profit decreased marginally from the first quarter of 2014 (down 12% in functional currency), primarily a reflection of lower new equipment sales volumes. Gross profit margin increased over the prior year, largely driven by a shift in revenue mix to higher margin product support sales. Product support revenues comprised 74% of total revenues in the first quarter of 2015 relative to 56% in first quarter of 2014, while new equipment revenues made up 21% of total revenues compared to 39% in the same period last year.

SG&A costs were up marginally, but down 9% in functional currency compared to the first quarter of 2014, primarily as a result of lower sales volumes and reduced salary costs following the headcount reductions in 2014 to align costs to lower activity levels, partially offset by inflationary cost increases in Chile and Argentina.

## South America – Revenue by Line of Business

Three months ended March 31  
(\$ millions)



First quarter EBIT for the Company's South American operations decreased 8% (19% in functional currency) from the first quarter of 2014, reflecting the decrease in revenues and gross profit from lower new equipment volumes. In translating results, the impact of the weaker Argentine and Chilean pesos relative to the U.S. dollar on operating costs combined with the positive impact from the weaker Canadian dollar against the U.S. dollar, had a positive impact on EBIT of approximately \$10 million.

EBIT margin of 9.3% in the first quarter of 2015 was up from 9.0% in the comparative period of 2014.

## UK & Ireland Operations

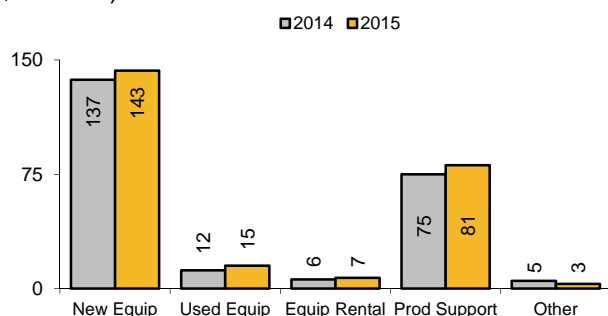
The Company's UK & Ireland operations sell, service, and rent mainly Caterpillar equipment and engines in England, Scotland, Wales, Northern Ireland, and the Republic of Ireland. The UK & Ireland operations' markets include mining, quarrying, construction, and power systems.

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

Three months ended March 31 (\$ millions)	2015	2014
Revenue from external sources	\$ 249	\$ 235
Operating costs	(235)	(215)
Depreciation and amortization	(7)	(9)
Earnings before finance costs and income taxes	\$ 7	\$ 11
EBIT		
- as a percentage of revenue	3.1%	4.9%
- as a percentage of consolidated EBIT	10%	10%

### UK & Ireland – Revenue by Line of Business

Three months ended March 31  
(\$ millions)



Revenues in the first quarter of 2015 of \$249 million were 6% higher than the same period in 2014 (up 3% in functional currency). The increase was primarily due to higher new and used equipment sales, along with higher product support revenues from power systems.

Product support revenue was up 8% (5% in functional currency) compared to the first quarter last year.

The weaker Canadian dollar relative to the U.K. pound sterling had a positive impact on revenue of approximately \$5 million.

Gross profit was higher in absolute dollars in the first quarter of 2015 compared to 2014, and flat in functional currency. Gross profit margin was slightly lower compared to the same period last year, primarily due to a low-margin power systems contract.

SG&A costs increased compared to the same period in 2014, driven primarily by higher employee-related costs, including severance, as well as foreign exchange losses on the translation of Euro receivables.

2015 first quarter EBIT was \$7 million, lower than the \$11 million earned in Q1 2014. EBIT margin of 3.1% was down compared to the 4.9% earned in the same period last year.

## Corporate and Other Operations

Loss before finance costs and income taxes from the Company's Corporate and Other Operations was \$6 million in the first quarter of 2015 compared to \$4 million in the comparative period. Included in this segment are corporate operating costs, as well as equity earnings (loss) from the Company's 28.8% investment in Energyst B.V.



## Outlook

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### Canada

The mining outlook in Western Canada remains soft and uncertain. The lower price of oil has forced the oil sands producers to reduce capital and operating expenditures. While customers are expected to maintain production levels, and a number of significant long-term projects have been confirmed, demand for new equipment has slowed considerably. Producers and contractors have parked portions of their fleets, have insourced some service-related activities, and are postponing maintenance, which negatively impacts mining product support. The Company believes that the reduced spend on product support is not sustainable given the expected mining activity levels.

Demand for construction equipment and product support has slowed, as customer activity has been reduced, most notably in Alberta. In British Columbia, the construction of the Site C dam is expected to generate product support activity as early as the second half of 2015. The forestry business is growing in response to strong demand for lumber.

In power systems, while the slowdown in oil has impacted well servicing customers, demand for gas compression is expected to remain active in the near term. The Company is quoting for electric power generation to a diverse range of projects, including hospitals, mining, and gas plants.

Softening market conditions, combined with the rapid and significant weakening of the Canadian dollar relative to the U.S. dollar in Q1 2015, have led to increased price competition.

The Company implemented cost reduction measures in Q1 2015 to align Canada's cost structure to reduced business volumes, including workforce reductions and facility closures. Finning Canada will continue to optimize its branch network and reduce costs as necessary with the aim of maintaining profitability and reducing invested capital levels.

### South America

In South America, concerns regarding the price of copper, driven by lower demand, and higher production costs in copper mining continue to delay investments in new projects. As a result, the Company has been selling very few new machines to the mining sector for the past few quarters, and expects the demand for new mining equipment to remain low. In non-mining, the Chilean government's infrastructure agenda is expected to drive equipment requirements in the latter half of 2015.

While the Company is encouraged that first quarter product support revenues are up and copper production levels are being maintained, mining customers continue to focus on reducing operating costs and are deferring decisions on component purchases and major repairs.

The Company took actions in 2013 and 2014 in South America to align its cost structure and invested capital to lower activity, and expects to continue operating at historical profitability levels.

### UK & Ireland

In the UK & Ireland, the equipment solutions division has been growing market share in the expanding and competitive general construction segment. The buoyant market has been driven by residential and commercial construction, quarrying and aggregates, infrastructure, energy, rail, and plant hire sectors. The coal mining industry remains weak, impacting new equipment sales in this segment. The decline in product support in mining is expected to be offset by successful growth of machine rebuilds in other sectors.

In power systems, the Electric Power Generation, industrial and pleasure craft sectors remain active. While the outlook for power systems in the U.K. continues to be strong, the decline in the price of oil has created a level of uncertainty, particularly for activity in the North Sea.

### Operational Priorities

As the Company manages through uncertain macro-economic conditions, it is accelerating the execution of its operational excellence agenda, particularly in Canada. The Company is committed to improving ROIC over time. Initiatives to increase EBIT are primarily focused on growing market share across all product lines and increasing the profitability of service operations. The expected improvement in capital efficiency will be driven through optimization of the supply chain to reduce working capital and improvements in asset utilization.

## Liquidity and Capital Resources

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### Operating Activities

Cash flow used in operations was \$224 million in the first quarter of 2015 compared to \$128 million in the comparative period in 2014 reflecting lower earnings, consistent with weakening market conditions, and higher working capital. The increase in working capital was primarily related to higher inventory in the Company's Canadian operations due to lower than expected sales and the arrival of equipment orders placed in 2014 before the unexpected drop in demand.

### Investing Activities

Net cash used in investing activities in the first quarter of 2015 totalled \$12 million compared with \$6 million cash used in investing activities in the comparative period in 2014, primarily driven by the purchase of short term investments in Q1 2015.

### Financing Activities

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 totalling \$1.1 billion with various Canadian, U.S., and South American financial institutions. At March 31, 2015, \$1.0 billion was available under these committed facilities.

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). During Q1 2015, DBRS re-confirmed the Company's short-term and long-term debt ratings at R-1 (low) and A (low), respectively, and S&P re-confirmed the Company's long-term debt rating at BBB+. 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.

Cash flow used in financing activities in the first quarter of 2015 was \$29 million compared to \$162 million cash flow provided by financing activities, primarily due to an increase in short-term debt in the prior year period.

Dividends paid to shareholders in the first quarter of 2015 were \$31 million, up 17% compared to the first quarter of 2014. In May 2015, the Board of Directors increased the Company's quarterly dividend by 2.8% to \$0.1825 per common share, reflecting the Company's confidence in the business outlook and expectation for positive cash generation.

### Free Cash Flow

The Company's Free Cash Flow was a use of cash of \$232 million compared to \$134 million in the first quarter of 2014. The main drivers resulting in a greater use of cash were lower earnings and higher working capital, primarily in the Company's Canadian operations, as described above.

### Net Debt to Invested Capital

Net Debt to Invested Capital at March 31, 2015 was 36.0%, lower than 42.9% at March 31, 2014 and up from 31.4% at December 31, 2014, an all-time low. The Company's current target range for Net Debt to Invested Capital is 35% to 45%.

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 Q1 2015.

## Description of Non-GAAP and Additional GAAP Measures

### Additional GAAP Measures

IFRS mandates certain minimum line items for financial statements and also requires presentation of additional line items, headings and subtotals when such presentation is relevant to an understanding of the Company's financial position or performance. IFRS also requires the notes to the financial statements to provide information that is not presented elsewhere in the financial statements, but is relevant to understanding them. Such measures outside of the minimum mandated line items are considered additional GAAP measures. The Company's consolidated financial statements and notes thereto include certain additional GAAP measures where management considers such information to be useful to understanding of the Company's results.

#### EBIT

EBIT is defined herein as earnings before finance costs and income taxes and is utilized by management to assess and evaluate the financial performance of its operating segments. This measure is provided to improve comparability between periods by eliminating the impact of finance costs and income taxes.

A reconciliation between EBIT and net income is as follows:

Three months ended March 31 (\$ millions)	2015	2014
EBIT	\$ 75	\$ 111
Finance costs	(19)	(21)
Provision for income taxes	(3)	(22)
Net income	\$ 53	\$ 68

#### 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:

(\$ millions, except as noted)	March 31, 2015	December 31, 2014
Cash and cash equivalents	\$ (211)	\$ (450)
Short-term debt	10	7
Current portion of long-term debt	—	—
Long-term debt	1,477	1,418
Net debt	1,276	975
Shareholders' equity	2,265	2,131
Invested capital	\$ 3,541	\$ 3,106
Net debt to invested capital	36.0%	31.4%

## 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.

### 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 EBITDA and net income is as follows:

Three months ended March 31 (\$ millions)	2015	2014
EBITDA	\$ 126	\$ 166
Depreciation and amortization	(51)	(55)
Finance costs	(19)	(21)
Provision for income taxes	(3)	(22)
Net income	\$ 53	\$ 68

### ROIC

Return on Invested Capital, or ROIC, is defined as EBIT (adjusted for significant non-recurring items) 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.

March 31 (\$ millions, except as noted)	2015	2014
EBIT – last twelve months	\$ 468	\$ 514
Invested capital – four quarter average	\$ 3,330	\$ 3,334
ROIC	14.1%	15.4%

### 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.

(\$ millions)	March 31, 2015	December 31, 2014
Total current assets	\$ 3,525	\$ 3,477
Cash and cash equivalents	(211)	(450)
<b>Total current assets <sup>(1)</sup></b>	<b>\$ 3,314</b>	<b>\$ 3,027</b>
Total current liabilities	\$ 1,273	\$ 1,372
Short-term debt	(10)	(7)
Current portion of long-term debt	—	—
<b>Total current liabilities <sup>(2)</sup></b>	<b>\$ 1,263</b>	<b>\$ 1,365</b>
<b>Working capital</b>	<b>\$ 2,051</b>	<b>\$ 1,662</b>

(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 March 31 (\$ millions)	2015	2014
Cash flow provided used in operating activities	\$ (224)	\$ (128)
Additions to property, plant, and equipment and intangible assets	(9)	(16)
Proceeds on disposal of property, plant, and equipment	1	10
<b>Free Cash Flow</b>	<b>\$ (232)</b>	<b>\$ (134)</b>

### 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 Margin

This measure is defined as earnings before finance costs and income taxes divided by total revenue.

### *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.

(\$ millions, except as noted)	March 31, 2015	December 31, 2014
Cost of sales – annualized	\$ 4,667	\$ 4,868
Inventory – two quarter average	\$ 1,817	\$ 1,734
Inventory turns (number of times)	2.57	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.

(\$ millions, except as noted)	March 31, 2015	December 31, 2014
Revenue – last twelve months	\$ 6,761	\$ 6,918
Invested capital – four quarter average	\$ 3,330	\$ 3,298
Invested capital turnover	2.03	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.

(\$ millions, except as noted)	March 31, 2015	December 31, 2014
Working capital – four quarter average	\$ 1,846	\$ 1,807
Revenue – last twelve months	\$ 6,761	\$ 6,918
Working capital to sales	27.3%	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.

(\$ millions, except as noted)	March 31, 2015	December 31, 2014
Net debt	\$ 1,276	\$ 975
EBITDA – last twelve months	\$ 680	\$ 720
Net Debt to EBITDA	1.9	1.4

## Risk Management

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

The Company is dedicated to a strong risk management culture to protect and enhance shareholder value. On a quarterly basis, the Audit Committee reviews the Company's process with respect to risk assessment and management of key risks, including the Company's major financial risks and exposures and the steps taken to monitor and control such exposures. Changes to the key risks are reviewed quarterly by the Audit Committee with annual oversight by the Board of Directors. 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 business risks, including financial risks and uncertainties, are included in the Company's AIF.

The exchange rates of the Canadian dollar against the following foreign currencies were as follows:

Exchange rate	March 31		December 31	Three months ended March 31 – average	
	2015	2014	2014	2015	2014
U.S. dollar	<b>1.2683</b>	1.1053	1.1601	<b>1.2411</b>	1.1033
U.K. pound sterling	<b>1.8834</b>	1.8430	1.8071	<b>1.8792</b>	1.8256
Chilean peso	<b>0.0020</b>	0.0020	0.0019	<b>0.0020</b>	0.0020
Argentine peso	<b>0.1438</b>	0.1381	0.1357	<b>0.1428</b>	0.1455

## 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. There has been no change in the design of the Company's internal control over financial reporting during the quarter ended March 31, 2015, that would materially affect, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

Regular involvement of the Company's internal audit function and quarterly reporting to the Audit Committee assist in providing reasonable assurance that the objectives of the control system are met. While the officers of the Company have designed the Company's disclosure controls and procedures and internal control over financial reporting, 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.

## Selected Quarterly Information

\$ millions (except for share and option data)	2015	2014				2013		
	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2
Revenue from operations <sup>(1)</sup>								
Canada	\$ 781	\$ 946	\$ 866	\$ 930	\$ 891	\$ 874	\$ 960	\$ 768
South America	489	593	517	568	550	675	598	629
UK & Ireland	249	264	287	270	235	247	222	223
<b>Total revenue</b>	<b>\$ 1,519</b>	<b>\$ 1,803</b>	<b>\$ 1,670</b>	<b>\$ 1,768</b>	<b>\$ 1,676</b>	<b>\$ 1,796</b>	<b>\$ 1,780</b>	<b>\$ 1,620</b>
Net income <sup>(1) (3)</sup>	\$ 53	\$ 107	\$ 57	\$ 86	\$ 68	\$ 93	\$ 86	\$ 83
Earnings Per Share <sup>(1) (2)</sup>								
Basic EPS	\$ 0.31	\$ 0.62	\$ 0.33	\$ 0.50	\$ 0.39	\$ 0.54	\$ 0.50	\$ 0.48
Diluted EPS	\$ 0.31	\$ 0.62	\$ 0.33	\$ 0.50	\$ 0.39	\$ 0.54	\$ 0.50	\$ 0.48
Total assets <sup>(1)</sup>	\$ 5,354	\$ 5,273	\$ 5,237	\$ 5,196	\$ 5,353	\$ 5,058	\$ 5,139	\$ 5,302
Long-term debt								
Current	\$ —	\$ —	\$ 1	\$ 1	\$ 1	\$ 1	\$ 1	\$ 251
Non-current	1,477	1,418	1,408	1,373	1,393	1,366	1,351	1,152
<b>Total long-term debt <sup>(3)</sup></b>	<b>\$ 1,477</b>	<b>\$ 1,418</b>	<b>\$ 1,409</b>	<b>\$ 1,374</b>	<b>\$ 1,394</b>	<b>\$ 1,367</b>	<b>\$ 1,352</b>	<b>\$ 1,403</b>
Cash dividends paid per common share	17.75¢	17.75¢	17.75¢	17.75¢	15.25¢	15.25¢	15.25¢	15.25¢
Common shares outstanding (000's)	172,374	172,370	172,369	172,182	172,126	172,014	172,000	171,999
Options outstanding (000's)	4,145	4,226	4,237	5,437	5,381	5,685	5,596	5,643

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

2) Results in the fourth quarter of 2014 were positively impacted by an inflationary adjustment to reduce income tax expense in Argentina by \$0.05 per share.

Results in the third quarter of 2014 were negatively impacted by the write-off of previously capitalized ERP costs in the Company's South American operations by \$0.06 per share and a one-time revaluation adjustment of the Company's deferred income tax balances of \$0.04 per share.

Results in the second quarter of 2013 were positively impacted by a benefit from previously unrecognized tax losses of \$0.03 per share.

3) 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.

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 September 2013, the Company negotiated a two-year extension to its \$1.0 billion global unsecured syndicated committed operating credit facility, under which \$938 million was extended to September 2017 from the original maturity of September 2015.



## New Accounting Pronouncements

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### (a) Changes in Accounting Policy

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. Management will amend its annual financial statement disclosures accordingly.

### (b) Future Accounting Pronouncements

The Company has not applied the following new standards and amendments to 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. Management does not expect this amendment will have an impact on its consolidated 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 annual financial statement disclosures.
- IFRS 15, *Revenue from Contracts with Customers* (the IASB tentatively decided to delay the effective date to 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 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 consolidated financial statements.

## Outstanding Share Data

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### As at April 30, 2015

Common shares outstanding	172,373,779
Options outstanding	4,134,471

### ***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; expected revenue; expected free cash flow; EBIT margin; 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 timing and financial impact from the proposed acquisition of the operating assets of the Caterpillar dealer in Saskatchewan. 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 May 6, 2015. 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 Caterpillar's products and Caterpillar's 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 revenues occur; Finning's ability to reduce costs in response to slowing activity levels; Finning's ability to attract sufficient skilled labour resources to meet growing product support demand; 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 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.

**UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**

<b>(Canadian \$ thousands)</b>	<b>March 31, 2015</b>	<b>December 31, 2014</b>
<b>ASSETS</b>		
Current assets		
Cash and cash equivalents (Note 6)	\$ 211,427	\$ 450,667
Accounts receivable	968,282	972,374
Service work in progress	117,193	105,645
Inventories	1,973,288	1,661,277
Income tax recoverable	18,632	13,034
Other assets	236,342	274,730
<b>Total current assets</b>	<b>3,525,164</b>	<b>3,477,727</b>
Property, plant, and equipment	689,470	675,480
Rental equipment	378,637	378,663
Distribution network	363,471	340,635
Goodwill	137,284	132,144
Intangible assets	51,908	55,783
Investment in and advances to joint venture and associate	91,879	88,636
Finance assets	12,682	16,074
Deferred tax assets	41,269	42,634
Other assets	62,127	64,902
<b>Total assets</b>	<b>\$ 5,353,891</b>	<b>\$ 5,272,678</b>
<b>LIABILITIES</b>		
Current liabilities		
Short-term debt	\$ 9,888	\$ 7,166
Accounts payable and accruals	928,546	1,019,084
Income tax payable	12,544	12,960
Provisions	61,428	63,354
Deferred revenue	255,832	264,685
Derivative liabilities	4,673	4,796
Current portion of long-term debt	284	269
<b>Total current liabilities</b>	<b>1,273,195</b>	<b>1,372,314</b>
Long-term debt	1,477,092	1,418,061
Net employee benefit obligations	142,789	156,640
Long-term obligations	75,214	73,953
Provisions	5,229	5,421
Deferred revenue	37,300	42,052
Deferred tax liabilities	77,463	73,541
<b>Total liabilities</b>	<b>3,088,282</b>	<b>3,141,982</b>
<b>SHAREHOLDERS' EQUITY</b>		
Share capital	583,542	583,480
Contributed surplus	40,015	38,728
Accumulated other comprehensive income	196,442	100,383
Retained earnings	1,445,610	1,408,105
<b>Total shareholders' equity</b>	<b>2,265,609</b>	<b>2,130,696</b>
<b>Total liabilities and shareholder's equity</b>	<b>\$ 5,353,891</b>	<b>\$ 5,272,678</b>

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

## UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENTS OF INCOME

Three months ended March 31 (Canadian \$ thousands, except share and per share amounts)	2015	2014
Revenue		
New equipment	\$ 551,365	\$ 692,818
Used equipment	67,050	58,870
Equipment rental	71,091	87,571
Product support	825,569	830,194
Other	3,907	6,770
<b>Total revenue</b>	<b>1,518,982</b>	<b>1,676,223</b>
<b>Cost of sales</b>	<b>(1,059,090)</b>	<b>(1,177,138)</b>
<b>Gross profit</b>	<b>459,892</b>	<b>499,085</b>
Selling, general, and administrative expenses	(385,891)	(388,181)
Equity earnings of joint venture and associate	1,252	725
Other income	—	42
Other expenses	—	(883)
<b>Earnings before finance costs and income taxes</b>	<b>75,253</b>	<b>110,788</b>
<b>Finance costs (Note 2)</b>	<b>(19,245)</b>	<b>(20,503)</b>
<b>Income before provision for income taxes</b>	<b>56,008</b>	<b>90,285</b>
<b>Provision for income taxes (Note 3)</b>	<b>(2,873)</b>	<b>(22,378)</b>
<b>Net income</b>	<b>\$ 53,135</b>	<b>\$ 67,907</b>
Earnings per share (Note 4)		
Basic	\$ 0.31	\$ 0.39
Diluted	\$ 0.31	\$ 0.39
Weighted average number of shares outstanding		
Basic	172,373,445	172,070,600
Diluted	172,596,465	172,906,230

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

## UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

Three months ended March 31 (Canadian \$ thousands)	2015	2014
Net income	\$ 53,135	\$ 67,907
Other comprehensive income (loss), net of income tax		
Items that may be subsequently reclassified to net income:		
Foreign currency translation adjustments	165,659	75,761
Unrealized loss on net investment hedges	(59,441)	(27,496)
Income tax recovery (expense) on foreign currency translation adjustments and net investment hedges	(9,795)	260
Foreign currency translation and loss on net investment hedges, net of income tax	96,423	48,525
Unrealized loss on cash flow hedges	(1,836)	(2,621)
Realized loss on cash flow hedges, reclassified to earnings	1,377	1,198
Income tax recovery on cash flow hedges	95	271
Loss on cash flow hedges, net of income tax	(364)	(1,152)
Items that will not be subsequently reclassified to net income:		
Actuarial gain (Note 5)	18,701	2,676
Income tax expense on actuarial gain	(3,735)	(473)
Actuarial gain, net of income tax	14,966	2,203
<b>Total comprehensive income</b>	<b>\$ 164,160</b>	<b>\$ 117,483</b>

## UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

(Canadian \$ thousands, except share amounts)	Share Capital			Accumulated Other Comprehensive Income (Loss)				
	Shares	Amount	Contributed Surplus	Foreign Currency Translation and Loss on Net Investment Hedges		Loss on Cash Flow Hedges	Retained Earnings	Total
				Investment Hedges	Loss on Cash Flow Hedges			
Balance, January 1, 2014	172,014,230	\$ 573,165	\$ 40,296	\$ 28,103	\$ (14,300)	\$ 1,230,500	\$ 1,857,764	
Net income	—	—	—	—	—	67,907	67,907	
Other comprehensive income (loss)	—	—	—	48,525	(1,152)	2,203	49,576	
Total comprehensive income (loss)	—	—	—	48,525	(1,152)	70,110	117,483	
Issued on exercise of share options	111,270	1,341	(1,240)	—	—	—	101	
Share option expense	—	—	1,940	—	—	—	1,940	
Dividends on common shares	—	—	—	—	—	(26,248)	(26,248)	
Balance, March 31, 2014	172,125,500	\$ 574,506	\$ 40,996	\$ 76,628	\$ (15,452)	\$ 1,274,362	\$ 1,951,040	
Balance, January 1, 2015	172,370,255	\$ 583,480	\$ 38,728	\$ 114,279	\$ (13,896)	\$ 1,408,105	\$ 2,130,696	
Net income	—	—	—	—	—	53,135	53,135	
Other comprehensive income (loss)	—	—	—	96,423	(364)	14,966	111,025	
Total comprehensive income (loss)	—	—	—	96,423	(364)	68,101	164,160	
Issued on exercise of share options	3,524	62	(62)	—	—	—	—	
Share option expense	—	—	1,349	—	—	—	1,349	
Dividends on common shares	—	—	—	—	—	(30,596)	(30,596)	
Balance, March 31, 2015	172,373,779	\$ 583,542	\$ 40,015	\$ 210,702	\$ (14,260)	\$ 1,445,610	\$ 2,265,609	

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

## UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOW

Three months ended March 31 (Canadian \$ thousands)	2015	2014
<b>OPERATING ACTIVITIES</b>		
Net income	\$ 53,135	\$ 67,907
Adjusting for:		
Depreciation and amortization	51,025	54,896
Gain on sale of rental equipment and property, plant, and equipment	(6,964)	(2,079)
Equity earnings of joint venture and associate	(1,252)	(725)
Share-based payment (recovery) expense	(371)	2,411
Provision for income taxes	2,873	22,378
Finance costs	19,245	20,503
Defined benefit and other post-employment benefit expense (Note 5)	4,525	3,655
Changes in operating assets and liabilities (Note 6)	(311,038)	(279,750)
Additions to rental equipment	(37,193)	(49,109)
Proceeds on disposal of rental equipment	30,058	48,512
Interest paid	(7,643)	(6,715)
Income tax paid	(19,962)	(9,758)
Cash flow used in operating activities	(223,562)	(127,874)
<b>INVESTING ACTIVITIES</b>		
Additions to property, plant, and equipment and intangible assets	(9,304)	(15,855)
Proceeds on disposal of property, plant, and equipment	1,244	9,565
Purchases of short-term investments	(3,889)	—
Cash flow used in investing activities	(11,949)	(6,290)
<b>FINANCING ACTIVITIES</b>		
Increase in short-term debt	2,722	188,039
Decrease in long-term debt	(1,246)	(250)
Issue of common shares on exercise of share options	—	101
Dividends paid	(30,596)	(26,248)
Cash flow (used in) provided by financing activities	(29,120)	161,642
Effect of currency translation on cash balances	25,391	6,693
(Decrease) Increase in cash and cash equivalents	(239,240)	34,171
Cash and cash equivalents, beginning of period	450,667	176,268
Cash and cash equivalents, end of period (Note 6)	\$ 211,427	\$ 210,439

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

## 1. SIGNIFICANT ACCOUNTING POLICIES

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These unaudited interim condensed consolidated financial statements (Interim Statements) of Finning International Inc. ("Finning" or "Company") and its subsidiaries were prepared in accordance with International Accounting Standard (IAS) 34, *Interim Financial Reporting*, as issued by the International Accounting Standard Board (IASB). Accordingly, certain information and footnote disclosure normally included in annual financial statements prepared in accordance with International Financial Reporting Standards (IFRS) have been omitted or condensed, and therefore these Interim Statements should be read in conjunction with the December 31, 2014 audited annual consolidated financial statements and the notes.

These Interim Statements are based on the IFRS and International Financial Reporting Interpretations Committee (IFRIC) interpretations issued and effective as of May 5, 2015, the date these Interim Statements were authorized for issuance by the Company's Board of Directors, and follow the same accounting policies and methods of computation as the most recent annual consolidated financial statements, except for the impact of the changes in accounting policy disclosed below:

### (a) Changes in Accounting Policy

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. Management will amend its annual financial statement disclosures accordingly.

### (b) Future Accounting Pronouncements

The Company has not applied the following new standards and amendments to 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. Management does not expect this amendment will have an impact on its consolidated 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 annual financial statement disclosures.
- IFRS 15, *Revenue from Contracts with Customers* (the IASB tentatively decided to delay the effective date to 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 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 consolidated financial statements.

## 2. FINANCE COSTS

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

Three months ended March 31 (\$ thousands)	2015	2014
Interest on short-term debt	\$ 718	\$ 2,108
Interest on long-term debt	16,487	15,730
Interest on debt securities	17,205	17,838
Loss on interest rate derivatives	220	220
Net interest on pension and other post-employment benefit obligations (Note 5)	1,197	1,215
Other finance related expenses	631	1,235
Less: borrowing costs capitalized to property, plant, and equipment	(8)	(5)
Finance costs	\$ 19,245	\$ 20,503

## 3. INCOME TAXES

In the three months ended March 31, 2015, the consolidated effective tax rate includes a \$10 million benefit of previously unrecognized capital tax losses. This results in a lower consolidated effective tax rate this quarter than the comparable period of 2014.

## 4. EARNINGS PER SHARE

Three months ended March 31 (\$ thousands, except share and per share amounts)	Income	Shares	Per Share
<b>2015</b>			
<b>Basic EPS:</b>			
Net income	\$ 53,135	172,373,445	\$ 0.31
Effect of dilutive securities: share options	—	223,020	—
<b>Diluted EPS:</b>			
Net income and assumed conversions	\$ 53,135	172,596,465	\$ 0.31
<b>2014</b>			
<b>Basic EPS:</b>			
Net income	\$ 67,907	172,070,600	\$ 0.39
Effect of dilutive securities: share options	—	835,630	—
<b>Diluted EPS:</b>			
Net income and assumed conversions	\$ 67,907	172,906,230	\$ 0.39

## 5. POST-EMPLOYMENT EMPLOYEE BENEFITS

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

	March 31, 2015		December 31, 2014		March 31, 2014	
	Canada	UK	Canada	UK	Canada	UK
Discount rate – obligation	3.4%	3.3%	3.8%	3.4%	4.3%	4.4%
Discount rate – expense <sup>(1)</sup>	3.8%	3.4%	4.6%	4.5%	4.6%	4.5%
Retail price inflation – obligation	n/a	3.1%	n/a	3.2%	n/a	3.5%
Retail price inflation – expense <sup>(1)</sup>	n/a	3.2%	n/a	3.5%	n/a	3.5%

<sup>(1)</sup> Used to determine the net interest cost and expense for the three months ended March 31, 2015 and March 31, 2014, and the year ended December 31, 2014.



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

Three months ended (\$ thousands)	March 31, 2015			March 31, 2014		
	Canada	UK & Ireland	Total	Canada	UK & Ireland	Total
Current service cost, net of employee contributions	2,342	—	2,342	1,870	—	1,870
Administration costs	98	282	380	99	274	373
Net interest cost	458	542	1,000	377	542	919
Net benefit cost	2,898	824	3,722	2,346	816	3,162
Actuarial gain on plan assets	\$(31,399)	\$(22,996)	\$(54,395)	\$(16,357)	\$(4,841)	\$(21,198)
Actuarial loss on plan liabilities	29,292	1,945	31,237	17,781	10,333	28,114
Total actuarial (gain) loss recognized in other comprehensive income	\$ (2,107)	\$(21,051)	\$(23,158)	\$ 1,424	\$ 5,492	\$ 6,916

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

Three months ended March 31 (\$ thousands)	2015		2014	
Current service cost	\$ 1,803	\$ 1,412		
Interest cost	197	296		
Net benefit cost	\$ 2,000	\$ 1,708		
Actuarial loss (gain) on plan liabilities	\$ 4,457	\$ (9,592)		

## 6. SUPPLEMENTAL CASH FLOW INFORMATION

The changes in operating assets and liabilities are as follows:

Three months ended March 31 (\$ thousands)	2015		2014	
Accounts receivable and other assets	\$ 85,928	\$ (36,846)		
Service work in progress	(8,153)	(17,024)		
Inventories – on-hand equipment	(246,292)	(115,815)		
Inventories – parts and supplies	1,289	(36,081)		
Instalment notes receivable	25,073	1,815		
Accounts payable and accruals and other liabilities	(171,026)	(74,281)		
Income tax recoverable/payable	2,143	(1,518)		
Changes in operating assets and liabilities	\$ (311,038)	\$ (279,750)		

The components of cash and cash equivalents are as follows:

March 31 (\$ thousands)	2015		2014	
Cash	\$ 166,949	\$ 153,770		
Short-term investments	44,478	56,669		
Cash and cash equivalents	\$ 211,427	\$ 210,439		

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

Three months ended March 31, 2015 (\$ thousands)	Canada	South America	UK & Ireland	Other	Consolidated
Revenue from external sources	\$ 780,996	\$ 488,911	\$ 249,075	\$ —	\$ 1,518,982
Operating costs	(727,239)	(424,599)	(234,814)	(7,304)	(1,393,956)
Depreciation and amortization	(25,443)	(18,946)	(6,603)	(33)	(51,025)
Equity earnings	298	—	—	954	1,252
Earnings (loss) before finance costs and income taxes	\$ 28,612	\$ 45,366	\$ 7,658	\$ (6,383)	\$ 75,253
Finance costs					(19,245)
Provision for income taxes					(2,873)
Net income					\$ 53,135
Invested capital <sup>(1)</sup>	\$ 1,793,787	\$ 1,417,284	\$ 329,557	\$ 818	\$ 3,541,446
Total assets	\$ 2,514,963	\$ 2,124,917	\$ 666,818	\$ 47,193	\$ 5,353,891
Capital and rental equipment <sup>(2)</sup>	\$ 634,353	\$ 362,560	\$ 122,542	\$ 560	\$ 1,120,015
Distribution network	\$ 94,224	\$ 266,293	\$ 2,954	\$ —	\$ 363,471
Gross capital expenditures <sup>(3)</sup>	\$ 2,850	\$ 4,430	\$ 2,127	\$ 56	\$ 9,463
Gross rental asset expenditures <sup>(3)</sup>	\$ 30,875	\$ 2,676	\$ 3,642	\$ —	\$ 37,193

Three months ended March 31, 2014 (\$ thousands)	Canada	South America	UK & Ireland	Other	Consolidated
Revenue from external sources	\$ 891,035	\$ 549,662	\$ 235,526	\$ —	\$ 1,676,223
Operating costs	(810,879)	(480,893)	(215,451)	(3,200)	(1,510,423)
Depreciation and amortization	(27,930)	(18,386)	(8,561)	(19)	(54,896)
Equity earnings (loss)	1,464	—	—	(739)	725
Other income	—	42	—	—	42
Other expenses	—	(883)	—	—	(883)
Earnings (loss) before finance costs and income taxes	\$ 53,690	\$ 49,542	\$ 11,514	\$ (3,958)	\$ 110,788
Finance costs					(20,503)
Provision for income taxes					(22,378)
Net income					\$ 67,907
Invested capital <sup>(1)</sup>	\$ 1,682,141	\$ 1,443,383	\$ 296,239	\$ (7,586)	\$ 3,414,177
Total assets	\$ 2,495,882	\$ 2,202,640	\$ 605,323	\$ 49,326	\$ 5,353,171
Capital and rental equipment <sup>(2)</sup>	\$ 648,405	\$ 375,417	\$ 112,656	\$ 347	\$ 1,136,825
Distribution network	\$ 94,224	\$ 232,069	\$ 2,888	\$ —	\$ 329,181
Gross capital expenditures <sup>(3)</sup>	\$ 9,899	\$ 5,268	\$ 522	\$ 171	\$ 15,860
Gross rental asset expenditures <sup>(3)</sup>	\$ 46,481	\$ 1,816	\$ 812	\$ —	\$ 49,109

<sup>(1)</sup> Invested capital is calculated as total assets less total liabilities, excluding net debt

<sup>(2)</sup> Capital includes property, plant and equipment, and intangibles

<sup>(3)</sup> Includes finance leases and borrowing costs capitalized and excludes additions through business acquisitions

## **8. SUBSEQUENT EVENT**

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On May 6, 2015, Finning announced that it has been approved to become the Caterpillar dealer in Saskatchewan in July 2015, subject to customary closing conditions. The Company has reached an agreement to purchase the operating assets of the Caterpillar dealership of Kramer Ltd. The transaction is valued at approximately \$230 million, subject to working capital adjustments, and will be funded using cash. This transaction represents a strategic investment for Finning given the highly complementary market segments and customer bases of the Kramer and Finning organizations. The acquisition expands Finning's Western Canada operations into a contiguous territory, and provides a platform for long-term growth opportunities and diversification into new markets.