FINNING

Q2 2016 EARNINGS RELEASE **August 3, 2016**

Finning reports Q2 2016 results

Vancouver, B.C. – Finning International Inc. (TSX: FTT) reported second quarter 2016 results today. All monetary amounts are in Canadian dollars unless otherwise stated.

HIGHLIGHTS

- Canada reported improved profitability. EBIT(1) margin of 4.4% included the unavoidable costs incurred during the shutdown caused by the Alberta wildfires; Adjusted EBIT margin(2)(3) of 6.3% was in line with Q2 2015 and above the previous two quarters.
- South America delivered strong EBIT margin of 8.8% in a difficult market environment; Adjusted EBIT margin was 9.1%.
- UK & Ireland is executing its plan to transform its business model, improve operational performance, and lower its cost structure. While Q2 2016 results were negatively impacted by significant severance and restructuring costs related to workforce reductions and steps to optimize the facility footprint, the UK & Ireland operations are expected to return to historic profitability levels by the end of 2016.
- SG&A(1) costs decreased by 13% from Q2 2015, excluding significant items and the Saskatchewan operation acquired effective July 1, 2015. As a result of decisive actions taken in all regions since 2014, SG&A costs in 2016 are expected to be 20% below 2014 levels, excluding the impact of foreign exchange.
- Free cash flow(3) was strong at $64 million, bringing year-to-date free cash flow to $94 million, which is a substantial improvement from ($162) million use of cash in the first two quarters of 2015. Management continues to expect free cash flow to be modestly over $300 million in 2016.
- Reported EPS was $0.03 per share. Adjusted EPS of $0.20 per share excluded severance and restructuring costs of $0.07 per share, primarily in the UK; charges resulting from the strategic repositioning of the UK's power systems business totaling $0.05 per share; and the unavoidable costs related to the Alberta wildfires of $0.05 per share.

"The second quarter results demonstrated the benefit of actions taken to improve our operating performance and reduce costs in our Canadian and South American operations. I am pleased with the improvement in Canada's profitability, particularly considering the impact of the recent wildfires in Northern Alberta. In South America, we continued to execute well in a tough market in Chile, and are encouraged by the opportunities emerging in Argentina," said Scott Thomson, CEO and president of Finning International. "Our results in the UK and Ireland were impacted by severance and restructuring charges, related to workforce reductions and branch closures, as well as the anticipated sale of a non-core business following the conclusion of a strategic review of our power systems division. I am confident that our UK and Ireland business is moving in the right direction and we will restore EBIT margin to historical levels by the end of the year."

"We have now taken action to restructure all three of our regions to align with market conditions, which will reduce our SG&A costs by about 20 percent between 2014 and 2016 excluding the impact of foreign exchange," continued Mr. Thomson. "While we expect the environment to remain challenging, we are now well positioned to improve profitability and generate strong free cash flow this year."

Q2 2016 FINANCIAL SUMMARY

$ millions, except per share amounts	**Q2 2016**	Q2 2015 (restated)[4]	% change
Revenue	**1,310**	1,680	(22)
EBITDA	**77**	157	(50)
EBITDA margin[3]	***6.0%***	*9.4%*	
EBIT	**29**	106	(72)
EBIT margin	***2.3%***	*6.3%*	
Net income	**5**	62	(92)
Basic EPS	**0.03**	0.36	(92)
Free cash flow	**64**	70	(8)

Included in Q2 2016 and Q2 2015 results are the following significant items that management does not consider indicative of operational and financial trends either by nature or amount. These significant items are summarized below and described in more detail on page 3 of the Company's Q2 2016 Management's Discussion and Analysis ("MD&A").

Q2 2016 Significant Items by Operation *$ millions, except per share amounts*	Canada	South America	UK & Ireland	Finning Total*	EPS
EBIT / EPS	28	38	(26)	29	0.03
Severance and restructuring costs	1	1	11	13	0.07
Impact from Alberta wildfires - unavoidable costs	11	-	-	11	0.05
Estimated loss on disputes - UK power systems	-	-	5	5	0.02
Write-down of net assets - UK expected sale of non-core business	-	-	5	5	0.03
Adjusted EBIT / Adjusted EPS	40	39	(5)	63	0.20
Adjusted EBITDA	65	54	3	111	
EBIT margin	*4.4%*	*8.8%*	*(10.5)%*	*2.3%*	
Adjusted EBIT margin	*6.3%*	*9.1%*	*(1.9)%*	*4.9%*	
Adjusted EBITDA margin	*10.3%*	*12.5%*	*1.2%*	*8.5%*	

Q2 2015 Significant Items by Operation *$ millions, except per share amounts*	Canada	South America	UK & Ireland	Finning Total*	EPS
EBIT / EPS	52	52	12	106	0.36
Severance costs	3	3	-	6	0.03
Statutory tax rate change in Alberta	-	-	-	-	0.01
Adjusted EBIT / Adjusted EPS	55	55	12	112	0.40
Adjusted EBITDA	81	74	18	163	
EBIT margin	*6.1%*	*9.4%*	*4.2%*	*6.3%*	
Adjusted EBIT margin	*6.3%*	*10.0%*	*4.3%*	*6.6%*	
Adjusted EBITDA margin	*9.3%*	*13.6%*	*6.7%*	*9.7%*	

* Consolidated results include corporate and other operations, mostly corporate head office

- Revenues were down 22%, with lower revenues from all operations. New equipment sales decreased by 41%, driven mostly by lower sales in Canada (Q2 2015 included significant mining deliveries) and South America due to challenging market conditions and reduced industry activity. Order backlog[3] of about $500 million at the end of Q2 2016 remained unchanged from Q1 2016 and Q4 2015, reflecting continued weakness in most markets. Product

support declined by 10%, primarily as a result of reduced demand from the mining industry in South America, and lower parts and service volumes in the Canadian oil sands due to the Alberta wildfires.

- Gross profit declined by 21%, in line with revenues. Lower margins on new equipment, parts, and rental, mostly from competitive pricing pressures, were offset by a shift in the revenue mix to product support. As a result, gross profit margin was maintained at around 26%.

- The decrease in Adjusted EBIT from Q2 2015 was driven by significantly lower revenues in Canada and South America due to reduced industry activity, particularly in new equipment sales; increased competitive pricing pressures in all operations; and an Adjusted EBIT loss in the UK & Ireland where the Company's recent actions to lower the cost to serve customers are yet to be fully realized.

- While Adjusted EBITDA in Canada and South America declined by 19% and 27%, respectively, substantially lower EBITDA performance in the UK & Ireland weighed on consolidated results. Adjusted EBITDA was down 32% from Q2 2015, significantly less than Adjusted EBIT (down 43%) and Adjusted EPS (down 50%) due to the fixed nature of depreciation and finance costs.

- Free cash flow was $64 million compared to $70 million in Q2 2015, as lower earnings were offset by lower supplier payments and rental investment reflecting reduced activity levels. All operations generated positive free cash flow in Q2 2016. Year-to-date free cash flow of $94 million was a significant improvement from ($162) million use of cash in the first two quarters of 2015, driven mostly by higher free cash flow in Canada.

- The Company's balance sheet remains strong. Net debt to Adjusted EBITDA ratio(2)(3) was 2.2, and net debt to invested capital ratio(3) was 37.9% at the end of Q2 2016.

Q2 2016 INVESTED CAPITAL

	Q2 2016	Q1 2016	Q4 2015
Invested capital(3) *($ millions)*			
Consolidated	**3,041**	3,085	3,240
Canada	**1,695**	1,685	1,760
South America (U.S. dollars)	**824**	796	811
UK & Ireland (U.K. pound sterling)	**153**	182	157
Invested capital turnover(3)(4) *(times)*	**1.78**	1.82	1.78
Adjusted ROIC(1)(2)(3) *(%)*			
Consolidated	**9.4**	10.4	10.9
Canada	**9.3**	10.1	10.6
South America	**14.2**	14.5	14.0
UK & Ireland	**3.3**	7.4	9.0

- Excluding the impact of foreign currency translation, invested capital decreased by about $85 million from Q4 2015. This was primarily driven by lower equipment inventories and rental assets in Canada, reflecting the Company's ongoing efforts to reduce surplus inventories and dispose of underutilized rental fleet. Canada's new equipment inventories were down by about $110 million from the end of 2015. All operations continue to focus on improving supply chain efficiencies.

- Adjusted ROIC declined to 9.4% mostly due to lower earnings in all operations, reflecting of continued challenges in the marketplace.

Q2 2016 HIGHLIGHTS BY OPERATION

Canada

- Revenues declined by 27% mostly as a result of lower new equipment sales across all sectors and the impact of the Alberta wildfires on product support volumes in the oil sands. New equipment sales were down 54% reflecting large mining deliveries in Q2 2015 and lower industry activity in Q2 2016, primarily in the oil & gas markets. Product support revenues were down 7% primarily due to the interruption in oil sands activity during the Alberta wildfires, partly offset by stronger demand for parts in the oil sands in April and June as well as a contribution from the Saskatchewan dealership. Compared to Q1 2016, the Company saw improved product support activity in the construction sector and believes that product support revenues would have been higher if the oil sands operations had not been interrupted by the fires. Rental revenues declined by 27% impacted by lower rental utilization and competitive pricing in a weak market.

- Gross profit margin was higher driven by a revenue shift to product support and improved service margins, partly offset by lower new equipment and rental margins from increased competitive pricing pressures.

- Excluding the Saskatchewan operation and significant items, year-to-date SG&A costs were down by 13% from the same period of last year. The Canadian operations remain on track to achieve over $150 million in annual fixed cost savings by the end of 2016 and reduce annual fixed SG&A costs by over 20% from 2014 levels.

- The unavoidable operating costs during the evacuation of about 800 employees and a 6-week interruption of business in the Fort McMurray area are estimated at $11 million. Management anticipates the negative impacts on profits from the business interruption may be partially offset by expected rebuild activity in the Fort McMurray area during the next 18 to 24 months, as well as possible insurance recoveries.

- Adjusted EBITDA margin of 10.3% was higher than 9.3% in Q2 2015 and improved from the last two quarters. Adjusted EBIT margin was 6.3%, similar to Q2 2015 despite a 27% decline in revenues, and above Q1 2016 Adjusted EBIT margin of 4.0%.

South America

- Revenues declined by 20% (down 24% in functional currency – U.S. dollars), indicative of continued weak market conditions across all sectors as copper prices remained suppressed. New equipment sales decreased by 44% (down 47% in functional currency), driven by a slowdown in construction, energy, and mining activity. Product support revenues were down 12% (down 16% in functional currency), as some mining equipment remained parked and copper producers continued to delay maintenance and component replacements to achieve cost reductions. However, compared to Q1 2016, product support was up 4% in functional currency.

- Adjusted EBIT margin was 9.1%, compared to 10.0% in Q2 2015. South American operations delivered solid profitability with a continued focus on managing costs, improving operating efficiencies, and capturing product support business by providing innovative solutions to customers in a very difficult market environment.

United Kingdom & Ireland

- Revenues decreased 9% (down 8% in functional currency - U.K. Pound Sterling) due to reduced activity in the Company's key markets, mostly coal, steel, and oil & gas sectors. New equipment sales and product support revenues were down 10% and 13%, respectively, in functional currency.

- Adjusted EBIT results were negatively impacted by lower revenues and margins due to increased competitive pricing pressures, as well as asset provisions and adjustments reflective of an uncertain market environment. In addition, the benefit of SG&A cost savings from workforce reductions, facility closures, and other restructuring initiatives have not yet been realized. As a result, adjusted EBIT margin was a negative (1.9)%, compared to 4.3% in Q2 2015.

- UK & Ireland continued to execute its plan to sustainably lower the cost to serve customers by transforming its business model, optimizing its facility footprint, increasing supply chain velocity, and improving the performance of the power systems business.

- In Q2 2016, the Company reduced its UK workforce and facilities footprint, resulting in severance and restructuring costs of $11 million.
- Following a strategic review of the UK's operations, management recorded a $5 million write-down of net assets and other costs related to the anticipated sale of a non-core business in the power systems division.
- In addition, management recorded a $5 million estimated loss on two disputed power systems projects.

The Company expects the UK & Ireland operations to return to historic profitability levels by the end of 2016.

CORPORATE AND BUSINESS DEVELOPMENTS

Dividend

The Board of Directors has approved a quarterly dividend of $0.1825 per share, payable on September 1, 2016 to shareholders of record on August 18, 2016. This dividend will be considered an eligible dividend for Canadian income tax purposes.

SELECTED CONSOLIDATED FINANCIAL INFORMATION

$ millions, except per share amounts	**Three months ended June 30**			**Six months ended June 30**		
	2016	2015 (restated)[4]	% change	**2016**	2015 (restated)[4]	% change
New equipment	**377**	639	(41)	**892**	1,191	(25)
Used equipment	**101**	106	(4)	**199**	173	15
Equipment rental	**53**	68	(22)	**109**	139	(22)
Product support	**775**	863	(10)	**1,596**	1,710	(7)
Other	**4**	4	-	**8**	8	-
Total revenue	**1,310**	1,680	(22)	**2,804**	3,221	(13)
Gross profit	**343**	435	(21)	**724**	849	(15)
Gross profit margin	***26.2%***	*25.9%*		***25.8%***	*26.3%*	
SG&A	**(315)**	(331)	5	**(652)**	(671)	3
SG&A as a percentage of revenue	***(24.1)%***	*(19.7)%*		***(23.3)%***	*(20.8)%*	
Equity earnings of joint venture and associate	**6**	2		**7**	3	
Other expenses	**(5)**	-		**(5)**	-	
EBIT	**29**	106	(72)	**74**	181	(59)
EBIT margin	***2.3%***	*6.3%*		***2.7%***	*5.6%*	
Adjusted EBIT	**63**	112	(43)	**130**	206	(36)
Adjusted EBIT margin	***4.9%***	*6.6%*		***4.7%***	*6.4%*	
Net income	**5**	62	(92)	**20**	115	(83)
Basic EPS	**0.03**	0.36	(92)	**0.12**	0.66	(82)
Adjusted basic EPS	**0.20**	0.40	(50)	**0.39**	0.72	(47)
EBITDA	**77**	157	(50)	**173**	283	(39)
EBITDA margin	***6.0%***	*9.4%*		***6.2%***	*8.8%*	
Adjusted EBITDA[2][3]	**111**	163	(32)	**229**	308	(26)
Adjusted EBITDA margin[2][3]	***8.5%***	*9.7%*		***8.2%***	*9.6%*	
Free cash flow	**64**	70	(8)	**94**	(162)	158

	June 30, 2016	Dec 31, 2015
Invested capital	**3,041**	3,240
Invested capital turnover (times)	**1.78**	1.78
Net debt to invested capital	**37.9%**	36.7%
ROIC[3]	**(6.4)%**	(3.0)%
Adjusted ROIC	**9.4%**	10.9%

Q2 2016 RESULTS INVESTOR CALL
The Company will hold an investor call on August 3 at 8:00 am Eastern Time. Dial-in numbers: 1-800-319-4610 (within Canada and the US) or 1-416-915-3239 (Toronto area and overseas). The call will be webcast live and subsequently archived at www.finning.com. Playback recording will be available at 1-855-669-9658 until August 10, 2016. The pass code to access the playback recording is 00624.

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

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FOOTNOTES

(1) Earnings Before Finance Costs and Income Taxes (EBIT); Earnings per Share (EPS); Earnings Before Finance Costs, Income Taxes, Depreciation and Amortization (EBITDA); Selling, General & Administrative Expenses (SG&A); Return on Invested Capital (ROIC).

(2) Certain second 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 summarized on page 2 of this news release and described on page 3 of the Company's Q2 2016 MD&A, and the financial metrics that have been adjusted to take these items into account are referred to as "adjusted" metrics.

(3) 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. 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, see the heading "Description of Non-GAAP Financial Measures and Reconciliations" in the Company's Q2 2016 MD&A.

(4) 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 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 1 of the Company's interim condensed consolidated financial statements.

FORWARD-LOOKING DISCLAIMER

This report contains statements about the Company's business outlook, objectives, plans, strategic priorities and other statements that are not historical facts. A statement Finning makes is forward-looking when it uses what the Company knows and expects today to make a statement about the future. Forward-looking statements may include words such as aim, anticipate, assumption, believe, could, expect, goal, guidance, intend, may, objective, outlook, plan, project, seek, should, strategy, strive, target, and will. Forward-looking statements in this report include, but are not limited to, statements with respect to: expectations with respect to the economy and associated impact on the Company's financial results; workforce reductions; distribution network and goodwill impairment; facility closures; expected revenue; expected free cash flow; EBIT margin; expected profitability levels; expected range of the effective tax rate; ROIC; market share growth; expected results from service excellence action plans; expected results from cost reductions and transformation initiatives; anticipated asset utilization; inventory turns and parts service levels; the expected target range of the Company's net debt to invested capital ratio; estimated loss on disputes regarding two power system projects in the UK, anticipated sale of non-core business in the U.K.; and the expected financial impact from the Alberta wildfires. 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 August 2, 2016. Except as may be required by Canadian securities laws, Finning does not undertake any obligation to update or revise any forward-looking statement, whether as a result of new information, future events, or otherwise.

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

Forward-looking statements made in this report are based on a number of assumptions that Finning believed were reasonable on the day the Company made the forward-looking statements. Refer in particular to the Outlook section of this MD&A 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 hereof. The financial impact of these transactions and non-recurring and other unusual items can be complex and depends on the facts particular to each of them. Finning therefore cannot describe the expected impact in a meaningful way or in the same way Finning presents known risks affecting its business.

MANAGEMENT'S DISCUSSION AND ANALYSIS

August 2, 2016

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

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 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 1 of the Company's interim condensed consolidated financial statements.

Second Quarter Overview

($ millions, except for share data)	**Q2 2016**	Q2 2015 (Restated)	% change
Revenue	**$ 1,310**	$ 1,680	(22)%
Gross profit	**343**	435	(21)%
Selling, general & administrative expenses (SG&A)	**(315)**	(331)	5%
Earnings before finance costs and income taxes (EBIT)	**29**	106	(72)%
Net income	**$ 5**	$ 62	(92)%
Basic earnings per share (EPS)	**$ 0.03**	$ 0.36	(92)%
Earnings before finance costs, income taxes, depreciation and amortization (EBITDA) [(1)]	**$ 77**	$ 157	(50)%
Free cash flow [(1)]	**$ 64**	$ 70	(8)%
Adjusted EBIT [(1)] [(2)]	**$ 63**	$ 112	(43)%
Adjusted net income [(1)] [(2)]	**$ 33**	$ 68	(51)%
Adjusted EPS [(1)] [(2)]	**$ 0.20**	$ 0.40	(50)%
Adjusted EBITDA [(1)] [(2)]	**$ 111**	$ 163	(32)%
Gross profit margin	***26.2%***	*25.9%*	
SG&A as a percentage of revenue	***24.1%***	*19.7%*	
EBIT margin	***2.3%***	*6.3%*	
EBITDA margin [(1)]	***6.0%***	*9.4%*	
Adjusted EBIT margin [(1)] [(2)]	***4.9%***	*6.6%*	
Adjusted EBITDA margin [(1)] [(2)]	***8.5%***	*9.7%*	

(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 page 3 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 Second Quarter Highlights

- Free cash flow in Q2 2016 of $64 million, although slightly down compared to free cash flow of $70 million in Q2 2015, reflected strong cash generation from all operations. Free cash flow for the first half of 2016 of $94 million was significantly higher than the $162 million use of cash in the same period last year.
- Revenue of $1.3 billion was down 22% from Q2 2015 primarily due to a 41% decrease in new equipment revenue and a 10% decrease in product support revenue, including lower revenues due to the Alberta wildfires.
- EBIT of $29 million and EBIT margin of 2.3% reported in Q2 2016 were lower than the $106 million and 6.3% earned in Q2 2015. Second quarter results were impacted by the wildfires in Alberta and included an estimated $11 million of unavoidable costs incurred during the shutdown of operations. Severance and restructuring costs were $13 million in the quarter, primarily from actions taken in the UK to transform its business and lower its cost structure. In addition, charges resulting from the strategic repositioning of the UK's power systems business totaling $10 million were recorded in the quarter and related to the write-down of certain net assets resulting from the anticipated sale of a non-core operating business and the estimated loss on two disputed projects.
- Excluding costs related to severance and restructuring, power system loss provisions and write-down of net assets in the UK, as well as the unavoidable costs during the evacuation and shutdown caused by the Alberta wildfires, Adjusted EBIT was $63 million, and Adjusted EBIT margin was 4.9%, down from the prior year mainly due to reduced sales volumes from lower industry activity.
- Basic EPS earned in Q2 2016 was $0.03; adjusting for the impact of the significant items noted above, Adjusted EPS was $0.20, lower than the $0.40 earned in the prior period.
- While Adjusted EBITDA in Canada and South America declined by 19% and 27%, respectively, substantially lower EBITDA performance in the UK & Ireland weighed on consolidated results. Adjusted EBITDA was down 32% from Q2 2015, significantly less than Adjusted EBIT (down 43%) and Adjusted EPS (down 50%) due to the fixed nature of depreciation and finance costs.

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, 2014 and 2015, and the first six months of 2016, 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 the results of the Company for the three months ended June 2016 and 2015 which are not considered by management to be indicative of operational and financial trends were:

Q2 2016 significant items:

- A portion of the Company's Canadian operations were shut down due to the Fort McMurray, Alberta wildfires. During this time, the Company incurred unavoidable operating costs in the area for a six week period in May and June. These costs included the salaries of approximately 800 employees who were evacuated during this time as well as facility costs.
- Severance costs related to the global workforce reduction during the quarter, primarily in the UK as the Company transforms its business model and aligns its cost structure to lower market activity.
- UK operations announced the restructuring of its facility footprint and recorded costs related to facility closures and consolidations.
- Management in the UK and Ireland recorded an estimated loss from customer disputes regarding two power system projects.
- 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. As a result, the Company recorded a write-down of net assets and other costs related to the sale of this business expected to occur in early August 2016.

Q2 2015 significant items:

- Severance costs related to the global workforce reduction during the quarter, primarily in the Company's Canadian and South American operations as the Company transforms its business model and aligns its cost structure to lower market activity.
- Higher tax expense from change in Alberta statutory tax rate in the Company's Canadian operations.

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

3 months ended June 30, 2016 ($ millions except per share amounts)	**EBIT**				**Net Income**	**EPS**
	Canada	**South America**	**UK & Ireland**	**Consol [(1)]**	**Consol**	**Consol**
EBIT, net income, and EPS	**$ 28**	**$ 38**	**$ (26)**	**$ 29**	**$ 5**	**$ 0.03**
Significant items:						
Impact from Alberta wildfires – unavoidable costs	**11**	**—**	**—**	**11**	**8**	**0.05**
Severance costs	**1**	**1**	**7**	**9**	**8**	**0.05**
Facility closures and restructuring costs	**—**	**—**	**4**	**4**	**3**	**0.02**
Estimated loss on disputes regarding two projects – UK power systems	**—**	**—**	**5**	**5**	**4**	**0.02**
Write-down of net assets – expected sale of non-core business	**—**	**—**	**5**	**5**	**5**	**0.03**
Adjusted EBIT, Adjusted net income, and Adjusted EPS	**$ 40**	**$ 39**	**$ (5)**	**$ 63**	**$ 33**	**$ 0.20**

3 months ended June 30, 2015 ($ millions except per share amounts)	**EBIT**				**Net Income**	**EPS**
	Canada	**South America**	**UK & Ireland**	**Consol [(1)]**	**Consol**	**Consol**
EBIT, net income, and EPS	$ 52	$ 52	$ 12	$ 106	$ 62	$ 0.36
Significant items:						
Severance costs	3	3	—	6	4	0.03
Statutory tax rate change in Canada	—	—	—	—	2	0.01
Adjusted EBIT, Adjusted net income, and Adjusted EPS	$ 55	$ 55	$ 12	$ 112	$ 68	$ 0.40

(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 Return on Invested Capital (ROIC) [(1)].

	2016		2015				2014		
	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2
ROIC [(2)]									
Consolidated	**(6.4)%**	(4.0)%	(3.0)%	11.0%	12.9%	14.1%	15.3%	15.4%	16.0%
Canada	**4.0%**	5.4%	5.5%	10.9%	13.9%	15.3%	17.1%	16.8%	16.6%
South America	**(17.0)%**	(14.9)%	(12.8)%	13.2%	13.6%	14.4%	14.6%	15.8%	17.4%
UK & Ireland	**(15.7)%**	(4.5)%	(1.4)%	10.5%	13.2%	14.7%	16.3%	15.6%	15.9%
EBIT ($ millions) [(2)]									
Consolidated	**29**	45	(349)	63	106	75	142	114	137
Canada	**28**	25	(17)	34	52	29	73	80	77
South America	**38**	32	(303)	32	52	45	59	31	56
UK & Ireland	**(26)**	(4)	(31)	7	12	7	11	14	14
EBIT Margin [(2)(3)]									
Consolidated	**2.3%**	3.0%	(22.7)%	4.2%	6.3%	4.9%	7.9%	6.8%	7.8%
Canada	**4.4%**	3.0%	(2.4)%	4.5%	6.1%	3.6%	7.7%	9.2%	8.3%
South America	**8.8%**	7.3%	(57.3)%	6.4%	9.4%	9.2%	9.8%	6.2%	10.0%
UK & Ireland	**(10.5)%**	(1.9)%	(10.6)%	2.7%	4.2%	3.1%	4.3%	4.8%	5.1%
Invested Capital [(1)] ($ millions)									
Consolidated	**3,041**	3,085	3,240	3,802	3,536	3,541	3,106	3,340	3,334
Canada	**1,695**	1,685	1,760	1,871	1,745	1,794	1,475	1,714	1,756
South America	**1,072**	1,033	1,122	1,485	1,402	1,417	1,348	1,298	1,274
UK & Ireland	**263**	340	321	442	381	330	284	344	309
Invested Capital Turnover [(1)(3)] (times)									
Consolidated	**1.78x**	1.82x	1.78x	1.88x	1.99x	2.06x	2.10x	2.09x	2.12x
Canada	**1.68x**	1.80x	1.74x	1.96x	2.09x	2.14x	2.19x	2.15x	2.20x
South America	**1.61x**	1.59x	1.52x	1.51x	1.57x	1.63x	1.66x	1.71x	1.74x
UK & Ireland	**2.98x**	2.81x	2.93x	2.93x	3.21x	3.40x	3.43x	3.43x	3.43x
Inventory ($ millions)	**1,688**	1,740	1,800	1,995	1,919	1,973	1,661	1,806	1,835
Inventory Turns [(1)(3)] (times)	**2.43x**	2.58x	2.38x	2.39x	2.44x	2.72x	2.81x	2.64x	2.56x
Working Capital to Sales Ratio [(1)(3)]	**32.4%**	31.4%	32.2%	30.1%	28.2%	26.9%	26.1%	26.0%	25.5%
Free Cash Flow ($ millions)	**64**	30	347	140	70	(232)	385	109	123
Net Debt to Invested Capital Ratio [(1)]	**37.9%**	37.0%	36.7%	38.7%	35.4%	36.0%	31.4%	39.4%	40.9%
EBITDA [(2)]	**77**	96	(282)	125	157	126	194	170	190
Net Debt to EBITDA Ratio [(1)(2)]	**71.5**	12.0	9.5	2.4	1.9	1.9	1.4	1.8	1.8

[(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)] 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, 27, and 28 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 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 and key performance metrics have been restated in the 2015 quarterly periods but the impact of restatement is not significant. Further disclosure relating to these changes can be found in note 1 of the Company's interim condensed 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, 27, and 28 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			
	Q2	Q1	Q4	Q3	Q2	Q1
Adjusted ROIC [1]						
Consolidated	**9.4%**	10.4%	10.9%	12.8%	14.3%	15.5%
Canada	**9.3%**	10.1%	10.6%	13.1%	15.3%	16.7%
South America	**14.2%**	14.5%	14.0%	14.3%	15.2%	16.0%
UK & Ireland	**3.3%**	7.4%	9.0%	11.9%	13.9%	15.3%
Adjusted EBIT [1] ($ millions)						
Consolidated	**63**	67	82	97	112	94
Canada	**40**	33	39	51	55	46
South America	**39**	39	46	42	55	46
UK & Ireland	**(5)**	3	3	11	12	8
Adjusted EBIT Margin [1][3]						
Consolidated	**4.9%**	4.5%	5.3%	6.4%	6.6%	6.1%
Canada	**6.3%**	4.0%	5.5%	6.9%	6.3%	5.7%
South America	**9.1%**	8.9%	9.0%	8.3%	10.0%	9.4%
UK & Ireland	**(1.9)%**	1.5%	0.8%	4.1%	4.3%	3.4%
Adjusted EBITDA [1][2]	**111**	118	139	159	163	145
Net Debt to Adjusted EBITDA Ratio [1][2]	**2.2**	2.0	2.0	2.2	1.8	1.8

(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 Q4 2015.

(3) 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 and key performance metrics have been restated in the 2015 quarterly periods but the impact of restatement is not significant. Further disclosure relating to these changes can be found in note 1 of the Company's interim condensed consolidated financial statements.

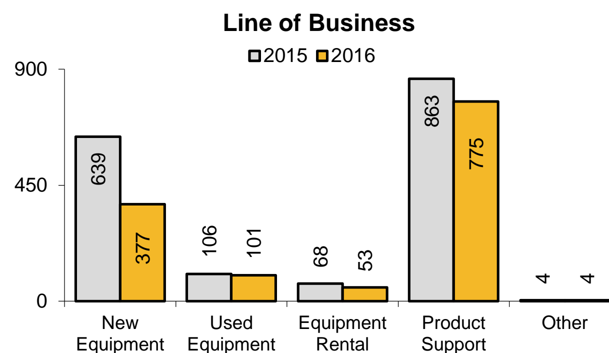
Revenue

The Company generated revenue of $1.3 billion during the second quarter of 2016, a decrease of 22% from Q2 2015. Revenue was down in all operations.

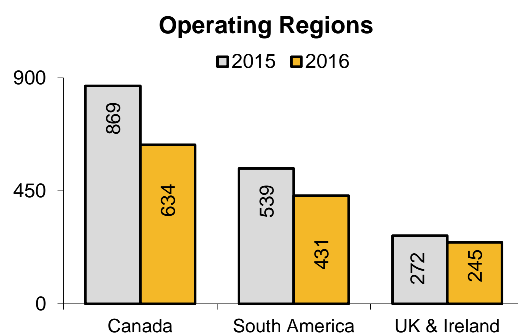
New equipment sales declined 41% compared to the second quarter of 2015, primarily due to the Company's Canadian operations, reflecting large mining deliveries in the second quarter of 2015 and lower industry activity in the second quarter of 2016, primarily in the oil and gas markets. Depressed commodity prices in oil, natural gas, and coal have resulted in lower demand for new equipment in the Company's Canadian operations as customers minimize capital and operating expenditures. Lower new equipment revenues in the Company's South American and UK & Ireland operations reflected the impact of weaker construction and mining sectors as well as lower demand for power systems products. The continued decline in copper prices has resulted in a reduction in mining and construction activities and a delay of investments in infrastructure projects in the Company's South American operations. In the UK & Ireland, demand for equipment in the Company's key markets has weakened, most notably in coal, steel, and oil and gas markets.

Reflecting weak market conditions in most markets, equipment order backlog [(1)] was $0.5 billion at the end of June 2016, comparable to backlog at March 31, 2016 and the end of 2015.

Revenue by Line of Business
3 months ended June 30
(Restated) ($ millions)



Revenue by Operation



Product support revenue was down 10% compared to the second quarter of 2015, primarily in South America due to a decrease in parts revenue from the Chilean mining sector as customers continue to delay maintenance work. Product support revenue was also down year over year in the Company's Canadian operations, impacted by the loss of revenue in the oil sands from the Alberta wildfires, partially offset by Saskatchewan. Product support revenue in the Company's UK & Ireland operations was down primarily due to a decrease in parts revenue in the coal sector. On a consolidated basis, product support revenue as a portion of the overall sales mix was 59%, compared to 51% in the prior year period.

A 22% decrease in rental revenue was a result of further weakness in the rental market and increased competition in the Company's Canadian operations relative to a year ago. Rental revenue in South America and the UK & Ireland was largely unchanged in the second quarter of 2016 compared to Q2 2015.

Earnings Before Finance Costs and Income Taxes

Q2 2016 gross profit of $343 million was down 21% compared to the comparative prior year period reflecting lower volumes, with increased competitive pressures and customers continuing to focus on reducing operating costs in challenging economic conditions. Gross profit margin of 26.2% was slightly up from 25.9% earned in Q2 2015, with a revenue mix shift to higher margin product support revenues, and improved service 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 a competitive market and lower margins earned on large equipment sales. Also contributing to the lower gross profit margins was the estimated loss recorded in the UK & Ireland on disputes regarding two power system projects. In addition, uncertainty in the marketplace resulted in management recording additional asset provisions and adjustments in the UK.

SG&A costs in the second quarter of 2016 were 5% lower than the prior year and included severance and restructuring costs of $13 million primarily in the UK & Ireland as steps have been taken to transform the business, reduce its footprint, and further align the cost structure with market activity. Prior year second quarter results included $6 million of severance, primarily in the South American and Canadian operations.

(1) This non-GAAP financial measure does not have a standardized meaning under IFRS, and therefore may not be comparable to similar measures presented by other issuers. For additional information, including definition, see the heading "Description of Non-GAAP Financial Measures and Reconciliations" later in this MD&A.

Excluding severance and restructuring costs, the unavoidable costs of the wildfires, as well as the SG&A of the recently acquired Saskatchewan dealership, SG&A was down 13% compared to Q2 2015. SG&A relative to revenue is higher than the prior year due to higher severance and restructuring costs in Q2 2016 as well as the impact on revenues and costs in the Canadian operations as a result of the Alberta wildfires.

Cost savings were reported from all operations as a result of the execution of operational excellence initiatives and cost reduction measures. Lower SG&A costs in the current year also reflected workforce reductions, reduced facility and distribution costs, and volume-related decreases, partially offset by inflationary and statutory salary increases, primarily in the Company's South American operations.

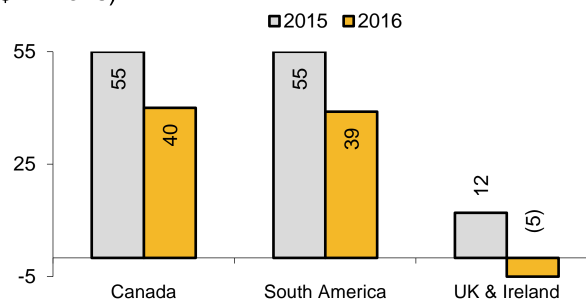
The Company reported EBIT of $29 million in the second quarter of 2016, which was significantly lower than the $106 million earned in Q2 2015. The Company's EBIT margin was 2.3% in the second quarter of 2016, compared to 6.3% in the comparable period last year. As noted earlier, the Company's Canadian operations incurred approximately $11 million of unavoidable operating costs due to the Alberta wildfires during the evacuation and cessation of operations in the area. Excluding these unavoidable costs as well as the severance and restructuring charges, power system projects losses, and the write-down of net assets, Q2 2016 Adjusted EBIT was $63 million with an EBIT margin of 4.9%, compared to an Adjusted EBIT of $112 million and an Adjusted EBIT margin of 6.6% (excluding severance) in the second quarter of the prior year.

All operations reported lower Adjusted EBIT in the current quarter compared to the second quarter of 2015 primarily due to lower volumes, with reduced mining and construction activities reflecting weaker commodity markets, particularly relating to the copper, steel, coal, and oil and gas sectors. In addition, the margins in the Company's UK operations were negatively impacted by the current challenging economic conditions, aggressive competition, and uncertainty in the marketplace due to Brexit. The Canadian operations' Adjusted EBIT margin for Q2 2016 of 6.3% was comparable to the same period in the prior year, and has sequentially improved over the previous two quarters. The Company's South American operations reported a strong Adjusted EBIT margin of 9.1% in the second quarter, although lower than the prior year.

EBITDA

EBITDA for Q2 2016 was $77 million and EBITDA margin was 6.0% (Q2 2015: EBITDA was $157 million and EBITDA margin was 9.4%). Excluding significant items noted on page 3 of this MD&A, Q2 2016 Adjusted EBITDA was $111 million and Adjusted EBITDA margin was 8.5%, compared with Adjusted EBITDA of $163 million and Adjusted EBITDA margin of 9.7% for the same period in the prior year. Adjusted EBITDA was

Adjusted EBIT by Operation (1)
3 months ended June 30
($ millions)



(1) Excluding other operations – corporate head office

down from the prior year period mainly due to lower earnings from all operations.

The net debt to EBITDA ratio at Q2 2016 was 71.5x. Excluding significant items not indicative of operational results, as noted on page 3 of this MD&A, net debt to Adjusted EBITDA ratio was 2.2x, which is slightly higher compared to the previous few quarters.

Finance Costs

Finance costs in the three months ended June 30, 2016 were $21 million, comparable with the second quarter of 2015.

Provision for Income Taxes

The effective income tax rate for Q2 2016 was 41.8%, compared to 27.2% in the prior year. The higher effective tax rate in 2016 was primarily the result of a higher proportion of earnings in higher tax jurisdictions as well as not recording a tax benefit for certain capital losses recorded in the quarter. During Q2 2015, the Company's provision for income taxes included a $2 million expense on the one-time revaluation of the Company's deferred tax balances as a result of a 2% increase in the Alberta provincial corporate income rate.

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, changes in the estimation of tax reserves, and changes in tax rates and tax legislation.

Net Income

Net income was $5 million in Q2 2016, down from $62 million earned in the same period last year. Basic EPS was $0.03 compared with $0.36 in the second quarter of 2015. Excluding significant items noted on page 3, Adjusted EPS in Q2 2016 was $0.20 compared to Q2 2015 Adjusted EPS of $0.40. The decrease in Adjusted net income and Adjusted EPS compared to the prior year period was primarily due to lower sales volumes reflecting the challenging economic conditions in all regions.

Year-to-Date Overview

($ millions, except for share data)	YTD 2016	YTD 2015 (Restated)	% change
Revenue	**$ 2,804**	$ 3,221	(13)%
Gross profit	**724**	849	(15)%
SG&A	**(652)**	(671)	3%
EBIT	**74**	181	(59)%
Net income	**$ 20**	$ 115	(83)%
Basic EPS	**$ 0.12**	$ 0.66	(82)%
EBITDA	**$ 173**	$ 283	(39)%
Free cash flow	**$ 94**	$ (162)	158%
Adjusted EBIT [1]	**$ 130**	$ 206	(36)%
Adjusted net income [1]	**$ 64**	$ 125	(49)%
Adjusted EPS [1]	**$ 0.39**	$ 0.72	(47)%
Adjusted EBITDA [1]	**$ 229**	$ 308	(26)%
Gross profit margin	***25.8%***	*26.3%*	
SG&A as a percentage of revenue	***23.3%***	*20.8%*	
EBIT margin	***2.7%***	*5.6%*	
EBITDA margin	***6.2%***	*8.8%*	
Adjusted EBIT margin [1]	***4.7%***	*6.4%*	
Adjusted EBITDA margin [1]	***8.2%***	*9.6%*	

[1] Significant items that affect the results for the six months ended June 2016 and 2015 which are not considered indicative of operational and financial trends included:

Year-to-date 2016 significant items:

- 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.
- Severance costs related to the global workforce reduction as the Company aligns its cost structure to lower market activity.
- UK operations announced the restructuring of its facility footprint and recorded costs related to facility closures and consolidations.
- As part of the restructuring and repositioning of the 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, as well as estimated losses on disputes regarding two power system projects.
- 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 write-down of net assets and other costs related to the sale of this business expected to occur in early August 2016.

Year-to-date 2015 significant items

- Severance costs related to the global workforce reduction, primarily in Canada, as the Company aligned its cost structure to lower market activity
- Costs related to facility closures and consolidations in the Canadian operations
- Benefit from capital losses not previously recognized and higher tax expense from a change in the statutory tax rate in the Company's Canadian operations

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

6 months ended June 30, 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	**$ 53**	**$ 70**	**$ (30)**	**$ 74**	**$ 20**	**$ 0.12**
Significant items:						
Impact from Alberta wildfires – unavoidable costs	**11**	**—**	**—**	**11**	**8**	**0.05**
Severance costs	**9**	**8**	**9**	**26**	**20**	**0.12**
Facility closures and restructuring costs	**—**	**—**	**4**	**4**	**3**	**0.02**
Power system project provisions and estimated loss on disputes	**—**	**—**	**10**	**10**	**8**	**0.05**
Write-down of net assets – expected sale of non-core business	**—**	**—**	**5**	**5**	**5**	**0.03**
Adjusted EBIT, Adjusted net income, and Adjusted EPS	**$ 73**	**$ 78**	**$ (2)**	**$ 130**	**$ 64**	**$ 0.39**

6 months ended June 30, 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	$ 81	$ 97	$ 19	$ 181	$ 115	$ 0.66
Significant items:						
Severance costs	18	4	1	23	17	0.10
Facility closures and restructuring costs	2	—	—	2	1	0.01
Benefit of previous capital loss utilized and tax rate change	—	—	—	—	(8)	(0.05)
Adjusted EBIT, Adjusted net income, and Adjusted EPS	$ 101	$ 101	$ 20	$ 206	$ 125	$ 0.72

[1] Consolidated results include other operations – corporate head office

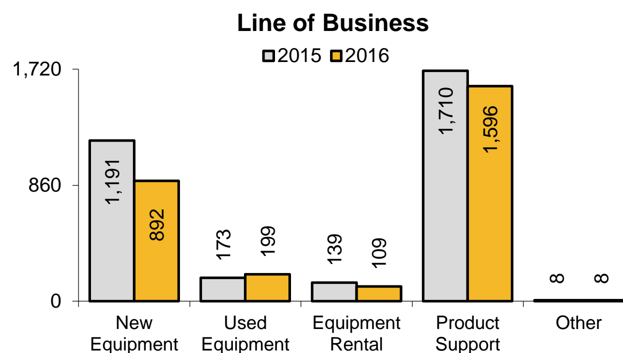
Revenue

The Company generated revenue of $2.8 billion during the six months ended June 30, 2016, a decrease of 13% over the same period last year. Revenue was down in all operations. Lower revenue from the Company's Canadian operations reflected lower new equipment sales compared to the prior year period, as well as the impact of the Alberta wildfires this year. Revenue from the Company's South American operations was down from the first half of the prior year primarily due to lower product support and new equipment revenues.

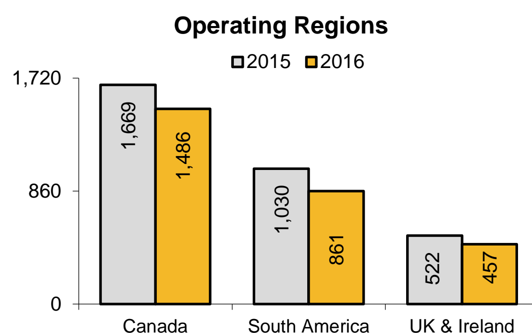
New equipment sales declined 25% compared to the same period in 2015, reflecting lower demand for power systems in all regions as well as the impact of large mining deliveries in the prior year in the Company's Canadian operations. The decline in copper prices has resulted in a reduction in mining and construction activities and a delay of investments in infrastructure projects in the Company's South American operations. In the UK & Ireland, demand for equipment in the Company's key markets has weakened, most notably in coal, steel, and oil and gas.

Foreign currency translation of the results of the Company's South American and UK & Ireland operations had a positive impact on revenue of approximately $65 million, primarily due to the 8% weaker Canadian dollar relative to the U.S. dollar in 2016 compared to last year.

Revenue by Line of Business
6 months ended June 30
(Restated) ($ millions)



Revenue by Operation



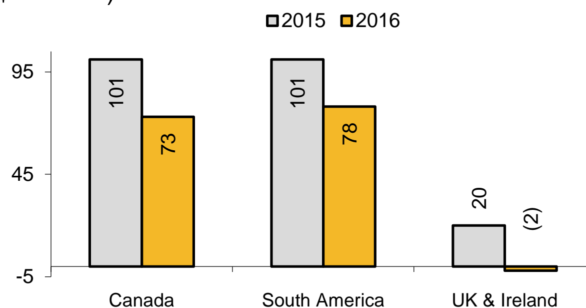
Earnings Before Finance Costs and Income Taxes

Gross profit in the first half of 2016 of $724 million was down 15% compared to the comparative prior year period due chiefly to lower volumes reflecting lower industry activity with increased competitive pressures and customers continuing to focus on reducing operating costs in challenging economic conditions. Gross profit margin of 25.8% was slightly down from 26.3% in the first six months of 2015.

Lower margins on new, used, and rental equipment were largely due to a competitive market as well as lower margins earned on large equipment sales in Canada. Contributing to lower gross profit margins were provisions and losses on certain power system projects in the UK. These lower margins were partly offset by improved service margins from the Company's Canadian and South American operations due to the successful implementation of operational excellence initiatives and a revenue mix shift to higher margin product support revenues.

SG&A costs in the first half of 2016 were slightly lower than the prior year and included severance and restructuring costs of $30 million related to a reduction in the global workforce in all operations to adjust to lower market activity, reduction of facilities, and operational excellence initiatives (prior year included $25 million in severance and restructuring costs).

Adjusted EBIT by Operation[1]
6 months ended June 30
($ millions)



[1] Excluding other operations – corporate head office

Excluding severance and restructuring costs, the unavoidable costs of the wildfires, as well as the SG&A of the recently acquired Saskatchewan dealership, SG&A was down 9% in the first half of 2016 compared to the prior year period.

Cost savings were reported from all operations as a result of the execution of operational excellence initiatives, cost reduction measures, as well as volumes related decreases, partially offset by inflationary and statutory salary increases, primarily in the Company's South American operations.

The Company reported EBIT of $74 million in the first half of 2016, which was lower than the $181 million earned in first six months of 2015. EBIT was down in all operations. Excluding severance and restructuring charges, UK power system projects loss provisions, the write-down of certain net assets in the UK, as well as the unavoidable costs relating to the Alberta wildfires (all detailed in the table on page 9), 2016 year-to-date Adjusted EBIT was $130 million, compared to year-to-date 2015 Adjusted EBIT of $206 million.

The Company's EBIT margin was 2.7% in the first half of 2016, compared to 5.6% in the same period of 2015. Excluding significant items as noted above, 2016 year-to-date Adjusted EBIT margin was 4.7%, compared to 2015 year-to-date Adjusted EBIT margin of 6.4% mainly due to SG&A costs which are not decreasing as quickly as the revenue decline. Benefits from the cost and restructuring initiatives implemented in the UK and Ireland in the current quarter have not yet been fully realized.

EBITDA

EBITDA for the first six months of 2016 was $173 million and EBITDA margin was 6.2% (2015 year-to-date EBITDA was $283 million and EBITDA margin was 8.8%). Excluding the significant items noted on page 9, 2016 year-to-date Adjusted EBITDA was $229 million and Adjusted EBITDA margin was 8.2%. Comparatively, Adjusted EBITDA in the first half of 2015 was $308 million and Adjusted EBITDA margin was 9.6%. Adjusted EBITDA was down from the prior year period mainly due to lower earnings from all operations.

Finance Costs

Finance costs in the six months ended June 30, 2016 were $43 million and slightly above $40 million in the same period in 2015.

Provision for Income Taxes

The effective income tax rate for the first half of 2016 was 36.5%, compared to 18.4% in the same period in the prior year. The higher effective tax rate in 2016 was primarily the result of a higher proportion of earnings in higher tax jurisdictions as well as not recording a tax benefit for certain capital losses recorded in the second quarter. During the first half of 2015, the Company's provision for income taxes included a $10 million previously unrecognized benefit from tax losses to offset taxable amounts. This benefit was partially offset by an additional $2 million expense on the one-time revaluation of the Company's deferred tax balances as a result of a 2% increase in the Alberta provincial corporate income rate.

Net Income

Net income was $20 million in the first six months of 2016, down from $115 million earned in the same period last year. Basic EPS was $0.12 compared with $0.66 in 2015. Excluding significant items noted on page 9, Adjusted EPS earned in the first half of 2016 was $0.39, compared to Adjusted EPS of $0.72 in the first six months of 2015. The decrease in Adjusted net income and Adjusted EPS compared to the prior year period was primarily due to lower sales volumes and challenging economic conditions in all regions.

Invested Capital

($ millions, unless otherwise stated)		**June 30, 2016**		**March 31, 2016**		Increase (Decrease) from March 31, 2016		December 31, 2015		Increase (Decrease) from December 31, 2015
Consolidated	**$**	**3,041**	**$**	**3,085**	$	(44)	$	3,240	$	(199)
Canada	**$**	**1,695**	**$**	**1,685**	$	10	$	1,760	$	(65)
South America	**$**	**1,072**	**$**	**1,033**	$	39	$	1,122	$	(50)
UK & Ireland	**$**	**263**	**$**	**340**	$	(77)	$	321	$	(58)
South America (U.S. dollar)	***$***	***824***	***$***	***796***	*$*	*28*	*$*	*811*	*$*	*13*
UK & Ireland (U.K. pound sterling)	***£***	***153***	***£***	***182***	*£*	*(29)*	*£*	*157*	*£*	*(4)*

Compared to December 2015:

The $199 million decrease in consolidated invested capital from December 31, 2015 to June 30, 2016 reflects the impact of approximately $115 million of foreign exchange as a result of the 6% stronger Canadian dollar (CAD) relative to the U.S. dollar (USD) and the 16% 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 $84 million from December 31, 2015 to June 30, 2016 primarily driven by the Company's Canadian operations':

- decrease in rental equipment as a result of disposal of underutilized fleet
- decrease in equipment inventory reflecting the Company's ongoing efforts to reduce surplus inventories
- partly offset by a decrease in accounts payable balances as a result of lower inventory purchases made during the period

Compared to March 31, 2016:

The $44 million decrease in consolidated invested capital from March 31, 2016 to June 30, 2016 reflects the impact of approximately $20 million of foreign exchange primarily as a result of the 8% stronger CAD relative to the U.K. pound sterling (GBP) in translating the Company's UK & Ireland operations' invested capital balances.

Excluding the impact of foreign exchange, consolidated invested capital decreased by $24 million from March 31, 2016 to June 30, 2016 reflecting:

- a decrease in the Company's UK & Ireland operations invested capital, primarily due to a higher pension liability reflecting a decrease in the discount rate as well as lower inventories
- an increase in the Company's South American operations invested capital as management took the opportunity to invest cash in a short-term investment; and
- an increase in the Company's Canadian operations invested capital reflecting lower accounts payable balances partly offset by lower rental equipment and equipment inventory as noted above.

	June 30, 2016	March 31, 2016	December 31, 2015	June 30, 2015
Return on Invested Capital				
Consolidated	**(6.4)%**	(4.0)%	(3.0)%	12.9%
Canada	**4.0%**	5.4%	5.5%	13.9%
South America	**(17.0)%**	(14.9)%	(12.8)%	13.6%
UK & Ireland	**(15.7)%**	(4.5)%	(1.4)%	13.2%
Adjusted Return on Invested Capital (1)				
Consolidated	**9.4%**	10.4%	10.9%	14.3%
Canada	**9.3%**	10.1%	10.6%	15.3%
South America	**14.2%**	14.5%	14.0%	15.2%
UK & Ireland	**3.3%**	7.4%	9.0%	13.9%
Invested Capital Turnover (2)				
Consolidated	**1.78x**	1.82x	1.78x	1.99x
Canada	**1.68x**	1.80x	1.74x	2.09x
South America	**1.61x**	1.59x	1.52x	1.57x
UK & Ireland	**2.98x**	2.81x	2.93x	3.21x

(1) 2016 and 2015 ROIC 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 27 and 28 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 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 concluded that certain cost recoveries are better reflected as revenues. Certain line items and key performance metrics have been restated in the 2015 quarterly periods but the impact of restatement is not significant. Further disclosure reflecting these changes can be found in note 1 of the Company’s interim condensed consolidated financial statements.

Return on Invested Capital

On a consolidated basis, ROIC in Q2 2016 was (6.4)%, a decrease from (3.0)% in Q4 2015 and 12.9% in Q2 2015. Adjusting for the significant items as described earlier, particularly the impairment losses on the shovels and drills distribution network and goodwill in Q4 2015, Adjusted ROIC in Q2 2016 was 9.4%. The decline in Adjusted ROIC compared to prior periods reflects the negative impact the downturn in 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 its operations and further align its invested capital with expected activity levels as necessary.

- The Company’s Canadian operations reported ROIC of 4.0% (Q2 2015: 13.9%) and adjusted ROIC of 9.3% (Q2 2015: 15.3%). The decrease in Adjusted ROIC was driven primarily by lower earnings, reflecting challenging market conditions, combined with a higher average invested capital. Average invested capital levels were higher compared to the prior year period mainly due to lower accounts payables, partly offset by lower accounts receivables and parts inventory levels.
- The Company’s South American operations reported ROIC of (17.0)% (Q2 2015: 13.6%) and Adjusted ROIC of 14.2% (Q2 2015: 15.2%). The $324 million impairment loss on the shovels and drills distribution network and goodwill recorded in Q4-15 has negatively impacted the reported ROIC. The decrease in Adjusted ROIC was also due to lower EBIT in the last twelve months reflecting lower industry activity. In functional currency, average invested capital decreased by over US$250 million compared to the prior year period mainly due to the impairment loss on the shovels and drills distribution network and goodwill, and lower inventory levels, partly offset by lower accounts payables.
- The Company’s UK & Ireland operations reported ROIC of (15.7)% (Q2 2015: 13.2%) and Adjusted ROIC of 3.3% (Q2 2015: 13.9%). The $14 million goodwill impairment recorded in Q4-15 has negatively impacted reported ROIC. The decrease in Adjusted ROIC was primarily driven by a significant decline in EBIT for the last twelve months, with comparable average invested capital compared to the prior year period.

Invested capital turnover

- Invested capital turnover at June 30, 2016 was 1.78x, down from March 31, 2016, reflecting a decrease in the Company’s Canadian operations invested capital turnover rate from lower revenues in the last twelve months.
- Invested capital turnover at June 30, 2016 was down from June 30 2015 primarily due to reduced sales volumes in the last twelve months reflecting challenging market conditions.

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.

3 months ended June 30, 2016 ($ millions)	**Canada**	**South America**	**UK & Ireland**	**Consol**	**Revenue percentage**
New equipment	**$ 157**	**$ 74**	**$ 146**	**$ 377**	**29%**
Used equipment	**66**	**14**	**21**	**101**	**8%**
Equipment rental	**31**	**14**	**8**	**53**	**4%**
Product support	**379**	**329**	**67**	**775**	**59%**
Other	**1**	**—**	**3**	**4**	**0%**
Total	**$ 634**	**$ 431**	**$ 245**	**$ 1,310**	**100%**
Revenue percentage by operations	**48%**	**33%**	**19%**	**100%**	

3 months ended June 30, 2015 (Restated - $ millions)	Canada	South America	UK & Ireland	Consol	Revenue percentage
New equipment	$ 341	$ 132	$ 166	$ 639	38%
Used equipment	75	13	18	106	6%
Equipment rental	43	18	7	68	4%
Product support	410	375	78	863	52%
Other	—	1	3	4	0%
Total	$ 869	$ 539	$ 272	$ 1,680	100%
Revenue percentage by operations	52%	32%	16%	100%	

6 months ended June 30, 2016 ($ millions)	**Canada**	**South America**	**UK & Ireland**	**Consol**	**Revenue percentage**
New equipment	**$ 496**	**$ 138**	**$ 258**	**$ 892**	**32%**
Used equipment	**138**	**27**	**34**	**199**	**7%**
Equipment rental	**66**	**28**	**15**	**109**	**4%**
Product support	**785**	**667**	**144**	**1,596**	**57%**
Other	**1**	**1**	**6**	**8**	**0%**
Total	**$ 1,486**	**$ 861**	**$ 457**	**$ 2,804**	**100%**
Revenue percentage by operations	**53%**	**31%**	**16%**	**100%**	

6 months ended June 30, 2015 (Restated - $ millions)	Canada	South America	UK & Ireland	Consol	Revenue percentage
New equipment	$ 647	$ 235	$ 309	$ 1,191	37%
Used equipment	118	21	34	173	6%
Equipment rental	90	35	14	139	4%
Product support	814	736	160	1,710	53%
Other	—	3	5	8	0%
Total	$ 1,669	$ 1,030	$ 522	$ 3,221	100%
Revenue percentage by operations	52%	32%	16%	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:

($ millions)	3 months ended June 30 2016	3 months ended June 30 2015 (Restated)	6 months ended June 30 2016	6 months ended June 30 2015 (Restated)
Revenue from external sources	**$ 634**	$ 869	**$ 1,486**	$ 1,669
Operating costs	**(587)**	(792)	**(1,388)**	(1,538)
Depreciation and amortization	**(25)**	(26)	**(52)**	(51)
Equity earnings of joint venture	**6**	1	**7**	1
EBIT	**$ 28**	$ 52	**$ 53**	$ 81
EBIT margin	**4.4%**	6.1%	**3.6%**	4.9%
EBITDA [(1)]	**$ 53**	$ 78	**$ 105**	$ 132
EBITDA margin	**8.5%**	9.0%	**7.1%**	7.9%
Adjusted EBIT	**$ 40**	$ 55	**$ 73**	$ 101
Adjusted EBIT margin	**6.3%**	6.3%	**5.0%**	6.0%
Adjusted EBITDA	**$ 65**	$ 81	**$ 125**	$ 152
Adjusted EBITDA margin	**10.3%**	9.3%	**8.4%**	9.1%

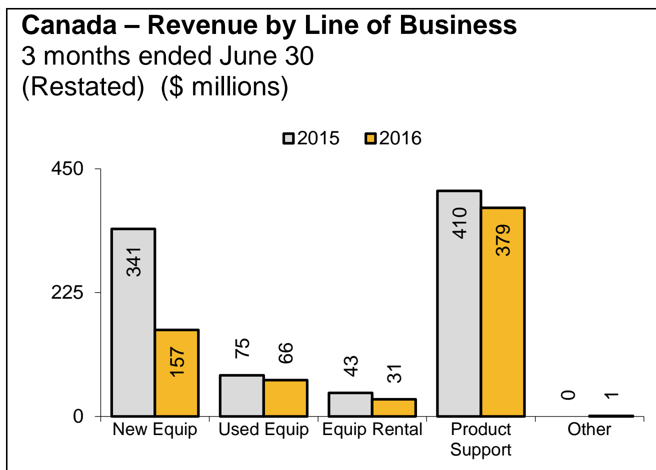
(1) EBITDA is measured by adding depreciation and amortization to EBIT

Second Quarter Overview

Second quarter 2016 revenues of $634 million were 27% lower than the second quarter of 2015, reflecting lower revenues in all lines of business but particularly driven by significantly lower new equipment revenues.

The Company's second quarter results were impacted by production shutdowns and slowdowns amongst its oil sand customers affected by the recent wildfires in Northern Alberta. In addition, two of our Canadian facilities were shut down for a period of time as a result of the evacuation of the Fort McMurray area. Management estimates the unavoidable costs incurred in the second quarter to be approximately $11 million, or 5 cents per share, primarily made up of salaries and facilities costs during the evacuation of approximately 800 employees and cessation of operations in the area for a six week period in May and June. Management anticipates that the negative impact on profits from the business interruption may be partially offset by the recovery and rebuild activity in the Fort McMurray area through the balance of the year as well as possible insurance recoveries.

New equipment revenue was down 54% in the second quarter of 2016 compared to the same period in 2015, primarily due to large equipment deliveries in the second quarter of 2015 as well as lower industry activity in the second quarter of 2016, primarily in the oil and gas markets.



Product support revenue was down 7% in the second quarter of 2016 compared to the second quarter of 2015, primarily due to the impact of the fires described above, partly offset by strong demand for parts in the oil sands in April and June, and a positive contribution from the Saskatchewan dealership. Product support revenue comprised 60% of total revenue in the second quarter of 2016 compared to 47% in the same period last year.

Gross profit margin in Q2 2016 was higher than the prior year primarily due to a revenue shift to higher product support revenues, as well as higher service margins, reflecting the implementation of operational improvements. New equipment margins are lower than last year's second quarter, reflecting a higher proportion of lower margin large equipment sales and rental margins are also lower due to a challenging market environment.

SG&A costs were lower in Q2 2016 compared to the same period in the prior year, primarily due to lower volumes as well as a reduced workforce, cost savings initiatives, and the benefit from the execution of the operational excellence agenda. Included in SG&A in the second quarter of 2016 was severance and restructuring costs of $1 million (Q2 2015: $3 million severance costs).

The Canadian operations contributed EBIT of $28 million in Q2 2016, lower than the $52 million earned in the prior year period. EBIT margin was 4.4%, down from 6.1% earned in the same period in 2015. Excluding severance and restructuring costs, as well as the unavoidable costs from the fires noted above, Adjusted EBIT was $40 million and the Adjusted EBIT margin for Q2 2016 was 6.3% which was comparable to the prior year. Second quarter 2016 results included higher equity earnings from the Pipeline Machinery International joint venture, driven by a number of significantly large equipment sales in the quarter.

Other Developments

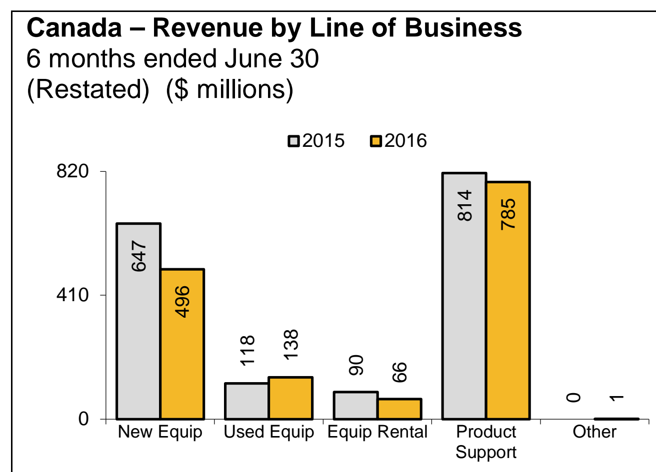
Finning Canada and the International Association of Machinists and Aerospace Workers - Local Lodge 99 (IAMAW), representing Finning's hourly employees in Alberta and the Northwest Territories, have reached a memorandum of agreement on a new collective agreement.

The agreement is subject to a ratification vote by the union membership, which is expected to be concluded in approximately one month. The union bargaining committee is recommending that its members accept the agreement.

Year-to-Date Overview

Revenue for the six months ended June 30, 2016 decreased 11% to $1.5 billion compared to the same period last year, largely driven by 23% lower new equipment revenues. Increased competition and challenging pricing dynamics with lower industry activity, as well as lower commodity prices in the oil and gas sector, were additional factors contributing to the decrease in the first half of 2016.

Product support revenue was down slightly from the first half of 2015, primarily due to the impact of the Alberta wildfires noted above, partially offset by the contribution from Saskatchewan.



Used equipment revenue was up 17% in the first half of 2016 compared to the prior year period reflecting the successful efforts by the Company's Canadian operations to sell used equipment inventory in response to weak rental market conditions. In addition, there was increased market demand as customers looked for more cost effective equipment purchasing options. Rental revenues were down from last year as a result of weaker demand across all sectors.

Gross profit decreased in the first half of 2016 compared to the first half of 2015, for the same reasons as noted above for the second quarter.

SG&A costs for the first six months of 2016 were 7% lower compared to the first half of 2015, reflecting cost savings from the execution of the operational excellence agenda and lower variable costs due to the reduced sales activity. In the first half of 2016, in order to further align its cost structure to lower market activity, the Company reduced its Canadian workforce resulting in severance and restructuring costs of $9 million compared to $20 million in the first half of 2015. Excluding severance and restructuring costs, the unavoidable costs of the wildfires, as well as the SG&A of the recently acquired Saskatchewan dealership, SG&A was down 13% compared to the first six months of 2015.

The Canadian operations contributed EBIT of $53 million for the six months ended June 30, 2016, lower than the $81 million earned in the prior year period. EBIT margin was 3.6%, down from 4.9% earned in the same period in 2015. Excluding severance and restructuring costs, as well as the unavoidable costs of the Alberta wildfires discussed earlier, Adjusted EBIT margin for the first half of 2016 was 5.0%, and 6.0% in the comparative period in 2015.

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 up 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:

($ millions)	3 months ended June 30 2016	3 months ended June 30 2015 (Restated)	6 months ended June 30 2016	6 months ended June 30 2015 (Restated)
Revenue from external sources	**$ 431**	$ 539	**$ 861**	$ 1,030
Operating costs	**(378)**	(468)	**(760)**	(895)
Depreciation and amortization	**(15)**	(19)	**(31)**	(38)
EBIT	**$ 38**	$ 52	**$ 70**	$ 97
EBIT margin	**8.8%**	9.4%	**8.1%**	9.3%
EBITDA [(1)]	**$ 53**	$ 71	**$ 101**	$ 135
EBITDA margin	**12.3%**	13.0%	**11.7%**	13.1%
Adjusted EBIT	**$ 39**	$ 55	**$ 78**	$ 101
Adjusted EBIT margin	**9.1%**	10.0%	**9.0%**	9.7%
Adjusted EBITDA	**$ 54**	$ 74	**$ 109**	$ 139
Adjusted EBITDA margin	**12.5%**	13.6%	**12.6%**	13.5%

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

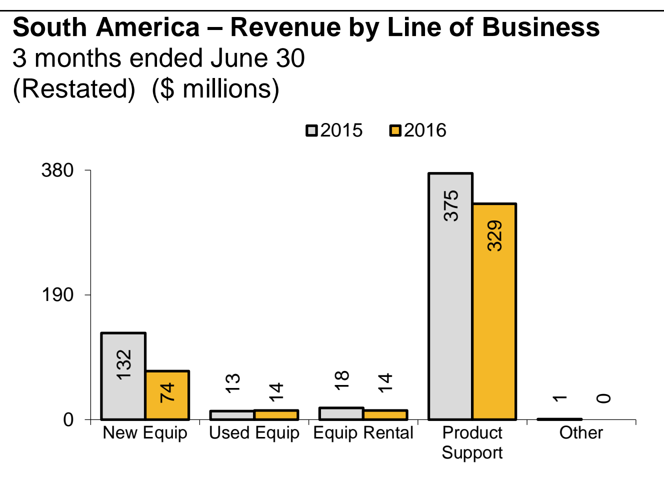
Second Quarter Overview

Second quarter 2016 revenues decreased 20% to $431 million compared to Q2 2015 (down 24% in functional currency). This decrease was primarily driven by lower new equipment and product support revenues. New equipment sales were down 44% (down 47% in functional currency) reflecting reduced construction, energy, and mining activity. Product support revenue was down 12% (down 16% in functional currency) reflecting reduced mining activity as producers continue to implement cost reductions and delay maintenance.

The weaker Canadian dollar relative to the U.S. dollar compared to last year had a positive foreign currency translation impact on revenue in Q2 2016 of approximately $20 million and was not significant at the EBIT level.

Gross profit, in functional currency, decreased compared to the second quarter of 2015, reflecting lower sales volumes. Despite the downturn in market conditions, gross profit margin increased in Q2 2016 compared to last year, reflecting improved used equipment margins as well as a revenue mix shift to higher margin product support revenues. Product support revenue comprised 76% of total revenue in the second quarter of 2016 compared to 69% in Q2 2015.

The Company's South American operations reduced its workforce in the quarter which resulted in severance costs of $1 million (Q2 2015: $3 million). Excluding severance costs, SG&A costs (in functional currency) in Q2 2016 decreased by 15% compared to the prior year period. The decrease in SG&A in functional currency was primarily due to lower operating costs from the weaker Argentine and Chilean pesos relative to the U.S. dollar, lower variable costs from reduced sales volumes, and cost savings from a reduced workforce. These reductions were partially offset by inflationary and statutory salary increases.



For the three months ended June 30, 2016, the Company's South American operations reported an EBIT of $38 million and an EBIT margin of 8.8%. Excluding severance costs, Q2 2016 Adjusted EBIT margin was 9.1%, below the Q2 2015 Adjusted EBIT margin of 10.0% (excluding severance costs). Higher gross profit margins achieved in the current year were more than offset by a higher percentage of SG&A costs to sales as a result of the significant decline in revenue.

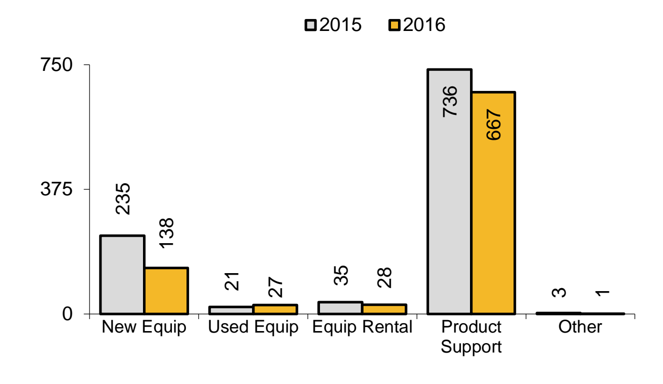
Year-to-Date Overview

For the six months ended June 30, 2016 revenues decreased 16% to $861 million compared to 2015 (down 22% in functional currency). This decrease was primarily driven by lower product support and new equipment revenues. Product support revenues were down 9% (down 16% in functional currency) reflecting reduced mining activity as producers continue to implement cost reductions and delay maintenance. New equipment revenues were down 41% (down 45% in functional currency) reflecting reduced construction, energy, and mining 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 the first half of 2016 of approximately $60 million and was not significant at the EBIT level.

Gross profit was lower than the first six months of 2015, reflecting lower sales volumes. Gross profit margin increased in the first half of 2016 compared to the first half of 2015, reflecting improved used equipment and product support margins as well as a revenue mix shift to higher margin product support revenues. Higher product support margins achieved in the first half of 2016 compared to the same period last year were primarily due to improved operational performance in mining contracts, reflecting cost efficiency and operational excellence initiatives implemented.

South America – Revenue by Line of Business
6 months ended June 30
(Restated) ($ millions)



For the six months ended June 30, 2016, the Company's South American operations reported an EBIT of $70 million and an EBIT margin of 8.1%. Excluding severance costs in both periods, Adjusted EBIT margin for the first half of 2016 was 9.0%, compared to 2015 Adjusted EBIT margin of 9.7%. Higher gross profit margins achieved in the current year were more than offset by the higher percentage of SG&A costs to sales as a result of 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:

($ millions)	3 months ended June 30 2016	3 months ended June 30 2015 (Restated)	6 months ended June 30 2016	6 months ended June 30 2015 (Restated)
Revenue from external sources	**$ 245**	$ 272	**$ 457**	$ 522
Operating costs	**(258)**	(254)	**(466)**	(490)
Depreciation and amortization	**(8)**	(6)	**(16)**	(13)
Other expenses – related to sale of business	**(5)**	—	**(5)**	—
EBIT	**$ (26)**	$ 12	**$ (30)**	$ 19
EBIT margin	**(10.5)%**	4.2%	**(6.6)%**	3.7%
EBITDA [(1)]	**$ (18)**	$ 18	**$ (14)**	$ 32
EBITDA margin	**(7.4)%**	6.6%	**(3.2)%**	6.2%
Adjusted EBIT	**$ (5)**	$ 12	**$ (2)**	$ 20
Adjusted EBIT margin	**(1.9)%**	4.3%	**(0.4)%**	3.9%
Adjusted EBITDA	**$ 3**	$ 18	**$ 14**	$ 33
Adjusted EBITDA margin	**1.2%**	6.7%	**3.1%**	6.4%

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

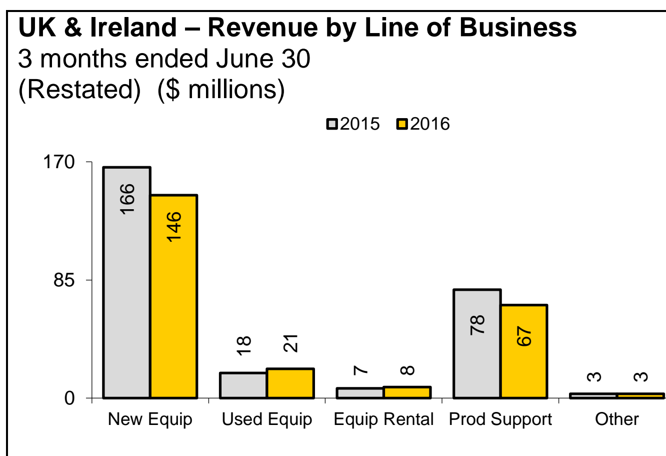
Second Quarter Overview

Revenues in the second quarter of 2016 of $245 million were 9% lower than the same period in 2015 (down 8% in functional currency), driven primarily by decreases in new equipment and parts revenue, reflecting weaker market conditions in the coal, steel and oil & gas sectors. Market conditions continue to be highly competitive for equipment in the general construction sector.

Following a strategic review of the Company's operations in the U.K, 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. As a result, the Company recorded a charge 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 expected to occur in early August 2016. In addition, $5 million was recorded in the second quarter related to the estimated loss on disputes regarding two power system projects. Management does not consider these adjustments to be indicative of future operational or financial trends for the power system division in the UK & Ireland.

Q2 2016 gross profit was down compared to the prior year period by more than the revenue decline due to competitive pressures resulting in lower margins in most lines of business, as well as the estimated losses on certain power system projects noted above. Second quarter results were also impacted by further reduced mining activity and general market uncertainty regarding the outcome of the Brexit vote. This market weakness and uncertainty resulted in additional asset provisions and adjustments in the UK results.

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

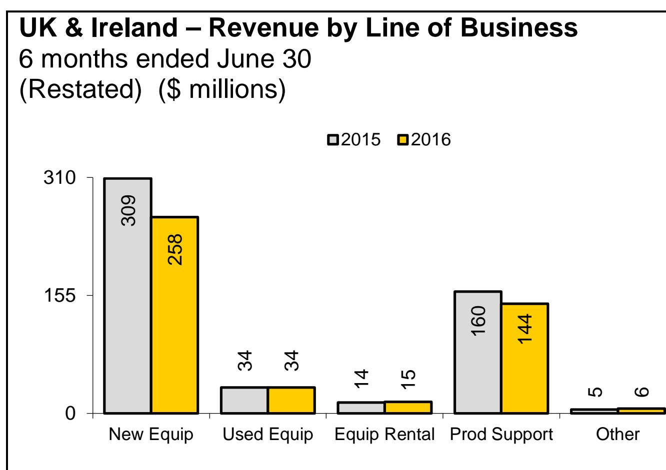


SG&A costs in the second quarter of 2016 included severance and restructuring costs of $11 million, as steps have been taken to transform the UK & Ireland operations' business, reduce its footprint, and further align the cost structure of the operations with market activity. Excluding these costs, SG&A costs were slightly lower in Q2 2016 compared to 2015.

The UK & Ireland operations reported an EBIT loss of $26 million in Q2 2016 compared to EBIT of $12 million in 2015. Excluding the significant items impacting UK results described above (severance and restructuring costs, estimated losses on certain power system projects, and write-down of net assets), Q2 2016 Adjusted EBIT loss was $5 million. EBIT was lower

than the prior year due to lower gross profit, reflecting decreased sales volumes and competitive pressures on margins, a result of weak business activity in the Company's key markets in the UK & Ireland region.

The UK & Ireland operations reported EBIT margin of (10.5)% compared to 4.2% earned in the second quarter of 2015. Excluding the significant items as noted above, Adjusted EBIT margin for Q2 2016 was (1.9)%. Current period Adjusted EBIT margin was lower than the prior year primarily due to lower margins and declining sales and provisions due to uncertainty and challenging market conditions as described above.



Year-to-Date Overview

For the six months ended June 30, 2016, revenue of $457 million was 12% lower than the same period in 2015 (down 13% in functional currency), driven primarily by decreases in new equipment revenue, as well as lower product support revenues, for similar reasons as for the second quarter described above.

Gross profit in absolute dollars and as a percentage of revenue was down in the first half of 2016 compared with the same period of 2015, reflecting reduced volumes and lower margins on most lines of business. As part of the restructuring and repositioning of the UK's power systems business, management in the UK & Ireland completed a detailed review of power systems contracts and projects in 2016. As a result of this review, management recorded a provision of $5 million in the first quarter relating to certain power systems contracts and a $5 million estimated loss on two disputed power systems projects in the second quarter.

SG&A costs were higher in the first half of 2016 compared to 2015, and included $13 million of severance and restructuring costs, primarily recorded in the second quarter as noted above. Excluding these costs, SG&A would have been slightly lower than the prior year.

The UK & Ireland operations reported an EBIT loss of $30 million in the first half of 2016 compared to EBIT of $19 million in the first six months of 2015. Excluding severance and restructuring charges as well as the provisions and estimated losses on certain power systems contracts and projects, together totalling $23 million, as well as the $5 million of costs related to the write-down of net assets in the second quarter described above, Adjusted EBIT loss was $2 million for the first half of 2016. Adjusted EBIT was lower than the prior year due to lower gross profit, reflecting decreased sales volumes and competitive pressures on margins, a result of weak business activity in the Company's key markets in the UK & Ireland region, as well as provisions and adjustments to address uncertainty in the market.

The UK & Ireland operations reported EBIT margin of (6.6)% compared to 3.7% EBIT margin in the first half of 2015. Excluding the significant items as noted above, Adjusted EBIT margin was (0.4)% for the six months ended June 30, 2016 versus 3.9% for the same period last year. Current period Adjusted EBIT margin was lower than the prior year primarily due to lower margins and declining sales as well as provisions and adjustments to address uncertainty in the market as previously discussed.

Corporate and Other Operations

Net operating costs before finance costs and income taxes from the Company's Corporate and Other Operations were $11 million in the second quarter of 2016 (year-to-date 2016: $19 million), comparable to $10 million in Q2 2015 (year-to-date 2015: $16 million). Included in this segment are corporate operating costs, as well as equity earnings from the Company's 28.8% investment in Energyst B.V.

Outlook

Canada

The mining outlook in Western Canada remains uncertain due to depressed commodity prices, particularly oil, natural gas, and coal. While market conditions appear to have stabilized, competitive pricing pressure remains intense and is impacting all segments of Finning's business: mining, construction, and power systems. Mining customers continue to minimize capital and operating expenditures. Demand for mining equipment is expected to remain soft for the balance of the year. Product support, specifically parts demand in mining, has been stronger than during the prior year, with the exception of May due to the wildfires in northern Alberta. The oil sands producers and other mining customers have parked portions of their fleets and insourced some service-related work. While there are encouraging signs of higher product support activity in the oil sands, the Company believes the recovery will be slow and dependent on the commodity markets.

In construction, demand for core equipment and product support in Alberta is very soft due to reduced customer activity as a result of the broad economic consequences of low oil and other commodity prices. The market size for construction equipment has shrunk significantly, but the Company has been growing market share. The recovery and rebuild activity in the Fort McMurray area following the wildfires is expected to translate into equipment and product support opportunities for the next 18-24 months. In addition, construction activity in British Columbia is expected to remain robust. Demand for power systems products and rental equipment continues to decrease across most sectors, notably in the oil field drilling and servicing industries.

Finning Canada is on track to transform its business to deliver improved financial and customer results. Since the end of 2014, the Company has implemented significant workforce reductions and facility closures to align its cost structure to reduced business volumes and position the organization for sustainable improvement in profitability. 2016 annual fixed costs savings from these reductions and business transformation initiatives are expected to meaningfully exceed $150 million and reduce Canada's annual fixed SG&A costs by over 20% from 2014. Canada remains on track to exit the year with an EBIT margin in the 6-7% range.

South America

In South America, concerns regarding lower demand and price for copper continue to delay investments in new projects. As a result, order intake across the mining and construction sectors is very low, and the overall demand for new equipment is expected to remain weak.

Demand for parts and service in the mining industry has been negatively impacted by reduced copper production levels 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, improving operating efficiencies, and managing costs to maintain profitability during difficult market conditions.

In Argentina, as a result of a change in government, 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 sees an opportunity in Argentina to gradually capture a larger share of the construction equipment market during the second half of 2016.

UK & Ireland

In the UK & Ireland, equipment markets in the quarry, construction, and plant hire sectors are robust, but very competitive. The outlook for electric power generation in the capacity and data centre markets also remains healthy. As the UK's equipment market is undergoing a structural shift away from the coal mining and oil & gas sectors toward general construction, the Company is implementing a strategy to lower the cost to serve customers and increase supply chain velocity by optimizing its facility footprint and restructuring its operating model. Management expects the UK & Ireland operations to return to historical profitability levels by the end of 2016.

While Brexit has not had a noticeable impact on activity levels, the outcome of the referendum creates uncertainty which impacts customer confidence and future investment decisions. It has also had an immediate impact on the currency markets with a sharp devaluation of the U.K. pound sterling. This environment further underscores the importance of the transformation of the UK's business model currently underway.

Operational Focus

As the Company manages through the downturn, it continues to advance on its operational excellence agenda in all operations. Initiatives to increase EBIT are primarily focused on growing market share across all product lines, permanently reducing fixed SG&A costs, and increasing the profitability of service operations. The expected improvement in capital efficiency will be driven through optimization of the supply chain and facility network to reduce working capital and improve asset utilization. The cost reductions and transformation initiatives completed in all three regions are expected to reduce the Company's SG&A costs by about 20 percent between 2014 and 2016 on a currency-neutral basis, excluding significant items and the Saskatchewan operation which the Company acquired July 1, 2015.

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

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

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.

	3 months ended June 30			**6 months ended June 30**		
($ millions)	**2016**	2015	Increase (Decrease) in cash	**2016**	2015	Increase (Decrease) in cash
Cash provided by (used in) operating activities	**$ 75**	$ 74	$ 1	**$ 132**	$ (150)	$ 282
Cash used in investing activities	**$ (56)**	$ (4)	$ (52)	**$ (61)**	$ (16)	$ (45)
Cash used in financing activities	**$ (57)**	$ (36)	$ (21)	**$ (129)**	$ (65)	$ (64)
Free Cash Flow	**$ 64**	$ 70	$ (6)	**$ 94**	$ (162)	$ 256

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	• comparable to second quarter of 2015 • lower earnings offset by lower supplier payments and reduced investment in rental equipment	• significantly higher than the six months ended June 30, 2015 • higher cash generation from lower equipment inventory spend • lower supplier payments, reflecting lower purchases due to market conditions and improved supply chain management • reduced investment in rental equipment • partly offset by lower earnings from all operations reflecting difficult market conditions
Cash used in investing activities	• higher use of cash due to an increase in short-term investments	• higher use of cash due to an increase in short-term investments and higher capital expenditures
Cash used in financing activities	• approximately $24 million of cash used for repayment of short-term and long-term debt in the quarter • $30 million of dividends paid in 2016 was comparable to 2015 • $17 million use of cash in the prior year quarter related to repurchase of common shares	• approximately $64 million of cash used for repayment of short-term and long-term debt • $61 million of dividends paid in 2016 was comparable to 2015 • $17 million use of cash in the prior year quarter related to repurchase of common shares

	Quarter over Quarter	Year over Year
Free cash flow	• comparable to second quarter of 2015 • lower earnings offset by lower supplier payments and reduced investment in rental equipment	• significantly higher generation of cash than the first half of 2015 • higher cash generation from lower inventory purchases and supplier payments, reduced investment in rental equipment • partly offset by lower earnings and higher capital expenditures

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 bank facility totaling $1.0 billion with various Canadian and other global financial institutions. At June 30, 2016, $0.9 billion was available under this global credit facility.

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	
	Jun 30, 2016	Dec 31, 2015	Jun 30, 2016	Dec 31, 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.

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) to purchase its common shares for cancellation. In Q2 2016, the Company did not repurchase any Finning common shares (Q2 2015: committed to repurchase 964,634 Finning common shares for cancellation at an average price of $23.85).

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 %	Jun 30, 2016	Mar 31, 2016	Dec 31, 2015	Jun 30, 2015
	37.9%	37.0%	36.7%	35.4%
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 within its syndicated bank credit facility. The Company was in compliance with this covenant at the end of Q2 2016.

Accounting Policies and Pronouncements

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 1 of the Company's interim condensed consolidated financial statements.

The adoption of recent amendments to accounting standards and new IFRS had no impact on the Company's financial results. For more details on recent changes in accounting policy, please refer to note 1 of the Company's interim condensed consolidated financial statements.

Future accounting pronouncements and effective dates are also contained in note 1 of the interim condensed 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 risks and exposures and the steps taken to monitor and control such exposures. The Audit Committee also reviews the adequacy of disclosures of key risks in the Company's AIF, MD&A, and consolidated financial statements. All key financial risks are disclosed in the annual MD&A and other key business risks are disclosed in the Company's AIF.

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

Exchange rate	June 30			December 31		3 months ended June 30 – average			6 months ended June 30 – average		
	2016	2015	Change	2015	Change	**2016**	2015	Change	**2016**	2015	Change
CAD/USD	**1.3009**	1.2474	(4.3)%	1.3840	6.0%	**1.2886**	1.2297	(4.8)%	**1.3302**	1.2354	(7.7)%
CAD/GBP	**1.7225**	1.9614	12.2%	2.0407	15.6%	**1.8484**	1.8850	1.9%	**1.9057**	1.8816	(1.3)%
CLP/USD	**661.49**	634.58	(4.2)%	710.16	6.9%	**677.25**	617.79	(9.6)%	**689.63**	621.12	(11.0)%
ARS/USD	**15.04**	9.09	(65.5)%	13.04	(15.3)%	**14.22**	8.95	(58.8)%	**14.32**	8.82	(62.3)%

The impact of foreign exchange due to fluctuation in the value of the Canadian dollar (CAD) relative to the U.S. dollar (USD), U.K. pound sterling (GBP), Chilean peso (CLP), and Argentine peso (ARS) is expected to continue to affect Finning's results.

Controls and Procedures Certification

Disclosure Controls and Procedures

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

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

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

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

Internal Control over Financial Reporting

Management is responsible for establishing and maintaining adequate internal control over financial reporting. Management has designed internal control over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements in accordance with IFRS. There has been no change in the design of the Company's internal control over financial reporting during the quarter ended June 30, 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.

Outstanding Share Data

As at July 28, 2016	
Common shares outstanding	168,101,667
Options outstanding	5,015,406

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, set out below, management believes that users are provided a better overall understanding of the Company's business and its financial performance during the relevant period than if they simply considered the IFRS 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).

Net Debt to Invested Capital

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

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

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

($ millions, except as noted)	**June 30, 2016**	December 31, 2015
Cash and cash equivalents	**$ (384)**	$ (475)
Short-term debt	**65**	117
Long-term debt	**1,470**	1,548
Net debt	**1,151**	1,190
Shareholders' equity	**1,890**	2,050
Invested capital	**$ 3,041**	$ 3,240
Net debt to invested capital	**37.9%**	36.7%

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

The most comparable GAAP financial measure to EBITDA is EBIT. A reconciliation between EBIT and EBITDA is as follows:

($ millions)	3 months ended June 30		6 months ended June 30	
	2016	2015	**2016**	2015
EBIT	**$ 29**	$ 106	**$ 74**	$ 181
Depreciation and amortization	**48**	51	**99**	102
EBITDA	**$ 77**	$ 157	**$ 173**	$ 283

A reconciliation between EBIT, Adjusted EBIT, and Adjusted EBITDA is as follows:

($ millions)	3 months ended June 30		6 months ended June 30	
	2016	2015	**2016**	2015
EBIT	**$ 29**	$ 106	**$ 74**	$ 181
Significant items [(1)]	**34**	6	**56**	25
Adjusted EBIT	**$ 63**	$ 112	**$ 130**	$ 206
Depreciation and amortization	**48**	51	**99**	102
Adjusted EBITDA	**$ 111**	$ 163	**$ 229**	$ 308

(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 and 9 in this MD&A.

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

3 months ended ($ millions)	2016 Jun 30	 Mar 31	2015 Dec 31	 Sep 30	 Jun 30	 Mar 31	2014 Dec 31	 Sep 30	 Jun 30
EBIT	$ 29	$ 45	$ (349)	$ 63	$ 106	$ 75	$ 142	$ 114	$ 137
Significant items:									
Severance costs and labour disruption costs [(1)]	9	17	2	25	6	17	—	9	6
Facility closures and restructuring costs	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 and estimated loss on disputes	5	5	—	—	—	—	—	—	—
Write-down of net assets – expected sale of non-core business	5	—	—	—	—	—	—	—	—
Acquisitions and disposal of business, net	—	—	(8)	3	—	—	—	—	—
ARS devaluation	—	—	12	—	—	—	—	—	—
Enterprise Resource Planning (ERP) write-off in South American operations	—	—	—	—	—	—	—	12	—
Adjusted EBIT	$ 63	$ 67	$ 82	$ 97	$ 112	$ 94	$ 142	$ 135	$ 143
Depreciation and amortization [(2)]	48	51	57	62	51	51	52	56	53
Adjusted EBITDA	$ 111	$ 118	$ 139	$ 159	$ 163	$ 145	$ 194	$ 191	$ 196
Adjusted EBIT – 12 months	$ 309	$ 358	$ 385	$ 445	$ 483	$ 514			
Adjusted EBITDA – 12 months	$ 527	$ 579	$ 606	$ 661	$ 693	$ 726			

(1) Labour disruption costs of $2 million incurred in Company's South American operations in Q3-14

(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 from the Canadian operations is as follows:

3 months ended	**2016**		2015				2014		
($ millions)	**Jun 30**	**Mar 31**	Dec 31	Sep 30	Jun 30	Mar 31	Dec 31	Sep 30	Jun 30
EBIT	$ 28	$ 25	$ (17)	$ 34	$ 52	$ 29	$ 73	$ 80	$ 77
Significant items:									
Severance costs	1	8	—	11	3	15	—	3	2
Facility closures and restructuring costs	—	—	40	6	—	2	—	—	—
Inventory and other asset impairments	—	—	16	—	—	—	—	—	—
Impact from Alberta wildfires – unavoidable costs	11	—	—	—	—	—	—	—	—
Adjusted EBIT	$ 40	$ 33	$ 39	$ 51	$ 55	$ 46	$ 73	$ 83	$ 79
Depreciation and amortization	25	27	31	34	26	25	26	30	28
Adjusted EBITDA	$ 65	$ 60	$ 70	$ 85	$ 81	$ 71	$ 99	$ 113	$ 107
Adjusted EBIT – 12 months	$ 163	$ 178	$ 191	$ 225	$ 257	$ 281			

A reconciliation between EBIT, Adjusted EBIT, and Adjusted EBITDA from the South American operations is as follows:

3 months ended	**2016**		2015				2014		
($ millions)	**Jun 30**	**Mar 31**	Dec 31	Sep 30	Jun 30	Mar 31	Dec 31	Sep 30	Jun 30
EBIT	$ 38	$ 32	$ (303)	$ 32	$ 52	$ 45	$ 59	$ 31	$ 56
Significant items:									
Severance costs and labour disruption	1	7	—	10	3	1	—	6	4
Facility closures and restructuring costs	—	—	3	—	—	—	—	—	—
Impairment loss on distribution network and goodwill	—	—	324	—	—	—	—	—	—
Inventory and other asset impairments	—	—	10	—	—	—	—	—	—
ARS devaluation	—	—	12	—	—	—	—	—	—
ERP write-off	—	—	—	—	—	—	—	12	—
Adjusted EBIT	$ 39	$ 39	$ 46	$ 42	$ 55	$ 46	$ 59	$ 49	$ 60
Depreciation and amortization	15	16	19	20	19	19	18	18	18
Adjusted EBITDA	$ 54	$ 55	$ 65	$ 62	$ 74	$ 65	$ 77	$ 67	$ 78
Adjusted EBIT – 12 months	$ 166	$ 182	$ 189	$ 202	$ 209	$ 214			

A reconciliation between EBIT, Adjusted EBIT, and Adjusted EBITDA from the UK & Ireland operations is as follows:

3 months ended	**2016**		2015				2014		
($ millions)	**Jun 30**	**Mar 31**	Dec 31	Sep 30	Jun 30	Mar 31	Dec 31	Sep 30	Jun 30
EBIT	$ (26)	$ (4)	$ (31)	$ 7	$ 12	$ 7	$ 11	$ 14	$ 14
Significant items:									
Severance 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	—	—	—	—	—	—	—
Write-down of net assets – expected sale of non-core business	5	—	—	—	—	—	—	—	—
Adjusted EBIT	$ (5)	$ 3	$ 3	$ 11	$ 12	$ 8	$ 11	$ 14	$ 14
Depreciation and amortization	8	8	7	8	6	7	8	8	7
Adjusted EBITDA	$ 3	$ 11	$ 10	$ 19	$ 18	$ 15	$ 19	$ 22	$ 21
Adjusted EBIT – 12 months	$ 12	$ 29	$ 34	$ 42	$ 45	$ 47			

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.

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.

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 is calculated as follows:

($ millions, except as noted)	**June 30, 2016**	December 31, 2015
EBIT – 12 months ended	**$ (212)**	$ (105)
Invested capital – four quarter average	**$ 3,292**	$ 3,530
ROIC	**(6.4)%**	(3.0)%

Adjusted ROIC is calculated as follows:

	2016		2015			
($ millions, except as noted)	**Jun 30**	**Mar 31**	Dec 31	Sep 30	Jun 30	Mar 31
Consolidated						
Adjusted EBIT – 12 months ended	**$ 309**	$ 358	$ 385	$ 445	$ 483	$ 514
Invested capital – four quarter average	**$ 3,292**	$ 3,416	$ 3,530	$ 3,496	$ 3,381	$ 3,330
Adjusted ROIC	**9.4%**	10.4%	10.9%	12.8%	14.3%	15.5%
Canada						
Adjusted EBIT – 12 months ended	**$ 163**	$ 178	$ 191	$ 225	$ 257	$ 281
Invested capital – four quarter average	**$ 1,753**	$ 1,765	$ 1,792	$ 1,721	$ 1,682	$ 1,685
Adjusted ROIC	**9.3%**	10.1%	10.6%	13.1%	15.3%	16.7%
South America						
Adjusted EBIT – 12 months ended	**$ 166**	$ 182	$ 189	$ 202	$ 209	$ 214
Invested capital – four quarter average	**$ 1,178**	$ 1,261	$ 1,357	$ 1,413	$ 1,366	$ 1,334
Adjusted ROIC	**14.2%**	14.5%	14.0%	14.3%	15.2%	16.0%
UK & Ireland						
Adjusted EBIT – 12 months ended	**$ 12**	$ 29	$ 34	$ 42	$ 45	$ 47
Invested capital – four quarter average	**$ 342**	$ 371	$ 369	$ 359	$ 335	$ 316
Adjusted ROIC	**3.3%**	7.4%	9.0%	11.9%	13.9%	15.3%

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:

($ millions)	June 30, 2016	December 31, 2015
Total current assets	**$ 3,252**	$ 3,460
Cash and cash equivalents	**(384)**	(475)
Total current assets [(1)]	**$ 2,868**	$ 2,985
Total current liabilities	**$ 1,113**	$ 1,243
Short-term debt	**(65)**	(117)
Total current liabilities [(2)]	**$ 1,048**	$ 1,126
Working capital	**$ 1,820**	$ 1,859

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

Free Cash Flow

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

	3 months ended June 30		6 months ended June 30	
($ millions)	**2016**	2015	**2016**	2015
Cash flow provided by (used in) operating activities [(1)]	**$ 75**	$ 74	**$ 132**	$ (150)
Additions to property, plant, and equipment and intangible assets [(1)]	**(17)**	(10)	**(55)**	(19)
Proceeds on disposal of property, plant, and equipment [(1)]	**6**	6	**17**	7
Free cash flow	**$ 64**	$ 70	**$ 94**	$ (162)

(1) As disclosed in the Company's consolidated statement of cash flow

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. Set out below is a description of these KPIs:

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.

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.

($ millions, except as noted)	June 30, 2016	December 31, 2015 (Restated)
Cost of sales – annualized	**$ 4,160**	$ 4,524
Inventory – two quarter average	**$ 1,714**	$ 1,897
Inventory turns (number of times)	**2.43**	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, based on an average of the last four quarters.

($ millions, except as noted)	June 30, 2016	December 31, 2015 (Restated)
Revenue – last twelve months	**$ 5,858**	$ 6,275
Invested capital – four quarter average	**$ 3,292**	$ 3,530
Invested capital turnover	**1.78**	1.78

Working Capital to Sales Ratio

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

($ millions, except as noted)	June 30, 2016	December 31, 2015 (Restated)
Working capital – four quarter average	**$ 1,899**	$ 2,023
Revenue – last twelve months	**$ 5,858**	$ 6,275
Working capital to sales	**32.4%**	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.

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.

($ millions, except as noted)	June 30, 2016	December 31, 2015
Net debt	**$ 1,151**	$ 1,190
EBITDA – 12 months ended	**$ 16**	$ 126
Net Debt to EBITDA	**71.5**	9.5
Net debt	**$ 1,151**	$ 1,190
Adjusted EBITDA – 12 months ended	**$ 527**	$ 606
Net Debt to Adjusted EBITDA	**2.2**	2.0

Selected Quarterly Information

$ millions (except for share and option data)	2016 Q2	2016 Q1	2015 (Restated) Q4	2015 (Restated) Q3	2015 (Restated) Q2	2015 (Restated) Q1	2014 Q4	2014 Q3
Revenue from operations [1]								
Canada	**$ 634**	$ 852	$ 714	$ 743	$ 869	$ 800	$ 946	$ 866
South America	**431**	430	528	509	539	491	593	517
UK & Ireland	**245**	212	295	265	272	250	264	287
Total revenue	**$ 1,310**	$ 1,494	$ 1,537	$ 1,517	$ 1,680	$ 1,541	$ 1,803	$ 1,670
Net income (loss) [1] [2] [3]	**$ 5**	$ 15	$ (309)	$ 33	$ 62	$ 53	$ 107	$ 57
Earnings Per Share [1] [2] [3]								
Basic EPS	**$ 0.03**	$ 0.09	$ (1.82)	$ 0.19	$ 0.36	$ 0.31	$ 0.62	$ 0.33
Diluted EPS	**$ 0.03**	$ 0.09	$ (1.82)	$ 0.19	$ 0.36	$ 0.31	$ 0.62	$ 0.33
Total assets [1]	**$ 4,754**	$ 4,870	$ 5,108	$ 5,520	$ 5,324	$ 5,354	$ 5,273	$ 5,237
Long-term debt								
Current	**$ —**	$ —	$ —	$ —	$ —	$ —	$ —	$ 1
Non-current	**1,470**	1,492	1,548	1,553	1,482	1,477	1,418	1,408
Total long-term debt [4]	**$ 1,470**	$ 1,492	$ 1,548	$ 1,553	$ 1,482	$ 1,477	$ 1,418	$ 1,409
Cash dividends paid per common share	**18.25¢**	18.25¢	18.25¢	18.25¢	18.25¢	17.75¢	17.75¢	17.75¢
Common shares outstanding (000's)	**168,102**	168,034	168,031	169,612	171,692	172,374	172,370	172,369
Options outstanding (000's)	**5,026**	5,102	5,171	5,315	5,390	4,145	4,226	4,237

[1] In July 2015, the Company's Canadian operations acquired the assets of Kramer Ltd. 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)	**Q2 2016**	Q1 2016	Annual 2015	Q4 2015	Q3 2015	Q2 2015	Q1 2015
Distribution network and goodwill impairment	**$ —**	$ —	$ 338	$ 338	$ —	$ —	$ —
Impact from Alberta wildfires – unavoidable costs	**11**	—	—	—	—	—	—
Facility closures and restructuring costs	**4**	—	53	45	6	—	2
Severance costs [a]	**9**	17	48	2	25	6	17
Power system project provisions and estimated loss on disputes	**5**	5	—	—	—	—	—
Inventory and other asset impairments	**—**	—	42	42	—	—	—
FX and tax impact on devaluation of ARS	**—**	—	12	12	—	—	—
Acquisition and disposal of businesses, net	**5**	—	(5)	(8)	3	—	—
Impact of significant items [a][b] on EBIT:	**$ 34**	$ 22	$ 488	$ 431	$ 34	$ 6	$ 19
Capital loss utilized / tax rate change impact on EPS:	**—**	—	$ (0.05)	—	—	$ 0.01	$ (0.06)
Impact of significant items [a] on EPS:	**$ 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] 2014 results were impacted by the following significant items:

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

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

Forward-Looking Disclaimer

This report contains statements about the Company's business outlook, objectives, plans, strategic priorities and other statements that are not historical facts. A statement Finning makes is forward-looking when it uses what the Company knows and expects today to make a statement about the future. Forward-looking statements may include words such as aim, anticipate, assumption, believe, could, expect, goal, guidance, intend, may, objective, outlook, plan, project, seek, should, strategy, strive, target, and will. Forward-looking statements in this report include, but are not limited to, statements with respect to: expectations with respect to the economy and associated impact on the Company's financial results; workforce reductions; distribution network and goodwill impairment; facility closures; expected revenue; expected free cash flow; EBIT margin; expected profitability levels; expected range of the effective tax rate; ROIC; market share growth; expected results from service excellence action plans; expected results from cost reductions and transformation initiatives; anticipated asset utilization; inventory turns and parts service levels; the expected target range of the Company's net debt to invested capital ratio; estimated loss on disputes regarding two power system projects in the UK, anticipated sale of non-core business in the U.K.; and the expected financial impact from the Alberta wildfires. 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 August 2, 2016. Except as may be required by Canadian securities laws, Finning does not undertake any obligation to update or revise any forward-looking statement, whether as a result of new information, future events, or otherwise.

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

Forward-looking statements made in this report are based on a number of assumptions that Finning believed were reasonable on the day the Company made the forward-looking statements. Refer in particular to the Outlook section of this MD&A 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 hereof. The financial impact of these transactions and non-recurring and other unusual items can be complex and depends on the facts particular to each of them. Finning therefore cannot describe the expected impact in a meaningful way or in the same way Finning presents known risks affecting its business.

UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(Canadian $ millions)		**June 30, 2016**		December 31, 2015
ASSETS				
Current assets				
Cash and cash equivalents	**$**	**384**	$	475
Accounts receivable		**813**		837
Service work in progress		**105**		99
Inventories		**1,688**		1,800
Other assets		**262**		249
Total current assets		**3,252**		3,460
Property, plant, and equipment		**632**		677
Rental equipment		**355**		441
Distribution network		**100**		101
Goodwill		**119**		129
Intangible assets		**67**		49
Investments in joint venture and associate		**92**		103
Other assets		**137**		148
Total assets	**$**	**4,754**	$	5,108
LIABILITIES				
Current liabilities				
Short-term debt	**$**	**65**	$	117
Accounts payable and accruals		**726**		801
Deferred revenue		**251**		259
Provisions		**61**		60
Other liabilities		**10**		6
Total current liabilities		**1,113**		1,243
Long-term debt		**1,470**		1,548
Net employee benefit obligations		**98**		82
Other liabilities		**183**		185
Total liabilities	**$**	**2,864**	$	3,058
SHAREHOLDERS' EQUITY				
Share capital	**$**	**571**	$	570
Contributed surplus		**2**		—
Accumulated other comprehensive income		**225**		326
Retained earnings		**1,092**		1,154
Total shareholders' equity		**1,890**		2,050
Total liabilities and shareholders' equity	**$**	**4,754**	$	5,108

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

UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENTS OF NET INCOME

(Canadian $ millions, except share and per share amounts)	3 months ended June 30		6 months ended June 30	
	2016	2015 (Restated Note 1a)	**2016**	2015 (Restated Note 1a)
Revenue				
New equipment	**$ 377**	$ 639	**$ 892**	$ 1,191
Used equipment	**101**	106	**199**	173
Equipment rental	**53**	68	**109**	139
Product support	**775**	863	**1,596**	1,710
Other	**4**	4	**8**	8
Total revenue	**1,310**	1,680	**2,804**	3,221
Cost of sales	**(967)**	(1,245)	**(2,080)**	(2,372)
Gross profit	**343**	435	**724**	849
Selling, general, and administrative expenses	**(315)**	(331)	**(652)**	(671)
Equity earnings of joint venture and associate	**6**	2	**7**	3
Other expenses (Note 4)	**(5)**	—	**(5)**	—
Earnings before finance costs and income taxes	**29**	106	**74**	181
Finance costs (Note 5)	**(21)**	(21)	**(43)**	(40)
Income before provision for income taxes	**8**	85	**31**	141
Provision for income taxes	**(3)**	(23)	**(11)**	(26)
Net income	**$ 5**	$ 62	**$ 20**	$ 115
Earnings per share (Note 3)				
Basic	**$ 0.03**	$ 0.36	**$ 0.12**	$ 0.66
Diluted	**$ 0.03**	$ 0.36	**$ 0.12**	$ 0.66
Weighted average number of shares outstanding				
Basic	**168,088,264**	172,313,624	**168,060,197**	172,343,369
Diluted	**168,131,332**	172,607,841	**168,105,930**	172,601,244

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

UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE (LOSS) INCOME

(Canadian $ millions)	3 months ended June 30 2016	3 months ended June 30 2015	6 months ended June 30 2016	6 months ended June 30 2015
Net income	**$ 5**	$ 62	**$ 20**	$ 115
Other comprehensive (loss) income, net of income tax				
Items that may be subsequently reclassified to net income:				
Foreign currency translation adjustments	**(17)**	(11)	**(154)**	155
Share of foreign currency translation adjustments of joint venture and associate	**(11)**	—	**(12)**	—
Unrealized gain (loss) on net investment hedges	**9**	6	**64**	(54)
Income tax expense on foreign currency translation adjustments and net investment hedges	**—**	—	**—**	(10)
Net (loss) gain on foreign currency translation and net investment hedges, net of income tax	**(19)**	(5)	**(102)**	91
Unrealized gain (loss) on cash flow hedges	**1**	(1)	**(2)**	(3)
Realized loss on cash flow hedges, reclassified to earnings	**—**	2	**1**	3
Realized loss on cash flow hedges, reclassified to balance sheet	**2**	—	**2**	—
Income tax recovery on cash flow hedges	**(1)**	—	**—**	—
Gain on cash flow hedges, net of income tax	**2**	1	**1**	—
Items that will not be subsequently reclassified to net income:				
Actuarial (loss) gain (Note 7)	**(13)**	16	**(26)**	35
Income tax recovery (expense) on actuarial (loss) gain	**1**	(4)	**5**	(7)
Actuarial (loss) gain, net of income tax	**(12)**	12	**(21)**	28
Total comprehensive (loss) income	**$ (24)**	$ 70	**$ (102)**	$ 234

UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

(Canadian $ millions, except share amounts)	Share Capital: 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 income	—	—	—	—	—	115	115
Other comprehensive income	—	—	—	91	—	28	119
Total comprehensive income	—	—	—	91	—	143	234
Issued on exercise of share options	27,945	—	—	—	—	—	—
Share option expense	—	—	4	—	—	—	4
Repurchase of common shares	(706,534)	(2)	(21)	—	—	—	(23)
Dividends on common shares	—	—	—	—	—	(62)	(62)
Balance, June 30, 2015	171,691,666	$ 581	$ 22	$ 205	$ (13)	$ 1,489	$ 2,284
Balance, January 1, 2016	**168,031,428**	**$ 570**	**$ —**	**$ 327**	**$ (1)**	**$ 1,154**	**$ 2,050**
Net income	**—**	**—**	**—**	**—**	**—**	**20**	**20**
Other comprehensive (loss) income	**—**	**—**	**—**	**(102)**	**1**	**(21)**	**(122)**
Total comprehensive (loss) income	**—**	**—**	**—**	**(102)**	**1**	**(1)**	**(102)**
Issued on exercise of share options	**70,239**	**1**	**(1)**	**—**	**—**	**—**	**—**
Share option expense	**—**	**—**	**3**	**—**	**—**	**—**	**3**
Dividends on common shares	**—**	**—**	**—**	**—**	**—**	**(61)**	**(61)**
Balance, June 30, 2016	**168,101,667**	**$ 571**	**$ 2**	**$ 225**	**$ —**	**$ 1,092**	**$ 1,890**

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

UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOW

	3 months ended June 30		6 months ended June 30	
(Canadian $ millions)	**2016**	2015	**2016**	2015
OPERATING ACTIVITIES				
Net income	**$ 5**	$ 62	**$ 20**	$ 115
Adjusting for:				
Depreciation and amortization	**48**	51	**99**	102
Gain on disposal of rental equipment and property, plant, and equipment	**—**	(10)	**(2)**	(17)
Equity earnings of joint venture and associate	**(6)**	(2)	**(7)**	(3)
Share-based payment expense	**8**	5	**10**	4
Provision for income taxes	**3**	23	**11**	26
Finance costs	**21**	21	**43**	40
Defined benefit and other post-employment benefit expense (Note 7)	**4**	4	**7**	9
Other	**(3)**	—	**(3)**	—
Changes in operating assets and liabilities (Note 8)	**23**	(14)	**(8)**	(325)
Additions to rental equipment	**(36)**	(73)	**(73)**	(110)
Proceeds on disposal of rental equipment	**59**	51	**108**	81
Interest paid	**(29)**	(27)	**(41)**	(35)
Income tax paid	**(22)**	(17)	**(32)**	(37)
Cash flow provided by (used in) operating activities	**75**	74	**132**	(150)
INVESTING ACTIVITIES				
Additions to property, plant, and equipment, and intangible assets	**(17)**	(10)	**(55)**	(19)
Proceeds on disposal of property, plant, and equipment	**6**	6	**17**	7
Proceeds on disposal of subsidiary	**8**	—	**8**	—
Increase in short-term investments	**(53)**	—	**(31)**	(4)
Cash flow used in investing activities	**(56)**	(4)	**(61)**	(16)
FINANCING ACTIVITIES				
(Decrease) increase in short-term debt	**(10)**	3	**(51)**	6
(Decrease) increase in long-term debt	**(14)**	9	**(13)**	8
Decrease in finance lease liabilities	**(3)**	—	**(4)**	—
Repurchase of common shares	**—**	(17)	**—**	(17)
Dividends paid	**(30)**	(31)	**(61)**	(62)
Cash flow used in financing activities	**(57)**	(36)	**(129)**	(65)
Effect of currency translation on cash balances	**(3)**	(1)	**(33)**	25
(Decrease) increase in cash and cash equivalents	**(41)**	33	**(91)**	(206)
Cash and cash equivalents, beginning of period	**425**	211	**475**	450
Cash and cash equivalents, end of period (Note 8)	**$ 384**	$ 244	**$ 384**	$ 244

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

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

These unaudited interim condensed consolidated financial statements (Interim Statements) of Finning International Inc. and its subsidiaries (together, "Finning" or the "Company") have been prepared in accordance with International Accounting Standard (IAS) 34, *Interim Financial Reporting,* as issued by the International Accounting Standard Board (IASB). Accordingly, certain information and footnote disclosure normally included in annual financial statements prepared in accordance with International Financial Reporting Standards (IFRS) have been omitted or condensed, and therefore these Interim Statements should be read in conjunction with the December 31, 2015 audited annual consolidated financial statements and the notes.

These Interim Statements are based on the IFRS issued and effective as of August 2, 2016, the date these Interim Statements were authorized for issuance by the Company's Board of Directors, and follow the same accounting policies and methods of computation as the most recent annual consolidated financial statements, except for the impact of the changes in accounting policy disclosed below:

(a) Changes in Accounting 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. The impact of these reclassifications on each respective line item for the 2015 comparative period and for the year ended December 31, 2015 is as follows:

($ millions)	3 months ended June 30, 2015		6 months ended June 30, 2015		Year ended December 31, 2015	
Increase in revenue	$	24	$	46	$	85
Increase in cost of sales	$	(70)	$	(138)	$	(258)
Decrease on gross profit	$	(46)	$	(92)	$	(173)
Decrease in selling, general, and administrative expense	$	46	$	92	$	173

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

The Company has adopted the following amendment to IFRS:

- Amendments to IAS 1, *Presentation of Financial Statements* (effective January 1, 2016) are designed to encourage companies to apply professional judgment in determining what information to disclose in their financial statements. For example, the amendments make clear that materiality applies to the whole of financial statements and that the inclusion of immaterial information can inhibit the usefulness of financial disclosures. The Company's Interim Statements have been prepared to include only those disclosures which are considered material.

(b) Future Accounting Pronouncements

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

- 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 in their interim financial statements beginning January 1, 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.
- IFRS 15, *Revenue from Contracts with Customers* (effective date January 1, 2018) outlines a single comprehensive model for companies to use in accounting for revenue arising from contracts with customers. Management is currently assessing the impact of the new standard.
- IFRS 16, *Leases* (effective January 1, 2019) introduces new requirements for the classification and measurement of leases. Management is currently assessing the impact of the new standard.

2. SEGMENTED INFORMATION

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

3 months ended June 30, 2016 ($ millions)	**Canada**	**South America**	**UK & Ireland**	**Other**	**Consolidated**
Revenue from external sources	**$ 634**	**$ 431**	**$ 245**	**$ —**	**$ 1,310**
Operating costs	**(587)**	**(378)**	**(258)**	**(11)**	**(1,234)**
Depreciation and amortization	**(25)**	**(15)**	**(8)**	**—**	**(48)**
Equity earnings of joint venture and associate	**6**	**—**	**—**	**—**	**6**
Other expenses	**—**	**—**	**(5)**	**—**	**(5)**
Earnings (loss) before finance costs and income taxes	**$ 28**	**$ 38**	**$ (26)**	**$ (11)**	**$ 29**
Finance costs					**(21)**
Provision for income taxes					**(3)**
Net income					**$ 5**
Invested capital [1]	**$ 1,695**	**$ 1,072**	**$ 263**	**$ 11**	**$ 3,041**
Total assets	**$ 2,203**	**$ 1,910**	**$ 583**	**$ 58**	**$ 4,754**
Capital and rental equipment [2]	**$ 585**	**$ 341**	**$ 127**	**$ 1**	**$ 1,054**
Gross capital expenditures [3]	**$ 13**	**$ 3**	**$ 1**	**$ —**	**$ 17**
Gross rental asset expenditures [3]	**$ 22**	**$ 10**	**$ 18**	**$ —**	**$ 50**

3 months ended June 30, 2015 ($ millions) (Restated – Note 1a)	Canada	South America	UK & Ireland	Other	Consolidated
Revenue from external sources	$ 869	$ 539	$ 272	$ —	$ 1,680
Operating costs	(792)	(468)	(254)	(11)	(1,525)
Depreciation and amortization	(26)	(19)	(6)	—	(51)
Equity earnings of joint venture and associate	1	—	—	1	2
Earnings (loss) before finance costs and income taxes	$ 52	$ 52	$ 12	$ (10)	$ 106
Finance costs					(21)
Provision for income taxes					(23)
Net income					$ 62
Invested capital [1]	$ 1,745	$ 1,402	$ 381	$ 8	$ 3,536
Total assets	$ 2,343	$ 2,160	$ 735	$ 86	$ 5,324
Capital and rental equipment [2]	$ 628	$ 339	$ 139	$ 1	$ 1,107
Gross capital expenditures [3]	$ 5	$ 4	$ 1	$ —	$ 10
Gross rental asset expenditures [3]	$ 48	$ 9	$ 15	$ —	$ 72

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

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

6 months ended June 30, 2016 ($ millions)	**Canada**	**South America**	**UK & Ireland**	**Other**	**Consolidated**
Revenue from external sources	**$ 1,486**	**$ 861**	**$ 457**	**$ —**	**$ 2,804**
Operating costs	**(1,388)**	**(760)**	**(466)**	**(19)**	**(2,633)**
Depreciation and amortization	**(52)**	**(31)**	**(16)**	**—**	**(99)**
Equity earnings of joint venture and associate	**7**	**—**	**—**	**—**	**7**
Other expenses	**—**	**—**	**(5)**	**—**	**(5)**
Earnings (loss) before finance costs and income taxes	**$ 53**	**$ 70**	**$ (30)**	**$ (19)**	**$ 74**
Finance costs					**(43)**
Provision for income taxes					**(11)**
Net income					**$ 20**
Invested capital [(1)]	**$ 1,695**	**$ 1,072**	**$ 263**	**$ 11**	**$ 3,041**
Total assets	**$ 2,203**	**$ 1,910**	**$ 583**	**$ 58**	**$ 4,754**
Capital and rental equipment [(2)]	**$ 585**	**$ 341**	**$ 127**	**$ 1**	**$ 1,054**
Gross capital expenditures [(3)]	**$ 20**	**$ 33**	**$ 2**	**$ —**	**$ 55**
Gross rental asset expenditures [(3)]	**$ 47**	**$ 16**	**$ 24**	**$ —**	**$ 87**

6 months ended June 30, 2015 ($ millions) (Restated – Note 1a)	Canada	South America	UK & Ireland	Other	Consolidated
Revenue from external sources	$ 1,669	$ 1,030	$ 522	$ —	$ 3,221
Operating costs	(1,538)	(895)	(490)	(18)	(2,941)
Depreciation and amortization	(51)	(38)	(13)	—	(102)
Equity earnings of joint venture and associate	1	—	—	2	3
Earnings (loss) before finance costs and income taxes	$ 81	$ 97	$ 19	$ (16)	$ 181
Finance costs					(40)
Provision for income taxes					(26)
Net income					$ 115
Invested capital [(1)]	$ 1,745	$ 1,402	$ 381	$ 8	$ 3,536
Total assets	$ 2,343	$ 2,160	$ 735	$ 86	$ 5,324
Capital and rental equipment [(2)]	$ 628	$ 339	$ 139	$ 1	$ 1,107
Gross capital expenditures [(3)]	$ 8	$ 9	$ 3	$ —	$ 20
Gross rental asset expenditures [(3)]	$ 79	$ 12	$ 19	$ —	$ 110

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

3. Earnings Per Share

($ millions, except share and per share amounts)	3 months ended June 30			6 months ended June 30		
2016	**Income**	**Shares**	**Per Share**	**Income**	**Shares**	**Per Share**
Basic EPS:						
Net income	**$ 5**	**168,088,264**	**$ 0.03**	**$ 20**	**168,060,197**	**$ 0.12**
Effect of dilutive securities: share options	**—**	**43,068**	**—**	**—**	**45,733**	**—**
Diluted EPS:						
Net income and assumed conversions	**$ 5**	**168,131,332**	**$ 0.03**	**$ 20**	**168,105,930**	**$ 0.12**
2015						
Basic EPS:						
Net income	$ 62	172,313,624	$ 0.36	$ 115	172,343,369	$ 0.66
Effect of dilutive securities: share options	—	294,217	—	—	257,875	—
Diluted EPS:						
Net income and assumed conversions	$ 62	172,607,841	$ 0.36	$ 115	172,601,244	$ 0.66

4. Other Expenses

($ millions)	3 months ended June 30		6 months ended June 30	
	2016	2015	**2016**	2015
Other expenses (a)	**$ 5**	$ —	**$ 5**	$ —

(a) 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 is expected to occur in early August 2016.

5. Finance Costs

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

($ millions)	3 months ended June 30		6 months ended June 30	
	2016	2015	**2016**	2015
Interest on short-term debt	**$ 1**	$ —	**$ 2**	$ 1
Interest on long-term debt	**17**	17	**34**	33
Interest on debt securities	**18**	17	**36**	34
Net interest cost on post-employment benefit obligations (Note 7)	**1**	2	**1**	3
Other finance related expenses	**2**	2	**6**	3
Finance costs	**$ 21**	$ 21	**$ 43**	$ 40

6. SHARE-BASED PAYMENTS

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

Share Options

Details of the share option plans are as follows:

	June 30, 2016			June 30, 2015		
6 months ended	**Options**		**Weighted Average Exercise Price**	Options		Weighted Average Exercise Price
Options outstanding, beginning of period	**5,170,689**	**$**	**24.78**	4,225,873	$	24.65
Granted	**489,464**	**$**	**21.83**	1,588,910	$	25.44
Exercised [(1)]	**(297,534)**	**$**	**15.81**	(78,005)	$	15.82
Forfeited	**(336,343)**	**$**	**26.27**	(346,868)	$	28.78
Options outstanding, end of period	**5,026,276**	**$**	**24.93**	5,389,910	$	24.74
Options exercisable, end of period	**3,166,229**	**$**	**24.85**	2,628,198	$	23.56

[(1)] Share options exercised in 2016 were cashless exercises. Under the 2005 Stock Option Plan, exercises generally utilize the cashless method, whereby the actual number of shares issued is represented by the premium between the fair value at the time of exercise and the grant value, and the equivalent value of the number of options up to the grant value is withheld. 297,534 options were exercised in 2016 under the 2005 Stock Option Plan resulting in 70,239 common shares issued; 227,295 options were withheld and returned to the option pool for future issues/grants.

In the second quarter of 2016, the Company granted 489,464 common share options to senior executives and management of the Company (Q2 2015: 1,588,910 common share options). The Company's practice is to grant and price share options only when all material information has been disclosed to the market.

The fair value of the options granted in 2016 has been estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted-average assumptions:

Dividend yield	2.54%
Expected volatility [(2)]	30.56%
Risk-free interest rate	0.75%
Expected life	5.45 years

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

The weighted average grant date fair value of options granted during the six month period was $4.64 (2015: $5.42).

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 with significant changes subsequent to December 31, 2015 are as follows:

Executives' Deferred Share Unit Plan

In May 2015, the Board of Directors approved a new Deferred Share Unit (DSU) Plan for executives. Under the Executive Deferred Share Unit (DSU) Plan, executives of the Company may elect to have a portion of their annual bonus be issued in the form of DSU units. This plan utilizes notional units that become fully vested at the time of issuance. Vested deferred share units are redeemable by December 15th of the year following the year employment ceases. Vested units accumulate dividend equivalents in the form of additional units based on the dividends paid on the Company's common shares.

During Q1 2016, 24,250 units (2015: nil units) were granted to Executives in lieu of Short-Term Incentive Plan payments and 436 units were issued as payment for notional dividends in the six months ended June 30, 2016.

Directors' Deferred Share Unit Plan A

Under the Deferred Share Unit Plan for members of the Board of Directors, non-employee Directors of the Company were granted a total of 21,040 share units in Q2 2016 (Q2 2015: 19,450 share units).

Performance Share Unit Plan

All PSUs granted in 2016 were divided equally into two categories: Total Shareholder Return (TSR) PSUs and Return on Invested Capital (ROIC) PSUs. Half of the awards is based on the extent to which the Company's average return on invested capital achieves or exceeds the specified performance levels over a three-year period (ROIC PSUs). The remaining half of the awards is based on the performance of the Company's share price over the three-year period relative to the performance of the share prices of all companies in the S&P/TSX Capped Industrials Index (TSR PSUs). Vested performance share units are redeemable in cash based on the common share price at the end of the performance period. PSUs have a variable payout (0%-200%). Executives of the Company were granted a total of 626,480 PSUs in Q2 2016, based on 100% vesting (Q2 2015: 443,280 PSUs).

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. Units accumulate dividend equivalents in the form of additional units based on the dividends paid on the Company's common shares.

Restricted share units are redeemable in cash based on the common share price at the end of the three-year period. During Q2 2016, 262,637 units (2015: nil units) were granted to Executives and 2,190 units were issued as payment for notional dividends.

7. Post-Employment Employee Benefits

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

	June 30, 2016			June 30, 2015		
	Canada	**UK**	**South America**	Canada	UK	South America
Discount rate – obligation	**3.3%**	**2.8%**	**1.6%**	3.8%	3.8%	1.5%
Discount rate – expense [(1)]	**3.9%**	**3.7%**	**1.5%**	3.8%	3.4%	2.2%
Retail price inflation – obligation	**n/a**	**2.9%**	**n/a**	n/a	3.3%	n/a
Retail price inflation – expense [(1)]	**n/a**	**3.2%**	**n/a**	n/a	3.2%	n/a

[(1)] Used to determine the net interest cost and expense for the three and six months ended June 30, 2016 and June 30, 2015.

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

3 months ended ($ millions)	**June 30, 2016**				June 30, 2015			
	Canada	**UK**	**South America**	**Total**	Canada	UK	South America	Total
Current service cost and administration costs, net of employee contributions	**$ 1**	**$ 1**	**$ 2**	**$ 4**	$ 2	$ 1	$ 1	$ 4
Net interest cost	**1**	**—**	**—**	**1**	1	—	1	2
Net benefit cost	**$ 2**	**$ 1**	**$ 2**	**$ 5**	$ 3	$ 1	$ 2	$ 6
Actuarial (gain) loss on plan assets	**$ (20)**	**$ (46)**	**$ —**	**$ (66)**	$ 23	$ 32	$ —	$ 55
Actuarial loss (gain) on plan liabilities	**7**	**73**	**(1)**	**79**	(31)	(40)	—	(71)
Total actuarial (gain) loss recognized in other comprehensive income	**$ (13)**	**$ 27**	**$ (1)**	**$ 13**	$ (8)	$ (8)	$ —	$ (16)

6 months ended ($ millions)	**June 30, 2016**				June 30, 2015			
	Canada	**UK**	**South America**	**Total**	Canada	UK	South America	Total
Current service cost and administration costs, net of employee contributions	**$ 3**	**$ 1**	**$ 3**	**$ 7**	$ 5	$ 1	$ 3	$ 9
Net interest cost	**1**	**—**	**—**	**1**	1	1	1	3
Net benefit cost	**$ 4**	**$ 1**	**$ 3**	**$ 8**	$ 6	$ 2	$ 4	$ 12
Actuarial (gain) loss on plan assets	**$ (24)**	**$ (72)**	**$ —**	**$ (96)**	$ (8)	$ 9	$ —	$ 1
Actuarial loss (gain) on plan liabilities	**29**	**86**	**7**	**122**	(2)	(38)	4	(36)
Total actuarial loss (gain) recognized in other comprehensive income	**$ 5**	**$ 14**	**$ 7**	**$ 26**	$ (10)	$ (29)	$ 4	$ (35)

8. Supplemental Cash Flow Information

The components of cash and cash equivalents are as follows:

June 30 ($ millions)	2016	2015
Cash	$ 164	$ 175
Cash equivalents	220	69
Cash and cash equivalents	$ 384	$ 244

The changes in operating assets and liabilities are as follows:

	3 months ended June 30		6 months ended June 30	
($ millions)	2016	2015	2016	2015
Accounts receivable	$ 9	$ 2	$ (20)	$ 47
Service work in progress	2	6	(10)	(2)
Inventories	38	53	32	(192)
Other assets	(16)	(23)	21	43
Accounts payable and accruals	(11)	(70)	(31)	(211)
Other liabilities	1	18	—	(10)
Changes in operating assets and liabilities	$ 23	$ (14)	$ (8)	$ (325)

9. Acquisitions

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 has finalized its purchase price allocation. 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 the first half of 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, and customer bases across Finning's territory in British Columbia, Alberta, Yukon, Northwest Territories and part of Nunavut with Kramer's presence in Saskatchewan. The goodwill is assigned to the Company's Canada operating segment. 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 income of 2015. Since the acquisition date to June 30, 2016, the acquiree earned $207 million of revenue and $11 million in net income.