DRIVING VALUE

2012 Financial Report
FINNING INTERNATIONAL INC.

MANAGEMENT'S DISCUSSION AND ANALYSIS

February 12, 2013

This discussion and analysis of the financial results of Finning International Inc. (Finning or the Company) should be read in conjunction with the consolidated audited annual financial statements for the year ended December 31, 2012 and accompanying notes. The results reported herein have been prepared in accordance with International Financial Reporting Standards (IFRS) and are presented in Canadian dollars unless otherwise stated. Additional information relating to the Company, including its current Annual Information Form (AIF), can be found on the SEDAR (System for Electronic Document Analysis and Retrieval) website at www.sedar.com.

Results of Operations and Significant Developments

In 2012, the Company successfully completed its acquisition of the former Bucyrus International Inc. distribution and support business (Bucyrus) from Caterpillar Inc. (Caterpillar) in all its dealership territories. Adopting a sequenced integration approach to ensure a smooth transition in each of its operations, the Company completed the transaction in Finning's South American and U.K. and Ireland territories in the second quarter of 2012, while Finning (Canada)'s portion of the acquisition closed in the fourth quarter. This acquisition is strategically important as it allows Finning to sell and support a very comprehensive product line in the mining industry to meet customers' surface and underground mining needs. The total transaction was valued at approximately $460 million (U.S. $466 million) and was financed with debt. The amount of revenue and net income from Bucyrus since acquisition was approximately $233 million and $16 million, respectively. This amounted to approximately $0.09 per share of incremental profit since acquisition.

In the first quarter of 2012 the Company acquired 100% of the shares of Damar Group Ltd. (Damar), an engineering company specializing in the water utility sector in the U.K. The acquired business provides opportunities for Finning to increase market share in the U.K. and Ireland water utility industries. It also increases Finning's mechanical, electrical and civil engineering capability to deliver a wide range of projects within its target power systems markets, which is a key strategic objective of the Company's UK and Ireland operations. Consideration of $10.2 million (£6.5 million) was paid to complete the acquisition in the first quarter of 2012. The amount of revenue from Damar since the acquisition was $17.5 million (£11.0 million), resulting in a marginal net loss.

The results described in this Management's Discussion and Analysis (MD&A) include those of acquired businesses from the acquisition date.

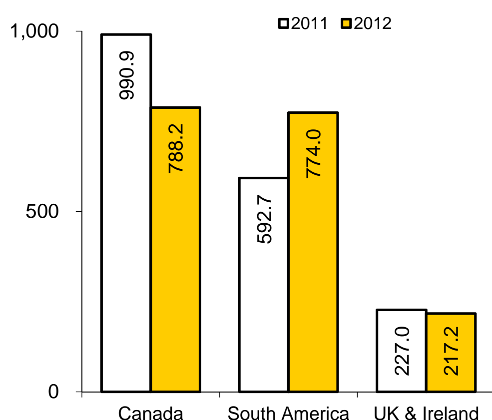
Fourth Quarter Overview

	Q4 2012	Q4 2011	**Q4 2012**	Q4 2011
	($ millions)		(% of revenue)	
Revenue	**$ 1,779.4**	$ 1,810.6		
Gross profit	**521.9**	474.5	**29.3%**	26.2%
Selling, general & administrative expenses (SG&A)	**(382.4)**	(367.0)	**(21.5)%**	(20.3)%
Equity earnings of joint venture and associate	**2.5**	3.0	**0.2%**	0.2%
Other income/(expenses)	**7.8**	(3.2)	**0.4%**	(0.2)%
Earnings before finance costs and income taxes (EBIT)	**149.8**	107.3	**8.4%**	5.9%
Finance costs	**(23.3)**	(14.4)	**(1.3)%**	(0.8)%
Provision for income taxes	**(21.1)**	(22.3)	**(1.2)%**	(1.2%)
Net income	**$ 105.4**	$ 70.6	**5.9%**	3.9%
Basic earnings per share (EPS)	**$ 0.61**	$ 0.41		
Earnings before finance costs, income taxes, depreciation, and amortization (EBITDA) [1]	**$ 205.1**	$ 155.7	**11.5%**	8.6%
Free Cash Flow [1] [2]	**$ 244.8**	$ 280.7		

(1) These amounts do not have a standardized meaning under IFRS, which are also referred to herein as generally accepted accounting principles (GAAP). For a reconciliation of these amounts to net income and cash flow from operating activities, see the heading "Description of Non-GAAP and Additional GAAP Measures" below.

(2) Free Cash Flow is defined as cash provided by (used in) operating activities less net additions to property, plant, and equipment and intangible assets, as disclosed in the Company's consolidated statements of cash flow.

Revenue by Operation
($ millions)
Three months ended December 31



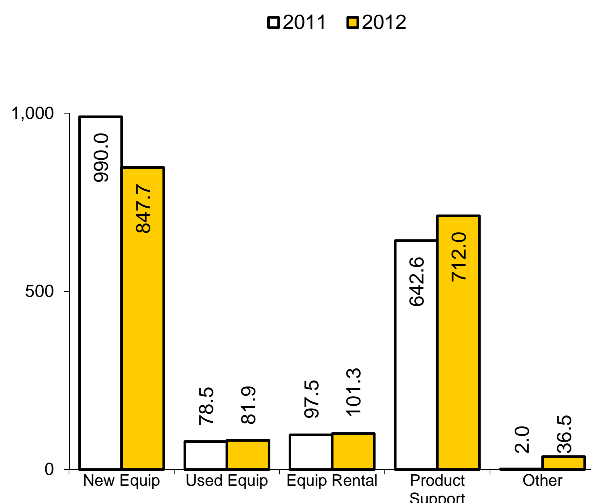
Fourth quarter consolidated revenues of $1.8 billion were down 1.7% from the comparable quarter in 2011, with lower revenues in the Company's Canadian and UK and Ireland operations, partially offset by an increase in Finning South America. The decrease in revenues was primarily driven by lower new equipment sales; however, product support revenues were up 10.8% compared to the fourth quarter of 2011.

Prior year fourth quarter revenues in the Company's Canadian operations were particularly strong due to significant deliveries in the mining sector, combined with equipment deliveries that had been delayed from the third quarter of 2011 as a result of the Company's enterprise resource planning (ERP) implementation challenges. Despite a 36.4% reduction in new equipment revenues in the fourth quarter of 2012 compared to the same period last year, total revenues in Canada were down only 20.4% demonstrating the continued demand in product support.

Revenues from the Company's operations in South America increased 30.6% over the fourth quarter of 2011 and increased 34.8% in functional currency (the U.S. dollar). The increase was driven by record sales levels in all lines of business except rental, with increased demand in mining, including revenues from the former Bucyrus product line. New equipment revenues increased 19.4% (23.2% in functional currency) compared to the same period last year, while product support revenues were up 29.1% (33.2% in functional currency).

Revenues from the UK and Ireland operations were down 4.3% over the fourth quarter of 2011 and were down 3.4% in functional currency (the U.K. pound sterling). The decrease was largely due to lower new equipment and product sales (4.2% and 5.1% lower, respectively, in functional currency).

Revenue by Line of Business
($ millions)
Three months ended December 31



On a consolidated basis, product support revenues, which typically return higher margins than new equipment sales, were up 10.8% compared with the same quarter last year, driven by record levels in the Company's South American operations. The growth in product support revenues reflects the growing installed base of equipment in the mining and construction market segments across the Company's regions, especially in Finning South America, as well as revenues from the newly acquired former Bucyrus business.

New equipment sales were down 14.4% compared with the fourth quarter of 2011, largely due to a reduction in the Company's Canadian operations which more than offset record new equipment revenues in South America.

Used equipment revenues were 4.3% higher compared to the prior year's fourth quarter, driven by demand for quality used machines in the Company's South American operations.

Overall, rental revenues were 4.0% higher than the fourth quarter of 2011, up in all regions. The increase was primarily driven by the Company's UK and Ireland operations where demand was driven by mining customers.

Finning's global order book or backlog (the retail value of new equipment units ordered by customers for future deliveries) was $1.2 billion at the end of the fourth quarter of 2012, down from $1.4 billion in September 2012. The decrease was driven by significant deliveries in the fourth quarter; however, all operations saw improved order intake compared to the third quarter.

Earnings Before Finance Costs and Income Taxes (EBIT)

On a consolidated basis, EBIT was $149.8 million in the fourth quarter of 2012, reaching a third consecutive quarterly record for the Company and higher than the EBIT of $107.3 million in the fourth quarter of 2011. The increase was primarily driven by higher revenues in the Company's South American operations, as well as a significant reduction in the costs associated with Finning (Canada)'s ERP system compared to the fourth quarter of the prior year.

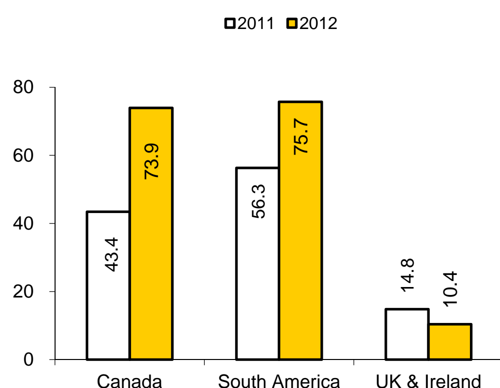
Gross profit of $521.9 million in the fourth quarter of 2012 was up 10.0% compared to the fourth quarter of 2011. Quarterly gross profit margin (gross profit as a percentage of revenue) of 29.3% was up from the prior year's fourth quarter margin of 26.2%, reflecting improved margins in new and used equipment sales, as well as a shift in revenue mix toward more product support. Product support revenues typically earn a higher margin relative to new equipment sales and in the fourth quarter of 2012 made up 40.0% of total revenues, up from 35.5% in the prior year.

SG&A costs were $382.4 million or 4.2% higher than the fourth quarter of 2011. SG&A as a percentage of revenue was 21.5%, compared to 20.3% in the fourth quarter of 2011. The increase in absolute terms was primarily due to higher employee-related costs for additional headcount (including approximately 900 former Bucyrus employees and 100 Damar staff), as well as volume-related costs to support the higher product support revenues.

Other income in the fourth quarter of 2012 was $7.8 million (2011: expense of $3.2 million) made up of a gain on the sale of a property in Canada ($9.7 million) that was offset by acquisition costs ($0.5 million), indemnification costs related to a former Hewden property ($0.6 million) and costs related to the Company's global ERP implementation in the U.K. and South America ($0.8 million). Other expenses in 2011 included acquisition costs ($2.2 million) and costs related to the Company's global ERP implementation in the U.K. and South America ($1.0 million).

The Company's EBIT margin (EBIT divided by revenues) of 8.4% in the fourth quarter of 2012 was up from 5.9% in the fourth quarter of 2011 and up from 7.8% in the third quarter of 2012. The increase in EBIT margin was primarily driven by the Company's Canadian operations.

EBIT by Operations [(1)]
($ millions)
Three months ended December 31



(1) Excluding other operations – corporate head office

Major components of the EBIT variance were:

	($ millions)
2011 Q4 EBIT	107.3
Net change in operations	26.4
Foreign exchange impact	(8.3)
Lower ERP system support and improvement costs in Finning (Canada) in 2012	19.4
Gain on sale of property in Finning (Canada)	9.7
Lower acquisition costs in 2012	1.7
UK pension curtailment gain in 2011	(6.4)
2012 Q4 EBIT	149.8

The Company's Canadian operations contributed $73.9 million of EBIT in the fourth quarter of 2012 compared with $43.4 million in the comparable period last year. EBIT margin was 9.4% compared with 4.4% last year, primarily due to lower ERP related costs compared to the prior year quarter, as well as a gain on the sale of property that was recorded in the fourth quarter of 2012.

Fourth quarter 2012 EBIT from the Company's South American operations of $75.7 million was a record, and 34.4% higher than the fourth quarter of 2011 (38.7% higher in functional currency). EBIT margin of 9.8% was up compared to the 9.5% experienced in the fourth quarter of 2011, primarily due to management's focus on cost controls.

The UK and Ireland operations contributed EBIT of $10.4 million in the fourth quarter of 2012, down 29.6% (down 29.1% in functional currency) from the fourth quarter of 2011. EBIT margin was 4.8%, down from the EBIT margin of 6.5% in the comparable quarter last year. The decrease in EBIT and EBIT margin was driven primarily due to a pension curtailment gain of $6.4 million (£4.0 million) recorded in the fourth quarter of 2011, combined with lower revenues in an uncertain economy in the fourth quarter of 2012.

Earnings Before Finance Costs, Income Taxes, Depreciation, and Amortization (EBITDA) and Free Cash Flow

EBITDA, which management views as an indicator of the Company's cash operating performance, was $205.1 million in the fourth quarter of 2012 compared to $155.7 million in the fourth quarter of 2011.

The Company's Free Cash Flow was $244.8 million compared to $280.7 million cash generated in the comparative quarter of the prior year. The generation of cash in the fourth quarter was primarily driven by strong sales and collections from customers.

Finance Costs

Finance costs for the three months ended December 31, 2012 were $23.3 million, $8.9 million higher than the fourth quarter of 2011, primarily due to the Company's issuance of debt in 2012 to fund the acquisition of Bucyrus.

Provision for Income Taxes

The effective income tax rate for the fourth quarter of 2012 was 16.6% compared to 24.0% in the comparable period of the prior year. The effective rate was lower in the fourth quarter of 2012 notably due to the benefit of previously unrecognized tax losses to offset taxable amounts in the quarter, as well as a reduction in statutory tax rates in both Canada and the U.K.

Net Income

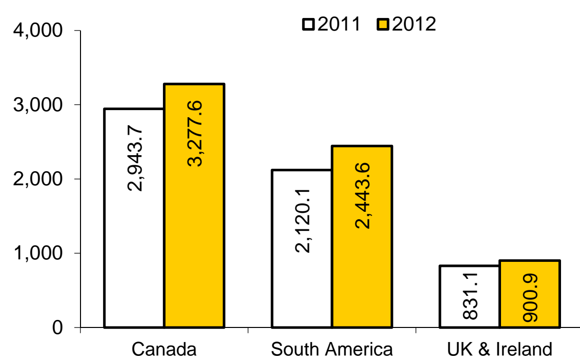
Finning's net income of $105.4 million in the fourth quarter of 2012 was a record quarterly level, compared with $70.6 million in the same period last year and more than 25% higher than the previous record set in the third quarter of 2012.

Record basic EPS was $0.61 compared with $0.41 in the comparative period last year and reflected higher earnings, including approximately $0.04 from Bucyrus, as well as approximately $0.06 from a gain on the sale of land in Finning (Canada). ERP implementation costs in the Company's Canadian operations were $0.04 in the fourth quarter of 2012 compared to $0.12 in the fourth quarter of 2011.

Annual Overview

	YTD 2012	YTD 2011	**YTD 2012**	YTD 2011
	($ millions)		(% of revenue)	
Revenue	**$ 6,622.1**	$ 5,894.9		
Gross profit	**1,964.8**	1,679.7	**29.7%**	28.5%
Selling, general & administrative expenses (SG&A)	**(1,483.1)**	(1,279.3)	**(22.4)%**	(21.7)%
Equity earnings of joint venture and associate	**10.1**	6.7	**0.1%**	0.1%
Other income (expenses)	**4.7**	(27.4)	**0.1%**	(0.5)%
Earnings before finance costs and income taxes (EBIT)	**496.5**	379.7	**7.5%**	6.4%
Finance costs	**(80.1)**	(53.2)	**(1.2)%**	(0.9)%
Provision for income taxes	**(78.8)**	(67.1)	**(1.2)%**	(1.1)%
Net income	**$ 337.6**	$ 259.4	**5.1%**	4.4%
Basic earnings per share (EPS)	**$ 1.96**	$ 1.51		
Earnings before finance costs, income taxes, depreciation, and amortization (EBITDA)	**$ 709.0**	$ 553.8	**10.7%**	9.4%
Free cash flow	**$ (37.4)**	$ (220.8)		

Revenue from Operations
($ millions)
For years ended December 31



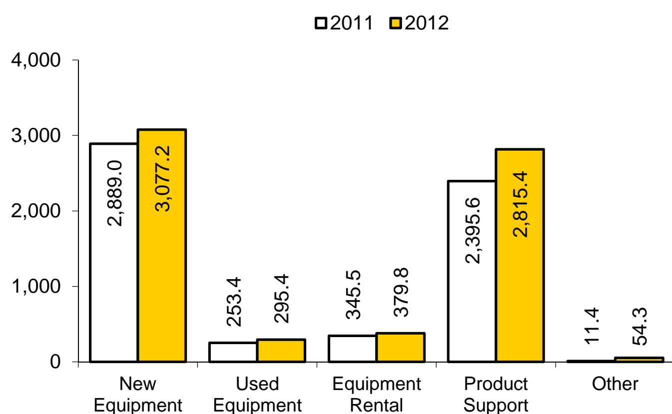
For the year ended December 31, 2012, record consolidated revenues of $6.6 billion increased 12.3% over the same period last year, up in all operations and in all lines of business.

Record revenues from the Company's Canadian operations were driven by record product support revenues and higher new equipment sales, which were up 12.7% and 10.1%, respectively, compared to the prior year, reflecting solid demand in both the mining and construction industries.

Finning South America delivered record revenues in 2012, up 15.3% (14.3% in functional currency) over last year. In functional currency, the South American operations reached record sales levels in all lines of business, except new equipment which was slightly below last year's record levels. The most significant growth in revenues was in product support revenues which grew by 26.7% in functional currency compared to 2011.

Revenues from the Company's UK and Ireland operations were up 8.4% (8.5% in functional currency) compared to 2011 predominately led by higher new equipment sales, with improved activity in the heavy construction and power systems sectors, including sales from the former Bucyrus distribution and support business and Damar. The UK and Ireland operations delivered record revenues in functional currency in both new equipment and product support in 2012.

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



Product support revenues increased by 17.5% compared to the prior year, to a new record level, on continued growth in all territories, especially in the Company's South American and Canadian operations, and included parts and service revenues from the former Bucyrus business.

Record new equipment revenues were up 6.5% from 2011 levels, driven by increases in Finning (Canada) and the UK and Ireland operations.

Sales of used equipment increased by 16.6% compared to 2011, while rental revenues were up 9.9%, both up in all operations.

Earnings Before Finance Costs and Income Taxes (EBIT)

On a consolidated basis, annual 2012 EBIT was $496.5 million, 30.7% higher than the $379.7 million earned in 2011 and reaching a new record level. The increase in EBIT was driven primarily by higher revenues in all operations and all lines of business.

Gross profit of $2.0 billion in 2012 increased 17.0% over the same period in 2011 and gross profit as a percentage of revenue was 29.7%, improved from the 28.5% reported in 2011, largely due to ERP efficiency improvements in Finning (Canada). Overall revenue mix showed slightly higher product support revenues compared to last year, up approximately 2% to 42.5% of total revenues, which also contributed to the improved gross profit margin over last year.

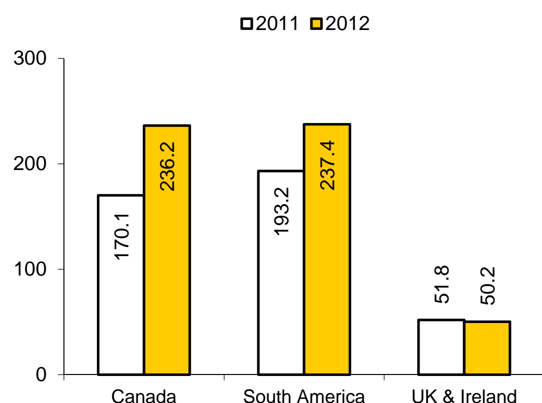
SG&A costs were $1.5 billion, 15.9% higher than in 2011, mostly reflecting increased headcount to support the growing product support business, including approximately 900 former Bucyrus employees and approximately 100 former Damar employees, as well as costs associated with integrating the newly acquired former Bucyrus distribution and support business in all operations.

Other income in 2012 was $4.7 million (2011: expense of $27.4 million) made up primarily of a gain on the sale of a property in Canada ($9.7 million) and a gain on the early redemption of a note receivable ($2.3 million). These gains were partially offset by costs related to the Company's global ERP implementation in the U.K. and South America ($5.1 million), and acquisition costs related to Bucyrus and Damar ($1.6 million). Other expenses in 2011 related to the ongoing development and implementation of the new ERP system, which went live in Finning (Canada) in July 2011 ($22.4 million) and costs associated with the acquisition of Bucyrus ($5.0 million).

In 2012, equity earnings of the Company's joint venture and associate were $10.1 million, $3.4 million higher than the comparable period in 2011 driven by improved results in PipeLine Machinery International (PLM) and Energyst B.V.

The Company's EBIT margin was 7.5% in 2012, up from 6.4% in 2011 primarily due to the factors noted above.

EBIT from Operations
($ millions)
For years ended December 31



Excluding other operations – corporate head office

Major components of the EBIT variance were:
($ millions)

2011 Annual EBIT	379.7
Net change in operations	65.1
Foreign exchange impact	18.6
Lower global ERP system development and implementation costs in 2012	8.1
Lower ERP system support and improvement costs in Finning (Canada) in 2012	16.0
Gain on sale of property in Finning (Canada)	9.7
U.K. pension curtailment gain in 2011	(6.4)
Lower acquisition costs in 2012	3.4
Gain on settlement of 5-year note receivable in 2012	2.3
2012 Annual EBIT	**496.5**

Earnings Before Finance Costs, Income Taxes, Depreciation, and Amortization (EBITDA) and Free Cash Flow

EBITDA, which management views as an indicator of a company's operating performance and generation of operating cash flow, was $709.0 million in 2012 compared to $553.8 million in 2011.

The Company's Free Cash Flow in 2012 was $37.4 million use of cash compared to $220.8 million use of cash in the prior year. The modest use of cash in 2012 was driven by stronger customer demand for equipment and parts, which drove an increased requirement for working capital, in particular, higher inventory and accounts receivable levels. The Company is focused on closely monitoring its working capital levels to ensure it can meet customers' demands, while also managing cash.

Finance Costs

Finance costs in 2012 were $80.1 million compared with $53.2 million in 2011. In 2012, the Company issued U.S. $200 million of debt to repay commercial paper borrowings and for general corporate purposes, as well as U.S. $300 million and $150 million of debt primarily to fund the acquisition of Bucyrus, resulting in higher finance costs than the prior year. Higher finance costs in 2012 were partially offset by a gain of $3.3 million recognized on the settlement of a foreign currency forward.

Provision for Income Taxes

The effective income tax rate for 2012 was 18.9% compared to 20.6% in the prior year. The lower effective income tax rate in 2012 reflects a tax rate change in the Company's South American operations, as well as the benefit of previously unrecognized tax losses to offset taxable amounts reported in the current year.

Net Income

Finning's net income of $337.6 million in 2012 was a record, up compared to $259.4 million in 2011.

Basic EPS in 2012 was $1.96 per share, a record, compared with $1.51 per share last year. The results of 2012 reflected higher revenues in all operations, and included approximately $0.09 per share of profit from the acquisition of the former Bucyrus distribution and support business, as well as approximately $0.06 per share from a gain on the sale of land in Finning (Canada).

Foreign Exchange

Translation

The Company's presentation currency is the Canadian dollar. However, due to the geographical diversity of the Company's operations, a significant portion of revenue and operating expenses are in different currencies. The most significant currencies in which the Company transacts business are the U.S. dollar, the Canadian dollar, the U.K. pound sterling, and the Chilean peso. Changes in the Canadian dollar / U.S. dollar and Canadian dollar / U.K. pound sterling relationship affect reported results on the translation of the financial statements of the Company's South American and UK and Ireland operations, as well as U.S. dollar based earnings of the Company's Canadian operations.

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

December 31 **Exchange rate**	**2012**	2011
U.S. dollar	**0.9949**	1.0170
U.K. pound sterling	**1.6178**	1.5799

Three months ended December 31 **Average exchange rates**	**2012**	2011
U.S. dollar	**0.9913**	1.0232
U.K. pound sterling	**1.5920**	1.6077

For years ended December 31 **Average exchange rates**	**2012**	2011
U.S. dollar	**0.9996**	0.9891
U.K. pound sterling	**1.5840**	1.5861

Foreign exchange translation had a negative impact on consolidated revenues in the fourth quarter of 2012 of approximately $38 million primarily due to a 3.1% stronger Canadian dollar relative to the U.S. dollar, compared to the fourth quarter of 2011. As a result, EBIT and earnings were lower by approximately $8 million and approximately $0.04 per share in the fourth quarter of 2012 compared to the prior year's fourth quarter.

For the full year (2012), foreign exchange had a positive impact on consolidated revenues of approximately $42 million compared to the prior year, primarily due to a 1.1% weaker Canadian dollar relative to the U.S. dollar. As a result, EBIT and earnings were positively impacted by approximately $19 million and approximately $0.08 per share in 2012 compared to last year.

The Canadian dollar has historically correlated fairly well to commodity prices. If commodity prices strengthen, the Canadian dollar is likely to strengthen. In this scenario, the Company's resource industry customers may be able to increase production which can result in increased demand for equipment and services. However, the Company is negatively impacted when U.S. dollar based revenues and earnings are translated into lower Canadian dollar reported revenues and earnings due to the stronger Canadian dollar, although lags may occur.

The impact of foreign exchange due to the value of the Canadian dollar relative to the U.S. dollar, U.K. pound sterling, and Chilean peso is expected to continue to affect Finning's results. The sensitivity of the Company's net

earnings to fluctuations in the average annual foreign exchange rates is summarized in the Risk Management Section of this MD&A.

The following tables provide details of revenue and EBIT by operation and the foreign exchange impact for the three and twelve months ended December 31, 2012.

Three months ended December 31 ($ millions)	**Canada**	**South America**	**UK & Ireland**	**Consolidated**
Revenues – Q4 2011	$ 990.9	$ 592.7	$ 227.0	$ 1,810.6
Foreign exchange impact	(20.9)	(14.5)	(2.7)	(38.1)
Operating revenue increase/(decrease)	(181.8)	195.8	(7.1)	6.9
Revenues – Q4 2012	$ 788.2	$ 774.0	$ 217.2	$ 1,779.4
Total revenue increase/(decrease)	$ (202.7)	$ 181.3	$ (9.8)	$ (31.2)
- percentage increase/(decrease)	(20.4)%	30.6%	(4.3)%	(1.7)%
- percentage increase/(decrease), excluding foreign exchange	(18.3)%	33.0%	(3.1)%	0.4%

For year ended December 31 ($ millions)	**Canada**	**South America**	**UK & Ireland**	**Consolidated**
Revenues – 2011	$ 2,943.7	$ 2,120.1	$ 831.1	$ 5,894.9
Foreign exchange impact	25.4	18.2	(1.2)	42.4
Operating revenue increase	308.5	305.3	71.0	684.8
Revenues – 2012	$ 3,277.6	$ 2,443.6	$ 900.9	$ 6,622.1
Total revenue increase	$ 333.9	$ 323.5	$ 69.8	$ 727.2
- percentage increase	11.3%	15.3%	8.4%	12.3%
- percentage increase, excluding foreign exchange	10.5%	14.4%	8.5%	11.6%

Three months ended December 31 ($ millions)	**Canada**	**South America**	**UK & Ireland**	**Other**	**Consolidated**
EBIT – Q4 2011	$ 43.4	$ 56.3	$ 14.8	$ (7.2)	$ 107.3
Foreign exchange impact	(2.1)	(6.1)	(0.1)	—	(8.3)
Operating EBIT increase/(decrease)	32.6	25.5	(4.3)	(3.0)	50.8
EBIT – Q4 2012	$ 73.9	$ 75.7	$ 10.4	$ (10.2)	$ 149.8
Total EBIT increase/(decrease)	$ 30.5	$ 19.4	$ (4.4)	$ (3.0)	$ 42.5
- percentage increase/(decrease)	70.2%	34.4%	(29.6)%	n/m	39.5%
- percentage increase/(decrease), excluding foreign exchange	75.1%	45.3%	(29.1)%	n/m	47.3%

For year ended December 31 ($ millions)	**Canada**	**South America**	**UK & Ireland**	**Other**	**Consolidated**
EBIT – 2011	$ 170.1	$ 193.2	$ 51.8	$ (35.4)	$ 379.7
Foreign exchange impact	9.8	8.8	—	—	18.6
Operating EBIT increase	56.3	35.4	(1.6)	8.1	98.2
EBIT – 2012	$ 236.2	$ 237.4	$ 50.2	$ (27.3)	$ 496.5
Total EBIT increase/(decrease)	$ 66.1	$ 44.2	$ (1.6)	$ 8.1	$ 116.8
- percentage increase/(decrease)	38.9%	22.9%	(3.0)%	n/m	30.7%
- percentage increase/(decrease), excluding foreign exchange	33.1%	18.3%	(3.0)%	n/m	25.9%

n/m = not meaningful as percentage change is significantly large or not applicable

Investment in Foreign Operations

Assets and liabilities of the Company's foreign operations which have functional currencies other than the Canadian dollar are translated into Canadian dollars using the exchange rates in effect at the statement of financial position dates. Any unrealized translation gains and losses are recorded as an item of other comprehensive income and accumulated other comprehensive income.

Currency translation adjustments arise as a result of fluctuations in foreign currency exchange rates at the period reporting date compared to the previous period reporting date. The unrealized currency translation loss of $14.1 million recorded in 2012 resulted primarily from the strengthening of the Canadian dollar against the U.S. dollar (2.2%) and a weakening of the Canadian dollar against the U.K. pound sterling (-2.4%), at December 31, 2012 compared to December 31, 2011. For more details, refer to the Company's Consolidated Statements of Comprehensive Income (Loss).

Results by Business Segment

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

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

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

For year ended December 31, 2012 ($ millions)	**Canada**	**South America**	**UK & Ireland**	**Consolidated**	**Revenue percentage**
New equipment	**$ 1,427.3**	**$ 1,098.6**	**$ 551.3**	**$ 3,077.2**	**46.5%**
Used equipment	**170.9**	**62.1**	**62.4**	**295.4**	**4.5%**
Equipment rental	**276.1**	**73.1**	**30.6**	**379.8**	**5.7%**
Product support	**1,399.6**	**1,159.2**	**256.6**	**2,815.4**	**42.5%**
Other	**3.7**	**50.6**	**—**	**54.3**	**0.8%**
Total	**$ 3,277.6**	**$ 2,443.6**	**$ 900.9**	**$ 6,622.1**	**100.0%**
Revenue percentage by operations	**49.5%**	**36.9%**	**13.6%**	**100.0%**	

For year ended December 31, 2011 ($ millions)	Canada	South America	UK & Ireland	Consolidated	Revenue percentage
New equipment	$ 1,296.0	$ 1,097.0	$ 496.0	$ 2,889.0	49.0%
Used equipment	147.5	43.6	62.3	253.4	4.3%
Equipment rental	250.1	69.4	26.0	345.5	5.9%
Product support	1,242.2	906.6	246.8	2,395.6	40.6%
Other	7.9	3.5	—	11.4	0.2%
Total	$ 2,943.7	$ 2,120.1	$ 831.1	$ 5,894.9	100.0%
Revenue percentage by operations	49.9%	36.0%	14.1%	100.0%	

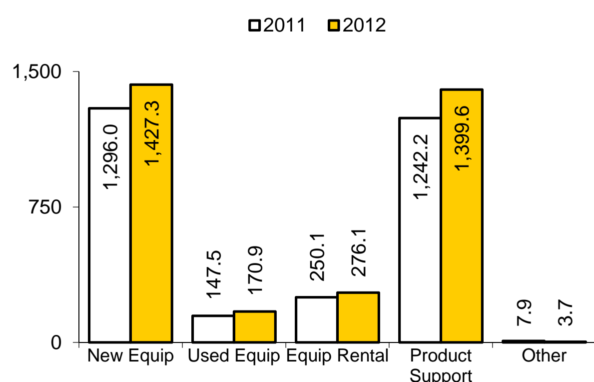
Canadian Operations

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

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

For years ended December 31 ($ millions)	2012	2011
Revenue from external sources	$ **3,277.6**	$ 2,943.7
Operating costs	**(2,944.6)**	(2,654.1)
Depreciation and amortization	**(115.6)**	(110.7)
	217.4	178.9
Equity earnings of joint venture	**9.1**	8.0
Other income/(expenses)		
Gain on sale of property	**9.7**	—
ERP system implementation costs	**—**	(16.5)
Acquisition costs	**—**	(0.3)
Earnings before finance costs and income taxes (EBIT)	$ **236.2**	$ 170.1
EBIT		
- as a percentage of revenue	**7.2%**	5.8%
- as a percentage of consolidated EBIT	**47.3%**	44.8%
Earnings before finance costs, income taxes, depreciation, and amortization (EBITDA)	$ **351.8**	$ 280.8

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



Driven by record product support revenues, as well as higher new equipment sales, 2012 revenues reached an annual record of $3.3 billion, an increase of 11.3% compared to 2011.

Product support revenues were 12.7% higher than in 2011. High utilization rates on customers' fleets, especially in the mining sector, contributed to strong demand for parts. Furthermore, significant improvements to the ERP system's functionality allowed for more efficient distribution of parts compared to the last half of 2011.

New equipment sales increased 10.1% compared to 2011, driven most notably by sales of construction equipment. Used equipment sales and rental revenues also increased year over year, 15.9% and 10.4% respectively, as a result of customers seeking alternative sourcing solutions for their equipment needs, other than direct purchase.

In Canada, gross profit in absolute terms was higher than in 2011, driven by an increase in revenues across all major lines of business. Sales mix in 2012 was virtually unchanged from 2011, but improved software application changes in product support modules created efficiencies to improve gross profit margins.

SG&A costs in 2012 were higher compared to 2011, primarily due to costs supporting new equipment and product support revenue levels, including increased headcount and support personnel.

Included in other expenses in 2011 was $16.5 million of costs related to the launch of the new ERP system on July 4, 2011. In the fourth quarter of 2012, a gain of $9.7 million was recorded on the sale of property.

In 2012, the Canadian operations generated EBIT of $236.2 million compared with EBIT of $170.1 million in 2011, reflecting the higher revenues and margins noted above. The acquisition of the former Bucyrus distribution and support business successfully closed in the Company's Canadian operations in the fourth quarter of 2012 and contributed to fourth quarter results, although not significantly. EBIT margin for the full year was 7.2%, higher than the EBIT margin of 5.8% achieved in 2011, reflecting efficiency improvements, as well as a gain on the sale of property in 2012. Finning (Canada) has continued to demonstrate sequential improvement in EBIT margin over the past five quarters.

Other Developments

- In March 2012, the Company and the International Association of Machinists and Aerospace Workers (IAM) - Local Lodge 99 agreed to a one-year extension of the current collective agreement. The agreement provides for a wage increase of 5.25 percent and expires on April 30, 2013. The settlement covers approximately 1,700 hourly Finning workers in Alberta and the Northwest Territories.
- In September 2012, OEM and the Christian Labour Association of Canada (CLAC), representing approximately 500 employees, reached a new three-year collective agreement which expires on December 31, 2014.

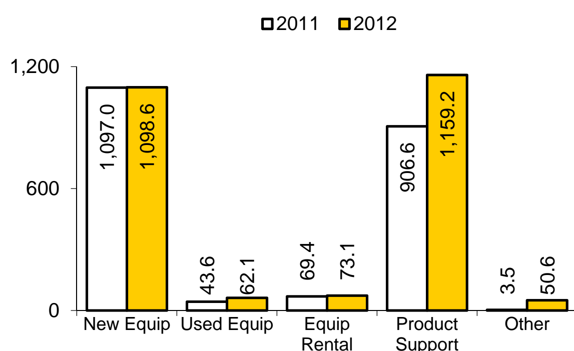
South American Operations

Finning's South American operation sells, services, and rents mainly Caterpillar equipment and engines in Chile, Argentina, Uruguay and Bolivia. The Company's markets include mining, construction, and power systems.

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

For years ended December 31 ($ millions)	**2012**	2011
Revenue from external sources	**$ 2,443.6**	$ 2,120.1
Operating costs	**(2,141.2)**	(1,880.7)
Depreciation and amortization	**(61.3)**	(41.2)
	241.1	198.2
Other expenses		
ERP system implementation costs	**(3.7)**	(4.5)
Acquisition costs	**—**	(0.5)
Earnings before finance costs and income taxes (EBIT)	**$ 237.4**	$ 193.2
EBIT		
- as a percentage of revenue	**9.7%**	9.1%
- as a percentage of consolidated EBIT	**47.5%**	50.9%
Earnings before finance costs, income taxes, depreciation, and amortization (EBITDA)	**$ 298.7**	$ 234.4

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



Finning South America's 2012 revenues increased 15.3% over 2011 to $2.4 billion and were up 14.3% in functional currency (the U.S. dollar), representing a new annual record. Revenues in each line of business, except new equipment sales, reached new record levels in the Company's South American operations and included revenues from the former Bucyrus product line.

2012 revenues, in functional currency, reflected record product support revenues, up 26.7% compared to 2011, with increased demand from the growing installed base of mining equipment. New equipment sales were relatively flat compared to 2011 record levels, despite reduced construction equipment revenues in Argentina.

In functional currency, gross profit in 2012 was higher in absolute terms compared to the prior year. An overall shift in Finning South America's revenue mix to a higher proportion of product support revenues, which typically return higher margins than new equipment sales, contributed to a higher overall gross profit margin compared with last year. Product support revenues made up 47.4% of total revenues compared with 42.8% of total revenues in 2011. Comparatively, new equipment sales made up 45.0% of total revenues in 2012, compared with 51.7% of total revenues in 2011.

SG&A costs, in functional currency, increased in absolute dollars, primarily due to volume-related costs to support the increase in revenues, as well as costs associated with integrating the former Bucyrus distribution and support business. In 2012, the number of employees in the Company's South American operations increased by 15% to approximately 7,400, (including an additional 828 employees in the newly acquired former Bucyrus business) to meet current and anticipated customer demand for product support. The Company continues to actively manage its need for highly skilled workers in a very competitive work environment throughout South America.

Included in other expenses was $3.7 million (2011: $4.5 million) of costs representing the South American operations' share of the costs related to the ongoing development and implementation of the new ERP system for the Company's global dealership operations. Other expenses in 2011 also included $0.5 million of costs associated with the acquisition of the distribution and support business formerly operated by Bucyrus in the dealership territories of the Company's South American operations.

EBIT from the Company's South American operations of $237.4 million in 2012 was at a record level, and 22.9% higher than the prior year. In functional currency, record EBIT in 2012 increased 22.0% over last year, largely due to increased product support revenues, partly offset by higher SG&A costs as noted above. EBIT as a percentage of revenue for Finning South America was 9.7%, higher than the EBIT margin of 9.1% achieved in 2011, reflecting the impact of higher product support revenue, as well as management's continued focus on controlling costs.

<u>Other Developments</u>

- In the second quarter of 2012, the Company reached new four-year collective bargaining agreements with four of its unions, representing nearly 4,000 hourly Finning workers in Chile.

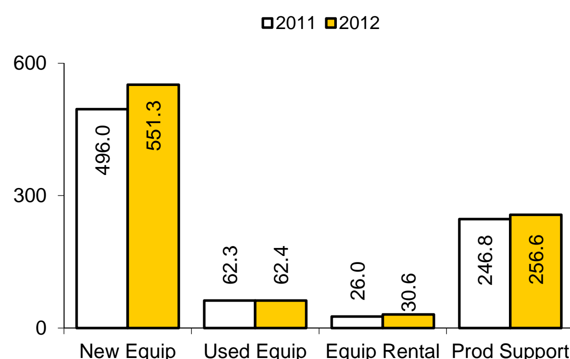
United Kingdom (UK) and Ireland Operations

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

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

For years ended December 31 **($ millions)**	**2012**	2011
Revenue from external sources	**$ 900.9**	$ 831.1
Operating costs	**(812.5)**	(755.5)
Depreciation and amortization	**(35.5)**	(21.9)
	52.9	53.7
Other income/(expenses)		
ERP system implementation costs	**(1.4)**	(1.9)
Acquisition costs	**(0.7)**	—
Claim on Hewden indemnification	**(0.6)**	—
Earnings before finance costs and income taxes (EBIT)	**$ 50.2**	$ 51.8
EBIT		
- as a percentage of revenue	**5.6%**	6.2%
- as a percentage of consolidated EBIT	**10.1%**	13.6%
Earnings before finance costs, income taxes, depreciation, and amortization (EBITDA)	**$ 85.7**	$ 73.7

UK and Ireland – Revenue by Line of Business
($ millions)
For years ended December 31



The UK and Ireland revenues for 2012 of $900.9 million were up 8.4% from last year, and were up 8.5% in functional currency (the U.K. pound sterling). The increase was largely due to higher new equipment sales in the equipment solutions and power systems divisions of the business. New equipment sales included former Bucyrus products in the mining sector, as well as Damar products in the water utilities industry.

Revenues from all lines of business were higher compared to 2011. In functional currency, record revenues from new equipment were 11.3% higher, while record product support revenues were up 4.1% compared to 2011.

In functional currency, gross profit in 2012 was higher compared with the prior year in absolute terms but was comparable as a percentage of revenues on a relatively unchanged revenue mix.

SG&A costs, in functional currency, were higher in absolute terms in 2012 compared to 2011, primarily due to a pension curtailment gain of $6.4 million (£4.0 million) that was booked in the prior year, as well as higher staff costs in 2012 related to the acquisition of Damar, and to support the increased new equipment and product support revenues.

Other expense of $2.7 million in 2012 included $1.4 million representing the UK dealership's share of costs related to the ongoing development and implementation of the new ERP system (2011: $1.9 million) for the Company's global operations; $0.7 million of acquisition costs related to the purchase of Damar; and $0.6 million in costs related to an indemnity on a former Hewden property.

In 2012, the UK and Ireland operations generated EBIT of $50.2 million, compared with EBIT of $51.8 million in 2011. EBIT as a percentage of revenue in 2012 was 5.6%, down from 6.2% in 2011 primarily due to the pension curtailment gain recorded last year.

Other Developments

- In the fourth quarter of 2012, Finning UK and Ireland reached a two-year agreement with their Unite trade union on wages. The agreement provides for a wage increase of 2.5% in the first year and an increase based on an average Retail Price Index (RPI) for the second year. Discussions surrounding other elements of the contract will continue in the first half of 2013. The Company is committed to the collective bargaining process and to concluding a fair contract for its employees and for Finning.

Corporate and Other Operations

For years ended December 31 ($ millions)		2012		2011
Operating costs - corporate	**$**	**(24.5)**	$	(21.5)
Long-term incentive plan (LTIP)		**(5.2)**		(8.6)
Depreciation and amortization		—		(0.3)
		(29.7)		(30.4)
Equity earnings (loss) of associate		**1.0**		(1.3)
Other income/(expenses)				
ERP system implementation recovery		—		0.5
Acquisition costs for Bucyrus		**(0.9)**		(4.2)
Gain on redemption of note receivable		**2.3**		—
Loss before finance costs and income taxes	**$**	**(27.3)**	$	(35.4)

In 2012, corporate operating costs of $24.5 million were up 14% compared with 2011. The increase is largely due to costs related to the integration of the former Bucyrus distribution and support business, as well as inflationary cost increases.

The Company entered into a compensation hedge at the end of 2007 in order to offset the mark-to-market impact relating to certain share-based compensation plans. In 2012, the costs associated with the fair value change of the long-term incentive plan (LTIP) , as well as vesting of units were partially offset by the compensation hedge, which is recorded at the corporate level and showed a positive fair value change due to an increase in the Company's share price. In 2011, the Company's share price declined over the period, resulting in a cost associated with the fair value of the compensation hedge which was partially offset by a reduction in the fair value of LTIP.

The equity gain/(loss) of associate for 2012 and 2011 relates to the Company's investment in Energyst B.V. The Company's equity investment in Energyst increased to 27.3% from 27.0% in the second quarter of 2012.

The Company incurred $0.9 million in costs in 2012 directly related to the acquisition of Bucyrus (2011: $4.2 million). As well, a gain of $2.3 million was recorded in the third quarter of 2012 related to the early redemption of a note receivable from the purchaser of Hewden Stuart Limited, the Company's U.K. equipment rental business sold in 2010.

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. Cash provided by operations 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.

Operating Activities

For the year ended December 31, 2012, cash flow from operations after changes in operating assets and liabilities and interest and income tax paid was $225.8 million, compared with $66.6 million during the same period in 2011. The inflow of cash in 2012 reflected improved results and the Company's focus on cash management.

In 2012, the Company invested $92.9 million in its rental assets, net of disposals compared with $150.0 million in 2011. Rental demand remained solid in 2012 as customers are seeking alternative sourcing solutions to direct purchase, which is reflected in the higher gross additions to rental assets in 2012.

As a result of these items, cash flow provided by operating activities was $133.1 million in 2012 compared to $80.9 million use of cash in 2011.

EBITDA was $709.0 million in 2012 compared to $553.8 million in 2011.

Investing Activities

Net cash used in investing activities in 2012 totalled $625.6 million compared with $139.4 million in 2011. The primary use of cash in 2012 related to the acquisition of the former Bucyrus distribution and support business in South America, the U.K. and Canada, with cash paid of $464.9 million, including acquisition costs. In 2012, the Company paid $8.0 million (£5.0 million), net of cash acquired and including acquisition costs, to acquire Damar in the U.K.

Gross capital additions in 2012 were $194.1 million, which is slightly higher than the $149.2 million invested in 2011. The higher capital spending is primarily due to infrastructure spending in the Company's Canadian and South American operations to support growing product support demand, as well as a union agreement payment made to negotiate the four-year collective agreement with certain unions in the Company's South American operations.

In the second quarter of 2012, the Company received $6.4 million as partial payment of the £20 million 5-year note receivable from the purchaser of Hewden Stuart Limited, the Company's UK equipment rental business sold in 2010. In the third quarter of 2012, the Company received $21.7 million (£13.8 million), net of withholding tax, as final settlement of the note.

In the second quarter of 2012, the Company increased its investment in Energyst B.V. by $2.8 million. In 2011, the Company increased its investment in Energyst by $1.4 million.

In the fourth quarter of 2012, the Company paid $6.7 million to settle a foreign exchange forward contract in connection with Finning (Canada)'s acquisition of Bucyrus.

The Company believes that internally generated cash flow, supplemented by net borrowings from existing financing sources, if necessary, will be sufficient to meet anticipated capital expenditures and other cash requirements in 2013. Management believes that the 2013 results will generate strong operating cash flows as working capital requirements moderate and capital expenditures and investment in rental fleets continue to be actively managed. At this time, the Company does not expect any presently known trend or uncertainty to affect its ability to access its historical sources of cash.

Financing Activities

Net cash provided by financing activities totalled $488.8 million in 2012, compared to a use of $2.8 million in 2011. As at December 31, 2012, the Company's short and long-term borrowings totalled approximately $1.7 billion, up from $1.1 billion in December 31, 2011. The increase is primarily due to borrowings to fund the acquisition of Bucyrus.

In January 2012, the Company issued unsecured senior notes in the U.S. private placement market of U.S. $200 million. The Company issued the notes in two series of U.S. $100 million each: the 3.98% Senior Notes, Series A, due January 19, 2022 and the 4.08% Senior Notes, Series B, due January 19, 2024. Proceeds from the notes were used to repay commercial paper borrowings and for general corporate purposes.

In April 2012, the Company issued unsecured senior notes in the U.S. private placement market of U.S. $300 million. The Company issued the notes in three series: the U.S. $50 million 4.18% Senior Notes, Series C, due April 3, 2022, the U.S. $50 million 4.28% Senior Notes, Series D, due April 3, 2024 and the U.S. $200 million 4.53% Senior Notes, Series E, due April 3, 2027. Proceeds from the notes were used to fund the acquisition of Bucyrus in the Company's South American operations.

In June 2012, the Company issued $150 million 5.077% Medium Term Notes (MTN), due June 13, 2042. Proceeds from the MTN were used to fund the acquisition of Bucyrus in the Company's Canadian operations.

In 2011, the Company repaid its 4.64% $150 million MTN. Repayment of the notes was funded by the issuance of commercial paper borrowings.

To complement the internally generated funds from operating and investing activities, the Company has nearly $1.8 billion in unsecured credit facilities. Included in this amount, Finning has committed bank facilities totalling approximately $1.3 billion with various Canadian, U.S., and South American financial institutions. The largest of these, the $1.0 billion global operating credit facility, matures in September 2015. At December 31, 2012,

approximately $743 million was available under these committed facilities. Based upon 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 has sufficient liquidity to meet operational needs.

Longer-term capital resources are provided by direct access to capital markets. The Company is rated by both Standard and Poor's (S&P) and Dominion Bond Rating Service (DBRS). Recently, the Company's long-term debt ratings were confirmed at A (low) by DBRS and BBB+ by S&P. The Company's short-term debt rating was also confirmed by DBRS at R-1 (low). The Company continues to utilize the Canadian commercial paper market, as well as borrowings under its credit facilities as its principal sources of short-term funding. The maximum authorized limit of the Company's commercial paper program is $600 million.

Dividends paid to shareholders in 2012 were $94.5 million, up 8% compared to 2011, reflecting the $0.01 per common share increase to a quarterly dividend of $0.14 per share announced in May 2012.

The Company's Debt Ratio (net debt to total capitalization ratio) at December 31, 2012 was 50.0%, compared with 42.0% at December 31, 2011. The Debt Ratio is temporarily above the Company's target range of 35-45%, and reflects higher debt levels resulting from the purchase of the former Bucyrus distribution and support business. Net debt to total capitalization is calculated as short-term and long-term debt, net of cash and cash equivalents (net debt) divided by total capitalization. Total capitalization is defined as the sum of net debt and all components of shareholders' equity (share capital, contributed surplus, accumulated other comprehensive loss, and retained earnings).

Contractual Obligations

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

($ millions)	2013	2014	2015	2016	2017	Thereafter	Total
Long-term debt							
- principal repayment	$ 363.6	$ 0.6	$ 15.4	$ 0.3	$ 0.3	$ 995.6	$ 1,375.8
- interest	73.0	50.7	50.6	50.3	50.3	351.5	626.4
Operating leases	80.8	69.6	61.1	33.8	20.9	109.0	375.2
Finance leases	3.2	7.9	1.3	1.2	1.3	16.7	31.6
Total contractual obligations	$ 520.6	$ 128.8	$ 128.4	$ 85.6	$ 72.8	$ 1,472.8	$ 2,409.0

The above table does not include obligations to fund pension benefits, although the Company is making regular contributions to its registered defined benefit pension plans in Canada and the U.K. in order to fund the pension plans as required. Contribution requirements are based on periodic (at least triennial) actuarial funding valuations performed by the Company's (or plan Trustees') actuaries. In 2012, approximately $38 million was contributed by the Company towards the defined benefit pension plans. Defined benefit plan contributions currently expected to be paid during the financial year ended December 31, 2013 amount to approximately $42 million.

Employee Share Purchase Plan

The Company has employee share purchase plans for its Canadian and South American employees. Under the terms of these plans, eligible employees may purchase common shares of the Company in the open market at the then current market price. The Company pays a portion of the purchase price to a maximum of 2% of employee earnings. At December 31, 2012, 66% and 2% of eligible employees in the Company's Canadian and South American operations, respectively, were contributing to these plans. The Company also has an All Employee Share Purchase Ownership Plan for its employees in Finning (UK). Under the terms of this plan, employees may contribute up to 10% of their salary to a maximum of £125.00 per month. The Company will provide one common share, purchased in the open market, for every three shares the employee purchases. At December 31, 2012, 24% of eligible employees in Finning (UK) were contributing to this plan. These plans may be cancelled by Finning at any time.

Outlook

Market conditions are expected to remain strong in South America, moderate in Canada and soft in the U.K. and Ireland. While the new equipment order intake in the fourth quarter was higher than in the preceding quarter, the Company continues to operate with caution and monitor market activity closely. Plans to reduce uncommitted inventories are being executed. Improved availability of equipment from Caterpillar is also expected to have a positive impact on the Company's inventory levels. On a consolidated basis, the Company projects lower new equipment sales in 2013 to be more than offset by strong growth in product support revenues. The size and age of installed equipment population have increased significantly over the past several years. The Company's investment in product support capacity and capability has positioned it well to capture increased demand for parts and service in all its operations.

In Western Canada, demand for equipment in the heavy construction sector is good, and the forestry industry is expected to improve further. Market conditions in the conventional oil & gas segments remain soft. In mining, including the oil sands, demand for equipment in 2013 is expected to be weaker compared to 2012 levels. At the same time, demand for rental is projected to remain strong. Equipment utilization in mining and construction continues at healthy levels and product support activity is expected to be strong in 2013 across all sectors. In mining, including the oil sands, demand from contractors has strengthened following reduced spending on parts and service and a slowdown in large equipment rebuilds late in 2012. The new Fort McKay facility is ramping up on plan to provide repair and maintenance service to contractors and producers.

In South America, the Company sees ongoing strength across all sectors. In Chile, positive long-term fundamentals for copper are expected to continue driving demand for mining equipment. In the short term, mining customers are extending timelines on new projects due to delays related to environmental concerns, the availability of energy, shortages of qualified labour as well as cost overrun. Order intake for new mining equipment remains very healthy and demand for product support continues to be strong. In construction and power systems, the Company continues to see robust equipment sales, particularly in Chile. The Company anticipates strong infrastructure spend in Chile and Argentina throughout 2013, as it is an election year in both countries. The large installed base of equipment in mining, construction and power systems remains fully utilized, and the Company expects its product support business in Chile to continue to grow.

In Argentina, the government continues to control imports and manage access to foreign exchange. As a result, the amount of equipment and parts the Company can buy from Caterpillar to sell to customers in Argentina is limited. The Company has taken a number of measures to manage import and foreign currency restrictions which meet government expectations and customer demand for equipment and parts to the greatest extent possible.

In the U.K. and Ireland, the economy remains slow and uncertain. In Equipment Solutions, which includes coal mining, quarrying, heavy construction, waste and recycling, and plant hire, customers are delaying purchasing decisions and utilizing the Company's equipment rental fleet strongly. Product support activity in Equipment Solutions has softened. In Power Systems, the Company is seeing good order intake in the industrial segment and relatively stable product support activity. The Company continues to execute on its market segmentation strategy in the U.K. and Ireland and has achieved market share growth. The Company has taken measures to reduce costs and is well positioned to operate in a challenging economic environment.

On a consolidated basis, 2013 revenues are expected to be flat to up 10% over 2012, driven by product support and a full year contribution from the Bucyrus business. The Company remains focused on improving operating profitability and expects 2013 earnings to continue growing at a higher rate than revenue. The Company's net debt to total capital ratio is projected to decline to the 35-45% target range by the end of 2013. The Company remains committed to its 9 to 10% EBIT margin target and consistently delivering Return on Equity (ROE) of at least 18%.

Accounting Estimates and Contingencies

Accounting, Valuation, and Reporting

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

Management's discussion and analysis of the Company's financial condition and results of operations are based on the Company's consolidated financial statements, which have been prepared in accordance with IFRS. The Company's significant accounting policies are contained in Note 1 to the consolidated financial statements for the year ended December 31, 2012. Certain policies require management to make judgments, estimates, and assumptions in respect of the application of accounting policies and the reported amounts of assets, liabilities, revenues, expenses, and disclosure of contingent assets and liabilities. These policies may require particularly subjective and complex judgments to be made as they relate to matters that are inherently uncertain and because there is a likelihood that materially different amounts could be reported under different conditions or using different assumptions. The Company has discussed the development, selection, and application of its key accounting policies, and the critical accounting estimates and assumptions they involve, with the Audit Committee. The more significant estimates include: fair values for goodwill and other asset impairment tests, determination of the value of separable identifiable intangible assets other than goodwill acquired in a business combination, allowance for doubtful accounts, reserves for warranty, provisions for income tax, the determination of employee future benefits, provisions for inventory obsolescence, the useful lives of the rental fleet and capital assets and related residual values, revenues and costs associated with maintenance and repair contracts, revenues and costs associated with the sale of assets with either repurchase commitments or rental purchase options, and reserves for legal claims.

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

The Company determines the recoverable amount of a unit using a discounted cash flow model corroborated by other valuation techniques such as market multiples. The process of determining these recoverable amounts requires management to make estimates and assumptions including, but not limited to, projected future sales, earnings and capital investment, discount rates, and terminal growth rates. Projected future sales, earnings, and capital investment are consistent with strategic plans presented to the Company's Board of Directors. Discount rates are based on the Company's weighted average cost of capital. These estimates are subject to change due to uncertain competitive and economic market conditions or changes in business strategies.

During the year, the Company performed its assessment of goodwill and indefinite life intangible assets and determined that there was no impairment at December 31, 2012 and 2011.

Income Taxes

The Company exercises judgment in estimating the provision for income taxes. Provisions for federal, provincial, and foreign taxes are based on the respective laws and regulations in each jurisdiction within which the Company operates. Income tax laws and regulations can be complex and are potentially subject to different interpretation between the Company and the respective tax authority. Due to the number of variables associated with the differing tax laws and regulations across the multiple jurisdictions, the precision and reliability of the resulting estimates are subject to uncertainties and may change as additional information becomes known.

Deferred tax assets and liabilities comprise the tax effect of temporary differences between the carrying amount and tax basis of assets and liabilities, as well as the tax effect of undeducted tax losses, and are measured according to the income tax law that is expected to apply when the asset is realized or liability settled. Assumptions underlying the composition of deferred tax assets and liabilities include estimates of future results of operations and the timing of reversal of temporary differences, as well as the tax rates and laws in each respective jurisdiction at the time of the expected reversal. The composition of deferred tax assets and liabilities is reasonably likely to change from period to period due to the uncertainties surrounding these assumptions. In addition, changes in tax rates or regimes could have a material adverse effect on expected results.

Description of Non-GAAP and Additional GAAP Measures

EBIT is defined herein as earnings before finance costs and income taxes. EBITDA is defined as earnings before finance costs, income taxes, depreciation, and amortization. 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 statements of cash flow. ROE is defined as net income divided by the weighted average of shareholders' equity. Net income adjusted for items not affecting cash is defined as net income adjusted for the effects of transactions of a non-cash nature and items of income or expense associated with investing or financing cash flows. EBIT, EBITDA, Free Cash Flow, ROE and net income adjusted for items not affecting cash are measures of performance utilized by management and/or other stakeholders to measure and evaluate the financial performance of its operating segments. EBITDA and Free Cash Flow are measures commonly reported and widely used by investors as an indicator of a company's cash operating performance and ability to raise and service debt. 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 believes that these measures provide important information regarding the operational performance of the Company's business. By considering these measures in combination with the comparable IFRS (also referred to as generally accepted accounting principles, or GAAP) measures set out below, management believes that shareholders 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 GAAP measures alone. EBITDA, Free Cash Flow and ROE do not have any standardized meaning prescribed by GAAP and are therefore unlikely to be comparable to similar measures presented by other issuers. Accordingly, these measures should not be considered as a substitute or alternative for net income or cash flow, in each case as determined in accordance with GAAP.

A reconciliation between Finning's EBITDA and net income is as follows:

	Three months ended December 31		Twelve months ended December 31	
($ millions)	**2012**	2011	**2012**	2011
Earnings before finance costs, income taxes, depreciation, and amortization (EBITDA)	**$ 205.1**	$ 155.7	**$ 709.0**	$ 553.8
Depreciation and amortization	**(55.3)**	(48.4)	**(212.5)**	(174.1)
Earnings before finance costs and income taxes (EBIT)	**149.8**	107.3	**496.5**	379.7
Finance costs	**(23.3)**	(14.4)	**(80.1)**	(53.2)
Provision for income taxes	**(21.1)**	(22.3)	**(78.8)**	(67.1)
Net income	**$ 105.4**	$ 70.6	**$ 337.6**	$ 259.4

A reconciliation of Finning's Free Cash Flow is as follows:

	Three months ended December 31		Twelve months ended December 31	
($ millions)	**2012**	2011	**2012**	2011
Cash flow provided by (used in) operating activities	**$ 260.7**	$ 336.4	**$ 133.1**	$ (80.9)
Additions to property, plant, and equipment and intangible assets	**(37.2)**	(57.6)	**(194.1)**	(149.2)
Proceeds on disposal of property, plant, and equipment	**21.3**	1.9	**23.6**	9.3
Free Cash Flow	**$ 244.8**	$ 280.7	**$ (37.4)**	$ (220.8)

Risk Management

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

The Company is dedicated to a strong risk management culture to protect and enhance shareholder value. The Company discloses all of its key financial and business risks in its most recent Annual Information Form (AIF) with key financial risks also included herein. On a quarterly basis, the Company assesses all of its key risks and any changes to key financial or business risks are disclosed in the Company's quarterly MD&A. Also on a quarterly basis, the Audit Committee reviews the Company's process with respect to risk assessment and management of key risks, including the Company's major financial risks and exposures and the steps taken to monitor and control such exposures. Changes to the key risks are also reviewed by the Audit Committee.

Financial Derivatives

The Company uses, or may use, various financial instruments such as forward and swap foreign exchange contracts, interest rate swaps, and equity hedges, as well as non-derivative foreign currency debt to manage its foreign exchange exposures, interest rate exposures, and share-based compensation expense exposures (see Note 8 of the Notes to the Consolidated Financial Statements). The Company uses derivative financial instruments only in connection with managing related risk positions and does not use them for trading or speculative purposes.

The Company continually evaluates and manages risks associated with financial derivatives, which includes counterparty credit exposure.

Financial Risks and Uncertainties

Liquidity Risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company's approach to managing liquidity is to ensure, as far as possible, that it will have sufficient liquid financial resources to fund its operations and meet its commitments and obligations. The Company maintains bilateral and syndicated bank credit facilities, a commercial paper program, continuously monitors actual and forecast cash flows, and manages maturity profiles of financial liabilities. Undrawn credit facilities at December 31, 2012 were $1,223 million (2011: $1,192 million), of which approximately $743 million (2011: $727 million) is committed credit facility capacity. The Company believes that it has reasonable access to capital markets which is supported by its investment grade credit ratings.

Financing Arrangements

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

Market Risk

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

The Company utilizes derivatives in the ordinary course of business, and also incurs financial liabilities, in order to manage market risks. All such transactions are carried out within the guidelines set by the Company and approved by the Audit Committee.

Foreign Exchange Risk

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

Translation exposure

The most significant foreign exchange impact on the Company's net income and other comprehensive income is the translation of foreign currency based earnings into Canadian dollars, which is the Company's presentation currency. All of the Company's foreign subsidiaries report their operating results in currencies other than the Canadian dollar. Therefore, exchange rate movements in the U.S. dollar and U.K. pound sterling relative to the Canadian dollar will impact the consolidated results of the South American and UK and Ireland operations in Canadian dollar terms. In addition, the results of the Company's Canadian operations are impacted by the translation of its U.S. dollar based earnings. The Company does not hedge its exposure to foreign currency risk with regard to foreign currency earnings, except as noted below.

The Company's South American and UK and Ireland operations have functional currencies other than the Canadian dollar and as a result, foreign currency gains and losses arise in the cumulative translation adjustment account from the translation of the Company's net investment in these operations. To the extent practical, it is the Company's objective to manage this exposure. The Company has hedged a portion of its foreign investments through foreign currency denominated loans and, periodically, through other derivative contracts. For those derivatives and loans where hedge accounting has been elected, any exchange gains or losses arising from the translation of the hedging instruments are recorded, net of tax, as an item of other comprehensive income and accumulated other comprehensive income. Cumulative currency translation adjustments, net of gains or losses of the associated hedging instruments, are recognized in net income upon disposal of a foreign operation.

Transaction exposure

Many of the Company's operations purchase, sell, rent, and lease products, as well as incur costs in currencies other than their functional currency. This mismatch of currencies creates transactional exposure at the operational level, which may affect the Company's profitability as exchange rates fluctuate. The Company's competitive position may also be impacted as relative currency movements affect the business practices and/or pricing strategies of the Company's competitors.

The Company is also exposed to currency risks related to the future cash flows on its non-Canadian denominated short and long term debt.

To the extent practical, it is the Company's objective to manage the impact of exchange rate movements and volatility on its financial results. Each operation manages the majority of its transactional exposure through sales pricing policies and practices. The Company also enters into forward exchange contracts to manage residual mismatches in foreign currency cash flows.

Sensitivity to variances in foreign exchange rates

The sensitivity of the Company's net earnings to fluctuations in average annual foreign exchange rates is summarized in the table below. A 5% strengthening of the Canadian dollar against the following currencies for a full year relative to the December 31, 2012 month end rates would increase / (decrease) annual net income and other comprehensive income by the amounts shown below. This analysis assumes that all other variables, in particular volumes, relative pricing, interest rates, and hedging activities are unchanged.

Currency	December 31, 2012 month end rates	Net income $ millions	Other comprehensive income
CAD/USD	**0.9949**	**$ (37)**	**$ (39)**
CAD/GBP	**1.6178**	**$ (1)**	**(8)**
CAD/CLP	**0.0021**	**$ 6**	**$ —**

A 5% weakening of the Canadian dollar against the above currencies relative to the December 31, 2012 month end rates would have an equivalent but opposite effect on the above accounts in the amounts shown on the basis that all other variables are unchanged.

The sensitivities noted above ignore the impact of exchange rate movements on other macroeconomic variables, including overall levels of demand and relative competitive advantages. If it were possible to quantify these impacts, the results would likely be different from the sensitivities shown above.

Interest Rate Risk

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

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

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

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

The Company pays floating interest rates on its VRSF. Both fair value and future cash flows are impacted by changes in interest rates.

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

Commodity Prices

The Company's revenues can be indirectly affected by fluctuations in commodity prices; in particular, changes in expectations of longer-term prices. In Canada, commodity price movements in the copper, gold, coal, oil and gas, and forestry sectors can have an impact on customers' demands for equipment and product support. In Chile and Argentina, fluctuations in the price of copper, gold, oil and gas can have similar effects, as customers base their capital expenditure decisions on the long-term price outlook for these commodities. In the U.K., changes to prices for thermal coal and oil may impact equipment demand. Significant fluctuations in commodity prices could result in a material impact on the Company's financial results. With significantly lower commodity prices, demand is reduced as development of new projects is slowed or stopped and production from existing projects can be curtailed, both leading to less demand for equipment. In addition, product support growth has been, and is expected to continue to be, important in mitigating the effects of downturns in the business cycle. Alternatively, if commodity prices rapidly increase, customer demand for Finning's products and services could increase and apply pressure on the Company's ability to supply the products or skilled technicians on a timely and cost efficient basis. To assist in mitigating the impacts of fluctuations in demand for its products, Finning management works closely with Caterpillar to ensure an adequate and timely supply of product or offers customers alternative solutions and has implemented human resources recruiting strategies to ensure adequate staffing levels are achieved.

CREDIT RISK

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally in respect of the Company's cash and cash equivalents, receivables from customers and suppliers, instalment and other notes receivable, advances to associates, and derivative assets. Credit risk associated with cash and cash equivalents is managed by ensuring that these financial assets are held with major financial institutions with strong investment grade ratings and by maintaining limits on exposures with any single institution. An ongoing review is performed to evaluate the changes in the credit rating of counterparties. The Company has a large diversified customer base and is not dependent on any single customer or group of customers. Credit risk is minimized because of the diversification of the Company's operations as well as its large customer base and its geographical dispersion. Although there is usually no significant concentration of credit risk related to the Company's position in trade accounts or notes receivable, the Company does have a certain degree of credit exposure arising from its derivative instruments relating to counterparties defaulting on their obligations. However, the Company minimizes this risk by ensuring there is no excessive concentration of credit risk with any single counterparty, by active credit monitoring, and by dealing primarily with major financial institutions that have a credit rating of at least A from S&P and/or Moody's.

SHARE-BASED PAYMENT RISK

Share-based compensation plans are an integral part of the Company's employee compensation program and can be in the form of the Company's common shares or cash payments that reflect the value of the shares. Share-based payment plans are accounted for at fair value and the expense associated with these plans can therefore vary as the Company's share price, share price volatility and employee exercise behaviour change. The Company has entered into a derivative contract to partly offset this exposure, (VRSF).

A 5% strengthening in the Company's share price as at December 31, 2012, all other variables remaining constant, would have increased pre-tax net income by approximately $1.8 million (2011: $1.6 million) as a result of revaluing the Company's VRSF, with a 5% weakening having the opposite effect. This fair value impact partially mitigates changes in the fair value of the Company's cash-settled share-based payment liability.

Contingencies and Guarantees

Due to the size, complexity and nature of the Company's operations, various legal and tax matters are pending. In the opinion of management, these matters will not have a material effect on the Company's consolidated financial position or results of operations.

The Company enters into contracts with rights of return, in certain circumstances, for the repurchase of equipment sold to customers for an amount which is generally based on a discount from the estimated future fair value of that equipment. As at December 31, 2012, the total estimated value of these contracts outstanding is $153.5 million coming due at periods ranging from 2013 to 2018. The Company's experience to date has been that the equipment at the exercise date of the contract is generally worth more than the repurchase amount. The total amount recognized as a provision against these contracts is $1.0 million.

For further information on the Company's contingencies, commitments, guarantees, and indemnifications, refer to Notes 28 and 29 of the Notes to the Consolidated Financial Statements.

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 and is responsible for raising all outstanding issues it believes require the attention of the Audit Committee prior to recommending disclosure for that Committee's approval.

Internal Control over Financial Reporting

Management is responsible for establishing and maintaining adequate internal control over financial reporting. Management has designed internal control over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements in accordance with IFRS. There has been no change in the design of the Company's internal control over financial reporting during the year ended December 31, 2012, that would materially affect, or is reasonably likely to materially affect, the Company's internal control over financial reporting. Throughout 2011 and 2012, management did employ additional procedures to ensure key financial internal controls remained in place after the conversion to a new ERP system in the third quarter of 2011 in the Company's Canadian operations. Management also performed additional account reconciliations and other analytical and substantive procedures to mitigate any financial risks from new system.

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

Evaluation of Effectiveness

As required by National Instrument 52-109, *Certification of Disclosure in Issuers' Annual and Interim Filings* (NI 52-109) issued by the Canadian Securities regulatory authorities, an evaluation of the design and testing of the effectiveness of the operation of the Company's disclosure controls and procedures and internal control over financial reporting were conducted as of December 31, 2012, by and under the supervision of management, including the CEO and CFO. In making the assessment of the effectiveness of the Company's disclosure controls and procedures and internal control over financial reporting, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in *Internal Control – Integrated Framework*. The evaluation included documentation review, enquiries, testing, and other procedures considered by management to be appropriate in the circumstances.

Based on that evaluation, the CEO and CFO have concluded that the Company's disclosure controls and procedures and internal control over financial reporting were effective as of December 31, 2012.

Selected Quarterly Information

$ millions	2012				2011			
(except for share and option data)	**Q4**	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Revenue from operations [(1)]								
Canada	**$ 788.2**	$ 768.9	$ 942.8	$ 777.7	$ 990.9	$ 607.7	$ 733.0	$ 612.1
South America	**774.0**	614.6	574.0	481.0	592.7	528.1	532.7	466.6
UK & Ireland	**217.2**	222.9	247.7	213.1	227.0	193.3	214.9	195.9
Total revenue	**$1,779.4**	$1,606.4	$1,764.5	$1,471.8	$1,810.6	$1,329.1	$1,480.6	$1,274.6
Net income [(1) (2)]	**$ 105.4**	$ 83.9	$ 81.3	$ 67.0	$ 70.6	$ 35.4	$ 81.9	$ 71.5
Earnings Per Share [(1) (2)]								
Basic EPS	**$ 0.61**	$ 0.49	$ 0.47	$ 0.39	$ 0.41	$ 0.21	$ 0.48	$ 0.42
Diluted EPS	**$ 0.61**	$ 0.49	$ 0.47	$ 0.39	$ 0.41	$ 0.21	$ 0.47	$ 0.41
Total assets [(1)]	**$5,118.0**	$4,994.0	$5,110.5	$4,530.0	$4,085.4	$4,086.8	$3,645.0	$3,511.0
Long-term debt								
Current	**$ 363.6**	$ 361.3	$ 112.3	$ 0.5	$ 0.5	$ 262.3	$ 263.2	$ 209.0
Non-current	**1,012.2**	1,076.1	1,344.7	952.4	762.6	778.5	710.9	711.7
Total long-term debt [(3)]	**$1,375.8**	$1,437.4	$1,457.0	$ 952.9	$ 763.1	$1,040.8	$ 974.1	$ 920.7
Cash dividends paid per common share	**$ 0.14**	$ 0.14	$ 0.14	$ 0.13	$ 0.13	$ 0.13	$ 0.13	$ 0.12
Common shares outstanding (000's)	**171,910**	171,905	171,880	171,849	171,574	171,571	171,570	171,528
Options outstanding (000's)	**5,060**	5,118	5,235	4,595	5,411	5,411	5,462	5,371

1) In February 2012, the Company acquired Damar, an engineering company specializing in the water utility sector in the U.K. In May 2012, the Company acquired the former Bucyrus distribution and support business in its dealership territories of South America and in the U.K.

   In October 2012, the Company acquired the former Bucyrus distribution and support business in its Canadian dealership territory. The results of operations and financial position of these acquired businesses have been included in the figures above since the date of acquisition.

2) The results for the second half of 2011 and all of 2012 were negatively impacted by the system implementation issues experienced in the Company's Canadian operations. The ERP system implementation and the five-week B.C. union strike in the third quarter of 2011 reduced earnings by approximately $0.25 per share; the fourth quarter of 2011 and the first, second, third and fourth quarters of 2012 included costs associated with the ERP system issues of $0.12, $0.09, $0.07, $0.05 and $0.04 respectively.

3) In September 2011, the Company entered into a $1.0 billion committed unsecured syndicated operating credit facility. This facility replaced the previous $800 million global credit facility, which was set to expire in December 2011. The new committed facility matures in September 2015.

   In December 2011, the Company repaid its 4.64% $150 million medium term notes on maturity. Repayment of the notes was funded by the issuance of commercial paper under the Company's commercial paper program.

   In January 2012, the Company issued unsecured senior notes in the U.S. private placement market of U.S. $200 million. The Company issued the notes in two series of U.S. $100 million each: the 3.98% Senior Notes, Series A, due January 19, 2022 and the 4.08% Senior Notes, Series B, due January 19, 2024. Proceeds from the notes were used to repay commercial paper borrowings and for general corporate purposes.

   In April 2012, the Company issued unsecured senior notes in the U.S. private placement market of U.S. $300 million. The Company issued the notes in three series: the U.S. $50 million 4.18% Senior Notes, Series C, due April 3, 2022, the U.S. $50 million 4.28% Senior Notes, Series D, due April 3, 2024 and the U.S. $200 million 4.53% Senior Notes, Series E, due April 3, 2027. Proceeds from the notes were used to fund the acquisition of Bucyrus in the Company's South American operations.

   In June 2012, the Company issued 5.077% $150 million Medium Term Notes (MTN), due June 13, 2042. Proceeds from the MTN were used to fund the purchase of Bucyrus in the Company's Canadian operations on October 1, 2012.

New Accounting Pronouncements

Amended Standards Adopted by the Company in the Year

The Company adopted the amendments to IFRS 7, *Financial Instruments: Disclosures* for the financial year beginning January 1, 2012. The amendments introduced enhanced disclosure around the transfer of financial assets and associated risks. The adoption of this amendment to the standard did not have any impact on the Company's disclosures.

Future Accounting Pronouncements

The Company has not applied the following new and revised IFRS that have been issued but are not yet effective:

- Amendments to IAS 19, *Employee Benefits* (effective January 1, 2013) provide new requirements for the accounting for defined benefit pension plans. Most notably, the amendments mandate the immediate recognition of actuarial gains and losses in other comprehensive income, and require companies to use the same rate for both the discount rate applied to determine the defined benefit obligation and the expected rate of return on assets when calculating the interest component of pension expense. The Company already recognizes all actuarial gains and losses immediately through other comprehensive income, consequently this element of the amendments will not impact the Company. With respect to the second change, in determination of net income, the effect is that the defined benefit plan expense concepts of "interest cost" and "expected return on plan assets" will be replaced with the concept of "net interest". The amendments do not prescribe where in the results of operations the net interest amount is to be presented, but the Company expects that it will present the net interest amount as a component of financing costs upon the application of the amended standard.

  As the Company's current view, consistent with long-term historical experience, is that the discount rate would be lower than the expected long-term rate of return on plan assets, the expected effect of the amended standard will be a decrease in net income and associated per share amounts. The variance, if any, between the actual return on the defined benefit plan assets and the amount determined using the discount rate would be included in other comprehensive income as a remeasurement.

  When the Company adopts the amendments to IAS 19 effective January 1, 2013, the Company is required to restate the prior year, 2012 as the comparative period. As a result, amendments to IAS 19 are anticipated to result in an additional pre-tax expense of approximately $15 million with a corresponding pre-tax increase in other comprehensive income for the year ended December 31, 2012 (the comparative period when the Company adopts the amendments in 2013). The amended standard is not expected to affect the Company's statement of financial position or the statement of cash flows. The Company will also provide additional disclosures in the notes to the financial statements when the amendments to IAS 19 are adopted in 2013.

  The Company will apply the amended standard on January 1, 2013.

The following accounting standards are not expected to have a significant effect on the Company's accounting policies or financial statements:

- Amendments to IAS 1, *Presentation of Financial Statements* (effective for annual periods beginning on or after July 1, 2012) require that elements of other comprehensive income that may subsequently be reclassified through profit and loss be differentiated from those items that will not be reclassified.
- IFRS 10, *Consolidated Financial Statements*, IFRS 11, *Joint Arrangements,* IFRS 12, *Disclosure of Interests in Other Entities*, and consequential revisions to IAS 27, *Separate Financial Statements* and IAS 28, *Investments in Associates and Joint Ventures* (all effective January 1, 2013) provide revised guidance on the accounting treatment and associated disclosure requirements for joint arrangements and associates, and a revised definition of 'control' for identifying entities which are to be consolidated.
- IFRS 13, *Fair Value Measurement* (effective January 1, 2013) provides new guidance on fair value measurement and disclosure requirements.

Management is currently assessing the impact of the following IFRS on the Company's accounting policies and financial statements.

- IFRS 9, *Financial Instruments* (effective January 1, 2015) introduces new requirements for the classification and measurement of financial assets and financial liabilities.

Outstanding Share Data

As at February 7, 2013	
Common shares outstanding	171,927,278
Options outstanding	4,952,624

Selected annual information

($ millions, except for share data)	2012	2011	2010
Total revenue from external sources [1] [2]	**6,622.1**	5,894.9	4,584.6
Net income (loss) [1] [2]			
from continuing operations	**337.6**	259.4	181.1
from discontinued operations	**—**	—	(125.0)
Total net income	**337.6**	259.4	56.1
Basic Earnings (Loss) Per Share [1] [2]			
from continuing operations	**1.96**	1.51	1.06
from discontinued operations	**—**	—	(0.73)
Total basic EPS	**1.96**	1.51	0.33
Diluted Earnings (Loss) Per Share [1] [2]			
from continuing operations	**1.96**	1.51	1.06
from discontinued operations	**—**	—	(0.73)
Total diluted EPS	**1.96**	1.51	0.33
Total assets [1] [2]	**5,118.0**	4,085.4	3,429.7
Long-term debt [3]			
Current	**363.6**	0.5	203.1
Non-current	**1,012.2**	762.6	711.1
	1,375.8	763.1	914.2
Cash dividends declared per common share	**0.55**	0.51	0.47

(1) In August 2010, the Company was appointed the Caterpillar dealer for Northern Ireland and the Republic of Ireland.

In February 2012, the Company acquired Damar, an engineering company specializing in the water utility sector in the U.K.

In May 2012, the Company acquired the former Bucyrus distribution and support business in its dealership territories of South America and in the U.K. In October 2012, the Company acquired the former Bucyrus distribution and support business in its Canadian dealership territory.

The results of operations and financial position of these acquired businesses have been included in the figures above since the date of acquisition.

(2) In May 2010, the Company sold Hewden, its U.K. equipment rental business. Results from Hewden are presented as discontinued operations and have been reclassified to that category for all periods presented. Included in the loss from discontinued operations in 2010 is the after-tax loss on the disposition of Hewden of $120.8 million. Revenues from Hewden have been excluded from the revenue figures above.

(3) In 2010, the Company utilized funds from the sale of Hewden to redeem £45 million of its £115 million Eurobond Notes.

In September 2011, the Company entered into a $1.0 billion committed unsecured syndicated operating credit facility. This facility replaces the previous $800 million global credit facility, which was set to expire in December 2011. The new committed facility matures in September 2015.

In December 2011, the Company repaid its 4.64% $150 million medium term notes on maturity. Repayment of the notes was funded by the issuance of commercial paper under the Company's commercial paper program.

In January 2012, the Company issued unsecured senior notes in the U.S. private placement market of U.S. $200 million. The Company issued the notes in two series of U.S. $100 million each: the 3.98% Senior Notes, Series A, due January 19, 2022 and the 4.08% Senior Notes, Series B, due January 19, 2024. Proceeds from the notes were used to repay commercial paper borrowings and for general corporate purposes.

In April 2012, the Company issued unsecured senior notes in the U.S. private placement market of U.S. $300 million. The Company issued the notes in three series: the U.S. $50 million 4.18% Senior Notes, Series C, due April 3, 2022, the U.S. $50 million 4.28% Senior Notes, Series D, due April 3, 2024 and the U.S. $200 million 4.53% Senior Notes, Series E, due April 3, 2027. Proceeds from the notes were used to fund the acquisition of Bucyrus in the Company's South American operations.

In June 2012, the Company issued 5.077% $150 million Medium Term Notes (MTN), due June 13, 2042. Proceeds from the MTN were used to fund the purchase of Bucyrus in the Company's Canadian operations on October 1, 2012.

Forward-Looking Disclaimer

This report contains statements about the Company's business outlook, objectives, plans, strategic priorities and other statements that are not historical facts. A statement Finning makes is forward-looking when it uses what the Company knows and expects today to make a statement about the future. Forward-looking statements may include words such as aim, anticipate, assumption, believe, could, expect, goal, guidance, intend, may, objective, outlook, plan, project, seek, should, strategy, strive, target, and will. Forward-looking statements in this report include, but are not limited to, statements with respect to: expectations with respect to the economy and associated impact on the Company's financial results; expected revenue and SG&A levels and EBIT growth; anticipated generation of free cash flow (including projected net capital and rental expenditures), and its expected use; anticipated defined benefit plan contributions; the expected target range of the Company's Debt Ratio; the impact of new and revised IFRS pronouncements that have been issued but are not yet effective; growth prospects for the former Bucyrus business acquired by the Company in Finning's dealership territories (Bucyrus) and the anticipated competitive advantages associated with the newly acquired business; expected future financial and operating results generated from Bucyrus; and the expected impact of Bucyrus on Finning's earnings. 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 describe Finning's expectations at February 12, 2013. Except as may be required by Canadian securities laws, Finning does not undertake any obligation to update or revise any forward-looking statement, whether as a result of new information, future events, or otherwise.

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

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

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

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

Attachment 1: Supplementary Information

Unaudited Quarterly Segmented Revenue Information

Three months ended December 31, 2012 ($ millions)	**Canada**	**South America**	**UK & Ireland**	**Consolidated**	**Revenue percentage**
New equipment	**$ 340.7**	**$ 369.4**	**$ 137.6**	**$ 847.7**	**47.6%**
Used equipment	**43.3**	**24.5**	**14.1**	**81.9**	**4.6%**
Equipment rental	**74.4**	**18.1**	**8.8**	**101.3**	**5.7%**
Product support	**328.3**	**327.0**	**56.7**	**712.0**	**40.0%**
Other	**1.5**	**35.0**	**—**	**36.5**	**2.1%**
Total	**$ 788.2**	**$ 774.0**	**$ 217.2**	**$ 1,779.4**	**100.0%**
Revenue percentage by operations	**44.3%**	**43.5%**	**12.2%**	**100.0%**	

Three months ended December 31, 2011 ($ millions)	Canada	South America	UK	Consolidated	Revenue percentage
New equipment	$ 535.8	$ 309.3	$ 144.9	$ 990.0	54.7%
Used equipment	51.3	11.1	16.1	78.5	4.3%
Equipment rental	73.7	18.1	5.7	97.5	5.4%
Product support	328.9	253.4	60.3	642.6	35.5%
Other	1.2	0.8	—	2.0	0.1%
Total	$ 990.9	$ 592.7	$ 227.0	$ 1,810.6	100.0%
Revenue percentage by operations	54.7%	32.7%	12.6%	100.0%	

Quarterly Segmented EBIT Information

Three months ended December 31, 2012 ($ millions)	**Canada**	**South America**	**UK & Ireland**	**Other**	**Consolidated**
Revenue from external sources	**$ 788.2**	**$ 774.0**	**$ 217.2**	**$ —**	**$ 1,779.4**
Operating costs	**(699.0)**	**(679.7)**	**(196.1)**	**(9.8)**	**(1,584.6)**
Depreciation and amortization	**(27.5)**	**(17.8)**	**(9.9)**	**(0.1)**	**(55.3)**
	61.7	**76.5**	**11.2**	**(9.9)**	**139.5**
Equity earnings	**2.5**	**—**	**—**	**—**	**2.5**
Other income (expenses)	**9.7**	**(0.8)**	**(0.8)**	**(0.3)**	**7.8**
Earnings (loss) before finance costs and taxes (EBIT)	**$ 73.9**	**$ 75.7**	**$ 10.4**	**$ (10.2)**	**$ 149.8**
EBIT					
- percentage of revenue	**9.4%**	**9.8%**	**4.8%**	**—**	**8.4%**
- percentage by operations	**49.3%**	**50.5%**	**6.9%**	**(6.7)%**	**100.0%**

Three months ended December 31, 2011 ($ millions)	Canada	South America	UK and Ireland	Other	Consolidated
Revenue from external sources	$ 990.9	$ 592.7	$ 227.0	$ —	$ 1,810.6
Operating costs	(920.1)	(523.9)	(205.3)	(5.4)	(1,654.7)
Depreciation and amortization	(30.5)	(11.6)	(6.2)	(0.1)	(48.4)
	40.3	57.2	15.5	(5.5)	107.5
Equity earnings (loss)	3.4	—	—	(0.4)	3.0
Other expenses	(0.3)	(0.9)	(0.7)	(1.3)	(3.2)
Earnings (loss) before finance costs and taxes (EBIT)	$ 43.4	$ 56.3	$ 14.8	$ (7.2)	$ 107.3
EBIT					
- percentage of revenue	4.4%	9.5%	6.5%	—	5.9%
- percentage by operations	40.5%	52.5%	13.7%	(6.7)%	100.0%

Attachment 1: Supplementary Information [continued]

Unaudited Quarterly Consolidated Statements of Income

Three months ended December 31 (Canadian $ thousands, except share and per share amounts)	**2012 unaudited**	2011 unaudited
Revenue		
New equipment	**$ 847,673**	$ 990,021
Used equipment	**81,935**	78,544
Equipment rental	**101,381**	97,516
Product support	**712,000**	642,604
Other	**36,438**	1,934
Total revenue	**1,779,427**	1,810,619
Cost of sales	**(1,257,509)**	(1,336,110)
Gross profit	**521,918**	474,509
Selling, general, and administrative expenses	**(382,454)**	(366,952)
Equity earnings of joint venture and associate	**2,505**	3,009
Other income (expenses)	**7,781**	(3,252)
Earnings before finance costs and income taxes	**149,750**	107,314
Finance costs	**(23,316)**	(14,480)
Income before provision for income taxes	**126,434**	92,834
Provision for income taxes	**(21,036)**	(22,309)
Net income	**$ 105,398**	$ 70,525
Earnings per share		
Basic	**$ 0.61**	$ 0.41
Diluted	**$ 0.61**	$ 0.41
Weighted average number of shares outstanding		
Basic	**171,907,455**	171,572,073
Diluted	**172,329,676**	172,075,588

Attachment 1: Supplementary Information [continued]

Unaudited Quarterly Consolidated Statements of Cash Flow

Three months ended December 31 (Canadian $ thousands)	2012 unaudited	2011 unaudited
OPERATING ACTIVITIES		
Net income	**$ 105,398**	$ 70,525
Add (deduct) items not affecting cash		
Depreciation and amortization	**56,104**	49,042
Gain on sale of property, plant, and equipment and rental equipment	**(17,538)**	(4,119)
Deferred taxes	**12,403**	6,676
Share-based payments	**4,557**	660
Equity earnings of joint venture and associate	**(2,505)**	(3,009)
Other	**659**	(599)
Net income adjusted for items not affecting cash	**159,078**	120,374
Changes in operating assets and liabilities	**161,674**	293,595
Interest paid	**(25,023)**	(15,664)
Income tax paid	**(3,014)**	(9,232)
Cash provided by operations after changes in operating assets and liabilities	**292,715**	389,073
Additions to rental equipment	**(95,169)**	(106,542)
Proceeds on disposal of rental equipment	**63,085**	50,512
Equipment leased to customers, net of disposals	**(4)**	3,300
Cash flow provided by operating activities	**260,627**	336,343
INVESTING ACTIVITIES		
Additions to property, plant and equipment	**(34,562)**	(53,894)
Additions to intangible assets	**(2,616)**	(3,628)
Proceeds on disposal of property, plant and equipment	**21,281**	1,869
Net payment on settlement of foreign currency forward	**(6,730)**	—
Net proceeds paid on acquisition	**(160,372)**	(2,453)
Cash used in investing activities	**(182,999)**	(58,106)
FINANCING ACTIVITIES		
Increase (decrease) in short-term debt	**(4,014)**	30,293
Repayment of 4.64% Medium Term Note	**—**	(150,000)
Decrease other long-term debt	**(69,153)**	(118,318)
Dividends paid	**(24,067)**	(22,304)
Cash used in financing activities	**(97,234)**	(260,329)
Effect of currency translation on cash balances	**(1,289)**	(485)
Increase (decrease) in cash and cash equivalents	**(20,895)**	17,423
Cash and cash equivalents, beginning of period	**135,819**	105,322
Cash and cash equivalents, end of period	**$ 114,924**	$ 122,745

MANAGEMENT'S REPORT TO THE SHAREHOLDERS

The accompanying Consolidated Financial Statements and Management's Discussion and Analysis (MD&A) are the responsibility of Finning International Inc.'s management. The Consolidated Financial Statements have been prepared in accordance with International Financial Reporting Standards which recognize the necessity of relying on management's best estimates and informed judgements.

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

The Company's independent auditors, Deloitte LLP, have audited the Consolidated Financial Statements, as reflected in their report for 2012.

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

The Consolidated Financial Statements and MD&A have, in management's opinion, been properly prepared within reasonable limits of materiality and within the framework of the accounting policies summarized in Note 1 of the Notes to the Consolidated Financial Statements.

M.T. Waites
President and Chief Executive Officer

D.S. Smith
Executive Vice President and Chief Financial Officer

February 12, 2013
1000-666 Burrard Street, Vancouver, BC, V6C 2X8, Canada

Independent Auditor's Report

To the Shareholders of
Finning International Inc.

We have audited the accompanying consolidated financial statements of Finning International Inc., which comprise the consolidated statements of financial position as at December 31, 2012 and December 31, 2011, and the consolidated statements of income, comprehensive income (loss), shareholders' equity and cash flows for the years ended December 31, 2012 and December 31, 2011, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Finning International Inc. as at December 31, 2012 and December 31, 2011, and its financial performance and its cash flows for the years ended December 31, 2012 and December 31, 2011 in accordance with International Financial Reporting Standards.

Chartered Accountants
February 12, 2013
Vancouver, Canada

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

December 31 (Canadian $ thousands)	2012	2011
ASSETS		
Current assets		
Cash and cash equivalents (Note 21)	**$ 114,924**	$ 122,745
Accounts receivable	**876,908**	862,698
Service work in progress	**119,824**	171,214
Inventories (Note 10)	**1,930,114**	1,442,829
Income tax recoverable	**22,014**	20,880
Derivative assets (Note 4)	**7,390**	2,287
Other assets (Note 12)	**246,058**	154,803
Total current assets	**3,317,232**	2,777,456
Property, plant, and equipment (Note 15)	**658,072**	550,524
Rental equipment (Note 15)	**408,995**	402,114
Intangible assets (Note 16)	**94,795**	51,386
Distribution network (Note 17)	**305,602**	646
Goodwill (Note 18)	**109,481**	92,501
Investment in and advances to joint venture and associate (Note 13)	**66,633**	61,600
Finance assets (Note 14)	**42,033**	33,820
Deferred tax assets (Note 6)	**59,713**	81,029
Other assets (Note 12)	**55,467**	34,284
	$ 5,118,023	$ 4,085,360
LIABILITIES		
Current liabilities		
Short-term debt (Note 3)	**$ 303,346**	$ 334,525
Accounts payable and accruals	**996,260**	965,981
Income tax payable	**16,855**	12,511
Provisions (Note 19)	**101,171**	88,146
Deferred revenue	**454,778**	317,299
Derivative liabilities (Note 4)	**14,230**	23,515
Current portion of long-term debt (Note 3)	**363,590**	508
Total current liabilities	**2,250,230**	1,742,485
Long-term debt (Note 3)	**1,012,214**	762,571
Long-term obligations (Note 20)	**236,581**	192,410
Provisions (Note 19)	**4,164**	2,897
Deferred revenue	**26,957**	22,320
Deferred tax liabilities (Note 6)	**21,323**	17,723
Total liabilities	**3,551,469**	2,740,406
Commitments and contingencies (Notes 28 and 29)		
SHAREHOLDERS' EQUITY		
Share capital (Note 7)	**571,100**	566,452
Contributed surplus	**36,046**	35,812
Accumulated other comprehensive loss	**(50,474)**	(38,193)
Retained earnings	**1,009,882**	780,883
Total shareholders' equity	**1,566,554**	1,344,954
	$ 5,118,023	$ 4,085,360

Approved by the Directors February 12, 2013

K.M. O'Neill, Director

D.W.G. Whitehead, Director

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

CONSOLIDATED STATEMENTS OF INCOME

For years ended December 31 (Canadian $ thousands, except share and per share amounts)	**2012**	2011
Revenue		
New equipment	**$ 3,077,141**	$ 2,889,020
Used equipment	**295,449**	253,407
Equipment rental	**379,837**	345,486
Product support	**2,815,380**	2,395,653
Other	**54,322**	11,344
Total revenue	**6,622,129**	5,894,910
Cost of sales	**(4,657,358)**	(4,215,195)
Gross profit	**1,964,771**	1,679,715
Selling, general, and administrative expenses	**(1,483,158)**	(1,279,240)
Equity earnings of joint venture and associate (Note 13)	**10,124**	6,674
Other income (Note 2)	**12,085**	—
Other expenses (Note 2)	**(7,344)**	(27,412)
Earnings before finance costs and income taxes	**496,478**	379,737
Finance costs (Note 3)	**(80,087)**	(53,242)
Income before provision for income taxes	**416,391**	326,495
Provision for income taxes (Note 6)	**(78,772)**	(67,130)
Net income	**$ 337,619**	$ 259,365

Earnings per share (Note 9)		
Basic	**$ 1.96**	$ 1.51
Diluted	**$ 1.96**	$ 1.51
Weighted average number of shares outstanding		
Basic	**171,837,050**	171,546,035
Diluted	**172,391,121**	172,286,925

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

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

For years ended December 31 (Canadian $ thousands)		**2012**		2011
Net income	**$**	**337,619**	$	259,365
Other comprehensive income (loss), net of income tax				
Foreign currency translation adjustments		**(14,114)**		24,713
Unrealized loss on net investment hedges		**(905)**		(1,702)
Tax recovery (expense) on net investment hedges		**(91)**		547
Foreign currency translation and gain (loss) on net investment hedges, net of income tax		**(15,110)**		23,558
Unrealized gain (loss) on cash flow hedges		**15,686**		(8,005)
Realized loss on cash flow hedge of foreign currency risk to acquire Bucyrus		**(9,492)**		—
Realized gain on cash flow hedges, reclassified to earnings		**(674)**		(1,994)
Tax recovery (expense) on cash flow hedges		**(2,691)**		1,633
Gain (loss) on cash flow hedges, net of income tax		**2,829**		(8,366)
Actuarial loss (Note 23)		**(17,623)**		(65,194)
Tax recovery on actuarial loss		**3,530**		15,935
Actuarial loss, net of income tax		**(14,093)**		(49,259)
Total comprehensive income	**$**	**311,245**	$	225,298

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

	Share Capital			Accumulated Other Comprehensive Income (Loss)			
($ Canadian thousands, except share amounts)	Shares	Amount	Contributed Surplus	Foreign Currency Translation and Gain / (Loss) on Net Investment Hedges	Gain / (Loss) on Cash Flow Hedges	Retained Earnings	Total
Balance, January 1, 2011	171,431,349	$ 564,973	$ 33,128	$ (52,316)	$ (1,069)	$ 658,269	$ 1,202,985
Net income	—	—	—	—	—	259,365	259,365
Other comprehensive income (loss)	—	—	—	23,558	(8,366)	(49,259)	(34,067)
Total comprehensive income (loss)	—	—	—	23,558	(8,366)	210,106	225,298
Issued on exercise of share options	142,403	1,479	(779)	—	—	—	700
Share option expense	—	—	3,463	—	—	—	3,463
Dividends on common shares	—	—	—	—	—	(87,492)	(87,492)
Balance, December 31, 2011	171,573,752	$ 566,452	$ 35,812	$ (28,758)	$ (9,435)	$ 780,883	$ 1,344,954
Net income	**—**	**—**	**—**	**—**	**—**	**337,619**	**337,619**
Other comprehensive income (loss)	**—**	**—**	**—**	**(15,110)**	**2,829**	**(14,093)**	**(26,374)**
Total comprehensive income (loss)	**—**	**—**	**—**	**(15,110)**	**2,829**	**323,526**	**311,245**
Issued on exercise of share options	**336,006**	**4,648**	**(4,393)**	**—**	**—**	**—**	**255**
Share option expense	**—**	**—**	**4,627**	**—**	**—**	**—**	**4,627**
Dividends on common shares	**—**	**—**	**—**	**—**	**—**	**(94,527)**	**(94,527)**
Balance, December 31, 2012	**171,909,758**	**$ 571,100**	**$ 36,046**	**$ (43,868)**	**$ (6,606)**	**$ 1,009,882**	**$ 1,566,554**

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

CONSOLIDATED STATEMENTS OF CASH FLOW

For years ended December 31 (Canadian $ thousands)	2012	2011
OPERATING ACTIVITIES		
Net income	**$ 337,619**	$ 259,365
Add (deduct) items not affecting cash		
Depreciation and amortization	**215,388**	176,350
Gain on sale of property, plant, and equipment and rental equipment	**(46,395)**	(18,827)
Deferred taxes	**20,353**	4,792
Share-based payments	**15,344**	13,743
Equity earnings of joint ventures and associate	**(10,124)**	(6,674)
Gain on settlement of note receivable	**(2,373)**	—
Other	**(1,637)**	3,165
Net income adjusted for items not affecting cash	**528,175**	431,914
Changes in operating assets and liabilities (Note 21)	**(194,823)**	(280,856)
Interest paid	**(66,050)**	(45,736)
Income tax paid	**(41,479)**	(38,679)
Cash provided by operations after changes in operating assets and liabilities and interest and income tax paid	**225,823**	66,643
Additions to rental equipment	**(330,204)**	(311,871)
Proceeds on disposal of rental equipment	**237,353**	161,914
Equipment leased to customers, net of disposals	**53**	2,397
Cash flow provided by (used in) operating activities	**133,025**	(80,917)
INVESTING ACTIVITIES		
Additions to property, plant and equipment	**(136,264)**	(135,838)
Additions to intangible assets	**(57,807)**	(13,322)
Proceeds on disposal of property, plant and equipment	**23,614**	9,281
Proceeds from sale of Hewden Stuart (Note 12a)	**28,138**	6,332
Investment in equity investment (Note 13)	**(2,784)**	(1,375)
Net payments for acquisitions (Note 22)	**(473,814)**	(4,450)
Payment on settlement of foreign currency forward	**(6,730)**	—
Cash used in investing activities	**(625,647)**	(139,372)
FINANCING ACTIVITIES		
Increase (decrease) in short-term debt	**(30,200)**	245,728
Issuance of Medium Term Notes (Note 3)	**149,239**	—
Issuance of U.S. senior notes (Note 3)	**496,559**	—
Repayment of 4.64% Medium Term Note	**—**	(150,000)
Decrease in other long-term debt	**(32,497)**	(11,745)
Issue of common shares on exercise of share options	**255**	700
Dividends paid	**(94,527)**	(87,492)
Cash provided by (used in) financing activities	**488,829**	(2,809)
Effect of currency translation on cash balances	**(4,028)**	(544)
Decrease in cash and cash equivalents	**(7,821)**	(223,642)
Cash and cash equivalents, beginning of year	**122,745**	346,387
Cash and cash equivalents, end of year (Note 21)	**$ 114,924**	$ 122,745

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

1. SIGNIFICANT ACCOUNTING POLICIES

These consolidated financial statements of the Company and its subsidiaries were prepared in accordance with International Financial Reporting Standards (IFRS), as issued by the International Accounting Standard Board (IASB).

These consolidated financial statements have been prepared in accordance with the accounting policies presented below and are based on the IFRS and International Financial Reporting Interpretations Committee (IFRIC) interpretations issued and effective as of February 12, 2013, the date these financial statements were authorized by the Board. The policies set out below were consistently applied to all the periods presented unless otherwise noted.

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

The significant accounting policies used in these consolidated financial statements are as follows:

(a) Principles of Consolidation

The consolidated financial statements include the accounts of Finning International Inc. (“Finning” or “Company”), which includes the Finning (Canada) division and Finning’s wholly owned subsidiaries. Subsidiaries are those entities over which the Company has the power to govern the financial and operating policies so as to obtain benefits from the investee’s activities, generally accompanying a shareholding that confers more than half of the voting rights. Principal operating subsidiaries include Finning (UK) Ltd., Finning Chile S.A., Finning Argentina S.A., Finning Soluciones Mineras S.A., Finning Uruguay S.A., Moncouver S.A., Finning Bolivia S.A., and OEM Remanufacturing Company (OEM). The Company has a 25% interest in PipeLine Machinery International (PLM), its joint venture, and a 27% interest in an associate, Energyst B.V. (Energyst). For subsidiaries acquired or disposed of during the year, the results of operations are included in the consolidated statements of income from, or up to, the date of the transaction, respectively.

Joint Ventures and Associates

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

The Company accounts for joint ventures and associates in which the Company has an interest using the equity method. The joint ventures and associates follow accounting policies that are materially consistent with the Company’s accounting policies. Where the Company transacts with a jointly controlled entity or associate, unrealized profits and losses are eliminated to the extent of the Company’s interest in the jointly controlled entity or associate.

(b) Key Assumptions and Significant Judgments

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

Areas of Estimation Uncertainty

Information about areas of estimation uncertainty in applying accounting policies that have the most significant effect on the amounts recognized in the consolidated statements are as follows:

Asset Lives and Residual Values

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

Goodwill and Intangible Assets

Goodwill and intangible assets with indefinite lives are tested for impairment at least annually. The impairment calculations require the use of estimates related to the future operating results and cash generating ability of the assets. Judgment is also used in identifying the cash generating unit or group of cash generating units at which goodwill and intangible assets are monitored for internal management purposes and identifying an appropriate discount rate for these calculations.

Distribution Network

As described in Note 22(a), the Company acquired a portfolio of assets with its acquisition of the distribution and support business formerly operated by Bucyrus International Inc. Management concluded that the distribution network and inventory backlog comprising part of the acquisition should be recognized separate from goodwill.

Management considered if a separate intangible asset for customer relationships should be recognized but concluded the estimated future cash flows attributable to customer relationships are not commercially separable from the cash flows attributable to the distribution network and could not be independently reliably measured. Management believes the primary revenue generating asset is the ability to distribute and service the Bucyrus product which is represented by the distribution network.

The distribution network is recognized on the statement of financial position at its acquisition-date fair value. The Company used valuation techniques that include inputs that are not based on observable market data to estimate the fair value. Significant estimates were required to determine the future cash flows expected to arise from the distribution network and a suitable discount rate in order to calculate its fair value.

Management believes that the chosen valuation techniques and assumptions used are appropriate in determining the acquisition-date fair value of the distribution network.

Revenue Recognition – Long Term Contracts

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

Revenue Recognition – Repurchase Guarantees

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

Allowance for Doubtful Accounts

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

Inventory Obsolescence

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

Current and Deferred Taxation

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

Due to the number of variables associated with the differing tax laws and regulations across the multiple jurisdictions the Company operates in, the precision and reliability of the resulting estimates are subject to uncertainties and may change as additional information becomes known.

Assumptions underlying the composition of deferred tax assets and liabilities include estimates of future results of operations and the timing of reversal of temporary differences as well as the tax rates and laws in each respective jurisdiction at the time of the expected reversal.

Areas of Significant Judgment

The significant judgments that management has made in the process of applying the Company's accounting policies are as follows:

Defined Benefit Pension Plans

The Company and its subsidiaries have defined benefit pension plans that provide pension and other benefits to its employees. Actuarial valuations are based on assumptions which include employee turnover, salary escalation rates, mortality rates, discount rates, and expected rate of return on retirement plan assets. Judgment is exercised in setting these assumptions. These assumptions impact the measurement of the defined benefit obligation, funding levels, the pension expense and the actuarial gains and losses recognized in other comprehensive income.

Warranty Claims

Warranties are provided on certain equipment, spare parts, and service supplied to customers. Management exercises judgment in establishing warranty provisions on the basis of past experience.

Rental Purchase Options

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

Other Judgments

In addition to the significant judgments described above, management has also made judgments with regard to the determination of cash generating units, the determination of the functional currency of the principal operations of the Company, and the determination of the classification of financial instruments.

(c) Foreign Currency Translation

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

- Monetary assets and liabilities are translated at exchange rates in effect at the statement of financial position dates and non-monetary items are translated at historical exchange rates; and
- Foreign exchange gains and losses are included in income except where the exchange gain or loss arises from the translation of monetary items designated as hedges, in which case the gain or loss is recorded as a component of other comprehensive income and recognized in earnings on the same basis as the hedged item.

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

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

The Company has hedged some of its investments in foreign subsidiaries using derivatives and foreign currency denominated borrowings. Foreign exchange gains or losses arising from the translation of these hedging instruments are accounted for as items of other comprehensive income and presented on the consolidated statement of financial position. Foreign exchange gains or losses arising from net investment hedging instruments are recognized in net income upon the disposal of a foreign operation. See Note 1 (t) for further details on the Company's hedge accounting policy.

(d) Cash and Cash Equivalents

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

(e) Inventories

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

(f) Investment in Associate

Investments over which the Company exercises significant influence, but not control or joint control, are accounted for using the equity method. If there is an indicator that the investment may be impaired, the carrying amount of the associate is tested for impairment as a single asset by comparing its recoverable amount with its carrying amount.

(g) Income Taxes

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

Current and deferred tax are recognized in profit or loss, except when they relate to items that are recognized in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognized in other comprehensive income or directly in equity, respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

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

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

(h) Instalment Notes Receivable and Equipment Leased to Customers

Finance assets on the consolidated statement of financial position include instalment notes receivable, which represent amounts due from customers relating to financing of equipment sold and parts and service sales. These receivables are recorded net of unearned finance charges and include initial direct costs. Finance assets also include equipment leased to customers on long-term financing leases. Depreciation of equipment leased to customers is provided in equal monthly amounts over the terms of the individual leases after identifying the estimated residual value of each unit at the end of each lease. Depreciation is recorded in cost of sales in the consolidated statement of income.

(i) Rental Equipment

Rental equipment is available for short and medium term rentals and is recorded at cost, net of accumulated depreciation and any impairment losses. Cost is determined on a specific item basis. Rental equipment is depreciated to its estimated residual value over its estimated useful life on a straight-line basis which is generally over a period of 2-5 years. Rental assets that become available for sale after being removed from rental fleets are transferred to inventory. Depreciation is recorded in cost of sales in the consolidated statement of income.

(j) Property, Plant and Equipment

Property, plant, and equipment are recorded at cost, net of accumulated depreciation and any impairment losses. Depreciation of property, plant and equipment is recorded in selling, general, and administrative expenses for all assets except standby equipment, which is recorded in cost of sales, in the consolidated statement of income. Depreciation commences when the asset becomes available for use, and ceases when the asset is derecognized or classified as held for sale. Where significant components of an asset have different useful lives, depreciation is calculated on each separate part.

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

Buildings (including investment property)	20 - 50 years
Equipment and vehicles	3 - 10 years

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

(k) Intangible Assets

Intangible assets with indefinite lives are not amortized. Intangible assets with finite lives are amortized on a straight-line basis over their estimated useful lives. Intangible assets, such as software, customer contracts and relationships, and similar assets, are amortized over the periods during which they are expected to generate benefits. Amortization is recorded in selling, general, and administrative expenses in the consolidated statement of income using the following annual rates:

Software	2 - 5 years
Contracts and customer relationships	3 – 4 years
Inventory backlog	up to 1.5 years

(l) Borrowing cost capitalization

Borrowing costs are capitalized during the construction of qualifying property, plant, and equipment and intangible assets. As the Company manages the financing of all operations centrally, and the construction of qualifying assets is financed through general borrowings, a weighted average borrowing rate is used in calculating interest to be capitalized on eligible assets under construction. All other borrowing costs are expensed as incurred.

(m) Goodwill

Goodwill represents the excess of the acquisition date fair value of consideration transferred over the fair value of the identifiable net assets acquired. Goodwill is not amortized but is reviewed for impairment at least annually.

(n) Asset Impairment

Goodwill and intangible assets with indefinite lives or those which are not yet available for use are subject to an annual assessment for impairment unless events or changes in circumstances indicate that their value may not be fully recoverable, in which case the assessment is done at that time. Tangible assets and intangible assets with finite lives and intangible assets with indefinite lives which do not have separate identifiable cash flows are allocated to cash generating units. Cash generating units are subject to assessment for impairment whenever there is an indication they may be impaired. For the purpose of impairment testing, goodwill is allocated to each of the Company's cash generating units or group of cash generating units expected to benefit from the acquisition. The level at which goodwill is allocated represents the lowest level at which goodwill is monitored for internal management purposes and is not higher than an operating segment. If the recoverable amount of the cash generating unit is less than the carrying amount, then the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit. Any impairment is recognized immediately in the consolidated statement of income. Impairment reversals are recognized immediately in net income when the recoverable amount of an asset increases above the impaired net book value, not to exceed the carrying amount that would have been determined (net of depreciation) had no impairment loss been recognized for the asset in prior years. Impairment losses recognized for goodwill are never reversed.

(o) Leases

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

The Company as lessor

Amounts due from lessees under finance leases are recorded as receivables at the amount of the Company's net investment in the leases. Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on the Company's net investment outstanding in respect of the leases.

Rental income from operating leases is recognized on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognized on a straight-line basis over the lease term.

The Company as lessee

Assets held under finance leases are initially recognized as assets of the Company at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation. Finance lease equipment is depreciated over the term of the relevant lease. Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly to profit or loss unless they are directly attributable to qualifying assets, in which case they are capitalized in accordance with the Company's general policy on borrowing costs. Contingent rental payments are recognized as expenses in the periods in which they are triggered.

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

<u>*Sale and leaseback transactions*</u>

Sale and leaseback transactions are assessed to determine whether they are finance or operating leases.

Sale and leaseback resulting in a finance lease

If a sale and leaseback transaction results in a finance lease, any excess of sale proceeds over the carrying amount is deferred and amortized over the lease term.

Sale and leaseback resulting in an operating lease

If a sale and leaseback transaction results in an operating lease, and it is clear that the transaction is established at fair value, any profit or loss is recognized immediately. If the sale price is below fair value, any profit or loss is recognized immediately except that, if the loss is compensated for by future lease payments at below market price, it is deferred and amortized in proportion to the lease payments over the period for which the asset is expected to be used. If the sale price is above fair value, the excess over fair value is deferred and amortized over the period for which the leased asset is expected to be used.

(p) Decommissioning Liabilities

The Company recognizes its legal and constructive obligation for the decommissioning of certain tangible long-lived assets. The provision is measured based on the net present value of management's best estimate of the expenditures that will be made. The discount rate used to discount the decommissioning liability is determined with reference to the specific risks associated with the underlying assets. The associated decommissioning costs are capitalized as part of the carrying amount of the long-lived asset and then amortized over the estimated useful life. The increase in the net present value of the provision for the expected decommissioning cost is included in finance costs. Subsequent changes in the estimate of costs relating to the decommissioning of long lived assets are capitalized as part of the cost of the item and depreciated prospectively over the remaining life of the item to which the costs relate. A gain or loss may be incurred upon settlement of the liability.

(q) Revenue Recognition

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

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

- Revenue from sales of equipment is recognized at the time title to the equipment and significant risks and rewards of ownership passes to the customer, which is generally at the time of shipment of the product to the customer;
- Revenue from sales of equipment can include construction contracts with customers that involve the design, installation, and assembly of power and energy equipment systems. Revenue is recognized on a percentage of completion basis proportionate to the work that has been completed which is based on associated costs incurred, except where this would not be representative of the stage of completion (when revenue is recognized in accordance with the specific acts outlined in the contract);
- Revenue from equipment rentals and operating leases is recognized in accordance with the terms of the relevant agreement with the customer, either evenly over the term of that agreement or on a usage basis such as the number of hours that the equipment is used; and
- Revenue from product support includes sales of parts and servicing of equipment. For sales of parts, revenue is recognized when the part is shipped to the customer or when the part is installed in the customer's equipment. For servicing of equipment, revenue is recognized as the service work is performed. Product support is also offered to customers in the form of long-term maintenance and repair contracts. For these contracts, revenue is recognized on a basis proportionate to the service work that has been performed based on the parts and labour service provided. Parts revenue is recognized based on parts list price and service revenue is recognized based on standard billing labour rates. Any losses estimated during the term of a long-term maintenance and repair contract are recognized when identified.

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

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

a. The delivered item has value to the customer on a stand-alone basis;

b. There is objective and reliable evidence of the fair value of the undelivered item; and

c. The arrangement includes a general right of return relative to the delivered item and delivery or performance of the undelivered item is considered probable and substantially in the control of the Company.

(r) Share-based Payments

The Company has share option plans and other share-based compensation plans for directors and certain eligible employees. Share-based awards are measured at fair value using the Black-Scholes model.

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

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

(s) Employee Future Benefits

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

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

Defined benefit plans: The cost of pensions and other retirement benefits is determined by independent actuaries using the projected unit credit method prorated on service and management's best estimates of assumptions including the expected return on plan assets and salary escalation rate, along with the use of a discount rate based on high quality corporate bond yields. For the purpose of calculating the expected return on plan assets, those assets are valued at fair value.

Past service costs from plan amendments are amortized on a straight-line basis over the expected average period until the amended benefits become vested. Past service costs are recognized immediately to the extent that the benefits are already vested.

Actuarial gains and losses arise from differences between actual experience and that expected as a result of economic, demographic, and other assumptions made. These include the difference between the actual and expected rate of return on plan assets for a period, and differences from changes in actuarial assumptions used to determine the accrued benefit obligation. Actuarial gains and losses are recognized in full directly in other comprehensive income in the period in which they occur.

The amount recognized in the consolidated statement of financial position represents the present value of the defined benefit obligation as adjusted for unrecognized past service costs and reduced by the fair value of plan assets. Any asset is limited to the unrecognized past service costs, plus the present value of available refunds and reductions in future contributions to the plan.

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

(t) Comprehensive Income, Financial Instruments, and Hedges

Comprehensive Income

Comprehensive income comprises the Company's net income and other comprehensive income and represents changes in shareholders' equity during a period arising from non-owner sources. Other comprehensive income includes foreign currency translation adjustments on the Company's net investment in foreign operations and related hedging gains and losses, actuarial gains and losses relating to the Company's defined benefit pension plans, and hedging gains and losses on cash flow hedges.

Financial Assets and Financial Liabilities

Classification

The Company has made the following classification of its financial assets and financial liabilities:

Cash and cash equivalents, accounts receivable, instalment and other notes receivable, and supplier claims receivable are classified as Loans and Receivables. They are measured at amortized cost using the effective interest method. Short-term and long-term debt and accounts payable are classified as Other Financial Liabilities. They are measured at amortized cost using the effective interest method. Transaction costs directly attributable to the acquisition or issue of a financial asset or financial liability except those classified as fair value through profit or loss (FVTPL) are included in the carrying amount of the financial asset or financial liability, and are amortized to income using the effective interest method.

Financial assets that are measured at amortized cost are assessed for impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial assets, the estimated future cash flows of the asset have been affected. For certain categories of financial assets, such as trade receivables, assets that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Company's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period, as well as observable changes in national or local economic conditions that correlate with default on receivables. The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. When a trade receivable is considered uncollectible, it is written off against the allowance account. Changes in the carrying amount of the allowance account are recognized in profit or loss.

Derivatives

All derivative instruments are recorded on the consolidated statement of financial position at fair value.

Embedded Derivatives

Derivatives may be embedded in other financial instruments (host instruments). Embedded derivatives are treated as separate derivatives when their economic characteristics and risks are not closely related to those of the host instrument, the terms of the embedded derivative are the same as those of a stand-alone derivative, and the combined contract is not classified as FVTPL. These embedded derivatives are measured at fair value with subsequent changes in fair value recognized in income. The Company has not identified any embedded derivatives that are required to be accounted for separately from the host contract.

Hedges

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

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

Cash Flow Hedges

The Company uses foreign exchange forward contracts and, at times, options to hedge the currency risk associated with certain foreign currency purchase commitments, payroll, and associated accounts payable and accounts receivable for periods up to two years in advance. The effective portion of hedging gains and losses associated with these cash flow hedges is recorded, net of tax, in other comprehensive income and is released from accumulated other comprehensive income and recorded in the same statement of income caption as the underlying item when the hedged item affects income. The gain or loss relating to any ineffective portion is recognized immediately in the consolidated statement of income.

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

Gains and losses relating to foreign exchange forward contracts that are not designated as hedges for accounting purposes are recorded in selling, general, and administrative expenses.

Fair Value Hedges

Changes in the fair value of derivatives designated and qualifying as fair value hedging instruments are recorded in income immediately along with changes in the fair value of the hedged item attributable to the hedged risk.

If a hedging relationship no longer meets the criteria for hedge accounting, the cumulative adjustment to the carrying amount of the hedged item is amortized to income based on a recalculated effective interest rate over the remaining expected life of the hedged item, unless the hedged item has been derecognized in which case the cumulative adjustment is recorded immediately in the consolidated statement of income.

Net Investment Hedges

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

(u) Adoption of new and revised IFRS and IFRS not yet effective

The Company adopted the amendments to IFRS 7, *Financial Instruments: Disclosures* for the financial year beginning January 1, 2012. The amendments introduced enhanced disclosure around the transfer of financial assets and associated risks. The adoption of this amendment to the standard did not have any impact on the Company's disclosures.

The Company has not applied the following new and revised IFRS that have been issued but are not yet effective:

Amendments to IAS 19, *Employee Benefits* (effective January 1, 2013*)* provide new requirements for the accounting for defined benefit pension plans. Most notably, the amendments mandate the immediate recognition of actuarial gains and losses in other comprehensive income, and require companies to use the same rate for both the discount rate applied to determine the defined benefit obligation and the expected rate of return on assets when calculating the interest component of pension expense. The Company already recognizes all actuarial gains and losses immediately through other comprehensive income, consequently this element of the amendments will not impact the Company. With respect to the second change, in determination of net income, the effect is that the defined benefit plan expense concepts of "interest cost" and "expected return on plan assets" will be replaced with the concept of "net interest". The amendments do not prescribe where in the results of operations the net interest amount is to be presented, but the Company expects that it will present the net interest amount as a component of financing costs upon the application of the amended standard.

As the Company's current view, consistent with long-term historical experience, is that the discount rate would be lower than the expected long-term rate of return on plan assets, the expected effect of the amended standard will be a decrease in net income and associated per share amounts. The variance, if any, between the actual return on the defined benefit plan assets and the amount determined using the discount rate would be included in other comprehensive income as a remeasurement.

When the Company adopts the amendments to IAS 19 effective January 1, 2013, the Company is required to restate the prior year, 2012 as the comparative period. As a result, amendments to IAS 19 are anticipated to result in an additional pre-tax expense of approximately $15 million with a corresponding pre-tax increase in the other comprehensive income for the year ended December 31, 2012 (the comparative period when the Company adopts the amendments in 2013). The amended standard is not expected to affect the Company's statement of financial position or the statement of cash flows. The Company will also provide additional disclosures in the notes to the financial statements when the amendments to IAS 19 are adopted in 2013.

The Company will apply the amended standard on January 1, 2013.

The following accounting standards are not expected to have a significant effect on the Company's accounting policies or financial statements:

- Amendments to IAS 1, *Presentation of Financial Statements* (effective for annual periods beginning on or after July 1, 2012) require that elements of other comprehensive income that may subsequently be reclassified through profit and loss be differentiated from those items that will not be reclassified.
- IFRS 10, *Consolidated Financial Statements*, IFRS 11, *Joint Arrangements,* IFRS 12, *Disclosure of Interests in Other Entities*, and consequential revisions to IAS 27, *Separate Financial Statements* and IAS 28, *Investments in Associates and Joint Ventures* (all effective January 1, 2013) provide revised guidance on the accounting treatment and associated disclosure requirements for joint arrangements and associates, and a revised definition of 'control' for identifying entities which are to be consolidated.
- IFRS 13 *Fair Value Measurement* (effective January 1, 2013) provides new guidance on fair value measurement and disclosure requirements.

Management is currently assessing the impact of the following new IFRS on the Company's accounting policies and financial statements.

- IFRS 9, *Financial Instruments* (effective January 1, 2015) introduces new requirements for the classification and measurement of financial assets and financial liabilities.

2. Other Income and Other Expenses

Other income includes the following items:

For years ended December 31 ($ thousands)		2012		2011
Gain on sale of investment property	**$**	**9,712**	$	—
Gain on settlement of note receivable (Note 12a)		**2,373**		—
	$	**12,085**	$	—

Other expenses include the following items:

For years ended December 31 ($ thousands)		2012		2011
Project costs (a)	**$**	**(5,144)**	$	(22,412)
Claim on Hewden indemnification (Note 29)		**(583)**		—
Acquisition costs (b)		**(1,617)**		(5,000)
	$	**(7,344)**	$	(27,412)

(a) Project costs incurred in 2012 and 2011 relate to the implementation of a new Enterprise Resource Planning (ERP) system for the Company's global operations. The new ERP system was implemented in Finning (Canada) on July 4, 2011 and consequently, all system improvement and support expenses in 2012 are captured in the Canadian operation's selling, general, and administrative costs. Subsequent implementations are planned for the U.K. and South American operations so costs related to their implementation are classified as other expenses.

(b) Acquisition costs incurred in 2012 and 2011 relate to the acquisition in 2012 from Caterpillar of the distribution and support business formerly operated by Bucyrus International Inc. (Bucyrus) in Finning's dealership territories in South America, the U.K., and Canada (Note 22a). In addition, acquisition costs incurred during 2012 include costs relating to the acquisition of the Damar Group Ltd by Finning UK and Ireland (Note 22b).

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

December 31 ($ thousands)		2012		2011
Short-term debt	**$**	**303,346**	$	334,525
Long-term debt:				
Medium Term Notes				
5.16%, $250 million, due September 3, 2013		**249,864**		249,662
6.02%, $350 million, due June 1, 2018		**348,987**		348,800
5.077% $150 million, due June 13, 2042		**149,117**		—
5.625% £70 million Eurobond, due May 30, 2013		**113,172**		110,343
3.98% U.S. $100 million, due January 19, 2022, Series A		**98,964**		—
4.08% U.S. $100 million, due January 19, 2024, Series B		**98,955**		—
4.18% U.S. $50 million, due April 3, 2022, Series C		**49,513**		—
4.28% U.S. $50 million, due April 3, 2024, Series D		**49,510**		—
4.53% U.S. $200 million, due April 3, 2027, Series E		**198,016**		—
Other term loans (a)		**19,706**		54,274
		1,375,804		763,079
Less current portion of long-term debt		**(363,590)**		(508)
Total long-term debt	**$**	**1,012,214**	$	762,571

(a) Other term loans include U.S. $10.0 million and €4.0 million (2011: U.S. $10.0 million, £21.5 million, and €4.0 million) of unsecured borrowings under committed bank facilities that are classified as long-term debt. Other term loans also include £2.8 million (2011: £3.1 million) of unsecured term loans primarily from supplier merchandising programs.

Short-Term Debt

Short-term debt primarily consists of commercial paper borrowings and other short-term bank indebtedness that matures within one year. The Company maintains a maximum authorized commercial paper program of $600 million which is utilized as the Company's principal source of short-term funding. This commercial paper program is backstopped by credit available under a $1.0 billion committed credit facility. In addition, the Company maintains certain other committed and uncommitted bank credit facilities to support its subsidiary operations.

As at December 31, 2012, the Company had approximately $1,785 million (2011: $1,563 million) of unsecured credit facilities, and including all bank and commercial paper borrowings drawn against these facilities, approximately $1,223 million (2011: $1,192 million) of capacity remained available, of which approximately $743 million (2011: $727 million) is committed credit facility capacity.

Included in short-term debt is foreign currency denominated debt of U.S. $282.3 million and Argentine peso 60.0 million (2011: U.S. $181.8 million, Argentine peso 62.0 million).

The average interest rate applicable to the consolidated short-term debt for 2012 was 2.3% (2011: 1.6%).

Long-Term Debt

The Company's Canadian dollar denominated Medium Term Notes (MTN) are unsecured, and interest is payable semi-annually with principal due on maturity. The Company's £70 million 5.625% Eurobond is unsecured, and interest is payable annually with principal due on maturity.

In January 2012, the Company issued unsecured senior notes in the U.S. private placement market of U.S. $200 million. The Company issued the notes in two series of U.S. $100 million each: the 3.98% Senior Notes, Series A, due January 19, 2022 and the 4.08% Senior Notes, Series B, due January 19, 2024. Proceeds from the notes were used to repay commercial paper borrowings and for general corporate purposes.

In April 2012, the Company issued unsecured senior notes in the U.S. private placement market of U.S. $300 million. The Company issued the notes in three series: the U.S. $50 million 4.18% Senior Notes, Series C, due April 3, 2022, the U.S. $50 million 4.28% Senior Notes, Series D, due April 3, 2024 and the U.S. $200 million 4.53% Senior Notes, Series E, due April 3, 2027. Proceeds from the notes were used to fund the acquisition of Bucyrus in the Company's South American operations.

In June 2012, the Company issued $150 million MTN with a coupon rate of 5.077% per annum, payable semi-annually commencing December 13, 2012. The $150 million MTN are due June 13, 2042. Proceeds from the MTN were used to fund the purchase of Bucyrus in the Company's Canadian operations on October 1, 2012.

In September 2011, the Company entered into a new unsecured syndicated operating credit facility of up to $1.0 billion. The facility is available in multiple borrowing jurisdictions and may be drawn by a number of the Company's principal operating subsidiaries. Borrowings under this facility are available in multiple currencies and at various floating rates of interest. The committed facility matures in September 2015 and contains annual options to extend the maturity date on terms reflecting market conditions at the time of the extension. At December 31, 2012, $244 million (2011: $273 million) was drawn on the global credit facility, including commercial paper issuances.

The average interest rate applicable to the consolidated long-term debt for 2012 was 4.9% (2011: 5.1%).

Long-Term Debt Repayments

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

($ thousands)	
2013	$ 363,590
2014	591
2015	15,437
2016	257
2017	275
Thereafter	995,654
	$ 1,375,804

Finance Costs

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

For years ended December 31 ($ thousands)	2012	2011
Interest on debt securities:		
Short-term debt	$ 8,972	$ 2,663
Long-term debt	62,875	48,090
	71,847	50,753
Gain on foreign exchange derivatives	(3,344)	—
Loss on interest rate derivatives	1,492	1,486
Interest income on tax reassessment	—	(2,411)
Other finance related expenses	12,741	4,875
	82,736	54,703
Less:		
Borrowing costs capitalized to property, plant, and equipment	(2,649)	(1,461)
Finance costs	$ 80,087	$ 53,242

4. Financial Instruments

Overview

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 process is designed to ensure that such risks are identified, managed, and reported. On a quarterly basis, the Audit Committee reviews the Company's process with respect to risk assessment and management of key risks, including the Company's major financial risks and exposures and the steps taken to monitor and control such exposures. Changes to the key risks are reviewed by the Audit Committee. The Audit Committee also reviews the adequacy of disclosures of key risks in the Company's Annual Information Form, Management's Discussion and Analysis, and Consolidated Financial Statements.

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

Credit Risk

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

Exposure to credit risk

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

December 31 ($ thousands)	2012	2011
Cash and cash equivalents	$ 114,924	$ 122,745
Accounts receivable – trade	819,334	819,066
Accounts receivable – other	57,574	43,632
Service work in progress	119,824	171,214
Supplier claims receivable	126,053	83,452
Instalment notes receivable	41,681	32,767
Note receivable	—	24,924
Value Added Tax receivable	23,909	9,167
Derivative assets	7,390	2,287
Advance to associate	1,645	2,250
	$ 1,312,334	$ 1,311,504

Cash and cash equivalents

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

Accounts receivable, service work in progress, and other receivables

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

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

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

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

December 31 ($ thousands)	**2012**	2011
Canada	**$ 419,161**	$ 475,205
Chile	**216,824**	170,953
U.K.	**92,855**	96,011
Argentina	**61,490**	54,801
Bolivia	**14,429**	10,664
Europe	**4,887**	5,363
Uruguay	**5,989**	3,980
U.S.	**2,010**	1,439
Other	**1,689**	650
	$ 819,334	$ 819,066

Impairment losses

The aging of trade receivables at the reporting date was:

December 31	**2012**		2011	
($ thousands)	**Gross**	**Allowance**	Gross	Allowance
Not past due	**$ 548,989**	**$ —**	$ 576,332	$ —
Past due 1 – 30 days	**160,844**	**—**	149,190	—
Past due 31 – 90 days	**73,470**	**872**	47,725	475
Past due 91 – 120 days	**15,264**	**820**	22,613	407
Past due greater than 120 days	**50,464**	**28,005**	43,943	19,855
Total	**$ 849,031**	**$ 29,697**	$ 839,803	$ 20,737

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

For years ended December 31 ($ thousands)		2012		2011
Balance, beginning of year	$	**20,737**	$	13,809
Additional allowance		**19,994**		11,930
Receivables written off		**(11,134)**		(4,819)
Foreign exchange translation adjustment		**100**		(183)
Balance, end of year	$	**29,697**	$	20,737

The allowance amounts in respect of trade receivables are used to record possible impairment losses unless the Company is satisfied that no recovery of the amount owing is possible; at that point the amount is considered not recoverable and the financial asset is written off.

Derivative assets

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

LIQUIDITY RISK

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company's approach to managing liquidity is to ensure, as far as possible, that it will have sufficient liquid financial resources to fund its operations and meet its commitments and obligations. The Company maintains bilateral and syndicated bank credit facilities, a commercial paper program, continuously monitors actual and forecast cash flows, and manages maturity profiles of financial liabilities. Undrawn credit facilities at December 31, 2012 were $1,223 million (2011: $1,192 million). The Company believes that it has reasonable access to capital markets which is supported by its investment grade credit ratings.

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

	Carrying amount	Contractual cash flows			
($ thousands)	**December 31 2012**	**2013**	**2014-2015**	**2016-2017**	**Thereafter**
Non-derivative financial liabilities					
Short-term debt	$ (303,346)	$ (306,251)	$ —	$ —	$ —
Unsecured Medium Term Notes	(747,968)	(291,586)	(57,372)	(57,372)	(697,086)
U.S. senior notes	(494,958)	(21,241)	(42,482)	(42,482)	(650,481)
Eurobond	(113,172)	(119,616)	—	—	—
Unsecured bank facilities	(15,196)	(238)	(15,672)	—	—
Other term loans	(4,510)	(840)	(1,302)	(924)	(3,272)
Finance lease obligations	(20,238)	(3,233)	(9,160)	(2,464)	(16,729)
Accounts payable and accruals (excluding current portion of finance lease obligations)	(993,872)	(993,872)	—	—	—
Total non-derivative financial liabilities	$ (2,693,260)	$ (1,736,877)	$ (125,988)	$ (103,242)	$ (1,367,568)
Derivatives					
Forward foreign currency contracts and swaps					
Sell CAD	$ —	$ (30,613)	$ —	$ —	$ —
Buy USD	126	30,664	—	—	—
Sell CAD	—	(11,934)	—	—	—
Buy USD	(71)	11,862	—	—	—
Sell CLP	—	(84,701)	—	—	—
Buy USD	364	84,567	—	—	—
Sell USD	6,900	(71,633)	—	—	—
Buy CLP	—	80,813	—	—	—
Share forward					
Sell	(14,159)	(14,159)	—	—	—
Buy	—	—	—	—	—
Total derivatives	$ (6,840)	$ (5,134)	$ —	$ —	$ —

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

MARKET RISK

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

The Company utilizes derivatives in the ordinary course of business, and also incurs financial liabilities, in order to manage market risks. All such transactions are carried out within the guidelines set by the Company and approved by the Audit Committee.

Foreign exchange risk

The Company is geographically diversified, with significant investments in several different countries. The Company transacts business in multiple currencies, the most significant of which are the U.S. dollar, the Canadian dollar, the U.K. pound sterling, and the Chilean peso.

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

Translation Exposure

The most significant foreign exchange impact on the Company's net income and other comprehensive income is the translation of foreign currency based earnings into Canadian dollars, which is the Company's presentation currency. All of the Company's foreign subsidiaries report their operating results in currencies other than the Canadian dollar. Therefore, exchange rate movements in the U.S. dollar and U.K. pound sterling relative to the Canadian dollar will impact the consolidated results of the South American and UK and Ireland operations in Canadian dollar terms. In addition, the results of the Company's Canadian operations are impacted by the translation of its U.S. dollar based earnings. The Company does not hedge its exposure to foreign exchange risk with regard to foreign currency earnings except as noted below.

The Company's South American and UK and Ireland operations have functional currencies other than the Canadian dollar, and as a result foreign currency gains and losses arise in the cumulative translation adjustment account from the translation of the Company's net investment in these operations. To the extent practical, it is the Company's objective to manage this exposure. The Company has hedged a portion of its foreign investments through foreign currency denominated loans and, periodically, through other derivative contracts. For those derivatives and loans where hedge accounting has been elected, any exchange gains or losses arising from the translation of the hedging instruments are recorded, net of tax, as an item of other comprehensive income and accumulated other comprehensive income. Cumulative currency translation adjustments, net of gains or losses of the associated hedging instruments, are recognized in net income upon disposal of a foreign operation.

Transaction Exposure

Many of the Company's operations purchase, sell, rent, and lease products as well as incur costs in currencies other than their functional currency. This mismatch of currencies creates transactional exposure at the operational level, which may affect the Company's profitability as exchange rates fluctuate. The Company's competitive position may also be impacted as relative currency movements affect the business practices and/or pricing strategies of the Company's competitors.

The Company is also exposed to currency risks related to the future cash flows on its non-Canadian denominated short and long term debt.

To the extent practical, it is the Company's objective to manage the impact of exchange rate movements and volatility on its financial results. Each operation manages the majority of its transactional exposure through sales pricing policies and practices. The Company also enters into forward exchange contracts to manage residual mismatches in foreign currency cash flows.

Exposure to foreign exchange risk

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

December 31, 2012 (thousands)	**CAD**	**USD**	**GBP**	**CLP**
Cash and cash equivalents	**33,308**	**19,403**	**1,100**	**23,403,252**
Accounts receivable	**400,598**	**148,594**	**56,916**	**83,560,264**
Short-term and long-term debt	**(758,259)**	**(801,997)**	**(72,742)**	**—**
Accounts payable and accruals	**(284,548)**	**(423,664)**	**(66,067)**	**(64,158,608)**
Net statement of financial position exposure	**(608,901)**	**(1,057,664)**	**(80,793)**	**42,804,908**
Foreign exchange forward contracts and swaps	**(42,547)**	**55,744**	**—**	**(1,869,980)**

December 31, 2011 (thousands)	CAD	USD	GBP	CLP
Cash and cash equivalents	6,344	44,270	22,502	6,971,539
Accounts receivable	382,517	170,149	59,546	83,281,988
Short-term and long-term debt	(733,440)	(191,789)	(94,450)	—
Accounts payable and accruals	(268,035)	(435,423)	(74,622)	(53,384,927)
Net statement of financial position exposure	(612,614)	(412,793)	(87,024)	36,868,600
Foreign exchange forward contracts and swaps	65,551	(150,096)	(1,598)	40,274,715

Sensitivity analysis

A 5% strengthening of the Canadian dollar against the following currencies for a full year relative to the December 31, 2012 month end rates would increase / (decrease) net income and other comprehensive income by the amounts shown below. This analysis assumes that all other variables, in particular volumes, relative pricing, interest rates, and hedging activities are unchanged.

December 31 ($ millions)	2012 Net Income	2012 Other Comprehensive Income	2011 Net Income	2011 Other Comprehensive Income
CAD/USD	**$ (37)**	**$ (39)**	$ (26)	$ (44)
CAD/GBP	**$ (1)**	**$ (8)**	$ (2)	$ (7)
CAD/CLP	**$ 6**	**$ —**	$ 4	$ —

A 5% weakening of the Canadian dollar against the above currencies relative to the December 31, 2012 month end rates would have an equivalent but opposite effect on the above accounts in the amounts shown on the basis that all other variables are unchanged.

Interest rate risk

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

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

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

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

The Company pays floating interest rates on its VRSF. Both fair value and future cash flows are impacted by changes in interest rates.

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

Profile

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

December 31 ($ thousands)	2012	2011
Fixed rate instruments		
Financial assets	**$ 41,681**	$ 57,691
Financial liabilities	**(1,376,336)**	(723,696)
Variable rate instruments		
Financial assets	**$ 116,568**	$ 124,995
Financial liabilities	**(337,211)**	(405,292)

Fair value sensitivity analysis for fixed rate instruments

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

Net income sensitivity analysis for variable rate instruments

An increase of 1.0% in interest rates for a full year relative to the interest rates at the reporting date would have decreased net income by approximately $1.5 million (2011: decrease to net income of $2.0 million) with a 1.0% decrease having the opposite effect. This analysis assumes that all other variables, in particular foreign currency rates, remain constant.

Other risk

The Company's revenues can be indirectly affected by fluctuations in commodity prices; in particular, changes in expectations of longer-term prices. In Canada, commodity price movements in the copper, gold, coal, oil and gas, and forestry sectors can have an impact on customers' demands for equipment and product support. In Chile and Argentina, fluctuations in the price of copper, gold, and oil and gas can have similar effects, as customers base their capital expenditure decisions on the long-term price outlook for these commodities. In the U.K., changes to prices for thermal coal may impact equipment demand in that sector. Significant fluctuations in commodity prices could result in a material impact on the Company's financial results.

SHARE-BASED PAYMENT RISK

Share-based compensation plans are an integral part of the Company's employee compensation program, and can be in the form of the Company's common shares or cash payments that reflect the value of the shares. Share-based payment plans are accounted for at fair value, and the expense associated with these plans can therefore vary as the Company's share price, share price volatility and employee exercise behavior change. The Company has entered into a derivative contract to partly offset this exposure, VRSF.

The VRSF is a derivative contract that is cash-settled at the end of the contractual term, or at any time prior to that at the option of the Company, based on the difference between the Company's common share price at the time of settlement and the execution price plus accrued interest.

At December 31, 2012 and 2011, the VRSF relates to 1.5 million common shares at an execution price of $28.71 per share plus interest maturing in 2013. A 5% strengthening in the Company's share price as at December 31, 2012, all other variables remaining constant, would have increased pre-tax net income by approximately $1.8 million (2011: $1.6 million) as a result of revaluing the Company's VRSF with a 5% weakening having the opposite effect. This fair value impact partially mitigates changes in the fair value of the Company's cash-settled share-based payment liability.

Fair Values

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which fair value is observable:

Level 1 – quoted prices in active markets for identical securities

Level 2 – significant observable inputs other than quoted prices included in Level 1

Level 3 – significant unobservable inputs

December 31, 2012 ($ thousands)	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial assets at fair value through profit or loss				
Foreign currency forward contracts	**$ —**	**$ 7,390**	**$ —**	**$ 7,390**
Total	**$ —**	**$ 7,390**	**$ —**	**$ 7,390**
Financial liabilities at fair value through profit or loss				
Foreign currency forward contracts	**$ —**	**$ (71)**	**$ —**	**$ (71)**
Variable rate share forward	**—**	**(14,159)**	**—**	**(14,159)**
Total	**$ —**	**$ (14,230)**	**$ —**	**$ (14,230)**

December 31, 2011 ($ thousands)	Level 1	Level 2	Level 3	Total
Financial assets at fair value through profit or loss				
Foreign currency forward contracts	$ —	$ 2,287	$ —	$ 2,287
Total	$ —	$ 2,287	$ —	$ 2,287
Financial liabilities at fair value through profit or loss				
Foreign currency forward contracts	$ —	$ (7,022)	$ —	$ (7,022)
Variable rate share forward	—	(16,493)	—	(16,493)
Total	$ —	$ (23,515)	$ —	$ (23,515)

The Company did not move any instruments between levels of the fair value hierarchy during the years ended December 31, 2012 and 2011.

Variable rate share forward (Level 2)
The fair value of the variable rate share forward is determined based on the present value of future cash flows required to settle the share forward which are derived from the current share price, actual interest accrued to date and future estimated interest cost to termination of the share forward. Future interest cost is derived from market observable forward interest rates and contractual interest spreads.

Other derivative instruments (Level 2)

The fair value of derivative instruments is determined using present value techniques applied to estimated future cash flows. These techniques utilize a combination of quoted prices and market observable inputs. Where appropriate, fair values are adjusted for credit risk based on observed credit default spreads or fair market yield curves for counterparties when the derivative instrument is an asset and based on Finning's credit risk when the derivative instrument is a liability. Finning's credit risk is derived from yield spreads on Finning's market quoted debt.

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

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

The fair values of the derivatives below approximate the amount the Company would receive or pay to transfer such contracts to a third party:

(thousands) December 31, 2012 Foreign Exchange	**Statement of Financial Position Classification**	**Notional Value**		**Term to Maturity**	**Fair Value Receive (Pay)**	
Forwards and swaps buy USD / sell CAD	Derivative assets – current	USD	30,613	1-12 months	**$**	**126**
Forwards and swaps buy USD / sell CAD	Derivative liabilities – current	USD	11,934	1-12 months	**$**	**(71)**
Forwards buy USD / sell CLP	Derivative assets – current	USD	85,000	1-12 months	**$**	**364**
Forwards sell USD / buy CLP	Derivative assets – current	USD	72,000	1-12 months	**$**	**6,900**
Long-Term Incentive Plans						
Variable Rate Share Forward	Derivative liabilities – current	CAD	43,065	11 months	**$**	**(14,159)**

(thousands) December 31, 2011 Foreign Exchange	Statement of Financial Position Classification	Notional Value		Term to Maturity	Fair Value Receive (Pay)	
Forwards and swaps buy USD / sell CAD	Derivative assets – current	USD	81,198	1-12 months	$	696
Forwards sell USD / buy CAD	Derivative assets – current	USD	144,000	1 month	$	1,099
Forwards buy USD / sell CLP	Derivative assets – current	USD	72,000	1-2 months	$	371
Forwards sell USD / buy CLP	Derivative liabilities – current	USD	153,000	1-23 months	$	(7,022)
Forwards sell EUR / buy USD	Derivative assets – current	EUR	2,850	1 month	$	96
Forwards sell GBP / buy USD	Derivative assets – current	GBP	1,567	6-8 months	$	25
Long-Term Incentive Plans						
Variable Rate Share Forward	Derivative liabilities – current	CAD	43,065	11 months	$	(16,493)

Long-Term Debt

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

December 31	**2012**		2011	
($ thousands)	**Book Value**	**Fair Value**	Book Value	Fair Value
Long-term debt	**$ 1,375,804**	**$ 1,479,889**	$ 763,079	$ 838,548

5. Management of Capital

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

The Company manages its capital structure and makes adjustments to it in light of actual and forecast cash flows, actual and anticipated capital expenditures and investments, changes in economic conditions and the risk characteristics of its underlying assets. In order to maintain or adjust the capital structure, the Company may purchase shares for cancellation pursuant to normal course issuer bids, issue new shares, issue new debt, repay debt, issue new debt to replace existing debt with different characteristics, or adjust the amount of dividends paid to shareholders.

The Company monitors the following ratios: net debt to total capitalization and dividend payout ratio. Net debt to total capitalization is calculated as short-term and long-term debt, net of cash and cash equivalents (net debt) divided by total capitalization. Total capitalization is defined as the sum of net debt and all components of shareholders' equity (share capital, contributed surplus, accumulated other comprehensive loss, and retained earnings).

Dividend payout ratio is calculated as the indicated annual dividend declared per share divided by basic earnings per share for the last twelve month period.

The Company's strategy is to manage, over a longer-term average basis, to the target ranges set out below. The Company believes that these target ratios are appropriate and provide access to capital at a reasonable cost.

As at and for years ended December 31 ($ thousands, except as noted)	**Company Targets**	**2012**	2011
Components of Debt Ratio			
Cash and cash equivalents		**$ (114,924)**	$ (122,745)
Short-term debt		**303,346**	334,525
Current portion of long-term debt		**363,590**	508
Long-term debt		**1,012,214**	762,571
Net debt		**$ 1,564,226**	$ 974,859
Shareholders' equity		**$ 1,566,554**	$ 1,344,954
Net debt to total capitalization	**35 – 45%**	**50.0%**	42.0%
Dividend payout ratio	**25 – 30%**	**28.6%**	34.4%

Net debt to total capitalization is temporarily above the Company's target range of 35-45%, and reflects higher debt levels related to the purchase of the former Bucyrus distribution and support business in 2012.

Covenant

The Company is subject to a maximum net debt to total capitalization level pursuant to a covenant within its syndicated bank credit facility. As at December 31, 2012 and 2011, the Company is in compliance with this covenant.

6. INCOME TAXES

Provision for Income Taxes

As the Company operates in several tax jurisdictions, its income is subject to various rates of taxation. The components of the Company's income tax provision are as follows:

For year ended December 31, 2012 ($ thousands)	**Canada**	**International**	**Total**
Provision for income taxes			
Current	**$ 34,559**	**$ 28,208**	**$ 62,767**
Adjustment for prior periods recognized in the current year	**(2,578)**	**(1,771)**	**(4,349)**
	31,981	**26,437**	**58,418**
Deferred			
Origination and reversal of timing differences	**(716)**	**20,084**	**19,368**
Increase (decrease) due to tax rate changes	**(13)**	**(2,252)**	**(2,265)**
Adjustment for prior periods recognized in the current year	**2,302**	**949**	**3,251**
	1,573	**18,781**	**20,354**
Provision for income taxes	**$ 33,554**	**$ 45,218**	**$ 78,772**

For year ended December 31, 2011 ($ thousands)	Canada	International	Total
Provision for income taxes			
Current	$ 24,395	$ 40,758	$ 65,153
Adjustment for prior periods recognized in the current year	(2,548)	(267)	(2,815)
	21,847	40,491	62,338
Deferred			
Origination and reversal of timing differences	2,673	1,626	4,299
Adjustment for prior periods recognized in the current year	(591)	(951)	(1,542)
Change in unrecognized timing differences	290	1,745	2,035
	2,372	2,420	4,792
Provision for income taxes	$ 24,219	$ 42,911	$ 67,130

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

For years ended December 31 ($ thousands)	**2012**		2011	
Combined Canadian federal and provincial income taxes at the statutory tax rate	**$ 104,472**	**25.09%**	$ 86,848	26.60%
Increase / (decrease) resulting from:				
Lower statutory rates on the earnings of foreign subsidiaries	**(13,513)**	**(3.25)%**	(12,100)	(3.71)%
Income not subject to tax	**(9,903)**	**(2.38)%**	(7,577)	(2.32)%
Changes in statutory tax rates	**(2,261)**	**(0.54)%**	1,764	0.54%
Non-deductible share-based payment	**785**	**0.19%**	600	0.18%
Non-taxable capital gain	**(4,257)**	**(1.02)%**	—	—
Unrecognized intercompany profits	**(2,559)**	**(0.61)%**	(1,613)	(0.49)%
Non-taxable/non-deductible foreign exchange	**5,970**	**1.43%**	2,968	0.91%
Other	**38**	**0.01%**	(3,760)	(1.15)%
Provision for income taxes	**$ 78,772**	**18.92%**	$ 67,130	20.56%

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

- Chile's corporate (first tier) income tax rate was originally scheduled to decrease from 20% to 18.5% effective January 1, 2012 and further decrease to 17% effective January 1, 2013. Following a legislation change in the third quarter of 2012, the rate increased to 20% retroactive to January 1, 2012.
- The U.K.'s corporate income tax rate decreased from 25% to 24% effective April 1, 2012 and will decrease to 23% effective April 1, 2013.

Deferred Tax Asset and Liability

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

December 31 ($ thousands)	**2012**	2011
Deferred tax assets:		
Accounting provisions not currently deductible for tax purposes	**$ 54,338**	$ 50,403
Employee benefits	**31,682**	35,042
Share-based payments	**6,448**	11,026
Loss carry-forwards	**957**	3,629
	93,425	100,100
Deferred tax liabilities:		
Property, plant and equipment, rental, leased, and other intangible assets	**(35,050)**	(30,059)
Distribution network	**(16,022)**	—
Other	**(3,963)**	(6,735)
	(55,035)	(36,794)
Net deferred tax asset	**$ 38,390**	$ 63,306

Deferred taxes are not recognized on retained profits of approximately $990 million (2011: $837 million) of foreign subsidiaries, as it is the Company's intention to invest these profits to maintain and expand the business of the relevant companies.

The Company has recognized the benefit of the following tax loss carry-forwards available to reduce future taxable income. These amounts do not expire:

December 31 ($ thousands)	**2012**	2011
Canada	**$ —**	$ 451
International	**3,885**	12,035
	$ 3,885	$ 12,486

As at December 31, 2012, the Company has unrecognized net operating losses and capital loss carry-forwards of $3 million and $240 million, respectively, to reduce future taxable income. These amounts do not expire.

7. SHARE CAPITAL

The Company is authorized to issue an unlimited number of preferred shares without par value, of which 4.4 million are designated as cumulative redeemable preferred shares. The Company had no preferred shares outstanding for the years ended December 31, 2012 and 2011.

The Company is authorized to issue an unlimited number of common shares.

A shareholders' rights plan is in place which is intended to provide all holders of common shares with the opportunity to receive full and fair value for all of their shares in the event a third party attempts to acquire a significant interest in the Company. The Company's dealership agreements with subsidiaries of Caterpillar Inc. are fundamental to its business and any change in control must be approved by Caterpillar Inc.

The plan provides that one share purchase right has been issued for each common share and will trade with the common shares until such time as any person or group, other than a “permitted bidder”, bids to acquire or acquires 20% or more of the Company's common shares, at which time the plan rights become exercisable. The rights may also be triggered by a third party proposal for a merger, amalgamation or a similar transaction. In May 2011, the rights plan was extended for three years such that it will automatically terminate at the end of the Company’s Annual Meeting of shareholders in 2014 unless further extended by the shareholders prior to that time.

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

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

8. SHARE BASED PAYMENTS

The Company has a number of share-based compensation plans in the form of share options and other share-based compensation plans noted below. In 2012 and 2011, long-term incentives for executives and senior management were a combination of share options, performance share units, and deferred share units.

Share Options

The Company has several share option plans for certain employees with vesting occurring over a three-year period. The exercise price of each option is based on the weighted average trading price of the common shares of the Company on the date prior to the grant. Options granted after January 1, 2004 are exercisable over a seven-year period. Options granted prior to January 1, 2004 are exercisable over a ten-year period. Under the 2005 Stock Option Plan, the Company may issue up to 7.5 million common shares pursuant to the exercise of share options. At December 31, 2012, 1.6 million common shares remain eligible to be issued in connection with future grants under this Stock Option Plan.

Details of the share option plans are as follows:

	2012		2011	
For years ended December 31	**Options**	**Weighted Average Exercise Price**	Options	Weighted Average Exercise Price
Options outstanding, beginning of year	**5,410,606**	**$ 24.47**	5,602,612	$ 24.16
Granted	**790,040**	**$ 25.46**	479,540	$ 28.28
Exercised[(1)]	**(952,253)**	**$ 18.54**	(238,825)	$ 13.92
Forfeited	**(188,340)**	**$ 30.28**	(432,721)	$ 30.52
Options outstanding, end of year	**5,060,053**	**$ 25.53**	5,410,606	$ 24.47
Exercisable at year end	**3,786,730**	**$ 25.69**	4,279,839	$ 25.31

(1) Share options exercised in 2012 comprised both cash and cashless exercises. Under the 2005 Stock Option Plan, exercises generally utilize the cashless method, whereby the actual number of shares issued is represented by the premium between the fair market value at exercise time and the grant value, and the equivalent value of the number of options up to the grant value is withheld. 952,253 options were exercised in 2012 under the 2005 Stock Option Plan resulting in 336,006 common shares issued; 616,247 options were withheld and returned to the option pool for future issues/grants.

In 2012, the Company granted 790,040 common share options to senior executives and management of the Company (2011: 479,540 common share options). The Company's practice is to grant and price share options only when it is felt that all material information has been disclosed to the market.

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

	2012 Grant	2011 Grant
Dividend yield	**2.06%**	1.88%
Expected volatility [(1)]	**36.56%**	33.81%
Risk-free interest rate	**1.51%**	2.65%
Expected life	**5.56 years**	5.87 years

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

The weighted average grant date fair value of options granted during the year was $7.34 (2011: $8.44).

The following table summarizes information about share options outstanding at December 31, 2012:

	Options Outstanding			**Options Exercisable**	
Range of exercise prices	**Number outstanding**	**Weighted Average Remaining Life**	**Weighted Average Exercise Price**	**Number Outstanding**	**Weighted Average Exercise Price**
$14.64 - $18.59	**1,152,087**	**3.80 years**	**$ 15.80**	**976,734**	**$ 15.50**
$18.60 - $25.52	**1,089,303**	**4.65 years**	**$ 23.82**	**313,266**	**$ 19.75**
$25.53 - $29.06	**477,663**	**5.40 years**	**$ 28.22**	**155,730**	**$ 28.28**
$29.07 - $30.72	**1,410,600**	**2.37 years**	**$ 29.83**	**1,410,600**	**$ 29.83**
$30.73 - $31.67	**930,400**	**1.37 years**	**$ 31.66**	**930,400**	**$ 31.66**
	5,060,053	**3.29 years**	**$ 25.53**	**3,786,730**	**$ 25.69**

Other Share-Based Compensation Plans

The Company has other share-based compensation plans in the form of deferred share units, performance share units, and share appreciation rights that use notional common share units. These notional units are fair valued using a Black-Scholes option-pricing model.

In December 2007, the Company entered into a VRSF with a financial institution to hedge a portion of its outstanding vested deferred share units and vested share appreciation units, reducing the volatility caused by movements in the Company's share price on the value of these share-based compensation plans – see Note 4.

Details of the plans are as follows:

Directors

Directors' Deferred Share Unit Plan A (DDSU)

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

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

Non-employee Directors of the Company were allocated a total of 26,866 share units in 2012 (2011: 21,386 share units), which were granted to the Directors and expensed over the calendar year as the units are issued. An additional 3,898 (2011: 4,304) DDSUs were issued in lieu of cash compensation payable for service as a Director. A further 5,453 (2011: 5,954) DDSUs were granted to Directors during 2012 as payment for notional dividends.

Executive

Deferred Share Unit Plan A (DSU-A)

Under the DSU-A Plan, senior executives of the Company may be awarded deferred share units as approved by the Board of Directors. This plan utilizes notional units that are fully vested upon issuance to the executives. These units accumulate dividend equivalents in the form of additional units based on the dividends paid on the Company's common shares. Units are redeemable only following cessation of employment and must be redeemed by December 31st of the year following the year in which the cessation occurred. No units have been awarded under the DSU-A Plan since 2001 and no units are outstanding at December 31, 2012 or 2011.

Deferred Share Unit Plan B (DSU-B)

Under the DSU-B Plan, executives of the Company may be awarded performance based deferred share units as approved by the Board of Directors. This plan utilizes notional units that become vested at specified percentages, or vest evenly over a specified time period, or become vested partially on December 30th of the year following the year of retirement, death, or disability. These specified levels and vesting percentages are based on the Company's common share price at those specified levels exceeding, for ten consecutive days, the common share price at the date of grant. Vested deferred share units are redeemable for a period of 30 days after cessation of employment, or by December 31st of the year following the year of retirement, death, or disability. The notional deferred share units that have not vested within five years from the date that they were granted expire. Only vested units accumulate dividend equivalents in the form of additional units based on the dividends paid on the Company's common shares.

A total of 21,331 share units were awarded to Executives of the Company in June 2012 (2011: nil share units).These units vest evenly over a five year period from the date they were granted and will be expensed over the vesting period.

Performance Share Unit Plan (PSU)

Under the PSU Plan, executives of the Company may be awarded performance share units as approved by the Board of Directors. This plan utilizes notional units that become vested dependent on achieving future specified performance levels. Vesting of the awards is based on the extent to which the Company's average return on equity achieves or exceeds the specified performance levels over a three-year period. Vested performance share units are redeemable in cash based on the common share price at the end of the performance period.

Only vested units accumulate dividend equivalents in the form of additional units based on the dividends paid on the Company's common shares. Compensation expense for the PSU Plan is recorded over the three-year performance period. The amount of compensation expense is adjusted over the three-year performance period to reflect the current market value of common shares and the number of shares anticipated to vest based upon the Company's forecast three-year average return on equity.

Executives of the Company were allocated a total of 288,540 performance share units in 2012, based on 100% vesting (2011: 210,000 performance share units).

The specified levels and respective vesting percentages are as follows:

Performance Level	Average Return on Equity (over three-year period)		Proportion of PSUs Vesting	
	2012 and 2011 Plans	2010 Plan	2012 and 2011 Plans	2010 Plan
Below Threshold	<15%	< 12%	Nil	Nil
Threshold	15%	12%	50%	25%
Target	18%	14%	100%	100%
Maximum	22% or more	17% or more	200%	150%

The return on equity performance levels for PSU granted in 2010 has been set with reference to Canadian GAAP financial information. These performance levels have subsequently been reviewed for IFRS impacts; for years where Canadian GAAP financial information is not available, the actual performance will be decreased by approximately 3% to reflect the impact of the transition to IFRS.

Details of the deferred share unit and performance share unit plans, which reflect the valuation changes, excluding the impact of the VRSF hedge, are as follows:

For year ended December 31, 2012				
Units	**DSU-B**	**DDSU**	**PSU**	**Total**
Outstanding, beginning of year	**298,748**	**229,314**	**723,160**	**1,251,222**
Additions	**26,694**	**36,217**	**578,005**	**640,916**
Exercised	**(72,777)**	**—**	**(294,244)**	**(367,021)**
Forfeited	**—**	**—**	**(23,281)**	**(23,281)**
Outstanding, end of year	**252,665**	**265,531**	**983,640**	**1,501,836**
Vested, beginning of year	**298,748**	**229,314**	**—**	**528,062**
Vested	**5,363**	**36,217**	**294,244**	**335,824**
Exercised	**(72,777)**	**—**	**(294,244)**	**(367,021)**
Vested, end of year	**231,334**	**265,531**	**—**	**496,865**
Liability ($ thousands)				
Balance, beginning of year	**$ 5,830**	**$ 4,502**	**$ 6,362**	**$ 16,694**
Expense	**1,038**	**1,214**	**10,967**	**13,219**
Exercised	**(1,927)**	**—**	**(6,729)**	**(8,656)**
Forfeited	**—**	**—**	**(552)**	**(552)**
Balance, end of year	**$ 4,941**	**$ 5,716**	**$ 10,048**	**$ 20,705**

For year ended December 31, 2011				
Units	DSU-B	DDSU	PSU	Total
Outstanding, beginning of year	373,252	361,414	498,238	1,232,904
Additions	6,297	31,644	357,944	395,885
Exercised	(80,801)	(163,744)	(122,701)	(367,246)
Forfeited	—	—	(10,321)	(10,321)
Outstanding, end of year	298,748	229,314	723,160	1,251,222
Vested, beginning of year	373,252	361,414	—	734,666
Vested	6,297	31,644	122,701	160,642
Exercised	(80,801)	(163,744)	(122,701)	(367,246)
Vested, end of year	298,748	229,314	—	528,062
Liability ($ thousands)				
Balance, beginning of year	$ 8,927	$ 8,950	$ 4,937	$ 22,814
Expense	(838)	(219)	4,336	3,279
Exercised	(2,259)	(4,229)	(2,599)	(9,087)
Forfeited	—	—	(312)	(312)
Balance, end of year	$ 5,830	$ 4,502	$ 6,362	$ 16,694

Management Share Appreciation Rights (SAR) Plan

Beginning in 2002, awards under the SAR Plan (which uses notional units) were granted to senior managers within Canada and the U.K. and were exercisable over a seven-year period. The exercise price is based on the weighted average trading price of the common shares of the Company on the date prior to the grant. Under the SAR Plan, the compensation expense is recognized over the three year vesting period of the grant based on the fair value of the awards at the end of each reporting period. Compensation expense is also adjusted over the seven-year life of the award to reflect movements in the fair value of the awards.

No SAR units have been issued to management since 2005. Details of the SAR plans (which are all fully vested), excluding the impact of the VRSF hedge, are as follows:

For years ended December 31 Units	2012	2011
Outstanding, beginning of year	**117,807**	242,440
Exercised	**(117,807)**	(124,633)
Forfeited	**—**	—
Outstanding, end of year	**—**	117,807
Liability ($ thousands)		
Balance, beginning of year	**$ 928**	$ 2,812
Expense (recovery)	**385**	(510)
Exercised	**(1,314)**	(1,386)
Foreign exchange rate changes	**1**	12
Balance, end of year	**$ —**	$ 928
Strike price ranges:	**$ 16.22**	$ 16.22

The fair value of the DSU-B, DDSU, PSU, and SARs units outstanding has been estimated using the Black-Scholes option-pricing model with the following weighted-average assumptions:

December 31, 2012	DSU-B	DDSU	PSU
Dividend yield	1.85%	2.06%	2.17%
Expected volatility	32.42%	35.58%	31.16%
Risk-free interest rate	1.66%	1.47%	1.20%
Expected life	8.79 years	6.41 years	3.00 years
Share price at December 31 2012	$ 24.57	$ 24.57	$ 24.57
Estimated fair value per unit at year-end	$ 20.88	$ 21.53	$ 23.02

December 31, 2011	DSU-B	DDSU	PSU	SAR
Dividend yield	1.87%	1.91%	2.42%	2.14%
Expected volatility	33.85%	34.65%	35.78%	39.12%
Risk-free interest rate	1.49%	1.44%	1.00%	1.21%
Expected life	6.92 years	6.45 years	3.00 years	4.06 years
Share price at December 31 2011	$ 22.21	$ 22.21	$ 22.21	$ 22.21
Estimated fair value per unit at year-end	$ 19.51	$ 19.64	$ 20.65	$ 7.88

Summary – Impact of Share-based Payment Plans

For years ended December 31 ($ thousands)	2012	2011
Consolidated statement of income		
Compensation expense arising from equity-settled share option incentive plan	**$ 4,627**	$ 3,463
Compensation expense arising from cash-settled share based payments	**13,052**	2,457
Impact of variable rate share forward	**(2,335)**	7,823
	$ 15,344	$ 13,743
Consolidated statement of financial position		
Non-current liability for cash-settled share based payments (to be incurred within 1-5 years)	**$ 14,646**	$ 17,622
Variable rate share forward liability (Note 4)	**$ 14,159**	$ 16,493

The total intrinsic value of vested but not settled share based payments was $12.2 million (2011: 12.4 million).

9. Earnings Per Share

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

For years ended December 31 ($ thousands, except share and per share amounts) 2012	Income	Shares	Per Share
Basic EPS:			
Net income	**$ 337,619**	**171,837,050**	**$ 1.96**
Effect of dilutive securities: share options	—	**554,071**	—
Diluted EPS:			
Net income and assumed conversions	**$ 337,619**	**172,391,121**	**$ 1.96**
2011			
Basic EPS:			
Net income	$ 259,365	171,546,035	$ 1.51
Effect of dilutive securities: share options	—	740,890	—
Diluted EPS:			
Net income and assumed conversions	$ 259,365	172,286,925	$ 1.51

Share options granted to employees of 3.6 million (2011: 3.0 million) are anti-dilutive and excluded from the weighted average number of ordinary shares for the purpose of calculating diluted earnings per share.

10. Inventories

December 31 ($ thousands)	2012	2011
On-hand equipment	**$ 1,069,008**	$ 783,755
Parts and supplies	**702,369**	540,738
Internal service work in progress	**158,737**	118,336
Inventories	**$ 1,930,114**	$ 1,442,829

For the year ended December 31, 2012, on-hand equipment, parts, supplies, and internal service work in progress recognized as an expense in cost of sales amounted to $4,286 million (2011: $3,928.0 million). For the year ended December 31, 2012, the write-down of inventories to net realizable value, included in cost of sales, amounted to $30.4 million (2011: $28.9 million).

11. Power Systems Construction Contracts

The Company undertakes long term contracts to construct power systems solutions for certain customers. Information about these contracts is summarised below:

December 31 ($ thousands)		2012		2011
Aggregate of contract costs, profits and losses for contracts in progress	**$**	**91,851**	$	40,396
Advances from customers under construction contracts		**(7,931)**		(6,657)
Amounts due from customers under construction contracts		**14,896**		9,544
Retentions held by customers for contract work	**$**	**2,190**	$	974

12. Other Assets

December 31 ($ thousands)		2012		2011
Other assets – current:				
Supplier claims receivable	**$**	**126,053**	$	83,452
Prepaid expenses		**45,638**		33,108
Current portion of finance assets (Note 14)		**35,946**		23,495
Value Added Tax receivable		**23,909**		9,167
Indemnification asset (Note 22a)		**5,484**		—
Other		**9,028**		5,581
	$	**246,058**	$	154,803
Other assets – long-term:				
Note receivable (a)	**$**	—	$	24,924
Indemnification asset (Note 22a)		**48,048**		—
Other		**7,419**		9,360
	$	**55,467**	$	34,284

(a) In the second quarter of 2012, the Company received $6.4 million (second quarter of 2011: $6.3 million) as partial payment of the £20 million 5-year note receivable from the purchaser of Hewden Stuart Limited, the Company's UK equipment rental business sold in 2010. In August 2012, the Company settled the note receivable for $22.3 million (£14.2 million), before withholding tax. At the settlement date the principal balance outstanding was $16.8 million (£10.6 million) with accrued interest of $3.2 million (£2.1 million). A gain of $2.3 million (£1.5 million) was recognized in other income on settlement.

13. Joint Venture and Associate

The Company accounts for its investment in joint ventures and associates using the equity method of accounting. The Company's share of net income and net assets in its joint ventures and associates is as follows:

For year ended December 31, 2012 ($ thousands) **Name of Venture**	**Type of Venture**	**Proportion of Ownership Interest Held**	**Company's Share of Net Assets**	**Company's Share of Net Income**
PipeLine Machinery	Jointly Controlled Entity	25.0%	**$ 43,322**	**$ 9,083**
Energyst B.V. [(1)]	Associate	27.3%	**23,311**	**1,041**
			$ 66,633	**$ 10,124**

[(1)] Included in the investment in associate is an advance of $1.6 million to Energyst, bearing interest at 6.5% + 3 month Euribor, and due April 30, 2014.

For year ended December 31, 2011 ($ thousands) Name of Venture	Type of Venture	Proportion of Ownership Interest Held	Company's Share of Net Assets	Company's Share of Net Income (Loss)
PipeLine Machinery	Jointly Controlled Entity	25.0%	$ 41,468	$ 7,990
Energyst B.V.	Associate	27.0%	20,132	(1,316)
			$ 61,600	$ 6,674

In June 2012, the Company increased its interest in Energyst B.V. by 11,230 shares for cash of $2.8 million (€2.2 million). As a result, the Company's equity interest in Energyst increased to 27.3% from 27.0%. In 2011, the Company increased its investment in Energyst by $1.4 million (€1.0 million).

14. Finance Assets

December 31 ($ thousands)	**2012**	2011
Instalment notes receivable	**$ 41,681**	$ 32,767
Equipment leased to customers	**65,366**	38,731
Less accumulated depreciation	**(29,068)**	(14,183)
	36,298	24,548
Total finance assets	**77,979**	57,315
Less current portion of instalment notes receivable	**(35,946)**	(23,495)
	$ 42,033	$ 33,820

Depreciation of equipment leased to customers for the year ended December 31, 2012 was $14.3 million (2011: $4.9 million).

December 31 ($ thousands)		2012		2011
Instalment notes receivable:				
Gross investment	$	46,705	$	37,390
Less: unearned finance income		(5,024)		(4,623)
Present value of minimum lease payments receivable	$	41,681	$	32,767
Receivable as follows:				
Present value				
Within one year	$	35,946	$	23,495
After more than one year		5,735		9,272
	$	41,681	$	32,767
Minimum lease payments:				
Within one year		38,642		25,400
After more than one year		8,063		11,990
Less unearned finance income		(5,024)		(4,623)
	$	41,681	$	32,767

15. Property, Plant and Equipment and Rental Equipment

($ thousands)		Land		Buildings		Vehicles and Equipment		Total		Rental Equipment
Cost										
January 1, 2012	$	61,737	$	491,508	$	294,830	$	848,075	$	661,590
Additions		—		97,861		44,347		142,208		320,806
Additions through business combinations		5,192		10,337		8,563		24,092		—
Transfers from inventory / rental equipment		—		—		13,849		13,849		9,534
Disposals		(2,947)		(1,592)		(19,472)		(24,011)		(317,034)
Foreign exchange rate changes		(295)		(1,527)		(2,232)		(4,054)		(708)
December 31, 2012	$	63,687	$	596,587	$	339,885	$	1,000,159	$	674,188

($ thousands)		Land		Buildings		Vehicles and Equipment		Total		Rental Equipment
Accumulated depreciation										
January 1, 2012	$	—	$	(117,116)	$	(180,435)	$	(297,551)	$	(259,476)
Depreciation for the year		—		(18,925)		(37,215)		(56,140)		(121,155)
Disposals		—		1,051		9,624		10,675		115,797
Foreign exchange rate changes		—		131		798		929		(359)
December 31, 2012	$	—	$	(134,859)	$	(207,228)	$	(342,087)	$	(265,193)

($ thousands)		Land		Buildings		Vehicles and Equipment		Total		Rental Equipment
Net book value										
January 1, 2012	$	61,737	$	374,392	$	114,395	$	550,524	$	402,114
December 31, 2012	$	63,687	$	461,728	$	132,657	$	658,072	$	408,995

Land, buildings, and equipment under finance leases of $11.6 million (2011: $12.4 million), which is net of accumulated depreciation of $3.7 million (2011: $3.4 million), are included above, of which $2.4 million (2011: $1.2 million) was acquired during the year.

Rental equipment under finance leases of $2.4 million (2011: $2.8 million), which is net of accumulated depreciation of $10.9 million (2011: $9.1 million), are included above, of which $0.1 million (2011: $0.3 million) was acquired during the year.

Borrowing costs capitalized into property, plant and equipment for the year ended December 31, 2012 were $2.6 million (2011: $1.2 million). The average rate used for capitalization of borrowing costs was 4.50% (2011: 4.87%).

Included in property, plant and equipment are assets under construction with a net book value of $26.6 million (2011: $75.5 million). No depreciation has been recognized on these assets. Depreciation begins when assets are available for use.

($ thousands)	Land	Buildings	Vehicles and Equipment	Total	Rental Equipment
Cost					
January 1, 2011	$ 50,687	$ 423,844	$ 238,136	$ 712,667	$ 576,438
Additions	10,942	67,313	60,452	138,707	309,712
Additions through business combinations	—	—	—	—	729
Transfers from inventory / rental equipment	—	—	851	851	2,447
Disposals	(549)	(3,288)	(8,163)	(12,000)	(233,590)
Foreign exchange rate changes	657	3,639	3,554	7,850	5,854
December 31, 2011	$ 61,737	$ 491,508	$ 294,830	$ 848,075	$ 661,590

($ thousands)	Land	Buildings	Vehicles and Equipment	Total	Rental Equipment
Accumulated depreciation					
January 1, 2011	$ —	$ (99,152)	$ (150,290)	$ (249,442)	$ (232,672)
Depreciation for the year	—	(17,981)	(31,796)	(49,777)	(112,765)
Disposals	—	1,006	3,365	4,371	88,076
Foreign exchange rate changes	—	(989)	(1,714)	(2,703)	(2,115)
December 31, 2011	$ —	$ (117,116)	$ (180,435)	$ (297,551)	$ (259,476)

($ thousands)	Land	Buildings	Vehicles and Equipment	Total	Rental Equipment
Net book value					
January 1, 2011	$ 50,687	$ 324,692	$ 87,846	$ 463,225	$ 343,766
December 31, 2011	$ 61,737	$ 374,392	$ 114,395	$ 550,524	$ 402,114

16. Intangible Assets

($ thousands)	Contracts, customer relationships, and inventory backlog	Software	Total
Cost			
January 1, 2012	$ 11,757	$ 66,981	$ 78,738
Additions	49,063	8,744	57,807
Acquisitions through business combinations	6,784	—	6,784
Disposals	—	(74)	(74)
Foreign exchange rate changes	(195)	(160)	(355)
December 31, 2012	$ 67,409	$ 75,491	$ 142,900

($ thousands)	Contracts, customer relationships, and inventory backlog	Software	Total
Accumulated depreciation			
January 1, 2012	$ (9,685)	$ (17,667)	$ (27,352)
Depreciation for the year	(11,406)	(9,484)	(20,890)
Disposals	—	74	74
Foreign exchange rate changes	59	4	63
December 31, 2012	$ (21,032)	$ (27,073)	$ (48,105)

($ thousands)	Contracts, customer relationships, and inventory backlog	Software	Total
Net book value			
January 1, 2012	$ 2,072	$ 49,314	$ 51,386
December 31, 2012	$ 46,377	$ 48,418	$ 94,795

Contracts and relationships include $40.3 million (2011: $nil) in contractual rights relating to labour contracts with terms of four years with certain unions in the Company's South American operations.

Borrowing costs capitalized into intangible assets for the year ended December 31, 2012 were $nil (2011: $0.3 million). The average rate used for capitalization of borrowing costs in 2011 was 4.87%.

($ thousands)	Contracts and customer relationships	Software	Total
Cost			
January 1, 2011	$ 10,599	$ 54,629	$ 65,228
Additions	—	12,322	12,322
Acquisitions through business combinations	1,000	—	1,000
Disposals	150	(431)	(281)
Foreign exchange rate changes	8	461	469
December 31, 2011	$ 11,757	$ 66,981	$ 78,738

($ thousands)	Contracts and customer relationships	Software	Total
Accumulated depreciation			
January 1, 2011	$ (8,402)	$ (12,187)	$ (20,589)
Depreciation for the year	(1,133)	(5,414)	(6,547)
Disposals	(150)	—	(150)
Foreign exchange rate changes	—	(66)	(66)
December 31, 2011	$ (9,685)	$ (17,667)	$ (27,352)

($ thousands)	Contracts and customer relationships	Software	Total
Net book value			
January 1, 2011	$ 2,197	$ 42,442	$ 44,639
December 31, 2011	$ 2,072	$ 49,314	$ 51,386

17. Distribution Network

For years ended December 31 ($ thousands)	2012	2011
Balance, beginning of year	**$ 646**	$ 646
Additions	—	—
Acquisitions through business combinations (Note 22(a))	**303,769**	—
Foreign exchange rate changes	**1,187**	—
Balance, end of year	**$ 305,602**	$ 646

The distribution network is estimated to have an indefinite life because it is expected to generate cash flows indefinitely.

18. GOODWILL

The change in the carrying amount of goodwill is as follows:

December 31, 2012 ($ thousands)	**Canada**	**South America**	**UK & Ireland**	**Consolidated**
Goodwill, beginning of year	**$ 44,203**	**$ 30,562**	**$ 17,736**	**$ 92,501**
Acquired (Note 22)	**6,525**	**—**	**10,396**	**16,921**
Foreign exchange rate changes	**—**	**(664)**	**723**	**59**
Goodwill, end of year	**$ 50,728**	**$ 29,898**	**$ 28,855**	**$ 109,481**

December 31, 2011 ($ thousands)	Canada	South America	UK & Ireland	Consolidated
Goodwill, beginning of year	$ 43,811	$ 29,889	$ 17,414	$ 91,114
Acquired	392	—	—	392
Foreign exchange rate changes	—	673	322	995
Goodwill, end of year	$ 44,203	$ 30,562	$ 17,736	$ 92,501

Included in goodwill is $49.7 million relating to the Canada cash generating unit (2011: $43.1 million) and $22.0 million relating to the Argentina cash generating unit (2011: $22.4 million).

The recoverable amount of all cash generating units and groups of cash generating units are determined based on a value in use calculation which uses cash flow projections based on financial budgets approved by management covering a three-year period with a growth rate assumption used in estimating cash flows in outer years.

The recoverable amount of the Argentina group of cash generating units is determined based on a value in use calculation. The recoverable amount of the Argentina group of cash generating units exceeds the carrying amount using a discount rate of 13.0% per annum and a 4.7% growth rate per annum for cash flows beyond that three-year period. Using a discount rate of 14.7%, the recoverable amount would equal its carrying amount. Management believes its assumptions are reasonable.

Management believes that any reasonable change in the key assumptions used to determine the recoverable amount would not cause the carrying amount of any other cash generating unit or group of cash generating units to exceed its recoverable amount.

19. PROVISIONS

($ thousands)	**Warranty Claims**	**Other**	**Total**
January 1, 2012	**$ 80,325**	**$ 10,718**	**$ 91,043**
New provisions	**161,676**	**16,112**	**177,788**
Charges against provisions	**(154,281)**	**(8,968)**	**(163,249)**
Foreign exchange rate changes	**(418)**	**171**	**(247)**
December 31, 2012	**$ 87,302**	**$ 18,033**	**$ 105,335**
Current portion	**$ 87,302**	**$ 13,869**	**$ 101,171**
Long-term portion	**$ —**	**$ 4,164**	**$ 4,164**

($ thousands)	Warranty Claims	Other	Total
January 1, 2011	$ 49,240	$ 9,203	$ 58,443
New provisions	112,736	8,050	120,786
Charges against provisions	(82,365)	(6,687)	(89,052)
Foreign exchange rate changes	714	152	866
December 31, 2011	$ 80,325	$ 10,718	$ 91,043
Current portion	$ 80,325	$ 7,821	$ 88,146
Long-term portion	$ —	$ 2,897	$ 2,897

Warranty claims

The provisions relate principally to warranty claims on equipment, spare parts, and service. The estimate is based on claims notified and past experience.

Other

Other provisions include provisions for losses on long-term contracts, decommissioning liabilities, and lawsuits. To determine the recorded liability for decommissioning liabilities, the future estimated cash flows have been discounted using a rate of 3.4% in both years.

20. Long-Term Obligations

December 31 ($ thousands)		2012		2011
Share-based payments (Note 8)	**$**	**14,646**	$	17,622
Finance leasing obligations (a) (Note 27)		**17,850**		12,697
Employee benefit obligations (Note 23)		**155,026**		160,882
Liability for long-term contracts (Note 22a)		**48,048**		—
Other		**1,011**		1,209
	$	**236,581**	$	192,410

(a) Finance leases were issued at varying rates of interest from 0.5% - 8.6% and mature on various dates up to 2078.

21. Supplemental Cash Flow Information

Changes in operating assets and liabilities

For years ended December 31 ($ thousands)		2012		2011
Accounts receivable	**$**	**(74,144)**	$	(216,781)
Service work in progress		**51,089**		(96,859)
Inventories – on-hand equipment		**(288,139)**		(207,267)
Inventories – parts and supplies		**(80,561)**		(143,652)
Accounts payable and accruals		**162,734**		345,214
Income tax recoverable/payable		**43,598**		43,792
Other		**(9,400)**		(5,303)
Changes in operating assets and liabilities	**$**	**(194,823)**	$	(280,856)

Components of cash and cash equivalents

December 31 ($ thousands)		2012		2011
Cash	**$**	**112,132**	$	66,206
Short-term investments		**2,792**		56,539
Cash and cash equivalents	**$**	**114,924**	$	122,745

Dividends of $0.55 (2011: $0.51) per share were paid during the year.

22. ACQUISITIONS

(a) Bucyrus

On May 2, 2012, the Company acquired from Caterpillar the distribution and support business formerly operated by Bucyrus International Inc. (Bucyrus) in the Company's dealership territories in South America and in the U.K. As part of the Company's sequenced integration approach, the acquisition for the former Bucyrus distribution and support business in Finning (Canada)'s territory closed October 1, 2012. With this acquisition, the Company provides sales, service, and support for former Bucyrus mining products in all of Finning's dealership territories.

The total transaction is valued at approximately $459.7 million (U.S. $465.7 million), representing the fair value of assets acquired and liabilities assumed. Acquisition costs related to the transaction are estimated to be approximately $5.9 million. In 2012, $0.9 million was recorded in other expenses on the consolidated statement of income with $5.0 million recognized during 2011. In 2012, $5.2 million of acquisition costs were paid (2011: $0.7 million). The total purchase price and acquisition costs were paid in cash.

Proceeds from the Company's U.S. $300 million debt issuance in April 2012 were used to fund the acquisition of Bucyrus in its South American operations. The acquisition in the U.K. was funded by drawings on the global credit facility and cash on hand. The Company funded the acquisition of Bucyrus in its Canadian operations with proceeds from the $150 million MTN issued June 2012 as well as drawings on the global credit facility.
The purchase has been accounted for as a business combination using the acquisition method of accounting. The impact of applying the acquisition method results in a final purchase price allocation for those acquisitions as follows:

Purchase price allocation ($ millions):	**Canada**	**Chile**	**Argentina**	**UK & Ireland**	**Total**
Working capital	$ 59	$ 67	$ —	$ 1	$ 127
Property, plant and equipment	14	9	—	—	23
Indemnification asset	43	20	—	—	63
Inventory backlog	3	3	—	—	6
Distribution network	94	206	1	3	304
Goodwill	6	—	—	—	6
Deferred tax liabilities	(6)	—	—	—	(6)
Long-term obligations	(43)	(20)	—	—	(63)
Net assets acquired	**$ 170**	**$ 285**	**$ 1**	**$ 4**	**$ 460**

The working capital primarily comprises inventory.

The distribution network has been determined to have an indefinite life. The distribution network is assigned to the mining cash-generating unit of each of the Company's dealership territories in Chile, Argentina, UK & Ireland, and Canada. The Company recognized a deferred tax liability related to the taxable difference arising from recognizing the distribution network in Canada. A significant portion of goodwill recognized results from the recognition of this deferred tax liability and is assigned to the Canada reporting segment. Goodwill is not deductible for tax purposes.

As part of the acquisition, the Company assumed non-financial liabilities which were not previously recognized by Bucyrus relating to long-term contracts, commitments related to prime product sales, and employee related liabilities. Caterpillar agreed to indemnify the Company for any below market returns on certain long term contracts, to an amount equal to the liabilities assumed. The liabilities are measured at fair value by using management's best estimate, at the acquisition date, of the difference between market-rate returns and the contracted returns expected under the long-term contracts. The related indemnification asset has been measured on the same basis as the liability up to an amount collectible from Caterpillar. The Company also assumed certain post employment benefit liabilities, for which Caterpillar also agreed to indemnify.

The amount of revenue and net income of the acquiree from the acquisition date to December 31, 2012 is $233 million and $16 million, respectively. The impact of revenue and profit or loss on the combined entity for the current reporting period as though the acquisition date had been as of the beginning of the reporting period is not disclosed. It is impracticable to determine these results as the Company only purchased the distribution and support business of Bucyrus in Finning's dealership territories. The books and records of the former Bucyrus business also included manufacturing and its operations were managed differently than the business acquired by the Company.

(b) Damar

On February 3, 2012, the Company acquired 100% of the shares of Damar Group Ltd, an engineering company specializing in the water utility sector in the U.K. The acquired business provides opportunities for Finning to increase market share in the U.K. and Ireland water utility industries. It also increases Finning's mechanical, electrical and civil engineering capability to deliver a wide range of projects within its target power systems markets, which is a key strategic objective of the Company's U.K. and Ireland operations.

The fair value of the total consideration at the acquisition date is $10.2 million (£6.5 million), paid in cash in 2012 with $2.9 million (£1.8 million) cash acquired. Acquisition costs of $0.7 million (£0.4 million) were incurred and paid on the transaction and are recorded in other expenses in the consolidated statement of income of 2012.

The vendors may qualify for additional consideration (possible range of £nil to £9.5 million) payable on an annual basis for a period of three years following the acquisition based on the acquired business unit achieving specified levels of financial performance and other conditions. In completing its determination of the final purchase price allocation, the Company concluded that this consideration should be recorded as an expense in the period it is earned.

The purchase has been accounted for as a business combination using the acquisition method of accounting. The impact of applying the acquisition method resulted in a final purchase price allocation as follows:

Purchase price allocation ($ millions)		
Working capital	$	(3)
Property, plant, and equipment		1
Deferred tax asset		1
Intangible assets		1
Goodwill		10
Net assets acquired	**$**	**10**

The fair value of the acquired receivables included in working capital approximates their recorded values.

The intangible assets acquired represent customer relationships valued at $0.7 million (£0.5 million) and are being amortized on a straight-line basis over their estimated life of 3 years. Goodwill recognized relates to expected synergies from combining the operations of Finning UK and Ireland and Damar, with Damar's ability to gain access to larger projects with water utility companies in the U.K. and Ireland. The intangible assets and goodwill are assigned to the Power Systems cash-generating unit. Goodwill recognized is not deductible for tax purposes.

Since the acquisition date to the end of the reporting period, the acquiree earned $17.5 million (£11.0 million) of revenue and marginal net losses. The impact of revenue and profit or loss on the combined entity for the current reporting period as though the acquisition date had been as of the beginning of the reporting period is not material.

(c) Other Acquisitions

Other acquisitions during 2012 totalled $0.9 million (2011: $3.0 million).

23. EMPLOYEE BENEFITS

The Company and its subsidiaries in Canada and the U.K. have defined benefit pension plans and defined contribution pension plans providing retirement benefits for most of their permanent employees. The defined benefit plans have been closed to new entrants for several years. The Company's Irish subsidiary has a defined contribution plan.

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

- In Canada, defined benefit plans exist for eligible employees. Final average earnings are based on the highest 3-5 year average salary and there is no standard indexation feature. Effective July 1, 2004, non-executive members of the defined benefit plan were offered a voluntary opportunity to convert their benefits to a defined contribution pension plan. The registered defined benefit plan was subsequently closed to all new non-executive employees, who are eligible to enter one of the Company's defined contribution plans. Effective January 1, 2010, the defined benefit plan was closed to new executive employees, who are eligible to join a defined contribution plan. Pension benefits under the registered defined benefit plans' formula that exceed the maximum taxation limits are provided from a non-registered supplemental pension plan. Benefits under this plan are partially funded by a Retirement Compensation Arrangement.
- Finning (UK) has been providing a defined benefit plan for eligible employees hired prior to January 2003. Under this plan, final average earnings are based on the highest 3-year period and benefits are indexed annually with inflation subject to limits. Effective January 2003, this plan was closed to new employees who were eligible to join a defined contribution pension plan. In December 2011, the UK defined benefit pension plan was further amended to cease future accruals for existing members from April 2012, resulting in a curtailment gain of $6.4 million. From April 2012, affected members began accruing benefits under a defined contribution arrangement.

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

The expense for the Company's benefit plans for continuing operations, primarily for pension benefits, is as follows:

For years ended December 31 ($ thousands)	2012 Canada	2012 UK & Ireland	2012 Total	2011 Canada	2011 UK	2011 Total
Defined contribution plans						
Net benefit cost	**$ 32,524**	**$ 5,627**	**$ 38,151**	$ 26,303	$ 2,222	$ 28,525
Defined benefit plans						
Current service cost, net of employee contributions	**$ 8,300**	**$ 950**	**$ 9,250**	$ 7,615	$ 4,599	$ 12,214
Interest cost	**18,543**	**21,067**	**39,610**	19,058	21,730	40,788
Expected return on plan assets	**(22,062)**	**(25,185)**	**(47,247)**	(20,444)	(25,853)	(46,297)
Curtailment gain [(1)]	**—**	**—**	**—**	—	(6,431)	(6,431)
Net benefit cost	**4,781**	**(3,168)**	**1,613**	6,229	(5,955)	274
Net benefit cost recognized in net income	**37,305**	**2,459**	**39,764**	32,532	(3,733)	28,799
Actuarial loss / (gain) on plan assets	**(7,721)**	**(6,177)**	**(13,898)**	(12,518)	8,922	(3,596)
Actuarial loss / (gain) on plan liabilities	**8,018**	**25,034**	**33,052**	42,442	23,808	66,250
Total actuarial (gain) / loss recognized in other comprehensive income	**297**	**18,857**	**19,154**	29,924	32,730	62,654

(1) In December 2011, the UK defined benefit pension plan was amended to cease future accruals from April 2012 resulting in a curtailment gain of $6.4 million. From April 2012, affected members were eligible to commence accruing benefits under a defined contribution arrangement.

Total cash payments for employee future benefits for 2012, which is made up of cash contributed by the Company to its defined benefit plans and its defined contribution plans was $38.0 million and $34.1 million, respectively (2011: $44.0 million and $28.1 million, respectively).

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

For years ended December 31 ($ thousands)	2012 Canada	2012 UK	2012 Total	2011 Canada	2011 UK	2011 Total
Accrued benefit obligation						
Balance at beginning of year	**$ 433,055**	**$ 446,637**	**$ 879,692**	$ 383,963	$ 407,687	$ 791,650
Current service cost	**9,400**	**950**	**10,350**	8,747	4,758	13,505
Interest cost	**18,543**	**21,067**	**39,610**	19,058	21,730	40,788
Benefits paid	**(22,142)**	**(15,840)**	**(37,982)**	(21,155)	(12,213)	(33,368)
Actuarial loss	**8,018**	**25,034**	**33,052**	42,442	23,808	66,250
Curtailment gain	**—**	**—**	**—**	—	(6,431)	(6,431)
Foreign exchange rate changes	**—**	**11,375**	**11,375**	—	7,298	7,298
Balance at end of year	**$ 446,874**	**$ 489,223**	**$ 936,097**	$ 433,055	$ 446,637	$ 879,692
Plan assets						
Fair value at beginning of year	**$ 352,687**	**$ 401,694**	**$ 754,381**	$ 313,823	$ 372,312	$ 686,135
Expected return on plan assets	**22,062**	**25,185**	**47,247**	20,444	25,853	46,297
Actuarial gain (loss) on plan assets	**7,721**	**6,177**	**13,898**	12,518	(8,922)	3,596
Employer contributions	**21,730**	**16,315**	**38,045**	25,925	18,082	44,007
Employees' contributions	**1,100**	**—**	**1,100**	1,132	159	1,291
Benefits paid	**(22,142)**	**(15,840)**	**(37,982)**	(21,155)	(12,213)	(33,368)
Foreign exchange rate changes	**—**	**10,393**	**10,393**	—	6,423	6,423
Fair value at end of year	**$ 383,158**	**$ 443,924**	**$ 827,082**	$ 352,687	$ 401,694	$ 754,381
Funded status – plan deficit [(1)]	**$ 63,716**	**$ 45,299**	**$ 109,015**	$ 80,368	$ 44,943	$ 125,311

[(1)] The accrued benefit deficit is classified in long term obligations on the consolidated statements of financial position.

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

For years ended December 31		**2012**			2011	
($ thousands)	**Canada**	**UK**	**Total**	Canada	UK	Total
Accrued benefit obligation	**$ 443,971**	**$ 489,223**	**$ 933,194**	$ 430,323	$ 446,637	$ 876,960
Fair value of plan assets	**377,896**	**443,924**	**821,820**	347,748	401,694	749,442
Funded status – plan deficit	**$ 66,075**	**$ 45,299**	**$ 111,374**	$ 82,575	$ 44,943	$ 127,518

Plan assets do not include a direct investment in common shares of the Company at December 31, 2012 and 2011.

Plan assets are principally invested in the following securities at December 31, 2012:

	Canada	**UK**
Equity	41.3%	35.7%
Fixed-income	51.6%	56.8%
Real estate	7.1%	7.5%

The significant actuarial assumptions are as follows:

	2012		**2011**	
	Canada	**UK**	Canada	UK
Discount rate – obligation	4.10%	4.60%	4.30%	4.80%
Discount rate – expense (1)	4.30%	4.80%	5.10%	5.30%
Expected long-term rate of return on plan assets (1)	6.50%	6.25%	6.75%	6.75%
Rate of compensation increase	3.50%	n/a (2)	3.50%	4.00%

(1) Used to determine the expense for the years ended December 31, 2012 and December 31, 2011.

(2) In December 2011, the UK defined benefit pension plan was amended to cease future accruals from April 2012. As a result, liabilities are no longer linked to compensation increases.

Discount rates are determined based on high quality corporate bonds at the measurement date, December 31. The accrued defined benefit pension obligation and expense are sensitive to changes in the discount rate, among other assumptions. For example, if rates were lower, the accrued defined benefit pension obligation as presented in this note would be higher. As an indication of the sensitivity of Finning's defined benefit pension obligation, if the discount rates were 0.25% lower at December 31, 2012, the accrued defined benefit pension obligation presented would have increased by approximately $14 million for Finning (Canada)'s plans and $25 million (£15 million) for the Finning UK plan. The overall expected rate of return on assets is a weighted average of expected long term returns of the various categories of plan assets held and considers both the actual asset mix and the Company's investment policy.

Defined benefit pension plans are country and entity specific. The major defined benefit plans and their respective valuation dates are:

Defined Benefit Plan	**Last Actuarial Valuation Date**	**Next Actuarial Valuation Date**
Canada – BC Regular & Executive Plan	December 31, 2009	December 31, 2012[1]
Canada – Executive Supplemental Income Plan	December 31, 2009	December 31, 2012[1]
Canada – General Supplemental Income Plan	December 31, 2009	December 31, 2012[1]
Canada – Alberta Defined Benefit Plan	December 31, 2010	December 31, 2013
Finning UK Defined Benefit Scheme	December 31, 2011[1]	December 31, 2014

[1] The December 31, 2011 and 2012 actuarial valuations are in progress as at February 12, 2013.

The contributions expected to be paid during the financial year ended December 31, 2013 amount to approximately $42 million for the defined benefit plans.

Other post-employment benefit obligation

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

The most recent actuarial valuation was carried out in 2012.

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

For years ended December 31 ($ thousands)	2012	2011
Discount rate – obligation	**2.6%**	2.8%
Rate of compensation increase	**3.0%**	3.0%
Average staff turnover	**8.8%**	13.0%

For years ended December 31 ($ thousands)		2012		2011
Movement in the present value of the post-employment benefit obligation were as follows:				
Balance at the beginning of the year	**$**	**35,571**	$	33,751
Current service cost		**13,683**		6,896
Interest cost		**1,068**		1,324
Actuarial (gain) / loss		**(1,531)**		2,540
Paid in the year		**(6,337)**		(7,684)
Foreign exchange rate changes		**3,557**		(1,256)
Balance at the end of the year	**$**	**46,011**	$	35,571

Accumulated remeasurement losses

The accumulated actuarial loss, net of tax, of the post employment benefit obligations in the Company's operations in Canada, U.K. and Ireland, and South America recognized directly in retained earnings is $266.6 million (2011: $252.5 million).

24. Economic Relationships

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

25. SEGMENTED INFORMATION

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

Information reported to the chief operating decision maker for the purposes of resource allocation and assessment of segment performance primarily focuses on the dealership territories in which the Company operates. The operating segments of the dealership territory in Canada and OEM Remanufacturing Inc. (in Canada) are aggregated to one reporting segment. The reporting segments are as follows:

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

For year ended December 31, 2012 ($ thousands)	**Canada**	**South America**	**UK & Ireland**	**Other**	**Consolidated**
Revenue from external sources	**$ 3,277,660**	**$ 2,443,576**	**$ 900,893**	**$ —**	**$ 6,622,129**
Operating costs	**(2,944,630)**	**(2,141,167)**	**(812,504)**	**(29,713)**	**(5,928,014)**
Depreciation and amortization	**(115,657)**	**(61,312)**	**(35,454)**	**(79)**	**(212,502)**
	217,373	**241,097**	**52,935**	**(29,792)**	**481,613**
Equity earnings (loss)	**9,083**	**—**	**—**	**1,041**	**10,124**
Other income	**9,712**	**—**	**—**	**2,373**	**12,085**
Other expenses	**—**	**(3,683)**	**(2,703)**	**(958)**	**(7,344)**
Earnings (loss) before finance costs and income taxes	**$ 236,168**	**$ 237,414**	**$ 50,232**	**$ (27,336)**	**$ 496,478**
Finance costs					**(80,087)**
Provision for income taxes					**(78,772)**
Net income					**$ 337,619**
Identifiable assets	**$ 2,380,436**	**$ 2,203,380**	**$ 495,103**	**$ 39,104**	**$ 5,118,023**
Property, plant, and equipment, distribution network, and intangible assets	**$ 519,540**	**$ 482,664**	**$ 56,117**	**$ 148**	**$ 1,058,469**
Gross capital expenditures [(1)]	**$ 97,182**	**$ 109,630**	**$ 7,046**	**$ 3**	**$ 213,861**
Gross rental asset expenditures	**$ 265,239**	**$ 54,295**	**$ 10,806**	**$ —**	**$ 330,340**

For year ended December 31, 2011 ($ thousands)	Canada	South America	UK & Ireland	Other	Consolidated
Revenue from external sources	$ 2,943,738	$ 2,120,072	$ 831,100	$ —	$ 5,894,910
Operating costs	(2,654,131)	(1,880,634)	(755,530)	(30,085)	(5,320,380)
Depreciation and amortization	(110,733)	(41,211)	(21,825)	(286)	(174,055)
	178,874	198,227	53,745	(30,371)	400,475
Equity earnings (loss)	7,990	—	—	(1,316)	6,674
Other expenses	(16,790)	(5,005)	(1,945)	(3,672)	(27,412)
Earnings (loss) before finance costs and income taxes	$ 170,074	$ 193,222	$ 51,800	$ (35,359)	$ 379,737
Finance costs					(53,242)
Provision for income taxes					(67,130)
Net income					$ 259,365
Identifiable assets	$ 2,066,084	$ 1,445,857	$ 502,070	$ 71,349	$ 4,085,360
Property, plant, and equipment, distribution network, and intangible assets	$ 349,493	$ 203,637	$ 49,205	$ 221	$ 602,556
Gross capital expenditures [(1)]	$ 68,684	$ 73,028	$ 11,168	$ —	$ 152,880
Gross rental asset expenditures	$ 242,423	$ 57,696	$ 12,769	$ —	$ 312,888

(1) Includes finance leases and borrowing costs capitalized

26. Related Party Transactions and Total Staff Costs

(a) The consolidated statements include the accounts of Finning (a company incorporated in Canada) which includes the Finning (Canada) division and Finning's wholly owned subsidiaries. Balances and transactions between the Company and its subsidiaries, which are related parties, have been eliminated on consolidation and are not disclosed in this note. The principal subsidiaries of the Company at the year end, and the main countries in which they operate are as follows:

Name	Country	% ownership	Functional currency
Finning (UK) Ltd	England	100%	GBP
Finning Chile S.A.	Chile	100%	USD
Finning Argentina S.A.	Argentina	100%	USD
Finning Soluciones Mineras S.A.	Argentina	100%	USD
Finning Uruguay S.A.	Uruguay	100%	USD
Moncouver S.A.	Uruguay	100%	USD
Finning Bolivia S.A.	Bolivia	100%	USD
OEM Remanufacturing Company Inc.	Canada	100%	CAD

All companies are involved in the sale of equipment, power and energy systems, rental of equipment and providing product support including sales of parts and servicing of equipment. All shareholdings are of ordinary shares or other equity capital. Other subsidiaries, while included in the consolidated financial statements, are not material.

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

For years ended December 31 ($ thousands)		2012		2011
Short term employment benefits	**$**	**861**	$	853
Share-based payments [1]		**1,187**		(166)
Total	**$**	**2,048**	$	687

[1] Due to the decrease in the Company's share price during 2011, the fair value of certain cash-settled share-based compensation plans reduced during the year. Consequently, a negative amount is shown above for share-based payment expense for 2011.

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

For years ended December 31 ($ thousands)		2012		2011
Short term employment benefits	**$**	**7,323**	$	6,210
Post employment benefits		**1,638**		2,490
Share-based payments		**7,843**		2,347
Total	**$**	**16,804**	$	11,047

(d) Total staff costs

Total staff costs, including salaries, benefits, pension, share-based payments, and commissions are $1.4 billion (2011: $1.2 billion). This amount includes staff costs associated with key management personnel noted in (c) above.

27. Contractual Obligations

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

For years ended December 31 ($ thousands)	Finance Leases	Operating Leases
2013	$ 3,233	$ 80,829
2014	7,912	69,565
2015	1,247	61,135
2016	1,202	33,756
2017	1,262	20,933
Thereafter	16,730	109,021
	$ 31,586	$ 375,239
Less imputed interest	(11,348)	
	20,238	
Less current portion of finance lease obligation	(2,388)	
Total long-term finance lease obligation	$ 17,850	

28. Commitments and Contingencies

Due to the size, complexity, and nature of the Company's operations, various legal and tax matters are pending. In the opinion of management, these matters will not have a material effect on the Company's consolidated financial position or results of operations.

29. Guarantees and Indemnifications

The Company enters into contracts with rights of return, in certain circumstances, for the repurchase of equipment sold to customers for an amount which is generally based on a discount from the estimated future fair value of that equipment. As at December 31, 2012, the total estimated value of these contracts outstanding is $153.5 million coming due at periods ranging from 2013 to 2018. The Company's experience to date has been that the equipment at the exercise date of the contract is generally worth more than the repurchase amount. The total amount recognized as a provision against these contracts is $1.0 million.

The Company has issued certain guarantees to Caterpillar Finance to guarantee certain borrowers' obligations. The guarantees would be enforceable in the event that the borrowers defaulted on their obligations to Caterpillar Finance, to the extent that any net proceeds from the recovery and sale of collateral securing repayment of the borrowers' obligations is insufficient to meet those obligations. As at December 31, 2012, the maximum potential amount of future payments that the Company could be required to make under the guarantees, before any amounts that may possibly be recovered under recourse or collateralization provisions in the guarantees, is $30.9 million, covering various periods up to 2016. As at December 31, 2012, the Company has not recognized a liability for these guarantees (2011: $nil).

As part of the Hewden Purchase and Sale Agreement in 2010, Finning provided indemnifications to the third party purchaser, covering breaches of representation and warranties as well as litigation and other matters set forth in the agreement. Claims may be made by the third party purchaser under the agreement for various periods of time depending on the nature of the claim, up to six years. The maximum potential exposure of Finning under these indemnifications is 100% of the purchase price. As at December 31, 2012, the Company recorded a liability of $0.6 million (2011: $nil) in relation to a property claim made during the year.

In connection with the sale of the Materials Handling Division in 2006, the Company provided a guarantee to a third party with respect to a property lease. If the lessee were to default, the Company would be required to make the annual lease payments of approximately $1.0 million to the end of the lease term in 2020. The Company has not recognized a liability for this guarantee in 2012 or 2011.

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

During the year, the Company entered into various other commercial letters of credit in the normal course of operations. The total issued and outstanding letters of credit at December 31, 2012 was $287 million, of which $277 million relates to letters of credit issued in Chile, principally related to performance guarantees on delivery for prepaid equipment and other operational commitments.