2016

FINANCIAL REPORT

FINNING®

MANAGEMENT'S DISCUSSION AND ANALYSIS

February 15, 2017

This Management's Discussion and Analysis (MD&A) of Finning International Inc. (Finning or the Company) should be read in conjunction with the audited annual consolidated financial statements for the year ended December 31, 2016 and the accompanying notes thereto, which have been prepared in accordance with International Financial Reporting Standards (IFRS). All dollar amounts presented in this MD&A are expressed in Canadian dollars, unless otherwise stated. Additional information relating to the Company, including its current Annual Information Form (AIF), can be found on the SEDAR (System for Electronic Document Analysis and Retrieval) website at www.sedar.com.

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

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 has 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 audited annual consolidated financial statements.

2016 Annual Highlights

- Free cash flow [(1)] in 2016 of $370 million was 14% higher than free cash flow of $325 million in 2015, and reflected strong cash generation from all operations.
- Revenue of $5.6 billion was down 10% from 2015 primarily due to a 16% decrease in new equipment revenue and a 7% decrease in product support revenue, reflecting continued lower demand from mining, power systems and construction sectors in the Company's Canadian and South American operations, a consequence of lower commodity prices.
- Overall gross profit margin was comparable to the prior year, with a mix shift to higher margin product support revenues as well as improved product support margins from the Company's Canadian and South American operations, offset by lower margins on new equipment revenues.
- EBIT [(2)] of $165 million and EBIT margin of 2.9% reported in 2016 were higher than the loss of $(105) million and (1.7)% reported in 2015. Results in both the current and prior year include items which are not considered indicative of operational and financial trends. These items include impairment losses, severance and restructuring costs, losses on power system projects and unavoidable costs related to the Alberta wildfires, among others, and are described on pages 3 and 4 in this MD&A.
- Excluding the costs noted above, and detailed on pages 3 and 4 in this MD&A, 2016 Adjusted EBIT [(1) (3)] was $273 million, and Adjusted EBIT margin [(1) (3)] was 4.9%, compared to 2015 Adjusted EBIT of $383 million and Adjusted EBIT margin of 6.1%. Adjusted EBIT was down from the prior year mainly due to reduced sales volumes from lower industry activity.
- Basic EPS [(2)] earned in 2016 was $0.38 and in 2015 was $(0.94); adjusting for the impact of the significant items noted above, Adjusted EPS [(1) (3)] was $0.88 in 2016, lower than the Adjusted EPS of $1.29 earned in the prior period.
- Adjusted EBITDA [(1) (2) (3)] was down 23% from 2015, less than Adjusted EBIT (down 28%) and Adjusted EPS (down 32%) due to the fixed nature of depreciation and finance costs.

(1) These financial metrics, referred to as "non-GAAP financial measures" do not have a standardized meaning under International Financial Reporting Standards (IFRS), which are also referred to herein as Generally Accepted Accounting Principles (GAAP), and therefore may not be comparable to similar measures presented by other issuers. For additional information regarding these financial metrics, including definitions and reconciliations from each of these non-GAAP financial measures to their most directly comparable measure under GAAP, where available, see the heading "Description of Non-GAAP Financial Measures and Reconciliations" later in this MD&A.

(2) Earnings (loss) Before Finance Costs and Income Taxes (EBIT); Basic earnings (loss) per share (EPS); Earnings (loss) Before Finance Costs, Income taxes, Depreciation and Amortization (EBITDA)

(3) Certain 2016 and 2015 financial metrics were impacted by significant items management does not consider indicative of operational and financial trends either by nature or amount; these significant items are described on pages 3 and 4 in this MD&A, and the financial metrics which have been adjusted to take into account these items are referred to as "Adjusted" metrics.

2016 Annual Overview

($ millions, except for share data)	2016	2015 (Restated)	% change
Revenue	**$ 5,628**	$ 6,275	(10)%
Gross profit	**1,473**	1,641	(10)%
Selling, general & administrative expenses (SG&A)	**(1,280)**	(1,369)	7%
Equity earnings of joint venture and associate	**5**	5	13%
Other expenses	**(38)**	(52)	26%
Other income	**5**	8	(28)%
Impairment of distribution network and goodwill	**—**	(338)	100%
EBIT	**$ 165**	$ (105)	257%
Net income (loss)	**$ 65**	$ (161)	140%
Basic EPS	**$ 0.38**	$ (0.94)	141%
EBITDA [1]	**$ 357**	$ 126	184%
Free cash flow	**$ 370**	$ 325	14%
Adjusted EBIT	**$ 273**	$ 383	(28)%
Adjusted net income [1][2]	**$ 147**	$ 221	(33)%
Adjusted EPS	**$ 0.88**	$ 1.29	(32)%
Adjusted EBITDA	**$ 465**	$ 604	(23)%
Gross profit margin	**26.2%**	26.1%	
SG&A as a percentage of revenue	**22.7%**	21.8%	
EBIT margin	**2.9%**	(1.7)%	
EBITDA margin [1]	**6.3%**	2.0%	
Adjusted EBIT margin	**4.9%**	6.1%	
Adjusted EBITDA margin [1][2]	**8.3%**	9.6%	

(1) These financial metrics, referred to as “non-GAAP financial measures” do not have a standardized meaning under International Financial Reporting Standards (IFRS), which are also referred to herein as Generally Accepted Accounting Principles (GAAP), and therefore may not be comparable to similar measures presented by other issuers. For additional information regarding these financial metrics, including definitions and reconciliations from each of these non-GAAP financial measures to their most directly comparable measure under GAAP, where available, see the heading “Description of Non-GAAP Financial Measures and Reconciliations” later in this MD&A.

(2) Certain 2016 and 2015 financial metrics were impacted by significant items management does not consider indicative of operational and financial trends either by nature or amount; these significant items are described on pages 3 and 4 in this MD&A and the financial metrics which have been adjusted to take into account these items are referred to as “Adjusted” metrics.

Non-GAAP Financial Measures

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

During the years ended December 31, 2016, and 2015, there were a number of significant items that management does not consider to be indicative of future financial trends of the Company either by nature or amount. As a result, management excludes these items when evaluating its consolidated operating financial performance and the performance of each of its operations. These items may not be non-recurring, but management believes that excluding these significant items from financial results reported solely in accordance with GAAP provides a better understanding of the Company's consolidated financial performance for the current year when considered along with the GAAP results. Adjusted financial metrics are intended to provide additional information to users of the MD&A. This information should not be considered in isolation or as a substitute for financial measures prepared in accordance to GAAP. In addition, because non-GAAP financial measures do not have a standardized meaning under GAAP, they may not be comparable to similar measures presented by other issuers.

Significant items that affected reported annual 2016 and 2015 results, which are not considered by management to be indicative of operational and financial trends, were:

<u>2016 significant items:</u>

- Severance costs related to the global workforce reduction as the Company continued to align its cost structure to lower market activity.
- Restructuring costs incurred in the Company's Canadian and UK operations related to facility closures and consolidations.
- In Q4 2016, the Company's South American operations recorded an estimated loss 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 the Company's UK's power systems business, management in the UK & 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.
- Unavoidable costs 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.
- Following a strategic review of the Company's operations in the UK & 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. The Company recorded a write-down of net assets and other costs in Q2 2016 related to the sale of this business in August.
- Mark-to-market gain on the Company's investment in IronPlanet Holdings Inc.

<u>2015 significant items:</u>

- Due to a difficult macro-economic environment for the foreseeable future, the Company recorded an impairment loss related to its shovels and drills distribution network and goodwill.
- Restructuring costs related to facility closures and consolidations in all operations.
- Severance costs related to the global workforce reduction during the year as the Company aligned its cost structure to lower market activity.
- 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 and related tax impact due to the significant devaluation of the Argentine peso (ARS) to the U.S. dollar (USD).
- Gain on sale of Uruguay business and 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.

The magnitude of each of these items, and reconciliation of the non-GAAP metrics to the closest equivalent GAAP metrics, is shown in the following tables:

Year ended December 31, 2016 ($ millions except per share amounts)	**EBIT**				**Net Income**	**EPS**
	Canada	**South America**	**UK & Ireland**	**Consol (1)**	**Consol**	**Consol**
EBIT, net income, and EPS	$ **87**	$ **137**	$ **(12)**	$ **165**	$ **65**	$ **0.38**
Significant items:						
Severance costs	**24**	**8**	**9**	**41**	**30**	**0.18**
Facility closures and restructuring costs	**32**	**—**	**4**	**36**	**28**	**0.17**
Power systems project provisions, estimated loss on disputes and alleged fraudulent activity by a customer	**—**	**10**	**10**	**20**	**15**	**0.09**
Impact from Alberta wildfires – unavoidable costs	**11**	**—**	**—**	**11**	**8**	**0.05**
Loss on sale of non-core business	**—**	**—**	**5**	**5**	**5**	**0.03**
Gain on investment	**—**	**—**	**—**	**(5)**	**(4)**	**(0.02)**
Adjusted EBIT, Adjusted net income, and Adjusted EPS	$ **154**	$ **155**	$ **16**	$ **273**	$ **147**	$ **0.88**

Year ended December 31, 2015 ($ millions except per share amounts)	EBIT				Net Income	EPS
	Canada	South America	UK & Ireland	Consol (1)	Consol	Consol
EBIT, net income, and EPS	$ 98	$ (174)	$ (5)	$ (105)	$ (161)	$ (0.94)
Significant items:						
Distribution network and goodwill impairment	—	324	14	338	263	1.54
Facility closures and restructuring costs	48	3	2	53	39	0.23
Severance costs	27	15	6	48	37	0.21
Inventory and other asset impairments	16	10	16	42	32	0.19
FX and tax impact on devaluation of ARS	—	12	—	12	24	0.14
Acquisition and disposal of businesses, net	—	—	—	(5)	(5)	(0.03)
Capital loss utilized	—	—	—	—	(10)	(0.06)
Alberta tax adjustment	—	—	—	—	2	0.01
Adjusted EBIT, Adjusted net income, and Adjusted EPS	$ 189	$ 190	$ 33	$ 383	$ 221	$ 1.29

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

Operational Excellence Agenda & Key Performance Measures

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

For years ended December 31	**2016**	2015	2014	2013	2012
Return on Invested Capital (ROIC) [1][2] (%)					
Consolidated	**5.6%**	(3.0)%	15.3%	15.7%	16.5%
Canada	**5.3%**	5.5 %	17.1%	15.9%	15.7%
South America	**13.3%**	(12.8)%	14.6%	17.6%	19.7%
UK & Ireland	**(4.5)%**	(1.4)%	16.3%	16.4%	16.3%
EBIT [2] ($ millions)					
Consolidated	**165**	(105)	504	521	489
Canada	**87**	98	284	263	231
South America	**137**	(174)	196	249	239
UK & Ireland	**(12)**	(5)	50	43	45
EBIT Margin (%) [2][3]					
Consolidated	**2.9%**	(1.7)%	7.3%	7.7%	7.4%
Canada	**3.1%**	3.1%	7.8%	7.8%	7.1%
South America	**7.4%**	(8.4)%	8.8%	9.9%	9.9%
UK & Ireland	**(1.1)%**	(0.5)%	4.8%	4.9%	5.0%
Invested Capital [1] ($ millions)					
Consolidated	**2,797**	3,240	3,106	3,138	3,131
Canada	**1,595**	1,760	1,475	1,488	1,589
South America	**996**	1,122	1,348	1,391	1,298
UK & Ireland	**216**	321	284	265	260
Invested Capital Turnover [1][3] (times)					
Consolidated	**1.90x**	1.78x	2.10x	2.04x	2.22x
Canada	**1.70x**	1.74x	2.19x	2.03x	2.22x
South America	**1.80x**	1.52x	1.66x	1.78x	1.98x
UK & Ireland	**3.54x**	2.93x	3.43x	3.37x	3.25x
Inventory ($ millions)	**1,601**	1,800	1,661	1,756	1,930
Inventory Turns [1][3] (times)	**2.49x**	2.38x	2.81x	2.74x	2.43x
Working Capital to Sales Ratio [1][3]	**30.4%**	32.2%	26.1%	26.5%	24.5%
Free Cash Flow ($ millions)	**370**	325	483	441	(37)
Net Debt to Invested Capital Ratio [1]	**32.0%**	36.7%	31.4%	40.8%	50.0%
EBITDA [2] ($ millions)	**357**	126	720	737	701
Net Debt to EBITDA Ratio [1][2]	**2.5**	9.5	1.4	1.7	2.2

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(2) 2016, 2015, and 2014 reported financial metrics were impacted by significant items management does not consider indicative of operational and financial trends either by nature or amount; these significant items are described on pages 3, 4, 36, 37 and 38 in this MD&A and the financial metrics which have been adjusted to take into account these items are referred to as “Adjusted” metrics.

(3) 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 has concluded that certain cost recoveries are better reflected as revenues. Certain line items and key performance metrics have been restated in the comparative 2015 period but the impact of restatement is not significant. Further disclosure relating to these changes can be found in note 2 of the Company’s annual consolidated financial statements.

Key Performance Measures – Adjusted

2016, 2015, and 2014 reported financial metrics were impacted by significant items management does not consider indicative of operational and financial trends either by nature or amount; these significant items are described on pages 3, 4, 36, 37 and 38 in this MD&A. The financial metrics which have been adjusted to take into account these items are referred to as "Adjusted" metrics, and are shown below:

For years ended December 31	**2016**	**2015**	2014
Adjusted ROIC [1] (%)			
Consolidated	**9.3%**	10.9%	16.2%
Canada	**9.3%**	10.6%	17.5%
South America	**15.0%**	14.0%	16.2%
UK & Ireland	**5.9%**	9.0%	16.7%
Adjusted EBIT ($ millions)			
Consolidated	**273**	383	533
Canada	**154**	189	290
South America	**155**	190	218
UK & Ireland	**16**	33	51
Adjusted EBIT Margin [3] (%)			
Consolidated	**4.9%**	6.1%	7.6%
Canada	**5.5%**	6.1%	7.8%
South America	**8.4%**	9.2%	9.7%
UK & Ireland	**1.8%**	3.1%	4.8%
Adjusted EBITDA [2] ($ millions)	**465**	604	749
Net Debt to Adjusted EBITDA Ratio [1][2]	**1.9**	2.0	1.3

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

(2) Of the significant items described, $10 million was recorded in depreciation and amortization expense in 2015.

(3) 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 has concluded that certain cost recoveries are better reflected as revenues. Certain line items and key performance metrics have been restated in the comparative 2015 period but the impact of restatement is not significant. Further disclosure relating to these changes can be found in note 2 of the Company's annual consolidated financial statements.

Revenue

The Company generated revenue of $5.6 billion during 2016, a decrease of 10% from 2015. Revenue was down in all operations due to lower commodity prices and market activity, and reflected lower new equipment sales compared to the prior year, as well as lower product support revenues. Rental revenue in the Company's Canadian and South American operations was also down.

New equipment sales declined 16% compared to 2015, down in all operations, but primarily in the Company's Canadian operations, where depressed oil and gas prices continued to weaken demand for new equipment in the power systems and mining sectors. In the Company's South American operations, the decline in copper prices has also resulted in a reduction in demand in the same sectors.

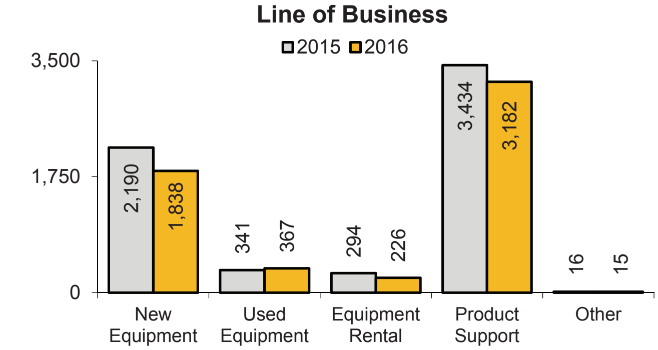
Equipment order backlog [(1)] was $0.5 billion at the end of 2016, comparable to backlog at the end of 2015, and throughout 2016.

Product support revenue declined 7% compared to 2015, down in all operations, but primarily in South America due to a decrease in parts and service revenues from the Chilean and Argentine mining sector. Product support revenue was also down year over year in the Company's Canadian operations, reflecting lower parts and service mainly in the non-mining sectors. Product support revenue in the Company's UK & Ireland operations was down primarily due to a decrease in parts revenue in the mining, oil and gas, and steel sectors.

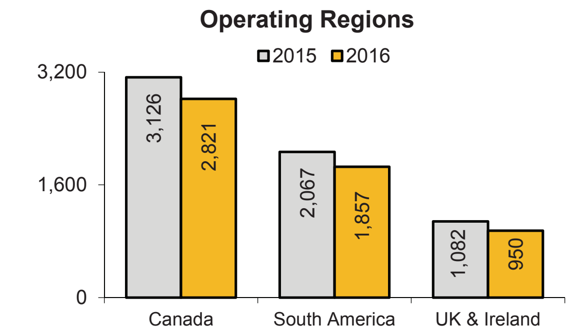
On a consolidated basis, product support revenue as a portion of the overall sales mix was 57%, compared to 55% in the prior year period.

A 23% decrease in rental revenue was predominantly a result of further weakness in the rental market and increased competition in the Company's Canadian operations relative to a year ago.

Revenue by Line of Business
For years ended December 31
(2015 restated) ($ millions)



Revenue by Operation



Used equipment revenue was up 7%, up in all operations, reflecting market demand and efforts to reduce used equipment inventory in all operations.

Foreign currency translation of the results of the Company's South American and UK & Ireland operations had a net adverse impact on revenue of approximately $30 million, primarily due to the 8% stronger Canadian dollar relative to the U.K. pound sterling, partly offset by the 4% weaker Canadian dollar relative to the U.S. dollar compared to last year, and was not significant at the EBIT level.

Earnings Before Finance Costs and Income Taxes

2016 gross profit of $1.5 billion was down 10%, in line with lower volumes. Gross profit margin of 26.2% was comparable to that earned in 2015, with a revenue mix shift to higher margin product support revenues and improved product support margins from the Company's Canadian and South American operations, reflecting the successful implementation of operational excellence initiatives. This was partially offset by lower margins on new and rental equipment largely due to increased competitive pressures and lower margins earned on large equipment sales in Canada.

SG&A costs in 2016 were 7% lower than the prior year and included severance and restructuring costs of $44 million related to a reduction in the global workforce to adjust to lower market activity, and the consolidation and closure of facilities in the UK, $11 million of unavoidable costs incurred during the Alberta wildfires in the second quarter of 2016 and $10 million estimated loss related to alleged fraudulent activities by a customer in South America in the fourth quarter. Prior year SG&A included $52 million of severance and restructuring costs, $12 million foreign exchange loss on the significant devaluation of the Argentine peso, and a $6 million write-off of an intangible asset.

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Excluding the costs noted above, as well as the SG&A costs for the Saskatchewan dealership acquired in July 2015, SG&A was down 8% in 2016 compared to the prior year. Cost savings were realized by all operations as a result of the execution of cost reduction measures, as well as volume related decreases. In addition, the weaker Argentine and Chilean pesos against the U.S. dollar lowered operating costs in the Company's South American operations compared to 2015. These lower costs were partially offset by inflationary and statutory salary increases in the Company's South American operations, as well as $22 million higher long term incentive plan costs in 2016 compared to the prior year primarily due to an increase in the Company's share price in 2016 versus a decrease in 2015, and higher estimated vesting of units.

Other expenses of $38 million in 2016 include restructuring costs incurred in the Canadian operations related to facility closures and consolidations, as well as the loss on sale of a non-core business in the UK operations. In 2015, the Company recorded a $338 million impairment loss related to the shovels and drills distribution network and goodwill in the Company's South American and UK & Ireland operations, as well as $52 million recorded in other expenses for costs relating to the restructuring of the Company's facilities footprint, primarily in the Canadian operations, and acquisition costs related to the purchase of the operating assets of the Saskatchewan dealership.

Other income of $5 million reported in 2016 is a mark-to-market gain on the Company's investment in IronPlanet Holdings Inc., the sale of which is expected in the first half of 2017. Other income in 2015 is a gain related to the sale of the Uruguay business.

The Company reported EBIT of $165 million in 2016, and an EBIT loss of $(105) million in 2015. Excluding the impact of significant items not considered indicative of operational and financial trends (detailed on pages 3 and 4 in this MD&A), 2016 Adjusted EBIT was $273 million, compared to an Adjusted EBIT of $383 million in the prior year. The decrease in Adjusted EBIT in 2016 compared to the prior year period was primarily due to lower sales volumes from challenging economic conditions in all regions, as well as an increase in long term incentive plan costs of $22 million due to a stronger share price and the associated vesting of units.

The Company's EBIT margin was 2.9% in 2016, compared to (1.7)% in 2015. Excluding significant items as noted above, 2016 Adjusted EBIT margin was 4.9%, compared to 6.1% in 2015, mainly due to SG&A costs which did not decrease as quickly as revenues. In addition, benefits from the cost and restructuring initiatives implemented in 2016 have not yet been fully realized.

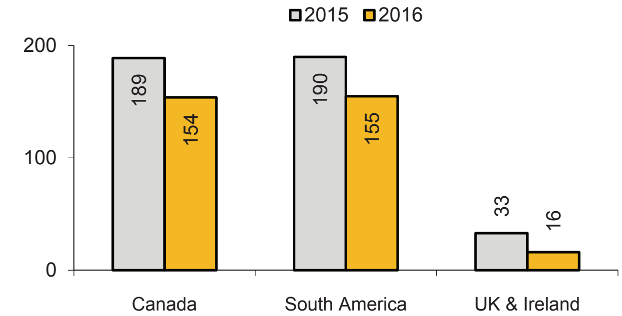
EBITDA

EBITDA for 2016 was $357 million and EBITDA margin was 6.3% (2015: EBITDA was $126 million and

Adjusted EBIT by Operation [1]

For years ended December 31

($ millions)



[1] Excluding other operations – corporate head office

EBITDA margin was 2.0%). Excluding significant items noted on pages 3 and 4 in this MD&A, 2016 Adjusted EBITDA was $465 million and Adjusted EBITDA margin was 8.3%, compared with Adjusted EBITDA of $604 million and Adjusted EBITDA margin of 9.6% for the prior year. Adjusted EBITDA was down from the prior year period mainly due to lower earnings from all operations.

The net debt to EBITDA ratio at the end of 2016 was 2.5x. Excluding significant items not indicative of operational results, as noted on pages 3 and 4 in this MD&A, net debt to Adjusted EBITDA ratio was 1.9x, which is lower compared to 2015 (2.0x).

Finance Costs

Finance costs of $85 million in 2016 were the same as costs recorded in 2015.

Provision for (Recovery of) Income Taxes

Income tax expense for the year ended December 31, 2016 was $15 million (2015 tax recovery: $29 million).

The effective income tax rate for 2016 was 19.0%, and 15.7% in the prior year. The effective tax rate in 2016 is lower than the Canadian statutory tax rate of 26.8% due to the mix of income from various jurisdictions in which the Company carries on business. The effective tax rate on a net loss in 2015 was impacted by the non-deductibility of goodwill impairment and the impact of the devaluation of the Argentine Peso, which was partially offset by the recognition of the previously unrecognized benefit of capital losses to offset taxable amounts.

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

Net Income (Loss)

Net income was $65 million in 2016, compared to a net loss of $(161) million in 2015. Basic EPS was $0.38 compared with $(0.94) in 2015. Excluding significant items noted on pages 3 and 4 in this MD&A, Adjusted EPS in 2016 was $0.88 compared to 2015 Adjusted EPS of $1.29. The decrease in Adjusted net income and Adjusted EPS compared to the prior year was primarily due to lower sales volumes reflecting the challenging economic conditions in all regions.

Invested Capital

($ millions, unless otherwise stated)	December 31 2016	September 30 2016	Increase (Decrease) September 30 2016	December 31 2015	Increase (Decrease) December 31 2015
Consolidated	$ **2,797**	$ 2,917	$ (120)	$ 3,240	$ (443)
Canada	$ **1,595**	$ 1,650	$ (55)	$ 1,760	$ (165)
South America	$ **996**	$ 1,021	$ (25)	$ 1,122	$ (126)
UK & Ireland	$ **216**	$ 253	$ (37)	$ 321	$ (105)
South America (U.S. dollar)	*$* ***741***	*$ 778*	*$ (37)*	*$ 811*	*$ (70)*
UK & Ireland (U.K. pound sterling)	*£* ***130***	*£ 148*	*£ (18)*	*£ 157*	*£ (27)*

Compared to December 2015:

The $443 million decrease in consolidated invested capital from December 31, 2015 to December 31, 2016 includes the impact of approximately $80 million of foreign exchange as a result of the 3% stronger Canadian dollar (CAD) relative to the U.S. dollar (USD) and the 19% stronger CAD relative to the U.K. pound sterling (GBP) in translating the Company's South American and UK & Ireland operations' invested capital balances.

Excluding the impact of foreign exchange, consolidated invested capital decreased by $363 million from December 31, 2015 to December 31, 2016 primarily driven by:

- an increase in accounts payable balances in all operations;
- a decrease in equipment inventory, in the Company's Canadian operations, reflecting ongoing efforts to reduce surplus inventories;
- a decrease in rental equipment as a result of the disposal of underutilized fleet from the Company's Canadian operations; and
- a decrease in property, plant and equipment in all operations, but primarily in the Company's Canadian and UK operations due to facility closures.

Compared to September 30, 2016:

The $120 million decrease in consolidated invested capital from September 30, 2016 to December 31, 2016 reflects the impact of approximately $16 million of foreign exchange primarily as a result of the 2% weaker CAD relative to the USD in translating the Company's South American operations' invested capital balances.

Excluding the impact of foreign exchange, consolidated invested capital decreased by $136 million from September 30, 2016 to December 31, 2016 reflecting:

- a decrease in equipment inventory in all operations, reflecting ongoing efforts to reduce surplus inventories;
- an increase in accounts payable balances, primarily in the Company's Canadian operations; and
- partly offset by an increase in accounts receivable balances in the Company's Canadian and South American operations due to timing of collections at year-end.

ROIC and Invested Capital Turnover

	December 31, 2016	September 30, 2016	December 31, 2015
ROIC			
Consolidated	**5.6%**	(6.6)%	(3.0)%
Canada	**5.3%**	4.3%	5.5%
South America	**13.3%**	(18.1)%	(12.8)%
UK & Ireland	**(4.5)%**	(17.4)%	(1.4)%
Adjusted ROIC			
Consolidated	**9.3%**	9.2%	10.9%
Canada	**9.3%**	8.7%	10.6%
South America	**15.0%**	15.6%	14.0%
UK & Ireland	**5.9%**	3.4%	9.0%
Invested Capital Turnover (times)			
Consolidated	**1.90x**	1.85x	1.78x
Canada	**1.70x**	1.66x	1.74x
South America	**1.80x**	1.74x	1.52x
UK & Ireland	**3.54x**	3.41x	2.93x

Return on Invested Capital

On a consolidated basis, ROIC was 5.6% at December 31, 2016, compared to (3.0)% at December 31, 2015 and (6.6)% at September 30, 2016. Adjusting for significant items that management does not consider indicative of operational and financial trends, as discussed on page 3 in this MD&A, Adjusted ROIC at December 31, 2016 was 9.3%, a decrease from Adjusted ROIC at December 31, 2015 of 10.9%. The decline in Adjusted ROIC compared to the prior year reflects the negative impact the downturn in the resources and construction sectors has had on the Company's earnings. The Company has taken action to transform and restructure its business and will continue to monitor business conditions closely in all of its operations and further align its invested capital with expected activity levels as necessary.

Adjusted ROIC at December 31, 2016 on a consolidated basis, as well as for the Canadian and UK & Ireland operations, improved compared to Adjusted ROIC at September 30, 2016, as a result of actions taken to reduce invested capital levels. Adjusted ROIC at December 31, 2016 for the Company's South American operations improved compared to the Adjusted ROIC at December 31, 2015, further discussed below.

Canadian operations

- Reported ROIC of 5.3% (Dec 31, 2015: 5.5%) and Adjusted ROIC of 9.3% (Dec 31, 2015: 10.6%).
- Decrease in ROIC was a result of lower invested capital turnover, reflecting the decline in revenues at a faster pace than the decline in invested capital.
- Lower Adjusted ROIC was driven primarily by lower earnings, reflecting challenging market conditions, partly offset by lower average invested capital. Average invested capital levels were lower compared to the prior year period mainly due to lower new equipment inventory and accounts receivable levels, as well as lower rental and fixed assets, partly offset by lower accounts payables.

South American operations

- Reported ROIC of 13.3% (Dec 31, 2015 (12.8)%) and Adjusted ROIC of 15.0% (Dec 31, 2015: 14.0%).
- $324 million impairment loss on the shovels and drills distribution network and goodwill recorded in Q4 2015 has negatively impacted the reported ROIC at December 31, 2015 and September 30, 2016.
- Adjusted ROIC at December 31, 2016 was higher than the comparable period in 2015 due to lower average invested capital, partly offset by lower EBIT in the last twelve months reflecting lower industry activity. In functional currency, average invested capital decreased by US$255 million compared to the prior year due to the impairment loss on the shovels and drills distribution network and goodwill in Q4 2015, and lower inventory levels, as well as higher accounts payables.

UK & Ireland operations

- Reported ROIC of (4.5)% (Dec 31, 2015: (1.4)%) and Adjusted ROIC of 5.9% (Dec 31, 2015: 9.0%).
- $14 million goodwill impairment recorded in Q4 2015 has negatively impacted reported ROIC for December 31, 2015 and September 30, 2016.
- Adjusted ROIC at December 31, 2016 was lower than the comparable period in 2015, primarily driven by a significant decline in EBIT for the last twelve months, partly offset by lower average invested capital. In functional currency, average invested capital decreased by £33 million compared to the prior year due to lower new equipment inventories as well as lower accounts receivable from collection efforts.

Invested capital turnover

- Consolidated invested capital turnover at December 31, 2016 was 1.90 times, up from December 31, 2015 and September 30, 2016, reflecting an increase in the invested capital turnover rate of the Company's South American and UK & Ireland operations. The invested capital turnover rate in the Company's South American and UK operations has improved in all quarterly periods over the last twelve months due to focused efforts on lowering invested capital. Invested capital turnover in the Company's Canadian operations is lower compared to December 31, 2015 as the revenue decline outpaced the reduction in average invested capital levels; however, the invested capital turnover rate compared to September 2016 has improved.

Annual Results by Reportable Segment

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

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

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

For year ended December 31, 2016 ($ millions)	**Canada**	**South America**	**UK & Ireland**	**Consol**	**Revenue percentage**
New equipment	**$ 858**	**$ 413**	**$ 567**	**$ 1,838**	**$ 33%**
Used equipment	**238**	**57**	**72**	**367**	**6%**
Equipment rental	**140**	**53**	**33**	**226**	**4%**
Product support	**1,584**	**1,330**	**268**	**3,182**	**57%**
Other	**1**	**4**	**10**	**15**	**0%**
Total	**$ 2,821**	**$ 1,857**	**$ 950**	**$ 5,628**	**$ 100%**
Revenue percentage by operations	**50%**	**33%**	**17%**	**100%**	

For year ended December 31, 2015 (Restated) ($ millions)	Canada	South America	UK & Ireland	Consol	Revenue percentage
New equipment	$ 1,072	$ 474	$ 644	$ 2,190	$ 35%
Used equipment	221	45	75	341	5%
Equipment rental	194	68	32	294	5%
Product support	1,637	1,476	321	3,434	55%
Other	2	4	10	16	0%
Total	$ 3,126	$ 2,067	$ 1,082	$ 6,275	$ 100%
Revenue percentage by operations	50%	33%	17%	100%	

Canadian Operations

The Canadian reporting segment includes Finning (Canada), OEM Remanufacturing Company Inc. (OEM), and a 25% interest in Pipeline Machinery International (PLM). The Canadian operations sell, service, and rent mainly Caterpillar equipment and engines in British Columbia, Alberta, Saskatchewan (beginning July 1, 2015), Yukon, the Northwest Territories, and a portion of Nunavut. The Canadian operations' markets include mining (including the oil sands), construction, conventional oil and gas, forestry, and power systems.

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

For years ended December 31 ($ millions)		2016		2015 (Restated)
Revenue from external sources	**$**	**2,821**	$	3,126
Operating costs		**(2,609)**		(2,865)
Depreciation and amortization		**(100)**		(121)
Equity earnings of joint venture		**8**		4
Other expenses		**(33)**		(46)
EBIT	**$**	**87**	$	98
EBIT margin		**3.1%**		3.1%
EBITDA (1)	**$**	**187**	$	219
EBITDA margin		**6.6%**		7.0%
Adjusted EBIT	**$**	**154**	$	189
Adjusted EBIT margin		**5.5%**		6.1%
Adjusted EBITDA (2)	**$**	**254**	$	305
Adjusted EBITDA margin		**9.0%**		9.8%

(1) EBITDA is measured by adding depreciation and amortization to EBIT
(2) Of the significant items noted in 2015, $5 million was recorded in depreciation and amortization expense

Revenue for 2016 decreased 10% to $2.8 billion compared to last year, largely driven by 20% lower new equipment revenues. Increased competition and challenging pricing dynamics with lower industry activity, essentially caused by lower commodity prices in the oil and gas sector, were factors contributing to the decrease in 2016. This was partly offset by higher delivery of equipment related to a specific construction project, as well as the contribution from the Saskatchewan dealership acquired in July 2015.

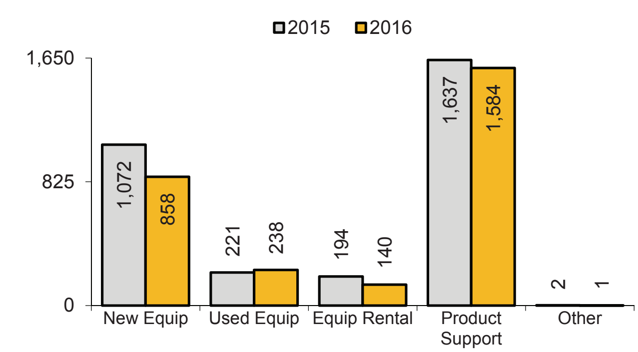
Product support revenue was down 3% from 2015, due to lower parts and service mainly in non-mining sectors. Apart from the decline in product support in the second quarter due to the Alberta wildfires, product support in the mining sector has been fairly strong in 2016. The overall decline was partially offset by the contribution from the Saskatchewan dealership. Management anticipates that the negative impact on profits from the business interruption due to the Alberta wildfires may be partially offset through insurance recoveries.

Rental revenues were also down from last year as a result of weaker demand across all sectors and increased competition.

Used equipment revenue was up 8% in 2016 compared to the prior year reflecting increased market demand as customers looked for more cost effective equipment purchasing options, as well as the contribution from the Saskatchewan dealership.

Gross profit decreased in 2016 compared to 2015, primarily due to lower volumes reflecting lower industry activity and increased market competition. Gross profit margin was comparable to 2015. Product support revenues comprised 56% of total revenue in 2016 compared to 52% in 2015. The revenue shift to higher product support, as well as higher product support margins, was offset by lower equipment and rental margins. Higher product support margins reflect the implementation of operational improvements, while lower equipment margins reflect a higher proportion of large lower margin equipment sales in 2016 and increased competition.

Canada – Revenue by Line of Business
For years ended December 31
(2015 restated) ($ millions)



Also affecting gross profit in 2015 was a $16 million impairment relating to aged and industry specific inventory and rental assets due to prolonged weak market conditions.

SG&A costs for 2016 were 7% lower compared to 2015, reflecting the successful execution of cost savings initiatives and lower variable costs due to the reduced sales activity. In 2016, in order to further align its cost structure to lower market activity, the Company reduced its Canadian workforce resulting in severance costs of $24 million compared to $27 million in 2015. Excluding severance costs and the $11 million of unavoidable costs from the Alberta wildfires reported in the second quarter, as well as the SG&A of the recently acquired Saskatchewan dealership, SG&A was down 11% compared to 2015.

In both years, the Canadian operations recognized facility closures and related costs in other expenses.

The Canadian operations contributed EBIT of $87 million for 2016, lower than the $98 million earned in the prior year. EBIT margin of 3.1% was comparable to 2015. Excluding severance, restructuring and facility closure costs, asset and inventory impairments in the prior year, as well as the unavoidable costs of the Alberta wildfires noted above, Adjusted EBIT margin for 2016 was 5.5%, lower than the 6.1% achieved for 2015. Adjusted EBIT margin was lower in 2016 due to slightly lower gross profit margins and SG&A costs reducing at a slower rate than the decline in revenues, as the benefit of all the cost saving initiatives was not fully realized in 2016.

South American Operations

Finning's South American operations sell, service, and rent mainly Caterpillar equipment and engines in Chile, Argentina, and Bolivia. Comparative figures include results of the Uruguay dealership until December 1, 2015, the date of sale. The South American operations' markets include mining, construction, forestry, and power systems.

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

For years ended December 31 ($ millions)	**2016**	2015 (Restated)
Revenue from external sources	**$ 1,857**	$ 2,067
Operating costs	**(1,658)**	(1,832)
Depreciation and amortization	**(62)**	(82)
Impairment of distribution network and goodwill	**—**	(324)
Other expenses	**—**	(3)
EBIT	**$ 137**	$ (174)
EBIT margin	**7.4%**	(8.4)%
EBITDA[1]	**$ 199**	$ (92)
EBITDA margin	**10.7%**	(3.3)%
Adjusted EBIT	**$ 155**	$ 190
Adjusted EBIT margin	**8.4%**	9.2%
Adjusted EBITDA[2]	**$ 217**	$ 267
Adjusted EBITDA margin	**11.7%**	12.9%

(1) EBITDA is measured by adding depreciation and amortization to EBIT

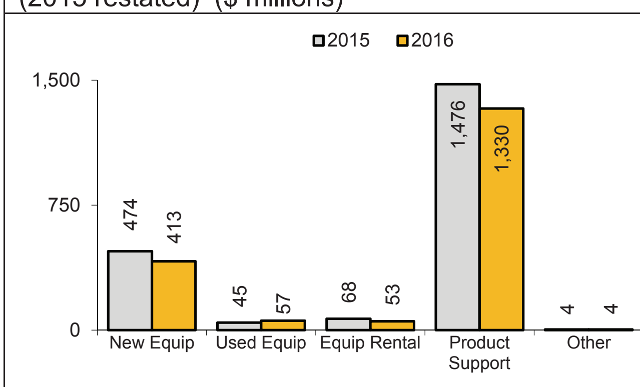
(2) Of the significant items noted in 2015, $5 million was recorded in depreciation and amortization expense

For the year ended December 31, 2016, revenues decreased 10% to $1.9 billion compared to 2015 (down 13% in functional currency). This decrease was primarily driven by lower product support and new equipment revenues. Product support revenues were down 10% (down 13% in functional currency) reflecting reduced mining activity. New equipment revenues were down 13% (down 16% in functional currency) reflecting reduced mining and power systems activity.

The weaker Canadian dollar relative to the U.S. dollar compared to last year had a positive foreign currency translation impact on revenue in 2016 of approximately $65 million and was not significant at the EBIT level.

Gross profit was lower than 2015, reflecting lower sales volumes. The mix of revenues was comparable to 2015. Gross profit margin increased slightly in 2016

South America – Revenue by Line of Business
For years ended December 31
(2015 restated) ($ millions)



compared to 2015, reflecting higher product support margins from improved operational performance in mining contracts, due to cost efficiency and operational excellence initiatives. Higher used equipment margins were partly offset by lower new equipment margins, as well as the impact of the negative performance of a specific mining maintenance contract in an otherwise strong portfolio of contracts. Also affecting gross profit in 2015 was a $4 million impairment relating to aged and industry specific inventory due to prolonged weak market conditions.

SG&A costs were down 8% in 2016 (down 11% in functional currency), due in large part to cost savings from a reduced workforce, as well as lower operating costs from the weaker Argentine and Chilean pesos relative to the U.S. dollar. These reductions were partially offset by inflationary and statutory salary increases.

In 2016, in order to further align its cost structure to lower market activity, the Company reduced its South American workforce resulting in severance costs included in SG&A of $8 million compared to $15 million in 2015. SG&A costs in 2016 also included a $10 million estimated loss due to alleged fraudulent activity related to a customer in the South American operations. SG&A costs in 2015 included a foreign exchange loss of approximately $12 million related to the significant devaluation of the Argentine peso, as well as an intangible asset impairment of $6 million.

In 2015, the South American operations recognized an impairment loss of $324 million related to its shovels and drills distribution network and goodwill, as well as a $3 million property impairment loss in other expenses.

For 2016, the Company's South American operations reported an EBIT of $137 million and an EBIT margin of 7.4% compared to a loss of $(174) million and (8.4)% respectively in 2015. Excluding the significant items noted above, and summarized on pages 3 and 4 in this MD&A, Adjusted EBIT margin for 2016 was 8.4%, compared to 2015 Adjusted EBIT margin of 9.2%. Slightly higher gross profit margins and lower SG&A costs were more than offset by the significant decline in revenue.

UK & Ireland Operations

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

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

For years ended December 31 ($ millions)	**2016**	2015 (Restated)
Revenue from external sources	**$ 950**	$ 1,082
Operating costs	**(927)**	(1,045)
Depreciation and amortization	**(30)**	(28)
Goodwill impairment	**—**	(14)
Other expenses – related to sale of business	**(5)**	—
EBIT	**$ (12)**	$ (5)
EBIT margin	**(1.1)%**	(0.5)%
EBITDA [(1)]	**$ 18**	$ 23
EBITDA margin	**2.0%**	2.3%
Adjusted EBIT	**$ 16**	$ 33
Adjusted EBIT margin	**1.8%**	3.1%
Adjusted EBITDA	**$ 46**	$ 61
Adjusted EBITDA margin	**4.8%**	5.7%

(1) EBITDA is measured by adding depreciation and amortization to EBIT

In 2016, revenue of $950 million was 12% lower than the same period in 2015 (down 3% in functional currency), driven primarily by decreases in parts and new equipment revenues, reflecting weaker market conditions in the coal, steel and oil & gas sectors, particularly in the first six months of the year. Market conditions continue to be highly competitive for equipment in the general construction sector.

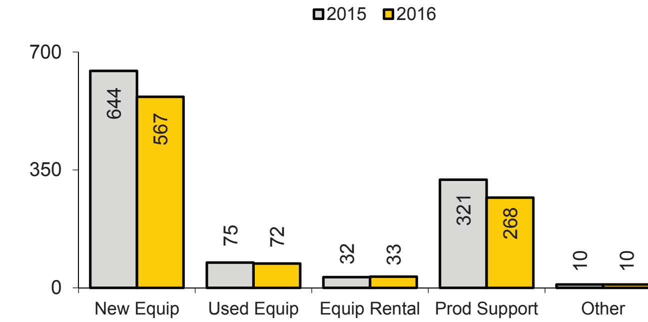
The stronger Canadian dollar relative to the U.K. pound sterling compared to last year had a negative foreign currency translation impact on revenue in 2016 of approximately $95 million and was not significant at the EBIT level.

Gross profit in absolute dollars and as a percentage of revenue was down in 2016 compared with the same period of 2015, reflecting reduced volumes and lower margins in product support and new equipment. Also, during 2016, management in the UK & Ireland completed a detailed review of its power systems business. Based on this review, management recorded provisions and estimated losses on disputes totalling $10 million relating to specific power systems contracts and projects. In 2015, gross profit was impacted by a $16 million impairment loss relating to aged inventory and other assets due to weak market conditions.

SG&A costs were lower in 2016 compared to 2015, and included $13 million of severance, facility closure and restructuring costs, primarily recorded in the second quarter. In the prior year, SG&A costs included $6 million of severance costs, as well as a $2 million property impairment loss. Excluding these costs, SG&A in 2016 was 7% lower than the prior year in functional currency.

Following a strategic review in 2016 of the Company's operations in the UK, 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. As a result, the Company recorded a charge in other expenses of approximately $5 million in the second quarter of 2016, representing the write-down of net assets and other costs related to the sale of this business. In 2015, the UK & Ireland operations recognized a goodwill impairment loss of $14 million.

UK & Ireland – Revenue by Line of Business
For year ended December 31
(2015 restated) ($ millions)



The UK & Ireland operations reported an EBIT loss of $(12) million in 2016, and an EBIT margin of (1.1)% compared to an EBIT loss of $(5) million and EBIT margin of (0.5)% in 2015. Excluding the significant items noted above, and summarized on pages 3 and 4 in this MD&A, Adjusted EBIT margin for 2016 was 1.8% compared to 2015 Adjusted EBIT margin of 3.1%. 2016 Adjusted EBIT margin was lower than the prior year primarily due to lower margins and competitive pressures in difficult market conditions, as well as provisions recorded in the second quarter of 2016 due to uncertainty and challenging market conditions.

Corporate and Other Operations

Included in this segment are corporate operating costs, as well as equity earnings (loss) from the Company's 28.8% investment in Energyst B.V. For 2016, net operating costs before finance costs and income taxes from the Company's Corporate and Other Operations were $22 million higher than the prior year primarily due to:

- $14 million higher costs related to the long term incentive plan, from an increase in the Company's share price of 41% compared with a decrease of 26% in the prior year, as well as improved performance related vesting of outstanding grants;
- $8 million gain on the sale of the Uruguay business in 2015;
- $7 million higher costs related to strategic digital initiatives focusing on delivery of innovative customer solutions going forward; and
- $3 million lower earnings in 2016 from the Company's 28.8% investment in Energyst B.V., due primarily to reduced demand in a key geography in its international power projects business.

Partially offset by:

- $5 million mark-to-market gain in 2016 relating to the Company's investment in IronPlanet Holdings Inc; and
- $3 million of costs in 2015 related to the acquisition of the operating assets of the Saskatchewan dealership.

Fourth Quarter Overview

($ millions, except for share data)		Q4 2016		Q4 2015 (Restated)	% change
Revenue	$	**1,491**	$	1,537	(3)%
Gross profit		**380**		370	3%
SG&A		**(333)**		(347)	4%
Equity (loss)/earnings of joint venture and associate		**(1)**		1	(150)%
Other expenses		**(33)**		(43)	23%
Other income		**5**		8	(38)%
Impairment of distribution network and goodwill		**—**		(338)	100%
EBIT	$	**18**	$	(349)	105%
Net income (loss)	$	**9**	$	(309)	103%
Basic EPS	$	**0.05**	$	(1.82)	103%
EBITDA	$	**65**	$	(282)	123%
Free cash flow	$	**113**	$	347	(67)%
Adjusted EBIT (1)	$	**70**	$	82	(13)%
Adjusted net income (1)	$	**47**	$	38	19%
Adjusted EPS (1)	$	**0.28**	$	0.23	20%
Adjusted EBITDA (1)	$	**117**	$	139	(15)%
Gross profit margin		***25.4%***		*24.0%*	
SG&A as a percentage of revenue		***22.3%***		*22.6%*	
EBIT margin		***1.3%***		*(22.7)%*	
EBITDA margin		***4.3%***		*(18.4)%*	
Adjusted EBIT margin (1)		***4.8%***		*5.3%*	
Adjusted EBITDA margin (1)		***7.9%***		*9.0%*	

(1) Certain fourth quarter 2016 and 2015 financial metrics were impacted by significant items management does not consider indicative of operational and financial trends either by nature or amount; these significant items are described on page 18 in this MD&A and the financial metrics which have been adjusted to take into account these items are referred to as "Adjusted" metrics.

2016 Fourth Quarter Highlights

- Free cash flow of $113 million, lower than free cash flow of $347 million in Q4 2015, reflected lower cash generation from all operations, mostly a result of the generation of positive quarterly cash flow throughout the year driven by improved working capital management.
- Revenue of $1.5 billion was down 3% from Q4 2015 primarily reflecting the unfavourable impact of foreign exchange translation in the Company's UK & Ireland operations. All operations generated higher or comparable revenues in Q4 2016 compared to the prior year period in functional currency.
- EBIT of $18 million and EBIT margin of 1.3% reported in Q4 2016 compared to a loss of $(349) million and (22.7)% in Q4 2015. Results in both the current and prior year period include items which are not considered indicative of operational and financial trends. These items include impairment losses, facility closures and restructuring costs and severance costs, among others, and are described on page 18 in this MD&A.
- Excluding the costs noted above, and detailed on page 18 in this MD&A, Q4 2016 Adjusted EBIT was $70 million, and Adjusted EBIT margin was 4.8%, compared to Q4 2015 Adjusted EBIT of $82 million and Adjusted EBIT margin of 5.3%, down from the prior year period mainly due to higher costs for the Company's long term incentive plan and digital initiatives.
- A tax recovery was recorded in Q4 2016 as a result of the Company applying an adjustment for inflation, reducing taxable income in Argentina. This offsets higher tax expense in Argentina recorded in the prior quarters of 2016.
- Basic EPS earned in Q4 2016 was $0.05, and $(1.82) in Q4 2015; adjusting for the impact of the significant items noted above, Adjusted EPS was $0.28, higher than the $0.23 Adjusted EPS earned in the prior period.

Significant items that affected the results of the Company for the three months ended December 2016 and 2015, which are not considered by management to be indicative of operational and financial trends, included:

Q4 2016 significant items:

- Severance costs related to the workforce reduction in the Canadian operations.
- Facility closure and restructuring costs in the Canadian operations in a continued effort to align cost structure with current market conditions.
- In Q4 2016, the Company's South American operations recorded an estimated loss 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.
- Mark-to-market gain on the Company's investment in IronPlanet Holdings Inc.

Q4 2015 significant items

- Impairment loss related to the shovels and drills distribution network and goodwill in the Company's South American and UK & Ireland operations.
- Facility closure and restructuring costs in all operations.
- 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 and related tax impact due to the significant devaluation of the Argentine peso (ARS) to the U.S. dollar (USD) in December 2015.
- Gain on sale of Uruguay business.
- Severance costs related to the workforce reduction in the UK Operations

The magnitude of each of these items, and reconciliation of the non-GAAP metrics to the closest equivalent GAAP metrics, is shown in the following tables:

3 months ended December 31, 2016 ($ millions except per share amounts)	**EBIT** Canada	**EBIT** South America	**EBIT** UK & Ireland	**EBIT** Consol [1]	**Net Income** Consol	**EPS** Consol
EBIT, net income, and EPS	**$ (3)**	**$ 27**	**$ 8**	**$ 18**	**$ 9**	**$ 0.05**
Significant items:						
Severance costs	**15**	**—**	**—**	**15**	**10**	**0.06**
Facility closures and restructuring costs	**32**	**—**	**—**	**32**	**25**	**0.15**
Estimated loss on alleged fraudulent activity by a customer	**—**	**10**	**—**	**10**	**7**	**0.04**
Gain on investment	**—**	**—**	**—**	**(5)**	**(4)**	**(0.02)**
Adjusted EBIT, Adjusted net income, and Adjusted EPS	**$ 44**	**$ 37**	**$ 8**	**$ 70**	**$ 47**	**$ 0.28**

3 months ended December 31, 2015 ($ millions except per share amounts)	EBIT Canada	EBIT South America	EBIT UK & Ireland	EBIT Consol [1]	Net Income Consol	EPS Consol
EBIT, net income, and EPS	$ (17)	$ (303)	$ (31)	$ (349)	$ (309)	$ (1.82)
Significant items:						
Distribution network and goodwill impairment	—	324	14	338	263	1.56
Facility closures and restructuring costs	40	3	2	45	33	0.19
Inventory and other asset impairments	16	10	16	42	32	0.19
FX and tax expense on devaluation of ARS	—	12	—	12	24	0.14
Sale of Uruguay business	—	—	—	(8)	(7)	(0.04)
Severance costs	—	—	2	2	2	0.01
Adjusted EBIT, Adjusted net income, and Adjusted EPS	$ 39	$ 46	$ 3	$ 82	$ 38	$ 0.23

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

Quarterly Key Performance Measures

The Company's operational improvement priorities include: customer & market leadership; supply chain optimization; service excellence; and asset utilization. The Company's employee incentive plans are aligned with the following Key Performance Indicators (KPIs) to consistently measure performance across the organization and monitor progress in improving ROIC.

	2016				2015				2014
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4
ROIC (1)									
Consolidated	**5.6%**	(6.6)%	(6.4)%	(4.0)%	(3.0)%	11.0%	12.9%	14.1%	15.3%
Canada	**5.3%**	4.3%	4.0%	5.4%	5.5%	10.9%	13.9%	15.3%	17.1%
South America	**13.3%**	(18.1)%	(17.0)%	(14.9)%	(12.8)%	13.2%	13.6%	14.4%	14.6%
UK & Ireland	**(4.5)%**	(17.4)%	(15.7)%	(4.5)%	(1.4)%	10.5%	13.2%	14.7%	16.3%
EBIT ($ millions) (1)									
Consolidated	**18**	73	29	45	(349)	63	106	75	142
Canada	**(3)**	37	28	25	(17)	34	52	29	73
South America	**27**	40	38	32	(303)	32	52	45	59
UK & Ireland	**8**	10	(26)	(4)	(31)	7	12	7	11
EBIT Margin (1) (2)									
Consolidated	**1.3%**	5.4%	2.3%	3.0%	(22.7)%	4.2%	6.3%	4.9%	7.9%
Canada	**(0.3)%**	5.9%	4.4%	3.0%	(2.4)%	4.5%	6.1%	3.6%	7.7%
South America	**5.0%**	8.7%	8.8%	7.3%	(57.3)%	6.4%	9.4%	9.2%	9.8%
UK & Ireland	**3.3%**	3.8%	(10.5)%	(1.9)%	(10.6)%	2.7%	4.2%	3.1%	4.3%
Invested Capital ($ millions)									
Consolidated	**2,797**	2,917	3,041	3,085	3,240	3,802	3,536	3,541	3,106
Canada	**1,595**	1,650	1,695	1,685	1,760	1,871	1,745	1,794	1,475
South America	**996**	1,021	1,072	1,033	1,122	1,485	1,402	1,417	1,348
UK & Ireland	**216**	253	263	340	321	442	381	330	284
Invested Capital Turnover (2) (times)									
Consolidated	**1.90x**	1.85x	1.78x	1.82x	1.78x	1.88x	1.99x	2.06x	2.10x
Canada	**1.70x**	1.66x	1.68x	1.80x	1.74x	1.96x	2.09x	2.14x	2.19x
South America	**1.80x**	1.74x	1.61x	1.59x	1.52x	1.51x	1.57x	1.63x	1.66x
UK & Ireland	**3.54x**	3.41x	2.98x	2.81x	2.93x	2.93x	3.21x	3.40x	3.43x
Inventory ($ millions)	**1,601**	1,726	1,688	1,740	1,800	1,995	1,919	1,973	1,661
Inventory Turns (2) (times)	**2.49x**	2.26x	2.43x	2.58x	2.38x	2.39x	2.44x	2.72x	2.81x
Working Capital to Sales Ratio (2)	**30.4%**	31.5%	32.4%	31.4%	32.2%	30.1%	28.2%	26.9%	26.1%
Free Cash Flow ($ millions)	**113**	163	64	30	347	140	70	(232)	385
Net Debt to Invested Capital Ratio	**32.0%**	35.0%	37.9%	37.0%	36.7%	38.7%	35.4%	36.0%	31.4%
EBITDA (1)	**65**	119	77	96	(282)	125	157	126	194
Net Debt to EBITDA Ratio (1)	**2.5**	109.4	71.5	12.0	9.5	2.4	1.9	1.9	1.4

(1) 2016, 2015 and 2014 reported financial metrics were impacted by significant items management does not consider indicative of operational and financial trends either by nature or amount; these significant items are described on pages 3, 4, 36, 37 and 38 in this MD&A and the financial metrics which have been adjusted to take into account these items are referred to as "Adjusted" metrics.

(2) 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 has concluded that certain cost recoveries are better reflected as revenues. Certain line items and key performance metrics have been restated in the comparative 2015 period but the impact of restatement is not significant. Further disclosure relating to these changes can be found in note 2 of the Company's annual consolidated financial statements.

Quarterly Key Performance Measures – Adjusted

2016 and 2015 reported financial metrics were impacted by significant items management does not consider indicative of operational and financial trends either by nature or amount; these significant items are described on pages 3, 4, 36, 37 and 38 in this MD&A and the financial metrics which have been adjusted to take into account these items are referred to as "Adjusted" metrics. The impact of these items on certain key performance measures is shown below:

	2016				2015			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Adjusted ROIC								
Consolidated	**9.3%**	9.2%	9.4%	10.4%	10.9%	12.8%	14.3%	15.5%
Canada	**9.3%**	8.7%	9.3%	10.1%	10.6%	13.1%	15.3%	16.7%
South America	**15.0%**	15.6%	14.2%	14.5%	14.0%	14.3%	15.2%	16.0%
UK & Ireland	**5.9%**	3.4%	3.3%	7.4%	9.0%	11.9%	13.9%	15.3%
Adjusted EBIT (3)($ millions)								
Consolidated	**70**	73	63	67	82	97	112	94
Canada	**44**	37	40	33	39	51	55	46
South America	**37**	40	39	39	46	42	55	46
UK & Ireland	**8**	10	(5)	3	3	11	12	8
Adjusted EBIT Margin (2)(3)								
Consolidated	**4.8%**	5.4%	4.9%	4.5%	5.3%	6.4%	6.6%	6.1%
Canada	**6.2%**	5.9%	6.3%	4.0%	5.5%	6.9%	6.3%	5.7%
South America	**7.0%**	8.7%	9.1%	8.9%	9.0%	8.3%	10.0%	9.4%
UK & Ireland	**3.3%**	3.8%	(1.9)%	1.5%	0.8%	4.1%	4.3%	3.4%
Adjusted EBITDA (1)(3)	**117**	119	111	118	139	159	163	145
Net Debt to Adjusted EBITDA Ratio (1)	**1.9**	2.1	2.2	2.0	2.0	2.2	1.8	1.8

(1) Of the significant items described, $10 million was recorded in depreciation and amortization expense in Q4 2015.

(2) 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 has concluded that certain cost recoveries are better reflected as revenues. Certain line items and key performance metrics have been restated in the comparative 2015 period but the impact of restatement is not significant. Further disclosure relating to these changes can be found in note 2 of the Company's annual consolidated financial statements.

(3) There were no significant items for which adjustments were made in Q3 2016, therefore the adjusted metrics above for Q3 2016 are the same as the reported metrics.

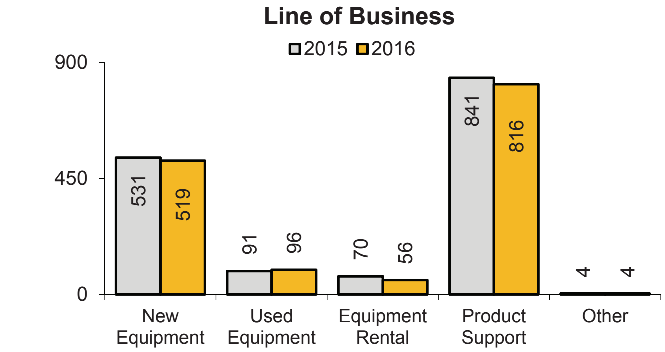
Revenue

The Company generated revenue of $1.5 billion during the three months ended December 31, 2016, a decrease of 3% over the same period last year, primarily reflecting the unfavourable impact of foreign currency translation in the Company's UK & Ireland operations.

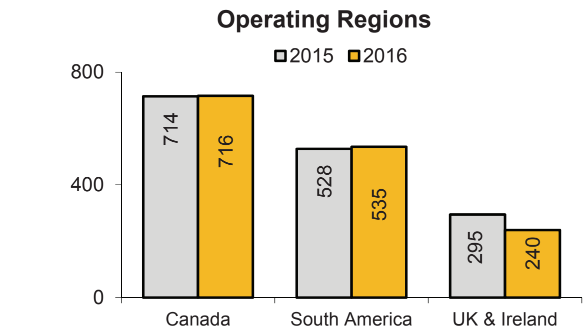
Foreign currency translation of the results of the Company's UK & Ireland operations had an unfavourable impact on revenue of approximately $50 million, primarily due to the 18% stronger Canadian dollar relative to the U.K. pound sterling in Q4 2016 compared to last year, and was not significant at the EBIT level.

Revenue in local currency was higher than or comparable to prior year in all operations. Higher revenue from the Company's South American operations was driven by higher new equipment sales, partly offset by lower product support. Slightly higher revenue from the Company's Canadian operations reflected higher product support revenues, particularly stronger parts revenue, mostly offset by lower rental and new equipment sales compared to the prior year period. In the Company's UK & Ireland operations, lower product support and new equipment revenues were mostly offset by higher used equipment and rental revenue.

Revenue by Line of Business
3 months ended December 31
(2015 restated) ($ millions)



Revenue by Operation



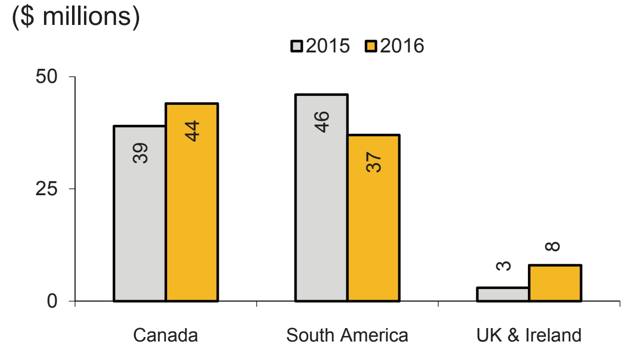
Compared to Q3 2016, both the Canadian and South American operations reported higher new equipment and product support revenues in Q4 2016. The Canadian operations reported their highest quarterly product support revenues of 2016 in Q4, while the South American operation reported consistent levels of product support revenues throughout 2016.

Earnings Before Finance Costs and Income Taxes

Gross profit in the last three months of 2016 of $380 million was up 3% compared to the prior year period due to higher overall gross profit margin of 25.4%, up from 24.0% in the fourth quarter of 2015.

Mix of revenues remained comparable to the prior year period. Impacting gross profit in the fourth quarter of 2015, were higher than usual inventory and other asset impairments. Excluding the significant items that reduced gross profit in the prior year quarter, described on page 18, totalling $36 million, gross profit margin in Q4 2015 would have been 26.4% and higher than that achieved in Q4 2016. Lower margins in Q4 2016 on new equipment were largely due to market conditions in all operations as well as lower margins earned on certain large equipment sales in Canada and South America.

Adjusted EBIT by Operation[(1)]
3 months ended December 31
($ millions)



[(1)] Excluding other operations – corporate head office

SG&A costs in the fourth quarter of 2016 were lower than the prior year and included severance costs of $15 million related to a reduction in the Canadian operations workforce to adjust to lower market activity (2015 included severance costs of $2 million in the UK operations) and $10 million estimated loss relating to alleged fraudulent activity by a customer in South America. The prior year included a $12 million foreign exchange loss on the significant devaluation of the Argentine peso, $6 million impairment on other assets, and $2 million property impairment costs. Excluding significant items, SG&A was down 5% in the fourth quarter of 2016 compared to the prior year period. The reduction is due to the realization of benefits from cost savings initiatives.

All regions reported SG&A savings that exceeded the comparative change in revenues. Cost savings were reported from all operations as a result of the successful execution of cost reduction measures. The favourable impact of weaker Argentine and Chilean pesos against the U.S. dollar further lowered operating costs in comparison to 2015. This was partially offset by inflationary and statutory salary increases in the Company's South American operations as well as higher long term incentive plan costs in 2016 compared to the prior year primarily due to a share price increase in 2016 versus a share price decrease in the prior year, and higher performance related vesting.

Other expenses in 2016 comprises $33 million restructuring costs incurred in the Canadian operations related to facility closures and consolidations. In 2015, the Company recorded a $338 million impairment loss related to the shovels and drills distribution network and goodwill in the Company's South American and UK & Ireland operations, as well as $43 million recorded in other expenses for costs relating to the restructuring of the Company's facilities footprint, primarily in the Canadian operations.

Other income of $5 million reported in 2016 is a mark-to-market gain on the Company's investment in IronPlanet Holdings Inc., the sale of which is expected in the first half of 2017. 2015 other income of $8 million is the gain on sale of the Uruguay business.

The Company reported EBIT of $18 million in the fourth quarter of 2016, compared to a loss of $(349) million in the fourth quarter of 2015. Excluding the impact of significant items not considered indicative of operational and financial trends (detailed on page 18 in this MD&A), Q4 2016 Adjusted EBIT was $70 million, compared to Adjusted EBIT of $82 million in Q4 2015.

The Company's EBIT margin was 1.3% in the fourth quarter of 2016, compared to (22.7)% in the same period of 2015. Excluding significant items as noted above, Q4 2016 Adjusted EBIT margin was 4.8%, compared to Q4 2015 Adjusted EBIT margin of 5.3% mainly due to higher costs relating to the Company's long term incentive plan and digital initiatives.

EBITDA

EBITDA for the fourth quarter of 2016 was $65 million and EBITDA margin was 4.3%. Q4 2015 EBITDA was a loss of $(282) million and EBITDA margin was (18.4)%. Excluding the significant items noted on page 18, Q4 2016 Adjusted EBITDA was $117 million and Adjusted EBITDA margin was 7.9%. Comparatively, Adjusted EBITDA in the fourth quarter of 2015 was $139 million and Adjusted EBITDA margin was 9.0%. Adjusted EBITDA was down from the prior year period for the same reasons as described for Adjusted EBIT.

Finance Costs

Finance costs in the three months ended December 31, 2016 were $20 million, and slightly below $22 million in the same period in 2015.

Provision for (Recovery of) Income Taxes

Income tax recovery for Q4 2016 was $11 million and for Q4 2015, income tax recovery was $62 million.

The tax provision in Q4 2016 included a tax recovery primarily the result of the Company qualifying for and applying an adjustment to reduce taxable income in Argentina to compensate for the loss of purchasing power due to inflation. In Q4 2015, the tax provision included a deferred income tax recovery arising on the impairment loss recognised on the distribution network partially offset by a higher effective tax rate in Argentina due to the significant devaluation of the Argentine peso.

Net Income (Loss)

Net income was $9 million in the fourth quarter of 2016, compared to a net loss of $(309) million in the same period last year. Basic EPS was $0.05 compared with $(1.82) in Q4 2015. Excluding significant items noted on page 18, Adjusted EPS earned in the fourth quarter of 2016 was $0.28, compared to Adjusted EPS of $0.23 in the same period last year. The increase in Adjusted net income and Adjusted EPS compared to the prior year period was primarily due to the Q4 2016 positive tax adjustment that more than offset the decrease in Adjusted EBIT.

Quarterly Results by Reportable Segment

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

For 3 months ended December 31, 2016 ($ millions)	Canada	South America	UK & Ireland	Other	Consol	Revenue %
New equipment	$ 202	$ 168	$ 149	$ —	$ 519	$ 35%
Used equipment	59	16	21	—	96	6%
Equipment rental	34	13	9	—	56	4%
Product support	421	336	59	—	816	55%
Other	—	2	2	—	4	—
Total revenues	$ 716	$ 535	$ 240	$ —	$ 1,491	$ 100%
Operating costs	(663)	(492)	(225)	(17)	(1,397)	
Depreciation and amortization	(24)	(16)	(7)	—	(47)	
Equity earnings/(loss)	1	—	—	(2)	(1)	
Other expenses	(33)	—	—	—	(33)	
Other income	—	—	—	5	5	
EBIT	$ (3)	27	8	(14)	18	
Revenue percentage by operations	48%	36%	16%	—	100%	
EBIT margin	(0.3)%	5.0%	3.3%	—	1.3%	
EBITDA	$ 21	43	15	(14)	65	
EBITDA margin	3.0%	7.9%	6.1%	—	4.3%	
Adjusted EBIT (1)	$ 44	37	8	(19)	70	
Adjusted EBIT margin (1)	6.2%	7.0%	3.3%	—	4.8%	
Adjusted EBITDA (1)	$ 68	53	15	(19)	117	
Adjusted EBITDA margin (1)	9.5%	9.9%	6.1%	—	7.9%	

For 3 months ended December 31, 2015 (Restated) ($ millions)	Canada	South America	UK & Ireland	Other	Consol	Revenue %
New equipment	$ 211	$ 135	$ 185	$ —	$ 531	$ 34%
Used equipment	58	9	24	—	91	6%
Equipment rental	46	16	8	—	70	5%
Product support	398	367	76	—	841	55%
Other	1	1	2	—	4	—
Total revenues	$ 714	$ 528	$ 295	$ —	$ 1,537	$ 100%
Operating costs	(657)	(480)	(305)	(5)	(1,447)	
Depreciation and amortization	(36)	(24)	(7)	—	(67)	
Equity earnings/(loss)	2	—	—	(1)	1	
Other expenses	(40)	(3)	—	—	(43)	
Other income	—	—	—	8	8	
Distribution network and goodwill impairment	—	(324)	(14)	—	(338)	
EBIT	$ (17)	(303)	(31)	2	(349)	
Revenue percentage by operations	47%	34%	19%	—	100%	
EBIT margin	(2.4)%	(57.3)%	(10.6)%	—	(22.7)%	
EBITDA	$ 19	(279)	(24)	2	(282)	
EBITDA margin	2.6%	(51.0)%	(8.0)%	—	(18.4)%	
Adjusted EBIT (1)	$ 39	46	3	(6)	82	
Adjusted EBIT margin (1)	5.5%	9.0%	0.8%	—	5.3%	
Adjusted EBITDA (1)	$ 70	65	10	(6)	139	
Adjusted EBITDA margin (1)	9.8%	12.4%	3.2%	—	9.0%	

(1) Certain Q4 2016 and 2015 financial metrics were impacted by significant items management does not consider indicative of operational and financial trends either by nature or amount; these significant items are described on page 18 in this MD&A and the financial metrics which have been adjusted to take into account these items are referred to as "Adjusted" metrics.

Quarterly Overview by Reportable Segment

Canada

Fourth quarter revenues were slightly higher compared to the prior year quarter reflecting higher product support revenues mostly offset by lower rental and new equipment revenue. Higher parts revenues were primarily a result of strong long term contract performance in the Company's Canadian operations. Lower demand in the non-mining sector impacted new equipment revenues, and weaker demand for rental assets continued into Q4. New equipment revenues improved from Q2 and Q3 2016 levels.

Q4 2015 gross profit was impacted by $16 million higher than usual inventory and other asset impairments. Excluding these items in Q4 2015, gross profit margin in Q4 2016 would have been lower compared to the prior year due to lower margins earned on certain large equipment sales and greater competition in a reduced rental market. This was partially offset by the benefit from a revenue mix shift to higher margin product support. Product support revenues comprised 59% of revenues in Q4 2016 compared to 56% in the prior year and are typically at a higher margin.

SG&A costs in Q4 2016 were slightly higher when compared to the prior year period, primarily due to $15 million of severance costs incurred in the current year quarter. Adjusting SG&A for these severance costs, SG&A was down 7% in Q4 2016, reflecting a reduced workforce and the benefit of cost savings initiatives.

Other expenses in Q4 2016 include $33 million of costs related to facility closures and restructuring to adjust the footprint of the Company's Canadian operations to lower market activity. In Q4 2015, the Canadian operations recorded $40 million of facility closure and restructuring costs.

Q4 2016 EBIT was a loss of $(3) million in Q4 2016, compared to a loss of $(17) million in the prior year period. EBIT margin was (0.3)%, compared to (2.4)% in the same period of 2015. Excluding the significant items noted above and as summarized on page 18 in this MD&A, Q4 2016 Adjusted EBIT margin was 6.2%, higher than the 5.5% earned in Q4 2015, reflecting the successful reduction of SG&A costs.

South America

Fourth quarter revenues were 1% higher compared to the prior year quarter reflecting higher new and used equipment revenues which were partially offset by lower product support revenues. New equipment revenues were up 25% as market conditions in Argentina improved during the year after restrictions on imports, foreign exchange, and access to external financing were lifted. Product support revenues were down 8%, driven by lower parts sales in the mining sector.

Compared to Q3 2016, the South American operations reported higher new equipment revenues in Q4 2016, as well as consistent levels of quarterly product support revenues throughout 2016.

Gross profit was lower than Q4 2015, reflecting the impact of a revenue mix shift to higher new equipment sales, as well as lower new equipment and parts margins. New equipment revenues comprised 31% of revenues in Q4 2016 compared to 26% in the prior year and are typically at a lower margin. Margins were impacted by the negative performance of a specific mining maintenance contract in an otherwise strong portfolio of contracts as well as lower margins earned on certain large equipment sales.

SG&A costs in Q4 2016 were lower when compared to the prior year period. SG&A costs in Q4 2016 included a $10 million estimated loss related to alleged fraudulent activities by a customer. The prior year period included $12 million of foreign exchange loss on the significant devaluation of the Argentine peso in December 2015 and $6 million impairment on other assets. Excluding these significant items, SG&A was down 2%.

Other expenses in Q4 2015 include a $324 million impairment loss and $3 million in restructuring costs.

Q4 2016 EBIT was $27 million, compared to an EBIT loss of $(303) million in the prior year period. EBIT margin was 5.0%, compared to (57.3)% earned in the same period of 2015. Excluding the significant items noted above and as summarized on page 18 in this MD&A, Q4 2016 Adjusted EBIT margin was 7.0%, lower than the 9.0% earned in Q4 2015, reflecting the pricing pressures noted above as well as the impact of the negative performance of a specific mining contract.

UK & Ireland

Revenues were comparable to the prior year period in functional currency, but unfavourably impacted by approximately $50 million of foreign currency translation resulting from the 18% stronger Canadian dollar relative to the U.K. pound sterling.

Q4 2015 gross profit was impacted by higher than usual inventory and other asset impairments; excluding these items in Q4 2015, gross profit margin in Q4 2016 was comparable to the prior year period.

SG&A in 2015 included $2 million severance and $2 million property impairment costs. Even after adjusting for these, SG&A costs in Q4 2016 were lower than the prior year period in functional currency reflecting the benefit of cost saving initiatives. Other expenses in Q4 2015 included $14 million in impairment costs.

Q4 2016 EBIT was $8 million in Q4 2016, compared to an EBIT loss of $(31) million in the prior year period. EBIT margin was 3.3%, compared to (10.6)% in the same period of 2015. Excluding the significant items noted above and as summarized on page 18 in this MD&A, Q4 2016 EBIT margin of 3.3% was higher than the Adjusted EBIT margin of 0.8% earned in Q4 2015, reflecting the reduction of SG&A costs. Results in the second half of 2016 significantly improved due to the successful implementation of transformation initiatives focused on lowering the costs to serve.

Outlook

Canada

Notwithstanding the recent increases in commodity prices, customers are maintaining their focus on driving productivity improvements and minimizing capital expenditures, and the Company expects demand for mining equipment to continue to be soft in the near term. Product support activity in the oil sands has returned to normal levels and is expected to remain steady.

In construction, demand for core equipment and product support in Alberta and, to a lesser extent, Saskatchewan is weak due to reduced customer activity. Portions of customers' construction equipment fleets remain parked. Construction activity in British Columbia is expected to remain robust. While the market size for construction equipment in Western Canada has shrunk significantly, the Company has been growing market share and customer loyalty.

Demand for power systems products and rental equipment continues to remain soft across most sectors.

Competitive equipment pricing pressure continues to be intense and is impacting all segments of the Canadian business. The Company believes the recovery will be gradual and dependent on the commodity markets.

South America

The recent increase in the price of copper has not yet translated into any meaningful change in activity levels. While there is a significant increase in equipment quoting, concerns regarding sustained demand for copper and cost of production have continued to delay investments in new projects. The Company is maintaining strong market share in a weak market; however, order intake across the mining and construction sectors remains low.

Demand for parts and service in the mining industry has been negatively impacted by reduced copper production and lower fleet utilization. Mining customers continue to defer component purchases and major repairs. The Company remains focused on capturing product support business by providing innovative solutions to customers and improving operating efficiencies in the service business, although no imminent improvement in product support activity is expected at this time; it is expected to remain stable. The recovery in the price of copper has strengthened the Chilean peso relative to the US dollar, which increased the Company's labour costs. Without an immediate corresponding benefit to revenues, this puts pressure on profitability.

In Argentina, as a result of the change in government in October 2015, the main obstacles to economic growth, such as restrictions on imports, foreign exchange, and access to external financing, have been lifted. Inflation and the interest rate, while still high, are starting to decline. The Company is encouraged by improved construction activity in Argentina and is successfully capturing a larger share of the construction equipment market. In the medium term, the Company expects to support customers with infrastructure projects enabling the development of the Vaca Muerta shale gas fields.

UK & Ireland

In the UK & Ireland, the equipment market is undergoing a structural shift away from the coal mining and oil & gas sectors towards general construction. While activity levels in the quarry, general construction, and plant hire sectors are robust, the competitive pricing pressure remains very intense and product support opportunities have changed. In response, the Company has implemented a strategy to lower its cost structure and increase supply chain velocity by optimizing its facility footprint and restructuring its operating model.

In the power systems sector, the outlook for power generation in the capacity and data centre markets continues to be healthy, driving strong order intake. The Company is capitalizing on its core power systems competencies.

While Brexit has not had a material impact on activity levels to this point, it resulted in a sharp devaluation of the U.K. pound sterling and economic uncertainty that continues to impact customer confidence and future investment decisions. To help offset reduced business confidence the UK government is accelerating infrastructure investments and approvals including large-scale rail, power, road investment and airport infrastructure projects.

Operational Focus

As market conditions recover, the Company aims to drive profitable and capital efficient growth, consistent with its commitment to improve ROIC.

Significantly reduced cost structure and transformational improvements achieved across the organization are expected to yield operating leverage in an upcycle, resulting in higher profitability levels. Capital discipline and improved inventory turns are expected to continue to drive positive annual free cash flow.

In 2017, the Company will be focused on transforming its global equipment supply chain, growing product support from its large installed equipment population, improving the financial performance of its rental business, and profitably growing equipment market share. In addition, the Company's modest investment in Finning Digital, a new global division within Finning, is expected to accelerate delivery of innovative customer solutions going forward. 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. The Company is also investing in a new ERP system in the South American operations.

The Company expects on-going volatility in foreign exchange markets to continue impacting its results.

The devaluation of the Canadian dollar increases earnings translated from the Company's foreign subsidiaries; the opposite is true for the appreciation of the Canadian dollar. Transactional gains or losses are dependent on the Company's hedging activities and general market conditions.

Liquidity and Capital Resources

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

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

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

	3 months ended December 31			Year ended December 31		
($ millions)	**2016**	2015	Increase (Decrease) in cash	**2016**	2015	Increase (Decrease) in cash
Cash provided by operating activities	**$ 131**	$ 370	$ (239)	**$ 440**	$ 379	$ 61
Cash provided by (used in) investing activities	**$ 35**	$ (22)	$ 57	**$ (40)**	$ (306)	$ 266
Cash used in financing activities	**$ (37)**	$ (143)	$ 106	**$ (255)**	$ (107)	$ (148)
Free Cash Flow	**$ 113**	$ 347	$ (234)	**$ 370**	$ 325	$ 45

The most significant contributors to the changes in cash flows for 2016 over 2015 were as follows:

	Quarter over Quarter	Year over Year
Cash provided by operating activities	• significantly lower than the fourth quarter of 2015, mostly a result of the generation of positive quarterly free cash flow throughout the year driven by improved working capital [1] management ○ lower cash generation from inventory, primarily in the Company's South American and UK operations – lower inventory levels in current year period due to efforts to sell through and align to market demand ○ lower collections from all operations	• higher than 2015 primarily due to improved working capital management ○ lower supplier payments, reflecting lower purchases due to market conditions and improved supply chain management ○ higher cash generation from inventory in the Company's Canadian operations ○ partly offset by lower collections from all operations
Cash provided by (used in) investing activities	• cash provided in 2016 versus use of cash in 2015 due to maturity of short-term investment in the Company's South American operations in the current quarter	• lower use of cash in 2016 as the Company used $241 million of cash in the prior year period to purchase the Saskatchewan dealership in the Company's Canadian operations

(1) This financial metric, referred to as "non-GAAP financial measures" does not have a standardized meaning under International Financial Reporting Standards (IFRS), which are also referred to herein as Generally Accepted Accounting Principles (GAAP), and therefore may not be comparable to similar measures presented by other issuers. For additional information regarding this financial metric, including definition and reconciliation of this non-GAAP financial measures to its most directly comparable measure under GAAP, where available, see the heading "Description of Non-GAAP Financial Measures and Reconciliations" later in this MD&A

	Quarter over Quarter	Year over Year
Cash used in financing activities	• lower use of cash in 2016 primarily due to $5 million of cash used for repayment of short-term and long-term debt in the quarter compared to $81 million used in the prior year period • $31 million of dividends paid in Q4 2016 was comparable to Q4 2015 • $30 million use of cash in the prior year quarter related to repurchase of common shares	• Higher use of cash in 2016 primarily due to $127 million of cash used to repay short-term and long-term debt in the year, compared to $109 million of cash generated by additional borrowing in 2015 associated with the Saskatchewan acquisition • $123 million of dividends paid in 2016 was comparable to 2015 • $91 million use of cash in the prior year related to repurchase of common shares
Free cash flow	• significantly lower than the fourth quarter of 2015, mostly a result of the generation of positive quarterly free cash flow throughout the year driven by improved working capital management o lower cash generation from inventory, primarily in the Company's South American and UK operations – lower inventory levels in current year period due to efforts to sell through and align to market demand o lower collections from all operations	• higher generation of cash than 2015 primarily due to improved working capital management o lower supplier payments, reflecting lower purchases due to market conditions and improved supply chain management o higher cash generation from inventory in the Company's Canadian operations o partly offset by lower collections from all operations, as well as higher capital expenditures than the prior year

Capital resources and management

To complement the internally generated funds from operating and investing activities, the Company has $1.9 billion in unsecured credit facilities. Included in this amount is a committed global credit facility totaling $1.0 billion with various Canadian and other global financial institutions, the full amount of which was available at December 31, 2016.

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

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

	Long-term debt		Short-term debt	
At Dec 31	2016	2015	2016	2015
S&P	BBB+	BBB+	N/A	N/A
DBRS	BBB (high)	A (low)	R-2 (high)	R-1 (low)

In March 2016, 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 the Company's territories. This rating was confirmed by DBRS in their November 2016 report.

In March 2016, S&P reaffirmed the Company's rating but revised its Outlook from Stable to Negative, noting the Company's exposure to cyclical end markets as a significant factor driving the change.

In the second quarter of 2016, the Company renewed its normal course issuer bid (NCIB) [1] to enable the purchase of its common shares for cancellation. During 2016, the Company did not repurchase any Finning common shares (2015: the Company repurchased 4.4 million Finning common shares for cancellation at an average price of $20.75 per share).

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

Net Debt to Invested Capital

Net Debt to Invested capital %	Dec 31, 2016	Sep 30, 2016	Dec 31, 2015
	32.0%	35.0%	36.7%
Company's target range 35-45%			

The Company is subject to a maximum Total Debt to Total Capitalization level of 62.5% pursuant to a covenant in its syndicated bank credit facility. The Company was in compliance with this covenant at the end of 2016.

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

Contractual Obligations

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

($ millions)	2017	2018	2019	2020	2021	Thereafter	Total
Short-term debt							
- principal repayment	$ 2	$ —	$ —	$ —	$ —	$ —	$ 2
Long-term debt							
- principal repayment	—	350	—	200	—	939	1,489
- interest	68	58	47	47	41	104	365
Operating leases (1)	60	47	34	27	24	83	275
Finance leases	7	7	7	11	6	14	52
Total contractual obligations	$ 137	$ 462	$ 88	$ 285	$ 71	$ 1,140	$ 2,183

(1) The Company recognized a liability of $14 million, $4 million in accrued liabilities, and $10 million in non-current other liabilities, related to facility closure costs and future minimum lease payments due under certain operating leases that were considered to be onerous at December 31, 2016 (2015: $16 million)

The above table does not include obligations to fund pension benefits, although the Company is making regular contributions to its registered defined benefit pension plans in Canada and the UK in order to fund the pension plans as required. Funding levels are monitored regularly and reset with new actuarial funding valuations performed by the Company's (or plan Trustees') actuaries that occur at least every three years. In 2016, approximately $25 million was contributed by the Company towards the defined benefit pension plans. Based on the most recent formal valuations, the contributions expected to be paid into the defined benefit plans during the financial year ended December 31, 2017 amount to approximately $23 million.

Employee Share Purchase Plan

The Company has employee share purchase plans for its Canadian and South American employees. Under the terms of these plans, eligible employees may purchase common shares of the Company in the open market at the then current market price. The Company pays a portion of the purchase price to a maximum of 2% of employee earnings. At December 31, 2016, approximately 77%, 74% and 3% of eligible employees in the Company's Corporate, Canadian and South American operations, respectively, were contributing to these plans.

The Company also has an All Employee Share Purchase Ownership Plan for its employees in Finning UK & Ireland. Under the terms of this plan, the Company will provide one common share, purchased in the open market, for every three shares the employee purchases. Finning (UK) employees may contribute up to 10% of their salary to a maximum of £70 per month. At December 31, 2016, approximately 31% of eligible employees in Finning (UK) were contributing to this plan. Finning (Ireland) employees may contribute from €10 of their salary to a maximum of €70 per month. At December 31, 2016, approximately 21% of eligible employees in Finning (Ireland) were contributing to this plan. These plans may be cancelled by Finning at any time.

Related Party Transactions

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

Significant Accounting Estimates and Contingencies

Accounting, Valuation, and Reporting

Changes in the rules or standards governing accounting can impact Finning's financial reporting. The Company employs professionally qualified accountants throughout its finance group and all of the operating unit financial officers have a reporting relationship to the Company's Chief Financial Officer (CFO). Senior financial representatives are assigned to all significant projects that impact financial accounting and reporting. Policies are in place to ensure completeness and accuracy of reported transactions.

Key transaction controls are in place, and there is a segregation of duties between transaction initiation, processing, and cash receipt or disbursement. Accounting, measurement, valuation, and reporting of accounts, which involve estimates and / or valuations, are reviewed quarterly by the CFO and SVP, Corporate Controller and Treasurer, as well as the Audit Committee of the Board of Directors. Significant accounting and financial topics and issues are presented to and discussed with the Audit Committee.

Management's discussion and analysis of the Company's financial condition and results of operations is based on the Company's annual consolidated financial statements, which have been prepared in accordance with IFRS. The Company's significant accounting policies are contained in the notes to the annual consolidated financial statements for the year ended December 31, 2016. Certain policies require management to make judgments, estimates, and assumptions in respect of the application of accounting policies and the reported amounts of assets, liabilities, revenues, expenses, and disclosure of contingent assets and liabilities. These policies may require particularly subjective and complex judgments to be made as they relate to matters that are inherently uncertain and because there is a likelihood that materially different amounts could be reported under different conditions or using different assumptions. The Company has discussed the development, selection, and application of its key accounting policies, and the critical accounting estimates and assumptions they involve, with the Audit Committee.

The more significant estimates and judgements include:

- recoverable values for goodwill and other indefinite-lived intangible assets
- identifying the cash-generating unit to which assets should be allocated for impairment testing
- allowance for doubtful accounts
- provisions for warranty
- provisions for income tax
- the determination of post-employment employee benefits
- provisions for slow-moving and inventory obsolescence
- the useful lives of the rental fleet and capital assets and related residual values
- revenues and costs associated with long term contracts (primarily power and energy systems and maintenance and repair contracts)
- revenues and costs associated with the sale of assets with either repurchase commitments or rental purchase options
- determination of the functional currency of each entity of the Company
- inputs to the models to determine the fair value of certain share-based payments

Goodwill and intangible assets with indefinite lives

The Company performs impairment tests on its goodwill and intangible assets with indefinite lives at the appropriate level (cash generating unit or group of cash generating units) at least annually and when events or changes in circumstances indicate that their value may not be fully recoverable. Any potential goodwill or intangible asset impairment is identified by comparing the recoverable amount of the cash generating unit to its carrying value. If the recoverable amount of the cash generating unit exceeds its carrying value, goodwill and/or the intangible asset are considered not to be impaired. If the recoverable amount of the cash generating unit is less than the carrying amount, then the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the cash generating unit and then to the other assets of the cash generating unit pro-rata on the basis of the carrying amount of each asset in the cash generating unit. Any impairment loss is recognized immediately in the consolidated statement of income. Impairment losses recognized for goodwill are never reversed but impairment losses on indefinite-lived intangible assets may be reversed. If any indication that the circumstances leading to the impairment loss of an indefinite-lived intangible asset no longer exists or may have decreased, management estimates the recoverable value of the CGU. Indicators of a recovery include sustainable improvement of the economic performance of the CGU and positive trend in the forecast or budgeted results of the CGU. If the recoverable amount exceeds the carrying amount, then a previously recognized impairment loss is considered to have been reversed (either fully or in part). Any reversal of impairment loss is recognized immediately in the consolidated statement of net income.

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

The Company performed its assessment of goodwill and intangible assets with indefinite lives and determined that there was no impairment at December 31, 2016. At December 31, 2015, the Company recognized an impairment loss of $338 million. Please refer to note 20 in the annual consolidated financial statements for further details.

Income tax asset or liability

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

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

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

New Accounting Pronouncements

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

Changes in Accounting Policies

Management has 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 has concluded that certain cost recoveries are better reflected as revenues. Certain line items have been restated in the comparative 2015 periods but the impact of restatement is not significant. For more information on the impact to financial statements, please refer to note 2 of the Company's annual consolidated financial statements.

Risk Factors and Management

Finning and its subsidiaries are exposed to market, credit, liquidity, and other risks in the normal course of their business activities. 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. Changes to the key risks are reviewed by the Audit Committee. The Audit Committee also reviews the adequacy of disclosures of key risks in the Company's AIF, MD&A, and annual consolidated annual financial statements. All key financial risks are disclosed in the MD&A and other key business risks are disclosed in the Company's AIF. For more information on the Company's financial instruments, including accounting policies, description of risks, and relevant risk sensitivities, please refer to note 7 of the Company's annual consolidated financial statements.

Market Risk and Hedging

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

The Company uses derivative financial instruments and foreign currency debt in order to manage its market risks (such as foreign currency and interest rate exposures).The Company uses derivative financial instruments only in connection with managing related risk positions and does not use them for trading or speculative purposes. All such transactions are carried out within the guidelines set by the Company and approved by the Company's Audit Committee.

Foreign Exchange Risk

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

Translation Exposure

The Company's annual consolidated financial statements are presented in CAD; therefore, the most significant foreign exchange impact to the Company's net income and other comprehensive income is the translation of all the Company's foreign subsidiaries' operating results (i.e. foreign currency based earnings and net assets or liabilities) into CAD.

The Company's South American and UK & Ireland operations have functional currencies other than CAD and, as a result, exchange rate movements between the USD/CAD and GBP/CAD will impact the consolidated results of the South American and UK & Ireland operations in CAD terms. The Company does not hedge its exposure to foreign exchange risk with regard to foreign currency earnings.

Assets and liabilities of the Company's South American and UK & Ireland operations are translated into CAD using the exchange rates in effect at the statement of financial position dates. Any translation gains and losses are recorded as foreign currency translation adjustments in other comprehensive income. To the extent practical, it is the Company's objective to manage this exposure. The Company has hedged a portion of its foreign investments with foreign currency denominated loans. The currency translation loss of $118 million recorded in 2016 resulted primarily from the 19% stronger CAD relative to the GBP as well as the 3% stronger CAD relative to USD at December 31, 2016 compared to December 31, 2015. This was partially offset by $48 million of unrealized foreign exchange gains on net investment hedges.

Transaction Exposure

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

The results of the Company's operations are impacted by the translation of its foreign denominated transactions; the results of the Canadian operations are impacted by USD based revenue and costs and the results of the South American operations are impacted by CLP and ARS based revenue and costs.

The Company is also exposed to currency risks related to the future cash flows on its foreign denominated financial assets and financial liabilities and foreign denominated net asset or net liability positions on its statement of financial position. The Company enters into forward exchange contracts to manage some mismatches in foreign currency cash flow but does not fully hedge balance sheet exposure so this may result in unrealized foreign exchange gains or losses until the financial assets and financial liabilities are settled.

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

The results of the Company's South American operations, whose functional currency is USD, are affected by changes in the USD/CLP and USD/ARS relationships. Historically, the Chilean peso has been positively correlated to the price of copper. As the price of copper declines, the value of the Chilean peso versus the USD declines as well. In such an environment, the Company's revenue may be impacted as mining customers curtail their equipment and product support spend. The Company's SG&A, which is in part in local currency, will be reduced when translated into USD, partly offsetting the impact on revenue. The reverse holds in an environment where the copper price strengthens, although generally a lag does occur between the increase in SG&A and the improvement of revenue.

The Company's competitive position may also be impacted as relative currency movements affect the business practices and/or pricing strategies of the Company's competitors.

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

Exchange rate	December 31			3 months ended December 31 – average			Year ended December 31 – average		
	2016	2015	Change	**2016**	2015	Change	**2016**	2015	Change
CAD/USD	**1.3427**	1.3840	(3)%	**1.3341**	1.3354	0%	**1.3248**	1.2787	4%
CAD/GBP	**1.6564**	2.0407	(19)%	**1.6567**	2.0255	(18)%	**1.7962**	1.9540	(8)%
CLP/USD	**667.29**	710.16	(6)%	**665.08**	697.85	(5)%	**676.31**	653.38	4%
ARS/USD	**15.89**	13.04	22%	**15.46**	10.00	55%	**14.74**	9.21	60%

The impact of foreign exchange due to fluctuation in the value of CAD relative to USD, GBP, CLP, and ARS is expected to continue to affect Finning's results.

Interest Rate Risk

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

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

The Company manages its interest rate risk by balancing its portfolio of fixed and floating rate debt, as well as managing the term to maturity of its debt portfolio.

Commodity Prices

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

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

Credit Risk

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

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

Credit risk exposure arising from derivative instruments relating to counterparties defaulting on their obligations is minimized by ensuring there is no excessive concentration of credit risk with any single counterparty, by active credit monitoring, and by dealing primarily with major financial institutions that have a credit rating of at least A from S&P and/or Moody's. Credit risk on receivables from customers and suppliers is minimized because of the diversification of the Company's operations as well as its large diversified customer base and its geographical dispersion.

Liquidity Risk

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

Financing Arrangements

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

Share-Based Payment Risk

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

Contingencies and Guarantees

Due to the size, complexity, and nature of the Company's operations, various legal, customs, and tax matters are pending. It is not currently possible for management to predict the outcome of such matters due to various factors, including: the preliminary nature of some claims, an incomplete factual record, uncertainty concerning procedures and their resolution by the courts, customs, or tax authorities. However, subject to these limitations, management is of the opinion, based on legal assessments and information presently available, that, except as stated below, it is not likely that any liability would have a material effect on the Company's financial position or results of operations.

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 Company has received a number of claims from the Argentina Customs Authority associated with export of agricultural product. The Company is appealing these claims, believes they are without merit, and is confident in its position. These pending matters may take a number of years to resolve. Should the ultimate resolution of these matters differ from management's assessment, a material adjustment could arise and negatively impact the Company's financial position.

The Company enters into contracts with rights of return, in certain circumstances, for the repurchase of equipment sold to customers for an amount which is generally based on a discount from the estimated future fair value of that equipment. As at December 31, 2016, the total estimated value of these contracts outstanding is $121 million (2015: $138 million) coming due at periods ranging from 2017 to 2022. The Company's experience to date has been that the equipment at the exercise date of the contract is generally worth more than the repurchase amount. The total amount recognized as a provision against these contracts is $1 million (2015: $2 million).

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

Outstanding Share Data

As at February 10, 2017	
Common shares outstanding	168,171,456
Options outstanding	4,530,677

Controls and Procedures Certification

Disclosure Controls and Procedures

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

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

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

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

Internal Control over Financial Reporting

Management is responsible for establishing and maintaining adequate internal control over financial reporting. Management has designed internal control over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements in accordance with IFRS. There has been no change in the design of the Company's internal control over financial reporting during the year ended December 31, 2016, that would materially affect, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

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

Evaluation of Effectiveness

As required by National Instrument 52-109, *Certification of Disclosure in Issuers' Annual and Interim Filings* (NI 52-109) issued by the Canadian Securities regulatory authorities, an evaluation of the design and testing of the effectiveness of the operation of the Company's disclosure controls and procedures and internal control over financial reporting were conducted as of December 31, 2016, by and under the supervision of management. In making the assessment of the effectiveness of the Company's disclosure controls and procedures and internal control over financial reporting, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in *Internal Control – Integrated Framework (2013 edition)*. The evaluation included documentation review, enquiries, testing, and other procedures considered by management to be appropriate in the circumstances.

Based on that evaluation, the CEO and CFO have concluded that the Company's disclosure controls and procedures and internal control over financial reporting were effective as of December 31, 2016.

Description of Non-GAAP Financial Measures and Reconciliations

Non-GAAP Financial Measures

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

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

Set out below is a description of the non-GAAP financial measures used by the Company in this MD&A and a quantitative reconciliation from each non-GAAP financial measure to the most directly comparable measure, where available, specified, defined, or determined under GAAP and used in the Company's consolidated financial statements (GAAP measures).

Key Performance Indicators

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

EBITDA, Adjusted EBITDA, and Adjusted EBIT

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

Management may also calculate an Adjusted EBIT and Adjusted EBITDA to exclude items that are not considered to be indicative of operational and financial trends either by nature or amount to provide a better overall understanding of the Company's underlying business performance.

EBITDA is calculated by adding depreciation and amortization to EBIT. Adjusted EBITDA is calculated by adding depreciation and amortization to Adjusted EBIT.

The most comparable GAAP financial measure to EBITDA is EBIT. A reconciliation between EBIT and EBITDA for the three and twelve months ended December 31 is as follows:

($ millions)	3 months ended December 31 **2016**	3 months ended December 31 2015	Year ended December 31 **2016**	Year ended December 31 2015
EBIT	**$ 18**	$ (349)	**$ 165**	$ (105)
Depreciation and amortization	**47**	67	**192**	231
EBITDA	**$ 65**	$ (282)	**$ 357**	$ 126

A reconciliation between EBIT, Adjusted EBIT, and Adjusted EBITDA for the three and twelve months ended December 31 is as follows:

($ millions)	3 months ended December 31 **2016**	3 months ended December 31 2015	Year ended December 31 **2016**	Year ended December 31 2015
EBIT	**$ 18**	$ (349)	**$ 165**	$ (105)
Significant items (1)	**52**	431	**108**	488
Adjusted EBIT	**70**	82	**273**	383
Depreciation and amortization (2)	**47**	57	**192**	221
Adjusted EBITDA	**$ 117**	$ 139	**$ 465**	$ 604

(1) 2016 and 2015 results were impacted by significant items management does not consider indicative of operational and financial trends either by nature or amount; these significant items are described on pages 3, 4, and 18 in this MD&A.

(2) Of the significant items described above, $10 million was recorded in depreciation and amortization expense in Q4 2015

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

3 months ended	**2016**				2015				2014			
($ millions)	**Dec 31**	Sep 30	Jun 30	Mar 31	Dec 31	Sep 30	Jun 30	Mar 31	Dec 31	Sep 30	Jun 30	Mar 31
EBIT	$ **18**	$ 73	$ 29	$ 45	$ (349)	$ 63	$ 106	$ 75	$ 142	$ 114	$ 137	$ 111
Significant items:												
Severance costs and labour disruption costs [(1)]	**15**	—	9	17	2	25	6	17	—	9	6	—
Facility closures and restructuring costs	**32**	—	4	—	45	6	—	2	—	—	—	—
Impairment loss on distribution network and Goodwill	**—**	—	—	—	338	—	—	—	—	—	—	—
Inventory and other asset impairments	**—**	—	—	—	42	—	—	—	—	—	—	—
Impact from Alberta wildfires – unavoidable costs	**—**	—	11	—	—	—	—	—	—	—	—	—
Power systems project provisions, estimated loss on disputes and alleged fraudulent activity by a customer	**10**	—	5	5	—	—	—	—	—	—	—	—
Loss on sale of non-core business	**—**	—	5	—	—	—	—	—	—	—	—	—
Acquisitions and disposal of business, net	**—**	—	—	—	(8)	3	—	—	—	—	—	—
Gain on investment	**(5)**	—	—	—	—	—	—	—	—	—	—	—
ARS devaluation	**—**	—	—	—	12	—	—	—	—	—	—	—
Enterprise Resource Planning (ERP) write-off in South American operations [(2)]	**—**	—	—	—	—	—	—	—	—	12	—	—
Adjusted EBIT	$ **70**	$ 73	$ 63	$ 67	$ 82	$ 97	$ 112	$ 94	$ 142	$ 135	$ 143	$ 111
Depreciation and amortization [(3)]	**47**	46	48	51	57	62	51	51	52	56	53	55
Adjusted EBITDA	$ **117**	$ 119	$ 111	$ 118	$ 139	$ 159	$ 163	$ 145	$ 194	$ 191	$ 196	$ 166
Adjusted EBIT – 12 months [(4)]	$ **273**	$ 285	$ 309	$ 358	$ 383	$ 445	$ 483	$ 514	$ 533			
Adjusted EBITDA – 12 months [(4)]	$ **465**	$ 487	$ 527	$ 579	$ 604	$ 661	$ 693	$ 726	$ 749			

[(1)] Labour disruption costs of $2 million incurred in Company's South American operations in Q3 2014

[(2)] Following an evaluation of the business needs of the Company's South American operations and a capability analysis, management determined that the implementation of a full ERP system in its South American operations would not occur in the near future, leading to an accounting review and a decision to derecognize the previously capitalized costs of $12 million in 2014

[(3)] Of the significant items described above, $10 million was recorded in depreciation and amortization expense in Q4 2015

[(4)] Due to rounding differences, quarterly amounts may not add to the 12 month total

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

3 months ended	**2016**				2015				2014			
($ millions)	**Dec 31**	Sep 30	Jun 30	Mar 31	Dec 31	Sep 30	Jun 30	Mar 31	Dec 31	Sep 30	Jun 30	Mar 31
EBIT	**$ (3)**	$ 37	$ 28	$ 25	$ (17)	$ 34	$ 52	$ 29	$ 73	$ 80	$ 77	$ 54
Significant items:												
Severance costs	**15**	—	1	8	—	11	3	15	—	3	2	—
Facility closures and restructuring costs	**32**	—	—	—	40	6	—	2	—	—	—	—
Inventory and other asset impairments	**—**	—	—	—	16	—	—	—	—	—	—	—
Impact from Alberta wildfires – unavoidable costs	**—**	—	11	—	—	—	—	—	—	—	—	—
Adjusted EBIT	**$ 44**	$ 37	$ 40	$ 33	$ 39	$ 51	$ 55	$ 46	$ 73	$ 83	$ 79	$ 54
Depreciation and amortization (1)	**24**	24	25	27	31	34	26	25	26	30	28	28
Adjusted EBITDA	**$ 68**	$ 61	$ 65	$ 60	$ 70	$ 85	$ 81	$ 71	$ 99	$ 113	$ 107	$ 82
Adjusted EBIT – 12 months (2)	**$ 154**	$ 149	$ 163	$ 178	$ 189	$ 225	$ 257	$ 281	$ 290			

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

3 months ended	**2016**				2015				2014			
($ millions)	**Dec 31**	Sep 30	Jun 30	Mar 31	Dec 31	Sep 30	Jun 30	Mar 31	Dec 31	Sep 30	Jun 30	Mar 31
EBIT	$ **27**	$ 40	$ 38	$ 32	$ (303)	$ 32	$ 52	$ 45	$ 59	$ 31	$ 56	$ 50
Significant items:												
Severance costs and labour disruption costs (3)	**—**	—	1	7	—	10	3	1	—	6	4	—
Facility closures and restructuring costs	**—**	—	—	—	3	—	—	—	—	—	—	—
Estimated loss on alleged fraudulent activity by a customer	**10**	—	—	—	—	—	—	—	—	—	—	—
Impairment loss on distribution network and goodwill	**—**	—	—	—	324	—	—	—	—	—	—	—
Inventory and other asset impairments	**—**	—	—	—	10	—	—	—	—	—	—	—
ARS devaluation	**—**	—	—	—	12	—	—	—	—	—	—	—
ERP write-off (4)	**—**	—	—	—	—	—	—	—	—	12	—	—
Adjusted EBIT	$ **37**	$ 40	$ 39	$ 39	$ 46	$ 42	$ 55	$ 46	$ 59	$ 49	$ 60	$ 50
Depreciation and amortization (1)	**16**	15	15	16	19	20	19	19	18	18	18	18
Adjusted EBITDA	$ **53**	$ 55	$ 54	$ 55	$ 65	$ 62	$ 74	$ 65	$ 77	$ 67	$ 78	$ 68
Adjusted EBIT – 12 months (2)	$ **155**	$ 164	$ 166	$ 182	$ 190	$ 202	$ 209	$ 214	$ 218			

(1) Of the significant items described above, $5 million was recorded in depreciation and amortization expense in Q4 2015 in each of the Canadian and South American operations

(2) Due to rounding differences, quarterly amounts may not add to the 12 month total

(3) Labour disruption costs of $2 million were incurred in the Company's South American operations in Q3 2014

(4) Following an evaluation of the business needs of the Company's South American operations and a capability analysis, management determined that the implementation of a full ERP system in its South American operations would not occur in the near future, leading to an accounting review and a decision to derecognize the previously capitalized costs of $12 million in 2014

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

3 months ended	**2016**				2015				2014			
($ millions)	**Dec 31**	Sep 30	Jun 30	Mar 31	Dec 31	Sep 30	Jun 30	Mar 31	Dec 31	Sep 30	Jun 30	Mar 31
EBIT	**$ 8**	$ 10	$ (26)	$ (4)	$ (31)	$ 7	$ 12	$ 7	$ 11	$ 14	$ 14	$ 11
Significant items:												
Severance costs and labour disruption costs	**—**	—	7	2	2	4	—	1	—	—	—	—
Facility closures and restructuring costs	**—**	—	4	—	2	—	—	—	—	—	—	—
Impairment loss on distribution network and goodwill	**—**	—	—	—	14	—	—	—	—	—	—	—
Inventory and other asset impairments	**—**	—	—	—	16	—	—	—	—	—	—	—
Power system project provisions and estimated loss on disputes	**—**	—	5	5	—	—	—	—	—	—	—	—
Loss on sale of non-core business	**—**	—	5	—	—	—	—	—	—	—	—	—
Adjusted EBIT	**$ 8**	$ 10	$ (5)	$ 3	$ 3	$ 11	$ 12	$ 8	$ 11	$ 14	$ 14	$ 11
Depreciation and amortization	**7**	7	8	8	7	8	6	7	8	8	7	9
Adjusted EBITDA	**$ 15**	$ 17	$ 3	$ 11	$ 10	$ 19	$ 18	$ 15	$ 19	$ 22	$ 21	$ 20
Adjusted EBIT – 12 months [1]	**$ 16**	$ 11	$ 12	$ 29	$ 33	$ 42	$ 45	$ 47	$ 51			

(1) Due to rounding differences, quarterly amounts may not add to the 12 month total

Adjusted EBIT Margin, EBITDA Margin, and Adjusted EBITDA Margin

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

Free Cash Flow

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

	3 months ended December 31		12 months ended December 31	
($ millions)	**2016**	2015	**2016**	2015
Cash flow provided by operating activities [1]	**$ 131**	$ 370	**$ 440**	$ 379
Additions to property, plant, and equipment and intangible assets [1]	**(20)**	(34)	**(92)**	(76)
Proceeds on disposal of property, plant, and equipment [1]	**2**	11	**22**	22
Free cash flow	**$ 113**	$ 347	**$ 370**	$ 325

[1] As disclosed in the Company's consolidated statement of cash flow

Inventory Turns

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

December 31 ($ millions, except as noted)	**2016**	2015 (Restated)
Cost of sales – annualized	**$ 4,150**	$ 4,524
Inventory – two quarter average	**$ 1,663**	$ 1,897
Inventory turns (number of times)	**2.49**	2.38

Invested Capital Turnover

Invested capital turnover is used by management as a measure of efficiency in the use of the Company's invested capital and is calculated as total revenue for the last twelve months divided by invested capital, defined on page 40, based on an average of the last four quarters, as follows:

December 31 ($ millions, except as noted)	**2016**	2015 (Restated)
Revenue – last twelve months	**$ 5,628**	$ 6,275
Invested capital – four quarter average	**$ 2,960**	$ 3,530
Invested capital turnover	**1.90**	1.78

Net Debt to Invested Capital Ratio

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

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

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

December 31 ($ millions, except as noted)		2016		2015		2014
Cash and cash equivalents	**$**	**(593)**	$	(475)	$	(450)
Short-term debt		**2**		117		7
Long-term debt		**1,487**		1,548		1,418
Net debt		**896**		1,190		975
Shareholders' equity		**1,901**		2,050		2,131
Invested capital	**$**	**2,797**	$	3,240	$	3,106
Net debt to invested capital		**32.0%**		36.7%		31.4%

Net Debt to EBITDA Ratio and Net Debt to Adjusted EBITDA Ratio

These ratios are calculated, respectively, as net debt, defined and calculated above, divided by EBITDA, and net debt divided by Adjusted EBITDA, for the last twelve months. These ratios are used by management in assessing the Company's operating leverage and ability to repay its debt. These ratios approximate the length of time, in years, that it would take the Company to repay its debt, with net debt and EBITDA or Adjusted EBITDA held constant. These ratios are calculated as follows:

December 31 ($ millions, except as noted)		2016		2015 (Restated)		2014
Net debt	**$**	**896**	$	1,190	$	975
EBITDA – 12 months ended	**$**	**357**	$	126	$	720
Net Debt to EBITDA [(1)]		**2.5**		9.5		1.4
Net debt	**$**	**896**	$	1,190	$	975
Adjusted EBITDA – 12 months ended	**$**	**465**	$	604	$	749
Net Debt to Adjusted EBITDA		**1.9**		2.0		1.3

(1) 2016, 2015 and 2014 results were impacted by significant items management does not consider indicative of operational and financial trends either by nature or amount; these significant items are described on pages 3, 4, and 36 in this MD&A.

Adjusted net income and Adjusted EPS

Adjusted net income excludes from net income (as disclosed in the Company's consolidated statement of income) the after-tax amounts of significant items that are not considered to be indicative of operational and financial trends either by nature or amount to provide a better overall understanding of the Company's underlying business performance.

Adjusted EPS is calculated by dividing Adjusted net income by the weighted average number of common shares outstanding during the period.

An example of a reconciliation between net income and EPS (the nearest GAAP measures) and Adjusted net income and Adjusted EPS can be found on page 4 in this MD&A.

ROIC and Adjusted ROIC

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

Management views ROIC (at a consolidated and segment level), as a useful measure for supporting investment and resource allocation decisions, as it adjusts for certain items that may affect comparability between certain competitors and segments. Management may also calculate an Adjusted ROIC using Adjusted EBIT to exclude significant items that are not considered to be indicative of operational and financial trends either by nature or amount to provide a better overall understanding of the Company's underlying business performance.

ROIC for the consolidated operations is calculated as follows:

December 31 ($ millions, except as noted)	2016	2015
EBIT – 12 months ended	$ 165	$ (105)
Invested capital – four quarter average	$ 2,960	$ 3,530
ROIC	5.6%	(3.0)%

Adjusted ROIC, on a consolidated and segmented basis, is calculated as follows:

($ millions, except as noted)	2016				2015				2014
	Dec 31	Sep 30	Jun 30	Mar 31	Dec 31	Sep 30	Jun 30	Mar 31	Dec 31
Consolidated									
Adjusted EBIT – 12 months ended	$ 273	$ 285	$ 309	$ 358	$ 383	$ 445	$ 483	$ 514	$ 533
Invested capital – four quarter average	$ 2,960	$ 3,071	$ 3,292	$ 3,416	$ 3,530	$ 3,496	$ 3,381	$ 3,330	$ 3,298
Adjusted ROIC	9.3%	9.2%	9.4%	10.4%	10.9%	12.8%	14.3%	15.5%	16.2%
Canada									
Adjusted EBIT – 12 months ended	$ 154	$ 149	$ 163	$ 178	$ 189	$ 225	$ 257	$ 281	$ 290
Invested capital – four quarter average	$ 1,656	$ 1,697	$ 1,753	$ 1,765	$ 1,792	$ 1,721	$ 1,682	$ 1,685	$ 1,657
Adjusted ROIC	9.3%	8.7%	9.3%	10.1%	10.6%	13.1%	15.3%	16.7%	17.5%
South America									
Adjusted EBIT – 12 months ended	$ 155	$ 164	$ 166	$ 182	$ 190	$ 202	$ 209	$ 214	$ 218
Invested capital – four quarter average	$ 1,030	$ 1,062	$ 1,178	$ 1,261	$ 1,357	$ 1,413	$ 1,366	$ 1,334	$ 1,341
Adjusted ROIC	15.0%	15.6%	14.2%	14.5%	14.0%	14.3%	15.2%	16.0%	16.2%
UK & Ireland									
Adjusted EBIT – 12 months ended	$ 16	$ 11	$ 12	$ 29	$ 33	$ 42	$ 45	$ 47	$ 51
Invested capital – four quarter average	$ 268	$ 294	$ 342	$ 371	$ 369	$ 359	$ 335	$ 316	$ 308
Adjusted ROIC	5.9%	3.4%	3.3%	7.4%	9.0%	11.9%	13.9%	15.3%	16.7%

Working Capital

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

December 31 ($ millions)		2016		2015
Total current assets	$	3,378	$	3,460
Cash and cash equivalents		(593)		(475)
Total current assets(1)	$	2,785	$	2,985
Total current liabilities	$	1,233	$	1,243
Short-term debt		(2)		(117)
Total current liabilities (2)	$	1,231	$	1,126
Working capital	$	1,554	$	1,859

(1) Excluding cash and cash equivalents

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

Working Capital to Sales Ratio

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

December 31 ($ millions, except as noted)		2016		2015 (Restated)
Working capital – four quarter average	$	1,709	$	2,023
Revenue – last twelve months	$	5,628	$	6,275
Working capital to sales		30.4%		32.2%

Order Backlog

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

Selected Annual Information

($ millions, except for share and option data)	2016	2015 (Restated)	2014
Total revenue from external sources	**$ 5,628**	$ 6,275	$ 6,918
Net income/(loss) [1]	**$ 65**	$ (161)	$ 318
Earnings Per Share [1] [2]			
Basic EPS	**$ 0.38**	$ (0.94)	$ 1.85
Diluted EPS	**$ 0.38**	$ (0.94)	$ 1.84
Total assets [1]	**$ 4,910**	$ 5,108	$ 5,273
Long-term debt			
Non-current	**1,487**	1,548	1,418
Total long-term debt [3]	**$ 1,487**	$ 1,548	$ 1,418
Cash dividends declared per common share	**$ 0.73**	$ 0.725	$ 0.685

(1) In July 2015, the Company's Canadian operations acquired the 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.

(2) Results 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 disputes 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 [a] on EBIT:	**$ 108**	$ 488	$ 29
Capital loss utilized/tax rate change impact on EPS:	**$ —**	$ 0.02	$ —
Impact of significant items [a] on EPS:	**$ 0.50**	$ 2.23	$ 0.13

(a) Of the significant items described above, $10 million was recorded in depreciation and amortization expense in Q4 2015.

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

Selected Quarterly Information

$ millions (except for share and option data)	2016 Q4	2016 Q3	2016 Q2	2016 Q1	2015 (Restated) Q4	2015 (Restated) Q3	2015 (Restated) Q2	2015 (Restated) Q1
Revenue from operations [1]								
Canada	**$ 716**	$ 619	$ 634	$ 852	$ 714	$ 743	$ 869	$ 800
South America	**535**	461	431	430	528	509	539	491
UK & Ireland	**240**	253	245	212	295	265	272	250
Total revenue	**$ 1,491**	$ 1,333	$ 1,310	$ 1,494	$ 1,537	$ 1,517	$ 1,680	$ 1,541
Net income/(loss) [1][2]	**$ 9**	$ 36	$ 5	$ 15	$ (309)	$ 33	$ 62	$ 53
Earnings Per Share [1][2]								
Basic EPS	**$ 0.05**	$ 0.22	$ 0.03	$ 0.09	$ (1.82)	$ 0.19	$ 0.36	$ 0.31
Diluted EPS	**$ 0.05**	$ 0.22	$ 0.03	$ 0.09	$ (1.82)	$ 0.19	$ 0.36	$ 0.31
Total assets [1]	**$ 4,910**	$ 4,886	$ 4,754	$ 4,870	$ 5,108	$ 5,520	$ 5,324	$ 5,354
Long-term debt								
Non-current	**1,487**	1,474	1,470	1,492	1,548	1,553	1,482	1,477
Total long-term debt [3]	**$ 1,487**	$ 1,474	$ 1,470	$ 1,492	$ 1,548	$ 1,553	$ 1,482	$ 1,477
Cash dividends paid per common share	**18.25¢**	18.25¢	18.25¢	18.25¢	18.25¢	18.25¢	18.25¢	17.75¢
Common shares outstanding (000's)	**168,167**	168,134	168,102	168,034	168,031	169,612	171,692	172,374
Options outstanding (000's)	**4,564**	4,823	5,026	5,102	5,171	5,315	5,390	4,145

(1) In July 2015, the Company's Canadian operations acquired the 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.

(2) 2016 and 2015 results were impacted by the following significant items:

($ millions except per share amounts)	2016 Annual	2016 Q4	2016 Q3	2016 Q2	2016 Q1	2015 Annual	2015 Q4	2015 Q3	2015 Q2	2015 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 disputes 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][b] 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.
(b) Of the significant items described above, $10 million was recorded in depreciation and amortization expense in Q4 2015.

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

Forward-Looking Disclaimer

This report contains statements about the Company's business outlook, objectives, plans, strategic priorities and other statements that are not historical facts. A statement Finning makes is forward-looking when it uses what the Company knows and expects today to make a statement about the future. Forward-looking statements may include 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 impact of foreign exchange markets, expected revenue; expected free cash flow and liquidity; expected profitability levels; expected range of the effective tax rate; plans to improve ROIC; market share growth; customer loyalty growth; expected engagement related to the development of the Vaca Muerta shale gas fields; expected results from cost reductions and transformation initiatives; inventory turns; the expected target range of the Company's net debt to invested capital ratio; estimated loss on disputes regarding power system projects in the UK; the expected financial impact from the Alberta wildfires and possible insurance recoveries; timing and delivery of innovative customer solutions; planned activities and anticipated results of Finning Digital; plans to implement a modern ERP system for the South America business; the belief that the claims by the Argentina Customs Authority have no merit and the likelihood of material impact of any contingencies and guarantees on the Company's financial position; expected sale of investments; the Company's ability to manage exposure to currency translation adjustments; and expectations for defined benefit pension funding. All such forward-looking statements are made pursuant to the 'safe harbour' provisions of applicable Canadian securities laws.

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

Forward-looking statements, by their very nature, are subject to numerous risks and uncertainties and are based on several assumptions which give rise to the possibility that actual results could differ materially from the expectations expressed in or implied by such forward-looking statements and that Finning's business outlook, objectives, plans, strategic priorities and other statements that are not historical facts may not be achieved. As a result, Finning cannot guarantee that any forward-looking statement will materialize. Factors that could cause actual results or events to differ materially from those expressed in or implied by these forward-looking statements include: general economic and market conditions; foreign exchange rates; commodity prices; the level of customer confidence and spending, and the demand for, and prices of, Finning's products and services; Finning's ability to maintain its relationship with Caterpillar; Finning's dependence on the continued market acceptance of its products, including Caterpillar products, and the timely supply of parts and equipment; Finning's ability to continue to improve productivity and operational efficiencies while continuing to maintain customer service; Finning's ability to manage cost pressures as growth in revenue occurs; Finning's ability to 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 in this MD&A for forward-looking statements. Some of the assumptions, risks, and other factors which could cause results to differ materially from those expressed in the forward-looking statements contained in this report are discussed in Section 4 of the Company's current AIF and in the annual MD&A for the financial risks.

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

MANAGEMENT'S REPORT TO THE SHAREHOLDERS

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

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

The Company's independent auditors, Deloitte LLP, have audited the Consolidated Financial Statements, as reflected in their report for 2016.

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

/s/ L. Scott Thomson

L. Scott Thomson
President and Chief Executive Officer

/s/ Steven M. Nielsen

Steven M. Nielsen
Executive Vice President and Chief Financial Officer

February 15, 2017
1000-666 Burrard Street, Vancouver, BC, V6C 2X8, Canada

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of
Finning International Inc.

We have audited the accompanying consolidated financial statements of Finning International Inc., which comprise the consolidated statements of financial position as at December 31, 2016 and December 31, 2015, and the consolidated statements of net income (loss), comprehensive (loss) income, shareholders' equity and cash flow for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Finning International Inc. as at December 31, 2016 and December 31, 2015, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

/s/ Deloitte LLP

Chartered Professional Accountants
February 15, 2017
Vancouver, Canada

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

December 31 (Canadian $ millions)		**2016**		2015
ASSETS				
Current assets				
Cash and cash equivalents (Note 24)	**$**	**593**	$	475
Accounts receivable		**869**		837
Service work in progress		**101**		99
Inventories (Note 11)		**1,601**		1,800
Other assets (Note 14)		**214**		249
Total current assets		**3,378**		3,460
Property, plant, and equipment (Note 16)		**606**		677
Rental equipment (Note 16)		**363**		441
Goodwill (Note 18)		**118**		129
Distribution network (Note 17)		**100**		101
Intangible assets (Note 19)		**71**		49
Investment in joint venture and associate (Note 15)		**88**		103
Other assets (Note 14)		**186**		148
Total assets	**$**	**4,910**	$	5,108
LIABILITIES				
Current liabilities				
Short-term debt (Note 6)	**$**	**2**	$	117
Accounts payable and accruals		**946**		801
Deferred revenue		**231**		259
Provisions (Note 21)		**47**		60
Other liabilities (Note 22)		**7**		6
Total current liabilities		**1,233**		1,243
Long-term debt (Note 6)		**1,487**		1,548
Net post-employment obligation (Note 23)		**84**		82
Other liabilities (Note 22)		**205**		185
Total liabilities		**3,009**		3,058
Commitments and contingencies (Note 29 and 30)				
SHAREHOLDERS' EQUITY				
Share capital (Note 9)		**573**		570
Contributed surplus		**2**		—
Accumulated other comprehensive income		**243**		326
Retained earnings		**1,083**		1,154
Total shareholders' equity		**1,901**		2,050
Total liabilities and shareholders' equity	**$**	**4,910**	$	5,108

Approved by the Directors February 15, 2017

/s/ K.M. O'Neill *|* */s/ D. W. G. Whitehead*

K.M. O'Neill, Director   D. W. G. Whitehead, Director

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

CONSOLIDATED STATEMENTS OF NET INCOME (LOSS)

For years ended December 31 (Canadian $ millions, except share and per share amounts)		2016		2015 (Restated Note 2d)
Revenue				
New equipment	$	**1,838**	$	2,190
Used equipment		**367**		341
Equipment rental		**226**		294
Product support		**3,182**		3,434
Other		**15**		16
Total revenue		**5,628**		6,275
Cost of sales		**(4,155)**		(4,634)
Gross profit		**1,473**		1,641
Selling, general, and administrative expenses		**(1,280)**		(1,369)
Impairment loss on distribution network and goodwill (Note 20)		**—**		(338)
Equity earnings of joint venture and associate (Note 15)		**5**		5
Other income (Note 5)		**5**		8
Other expenses (Note 5)		**(38)**		(52)
Earnings (loss) before finance costs and income taxes		**165**		(105)
Finance costs (Note 6)		**(85)**		(85)
Income (loss) before provision for income taxes		**80**		(190)
(Provision for) recovery of income taxes (Note 13)		**(15)**		29
Net income (loss)	$	**65**	$	(161)

Earnings (loss) per share (Note 4)				
Basic	$	**0.38**	$	(0.94)
Diluted	$	**0.38**	$	(0.94)
Weighted average number of shares outstanding (Note 4)				
Basic		**168,095,109**		171,141,863
Diluted		**168,140,444**		171,141,863

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

CONSOLIDATED STATEMENTS OF COMPREHENSIVE (LOSS) INCOME

For years ended December 31 (Canadian $ millions)	2016	2015
Net income (loss)	$ 65	$ (161)
Other comprehensive (loss) income, net of income tax		
Items that may be subsequently reclassified to net income:		
Foreign currency translation adjustments	(118)	355
Foreign currency translation adjustments, reclassified to earnings (Note 5b)	—	(4)
Share of foreign currency translation adjustments of joint venture and associate (Note 15)	(14)	—
Unrealized gain (loss) on net investment hedges	48	(128)
Income tax expense on foreign currency translation adjustments and net investment hedges	—	(10)
Impact of foreign currency translation and net investment hedges, net of income tax	(84)	213
Unrealized loss on cash flow hedges	(1)	(6)
Realized loss on cash flow hedges, reclassified to earnings	1	10
Realized loss on cash flow hedges, reclassified to balance sheet	2	—
Income tax expense on cash flow hedges	(1)	(1)
Impact of cash flow hedges, net of income tax	1	3
Items that will not be subsequently reclassified to net income:		
Actuarial (loss) gain (Note 23)	(16)	77
Income tax recovery (expense) on actuarial (loss) gain	3	(15)
Actuarial (loss) gain, net of income tax	(13)	62
Total comprehensive (loss) income	$ (31)	$ 117

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

(Canadian $ millions, except number of shares)	Share Capital: Number of Shares	Share Capital: Amount	Contributed Surplus	Accumulated Other Comprehensive Income (Loss): Foreign Currency Translation and Gain (Loss) on Net Investment Hedges	Accumulated Other Comprehensive Income (Loss): Gain (Loss) on Cash Flow Hedges	Retained Earnings	Total
Balance, January 1, 2015	172,370,255	$ 583	$ 39	$ 114	$ (13)	$ 1,408	$ 2,131
Net loss	—	—	—	—	—	(161)	(161)
Other comprehensive income	—	—	—	213	3	62	278
Total comprehensive income (loss)	—	—	—	213	3	(99)	117
Issued on exercise of share options	44,343	1	—	—	—	—	1
Share option expense	—	—	7	—	—	—	7
Repurchase of common shares	(4,383,170)	(14)	(46)	—	—	(31)	(91)
Dividends on common shares	—	—	—	—	—	(124)	(124)
Adjustment for change in accounting policy (Note 18a)	—	—	—	—	9	—	9
Balance, December 31, 2015	168,031,428	$ 570	$ —	$ 327	$ (1)	$ 1,154	$ 2,050
Net income	—	—	—	—	—	65	65
Other comprehensive (loss) income	—	—	—	(84)	1	(13)	(96)
Total comprehensive (loss) income	—	—	—	(84)	1	52	(31)
Issued on exercise of share options	135,774	3	(3)	—	—	—	—
Share option expense	—	—	5	—	—	—	5
Dividends on common shares	—	—	—	—	—	(123)	(123)
Balance, December 31, 2016	168,167,202	$ 573	$ 2	$ 243	$ —	$ 1,083	$ 1,901

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

CONSOLIDATED STATEMENTS OF CASH FLOW

For years ended December 31 (Canadian $ millions)	**2016**	2015
OPERATING ACTIVITIES		
Net income (loss)	**$ 65**	$ (161)
Adjusting for:		
Depreciation and amortization	**192**	231
Gain on disposal of rental equipment and property, plant, and equipment	**(3)**	(34)
Impairment of distribution network and goodwill (Note 20)	**—**	338
Impairment of long-lived assets (Note 16)	**20**	26
Mark-to-market adjustment on investment (Note 5a)	**(5)**	—
Gain on disposal of subsidiary (Note 5b)	**—**	(8)
Equity earnings of joint venture and associate	**(5)**	(5)
Share-based payment expense (Note 10)	**24**	1
Provision for (recovery of) income taxes	**15**	(29)
Finance costs	**85**	85
Defined benefit and other post-employment benefit expense (Note 23)	**13**	17
Changes in operating assets and liabilities (Note 24)	**196**	76
Additions to rental equipment	**(170)**	(231)
Proceeds on disposal of rental equipment	**147**	207
Interest paid	**(77)**	(73)
Income tax paid	**(57)**	(61)
Cash flow provided by operating activities	**440**	379
INVESTING ACTIVITIES		
Additions to property, plant, and equipment and intangible assets, and distribution network	**(92)**	(76)
Proceeds on disposal of property, plant, and equipment	**22**	22
Proceeds on disposal of subsidiary	**8**	15
Net payment for acquisitions (Note 25)	**—**	(243)
Decrease (increase) in short-term investments	**22**	(24)
Cash flow used in investing activities	**(40)**	(306)
FINANCING ACTIVITIES		
(Decrease) increase in short-term debt	**(115)**	110
Decrease in long-term debt	**(12)**	(1)
Finance lease payments	**(5)**	—
Debt issuance costs	**—**	(1)
Repurchase of common shares	**—**	(91)
Dividends paid	**(123)**	(124)
Cash flow used in financing activities	**(255)**	(107)
Effect of currency translation on cash balances	**(27)**	59
Increase in cash and cash equivalents	**118**	25
Cash and cash equivalents, beginning of year	**475**	450
Cash and cash equivalents, end of year (Note 24)	**$ 593**	$ 475

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

1. General Information

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

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

These consolidated financial statements of Finning and its subsidiaries (together, the "Company") have been prepared in accordance with International Financial Reporting Standards (IFRS) issued and effective as of February 15, 2017, the date these financial statements were authorized for issuance by the Company's Board of Directors. The Company has applied the same accounting policies consistently to all periods presented unless otherwise noted.

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

Certain of the Company's accounting policies that relate to the financial statements as a whole, as well as estimates and judgments it has made and how they affect the amounts reported in the consolidated financial statements, are incorporated in this section. This note also describes new standards, amendments or interpretations that are effective and applied by the Company during 2016 or are not yet effective. Where an accounting policy, estimate, or judgment is applicable to a specific note to the accounts, it is described within that note.

These consolidated financial statements were prepared under the historical cost basis except for derivative financial instruments, investments in equity securities, short-term investments, contingent consideration, and liabilities for share-based payment arrangements, which have been measured at fair value. Also, certain properties and rental equipment that are impaired have been written down to their fair value.

(a) Principles of Consolidation

Accounting Policy

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

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

Name	Principal place of business	% ownership	Functional currency [1]
Finning (UK) Ltd	United Kingdom	100%	GBP
Finning Chile S.A.	Chile	100%	USD
Finning Argentina S.A.	Argentina	100%	USD
Finning Soluciones Mineras S.A.	Argentina	100%	USD
Moncouver S.A.	Uruguay	100%	USD
Finning Bolivia S.A.	Bolivia	100%	USD
OEM Remanufacturing Company Inc.	Canada	100%	CAD
Finning (Ireland) Limited	Republic of Ireland	100%	EUR

[1] Canadian dollar (CAD), United States dollar (USD), U.K. pound sterling (GBP), Euro (EUR)

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

(b) Foreign Currency Translation

Accounting Policy

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

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

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

- Assets and liabilities are translated using the exchange rates in effect at the statement of financial position dates;
- Revenue and expense items are translated at average exchange rates prevailing during the period that the transactions occurred; and
- Foreign currency translation adjustments and gains and losses on net investment hedges are reported within other comprehensive income. Cumulative foreign currency translation adjustments, net of gains and losses on net investment hedges, are recognized in net income upon the disposal of a foreign operation (i.e. a disposal of the Company's entire interest in a foreign operation, or a disposal that involves loss of control of a subsidiary that includes a foreign operation, loss of joint control over a jointly controlled entity that includes a foreign operation, or loss of significant influence over an associate that includes a foreign operation).

The Company has hedged some of its investments in foreign subsidiaries using foreign currency denominated borrowings. Foreign exchange gains or losses arising from the translation of these hedging instruments are accounted for as items of other comprehensive income and presented on the consolidated statement of financial position. Foreign exchange gains or losses arising from net investment hedging instruments are recognized in net income upon the disposal of a foreign operation. See Note 7 for further details on the Company's hedge accounting policy.

Areas of Significant Judgment

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

(c) Revenue Recognition

Accounting Policy

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

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

- Revenue from sales of equipment is recognized at the time title to the equipment and significant risks and rewards of ownership passes to the customer, which is generally at the time of shipment of the product to the customer;
- Revenue from equipment rentals and operating leases is recognized in accordance with the terms of the relevant agreement with the customer, either evenly over the term of that agreement or on a usage basis such as the number of hours that the equipment is used;
- Revenue from product support includes sales of parts and servicing of equipment. For sales of parts, revenue is recognized when the part is shipped to the customer or when the part is installed in the customer's equipment. For servicing of equipment, revenue is recognized as the service work is performed. Product support is also offered to customers in the form of long-term maintenance and repair contracts. For these contracts, revenue is recognized on a basis proportionate to the service work that has been performed based on the parts and labour service provided. Parts revenue is recognized based on parts list price and service revenue is recognized based on standard billing labour rates. If it is expected that the overall contract will incur a loss, this loss is recognized immediately in the income statement. Periodically, amounts are received from customers under long-term contracts in advance of the associated contract work being performed. These amounts are recorded on the consolidated statement of financial position as deferred revenue; and,
- The revenue recognition accounting policy for power and energy system contracts with customers is described in Note 12.

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

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

Areas of Estimation Uncertainty

Long-Term Contracts

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

Repurchase Commitments

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

Areas of Significant Judgment

Rental Purchase Options

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

(d) Changes in Accounting Policies

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 has concluded that certain cost recoveries are better reflected as revenues. The impact of these reclassifications on each respective line item for the 2015 comparative period is as follows:

For year ended December 31, 2015 ($ millions)		
Increase in revenue	$	85
Increase in cost of sales	$	(258)
Decrease on gross profit	$	(173)
Decrease in selling, general, and administrative expenses	$	173

This change in presentation does not affect the Company's consolidated statement of financial position, earnings (loss) before finance costs and income taxes, net income (loss), cash flow, or earnings (loss) per share.

(e) Amendments to Standards

The Company has adopted the following amendments to standards:

- Amendments to IAS 19, *Employee Benefits* (effective January 1, 2016) clarify that the high quality corporate bonds used in estimating the discount rate for post-employment employee benefits should be denominated in the same currency as the benefits to be paid. This amendment did not have an impact on the Company's consolidated financial statements.
- Amendments to IAS 1, *Presentation of Financial Statements* (effective January 1, 2016) are designed to encourage companies to apply professional judgment in determining what information to disclose in their financial statements. For example, the amendments make clear that materiality applies to the whole of the financial statements and that the inclusion of immaterial information can inhibit the usefulness of financial disclosures. The Company's consolidated financial statements have been prepared to include only those disclosures which are considered material.

(f) Future Accounting Pronouncements

The Company has not applied the following new standards and IFRS Interpretations Committee Interpretation (IFRIC) that have been issued but are not yet effective:

- IAS 7, *Statement of Cash Flows* (effective January 1, 2017) introduces new requirements to disclose changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash flows. Management will provide additional disclosures beginning with the Company's interim condensed consolidated financial statements ended March 31, 2017.
- IFRS 9, *Financial Instruments* (effective January 1, 2018) introduces new requirements for the classification and measurement of financial assets and financial liabilities, impairment of financial assets, and hedge accounting. Management is currently assessing the impact of the new standard on its consolidated financial statements.
- IFRS 15, *Revenue from Contracts with Customers* (effective date January 1, 2018) outlines a single comprehensive model for companies to use in accounting for revenue arising from contracts with customers. Management is currently assessing the impact of the new standard on its consolidated financial statements.
- IFRIC 22, *Foreign Currency Transactions and Advance Consideration* (effective January, 1, 2018) clarifies the appropriate exchange rate to use on initial recognition of an asset, expense or income when advance consideration is paid or received in a foreign currency. Management expects this IFRIC may change the exchange rate used to translate deposits made on inventory purchases or advances received for revenue in a foreign currency. The impact on the initial measurement of inventory and revenue would depend on the movements in exchange rates.
- IFRS 16, *Leases* (effective January 1, 2019) introduces new requirements for the classification and measurement of leases. Management is currently assessing the impact of the new standard on its consolidated financial statements.

3. SEGMENTED INFORMATION

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

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

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

- Canadian operations: British Columbia, Alberta, Saskatchewan, Yukon, the Northwest Territories, and a portion of Nunavut.
- South American operations: Chile, Argentina, and Bolivia.
- UK & Ireland operations: England, Scotland, Wales, Northern Ireland, and the Republic of Ireland.
- Other: corporate head office.

Revenue, results, and other information by reporting segment

For year December 31, 2016 ($ millions)	Canada	South America	UK & Ireland	Other	Consolidated
Revenue from external sources	$ 2,821	$ 1,857	$ 950	$ —	$ 5,628
Operating costs	(2,609)	(1,658)	(927)	(49)	(5,243)
Depreciation and amortization	(100)	(62)	(30)	—	(192)
Equity earnings (loss) of joint venture and associate	8	—	—	(3)	5
Other income	—	—	—	5	5
Other expenses	(33)	—	(5)	—	(38)
Earnings (loss) before finance costs and income taxes	$ 87	$ 137	$ (12)	$ (47)	$ 165
Finance costs					(85)
Provision for income taxes					(15)
Net income					$ 65
Invested capital [(1)]	$ 1,595	$ 996	$ 216	$ (10)	$ 2,797
Total assets	$ 2,237	$ 2,011	$ 556	$ 106	$ 4,910
Capital and rental equipment [(2)]	$ 562	$ 354	$ 120	$ 4	$ 1,040
Gross capital expenditures [(3)]	$ 35	$ 50	$ 4	$ 3	$ 92
Gross rental asset expenditures [(3)]	$ 111	$ 43	$ 31	$ —	$ 185

(1) Refer to Note 8 for the calculation of invested capital
(2) Capital includes property, plant and equipment, and intangibles
(3) Includes finance leases and borrowing costs capitalized and excludes additions through business acquisitions

For year December 31, 2015 (Restated - Note 2d) ($ millions)	Canada	South America	UK & Ireland	Other	Consolidated
Revenue from external sources	$ 3,126	$ 2,067	$ 1,082	$ —	$ 6,275
Operating costs	(2,865)	(1,832)	(1,045)	(30)	(5,772)
Depreciation and amortization	(121)	(82)	(28)	—	(231)
Impairment loss on goodwill and distribution network	—	(324)	(14)	—	(338)
Equity earnings of joint venture and associate	4	—	—	1	5
Other income	—	—	—	8	8
Other expenses	(46)	(3)	—	(3)	(52)
Earnings (loss) before finance costs and income taxes	$ 98	$ (174)	$ (5)	$ (24)	$ (105)
Finance costs					(85)
Recovery of income taxes					29
Net loss					$ (161)
Invested capital [1]	$ 1,760	$ 1,122	$ 321	$ 37	$ 3,240
Total assets	$ 2,370	$ 1,991	$ 671	$ 76	$ 5,108
Capital and rental equipment [2]	$ 662	$ 358	$ 147	$ —	$ 1,167
Gross capital expenditures [3]	$ 30	$ 43	$ 6	$ —	$ 79
Gross rental asset expenditures [3]	$ 192	$ 25	$ 35	$ —	$ 252

(1) Refer to Note 8 for the calculation of invested capital
(2) Capital includes property, plant and equipment, and intangibles
(3) Includes finance leases and borrowing costs capitalized and excludes additions through business acquisitions

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

	Revenues Year ended December 31		**Non-current assets As at December 31**	
($ millions)	**2016**	2015	**2016**	2015
Canada	**$ 2,821**	$ 3,126	**$ 879**	$ 997
Chile	**$ 1,394**	$ 1,569	**$ 290**	$ 268
United Kingdom	**$ 948**	$ 1,030	**$ 169**	$ 211
Argentina	**$ 373**	$ 332	**$ 92**	$ 88
Other countries	**$ 92**	$ 218	**$ 28**	$ 26

(4) Non-current assets exclude deferred tax assets

4. Earnings Per Share

Accounting Policy

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

For year ended December 31, 2016 ($ millions, except share and per share amounts)	Income	Shares	EPS
Basic EPS:			
Net income, weighted average shares outstanding, EPS	**$ 65**	**168,095,109**	**$ 0.38**
Effect of dilutive securities: share options	**—**	**45,335**	**—**
Diluted EPS:			
Net income and assumed conversions	**$ 65**	**168,140,444**	**$ 0.38**
For year ended December 31, 2015			
Basic EPS:			
Net loss, weighted average shares outstanding, EPS	$ (161)	171,141,863	$ (0.94)
Diluted EPS:			
Net loss and assumed conversions	$ (161)	171,141,863	$ (0.94)

Share options granted to employees of 5 million (2015: 4 million) are anti-dilutive and are excluded from the weighted average number of ordinary shares for the purpose of calculating diluted earnings per share.

5. Other Income and Other Expenses

For years ended December 31 ($ millions)		2016		2015
Mark-to-market adjustment on investment (a)	**$**	**5**	$	—
Gain on sale of Uruguay dealership (b)		**—**		8
Total other income	**$**	**5**	$	8

(a) The Company recognized a gain of $5 million in other income related to the mark-to-market adjustment for its investment in IronPlanet Holdings, Inc.

(b) On December 1, 2015, the Company sold the shares of its wholly owned subsidiary, Finning Uruguay S.A. (Uruguay dealership) for proceeds of $22 million and received $11 million for the settlement of a payable due to Finning Chile S.A. The sale resulted in a gain of approximately $8 million, including a $4 million reclassification of foreign cumulative translation gains to earnings.

For years ended December 31 ($ millions)		2016		2015
Impairment loss on long-lived assets (c)	**$**	**(20)**	$	(24)
Provision for onerous contracts and restructuring costs (c)		**(13)**		(25)
Write-down of net assets (d)		**(5)**		—
Acquisition costs (Note 25)		**—**		(3)
Total other expenses	**$**	**(38)**	$	(52)

(c) As part of the actions taken by the Company to reduce costs, the Company reduced its global workforce and exited a number of facilities, primarily in its Canadian operations. The Company recognized impairment losses related to exited properties (Note 16) and provisions for any unavoidable costs from exited properties that are under an operating lease and for expenditures related to the Company's restructuring plans.

(d) Following a strategic review of the Company's operations in the UK, 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 U.K. The Company recorded a charge of approximately $5 million, representing the write-down of net assets and other costs related to the sale of this business which occurred in August 2016 in the UK & Ireland reporting segment.

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

December 31 ($ millions)	2016	2015
Short-term debt	**$ 2**	$ 117
Long-term debt		
6.02%, $350 million, due June 1, 2018	**350**	350
3.232%, $200 million, due July 3, 2020	**199**	199
5.077% $150 million, due June 13, 2042	**149**	149
3.98% U.S. $100 million, due January 19, 2022, Series A	**134**	138
4.08% U.S. $100 million, due January 19, 2024, Series B	**134**	138
4.18% U.S. $50 million, due April 3, 2022, Series C	**67**	69
4.28% U.S. $50 million, due April 3, 2024, Series D	**67**	69
4.53% U.S. $200 million, due April 3, 2027, Series E	**268**	276
3.40% £70 million, due May 22, 2023, Series F	**116**	142
Other term loans (a)	**3**	18
Total long-term debt	**1,487**	1,548
Non-current portion of long-term debt	**$ 1,487**	$ 1,548

(a) Other term loans also include $3 million (£2 million) (2015: £2 million) of unsecured term loans primarily from supplier merchandising programs.

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

Short-Term Debt

In 2016, short-term debt comprises foreign currency denominated unsecured term loans from supplier merchandising programs of $2 million (U.S. $1 million) that mature within one year (2015: $8 million (U.S. $6 million)).

The Company's principal source of short-term funding is its access to a syndicated committed credit facility. The Company also maintains a maximum authorized commercial paper program of $600 million, backstopped by credit available under the $1.0 billion committed credit facility. There was no commercial paper outstanding at December 31, 2016 (2015: $109 million). In addition, the Company maintains certain other committed and uncommitted bank credit facilities, including overdrafts and letters of credit, to support its subsidiary operations.

The average interest rate applicable to the consolidated short-term debt for 2016 was 1.7% (2015: 1.4%).

Long-Term Debt

The Company's Canadian dollar denominated Medium Term Notes (MTN) are unsecured, and interest is payable semi-annually with the principal due on maturity. At December 31, 2016, no amounts were drawn on the global credit facility (2015: $14 million).

The average interest rate applicable to the consolidated long-term debt for 2016 and 2015 was 4.5%.

Long-Term Debt Repayments

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

December 31 ($ millions)		
2017	**$**	**—**
2018		**350**
2019		**—**
2020		**200**
2021		**—**
Thereafter		**937**
	$	**1,487**

Finance Costs

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

For years ended December 31 ($ millions)		**2016**		2015
Interest on short-term debt	**$**	**1**	$	2
Interest on long-term debt		**68**		67
Interest on debt securities		**69**		69
Net interest cost on post-employment benefit obligations (Note 23)		**1**		5
Other finance related expenses		**15**		11
Finance costs	**$**	**85**	$	85

7. Financial Instruments

Finning and its subsidiaries are exposed to market, credit, liquidity, and other risks in the normal course of their business activities. The Company's Enterprise Risk Management (ERM) process is designed to ensure that such risks are identified, managed, and reported. This ERM framework assists the Company in managing business activities and risks across the organization in order to achieve the Company's strategic objectives. The Company is dedicated to a strong risk management culture to protect and enhance shareholder value. On a quarterly basis, the Audit Committee reviews the Company's process with respect to risk assessment and management of key risks, including the Company's major financial risks and exposures and the steps taken to monitor and control such exposures. Changes to the key risks are reviewed by the Audit Committee. The Audit Committee also reviews the adequacy of disclosures of key risks in the Company's Annual Information Form, Management's Discussion and Analysis, and Consolidated Financial Statements.

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

(a) Financial Assets and Credit Risk

Accounting Policy

Classification and measurement

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

Financial assets that are measured at amortized cost are assessed for impairment at the end of each reporting period. For certain categories of financial assets, such as trade receivables, that are considered not to be impaired individually are also assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Company's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period, as well as observable changes in national or local economic conditions that correlate with default on receivables. The carrying amount of trade receivables, is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognized in net income. When the Company is satisified that no recovery of the amount owing is possible; at that point the amount is considered not recoverable and the financial asset is written off.

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

Areas of Estimation Uncertainty

Allowance for Doubtful Accounts

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

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

Exposure to Credit Risk

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

December 31 ($ millions)	**2016**	2015
Cash and cash equivalents	**$ 593**	$ 475
Accounts receivable – trade	**797**	725
Accounts receivable – other	**72**	112
Service work in progress	**101**	99
Supplier claims receivable	**88**	76
Instalment notes receivable	**37**	40
Short-term investment	**—**	23
Derivative assets	**1**	7
	$ 1,689	$ 1,557

Cash and Cash Equivalents, Derivatives, and Short-Term Investments

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

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

Accounts Receivable, Service Work in Progress, and Other Receivables

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

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

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

December 31 ($ millions)		2016		2015
Canada	**$**	**356**	$	313
Chile		**246**		209
U.K.		**72**		110
Argentina		**76**		66
Other		**47**		27
Total	**$**	**797**	$	725

Impairment Losses

The aging of trade receivables at the reporting date was:

December 31	**2016**				2015			
($ millions)		**Gross**		**Allowance**		Gross		Allowance
Not past due	**$**	**635**	**$**	**—**	$	528	$	—
Past due 1 – 30 days		**109**		**—**		134		—
Past due 31 – 90 days		**43**		**1**		53		1
Past due 91 – 120 days		**15**		**11**		10		2
Past due greater than 120 days		**32**		**25**		23		20
Total	**$**	**834**	**$**	**37**	$	748	$	23

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

For years ended December 31 ($ millions)		2016		2015
Balance, beginning of year	**$**	**23**	$	23
Additional allowance		**33**		11
Receivables written off		**(19)**		(14)
Foreign exchange translation adjustment		**—**		3
Balance, end of year	**$**	**37**	$	23

(b) Financial Liabilities and Liquidity Risk

Accounting Policy

Classification and measurement

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

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

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company's approach to managing liquidity is to ensure, as far as possible, that it will have sufficient liquid financial resources to fund its operations and meet its commitments and obligations. The Company maintains bilateral and syndicated bank credit facilities, continuously monitors actual and forecast cash flows, and manages maturity profiles of financial liabilities. At December 31, 2016, the Company had approximately $1.9 billion (2015: $1.9 billion) of unsecured credit facilities. Included in this amount is a committed global bank facility totalling $1.0 billion (2015: $1.0 billion) with various Canadian and other global financial institutions. At December 31, 2016, $1.0 billion (2015: $877 million) was available under this committed bank facility.

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

($ millions)	Carrying amount December 31, 2016	Contractual cash flows 2017	2018-2019	2020-2021	Thereafter
Non-derivative financial liabilities					
Short-term debt	$ (2)	$ (2)	$ —	$ —	$ —
Unsecured $700 million MTN	(698)	(35)	(389)	(222)	(156)
U.S. $500 million Notes	(670)	(29)	(57)	(57)	(763)
£70 million Notes	(116)	(4)	(8)	(8)	(122)
Other term loans	(3)	—	(1)	(1)	(2)
Finance lease obligations	(39)	(7)	(14)	(17)	(14)
Accounts payable and accruals (excluding current portion of finance lease obligations)	(941)	(941)	—	—	—
Total non-derivative financial liabilities	$ (2,469)	$ (1,018)	$ (469)	$ (305)	$ (1,057)
Derivative financial assets (liabilities)					
Forward foreign currency contracts and swaps					
Sell CAD	$ 1	$ (111)	$ —	$ —	$ —
Buy USD	—	112	—	—	—
Sell USD	—	(2)	—	—	—
Buy CAD	—	2	—	—	—
Sell CLP [1]	—	(52)	—	—	—
Buy USD	—	51	—	—	—
Total derivative assets	$ 1	$ —	$ —	$ —	$ —

[1] Chilean peso (CLP)

(c) Hedging and Market Risk

Accounting Policy

Hedges

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

The Company determines whether or not to formally designate, for accounting purposes, eligible hedging relationships between hedging instruments and hedged items. This process includes linking derivatives to specific risks from assets or liabilities on the statement of financial position or specific firm commitments or forecasted transactions. For hedges designated as such for accounting purposes, the Company documents and formally assesses, both at inception and on an ongoing basis, whether the hedging instrument is highly effective in offsetting changes in fair value or cash flows associated with the identified hedged items. When derivative instruments have been designated as a hedge and are highly effective in offsetting the identified hedged risk, hedge accounting is applied to the derivative instruments. The ineffective portion of hedging gains and losses of highly effective hedges is reported in net income.

Cash Flow Hedges

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

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

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

Net Investment Hedges

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

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

Foreign Exchange Risk

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

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

Translation Exposure

The most significant foreign exchange impact on the Company's net income and other comprehensive income is the translation of foreign currency based earnings and net assets or liabilities into Canadian dollars, which is the Company's presentation currency. The Company's South American and UK & Ireland operations have functional currencies other than the CAD and, as a result, exchange rate movements between the USD/CAD and GBP/CAD will impact the consolidated results of the South American and UK & Ireland operations in CAD terms. The Company does not hedge its exposure to foreign exchange risk with regard to foreign currency earnings.

Assets and liabilities of the Company's South American and UK & Ireland operations are translated into CAD using the exchange rates in effect at the statement of financial position dates. Any translation gains and losses are recorded as foreign currency translation adjustments in other comprehensive income. To the extent practical, it is the Company's objective to manage this exposure. The Company has hedged a portion of its foreign investments with foreign currency denominated loans.

The fair value of the Company's long-term debt that is designated as net investment hedging instruments is $839 million (2015: $813 million).

Transaction Exposure

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

The results of the Company's operations are impacted by the translation of its foreign denominated transactions; the results of the Canadian operations are impacted by USD based revenue and costs and the results of the South American operations are impacted by CLP and ARS based revenues and costs.

The Company is also exposed to foreign currency risks related to the future cash flows on its foreign denominated financial assets and financial liabilities and foreign denominated net asset or net liability positions on its statement of financial position. The Company enters into forward exchange contracts to manage some mismatches in foreign currency cash flows but does not fully hedge balance sheet exposure so this may result in unrealized foreign exchange gains or losses until the financial assets and financial liabilities are settled.

The fair value of derivative instruments designated as cash flow hedging instruments is less than $1 million (2015: $2 million).

Exposure to Foreign Exchange Risk

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

December 31, 2016 (millions)	**CAD**	**USD**	**GBP**	**CLP**	**ARS**
Cash and cash equivalents	**91**	**216**	**40**	**62,084**	**67**
Accounts receivable	**277**	**158**	**46**	**107,381**	**—**
Short-term and long-term debt	**(698)**	**(500)**	**(72)**	**—**	**—**
Accounts payable and accruals	**(241)**	**(346)**	**(68)**	**(34,614)**	**(273)**
Net statement of financial position exposure	**(571)**	**(472)**	**(54)**	**134,851**	**(206)**

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

Sensitivity Analysis to Foreign Exchange Risk

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

December 31, 2016 ($ millions)	**Weakening of CAD**	**Pre-tax Income (Loss)**	**Other Comprehensive Loss**
CAD/USD	**20%**	**$ 12**	**$ (121)**
CAD/GBP	**30%**	**$ —**	**$ (35)**
CAD/CLP	**10%**	**$ 27**	**$ —**
CAD/ARS	**15%**	**$ (3)**	**$ —**

A strengthening of the CAD against the above currencies relative to the December 31, 2016 month end rates would have an equivalent but opposite effect on the above accounts in the amounts shown on the basis that all other variables are unchanged.

Interest Rate Risk

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

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

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

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

The Company manages its interest rate risk by balancing its portfolio of fixed and floating rate debt, as well as managing the term to maturity of its debt portfolio.

Profile

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

December 31 ($ millions)		**2016**		2015
Fixed rate instruments				
Financial assets	**$**	**37**	$	40
Financial liabilities	**$**	**(1,526)**	$	(1,566)
Variable rate instruments				
Financial assets	**$**	**593**	$	475
Financial liabilities	**$**	**(2)**	$	(135)

Fair Value Sensitivity Analysis for Fixed Rate Instruments

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

Pre-tax Income Sensitivity Analysis for Variable Rate Instruments

The Company's variable rate instruments are in a net asset position; therefore, an increase of 1.0% in interest rates for a full year relative to the interest rates at the reporting date would have increased income by approximately $6 million with a 1.0% decrease having the opposite effect. This analysis assumes that all other variables, in particular foreign currency exchange rates, remain constant.

(d) Fair Values

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

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

The Company's only financial instruments measured at fair value are derivative instruments, short-term investments, investments in equity securities, and contingent consideration. All of the derivative instruments are measured at fair value using Level 2 inputs. Investments in equity securities and contingent consideration are measured at fair value using Level 3 inputs. The Company did not move any instruments between levels of the fair value hierarchy during the years ended December 31, 2016 and 2015.

Derivative Instruments (Level 2)

The fair value of foreign currency forward contracts is determined by discounting contracted future cash flows using a discount rate derived from interest rate curves and observed forward prices for comparable assets and liabilities.

The fair values of other derivative instruments and short-term investments are determined using present value techniques applied to estimated future cash flows. These techniques utilize a combination of quoted prices and market observable inputs.

Where appropriate, fair values are adjusted for credit risk based on observed credit default spreads or market yield spreads for counterparties for financial assets and based on the Company's credit risk when for financial liabilities. The Company's credit risk is derived from yield spreads on the Company's market quoted debt.

Investments in Equity Securities and Contingent Consideration (Level 3)

The fair value of the investment in IronPlanet Holdings, Inc. of $5 million is estimated using the price that the Company expects to receive to sell these shares to a market participant. There is no quoted price on an active market for similar assets.

The fair value of the contingent consideration of $4 million (£2 million) was estimated by discounting cash flows based on the probability-adjusted profit in an acquired business.

Long-Term Debt

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

December 31	**2016**		2015	
($ millions)	**Carrying Value**	**Fair Value**	Carrying Value	Fair Value
Long-term debt	**$ 1,487**	**$ 1,562**	$ 1,548	$ 1,578

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

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

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

8. Management of Capital

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

The Company manages its capital structure and makes adjustments to it in light of actual and forecast cash flows, actual and anticipated capital expenditures and investments, changes in economic conditions and the risk characteristics of its underlying assets. In order to maintain or adjust the capital structure, the Company may purchase shares for cancellation pursuant to normal course issuer bids, issue new shares, issue new debt, repay debt, issue new debt to replace existing debt with different characteristics, or adjust the amount of dividends paid to shareholders. In 2016, the Company renewed its normal course issuer bid (NCIB) to purchase its common shares for cancellation. During 2016, the Company did not repurchase any Finning common shares (2015: repurchased 4.4 million Finning common shares for cancellation at an average price of $20.75 per share).

The Company monitors net debt to invested capital. The Company's target range at December 31, 2016 is shown below. The Company's strategy is to meet target ranges over a longer-term average basis. The 2016 net debt to invested capital ratio is below the target range due to significant cash generation during the year.

As at and for years ended December 31	Company Targets	2016	2015
Net debt to invested capital	**35 – 45%**	**32.0%**	36.7%

Net debt to invested capital is calculated as net debt divided by invested capital. Net debt is calculated as short-term and long-term debt, net of cash. Invested capital is net debt plus all components of shareholders' equity (share capital, contributed surplus, accumulated other comprehensive income, and retained earnings). Invested capital is also calculated as total assets less total liabilities, excluding net debt.

December 31 ($ millions)	2016	2015
Cash and cash equivalents	**$ (593)**	$ (475)
Short-term debt	**2**	117
Long-term debt	**1,487**	1,548
Net debt	**896**	1,190
Shareholders' equity	**1,901**	2,050
Invested capital	**$ 2,797**	$ 3,240

Covenant

The Company is subject to a maximum net debt to invested capital level of 62.5% pursuant to a covenant within its syndicated bank credit facility. As at December 31, 2016 and 2015, the Company is in compliance with this covenant.

9. SHARE CAPITAL

Accounting Policy

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

The Company is authorized to issue an unlimited number of preferred shares without par value, of which 4.4 million are designated as cumulative redeemable convertible preferred shares. The Company had no preferred shares outstanding for the years ended December 31, 2016 and 2015.

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

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

The 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 the shareholders prior to that time. The Company intends to seek shareholder approval at its 2017 Annual 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 Meeting.

The rights 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 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.

10. SHARE-BASED PAYMENTS

Accounting Policy

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

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

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

Areas of Estimation Uncertainty

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

In 2016 and 2015, long-term incentives for executives and senior management were a combination of share options, performance share units, restricted share units, and deferred share units.

Share Options

The Company has one share option plan for certain employees. Options granted under the plan vest over a three-year period and are exercisable over a seven-year period. The exercise price of each option is based on the weighted average trading price of the common shares of the Company on the date prior to the grant. Under the Stock Option Plan, the Company may issue up to 7.5 million common shares pursuant to the exercise of share options. At December 31, 2016, 1,479,246 common shares remain eligible to be issued in connection with future grants.

In 2016, the Company granted 515,840 common share options to senior executives and management of the Company (2015: 1,618,180 common share options). The Company only grants and prices share options when all material information has been disclosed to the market.

Under the Stock Option Plan, exercises generally utilize the cashless method, whereby the actual number of shares issued is based on the premium between the fair value at the time of exercise and the grant value, and the equivalent value of the number of options up to the grant value is withheld. 636,091 options were exercised in 2016 resulting in 135,774 common shares being issued; 500,317 options were withheld and returned to the option pool for future issues/grants.

Details of the share option plans are as follows:

For years ended December 31	**2016** Options		**2016** Weighted Average Exercise Price	2015 Options		2015 Weighted Average Exercise Price
Options outstanding, beginning of year	**5,170,689**	**$**	**24.78**	4,225,873	$	24.65
Granted	**515,840**	**$**	**22.05**	1,618,180	$	25.33
Exercised	**(636,091)**	**$**	**18.44**	(139,880)	$	15.57
Forfeited	**(485,644)**	**$**	**26.28**	(294,284)	$	26.13
Expired	**(923)**	**$**	**24.25**	(239,200)	$	29.83
Options outstanding, end of year	**4,563,871**	**$**	**25.20**	5,170,689	$	24.78
Exercisable, end of year	**2,829,646**	**$**	**25.32**	2,567,826	$	23.78

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

		2016 Grant		2015 Grant
Dividend yield		**2.55%**		2.33%
Expected volatility [1]		**30.56%**		29.09%
Risk-free interest rate		**0.76%**		1.16%
Expected life		**5.45 years**		5.39 years
Share price	**$**	**22.05**	$	25.33

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

The weighted average grant date fair value of options granted during the year was $4.69 (2015: $5.42).

The following table summarizes information about share options outstanding at December 31, 2016:

Range of exercise prices	**Options Outstanding** Number outstanding	**Options Outstanding** Weighted Average Remaining Life		**Options Outstanding** Weighted Average Exercise Price	**Options Exercisable** Number outstanding		**Options Exercisable** Weighted Average Exercise Price
$17.43 - $22.08	**923,403**	**5.01 years**	**$**	**21.78**	**424,287**	**$**	**21.84**
$22.09 - $24.97	**579,067**	**3.34 years**	**$**	**22.39**	**579,067**	**$**	**22.39**
$24.98 - $25.47	**1,373,097**	**5.36 years**	**$**	**25.44**	**450,810**	**$**	**25.44**
$25.48 - $28.73	**844,727**	**2.58 years**	**$**	**26.42**	**812,427**	**$**	**26.43**
$28.74 - $32.38	**843,577**	**4.39 years**	**$**	**29.24**	**563,055**	**$**	**29.24**
	4,563,871	**4.34 years**	**$**	**25.20**	**2,829,646**	**$**	**25.32**

Other Share-Based Payment Plans

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

Details of the plans are as follows:

Directors

Directors' Deferred Share Unit (DDSU) Plan A

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

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

Non-employee Directors of the Company were granted a total of 49,839 share units in 2016 (2015: 36,451 share units), and expensed over the calendar year as the units were issued. An additional 31,416 (2015: 28,133) DDSUs were issued in lieu of cash compensation payable for service as a Director. A further 9,968 (2015: 9,310) DDSUs were granted to Directors during 2016 as payment for notional dividends.

Executive

Executive Deferred Share Unit (Exec DSU) Plan

Under the Exec DSU Plan, executives of the Company may elect to have all or a portion of their annual bonus issued in the form of deferred share units. The Exec DSU Plan utilizes notional units that become fully vested at the time of issuance. Vested deferred share units are redeemable for cash before December 15th of the year following the year employment with the Company ceases. Only vested units accumulate dividend equivalents in the form of additional units based on the dividends paid on the Company's common shares.

Executives were granted a total of 24,250 deferred share units in 2016 in lieu of their annual bonus payment and 794 deferred share units were issued as payment for notional dividends.

Deferred Share Unit (DSU-B) Plan B for Executives

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

During 2016, 7,987 (2015: 8,544) DSU-Bs were granted to executives as payment for notional dividends.

Performance Share Unit (PSU) Plan

Under the PSU Plan, executives of the Company may be awarded performance share units as approved by the Board of Directors. This plan utilizes notional units that vest upon achieving future specified performance levels. Vested units accumulate dividend equivalents in the form of additional units based on the dividends paid on the Company's common shares. All PSUs granted in 2016 and 2015 were divided equally into two categories. Half of the awards are based on the extent to which the Company's average return on invested capital achieves or exceeds the specified performance levels over a three-year period (ROIC PSUs). The remaining half of the awards is based on the performance of the Company's total shareholder return over the three-year period relative to the performance of the total shareholder return of all companies in the S&P/TSX Capped Industrials Index (TSR PSUs).

Vested performance share units are redeemable in cash based on the volume-weighted average price of the common shares at the end of the performance period. Executives of the Company were granted a total of 630,580 performance share units in 2016, based on 100% vesting (2015: 451,450 performance share units) and 8,000 dividend equivalent units were recorded in relation to the 2014 grant as the expected payout.

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

The specified levels and respective vesting percentages for the 2016 and 2015 grant are as follows:

TSR PSUs

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

ROIC PSUs

The specified levels and respective vesting percentages for the 2016 grant are as follows:

Performance Level	Average Return on Invested Capital (over three-year period)	Proportion of PSUs Vesting
Below Threshold	< 9.5%	Nil
Threshold	9.5%	50%
Target	12.5%	100%
Maximum	14% or more	200%

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

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

Restricted Share Unit Plan

In February 2016, the Board of Directors approved a new Restricted Share Unit (RSU) Plan for executives. This plan utilizes notional units that may become vested in accordance with terms set at the time of grant. All units accumulate dividend equivalents in the form of additional units based on the dividends paid on the Company's common shares.

Restricted share units that have vested are redeemable in cash based on the five-day volume-weighted average trading price of the Company's common shares at the end of the three-year period. During the year ended December 31, 2016, 271,455 units were granted to Executives and 5,934 notional units are issuable as payment for dividends upon vesting.

Details of the DSU, PSU, and RSU plans are as follows:

For year ended December 31, 2016 Units	**Exec DSU**	**DSU-B**	**DDSU**	**PSU**	**RSU**	**Total**
Outstanding, beginning of year	**—**	**272,742**	**277,143**	**163,444**	**—**	**713,329**
Additions [(1)]	**25,044**	**7,987**	**91,223**	**718,499**	**277,389**	**1,120,142**
Exercised	**(155)**	**(89,262)**	**—**	**—**	**—**	**(89,417)**
Forfeited	**—**	**—**	**—**	**(56,981)**	**(15,193)**	**(72,174)**
Outstanding, end of year	**24,889**	**191,467**	**368,366**	**824,962**	**262,196**	**1,671,880**
Vested, beginning of year	**—**	**264,210**	**277,143**	**—**	**—**	**541,353**
Vested	**25,044**	**12,253**	**91,223**	**93,824**	**—**	**222,344**
Exercised	**(155)**	**(89,262)**	**—**	**—**	**—**	**(89,417)**
Vested, end of year	**24,889**	**187,201**	**368,366**	**93,824**	**—**	**674,280**
Liability ($ millions)						
Balance, beginning of year	**$ —**	**$ 5**	**$ 4**	**$ 2**	**$ —**	**$ 11**
Expensed	**1**	**1**	**4**	**11**	**2**	**19**
Exercised	**—**	**(2)**	**—**	**—**	**—**	**(2)**
Forfeited	**—**	**—**	**—**	**(1)**	**—**	**(1)**
Balance, end of year	**$ 1**	**$ 4**	**$ 8**	**$ 12**	**$ 2**	**$ 27**

For year ended December 31, 2015 Units	Exec DSU	DSU-B	DDSU	PSU	RSU	Total
Outstanding, beginning of year	—	273,587	313,324	521,566	—	1,108,477
Additions (decreases) [(1)]	—	8,544	73,885	(351,668)	—	(269,239)
Exercised	—	(9,389)	(110,066)	—	—	(119,455)
Forfeited	—	—	—	(6,454)	—	(6,454)
Outstanding, end of year	—	272,742	277,143	163,444	—	713,329
Vested, beginning of year	—	251,746	313,324	—	—	565,070
Vested	—	21,853	73,885	—	—	95,738
Exercised	—	(9,389)	(110,066)	—	—	(119,455)
Vested, end of year	—	264,210	277,143	—	—	541,353
Liability ($ millions)						
Balance, beginning of year	$ —	$ 6	$ 7	$ 7	$ —	$ 20
Recovery	—	(1)	—	(5)	—	(6)
Exercised	—	—	(3)	—	—	(3)
Balance, end of year	—	$ 5	$ 4	$ 2	$ —	$ 11

[(1)] There were no unit adjustments to decrease PSUs (based on the performance level) for the year ended December 31, 2016 (2015: 483,825 units).

The fair value of the DSUs, ROIC PSUs, and RSUs outstanding as at December 31 has been estimated using the following weighted-average assumptions:

December 31, 2016	**Exec DSU**	**DSU-B**	**DDSU**	**PSU**	**RSU**
Dividend yield	**2.79 %**	**2.79 %**	**2.67 %**	**2.98 %**	**2.98 %**
Expected volatility	**28.97 %**	**28.97 %**	**30.61 %**	**29.94 %**	**29.94 %**
Risk-free interest rate	**1.06 %**	**1.06 %**	**1.19 %**	**0.85 %**	**0.85 %**
Expected life	**4.66 years**	**4.66 years**	**5.58 years**	**3.00 years**	**3.00 years**
Share price at year-end	**$ 26.29**	**$ 26.29**	**$ 26.29**	**$ 26.29**	**$ 26.29**
Estimated fair value per unit at year end	**$ 23.08**	**$ 23.08**	**$ 22.65**	**$ 24.04**	**$ 24.04**

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

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

For years ended December 31 ($ millions)	**2016**	2015
Consolidated statement of income		
Compensation expense arising from equity-settled share option incentive plan	**$ 5**	$ 7
Compensation expense (recovery) arising from cash-settled share based payments	**19**	(6)
	$ 24	$ 1
Consolidated statement of financial position		
Current liability for cash-settled share-based payments	**$ 4**	$ —
Non-current liability for cash-settled share-based payments (to be incurred within 1-5 years) (Note 22)	**$ 23**	$ 11

The total intrinsic value of vested but not settled share-based payments was $18 million (2015: $10 million).

11. Inventories

Accounting Policy

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

Areas of Estimation Uncertainty

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

December 31 ($ millions)		**2016**		2015
On-hand equipment	**$**	**741**	$	930
Parts and supplies		**598**		660
Internal service work in progress		**262**		210
Total inventory	**$**	**1,601**	$	1,800

For the year ended December 31, 2016, on-hand equipment, parts, supplies, and internal service work in progress recognized as an expense in cost of sales amounted to $3.7 billion (2015: $4.1 billion (restated following the change in accounting presentation described in Note 2d)). For the year ended December 31, 2016, the write-down of inventories to net realizable value, included in cost of sales, amounted to $58 million (2015: $84 million).

12. Power and Energy Systems Contracts

Accounting Policy

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

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

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

December 31 ($ millions)		**2016**		2015
Aggregate of costs for contracts in progress	**$**	**170**	$	369
Aggregate of profits for contracts in progress	**$**	**19**	$	31
Advances from customers under power and energy systems contracts	**$**	**(13)**	$	(5)
Amounts due from customers under power and energy systems contracts	**$**	**51**	$	38
Retentions held by customers for contract work	**$**	**1**	$	2

For the year ended December 31, 2016, the amount of contract revenue recognized in the year was $137 million (2015: $154 million).

13. INCOME TAXES

Accounting Policy

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

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

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

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

Areas of Estimation Uncertainty

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

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

Areas of Significant Judgment

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

For year ended December 31, 2016 ($ millions)	**Canada**	**International**	**Total**
Current	**$ 8**	**$ 33**	**$ 41**
Adjustment for prior periods recognized in the current year	**(1)**	**(2)**	**(3)**
Total current tax	**7**	**31**	**38**
Deferred			
Origination and reversal of timing differences	**(13)**	**(14)**	**(27)**
Increase due to tax rate changes	**—**	**1**	**1**
Adjustment for prior periods recognized in the current year	**1**	**2**	**3**
Total deferred tax	**(12)**	**(11)**	**(23)**
(Recovery of) provision for income taxes	**$ (5)**	**$ 20**	**$ 15**

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

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

For years ended December 31 ($ millions)	**2016**		2015	
Combined Canadian federal and provincial income taxes at the statutory tax rate	**$ 21**	**26.8 %**	$ (50)	26.1 %
Increase (decrease) resulting from:				
Lower statutory rates on the earnings of foreign subsidiaries	**(7)**	**(8.4)%**	(3)	1.4 %
Income not subject to tax	**(3)**	**(3.8)%**	(3)	1.9 %
Changes in statutory tax rates	**1**	**1.0 %**	(10)	5.5 %
Non-deductible goodwill impairment loss	**—**	**—**	16	(8.1)%
Non-deductible share-based payment expense	**1**	**1.5 %**	2	(1.1)%
Recognition of capital tax losses	**(1)**	**(0.5)%**	(12)	6.4 %
Unrecognized intercompany profits	**1**	**0.5 %**	1	(0.3)%
Non-taxable/non-deductible foreign exchange in Argentina	**11**	**14.2 %**	25	(13.2)%
Inflationary adjustment	**(12)**	**(15.2)%**	—	—
Other	**3**	**2.9 %**	5	(2.9)%
Provision for (recovery of) income taxes	**$ 15**	**19.0 %**	$ (29)	15.7 %

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

- The U.K. government announced the reduction of the corporate tax rate from 20% to 19% effective April 1, 2017 and a further reduction to 17% effective April 1, 2020. These tax rate changes were substantially enacted in 2016.

Deferred Tax Asset and Liability

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

December 31 ($ millions)		2016		2015
Accounting provisions not currently deductible for tax purposes	**$**	**61**	$	56
Employee benefits		**17**		17
Share-based payments		**5**		1
Loss carry-forwards		**9**		6
Deferred tax assets		**92**		80
Property, plant and equipment, rental, leased, and other intangible assets		**(30)**		(45)
Distribution network		**(10)**		(9)
Other		**(5)**		(5)
Deferred tax liabilities		**(45)**		(59)
Net deferred tax asset	**$**	**47**	$	21

Deferred taxes are not recognized on retained profits of approximately $1.5 billion (2015: $1.6 billion) of foreign subsidiaries, as it is the Company's intention to invest these profits to maintain and expand the business of the relevant companies.

The Company has recognized the benefit of the following tax loss carry-forwards available to reduce future taxable income of which $34 million do not expire and $4 million expire between 2018 and 2020.

December 31 ($ millions)		2016		2015
International	**$**	**38**	$	22

As at December 31, 2016, the Company has unrecognized capital loss carry-forwards of $80 million to reduce future taxable income. These amounts do not expire.

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

For years ended December 31 ($ millions)		2016		2015
Current tax	**$**	**—**	$	10
Deferred tax		**(2)**		16
(Recovery of) provision for income taxes recognized in other comprehensive income	**$**	**(2)**	$	26

14. Other Assets

December 31 ($ millions)		2016		2015
Supplier claims receivable	**$**	**88**	$	76
Equipment deposits		**5**		28
Prepaid expenses		**46**		48
Finance assets (a)		**33**		35
Short-term investments		**—**		23
Value Added Tax receivable		**5**		11
Income tax recoverable		**20**		1
Derivative assets		**1**		7
Indemnification asset (b)		**6**		6
Other		**10**		14
Total other assets – current	**$**	**214**	$	249

December 31 ($ millions)		2016		2015
Deferred tax assets (Note 13)	**$**	**74**	$	58
Indemnification asset (b)		**28**		34
Prepaid expenses		**24**		29
Finance assets (a)		**16**		20
Other		**44**		7
Total other assets – non-current	**$**	**186**	$	148

(a) Finance assets include equipment leased to customers under long-term financing leases. Depreciation expense for equipment leased to customers of $11 million was recorded in 2016 (2015: $10 million). Depreciation expense is recognized in equal monthly amounts over the terms of the individual leases.

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

15. JOINT VENTURE AND ASSOCIATE

Accounting Policy

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

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

Nature of Relationships

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

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

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

December 31 Name of Venture	Type of Venture	Principal place of business/country of incorporation	Proportion of Ownership Interest Held 2016	 2015
PLM	Joint Venture	United States	25.0%	25.0%
Energyst	Associate	Netherlands	28.8%	28.8%

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

For year ended December 31, 2016 ($ millions)	**Energyst**	**PLM**	**Total**
Company's share of (loss) income	**$ (3)**	**$ 8**	**$ 5**
Company's share of other comprehensive loss	**(10)**	**(4)**	**(14)**
Carrying amount of the Company's interests in joint venture and associate	**$ 25**	**$ 63**	**$ 88**

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

16. Property, Plant and Equipment and Rental Equipment

Accounting Policy

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

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

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

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

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

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

Areas of Estimation Uncertainty

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

December 31, 2016 ($ millions)	Land	Buildings	Vehicles and Equipment	Total	Rental Equipment
Cost					
Balance, beginning of year	$ 89	$ 736	$ 346	$ 1,171	$ 750
Additions	2	24	20	46	153
Additions through business combinations (Note 25)	—	—	1	1	—
Transfers from inventory	—	—	—	—	31
Disposals	(7)	(17)	(17)	(41)	(288)
Foreign exchange rate changes	(4)	(21)	(10)	(35)	(35)
Balance, end of year	$ 80	$ 722	$ 340	$ 1,142	$ 611

December 31, 2016 ($ millions)	Land	Buildings	Vehicles and Equipment	Total	Rental Equipment
Accumulated depreciation and impairment losses					
Balance, beginning of year	$ (5)	$ (242)	$ (247)	$ (494)	$ (309)
Depreciation for the year	—	(28)	(32)	(60)	(96)
Disposals	1	9	9	19	141
Impairment loss	(6)	(12)	—	(18)	(2)
Foreign exchange rate changes	—	8	9	17	18
Balance, end of year	$ (10)	$ (265)	$ (261)	$ (536)	$ (248)

December 31, 2016 ($ millions)	Land	Buildings	Vehicles Equipment	Total	Rental Equipment
Net book value					
Balance, beginning of year	$ 84	$ 494	$ 99	$ 677	$ 441
Balance, end of year	$ 70	$ 457	$ 79	$ 606	$ 363

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

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

December 31, 2015 ($ millions)	Land	Buildings	Vehicles and Equipment	Total	Rental Equipment
Net book value					
Balance, beginning of year	$ 73	$ 491	$ 111	$ 675	$ 379
Balance, end of year	$ 84	$ 494	$ 99	$ 677	$ 441

Impairment losses

During the year ended December 31, 2016, the Company exited certain properties in its Canadian operations and made the decision to prepare certain properties for sale. These decisions prompted management to review these assets for impairment. In total, the Company recognized $20 million of impairment losses in other expenses (2015: $26 million, of which $24 million was recognized in other expenses and $2 million recognized in selling, general, administrative expenses). Land and buildings were written down by $18 million to management's best estimate of fair value less costs of disposal based on an independent valuation assessment. Rental equipment was written down by $2 million to management's best estimate of its fair value less costs of disposal based on internal equipment expertise and knowledge of market characteristics and the type, condition, and age of equipment. These valuations utilize unobservable inputs and are classified as a level 3 fair value.

Finance leases

Land, buildings, and equipment under finance leases of $4 million (2015: $5 million), which are net of accumulated depreciation and impairment losses of $10 million (2015: $8 million), are included above. There were no finance leases related to land, buildings, or equipment acquired during the year (2015: $2 million).

Rental equipment under finance leases of $28 million (2015: $23 million), which are net of accumulated depreciation of $16 million (2015: $18 million), are included above, of which $14 million (2015: $27 million) was acquired during the year.

17. Distribution Network

Accounting Policy

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

December 31, 2016 ($ millions)	**Canada**	**South America**	**UK & Ireland**	**Consolidated**
Balance, beginning of year	**$ 98**	**$ —**	**$ 3**	**$ 101**
Foreign exchange rate changes	**—**	**—**	**(1)**	**(1)**
Balance, end of year	**$ 98**	**$ —**	**$ 2**	**$ 100**

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

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

18. GOODWILL

Accounting Policy

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

December 31, 2016 ($ millions)	**Canada**	**South America**	**UK & Ireland**	**Consolidated**
Balance, beginning of year	**$ 85**	**$ 5**	**$ 39**	**$ 129**
Acquired (Note 25)	**(4)**	**—**	**—**	**(4)**
Foreign exchange rate changes	**—**	**—**	**(7)**	**(7)**
Balance, end of year	**$ 81**	**$ 5**	**$ 32**	**$ 118**

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

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

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

19. INTANGIBLE ASSETS

Accounting Policy

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

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

December 31, 2016 ($ millions)	Contracts and Customer relationships	Software and Technology	Total
Cost			
Balance, beginning of year	$ 124	$ 90	$ 214
Additions	27	21	48
Foreign exchange rate changes	(3)	(2)	(5)
Balance, end of year	$ 148	$ 109	$ 257

December 31, 2016 ($ millions)	Contracts and Customer relationships	Software and Technology	Total
Accumulated depreciation			
Balance, beginning of year	$ (99)	$ (66)	$ (165)
Amortization for the year	(14)	(11)	(25)
Foreign exchange rate changes	3	1	4
Balance, end of year	$ (110)	$ (76)	$ (186)

December 31, 2016 ($ millions)	Contracts and Customer relationships	Software and Technology	Total
Net book value			
Balance, beginning of year	$ 25	$ 24	$ 49
Balance, end of year	$ 38	$ 33	$ 71

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

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

December 31, 2015 ($ millions)	Contracts and Customer relationships	Software and Technology	Total
Net book value			
Balance, beginning of year	$ 34	$ 22	$ 56
Balance, end of year	$ 25	$ 24	$ 49

20. Asset Impairment

Accounting Policy

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

Impairment losses on goodwill are never reversed but impairment losses on indefinite-lived intangible assets may be reversed. If any indication that the circumstances leading to the impairment loss of an indefinite-lived intangible asset no longer exists or may have decreased, management estimates the recoverable value of the CGU. Indicators of a recovery include sustainable improvement of the economic performance of the CGU and positive trend in the forecast or budgeted results of the CGU. If the recoverable amount exceeds the carrying amount, then a previously recognized impairment loss is considered to have been reversed (either fully or in part). Any reversal of impairment loss is recognized immediately in the consolidated statement of net income.

Areas of Significant Judgment

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

Areas of Estimation Uncertainty

The recoverable value of CGUs require the use of estimates related to the future operating results and cash generating ability of the assets.

Recoverable value

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

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

Key assumptions

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

	2016		2015	
For years ended December 31	**Post-tax WACC rate**	**Growth rate**	Post-tax WACC rate	Growth rate
Canada	**7.7%**	**1.5%**	8.7%	1.9%
Canada Mining	**7.9%**	**1.5%**	8.8%	1.9%
Argentina (1)	**n/a**	**n/a**	14.7%	3.5%
Chile	**8.2%**	**2.7%**	10.2%	2.4%
Chile Mining (1)	**n/a**	**n/a**	10.5%	2.0%
UK & Ireland	**8.7%**	**1.7%**	9.6%	2.1%
UK & Ireland Damar (1)	**n/a**	**n/a**	10.7%	2.1%
UK & Ireland Power Systems (2)	**n/a**	**n/a**	9.7%	2.1%
UK & Ireland Equipment Solutions (2)	**n/a**	**n/a**	9.6%	2.1%
Bolivia (1)	**n/a**	**n/a**	13.0%	3.5%

(1) Annual impairment tests were not performed on these CGUs in 2016 because the goodwill and/or distribution network related to these CGUs was fully impaired in 2015.

(2) Management determined it was appropriate to test the goodwill related to these individual CGUs at the country level group of CGUs as it is the lowest level at which management monitors the goodwill.

Sensitivities to key assumptions

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

Overview of annual impairment tests

There were no impairment losses recognized in 2016 related to CGUs, goodwill, or distribution networks. During the year ended December 31, 2015, the Company recognized impairment losses of $14 million in the UK & Ireland reporting segment and $324 million in the South America reporting segment comprising:

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

21. PROVISIONS

Accounting Policy

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

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

Areas of Estimation Uncertainty

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

For year ended December 31, 2016 ($ millions)	**Warranty Claims**	**Other**	**Total**
Balance, beginning of year	**$ 41**	**$ 24**	**$ 65**
New provisions	**34**	**42**	**76**
Charges against provisions	**(41)**	**(41)**	**(82)**
Foreign exchange rate changes	**(3)**	**(2)**	**(5)**
Balance, end of year	**$ 31**	**$ 23**	**$ 54**
Current portion	**$ 31**	**$ 16**	**$ 47**
Non-current portion	**$ —**	**$ 7**	**$ 7**

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

22. OTHER LIABILITIES

December 31 ($ millions)	**2016**	2015
Income tax payable	**$ 7**	$ 4
Derivative liabilities	**—**	2
Total other liabilities – current	**$ 7**	$ 6

December 31 ($ millions)	**2016**	2015
Deferred revenue	**$ 37**	$ 48
Deferred tax liabilities (Note 13)	**27**	37
Liability for long-term contracts (Note 14a)	**28**	34
Finance leasing obligations (a) (Note 28)	**34**	31
Onerous contracts	**12**	13
Share-based payments (Note 10)	**23**	11
Provisions (Note 21)	**7**	5
Other	**37**	6
Total other liabilities – non-current	**$ 205**	$ 185

(a) Finance leases were issued at varying rates of interest from 2% – 10% and mature on various dates up to 2078.

23. Post-Employment Benefits

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

Pension Plans

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

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

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

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

The Company's South American employees do not participate in employer pension plans but are covered by country specific government pension arrangements.

Other Post-Employment Benefits

Employment terms at some of the Company's South American operations provide for a payment when an employment contract comes to an end under certain conditions, which can be considered a post-employment benefit. The benefit is typically at the rate of one month of final salary for each year of service (subject in most cases to a cap as to the number of qualifying years of service and a cap on the salary rate). The Company's South American post-employment benefits are not funded.

Accounting Policy

Pension Plans

Defined Benefit Plans:

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

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

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

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

Defined Contribution Plans:

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

Other Post-Employment Benefits

The Company's post-employment benefits in South America are accounted for as an unfunded defined benefit pension plan. Current service costs are recognized in selling, general, and administrative expenses and interest cost is recognized in finance costs in the consolidated statement of net income. Interest cost is calculated by applying the discount rate at the beginning of the period to the post-employment benefit liability and contributions to and benefit payments from the plan during the year.

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

The amount recognized in the consolidated statement of financial position represents the present value of the post-employment benefit obligation. The obligation recognized is based on valuations performed and regularly updated through independent actuarial calculations by using the projected unit credit method.

Areas of Significant Judgment

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

The net benefit cost and actuarial (gain) loss for the Company's post-employment benefit plans is as follows:

For years ended December ($ millions)	2016 Canada	2016 UK & Ireland	2016 South America	2016 Total	2015 Canada	2015 UK & Ireland	2015 South America	2015 Total
Defined contribution pension plans								
Net benefit cost	**$ 32**	**$ 9**	**$ —**	**$ 41**	$ 34	$ 10	$ —	$ 44
Defined benefit and other post-employment benefit plans								
Current service cost, net of employee contributions	**6**	**—**	**6**	**12**	9	—	6	15
Administration costs	**—**	**1**	**—**	**1**	—	2	—	2
Net interest cost	**—**	**—**	**1**	**1**	2	2	1	5
Net benefit cost	**6**	**1**	**7**	**14**	11	4	7	22
Total benefit cost recognized in net income	**$ 38**	**$ 10**	**$ 7**	**$ 55**	$ 45	$ 14	$ 7	$ 66
Actuarial (gain) loss on plan assets	**$ (13)**	**$ (118)**	**$ —**	**$ (131)**	$ (8)	$ 14	$ —	$ 6
Actuarial loss (gain) on plan liabilities	**2**	**143**	**2**	**147**	(9)	(78)	4	(83)
Total actuarial (gain) loss recognized in other comprehensive income	**$ (11)**	**$ 25**	**$ 2**	**$ 16**	$ (17)	$ (64)	$ 4	$ (77)

Other financial information about the Company's post-employment benefit plans is as follows:

For years ended December 31 ($ millions)	2016 Canada	2016 UK	2016 South America	2016 Total	2015 Canada	2015 UK	2015 South America	2015 Total
Accrued benefit obligation								
Balance, beginning of year	**$ 512**	**$ 702**	**$ 44**	**$ 1,258**	$ 518	$ 692	$ 37	$ 1,247
Current service cost	**7**	**—**	**6**	**13**	10	—	6	16
Interest cost	**19**	**23**	**1**	**43**	19	25	1	45
Benefits paid	**(26)**	**(23)**	**(6)**	**(55)**	(26)	(23)	(6)	(55)
Remeasurements:								
- Actuarial loss (gain) from change in demographic assumptions	**—**	**—**	**5**	**5**	—	(5)	3	(2)
- Actuarial loss (gain) from change in financial assumptions	**14**	**149**	**—**	**163**	(6)	(38)	2	(42)
Experience (gain) loss	**(12)**	**(6)**	**(3)**	**(21)**	(3)	(35)	(1)	(39)
Foreign exchange rate changes	**—**	**(145)**	**3**	**(142)**	—	86	2	88
Balance, end of year	**$ 514**	**$ 700**	**$ 50**	**$ 1,264**	$ 512	$ 702	$ 44	$ 1,258
Plan assets								
Balance, beginning of year	**$ 474**	**$ 702**	**$ —**	**$ 1,176**	$ 465	$ 625	$ —	$ 1,090
Return on plan assets:								
- Return on plan assets included in net interest cost	**19**	**23**	**—**	**42**	17	23	—	40
- Actuarial gain (loss) on plan assets	**13**	**118**	**—**	**131**	8	(14)	—	(6)
Employer contributions	**13**	**12**	**6**	**31**	9	12	6	27
Employees contributions	**1**	**—**	**—**	**1**	1	—	—	1
Benefits paid	**(26)**	**(23)**	**(6)**	**(55)**	(26)	(23)	(6)	(55)
Administration costs	**—**	**(1)**	**—**	**(1)**	—	(2)	—	(2)
Foreign exchange rate changes	**—**	**(145)**	**—**	**(145)**	—	81	—	81
Balance, end of year	**$ 494**	**$ 686**	**$ —**	**$ 1,180**	$ 474	$ 702	$ —	$ 1,176
Net post-employment obligation	**$ 20**	**$ 14**	**$ 50**	**$ 84**	$ 38	$ —	$ 44	$ 82

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

For years ended December 31 ($ millions)	2016 Canada	2016 UK	2016 South America	2016 Total	2015 Canada	2015 UK	2015 South America	2015 Total
Accrued benefit obligation	**$ 85**	**$ 700**	**$ 50**	**$ 835**	$ 507	$ 702	$ 44	$ 1,253
Fair value of plan assets	**60**	**686**	**—**	**746**	467	702	—	1,169
Funded status - plan deficit	**$ 25**	**$ 14**	**$ 50**	**$ 89**	$ 40	$ —	$ 44	$ 84

Key Assumptions and Related Sensitivities

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

For years ended December 31	2016 Canada	2016 UK	2016 South America	2015 Canada	2015 UK	2015 South America
Discount rate – obligation	**3.7%**	**2.7%**	**1.3%**	3.9%	3.7%	1.5%
Discount rate – expense [(1)]	**3.9%**	**3.7%**	**1.5%**	3.8%	3.4%	2.2%
Retail price inflation – obligation	**n/m**	**3.4%**	**n/m**	n/m	3.2%	n/m
Retail price inflation – expense [(1)]	**n/m**	**3.2%**	**n/m**	n/m	3.2%	n/m
Average staff turnover – obligation	**n/m**	**n/m**	**10.9%**	n/m	n/m	12.0%

(1) Used to determine the net interest cost and expense for the years ended December 31, 2016 and December 31, 2015.

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

Assumptions regarding future mortality are required for the defined benefit pension plans, and are set based on management's best estimate in accordance with published statistics and experience in each country. These assumptions translate into an average life expectancy (in years) as follows:

	Canada	UK	South America
Life expectancy for male currently aged 65	**22**	**22**	**n/a**
Life expectancy for female currently aged 65	**24**	**25**	**n/a**
Life expectancy at 65 for male currently aged 45	**23**	**24**	**n/a**
Life expectancy at 65 for female currently aged 45	**25**	**26**	**n/a**

The post-employment benefit obligations and expense are sensitive to changes in the significant actuarial assumptions. At the end of the most recent calendar year, the weighted average duration of the obligation in Canada is 14 years, the U.K. is 19 years, and South America is 6 years. A 0.25% increase in the significant actuarial assumptions would impact the post-employment benefit obligations by the amounts shown below.

($ millions)	Change in assumption	Increased (decreased) post-employment benefit obligation Canada	UK	South America
Discount rate	+0.25%	**$ (17)**	**$ (33)**	**$ (1)**
Retail price inflation	+0.25%	**n/m**	**$ 25**	**n/m**
Average staff turnover	+0.25%	**n/m**	**n/m**	**$ (1)**
Rate of compensation increase	+0.25%	**n/m**	**n/a**	**$ 1**

A 0.25% decrease in the discount rate, retail price inflation, rate of compensation increase, and average staff turnover would have an approximately equivalent but opposite effect on the above accounts in the amounts shown.

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

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

Funding and Valuations of Defined Benefit Plans

In Canada, the Company is funding its obligations in accordance with pension legislation requiring funding of going concern deficits over a fifteen year period and solvency deficits over a five year period. In the U.K., at the last formal valuation, a schedule was set out for contributions to be made until mid-2021. Based on the most recent formal valuations, the contributions expected to be paid during the financial year ended December 31, 2017 amount to approximately $23 million for the defined benefit pension plans. Funding levels are monitored regularly and reset with new valuations that occur at least every three years. Defined benefit pension plans are country and entity specific. The valuation dates of the Company's material post-employment benefit plans are as follows:

Post-Employment Benefit Obligations	Last Actuarial Valuation Date	Next Actuarial Valuation Date
Canada – BC Regular & Executive Plan	December 31, 2013 (1)	December 31, 2016
Canada – Executive Supplemental Income Plan	December 31, 2016	December 31, 2019
Canada – Alberta Defined Benefit Plan	December 31, 2013 (1)	December 31, 2016
Finning UK Defined Benefit Scheme	December 31, 2014	December 31, 2017
Finning South America Pension Arrangements	December 31, 2016	December 31, 2017

(1) Effective December 31, 2016, the BC and Alberta defined benefit pension plans will be merged. The merger will have no financial impact.

Plan Assets

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

	Canada			UK		
	Canada	US	International	UK	US	International
Fixed-income (2)	61%	—	—	67%	—	—
Equity	10%	12%	9%	2%	12%	12%
Real estate	4%	—	—	7%	—	—
Cash and cash equivalents	4%	—	—	—	—	—

(2) Fixed-income includes investments in annuity contracts in Canada.

Plan assets do not include a direct investment in common shares of the Company at December 31, 2016 and 2015.

Key Risks

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

Investment Risk (i.e. asset volatility)

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

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

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

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

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

Inflation Risk

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

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

Longevity Risk (i.e. increasing life expectancy)

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

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

Maturity Analysis

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

December 31, 2016 ($ millions)	Less than a year	Between 1-2 years	Between 2-5 years	Over 5 years	Total
Defined benefit pension plans	$ 44	$ 44	$ 142	$ 1,816	$ 2,046
Other post-employment benefits	6	5	11	72	94
Total	$ 50	$ 49	$ 153	$ 1,888	$ 2,140

Accumulated Remeasurement Losses

The accumulated actuarial loss, net of tax, of the post-employment benefit obligations in the Company's operations in Canada, U.K. and Ireland, and South America recognized directly in retained earnings is $228 million as at December 31, 2016 (December 31, 2015: $215 million).

24. Supplemental Cash Flow Information

Accounting Policy

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

The components of cash and cash equivalents are as follows:

December 31 ($ millions)	2016	2015
Cash	$ 458	$ 184
Cash equivalents	135	291
Cash and cash equivalents	$ 593	$ 475

The changes in operating assets and liabilities are as follows:

For years ended December 31 ($ millions)	2016	2015
Accounts receivable and other assets	$ (76)	$ 341
Service work in progress	(6)	15
Inventories – on-hand equipment	145	(17)
Inventories – parts and supplies	(11)	89
Instalment notes receivable	2	15
Accounts payable and accruals and other liabilities	139	(382)
Income tax recoverable/payable	3	15
Changes in operating assets and liabilities	$ 196	$ 76

Dividends of $0.73 (2015: $0.725) per share were paid during the year. Subsequent to year end in February 2017, the Board of Directors approved a quarterly dividend of $0.1825 per share payable on March 16, 2017 to shareholders of record on March 2, 2017. This dividend will be considered an eligible dividend for Canadian income tax purposes. As at December 31, 2016, the Company has not recognized a liability for this dividend.

25. ACQUISITIONS

Accounting Policy

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

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

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

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

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

This purchase is accounted for as a business combination. Management finalized its purchase price allocation on June 30, 2016. The acquisition-date fair values of acquired tangible and intangible assets, assumed liabilities, and deferred income tax asset are estimated to be as follows:

Final purchase price allocation ($ millions)	**June 30, 2016**	December 31, 2015
Inventory	**$ 98**	$ 98
Rental equipment	**77**	77
Accounts and other receivables	**38**	38
Property, plant, and equipment	**11**	10
Intangible assets	**10**	10
Deferred income tax asset (liability)	**2**	(1)
Goodwill	**21**	25
Accounts payable and other liabilities	**(16)**	(16)
Net assets acquired	**$ 241**	$ 241

The intangible assets acquired represent customer relationships of $9 million and technology of $1 million and are being amortized on a straight-line basis over their estimated life of 10 years and 5 years, respectively. In 2016, adjustments to goodwill relate to the recognition of a deferred income tax asset and further fair value adjustments to property, plant, and equipment. Goodwill relates to the expected synergies by combining complementary capabilities, customer bases, and highly skilled employees across Finning's territory in British Columbia, Alberta, Yukon, Northwest Territories and part of Nunavut with the acquired business' presence in Saskatchewan. The goodwill is assigned to the Company's Canada operating segment. 75% of the goodwill is deductible for tax purposes.

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

26. Economic Relationships

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

27. Related Party Transactions and Total Staff Costs

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

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

For years ended December 31 ($ millions)	**2016**	2015
Short-term benefits	**$ —**	$ 1
Share-based payments	**4**	—
Total	**$ 4**	$ 1

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

For years ended December 31 ($ millions)	**2016**	2015
Salaries and benefits	**$ 9**	$ 9
Post-employment benefits	**1**	1
Share-based payments	**11**	2
Total	**$ 21**	$ 12

Total staff costs, including salaries, benefits, pension, share-based payments, termination payments, and commissions are $1,130 million (2015: $1,306 million). This amount includes staff costs associated with key management personnel noted above.

28. LEASES

Accounting Policy

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

The Company as Lessee

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

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

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

For years ended December 31 ($ millions)	Finance Leases	Operating Leases (1)
2017	$ 7	$ 60
2018	7	47
2019	7	34
2020	11	27
2021	6	24
Thereafter	14	83
	$ 52	$ 275
Less imputed interest	(13)	
Total finance lease obligation	39	
Less current portion of finance lease obligation	(5)	
Non-current portion of finance lease obligation	$ 34	

(1) The Company recognized a liability of $14 million, $4 million in accrued liabilities and $10 million in non-current other liabilities, related to facility closure costs and future minimum lease payments due under certain operating leases that were considered to be onerous at December 31, 2016 (2015: $16 million).

Minimum lease payments recognized as lease expense for the year ended December 31, 2016 is $79 million (2015: $95 million).

29. COMMITMENTS AND CONTINGENCIES

Due to the size, complexity, and nature of the Company's operations, various legal, customs, and tax matters are pending. It is not currently possible for management to predict the outcome of such matters due to various factors, including: the preliminary nature of some claims, an incomplete factual record, uncertainty concerning procedures and their resolution by the courts, customs, or tax authorities. However, subject to these limitations, management is of the opinion, based on legal assessments and information presently available, that, except as stated below, it is not likely that any liability would have a material effect on the Company's financial position or results of operations.

The Company has received a number of claims from the Argentina Customs Authority associated with export of agricultural product. The Company is appealing these claims, believes they are without merit, and is confident in its position. These pending matters may take a number of years to resolve. Should the ultimate resolution of these matters differ from management's assessment, a material adjustment could arise and negatively impact the Company's financial position.

30. GUARANTEES AND INDEMNIFICATIONS

The Company enters into contracts with rights of return, in certain circumstances, for the repurchase of equipment sold to customers for an amount which is generally based on a discount from the estimated future fair value of that equipment. As at December 31, 2016, the total estimated value of these contracts outstanding is $121 million (2015: $138 million) coming due at periods ranging from 2017 to 2022. The Company's experience to date has been that the equipment at the exercise date of the contract is generally worth more than the repurchase amount. The total amount recognized as a provision against these contracts is $1 million (2015: $2 million).

The Company has issued certain guarantees to Caterpillar Finance to guarantee certain borrowers' obligations. The guarantees would be enforceable in the event that the borrowers defaulted on their obligations to Caterpillar Finance, to the extent that any net proceeds from the recovery and sale of collateral securing repayment of the borrowers' obligations is insufficient to meet those obligations. As at December 31, 2016, the maximum potential amount of future payments that the Company could be required to make under the guarantees, before any amounts that may possibly be recovered under recourse or collateralization provisions in the guarantees, is $15 million, covering various periods up to 2021. As at December 31, 2016 and 2015, the Company has not recognized a liability for these guarantees.

The Company has also issued guarantees for certain equipment sold to third parties to guarantee their residual values. The guarantees would be enforceable in the event that the market value of equipment at the time of its ultimate disposal is below the residual value guarantee issued by the Company. As at December 31, 2016, the maximum potential amount of future payments that the Company could be required to make under the guarantees is $5 million, covering various periods up to 2019. As at December 31, 2016, the Company has not recognized a liability for these guarantees (2015: $5 million).

In connection with the sale of the Materials Handling Division in 2006, the Company provided a guarantee to a third party with respect to a property lease. If the lessee were to default, the Company would be required to make the annual lease payments of approximately $1 million to the end of the lease term in 2020. The Company has not recognized a liability for this guarantee in 2016 or 2015.

The Company had issued a guarantee to a customer in respect of services performed by one of its entities in its power systems divisions in the U.K. Although the business was sold in the third quarter of 2016, the Company continues to be required to cover all costs related to service delivery failure or damages for contracts between the entity and this customer with a value greater than $5 million (£3 million). The maximum exposure under this guarantee is $17 million (£10 million) and expires in 2017. As at December 31, 2016 the Company has not recognized a liability for this guarantee.

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

During the year, the Company entered into various other commercial letters of credit in the normal course of operations. The total issued and outstanding letters of credit at December 31, 2016 was $158 million (2015: $126 million) principally related to performance guarantees on delivery for prepaid equipment and other operational commitments in Chile.

2016 FINANCIAL REPORT

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