FINNING

2013 Financial Report

MANAGEMENT'S DISCUSSION AND ANALYSIS

February 19, 2014

This Management's Discussion and Analysis (MD&A) 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, 2013 and the accompanying notes thereto, which have been prepared in accordance with International Financial Reporting Standards (IFRS). All dollar amounts presented in this MD&A are expressed in Canadian dollars, unless otherwise stated. Additional information relating to the Company, including its current Annual Information Form (AIF), can be found on the SEDAR (System for Electronic Document Analysis and Retrieval) website at www.sedar.com.

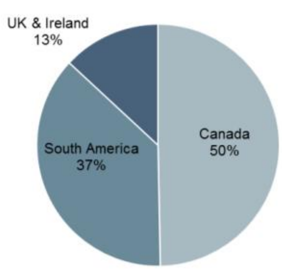
The comparative results described in this MD&A have been restated to reflect the Company's adoption of the amendments to International Accounting Standard (IAS) 19, *Employee Benefits*, for the financial year beginning January 1, 2013. The impact of these amendments on the results for the year ended December 31, 2012 was a reduction to net income of $10.8 million with a corresponding increase in other comprehensive income. Additional information relating to these amendments and their impact on the Company's comparative results can be found in the New Accounting Pronouncements section of this MD&A.

In the second quarter of 2012, the Company acquired the former Bucyrus International Inc. (Bucyrus) distribution and support business from Caterpillar Inc. (Caterpillar) in its dealership territories in South America and in the U.K. In the fourth quarter of 2012, the Company's Canadian operations completed the acquisition of the former Bucyrus distribution and support business in its territories. This business is included in the Company's mining product line and is now referred to as shovels and drills. The results described in this MD&A include those of acquired businesses from the acquisition dates.

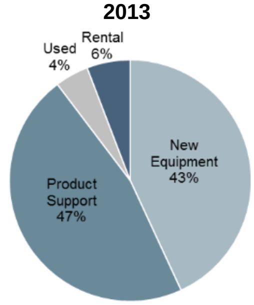
Overview

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

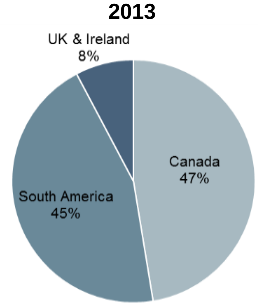
Revenue by Region
2013



Revenue by Line of Business
2013



EBIT by Region(1)(2)(3)
2013



2013 Annual Highlights

- Revenues grew by 3% to a record $6.8 billion, driven by product support revenues;
- EBIT(1) increased by 7% to $521 million reflecting growth in product support revenues;
- EBIT margin(1) was 7.7%, up from 7.4% in 2012, driven primarily by improved EBIT margin in the Company's Canadian operations;
- Basic EPS increased to a record $1.95 from $1.90 earned in 2012;
- Free cash flow(1) was $441 million with record EBITDA(1)(2) of $736 million, lower working capital(1), and lower capital expenditures compared to 2012; and
- Net Debt to Invested Capital(1) decreased to 40.8% at the end of 2013, down from 50.0% at the end of 2012.

(1) These financial metrics do not have a standardized meaning under IFRS, which are also referred to herein as Generally Accepted Accounting Principles (GAAP). For additional information regarding these financial metrics, see the heading "Description of Non-GAAP and Additional GAAP Measures" later in this MD&A.

(2) Earnings Before Finance Costs and Income Taxes (EBIT); Earnings Before Finance Costs, Income Taxes, Depreciation and Amortization (EBITDA)

(3) Excluding other operations – corporate head office

Key Performance Measures

The Company plans to build shareholder value by improving return on invested capital (ROIC) [1]. With safety and talent management as the foundation, management has identified the following priorities as key to executing on this plan: customer & market leadership; supply chain optimization; service excellence; and asset utilization. These operational priorities are linked directly to improving EBIT performance and capital efficiency. The Company has realigned its 2014 incentive plans to these priorities, and defined the following key performance indicators (KPIs) to consistently measure performance across the organization.

The metrics in the following table have been defined to track the Company's progress in improving ROIC. Going forward, the Company intends to report on these performance measures on a quarterly and annual basis.

Years ended December 31	**2013**	2012 (restated)[1]	2011 (restated)[1]	2010 (restated)[1][2]
Return on Invested Capital				
ROIC[3] (%)				
Consolidated	**15.7%**	16.5%	16.0%	15.3%
Canada	**15.9%**	15.7%	14.4%	14.4%
South America	**17.6%**	19.7%	20.0%	18.8%
United Kingdom (UK) & Ireland	**16.4%**	16.3%	18.3%	7.9%
Earnings Before Interest and Taxes				
EBIT[3] ($ millions)				
Consolidated	**521**	489	374	287
Canada	**263**	231	167	139
South America	**249**	239	195	150
UK & Ireland	**43**	45	47	15
EBIT Margin[3] (%)				
Consolidated	**7.7%**	7.4%	6.3%	6.3%
Canada	**7.8%**	7.1%	5.7%	6.1%
South America	**9.9%**	9.9%	9.2%	9.0%
UK & Ireland	**4.9%**	5.0%	5.6%	2.3%
Invested Capital				
Invested Capital[3] ($ millions)				
Consolidated	**3,138**	3,131	2,320	1,861
Canada	**1,488**	1,589	1,175	943
South America	**1,391**	1,298	898	982
UK & Ireland	**265**	260	234	215
Invested Capital Turnover[3] (times)				
Consolidated	**2.0**	2.2	2.5	2.4
Canada	**2.0**	2.2	2.5	2.4
South America	**1.8**	2.0	2.2	2.1
UK & Ireland	**3.4**	3.3	3.3	3.4
Inventory ($ millions)	**1,756**	1,930	1,443	1,076
Inventory Turns (times) [3]	**2.7**	2.4	3.0	3.2
Working Capital to Sales Ratio[3] (%)	**26.5%**	24.5%	22.8%	22.2%
Free Cash Flow[3] ($ millions)	**441**	(37)	(221)	263
Net Debt to Invested Capital[3] (%)	**40.8%**	50.0%	42.0%	35.3%
Net Debt to EBITDA Ratio[3]	**1.7**	2.2	1.8	1.5

(1) The comparative results described in this MD&A have been restated to reflect the Company's adoption of the amendments to IAS 19, Employee Benefits, for the financial year beginning January 1, 2013.

(2) On May 5, 2010, the Company sold Hewden Stuart Limited (Hewden), its UK equipment rental business. Results from that operation were reclassified to discontinued operations for the year ended December 31, 2010; therefore, financial information presented for 2010 reflects results from continuing operations.

(3) These financial metrics do not have a standardized meaning under IFRS, which are also referred to herein as GAAP. For additional information regarding these financial metrics, including definitions, see the heading "Description of Non-GAAP and Additional GAAP Measures" later in this MD&A.

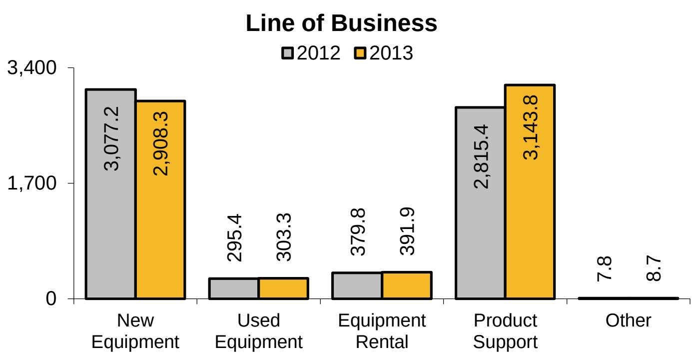
Results of Operations and Financial Performance

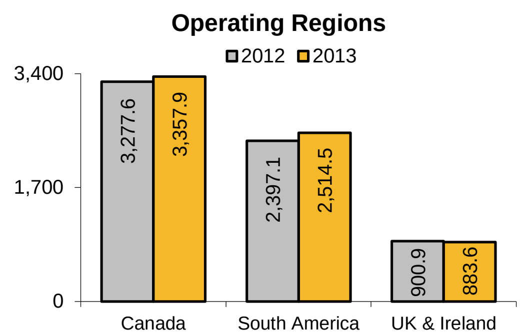
Annual Overview

	2013	2012 (restated)	**2013**	2012 (restated)
	($ millions)		(% of revenue)	
Revenue	**$ 6,756.0**	$ 6,575.6		
Gross profit	**2,080.4**	1,967.2	**30.8%**	29.9%
Selling, general & administrative expenses (SG&A)	**(1,555.5)**	(1,490.4)	**(23.0)%**	(22.7)%
Equity earnings of joint venture and associate	**9.3**	10.1	**0.1%**	0.2%
Other income	**120.3**	58.6	**1.8%**	0.9%
Other expenses	**(133.8)**	(56.9)	**(2.0)%**	(0.9)%
Earnings before finance costs and income taxes	**520.7**	488.6	**7.7%**	7.4%
Finance costs	**(90.3)**	(86.5)	**(1.3)%**	(1.3)%
Provision for income taxes	**(95.1)**	(75.3)	**(1.4)%**	(1.1)%
Net income	**$ 335.3**	$ 326.8	**5.0%**	5.0%
Basic earnings per share (EPS)	**$ 1.95**	$ 1.90		
EBITDA	**$ 736.4**	$ 701.1	**10.9%**	10.7%
Free Cash Flow	**$ 440.7**	$ (37.4)		

Revenue

($ millions)
For years ended December 31





For the year ended December 31, 2013, the Company achieved record revenue of $6.8 billion, an increase of 3% over 2012, driven primarily by additional revenue from the shovels and drills business of approximately $215 million, along with organic growth in product support revenues. Foreign exchange had a positive impact on revenues of approximately $130 million due to the 3% weaker Canadian dollar relative to the U.S. dollar for 2013 compared to 2012.

Product support revenues, up 12% from 2012, increased to record levels on a consolidated basis and in all operations, primarily driven by greater mining volume, including approximately $195 million higher revenues from shovels and drills.

New equipment sales were down 5% compared to the prior year, with all operations experiencing decreases. More than half of the decrease was in the Company's Canadian operations primarily due to reduced mining activity in the first half of 2013. The decrease in the UK & Ireland operations was also driven primarily by mining, whereas lower construction activity in South America, offset slightly by improvements in mining, led to the decrease in that operation.

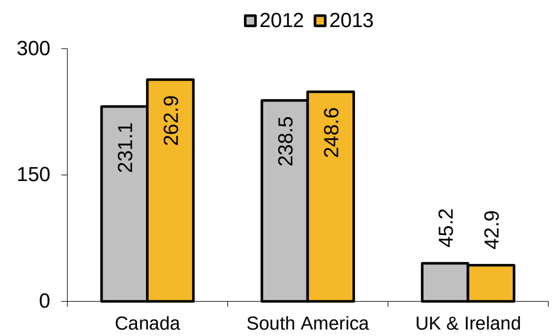
Both used equipment sales and rental revenues increased by 3% compared to the same period of 2012, driven primarily by the Company's Canadian operations.

Earnings Before Finance Costs and Income Taxes

On a consolidated basis, EBIT was $520.7 million in 2013, 7% higher than the $488.6 million earned in the prior year. This increase was driven primarily by improved results in the Company's Canadian operations, with approximately $20 million additional EBIT contribution from shovels and drills. The strengthening U.S. dollar against the Canadian dollar and Argentinean peso had a positive impact on EBIT of approximately $15 million.

Gross profit of $2.1 billion in 2013 increased 6% over the same period in 2012 and gross profit margin was 30.8%, up from 29.9% in 2012. The increase was primarily due to the shift in revenue mix to higher margin product support revenues in all operations. Product support revenues made up 46.5% of total revenues in 2013, compared with 42.8% of total revenues in the same period last year, while new equipment sales accounted for 43.0% of total revenues in 2013, compared with 46.8% of total revenues in 2012.

EBIT by Operation[1]
($ millions)
For years ended December 31



[1] Excluding other operations – corporate head office

SG&A costs were $1.6 billion or 4% higher than in 2012, primarily driven by a full year of operation of shovels and drills in all operations and higher service-related costs in Canada, including a full year of operation of the new Fort McKay service facility. This was partially offset by supply chain efficiencies in Canada and operating improvements in OEM Remanufacturing Company Inc. (OEM). The weakening Canadian dollar against the U.S. dollar had a negative impact on SG&A, contributing to the higher costs.

In December 2013, management decided to postpone any decision on implementation of an ERP system in the UK for two to three years due to the needs and size of these operations. This led to an accounting review and decision to write-off $5.5 million of previously capitalized costs. In 2014, management will perform an evaluation in its South American operations to review the most appropriate core ERP system for its business needs.

The Company's South American operations began to export an agricultural product from Argentina in the third quarter of 2012 in response to the Argentinean government's efforts to balance imports and exports and to manage access to foreign currency exchange. As these export activities are not related to the Company's core business, income and expenses related to these exports have been reported in other income and other expenses, and comparative figures in the statement of income have been adjusted accordingly. Net costs associated with the export activity were $3.2 million in 2013 compared to net costs of $3.0 million in 2012. Other income in 2012 also included a gain on the sale of a property in Canada of $9.7 million and a gain on the early redemption of a note receivable of $2.3 million.

The Company's EBIT margin was 7.7% in 2013, up from 7.4% in the 2012 driven by the improved EBIT margin in the Company's Canadian operations, reflecting the shift to higher gross profit margin product support revenues.

Finance Costs

Finance costs in 2013 were $90.3 million compared with $86.5 million in 2012. The increase was primarily due to the foreign exchange gain of $3.3 million recognized on the settlement of a foreign currency forward in the second quarter of 2012 which reduced finance costs.

Provision for Income Taxes

The effective income tax rate for 2013 was 22.1% compared to 18.7% in the prior year. The higher effective tax rate in 2013 was primarily the result of foreign exchange impacts due to the devaluation of the Argentinean peso. This was partially offset by the benefit of previously unrecognized capital losses which offset taxable capital gains reported in the second quarter of 2013. The lower effective tax rate in 2012 also reflected a tax rate change in the Company's South American operations, as well as the benefit of previously unrecognized capital losses which offset taxable capital gains reported in 2012.

Net Income

Finning's net income was $335.3 million in 2013, an increase of $8.5 million or 3% from $326.8 million earned in 2012. Basic EPS in 2013 was $1.95 per share compared with $1.90 per share last year. The results of 2013 reflected higher EBIT as noted above, partially offset by higher income taxes and finance costs.

Invested Capital

($ millions)	**Dec 31 2013**	Dec 31 2012	Increase
Invested Capital	**$ 3,138.1**	$ 3,130.8	$ 7.3

The increase in invested capital from 2012 to 2013 was largely driven by:

- an increase in accounts receivable in the Company's South American and U.K. & Ireland operations largely driven by a weakening of the Canadian dollar relative to the U.S. dollar and U.K. pound;
- a decrease in deferred revenue in the South American operations, driven by lower advance payments from customers for mining equipment;
- partially offset by a decrease in inventory in all regions, primarily driven by a reduction in equipment inventory resulting from an improvement in inventory management.

Results by Reporting Segment

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

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

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

For year ended December 31, 2013 ($ millions)	**Canada**	**South America**	**UK & Ireland**	**Consolidated**	**Revenue percentage**
New equipment	**$ 1,315.1**	**$ 1,068.9**	**$ 524.3**	**$ 2,908.3**	**43.0%**
Used equipment	**190.9**	**48.2**	**64.2**	**303.3**	**4.5%**
Equipment rental	**288.2**	**75.3**	**28.4**	**391.9**	**5.8%**
Product support	**1,558.3**	**1,318.8**	**266.7**	**3,143.8**	**46.5%**
Other	**5.4**	**3.3**	**—**	**8.7**	**0.2%**
Total	**$ 3,357.9**	**$ 2,514.5**	**$ 883.6**	**$ 6,756.0**	**100.0%**
Revenue percentage by operations	**49.7%**	**37.2%**	**13.1%**	**100.0%**	

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	46.8%
Used equipment	170.9	62.1	62.4	295.4	4.5%
Equipment rental	276.1	73.1	30.6	379.8	5.8%
Product support	1,399.6	1,159.2	256.6	2,815.4	42.8%
Other	3.7	4.1	—	7.8	0.1%
Total	$ 3,277.6	$ 2,397.1	$ 900.9	$ 6,575.6	100.0%
Revenue percentage by operations	49.8%	36.5%	13.7%	100.0%	

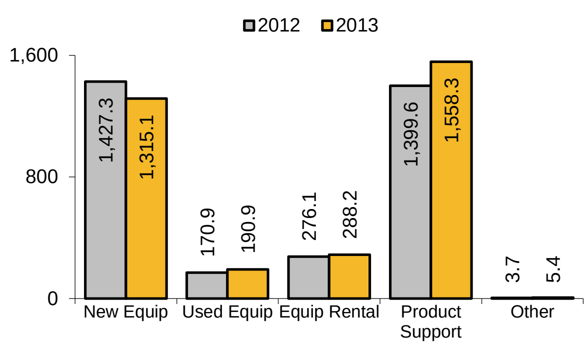
Canadian Operations

The Canadian reporting segment includes Finning (Canada), the Company's interest in OEM, and a 25% interest in PipeLine Machinery International (PLM). Finning (Canada) sells, services, and rents mainly Caterpillar equipment and engines in British Columbia, Alberta, Yukon, Northwest Territories, and a portion of Nunavut. The Canadian operation'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)	**2013**	2012 (Restated)
Revenue from external sources	**$ 3,357.9**	$ 3,277.6
Operating costs	**(2,991.1)**	(2,949.7)
Depreciation and amortization	**(113.6)**	(115.6)
	253.2	212.3
Equity earnings of joint venture	**9.7**	9.1
Other income		
Gain on sale of investment property	**—**	9.7
Earnings before finance costs and income taxes	**$ 262.9**	$ 231.1
EBIT		
- as a percentage of revenue	**7.8%**	7.1%
- as a percentage of consolidated EBIT	**50.5%**	47.3%

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



The Canadian operations reported record revenues, largely driven by product support revenues. Total revenue in 2013 of $3,357.9 million was up 2% from strong revenue levels reported in 2012.

Product support revenues were 11% higher than in 2012, driven primarily by an increase in the contribution from shovels and drills of approximately $130 million, reflecting a full year of revenues in 2013. This increase resulted in slightly lower product support margins due to the higher proportion of lower margin mining parts in the product support sales mix.

New equipment revenues in 2013 were down 8% compared with the same period in 2012 primarily due to reduced capital spending by mining customers during the first half of 2013.

The shift in revenue mix to a higher proportion of product support revenues contributed to record gross profit in absolute dollars and as a percentage of revenues.

Reductions in SG&A were driven by a continued focus on process improvements, efficiency gains in freight and warehousing costs, operating improvements in OEM and a decrease in consulting costs related to the ERP implementation. These improvements were offset by increased costs associated with a full year of operation of shovels and drills and higher service-related costs, including a full year of operation of the new Fort McKay service facility, leading to a marginal increase in SG&A costs overall compared to 2012.

EBIT in the Canadian operations of $262.9 million in 2013 was up from $231.1 million in 2012, largely driven by an increased EBIT contribution from shovels and drills of $20 million and operating efficiencies noted above. 2012 EBIT also included a $9.7 million gain on sale of land. EBIT margin in 2013 was 7.8%, up from 7.1% in 2012.

($ millions)	Dec 31 2013	Dec 31 2012	Decrease
Invested Capital	**$ 1,487.6**	$ 1,588.7	$ (101.1)

The decrease in invested capital from 2012 to 2013 was primarily driven by:

- lower accounts receivable due to a focus on collecting aged amounts toward the end of 2013, and
- reduced equipment inventory due to a focus on reducing aged power systems and mining inventory balances.

Other Developments

On March 6, 2013, Finning (Canada) celebrated the grand opening of its newly constructed $110 million service facility in Fort McKay, Alberta. Located on 21-acres of land in the Caribou Industrial Park, the 16 bay 160,000 ft^2 facility is Finning's largest mining service facility in Canada.

On December 6, 2013, a memorandum of agreement for a new three-year collective agreement between Finning (Canada) and the International Association of Machinists and Aerospace Workers - Local Lodge 99 (IAMAW) representing hourly employees in Alberta and the Northwest Territories was ratified. The new three year collective agreement covers approximately 2,200 hourly Finning (Canada) employees in Alberta and the Northwest Territories and expires on April 30, 2016. This agreement provides for annual wage increases of 3% in year one, 3.5% in year two and 3.75% in year three.

South American Operations

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

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

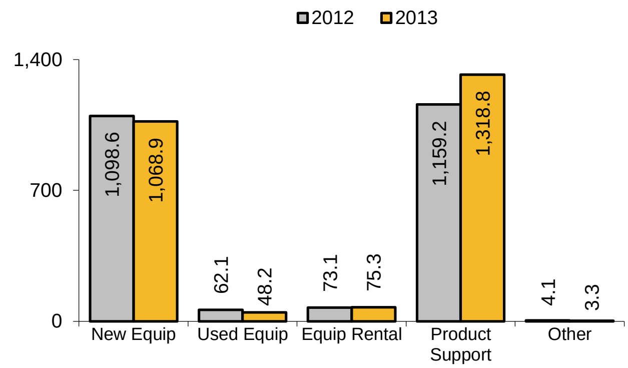
For years ended December 31 ($ millions)	**2013**	2012 (Restated)
Revenue from external sources	**$ 2,514.5**	$ 2,397.1
Operating costs	**(2,188.2)**	(2,090.6)
Depreciation and amortization	**(70.8)**	(61.3)
	255.5	245.2
Other income (expenses)		
Export of agricultural product	**120.3**	46.6
Costs of export of agricultural product	**(123.5)**	(49.6)
ERP system implementation costs	**(3.7)**	(3.7)
Earnings before finance costs and income taxes	**$ 248.6**	$ 238.5
EBIT		
- as a percentage of revenue	**9.9%**	9.9%
- as a percentage of consolidated EBIT	**47.7%**	48.8%

In 2013, revenues increased 5% to $2,514.5 million compared to 2012, representing record levels. Revenues were up 2% in functional currency (U.S. dollars) compared with 2012, reflecting an increase in product support revenues, partially offset by a decrease in new equipment sales.

Product support revenues increased 14% (10% in functional currency), driven primarily by market activity in the Chilean mining sector and incremental revenues from shovels and drills of approximately $60 million, reflecting a full year of revenues in 2013.

New equipment sales decreased by 3% (6% in functional currency) compared to 2012. An increase in new equipment sales in the mining sector was more than offset by a slowdown in construction activity across the South American operations.

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



Gross profit increased 8% over 2012 (5% in functional currency) to new record levels, reflecting a greater proportion of higher margin product support revenues to 52.4% from 48.4% in 2012.

SG&A costs were higher in 2013 compared with the same period of 2012 partly due to costs associated with shovels and drills, severance associated with workforce reductions and loss provisions recorded on specific maintenance and repair and power systems contracts.

The Company's South American operations began to export an agricultural product from Argentina in the third quarter of 2012 in response to the Argentinean government's efforts to balance imports and exports and to manage access to foreign currency exchange. The exportation facilitated the Company to continue to import goods into Argentina to satisfy customer demand, while meeting government's requirements. Other international companies operating in the country are also exporting products to meet these requirements. As these export activities are not related to the Company's core business, income and expenses related to these exports have been reported in other income and other expenses, and comparative figures in the statement of income have been adjusted accordingly. Net costs associated with the export activity were $3.2 million in 2013 compared to $3.0 million in 2012. In the fourth quarter of 2013, the Company did not export any product as it had already met the annual commitment agreed to with the government.

EBIT increased 4% (1% in functional currency) from 2012 leading to a record EBIT of $248.6 million, reflecting the increase in gross profit, partially offset by higher SG&A costs. EBIT margin of 9.9% in 2013 was consistent with 2012.

($ millions, unless otherwise stated)	**Dec 31 2013**	Dec 31 2012	Increase
Invested Capital	**$ 1,390.9**	$ 1,297.8	$ 93.1
Invested Capital (functional currency)	**$ 1,307.7**	$ 1,304.4	$ 3.3

The increase in invested capital of $93.1 million from 2012 to 2013 was largely the result of the impact of the weakening Canadian dollar against the U.S. dollar on working capital movements. The functional currency increase in invested capital of $3.3 million was largely driven by:

- lower accounts payable, due to decreased inventory purchases;
- lower deferred revenues, primarily due to lower advance payments from customers for mining equipment;
- partially offset by lower accounts receivable and other current assets reflecting a focus on collections during 2013 and a slowdown in volume.

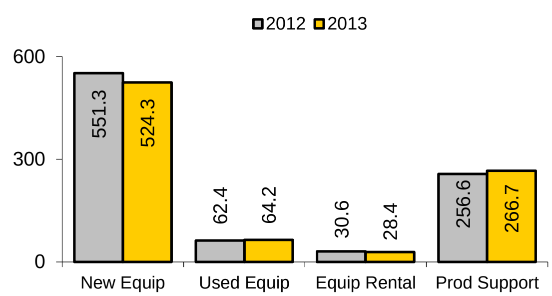
UK & Ireland Operations

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

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

For years ended December 31 ($ millions)	**2013**	2012 (Restated)
Revenue from external sources	**$ 883.6**	$ 900.9
Operating costs	**(802.9)**	(817.5)
Depreciation and amortization	**(31.2)**	(35.5)
	49.5	47.9
Other expenses		
Capitalized ERP costs written off	**(5.5)**	—
ERP system implementation costs – current	**(1.1)**	(1.4)
Acquisition costs	**—**	(0.7)
Claim on Hewden indemnification	**—**	(0.6)
Earnings before finance costs and income taxes	**$ 42.9**	$ 45.2
EBIT		
- as a percentage of revenue	**4.9%**	5.0%
- as a percentage of consolidated EBIT	**8.3%**	9.2%

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



The UK & Ireland revenues for 2013 of $883.6 million were 2% lower than in the prior year (down 4% in functional currency – U.K. pound sterling). The decrease was primarily due to lower new equipment sales, largely driven by a decline in the coal mining sector. The decrease in new equipment sales was partially offset by an increase in product support revenues of 4% (up 2% in functional currency).

Gross profit in absolute dollars and as a percentage of revenue was higher in 2013 compared to 2012, with a higher mix of product support revenues and higher margins in most lines of business.

In functional currency, gross profit in 2013 was consistent with 2012 in absolute terms but was up slightly as a percentage of revenues with a greater proportion of product support revenues. SG&A remained relatively flat compared to 2012. In December 2013, management decided to postpone any decision on implementation of an ERP system in the UK for two to three years due to the needs and size of these operations. This led to an accounting review and decision to write-off $5.5 million of previously capitalized costs.

EBIT was $42.9 million in 2013, representing a reduction of 5% over the prior year (down 6% in functional currency) driven primarily by the write-off of previously capitalized ERP implementation costs, discussed above. EBIT margin of 4.9% was down marginally compared to the 5.0% earned in the same period last year.

($ millions, unless otherwise stated)	**Dec 31 2013**	Dec 31 2012	Increase (Decrease)
Invested Capital	**$ 265.3**	$ 260.4	$ 4.9
Invested Capital (functional currency)	**£ 150.5**	£ 160.9	£ (10.4)

Invested capital decreased £10.4 million in functional currency from 2012 to 2013, primarily due to lower equipment inventory from improved inventory management. Invested capital increased over 2012 by $4.9 million in Canadian dollars. The weakening Canadian dollar relative to the U.K. pound drove an increase in accounts receivable, which was partially offset by increases in accounts payable and long-term obligations.

Corporate and Other Operations

For years ended December 31 ($ millions)	2013	2012 (Restated)
Operating costs - corporate	**$ (26.3)**	$ (23.3)
Long-term incentive plan (LTIP)	**(6.9)**	(5.2)
Depreciation and amortization	**(0.1)**	(0.1)
	(33.3)	(28.6)
Equity gain (loss) of associate	**(0.4)**	1.0
Other income (expenses)		
Gain on settlement of note receivable	—	2.3
Acquisition costs	—	(0.9)
Loss before finance costs and income taxes	**$ (33.7)**	$ (26.2)

In 2013, corporate operating expenses of $26.3 million were up 13% compared with 2012, primarily driven by an increase in employee-related costs.

Fluctuations in the Company's share price during the year led to higher costs from the Company's compensation hedge, in place to offset the mark-to-market impact relating to certain stock-based compensation plans.

The equity gain (loss) of associate for 2013 and 2012 relates to the Company's investment in Energyst B.V. Recent results from Energyst have been impacted by the slowdown in the mining industry and the competitive pressures on its international power projects business. The Company's equity investment in Energyst increased to 27.9% from 27.3% in February 2013.

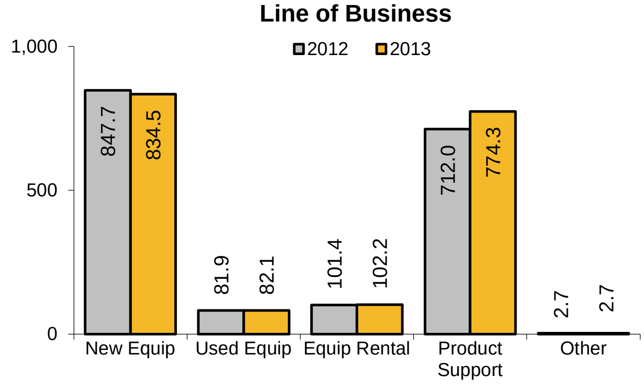
Fourth Quarter Overview

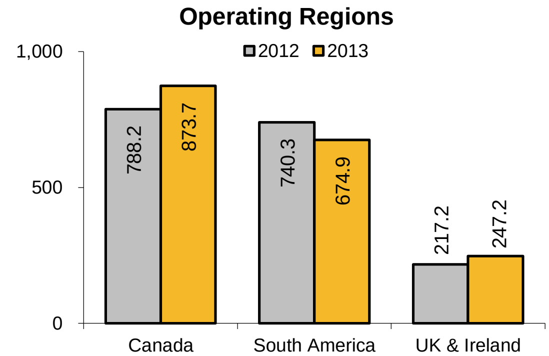
	Q4 2013 ($ millions)	Q4 2012 (Restated) ($ millions)	Q4 2013 (% of revenue)	Q4 2012 (Restated) (% of revenue)
Revenue	**$ 1,795.8**	$ 1,745.7		
Gross profit	**554.2**	523.6	**30.9%**	30.0%
Selling, general & administrative expenses	**(402.7)**	(384.0)	**(22.4)%**	(22.0)%
Equity earnings of joint venture and associate	**0.3**	2.5	**0.0%**	0.2%
Other income	**0.7**	43.5	**0.0%**	2.5%
Other expenses	**(7.0)**	(37.9)	**(0.4)%**	(2.2)%
EBIT	**145.5**	147.7	**8.1%**	8.5%
Finance costs	**(21.4)**	(25.0)	**(1.2)%**	(1.4)%
Provision for income taxes	**(31.2)**	(20.1)	**(1.7)%**	(1.2)%
Net income	**$ 92.9**	$ 102.6	**5.2%**	5.9%
Basic earnings per share	**$ 0.54**	$ 0.60		
EBITDA	**$ 200.3**	$ 203.0	**11.2%**	11.6%
Free Cash Flow	**$ 364.9**	$ 244.8		

	2013				2012 (restated)			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Return on Invested Capital								
ROIC (%)								
Consolidated	**15.7%**	15.8%	15.8%	16.2%	16.5%	16.2%	14.0%	14.9%
Canada	**15.9%**	15.9%	15.5%	16.3%	15.7%	14.7%	10.5%	11.4%
South America	**17.6%**	17.9%	18.1%	18.4%	19.7%	19.7%	20.6%	22.0%
UK & Ireland	**16.4%**	16.8%	15.4%	15.3%	16.3%	18.3%	20.0%	19.5%
Earnings Before Interest and Taxes								
EBIT ($ millions)								
Consolidated	**145**	136	123	117	148	124	120	97
Canada	**69**	76	61	57	73	59	61	39
South America	**76**	56	59	57	76	58	57	48
UK & Ireland	**8**	12	13	10	9	10	13	12
EBIT Margin (%)								
Consolidated	**8.1%**	7.6%	7.6%	7.5%	8.5%	7.8%	6.8%	6.6%
Canada	**7.9%**	7.9%	7.9%	7.5%	9.2%	7.7%	6.4%	5.0%
South America	**11.3%**	9.4%	9.5%	9.3%	10.3%	9.6%	9.8%	10.0%
UK & Ireland	**3.3%**	5.3%	5.7%	5.4%	4.2%	4.6%	5.5%	5.8%
Invested Capital								
Invested Capital ($ millions)								
Consolidated	**3,138**	3,342	3,443	3,317	3,131	3,070	3,031	2,597
Canada	**1,488**	1,716	1,740	1,663	1,589	1,424	1,445	1,442
South America	**1,391**	1,379	1,454	1,419	1,298	1,357	1,293	905
UK & Ireland	**265**	268	259	256	260	320	285	244
Invested Capital Turnover (times)								
Consolidated	**2.0**	2.0	2.0	2.1	2.2	2.4	2.4	2.5
Canada	**2.0**	2.0	2.0	2.1	2.2	2.5	2.5	2.5
South America	**1.8**	1.9	1.9	1.9	2.0	2.0	2.1	2.3
UK & Ireland	**3.4**	3.3	3.1	3.1	3.3	3.4	3.4	3.4
Inventory ($ millions)	**1,756**	1,904	1,978	1,911	1,930	1,903	1,891	1,767
Inventory Turns (times)	**2.7**	2.4	2.2	2.4	2.5	2.5	2.7	3.0
Working Capital to Sales Ratio (%)	**26.5%**	26.7%	27.0%	25.4%	24.5%	22.9%	23.3%	23.5%
Free Cash Flow ($ millions)	**365**	163	6	(93)	245	(28)	(31)	(223)
Net Debt to Invested Capital Ratio (%)	**40.8%**	47.8%	50.6%	51.1%	50.0%	52.3%	52.7%	47.2%
Net Debt to EBITDA Ratio	**1.7**	2.2	2.4	2.3	2.2	2.5	2.8	2.2

Revenue

($ millions)
Three months ended December 31





Revenue was $1.8 billion in Q4 2013, up 3% from Q4 2012, with higher revenue from Canada and the UK & Ireland more than offsetting the revenue decline in South America. New equipment sales were the highest of any quarter in 2013, but were 2% below Q4 2012 due to reduced sales volumes in South America compared to the record-setting Q4 of last year. Product support revenue grew by 9%, driven mostly by Canada. Used equipment sales and rental revenue were relatively unchanged compared to Q4 of last year. A weakening of the Canadian dollar relative to the U.S. dollar and U.K. pound sterling had a positive impact on revenues of approximately $60 million compared to Q4 2012.

Revenue was up 11% from a year ago in the Company's Canadian operations, with higher revenue in all lines of business. New equipment sales rose by 10% driven by demand from all sectors. Increases across all sectors contributed to 12% growth in product support revenue, despite challenges in the mining product support business as commodity producers continued to focus on cost reductions.

The Company's South American operations earned the highest revenue of all 2013 quarters in the fourth quarter, which was a 9% decline from the record revenues in Q4 2012 (down 14% in functional currency). New equipment sales were down 23% in functional currency from an exceptionally strong Q4 of last year, reflecting slower mining activity and reduced construction demand in Chile and Argentina. While copper prices and production levels remained steady, demand for equipment replacement and additional fleets has slowed as mining customers continued to focus on controlling costs. Product support revenue was down slightly in functional currency compared to Q4 2012, with higher product support in mining offset by a decline in non-mining sectors.

Revenue in the UK & Ireland operations increased by 14% (up 7% in functional currency), driven by new equipment sales and product support, which grew by 6% and 4%, respectively, in functional currency compared to Q4 of last year.

Deliveries in Q4 2013 were higher than in any of the previous quarters in 2013. While the order intake in Canada remained strong, deliveries outpaced the order intake in South America and the UK & Ireland. The Company's order backlog(1) was $0.9 billion at the end of 2013, down from $1.0 billion at the end of the third quarter of 2013 due to slower activity levels in most sectors in South America during the fourth quarter, particularly mining.

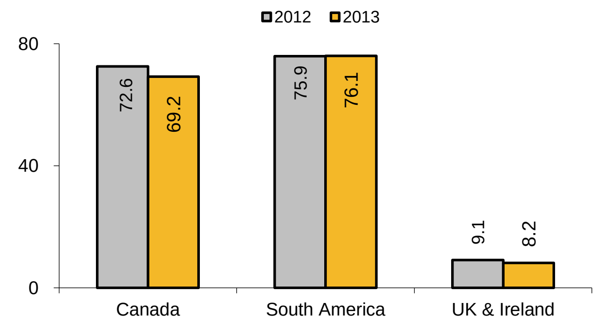
(1) This financial metric does not have a standardized meaning under IFRS, which are also referred to herein as GAAP. For additional information regarding this financial metric, see the heading "Description of Non-GAAP and Additional GAAP Measures" later in this MD&A.

Earnings Before Finance Costs and Income Taxes

On a consolidated basis, EBIT was $145.5 million in the fourth quarter of 2013, down 2% from EBIT of $147.7 million in the fourth quarter of 2012. EBIT in Q4 2013 included a $5.5 million write-off of previously capitalized ERP development costs in the UK, while Q4 2012 included a $9.7 million gain on sale of land in Canada. The strengthening U.S. dollar against the Canadian dollar and Argentinean peso had a positive impact on EBIT of approximately $3 million. EBIT margin was 8.1% in Q4 2013 compared with 8.5% in Q4 last year.

Higher revenues contributed to a 6% increase in gross profit compared to Q4 2012. Gross profit margin was 30.9%, up from 30.0% in Q4 2012 due to a higher proportion of product support in the revenue mix, 43.1% in Q4 2013 versus 40.8% in Q4 2012. The most notable gross profit increase was in the Company's South American operations.

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



(1) Excluding other operations – corporate head office

SG&A expenses were 5% above Q4 2012 primarily due to an increase in the Company's Canadian operations, as described below. An increase in SG&A expenses in South America and the UK & Ireland was due to a weaker Canadian dollar compared to Q4 2012.

The 2% decline in EBIT was primarily the result of the $5.5 million write-off of previously capitalized ERP costs in the UK in Q4 2013 and a $9.7 million gain on the sale of property in Canada in Q4 2012, as well as higher SG&A costs discussed above. As a result, consolidated EBIT margin of 8.1% was below 8.5% in Q4 2012. Sequentially, EBIT margin improved compared to the previous three quarters of 2013.

Excluding a $9.7 million gain on sale of land recognized in the fourth quarter of 2012, EBIT performance in the Company's Canadian operations improved over the prior year's fourth quarter. A 7% increase in gross profit was primarily driven by volume-related increases. Gross profit margin declined relative to Q4 2012, primarily due to a higher proportion of lower margin equipment and parts in the sales mix. The increase in gross profit was offset by an 8% increase in SG&A largely driven by higher service-related costs. EBIT margin was 7.9% compared with 9.2% last year.

EBIT was flat in the Company's South American operations compared to the fourth quarter of 2012, down 6% in functional currency, reflecting lower sales volumes. EBIT margin was 11.3% in 2013 compared to 10.3% in 2012, driven largely by a shift in sales mix to a greater proportion of higher margin product support revenues (Q4 2013: 50.7%; Q4 2012: 44.2%) and favourable adjustments to certain mining service contracts.

The UK & Ireland operations contributed EBIT of $8.2 million in the fourth quarter of 2013, down 10% (down 13% in functional currency) from the fourth quarter of 2012. EBIT margin was 3.3%, down from the EBIT margin of 4.2% in the comparable quarter last year. The decrease in EBIT and EBIT margin was primarily driven by a $5.5 million write-off of previously capitalized ERP implementation costs, as discussed above.

EBITDA and Free Cash Flow

EBITDA was $200.3 million in the fourth quarter of 2013 compared to $203.0 million in the fourth quarter of 2012, down 1% reflecting the decrease in EBIT discussed above.

The Company's Free Cash Flow was a generation of cash of $364.9 million compared to $244.8 million generation of cash in the comparative quarter of the prior year. Lower working capital spend was the main contributor to the improved cash generation in the fourth quarter of 2013 compared to the same period in 2012, primarily driven by improved collections in the Company's Canadian operations and lower new equipment inventories in the Company's South American and Canadian operations.

Finance Costs

Finance costs for the three months ended December 31, 2013 were $21.4 million, down slightly compared to the $25.0 million reported in the fourth quarter of 2012. Lower debt levels and lower interest rates drove the reduction in financing costs compared to the same period in 2012.

Provision for Income Taxes

The effective income tax rate for the fourth quarter of 2013 was 25.1% compared to 16.4% in the comparable period of the prior year. The higher effective tax rate was primarily the result of foreign exchange impacts due to the devaluation of the Argentinean peso. Although the Argentinean peso also depreciated against the U.S. dollar in the fourth quarter of 2012, the magnitude of the depreciation was significantly greater in the fourth quarter of 2013 driving greater foreign exchange impacts and thus, a higher effective tax rate. The effective tax rate in the fourth quarter of 2012 was also lower due to the benefit of previously unrecognized tax losses to offset certain taxable amounts in the quarter.

Net Income

Finning's net income was $92.9 million in the fourth quarter of 2013 compared with $102.6 million in the same period last year, a decrease of 9%. The decrease in net income was mainly driven by the higher provision for income taxes in the South American operations, discussed above.

Basic EPS was $0.54 per share compared with $0.60 per share in the comparative period last year, a decrease of 13%. The capitalized ERP costs written off in the UK in 2013 had a per share impact of $0.02. Conversely, the gain on sale of property in Finning (Canada) in 2012 contributed $0.06 to EPS.

Invested Capital

($ millions, unless otherwise stated)	**Dec 31 2013**	Sept 30 2013	Increase (Decrease)
Consolidated	**$ 3,138.1**	$ 3,342.2	$ (204.1)
Canada	**$ 1,487.6**	$ 1,715.8	$ (228.2)
South America	**$ 1,390.9**	$ 1,379.1	$ 11.8
UK & Ireland	**$ 265.3**	$ 267.6	$ (2.3)
South America (USD millions)	***$ 1,307.7***	*$ 1,340.9*	*$ (33.2)*
UK & Ireland (GBP millions)	***£ 150.5***	*£ 160.8*	*£ (10.3)*

The decrease in consolidated invested capital of $204.1 million from Q3 to Q4 2013 was primarily driven by:

- a decrease in inventory in all regions, particularly the Company's Canadian operations where new equipment inventory decreased by approximately $45 million, from improved inventory management;
- a decrease in accounts receivable in the Company's Canadian operations due to a focus on aged receivable collections in Q4 2013;
- an increase in accounts payable due to the timing of general payables, primarily in the Company's Canadian operations;
- partly offset by lower deferred revenues, largely in South America, primarily due to lower advance payments from customers for mining equipment.

Outlook

In Western Canada, oil sands activity continues to be stable despite the producers' continuing focus on reducing operating costs. The Company continues to actively bid on opportunities for new equipment and product support with coal and metals mining customers. Infrastructure activity remains solid, and the Company is achieving market share gains in core and building construction product. The infrastructure projects under consideration, including long-term LNG pipeline opportunities, are expected to be a positive driver for heavy construction and power systems activity for the next few years. Market conditions in the conventional oil segment remain weak, while gas compression and electric power generation have strengthened. Demand for rental equipment remains strong across all sectors.

In South America, market conditions have softened. In mining, despite healthy copper prices, concerns regarding capital expenditures, project execution, and production costs have resulted in delays of greenfield projects and revision of investments for brownfield projects. Mining customers are maintaining production and equipment utilization levels, while focusing on productivity and efficiency improvements. The Company expects continued equipment replacement and fleet additions, but at a significantly slower pace. Decisions on component purchases, major repairs and equipment and maintenance contracts are being delayed. The slowdown in the mining sector is also impacting the power systems and construction equipment markets in Chile, where machine utilization levels and product support activity have been reduced. In Argentina, the Company's market share for new equipment is strong, but further growth is impeded by current import restrictions.

In the UK & Ireland, the Company is capturing steady equipment order intake despite soft economic conditions. The Company has successfully grown market share of building construction machines in an expanding market through its multi-channel sales approach. The coal mining sector continues to be challenged but, following some customer consolidation, is showing signs of stability. While the heavy construction industries are impacted by low infrastructure project activity levels, quarrying and aggregates remain the most active markets for large core products. Equipment sales to the plant hire sector have also picked up due to the increase in house building and general construction work. The Power Systems division continues to develop its expertise in power and energy, including water treatment, oil & gas, marine and industrial power generation. The Company is encouraged by the increased order intake for electric power generation projects.

The Company is committed to improving ROIC over time, and is executing on its operational excellence agenda to improve performance. Initiatives to increase EBIT are primarily focused on growing market share in non-mining segments and increasing the profitability of service operations. The expected reduction in invested capital will be driven through optimization of the supply chain to reduce working capital and improvements in asset utilization. The Company firmly believes it can generate higher ROIC, even if it were to operate in a no-growth market environment.

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

Cash flow provided by operations was $514.7 million in 2013 compared to $133.1 million in 2012. The higher cash inflow reflected the Company's focus on reducing inventory levels, particularly equipment inventory, in all regions and improving cash cycle times while maintaining appropriate levels of working capital to support activity levels.

In 2013, the Company invested $73.4 million in rental assets, net of disposals, compared to cash invested of $92.9 million in rental assets, net of disposals in 2012. Rental demand remained solid in 2013 as customers are seeking alternative sourcing solutions to direct purchase, which is reflected in higher rental revenue in 2013 (up 3% compared to 2012).

EBIT improvement, along with strong cash flow from operations, was reflected in record EBITDA of $736.4 million in 2013 compared to $701.1 million in 2012, an increase of 5%.

The Company's Free Cash Flow was a generation of cash of $440.7 million compared to a use of cash of $37.4 million in the prior year. The main drivers resulting in greater free cash flow were lower working capital, driven by a reduction in equipment inventory, and lower capital and rental expenditures.

Investing Activities

Net cash used in investing activities in 2013 totalled $78.8 million compared with $625.6 million in 2012. The primary use of cash in 2012 related to acquisitions ($473.8 million), the largest being the purchase of the former Bucyrus distribution and support business in Canada, South America, and the U.K.

The primary use of cash in 2013 related to additions of property, plant and equipment and intangible assets of $98.5 million, lower than the $194.1 million invested in 2012. Higher spend in 2012 reflected the construction of the new service facilities in the Company's Canadian operations at Fort McKay, as well as a union agreement payment made to negotiate a four-year collective agreement with certain unions in the Company's South American operations.

During 2012, the Company received $28.1 million, net of withholding tax, as final settlement of a £20 million 5-year note receivable from the purchaser of Hewden Stuart Limited, the Company's U.K. rental equipment business that was sold in 2010.

In 2013, the Company invested $4.5 million to increase its investment in Energyst B.V. from 27.3% to 27.9%. In 2012, the Company invested $2.8 million in Energyst B.V.

Financing Activities

To complement the internally generated funds from operating and investing activities in 2013, the Company has approximately $1.9 billion in unsecured credit facilities. Included in this amount, Finning has committed bank facilities totalling approximately $1.2 billion with various Canadian, U.S., and South American financial institutions. In September 2013, the Company negotiated a two-year extension to its $1.0 billion global committed operating credit facility, under which $937.5 million was extended to September 2017 from the original maturity in September 2015. At December 31, 2013, approximately $0.9 billion was available under these committed facilities.

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

The Company is rated by both Dominion Bond Rating Service (DBRS) and Standard & Poor's (S&P). During 2013, the Company's long-term debt ratings were re-confirmed at A (low) by DBRS and BBB+ by S&P. The Company's short-term debt rating was also re-confirmed by DBRS at R-1 (low). These ratings were re-confirmed by DBRS in January 2014. 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.

In May 2013, the Company refinanced its 5.625% £70 million Eurobond, due May 30, 2013 with an issuance of unsecured 3.40% Notes, Series F, of £70 million ($108.9 million) due May 23, 2023 in the U.S. private placement market.

In July 2013, the Company issued unsecured 3.232% $200 million Medium Term Notes (MTN) due July 3, 2020. Proceeds from this issuance were used to early redeem its 5.16% $250 million MTN due September 3, 2013. The resulting early redemption fees of approximately $1.5 million were recorded in finance costs in 2013.

In 2012, the Company issued the following: U.S. $200 million Notes to repay commercial paper borrowings and for general corporate purposes; U.S. $300 million Notes to fund the acquisition of the former Bucyrus distribution and support business in its South American operations; and $150 million Notes to fund the acquisition of the former Bucyrus distribution and support business in the Canadian operations.

Dividends paid to shareholders in 2013 were $102.8 million, up 9% compared to 2012, reflecting the $0.0125 per common share increase to a quarterly dividend of $0.1525 per share announced in May 2013.

Net Debt to Invested Capital and Return on Equity[1]

Net Debt to Invested Capital at December 31, 2013 was 40.8% compared with 50.0% at December 31, 2012. Net Debt to Invested Capital is within the Company's target range of 35-45%, which had been temporarily exceeded as a result of the higher debt levels required to fund the purchase of shovels and drills in 2012. The Company is subject to a maximum Net Debt to Invested Capital level pursuant to a covenant within its syndicated bank credit facility. The Company was in compliance with this covenant at the end of 2013.

The Company reported a Return on Equity (ROE) of 19.7% for the year ended December 31, 2013.

Contractual Obligations

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

($ millions)	2014	2015	2016	2017	2018	Thereafter	Total
Short-term debt							
- principal repayment	$ 89.4	$ —	$ —	$ —	$ —	$ —	$ 89.4
- interest	4.9	—	—	—	—	—	4.9
Long-term debt							
- principal repayment	0.7	0.2	0.3	13.5	350.3	1,007.7	1,372.7
- interest	62.5	62.5	62.4	62.4	51.7	352.2	653.7
Operating leases	110.9	101.7	88.8	75.2	20.7	99.3	496.6
Finance leases	3.7	3.6	2.9	3.1	2.9	16.1	32.3
Total contractual obligations	$ 272.1	$ 168.0	$ 154.4	$ 154.2	$ 425.6	$ 1,475.3	$ 2,649.6

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 2013, approximately $45 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, 2014 amount to approximately $49 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, 2013, approximately 80%, 65% and 2% of eligible employees in the Company's Corporate, Canadian and South American operations, respectively, were contributing to these plans. The Company also has an All Employee Share Purchase Ownership Plan for its employees in Finning (UK). 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, 2013, approximately 30% of eligible employees in Finning (UK) were contributing to this plan. These plans may be cancelled by Finning at any time.

(1) This financial metric does not have a standardized meaning under IFRS, which are also referred to herein as GAAP. For additional information regarding this financial metric, see the heading "Description of Non-GAAP and Additional GAAP Measures" later in this MD&A.

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 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, 2013. 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: recoverable 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 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 intangible assets with indefinite lives 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. 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. Projected cash flows are discounted using a weighted average cost of capital. These estimates are subject to change due to uncertain competitive and economic market conditions or changes in business strategies.

During the year, the Company performed its assessment of goodwill and intangible assets with indefinite lives and determined that there was no impairment at December 31, 2013.

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 in which the Company operates, 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.

Foreign Exchange

Translation

The Company's reporting currency is the Canadian dollar. The geographical diversity of the Company's operations results in a significant portion of revenue and operating expenses transacting in different currencies. The most significant currencies in which the Company transacts business are the U.S. dollar (USD), the Canadian dollar (CAD), the U.K. pound sterling (GBP), and the Chilean peso (CLP). Changes in the CAD/USD and CAD/GBP relationships affect reported results on the translation of the financial statements of the Company's South American and UK & Ireland operations as well as U.S. dollar based earnings of the Company's Canadian operations. In addition, the results of the Company's South American operations, whose functional currency is the U.S. dollar, are affected by changes in the USD/CLP and USD/Argentinean peso (ARS) relationships.

Foreign denominated net asset or liability positions may exist on an operation's statement of financial position. The Company does not fully hedge balance sheet exposure so this may result in unrealized foreign exchange gains or losses until the net position is settled.

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

	December 31		**Three months ended December 31 - average**		**Year ended December 31 - average**	
	2013	2012	**2013**	2012	**2013**	2012
U.S. dollar	**1.0636**	0.9949	**1.0494**	0.9913	**1.0299**	0.9996
U.K. pound sterling	**1.7627**	1.6178	**1.6994**	1.5920	**1.6113**	1.5840

The Canadian dollar has historically been positively correlated to commodity prices. 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 fluctuation in 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.

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 gain of $125.6 million recorded in 2013 resulted primarily from the weakening of the Canadian dollar against the U.S. dollar at December 31, 2013 compared to December 31, 2012. This was partially offset by $53.7 million (after-tax) of unrealized foreign exchange losses on net investment hedges. For more details, refer to the Annual Consolidated Statements of Comprehensive Income.

Description of Non-GAAP and Additional GAAP Measures

Additional GAAP Measures

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

EBIT

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

A reconciliation between EBIT and net income is as follows:

	Three months ended December 31		**Twelve months ended December 31**	
($ millions)	**2013**	2012 (Restated)	**2013**	2012 (Restated)
Earnings before finance costs and income taxes	**$ 145.5**	$ 147.7	**$ 520.7**	$ 488.6
Finance costs	**(21.4)**	(25.0)	**(90.3)**	(86.5)
Provision for income taxes	**(31.2)**	(20.1)	**(95.1)**	(75.3)
Net income	**$ 92.9**	$ 102.6	**$ 335.3**	$ 326.8

Net Debt to Invested Capital

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

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

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

December 31 ($ millions, except as noted)	**2013**	2012
Cash and cash equivalents	**$ (176.3)**	$ (114.9)
Short-term debt	**89.4**	303.3
Current portion of long-term debt	**0.7**	363.6
Long-term debt	**1,366.5**	1,012.2
Net debt	**1,280.3**	1,564.2
Shareholders' equity	**1,857.8**	1,566.6
Invested capital	**$ 3,138.1**	$ 3,130.8
Net debt to invested capital	**40.8%**	50.0%

Non-GAAP Measures

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

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

EBITDA

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

A reconciliation between EBITDA and net income is as follows:

($ millions)	**Three months ended December 31**		**Twelve months ended December 31**	
	2013	2012 (Restated)	**2013**	2012 (Restated)
EBITDA	**$ 200.3**	$ 203.0	**$ 736.4**	$ 701.1
Depreciation and amortization	**(54.8)**	(55.3)	**(215.7)**	(212.5)
Finance costs	**(21.4)**	(25.0)	**(90.3)**	(86.5)
Provision for income taxes	**(31.2)**	(20.1)	**(95.1)**	(75.3)
Net income	**$ 92.9**	$ 102.6	**$ 335.3**	$ 326.8

ROE and ROIC

ROE is defined as net income for the last twelve months divided by average shareholders' equity (for that same period, including the opening equity position). ROIC is defined as EBIT (adjusted for significant non-recurring items) for the last twelve months divided by invested capital, based on an average of the last four quarters.

Management views ROE and ROIC (at a consolidated and segment level), as useful measures for supporting investment and resource allocation decisions, as they adjust for certain items that may affect comparability between certain competitors and segments.

December 31 ($ millions, except as noted)	**2013**	2012 (Restated)
Net income	**$ 335.3**	$ 326.8
Shareholders' equity – average	**$ 1,705.4**	$ 1,433.8
ROE	**19.7%**	22.8%
EBIT	**$ 520.7**	$ 488.6
Invested capital – average	**$ 3,310.1**	$ 2,957.2
ROIC	**15.7%**	16.5%

Working Capital

Working capital is defined as total current assets (excluding cash) less total current liabilities (excluding short-term debt and current portion of long-term debt), both based on an average of the last four quarters. Management views working capital as a measure for assessing overall liquidity.

	2013				2012			
($ millions)	**Q4**	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Total current assets	**$3,248.6**	$3,325.6	$3,463.4	$3,408.0	$3,317.2	$3,342.8	$3,423.9	$3,189.2
Cash	**(176.3)**	(83.1)	(115.0)	(116.2)	(114.9)	(135.8)	(111.3)	(122.8)
Total current assets[1]	**$3,072.3**	$3,242.5	$3,348.4	$3,291.8	$3,202.3	$3,207.0	$3,312.6	$3,066.4
Total current liabilities	**$1,549.3**	$1,737.5	$2,156.4	$2,256.3	$2,250.2	$2,163.5	$2,067.7	$1,954.4
Short-term debt	**(89.4)**	(327.3)	(454.2)	(429.2)	(303.3)	(303.4)	(252.5)	(394.6)
Current portion of long-term debt	**(0.7)**	(0.6)	(250.5)	(358.3)	(363.6)	(361.3)	(112.3)	(0.5)
Total current liabilities[2]	**$1,459.2**	$1,409.6	$1,451.7	$1,468.8	$1,583.3	$1,498.8	$1,702.9	$1,559.3
Working capital	**$1,613.1**	$1,832.9	$1,896.7	$1,823.0	$1,619.0	$1,708.2	$1,609.7	$1,507.1
- last four quarters average	**$1,791.4**				$1,611.0			

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

Free Cash Flow

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

Free Cash Flow is a measure used by the Company to assess cash operating performance and the ability to raise and service debt.

A reconciliation of Free Cash Flow is as follows:

	Three months ended December 31		**Twelve months ended December 31**	
($ millions)	**2013**	2012	**2013**	2012
Cash flow provided by operating activities	**$ 401.5**	$ 260.7	**$ 514.7**	$ 133.1
Additions to property, plant, and equipment and intangible assets	**(38.5)**	(37.2)	**(98.5)**	(194.1)
Proceeds on disposal of property, plant, and equipment	**1.9**	21.3	**24.5**	23.6
Free Cash Flow	**$ 364.9**	$ 244.8	**$ 440.7**	$ (37.4)

Key Performance Indicators

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

Gross Profit Margin

This measure is defined as gross profit divided by total revenue.

EBIT Margin

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

Inventory Turns

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

December 31 ($ millions, except as noted)	**2013**	2012
Cost of sales – annualized	**$ 5,014.8**	$ 4,651.7
Inventory – average	**$ 1,830.1**	$ 1,916.6
Inventory turns (number of times)	**2.7**	2.4

Invested Capital Turnover

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

December 31 ($ millions, except as noted)	**2013**	2012
Revenue	**$ 6,756.0**	$ 6,575.6
Invested capital – average	**$ 3,310.1**	$ 2,957.2
Invested capital turnover	**2.0**	2.2

Working Capital to Sales Ratio

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

December 31 ($ millions, except as noted)	**2013**	2012
Working capital – average	**$ 1,791.4**	$ 1,611.0
Revenue	**$ 6,756.0**	$ 6,575.6
Working capital to sales	**26.5%**	24.5%

Order Backlog

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

Net Debt to EBITDA Ratio

This ratio is calculated as net debt, defined and calculated above, divided by EBITDA for the last twelve months, calculated above. This ratio is used by management in assessing the Company's operating leverage and ability to repay its debt. This ratio approximates the length of time, in years, that it would take the Company to repay its debt, with net debt and EBITDA held constant.

December 31 ($ millions, except as noted)	**2013**	2012 (Restated)
Net debt	**$ 1,280.3**	$ 1,564.2
EBITDA	**$ 736.4**	$ 701.1
Net Debt to EBITDA	**1.7**	2.2

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 risks in its 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.

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 (refer to Notes 4 and 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, 2013 were $1,587 million (2012: $1,223 million), of which approximately $922 million (2012: $743 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 derivative financial instruments and foreign currency debt 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 & Ireland operations in Canadian dollar terms. The results of the Company's South American operations are affected by changes in the USD/CLP and USD/ARS relationships. 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 & 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.

Foreign denominated net asset or net liability positions may exist on an operation's statement of financial position. The Company does not fully hedge balance sheet exposures so this may result in unrealized foreign exchange gains or losses until the position is settled.

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. For example, the Company's Canadian operating results are exposed to volatility in foreign exchange rates (USD/CAD) between the timing of equipment and parts purchases and the ultimate sale to customers. A portion of this exposure is hedged through the use of forward exchange contracts as well as managed through pricing practices. 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, 2013 month end rates would increase (decrease) annual net 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, 2013 month end rates		Net income $ millions
CAD/USD	**1.0636**	**$**	**(34)**
CAD/GBP	**1.7627**	**$**	**(1)**
CAD/CLP	**0.0020**	**$**	**4**
CAD/ARS	**0.1631**	**$**	**2**

A 5% weakening of the Canadian dollar against the above currencies relative to the December 31, 2013 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, relative competitive advantages, and the timing between equipment and parts purchases and the ultimate sale to customers. If it were possible to quantify these impacts, the results would likely be different from the sensitivities shown above.

<u>Interest Rate Risk</u>

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 changes in 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 construction 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, coal, oil and gas, and construction and forestry sectors 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. 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.

A 5% strengthening in the Company's share price as at December 31, 2013, all other variables remaining constant, would have increased pre-tax net income by approximately $2.0 million (2012: $1.8 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, 2013, the total estimated value of these contracts outstanding is $147.1 million (2012: $153.5 million) coming due at periods ranging from 2014 to 2023. 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 $1.8 million (2012: 1.0 million).

For further information on the Company's contingencies, commitments, guarantees, and indemnifications, refer to Notes 27, 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, reviews 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, 2013, that would materially affect, or is reasonably likely to materially affect, the Company's internal control over financial reporting. Since the implementation of a new ERP system in the third quarter of 2011 in the Company's Canadian operations, management has employed additional procedures to ensure key financial internal controls remained in place. Management also performed additional account reconciliations and other analytical and substantive procedures to mitigate any financial risks from the introduction of the 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, 2013, 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, 2013.

Selected Quarterly Information

$ millions	2013				2012 (Restated)			
(except for share and option data)	**Q4**	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Revenue from operations (1)								
Canada	**$ 873.7**	$ 960.5	$ 767.7	$ 756.0	$ 788.2	$ 768.9	$ 942.8	$ 777.7
South America (4)	**674.9**	597.6	628.9	613.0	740.3	601.9	574.0	481.0
UK & Ireland	**247.2**	222.1	223.5	190.9	217.2	222.9	247.7	213.1
Total revenue	**$1,795.8**	$1,780.2	$1,620.1	$1,559.9	$1,745.7	$1,593.7	$1,764.5	$1,471.8
Net income (1) (2)	**$ 92.9**	$ 86.2	$ 82.7	$ 73.4	$ 102.6	$ 81.2	$ 78.7	$ 64.3
Earnings Per Share (1) (2)								
Basic EPS	**$ 0.54**	$ 0.50	$ 0.48	$ 0.43	$ 0.60	$ 0.47	$ 0.46	$ 0.37
Diluted EPS	**$ 0.54**	$ 0.50	$ 0.48	$ 0.43	$ 0.60	$ 0.47	$ 0.46	$ 0.37
Total assets (1)	**$5,057.6**	$5,138.6	$5,301.6	$5,194.4	$5,118.0	$4,994.0	$5,110.5	$4,530.0
Long-term debt								
Current	**$ 0.7**	$ 0.6	$ 250.5	$ 358.3	$ 363.6	$ 361.3	$ 112.3	$ 0.5
Non-current	**1,366.5**	1,351.4	1,152.4	1,022.5	1,012.2	1,076.1	1,344.7	952.4
Total long-term debt (3)	**$1,367.2**	$1,352.0	$1,402.9	$1,380.8	$1,375.8	$1,437.4	$1,457.0	$ 952.9
Cash dividends paid per common share	**15.25¢**	15.25¢	15.25¢	14¢	14¢	14¢	14¢	13¢
Common shares outstanding (000's)	**172,014**	172,000	171,999	171,971	171,910	171,905	171,880	171,849
Options outstanding (000's)	**5,685**	5,596	5,643	4,708	5,060	5,118	5,235	4,595

1) In February 2012, the Company acquired Damar Group Ltd. (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.

   The results for 2012 have been restated to reflect the Company's adoption of the amendments to IAS 19, Employee Benefits, for the financial year beginning January 1, 2013.

2) The results for 2012 were negatively impacted by the ERP system implementation issues experienced in the Company's Canadian operations. The first, second, third and fourth quarters of 2012 included costs associated with the ERP system issues of $0.09, $0.07, $0.05 and $0.04, respectively.

3) In September 2013, the Company negotiated a two-year extension to its $1.0 billion global unsecured syndicated committed operating credit facility, under which $937.5 million was extended to September 2017 from the original maturity of September 2015.

   In January 2012, the Company issued unsecured U.S. $200 million Notes in the U.S. private placement market due in 2022 - 2024. Proceeds from the Notes were used to repay commercial paper borrowings and for general corporate purposes.

   In April 2012, the Company issued unsecured U.S. $300 million Notes in the U.S. private placement market due in 2022 - 2027. Proceeds from the Notes were used to fund the acquisition of the former Bucyrus distribution and support business in the Company's South American operations.

   In June 2012, the Company issued $150 million MTN due June 13, 2042. Proceeds from the MTN were applied to fund the purchase of the former Bucyrus distribution and support business in the Company's Canadian operations on October 1, 2012.

   In May 2013, the Company refinanced its £70 million Eurobond, due May 30, 2013, with the issuance of £70 million in unsecured Notes in the U.S. private placement market.

   In July 2013, the Company issued unsecured $200 million MTN due July 3, 2020. Proceeds from the issuance were used to early redeem the Company's $250 million MTN due September 30, 2013.

4) The Company's South American operations began to export an agricultural product from Argentina in the third quarter of 2012 in response to the Argentinean government's efforts to balance imports and exports and to manage access to foreign currency exchange. As these export activities are not related to the Company's core business, income and expenses related to these exports have been reported in other income and other expenses beginning in the third quarter of 2013 and comparative periods adjusted accordingly.

New Accounting Pronouncements

Amended Standards Adopted by the Company for the financial year beginning January 1, 2013

- The Company has applied the amendments to IAS 19, *Employee Benefits* in the current year. The amendments 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 interest cost related to the defined benefit obligation and the expected return on assets when calculating the net interest component of pension expense. The Company previously recognized all actuarial gains and losses immediately through other comprehensive income; consequently this element of the amendments does not impact the Company. With respect to the second change, in the determination of net income, the effect is that the defined benefit plan expense concepts of "interest cost" and "expected return on plan assets" is 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, and the Company elected to present the net interest amount as a component of finance costs upon the application of the amended standard.

  As the discount rate is lower than an expected long-term rate of return on plan assets the effect of the amended standard is 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 is included in other comprehensive income as a remeasurement.

  With the adoption of the amendments to IAS 19 on January 1, 2013, the Company has restated the prior year comparative period consolidated statement of income, consolidated statement of cash flows, consolidated statement of comprehensive income, and consolidated statement of shareholders' equity. The impact of the amendments to IAS 19 is as follows:

($ thousands)		Year ended December 31, 2012
Increase in selling, general, and administrative expense	$	(7,902)
Increase in finance costs		(6,383)
Decrease in provision for income taxes		3,440
Decrease in net income	$	(10,845)
Increase in other comprehensive income, net of tax	$	10,845
Decrease in basic and diluted earnings per share	$	(0.06)

  The amendments do not affect the Company's consolidated statement of financial position. The Company provides additional disclosures in the notes to the 2013 annual consolidated financial statements for the adoption of the amendments to IAS 19.

- The Company has applied the amendments to IAS 1, *Presentation of Financial Statements*. The amendments require that elements of other comprehensive income that may subsequently be reclassified through profit or loss be differentiated from those items that will not be reclassified.

- The Company has applied 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*. The new standards 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. The adoption of this new standard had no impact on the Company's financial position but disclosures are enhanced for the annual consolidated financial statements.

- The Company has applied IFRS 13, *Fair Value Measurement*. The new standard provides guidance on fair value measurement and disclosure requirements. The adoption of this new standard had no impact on the Company's financial position but disclosures are enhanced for the annual consolidated financial statements.

- The Company has applied the amendments to IFRS 7, *Financial Instruments: Disclosures*. The amendments require additional disclosure about offsetting financial assets and liabilities. The adoption of the amendments had no impact on the Company's financial position but disclosures are enhanced for the annual consolidated financial statements.

Future Accounting Pronouncements

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

- Amendments to IAS 32, *Financial Instruments: Presentation* (effective January 1, 2014) clarifies existing application issues relating to offsetting requirements. These amendments are not expected to have a significant effect on the Company's accounting policies or financial statements.
- IFRIC 21, *Levies* (effective January 1, 2014) provides guidance on the recognition of liabilities to pay levies to government bodies in accordance with legislation. These amendments are not expected to have a significant effect on the Company's accounting policies or financial statements.
- IFRS 9, *Financial Instruments* (the IASB tentatively decided to delay the originally planned effective date of January 1, 2015 and at present the effective date has not been determined) introduces new requirements for the classification and measurement of financial assets and financial liabilities. Management is currently assessing the impact of the issued and proposed changes to IFRS 9.

Outstanding Share Data

As at February 13, 2014	
Common shares outstanding	172,078,194
Options outstanding	5,531,548

Selected Annual Information

($ millions, except for share data)		2013		2012 (Restated)		2011 (Restated)
Total revenue from external sources [(1)]	**$**	**6,756.0**	$	6,575.6	$	5,894.9
Net income [(1)]	**$**	**335.3**	$	326.8	$	251.4
Earnings Per Share [(1)]						
Basic EPS	**$**	**1.95**	$	1.90	$	1.47
Diluted EPS	**$**	**1.94**	$	1.90	$	1.46
Total assets [(1)]	**$**	**5,057.6**	$	5,118.0	$	4,085.4
Long-term debt						
Current	**$**	**0.7**	$	363.6	$	0.5
Non-current		**1,366.5**		1,012.2		762.6
Total long-term debt [(2)]	**$**	**1,367.2**	$	1,375.8	$	763.1
Cash dividends declared per common share	**$**	**0.5975**	$	0.55	$	0.51

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.

Results for 2012 and 2011 have been restated to reflect the Company's adoption of the amendments to IAS 19, *Employee Benefits*, for the financial year beginning January 1, 2013.

The Company's South American operations began to export an agricultural product from Argentina in the third quarter of 2012 in response to the Argentinean government's efforts to balance imports and exports and to manage access to foreign currency exchange. As these export activities are not related to the Company's core business, income and expenses related to these exports have been reported in other income and other expenses beginning in the third quarter of 2013 and comparative periods adjusted accordingly.

2) 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. In September 2013, the Company negotiated a two-year extension to its $1.0 billion global unsecured syndicated committed operating credit facility, under which $937.5 million was extended to September 2017 from the original maturity of September 2015.

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

In January 2012, the Company issued unsecured U.S. $200 million Notes in the U.S. private placement market due in 2022 - 2024. Proceeds from the Notes were used to repay commercial paper borrowings and for general corporate purposes.

In April 2012, the Company issued unsecured U.S. $300 million Notes in the U.S. private placement market due in 2022 - 2027. Proceeds from the Notes were used to fund the acquisition of the former Bucyrus distribution and support business in the Company's South American operations.

In June 2012, the Company issued $150 million MTN due June 13, 2042. Proceeds from the MTN were applied to fund the purchase of the former Bucyrus distribution and support business in the Company's Canadian operations on October 1, 2012.

In May 2013, the Company refinanced its £70 million Eurobond, due May 30, 2013, with the issuance of £70 million in unsecured Notes in the U.S. private placement market.

In July 2013, the Company issued unsecured MTN of $200 million due July 3, 2020. Proceeds from the issuance were used to early redeem the Company's $250 million MTN due September 30, 2013.

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; EBIT margin; ROIC; market share growth; expected results from service excellence action plans; anticipated asset utilization, inventory turns and parts service levels; and the expected target range of the Company's net debt to invested capital ratio. All such forward-looking statements are made pursuant to the 'safe harbour' provisions of applicable Canadian securities laws.

Unless otherwise indicated by us, forward-looking statements in this report reflect Finning's expectations at February 19, 2014. Except as may be required by Canadian securities laws, Finning does not undertake any obligation to update or revise any forward-looking statement, whether as a result of new information, future events, or otherwise.

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

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

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

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

Attachment 1: Supplementary Information

Unaudited Quarterly Segmented Revenue Information

Three months ended December 31, 2013 ($ millions)	**Canada**	**South America**	**UK & Ireland**	**Consolidated**	**Revenue percentage**
New equipment	**$ 376.2**	**$ 302.0**	**$ 156.3**	**$ 834.5**	**46.5%**
Used equipment	**50.7**	**10.4**	**21.0**	**82.1**	**4.6%**
Equipment rental	**76.2**	**19.3**	**6.7**	**102.2**	**5.7%**
Product support	**368.9**	**342.2**	**63.2**	**774.3**	**43.1%**
Other	**1.7**	**1.0**	**—**	**2.7**	**0.1%**
Total	**$ 873.7**	**$ 674.9**	**$ 247.2**	**$ 1,795.8**	**100.0%**
Revenue percentage by operations	**48.6%**	**37.6%**	**13.8%**	**100.0%**	

Three months ended December 31, 2012 ($ millions)	Canada	South America	UK	Consolidated	Revenue percentage
New equipment	$ 340.7	$ 369.4	$ 137.6	$ 847.7	48.6%
Used equipment	43.3	24.5	14.1	81.9	4.7%
Equipment rental	74.4	18.2	8.8	101.4	5.8%
Product support	328.3	327.0	56.7	712.0	40.8%
Other	1.5	1.2	—	2.7	0.1%
Total	$ 788.2	$ 740.3	$ 217.2	$ 1,745.7	100.0%
Revenue percentage by operations	45.2%	42.4%	12.4%	100.0%	

Unaudited Quarterly Segmented EBIT Information

Three months ended December 31, 2013 ($ millions)	**Canada**	**South America**	**UK & Ireland**	**Other**	**Consolidated**
Revenue from external sources	**$ 873.7**	**$ 674.9**	**$ 247.2**	**$ —**	**$ 1,795.8**
Operating costs	**(777.5)**	**(580.0)**	**(225.6)**	**(6.4)**	**(1,589.5)**
Depreciation and amortization	**(28.9)**	**(18.1)**	**(7.8)**	**—**	**(54.8)**
	67.3	**76.8**	**13.8**	**(6.4)**	**151.5**
Equity earnings	**1.9**	**—**	**—**	**(1.6)**	**0.3**
Other income	**—**	**0.7**	**—**	**—**	**0.7**
Other expense	**—**	**(1.4)**	**(5.6)**	**—**	**(7.0)**
Earnings (loss) before finance costs and taxes (EBIT)	**$ 69.2**	**$ 76.1**	**$ 8.2**	**$ (8.0)**	**$ 145.5**
EBIT					
- percentage of revenue	**7.9%**	**11.3%**	**3.3%**	**—**	**8.1%**
- percentage by operations	**47.5%**	**52.3%**	**5.6%**	**(5.4)%**	**100.0%**

Three months ended December 31, 2012 ($ millions) (restated)	Canada	South America	UK and Ireland	Other	Consolidated
Revenue from external sources	$ 788.2	$ 740.3	$ 217.2	$ —	$ 1,745.7
Operating costs	(700.3)	(643.5)	(197.4)	(9.6)	(1,550.8)
Depreciation and amortization	(27.5)	(17.9)	(9.9)	—	(55.3)
	60.4	78.9	9.9	(9.6)	139.6
Equity earnings	2.5	—	—	—	2.5
Other income	9.7	33.8	—	—	43.5
Other expense	—	(36.8)	(0.8)	(0.3)	(37.9)
Earnings (loss) before finance costs and taxes (EBIT)	$ 72.6	$ 75.9	$ 9.1	$ (9.9)	$ 147.7
EBIT					
- percentage of revenue	9.2%	10.3%	4.2%	—	8.5%
- percentage by operations	49.2%	51.4%	6.1%	(6.7)%	100.0%

Attachment 1: Supplementary Information [continued]

Unaudited Quarterly Consolidated Statements of Income

Three months ended December 31 ($ thousands, except share and per share amounts)	**2013**	2012 (restated)
Revenue		
New equipment	**$ 834,467**	$ 847,673
Used equipment	**82,073**	81,935
Equipment rental	**102,200**	101,381
Product support	**774,344**	712,000
Other	**2,697**	2,670
Total revenue	**1,795,781**	1,745,659
Cost of sales	**(1,241,584)**	(1,222,031)
Gross profit	**554,197**	523,628
Selling, general, and administrative expenses	**(402,709)**	(384,046)
Equity earnings of joint venture and associate	**344**	2,505
Other income	**665**	43,480
Other expenses	**(7,017)**	(37,836)
Earnings before finance costs and income taxes	**145,480**	147,731
Finance costs	**(21,358)**	(24,965)
Income before provision for income taxes	**124,122**	122,766
Provision for income taxes	**(31,193)**	(20,153)
Net income	**$ 92,929**	$ 102,613
Earnings per share		
Basic	**$ 0.54**	$ 0.60
Diluted	**$ 0.54**	$ 0.60
Weighted average number of shares outstanding		
Basic	**172,003,880**	171,907,455
Diluted	**172,518,569**	172,329,676

Attachment 1: Supplementary Information [continued]

Unaudited Quarterly Consolidated Statements of Cash Flow

Three months ended December 31 ($ thousands)	**2013**	2012 (Restated)
OPERATING ACTIVITIES		
Net income	**$ 92,929**	$ 102,613
Adjusting for:		
Depreciation and amortization	**54,801**	55,346
Gain (loss) on sale of rental equipment and property, plant, and equipment	**3,617**	(17,538)
Equity earnings of joint ventures and associate	**(344)**	(2,505)
Share-based payments	**2,122**	4,557
Provision for income taxes	**31,193**	20,153
Finance costs	**21,358**	24,965
Defined benefit and other post employment benefit expense	**5,209**	5,729
Other	**—**	658
Changes in operating assets and liabilities	**233,241**	126,774
Additions to rental equipment	**(51,496)**	(95,169)
Proceeds on disposal of rental equipment	**54,065**	63,085
Equipment leased to customers, net of disposals	**28**	(4)
Interest paid	**(31,127)**	(25,023)
Income tax paid	**(14,048)**	(3,014)
Cash flow provided by (used in) operating activities	**401,548**	260,627
INVESTING ACTIVITIES		
Additions to property, plant and equipment and intangible assets	**(38,536)**	(37,178)
Proceeds on disposal of property, plant and equipment	**1,883**	21,281
Net payments for acquisition	**(218)**	(160,372)
Payment on settlement of foreign currency forward	**—**	(6,730)
Cash provided by (used in) investing activities	**(36,871)**	(182,999)
FINANCING ACTIVITIES		
Decrease in short-term debt	**(241,377)**	(4,014)
Decrease in long-term debt	**(10,393)**	(69,153)
Issue of common shares on exercise of share options	**—**	—
Dividends paid	**(26,231)**	(24,067)
Cash flow provided by (used in) financing activities	**(278,001)**	(97,234)
Effect of currency translation on cash balances	**6,449**	(1,289)
Increase (decrease) in cash and cash equivalents	**93,125**	(20,895)
Cash and cash equivalents, beginning of period	**83,143**	135,819
Cash and cash equivalents, end of period	**$ 176,268**	$ 114,924

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 2013.

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.

L. Scott Thomson
President and Chief Executive Officer

David S. Smith
Executive Vice President and Chief Financial Officer

February 19, 2014
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, 2013, December 31, 2012, and January 1, 2012 and the consolidated statements of income, comprehensive income, shareholders' equity and cash flows for the years ended December 31, 2013 and December 31, 2012, 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, 2013, December 31, 2012 and January 1, 2012 and its financial performance and its cash flows for the years ended December 31, 2013 and December 31, 2012 in accordance with International Financial Reporting Standards.

Deloitte LLP

Chartered Accountants
February 19, 2014
Vancouver, British Columbia Canada

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(Canadian $ thousands)	December 31 2013	December 31 2012	January 1 2012
ASSETS			
Current assets			
Cash and cash equivalents (Note 21)	**$ 176,268**	$ 114,924	$ 122,745
Accounts receivable	**963,733**	876,908	862,698
Service work in progress	**101,544**	119,824	171,214
Inventories (Note 10)	**1,755,808**	1,930,114	1,442,829
Income tax recoverable	**9,086**	22,014	20,880
Other assets (Note 12)	**242,172**	253,448	157,090
Total current assets	**3,248,611**	3,317,232	2,777,456
Property, plant, and equipment (Note 15)	**668,094**	658,072	550,524
Rental equipment (Note 15)	**414,126**	408,995	402,114
Intangible assets (Note 16)	**75,881**	94,795	51,386
Distribution network (Note 17)	**320,300**	305,602	646
Goodwill (Note 18)	**114,131**	109,481	92,501
Investment in and advances to joint venture and associate (Note 13)	**77,988**	66,633	61,600
Finance assets (Note 14)	**36,065**	42,033	33,820
Deferred tax assets (Note 6)	**53,216**	59,713	81,029
Other assets (Note 12)	**49,156**	55,467	34,284
Total assets	**$ 5,057,568**	$ 5,118,023	$ 4,085,360
LIABILITIES			
Current liabilities			
Short-term debt (Note 3)	**$ 89,423**	$ 303,346	$ 334,525
Accounts payable and accruals	**1,010,747**	996,260	965,981
Income tax payable	**6,409**	16,855	12,511
Provisions (Note 19)	**93,978**	101,171	88,146
Deferred revenue	**332,040**	454,778	317,299
Derivative liabilities (Note 4)	**16,045**	14,230	23,515
Current portion of long-term debt (Note 3)	**643**	363,590	508
Total current liabilities	**1,549,285**	2,250,230	1,742,485
Long-term debt (Note 3)	**1,366,512**	1,012,214	762,571
Long-term obligations (Note 20)	**80,486**	81,555	31,528
Net employee benefit obligations (Note 23)	**144,930**	155,026	160,882
Provisions (Note 19)	**6,528**	4,164	2,897
Deferred revenue	**9,931**	26,957	22,320
Deferred tax liabilities (Note 6)	**42,132**	21,323	17,723
Total liabilities	**3,199,804**	3,551,469	2,740,406
Commitments and contingencies (Notes 28 and 29)			
SHAREHOLDERS' EQUITY			
Share capital (Note 7)	**573,165**	571,100	566,452
Contributed surplus	**40,296**	36,046	35,812
Accumulated other comprehensive income (loss)	**13,803**	(50,474)	(38,193)
Retained earnings	**1,230,500**	1,009,882	780,883
Total shareholders' equity	**1,857,764**	1,566,554	1,344,954
Total liabilities and shareholders' equity	**$ 5,057,568**	$ 5,118,023	$ 4,085,360

Approved by the Directors February 19, 2014

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)	2013	2012 (Restated Note 1t)
Revenue		
New equipment	$ 2,908,352	$ 3,077,141
Used equipment	303,282	295,449
Equipment rental	391,902	379,837
Product support	3,143,782	2,815,380
Other	8,676	7,817
Total revenue	6,755,994	6,575,624
Cost of sales	(4,675,625)	(4,608,434)
Gross profit	2,080,369	1,967,190
Selling, general, and administrative expenses	(1,555,490)	(1,490,417)
Equity earnings of joint venture and associate (Note 13)	9,296	10,124
Other income (Note 2)	120,323	58,590
Other expenses (Note 2)	(133,780)	(56,911)
Earnings before finance costs and income taxes	520,718	488,576
Finance costs (Note 3)	(90,275)	(86,470)
Income before provision for income taxes	430,443	402,106
Provision for income taxes (Note 6)	(95,188)	(75,332)
Net income	$ 335,255	$ 326,774

Earnings per share (Note 9)		
Basic	$ 1.95	$ 1.90
Diluted	$ 1.94	$ 1.90
Weighted average number of shares outstanding		
Basic	171,981,097	171,837,050
Diluted	172,403,234	172,391,121

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

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

For years ended December 31 (Canadian $ thousands)	**2013**	2012 (Restated Note 1t)
Net income	**$ 335,255**	$ 326,774
Other comprehensive income (loss), net of income tax		
Items that may be reclassified subsequently to net income:		
Foreign currency translation adjustments	**125,621**	(14,114)
Unrealized loss on net investment hedges	**(56,368)**	(905)
Income tax recovery (expense) on net investment hedges	**2,718**	(91)
Foreign currency translation and gain (loss) on net investment hedges, net of income tax	**71,971**	(15,110)
Unrealized gain (loss) on cash flow hedges	**(3,706)**	15,686
Realized loss on cash flow hedge of foreign currency risk to acquire Bucyrus	**—**	(9,492)
Realized gain on cash flow hedges, reclassified to earnings	**(5,817)**	(674)
Income tax recovery (expense) on cash flow hedges	**1,829**	(2,691)
Gain (loss) on cash flow hedges, net of income tax	**(7,694)**	2,829
Items that will not be reclassified subsequently to net income:		
Actuarial loss (Note 23)	**(13,758)**	(3,338)
Income tax recovery on actuarial loss	**1,884**	90
Actuarial loss, net of income tax	**(11,874)**	(3,248)
Total comprehensive income	**$ 387,658**	$ 311,245

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, 2012	171,573,752	$ 566,452	$ 35,812	$ (28,758)	$ (9,435)	$ 780,883	$1,344,954
Net income (restated – Note 1t)	—	—	—	—	—	326,774	326,774
Other comprehensive income (loss) (restated – Note 1t)	—	—	—	(15,110)	2,829	(3,248)	(15,529)
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	$1,566,554
Net income	**—**	**—**	**—**	**—**	**—**	**335,255**	**335,255**
Other comprehensive income (loss)	**—**	**—**	**—**	**71,971**	**(7,694)**	**(11,874)**	**52,403**
Total comprehensive income (loss)	**—**	**—**	**—**	**71,971**	**(7,694)**	**323,381**	**387,658**
Issued on exercise of share options	**104,472**	**2,065**	**(2,002)**	**—**	**—**	**—**	**63**
Share option expense	**—**	**—**	**6,252**	**—**	**—**	**—**	**6,252**
Dividends on common shares	**—**	**—**	**—**	**—**	**—**	**(102,763)**	**(102,763)**
Balance, December 31, 2013	**172,014,230**	**$ 573,165**	**$ 40,296**	**$ 28,103**	**$ (14,300)**	**$1,230,500**	**$1,857,764**

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

CONSOLIDATED STATEMENTS OF CASH FLOW

(Canadian $ thousands)	2013	2012 (Restated Note 1t)
OPERATING ACTIVITIES		
Net income	**$ 335,255**	$ 326,774
Adjusting for:		
Depreciation and amortization	**215,731**	212,502
Gain on sale of rental equipment and property, plant, and equipment	**(19,962)**	(46,395)
Gain on settlement of note receivable (Note 2b)	—	(2,373)
Equity earnings of joint venture and associate	**(9,296)**	(10,124)
Share-based payment expense	**17,045**	15,344
Provision for income taxes	**95,188**	75,332
Finance costs	**90,275**	86,470
Defined benefit and other post employment benefit expense (Note 23)	**18,239**	24,279
Other	—	1,846
Changes in operating assets and liabilities (Note 21)	**(24,991)**	(350,303)
Additions to rental equipment	**(291,396)**	(330,204)
Proceeds on disposal of rental equipment	**218,019**	237,353
Equipment leased to customers, net of disposals	**168**	53
Interest paid	**(86,403)**	(66,050)
Income tax paid	**(43,173)**	(41,479)
Cash flow provided by operating activities	**514,699**	133,025
INVESTING ACTIVITIES		
Additions to property, plant and equipment and intangible assets	**(98,532)**	(194,071)
Proceeds on disposal of property, plant and equipment	**24,514**	23,614
Proceeds from sale of Hewden Stuart (Note 2b)	**—**	28,138
Investment in associate (Note 13)	**(4,542)**	(2,784)
Net payments for acquisition (Note 22)	**(218)**	(473,814)
Payment on settlement of foreign currency forward	**—**	(6,730)
Cash used in investing activities	**(78,778)**	(625,647)
FINANCING ACTIVITIES		
Decrease in short-term debt	**(225,944)**	(30,200)
Issue of £70 million Notes, net of issue costs (Note 3)	**108,389**	—
Repayment of £70 million Eurobond (Note 3)	**(109,725)**	—
Issue of $200 million Medium Term Notes, net of issue costs (Note 3)	**198,856**	—
Repayment of $250 million Medium Term Notes (Note 3)	**(251,503)**	—
Issue of $150 million Medium Term Notes, net of issue costs (Note 3)	**—**	149,239
Issue of $500 million U.S. Notes, net of issue costs (Note 3)	**—**	496,559
Decrease in other long-term debt	**(4,330)**	(32,497)
Issue of common shares on exercise of share options	**63**	255
Dividends paid	**(102,763)**	(94,527)
Cash flow provided by (used in) financing activities	**(386,957)**	488,829
Effect of currency translation on cash balances	**12,380**	(4,028)
Increase (decrease) in cash and cash equivalents	**61,344**	(7,821)
Cash and cash equivalents, beginning of year	**114,924**	122,745
Cash and cash equivalents, end of year (Note 21)	**$ 176,268**	$ 114,924

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

1. SIGNIFICANT ACCOUNTING POLICIES

These consolidated financial statements of Finning International Inc. ("Finning" or "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 19, 2014, the date these financial statements were authorized for issuance by the Company's Board of Directors. The policies set out below were consistently applied to all 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, which includes the Finning (Canada) division and Finning's wholly owned subsidiaries. Subsidiaries are those entities over which the Company has the power over the investee, is exposed, or has rights, to variable returns from its involvement with the investee, and has the ability to use its power to affect its returns, generally accompanying a shareholding that confers more than half of the voting rights. 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).

<u>Joint Venture and Associate</u>

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

The Company has a 25% interest in PipeLine Machinery International (PLM), its joint venture, and a 27.9% interest in an associate, Energyst B.V. (Energyst). The Company accounts for its joint venture and associate in which the Company has an interest using the equity method. The joint venture and associate follow accounting policies that are materially consistent with the Company's accounting policies. Where the Company transacts with a jointly controlled entity or associate, unrealized profits or 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:

<u>Asset Lives and Residual Values</u>

Rental equipment and property, plant, and equipment are depreciated to their estimated residual value over their estimated useful lives. 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 an appropriate discount rate for these calculations, identifying the cash generating units to which the intangible assets should be allocated to, and the cash generating unit or group of cash generating units at which goodwill is monitored for internal management purposes.

Distribution Network

In 2012, the Company acquired the distribution and support business formerly operated by Bucyrus International Inc. (Bucyrus). Management concluded that the distribution network and inventory backlog comprising part of the acquisition should be recognized separately 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 shovels and drills 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 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 the basis of age, redundancy, and stock levels. For equipment inventory, estimates are determined on a specific item basis.

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 has 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 retail price inflation. 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 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(s) 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 net income, except when they relate to items that are recognized in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognized in other comprehensive income or directly in equity, respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

The 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	10 - 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.

(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 net income 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.

Sale and leaseback transactions

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) 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.

(q) 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.

(r) Employee 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's South American post employment benefit plans are not funded. 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 salary escalation rate and the use of a discount rate based on high quality corporate bond yields.

Past service costs are recognized immediately in selling, general, and administrative expenses to the extent that the benefits are already vested. Current service costs and administration costs (net of employee contributions) and net interest costs are recognized in selling, general, and administrative expenses and finance costs, respectively, in the consolidated statement of income. Net interest cost is calculated by applying the discount rate at the beginning of the period to the net defined benefit liability or asset.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions 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 reduced by the fair value of plan assets. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that have terms to maturity approximating to the terms of the related pension obligation. 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.

(s) 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. 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

<u>Classification</u>

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 net income.

<u>Derivatives</u>

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

<u>Embedded Derivatives</u>

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 net 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 net income. The accounting treatment for the types of hedges used by the Company is described below.

<u>Cash Flow Hedges</u>

The Company uses foreign exchange forward contracts and, at times may use, options to hedge the currency risk associated with certain foreign currency purchase commitments, payroll, and associated accounts payable and accounts receivable for periods up to two years in advance. The effective portion of hedging gains and losses associated with these cash flow hedges is recorded, net of tax, in other comprehensive income and 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 the consolidated statement of income as selling, general, and administrative expenses or finance costs, as appropriate.

<u>Fair Value Hedges</u>

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.

<u>Net Investment Hedges</u>

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).

(t) Change in Accounting Policy

The Company has adopted the following new and revised IFRS for the financial year beginning January 1, 2013:

- The Company has applied the amendments to IAS 19, *Employee Benefits* in the current year. The amendments 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 interest cost related to the defined benefit obligation and the expected return on assets when calculating the net interest component of pension expense. The Company previously recognized all actuarial gains and losses immediately through other comprehensive income; consequently this element of the amendments does not impact the Company. With respect to the second change, in the determination of net income, the effect is that the defined benefit plan expense concepts of "interest cost" and "expected return on plan assets" is 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, and the Company elected to present the net interest amount as a component of finance costs upon the application of the amended standard.

  As the discount rate is lower than an expected long-term rate of return on plan assets, the effect of the amended standard is 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 is included in other comprehensive income as a remeasurement.

  The Company retrospectively applied the amendments to IAS 19 to January 1, 2010, the date of IFRS adoption. With the adoption of the amendments to IAS 19 on January 1, 2013, the Company has restated the prior year comparative period consolidated statement of income, consolidated statement of cash flows, consolidated statement of comprehensive income, and consolidated statement of shareholders' equity. The impact of the amendments to IAS 19 is as follows:

($ thousands, except per share amount)		Year ended December 31, 2012
Increase in selling, general, and administrative expense	$	(7,902)
Increase in finance costs		(6,383)
Decrease in provision for income taxes		3,440
Decrease in net income	$	(10,845)
Increase in other comprehensive income, net of tax	$	10,845
Decrease in basic and diluted earnings per share	$	(0.06)

  The amendments do not affect the Company's consolidated statement of financial position. Additional disclosures are included in note 23.

- The Company has applied the amendments to IAS 1, *Presentation of Financial Statements*. The amendments require that elements of other comprehensive income that may subsequently be reclassified through net income be differentiated from those items that will not be reclassified.

- The Company has applied 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*. The new standards 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. The adoption of the new standards had no impact on the Company's financial position but enhanced disclosures are included in note 13.

- The Company has applied IFRS 13, *Fair Value Measurement*. The new standard provides guidance on fair value measurement and disclosure requirements. The adoption of this new standard had no impact on the Company's financial position but enhanced disclosures are included in note 4.

- The Company has applied the amendments to IFRS 7, *Financial Instruments: Disclosures*. The amendments require additional disclosure about offsetting financial assets and liabilities. The adoption of the amendments had no impact on the Company's financial position but enhanced disclosures are included in note 4.

(u) Future Accounting Pronouncements

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

- Amendments to IAS 32, *Financial Instruments: Presentation* (effective January 1, 2014) clarifies existing application issues relating to offsetting requirements. These amendments are not expected to have a material effect on the Company's accounting policies or financial statements.
- IFRIC 21, *Levies* (effective January 1, 2014) provides guidance on the recognition of liabilities to pay levies to government bodies in accordance with legislation. These amendments are not expected to have a significant effect on the Company's accounting policies or financial statements.
- IFRS 9, *Financial Instruments* (the IASB tentatively decided to delay the originally planned effective date of January 1, 2015 and at present the effective date has not been determined) introduces new requirements for the classification and measurement of financial assets and financial liabilities. Management is currently assessing the impact of the issued and proposed changes to IFRS 9.

2. Other Income and Other Expenses

Other income includes the following items:

For years ended December 31 ($ thousands)	**2013**	2012 (Restated)
Export of agricultural product (a)	**$ 120,323**	$ 46,505
Gain on sale of investment property	**—**	9,712
Gain on settlement of note receivable (b)	**—**	2,373
	$ 120,323	$ 58,590

Other expenses include the following items:

For years ended December 31 ($ thousands)	**2013**	2012 (Restated)
Costs of export of agricultural product (a)	**$ 123,507**	$ 49,567
Project costs (c)	**4,816**	5,144
Derecognition of Enterprise Resource Planning (ERP) system implementation costs (d)	**5,457**	—
Claim on Hewden indemnification (Note 29)	**—**	583
Acquisition costs (Note 22)	**—**	1,617
	$ 133,780	$ 56,911

(a) In response to the Argentinean government's efforts to balance imports and exports and to manage access to foreign currency exchange, the Company's South American operations began to export an agricultural product from Argentina in the third quarter of 2012. As these export activities are not related to the Company's core business, income and expenses related to these exports have been reported in other income and other expenses, and comparative figures in the statement of income have been adjusted accordingly.

(b) In the second quarter of 2012, the Company received $6.4 million as partial payment of a £20 million 5-year note receivable from the purchaser of Hewden Stuart Limited, the Company's U.K. rental equipment business that was 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.

(c) Project costs relate to the implementation of a new ERP system for the Company's global operations.

(d) Given the business needs and size of the Company's UK operations, management decided to postpone any decision on implementation of an ERP system in the UK for two to three years. This led to an accounting review and a decision to derecognize the previously capitalized costs of $5.5 million.

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

December 31 ($ thousands)	2013	2012
Short-term debt	**$ 89,423**	$ 303,346
Long-term debt:		
6.02%, $350 million, due June 1, 2018	**349,174**	348,987
3.232%, $200 million, due July 3, 2020	**198,926**	—
5.077% $150 million, due June 13, 2042	**149,147**	149,117
3.98% U.S. $100 million, due January 19, 2022, Series A	**105,888**	98,964
4.08% U.S. $100 million, due January 19, 2024, Series B	**105,805**	98,955
4.18% U.S. $50 million, due April 3, 2022, Series C	**52,975**	49,513
4.28% U.S. $50 million, due April 3, 2024, Series D	**52,967**	49,510
4.53% U.S. $200 million, due April 3, 2027, Series E	**211,829**	198,016
3.40% £70 million, due May 22, 2023, Series F	**122,875**	—
5.625% £70 million Eurobond, due May 30, 2013	—	113,172
5.16%, $250 million, due September 3, 2013	—	249,864
Other term loans (a)	**17,569**	19,706
	1,367,155	1,375,804
Less current portion of long-term debt	**(643)**	(363,590)
Total long-term debt	**$ 1,366,512**	$ 1,012,214

(a) Other term loans include €9.0 million (2012: U.S. $10.0 million and €4.0 million) of unsecured borrowings under committed bank facilities that are classified as long-term debt. Other term loans also include £2.4 million (2012: £2.8 million) of unsecured term loans primarily from supplier merchandising programs.

The Company has an unsecured syndicated committed 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 facility contains annual options to extend the maturity date on terms reflecting market conditions at the time of the extension. In September 2013, the Company negotiated a two-year extension to this facility, under which $937.5 million was extended to September 2017 from the original maturities in September 2015.

Short-Term Debt

Short-term debt comprises Canadian denominated debt of $15.6 million and foreign currency denominated debt of U.S. $52.0 million and Argentine peso 113.0 million (2012: Canadian $10.3 million, U.S. $282.3 million, Argentine peso 60.0 million).

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. As at December 31, 2013, short-term debt included commercial paper of $54.7 million (2012: $228.8 million). This commercial paper program is backstopped by credit available under the $1.0 billion committed credit facility. In addition, the Company maintains certain other committed and uncommitted bank credit facilities to support its subsidiary operations.

The average interest rate applicable to the consolidated short-term debt for 2013 was 2.0% (2012: 2.3%).

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.

In May 2013, the Company refinanced the 5.625% £70 million Eurobond, due May 30, 2013 with an issuance of unsecured Notes, 3.40% Series F, of £70 million ($108.9 million) in the U.S. private placement market. The 3.40% Notes are due May 22, 2023.

In July 2013, the Company issued unsecured 3.232% $200 million MTN, due July 3, 2020. Proceeds from this issuance were used to early redeem on July 5, 2013, the Company's 5.16% $250 million MTN due September 3, 2013. The resulting early redemption fees of approximately $1.5 million were recorded in finance costs.

In January 2012, the Company issued unsecured 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% Notes, Series A, due January 19, 2022 and the 4.08% 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 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% Notes, Series C, due April 3, 2022, the U.S. $50 million 4.28% Notes, Series D, due April 3, 2024 and the U.S. $200 million 4.53% 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.

At December 31, 2013, $13.2 million (2012: $15.2 million) was drawn on the global credit facility, including commercial paper issuances.

The average interest rate applicable to the consolidated long-term debt for 2013 was 4.8% (2012: 4.9%).

Long-Term Debt Repayments

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

($ thousands)		
2014	$	643
2015		262
2016		280
2017		13,490
2018		349,495
Thereafter		1,002,985
	$	1,367,155

Finance Costs

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

For years ended December 31 ($ thousands)		**2013**		2012 (Restated Note 1t)
Short-term debt	**$**	**9,224**	$	8,972
Long-term debt		**65,320**		62,875
Interest on debt securities		**74,544**		71,847
Gain on foreign exchange derivatives		**—**		(3,344)
Loss on interest rate derivatives		**1,137**		1,492
Net interest on pension and other post-employment benefit obligations (Note 23)		**4,825**		6,370
Other finance related expenses		**10,086**		12,754
		90,592		89,119
Less:				
Borrowing costs capitalized to property, plant, and equipment		**(317)**		(2,649)
Finance costs	**$**	**90,275**	$	86,470

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

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

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.

<u>Exposure to credit risk</u>

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

December 31 ($ thousands)	**2013**	2012
Cash and cash equivalents	**$ 176,268**	$ 114,924
Accounts receivable – trade	**896,913**	819,334
Accounts receivable – other	**66,820**	57,574
Service work in progress	**101,544**	119,824
Supplier claims receivable	**76,252**	86,264
Instalment notes receivable	**34,090**	41,681
Value Added Tax receivable	**11,009**	23,909
Cash held for customer	**19,192**	—
Derivative assets	**1,403**	7,390
Advance to associate	**613**	1,645
	$ 1,384,104	$ 1,272,545

<u>Cash and cash equivalents</u>

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.

<u>Accounts receivable, service work in progress, and other receivables</u>

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)	**2013**	2012
Canada	**$ 442,289**	$ 419,161
Chile	**245,405**	216,824
U.K.	**102,897**	92,855
Argentina	**65,483**	61,490
Bolivia	**6,585**	14,429
Europe	**8,362**	4,887
Uruguay	**10,728**	5,989
U.S.	**13,309**	2,010
Other	**1,855**	1,689
	$ 896,913	$ 819,334

Impairment losses

The aging of trade receivables at the reporting date was:

December 31	**2013**		2012	
($ thousands)	**Gross**	**Allowance**	Gross	Allowance
Not past due	**$ 619,839**	**$ 2**	$ 548,989	$ —
Past due 1 – 30 days	**156,644**	**1**	160,844	—
Past due 31 – 90 days	**80,998**	**299**	73,470	872
Past due 91 – 120 days	**8,956**	**883**	15,264	820
Past due greater than 120 days	**55,822**	**24,161**	50,464	28,005
Total	**$ 922,259**	**$ 25,346**	$ 849,031	$ 29,697

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)	**2013**	2012
Balance, beginning of year	**$ 29,697**	$ 20,737
Additional allowance	**5,849**	19,994
Receivables written off	**(10,540)**	(11,134)
Foreign exchange translation adjustment	**340**	100
Balance, end of year	**$ 25,346**	$ 29,697

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. As at December 31, 2013, the Company had approximately $1,858 million (2012: $1,785 million) of unsecured credit facilities. Including all bank and commercial paper borrowings drawn against these facilities, approximately $1,587 million (2012: $1,223 million) of capacity remained available, of which approximately $922 million (2012: $743 million) is committed credit facility capacity. The Company believes that it has good 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, 2013**	**2014**	**2015-2016**	**2017-2018**	**Thereafter**
Non-derivative financial liabilities					
Short-term debt	**$ (89,423)**	$ **(94,280)**	$ —	$ —	$ —
Unsecured $700 million MTN	**(697,247)**	**(35,150)**	**(70,300)**	**(409,736)**	**(541,892)**
U.S. $500 million Notes	**(529,464)**	**(22,707)**	**(45,414)**	**(45,414)**	**(672,690)**
£70 million Notes	**(122,875)**	**(4,195)**	**(8,390)**	**(8,390)**	**(142,268)**
Unsecured bank facilities	**(13,190)**	**(158)**	**(316)**	**(13,308)**	—
Other term loans	**(4,379)**	**(915)**	**(1,006)**	**(1,006)**	**(3,061)**
Finance lease obligations	**(21,400)**	**(3,663)**	**(6,493)**	**(6,030)**	**(16,142)**
Accounts payable and accruals (excluding current portion of finance lease obligations)	**(1,007,817)**	**(1,007,817)**	—	—	—
Total non-derivative financial liabilities	**$ (2,485,795)**	**$ (1,168,885)**	**$ (131,919)**	**$ (483,884)**	**$ (1,376,053)**
Derivatives					
Forward foreign currency contracts and swaps					
Sell CAD	**$ —**	**$ (61,633)**	**$ —**	**$ —**	**$ —**
Buy USD	**935**	**62,479**	—	—	—
Sell CLP	—	**(56,928)**	—	—	—
Buy USD	**(400)**	**56,371**	—	—	—
Sell CLP	—	**(3,199)**	—	—	—
Buy USD	**2**	**3,191**	—	—	—
Sell USD	**(3,972)**	**(104,233)**	—	—	—
Buy CLP	—	**102,248**	—	—	—
Sell USD	**466**	**(10,636)**	**(25,526)**	—	—
Buy CLP	—	**11,022**	**27,488**	—	—
Share forward					
Sell	**(11,673)**	**(11,673)**	—	—	—
Buy	—	—	—	—	—
Total derivatives	**$ (14,642)**	**$ (12,991)**	**$ 1,962**	**$ —**	**$ —**

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 derivative financial instruments and foreign currency debt in order to manage market risks. All such transactions are carried out within the guidelines set by the Company and approved by the Company's Audit Committee.

Foreign exchange risk

The Company is geographically diversified, with significant investments in several different countries. The Company transacts business in multiple currencies, the most significant of which are the USD, CAD, the U.K. pound sterling (GBP), and 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 CAD. Therefore, exchange rate movements in the USD and GBP relative to the CAD will impact the consolidated results of the South American and UK and Ireland operations in CAD terms. The results of the Company's South American operations are affected by changes in the USD/CLP and USD/Argentinean peso (ARS) relationships. 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.

Foreign denominated net asset or net liability positions may exist on an operation's statement of financial position. The Company does not fully hedge balance sheet exposures so this may result in unrealized foreign exchange gains or losses until the position is settled.

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. For example, the Company's Canadian operating results are exposed to volatility in foreign exchange rates (USD/CAD) between the timing of equipment and parts purchases and the ultimate sale to customers. A portion of this exposure is hedged through the use of forward exchange contracts as well as managed through pricing practices. 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 some 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, 2013 (thousands)	**CAD**	**USD**	**GBP**	**CLP**	**ARS**
Cash and cash equivalents	**15,050**	**60,648**	**19,290**	**23,403,290**	**35,255**
Accounts receivable	**416,425**	**114,805**	**60,082**	**121,043,337**	**—**
Short-term and long-term debt	**(712,895)**	**(549,832)**	**(72,152)**	**—**	**(113,016)**
Accounts payable and accruals	**(370,313)**	**(225,918)**	**(62,523)**	**(111,301,141)**	**(268,931)**
Net statement of financial position exposure	**(651,733)**	**(600,297)**	**(55,303)**	**33,145,486**	**(346,692)**
Foreign exchange forward contracts and swaps	**(61,632)**	**(17,257)**	**—**	**(39,769,760)**	**—**

December 31, 2012 (thousands)	CAD	USD	GBP	CLP	ARS
Cash and cash equivalents	33,308	19,403	1,100	23,403,252	35,366
Accounts receivable	400,598	148,594	56,916	83,560,264	—
Short-term and long-term debt	(758,259)	(789,787)	(72,742)	—	(60,000)
Accounts payable and accruals	(284,548)	(423,664)	(66,067)	(64,158,608)	(130,240)
Net statement of financial position exposure	(608,901)	(1,045,454)	(80,793)	42,804,908	(154,874)
Foreign exchange forward contracts and swaps	(42,547)	55,744	—	(1,869,980)	—

Sensitivity analysis

As a result of foreign exchange losses (gains) on the translation of foreign currency denominated financial instruments, a 5% strengthening of the Canadian dollar against the following currencies 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.

	2013		2012	
December 31 ($ thousands)	**Net Income**	**Other Comprehensive Income**	Net Income	Other Comprehensive Income
CAD/USD	**$ 2**	**$ (34,991)**	$ (2,976)	$ (39,816)
CAD/GBP	**$ (16)**	**$ (6,144)**	$ (174)	$ (5,659)
CAD/CLP	**$ 3,359**	**$ —**	$ 4,450	$ —
CAD/ARS	**$ (2,827)**	**$ —**	$ (1,567)	$ —

A 5% weakening of the Canadian dollar against the above currencies relative to the December 31, 2013 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 contract (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 changes in 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)**	**2013**	2012
Fixed rate instruments		
Financial assets	**$ 34,090**	$ 41,681
Financial liabilities	**(1,370,986)**	(1,376,336)
Variable rate instruments		
Financial assets	**$ 176,881**	$ 116,568
Financial liabilities	**(118,594)**	(337,211)

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 $0.6 million (2012: decrease to net income of approximately $1.5 million) with a 1.0% decrease having the opposite effect. This analysis assumes that all other variables, in particular foreign currency exchange rates, remain constant.

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 construction 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, coal, oil and gas, and construction and forestry sectors 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.

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, 2013 and 2012, the VRSF relates to 1.5 million common shares at an execution price of $28.71 per share plus interest maturing in 2014. A 5% strengthening in the Company's share price as at December 31, 2013, all other variables remaining constant, would have increased pre-tax income by approximately $2.0 million (2012: approximately $1.8 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, 2013 ($ thousands)	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial assets at fair value				
Foreign currency forward contracts	**$ —**	**$ 1,403**	**$ —**	**$ 1,403**
Total	**$ —**	**$ 1,403**	**$ —**	**$ 1,403**
Financial liabilities at fair value				
Foreign currency forward contracts	**$ —**	**$ (4,372)**	**$ —**	**$ (4,372)**
Variable rate share forward contract	**—**	**(11,673)**	**—**	**(11,673)**
Total	**$ —**	**$ (16,045)**	**$ —**	**$ (16,045)**

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

The Company did not move any instruments between levels of the fair value hierarchy during the years ended December 31, 2013 and 2012.

Variable rate share forward contract (Level 2)

The fair value of the VRSF is determined based on the present value of future cash flows required to settle the VRSF which are derived from the current share price, actual interest accrued to date and future estimated interest cost to termination of the VRSF. 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 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 the 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:

December 31, 2013 Foreign Exchange (thousands)	**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**	**58,743**	**1-12 months**	**$**	**935**
Forwards buy USD / sell CLP	**Derivative assets – current**	**USD**	**3,000**	**1-12 months**	**$**	**2**
Forwards buy USD / sell CLP	**Derivative liabilities – current**	**USD**	**53,000**	**1-12 months**	**$**	**(400)**
Forwards sell USD / buy CLP	**Derivative assets – current**	**USD**	**10,000**	**1-12 months**	**$**	**60**
Forwards sell USD / buy CLP	**Derivative assets – non current**	**USD**	**24,000**	**13-24 months**	**$**	**406**
Forwards sell USD / buy CLP	**Derivative liabilities – current**	**USD**	**98,000**	**1-12 months**	**$**	**(3,972)**
Long-Term Incentive Plans						
Variable Rate Share Forward Contract	**Derivative liabilities – current**	**CAD**	**43,065**	**11 months**	**$**	**(11,673)**

December 31, 2012 Foreign Exchange (thousands)	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 Contract	Derivative liabilities – current	CAD	43,065	11 months	$	(14,159)

LONG-TERM DEBT

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

December 31	**2013**		2012	
($ thousands)	**Carrying Amount**	**Fair Value**	Carrying Amount	Fair Value
Long-term debt	**$ 1,367,155**	**$ 1,376,578**	$ 1,375,804	$ 1,479,889

The fair value of the Company's long-term debt is based on the present value of future cash flows required to settle the debt which is derived from the actual interest accrued to date. The present value of future cash flows is discounted using the yield to maturity rate as at December 31. This technique utilizes a combination of quoted prices and market observable inputs (Level 2).

OFFSETTING FINANCIAL ASSETS AND FINANCIAL LIABILITIES

For the financial assets and liabilities subject to enforceable master netting arrangements or similar arrangements, each agreement between the Company and the counterparty allows for the net settlement of the relevant financial assets and liabilities when both elect to settle on a net basis.

Financial assets

The following financial assets are subject to offsetting, enforceable master netting arrangements and similar agreements.

December 31	2013			2012		
($ thousands)	Gross amounts of financial assets	Gross amounts of offsetting financial liabilities	Net financial assets	Gross amounts of financial assets	Gross amounts of offsetting financial liabilities	Net financial assets
Derivative financial assets	**$ 1,431**	**$ (28)**	**$ 1,403**	$ 7,390	$ —	$ 7,390
Total	**$ 1,431**	**$ (28)**	**$ 1,403**	$ 7,390	$ —	$ 7,390

Financial liabilities

There were no financial liabilities offset by financial assets at December 31, 2013 or December 31, 2012.

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 cash and cash equivalents, short-term debt and long-term debt, and shareholders' equity in the definition of capital.

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

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

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 help to support access to capital at a reasonable cost.

As at and for years ended December 31 ($ thousands, except as noted)	**Company Targets**	**2013**	2012
Components of net debt to invested capital			
Cash and cash equivalents		**$ (176,268)**	$ (114,924)
Short-term debt		**89,423**	303,346
Current portion of long-term debt		**643**	363,590
Long-term debt		**1,366,512**	1,012,214
Net debt		**1,280,310**	1,564,226
Shareholders' equity		**1,857,764**	1,566,554
Invested capital		**$ 3,138,074**	$ 3,130,780
Net debt to invested capital	**35 – 45%**	**40.8%**	50.0%
Dividend payout ratio (restated – Note 1t)	**25 – 35%**	**31.3%**	29.5%

Net debt to invested capital in 2012 was temporarily above the Company's target range of 35-45%, and reflected 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 invested capital level of 62.5% pursuant to a covenant within its syndicated bank credit facility. As at December 31, 2013 and 2012, 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, 2013 ($ thousands)		**Canada**		**International**		**Total**
Provision for income taxes						
Current	**$**	**32,300**	**$**	**36,651**	**$**	**68,951**
Adjustment for prior periods recognized in the current year		**(4,008)**		**(686)**		**(4,694)**
Total current tax		**28,292**		**35,965**		**64,257**
Deferred						
Origination and reversal of timing differences		**3,951**		**24,003**		**27,954**
Increase due to tax rate changes		**17**		**27**		**44**
Adjustment for prior periods recognized in the current year		**3,776**		**(843)**		**2,933**
Total deferred tax		**7,744**		**23,187**		**30,931**
Provision for income taxes	**$**	**36,036**	**$**	**59,152**	**$**	**95,188**

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)
Total current tax		31,981		26,437		58,418
Deferred						
Origination and reversal of timing differences		(2,549)		18,377		15,828
Decrease due to tax rate changes		(13)		(2,152)		(2,165)
Adjustment for prior periods recognized in the current year		2,302		949		3,251
Total deferred tax		(260)		17,174		16,914
Provision for income taxes	$	31,721	$	43,611	$	75,332

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)		**2013**			2012	
Combined Canadian federal and provincial income taxes at the statutory tax rate	**$**	**108,859**	**25.29%**	$	100,888	25.09%
Increase (decrease) resulting from:						
Lower statutory rates on the earnings of foreign subsidiaries		**(16,158)**	**(3.75)%**		(13,472)	(3.35)%
Income not subject to tax		**(10,250)**	**(2.38)%**		(9,903)	(2.46)%
Changes in statutory tax rates		**39**	**0.01%**		(2,162)	(0.54)%
Non-deductible share-based payment expense		**1,163**	**0.27%**		785	0.20%
Non-taxable capital gain		**(5,992)**	**(1.39)%**		(4,257)	(1.06)%
Unrecognized intercompany profits		**1,925**	**0.45%**		(2,559)	(0.64)%
Non-taxable/non-deductible foreign exchange in Argentina		**14,668**	**3.60%**		5,970	1.48%
Other		**934**	**0.01%**		42	0.01%
Provision for income taxes	**$**	**95,188**	**22.11%**	$	75,332	18.73%

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

- The British Columbia provincial corporate income tax rate increased by 1% effective April 1, 2013.
- The U.K.'s corporate income tax rate decreased from 24% to 23% effective April 1, 2013. The rate will further decrease to 21% effective April 1, 2014, and to 20% effective April 1, 2015.

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)		**2013**		2012
Deferred tax assets:				
Accounting provisions not currently deductible for tax purposes	**$**	**50,675**	$	54,338
Employee benefits		**26,180**		31,682
Share-based payments		**7,151**		6,448
Loss carry-forwards		**1,767**		957
		85,773		93,425
Deferred tax liabilities:				
Property, plant and equipment, rental, leased, and other intangible assets		**(41,370)**		(35,050)
Distribution network		**(33,187)**		(16,022)
Other		**(132)**		(3,963)
		(74,689)		(55,035)
Net deferred tax asset	**$**	**11,084**	$	38,390

Deferred taxes are not recognized on retained profits of approximately $1,211 million (2012: $990 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)		**2013**		2012
International	**$**	**8,798**	$	3,885
	$	**8,798**	$	3,885

As at December 31, 2013, the Company has unrecognized net operating losses and capital loss carry-forwards of $4 million and $209 million, respectively, to reduce future taxable income. These amounts do not expire.

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

For years ended December 31 ($ thousands)		**2013**		2012
Current tax	**$**	**(4,367)**	$	806
Deferred tax		**(2,064)**		1,886
Tax expense (recovery) recognized in other comprehensive income	**$**	**(6,431)**	$	2,692

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, 2013 and 2012.

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

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

The 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 Company intends to seek shareholder approval at its 2014 Annual Meeting to extend the rights plan for three years such that it will automatically terminate at the end of the Company’s Annual Meeting in 2017.

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

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

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 2013 and 2012, 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, 2013, 0.9 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:

For years ended December 31	2013 Options	2013 Weighted Average Exercise Price	2012 Options	2012 Weighted Average Exercise Price
Options outstanding, beginning of year	**5,060,053**	**$ 25.53**	5,410,606	$ 24.47
Granted	**1,536,900**	**$ 22.64**	790,040	$ 25.46
Exercised[1]	**(420,419)**	**$ 18.67**	(952,253)	$ 18.54
Forfeited	**(491,764)**	**$ 29.30**	(188,340)	$ 30.28
Options outstanding, end of year	**5,684,770**	**$ 24.93**	5,060,053	$ 25.53
Exercisable at period end	**3,548,564**	**$ 25.67**	3,786,730	$ 25.69

(1) Share options exercised in 2013 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. 420,419 options were exercised in 2013 under the 2005 Stock Option Plan resulting in 104,472 common shares issued; 315,947 options were withheld and returned to the option pool for future issues/grants.

In 2013, the Company granted 1,536,900 common share options to senior executives and management of the Company (2012: 790,040 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:

	2013 Grant	2012 Grant
Dividend yield	**2.26 %**	2.06%
Expected volatility [1]	**36.78 %**	36.56%
Risk-free interest rate	**1.55 %**	1.51%
Expected life	**5.65 years**	5.56 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 $6.47 (2012: $7.34).

The following table summarizes information about share options outstanding at December 31, 2013:

	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 - $18.59	**1,041,930**	**2.81 years**	**$ 15.83**	**1,041,930**	**$ 15.83**
$18.60 - $25.52	**2,054,354**	**6.03 years**	**$ 23.36**	**244,650**	**$ 25.45**
$25.53 - $29.06	**620,786**	**5.10 years**	**$ 27.61**	**294,284**	**$ 28.25**
$29.07 - $30.72	**1,215,900**	**1.37 years**	**$ 29.83**	**1,215,900**	**$ 29.83**
$30.73 - $31.67	**751,800**	**0.37 years**	**$ 31.66**	**751,800**	**$ 31.66**
	5,684,770	**3.60 years**	**$ 24.93**	**3,548,564**	**$ 25.67**

Other Share-Based Compensation Plans

The Company has other share-based compensation plans in the form of deferred share units and performance share units 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 36,958 share units in 2013 (2012: 26,866 share units), which were granted to the Directors and expensed over the calendar year as the units are issued. An additional 7,106 (2012: 3,898) DDSUs were issued in lieu of cash compensation payable for service as a Director. A further 7,344 (2012: 5,453) DDSUs were granted to Directors during 2013 as payment for notional dividends.

Executive

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 31st 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 9,043 share units were awarded to Executives of the Company in 2013 (2012: 21,331 units).These units will vest in two years from the grant date and will be expensed over the vesting period (2012: vest evenly over a five year period from the date they were granted). A further 6,054 (2012: 5,363) DSU-Bs were granted to Executives during 2013 as payment for notional dividends.

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 share units anticipated to vest based upon the Company's forecast three-year average return on equity.

Executives of the Company were granted a total of 456,830 performance share units in 2013, based on 100% vesting (2012: 288,540 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
Below Threshold	< 15%	Nil
Threshold	15%	50%
Target	18%	100%
Maximum	22% or more	200%

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, 2013 **Units**	**DSU-B**	**DDSU**	**PSU**	**Total**
Outstanding, beginning of year	**252,665**	**265,531**	**983,640**	**1,501,836**
Additions	**15,097**	**51,408**	**427,571**	**494,076**
Exercised	**—**	**—**	**(345,555)**	**(345,555)**
Forfeited	**—**	**—**	**(57,984)**	**(57,984)**
Outstanding, end of year	**267,762**	**316,939**	**1,007,672**	**1,592,373**
Vested, beginning of year	**231,334**	**265,531**	**—**	**496,865**
Vested	**10,321**	**51,408**	**345,555**	**407,284**
Exercised	**—**	**—**	**(345,555)**	**(345,555)**
Vested, end of year	**241,655**	**316,939**	**—**	**558,594**
Liability ($ thousands)				
Balance, beginning of year	**$ 4,941**	**$ 5,716**	**$ 10,048**	**$ 20,705**
Expense	**867**	**1,858**	**11,844**	**14,569**
Exercised	**—**	**—**	**(8,532)**	**(8,532)**
Forfeited	**—**	**—**	**(1,290)**	**(1,290)**
Balance, end of year	**$ 5,808**	**$ 7,574**	**$ 12,070**	**$ 25,452**

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

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

December 31, 2013	**DSU-B**	**DDSU**	**PSU**
Dividend yield	**2.08%**	**2.43%**	**2.23%**
Expected volatility	**33.85%**	**36.02%**	**30.34%**
Risk-free interest rate	**2.32%**	**1.94%**	**1.20%**
Expected life	**7.77 years**	**5.25 years**	**3.00 years**
Share price at December 31, 2013	**$ 27.15**	**$ 27.15**	**$ 27.15**
Estimated fair value per unit at year-end	**$ 23.10**	**$ 23.90**	**$ 25.39**

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

Summary – Impact of Share-based Payment Plans

For years ended December 31 ($ thousands)	**2013**	2012
Consolidated statement of income		
Compensation expense arising from equity-settled share option incentive plan	**$ 6,252**	$ 4,627
Compensation expense arising from cash-settled share based payments	**13,279**	13,052
Impact of variable rate share forward contract	**(2,486)**	(2,335)
	$ 17,045	$ 15,344
Consolidated statement of financial position		
Non-current liability for cash-settled share-based payments (to be incurred within 1-5 years) (Note 20)	**$ 17,182**	$ 14,646
Variable rate share forward liability (Note 4)	**$ 11,673**	$ 14,159

The total intrinsic value of vested but not settled share-based payments was $15.2 million (2012: 12.2 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 potentially dilutive common shares, which comprise share options granted to employees.

For years ended December 31 ($ thousands, except share and per share amounts)				
2013		**Income**	**Shares**	**Per Share**
Basic EPS:				
Net income	**$**	**335,255**	**171,981,097**	**$ 1.95**
Effect of dilutive securities: share options		—	**422,137**	—
Diluted EPS:				
Net income and assumed conversions	**$**	**335,255**	**172,403,234**	**$ 1.94**
2012 (Restated Note 1t)				
Basic EPS:				
Net income	$	326,774	171,837,050	$ 1.90
Effect of dilutive securities: share options		—	554,071	—
Diluted EPS:				
Net income and assumed conversions	$	326,774	172,391,121	$ 1.90

Share options granted to employees of 3.3 million (2012: 3.6 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)	**2013**	2012
On-hand equipment	**$ 856,248**	$ 1,069,008
Parts and supplies	**722,193**	702,369
Internal service work in progress	**177,367**	158,737
	$ 1,755,808	$ 1,930,114

For the year ended December 31, 2013, on-hand equipment, parts, supplies, and internal service work in progress recognized as an expense in cost of sales amounted to $4,324.5 million (2012: $4,286.2 million). For the year ended December 31, 2013, the write-down of inventories to net realizable value, included in cost of sales, amounted to $41.5 million (2012: $30.4 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 summarized below:

December 31 ($ thousands)		2013		2012
Aggregate of contract costs for contracts in progress	**$**	**128,741**	$	95,409
Aggregate of profits for contracts in progress	**$**	**13,849**	$	9,587
Advances from customers under construction contracts	**$**	**(20,252)**	$	(13,659)
Amounts due from customers under construction contracts	**$**	**16,287**	$	19,476
Amounts due to customers under construction contracts	**$**	**(2,113)**	$	(2,696)
Retentions held by customers for contract work	**$**	**2,179**	$	2,190

For the year ended December 31, 2013, the amount of contract revenue recognized in the year was $100.3 million (2012: $106.2 million).

12. Other Assets

December 31 ($ thousands)		2013		2012
Other assets – current:				
Supplier claims receivable	**$**	**76,252**	$	86,264
Equipment deposits		**52,693**		53,936
Prepaid expenses		**36,450**		31,491
Current portion of finance assets (Note 14)		**28,661**		35,946
Value Added Tax receivable		**11,009**		23,909
Derivative assets (Note 4)		**997**		7,390
Indemnification asset (Note 22)		**5,599**		5,484
Cash held for customer		**19,192**		—
Other		**11,319**		9,028
	$	**242,172**	$	253,448
Other assets – long-term:				
Indemnification asset (Note 22)		**43,251**		48,048
Derivative assets (Note 4)		**406**		—
Other		**5,499**		7,419
	$	**49,156**	$	55,467

13. JOINT VENTURE AND ASSOCIATE

The Company has an interest in a joint venture and an investment in an associate. The Company accounts for its investments in the joint venture and associate using the equity method of accounting.

Nature of relationship

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

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

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

December 31 ($ thousands)		**Principal place of business/country of incorporation**	**Proportion of Ownership Interest Held**	
Name of Venture	**Type of Venture**		**2013**	2012
PLM	Jointly Controlled Entity	United States	25.0%	25.0%
Energyst	Associate	Netherlands	27.9%	27.3%

In February 2013, the Company increased its interest in Energyst by 21,267 shares for cash of $4.5 million (€3.4 million). As a result, the Company's equity interest in Energyst increased to 27.9% from 27.3%. In 2012, the Company increased its investment in Energyst by $2.8 million (€2.2 million).

Information of joint venture and associate that are not considered individually material to the Company:

For year ended December 31, 2013 ($ thousands)	**Energyst B.V.**	**PipeLine Machinery**	**Total**
Company's share of profit (loss)	**$ (377)**	**$ 9,673**	**$ 9,296**
Company's share of other comprehensive income	**—**	**3,310**	**3,310**
Company's share of total comprehensive income	**(377)**	**12,983**	**12,606**
Carrying amount of the Company's interests in this associate and joint venture	**$ 29,328**	**$ 48,660**	**$ 77,988**

For year ended December 31, 2012 ($ thousands)	Energyst B.V.	PipeLine Machinery	Total
Company's share of profit	$ 1,041	$ 9,083	$ 10,124
Company's share of other comprehensive income	—	(767)	(767)
Company's share of total comprehensive income	1,041	8,316	9,357
Carrying amount of the Company's interests in this associate and joint venture[(a)]	$ 23,311	$ 43,322	$ 66,633

(a) Included in the investment in associate is an advance of $0.6 million (2012: $1.6 million) to Energyst, bearing interest at 6.5% + 3 month Eurobor, and due April 30, 2014.

14. Finance Assets

December 31 ($ thousands)	2013	2012
Instalment notes receivable	**$ 34,090**	$ 41,681
Equipment leased to customers	**72,013**	65,366
Less accumulated depreciation	**(41,377)**	(29,068)
	30,636	36,298
Total finance assets	**64,726**	77,979
Less current portion of instalment notes receivable	**(28,661)**	(35,946)
	$ 36,065	$ 42,033

Depreciation of equipment leased to customers for the year ended December 31, 2013 was $14.8 million (2012: $14.3 million).

December 31 ($ thousands)	2013	2012
Instalment notes receivable:		
Gross investment	**$ 39,058**	$ 46,705
Less: unearned finance income	**(4,968)**	(5,024)
Present value of minimum lease payments receivable	**$ 34,090**	$ 41,681
Receivable as follows:		
Present value		
Within one year	**$ 28,661**	$ 35,946
After more than one year	**5,429**	5,735
	$ 34,090	$ 41,681
Minimum lease payments:		
Within one year	**31,248**	38,642
After more than one year	**7,810**	8,063
Less unearned finance income	**(4,968)**	(5,024)
	$ 34,090	$ 41,681

15. Property, Plant and Equipment and Rental Equipment

December 31, 2013 ($ thousands)	Land	Buildings	Vehicles and Equipment	Total	Rental Equipment
Cost					
Balance, beginning of year	$ 63,687	$ 596,587	$ 339,885	$ 1,000,159	$ 674,188
Additions	1,388	41,138	34,638	77,164	267,127
Transfers from inventory / rental equipment	—	—	5,096	5,096	24,269
Disposals	(485)	(17,083)	(67,677)	(85,245)	(292,526)
Foreign exchange rate changes	2,950	15,760	12,695	31,405	21,463
Balance, end of year	$ 67,540	$ 636,402	$ 324,637	$ 1,028,579	$ 694,521

December 31, 2013 ($ thousands)	Land	Buildings	Vehicles and Equipment	Total	Rental Equipment
Accumulated depreciation					
Balance, beginning of year	$ —	$ (134,859)	$ (207,228)	$ (342,087)	$ (265,193)
Depreciation for the year	—	(23,146)	(37,931)	(61,077)	(111,360)
Disposals	—	2,950	51,338	54,288	106,111
Foreign exchange rate changes	—	(4,784)	(6,825)	(11,609)	(9,953)
Balance, end of year	$ —	$ (159,839)	$ (200,646)	$ (360,485)	$ (280,395)

($ thousands)	Land	Buildings	Vehicles and Equipment	Total	Rental Equipment
Net book value					
January 1, 2013	$ 63,687	$ 461,728	$ 132,657	$ 658,072	$ 408,995
December 31, 2013	$ 67,540	$ 476,563	$ 123,991	$ 668,094	$ 414,126

Land, buildings, and equipment under finance leases of $11.0 million (2012: $11.6 million), which are net of accumulated depreciation of $4.2 million (2012: $3.7 million), are included above, of which $0.5 million (2012: $2.4 million) was acquired during the year.

Rental equipment under finance leases of $1.8 million (2012: $2.4 million), which are net of accumulated depreciation of $12.9 million (2012: $10.9 million), are included above. No rental equipment under finance leases was acquired during the year (2012: $0.1 million).

Borrowing costs capitalized into property, plant and equipment for the year ended December 31, 2013 were $0.3 million (2012: $2.6 million). The average rate used for capitalization of borrowing costs was 4.2% (2012: 4.5%).

Included in property, plant and equipment are assets under construction with a net book value of $27.9 million (2012: $26.6 million). No depreciation has been recognized on these assets. Depreciation begins when assets are available for use.

December 31, 2012 ($ thousands)	Land	Buildings	Vehicles and Equipment	Total	Rental Equipment
Cost					
Balance, beginning of year	$ 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)
Balance, end of year	$ 63,687	$ 596,587	$ 339,885	$ 1,000,159	$ 674,188

December 31, 2012 ($ thousands)	Land	Buildings	Vehicles and Equipment	Total	Rental Equipment
Accumulated depreciation					
Balance, beginning of year	$ —	$ (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)
Balance, end of year	$ —	$ (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

16. Intangible Assets

December 31, 2013 ($ thousands)	Contracts, customer relationships, and inventory backlog	Software	Total
Cost			
Balance, beginning of year	**$ 67,409**	**$ 75,491**	**$ 142,900**
Additions	**5,923**	**5,116**	**11,039**
Disposals	**—**	**(930)**	**(930)**
Derecognized (Note 2d)	**—**	**(5,457)**	**(5,457)**
Foreign exchange rate changes	**3,897**	**1,803**	**5,700**
Balance, end of year	**$ 77,229**	**$ 76,023**	**$ 153,252**

December 31, 2013 ($ thousands)	Contracts, customer relationships, and inventory backlog	Software	Total
Accumulated depreciation			
Balance, beginning of year	**$ (21,032)**	**$ (27,073)**	**$ (48,105)**
Depreciation for the year	**(17,498)**	**(11,032)**	**(28,530)**
Disposals	**—**	**881**	**881**
Foreign exchange rate changes	**(1,240)**	**(377)**	**(1,617)**
Balance, end of year	**$ (39,770)**	**$ (37,601)**	**$ (77,371)**

($ thousands)	Contracts, customer relationships, and inventory backlog	Software	Total
Net book value			
January 1, 2013	**$ 46,377**	**$ 48,418**	**$ 94,795**
December 31, 2013	**$ 37,459**	**$ 38,422**	**$ 75,881**

There were no borrowing costs capitalized into intangible assets for the years ended December 31, 2013 and 2012.

December 31, 2012 ($ thousands)	Contracts, customer relationships, and inventory backlog	Software	Total
Cost			
Balance, beginning of year	$ 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)
Balance, end of year	$ 67,409	$ 75,491	$ 142,900

December 31, 2012 ($ thousands)	Contracts, customer relationships, and inventory backlog	Software	Total
Accumulated depreciation			
Balance, beginning of year	$ (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
Balance, end of year	$ (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

17. DISTRIBUTION NETWORK

The change in the carrying amount of distribution network is as follows:

December 31, 2013 ($ thousands)	**Canada**	**South America**	**UK & Ireland**	**Consolidated**
Balance, beginning of year	**$ 94,224**	**$ 208,890**	**$ 2,488**	**$ 305,602**
Foreign exchange rate changes	**—**	**14,424**	**274**	**14,698**
Balance, end of year	**$ 94,224**	**$ 223,314**	**$ 2,762**	**$ 320,300**

December 31, 2012 ($ thousands)	Canada	South America	UK & Ireland	Consolidated
Balance, beginning of year	$ 646	$ —	$ —	$ 646
Acquired (a)	93,578	207,672	2,519	303,769
Foreign exchange rate changes	—	1,218	(31)	1,187
Balance, end of year	$ 94,224	$ 208,890	$ 2,488	$ 305,602

(a) 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, 2013 ($ thousands)	**Canada**	**South America**	**UK & Ireland**	**Consolidated**
Balance, beginning of year	**$ 50,728**	**$ 29,898**	**$ 28,855**	**$ 109,481**
Foreign exchange rate changes	**—**	**2,065**	**2,585**	**4,650**
Balance, end of year	**$ 50,728**	**$ 31,963**	**$ 31,440**	**$ 114,131**

December 31, 2012 ($ thousands)	Canada	South America	UK & Ireland	Consolidated
Balance, 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
Balance, end of year	$ 50,728	$ 29,898	$ 28,855	$ 109,481

Goodwill has been allocated for impairment testing purposes to the following cash-generating units: Canada, OEM, Chile, Argentina, Bolivia, and UK & Ireland. Included in goodwill is $49.7 million relating to the Canada cash generating unit (2012: $49.7 million) and $23.5 million relating to the Argentina cash generating unit (2012: $22.0 million).

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

The cash flow projection key assumptions are based upon the Company's approved financial budgets, which span a three-year period and are discounted using a weighted average cost of capital. For 2013 annual impairment testing valuation purposes, the cash flows subsequent to the three-year projection period are extrapolated using growth rates ranging from 0.8% to 4.1%. These growth rates are based on estimated long-term real gross domestic product and inflation (where appropriate) in the markets in which the Company operates.

Sensitivity testing was conducted as part of the 2013 annual impairment test, including stress testing the weighted average cost of capital with all other assumptions being held constant. The recoverable amount of the Argentina group of cash generating units exceeds the carrying amount using a discount rate of 13.7% per annum and a 4.1% growth rate per annum for cash flows beyond that three-year period. Using a discount rate of 14.0%, 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. If future events were to adversely differ from management's best estimate, key assumptions and associated cash flows could be materially adversely affected and the Company could potentially experience future material impairment charges in respect of the intangibles with indefinite lives and goodwill.

19. Provisions

For year ended December 31, 2013 ($ thousands)	**Warranty Claims**	**Other**	**Total**
Balance, beginning of year	**$ 87,302**	**$ 18,033**	**$ 105,335**
New provisions	**173,469**	**18,675**	**192,144**
Charges against provisions	**(183,189)**	**(17,738)**	**(200,927)**
Foreign exchange rate changes	**2,638**	**1,316**	**3,954**
Balance, end of year	**$ 80,220**	**$ 20,286**	**$ 100,506**
Current portion	**$ 80,220**	**$ 13,758**	**$ 93,978**
Long-term portion	**$ —**	**$ 6,528**	**$ 6,528**

For year ended December 31, 2012 ($ thousands)	Warranty Claims	Other	Total
Balance, beginning of year	$ 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)
Balance, end of year	$ 87,302	$ 18,033	$ 105,335
Current portion	$ 87,302	$ 13,869	$ 101,171
Long-term portion	$ —	$ 4,164	$ 4,164

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 and lawsuits.

20. Long-Term Obligations

December 31 ($ thousands)	**2013**	2012
Share-based payments (Note 8)	**$ 17,182**	$ 14,646
Finance leasing obligations (a) (Note 27)	**18,470**	17,850
Liability for long-term contracts (Note 22)	**43,251**	48,048
Other	**1,583**	1,011
	$ 80,486	$ 81,555

(a) Finance leases were issued at varying rates of interest from 0.7% - 10.0% 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)		2013		2012 (Restated Note 1t)
Accounts receivable and other assets	**$**	**(23,601)**	$	(74,144)
Service work in progress		**21,811**		51,089
Inventories – on-hand equipment		**236,097**		(288,139)
Inventories – parts and supplies		**181**		(80,561)
Accounts payable and accruals and other liabilities		**(255,884)**		65,673
Income tax recoverable/payable		**(13,497)**		(14,821)
Other		**9,902**		(9,400)
Changes in operating assets and liabilities	**$**	**(24,991)**	$	(350,303)

Components of cash and cash equivalents

December 31 ($ thousands)		2013		2012
Cash	**$**	**175,728**	$	112,132
Short-term investments		**540**		2,792
Cash and cash equivalents	**$**	**176,268**	$	114,924

Dividends of $0.5975 (2012: $0.55) per share were paid during the year. Subsequent to year end, in February 2014, the Board of Directors approved a quarterly dividend of $0.1525 per share payable on March 20, 2014 to shareholders of record on March 6, 2014. This dividend will be considered an eligible dividend for Canadian income tax purposes. As at December 31, 2013, the Company has not recognized a liability for this dividend.

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 was 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 were approximately $5.9 million. In 2012, $0.9 million was recorded in other expenses and $5.2 million of acquisition costs were paid. 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 was 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 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 was 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 was 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 were measured at fair value by using management's best estimate, at the acquisition date, of the difference between market-rate returns and the contracted returns expected under the long-term contracts. The related indemnification asset was measured on the same basis as the liability up to an amount collectible from Caterpillar. The Company also assumed certain post employment benefit liabilities, for which Caterpillar also agreed to indemnify.

(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 was $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 were recorded in other expenses in the consolidated statement of income of 2012.

The purchase was 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 approximated 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.

(c) Other Acquisitions

Cash paid in relation to other acquisitions in 2013 totalled $0.2 million (2012: $0.9 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 pension plans have been closed to new entrants for several years. The Company's Irish subsidiary has a defined contribution pension 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, closed defined benefit pension plans exist for eligible employees. Final average earnings are based on the highest 3 or 5 year average salary depending on employment category and there is no standard indexation feature. Effective July 1, 2004, non-executive members of the defined benefit pension plan were offered a voluntary opportunity to convert their benefits to a defined contribution pension plan. The registered defined benefit pension plan was subsequently closed to all new non-executive employees, who became eligible to enter one of the Company's defined contribution pension plans. Effective January 1, 2010, the defined benefit pension plan was closed to new executive employees as well, who became eligible to join a defined contribution pension plan. Pension benefits under the registered defined benefit pension plans' formula that exceed the maximum taxation limits are provided from a non-registered supplemental pension plan. Benefits under this plan are partially funded by a Retirement Compensation Arrangement.
- Finning (UK) has been providing a defined benefit pension plan for eligible employees hired prior to January 2003. Under this plan, final average earnings are based on the highest 3-year period and benefits are indexed annually with inflation subject to limits. Effective January 2003, this plan was closed to new employees who became eligible to join a defined contribution pension plan. In December 2011, the UK defined benefit pension plan was further amended to cease future accruals for existing members from April 2012. From April 2012, affected members began accruing benefits under a defined contribution arrangement.

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

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

For the years ended December 31		**2013**			2012 (Restated Note 1t)	
($ thousands)	**Canada**	**UK & Ireland**	**Total**	Canada	UK & Ireland	Total
Defined contribution (DC) pension plans						
Net benefit cost	**$ 35,048**	**$ 6,866**	**$ 41,914**	$ 32,524	$ 5,627	$ 38,151
Defined benefit (DB) pension plans						
Current service cost, net of employee contributions	**$ 9,645**	**$ —**	**$ 9,645**	$ 8,300	$ 950	$ 9,250
Administration costs	**395**	**739**	**1,134**	395	951	1,346
Net interest cost	**2,040**	**1,661**	**3,701**	3,401	1,901	5,302
Net benefit cost	**12,080**	**2,400**	**14,480**	12,096	3,802	15,898
Net DC and DB benefit cost recognized in net income	**47,128**	**9,266**	**56,394**	44,620	9,429	54,049
Actuarial gain on plan assets	**(9,839)**	**(15,503)**	**(25,342)**	(15,036)	(13,147)	(28,183)
Actuarial loss on plan liabilities	**6,642**	**33,214**	**39,856**	8,018	25,034	33,052
Total actuarial loss (gain) recognized in other comprehensive income	**(3,197)**	**17,711**	**14,514**	(7,018)	11,887	4,869

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

For the years ended December 31		**2013**			2012 (Restated Note 1t)	
($ thousands)	**Canada**	**UK**	**Total**	Canada	UK	Total
Accrued benefit obligation						
Balance, beginning of year	**$ 446,874**	**$ 489,223**	**$ 936,097**	$ 433,055	$ 446,637	$ 879,692
Current service cost	**10,654**	**—**	**10,654**	9,400	950	10,350
Interest cost	**17,867**	**21,997**	**39,864**	18,543	21,067	39,610
Benefits paid	**(22,458)**	**(18,107)**	**(40,565)**	(22,142)	(15,840)	(37,982)
Remeasurements:						
- Actuarial loss (gain) from change in demographic assumptions	**9,199**	**—**	**9,199**	—	(4,910)	(4,910)
- Actuarial loss (gain) from change in financial assumptions	**(30,228)**	**34,042**	**3,814**	(1,837)	17,741	15,904
- Experience loss (gain)	**27,671**	**(828)**	**26,843**	9,855	12,203	22,058
Foreign exchange rate changes	**—**	**47,524**	**47,524**	—	11,375	11,375
Balance, end of year	**$ 459,579**	**$ 573,851**	**$ 1,033,430**	$ 446,874	$ 489,223	$ 936,097
Plan assets						
Fair value at beginning of year	**$ 383,158**	**$ 443,924**	**$ 827,082**	$ 352,687	$ 401,694	$ 754,381
Return on plan assets:						
- Return on plan assets included in net interest cost	**15,827**	**20,336**	**36,163**	15,142	19,166	34,308
- Actuarial gain on plan assets	**9,839**	**15,503**	**25,342**	15,036	13,147	28,183
Employer contributions	**27,575**	**17,523**	**45,098**	21,730	16,315	38,045
Employees contributions	**1,009**	**—**	**1,009**	1,100	—	1,100
Benefits paid	**(22,458)**	**(18,107)**	**(40,565)**	(22,142)	(15,840)	(37,982)
Administration costs	**(395)**	**(739)**	**(1,134)**	(395)	(951)	(1,346)
Foreign exchange rate changes	**—**	**43,145**	**43,145**	—	10,393	10,393
Fair value at end of year	**$ 414,555**	**$ 521,585**	**$ 936,140**	$ 383,158	$ 443,924	$ 827,082
Net defined benefit obligation	**$ 45,024**	**$ 52,266**	**$ 97,290**	$ 63,716	$ 45,299	$ 109,015

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		**2013**			2012	
($ thousands)	**Canada**	**UK**	**Total**	Canada	UK	Total
Accrued benefit obligation	**$ 455,692**	**$ 573,851**	**$ 1,029,543**	$ 443,971	$ 489,223	$ 933,194
Fair value of plan assets	**408,658**	**521,585**	**930,243**	377,896	443,924	821,820
Funded status – plan deficit	**$ 47,034**	**$ 52,266**	**$ 99,300**	$ 66,075	$ 45,299	$ 111,374

Plan assets do not include a direct investment in common shares of the Company at December 31, 2013 and 2012.

The fair value of plan assets are determined using a combination of quoted prices and market observable inputs except for the fair value of investments in real estate which include un-quoted inputs. Plan assets are principally invested in the following securities (segregated by geography):

	Canada			**UK**		
	Canada	**US**	**International**	**UK**	**US**	**International**
Equity	14%	14%	14%	4%	15%	18%
Fixed-income	54%	—	—	55%	—	—
Real estate	4%	—	—	8%	—	—

The significant actuarial assumptions are as follows:

	2013		2012	
For years ended December 31	**Canada**	**UK**	Canada	UK
Discount rate – obligation	**4.60%**	**4.50%**	4.10%	4.60%
Discount rate – net interest cost [(1)]	**4.10%**	**4.60%**	4.30%	4.80%
Retail price inflation – obligation	**n/a**	**3.50%**	n/a	3.00%
Retail price inflation – expense [(1)]	**n/a**	**3.00%**	n/a	3.10%

[(1)] Used to determine the net interest cost and expense for the years ended December 31, 2013 and December 31, 2012.

Assumptions regarding future mortality are set based on management's best estimate in accordance with published statistics and experience in each territory. These assumptions translate into an average life expectancy (in years) as follows:

	Canada	**UK**
Life expectancy for male currently aged 65	20.6	22.3
Life expectancy for female currently aged 65	23.0	24.5
Life expectancy at 65 for male currently aged 45	22.1	23.6
Life expectancy at 65 for female currently aged 45	23.8	26.0

Discount rates are determined based on high quality corporate bonds at the measurement date, December 31, 2013 and 2012. The accrued defined benefit pension obligation and expense are sensitive to changes in the discount rate, among other assumptions. At the end of the most recent calendar year, the weighted average duration of the obligation in Canada is 14 years and in the U.K. is 18 years. A 0.25% increase in the discount rate and retail price inflation would impact the defined benefit obligation by the amounts shown below.

		Increased (decreased) defined benefit obligation	
($ millions)	**Change in assumption**	**Canada**	**UK**
Discount rate	+ 0.25%	$ (15)	$ (23)
Retail price inflation	+ 0.25%	n/a	$ 21

A 0.25% decrease in the discount rate and retail price inflation would have an equivalent but opposite effect on the above accounts in the amounts shown on the basis that all variables are unchanged.

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

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

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

Investment risk (ie., asset volatility)	The plan liabilities are calculated using a discount rate set with reference to high quality corporate bond yields; if plan assets underperform this yield, this will create a deficit. Both the Canadian and U.K. plans invest in various asset categories including equities, bonds, and real estate. These investments, in aggregate, are expected to outperform corporate bonds in the long-term but may result in volatility in the shorter-term. In selecting the portfolios and the weightings in each category, the Company considers and monitors how the duration and the expected yield of the investments match the expected cash outflows arising from the pension obligations. A framework has been developed and adopted for each of the Canadian and U.K. defined benefit pension plans whereby the investments will be adjusted over time as plan funding positions improve to continue improving the asset-liability match. This is to be accomplished primarily by reducing the exposure to equity investments over time and increasing exposure to investments such as long-term fixed interest securities with maturities that match the benefit payments as they fall due. This framework was originally adopted to improve the management of associated risks in 2010, and progress is continuing. The Company does not use derivatives to manage its pension risk at this time. Equity investments still remain in the plans, as the Company believes that equities offer the best returns over the long-term with an acceptable level of risk considering the proportion of assets held in this category. Investments remain well diversified, such that the failure of any single investment would not have a material impact on the overall level of assets.
Discount rate risk (ie., changes in bond yields)	A decrease in corporate bond yields will increase plan liabilities, although this will be partially offset by an increase in the value of the plans' bond holdings.
Inflation risk	The majority of the plan's benefit obligations in the U.K. are linked to inflation. Higher inflation will lead to higher liabilities (although, in most cases, caps on the level of inflationary increases are in place to protect the plan against extreme inflation). The majority of the plan's assets are either unaffected by (fixed interest bonds) or loosely correlated with (equities) inflation, meaning that an increase in inflation will also increase the deficit. In the Canadian plans, the pension payments are not linked to inflation, so this is not a risk.
Longevity risk (ie., increasing life expectancy)	The plans provide benefits for the life of the member after retirement, so increases in life expectancy will result in an increase in the plans' liabilities. This is particularly significant in the U.K. plan, where inflationary increases result in higher sensitivity to changes in life expectancy.

In Canada, the Company is funding its obligations in accordance with pension legislation requiring funding of solvency deficits over a five year period. In the U.K., at the last formal valuation the Company committed to payments of £8.7 million in 2014 and £6.0 million per year for 2015 to 2021. Funding levels are monitored regularly and reset with new valuations that occur at least every three years. Defined benefit pension plans are country and entity specific. The major defined benefit pension plans and their respective valuation dates are:

Defined Benefit Pension Plan	**Last Actuarial Valuation Date**	**Next Actuarial Valuation Date**
Canada – BC Regular & Executive Plan	December 31, 2012	December 31, 2015
Canada – Executive Supplemental Income Plan	December 31, 2012	December 31, 2015
Canada – General Supplemental Income Plan	December 31, 2012	December 31, 2015
Canada – Alberta Defined Benefit Plan	December 31, 2010	December 31, 2013
Finning UK Defined Benefit Scheme	December 31, 2011	December 31, 2014

The contributions expected to be paid during the financial year ended December 31, 2014 amount to approximately $49 million for the defined benefit pension plans.

Other post-employment benefit obligations

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

The most recent actuarial valuation was carried out in 2013.

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

For years ended December 31 ($ thousands)	**2013**	2012
Discount rate – obligation	**2.6%**	2.6%
Rate of compensation increase	**3.0%**	3.0%
Average staff turnover	**8.8%**	8.8%

For years ended December 31 ($ thousands)		**2013**		2012
Movement in the present value of the post-employment benefit obligation was as follows:				
Balance at the beginning of the year	**$**	**46,011**	$	35,571
Current service cost		**7,460**		13,683
Interest cost		**1,124**		1,068
Remeasurements:				
- Gain from change in demographic assumptions		**—**		(1,199)
- Loss from change in financial assumptions		**—**		788
- Experience gains		**(756)**		(1,120)
Paid in the year		**(6,309)**		(6,337)
Foreign exchange rate changes		**110**		3,557
Balance at the end of the year	**$**	**47,640**	$	46,011

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

As at December 31, 2013 ($ thousands)	Less than a year	Between 1-2 years	Between 2-5 years	Over 5 years	Total
Pension benefits	$ 40,656	$ 41,618	$ 137,424	$2,093,513	$2,313,211
Other post-employment benefits	7,787	4,006	13,146	108,538	133,477
Total	$ 48,443	$ 45,624	$ 150,570	$2,202,051	$2,446,688

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 $254.2 million as at December 31, 2013 (December 31, 2012: $242.3 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. Distribution and servicing of Caterpillar products account for the major portion of the Company's operations. Finning has a strong relationship with Caterpillar that has been ongoing since 1933.

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, 2013 ($ thousands)	**Canada**	**South America**	**UK & Ireland**	**Other**	**Consolidated**
Revenue from external sources	**$ 3,357,881**	**$ 2,514,458**	**$ 883,655**	**$ —**	**$ 6,755,994**
Operating costs	**(2,991,132)**	**(2,188,188)**	**(802,829)**	**(33,235)**	**(6,015,384)**
Depreciation and amortization	**(113,610)**	**(70,804)**	**(31,240)**	**(77)**	**(215,731)**
	253,139	**255,466**	**49,586**	**(33,312)**	**524,879**
Equity earnings (loss) (Note 13)	**9,673**	**—**	**—**	**(377)**	**9,296**
Other income (Note 2)	**—**	**120,323**	**—**	**—**	**120,323**
Other expenses (Note 2)	**—**	**(127,168)**	**(6,612)**	**—**	**(133,780)**
Earnings (loss) before finance costs and income taxes	**$ 262,812**	**$ 248,621**	**$ 42,974**	**$ (33,689)**	**$ 520,718**
Finance costs (Note 3)					**(90,275)**
Provision for income taxes (Note 6)					**(95,188)**
Net income					**$ 335,255**
Invested capital(1)	**$ 1,487,631**	**$ 1,390,861**	**$ 265,265**	**$ (5,683)**	**$ 3,138,074**
Identifiable assets	**$ 2,314,839**	**$ 2,144,283**	**$ 544,573**	**$ 53,873**	**$ 5,057,568**
Capital and rental equipment (2)	**$ 659,645**	**$ 384,537**	**$ 113,726**	**$ 193**	**$ 1,158,101**
Gross capital expenditures (3)	**$ 38,773**	**$ 38,711**	**$ 15,689**	**$ 126**	**$ 93,299**
Gross rental asset expenditures	**$ 236,762**	**$ 43,171**	**$ 11,463**	**$ —**	**$ 291,396**

For year ended December 31, 2012 ($ thousands) (Restated – Note 1t)	Canada	South America	UK & Ireland	Other	Consolidated
Revenue from external sources	$ 3,277,660	$ 2,397,071	$ 900,893	$ —	$ 6,575,624
Operating costs	(2,949,682)	(2,090,519)	(817,573)	(28,575)	(5,886,349)
Depreciation and amortization	(115,657)	(61,312)	(35,454)	(79)	(212,502)
	212,321	245,240	47,866	(28,654)	476,773
Equity earnings (Note 13)	9,083	—	—	1,041	10,124
Other income (Note 2)	9,712	46,505	—	2,373	58,590
Other expenses (Note 2)	—	(53,250)	(2,703)	(958)	(56,911)
Earnings (loss) before finance costs and income taxes	$ 231,116	$ 238,495	$ 45,163	$ (26,198)	$ 488,576
Finance costs (Note 3)					(86,470)
Provision for income taxes (Note 6)					(75,332)
Net income					$ 326,774
Invested capital(1)	$ 1,588,658	$ 1,297,769	$ 260,367	$ (16,014)	$ 3,130,780
Identifiable assets	$ 2,380,436	$ 2,203,380	$ 495,103	$ 39,104	$ 5,118,023
Capital and rental equipment (2)	$ 672,185	$ 384,482	$ 105,048	$ 147	$ 1,161,862
Gross capital expenditures (3)	$ 97,182	$ 109,630	$ 7,046	$ 3	$ 213,861
Gross rental asset expenditures	$ 265,239	$ 54,295	$ 10,806	$ —	$ 330,340

(1) Invested capital is calculated as total assets less total liabilities, excluding net debt
(2) Capital includes property, plant, and equipment and intangibles
(3) Includes finance leases and borrowing costs capitalized

26. RELATED PARTY TRANSACTIONS AND TOTAL STAFF COSTS

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	Principal place of business	% ownership	Functional currency
Finning (UK) Ltd	United Kingdom	100%	GBP
Finning Chile S.A.	Chile	100%	USD
Finning Argentina S.A.	Argentina	100%	USD
Finning Soluciones Mineras S.A.	Argentina	100%	USD
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.

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

For years ended December 31 ($ thousands)	**2013**	2012
Short-term benefits	**$ 878**	$ 861
Share-based payments	**1,822**	1,187
Total	**$ 2,700**	$ 2,048

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)	**2013**	2012
Salaries and benefits	**$ 9,061**	$ 7,323
Post employment benefits	**1,522**	1,638
Share-based payments	**8,803**	7,843
Total	**$ 19,386**	$ 16,804

Total staff costs, including salaries, benefits, pension, share-based payments, and commissions are $1.4 billion (2012: $1.4 billion). This amount includes staff costs associated with key management personnel noted 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
2014	$ 3,663	$ 110,953
2015	3,570	101,687
2016	2,923	88,775
2017	3,055	75,180
2018	2,975	20,729
Thereafter	16,142	99,304
	$ 32,328	$ 496,628
Less imputed interest	(10,928)	
	21,400	
Less current portion of finance lease obligation	(2,930)	
Total long-term finance lease obligation	$ 18,470	

Minimum lease payments recognized as lease expense for the year ended December 31, 2013 is $107.4 million (2012: $111.7 million)

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, 2013, the total estimated value of these contracts outstanding is $147.1 million (2012: $153.5 million) coming due at periods ranging from 2014 to 2023. 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 $1.8 million (2012: $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, 2013, 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 $34.1 million, covering various periods up to 2018. As at December 31, 2013 and 2012, the Company has not recognized a liability for these guarantees.

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. In the prior year, as at December 31, 2012, the Company recorded a liability of $0.6 million in relation to a property claim made during the year which was paid during 2013. As at December 31, 2013, the Company has not recognized a liability for these indemnifications.

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 2013 or 2012.

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, 2013 was $171 million (2012: $287 million), of which $169 million (2012: $277 million) relates to letters of credit issued in Chile, principally related to performance guarantees on delivery for prepaid equipment and other operational commitments.