

FINNING INTERNATIONAL INC.
ANNUAL INFORMATION FORM
2016

FEBRUARY 16, 2017

Finning International Inc.
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In this Annual Information Form, the terms the “Company” and “Corporation” mean Finning International Inc. and “Finning” means Finning International Inc. together with its subsidiaries and operating divisions. The results reported herein have been prepared in accordance with International Financial Reporting Standards (IFRS). All dollar amounts are Canadian dollars unless otherwise indicated. All information in this Annual Information Form is presented as at December 31, 2016, unless otherwise specified herein.

In 2016, management voluntarily changed its presentation of certain expenses to provide reliable and more relevant information to users of the financial statements and better align with industry comparable companies. In addition, management concluded that certain cost recoveries are better reflected as revenues. Certain line items and key performance metrics have therefore been restated in the comparative 2015 period but the impact of the restatement is not significant. Further disclosure relating to these changes can be found in note 2 of the Company’s annual consolidated financial statements.

FORWARD LOOKING INFORMATION

This report contains statements about the Company’s business outlook, objectives, plans, strategic priorities and other statements that are not historical facts. A statement Finning makes is forward-looking when it uses what the Company knows and expects today to make a statement about the future. Forward-looking statements may include terminology such as aim, anticipate, assumption, believe, could, expect, goal, guidance, intend, may, objective, outlook, plan, project, seek, should, strategy, strive, target, and will and variations of such terminology. Forward-looking statements in this report include, but are not limited to, statements with respect to: expectations with respect to the economy, markets and activities and the associated impact on the Company’s financial results; expected profitability levels; anticipated strategic acquisition opportunities; anticipated organic growth opportunities; distribution network and goodwill impairment charges; expected revenue; expected free cash flow; anticipated focus on cost discipline; plans to implement a modern ERP system for the South America business; the capacity of the current branch network to meet stronger demand; expected engagement related to the development of the Vaca Muerta shale gas fields; plans to develop structured high potential development programs for certain employees in 2017; return on invested capital; plans to launch the global Inclusion and Diversity strategy, and human capital management system in South America and the U.K. and Ireland; market share growth; expected results from service excellence action plans, expected results from customer-centric growth strategy; expected profitability and free cash flow from cost reductions and sustainable improvements; anticipated asset utilization; expected results, revenue, plans and prospects for the Finning Digital division and other goals to enhance Finning’s online and digital business; plans to install various business process enablements and decision support systems; statements with respect to the Company’s intention to implement certain cyber security controls; the belief that the Company’s relationship with Caterpillar will continue to be strong; estimated loss on disputes regarding power system projects in the UK; anticipated formal bargaining in March 2017 with IAM; plans to focus on eliminating injuries, incidents, reducing impact on the environment and community investment strategies; the belief that the claims by the Argentina Customs Authority have no merit; anticipated steps to reduce the impact of the decline in Argentina’s peso; the expected sufficient returns and ability to fund its obligations from investments held in the defined benefit pension plans; future payments made for rating services; and intentions with respect to the Company’s shareholder rights plan. All such forward-looking statements are made pursuant to the ‘safe harbour’ provisions of applicable Canadian securities laws.

Unless otherwise indicated by us, forward-looking statements in this report reflect Finning's expectations at February 15, 2017. Except as may be required by Canadian securities laws, Finning does not undertake any obligation to update or revise any forward-looking statement, whether as a result of new information, future events, or otherwise.

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

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

Finning cautions readers that the risks described in the MD&A and Annual Information Form 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 of this report. 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.

1. CORPORATE STRUCTURE

1.1 NAME, ADDRESS AND INCORPORATION

Finning was incorporated as Finning Tractor & Equipment Company Limited on January 4, 1933, under the *Company Act* (British Columbia), and became a public corporation on September 2, 1969. The Company was continued under the *Canada Business Corporations Act* on October 8, 1986, and changed its name to Finning Ltd. on April 23, 1987, and to Finning International Inc. on April 25, 1997.

Finning International Inc. is a widely held, publicly traded corporation, listed on the Toronto Stock Exchange (symbol: FTT). The registered and head office of the Company is located at Suite 1000, Park Place, 666 Burrard Street, Vancouver, British Columbia, V6C 2X8 (telephone: 604.691.6444; fax: 604.691.6440; website: www.finning.com).

1.2 INTERCORPORATE RELATIONSHIPS

The Company's principal operating subsidiaries and divisions and the geographic areas they serve are noted below. As at December 31, 2016, there were no other subsidiaries of the Company whose total assets represented more than 10% of the consolidated assets of the Company or whose total revenues for the year then ended represented more than 10% of the consolidated revenue of the Company. Of those subsidiary companies that did not meet the 10% threshold, they did not, on an aggregate basis, have total assets or total revenues that exceeded 20% of the consolidated assets or revenue of the Company.

Finning International Inc.

- Canada – Reporting Segment
 - **Finning (Canada)** a division of Finning International Inc., servicing Western Canada with dealer territories in British Columbia, Alberta, Saskatchewan, the Yukon Territory, the Northwest Territories and a portion of Nunavut.
 - **OEM Remanufacturing Company Inc.** incorporated in Alberta, Canada; 100% owned by Finning.
- South America – Reporting Segment
 - **Finning Argentina S.A.** and **Finning Soluciones Mineras S.A.** both incorporated in Argentina, 100% owned by Finning and servicing Argentina.
 - **Finning Bolivia S.A.** incorporated in Bolivia, 100% owned by Finning and servicing Bolivia.
 - **Finning Chile S.A.** incorporated in Chile, 100% owned by Finning and servicing Chile.
 - **Moncouver S.A.** incorporated in Uruguay, 100% owned by Finning and offering shared services and centralized purchasing to Finning's South American operations.

- UK and Ireland – Reporting Segment
 - **Finning (UK) Ltd.** incorporated in the United Kingdom, 100% owned by Finning and servicing England, Northern Ireland, Scotland and Wales.
 - **Finning (Ireland) Limited** incorporated in the Republic of Ireland, 100% owned by Finning, and servicing the Republic of Ireland.

2. GENERAL DEVELOPMENT OF THE BUSINESS

2.1 OVERVIEW OF OPERATIONS

Finning is a Canadian-based international company that provides sales, rental, parts and support services for Caterpillar Inc. (Caterpillar or CAT) equipment and engines and complementary equipment on three continents. Finning is the largest dealer of Caterpillar products in the world measured by sales volume, and is the authorized dealer of Caterpillar products in Western Canada and the north (as described further below), the United Kingdom, the Republic of Ireland, and in the southern cone of South America. At December 31, 2016, Finning had approximately 11,900 employees worldwide.

Canada

The Company has been the authorized dealer for Caterpillar products in British Columbia since 1933 and in the Yukon Territory since 1977. The Company became the authorized Caterpillar dealer for Alberta and a portion of the Northwest Territories in 1989. In 1995, the Company gained additional territory in the north, making the Company the Caterpillar dealer for an area covering all of the Northwest Territories and the portion of Nunavut west of 110 degrees west longitude. In July 2015 the Company acquired the operating assets of Kramer Ltd., and is now the approved Caterpillar dealer in Saskatchewan. See section 2.2.2. “Current Developments in the Business over the Last Three Years”. The Company services its Canadian dealership territory through its Finning (Canada) division.

South America

In August 1993, the Company acquired its first Caterpillar dealership territory in South America, becoming the authorized Caterpillar dealer for Chile. In January 2003, the Company expanded its Caterpillar dealership territories in South America by becoming the authorized Caterpillar dealer in Argentina. In April 2003, the Company became the authorized Caterpillar dealer for Bolivia. In March 2004, the Company formed a company in Uruguay, now known as Moncouver S.A., which provides shared services and centralized purchasing services for Finning’s South American operations.

UK and Ireland

In 1983, Finning acquired two Caterpillar dealerships in Great Britain and acquired a third U.K. dealer in October 1997. In August 2010, Finning was appointed the Caterpillar dealer for Northern Ireland and for the Republic of Ireland. As a consequence of these events, Finning became the authorized Caterpillar dealer in the U.K. (England, Northern Ireland, Scotland and Wales) and the Republic of Ireland.

2.2 BUSINESS DEVELOPMENT

The following is a summary of significant developments in the strategy of the Company and in each of the Company's core operating segments.

2.2.1 Strategic Plan

Finning was founded in 1933 and has been part of Caterpillar's successful global dealer network ever since.

For the past three years, management has built on Finning's strong foundation with a focus on safety and talent management, and earning customer loyalty through the advancement of its operational excellence agenda. Guided by these strategic imperatives, Finning has significantly reduced its cost structure and achieved sustainable improvements across the organization that are expected to yield operating leverage and in turn higher profitability levels in an economic upcycle, as well as positive annual free cash flow through the cycle.

As part of the strategy development process in 2016, Finning aligned on a new purpose statement – *'We believe in partnering and innovating to build and power a better world'* – and invited all employees to provide input on the values that would support Finning's continued success. Going forward, Finning's customer-centric growth strategy entails advancing the progress made to-date in the areas of safety, talent and operational excellence, while providing greater focus on innovating across the business. Comprised of three pillars – develop, perform and innovate – the strategic framework drives company-wide commitment towards developing a safe, talented and inclusive team; performing efficiently, consistently and with agility across its operations; and innovating in all areas of the business, including through broadening digital capabilities. Executing on this strategy is expected to drive greater customer value, contribute to the company's financial goals, and support achievement of the Finning's vision: *'Leveraging our global expertise and insight, we are a trusted partner in transforming our customers' performance.'*

2.2.2 Current Developments in the Business over the Last Three Years

Recent Developments

- **Board Chair Succession**

On February 9, 2017 the Company announced that Mr. Michael M. Wilson has elected to resign as Chairman of the Board to focus on new obligations. Mr. Douglas W.G. Whitehead has replaced Mr. Wilson as Board Chair, effective February 9, 2017. Mr. Whitehead has been a member of the Board since 1999, and was previously Board Chair from May 2008 until May 2016. Mr. Wilson will not seek re-election as a director at the Company's Annual and Special Shareholders' Meeting to be held on May 10, 2017.

2016

- **Market Conditions**

Finning continued to transform its business while managing the factors it can control, including improving supply chain and service delivery resulting in increased customer loyalty, while maintaining market share. In response to the continued decline in market activity across all its operations, Finning reduced its global workforce by a further 9% in 2016. Additional facilities have been closed permanently as Finning works to align its cost structure to reduced business

volumes and to position itself for sustainable improvements in profitability. Finning believes the capacity of its current branch network is sufficient to meet stronger demand.

In March 2016, Dominion Bond Rating Service (DBRS) downgraded the Company's long term rating to BBB (high) from A (low) and changed the trends on all ratings to stable. The change was primarily due to the difficult operating environment in key mining and energy sectors and weakness in commodity markets in Finning's territories.

- Growth

Digitally enabled value added services as well as marketing and sales programs are becoming a greater factor in the buying decisions of equipment operators and owners. To respond to this market opportunity and enhance the customer experience, in January 2016 the Company launched a new global division called Finning Digital with the mission to provide on-line sales of parts, equipment and services; digitally connect equipment to transmit live data; and create insights using data analytics to improve performance efficiencies for customers' operations as well as Finning's internal processes.

In 2016 the Company invested \$11 million in Finning Digital of which \$3 million has been capitalized.

- Financing and Other Corporate Initiatives and Significant Events

The regular dividend has increased over the past three years. For 2016, the total annual dividend paid increased to \$0.73 per share, a 0.7% increase over the previous year. Dividends paid in 2015 and 2014 totalled \$0.725 and \$0.685 per share, respectively.

In May 2016, the Company renewed its normal course issuer bid which is in effect until May 10, 2017. During 2016, the Company made no repurchases under the normal course issuer bid.

- Board of Directors

In November 2016, Vicki L. Avril was appointed to the Board of Directors. Ms. Avril was formerly the President and CEO of IPSCO Tubulars Inc. from 2008 until her retirement in 2013.

In May 2016, Douglas W.G. Whitehead stepped down as Board Chair after serving as Board Chair since 2008. Mr. Michael M. Wilson succeeded Mr. Whitehead and was appointed as Board Chair on May 4, 2016. Effective February 9, 2017, upon Mr. Wilson electing to assume new obligations and step down as Board Chair, upon recommendation by a committee of independent directors, Mr. Whitehead was appointed Board Chair.

In March 2016, Stuart L. Levenick was appointed to the Board of Directors. Mr. Levenick retired from Caterpillar Inc. in 2014 after 37 years, including 10 years as Group President.

- Executive Management

In November 2016, the Company appointed Jane Murdoch as Corporate Secretary for Finning International Inc., in addition to her role as General Counsel. Ms. Murdoch joined the Company in April 2016.

In February 2016, Kevin Parkes was appointed as Managing Director of Finning UK and Ireland. Mr. Parkes succeeds Neil Dickinson who served as Managing Director from 2010 until his retirement in February 2016.

In January 2016, the Company appointed Chad Hiley as Chief Human Resources Officer for Finning International Inc., in addition to his role as Senior Vice President, Human Resources for Finning (Canada). Mr. Hiley joined Finning (Canada) in 2014. Mr. Hiley succeeds Gillian Platt who served as Chief Human Resources Officer for Finning International Inc. from July 2014 until her retirement in January 2016.

2015

▪ Market Conditions

In response to the decline in market activity across all its operations, in 2015 Finning reduced its workforce by approximately 1,900 employees, representing approximately 13% of its global workforce.

Further efforts to improve efficiencies, reduce costs and optimize service delivery to customers resulted in facility closures in Western Canada. The facility closures in Western Canada support Finning's strategic imperative to optimize the facility footprint, better deliver on customers' evolving business needs, reduce costs and improve service delivery.

▪ Corporate Transactions

In 2015, Finning acquired the operating assets of Kramer Ltd. for cash consideration of \$241 million and became the approved Caterpillar dealer in Saskatchewan. The acquisition diversifies Finning's revenue base into sectors such as potash and uranium and provides a platform for long-term growth opportunities and diversification into new markets. It also provides customers with improved equipment and parts availability, world-class product support and access to a more extensive branch network in Western Canada. In connection with this acquisition, Finning (Canada) also acquired the rights to SITECH heavy and highway machine control and monitoring products and the distribution rights for the Caterpillar shovels and drills business in Saskatchewan.

As part of the broader repositioning of the Caterpillar dealer network, Finning sold its Uruguay dealership, which it had acquired in 2003, effective December 1, 2015 for \$22 million, and recorded a gain on the sale of \$8 million. Approximately 75 employees and all property leases were transferred to the purchaser as part of the transaction.

▪ Financing and Other Corporate Initiatives and Significant Events

In October 2015, the Company entered into an amended and restated unsecured credit facility agreement with a syndicate of banks. This new facility amends the Company's previous \$1 billion credit facility which was set to fully mature in September 2017, by, among other things, extending the maturity date to October 2020. This credit facility is a source of financing for the Company's global operations.

In May 2015, the Company established a normal course issuer bid and repurchased 4.4 million common shares at an average price of \$20.75 for an aggregate amount of \$90.9 million.

- Board of Directors

In May, 2015, Messrs. R. Bacarreza and A. H. Simon, OBE retired, after serving as Board members for 16 years.

- Executive Management

In December 2015, the Company appointed Anna P. Marks as Treasurer for Finning International Inc., in addition to her role as Senior Vice President, Corporate Controller. Ms. Marks has been with Finning since 2003. Ms. Marks succeeds Greg Palaschuk as Treasurer, who was appointed Finance Director for Finning UK & Ireland.

In December 2015, Greg Palaschuk was appointed as Finance Director for Finning UK & Ireland. Mr. Palaschuk joined the Company in June 2014 as Vice President, Treasurer.

In December 2015, the Company appointed Russell Day as Senior Vice President, Strategic Planning and Business Development.

In December 2015, Andrew S. Fraser retired as Executive Vice President, Customer and External Relations of Finning International Inc.

In March 2015, the Company appointed Steven M. Nielsen as Executive Vice President and Chief Financial Officer for Finning International Inc.

2014

- Market Conditions

In response to the slowdown in metallurgical coal mining and lower oil prices, mining activity declined in 2014, particularly in South America. Finning focused on operational and service excellence, and building market share and customer loyalty in non-mining sectors such as heavy construction and power systems.

- Growth

In July 2014, Finning's U.K. and Ireland operations acquired 100% of the shares of Reaction One Limited (UK) and Alveton Limited (Ireland), thereby acquiring the rights to the SITECH businesses in U.K. and Ireland, for cash consideration of approximately \$14 million (£8 million). Under the terms of the Share Purchase Agreement, further contingent consideration with a possible range of £nil - £4 million was potentially payable, depending on the profitability of the acquired business over the three years post-acquisition. To date, Finning has paid £943,000 of this contingent consideration and there remains the potential for further payments up to the £4 million cap, subject to continued profitability. With this acquisition, Finning sells and services SITECH heavy and highway machine control and monitoring products in the U.K. and Ireland.

- Financing and Other Corporate Initiatives and Significant Events

In May 2014, the Company amended and restated its rights agreement (Rights Agreement) between the Company and Computershare Trust Company of Canada (Computershare). The Rights Agreement is now set to automatically expire after a three-year term which ends in May 2017. The Company intends to seek shareholder approval at its 2017 Annual and Special

Meeting to amend and extend the rights plan for three years such that it will automatically terminate at the end of the Company's Annual Meeting in 2020. The Rights Agreement sets out the terms and conditions of the Company's shareholder rights plan and is described in more detail in the Company's 2014 Management Proxy Circular dated March 18, 2014 and in the section entitled "Shareholder Rights Plan" in section 8 "Description of Capital Structure".

In February 2014, the Board adopted an Advance Notice By-law which requires that advance notice be given to the Company in circumstances where nominations of persons for election as a director of the Company are made by shareholders. Shareholders ratified and confirmed the adoption of the Company's Advance Notice By-law at its Annual Meeting held on May 13, 2014. A copy of the Advance Notice By-law has been filed under the Company's profile at www.sedar.com.

- Board of Directors

In October 2014, Jacynthe Côté was appointed to the Board of Directors. Ms. Côté was formerly the President and Chief Executive Officer of Rio Tinto Alcan.

In May 2014, Marcelo A. Awad was appointed to the Board of Directors. Mr. Awad was formerly the President and Chief Executive Officer of Antofagasta Minerals S.A.

In May 2014, Nicholas Hartery was appointed to the Board of Directors. Mr. Hartery is currently Chairman of CRH plc, an Irish-based international building materials group.

In May 2014, Mr. D. Emerson, OBC retired after serving as a Board member for six years.

- Executive Management

In June 2014, Mr. David Smith stepped down from his role as Executive Vice President and Chief Financial Officer.

2.2.3 Growth by Acquisitions

As part of its overall strategic plan, Finning regularly examines opportunities to acquire complementary businesses. Finning generally targets regions and markets where it can provide substantial customer value through its extensive expertise in its principal markets of mining, construction (including pipeline and oil field development) and power generation. Finning has made strategic investments to support market growth areas and operational excellence.

Acquisitions in existing and adjacent territories enable Finning to lever industry expertise in those markets and local knowledge, such as language, regulatory environment and business practices. As an example, following its 1993 acquisition of the Chilean Caterpillar dealership, Finning's presence in the southern cone of South America provided the opportunity to purchase dealerships in the neighbouring countries of Argentina and Bolivia in 2003. Similarly, in 2010 Finning's presence in the U.K. provided the opportunity to purchase the adjacent Ireland dealerships and in 2015 Finning (Canada) expanded its Western Canada territory by adding the adjacent Saskatchewan dealership. By transferring expertise from its existing operations to the newly acquired adjacent dealerships, Finning benefits from improved financial and operating performance of these dealerships.

Acquisition growth opportunities within the Company's dealership territories are also facilitated by investing in businesses that expand product support opportunities, such as the Company's investment in

OEM Remanufacturing in Canada. Many technology-focused growth opportunities exist, including e-commerce, SITECH, fluid and condition monitoring services and Finning Managed Solutions, our equipment productivity services business. In 2012, the Company acquired from Caterpillar the former Bucyrus International Inc. distribution and support business in Finning's dealership territories in Western Canada, South America and the U.K. and Ireland. This business is referred to as the shovels and drills business. This acquisition allows Finning to sell and support a very comprehensive product line in the mining industry to meet customers' surface and underground mining needs.

Acquisition growth opportunities have also arisen in the form of global equity investments in businesses involving Caterpillar products such as the Company's investment in Energyst B.V. (a 28.8% investment in a company offering power generation rental services across Europe in addition to its involvement in international power projects worldwide) and in Pipeline Machinery International LLC (a 25% investment in an entity serving the global pipeline industry).

Finning plans to continue to evaluate similar opportunities and will consider additional acquisitions that meet its financial and strategic goals.

2.2.4 Organic Growth Opportunities

In addition to growth opportunities resulting from the launch of new Caterpillar products and technologies, Finning has a number of organic growth opportunities in each of its existing territories. As the size of the Caterpillar fleet in Finning's geographic regions grows, there is an increased opportunity to offer high-margin product support solutions such as long-term parts and service maintenance contracts. In addition, the business has complementary organic business growth opportunities such as digitally enabled value added services and rebuild products.

It is expected that as the Finning Digital business progresses that advanced digital capabilities to market product and services, trade online within an omni-channel strategy, and provide performance solutions will afford organic growth opportunities for new equipment, parts and service. Additionally, it is expected that market opportunities exist for new revenue streams as Finning offers data and insight driven performance solutions to equipment owners.

The magnitude and timing of organic growth opportunities are impacted by economic conditions, commodity prices and government policies in each of the regions in which Finning operates. Over the last three years Finning has reduced its global workforce and closed facilities in all the regions it operates in. It will continue to drive cost discipline and optimize its branch network in an effort to maintain profitability, while maintaining customer service levels.

Canada

In Western Canada, Finning has a significant presence as a supplier of large mobile equipment to oil sands producers and contractors. In Western Canada, the economic downturn as a result of lower commodity prices continues with the outlook remaining soft. As a result, the demand for equipment has slowed considerably. Finning continues to sell equipment into the oil sands, albeit at lower levels, and has equipment deliveries for long-term projects scheduled in this area. The low and volatile price of commodities has also impacted demand in non-mining sectors such as conventional oil and gas, heavy construction and power systems, which has impacted both sales and product support. Demand for rental equipment remained weak in 2016 as a result of the economic downturn.

The Company continues to participate in a diverse range of power generation projects, such as the construction of Site C Hydro Project in northern British Columbia. As well, LNG and pipeline opportunities may be a positive driver for heavy construction and power systems activity over the next few years.

South America

In South America, market conditions are challenging as concerns regarding copper prices and higher production costs continue to delay investment in new projects. With the decline in copper production levels, mining customers are deferring decisions on component purchases, major repairs and new maintenance contracts, which impacts the Company's product support business. Despite some improvements in copper prices late in 2016 as a result of an improved demand outlook from China and the U.S., the strength of the Chilean economy is expected to remain uncertain until the outcome of the 2017 presidential election is known. The anticipated positive impact of the Chilean government's infrastructure and energy agenda of 2015 did not materialize in 2015 or 2016. Order intake across the mining and construction sectors is very low and the overall demand for new equipment is expected to remain weak.

In response to a further decline in market activity across all segments, the Company has reduced its workforce in South America and has improved its operational efficiency and productivity in service maintenance contracts. The Company continues to closely monitor market conditions and is focused on capturing product support business and ensuring its cost structure and invested capital are at appropriate levels in order to maintain profitability during this downturn.

In Argentina, as a result of the recent change in government, the main obstacles to the economic growth, such as restrictions on imports, foreign exchange, and access to external financing, have been lifted. Inflation and interest rates, while still high, are starting to decline. Finning is encouraged by improved construction activity in Argentina and is successfully capturing a larger share of the construction equipment market. In the medium-term, Finning expects to support customers engaged in infrastructure projects connected to the development of the Vaca Muerta shale gas.

Finning continues to experience solid demand for energy solutions in South America. Energy demand presents a growth opportunity for Caterpillar products in the three South American countries in which Finning operates. Finning is leveraging its expertise to supply energy solutions to various industries such as petroleum, mining and energy production.

U.K and Ireland

In the U.K. and Ireland, new equipment order intake has been steady despite the economic uncertainty created by the June 2016 European Union membership referendum results. In the wake of economic uncertainty, business confidence has reduced, however, ongoing levels of business activity remain orderly. To help offset reduced business confidence, the U.K. government is accelerating infrastructure investments and approvals which are expected to provide long-term growth opportunities for Finning. Examples of accelerated and approved projects include the £42 billion HS2 rail project, £18 billion Hinkley Point nuclear plant, £15 billion road investment strategy and £20 billion Heathrow Airport expansion. The quarrying market remains strong and is expected to benefit from continued construction activity and infrastructure projects. Several sectors in the U.K. have experienced increasing levels of demand due to the devaluation of the British Pound, particularly in export focused markets like industrial and commercial marine engines and used equipment. Finning continues to see significant opportunities in electric power capacity, combined heat and power and data centre markets.

3. DESCRIPTION OF FINNING'S BUSINESS

3.1 PRINCIPAL BUSINESS UNITS

Finning has diversified its business through different geographic areas, different lines of business based on the product or service supplied, and different end-use customers and markets. As a result of this diversification, earnings and cash flow are less exposed to fluctuations in business or economic trends that impact a specific geography, customer or market. While revenues reported by each reporting segment are mainly derived from business within their designated territories, opportunities exist outside those territories for international power systems projects, pipeline business and used equipment sales. The table below provides details of revenue by reporting segment and lines of business:

Revenues for year ended December 31, 2016 (\$ millions)	Canada	South America	UK & Ireland	Consolidated
Product support	\$ 1,584	\$ 1,330	\$ 268	\$ 3,182
New equipment	858	413	567	1,838
Used equipment	238	57	72	367
Equipment rental	140	53	33	226
Other	1	4	10	15
Total	\$ 2,821	\$ 1,857	\$ 950	\$ 5,628
Revenue percentage by operations	50%	33%	17%	100%

Canada: Revenue from the Canadian operating segment was \$2,821 million in 2016 compared with \$3,126 million (restated) in 2015. Finning (Canada) serves customers operating in a number of principal markets, including mining (which includes the Alberta oil sands), construction, conventional oil and gas, forestry, and power systems.

South America: Revenue from the South American operating segment was \$1,857 million (U.S. \$1,402 million) in 2016 compared with \$2,067 million (restated) (U.S. \$1,618 million restated) in 2015. Finning South America serves customers operating in a number of principal markets, including mining, construction and power systems.

U.K. and Ireland: Revenue from the U.K. and Ireland operating segment was \$950 million (£534 million) in 2016 compared with \$1,082 million (restated) (£553 million restated) in 2015. Finning UK and Ireland serves customers operating in several principal markets, including mining, quarrying, construction, oil and gas, marine, industrial and electric power systems.

3.2 PRODUCTS & SERVICES

Finning's operations in Canada, South America, and the U.K. and Ireland offer products and services through four principal lines of business: product support, new equipment sales, used equipment sales and equipment rental. The following table summarizes the Company's revenue by principal lines of business:

REVENUE BY PRINCIPAL LINES OF BUSINESS

Revenues:

(\$ MILLIONS)

	<u>2016</u>		<u>2015</u> <u>(restated)</u>		CHANGE			
Product support	\$	3,182	57%	\$	3,434	55%	\$	(252)
New equipment		1,838	33%		2,190	35%		(352)
Used equipment		367	6%		341	5%		26
Equipment rental		226	4%		294	5%		(68)
Other		15	0%		16	0%		(1)
Total	\$	<u>5,628</u>	100%	\$	<u>6,275</u>	100%	\$	<u>(647)</u>

Below is a brief description of the Company's products and services offered through the principal lines of business.

3.2.1 Product Support

Finning provides replacement parts and maintenance and repair services for the products it sells. Finning believes that a high level of customer service is essential to its success. A continuing emphasis on product support promotes customized solutions to meet customers' needs. These solutions are often provided under long-term contracts entered into at the time the equipment is sold and, as such, increase the stability and predictability of Finning's future revenues and cash flows. In addition, Finning offers customers the service of rebuilding and refurbishing their aging equipment fleets to a new condition, to extend their fleet's operating life and help them defer major capital expenditures during times of economic uncertainty.

Through digitally connecting equipment to transmit live data, then using data analytics to provide live information to the many equipment and condition monitoring experts among Finning's technical workforce, Finning is working to create and provide insights that will allow performance efficiencies for both our customers' equipment and Finning's internal processes. Finning is also working to enhance the online business to business (B2B) capabilities and operate both on-line and physical channels within an omni-channel strategy going forward. Finning expects that, over the coming years, this strategy will allow Finning to increase the percentage of total sales of equipment, parts and service that are transacted online by our customers.

Finning maintains parts inventory throughout its locations in Western Canada, South America, and the U.K and Ireland to provide customers with convenient access to a supply of parts. All major Finning centres within each geographic area are connected through information systems, which provide timely information on both Finning and Caterpillar parts inventories.

Approximately 45% of Finning's employees are specialized tradespersons dedicated to product support. Finning employs approximately 1,750 qualified mechanics, welders, technicians, parts persons and

other specialized tradespersons in Canada; approximately 2,800 in South America; and approximately 540 in the U.K. and Ireland.

In addition to the in-shop capability at Finning locations, Finning provides service at customer locations with specialized personnel and equipment. Many of Finning's customer sites are in remote locations at very high altitudes or experience severe climatic conditions. Finning has consistently demonstrated its ability to successfully maintain and service equipment under these conditions, enhancing its reputation as a full service provider to its customers. Finning offers its customers maintenance and repair contracts for preventive maintenance, planned component replacement and guaranteed cost-per-hour contracts.

To meet the continuing demand for component replacement arising from the modular design of Caterpillar's products, Finning extensively uses remanufactured components sourced from Caterpillar. In addition, Finning has invested in centralized component remanufacturing centres in Edmonton, Canada; Leeds, England; Antofagasta, Chile; and Buenos Aires, Argentina. Trained technicians dismantle, test, repair and replace worn components. This centralization, through specialization and volume, creates economies of scale, resulting in lower prices for customers. The remanufactured components are used in repairs or in an exchange program whereby the customer replaces a worn component with a repaired or remanufactured component at specified intervals before failure, maximizing machine availability at an attractive cost compared to new replacement components.

3.2.2 New Equipment

Finning distributes Caterpillar products, including tractors, off-highway trucks, drills, electric rope shovels, hydraulic excavators and drag lines, backhoe loaders, excavators, forklifts, articulated trucks, loaders, log loaders, tree harvesters, skidders, motor graders, paving products, compactors, wheel tractor-scrappers, pipe layers, extensive underground equipment and products complementary to Caterpillar-branded products.

Finning also sells Caterpillar-branded and non-branded engines and power systems for use in electric power generation, oil and gas, marine, and industrial applications and supplies complete or partial power systems engineering projects to customers.

New equipment revenue is recognized upon the direct sale of products (equipment, engines and power systems) to customers or as a result of a customer exercising its purchase option for products they have been renting. In addition, Finning may, from time to time, sell packages of select rental agreements/assets to third party financial institutions.

3.2.3 Used Equipment

In addition to sales of new equipment, Finning buys and sells used equipment domestically and internationally. Machines are accepted in trade, received from the rental fleet, and purchased from customers and others on the open market. Some of this equipment is reconditioned or rebuilt in Finning's service shops or rebuild centres and resold under a short-term warranty program. Finning also purchases and sells entire fleets of used equipment and sells used equipment on consignment or through auctions. Used equipment demand will vary depending on general economic conditions, new product availability, customer buying preferences, and currency exchange rate considerations. The used equipment business is generally focused on the products and types of equipment for which Finning is a dealer. Finning has

developed expertise in the used equipment market which can contribute to attractive margins on dispositions from its rental fleet.

3.2.4 Equipment Rental

Finning owns fleets of equipment for short-term rental and medium-term rental to meet customer needs. The rental business is carried out through both the dealerships as well as The CAT Rental Store operations. Finning also provides customers with equipment under term rental agreements that include an option to purchase the equipment. These are known as Rental Purchase Options (RPOs).

Rental agreements range from short-term arrangements that provide customers with the flexibility to access reliable equipment to meet short term needs, to longer term arrangements that provide customers with the ability to effectively have reliable equipment available at all times without having to invest the capital required to own the equipment.

During peak periods, the rental fleet in the dealership business can be used to satisfy heavy customer demand, particularly during periods of longer lead times when customers are waiting for new product supply to be delivered. When slower economic conditions exist, customers may use the rental fleets to continue working while deferring capital expenditures on new equipment fleets until markets improve. Rental revenues are generally driven by general economic conditions and construction related demand.

Canada: operates three rental fleets. The heavy rental fleet is operated through the dealership network and focuses mainly on mid to large size Caterpillar earth moving equipment, such as track type tractors, articulated trucks, wheel loaders and excavators, primarily for the construction and oil and gas industries. Finning (Canada) is also a significant player in the power generation rental market and services a wide variety of customers for larger temporary power generation applications. The CAT Rental Stores, through their 19 locations, offer rental products that are complementary to Finning (Canada) customers. These include smaller Caterpillar earth moving equipment and forklifts, as well as allied brand aerial work platforms, light towers, power generation and distribution, heat products, air compressors and various other non-Caterpillar branded equipment.

South America: maintains a rental fleet consisting of motor graders, compactors, excavators, backhoe loaders, tractors, compressors, power generators, aerial work platforms and light towers. The rental business mainly serves customers in the construction and mining industries. Tractors which are rented by construction companies that are involved in highway construction and pre-mining activities, dominate the fleet. The South American rental operations offer these Caterpillar products, as well as select non-Caterpillar products through their 19 CAT Rental Store locations and selected dealership branches.

UK and Ireland: maintains a fleet of rental equipment for rental contracts that are normally more long-term in nature. The fleet consists mainly of larger equipment such as wheel loaders and articulated and rigid chassis dump trucks. Customers served include coal mining, quarrying and construction companies, as well as waste and recycling customers. All rentals of equipment are facilitated through the dealership locations.

3.2.5 Other Products & Services

Other revenues include non-material revenues ancillary to support the business.

3.3 PRINCIPAL MARKETS

Finning serves customers operating in a diverse range of end markets, including those involved in mining and quarrying, construction (including pipeline and oil field development), power generation, and forestry. Customers include private enterprise and government. Finning has established industry and product specialists for the major markets in the geographic regions in which it operates.

Canada

Finning's Canadian operations span British Columbia, the Yukon Territory, Alberta, Saskatchewan, the Northwest Territories and a portion of Nunavut. In these regions, Finning (Canada) serves diverse markets, such as mining (including the oil sands), agriculture, quarrying, forestry, construction, pipeline, conventional oil and gas, government sector, marine transportation, fisheries, and commercial transport. The most significant markets served by Finning (Canada) are as follows:

Mining: provides products and services for use in development of the Alberta oil sands and the mining of coal, copper, molybdenum, gold, diamonds, silver, lead, zinc, potash, uranium and other metals and minerals. Most of the mining is done by open pit method that lends itself to the application of large off-highway trucks, shovels, tractors, loaders, graders and draglines. Finning's surface mining products include drills, electric rope shovels, hydraulic excavators and draglines. In addition, the Company provides extensive underground mining equipment. Operations in remote areas also require electric power generation equipment. High-hour usage of equipment in demanding applications creates substantial demand for parts and repair services from this market sector.

Construction: provides products and services for use in the building and maintenance of highways, railway extensions, site development, residential and commercial construction, installation of utility services and similar projects.

Conventional Oil and Gas: provides products and services including mobile earthmoving equipment for use in exploration and drill site preparation; excavators and pipe layers for use in gathering and delivery systems. In addition to its Western Canadian market exposure, Finning has access to supply both purpose built pipeline and traditional Caterpillar products to the global pipeline construction market through its 25% investment in Pipeline Machinery International LLC.

Forestry: provides products and services for use in road building, harvesting and processing trees, silviculture, log transport to mills and ports and the handling of logs, lumber and finished products in mill yards.

Power Systems: provides products and systems for use in oil and gas exploration and production, electric power generation, plus marine and industrial applications. Oil and gas markets include drilling, hydraulic fracturing, well servicing and gas compression, with particular applicability in high horsepower applications. Electric power generation markets include power for remote communities and mines, local specialized power projects, camp power and electric power rentals. Increasing market demand for natural gas and dual gas/diesel power solutions represents growth opportunities across all markets. Increasing marine shipbuilding activity will also be a growth opportunity over the next few years.

South America

Finning's South American operations serve a variety of markets in Chile, Argentina and Bolivia including mining, construction, forestry, oil and gas, marine and electric power generation, the most significant of which are:

Mining: provides products and services mainly to copper, coal, gold and iron ore mines. These mine sites require fleets of off-highway trucks, loaders, tractors and other support equipment and often include long-term agreements for maintenance of the equipment. Finning's surface mining products include drills, electric rope shovels and hydraulic excavators. In addition, the Company provides extensive underground mining equipment. High-hour usage of equipment in demanding applications creates substantial demand for parts and repair services from this market sector.

Construction: provides products and services to the construction industry involving road construction and maintenance projects, and to mine site preparation and infrastructure projects, as well as to residential and commercial construction.

Forestry: provides products and services in the southern half of Chile and the northeast of Argentina for road building, logging, log transportation and the handling of logs, lumber and finished products in yards, mills and port facilities.

Power Systems: provides products and systems for use in electric power generation, oil and gas and marine power. Finning's electric power generation market has grown through sales of engines, generator sets and custom engineered power solutions for primary, stand-by or turnkey applications for customers engaged in various dry-land markets, including mining, oil and gas, telecommunications, utilities and general construction. Finning also provides marine propulsion systems to the fishing industry and the Chilean Navy.

UK and Ireland

Finning's operations in the U.K. and Ireland also serve diverse markets, with the principal contributors to revenue being the mining and quarrying, power and energy and construction sectors.

Mining and Quarrying: provides products and services for use in coal mining and site reclamation, quarrying of limestone, granite and clay and extraction of sand and gravel.

Power Systems: provides products and systems for use in electric power generation, marine power, industrial applications and oil and gas. Electric power generation orders continue to be strong in such markets as electric capacity market and mission critical power for commercial applications such as hospitals and data centres. Additional markets served in the U.K. are pleasure craft and commercial marine, which purchase engines for vessels manufactured in the U.K. and sold around the world, as well as certain industrial sectors (such as rock crushing), offshore oil platforms and the shipping industry.

Construction: provides products and services for use in highway construction and maintenance, residential and industrial development, demolition, landscaping, waste and recycling landfill sites and recycling centres. An important customer group that serves the construction industry is plant hire or rental. Plant hire companies supply machinery and tools for a limited, yet flexible, period of time to end users.

3.4 DISTRIBUTION METHODS

Finning operates through an extensive network of branch locations, field representatives and at customer mine sites. Finning's operations are represented across its territories by approximately 225 locations, of which approximately 19% are owned, with the balance held under lease.

Finning's operations place a strong focus on providing customer support solutions to end-users. An efficient parts distribution network and a skilled workforce are key to achieving service excellence. The distribution network operated by each operating segment can be summarized as follows:

Canada: Parts are primarily sourced from Caterpillar's distribution facility in Spokane, Washington, USA, with the exception of our Saskatchewan business. The Spokane facility has become the main distribution centre for Finning (Canada), with delivery routes direct from this warehouse or via regional distribution centres throughout Finning's territory. The Spokane facility services the majority of Finning's Canadian locations, including the main regional distribution centre managed with an independent logistics provider in Nisku, Alberta. In Saskatchewan, all parts are sourced from Caterpillar's distribution facility in Morton, Illinois.

South America: Parts are primarily sourced from the Caterpillar parts distribution centres in Miami, Florida and Piracicaba, Brazil. Parts order shipments from Caterpillar are shipped by ocean and air to Finning-owned parts distribution centres in Antofagasta, Chile and Buenos Aires, Argentina and warehouses in Santa Cruz and La Paz, Bolivia. Through independent sub-contractors, a dedicated fleet of trucks makes daily deliveries of new parts and remanufactured components to all branches.

U.K. & Ireland: Parts are sourced from the Caterpillar parts distribution centre in Grimbergen, Belgium. These parts are then stored in a U.K. national distribution centre in Cannock, England and are redistributed to branches throughout the U.K. and Ireland by Finning's interbranch transport network, which is operated by an independent contractor.

3.5 EMPLOYEE DEVELOPMENT

Finning's ability to succeed over time depends on the strength and capabilities of its employees. As such, enabling an environment where every employee can perform to his or her full potential is imperative.

Finning is committed to developing a safe, engaged and inclusive workforce. Finning believes this will help the Company across all operations to achieve its strategic and operational goals at all levels.

Finning employs skilled mechanics, technicians, parts persons, apprentices and highly qualified and professional individuals and encourages training and career development for all of its employees. To enhance skill levels and expertise, Finning offers the following:

- All of Finning's operations, in partnership with Caterpillar, support Caterpillar's Think BIG equipment technician program. In this program, Finning and Caterpillar combine resources to provide tools, instructors and machinery, as well as job opportunities to graduates. Finning UK and Ireland is a leader in technician development in its sector and was the first European dealer to deploy Caterpillar's Think BIG in-house apprentice development program. The program was rated by Ofsted (U.K. government body with responsibility for inspecting educational establishments) as "outstanding", which is the highest grading possible and is marketed by Ofsted as best practice for other U.K. organizations to consider. Finning South America has been recognized by local authorities and local industries as a leader in best practices with regard to technician development.

- Finning (Canada) in partnership with Caterpillar also supports the Think BIG program. This twenty-month diploma program trains technicians with classroom and job-site training for operations in Western Canada. The Think BIG program has also been successfully integrated within Saskatchewan, with student placements across most locations.
- Formalized intern programs provide learning and development opportunities in the sales and operations areas of Finning (Canada). South America has a training model which defines career progression opportunities in service, sales, parts and logistics among others. Finning UK and Ireland remains committed to the development of its sales force and technicians and has a range of programs in place both internally and externally to support this.
- In South America, the Finning Technical Institute in Antofagasta offers best in class training programs to Finning employees, customer employees, and scholarship students to provide a continuous supply of qualified technicians to meet the required demand to support the mining sector in Chile. The Finning Technical Institute benefits the communities where Finning operates, and has been recognized by both the industry sector and local government for its programs.
- Structured programs for management are currently in place with a focus on leadership development. Management development programs are offered to supervisors, recently hired management and management at all levels in order to ensure that Finning managers have adequate skills to meet current and future business needs. Work was completed in 2016 to refresh the leadership and employee competencies to align to the new purpose, vision, values and to execute the company-wide strategy. These competencies serve as the underpinning for all talent management programs and services found throughout the talent life cycle. Finning provides the appropriate tools, training and coaching to assist those employees promoted to more senior leadership roles.
- Every year, each Finning business identifies priorities to advance its long-term strategy for employee development and focus its efforts in that regard during the year. Salaried employees work with their managers to identify individual performance objectives that are linked to their department's goals and to the overall Finning objectives and priorities. Throughout the year, employees stay on track with their objectives through team meetings and one-on-one meetings with their manager. At year-end, employees meet with their manager to review their performance during the year and to identify strengths and any areas for development for the following year. During the annual review, the employee also has the opportunity to discuss how these objectives align with the employee's career aspirations.

At least annually, the Company reviews succession plans for key management positions and identifies high potential leaders. This enables the organization to determine the programs and accelerate development plans required to prepare the identified leadership cohort to take on their new role. Structured high potential development programs for positions below the management level will be built in 2017 from the work conducted on leadership competencies. All regions have delved deeper into the organization for their succession reviews and more consistent approaches have been adopted such as a global talent assessment practice.

A significant amount of time is focused on accelerating Finning's Inclusion and Diversity agenda. Regional Inclusion & Diversity Councils meet as a global group every quarter and Finning met its 2016

global objectives of increasing gender diversity on the Board and at senior leadership levels, and ensuring development plans are in place for women at various levels in the organization to ensure we are developing a diverse leadership pipeline. Work has begun on a global Inclusion & Diversity strategy that will be launched in 2017.

In 2016, the Canadian business unit successfully implemented a human capital management system to streamline people processes and offer its employees mobile-enabled direct access to pertinent information. This same system will be implemented in South America and the U.K. and Ireland over the coming 24 months.

Finning administers annual Employee Opinion Surveys (EOS) to monitor and improve employee engagement. In 2016, 87% of employees participated and employee engagement was rated at 72%, a strong indicator of the commitment and dedication of Finning's employees, especially in light of several years of challenging market conditions. Based on an analysis of the EOS results, teams are tasked with developing and implementing action plans that will cultivate team strengths and focus on areas where there are opportunities for improvement.

3.6 EMPLOYEE RELATIONS

Finning had 11,877 employees at the end of 2016 compared to 13,003 employees at the end of 2015. A breakdown of where these employees are located is as follows:

Continuing operations:	Canada	South America	UK and Ireland	Total
2016	4,657	5,821	1,399	11,877
2015	5,090	6,253	1,660	13,003
Change	(433)	(432)	(261)	(1,126)

In all regions, the decrease in headcount reflects global transformation activities undertaken over the last three years and efforts to better align Finning's cost structure to its reduced business volumes.

Approximately 67% of Finning's employees are represented by unions and are covered by collective agreements. The more significant agreements covering the majority of Finning's unionized employees are as follows:

Canada: At Finning (Canada), hourly paid parts and service employees are represented by the International Association of Machinists and Aerospace Workers (IAM) and are covered by two collective bargaining agreements:

- Finning's collective bargaining agreement with IAM – Local Lodge 99, representing approximately 1,500 hourly employees in Alberta and Northwest Territories, expired in April 2016. A new collective agreement was ratified in August 2016 and will expire on April 30, 2019.
- Finning's collective bargaining agreement with IAM – Local Lodge 692, representing approximately 650 employees in British Columbia and Yukon Territory, has a two-year term that expires on April 15, 2017. Finning anticipates formal bargaining to begin in March 2017.

OEM employees are represented by the Logistic, Manufacturing and Allied Trades Union (CLAC Local 56), which is affiliated with the Christian Labour Association of Canada (CLAC). The

current three-year collective agreement between OEM and CLAC, representing approximately 460 employees, expires on December 31, 2017.

South America: In Chile, approximately 3,600 of Finning's unionized employees are represented by seven unions (sindicatos), representing approximately 81% of the Chilean workforce. Four of these unions have signed collective bargaining agreements effective January 1, 2016 and expiring in December 2019 and one union's collective agreement covering 329 employees will expire in November 2017. The remaining two unions represent the shovels and drills employees and their collective agreement expires in April 2018. The collective agreements for DIPERK and The Rental Store Chile S.A., both of which are Finning subsidiary companies, expire in October 2018 and January 2020, respectively.

Two national unions represent Finning mechanics in Argentina pursuant to country-wide agreements that have been in place since 1975. There is no end date for the national union agreements. A good working relationship exists with these unions, covering approximately 440 employees from Finning Argentina S.A. and Finning Soluciones Mineras S.A.

In Bolivia, there is one union, representing approximately 80 employees or 42% of the workforce. The collective agreement expired on October 31, 2016. Finning is currently negotiating a new collective bargaining agreement with that union.

U.K. and Ireland: At Finning (UK) Ltd., there have been no serious labour disruptions since the business was acquired in 1983. Finning (UK) Ltd. recognizes the Unite trade union for collective bargaining purposes for its service and staff employees. In the Republic of Ireland, Finning (UK) Ltd. recognizes both the Unite trade union and the Services Industrial Professional and Technical Union (SIPTU). In the United Kingdom, a Collective Agreement is in place with the Unite trade union. The pay element of the Collective Agreement expired on December 31, 2016. In the Republic of Ireland, a Collective Agreement also remains in place for both SIPTU and Unite trade union. Again, the pay element expired on December 31, 2016. An interim arrangement is currently in place.

3.7 COMPETITIVE CONDITIONS

Finning is part of Caterpillar's global dealer network. As a dealer, Finning sells, rents and supports Caterpillar equipment in the territories in which it represents Caterpillar.

Finning primarily competes with a large number of equipment distributors who sell and support equipment manufactured by companies other than Caterpillar. The competitive environment for Caterpillar's machinery and engine business consists of global, regional and specialized local enterprises. Historically, superior product quality; exceptional service capability, remanufactured components, product customization, strong distribution capability and parts availability, an extensive branch network, proximity to customers, financial services and the wide product range offered by Caterpillar have defined Finning's competitive advantage throughout its territories.

Caterpillar manufactures a broad range of products. In addition, Caterpillar has expanded its product line through strategic acquisitions of companies supplying complementary products and through the distribution of products manufactured by other companies and distributed under the Caterpillar brand name. Caterpillar's competitors generally provide a more limited range of products, and in many cases these are specific to particular market segments and applications within those segments. As a result, most of

Finning's competitors specialize in more limited and specific lines of equipment and services. Consequently, Finning's share of industry-wide sales varies significantly across product lines and industries.

In general, due to its strong product support capability, Finning is able to compete very successfully when customers are driven to achieve the lowest operating cost over the life of their equipment.

3.8 DEALERSHIP AND DISTRIBUTOR AGREEMENTS

Finning has dealership and distributor agreements with several equipment manufacturers and distributors, the most significant being Caterpillar. Under the terms of its agreements with Caterpillar, Finning is responsible for marketing, distributing and servicing Caterpillar's products in its dealership territories.

Finning has several dealership agreements with Caterpillar, including through companies owned by Caterpillar such as Perkins, MaK and F.G. Wilson. The principal agreements can be terminated on 90 days' notice in Canada and South America and 6 months' notice in the U.K. Other agreements can be terminated on three to six months' notice. In the event of termination of an agreement by Caterpillar, Caterpillar will purchase substantially all related inventories of new equipment and new parts inventory from Finning at cost. Finning started as a Caterpillar dealer in 1933 and has developed a strong relationship with Caterpillar. Finning's management is not aware of any matter that could result in termination of any of the dealership agreements with Caterpillar.

Over 93% of Finning's business involves Caterpillar products. As such, Finning's business is dependent on the market acceptance of Caterpillar products. From time to time, during periods of intense demand, Caterpillar finds it necessary to allocate its supply of particular products among its dealers. Such allocations of supply have not in the past proven to be a significant impediment to Finning in conducting its business. In periods of lower demand, Caterpillar may reduce its production capacity, which may also result in longer lead times for delivery of product. By working closely with Caterpillar, Finning has been able to mitigate any significant impact to its business thus far.

In addition to the Caterpillar dealer relationships noted above, Finning has developed dealer relationships for other complementary product lines in order to create new marketing opportunities and to expand its product support. In Canada, relationships exist with Allied Systems, Atlas Copco, Forklifts Mitsubishi, Genie, Godwin, HaulMax, JLG, Kress, Risley, T-Mar Industries Ltd., Trimble and Waratah. In South America, dealer relationships exist with Forklifts Mitsubishi, Genie Industries, Metso, Satco, Trimble, Waratah, Wire Rope Industries (Canada) and WLS Drilling Products (USA). In the U.K. and Ireland, a dealer relationship exists with Trimble.

3.9 BUSINESS CYCLES

Many of Finning's customers operate in industries that are cyclical in nature. As a result, customer demand for its products and services may be affected by economic conditions on both a global or local level. Changes in interest rates, inflation, economic growth, levels of taxation, foreign exchange, commodity prices, and the level of government infrastructure spending may influence capital expenditure decisions, and ultimately, Finning's sales. Through diversification by geography, by markets and by the services offered, Finning mitigates some of this cyclical impact.

3.10 FOREIGN OPERATIONS

In 2016 and 2015, Finning generated approximately 50% of revenue from operations in Canada; 33% from South America; and 17% from operations in the U.K. and Ireland. Revenue from operations outside of Canada contributed approximately 50% of consolidated revenue in 2016 and 2015.

3.11 ETHICS

Finning's Code of Conduct (Code) forms the cornerstone of how Finning conducts business and how its employees' actions contribute to Finning's corporate goals. The Code sets out Finning's expectations for the ethical behaviour of all its directors, officers and employees. The Code is reviewed annually by Finning's senior management and Board of Directors, and all directors, officers and key employees are required to acknowledge their compliance with the Code. The Code encompasses ambassadorship and accountability, privacy, ethical conduct, diversity and inclusion, confidentiality, environment, health and safety, anti-bribery and anti-corruption, business integrity, financial accuracy and accountability including fair and full disclosure of Finning's financial results, and how to deal with breaches to the Code. The Code is further supported by Finning's Global Anti-Bribery and Anti-Corruption Policy and by the Code of Ethics for Senior Executives and Financial Management, as well as by its Whistleblower Policy.

The Board monitors compliance with the Code through the Audit Committee. All directors, officers and employees have a duty to report suspected Code violations. Suspected Code violations are reported to the Audit Committee. In order to address Code matters in a timely, unbiased and confidential manner, the Company has established a Global Ethics Committee comprised of the Compliance Officer (General Counsel & Corporate Secretary), Executive Vice President & Chief Financial Officer, Vice President, Risk Management, Chief Human Resources Officer and the Senior Vice President, Corporate Controller & Treasurer. The Global Ethics Committee investigates and, where appropriate, delegates potential Code violation reports to the Regional Ethics Committees (comprised of senior level executives in finance, legal, human resources and internal audit). There is a Regional Ethics Committee in each of Finning's three regions. The Global and Regional Ethics Committees are management committees.

The Company's Whistleblower Policy enables any issue that may arise to be resolved, in the first instance, within the Company, rather than outside it, without fear of retaliation. Anyone who believes that a violation of the Code has occurred or who requires advice regarding compliance with the Code is encouraged to report such violation or concern through Finning's compliance website or telephone hotline. Both the compliance website and the telephone hotline are managed by an independent global reporting agency. In addition, the Compliance Officer can be contacted directly at complianceofficer@finning.com. Further information on the reporting of ethics violations or concerns is provided in Finning's Whistleblower Policy. The Whistleblower Policy, Code of Conduct, Global Anti-Bribery and Anti-Corruption Policy and Code of Ethics for Senior Executives and Financial Management are all available on Finning's corporate website at www.finning.com.

3.12 ENVIRONMENT, HEALTH AND SAFETY AND SOCIAL RESPONSIBILITY

Finning aims to eliminate injuries, occupational illnesses and high potential incidents and reduce its impact on the environment. The Company's commitment to the environment, health and safety is guided by its Safety, Health, Environment and Corporate Social Responsibility (EHS&CSR) Management System, which includes elements such as leadership, training, risk assessment, operational controls, incident

investigation, emergency preparedness, community investment, standards and audits. The Management System emphasizes collective accountability for upholding Finning's values and standards globally.

In each of its regions, Finning employs a team of Environment, Health and Safety (EHS) professionals led by a manager. The teams work closely with the operations on the development and implementation of safe operating procedures.

Finning strives to operate at the highest EHS standards throughout its operations. Through the Global EHS team, regional leaders share best practices and agree to global standards. In all cases, global standards must meet or exceed any local regulatory standards. To drive increased performance and consistency, global standards have been defined for critical operations such as vehicle safety, overhead doors and energy isolation. Further, Finning has developed a global standard on hand protection based on best practices in its different regions.

On a quarterly basis, the global Vice-President of EHS and the regional Presidents report to the Safety, Environment & Social Responsibility (SE&SR) Committee of the Board of Directors. The SE&SR Committee oversees continuous improvement in employee health and safety and environmental standards of Company facilities; ensures Finning's commitment to environmental sustainability is articulated to its stakeholders and that societal and regulatory expectations are met; and assures that the significant contributions the Company and its employees make to its communities are directed strategically.

Above all, Finning is committed to continuously improving its EHS performance. By continuing to promote a safe working environment, Finning aims to reduce the frequency of injuries and the occurrence of serious incidents. In 2016, Finning's consolidated safety record, as measured by Total Recordable Incident Frequency (TRIF) was 0.66, a reduction of 33% from 2013 TRIF levels. TRIF measures the number of lost time injuries, restricted work cases and medical aids for every 200,000 hours worked. The Company investigates the root causes of incidents to take actions to prevent the same incidents from reoccurring. The Company strives to maintain its leadership position in the industry and demonstrate the strong commitment of all employees to follow safe work practices.

Finning believes that climate change is a serious global challenge and recognizes that human activity is contributing to increased concentrations of greenhouse gases. In alignment with this belief, Finning will focus on its own emissions through monitoring, reporting and managing the greenhouse gas emissions intensity of its operations. Implementing practices that eliminate or minimize Finning's impact on the environment is a high priority. Focus in this area is viewed as a shared responsibility between each and every Finning employee and an important part of Finning's corporate culture.

Finning has processes in place throughout its operations to monitor and meet or exceed environmental protection regulations. Finning management is not aware of any environmental protection requirements that are likely to have a material adverse effect on the capital expenditures, earnings or competitive position of the Company.

Through investment in component remanufacturing facilities which rebuild equipment components such as engines and transmissions, Finning reduces waste, ensures efficient energy use, and decreases the consumption of raw materials required to produce new components.

Finning works closely with Caterpillar and its customers to develop products that are more fuel efficient and produce lower emissions. In addition, as a supplier of renewable energy solutions, Finning aims to reduce its impact on land, water and climate. Over the past decade, Finning has developed extensive

expertise in supplying and servicing power generation systems which produce electricity using bio-gas containing methane from landfills, sewage treatment plants and coal mines. Harnessing methane, which would otherwise be released as a greenhouse gas, to generate electricity is one example of Finning's commitment to sustainable development and environmental stewardship.

In 2016, Finning continued to contribute to a variety of charitable organizations while taking a significant step towards focusing our global community investment towards STEM (science, technology, engineering and mathematics) education. In Canada, Finning has partnered with Actua, Canada's leading STEM education outreach organization. In South America, Finning is partnering with ComunidadMujer, an independent, non-government organization that works to promote greater participation of women in the workforce. In the U.K., Finning is partnering with two organizations, STEMNET, a government organization that supports STEM educators, and WISE, women in science, technology and engineering. The launch of these signature charitable partnerships in each of its regions supports Finning's aim of making a more meaningful and impactful difference in the communities where it operates through a more focused community investment strategy across its territories.

4. KEY BUSINESS RISKS

4.1 RISK MANAGEMENT

The Company and its subsidiaries, affiliates and joint ventures 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 exposures and the steps taken to monitor and control such exposures. The Audit Committee also reviews the adequacy of disclosures of key risks in the Company's Annual Information Form and MD&A. Changes to the key risks are reviewed quarterly by the Audit Committee and on a yearly basis by the Board, and any changes to key financial or business risks are disclosed in the Company's quarterly MD&A.

For disclosure on the Company's key financial risks, including risks relating to Controls and Procedures Certification; Financial Risks and Uncertainties; Accounting, Valuation and Reporting and Income Taxes, refer to the Company's MD&A and the annual consolidated financial statements for the fiscal years ended December 31, 2016 and December 31, 2015. Key business risks are disclosed in this Annual Information Form.

4.2 KEY BUSINESS RISKS

4.2.1 Relationship with Caterpillar

The majority of Finning's business involves the distribution and servicing of Caterpillar products. As such, Finning's business is highly dependent on the continued market acceptance of Caterpillar's products. Finning believes that Caterpillar has a solid reputation as a manufacturer, with excellent brand recognition and customer support, and has high market share in many of the markets it serves. However, there can be no assurance that Caterpillar will be able to maintain its reputation and market position in the

future. If Caterpillar is unsuccessful in developing and enhancing its product lines to meet evolving and sophisticated customer needs, is unable to maintain the quality of its products, or if it is unable to provide its products at competitive prices, the market acceptance for Caterpillar products may deteriorate over time. Any resulting decrease in the demand for Caterpillar products could have a material adverse impact on Finning's business, results of operations and future prospects.

Finning is also dependent on Caterpillar for the timely supply of parts and equipment to fulfill its deliveries to customers and meet the requirements of Finning's service maintenance contracts. In instances where Caterpillar reduces its production capacity or during periods of intense demand, Caterpillar may find it necessary to allocate its supply of particular products among its dealers. Such allocations of supply have not, in the past, proven to be a significant impediment to Finning in conducting its business. However, there can be no assurance that Caterpillar will continue to supply its products in the quantities and timeframes required by Finning's customers. When supply constraints have occurred in the past, Finning has been successful in utilizing its rental assets and used equipment to meet demand, but there can be no assurance of continued success in this area. Finally, Finning's product supply could also be disrupted by potential labour disputes or strike action at Caterpillar. Prolonged delays in product supply may adversely affect Finning's business, results of operations and financial condition. Historically, this has not been an issue for Finning.

Finning has also been reliant on Caterpillar to supply financing to its customers. In periods of global market credit disruption, Caterpillar may tighten sources or terms of financing for Finning's customers. When credit constraints have occurred, Finning and its customers have historically been successful in finding alternate sources of financing or arranging alternate terms of purchase to facilitate delivery of products to customers. However, any prolonged disruption in Caterpillar's or Finning's customers' access to liquidity markets could have a material adverse impact on Finning's business, results of operations and financial condition.

Finning has a long-standing relationship with Caterpillar that dates back to 1933, when it was awarded its first dealer territory in Canada. Since 1933, and as part of its strategic plan, Finning has continued to develop its relationship with Caterpillar, expanding its dealer territories in Canada, the U.K., Ireland and South America. The relationship was further enhanced by the acquisition of the Caterpillar dealership in Saskatchewan, Canada in 2015. Finning enjoys an excellent relationship with Caterpillar, which management is confident will continue to be very strong in the future. However, as is customary in dealership arrangements of this type, the sales and service agreements with Caterpillar are terminable by either party upon 90 days' notice in most regions, and upon 6 months' notice in the U.K. and Ireland. If Caterpillar terminates an agreement, it must repurchase substantially all inventories of new equipment and parts from Finning at cost. Caterpillar may also, from time to time, change various elements of the dealership operating model or its dealer operating practices. A termination of any such agreement or a change to the business model or its dealer operating practices could have a material adverse impact on Finning's business, operational results, and future prospects.

4.2.2 Economic Conditions / Business Cyclicity

Many of Finning's customers operate in industries that are cyclical in nature. As a result, customer demand for Finning's products and services may be affected by economic conditions on both a global and local level. Changes in interest rates, inflation, economic growth, levels of taxation, foreign exchange, commodity prices, customer access to resources, level of government or other infrastructure spending and international trade agreements may influence capital expenditure decisions, and, ultimately, Finning's sales.

Finning has mitigated some of its exposure to variable business cycles by diversifying its business across a broad range of business activities, industry sectors, and geographic locations. A significant amount of Finning's gross margin is generated from parts and service activities, which are less sensitive to swings in commodity prices than equipment sales. In spite of Finning's geographic and business diversification, an economic downturn in one or more markets or regions may adversely impact Finning's operating results, particularly at a regional level. In addition, a sustained downturn in performance may impact the Company's share price. Finning mitigates the economic risks at a regional level through cost reduction initiatives in areas of lowered business volumes and through constant evaluation of efficiencies and process improvements.

4.2.3 Information Systems and Technology

Information systems and technology enable several categories of solutions – those that facilitate internally consumed services and improve business performance, and those that facilitate customer facing activities and drive revenue.

The integrity, reliability, and availability of technology and the data processed by that technology is an integral part of Finning's business processes, including marketing of equipment and support services, inventory and logistics optimization, business intelligence and finance. Some of these systems are integrated with Caterpillar's core processes and systems.

Finning continues to invest to improve business performance through the internal transactional systems, and will upgrade or install various business process enablement and decision support systems on a continuous basis in the coming years. These system implementations often drive business process changes as well as technology changes.

Finning has determined that given the age and sustainability of the South American business' current information systems, a major regional systems overhaul is required. It is expected that the South American business will replace its existing multiple mainframe systems by implementing a modern ERP system across all end to end business processes. A program team has been created within the South American business to evaluate the most optimum implementation scenario and business process blueprint for an ERP and the business value drivers of this investment. It is expected that the full business case will be complete in mid-2017 and a decision on exact timing and an implementation scenario will be made at that time. Market conditions, evaluation of relative risks of the implementation, business readiness and other factors may influence this decision to invest and the timing of any ERP investment. There can be no assurance that the ERP will be implemented successfully or in a timely manner. Any disruption in this project, or failure of the ERP to operate as expected could adversely affect Finning's business and operating results.

Business process change and organizational change often carry the risk of business disruption, failure to achieve expected business benefits, cost overruns and ineffective design and operation of Finning's internal control over financial reporting and disclosure controls and procedures. Benefits assessment, change management, risk and impact assessments, solution validation, strong project governance, communication and disciplines and training have been identified as critical success factors in the successful implementation of new systems. Any disruptions to these systems or the failure of these systems to operate as expected could, depending on the magnitude of the problem, adversely impact Finning's operating results by limiting the ability to effectively monitor and control Finning's operations.

In addition, new digital and other technologies in the market can become disruptive to Finning's operations, market share and business model. Finning's scans continuously for emerging digital and other technologies and their potential impacts. In 2016, Finning launched Finning Digital, a new global division within Finning. In addition to investigating emerging digital technologies, and how they can impact both customers and Finning's core business opportunities, Finning Digital will focus on improving the customer experience, along with pursuing new opportunities for revenue generation in the digitally enabled value added services area. Failure of Finning Digital to meet its objectives could have an adverse impact on the business.

A rigorous management process is being followed to manage these risks and a great deal of the business processes and systems transformation program focus is on developing capabilities to reduce and mitigate these risks.

4.2.4 Cybersecurity

Cybersecurity incidents relating to our information technology systems are a threat to the integrity, reliability, and availability of technology and data. These cybersecurity incidents may take the form of malware, computer viruses, cyber threats, cyber extortion, employee error, malfeasance, system errors and other types of security and data breaches, and may arise from inside and outside of our organization. We rely heavily on information technology systems, some of which are managed by third parties on whom we are reliant, to process, transmit and store electronic information, including personally identifiable information, credit card payment data and other sensitive customer and employee information, and to manage or support a variety of critical business processes and activities. Many of Finning's information technology systems, applications and supporting network infrastructure require upgrades. If Finning is unable to effectively upgrade and continually maintain its systems, applications and network infrastructure, its risk of a cybersecurity incident may increase. Due to limited monitoring capabilities, Finning may also fail to identify cybersecurity breaches or be unable to discover them in a timely way, which could affect our ability to implement adequate preventative or remediation measures. Additionally, Finning's risk of experiencing a cybersecurity incident has increased as the number, intensity, and sophistication of attempted attacks and intrusions have increased globally.

Although we make significant efforts to maintain the security and integrity of our information technology systems, there can be no assurance that our efforts and measures will be able to prevent all cybersecurity incidents. A cybersecurity incident could result in the following:

- a disruption of our business operations and lost revenues;
- unauthorized access to, destruction, loss, theft, misappropriation or release of, proprietary, confidential, sensitive or otherwise valuable information of ours or our customers or employees which could be used for disruptive or otherwise harmful purposes;
- damage to Finning's reputation with our customers, partners (e.g. Caterpillar), suppliers, investors and the general public;
- a disruption to the proper functioning of our information technology systems;
- an expenditure of significant resources in remediation costs;
- investigations imposed by regulatory agencies or litigation, claims and liability for breach of contract, damages or other penalties;

- inability to process customer transactions or otherwise service customers; and
- disruptions to inventory management.

We are continuously implementing security controls, policy enforcement mechanisms, management oversight and monitoring systems in order to prevent, detect and address potential threats. Finning has a global Chief Information Security Officer (CISO) focused on developing and improving Finning's information security program. The CISO leads a skilled and diverse team located throughout our operating regions. Finning is in the process of engaging a managed security services provider to monitor for cyber security incidents and proactively defend against cybersecurity incidents. Additionally, our security team is involved in the procurement process and reviews certain contracts to be entered into by Finning to ensure privacy and cybersecurity elements are included. Finning requires that its cloud-service providers carry a SOC 1 type 1 or 2 reports and reviews these reports yearly. Finning currently self-insures for cybersecurity incidents, due to the cost of such insurance. The occurrence of a significant self-insured loss or claim, or a greater number of these losses than anticipated, could have a material adverse impact on Finning. Our risk and exposure to these matters cannot be fully mitigated because of, among other things, the evolving nature of these threats. As a result, cybersecurity and the continued development and enhancement of controls, processes and practices designed to protect systems, computers, software, data and networks from attack, damage or unauthorized access remain a priority.

4.2.5 Competition

The Company competes with a large number of equipment vendors worldwide that sell equipment manufactured by companies other than Caterpillar. Although price competition between Finning and other equipment vendors can be intense, there are a number of factors that have enhanced Finning's ability to compete throughout its market areas, including: the range and quality of Caterpillar products; the range and quality of Finning's services and solutions; Finning's ability to meet sophisticated customer requirements; Finning's effective and efficient distribution capabilities; the number of sales and service locations; Finning's proximity to its customers; and the extent of financial services offered by Finning and its suppliers.

Finning may encounter increased competition in the future through new entrants into the market and the expansion of e-commerce channels for parts sales, which may put pressure on sales prices. Finning may also encounter competition through the introduction of digitally enabled value added services from third parties. The market pursuit of digitally enabled or digitally enhanced services could bring new non-traditional entrants into the market. In addition, pressures on sales prices may occur as a result of increased volumes of data in the market place, increasing price transparency, the customer's pursuit of value added services and commoditization pressure on core physical parts and equipment.

Further, foreign currency movements could provide relative pricing advantages to competitors who transact their business in different currencies than Finning.

Increased competitive pressures for these or other reasons, or the inability of Finning to maintain the factors which have enhanced its competitive position to date or develop effective responses to new competitive pressures, could adversely affect Finning's business, results of operations, and financial condition.

4.2.6 Growth Initiatives / Integration of Acquisitions / Project Execution

As part of its long-term corporate strategy, Finning intends to grow its business through a combination of organic growth and strategic acquisitions, as well as by focusing on its core business. Finning's ability to successfully grow its business will be dependent on a number of factors including: identification of value creating business or acquisition opportunities; negotiation of purchase or investment agreements on satisfactory terms and prices; prior approval of certain acquisitions by Caterpillar or other parties, including approval of regulatory authorities; the ability to secure attractive financing arrangements; and the ability to integrate newly acquired operations into the existing business. There can be no assurance that Finning will be able to negotiate satisfactory purchase or investment terms and prices, obtain necessary approvals or secure financing on attractive terms or at all. Although Finning makes every effort to integrate new operations, there can be no assurance that Finning will fully realize the anticipated revenues, synergies, or other intended benefits associated with potential acquisitions.

Further, any significant expansion of the business may increase the operating complexity of Finning and divert management attention away from regular business activities. Any failure of Finning to manage its growth strategy successfully could have a material adverse impact on Finning's business, results of operations, and financial condition.

Finning has many operational excellence initiatives underway, such as improving customer loyalty, supply chain asset utilization and service excellence for all of its operations. A greater focus will be placed on meeting customer expectations and numerous actions have been taken to continuously sustain or improve employee engagement. Failure to effectively execute on the operational excellence agenda may result in the inability to obtain desired business results.

Finning has adopted and implemented a project management process and is expanding its capabilities in this area in order to manage risks associated with the complexity of the initiatives and projects underway.

4.2.7 Key Personnel

The success of Finning in achieving its goals is largely dependent on the abilities and experience of its senior management team and other key personnel. Finning's future performance will also depend on its ability to attract, develop, motivate and retain highly qualified employees in all areas of its business and to successfully integrate employees transitioning to Finning from acquisitions. Competition for highly skilled management, sales, and technical personnel is intense, particularly in certain geographic areas where Finning operates. To help mitigate this risk, Finning has implemented a number of human resource initiatives, including: training and career development programs, succession plans, engagement surveys, performance management systems, compensation programs and recruiting strategies.

Although Finning actively manages its human resource risks, there can be no assurance Finning will be successful in its efforts. The loss of certain key employees, or failure to attract, retain and motivate talent as needed, may have an adverse impact on Finning's business, results of operations, and future prospects.

4.2.8 Maintenance and Repair Contracts

Finning enters into long-term maintenance and repair contracts with some of its customers. Under these contracts, Finning agrees to maintain certain fleets of customer equipment at negotiated performance levels. The lengths of these contracts vary, often ranging up to five or more years. The contracts are

generally at a fixed price over the term, although many contracts have additional provisions for inflationary or currency adjustments.

Finning has developed processes and has controls in place to ensure contracts are bid appropriately, but due to the long-term nature of these contracts, there is a risk that significant cost overruns may be incurred. If Finning has miscalculated the extent of maintenance work required, or if actual parts and service costs increase beyond the agreed adjustments, contract profitability may be adversely affected. All maintenance and repair contracts are validated against historic Finning and Caterpillar data based on conservative component change out periods and usually include an escalation clause to cover inflationary increases where appropriate in the contract. The Company closely monitors the contracts for early warning signs of cost overruns. Preventative measures such as condition monitoring and scheduled fluid sampling helps to identify problems in equipment subject to long-term maintenance contracts early on and reduces the risk of costly repair work.

Caterpillar may, in certain circumstances, share in the cost overruns if profitability falls below a certain threshold. Any failure by Finning to effectively price and manage these contracts could have a material adverse impact on Finning's business, results of operations and financial condition.

4.2.9 International Operations

Finning has operations outside of Canada, including the U.K., Republic of Ireland, Chile, Argentina and Bolivia. Finning's international subsidiaries are subject to risks normally associated with the conduct of any business in foreign jurisdictions, including: uncertain political and economic environments; war, insurrection, and other civil disturbances; changes in laws, regulations, and taxation; foreign currency exchange controls; import and export controls; and limitations on the repatriation of earnings. These risks may limit or disrupt operations, increase costs, restrict the movement of funds, or result in the loss of property. Although Finning closely monitors its foreign investment risks, there can be no assurance that Finning will not be adversely affected by political and other events beyond its control.

In June 2016, the U.K. and Ireland voted to exit the European Union (Brexit), which has created economic uncertainty. The Company will continue to monitor activities related to Brexit. The end result may take a number of years to resolve and the resulting uncertainty may have an adverse effect on Finning's business.

Finning's South American operations began to export an agricultural animal feed product from Argentina in the third quarter of 2012 in response to the Argentine government's efforts to balance imports and exports and to manage access to foreign currency exchange. These exports enabled Finning to import goods into Argentina to satisfy customer demand, while meeting the government's requirements. Finning's South American operations have not exported agricultural animal feed product since the third quarter of 2013. The Argentina Customs Authority has made a number of claims associated with the export of this agricultural product. Finning is defending these claims, believes they are without merit, and is confident in its position. These pending matters may take a number of years to resolve and should the ultimate resolution of these matters differ from management's assessment, a material adjustment could arise and impact Finning's financial position.

The Argentine economy is challenging with various controls on availability of currency and ability to import goods occurring in 2014 and most of 2015. The Argentine peso devalued approximately 30% in 2014 and approximately 50% in 2015, relative to the U.S. dollar (the functional currency of Finning's South

American operations). In December 2015, a new government was elected in Argentina which lifted controls around currency, which resulted in a 30% devaluation in the month. Management reduced the risk of devaluation by ensuring its net balance sheet exposure to the Argentine peso was minimized. The Company will continue to take similar steps in order to reduce the impact on Finning's results as a result of a decline in the Argentine peso, however, if these steps are not successful, that may adversely impact Finning's results.

4.2.10 Employee Relations

Many of Finning's employees are represented by unions and Finning is party to a number of collective bargaining agreements worldwide, which are subject to expiration at various dates in the future or have already expired.

While Finning is committed to the collective bargaining process and to concluding a fair contract for its employees and for Finning, the renegotiation process could result in future work stoppages or higher wages and benefits paid to union members. The failure to renew collective agreements upon satisfactory terms and in a timely way could have a material adverse impact on Finning's business, results of operations, and financial condition.

4.2.11 Business Continuity Risks

The occurrence of one or more natural disasters, such as earthquakes, wildfires and hurricanes, unusually adverse weather, pandemic outbreaks, boycotts and geo-political events, such as civil unrest in countries in which Finning operates, acts of terrorism, or similar disruptions, could materially adversely affect Finning's business, people, customers and financial results. Finning continues to enhance its business continuity program to address and mitigate, to the extent possible, the impact of these risks, however, a risk of this nature may still have a material adverse impact on Finning's business, results of operations and financial condition.

4.2.12 Government Regulation

Finning's business is subject to evolving laws and government regulations, particularly in the areas of environment, health and safety and climate change. More specifically, Finning is currently subject to greenhouse gas (GHG) regulations on climate change in some of the areas in which it operates and could be impacted by more stringent laws and regulations yet to be adopted. Changes to such laws and regulations may impose additional costs on Finning and may affect its business in other ways, including through a requirement to comply with various operating procedures and guidelines that may impact Finning's operations or may affect our customers and the demand for our products. The Company has in place, in each of its business units, programs for monitoring and compliance to ensure that it meets or exceeds applicable laws and regulatory requirements. In addition, the Board of Directors has established and maintains a Safety, Environment & Social Responsibility Committee. The mandate of this Committee is to encourage, assist and counsel management in its drive towards attaining and maintaining the highest level of performance in areas relating to the environment, health, safety and social responsibility. Ensuring a healthy and safe workplace minimizes injuries and other risks employees may face in carrying out their duties, improves productivity and avoids penalties or other liabilities. No assurance can be given that these steps will be successful in completely mitigating these risks.

4.2.13 Defined Benefit Pension Plans

Although Finning's current pension arrangements in Canada and in the U.K. and Ireland are defined contribution plans, Finning still has a number of closed defined benefit pension plans covering certain legacy employee groups in the U.K. and Canada. Finning's South American employees do not participate in a company pension plan.

Finning is responsible for funding its defined benefit pension plans to ensure accrued benefit obligations will continue to be met by plan assets in the future. Finning's funding requirements are dependent upon many factors, including the rate of return earned on plan assets, the discount rate used to calculate accrued benefit obligations, and other actuarial assumptions and experiences. Changes in any of these factors may cause the pension contributions and related pension expense to fluctuate. These risks are managed by selecting certain investments that aim to better match assets and liabilities of the plans. Both the Canadian and U.K. plans invest in various asset categories, primarily including equities, fixed income, and real estate. These investments, in aggregate, are expected to provide sufficient returns in the long-term but may experience some volatility in the shorter-term. In selecting the portfolios and the weightings in each category, Finning considers and monitors how the duration and the expected yield of the investments match the expected cash outflows arising from the pension obligations. A framework has been developed and adopted for each of the Canadian and U.K. defined benefit pension plans whereby the investments will be adjusted over time as plan funding positions improve. The planned adjustments are intended to improve the asset-liability match over time. This is to be accomplished primarily by reducing the exposure to equity investments over time and increasing exposure to investments such as long-term fixed interest securities with maturities that better match the benefit payments as they fall due. Management believes that Finning has the financial capacity to fully fund its accrued obligations as necessary under the various defined benefit pension plans, but no assurance can be given that this will be the case. The Board of Directors, through its Audit Committee, oversees Finning's pension plans. This oversight includes the responsibility to analyze policies and strategies developed by management, however, no assurance can be given that this oversight function will result in Finning being able to fully fund its accrued obligations as necessary under these defined benefit pension plans. For further disclosure on Finning's key risks related to its defined benefit pension plans, refer to Finning's annual consolidated financial statements for the fiscal years ended December 31, 2016 and December 31, 2015.

4.2.14 Scope of Insurance Coverage

The Company maintains a program of insurance coverage that is ordinarily maintained by similar businesses, including property insurance and general liability insurance. Although the limits and deductibles of such insurance have been established through risk analysis and the recommendation of professional advisors, there can be no assurance that such insurance will remain available to Finning at commercially reasonable rates or that the amount of such coverage will be adequate to cover all liability or loss incurred by Finning. If Finning is held liable for amounts exceeding the limits of its insurance coverage or for claims outside the scope of that coverage, its business, results of operations and financial condition could be adversely affected.

4.2.15 Repurchase Commitments

Finning enters into contracts with rights, in certain circumstances, for the repurchase of equipment sold to customers for an amount which is generally based on a discount from the estimated future fair value of that equipment (right of return). The right of return is dependent upon a number of factors, including the

condition of the equipment. The likelihood of the repurchase commitments being exercised, and quantification of the possible loss, if any, on resale of the equipment, is assessed at the inception of the contract and at each reporting period thereafter. Significant assumptions are made in estimating residual values. These are assessed based on past experience and take into account expected future market conditions and projected disposal values. Finning's experience to date has been that the equipment at the exercise date of the contract is generally worth more than the repurchase amount. Although Finning believes it has been successful in estimating equipment values to date, there can be no assurance that Finning will not incur a loss on such arrangements in the future. To mitigate this risk, all guarantees are reviewed on a quarterly basis and where deemed necessary, a provision is made at that time to record a potential loss.

4.2.16 Future Warranty Claims

Finning provides standard and extended warranties for most of the equipment, parts and services supplied to customers. In many cases, the warranty claim risk is shared jointly with the equipment manufacturer. Accordingly, Finning's liability is generally limited to the service component of the warranty claim, while the manufacturer is responsible for providing the required parts. There is a risk that product quality erosion or lack of skilled workforce could increase warranty claims in the future, or may be greater than management anticipates. If Finning's liability in respect of such claims is greater than anticipated, it may have a material adverse impact on Finning's business, results of operations and financial condition. To mitigate this risk, Finning reviews every warranty offering by product at least annually to assess the experience with the product and ensure that the costs to service the product over its warranty period are managed adequately. Insurance may at times be obtained on equipment to further mitigate any warranty exposure. Additionally, Finning works closely with Caterpillar on all product quality issues and has extensive product improvement, product support and pre-delivery inspection programs in place.

5. SUMMARY OF FINANCIAL INFORMATION

5.1 THREE YEAR SUMMARY

Years Ended December 31
(\$ millions except per share amounts)

	2016	2015	2014
Revenue ⁽¹⁾⁽²⁾			
Canada	\$ 2,821	\$ 3,126	\$ 3,634
South America	1,857	2,067	2,227
UK and Ireland	950	1,082	1,057
Total	\$ 5,628	\$ 6,275	\$ 6,918
Earnings before finance costs and income taxes ⁽²⁾			
Canada	\$ 87	\$ 98	\$ 284
South America	137	(174)	196
UK and Ireland	(12)	(5)	50
Other ⁽⁴⁾	(47)	(24)	(26)
Total	\$ 165	\$ (105)	\$ 504
Net income (loss) ⁽²⁾	\$ 65	\$ (161)	\$ 318
Basic earnings per share ⁽²⁾	\$ 0.38	\$ (0.94)	\$ 1.85
Diluted earnings per share ⁽²⁾	\$ 0.38	\$ (0.94)	\$ 1.84
Dividends paid per common share	\$ 0.73	\$ 0.725	\$ 0.685
Long-term debt ⁽³⁾ (includes current portion)	\$ 1,487	\$ 1,548	\$ 1,418
Total assets ⁽²⁾	\$ 4,910	\$ 5,108	\$ 5,273

(1) In 2016, management voluntarily changed its presentation of certain expenses to provide reliable and more relevant information to users of the financial statements and better align with industry comparable companies. In addition, management concluded that certain cost recoveries are better reflected as revenues. Revenue has therefore been restated in the comparative 2015 period but the impact of the restatement is not significant. Further disclosure relating to these changes can be found in note 2 of the Company's audited annual consolidated financial statements.

(2) In July 2015, the Company's Canadian operations acquired the operating assets of the Saskatchewan dealership and became the approved Caterpillar dealer in Saskatchewan. The results of operations and financial position of this acquired business have been included in the figures above since the date of acquisition.

In addition, EBIT and EPS in 2016, 2015, and 2014 were impacted by the following items:

(\$ millions except per share amounts)	2016	2015	2014
Distribution network and goodwill impairment	\$ —	\$ 338	\$ —
Facility closures and restructuring costs	36	53	—
Severance costs and labour disruption costs	41	48	17
Impact from Alberta wildfires – unavoidable costs	11	—	—
Power systems project provisions, estimated loss on dispute and alleged fraudulent activity by a customer	20	—	—
Inventory and other asset impairments	—	42	—
FX impact on devaluation of ARS	—	12	—
ERP write-off costs	—	—	12
Gain on investment	(5)	—	—
Acquisition and disposal of businesses, net	5	(5)	—
Impact of significant items on EBIT:	\$ 108	\$ 488	\$ 29
Capital loss utilized/tax rate change impact on EPS:	\$ —	\$ 0.02	\$ —
Impact of significant items on EPS:	\$ 0.50	\$ 2.23	\$ 0.13

2016 significant items:

- Restructuring costs of \$36 million incurred in the Canadian and UK operations related to facility closures and consolidations.
- Severance costs of \$41 million related to the global workforce reduction as Finning continued to align its cost structure to lower market activity.
- Unavoidable costs of \$11 million incurred during the evacuation and cessation of operations in the Fort McMurray, Alberta area due to wildfires for a six week period in May and June.
- In Q4 2016, the Company's South American operations recorded an estimated loss of \$10 million for which the Company has filed a criminal suit claiming fraudulent activities by a customer in connection with non-payment for equipment financed through Caterpillar and guaranteed by the Company. The Company believes that its customer took advantage of import and currency restrictions to take possession of equipment without paying for it, as a result of which the Company was required to pay under its guarantee. The customer subsequently filed for insolvency protection. In addition to bringing a criminal action, the Company has also filed a claim in the customer's insolvency proceedings.
- As part of the restructuring and repositioning of Finning UK's power systems business, management in the U.K. & Ireland completed a detailed review of power systems contracts and projects. As a result, management recorded provisions on certain power systems contracts in Q1 2016, as well as estimated losses on disputes regarding two power system projects in Q2 2016, both totaling \$10 million.
- Following a strategic review of Finning's operations in the U.K. & Ireland, it was determined that engineering and construction services for the water utility industry no longer represented a core sector for Finning's power systems division in the UK & Ireland. The Company recorded a \$5 million write-down of net assets and other costs in the second quarter of 2016 related to the sale of this business in August.
- Mark-to-market gain of \$5 million on the Company's investment in IronPlanet Holdings Inc.

2015 significant items:

- Due to a difficult macro-economic environment for the foreseeable future, the Company recorded an impairment loss of \$338 million related to its shovels and drills distribution network and goodwill.
- Restructuring costs of \$53 million related to facility closures and consolidations in all operations.
- Severance costs of \$48 million related to the global workforce reduction during the year as Finning aligned its cost structure to lower market activity.
- \$42 million higher than usual inventory and other asset impairments primarily related to aged and industry specific inventory and rental assets due to prolonged weak market conditions.
- Foreign exchange (FX) loss of \$12 million and related tax impact due to the significant devaluation of the Argentine peso to the U.S. dollar.
- \$8 million gain on sale of Uruguay business, partially offset by \$3 million of acquisition costs related to the purchase of the operating assets of the Saskatchewan dealership.

- Recognition of tax benefits from capital losses and higher tax expense from change in statutory tax rate in the Company's Canadian operations.

2014 significant items:

- write-off of previously capitalized ERP costs in the Company's South American operations of \$12 million
 - severance and labour disruption costs of \$17 million recorded in operations
- (3) In October 2015, the Company closed a three-year extension to its \$1.0 billion global credit facility, extending the maturity date to October 2020 from the previous maturity in September 2017.
- (4) The Company's Other segment refers mainly to corporate head office costs and is essentially non-revenue generating.

5.2 THREE YEAR SUMMARY BY QUARTER

(Unaudited)

(\$ millions except per share amounts)

Results from Continuing Operations:

<u>Period</u>	<u>Qtr.</u>	<u>Revenue</u>	<u>Net Income</u> <u>(Loss)</u>	<u>Basic EPS</u>	<u>Diluted EPS</u>
2016	1	\$ 1,494	\$ 15	\$ 0.09	\$ 0.09
	2	1,310	5	0.03	0.03
	3	1,333	36	0.22	0.22
	4	1,491	9	0.05	0.05
	Total ⁽¹⁾	\$ 5,628	\$ 65	\$ 0.38	\$ 0.38
2015	1	\$ 1,541	\$ 53	\$ 0.31	\$ 0.31
	2	1,680	62	0.36	0.36
	3	1,517	33	0.19	0.19
	4	1,537	(309)	(1.82)	(1.82)
	Total ⁽¹⁾⁽²⁾	\$ 6,275	\$ (161)	\$ (0.94)	\$ (0.94)
2014	1	\$ 1,676	\$ 68	\$ 0.39	\$ 0.39
	2	1,768	86	0.50	0.50
	3	1,670	57	0.33	0.33
	4	1,803	107	0.62	0.62
	Total ⁽¹⁾	\$ 6,918	\$ 318	\$ 1.85	\$ 1.84

(1) Due to rounding differences, quarterly amounts may not add to the annual total.

(2) In 2016, management voluntarily changed its presentation of certain expenses to provide reliable and more relevant information to users of the financial statements and better align with industry comparable companies. In addition, management concluded that certain cost recoveries are better reflected as revenues. Revenue has therefore been restated in the comparative 2015 period but the impact of the restatement is not significant. Further disclosure relating to these changes can be found in note 2 of the Company's annual consolidated financial statements

2016 and 2015 EBIT and EPS were impacted by the following significant items:

(\$ millions except per share amounts)	2016					2015				
	Annual	Q4	Q3	Q2	Q1	Annual	Q4	Q3	Q2	Q1
Distribution network and goodwill impairment	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 338	\$ 338	\$ —	\$ —	\$ —
Impact from Alberta wildfires - unavoidable costs	11	—	—	11	—	—	—	—	—	—
Facility closures and restructuring costs	36	32	—	4	—	53	45	6	—	2
Severance costs ^(a)	41	15	—	9	17	48	2	25	6	17
Power systems provisions, estimated loss on dispute and alleged fraudulent activity by a customer	20	10	—	5	5	—	—	—	—	—
Inventory and other asset impairments	—	—	—	—	—	42	42	—	—	—
Gain on investment	(5)	(5)	—	—	—	—	—	—	—	—
FX impact on devaluation of ARS	—	—	—	—	—	12	12	—	—	—
Acquisition and disposal of businesses, net	5	—	—	5	—	(5)	(8)	3	—	—
Impact of significant items ^(a) on EBIT:	\$ 108	\$ 52	\$ —	\$ 34	\$ 22	\$ 488	\$ 431	\$ 34	\$ 6	\$ 19
Capital loss utilized/tax rate change impact on EPS:	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 0.02	\$ 0.07	\$ —	\$ 0.01	\$ (0.06)
Impact of significant items ^(a) on EPS:	\$ 0.50	\$ 0.23	\$ —	\$ 0.17	\$ 0.10	\$ 2.23	\$ 2.05	\$ 0.15	\$ 0.04	\$ 0.02

(a) Due to rounding differences, quarterly amounts may not add to the annual total.

2014 significant items:

- Q4 2014 results were positively impacted by an inflationary adjustment to reduce income tax expense in Argentina by \$0.07 per share.
- Q3 2014 results were negatively impacted by the write-off of previously capitalized ERP costs in the Company's South American operations by \$0.06 per share, severance costs of \$0.03 per share, a one-time revaluation adjustment of the Company's deferred income tax balances of \$0.04 per share, labour disruption costs (\$0.01 per share) and higher annual effective tax rate in Argentina (\$0.03 per share).
- Q2 2014 results were negatively impacted by severance costs of \$0.02 per share

Basic earnings per share (EPS) is calculated by dividing net income available to common shareholders by the weighted average number of common shares outstanding during the period. Diluted EPS is determined by dividing net income available to common shareholders by the weighted average number of common shares outstanding, adjusted for the effects of all potentially dilutive common shares, which comprise share options granted to employees. EPS for each quarter has been computed based on the weighted average number of shares issued and outstanding during the respective quarter; therefore, quarterly amounts may not add to the annual or year-to-date total.

6. MANAGEMENT'S DISCUSSION AND ANALYSIS

For further financial information please refer to the MD&A relating to the Company's audited annual consolidated financial statements for the fiscal years ended December 31, 2016 and December 31, 2015 and the report of the auditors thereon. The MD&A and audited annual consolidated financial statements are available on the Canadian System for Electronic Document Analysis and Retrieval (SEDAR) at www.sedar.com and can also be found on Finning's website at www.finning.com.

7. DIVIDENDS

The Company has a practice of paying quarterly dividends on its outstanding common shares. The declaration and payment of future dividends is subject to the discretion of its Board of Directors and will be dependent on the Company's results of operations, financial condition, cash requirements, future outlook and other factors deemed relevant by the Board of Directors. Dividends paid on common shares were \$123

million or \$0.73 per share in 2016, compared with \$124 million or \$0.725 per share in 2015. In 2016, the Company maintained its dividend rate at \$0.1825 per quarter.

The Company has declared and paid the following dividends, on the dates and at the rates shown, since February 19, 2014. Except as prescribed by law, Finning is not subject to any restriction with respect to its ability to declare or pay dividends.

<u>Declaration Date</u>	<u>Date Paid</u>	<u>Rate Per Share</u>
February 19, 2014	March 20, 2014	\$0.1525
May 13, 2014	June 12, 2014	\$0.1775
August 6, 2014	September 4, 2014	\$0.1775
November 12, 2014	December 11, 2014	\$0.1775
February 18, 2015	March 19, 2015	\$0.1775
May 5, 2015	June 4, 2015	\$0.1825
August 5, 2015	September 3, 2015	\$0.1825
November 11, 2015	December 10, 2015	\$0.1825
February 17, 2016	March 17, 2016	\$0.1825
May 4, 2016	June 2, 2016	\$0.1825
August 2, 2016	September 1, 2016	\$0.1825
November 2, 2016	December 1, 2016	\$0.1825
February 15, 2017	March 16, 2017*	\$0.1825

* Dividend Payable

8. DESCRIPTION OF CAPITAL STRUCTURE

The authorized share capital of the Company consists of:

- Unlimited number of common shares. As of February 16, 2017, the Company had 168,171,771 common shares issued and outstanding.
- Unlimited number of preferred shares without par value, of which 4,400,000 are designated as cumulative redeemable convertible preferred shares. As of February 16, 2017, the Company had no preferred shares outstanding.

Common Shares

Shareholders are entitled to one vote in respect of each common share held at all meetings of shareholders, other than meetings at which only the holders of another class or series of shares are entitled to vote separately as a class or series. Shareholders are entitled to receive any dividend declared by the Company in respect of the common shares, subject to the rights of the holders of other classes of shares ranking in priority to the common shares. Shareholders will be entitled to receive, subject to the rights of the holders of other classes of shares, the remaining property and assets of the Company available for distribution, after payment of liabilities, upon the liquidation, dissolution or winding-up of the Company, whether voluntary or involuntary. The common shares are not subject to redemption or retraction rights, rights regarding purchase for cancellation or surrender, or any exchange or conversion rights.

Preferred Shares

The preferred shares of the Company are issuable in series with such rights privileges, restrictions and conditions as may be determined by the Board of Directors of the Company, including without limiting

the generality of the foregoing, the rate or amount of dividends or, the method of calculating dividends, the dates of payment thereof, the terms and conditions of redemption, purchase and conversion if any, or any other provision. Preferred shares of all series have preference over common shares and any other shares ranking junior to the preferred shares with respect to payment of dividends and distribution of the assets of the Company on liquidation, dissolution or winding-up of the Company, whether voluntary or involuntary. Preferred shares of any series may also be given such other preferences over the common shares as may be determined by the Board of Directors of the Company. Holders of preferred shares are not entitled to notice or to vote at meetings of shareholders (except where holders of a specified class or series are entitled to a separate vote or in certain other specified cases).

Shareholder Rights Plan

A shareholder rights plan is in place which is intended to provide all holders of common shares with the opportunity to receive full and fair value for all of their shares if a third party attempts to acquire a significant interest in the Company. The rights plan provides that one share purchase right has been issued for each common share and will trade with the common shares until such time as any person or group, other than a “permitted bidder”, bids to acquire or acquires 20% or more of the Company's common shares, at which time the plan rights become exercisable. The rights may also be triggered by a third party proposal for a merger, amalgamation or a similar transaction. In May 2014, the rights plan was extended for three years such that it will automatically terminate at the end of the Company's Annual Meeting of shareholders in 2017 unless further extended by shareholders prior to that time. The Company intends to seek shareholder approval at its 2017 Annual and Special Meeting (a) to extend the rights plan for three years such that it will automatically terminate at the end of the Company's Annual Meeting in 2020; and (b) of certain amendments to the rights plan to reflect recent amendments made to Canada's take-over bid regime as will be more particularly described in the Company's management proxy circular for the 2017 Annual and Special Meeting.

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

- the offer is made for all outstanding voting shares of the Company;
- more than 50% of the voting shares have been tendered by independent shareholders pursuant to the bid and not withdrawn (voting shares tendered may be withdrawn until taken up and paid for); and
- the bid expires not less than 60 days after the date of the bid circular. If shareholders approve the extension and amendment of the rights plan at the Company's 2017 Annual and Special Meeting, the extended plan will provide that the bid must expire not less than 105 days after the date of the bid circular, or such shorter period that a take-over bid (that is not exempt from the general take-over bid requirements under applicable securities law) must remain open for deposits of securities thereunder, in the applicable circumstances at such time.

A copy of the plan is available under Finning's profile at www.sedar.com.

As well, it should be noted that the Company's dealership agreements with subsidiaries of Caterpillar are fundamental to its business and a change in control of Finning which significantly impacts the Company may result in Caterpillar exercising its right to terminate those dealership agreements.

9. CREDIT RATINGS

The current credit ratings ⁽¹⁾ on the Company's securities are as follows:

	DBRS ⁽²⁾	S&P ⁽³⁾
Short-Term Debt.....	R-2(high)	N/A
Long-Term Debt/Senior Unsecured Debentures and Notes.....	BBB (high)	BBB+

Notes:

- (1) A security rating is not a recommendation to buy, sell or hold securities and may be subject to revision or withdrawal at any time by the rating organization.
- (2) DBRS maintains a stable outlook on the above securities.
- (3) Standard and Poor's (S&P) maintains a negative outlook on the above securities.

During the last two years, the Company has paid each of the rating agencies its customary fees in connection with the provision of the above ratings for our outstanding long-term and short-term debt securities. We reasonably expect that such payments will continue to be made for rating services in the future.

9.1 LONG-TERM DEBT CREDIT RATINGS

In November 2016, the Company's long-term rating was confirmed at BBB (high) by DBRS with a stable outlook, down from the A (low) rating and negative outlook given in 2015. The BBB (high) rating for the Company is the highest grade or standing within the BBB category of the DBRS rating scale. The BBB (high) category is the 4th highest of ten categories within the DBRS rating scale and reflects long-term debt that is of adequate credit quality. According to DBRS's rating scale, the capacity for the payment of financial obligations is considered acceptable but may be vulnerable to future events.

In March 2016, S&P completed its annual review of the Company's ratings and re-affirmed the BBB+ rating but revised the outlook to negative from the stable outlook given in 2015. The BBB+ rating for the Company is the highest grade or standing within the BBB category of the S&P rating scale. The BBB category is the 4th highest of ten categories within the S&P rating scale and reflects long-term debt obligations that exhibit adequate protection parameters. The revised outlook was due to the adverse economic conditions and changing circumstances.

9.2 SHORT-TERM DEBT CREDIT RATINGS

In November 2016, the Company's short-term rating was confirmed at R-2 (high) rating by DBRS with a stable trend, down from the R-1 (low) and negative trend in 2015. The R-2 (high) rating is the 4th highest of ten categories within the DBRS short-term debt rating scale and represents short-term debt that is considered to be at the upper end of adequate credit quality. According to DBRS's rating scale, the capacity for the payment of short-term financial obligations as they fall due is considered acceptable but may be vulnerable to future events.

10. MARKETS FOR THE SECURITIES OF THE COMPANY

The common shares of the Company are listed on the Toronto Stock Exchange under the symbol FTT. The following table sets forth the high and low closing prices and the volume of common shares traded on the Toronto Stock Exchange during 2016.

<u>Month</u>	<u>High \$</u>	<u>Low \$</u>	<u>Volume</u>
January	18.98	16.69	18,551,200
February	18.99	16.37	17,871,200
March	20.09	18.45	14,710,200
April	22.83	18.37	11,313,800
May	22.61	20.21	9,416,600
June	23.60	20.53	7,834,800
July	22.38	20.63	5,540,300
August	24.34	20.82	7,768,700
September	25.46	22.75	8,539,200
October	26.31	24.02	12,711,800
November	27.31	23.54	10,897,600
December	28.02	25.80	6,164,000

10.1 TRANSFER AGENT AND REGISTRAR

The transfer agent and registrar for the Company's common shares is Computershare Investor Services Inc. which has offices in Montreal, Toronto, Calgary and Vancouver.

11. MATERIAL CONTRACTS

The following sets out a list of all of the Company's material contracts entered into either: (a) within the last financial year; or (b) subsequent to the last financial year and filed as a material contract up to the date of the Annual Information Form; or (c) before the last financial year but still in effect, other than (in either case) those contracts entered into before January 1, 2002:

- an amended and restated unsecured credit facility agreement dated October 30, 2015 with a syndicate of banks. This new facility amends Finning's previous \$1 billion credit facility which was set to fully mature in September 2017 by, among other things, extending the maturity date to October 2020. This credit facility is a source of financing for all global operations.
- in July 2015, the Company entered into an acquisition agreement whereby the Company purchased the operating assets of Kramer Ltd., a Caterpillar dealer and became the approved Caterpillar dealer in the province of Saskatchewan. The value of the acquisition was approximately \$241 million.
- an amended and restated rights agreement (Rights Agreement) dated as of May 13, 2014 between the Company and Computershare. The Rights Agreement is set to automatically expire after a three-year term which ends in May 2017. Shareholders will be asked to approve the amendment and extension of the shareholders' right plan for an additional three year period at the Company's Annual and Special Meeting to be held in May 2017. The Rights Agreement sets out the terms and conditions of the Company's shareholder rights plan. It is described in more detail in the Company's 2014 management proxy circular dated March 18, 2014 and in the section entitled "Shareholder Rights Plan" in section 8 "Description of Capital Structure".

- an indenture (Indenture) dated March 22, 1994 between the Company and Computershare and a second supplemental indenture (Second Supplemental Indenture) dated September 23, 1998 between the Company and Computershare. The Indenture and the Second Supplemental Indenture relate to the Company's Medium Term Notes. The terms of these agreements were fully described in the Company's final short form prospectus dated May 22, 2012 and pricing supplement No. 1 dated May 13, 2012 and pricing supplement No. 2 dated June 18, 2013.
- note purchase agreement dated as of May 22, 2013 between Finning and various note purchasers pursuant to which Finning issued £70 million principal amount of 3.40% Senior Notes, Series F, due May 22, 2023.
- note purchase agreement dated as of April 3, 2012 between Finning and various note purchasers pursuant to which Finning issued: (a) U.S. \$50 million principal amount of 4.18% Series C Senior Notes due April 3, 2022; (b) U.S. \$50 million principal amount of 4.28% Series D Senior Notes due April 3, 2024; and (c) U.S. \$200 million principal amount of 4.53% Series E Senior Notes due April 3, 2027.
- note purchase agreement dated as of January 19, 2012 between Finning and various note purchasers pursuant to which Finning issued: (a) U.S. \$100 million principal amount of 3.98% Series A Senior Notes due January 19, 2022; and (b) U.S. \$100 million principal amount of 4.08% Series B Senior Notes due January 19, 2024.

12. DIRECTORS AND OFFICERS

12.1 DIRECTORS AS OF FEBRUARY 16, 2017

The name, municipality of residence and principal occupation during the past five years of each director of the Company are described as follows.

Name and Municipality of Residence	Principal Occupation During the Past Five Years	Year First Became Director ⁷
Vicki L. Avril ³ Hinsdale, IL, USA	Corporate Director President & Chief Executive Officer, IPSCO Tubulars, 2008 – 2013	2016
Marcelo A. Awad ^{1,3} Santiago, Chile	Corporate Director President & Chief Executive Officer, Antofagasta Minerals SA, 2005 – 2012	2014
James E.C. Carter ^{2(chair), 4} Edmonton, AB, Canada	Corporate Director	2007
Jacynthe Côté ^{2, 3(chair)} Candiac, PQ, Canada	Corporate Director President & Chief Executive Officer, Rio Tinto Alcan, 2009 – 2014	2014
Nicholas Hartery ^{2, 4(chair)} Limerick, Republic of Ireland	Chairman, CRH plc, since 2004 and President & Chief Executive Officer of Prodigium LLC, a consulting firm, since 2009	2014

Name and Municipality of Residence	Principal Occupation During the Past Five Years	Year First Became Director ⁷
Stuart L. Levenick ^{1,3} Peoria, IL, USA	Corporate Director Group President, Caterpillar Inc., 2004 – 2014	2016
Kevin A. Neveu ^{1,3} Houston, Texas, USA	President & Chief Executive Officer, Precision Drilling Corporation, an oilfield service company, since 2007	2013
Kathleen M. O'Neill ^{1 (chair), 4} Toronto, ON, Canada	Corporate Director	2007
Christopher W. Patterson ^{1,3} Estero, FL, USA	Corporate Director	2010
John M. Reid ^{2,4} Vancouver, BC, Canada	Corporate Director	2006
L. Scott Thomson ³ Vancouver, BC, Canada	President & Chief Executive Officer, Finning International Inc., since 2013 Chief Financial Officer, Talisman Energy Inc., 2008 – 2013	2013
Douglas W.G. Whitehead ⁵ West Vancouver, BC, Canada	Corporate Director	1999
Michael M. Wilson ⁶ Bragg Creek, AB, Canada	Corporate Director President & Chief Executive Officer, Agrium Inc. 2003 – 2013	2013

1 Member, Audit Committee

2 Member, Human Resources Committee

3 Member, Safety, Environment & Social Responsibility Committee

4 Member, Corporate Governance Committee

5 Board Chair, effective February 9, 2017

6 Board Chair, May 4, 2016 to February 9, 2017

7 The Directors of the Company are elected each year at the Annual Meeting of the Company and hold office until the close of the next Annual Meeting or until their successors are elected or appointed.

The Company currently has four committees of the Board of Directors: the Audit Committee, the Human Resources Committee, the Safety, Environment & Social Responsibility Committee, and the Corporate Governance Committee. The members of each committee are indicated by footnote in the list of directors above.

The term of office for all current directors will end on the day of the next Annual Meeting of the Company's shareholders.

12.2 OFFICERS AS OF FEBRUARY 16, 2017

Officers are listed in the table below with their principal occupations held for the past five years:

Officer's Name and Municipality of Residence	Principal Occupation During the Past Five Years
David W. Cummings Vancouver, BC, Canada	Chief Information Officer, Finning International Inc., since 2013 Senior Vice President & Chief Information Officer, Maxum Petroleum Inc., 2012 – 2013 Senior Vice President & Chief Information Officer, Univar, 2009 – 2012
Chad Hiley Edmonton, AB, Canada	Chief Human Resources Officer, Finning International Inc. & Senior Vice President, Human Resources, Finning (Canada), since 2016 Senior Vice President, Human Resources, Finning (Canada), since 2014 Vice President, Organization Effectiveness, Barrick Gold Corporation (South America), 2011 – 2014
Marcello Marchese Santiago, Chile	President, Finning South America, since 2012 Senior Vice President, Construction & Power Systems, Finning South America, 2008 – 2012
Anna P. Marks North Vancouver, BC, Canada	Senior Vice President, Corporate Controller & Treasurer, Finning International Inc., since 2015 Senior Vice President, Corporate Controller, Finning International Inc., since 2008
H. Jane Murdoch Vancouver, BC, Canada	General Counsel & Corporate Secretary, Finning International Inc., since November 2016 General Counsel, Finning International Inc., since April 2016 Partner, Cassels Brock & Blackwell LPP, 2012 – 2016 Partner, Lawson Lundell LLP 1997 – 2012
Steven M. Nielsen Seattle, WA, USA	Executive Vice President & Chief Financial Officer, Finning International Inc., since 2015 Managing Partner, Innovant Operating Company, 2013 – 2015 Executive Vice President & Chief Financial Officer, Univar, 2008 – 2013
Kevin Parkes Cheshire, UK	Managing Director, Finning UK & Ireland, since 2016 Director, Equipment Solutions, Finning UK & Ireland, 2015 to 2016 Chief Executive Officer, Hewden, 2010 – 2015

Officer's Name and Municipality of Residence	Principal Occupation During the Past Five Years
L. Scott Thomson Vancouver, BC, Canada	President & Chief Executive Officer, Finning International Inc., since 2013 Chief Financial Officer, Talisman Energy Inc., 2008 – 2013
Juan Carlos Villegas Edmonton, AB, Canada	President, Finning (Canada) & Chief Operating Officer, Finning International Inc., since 2013 Chief Operating Officer, Finning International Inc., since 2012 President, Finning South America, 2006 – 2012
Douglas W.G. Whitehead West Vancouver, BC, Canada	Board Chair, Finning International Inc., since February 9, 2017 Corporate Director

12.3 SHAREHOLDINGS OF DIRECTORS AND OFFICERS

As of February 16, 2017, the directors and officers of the Company as a group beneficially own, directly or indirectly, or exercise control or direction over 455,236 common shares, representing approximately 0.27% of the Company's voting common shares.

12.4 CEASE TRADE ORDERS, BANKRUPTCIES, PENALTIES OR SANCTIONS

Other than as disclosed below, to the knowledge of the Company, no director or executive officer of the Company:

- (a) is, at the date hereof or has been, within the 10 years before, a director, chief executive officer or chief financial officer of any company (including Finning), that while that person was acting in that capacity:
 - (i) was the subject of a cease trade or similar order or an order that denied the relevant company access to any exemption under securities legislation, for more than 30 consecutive days, or
 - (ii) was subject to an event that resulted, after the director or executive officer ceased to be a director, chief executive officer or chief financial officer, in the company being the subject of a cease trade or similar order or an order that denied the relevant company access to any exemption under securities legislation, for more than 30 consecutive days, or
- (b) is, as at the date hereof or has been, within the 10 years before, a director or executive officer of any company (including Finning), that while that person was acting in that capacity or within a year of that person ceasing to act in that capacity, became bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency or was subject to or instituted any proceedings, arrangement or compromise with creditors or had a receiver, receiver manager or trustee appointed to hold its assets; or
- (c) has, within the 10 years before the date hereof, become bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency, or become subject to or instituted any proceedings, arrangement or compromise with creditors, or had a receiver, receiver manager or trustee appointed to hold the assets of the director or executive officer.

Kevin A. Neveu currently serves on the board of Bonanza Creek Energy Inc. (BCEI). On January 4, 2017, BCEI and certain subsidiaries filed voluntary petitions under Chapter 11 of the United States Bankruptcy Code in the Bankruptcy Court for the District of Delaware to pursue a prepackaged plan of reorganization, in accordance with an announced restructuring support agreement with certain of their noteholders and one of their crude oil purchase and sale counterparties. The plan would effectuate a comprehensive restructuring of BCEI. Upon the effective date of the plan of reorganization, Mr. Neveu's term as a director of BCEI will automatically expire.

13. INTERESTS OF EXPERTS

Deloitte LLP is the auditor of the Company and is independent within the meaning of the Rules of Professional Conduct of the Institute of Chartered Accountants of British Columbia.

14. INTEREST OF MANAGEMENT AND OTHERS IN MATERIAL TRANSACTIONS

To the knowledge of the Company, no director or executive officer of the Company, nor any person or company that beneficially owns, controls, directs, directly or indirectly, more than 10% of our Common Shares, nor any associate or affiliate of any of the foregoing persons, has or had a material interest in any transaction within the three most recently completed financial years or during the current financial year that has materially affected or is reasonably expected to materially affect the Company.

15. AUDIT COMMITTEE

The Terms of Reference for the Audit Committee (attached as Appendix A to this Annual Information Form) require that it comprise at least three directors, all of whom must be independent. The current members of the Committee are Marcelo A. Awad, Stuart L. Levenick, Kevin A. Neveu, Kathleen M. O'Neill (Chair), and Christopher W. Patterson and all are independent directors. In addition the Board Chair attends meetings of the Audit Committee. All Committee members are required to be independent and financially literate (as such terms are defined in National Instrument 52-110 – *Audit Committees*) and at least one member is required to have accounting or related financial management expertise. Ms. Kathleen M. O'Neill is the designated "financial expert" member of the Audit Committee and all Audit Committee members are financially literate.

In addition to each member's general business experience, the education and experience of each member of the Audit Committee that is relevant to the performance of their responsibilities as a member of the Audit Committee is set forth below.

Marcelo A. Awad is a Corporate Director and serves as a senior advisor to Mitsubishi Corporation Investments and is an Executive Director of Wealth Minerals Ltd. Mr. Awad spent 16 years with Antofagasta Minerals SA and served as President & Chief Executive Officer for over seven years until his departure in 2012. Prior to joining Antofagasta Minerals, Mr. Awad spent 18 years with Codelco in progressively senior positions in both London and Chile until leaving his position of Executive Vice President, Copper Trading & Futures in 1996. In London, Mr. Awad was a director of the London Metal Exchange. He currently serves on the boards of AC Perforaciones, a drilling services company, Echeverria Izquierdo S.A., a Chilean engineering and construction company, SAME Industrial, an environment engineering company, and Partners in Performance (PIP) in the

Americas, an Australian consulting company. Mr. Awad serves as the Chairman of the Audit Committee of Echeverria Izquierdo S.A.

Mr. Awad holds a Civil Engineering degree and is a graduate of Universidad Tecnica del Estado and is fluent in English and Spanish.

Stuart L. Levenick is a Corporate Director. Mr. Levenick retired from Caterpillar Inc. in 2014 after 37 years, including 10 years as Group President. His most recent responsibility included leadership of customer and dealer support for Caterpillar. Other responsibilities during his tenure as Group President included management of businesses spanning marketing, manufacturing operations, engineering, supply chain, procurement and human resources. Prior to assuming the Group President position in 2004, Mr. Levenick served as Vice President, Caterpillar Inc., and Chairman of Shin Caterpillar Mitsubishi Ltd. from 2000 to 2004, and as Vice President, Asia Pacific Division, from 2001 to 2004. Prior to 2000, he held various senior positions with Caterpillar in North America, Asia and Europe. Previously, he held positions as Chairman of the Association of Equipment Manufacturers, Executive Director of the United States Chamber of Commerce, director of the U.S./China Business Council and the U.S./Russia Business Council. Currently, Mr. Levenick is the lead director of Entergy Corporation, the lead of director of W.W. Grainger, Inc. and a director of the University of Illinois Foundation. Mr. Levenick graduated from the University of Illinois with a Bachelor of Science degree in Forestry and is a Sloan Fellow with a Master of Science degree in management from the Massachusetts Institute of Technology.

Kevin A. Neveu is President & Chief Executive Officer and a director of Precision Drilling Corporation. Mr. Neveu has 35 years of experience in the oilfield services sector. Prior to joining Precision Drilling Corporation, Mr. Neveu was President of the Rig Solutions Group of National Oilwell Varco in Houston and held senior management positions with it and its predecessor companies in London, Moscow, Houston, Edmonton and Calgary. Mr. Neveu currently serves as a director of Bonanza Creek Energy, Inc. and is a former board member of RigNet. He is a member of the Advisory Board for The Heart and Stroke Foundation of Alberta and an Advisor for the University of Calgary's School of Public Policy. Mr. Neveu is a former director for a Canadian national sports non-profit organization and a former director and former member of the Executive Committee for the International Association of Drilling Contractors.

Mr. Neveu holds a Bachelor of Science degree and is a graduate of the Faculty of Engineering at the University of Alberta and is a registered Professional Engineer in the province of Alberta. He has completed the Harvard Advanced Management Program.

Kathleen M. O'Neill is a Corporate Director and experienced Audit Committee Chair. Prior to 2005, Ms. O'Neill was an Executive Vice-President at BMO Financial Group where her most recent position was Executive Vice-President, Personal & Commercial Development and Head of Small Business Banking. Prior to joining BMO Financial Group in 1994, Ms. O'Neill was with PricewaterhouseCoopers LLP for 19 years including eight years as a tax partner. Ms. O'Neill currently serves on the Board of Directors of ARC Resources Limited, Invesco Canada Funds (Invesco Canada Fund Inc. and Invesco Corporate Class Inc. boards, and Invesco Canada Funds Advisory Board and Independent Review Committee) and Ontario Teachers' Pension Plan. Ms. O'Neill is past Chair of St. Joseph's Health Centre and St. Joseph's Health Centre Foundation.

In 2005, Ms. O'Neill was accredited through the Institute of Corporate Directors / Rotman School of Management Director's Education Program. She is on the Ontario Advisory Council and the Accounting Policy Advisory Committee for the Institute of Corporate Directors (ICD). She holds a Bachelor of Commerce degree (with Honours) from the University of Toronto and is a Fellow of the Ontario Institute of Chartered Accountants (FCPA). Ms. O'Neill was on the Steering Committee on Enhancing Audit Quality jointly sponsored by the Canadian Institute of Chartered Accountants (CPA Canada) and by the Canadian Public Accountability Board. For the past three consecutive years, Ms. O'Neill was selected as one of Canada's most powerful women by the Women's Executive Network.

Christopher W. Patterson is a Corporate Director. From April 2005 until his retirement in June 2009, he was President and Chief Executive Officer of Daimler Trucks North America LLC. Prior to 2005, he held progressively senior executive positions with Freightliner LLC, predecessor to Daimler Trucks North America, including Senior Vice President, Service and Parts and was Executive Vice President, Sales and Marketing of Volvo Trucks North America. Mr. Patterson is also a director of CAX Parent, LLC, Modine Manufacturing Company and FleetPride Inc. Mr. Patterson holds a Bachelor of Arts degree in Economics and an MBA from the University of Western Ontario.

The Committee provides assistance to the Board of Directors in fulfilling its oversight responsibility to the shareholders with respect to the Company's: (a) financial statements; (b) financial reporting process; (c) systems of internal and disclosure controls; (d) internal audit function; (e) external audit function; (f) financial arrangements and liquidity; (g) risk identification, assessment and management program and (h) pension plans. It is the responsibility of the Committee to maintain an open avenue of communication between itself, the external auditors, the internal auditors and management of the Company. In performing its role, the Committee is empowered to investigate any matter brought to its attention, with full access to all books, records, facilities and personnel of the Company. It is also empowered to retain outside counsel or other experts as required.

The Committee met four times in 2016 in conjunction with regularly scheduled Board meetings, and met once by telephone conference call for an off-cycle meeting.

15.1 AUDIT FEES

Fees paid or accrued by the Company and its major business units or subsidiaries for audit and other services provided by Deloitte LLP (the Company's external auditors) during 2016 and 2015 were as follows:

Type of Service	2016*	2015*
Audit Services ⁽²⁾	\$2,742,650	\$2,654,206 ⁽¹⁾
Audit-Related Services ⁽³⁾	95,362	249,036
Tax Services ⁽⁴⁾	14,766	10,861
Other Services ⁽⁵⁾	<u>62,134</u>	<u>-</u>
Total:	<u>\$2,914,912</u>	<u>\$2,914,103</u>

* amounts were billed in various currencies and converted to Canadian dollars using the exchange rates in existence at the time of billing

Notes:

- (1) The 2015 Audit Services amount has been restated to remove fees paid to the Canadian Public Accountability Board (CPAB) on behalf of the Company.

- (2) Audit Services generally relate to fees charged for the annual audit, interim reviews, administrative charges and other services related to the performance of the annual audit.
- (3) Audit related services include assurance and related services, such as audits of Finning's pension plans, French translation of interim and annual financial statement and notes and other services required by regulators of auditors.
- (4) Tax services include foreign tax advice and filings for corporate directors.
- (5) Other services would include any non audit-related or non tax services. The 2016 fees related to advisory services with respect to an insurance claim.

Pre-approval Policies and Procedures

The Audit Committee has adopted a formal policy requiring the pre-approval of non-audit services to be provided by its external auditors, Deloitte LLP, prior to the commencement of the engagement. On an annual basis, the Audit Committee pre-approves non-audit and tax related services to be provided by the Company's external auditors. Between regularly scheduled Audit Committee meetings, the Audit Committee has delegated to the Chair of the Audit Committee the authority to approve individual non-audit service engagements up to a value of \$100,000 per quarter that have not been pre-approved. All engagements where such approval was granted will be reported at the next Audit Committee meeting. Under no circumstances will Finning's management engage the external auditors to perform services that have not been approved by the Audit Committee. Management and the external auditor are required to report quarterly to the Audit Committee all services provided by the external auditor and fees paid or accrued for the quarter and the fiscal year.

The Committee determined that the provision of the audit-related and tax services described above did not compromise the independence of Deloitte LLP for purposes of performing audit services for the Company.

16. ADDITIONAL INFORMATION

Additional information, including directors' and officers' remuneration, indebtedness, options to purchase securities and interests of insiders in material transactions is contained in the Company's Management Proxy Circular for its most recent annual meeting of shareholders, a copy of which may be obtained upon request to the Corporate Secretary of the Company. Additional financial information is provided in the Company's annual consolidated financial statements for its year ended December 31, 2016 and its accompanying Management Discussion and Analysis.

Copies of documents noted above and other disclosure documents may also be examined and/or obtained through the internet by accessing the Company's website at www.finning.com or by accessing the SEDAR website at www.sedar.com.

Appendix A

Finning International Inc.

Audit Committee Terms of Reference

I. PURPOSE

- A.** The primary purpose of the Audit Committee (the “Committee”) is to assist the Board in fulfilling its oversight responsibilities to the shareholders, potential shareholders, the investment community, and others with respect to:
- i) the integrity of annual and quarterly financial statements that will be provided to the shareholders and others;
 - ii) audits of the financial statements;
 - iii) the systems of internal and disclosure controls established by management and the Board;
 - iv) all audit, accounting and financial reporting processes;
 - v) risk management processes;
 - vi) compliance with accounting and finance based legal and regulatory requirements, relevant laws, regulations and policies;
 - vii) the External Auditors’ qualifications and independence;
 - viii) the performance of the internal and external audit process and of the independent auditor;
 - ix) the Corporation’s pension plans; and
 - x) the implementation and effectiveness of the Ethics Program Charter and the compliance program under the Ethics Program Charter.
- B.** Primary responsibility for the financial reporting, information systems, risk management, internal and disclosure controls and the pension plans of the Corporation is vested in management and is overseen by the Board.
- C.** It is the Committee’s responsibility to maintain an open avenue of communication between the Committee, the External Auditors, the Internal Auditors and management of the Corporation. At each meeting, the Committee may meet separately with management and will meet in separate closed sessions with:

- i) The External Auditor;
 - ii) The Internal Auditor; and
 - iii) Independent directors in attendance only.
- D.** In discharging its oversight role, the Committee is empowered to investigate any matter brought to its attention with full access to all books, records, facilities, and personnel of the Corporation and the power to retain outside counsel, or other experts for this purpose.

II. COMPOSITION AND OPERATIONS

- A.** This charter governs the operations of the Committee.
- B.** The Committee shall consist of at least three directors of the Corporation, all of whom shall be independent as defined in the Guidelines for the Board of Directors. The Board, on the recommendation of the Corporate Governance Committee, will appoint and remove the Committee members by a majority vote.
- C.** The Board, on the recommendation of the Corporate Governance Committee and Board Chair, will appoint the Chair of the Committee from the Committee members by a majority vote. The Chair of the Committee will hold such position until otherwise determined by the Board.
- D.** All Committee members are financially literate, (or will become financially literate within a reasonable period of time after appointment to the Committee), and at least one member shall be designated as an “Audit Committee Financial Expert”¹.
- E.** The Committee shall meet not less than four times per year.
- F.** A majority of Committee members constitute a quorum.
- G.** The function of the Committee is oversight. It is not the duty of the Committee to plan or conduct audits or to determine that the Corporation’s financial statements fairly present the Corporation’s financial position and results of operation and are in accordance with generally accepted accounting principles. Such duties remain the responsibility of management and the External Auditor.

¹ Definition in the United States Sarbanes-Oxley Act of 2002: An Audit Committee Financial Expert has, through education and experience as a public accountant or auditor or a principal financial officer, comptroller, or principal accounting officer of an issuer, or from a position involving the performance of similar functions:

- 1) an understanding of generally accepted accounting principles and financial statements;
- 2) experience in— (A) the preparation or auditing of financial statements of generally comparable issuers; and (B) the application of such principles in connection with the accounting for estimates, accruals, and reserves;
- 3) experience with internal accounting controls; and
- 4) an understanding of audit committee functions.

III. DUTIES AND RESPONSIBILITIES

Subject to the powers and duties of the Board, the Committee will perform the following duties:

A. Financial Statements and Other Financial Information

The Committee shall:

- i) review and discuss with management and the External Auditor before public disclosure:
 - a) consolidated financial statements of the Corporation, including the notes to the financial statements;
 - b) management's discussion and analysis (MD&A); and
 - c) earnings press releases of the Corporation;
- ii) review and recommend to the Board for approval and for public disclosure the annual and interim MD&A, consolidated financial statements and notes and earnings press releases of the Corporation;
- iii) review and recommend to the Board for approval the quarterly dividend;
- iv) satisfy itself that adequate procedures are in place for the review of the public disclosure of financial information extracted or derived from the Corporation's financial statements and periodically assess the adequacy of those procedures;
- v) receive quarterly updates and reports on the Corporation's global cash positions, access to capital, compliance with debt covenants and Treasury policies as well as credit status with banks and credit rating agencies;
- vi) discuss with management and the External Auditor the quality of reporting and adherence to generally accepted accounting principles ("GAAP");
- vii) review significant reporting principles, practices and procedures applied by the Corporation in preparing its financial statements, including any newly adopted accounting policies and the reasons for their adoption. Review changes in the Corporation's selection or application of accounting principles, and major issues as to the adequacy of the Corporation's internal controls and any special audit steps adopted in light of material control deficiencies; and
- viii) review analyses prepared by management and/or the External Auditor setting forth significant financial reporting issues and accounting judgments and estimates made in connection with the preparation of the financial statements, including analyses of the effects of alternative GAAP methods on the financial statements.

B. External Auditors

The Committee has the authority and responsibility to select, evaluate, determine compensation for and, where appropriate, replace the External Auditor, subject to shareholder approval. In that respect, the Committee shall:

- i) review and recommend to the Board the selection of the Corporation's External Auditors;
- ii) require the External Auditors to report directly to the Committee at each quarterly meeting, and otherwise to the Committee or to the Committee Chair as required;
- iii) communicate directly with the External Auditors, including the ability to meet independently with the External Auditors;
- iv) be responsible for evaluating the External Auditors' qualifications, performance, and independence and will perform the following duties:
 - a) on an annual basis, obtain and review a report by the External Auditor describing any material issues, defects, restrictions or sanctions raised or imposed by the most recent internal quality-control review, or peer review, of the External Auditor, or by any inquiry or investigation by governmental or professional authorities or board, within the preceding five years, with respect to one or more independent audits carried out by the External Auditor or otherwise arising, and any steps taken to deal with any such issues, defects, restrictions or sanctions;
 - b) ensure that the External Auditors submit, at least annually or on a periodic basis, to the Committee a formal written statement delineating all relationships between the External Auditors and the Corporation including the extent and amount of fees received by the External Auditor for audit services and for non-audit services on a quarterly basis;
 - c) actively engage in a dialogue with the External Auditors with respect to any disclosed relationships or services that may impact the objectivity and independence of the External Auditors as prescribed by the Canadian Public Accountability Board (CPAB) or other applicable professional accounting or regulatory agency;
 - d) review and confirm with management and the External Auditor: the timing and process for implementing the rotation of the lead audit partner of the External Auditor as required by the applicable rules governing the audit profession as set out by the CPAB, the CPA Canada or other applicable professional regulatory agencies; and the review of External Auditor resources providing audit services to the Corporation;
 - e) review with the External Auditor any hiring of partners, former partners, and audit managers of the External Auditor;

- f) review with the External Auditor any audit issues or difficulties with respect to the audit and management's response; and
- g) annually conduct an assessment of the External Auditor. This assessment includes audit quality considerations (auditor independence, objectivity, and professional skepticism, quality of engagement team, CPAB inspection findings, communication and interaction with the external auditor) and quality of service considerations. At least every five years, a comprehensive review of the External Auditor will be conducted.

Conclusions on the performance and independence of the External Auditor should be reported to the Board and the Committee should recommend any appropriate action to be taken to satisfy the requirement of the External Auditors' independence. When necessary, the Committee may recommend the removal of the External Auditor to the Board and may periodically issue a request for proposal from other external audit firms;

- v) review and approve the scope, plans and associated fees relating to the External Auditors' annual audit and quarterly reviews including the adequacy of resources. The External Auditors shall report to the Committee all significant changes to the approved audit plan;
- vi) meet separately with the External Auditors, with and without management present, to review and discuss the results of the audit, audit-related services, tax and other services performed by the External Auditor in the prior quarter;
- vii) be responsible for pre-approving all audit and non-audit services performed by the External Auditor that are permitted under applicable law and are in accordance with the Corporation's *Approval of Audit and Non-Audit Services Provided by the Independent Auditor Policy*. This policy shall be approved and renewed annually by the Committee. Between scheduled Committee meetings, the Chair of the Committee, on behalf of the Committee, is authorized to approve the fees and terms of any audit or non-audit services, up to a value of \$100,000 per quarter that are not pre-approved. At the next Committee meeting, the Chair shall report to the Committee any such pre-approval given;
- viii) annually obtain and review a report by the External Auditor describing recommendations resulting from their review of internal control and accounting systems. Management to provide a quarterly follow-up report on actions taken concerning recommendations made by the External Auditor;
- ix) in accordance with the Protocol for Audit Firm Communication of CPAB Inspection Findings, annually obtain from the External Auditor the Public Report issued by CPAB on inspections of the quality of audits conducted by public accounting firms; and
- x) if CPAB inspects the Corporation's audit file, the External Auditor will provide the Committee with a description of the focus areas selected for

inspection by CPAB and any significant inspection findings by CPAB. The Committee will discuss with the External Auditor any significant inspection findings reported by CPAB, including their disposition and a description of the actions taken by management.

C. Internal Auditors

The Committee will:

- i) review the activities, resources and organization structure of the internal audit function and ensure no unjustified restrictions or limitations are made;
- ii) participate in the appointment, promotion or dismissal of the lead Internal Auditor; and discuss with the External Auditor the standard of work of the Internal Auditors;
- iii) participate in the annual performance and compensation review of the lead internal auditor;
- iv) review the effectiveness and independence of the internal audit function;
- v) meet separately with the Internal Auditors to discuss any matters the Committee or the Internal Auditors believe should be discussed privately;
- vi) ensure the internal audit's significant findings and recommendations are received, discussed and appropriately acted on by management;
- vii) review and approve the scope and proposed annual internal audit plan, resourcing plan and financial budget and ensure it addresses key areas of risk and that there is appropriate coordination with the Committee and the External Auditor;
- viii) review and approve the Internal Audit Charter on an annual basis; and
- ix) review periodic reports from internal audit addressing
 - a) progress on the Audit Plan, including any significant changes to it;
 - b) significant internal audit findings, including issues as to the adequacy of internal control over financial reporting and any procedures implemented in light of significant control deficiencies; and
 - c) any significant internal fraud issues.

D. Risk Management, Internal Control and Information Systems

The Committee will review and obtain reasonable assurance that the risk management, internal control and information systems are operating effectively to produce accurate, appropriate and timely management and financial information. This includes:

- i) discussion with management and the Internal Auditor of the guidelines and policies with respect to risk assessment and risk management, including the processes management used to assess and manage the Corporation's risk. Discuss major financial risk exposures and steps management has taken to monitor and control such exposures including an annual review of the significant insurable risks and the adequacy of the Corporation's insurance coverage;
- ii) discussion with management, the Internal Auditors and the External Auditors of the adequacy and effectiveness of the internal controls, including financial controls and the Corporation's system, to monitor and manage business risk and produce reliable financial statements; and
- iii) obtaining reasonable assurance that the information systems are reliable, secure and that the systems of internal controls are properly designed and effectively implemented through discussions with and reports from management, the Internal Auditor and External Auditor.

E. Compliance

The Committee shall:

- i) assist with Board oversight of the Corporation's compliance with legal and regulatory requirements by receiving a report concerning legal and regulatory matters that may have a material impact on the financial statements;
- ii) review the process for the certification of the interim and annual financial statements by the Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO"), and the certifications made by the CEO and CFO;
- iii) review with Management, Internal Auditor and External Auditor the Corporation's internal control over financial reporting and disclosure controls and procedures, any significant deficiencies or material weaknesses in their design or operation, any proposed major changes to them and any fraud involving management or other employees who have a significant role in the Corporation's internal control over financial reporting;
- iv) discuss the Corporation's compliance with tax laws, legal withholdings requirements, environmental protection laws², privacy laws, and any other area of compliance monitoring that the Committee considers appropriate;
- v) ensure the External Auditor's fees are disclosed by category in the Annual Information Form in compliance with regulatory requirements and in such other documents the Committee may determine;
- vi) disclose any specific policies or procedures adopted for pre-approving non-audit services by the External Auditor, including affirmation that they meet regulatory requirements;

² This function is reported by the Safety, Environment & Social Responsibility Committee.

- vii) prepare a report of the Committee's activities to be included in the annual proxy statement; and
- viii) assist the Corporate Governance Committee with preparing the Corporation's governance disclosure by ensuring it has current and accurate information with respect to:
 - a) the independence of each Committee member relative to regulatory requirements for the Audit Committee;
 - b) the state of financial literacy of each Committee member, including the name of any member(s) currently in the process of acquiring financial literacy and when they are expected to attain this status;
 - c) the education and experience of each Committee member relevant to his or her responsibilities as a Committee member; and
 - d) disclose if the Corporation has relied upon any exemptions to the requirements for Audit Committees under regulatory requirements.

F. Pension Plans

The Committee shall:

- i) review the governance structure set out for the Corporation's pension plans, at least annually, and recommend to the Board any changes to the structure, upon recommendation by the Management Pension Committee;
- ii) review the Terms of Reference for the Management Pension Committee and monitor compliance by the Management Pension Committee to their terms of reference on an annual basis, and approve any recommended changes;
- iii) review a summary of the funding policies on an annual basis and approve any material exceptions or changes to those policies upon recommendation by the Management Pension Committee;
- iv) review a summary of the investment policies and strategies for the defined benefit and defined contribution plans on an annual basis and approve, for the Canadian plans, any changes which could materially impact the financial performance of those plans upon recommendation by the Management Pension Committee;
- v) review a summary of the Canadian Journey Plan outlining the de-risking progression intended for the Canadian defined benefit plans on an annual basis and approve any material changes upon recommendation by the Management Pension Committee;
- vi) review reports from the Management Pension Committee at least semi-annually regarding:
 - a) overall financial positions and investment performance results of the various pension plans;
 - b) any changes to investment managers or other service providers; and

- c) other notable Management Pension Committee actions since the prior report.
- vii) with respect to plan design and amendments:
 - a) recommend, jointly with the Human Resources Committee, the establishment of new pension plans or termination of any existing plans, to the Board of Directors; and
 - b) approve financially significant plan amendments, jointly with the Human Resources Committee, if the amendments fundamentally change the nature of the benefits a plan provides.

Recommendations for such plan amendments will come from the Management Pension Committee unless a conflict or special situation is identified in which case the CEO will determine the recommendation source.

G. Other

The Committee shall:

- i) periodically review the Ethics Program Charter and approve any amendments as recommended by management's Global Ethics Committee. The Committee shall also annually review management's report on the Global Ethics Committee self-assessment. The Ethics Program Charter includes procedures for:
 - a) the receipt, retention and anonymous treatment of complaints received by the Corporation regarding accounting, internal accounting and financial reporting controls, or auditing matters;
 - b) the confidential, anonymous submission by employees of concerns regarding questionable accounting or auditing matters; and
 - c) addressing a report of a material breach of securities law, material breach of fiduciary duty or similar material violation.
- ii) review expenses of the Board Chair and CEO;
- iii) on an annual basis, review and approve key Treasury policies (Global Investment Policy, the Global Debt and Interest Rate Management Policy, the Global Foreign Exchange Risk Management Policy), and the Requests for Approval of Capital Expenditures Policy;
- iv) review on an annual basis, and recommend any material changes to the capital structure plan to the Board for approval;
- v) review and recommend to the Board for approval, new or refinancing of material financing contracts;
- vi) review and approve the Non-GAAP Financial Measures Policy at least once every three years, or sooner if revisions may be necessary due to a change in practice or regulation.

- vii) review and approve all related party transactions;
- viii) review the effect of regulatory and accounting initiatives, as well as off balance sheet structures, on the financial statements of the Corporation; and
- ix) review the succession plan for the Corporation's financial and accounting management.

IV. ACCOUNTABILITY

- A.** The Committee Chair has the responsibility to make periodic reports to the Board, as requested, on financial matters relative to the Corporation.
- B.** The Committee shall report its discussions and activities to the Board by maintaining minutes of its meetings and providing an oral report at each regular Board meeting.
- C.** The Committee shall:
 - i) conduct a self-assessment annually and discuss the results with the Board; and
 - ii) review and update its terms of reference at least annually.