FINNING

2014 FINANCIAL REPORT

MANAGEMENT'S DISCUSSION AND ANALYSIS

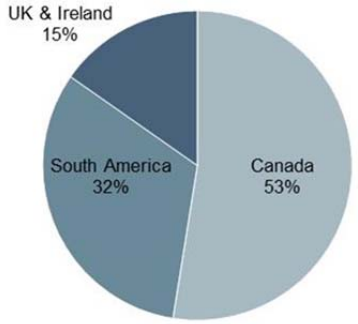
February 18, 2015

This Management's Discussion and Analysis (MD&A) of Finning International Inc. (Finning or the Company) should be read in conjunction with the audited annual consolidated financial statements for the year ended December 31, 2014 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

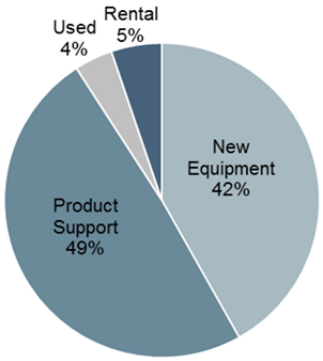
Overview

Finning International Inc. (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.

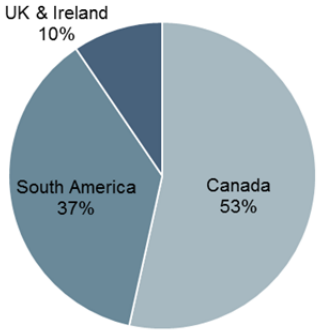
Revenue by Region
2014



Revenue by Line of Business
2014



EBIT by Region [1][2][3]
2014



2014 Annual Highlights

- Revenues grew by 2% to $6.9 billion, driven by an 8% increase in product support revenues to a new record, reflecting higher parts sales in the Company's Canadian operations;
- EBIT decreased by 3% to $504 million reflecting lower activity in the Company's South American operations due to difficult market conditions. EBIT margin [1] was 7.3%, down from 7.7% in 2013;
- Basic EPS [2] decreased to $1.85 from $1.95 earned in 2013. 2014 EPS included a write-off of previously capitalized enterprise resource planning (ERP) costs in the Company's South American operations ($0.06 per share) and severance costs ($0.06 per share), while 2013 EPS included a write-off of previously capitalized ERP costs in the Company's United Kingdom (UK) & Ireland operations ($0.02 per share), severance costs ($0.04 per share), and a benefit of previously unrecognized capital losses to offset taxable capital gains ($0.03);
- The Company generated free cash flow [1] of $483 million during 2014, reducing its Net Debt to Invested Capital [1] ratio to 31.4% at the end of 2014, down from 40.8% at the end of 2013; and
- Return on invested capital (ROIC) [1] increased to 17.1% from 15.9% in the Company's Canadian operations as a result of improved capital efficiencies and higher EBIT, was relatively unchanged in the UK & Ireland operations (16.3% compared to 16.4% in 2013), and declined in the South American operations due to significantly reduced activity levels and write-off of ERP costs (14.6% compared to 17.6% in 2013). As a result, consolidated ROIC was 15.3% compared to 15.7% in 2013.

[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 per Share (EPS)

[3] Excluding other operations – corporate head office

Key Performance Measures

The Company is focused on building shareholder value by improving return on invested capital. With safety and talent management as the foundation, management is executing on the following operational priorities: customer & market leadership; supply chain optimization; service excellence; and asset utilization (Five Priorities). These priorities are linked directly to improving EBIT performance and capital efficiency.

The Company has aligned its 2014 incentive plans to these priorities, and defined the following key performance indicators (KPIs) to consistently measure progress on performance across the organization.

Years ended December 31	**2014**	2013	2012 (restated)[1]	2011 (restated)[1]	2010 (restated)[1][2]
Return on Invested Capital					
ROIC (%)					
Consolidated	**15.3%**	15.7%	16.5%	16.0%	15.3%
Canada	**17.1%**	15.9%	15.7%	14.4%	14.4%
South America	**14.6%**	17.6%	19.7%	20.0%	18.8%
UK & Ireland	**16.3%**	16.4%	16.3%	18.3%	7.9%
Earnings Before Interest and Taxes					
EBIT ($ millions)					
Consolidated	**504**	521	489	374	287
Canada	**284**	263	231	167	139
South America	**196**	249	239	195	150
UK & Ireland	**50**	43	45	47	15
EBIT Margin (%)					
Consolidated	**7.3%**	7.7%	7.4%	6.3%	6.3%
Canada	**7.8%**	7.8%	7.1%	5.7%	6.1%
South America	**8.8%**	9.9%	9.9%	9.2%	9.0%
UK & Ireland	**4.8%**	4.9%	5.0%	5.6%	2.3%
Invested Capital					
Invested Capital [3] ($ millions)					
Consolidated	**3,106**	3,138	3,131	2,320	1,861
Canada	**1,475**	1,488	1,589	1,175	943
South America	**1,348**	1,391	1,298	898	982
UK & Ireland	**284**	265	260	234	215
Invested Capital Turnover [3] (times)					
Consolidated	**2.10x**	2.04x	2.22x	2.53x	2.44x
Canada	**2.19x**	2.03x	2.22x	2.53x	2.36x
South America	**1.66x**	1.78x	1.98x	2.18x	2.08x
UK & Ireland	**3.43x**	3.37x	3.25x	3.26x	3.41x
Inventory ($ millions)	**1,661**	1,756	1,930	1,443	1,076
Inventory Turns (times) [3]	**2.81x**	2.74x	2.43x	2.95x	3.24x
Working Capital to Sales Ratio [3] (%)	**26.1%**	26.5%	24.5%	22.8%	22.2%
Free Cash Flow[3] ($ millions)	**483**	441	(37)	(221)	263
Net Debt to Invested Capital (%)	**31.4%**	40.8%	50.0%	42.0%	35.3%
Net Debt to EBITDA [4] Ratio [3]	**1.4**	1.7	2.2	1.8	1.5

(1) The 2012, 2011 and 2010 comparative results described in this table 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. 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.

(4) Earnings Before Finance Costs, Income Taxes, Depreciation and Amortization (EBITDA)

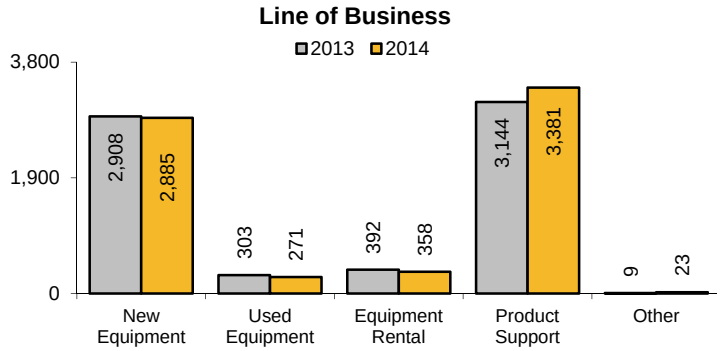
Results of Operations and Financial Performance

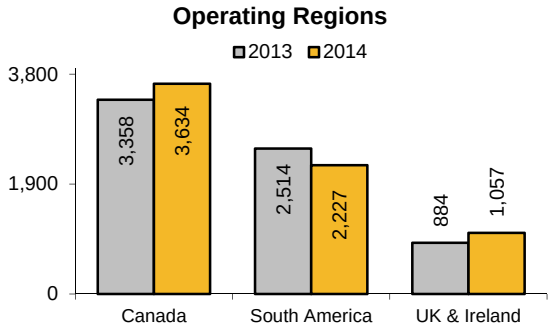
Annual Overview

	2014	2013	2014	2013
	($ millions)		(% of revenue)	
Revenue	**$ 6,918**	$ 6,756		
Gross profit	**2,062**	2,080	**29.8%**	30.8%
Selling, general & administrative expenses (SG&A)	**(1,556)**	(1,555)	**(22.5)%**	(23.0)%
Equity earnings of joint venture and associate	**12**	9	**0.2%**	0.1%
Other income [(1)]	**—**	121	**0.0%**	1.8%
Other expenses [(1)]	**(14)**	(134)	**(0.2)%**	(2.0)%
EBIT	**504**	521	**7.3%**	7.7%
Finance costs	**(85)**	(91)	**(1.2)%**	(1.3)%
Provision for income taxes	**(101)**	(95)	**(1.5)%**	(1.4)%
Net income	**$ 318**	$ 335	**4.6%**	5.0%
Basic EPS	**$ 1.85**	$ 1.95		
EBITDA	**$ 720**	$ 737	**10.4%**	10.9%
Free Cash Flow	**$ 483**	$ 441		

Revenue

For years ended December 31
($ millions)





The Company generated revenue of $6.9 billion during 2014, an increase of 2% over 2013, driven primarily by an increase in equipment and parts revenues in the Company's Canadian operations. This, together with an increase in revenues from the Company's UK & Ireland operations, more than offset the decrease in revenues from the Company's South American operations.

Foreign exchange had a positive impact on revenue of approximately $350 million, mainly due to the 7% weaker Canadian dollar relative to the U.S. dollar and 13% weaker Canadian dollar relative to the U.K. pound sterling for 2014 compared to last year.

Product support revenue was up 8% from 2013. The most notable increase was in the Company's Canadian operations, with parts revenue up in all markets. Although product support revenue in the Company's South American operations was up in Canadian dollars, it was down 3% in functional currency (U.S. dollars), primarily due to reduced service revenue from the mining sector, which more than offset an increase in parts revenue. Product support revenue in the Company's UK & Ireland operations was up 13% in Canadian dollars, yet flat in functional currency (U.K. pound sterling).

Rental revenue decreased by 9% compared to 2013, down in all operations but primarily due to lower sales volume in the Company's Canadian operations from strong rental demand in 2013 along with increased competition in the short-term rental market relative to a year ago.

(1) Included in Other income and Other expenses are net costs of $3 million related to the export of agricultural product from Argentina. The Company has not exported agricultural product since Q3 2013. For additional information, see the heading "South American Operations" later in this MD&A.

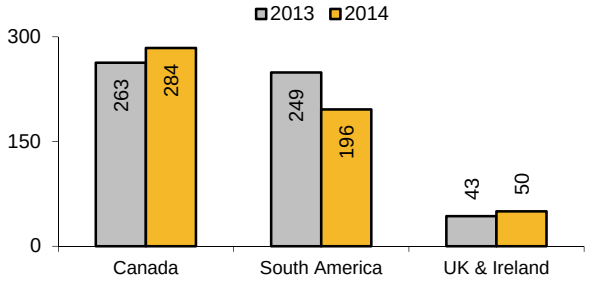
New equipment sales were down marginally compared to the prior year. The decreased mining and construction activity in the Company's South American operations more than offset greater demand for new equipment for mining and power systems in the Company's Canadian operations and increases in plant hire and power systems in the Company's UK & Ireland operations.

The order backlog [(1)] was $1.0 billion at the end of 2014, down from $1.1 billion at the end of September 2014, and 8% above the levels at the end of 2013. Backlog levels in the Company's Canadian and UK & Ireland operations exceeded the levels at the end of 2013, which were partially offset by a decrease relative to the end of 2013 in the South American operations. Soft market conditions in the Company's South American operations, particularly in mining, impacted order intake throughout 2014. By historical standards, order intake and backlog levels in Canada and the UK & Ireland were solid during the year.

Earnings Before Finance Costs and Income Taxes

On a consolidated basis, EBIT was $504 million in 2014, 3% lower than the $521 million earned in the prior year, primarily driven by lower earnings from the Company's South American operations.

EBIT by Operation[(2)]
Year ended December 31
($ millions)



Gross profit of $2.1 billion in 2014 was down slightly compared to 2013. Gross profit margin was 29.8%, down from 30.8% in 2013 with lower gross profit margins in most lines of business, offsetting the benefit from a favourable revenue mix shift to higher margin product support and improved service profitability in all operations. Gross profit was negatively impacted by lower rental gross profit in all operations due to strong rental demand in 2013 and increased competition in the short-term rental market during 2014. In addition, higher favourable equipment cost adjustments positively impacted EBIT in 2013.

SG&A costs of $1.6 billion were flat compared to 2013. Cost savings from supply chain and service initiatives in the Company's Canadian operations, along with a decrease from lower sales volumes in the Company's South American operations, were partially offset by higher service-related expenses in the Company's South American operations and employee-related costs. Employee-related costs in 2014 included $14 million of severance costs, a $5 million increase from last year. SG&A costs in 2013 were positively affected by provision adjustments.

In addition, the weaker Argentine and Chilean pesos against the U.S. dollar lowered operating costs in comparison to 2013, which reduced the overall increase to SG&A. The positive impact of foreign exchange on EBIT was partially offset by the negative foreign exchange impact on the provision for income taxes, primarily from Argentina.

Contributing to lower EBIT in 2014 was a $12 million write-off of previously capitalized ERP costs in the Company's South American operations, compared to a $5 million write-off of capitalized ERP costs in the Company's UK & Ireland operations in 2013. This decrease was partially offset by $3 million in higher equity earnings and $3 million in net costs related to the export of agricultural product from Argentina.

The Company's EBIT margin was 7.3% in 2014, down from 7.7% in 2013, driven mainly by the factors reducing gross profit margin, discussed above, along with the higher ERP write-off compared to 2013.

Finance Costs

Finance costs in 2014 were $85 million, lower than the $91 million reported in 2013, largely driven by a $4 million gain on a foreign currency swap contract recognized in 2014. The prior year included $2 million of early redemption costs related to the Company's previously issued $250 million medium term notes (MTN).

(1) These financial metrics do not have a standardized meaning under IFRS. 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.

(2) Excluding other operations – corporate head office

Provision for Income Taxes

The effective income tax rate for 2014 was 24.1%, up from 22.1% in the comparable year. The lower effective tax rate for 2013 included a $6 million benefit of previously unrecognized capital losses to offset taxable capital gains.

In September 2014, the Chilean government signed into law an extensive series of tax reforms. These tax reforms included a gradual increase in the substantively enacted income tax rate from 20% to 27%, which resulted in a one-time revaluation adjustment of the Company's deferred income tax balances of $7 million. This increase was offset by the Company applying an adjustment to reduce taxable income in Argentina to compensate for the loss of purchasing power due to inflation, which resulted in a reduction to income tax expense of $8 million in 2014.

Net Income

Net income was $318 million in 2014, down from the $335 million of net income earned last year. Basic EPS was $1.85 per share compared with $1.95 per share in 2013.

Net income and EPS in 2014 were negatively impacted by a one-time non-cash write-off of previously capitalized ERP costs in the Company's South American operations ($0.06 per share), and severance costs incurred in all operations ($0.06 per share). Comparatively, 2013 net income and EPS were negatively impacted by a one-time non-cash write-off of previously capitalized ERP costs in the Company's UK & Ireland operations ($0.02 per share), and severance costs incurred in all operations ($0.04 per share).

Also impacting net income and EPS in 2014 was the positive tax impact of an inflation adjustment in Argentina, noted above ($0.05), largely offset by a one-time non-cash charge from the revaluation of deferred income tax balances in Chile following an increase in the substantively enacted tax rate ($0.04 per share). Positively impacting net income and EPS in 2013 was a benefit of previously unrecognized capital losses to offset taxable capital gains ($0.03 per share).

Invested Capital

($ millions, unless otherwise stated)	**December 31, 2014**	September 30, 2014	Increase (Decrease) from September 30, 2014	December 31, 2013	Increase (Decrease) from December 31, 2013
Consolidated	**$ 3,106**	$ 3,340	$ (234)	$ 3,138	$ (32)
Canada	**$ 1,475**	$ 1,714	$ (239)	$ 1,488	$ (13)
South America	**$ 1,348**	$ 1,298	$ 50	$ 1,391	$ (43)
UK & Ireland	**$ 284**	$ 344	$ (60)	$ 265	$ 19
South America (U.S. dollar)	***$ 1,162***	*$ 1,158*	*$ 4*	*$ 1,308*	*$ (146)*
UK & Ireland (U.K. pound sterling)	***£ 157***	*£ 189*	*£ (32)*	*£ 150*	*£ 7*

The decrease in consolidated invested capital of $32 million from 2013 to 2014 was impacted by approximately $120 million of foreign exchange, primarily from the 9% weakening of the Canadian dollar relative to the U.S. dollar in translating the Company's South American operations' invested capital balances. Excluding the impact of foreign exchange, consolidated invested capital decreased by approximately $150 million, primarily driven by:

- a decrease in inventory, primarily new equipment inventory in South America as a result of management's focus on adjusting asset levels due to lower mining activity, along with a decrease in parts inventory in Canada and South America;
- a decrease in rental equipment, largely in the Company's South American operations, consistent with a focus on reducing capital spending due to lower activity levels;
- partly offset by a decrease in deferred revenue, largely in the Company's South American operations, due to lower advance payments from customers for mining equipment.

In functional currency, invested capital in the Company's South American operations decreased 11% (decreased 3% in Canadian dollars) and was up 4% (up 7% in Canadian dollars) in the UK & Ireland operations from December 2013. The decrease in South America was primarily the result of lower inventory levels, as discussed above.

Excluding the impact of foreign exchange, consolidated invested capital decreased from Q3 2014 to Q4 2014 by approximately $280 million. The decrease was primarily driven by:

- a decrease in inventory in all operations, primarily new equipment inventory in South America and the UK & Ireland, and a reduction in parts inventory in Canada, reflecting a focused effort to reduce inventory levels;
- a decrease in rental equipment, primarily due to a higher volume of rental conversions from Q3 2014 in the Company's Canadian operations; and
- a decrease in accounts receivable and service work in progress, primarily driven by an increase in collections and service billings in the Company's Canadian operations.

Invested capital turnover at December 31, 2014 was 2.10 times, which is an improvement over December 31, 2013 and September 30, 2014 levels. This is reflective of improvement in invested capital efficiencies in the Company's Canadian operations, with revenue growth exceeding the increase in invested capital to support the business. Invested capital turnover has also improved in the Company's UK & Ireland operations since 2013, but was down in South America over the same period.

Return on invested capital at Q4 2014 was 15.3%, a decrease from Q3 2014 (15.4%) and Q4 2013 (15.7%). The operating and invested capital efficiencies from the Company's Canadian operations were more than offset by the decline in the Company's South American operations.

- In the Company's Canadian operations, ROIC increased to 17.1% from 16.8% in Q3 2014 and 15.9% in Q4 2013, driven primarily by an increase in EBIT for the last twelve months with average invested capital being maintained at similar levels. Invested capital turnover of 2.19 times was an improvement over Q3 2014 and Q4 2013 primarily due relatively unchanged invested capital on higher sales volumes.
- ROIC in the Company's South American operations decreased from 17.6% in Q4 2013 to 15.8% in Q3 2014 and 14.6% in Q4 2014. The 21% decline in 2014 EBIT compared to 2013 exceeded the decrease in invested capital. The decrease in invested capital of US$146 million (or 11%) from Q4 2013 was driven primarily by lower equipment inventory, reflecting a continued focus on inventory management in light of the uncertain market environment. The Company will continue to monitor business conditions closely in its South American operations and further align its cost structure and invested capital with expected activity levels if necessary.
- In the Company's UK & Ireland operations, ROIC in Q4 2014 was comparable to Q4 2013.

Annual Results by Reportable Segment

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

- *Canadian operations:* British Columbia, Alberta, 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.

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

For year ended December 31, 2014 ($ millions)	**Canada**	**South America**	**UK & Ireland**	**Consolidated**	**Revenue percentage**
New equipment	**$ 1,467**	**$ 751**	**$ 667**	**$ 2,885**	**42%**
Used equipment	**192**	**34**	**45**	**271**	**4%**
Equipment rental	**261**	**68**	**29**	**358**	**5%**
Product support	**1,708**	**1,372**	**301**	**3,381**	**49%**
Other	**6**	**2**	**15**	**23**	**0%**
Total	**$ 3,634**	**$ 2,227**	**$ 1,057**	**$ 6,918**	**100%**
Revenue percentage by operations	**53%**	**32%**	**15%**	**100%**	

For year ended December 31, 2013 ($ millions)	Canada	South America	UK & Ireland	Consolidated	Revenue percentage
New equipment	$ 1,315	$ 1,069	$ 524	$ 2,908	43%
Used equipment	191	48	64	303	4%
Equipment rental	288	75	29	392	6%
Product support	1,558	1,319	267	3,144	47%
Other	6	3	—	9	0%
Total	$ 3,358	$ 2,514	$ 884	$ 6,756	100%
Revenue percentage by operations	50%	37%	13%	100%	

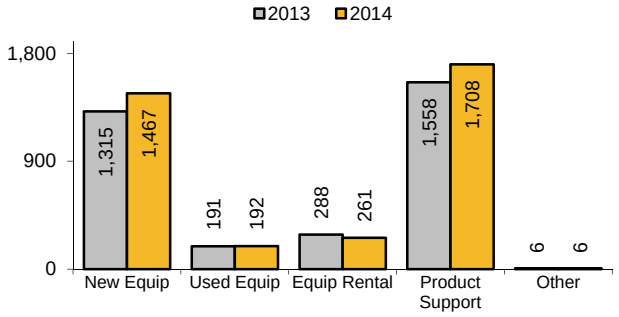
Canadian Operations

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

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

For years ended December 31 ($ millions)	**2014**	2013
Revenue from external sources	**$ 3,634**	$ 3,358
Operating costs	**(3,246)**	(2,991)
Depreciation and amortization	**(112)**	(114)
Equity earnings of joint venture	**8**	10
Earnings before finance costs and income taxes	**$ 284**	$ 263
EBIT		
- as a percentage of revenue	**7.8%**	7.8%
- as a percentage of consolidated EBIT	**56%**	50%

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



Revenues for the year ended December 31, 2014 were $3.6 billion, an 8% increase compared to the prior year, driven by increases in new equipment sales and product support.

New equipment revenue was up 12% in 2014 compared with 2013, largely as a result of increased market activity in mining in the first half of 2014 and strong power systems activity throughout the year. Equipment backlog levels remained solid at December 2014, up 44% compared to the end of 2013. A 12% decrease in backlog from September 2014 reflects a reduction in order intake, consistent with the mining and associated contractor slowdown in the Company's Canadian operations.

Product support revenue was up in all markets and increased 10% from 2013, driven primarily by higher demand for parts in all markets.

The weaker Canadian dollar relative to the U.S. dollar had a positive impact on total revenue in 2014 of approximately $150 million compared to 2013, largely offset by the negative foreign exchange impact on the cost of equipment and parts.

Gross profit in absolute dollars increased 3% compared to 2013, primarily due to higher sales volumes, while gross profit margin was lower. Gross profit margin was negatively impacted by a higher proportion of lower-margin mining parts in the sales mix and a decrease in rental gross profit driven by lower volume from strong rental demand last year and increased competition in the short-term rental market relative to 2013. These decreases were partially offset by the positive impact from higher service margins, a reflection of improved operating efficiencies, reflecting progress on the Company's ongoing operational improvement initiatives. In addition, higher positive equipment cost adjustments positively impacted gross profit in 2013.

SG&A costs for 2014 increased only marginally over the same period of 2013 despite an 8% increase in revenue. Operational improvements driven by the successful execution of supply chain and service initiatives resulted in lower SG&A. The cost savings were offset by volume-related increases and higher employee-related costs, primarily severance and restructuring costs. SG&A costs in 2013 were reduced by positive provision adjustments.

The Canadian operations contributed EBIT of $284 million for the year ended December 31, 2014, 8% higher than the prior year, with the increase in gross profit partially offset by higher SG&A costs and lower equity earnings from PLM. EBIT margin in 2014 was 7.8%, consistent with 2013, with the lower gross profit margin earned in 2014 offset by an improvement in SG&A relative to revenue over the prior year.

South American Operations

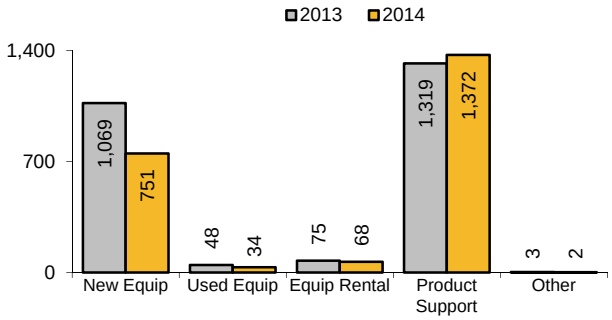
Finning's South American operations sell, service, and rent mainly Caterpillar equipment and engines in Chile, Argentina, Uruguay and Bolivia. The South American operations' markets include mining, construction, and power systems.

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

For years ended December 31 ($ millions)		**2014**		2013
Revenue from external sources	**$**	**2,227**	$	2,514
Operating costs		**(1,945)**		(2,188)
Depreciation and amortization		**(72)**		(71)
Other income (expenses)				
Capitalized ERP costs written off		**(12)**		—
ERP system implementation costs		**(2)**		(3)
Export of agricultural product		**—**		121
Costs of export of agricultural product		**—**		(124)
Earnings before finance costs and income taxes	**$**	**196**	$	249
EBIT				
- as a percentage of revenue		**8.8%**		9.9%
- as a percentage of consolidated EBIT		**39%**		48%

In 2014, revenues decreased 11% to $2.2 billion compared to record levels in 2013 (down 17% in functional currency), largely driven by lower new equipment revenues. Softening market conditions throughout the Company's South American operations led to the decrease in revenue compared to 2013.

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



New equipment revenue was down 30% (34% in functional currency) compared to 2013, driven primarily by a slowdown in mining and construction activity. New orders for 2014 were 20% below 2013 (down 25% in functional currency) and the lowest they have been since 2009. New equipment backlog at December 31, 2014 was approximately 30% of the levels at the end of 2013 (in Canadian dollars and functional currency).

Product support revenue was up 4% over the same period last year, but was down 3% in functional currency. The decrease in functional currency was driven primarily by lower service revenue in the mining sector in Chile, where customers continue to focus on reducing operating costs. Parts revenue in 2014 was up slightly compared to 2013, with increases in the mining sector and power systems offsetting the decrease in the construction sector.

The positive impact on total revenue in 2014 from the weaker Canadian dollar relative to the U.S. dollar was partially offset by the negative impact from the weaker Chilean and Argentine pesos against the U.S. dollar compared to 2013. The net positive impact on total revenue was approximately $100 million.

Gross profit decreased 9% from 2013 (down 15% in functional currency) from record levels in 2013, reflecting lower sales volumes. Gross profit margin increased over the prior year, driven by a shift in revenue mix to higher margin product support sales, higher service profitability driven by operational improvement initiatives, and a reduction of lower-margin mining equipment in the sales mix. Product support revenues comprised 62% of total revenues in 2014 relative to 52% in 2013, while new equipment revenues made up 34% of total revenues in 2014 compared to 43% in 2013. Gross profit margin in 2013 was positively impacted by favourable adjustments to certain mining service contracts which did not occur in 2014.

SG&A costs were down 5% (down 12% in functional currency) in the Company's South American operations compared to 2013, primarily as a result of lower sales volumes, lower warranty expenses, actions taken to reduce operating costs, and loss provisions recorded on specific maintenance and repair and power systems contracts in 2013. These decreases were partially offset by higher service-related expenses and severance costs. In addition, the weaker Argentine and Chilean pesos in comparison to 2013 contributed to the lower operating costs.

In response to decreased activity levels, the Company's South American operations reduced its workforce by over 600 people, or about 8%, to approximately 6,900 employees over the last 18 months. The Company will continue to monitor business conditions closely in its South American operations to further align its cost structure with expected activity levels if necessary.

During the year, the Company resolved a 23 day labour disruption by a union representing roughly 15% of the workforce in South America. The Company utilized contingency plans to maintain business operations and customer commitments during the strike. The Company now has an equitable four year agreement in place that brings this union's agreement in line with the Company's other collective agreements in South America.

In December 2013, the Company reported that management would perform an evaluation in its South American operations to review the most appropriate core ERP system for its business needs. In September 2014, as a result of this evaluation and a capability analysis, management determined that any implementation of a full ERP system in its South American operations would not occur in the near future. Although existing system maintenance requirements are being reviewed, the delay in the implementation of a full ERP system led to an accounting review and decision to write-off $12 million of previously capitalized costs.

Although the Company's South American operations have been able to import goods into Argentina to satisfy customer demand without further exportation of agricultural product, the business is still subject to import and foreign currency restrictions. The Company has not exported agricultural product since Q3 2013. Net costs associated with exporting an agricultural product from Argentina were $3 million in 2013.

EBIT for the Company's South American operations decreased 21% (26% in functional currency) compared to 2013, reflecting the decrease in revenues and gross profit from softer market conditions and the write-off of previously capitalized ERP costs, partially offset by lower SG&A costs. In translating results, the impact of the weaker Argentine and Chilean pesos relative to the U.S. dollar on operating costs, combined with the positive impact from the weaker Canadian dollar against the U.S. dollar, had a positive impact on EBIT of approximately $60 million. However, this increase was partially offset by higher taxes due to the devaluation of the Argentine peso.

EBIT margin of 8.8% in 2014 was down from 9.9% in the prior year. Excluding the ERP write-off ($12 million), severance costs ($6 million) and labour disruption costs ($2 million), EBIT margin would have been 9.8% in 2014.

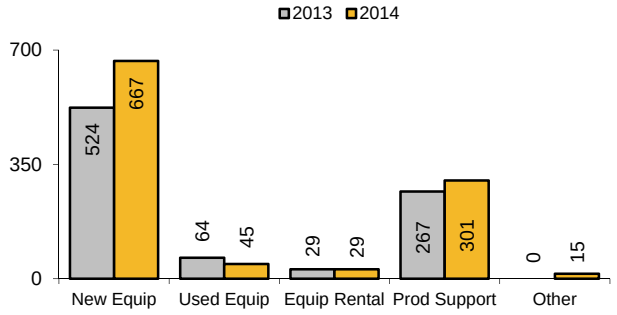
UK & Ireland Operations

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

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

For years ended December 31 ($ millions)		**2014**		2013
Revenue from external sources	**$**	**1,057**	$	884
Operating costs		**(975)**		(803)
Depreciation and amortization		**(32)**		(31)
Capitalized ERP costs written off		**—**		(5)
ERP system implementation costs		**—**		(2)
Earnings before finance costs and income taxes	**$**	**50**	$	43
EBIT				
- as a percentage of revenue		**4.8%**		4.9%
- as a percentage of consolidated EBIT		**10%**		8%

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



In 2014, revenues of $1.1 billion were 20% higher than 2013 (up 6% in functional currency). The increase was primarily due to higher new equipment sales, mainly in the plant hire sector, reflecting improved demand for small to mid-size machines for use in construction and infrastructure work, as well as higher revenues from power systems projects.

Product support revenue was up 13% compared to last year, but comparable to 2013 in functional currency.

The weaker Canadian dollar relative to the U.K. pound sterling had a positive impact on revenue of approximately $100 million.

Gross profit in absolute dollars was 11% higher in 2014 compared to 2013, but down marginally in functional currency. Gross profit margin was lower compared to the same period last year, reflecting a shift in mix to a greater proportion of lower margin new equipment revenues. New Equipment revenues comprised 63% of total revenues in 2014 relative to 59% in 2013, while product support revenues made up 28% of total revenues in 2014 compared to 30% in 2013. Also contributing to the decrease in gross profit margin relative to last year was a higher proportion of lower-margin power systems sales within new equipment.

SG&A costs increased 14% compared to 2013, but were comparable in functional currency on higher revenues.

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 million of previously capitalized costs.

EBIT was $50 million in 2014, 17% higher compared to last year primarily due to the weaker Canadian dollar when translating results from the U.K. pound sterling, and up slightly in functional currency. EBIT margin of 4.8% was down compared to the 4.9% earned last year.

Other Developments

On July 4, 2014, the Company's UK & Ireland operations acquired 100% of the shares of Reaction One Limited (UK) and Alveton Limited (Ireland). With this acquisition, the newly formed company named SITECH will sell and service Trimble Navigation Limited's (Trimble) heavy and highway machine control and monitoring products in all of its dealership territories (rights in the Company's Canadian and South American dealership operations were acquired in 2011). Trimble is Caterpillar's global technologies joint venture partner in construction and other industries.

The fair value of the total consideration at the acquisition date was $19 million (£11 million) with $13 million (£8 million) paid in cash at the time of acquisition. Further contingent consideration with a possible range of £nil - £4 million may be paid after acquisition, contingent upon the profitability of the acquired business over the next three years. The Company recognized $6 million (£3 million) of contingent consideration as a liability on its consolidated statement of financial position. Acquisition costs of $1 million (£0.4 million) were paid on the transaction and were recorded as an expense in 2014.

Corporate and Other Operations

For years ended December 31 ($ millions)		**2014**		2013
Operating costs – corporate	**$**	**(28)**	$	(26)
Long-term incentive plan (LTIP)		**(2)**		(7)
Depreciation and amortization		**—**		—
Equity gain (loss) of associate		**4**		(1)
Loss before finance costs and income taxes	**$**	**(26)**	$	(34)

For the year ended December 31, 2014, the Company's share price decreased by 7% compared with an increase of 11% in 2013, which resulted in lower costs related to the LTIP units. In addition, the number of performance share units anticipated to vest was lower in 2014 contributing to a lower expense in the current year. The offsetting impact of the compensation hedge was comparable in each of the years. During 2014, the Company settled the outstanding hedge.

The equity gain of associate in 2014 and loss in 2013 relates to the Company's investment in Energyst B.V. (Energyst). Although improved from 2013, results from Energyst in 2014 were impacted by the slowdown in the mining industry and the competitive pressures on its international power projects business. In July 2014, the Company's equity investment in Energyst increased to 28.8% from 27.9%.

Fourth Quarter Overview

	Q4 2014	Q4 2013	**Q4 2014**	Q4 2013
	($ millions)		(% of revenue)	
Revenue	**$ 1,803**	$ 1,796		
Gross profit	**529**	554	**29.3%**	30.9%
SG&A	**(393)**	(403)	**(21.8)%**	(22.4)%
Equity earnings of joint venture and associate	**6**	—	**0.4%**	0.0%
Other income	**—**	1	**0.0%**	0.0%
Other expenses	**—**	(7)	**0.0%**	(0.4)%
EBIT	**142**	145	**7.9%**	8.1%
Finance costs	**(20)**	(21)	**(1.1)%**	(1.2)%
Provision for income taxes	**(15)**	(31)	**(0.9)%**	(1.7)%
Net income	**$ 107**	$ 93	**5.9%**	5.2%
Basic EPS	**$ 0.62**	$ 0.54		
EBITDA	**$ 194**	$ 200	**10.7%**	11.2%
Free Cash Flow	**$ 385**	$ 365		

2014 Fourth Quarter Highlights

- Revenues in Q4 2014 were $1.8 billion, a slight increase over Q4 2013, driven by record product support revenues, which more than offset a decline in new equipment sales in the Company's South American operations;
- Product support revenues grew by 14% reflecting higher parts sales in all operations;
- EBIT decreased by 3% to $142 million and EBIT margin of 7.9% was below the 8.1% earned in Q4 2013.
    - Despite lower sales, EBIT margin in the Company's South American operations was a solid 9.8%. The Q4 2013 EBIT margin of 11.3% benefitted from positive adjustments to certain mining service contracts.
    - EBIT margin in the Company's Canadian operations was 7.7%, down from 7.9% in Q4 2013 reflecting lower margins in all lines of business, except service, and most notably a higher proportion of lower-margin mining parts and lower rental volumes. In addition, EBIT margin in Q4 2013 benefitted from positive equipment cost adjustments.
- Basic EPS was $0.62 compared to $0.54 in the fourth quarter of 2013. EPS for Q4 2014 was positively impacted by an inflation adjustment applied to taxable income in the Company's Argentine operations ($0.05 per share) and a lower than expected annual effective tax rate in Argentina ($0.02); and
- Consolidated invested capital declined by about $230 million, reflecting lower inventory levels in all operations.
- Strong cash generation during the fourth quarter of 2014, largely in the Company's Canadian operations, resulted in free cash flow of $385 million.

Key Performance Measures

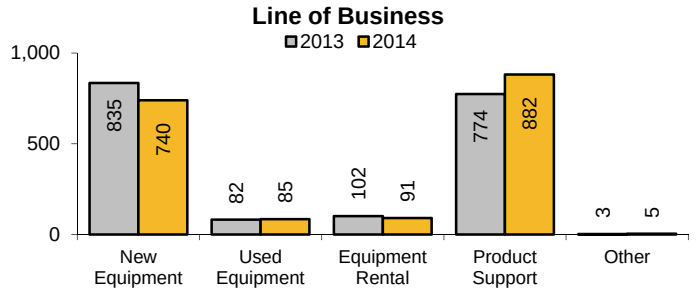
The Company's operational improvement priorities include: customer & market leadership; supply chain optimization; service excellence; and asset utilization. The Company's 2014 incentive plans are aligned with the following KPIs to consistently measure performance across the organization and monitor progress in improving Return on Invested Capital.

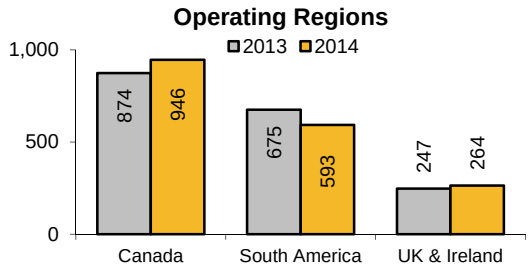
	2014				2013				2012 (restated)
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4 [1]
Return on Invested Capital									
ROIC									
Consolidated	**15.3%**	15.4%	16.0%	15.4%	15.7%	15.8%	15.8%	16.2%	16.5%
Canada	**17.1%**	16.8%	16.6%	15.7%	15.9%	15.9%	15.5%	16.3%	15.7%
South America	**14.6%**	15.8%	17.4%	17.0%	17.6%	17.9%	18.1%	18.4%	19.7%
UK & Ireland	**16.3%**	15.6%	15.9%	16.3%	16.4%	16.8%	15.4%	15.3%	16.3%
Earnings Before Finance Costs and Income Taxes									
EBIT ($ millions)									
Consolidated	**142**	114	137	111	145	136	123	117	148
Canada	**73**	80	77	54	69	76	61	57	73
South America	**59**	32	57	50	76	56	59	57	76
UK & Ireland	**11**	14	14	12	8	12	13	10	9
EBIT Margin									
Consolidated	**7.9%**	6.8%	7.8%	6.6%	8.1%	7.6%	7.6%	7.5%	8.5%
Canada	**7.7%**	9.2%	8.3%	6.0%	7.9%	7.9%	7.9%	7.5%	9.2%
South America	**9.8%**	6.2%	10.0%	9.0%	11.3%	9.4%	9.5%	9.3%	10.3%
UK & Ireland	**4.3%**	4.8%	5.1%	4.9%	3.3%	5.3%	5.7%	5.4%	4.2%
Invested Capital									
Invested Capital ($ millions)									
Consolidated	**3,106**	3,340	3,334	3,414	3,138	3,342	3,443	3,317	3,131
Canada	**1,475**	1,714	1,756	1,682	1,488	1,716	1,740	1,663	1,589
South America	**1,348**	1,298	1,274	1,443	1,391	1,379	1,454	1,419	1,298
UK & Ireland	**284**	344	309	296	265	268	259	256	260
Invested Capital Turnover (times)									
Consolidated	**2.10x**	2.09x	2.12x	2.06x	2.04x	2.03x	2.01x	2.12x	2.22x
Canada	**2.19x**	2.15x	2.20x	2.11x	2.03x	1.95x	1.92x	2.13x	2.22x
South America	**1.66x**	1.71x	1.74x	1.73x	1.78x	1.86x	1.87x	1.88x	1.98x
UK & Ireland	**3.43x**	3.43x	3.43x	3.41x	3.37x	3.27x	3.12x	3.13x	3.25x
Inventory ($ millions)	**1,661**	1,806	1,835	1,945	1,756	1,904	1,978	1,911	1,930
Inventory Turns (times)	**2.81x**	2.64x	2.56x	2.61x	2.74x	2.44x	2.23x	2.38x	2.43x
Working Capital to Sales Ratio	**26.1%**	26.0%	25.5%	26.3%	26.5%	26.7%	27.0%	25.4%	24.5%
Free Cash Flow ($ millions)	**385**	109	123	(134)	365	163	6	(93)	245
Net Debt to Invested Capital Ratio	**31.4%**	39.4%	40.9%	42.9%	40.8%	47.8%	50.6%	51.1%	50.0%
Net Debt to EBITDA Ratio	**1.4**	1.8	1.8	2.0	1.7	2.2	2.4	2.3	2.2

[1] The 2012 comparative results described in this table 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.

Revenue

Three months ended December 31
($ millions)





For the three months ended December 31, 2014, the Company generated revenue of $1.8 billion, a slight increase over Q4 2013, as higher revenues in the Company's Canadian and UK & Ireland operations offset lower revenues in South America. An increase in product support, driven primarily by improved demand for parts across all operations, more than offset the decrease in new equipment revenue from the Company's South American operations. Sequentially, revenue was up 8% from Q3 2014, reflecting an increase in both the Company's Canadian and South American operations.

Foreign exchange had a positive impact on revenue, mainly due to the 8% weaker Canadian dollar relative to the U.S. dollar and the 6% weaker Canadian dollar relative to the U.K. pound sterling, for the fourth quarter of 2014 compared to the same period last year.

Product support revenue was up 14% over the same period in 2013, reflecting stronger demand for parts in the mining sector in the Company's Canadian and South American operations. Product support revenues in the Company's UK & Ireland operations were up 12% (6% in functional currency), driven by higher power systems parts sales.

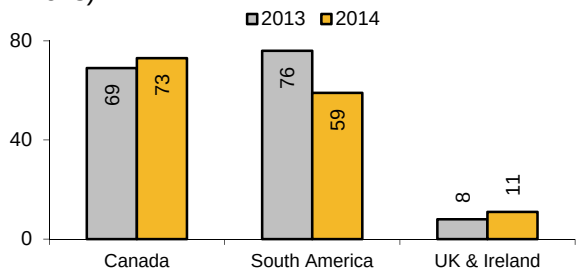
New equipment sales were down 11% compared to the prior year, with the decrease from the Company's South American operations more than offsetting the increases in the Company's other operations. New equipment revenue was down in the Company's South American operations, primarily driven by lower activity in the Chilean mining sector. The decrease was partially offset by increases in the Company's Canadian and UK & Ireland operations, both driven by power systems.

Earnings Before Finance Costs and Income Taxes

On a consolidated basis, fourth quarter 2014 EBIT was $142 million, a decrease of 3% from EBIT of $145 million in the prior year, reflecting lower sales volumes in the Company's South American operations.

Gross profit decreased 5% to $529 million compared to the same period in 2013. Gross profit margin was 29.3%, down from 30.9% in the fourth quarter of 2013. A higher proportion of lower-margin mining parts in the sales mix and lower gross profit from rental due to reduced volume offset the favourable revenue mix shift to product support and improved service profitability in the Company's Canadian operations. In addition, higher favourable equipment cost adjustments as well as positive adjustments to certain mining service contracts in Q4 2013 contributed to a higher EBIT in that period.

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



(1) Excluding other operations – corporate head office

SG&A costs were $393 million for the fourth quarter of 2014, a 2% decrease from the same period last year on relatively similar revenues. This decrease was primarily due to a volume-related decrease in the Company's South American operations, along with operational improvements in the Company's Canadian operations resulting in a 5% reduction to their SG&A on 8% higher revenues. SG&A costs in the fourth quarter of 2014 reflected a decrease in employee-related costs.

In addition, the weaker Argentine and Chilean pesos against the U.S. dollar also lowered SG&A in comparison to Q4 2013, which contributed to the overall decrease in SG&A. Excluding the inflation adjustment recognized in Q4 2014, the positive impact of foreign exchange on EBIT was largely offset by the foreign exchange impact on the provision for income taxes, primarily from Argentina.

Higher equity earnings from Energyst of $5 million compared to the same period of 2013 partly offset the decrease in EBIT.

In December 2013, management decided to postpone any decision on implementation of an ERP system in its UK & Ireland operations due to the needs and size of these operations. This led to an accounting review and decision to write-off $5 million of previously capitalized costs. This write-off reduced EBIT in Q4 2013.

The Company's EBIT margin was 7.9% in the fourth quarter of 2014, down from the 8.1% earned in the same period of 2013 driven mainly by the lower gross profit margin, discussed above. EBIT margin improved in the fourth quarter of 2014 compared to the previous three quarters of 2014.

Finance Costs

Finance costs in the three months ended December 31, 2014 of $20 million was down marginally from the $21 million reported in the fourth quarter of 2013.

Provision for Income Taxes

The effective income tax rate for the fourth quarter of 2014 was 12.1%, down from 25.1% in the comparable period of 2013. The decrease was primarily the result of the Company applying an adjustment in Q4 2014 to reduce taxable income in Argentina to compensate for the loss of purchasing power due to inflation and a lower estimated annual effective tax rate for Argentina.

Net Income

Net income was $107 million in the fourth quarter of 2014, an increase of 15% from the $93 million earned in the same period last year. Basic EPS was $0.62 per share compared with $0.54 per share in the comparative period last year.

Net income and EPS in the fourth quarter of 2014 were positively impacted by:

- an inflation adjustment in the Company's Argentine operations ($0.05 per share), and
- a lower than expected annual effective tax rate in Argentina ($0.02).

Net income and EPS in the fourth quarter of 2013 were negatively impacted by a one-time non-cash write-off of previously capitalized ERP costs in the Company's UK & Ireland operations ($0.02 per share).

Quarterly Results by Reportable Segment

Segmented EBIT Information

Three months ended December 31, 2014 ($ millions)	**Canada**	**South America**	**UK & Ireland**	**Other**	**Consolidated**
Revenue from external sources	**$ 946**	**$ 593**	**$ 264**	**$ —**	**$ 1,803**
Operating costs	**(849)**	**(516)**	**(245)**	**(5)**	**(1,615)**
Depreciation and amortization	**(26)**	**(18)**	**(8)**	**—**	**(52)**
Equity earnings	**2**	**—**	**—**	**4**	**6**
Earnings (loss) before finance costs and taxes	**$ 73**	**$ 59**	**$ 11**	**$ (1)**	**$ 142**
EBIT					
- percentage of revenue	**7.7%**	**9.8%**	**4.3%**	**—**	**7.9%**
- percentage by operations	**52%**	**41%**	**8%**	**(1)%**	**100%**

Three months ended December 31, 2013 ($ millions)	Canada	South America	UK & Ireland	Other	Consolidated
Revenue from external sources	$ 874	$ 675	$ 247	$ —	$ 1,796
Operating costs	(778)	(580)	(226)	(6)	(1,590)
Depreciation and amortization	(29)	(18)	(8)	—	(55)
Equity earnings (loss)	2	—	—	(2)	—
Other income	—	1	—	—	1
Other expense	—	(2)	(5)	—	(7)
Earnings (loss) before finance costs and taxes	$ 69	$ 76	$ 8	$ (8)	$ 145
EBIT					
- percentage of revenue	7.9%	11.3%	3.3%	—	8.1%
- percentage by operations	48%	52%	6%	(6)%	100%

Canada

- Revenues were up by 8% driven by higher product support revenues, notably parts sales in mining. New equipment sales increased by 4%, driven by higher volumes in power systems. Rental revenues were 12% lower than strong volumes last year, mostly due to increased competition in rental markets.
- EBIT rose by 6% to $73 million; however, EBIT margin of 7.7% was below 7.9% in Q4 2013, mostly due to lower gross profit margins.
    - Gross profit declined by 3% from Q4 2013, reflecting lower margins in all lines of business, with the exception of service. The main reasons for lower gross profit margins were a higher proportion of low-margin mining parts in the revenue mix, lower gross profit from rental due to reduced volumes, and positive equipment cost adjustments in Q4 2013 which benefited last year's new equipment margins.
    - SG&A expenses declined by 5% despite an 8% increase in revenues, reflecting continued solid progress on the supply chain and service profitability initiatives.

South America

- Revenues declined by 12% (down 19% in functional currency) as market conditions in the region remained challenging and mining customers continued to focus on maintaining production levels while reducing operating costs. New equipment sales were down by 46% in functional currency, predominantly due to reduced demand from the mining sector. Product support revenues were up 5% in functional currency, driven by higher parts sales in mining, which more than offset lower service revenues.
- Quarterly EBIT declined by 23% to $59 million (down 29% in functional currency) from a strong EBIT reported in Q4 2013. EBIT margin was 9.8% compared to 11.3% in the same period last year. Although revenue has decreased more quickly than the Company has been able to adjust its cost base, the South American operations still earned a solid 9.8% EBIT margin, reflecting the Company's ability to manage costs during challenging market conditions. Partly mitigating this decrease was a shift in sales mix to a greater proportion of product support (Q4 2014: 66%; Q4 2013: 51%). Contributing to the higher EBIT margin in Q4 2013 was favourable adjustments to certain mining service contracts.

UK & Ireland

- Revenues rose by 7% (up slightly in functional currency). New equipment sales were up 10% (up 4% in functional currency) and product support revenues were 12% higher (up 6% in functional currency), driven primarily by power systems projects. The revenue growth in power systems was partly offset by reduced demand for used equipment in favour of new equipment purchases.
- EBIT of $11 million was $3 million higher than in Q4 2013, which was impacted by a $5 million write-off of ERP costs. EBIT margin was 4.3% compared to 3.3% a year ago, reflecting a highly competitive market environment. The lower EBIT and EBIT margin in Q4 2013 was largely due to the $5 million write-off of previously capitalized ERP costs, discussed above.

Outlook

Canada

The outlook for Western Canada is uncertain. The recent decline in the price of oil has forced producers to reduce capital and operating expenditures. While mining customers' production levels are expected to be maintained and a number of significant projects have been confirmed, demand for new equipment has slowed. In addition, producers are insourcing some service-related activities and postponing maintenance.

The Company has taken cost reduction measures to respond to challenging market conditions and expected revenue decline in Western Canada. The Company has imposed a compensation freeze at Finning Canada and the corporate office in Vancouver for all salaried employees, including executives. In addition, the Company is reducing its workforce by about 500 employees or roughly 9% of its Canadian workforce. The Company continues to closely monitor macro-economic conditions and is prepared to take further actions to align expenses with business volumes.

There are a few pockets of strength in Western Canada. Infrastructure and construction activity remains strong; however, order intake for construction equipment has slowed as a result of reduced visibility into future projects. The Company's forestry business is growing as a result of strong demand for lumber. In power systems, while the slowdown in oil has impacted well servicing customers, demand for gas compression and rental equipment is expected to remain active in the near term. The Company is quoting for electric power generation to a diverse range of projects, including hospitals, mining, and gas plants.

Canada's product support business is expected to remain stable. The active machine population has grown in recent years, and most of the Company's service shops are busy.

South America

In South America, concerns regarding higher production costs in copper mining continue to delay investments in new projects. As a result, the Company has been selling relatively few new machines to the mining sector for some time.

The Company took early actions in South America to align its cost structure and invested capital to lower activity levels, and expects to continue operating at historical profitability levels. In addition, South American operations have taken advantage of depressed market conditions to successfully grow market share in core equipment.

The Chilean government's infrastructure agenda is expected to positively impact equipment requirements in the latter half of 2015. In addition, the Company expects product support to increase over 2014 as copper production levels are being maintained, and mining customers have been deferring decisions on component purchases and major repairs for some time. In Argentina, the Company is seeing a moderately higher level of quotation activity. In the energy sector, there are a number of mid-size projects coming on stream.

UK & Ireland

In the UK & Ireland, the equipment solutions division has been growing market share in the expanding and competitive general construction segment. The relatively buoyant market has been driven by residential and commercial construction, infrastructure, energy, quarry, and plant hire sectors where the Company has won some significant deals. The coal mining industry remains weak, and consolidation continues in the aggregates market, impacting new equipment sales in those sectors. The decline in product support in these industries is expected to be offset by growth of machine rebuilds in other sectors.

In power systems, the Company recently won some important deals with data centre, marine and gas customers. The recent decline in the price of oil is not expected to have a negative impact on the power systems business.

Operational Priorities

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 improvement in capital efficiency will be driven through optimization of the supply chain to reduce working capital and improvements in asset utilization. As the Company manages through uncertain macro-economic conditions, it will accelerate the execution of this operational excellence agenda, particularly in Canada.

Liquidity and Capital Resources

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

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

Operating Activities

Cash flow provided by operations was $546 million in 2014 compared to $515 million in 2013. The higher cash inflow was mainly the result of lower net investment in rental assets. In 2014, the Company invested $35 million in rental assets, net of disposals, compared to cash invested of $73 million in rental assets, net of disposals in 2013. Rental demand softened in 2014 relative to a 2013, which was reflected in lower rental revenue in 2014 (down 9% compared to 2013).

Working capital spend in 2014 was down slightly compared to 2013, with a decrease in the Company's South American operations, reflecting lower inventory investment and a reduction in supplier payments to match activity level, partially offsetting higher working capital spend in Canada and the UK & Ireland.

Investing Activities

Net cash used in investing activities in 2014 of $81 million was comparable with $79 million cash used in investing activities in 2013.

Additions to property, plant and equipment and intangible assets, net of disposals, of $63 million was the primary use of cash in 2014 compared to a $74 million use of cash in 2013. Contributing to the use of cash in 2014 was the acquisition of SITECH in the Company's UK & Ireland operations for cash consideration of $14 million.

Financing Activities

To complement the internally generated funds from operating and investing activities, the Company has $1.8 billion in unsecured credit facilities. Included in this amount are committed bank facilities totalling $1.2 billion with various Canadian, U.S., and South American financial institutions. At December 31, 2014, $1.0 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 2014, DBRS re-confirmed the Company's short-term and long-term debt ratings at R-1 (low) and A (low), respectively, and S&P re-confirmed the Company's long-term debt rating at BBB+. 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. Cash flow used in financing activities in 2014 was lower than last year primarily due to a reduction in short-term debt compared to the prior year period as well as cash used in the refinancing of senior and medium term notes in the prior year.

In May 2013, the Company refinanced the 5.625% £70 million Eurobond, due May 30, 2013 with an issuance of unsecured 3.40% Senior Notes, Series F, of £70 million ($109 million) due May 23, 2023 in the U.S. private placement market.

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 its 5.16% $250 million MTN due September 3, 2013. The resulting early redemption fees of approximately $2 million have been reflected in finance costs in 2013.

Dividends paid to shareholders in 2014 were $118 million, up 15% compared to 2013, reflecting the $0.025 per share increase to a quarterly dividend of $0.1775 per share announced in May 2014.

Free Cash Flow

The Company's Free Cash Flow was a generation of cash of $483 million compared to cash generation of $441 million in the prior year. The main drivers resulting in greater free cash flow were lower net investment in rental assets and lower working capital, driven by a reduction in equipment inventory and lower supplier payments, largely in the Company's South American operations.

Net Debt to Invested Capital

Net Debt to Invested Capital at December 31, 2014 was 31.4%, an all-time low, and a decrease compared with 39.4% at September 30, 2014 and 40.8% at December 31, 2013. The Company's target range for Net Debt to Invested Capital is 35% to 45%. The significant cash generation during the fourth quarter of 2014 resulted in the Company falling below this target range. The Company is evaluating capital allocation opportunities. 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. The Company was in compliance with this covenant at the end of 2014.

Contractual Obligations

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

($ millions)	2015	2016	2017	2018	2019	Thereafter	Total
Short-term debt							
- principal repayment	$ 7	$ —	$ —	$ —	$ —	$ —	$ 7
Long-term debt							
- principal repayment	—	—	13	350	—	1,055	1,418
- interest	65	65	65	54	43	326	618
Operating leases	82	63	46	27	22	98	338
Finance leases	4	3	3	3	2	15	30
Total contractual obligations	$ 158	$ 131	$ 127	$ 434	$ 67	$ 1,494	$ 2,411

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. Funding levels are monitored regularly and reset with new actuarial funding valuations performed by the Company's (or plan Trustees') actuaries that occur at least every three years. In 2014, approximately $31 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, 2015 amount to approximately $26 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, 2014, approximately 83%, 70% 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 £150 per month. The Company will provide one common share, purchased in the open market, for every three shares the employee purchases. At December 31, 2014, approximately 28% of eligible employees in Finning (UK) were contributing to this plan.

These plans may be cancelled by Finning at any time.

Accounting Estimates and Contingencies

Accounting, Valuation, and Reporting

Changes in the rules or standards governing accounting can impact Finning's financial reporting. The Company employs professionally qualified accountants throughout its finance group and all of the operating unit financial officers have a reporting relationship to the Company's Chief Financial Officer (CFO). Senior financial representatives are assigned to all significant projects that impact financial accounting and reporting. Policies are in place to ensure completeness and accuracy of reported transactions. Key transaction controls are in place, and there is a segregation of duties between transaction initiation, processing, and cash receipt or disbursement. Accounting, measurement, valuation, and reporting of accounts, which involve estimates and / or valuations, are reviewed quarterly by the CFO and SVP, Corporate Controller, as well as 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 2 to the consolidated financial statements for the year ended December 31, 2014. 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 post-employment 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 long term contracts (primarily power systems and maintenance and repair contracts), and revenues and costs associated with the sale of assets with either repurchase commitments or rental purchase options.

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 when events or changes in circumstances indicate that their value may not be fully recoverable. Any potential goodwill or intangible asset impairment is identified by comparing the recoverable amount of the cash generating unit to its carrying value. If the recoverable amount of the cash generating unit exceeds its carrying value, goodwill and/or the intangible asset are considered not to be impaired. If the recoverable amount of the cash generating unit is less than the carrying amount, then the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the cash generating unit and then to the other assets of the cash generating unit pro-rata on the basis of the carrying amount of each asset in the cash generating unit. Any impairment loss is recognized immediately in the consolidated statement of income. Impairment losses recognized for goodwill are never reversed.

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

The Company performed its assessment of goodwill and intangible assets with indefinite lives and determined that there was no impairment at December 31, 2014 and 2013.

Income Taxes

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

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

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 Canadian dollar (CAD), the U.S. dollar (USD), the U.K. pound sterling (GBP), the Chilean peso (CLP) and the Argentine peso (ARS). 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/ARS relationships.

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 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**	
Exchange rate	**2014**	2013	**2014**	2013	**2014**	2013
U.S. dollar	**1.1601**	1.0636	**1.1356**	1.0494	**1.1045**	1.0299
U.K. pound sterling	**1.8071**	1.7627	**1.7978**	1.6994	**1.8190**	1.6113
Chilean peso	**0.0019**	0.0020	**0.0019**	0.0020	**0.0019**	0.0021
Argentine peso	**0.1357**	0.1631	**0.1334**	0.1733	**0.1364**	0.1889

The Canadian dollar has historically been positively correlated to commodity prices. In a scenario of declining commodity prices, the Company's resource industry customers may curtail capital expenditures and decrease production which can result in reduced demand for equipment, parts, and services. At the same time, the weaker Canadian dollar relative to the U.S. dollar positively impacts the Company's financial results when U.S. dollar based revenues and earnings are translated into Canadian dollar reported revenues and earnings, 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, Chilean peso, and Argentine peso is expected to continue to affect Finning's results.

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 foreign currency translation adjustments in 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 $138 million recorded in 2014 resulted primarily from the weakening of the Canadian dollar against the U.S. dollar at December 31, 2014 compared to December 31, 2013. This was partially offset by $52 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)	**2014**	2013	**2014**	2013
EBIT	**$ 142**	$ 145	**$ 504**	$ 521
Finance costs	**(20)**	(21)	**(85)**	(91)
Provision for income taxes	**(15)**	(31)	**(101)**	(95)
Net income	**$ 107**	$ 93	**$ 318**	$ 335

Net Debt to Invested Capital

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

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

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

December 31 ($ millions, except as noted)	**2014**	2013
Cash and cash equivalents	**$ (450)**	$ (176)
Short-term debt	**7**	89
Current portion of long-term debt	**—**	1
Long-term debt	**1,418**	1,366
Net debt	**975**	1,280
Shareholders' equity	**2,131**	1,858
Invested capital	**$ 3,106**	$ 3,138
Net debt to invested capital	**31.4%**	40.8%

Dividend Payout Ratio

Dividend payout ratio is used by management to manage its capital, and is calculated as the indicated annual dividend declared per share divided by basic earnings per share for the last twelve month period. The indicated annual dividend declared is calculated as four times the declared quarterly dividend. The Company's strategy is to manage, over a longer-term average basis, to the target range set out below.

December 31	2014	2013
Quarterly dividend declared	**$ 0.1775**	$ 0.1525
Indicated annual dividend	**0.71**	0.61
Basic earnings per share	**1.85**	1.95
Dividend payout ratio	**38.4%**	31.3%

As a result of lower earnings, the 2014 dividend payout ratio is above the Company's current target of 25 – 35%; however, management believes that the Company has the cash flow available to fund the dividend at this level. Management is currently in the process of reviewing its target ranges to ensure they continue to be appropriate and help to support access to capital at a reasonable cost.

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:

	Three months ended December 31		Twelve months ended December 31	
($ millions)	**2014**	2013	**2014**	2013
EBITDA	**$ 194**	$ 200	**$ 720**	$ 737
Depreciation and amortization	**(52)**	(55)	**(216)**	(216)
Finance costs	**(20)**	(21)	**(85)**	(91)
Provision for income taxes	**(15)**	(31)	**(101)**	(95)
Net income	**$ 107**	$ 93	**$ 318**	$ 335

ROIC

Return on Invested Capital, or 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 ROIC (at a consolidated and segment level), as a useful measure for supporting investment and resource allocation decisions, as it adjusts for certain items that may affect comparability between certain competitors and segments.

December 31 **($ millions, except as noted)**	2014	2013
EBIT – last twelve months	**$ 504**	$ 521
Invested capital – four quarter average	**$ 3,298**	$ 3,310
ROIC	**15.3%**	15.7%

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). Management views working capital as a measure for assessing overall liquidity.

	2014				2013			
($ millions)	**Q4**	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Total current assets	**$ 3,477**	$ 3,435	$ 3,421	$ 3,553	$ 3,248	$ 3,326	$ 3,463	$ 3,408
Cash and cash equivalents	**(450)**	(214)	(185)	(210)	(176)	(83)	(115)	(116)
Total current assets [1]	**$ 3,027**	$ 3,221	$ 3,236	$ 3,343	$ 3,072	$ 3,243	$ 3,348	$ 3,292
Total current liabilities	**$ 1,372**	$ 1,502	$ 1,580	$ 1,731	$ 1,549	$ 1,738	$ 2,156	$ 2,256
Short-term debt	**(7)**	(121)	(175)	(279)	(89)	(327)	(454)	(429)
Current portion of long-term debt	**—**	—	—	(1)	(1)	(1)	(251)	(358)
Total current liabilities [2]	**$ 1,365**	$ 1,381	$ 1,405	$ 1,451	$ 1,459	$ 1,410	$ 1,451	$ 1,469
Working capital	**$ 1,662**	$ 1,840	$ 1,831	$ 1,892	$ 1,613	$ 1,833	$ 1,897	$ 1,823
Four quarter average	**$ 1,807**				$ 1,791			

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

Free Cash Flow

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

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

A reconciliation of Free Cash Flow is as follows:

	Three months ended December 31		Twelve months ended December 31	
($ millions)	**2014**	2013	**2014**	2013
Cash flow provided by operating activities	**$ 403**	$ 402	**$ 546**	$ 515
Additions to property, plant, and equipment and intangible assets	**(20)**	(39)	**(81)**	(99)
Proceeds on disposal of property, plant, and equipment	**2**	2	**18**	25
Free Cash Flow	**$ 385**	$ 365	**$ 483**	$ 441

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)**		**2014**		2013
Cost of sales – annualized	**$**	**4,868**	$	5,015
Inventory – two quarter average	**$**	**1,734**	$	1,830
Inventory turns (number of times)		**2.81**		2.74

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)**		**2014**		2013
Revenue – last twelve months	**$**	**6,918**	$	6,756
Invested capital – four quarter average	**$**	**3,298**	$	3,310
Invested capital turnover		**2.10**		2.04

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)**		**2014**		2013
Working capital – four quarter average	**$**	**1,807**	$	1,791
Revenue – last twelve months	**$**	**6,918**	$	6,756
Working capital to sales		**26.1%**		26.5%

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. 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)**		**2014**		2013
Net debt	**$**	**975**	$	1,280
EBITDA – last twelve months	**$**	**720**	$	737
Net Debt to EBITDA		**1.4**		1.7

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. 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 AIF, MD&A, and consolidated financial statements. All key business risks, including financial risks and uncertainties, are included in the Company's AIF.

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 payment expenses (refer to notes 6 and 10 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

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, 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 on receivables from customers and suppliers is minimized because of the diversification of the Company's operations as well as its large customer base and its geographical dispersion.

The 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.

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. At December 31, 2014, the Company had approximately $1,789 million (2013: $1,858 million) of unsecured credit facilities. Including all bank and commercial paper borrowings drawn against these facilities, approximately $1,573 million (2013: $1,587 million) of capacity remained available, of which approximately $987 million (2013: $922 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.

<u>Financing Arrangements</u>

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 Company's Audit Committee.

Foreign Exchange Risk

The Company is geographically diversified, with significant investments in several different countries. The Company transacts business in multiple currencies, the most significant of which are the Canadian dollar, U.S. dollar, U.K. pound sterling, Chilean peso, and Argentine 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 and net assets or liabilities 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 exchange risk with regard to foreign currency earnings.

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-term 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.

For further information on the Company's market risk, refer to note 6 of the notes to the consolidated financial statements.

Interest Rate Risk

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

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

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

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

The Company paid floating interest rates on its variable rate share forward contract (VRSF), which was settled during 2014. Both fair value and future cash flows were 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.

The Company's variable rate instruments are in a net asset position, therefore, an increase of 1.0% in interest rates for a full year relative to the interest rates at the reporting date would have increased income by approximately $4 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.

Commodity Prices

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

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

Share-Based Payment Risk

Share-based payment plans are an integral part of the Company's employee compensation program, and can be in the form of the Company's common shares or cash payments that reflect the value of the shares. Share-based payment plans are accounted for at fair value, and the expense associated with these plans can therefore vary as the Company's share price, share price volatility, and employee exercise behavior change.

In 2007, the Company entered into a VRSF to partly offset this exposure. 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. During 2014, the Company settled the outstanding VRSF for cash of $8 million (2013: outstanding VRSF related to 1.5 million common shares at an execution price of $28.71 per share plus interest).

Contingencies and Guarantees

Due to the size, complexity, and nature of the Company's operations, various legal, customs, and tax matters are pending. These include a number of claims from the Argentina Customs Authority associated with the export of agricultural product. The Company has appealed these claims, believes they are without merit, and is confident in its position.

These matters may take a number of years to resolve. Should the ultimate resolution of these actions differ from management's assessment, a material adjustment could impact the Company's financial position. However, it is the current opinion of management that 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, 2014, the total estimated value of these contracts outstanding is $154 million (2013: $147 million) coming due at periods ranging from 2015 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 million (2013: $2 million).

For further information on the Company's contingencies, commitments, guarantees, and indemnifications, refer to notes 29 and 30 of the notes to the 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 CFO, on a timely basis so that appropriate decisions can be made regarding public disclosure.

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

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

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

Internal Control over Financial Reporting

Management is responsible for establishing and maintaining adequate internal control over financial reporting. Management has designed internal control over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements in accordance with IFRS. There has been no change in the design of the Company's internal control over financial reporting during the year ended December 31, 2014, that would materially affect, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

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

Evaluation of Effectiveness

As required by National Instrument 52-109, *Certification of Disclosure in Issuers' Annual and Interim Filings* (NI 52-109) issued by the Canadian Securities regulatory authorities, an evaluation of the design and testing of the effectiveness of the operation of the Company's disclosure controls and procedures and internal control over financial reporting were conducted as of December 31, 2014, by and under the supervision of management. In making the assessment of the effectiveness of the Company's disclosure controls and procedures and internal control over financial reporting, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in *Internal Control – Integrated Framework (2013 edition)*. The evaluation included documentation review, enquiries, testing, and other procedures considered by management to be appropriate in the circumstances.

Based on that evaluation, the CEO and Senior Vice President (SVP), Corporate Controller (fulfilling certain functions of the CFO for an interim period and in that capacity) have concluded that the Company's disclosure controls and procedures and internal control over financial reporting were effective as of December 31, 2014.

Selected Annual Information

($ millions, except for share data)		2014		2013		2012 (Restated)
Total revenue from external sources [1]	**$**	**6,918**	$	6,756	$	6,576
Net income [1]	**$**	**318**	$	335	$	327
Earnings Per Share [1]						
Basic EPS	**$**	**1.85**	$	1.95	$	1.90
Diluted EPS	**$**	**1.84**	$	1.94	$	1.90
Total assets [1]	**$**	**5,273**	$	5,058	$	5,118
Long-term debt						
Current	**$**	**—**	$	1	$	364
Non-current		**1,418**		1,366		1,012
Total long-term debt [2]	**$**	**1,418**	$	1,367	$	1,376
Cash dividends declared per common share	**$**	**0.6850**	$	0.5975	$	0.55

1) In July 2014, the Company's UK & Ireland operations acquired SITECH. 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 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.

   In response to the Argentine 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. The Company has not exported agricultural product since Q3 2013.

   Results in 2014 were negatively impacted by the write-off of previously capitalized ERP costs in the Company's South American operations by $0.06 per share and a one-time revaluation adjustment of the Company's deferred income tax balances of $0.04 per share. In September 2014, the Chilean government signed into law an extensive series of tax reforms. These tax reforms included a gradual increase in the substantively enacted income tax rate from 20% to 27%, which resulted in a one-time revaluation adjustment of the Company's deferred income tax balances. These negative impacts were partially offset by the positive tax impact in 2014 of an inflationary adjustment in Argentina by $0.05 per share. Results in 2013 were positively impacted by a benefit from previously unrecognized tax losses of $0.03 per share, which offset the negative impact from the write-off of previously capitalized ERP costs in the Company's UK & Ireland operations of $0.02 per share.

2) 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.

   In September 2013, the Company negotiated a two-year extension to its $1.0 billion global unsecured syndicated committed operating credit facility, under which $938 million was extended to September 2017 from the original maturity of September 2015.

Selected Quarterly Information

$ millions (except for share and option data)	2014				2013			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Revenue from operations [1]								
Canada	**$ 946**	$ 866	$ 930	$ 891	$ 874	$ 960	$ 768	$ 756
South America [2]	**593**	517	568	550	675	598	629	613
UK & Ireland	**264**	287	270	235	247	222	223	191
Total revenue	**$ 1,803**	$ 1,670	$ 1,768	$ 1,676	$ 1,796	$ 1,780	$ 1,620	$ 1,560
Net income [1] [3]	**$ 107**	$ 57	$ 86	$ 68	$ 93	$ 86	$ 83	$ 73
Earnings Per Share [1] [3]								
Basic EPS	**$ 0.62**	$ 0.33	$ 0.50	$ 0.39	$ 0.54	$ 0.50	$ 0.48	$ 0.43
Diluted EPS	**$ 0.62**	$ 0.33	$ 0.50	$ 0.39	$ 0.54	$ 0.50	$ 0.48	$ 0.43
Total assets [1]	**$ 5,273**	$ 5,237	$ 5,196	$ 5,353	$ 5,058	$ 5,139	$ 5,302	$ 5,194
Long-term debt								
Current	**$ —**	$ 1	$ 1	$ 1	$ 1	$ 1	$ 251	$ 358
Non-current	**1,418**	1,408	1,373	1,393	1,366	1,351	1,152	1,023
Total long-term debt [4]	**$ 1,418**	$ 1,409	$ 1,374	$ 1,394	$ 1,367	$ 1,352	$ 1,403	$ 1,381
Cash dividends paid per common share	**17.75¢**	17.75¢	17.75¢	15.25¢	15.25¢	15.25¢	15.25¢	14.00¢
Common shares outstanding (000's)	**172,370**	172,369	172,182	172,126	172,014	172,000	171,999	171,971
Options outstanding (000's)	**4,226**	4,237	5,437	5,381	5,685	5,596	5,643	4,708

1) In July 2014, the Company's UK & Ireland operations acquired SITECH. The results of operations and financial position of this acquired business have been included in the figures above since the date of acquisition.

2) In response to the Argentine government's efforts to balance imports and exports and to manage access to foreign currency, 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 effective second quarter of 2013 and comparative periods adjusted accordingly. The Company has not exported agricultural product since Q3 2013.

3) Results in the fourth quarter of 2014 were positively impacted by an inflationary adjustment to reduce income tax expense in Argentina by $0.05 per share, Results in the third quarter of 2014 were negatively impacted by the write-off of previously capitalized ERP costs in the Company's South American operations by $0.06 per share and a one-time revaluation adjustment of the Company's deferred income tax balances of $0.04 per share. In September 2014, the Chilean government signed into law an extensive series of tax reforms. These tax reforms included a gradual increase in the substantively enacted income tax rate from 20% to 27%, which resulted in a one-time revaluation adjustment of the Company's deferred income tax balances. Results in the fourth quarter of 2013 were negatively impacted by the write-off of previously capitalized ERP costs in the Company's UK & Ireland operations by $0.02 per share. Results in the second quarter of 2013 were positively impacted by a benefit from previously unrecognized tax losses of $0.03 per share.

4) 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.

   In September 2013, the Company negotiated a two-year extension to its $1.0 billion global unsecured syndicated committed operating credit facility, under which $938 million was extended to September 2017 from the original maturity of September 2015.

New Accounting Pronouncements

(a) Changes in Accounting Policy

The Company has adopted the following amendments to standards and new IFRS Interpretations Committee interpretations (IFRIC):

- Amendments to IAS 19, *Employee Benefits* (effective January 1, 2014) clarify the accounting by entities with defined benefit plans that require employee contributions linked only to service in each period. The adoption of this amendment had no impact on the Company's financial position.
- Amendments to IAS 32, *Financial Instruments: Presentation* (effective January 1, 2014) clarify existing application issues relating to offsetting requirements. The adoption of this amendment had no impact on the Company's presentation of financial instruments.
- IFRIC 21, *Levies* (effective January 1, 2014) provides guidance on the recognition of liabilities to pay levies to government bodies in accordance with legislation. This interpretation had no impact on the Company's financial position.
- Amendments to IFRS 3, *Business Combinations* (effective for business combinations for which the acquisition date is on or after July 1, 2014) clarify that contingent consideration classified as an asset or a liability should be measured at fair value at each reporting date, irrespective of whether the contingent consideration is a financial instrument or a non-financial instrument. Changes in fair value (other than measurement period adjustments) should be recognized in net income. This amendment had no impact on the Company's financial position.

(b) Future Accounting Pronouncements

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

- Amendments to IFRS 8, *Operating Segments* (effective January 1, 2015) require disclosure of the judgments made by management in aggregating operating segments. This includes a description of the segments which have been aggregated and the economic indicators which have been assessed in determining that the aggregated segments share similar economic characteristics. Management is currently assessing the impact of the amendments on its annual financial statement disclosures.
- Amendments to IAS 19, *Employee Benefits* (effective January 1, 2016) clarifies that the high quality corporate bonds used in estimating the discount rate for post-employment benefits should be denominated in the same currency as the benefits to be paid. Management is currently assessing the impact of the amendment on its consolidated financial statements.
- Amendments to IAS 1, *Presentation of Financial Statements* (effective January 1, 2016) are designed to encourage companies to apply professional judgment in determining what information to disclose in their financial statements. For example, the amendments make clear that materiality applies to the whole of financial statements and that the inclusion of immaterial information can inhibit the usefulness of financial disclosures. Management is currently assessing the impact of the amendment on its annual financial statement disclosures.
- IFRS 15, *Revenue from Contracts with Customers* (effective January 1, 2017) outlines a single comprehensive model for companies to use in accounting for revenue arising from contracts with customers. Management is currently assessing the impact of the new standard.
- IFRS 9, *Financial Instruments* (effective January 1, 2018) introduces new requirements for the classification and measurement of financial assets and financial liabilities, impairment of financial assets, and hedge accounting. Management is currently assessing the impact of the new requirements on its consolidated financial statements.

Outstanding Share Data

As at February 13, 2015	
Common shares outstanding	172,373,719
Options outstanding	4,174,561

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; the expected target range of the Company's net debt to invested capital ratio; and the expected target range of the Company's dividend payout 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 18, 2015. 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 current 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, 2014 ($ millions)	**Canada**	**South America**	**UK & Ireland**	**Consolidated**	**Revenue percentage**
New equipment	**$ 392**	**$ 176**	**$ 172**	**$ 740**	**41%**
Used equipment	**63**	**12**	**10**	**85**	**5%**
Equipment rental	**67**	**16**	**8**	**91**	**5%**
Product support	**423**	**388**	**71**	**882**	**49%**
Other	**1**	**1**	**3**	**5**	**0%**
Total	**$ 946**	**$ 593**	**$ 264**	**$ 1,803**	**100.0%**
Revenue percentage by operations	**52%**	**33%**	**15%**	**100.0%**	

Three months ended December 31, 2013 ($ millions)	Canada	South America	UK & Ireland	Consolidated	Revenue percentage
New equipment	$ 376	$ 303	$ 156	$ 835	46%
Used equipment	51	10	21	82	5%
Equipment rental	76	19	7	102	6%
Product support	369	342	63	774	43%
Other	2	1	—	3	0%
Total	$ 874	$ 675	$ 247	$ 1,796	100%
Revenue percentage by operations	49%	37%	14%	100%	

Unaudited Quarterly Consolidated Statements of Income

Three months ended December 31 ($ thousands, except share and per share amounts)	**2014**	2013
Revenue		
New equipment	**$ 740,082**	$ 834,467
Used equipment	**85,466**	82,073
Equipment rental	**90,781**	102,200
Product support	**882,457**	774,344
Other	**4,499**	2,697
Total revenue	**1,803,285**	1,795,781
Cost of sales	**(1,274,519)**	(1,241,584)
Gross profit	**528,766**	554,197
Selling, general, and administrative expenses	**(392,681)**	(402,709)
Equity earnings of joint venture and associate	**5,640**	344
Other income	**—**	665
Other expenses	**—**	(7,017)
Earnings before finance costs and income taxes	**141,725**	145,480
Finance costs	**(19,910)**	(21,358)
Income before provision for income taxes	**121,815**	124,122
Provision for income taxes	**(14,697)**	(31,193)
Net income	**$ 107,118**	$ 92,929
Earnings per share		
Basic	**$ 0.62**	$ 0.54
Diluted	**$ 0.62**	$ 0.54
Weighted average number of shares outstanding		
Basic	**172,370,139**	172,003,880
Diluted	**172,865,771**	172,518,569

Attachment 1: Supplementary Information [continued]

Unaudited Quarterly Consolidated Statements of Cash Flow

Three months ended December 31 ($ thousands)	**2014**	2013
OPERATING ACTIVITIES		
Net income	**$ 107,118**	$ 92,929
Adjusting for:		
Depreciation and amortization	**52,118**	54,801
Gain on sale of rental equipment and property, plant, and equipment	**(7,715)**	(1,840)
Derecognition of intangible assets	**—**	5,457
Equity earnings of joint ventures and associate	**(5,640)**	(344)
Share-based payment (recovery) expense	**(2,879)**	2,122
Provision for income taxes	**14,697**	31,193
Finance costs	**19,910**	21,358
Defined benefit and other post-employment benefit expense	**2,750**	4,198
Changes in operating assets and liabilities	**230,080**	234,252
Additions to rental equipment	**(52,681)**	(51,496)
Proceeds on disposal of rental equipment	**78,928**	54,065
Equipment leased to customers, net of disposals	**—**	28
Interest paid	**(20,969)**	(31,127)
Income tax paid	**(12,925)**	(14,048)
Cash flow provided by operating activities	**402,792**	401,548
INVESTING ACTIVITIES		
Additions to property, plant and equipment and intangible assets	**(19,526)**	(38,536)
Proceeds on disposal of property, plant and equipment	**1,691**	1,883
Net payment for acquisitions	**188**	(218)
Cash used in investing activities	**(17,647)**	(36,871)
FINANCING ACTIVITIES		
Decrease in short-term debt	**(113,736)**	(241,377)
Decrease in long-term debt	**(9,366)**	(10,393)
Dividends paid	**(30,596)**	(26,231)
Cash flow used in financing activities	**(153,698)**	(278,001)
Effect of currency translation on cash balances	**4,697**	6,449
Increase in cash and cash equivalents	**236,144**	93,125
Cash and cash equivalents, beginning of period	**214,523**	83,143
Cash and cash equivalents, end of period	**$ 450,667**	$ 176,268

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 2014.

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 2 of the Notes to the Consolidated Financial Statements.

L. Scott Thomson
President and Chief Executive Officer

Anna Marks
Senior Vice President and Corporate Controller

February 18, 2015
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, 2014 and December 31, 2013, and the consolidated statements of income, comprehensive income, shareholders’ equity and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Finning International Inc. as at December 31, 2014 and December 31, 2013, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

Deloitte LLP

Chartered Accountants
February 18, 2015
Vancouver, British Columbia, Canada

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(Canadian $ thousands)	December 31, 2014	December 31, 2013
ASSETS		
Current assets		
Cash and cash equivalents (Note 23)	**$ 450,667**	$ 176,268
Accounts receivable	**972,374**	963,733
Service work in progress	**105,645**	101,544
Inventories (Note 12)	**1,661,277**	1,755,808
Income tax recoverable	**13,034**	9,086
Other assets (Note 14)	**274,730**	242,172
Total current assets	**3,477,727**	3,248,611
Property, plant, and equipment (Note 17)	**675,480**	668,094
Rental equipment (Note 17)	**378,663**	414,126
Distribution network	**340,635**	320,300
Goodwill (Note 18)	**132,144**	114,131
Intangible assets (Note 19)	**55,783**	75,881
Investment in and advances to joint venture and associate (Note 15)	**88,636**	77,988
Finance assets (Note 16)	**16,074**	36,065
Deferred tax assets (Note 8)	**42,634**	53,216
Other assets (Note 14)	**64,902**	49,156
Total assets	**$ 5,272,678**	$ 5,057,568
LIABILITIES		
Current liabilities		
Short-term debt (Note 5)	**$ 7,166**	$ 89,423
Accounts payable and accruals	**1,019,084**	1,010,747
Income tax payable	**12,960**	6,409
Provisions (Note 20)	**63,354**	93,978
Deferred revenue	**264,685**	332,040
Derivative liabilities (Note 6)	**4,796**	16,045
Current portion of long-term debt (Note 5)	**269**	643
Total current liabilities	**1,372,314**	1,549,285
Long-term debt (Note 5)	**1,418,061**	1,366,512
Long-term obligations (Note 21)	**73,953**	80,486
Net employee benefit obligations (Note 22)	**156,640**	144,930
Provisions (Note 20)	**5,421**	6,528
Deferred revenue	**42,052**	9,931
Deferred tax liabilities (Note 8)	**73,541**	42,132
Total liabilities	**3,141,982**	3,199,804
Commitments and contingencies (Notes 29 and 30)		
SHAREHOLDERS' EQUITY		
Share capital (Note 9)	**583,480**	573,165
Contributed surplus	**38,728**	40,296
Accumulated other comprehensive income	**100,383**	13,803
Retained earnings	**1,408,105**	1,230,500
Total shareholders' equity	**2,130,696**	1,857,764
Total liabilities and shareholder's equity	**$ 5,272,678**	$ 5,057,568

Approved by the Directors February 18, 2015

Kathleen O'Neill

K.M. O'Neill, Director

D. Whitehead

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)**	**2014**	2013
Revenue		
New equipment	**$ 2,885,468**	$ 2,908,352
Used equipment	**271,247**	303,282
Equipment rental	**357,425**	391,902
Product support	**3,380,869**	3,143,782
Other	**22,881**	8,676
Total revenue	**6,917,890**	6,755,994
Cost of sales	**(4,855,996)**	(4,675,625)
Gross profit	**2,061,894**	2,080,369
Selling, general, and administrative expenses	**(1,555,535)**	(1,555,490)
Equity earnings of joint venture and associate (Note 15)	**11,347**	9,296
Other income (Note 4)	**42**	120,323
Other expenses (Note 4)	**(13,832)**	(133,780)
Earnings before finance costs and income taxes	**503,916**	520,718
Finance costs (Note 5)	**(84,568)**	(90,275)
Income before provision for income taxes	**419,348**	430,443
Provision for income taxes (Note 8)	**(101,107)**	(95,188)
Net income	**$ 318,241**	$ 335,255
Earnings per share (Note 11)		
Basic	**$ 1.85**	$ 1.95
Diluted	**$ 1.84**	$ 1.94
Weighted average number of shares outstanding		
Basic	**172,215,955**	171,981,097
Diluted	**172,968,100**	172,403,234

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)	**2014**	2013
Net income	**$ 318,241**	$ 335,255
Other comprehensive income (loss), net of income tax		
Items that may be reclassified subsequently to net income:		
Foreign currency translation adjustments	**138,114**	125,621
Unrealized loss on net investment hedges	**(52,135)**	(56,368)
Income tax recovery on net investment hedges	**197**	2,718
Foreign currency translation and loss on net investment hedges, net of income tax	**86,176**	71,971
Unrealized loss on cash flow hedges	**(9,268)**	(3,706)
Realized loss (gain) on cash flow hedges, reclassified to earnings	**9,840**	(5,817)
Income tax recovery (expense) on cash flow hedges	**(168)**	1,829
Gain (loss) on cash flow hedges, net of income tax	**404**	(7,694)
Items that will not be reclassified subsequently to net income:		
Actuarial loss (Note 22)	**(28,960)**	(13,758)
Income tax recovery on actuarial loss	**6,310**	1,884
Actuarial loss, net of income tax	**(22,650)**	(11,874)
Total comprehensive income	**$ 382,171**	$ 387,658

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, 2013	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
Net income	**—**	**—**	**—**	**—**	**—**	**318,241**	**318,241**
Other comprehensive income (loss)	**—**	**—**	**—**	**86,176**	**404**	**(22,650)**	**63,930**
Total comprehensive income	**—**	**—**	**—**	**86,176**	**404**	**295,591**	**382,171**
Issued on exercise of share options	**356,025**	**10,315**	**(10,133)**	**—**	**—**	**—**	**182**
Share option expense	**—**	**—**	**8,565**	**—**	**—**	**—**	**8,565**
Dividends on common shares	**—**	**—**	**—**	**—**	**—**	**(117,986)**	**(117,986)**
Balance, December 31, 2014	**172,370,255**	**$583,480**	**$ 38,728**	**$ 114,279**	**$ (13,896)**	**$1,408,105**	**$2,130,696**

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

CONSOLIDATED STATEMENTS OF CASH FLOW

For years ended December 31 (Canadian $ thousands)	2014	2013
OPERATING ACTIVITIES		
Net income	**$ 318,241**	$ 335,255
Adjusting for:		
Depreciation and amortization	**215,974**	215,731
Gain on sale of rental equipment and property, plant, and equipment	**(27,214)**	(25,419)
Derecognition of intangible assets (Note 4b)	**12,234**	5,457
Equity earnings of joint venture and associate	**(11,347)**	(9,296)
Share-based payment expense	**9,784**	17,045
Provision for income taxes	**101,107**	95,188
Finance costs	**84,568**	90,275
Defined benefit and other post-employment benefit expense (Note 22)	**13,361**	18,239
Changes in operating assets and liabilities (Note 23)	**(17,944)**	(24,991)
Additions to rental equipment	**(264,147)**	(291,396)
Proceeds on disposal of rental equipment	**229,304**	218,019
Equipment leased to customers, net of disposals	**—**	168
Interest paid	**(71,015)**	(86,403)
Income tax paid	**(47,276)**	(43,173)
Cash flow provided by operating activities	**545,630**	514,699
INVESTING ACTIVITIES		
Additions to property, plant, and equipment and intangible assets	**(81,265)**	(98,532)
Proceeds on disposal of property, plant, and equipment	**18,499**	24,514
Investment in and advances to associate (Note 15)	**(4,864)**	(4,542)
Net payment for acquisitions (Note 24)	**(13,633)**	(218)
Cash flow used in investing activities	**(81,263)**	(78,778)
FINANCING ACTIVITIES		
Decrease in short-term debt	**(83,742)**	(225,944)
Decrease in long-term debt	**(1,297)**	(4,330)
Issue of senior notes, net of issue costs	**—**	108,389
Repayment of Eurobond	**—**	(109,725)
Issue of Medium Term Notes, net of issue costs	**—**	198,856
Repayment of Medium Term Notes	**—**	(251,503)
Issue of common shares on exercise of share options	**182**	63
Dividends paid	**(117,986)**	(102,763)
Cash flow used in financing activities	**(202,843)**	(386,957)
Effect of currency translation on cash balances	**12,875**	12,380
Increase in cash and cash equivalents	**274,399**	61,344
Cash and cash equivalents, beginning of year	**176,268**	114,924
Cash and cash equivalents, end of year (Note 23)	**$ 450,667**	$ 176,268

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

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1. General Information

Finning International Inc. ("Finning") is a widely held, publicly traded corporation, listed on the Toronto Stock Exchange (TSX: FTT). The registered and head office of the Company is located at Suite 1000, Park Place, 666 Burrard Street, Vancouver, British Columbia, Canada.

2. Significant Accounting Policies

These consolidated financial statements of Finning and its subsidiaries (together, the "Company") 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 IFRS Interpretations Committee interpretations (IFRIC) issued and effective as of February 18, 2015, 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, contingent consideration, 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 the Company, which includes the Finning (Canada) division and Finning's wholly owned subsidiaries. Subsidiaries are those entities over which Finning has the power over the investee, is exposed, or has rights, to variable returns from its involvement with the investee, and has the ability to use its power to affect its returns, generally accompanying a shareholding that confers more than half of the voting rights. Principal operating subsidiaries where the Company owns 100% of the common shares 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).

(b) 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 items are translated at exchange rates in effect at the statement of financial position dates and non-monetary items are translated at historical exchange rates; and
- Foreign exchange gains and losses are included in income except where the exchange gain or loss arises from the translation of monetary items designated as 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 adjustments. Foreign currency translation adjustments and gains and losses on net investment hedges are reported within other comprehensive income. Cumulative foreign currency translation adjustments net of gains and losses on net investment hedges are recognized in net income upon the disposal of a foreign operation (i.e. a disposal of the Company's entire interest in a foreign operation, or a disposal that involves loss of control of a subsidiary that includes a foreign operation, loss of joint control over a jointly controlled entity that includes a foreign operation, or loss of significant influence over an associate that includes a foreign operation).

The Company has hedged some of its investments in foreign subsidiaries using foreign currency denominated borrowings. Foreign exchange gains or losses arising from the translation of these hedging instruments are accounted for as items of other comprehensive income and presented on the consolidated statement of financial position. Foreign exchange gains or losses arising from net investment hedging instruments are recognized in net income upon the disposal of a foreign operation. See Note 1(q) for further details on the Company's hedge accounting policy.

(c) 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.

(d) 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.

(e) Investment in Joint Venture and Associate

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

(f) Income Taxes

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

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

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

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

(g) 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.

(h) 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.

(i) 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:

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.

(j) 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:

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

(k) 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.

(l) 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.

(m) 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

Lease 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.

(n) 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 equipment rentals and operating leases is recognized in accordance with the terms of the relevant agreement with the customer, either evenly over the term of that agreement or on a usage basis such as the number of hours that the equipment is used;
- Revenue from product support includes sales of parts and servicing of equipment. For sales of parts, revenue is recognized when the part is shipped to the customer or when the part is installed in the customer's equipment. For servicing of equipment, revenue is recognized as the service work is performed. Product support is also offered to customers in the form of long-term maintenance and repair contracts. For these contracts, revenue is recognized on a basis proportionate to the service work that has been performed based on the parts and labour service provided. Parts revenue is recognized based on parts list price and service revenue is recognized based on standard billing labour rates. Any losses estimated during the term of a long-term maintenance and repair contract are recognized when identified; and,
- 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);

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

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

(o) 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.

(p) Post-Employment 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.

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.

(q) 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

Classification

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

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

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

Derivatives

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

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 payment 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.

Cash Flow Hedges

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

Net Investment Hedges

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

(r) Changes in Accounting Policy

The Company has adopted the following amendments to standards and new IFRIC:

- Amendments to IAS 19, *Employee Benefits* (effective January 1, 2014) clarify the accounting by entities with defined benefit plans that require employee contributions linked only to service in each period. The adoption of this amendment had no impact on the Company's financial position.
- Amendments to IAS 32, *Financial Instruments: Presentation* (effective January 1, 2014) clarify existing application issues relating to offsetting requirements. The adoption of this amendment had no impact on the Company's presentation of financial instruments.
- IFRIC 21, *Levies* (effective January 1, 2014) provides guidance on the recognition of liabilities to pay levies to government bodies in accordance with legislation. This interpretation had no impact on the Company's financial position.
- Amendments to IFRS 3, *Business Combinations* (effective for business combinations for which the acquisition date is on or after July 1, 2014) clarify that contingent consideration classified as an asset or a liability should be measured at fair value at each reporting date, irrespective of whether the contingent consideration is a financial instrument or a non-financial instrument. Changes in fair value (other than measurement period adjustments) should be recognized in net income. This amendment had no impact on the Company's financial position.

(s) Future Accounting Pronouncements

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

- Amendments to IFRS 8, *Operating Segments* (effective January 1, 2015) require disclosure of the judgments made by management in aggregating operating segments. This includes a description of the segments which have been aggregated and the economic indicators which have been assessed in determining that the aggregated segments share similar economic characteristics. Management is currently assessing the impact of the amendments on its annual financial statement disclosures.
- Amendments to IAS 19, *Employee Benefits* (effective January 1, 2016) clarify that the high quality corporate bonds used in estimating the discount rate for post-employment benefits should be denominated in the same currency as the benefits to be paid. Management is currently assessing the impact of the amendment on its consolidated financial statements.
- Amendments to IAS 1, *Presentation of Financial Statements* (effective January 1, 2016) are designed to encourage companies to apply professional judgment in determining what information to disclose in their financial statements. For example, the amendments make clear that materiality applies to the whole of financial statements and that the inclusion of immaterial information can inhibit the usefulness of financial disclosures. Management is currently assessing the impact of the amendment on its annual financial statement disclosures.
- IFRS 15, *Revenue from Contracts with Customers* (effective January 1, 2017) outlines a single comprehensive model for companies to use in accounting for revenue arising from contracts with customers. Management is currently assessing the impact of the new standard.
- IFRS 9, *Financial Instruments* (effective January 1, 2018) introduces new requirements for the classification and measurement of financial assets and financial liabilities, impairment of financial assets, and hedge accounting. Management is currently assessing the impact of the new requirements on its consolidated financial statements.

3. Key Assumptions and Significant Judgments

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

Areas of Estimation Uncertainty

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

Asset Lives and Residual Values

Rental equipment and property, plant, and equipment are depreciated to 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.

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 in the current period to the extent that it is probable that contract costs will be recoverable. Contract costs are recognized as expenses in the period in which they are incurred. When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognized as an expense immediately.

Revenue Recognition – Repurchase Commitments

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

Allowance for Doubtful Accounts

The Company makes 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.

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

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

Areas of Significant Judgment

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

Post-Employment Benefit Plans

The Company has defined benefit pension plans and other post-employment benefit plans that provide certain benefits to its employees. Actuarial valuations of these plans are based on assumptions which include discount rates, retail price inflation, mortality rates, employee turnover and salary escalation rates. Judgment is exercised in setting these assumptions. These assumptions impact the measurement of the net employee benefit obligation, funding levels, the net benefit cost 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.

4. Other Income and Other Expenses

Other income includes the following items:

For years ended December 31 ($ thousands)		2014		2013
Export of agricultural product (a)	**$**	**42**	$	120,323

Other expenses include the following items:

For years ended December 31 ($ thousands)		2014		2013
Derecognition of Enterprise Resource Planning system implementation costs (b)	**$**	**12,234**	$	5,457
Costs of export of agricultural product (a)		**158**		123,507
Project costs (c)		**1,440**		4,816
	$	**13,832**	$	133,780

(a) In response to the Argentinean government's efforts to balance imports and exports and to manage access to foreign currency, 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 effective second quarter 2013. The Company is no longer exporting agricultural product.

(b) Following an evaluation of the business needs of the Company's South American operations and a capability analysis, management determined that the implementation of a full Enterprise Resource Planning (ERP) system in its South American operations would not occur in the near future. Although existing system maintenance requirements are being reviewed, the delay in the implementation of a full ERP system led to an accounting review and a decision to derecognize the previously capitalized costs of $12 million in 2014.

In 2013, 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, resulting in a decision to derecognize the previously capitalized costs of $5 million.

(c) Project costs were related to the implementation of an ERP system for the Company's global operations. Since the implementation of an ERP system has been delayed, starting in the third quarter of 2014, these project costs were no longer incurred.

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

December 31 ($ thousands)	2014	2013
Short-term debt	**$ 7,166**	$ 89,423
Long-term debt:		
6.02%, $350 million, due June 1, 2018	**349,361**	349,174
3.232%, $200 million, due July 3, 2020	**199,090**	198,926
5.077% $150 million, due June 13, 2042	**149,177**	149,147
3.98% U.S. $100 million, due January 19, 2022, Series A	**115,596**	105,888
4.08% U.S. $100 million, due January 19, 2024, Series B	**115,568**	105,805
4.18% U.S. $50 million, due April 3, 2022, Series C	**57,824**	52,975
4.28% U.S. $50 million, due April 3, 2024, Series D	**57,813**	52,967
4.53% U.S. $200 million, due April 3, 2027, Series E	**231,196**	211,829
3.40% £70 million, due May 22, 2023, Series F	**126,038**	122,875
Other term loans (a)	**16,667**	17,569
Total long-term debt	**1,418,330**	1,367,155
Less current portion of long-term debt	**(269)**	(643)
Non-current portion of long-term debt	**$ 1,418,061**	$ 1,366,512

(a) Other term loans include €9 million (2013: €9 million) of unsecured borrowings under committed bank facilities that are classified as long-term debt. Other term loans also include £2 million (2013: £2 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, subject to mutual consent of the syndicate bank lenders and the Company, to extend the maturity date on terms reflecting market conditions at the time of the extension. In September 2013, the Company negotiated a two-year extension to this facility, under which $938 million was extended to September 2017 from the original maturity in September 2015.

Short-Term Debt

In 2014, short-term debt comprises foreign currency denominated unsecured term loans from supplier merchandising programs of U.S. $6 million (Canadian equivalent $7 million) that matures within one year. In 2013, short-term debt comprised Canadian $16 million and foreign currency denominated debt of U.S. $52 million (Canadian equivalent $55 million) and Argentine peso 113 million (Canadian equivalent $18 million), primarily consisting of commercial paper borrowings and other short-term debt bank indebtedness.

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, 2014, there was no commercial paper outstanding (2013: $55 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 2014 was 5.1% (2013: 2.0%).

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 (Canadian equivalent $109 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 $2 million were recorded in finance costs.

At December 31, 2014, $13 million was drawn on the global credit facility (2013: $13 million, including commercial paper issuances).

The average interest rate applicable to the consolidated long-term debt for 2014 was 4.5% (2013: 4.8%).

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)	
2015	$ 269
2016	287
2017	12,942
2018	349,690
2019	352
Thereafter	1,054,790
	$ 1,418,330

Finance Costs

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

For years ended December 31 **($ thousands)**	**2014**	2013
Short-term debt	**$ 11,851**	$ 9,224
Long-term debt	**63,442**	65,320
Interest on debt securities	**75,293**	74,544
Loss on interest rate derivatives	**893**	1,137
Gain on foreign currency swap contracts	**(3,530)**	—
Net interest on pension and other post-employment benefit obligations (Note 22)	**4,821**	4,825
Other finance related expenses	**7,415**	10,086
	84,892	90,592
Less borrowing costs capitalized to property, plant, and equipment	**(324)**	(317)
Finance costs	**$ 84,568**	$ 90,275

6. Financial Instruments

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

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

(a) 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, and derivative assets.

Exposure to Credit Risk

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

December 31 ($ thousands)	**2014**	2013
Cash and cash equivalents	**$ 450,667**	$ 176,268
Accounts receivable – trade	**872,274**	896,913
Accounts receivable – other	**100,100**	66,820
Service work in progress	**105,645**	101,544
Supplier claims receivable	**113,360**	76,252
Instalment notes receivable	**50,102**	34,090
Value Added Tax receivable	**13,585**	11,009
Cash held for customer	**—**	19,192
Derivative assets	**437**	1,403
Advance to associate	**—**	613
	$ 1,706,170	$ 1,384,104

Cash and Cash Equivalents

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

Accounts Receivable, Service Work in Progress, and Other Receivables

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

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

The 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)	**2014**	2013
Canada	**$ 417,135**	$ 442,289
Chile	**237,304**	245,405
U.K.	**112,910**	102,897
Argentina	**60,507**	65,483
Europe	**11,894**	8,362
Bolivia	**10,737**	6,585
U.S.	**10,590**	13,309
Uruguay	**9,311**	10,728
Other	**1,886**	1,855
	$ 872,274	$ 896,913

Impairment Losses

The aging of trade receivables at the reporting date was:

December 31	**2014**		2013	
($ thousands)	**Gross**	**Allowance**	Gross	Allowance
Not past due	**$ 611,461**	**$ —**	$ 619,839	$ 2
Past due 1 – 30 days	**182,186**	**38**	156,644	1
Past due 31 – 90 days	**57,409**	**697**	80,998	299
Past due 91 – 120 days	**9,559**	**914**	8,956	883
Past due greater than 120 days	**34,935**	**21,627**	55,822	24,161
Total	**$ 895,550**	**$ 23,276**	$ 922,259	$ 25,346

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)	**2014**	2013
Balance, beginning of year	**$ 25,346**	$ 29,697
Additional allowance	**8,969**	5,849
Receivables written off	**(11,336)**	(10,540)
Foreign exchange translation adjustment	**297**	340
Balance, end of year	**$ 23,276**	$ 25,346

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.

(b) 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. At December 31, 2014, the Company had approximately $1,789 million (2013: $1,858 million) of unsecured credit facilities. Including all bank and commercial paper borrowings drawn against these facilities, approximately $1,573 million (2013: $1,587 million) of capacity remained available, of which approximately $987 million (2013: $922 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 instruments. The amounts presented represent the future undiscounted principal and interest cash flows, and therefore, do not equate to the carrying amount on the consolidated statement of financial position.

	Carrying amount	Contractual cash flows			
($ thousands)	**December 31, 2014**	**2015**	**2016-2017**	**2018-2019**	**Thereafter**
Non-derivative financial liabilities					
Short-term debt	**$ (7,166)**	**$ (7,166)**	**$ —**	**$ —**	**$ —**
Unsecured $700 million MTN	**(697,628)**	**(35,150)**	**(70,300)**	**(388,666)**	**(527,813)**
U.S. $500 million Notes	**(577,997)**	**(24,769)**	**(49,538)**	**(49,538)**	**(708,955)**
£70 million Notes	**(126,038)**	**(4,301)**	**(8,602)**	**(8,602)**	**(141,150)**
Unsecured bank facilities	**(12,634)**	**(128)**	**(12,858)**	**—**	**—**
Other term loans	**(4,033)**	**(516)**	**(1,032)**	**(1,032)**	**(2,623)**
Finance lease obligations	**(19,793)**	**(3,907)**	**(6,682)**	**(4,537)**	**(15,116)**
Accounts payable and accruals (excluding current portion of finance lease obligations)	**(1,015,954)**	**(1,015,954)**	**—**	**—**	**—**
Total non-derivative financial liabilities	**$ (2,461,243)**	**$ (1,091,891)**	**$ (149,012)**	**$ (452,375)**	**$ (1,395,657)**
Derivatives					
Forward foreign currency contracts and swaps					
Sell CAD	**$ —**	**$ (85,332)**	**$ —**	**$ —**	**$ —**
Buy USD	**429**	**85,633**	**—**	**—**	**—**
Sell CAD	**—**	**(56,767)**	**—**	**—**	**—**
Buy USD	**(147)**	**56,455**	**—**	**—**	**—**
Sell USD	**8**	**(6,715)**	**—**	**—**	**—**
Buy CAD	**—**	**6,745**	**—**	**—**	**—**
Sell CLP	**—**	**(84,355)**	**—**	**—**	**—**
Buy USD	**(362)**	**83,527**	**—**	**—**	**—**
Sell USD	**(4,287)**	**(97,448)**	**—**	**—**	**—**
Buy CLP	**—**	**94,724**	**—**	**—**	**—**
Total derivatives	**$ (4,359)**	**$ (3,533)**	**$ —**	**$ —**	**$ —**

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

(c) 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 CAD, USD, U.K. pound sterling (GBP), CLP, and Argentine peso (ARS).

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

Translation Exposure

The most significant foreign exchange impact on the Company's net income and other comprehensive income is the translation of foreign currency based earnings and net assets or liabilities into Canadian dollars, which is the Company's presentation currency. 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 & Ireland operations in CAD 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 USD based earnings. The Company does not hedge its exposure to foreign exchange risk with regard to foreign currency earnings.

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-term 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, 2014 (thousands)	**CAD**	**USD**	**GBP**	**CLP**	**ARS**
Cash and cash equivalents	**169,731**	**146,416**	**20,779**	**23,403,252**	**131,061**
Accounts receivable	**377,722**	**112,314**	**63,512**	**124,113,326**	**—**
Short-term and long-term debt	**(697,628)**	**(504,408)**	**(71,825)**	**—**	**—**
Accounts payable and accruals	**(372,815)**	**(190,602)**	**(80,822)**	**(123,748,634)**	**(136,082)**
Net statement of financial position exposure	**(522,990)**	**(436,280)**	**(68,356)**	**23,767,944**	**(5,021)**
Foreign exchange forward contracts and swaps	**(135,555)**	**104,691**	**—**	**(5,422,970)**	**—**

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)	—

Sensitivity Analysis to Foreign Exchange Risk

As a result of foreign exchange gains or losses on the translation of foreign currency denominated financial instruments, a 5% weakening of the CAD against the following currencies would increase (decrease) pre-tax income and other comprehensive income by the amounts shown below. This analysis assumes that all other variables, in particular volumes, relative pricing, interest rates, and hedging activities are unchanged.

	2014	
December 31 ($ thousands)	**Income**	**Other Comprehensive Income**
CAD/USD	**$ (5,969)**	**$ 33,233**
CAD/GBP	**$ (77)**	**$ 6,302**
CAD/CLP	**$ (2,272)**	**$ —**
CAD/ARS	**$ 34**	**$ —**

A 5% strengthening of the CAD against the above currencies relative to the December 31, 2014 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, primarily from the short-term and long-term debt. The Company's debt portfolio comprises both fixed and floating rate debt instruments, with terms to maturity ranging up to June 2042. Floating rate debt, due to its short-term nature, exposes the Company to limited fluctuations in changes to fair value, but finance expense and cash flows will increase or decrease as interest rates change.

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

The Company paid floating interest rates on its variable rate share forward contract (VRSF), which was settled during 2014. Both fair value and future cash flows were 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)	**2014**	2013
Fixed rate instruments		
Financial assets	**$ 50,102**	$ 34,090
Financial liabilities	**(1,421,456)**	(1,370,986)
Variable rate instruments		
Financial assets	**$ 450,667**	$ 176,881
Financial liabilities	**(23,833)**	(118,594)

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.

Pre-tax Income Sensitivity Analysis for Variable Rate Instruments

The Company's variable rate instruments are in a net asset position; therefore, an increase of 1.0% in interest rates for a full year relative to the interest rates at the reporting date would have increased income by approximately $4 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.

Commodity Price Risk

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

Share-Based Payment Risk

Share-based payment plans are an integral part of the Company's employee compensation program, and can be in the form of the Company's common shares or cash payments that reflect the value of the shares. Share-based payment plans are accounted for at fair value, and the expense associated with these plans can therefore vary as the Company's share price, share price volatility, and employee exercise behaviour change.

In 2007, the Company entered into a VRSF to partly offset this exposure. 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. During 2014, the Company settled the outstanding VRSF for cash of $8 million (2013: outstanding VRSF related to 1.5 million common shares at an execution price of $28.71 per share plus interest).

(d) 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, 2014 ($ thousands)	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial assets at fair value				
Foreign currency forward contracts	**$ —**	**$ 437**	**$ —**	**$ 437**
Total	**$ —**	**$ 437**	**$ —**	**$ 437**
Financial liabilities at fair value				
Foreign currency forward contracts	**$ —**	**$ (4,796)**	**$ —**	**$ (4,796)**
Contingent consideration (Note 24)	**—**	**—**	**(5,728)**	**(5,728)**
Total	**$ —**	**$ (4,796)**	**$ (5,728)**	**$ (10,524)**

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)

The Company did not move any instruments between levels of the fair value hierarchy during the years ended December 31, 2014 and 2013.

Derivative Instruments (Level 2)

The fair value of foreign currency forward contracts is determined by discounting contracted future cash flows using a discount rate derived from 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 other 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 the Company's credit risk when the derivative instrument is a liability. The Company's credit risk is derived from yield spreads on the Company's market quoted debt.

Variable Rate Share Forward (Level 2)

The fair value of the VRSF was determined based on the present value of future cash flows required to settle the VRSF which were derived from the current share price, actual interest accrued to date and future estimated interest cost to the termination date of the VRSF. Future interest cost was derived from market observable forward interest rates and contractual interest spreads.

Contingent Consideration (Level 3)

The fair value of the contingent consideration of $6 million (£3 million) was estimated by discounting cash flows based on probability-adjusted profit in SITECH (Note 24).

The fair values of the derivatives below approximate the amount the Company would receive to sell or pay to transfer such contracts in an orderly transaction between market participants.

Foreign Exchange December 31, 2014 (thousands)	**Statement of Financial Position Classification**	**Notional Value**		**Term to Maturity**	**Fair Value Receive (Pay)**	
Forwards buy USD / sell CAD	**Derivative assets – current**	**USD**	**73,815**	**1-12 months**	**$**	**429**
Swap sell USD / buy CLP	**Derivative assets – current**	**USD**	**5,788**	**1-12 months**	**$**	**8**
Forwards and swaps buy USD / sell CAD	**Derivative liabilities – current**	**USD**	**48,664**	**1-12 months**	**$**	**(147)**
Forwards buy USD / sell CLP	**Derivative liabilities – current**	**USD**	**72,000**	**1-12 months**	**$**	**(4,287)**
Forwards sell USD / buy CLP	**Derivative liabilities – current**	**USD**	**84,000**	**1-12 months**	**$**	**(362)**

Foreign Exchange December 31, 2013 (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)

Long-Term Debt

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

December 31	**2014**		2013	
($ thousands)	**Carrying Amount**	**Fair Value**	Carrying Amount	Fair Value
Long-term debt	**$ 1,418,061**	**$ 1,512,259**	$ 1,367,155	$ 1,376,578

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

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

7. 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. The Company's target ranges at December 31, 2014 are shown below. The Company's strategy is to meet target ranges over a longer-term average basis. Management is currently in the process of reviewing its target ranges to ensure they continue to be appropriate and help to support access to capital at a reasonable cost.

As at and for years ended December 31	Company Targets	2014	2013
Net debt to invested capital	**35 – 45%**	**31.4%**	40.8%
Dividend payout ratio	**25 – 35%**	**38.4%**	31.3%

The 2014 net debt to invested capital ratio is below the target range due to significant cash generation during the fourth quarter of 2014. The Company expects that its net debt to invested capital level will temporarily stay below its target range while the Company continues to evaluate opportunities to best utilize excess funds.

The 2014 dividend payout ratio is above the Company's current target as a result of lower earnings; however, management believes that the Company has the cash flow available to fund the dividend at this level.

Net Debt to Invested Capital

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

December 31 ($ thousands)	2014	2013
Cash and cash equivalents	**$ (450,667)**	$ (176,268)
Short-term debt	**7,166**	89,423
Current portion of long-term debt	**269**	643
Long-term debt	**1,418,061**	1,366,512
Net debt	**974,829**	1,280,310
Shareholders' equity	**2,130,696**	1,857,764
Invested capital	**$ 3,105,525**	$ 3,138,074

Dividend Payout Ratio

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 indicated annual dividend declared is calculated as four times the declared quarterly dividend.

For years ended December 31	2014	2013
Quarterly dividend declared	**$ 0.1775**	$ 0.1525
Indicated annual dividend	**$ 0.71**	$ 0.61
Basic earnings per share	**$ 1.85**	$ 1.95

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, 2014 and 2013, the Company is in compliance with this covenant.

8. 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, 2014 ($ thousands)		**Canada**		**International**		**Total**
Current	**$**	**27,701**	**$**	**33,698**	**$**	**61,399**
Adjustment for prior periods recognized in the current year		**(4,884)**		**(2,157)**		**(7,041)**
Total current tax		**22,817**		**31,541**		**54,358**
Deferred						
Origination and reversal of timing differences		**22,626**		**10,925**		**33,551**
Increase due to tax rate changes		**(18)**		**7,226**		**7,208**
Adjustment for prior periods recognized in the current year		**5,059**		**931**		**5,990**
Total deferred tax		**27,667**		**19,082**		**46,749**
Provision for income taxes	**$**	**50,484**	**$**	**50,623**	**$**	**101,107**

For year ended December 31, 2013 ($ thousands)		Canada		International		Total
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

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)		**2014**			2013	
Combined Canadian federal and provincial income taxes at the statutory tax rate	**$**	**106,179**	**25.32%**	$	108,859	25.29%
Increase (decrease) resulting from:						
Lower statutory rates on the earnings of foreign subsidiaries		**(12,691)**	**(3.03)%**		(16,158)	(3.75)%
Income not subject to tax		**(7,623)**	**(1.82)%**		(10,250)	(2.38)%
Changes in statutory tax rates		**7,209**	**1.72%**		39	0.01%
Non-deductible share-based payment expense		**1,714**	**0.41%**		1,163	0.27%
Non-taxable capital gain		**(739)**	**(0.18)%**		(5,992)	(1.39)%
Unrecognized intercompany profits		**2,412**	**0.58%**		1,925	0.45%
Non-taxable/non-deductible foreign exchange in Argentina		**14,528**	**3.46%**		14,668	3.41%
Inflationary adjustment		**(9,033)**	**(2.15)%**		(210)	(0.05)%
Other		**(849)**	**(0.20)%**		1,144	0.25%
Provision for income taxes	**$**	**101,107**	**24.11%**	$	95,188	22.11%

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

- In September 2014, the Chilean government signed into law an extensive series of tax reforms. These tax reforms are considered substantively enacted and include gradual increases to the corporate income tax rates from 20% to 27% from 2014 to 2018.
- The UK corporate tax rate decreased from 23% 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)		**2014**		2013
Deferred tax assets:				
Accounting provisions not currently deductible for tax purposes	**$**	**40,760**	$	50,675
Employee benefits		**31,611**		26,180
Share-based payments		**3,218**		7,151
Loss carry-forwards		**3,043**		1,767
		78,632		85,773
Deferred tax liabilities:				
Property, plant and equipment, rental, leased, and other intangible assets		**(45,404)**		(41,370)
Distribution network		**(60,723)**		(33,187)
Other		**(3,412)**		(132)
		(109,539)		(74,689)
Net deferred tax (liability) asset	**$**	**(30,907)**	$	11,084

Deferred taxes are not recognized on retained profits of approximately $1.5 billion (2013: $1.2 billion) of foreign subsidiaries, as it is the Company's intention to invest these profits to maintain and expand the business of the relevant companies.

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

December 31 ($ thousands)		**2014**		2013
International	**$**	**11,177**	$	8,798
	$	**11,177**	$	8,798

As at December 31, 2014, the Company has unrecognized net operating losses and capital loss carry-forwards of $4 million and $167 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)		**2014**		2013
Current tax	**$**	**(296)**	$	(4,367)
Deferred tax		**(6,043)**		(2,064)
Tax recovery recognized in other comprehensive income	**$**	**(6,339)**	$	(6,431)

9. 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, 2014 and 2013.

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 2014, the rights plan was extended for three years such that it will automatically terminate at the end of the Company’s Annual Meeting of shareholders in 2017 unless further extended by the shareholders prior to that time.

The 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.

10. Share-Based Payments

The Company has a number of share-based compensation plans in the form of share options and other share-based payment plans noted below. In 2014 and 2013, 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 one share option plan 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 were 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, 2014, 2.0 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:

	2014		2013	
For years ended December 31	**Options**	**Weighted Average Exercise**	Options	Weighted Average Exercise Price
Options outstanding, beginning of year	**5,684,770**	**$ 24.93**	5,060,053	$ 25.53
Granted	**1,020,100**	**$ 29.23**	1,536,900	$ 22.64
Exercised (a)	**(1,654,280)**	**$ 25.22**	(420,419)	$ 18.67
Forfeited	**(824,717)**	**$ 31.09**	(491,764)	$ 29.30
Options outstanding, end of year	**4,225,873**	**$ 24.65**	5,684,770	$ 24.93
Exercisable at end of year	**2,020,477**	**$ 23.24**	3,548,564	$ 25.67

(a) Share options exercised in 2014 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 value at the time of exercise and the grant value, and the equivalent value of the number of options up to the grant value is withheld. 1,654,280 options were exercised in 2014 under the 2005 Stock Option Plan resulting in 356,025 common shares issued; 1,298,255 options were withheld and returned to the option pool for future issues/grants.

In 2014, the Company granted 1,020,100 common share options to senior executives and management of the Company (2013: 1,536,900 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:

	2014 Grant	2013 Grant
Dividend yield	**2.39%**	2.26%
Expected volatility [(1)]	**33.82%**	36.78%
Risk-free interest rate	**1.65%**	1.55%
Expected life	**5.59 years**	5.65 years

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

The weighted average grant date fair value of options granted during the year was $7.58 (2013: $6.47).

The following table summarizes information about share options outstanding at December 31, 2014:

	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 - $18.59	**578,824**	**1.91 years**	**$ 16.09**	**578,824**	**$ 16.09**
$18.60 - $25.52	**1,866,461**	**5.04 years**	**$ 23.35**	**777,968**	**$ 23.96**
$25.53 - $29.06	**543,348**	**4.20 years**	**$ 27.52**	**424,485**	**$ 27.94**
$29.07 - $30.72	**1,206,710**	**5.20 years**	**$ 29.30**	**239,200**	**$ 29.83**
$30.73 - $32.38	**30,530**	**6.55 years**	**$ 31.09**	**—**	**$ —**
	4,225,873	**4.56 years**	**$ 24.65**	**2,020,477**	**$ 23.24**

Other Share-Based Payment Plans

The Company has other share-based payment 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. During 2014, the Company settled all outstanding VRSF (Note 6).

Details of the plans are as follows:

Directors

Directors' Deferred Share Unit Plan A (DDSU)

The Company offers a Directors' 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 granted a total of 32,709 share units in 2014 (2013: 36,958 share units), which were granted to the Directors and expensed over the calendar year as the units are issued. An additional 12,124 (2013: 7,106) DDSUs were issued in lieu of cash compensation payable for service as a Director. A further 6,952 (2013: 7,344) DDSUs were granted to Directors during 2014 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 deferred share units as approved by the Board of Directors. This plan utilizes notional units that may become vested in accordance with terms set at the time 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.

There were no share units awarded to Executives of the Company in 2014 (2013: 9,043 units will vest in two years from the grant date and are being expensed over the vesting period). During 2014, 5,825 (2013: 6,054) DSU-Bs were granted to Executives as payment for notional dividends.

Performance Share Unit Plan (PSU)

Under the 2014 PSU Plan, executives of the Company were 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. All PSUs granted in 2014 were divided equally into two categories. Half of the awards are based on the extent to which the Company's average return on invested capital achieves or exceeds the specified performance levels over a three-year period (ROIC PSUs). The remaining half of the awards is based on the performance of the Company's share price over the three-year period relative to the performance of the share prices of all companies in the S&P/TSX Capped Industrials Index (TSR PSUs). Under the previous PSU Plan, awards vest 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. Executives of the Company were granted a total of 341,610 performance share units in 2014, based on 100% vesting (2013: 456,830 performance share units).

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

The specified levels and respective vesting percentages for the 2014 grant are as follows:

TSR PSUs

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

ROIC PSUs

Performance Level	Average Return on Invested Capital (over three-year period)	Proportion of PSUs Vesting
Below Threshold	< 17%	Nil
Threshold	17%	50%
Target	18.5%	100%
Maximum	21.5% or more	200%

The specified levels and respective vesting percentages for the 2013 grant 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, 2014 **Units**	**DSU-B**	**DDSU**	**PSU**	**Total**
Outstanding, beginning of year	**267,762**	**316,939**	**1,007,672**	**1,592,373**
Additions (decreases) [1]	**5,825**	**51,785**	**(136,595)**	**(78,985)**
Exercised	**—**	**(55,400)**	**(340,893)**	**(396,293)**
Forfeited	**—**	**—**	**(8,618)**	**(8,618)**
Outstanding, end of year	**273,587**	**313,324**	**521,566**	**1,108,477**
Vested, beginning of year	**241,655**	**316,939**	**—**	**558,594**
Vested	**10,091**	**51,785**	**340,893**	**402,769**
Exercised	**—**	**(55,400)**	**(340,893)**	**(396,293)**
Vested, end of year	**251,746**	**313,324**	**—**	**565,070**

Liability **($ thousands)**				
Balance, beginning of year	**$ 5,808**	**$ 7,574**	**$ 12,070**	**$ 25,452**
(Recovery) expense	**(81)**	**1,179**	**4,268**	**5,366**
Exercised	**—**	**(1,672)**	**(9,409)**	**(11,081)**
Forfeited	**—**	**—**	**(314)**	**(314)**
Balance, end of year	**$ 5,727**	**$ 7,081**	**$ 6,615**	**$ 19,423**

[1] The unit adjustment for PSUs (based on the performance level) is a decrease of 478,205 units for the year ended December 31, 2014.

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

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, 2014	**DSU-B**	**DDSU**	**PSU**
Dividend yield	**2.35%**	**2.26%**	**2.34%**
Expected volatility	**34.59%**	**28.64%**	**26.54%**
Risk-free interest rate	**1.47%**	**1.34%**	**1.07%**
Expected life	**6.77 years**	**4.87 years**	**3.00 years**
Share price at December 31, 2014	**$ 25.23**	**$ 25.23**	**$ 25.23**
Estimated fair value per unit at year-end	**$ 21.52**	**$ 22.60**	**$ 23.52**

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

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

For years ended December 31 ($ thousands)	**2014**	2013
Consolidated statement of income		
Compensation expense arising from equity-settled share option incentive plan	**$ 8,565**	$ 6,252
Compensation expense arising from cash-settled share based payments	**5,052**	13,279
Impact of variable rate share forward contract	**(3,832)**	(2,486)
	$ 9,785	$ 17,045
Consolidated statement of financial position		
Current liability for cash-settled share-based payments	**$ 4,980**	$ 8,270
Non-current liability for cash-settled share-based payments (to be incurred within 1-5 years) (Note 21)	**14,443**	17,182
Variable rate share forward liability (Note 6)	**$ —**	$ 11,673

The total intrinsic value of vested but not settled share-based payments was $14 million (2013: $15 million).

11. 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.

($ thousands, except share and per share amounts)				
2014	**Income**	**Shares**		**Per Share**
Basic EPS:				
Net income	**$ 318,241**	**172,215,955**	**$**	**1.85**
Effect of dilutive securities: share options	**—**	**752,145**		**—**
Diluted EPS:				
Net income and assumed conversions	**$ 318,241**	**172,968,100**	**$**	**1.84**
2013				
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

Share options granted to employees of 1.7 million (2013: 3.3 million) are anti-dilutive and are excluded from the weighted average number of ordinary shares for the purpose of calculating diluted earnings per share.

12. Inventories

December 31 ($ thousands)		**2014**		2013
On-hand equipment	**$**	**782,079**	$	856,248
Parts and supplies		**674,308**		722,193
Internal service work in progress		**204,890**		177,367
	$	**1,661,277**	$	1,755,808

For the year ended December 31, 2014, on-hand equipment, parts, supplies, and internal service work in progress recognized as an expense in cost of sales amounted to $4.5 billion (2013: $4.3 billion). For the year ended December 31, 2014, the write-down of inventories to net realizable value, included in cost of sales, amounted to $52 million (2013: $42 million).

13. 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)		**2014**		2013
Aggregate of contract costs for contracts in progress	**$**	**222,110**	$	128,741
Aggregate of profits for contracts in progress	**$**	**28,587**	$	13,849
Advances from customers under construction contracts	**$**	**(13,900)**	$	(20,252)
Amounts due from customers under construction contracts	**$**	**42,361**	$	16,287
Amounts due to customers under construction contracts	**$**	**(6,171)**	$	(2,113)
Retentions held by customers for contract work	**$**	**1,733**	$	2,179

For the year ended December 31, 2014, the amount of contract revenue recognized in the year was $156 million (2013: $100 million).

14. Other Assets

December 31 ($ thousands)	2014	2013
Other assets – current:		
Supplier claims receivable	**$ 113,360**	$ 76,252
Equipment deposits	**45,368**	52,693
Prepaid expenses	**43,162**	36,450
Current portion of finance assets (Note 16)	**43,727**	28,661
Value Added Tax receivable	**13,585**	11,009
Derivative assets (Note 6)	**437**	997
Indemnification asset (a)	**5,759**	5,599
Cash held for customer	**—**	19,192
Other	**9,332**	11,319
	$ 274,730	$ 242,172
Other assets – long-term:		
Indemnification asset (a)	**38,460**	43,251
Prepaid expenses	**21,587**	—
Derivative assets (Note 6)	**—**	406
Other	**4,855**	5,499
	$ 64,902	$ 49,156

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

15. 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**		**2014**	2013
PLM	Jointly Controlled Entity	United States	25.0%	25.0%
Energyst	Associate	Netherlands	28.8%	27.9%

In July 2014, the Company increased its interest in Energyst for cash of $5 million (€3 million). As a result, the Company's equity interest in Energyst increased to 28.8% from 27.9%. In 2013, the Company increased its investment in Energyst by $5 million (€3 million).

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

For year ended December 31, 2014 ($ thousands)	**Energyst**	**PLM**	**Total**
Company's share of profit	**$ 4,048**	**$ 7,299**	**$ 11,347**
Company's share of other comprehensive income	**—**	**5,229**	**5,229**
Company's share of total comprehensive income	**$ 4,048**	**$ 12,528**	**$ 16,576**
Carrying amount of the Company's interests in associate and joint venture	**$ 36,426**	**$ 52,210**	**$ 88,636**

For year ended December 31, 2013 ($ thousands)	Energyst	PLM	Total
Company's share of (loss) profit	$ (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 associate and joint venture (a)	$ 29,328	$ 48,660	$ 77,988

(a) Included in the investment in associate in 2013 is an advance of $1 million to Energyst, bearing interest at 6.5% + 3 month Eurobor. This advance was fully repaid in the second quarter of 2014.

16. Finance Assets

December 31 ($ thousands)		2014		2013
Instalment notes receivable	$	**50,102**	$	34,090
Equipment leased to customers		**30,239**		72,013
Less accumulated depreciation		**(20,540)**		(41,377)
		9,699		30,636
Total finance assets		**59,801**		64,726
Less current portion of instalment notes receivable		**(43,727)**		(28,661)
	$	**16,074**	$	36,065

Depreciation of equipment leased to customers for the year ended December 31, 2014 was $15 million (2013: $15 million).

December 31 ($ thousands)		2014		2013
Instalment notes receivable:				
Gross investment	$	**54,967**	$	39,058
Less unearned finance income		**(4,865)**		(4,968)
Present value of minimum lease payments receivable	$	**50,102**	$	34,090
Receivable as follows:				
Present value				
Within one year	$	**43,727**	$	28,661
After more than one year		**6,375**		5,429
	$	**50,102**	$	34,090
Minimum lease payments:				
Within one year		**46,214**		31,248
After more than one year		**8,753**		7,810
Less unearned finance income		**(4,865)**		(4,968)
	$	**50,102**	$	34,090

17. Property, Plant and Equipment and Rental Equipment

December 31, 2014 ($ thousands)	Land	Buildings	Vehicles and Equipment	Total	Rental Equipment
Cost					
Balance, beginning of year	$ 67,540	$ 636,402	$ 324,637	$ 1,028,579	$ 694,521
Additions	2,383	32,313	28,165	62,861	243,492
Additions through business combinations	—	—	—	—	2,512
Transfers from inventory / rental equipment	—	—	6,350	6,350	20,661
Disposals	—	(7,212)	(49,324)	(56,536)	(317,809)
Foreign exchange rate changes	3,000	14,288	15,183	32,471	16,884
Balance, end of year	$ 72,923	$ 675,791	$ 325,011	$ 1,073,725	$ 660,261

December 31, 2014 ($ thousands)	Land	Buildings	Vehicles and Equipment	Total	Rental Equipment
Accumulated depreciation					
Balance, beginning of year	$ —	$ (159,839)	$ (200,646)	$ (360,485)	$ (280,395)
Depreciation for the year	—	(24,649)	(33,868)	(58,517)	(112,629)
Disposals	—	3,224	30,106	33,330	118,370
Foreign exchange rate changes	—	(3,192)	(9,381)	(12,573)	(6,944)
Balance, end of year	$ —	$ (184,456)	$ (213,789)	$ (398,245)	$ (281,598)

($ thousands)	Land	Buildings	Vehicles and Equipment	Total	Rental Equipment
Net book value					
January 1, 2014	$ 67,540	$ 476,563	$ 123,991	$ 668,094	$ 414,126
December 31, 2014	$ 72,923	$ 491,335	$ 111,222	$ 675,480	$ 378,663

Land, buildings, and equipment under finance leases of $11 million (2013: $11 million), which are net of accumulated depreciation of $4 million (2013: $4 million), are included above, of which $2 million (2013: $1 million) was acquired during the year.

Rental equipment under finance leases of $1 million (2013: $2 million), which are net of accumulated depreciation of $10 million (2013: $13 million), are included above.

Included in property, plant and equipment are assets under construction with a net book value of $9 million (2013: $28 million). No depreciation has been recognized on these assets. Depreciation begins when assets are available for use.

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

18. GOODWILL

December 31, 2014 ($ thousands)	**Canada**	**South America**	**UK & Ireland**	**Consolidated**
Balance, beginning of year	**$ 50,728**	**$ 31,963**	**$ 31,440**	**$ 114,131**
Acquired (Note 24)	**—**	**—**	**14,469**	**14,469**
Foreign exchange rate changes	**—**	**2,899**	**645**	**3,544**
Balance, end of year	**$ 50,728**	**$ 34,862**	**$ 46,554**	**$ 132,144**

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

For impairment purposes, goodwill has been allocated to the following cash-generating units (CGUs): Canada ($50 million), OEM ($1 million), UK & Ireland ($21 million), UK & Ireland Power Systems ($12 million), UK & Ireland Equipment Solutions ($14 million), Argentina ($26 million), Bolivia ($5 million), and Chile ($4 million).

The recoverable amount of all cash generating units and groups of cash generating units are determined based on a value-in-use calculation. 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 (WACC) rates.

The cash flow projection key assumptions are based upon the Company's financial budgets, which span a three-year period and are discounted using post-tax WACC rates (ranging from 8.5% to 15.5%). For 2014 annual impairment testing valuation purposes, the cash flows subsequent to the three-year projection period are extrapolated using growth rates (ranging from 2% to 5%). 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 2014 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 15.5% per annum and a 2.0% growth rate per annum for cash flows beyond that three-year period. Using a discount rate of 17.8%, the recoverable amount would equal its carrying amount. 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. Management believes its assumptions are reasonable. If future events were to adversely differ from management's best estimate, key assumptions and associated cash flows could be materially adversely affected and the Company could potentially experience future material impairment charges in respect of the intangibles with indefinite lives and goodwill.

19. Intangible Assets

December 31, 2014 ($ thousands)	Contracts, customer relationships, and inventory backlog	Software	Total
Cost			
Balance, beginning of year	$ 77,229	$ 76,023	$ 153,252
Additions	10,146	7,090	17,236
Additions through business combinations (Note 24)	1,708	—	1,708
Disposals	—	(554)	(554)
Derecognized (Note 4b)	—	(12,234)	(12,234)
Foreign exchange rate changes	6,158	1,437	7,595
Balance, end of year	$ 95,241	$ 71,762	$ 167,003

December 31, 2014 ($ thousands)	Contracts, customer relationships, and inventory backlog	Software	Total
Accumulated depreciation			
Balance, beginning of year	$ (39,770)	$ (37,601)	$ (77,371)
Depreciation for the year	(18,355)	(11,881)	(30,236)
Disposals	—	219	219
Foreign exchange rate changes	(3,220)	(612)	(3,832)
Balance, end of year	$ (61,345)	$ (49,875)	$ (111,220)

($ thousands)	Contracts, customer relationships, and inventory backlog	Software	Total
Net book value			
January 1, 2014	$ 37,459	$ 38,422	$ 75,881
December 31, 2014	$ 33,896	$ 21,887	$ 55,783

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 4b)	—	(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

20. Provisions

For year ended December 31, 2014 ($ thousands)	**Warranty Claims**	**Other**	**Total**
Balance, beginning of year	**$ 80,220**	**$ 20,286**	**$ 100,506**
New provisions	**105,179**	**15,975**	**121,154**
Charges against provisions	**(139,519)**	**(16,398)**	**(155,917)**
Foreign exchange rate changes	**2,151**	**881**	**3,032**
Balance, end of year	**$ 48,031**	**$ 20,744**	**$ 68,775**
Current portion	**$ 48,031**	**$ 15,323**	**$ 63,354**
Long-term portion	**$ —**	**$ 5,421**	**$ 5,421**

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

Warranty Claims

The provisions relate to standard 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.

21. Long-Term Obligations

December 31 ($ thousands)	**2014**	2013
Share-based payments (Note 10)	**$ 14,443**	$ 17,182
Finance leasing obligations (a) (Note 28)	**16,663**	18,470
Liability for long-term contracts (Note 14a)	**38,460**	43,251
Other	**4,387**	1,583
	$ 73,953	$ 80,486

(a) Finance leases were issued at varying rates of interest from 0.7% - 10.0% and mature on various dates up to 2078.

22. Post-Employment 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) provided a defined benefit pension plan for eligible employees hired prior to January 2003. Under this plan, final average earnings are based on the highest 3-year period and benefits are indexed annually with inflation subject to limits. Effective January 2003, this plan was closed to new employees who became eligible to join a defined contribution pension plan. In December 2011, the UK defined benefit pension plan was further amended to cease future accruals for existing members from April 2012 at which time affected members began accruing benefits under a defined contribution 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 net benefit cost for the Company's post-employment benefit plans, primarily for pension benefits, is as follows:

For years ended December 31	2014			2013		
($ thousands)	Canada	UK & Ireland	Total	Canada	UK & Ireland	Total
Defined contribution (DC) pension plans						
Net benefit cost	$ 37,141	$ 8,846	$ 45,987	$ 35,048	$ 6,866	$ 41,914
Defined benefit (DB) pension plans						
Current service cost, net of employee contributions	7,311	—	7,311	9,645	—	9,645
Administration costs	395	773	1,168	395	739	1,134
Net interest cost	1,497	2,192	3,689	2,040	1,661	3,701
Net benefit cost	9,203	2,965	12,168	12,080	2,400	14,480
Net DC and DB benefit cost recognized in net income	$ 46,344	$ 11,811	$ 58,155	$ 47,128	$ 9,266	$ 56,394
Actuarial gain on plan assets	$ (29,492)	$ (75,616)	$ (105,108)	$ (9,839)	$ (15,503)	$ (25,342)
Actuarial loss on plan liabilities	49,093	96,335	145,428	6,642	33,214	39,856
Total actuarial loss (gain) recognized in other comprehensive income	$ 19,601	$ 20,719	$ 40,320	$ (3,197)	$ 17,711	$ 14,514

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

For years ended December 31	2014			2013		
($ thousands)	Canada	UK	Total	Canada	UK	Total
Accrued benefit obligation						
Balance, beginning of year	$ 459,579	$ 573,851	$ 1,033,430	$ 446,874	$ 489,223	$ 936,097
Current service cost	8,270	—	8,270	10,654	—	10,654
Interest cost	20,623	26,219	46,842	17,867	21,997	39,864
Benefits paid	(19,277)	(19,227)	(38,504)	(22,458)	(18,107)	(40,565)
Remeasurements:						
- Actuarial loss from change in demographic assumptions	7,321	—	7,321	9,199	—	9,199
- Actuarial loss (gain) from change in financial assumptions	50,611	95,904	146,515	(30,228)	34,042	3,814
Experience (gain) loss	(8,839)	431	(8,408)	27,671	(828)	26,843
Foreign exchange rate changes	—	14,350	14,350	—	47,524	47,524
Balance, end of year	$ 518,288	$ 691,528	$ 1,209,816	$ 459,579	$ 573,851	$ 1,033,430
Plan assets						
Fair value at beginning of year	$ 414,555	$ 521,585	$ 936,140	$ 383,158	$ 443,924	$ 827,082
Return on plan assets:						
- Return on plan assets included in net interest cost	19,126	24,027	43,153	15,827	20,336	36,163
- Actuarial gain on plan assets	29,492	75,616	105,108	9,839	15,503	25,342
Employer contributions	20,432	10,550	30,982	27,575	17,523	45,098
Employees contributions	959	—	959	1,009	—	1,009
Benefits paid	(19,277)	(19,227)	(38,504)	(22,458)	(18,107)	(40,565)
Administration costs	(395)	(773)	(1,168)	(395)	(739)	(1,134)
Foreign exchange rate changes	—	13,045	13,045	—	43,145	43,145
Fair value at end of year	$ 464,892	$ 624,823	$ 1,089,715	$ 414,555	$ 521,585	$ 936,140
Net defined benefit obligation	$ 53,396	$ 66,705	$ 120,101	$ 45,024	$ 52,266	$ 97,290

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

For years ended December 31	2014			2013		
($ thousands)	Canada	UK	Total	Canada	UK	Total
Accrued benefit obligation	$ 513,456	$ 691,528	$ 1,204,984	$ 455,692	$ 573,851	$ 1,029,543
Fair value of plan assets	458,687	624,823	1,083,510	408,658	521,585	930,243
Funded status – plan deficit	$ 54,769	$ 66,705	$ 121,474	$ 47,034	$ 52,266	$ 99,300

Key Assumptions and Related Sensitivities

The significant actuarial assumptions used in the valuations of the Company's defined benefit pension plans are as follows:

	2014		2013	
For years ended December 31	Canada	UK	Canada	UK
Discount rate – obligation	3.8%	3.4%	4.6%	4.5%
Discount rate – expense [1]	4.6%	4.5%	4.1%	4.6%
Retail price inflation – obligation	n/a	3.2%	n/a	3.5%
Retail price inflation – expense [1]	n/a	3.5%	n/a	3.0%

[1] Used to determine the net interest cost and expense for the years ended December 31, 2014 and December 31, 2013.

Assumptions regarding future mortality are set based on management's best estimate in accordance with published statistics and experience in each territory. During 2014, the mortality tables used to determine the obligations for the Canadian registered plans were updated to reflect newly available estimated mortality rates. These assumptions translate into an average life expectancy (in years) as follows:

	Canada	UK
Life expectancy for male currently aged 65	21.4	22.3
Life expectancy for female currently aged 65	23.9	24.5
Life expectancy at 65 for male currently aged 45	22.6	23.7
Life expectancy at 65 for female currently aged 45	24.9	26.1

Discount rates are determined based on high quality corporate bonds at the measurement date, December 31, 2014 and 2013. 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 in 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%	$ (17)	$ (30)
Retail price inflation	+ 0.25%	n/a	$ 23

A 0.25% decrease in the discount rate and retail price inflation would have an approximately equivalent but opposite effect on the above accounts in the amounts shown.

The sensitivity analysis is based on a change in an assumption while holding all other assumptions constant. In practice, this is unlikely to occur, as changes in some of the assumptions may be correlated. When calculating the sensitivity of the 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.

Funding and Valuations of Defined Benefit Plans

In Canada, the Company is funding its obligations in accordance with pension legislation requiring funding of going concern deficits over a fifteen year period and solvency deficits over a five year period. In the U.K., at the last formal valuation a ten year schedule was set out. The contributions expected to be paid during the financial year ended December 31, 2015 amount to approximately $26 million for the defined benefit pension plans. Funding levels are monitored regularly and reset with new valuations that occur at least every three years. Defined benefit pension plans are country and entity specific. The 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, 2013	December 31, 2016
Canada – Executive Supplemental Income Plan	December 31, 2014	December 31, 2017
Canada – General Supplemental Income Plan	December 31, 2012	December 31, 2015
Canada – Alberta Defined Benefit Plan	December 31, 2013	December 31, 2016
Finning UK Defined Benefit Scheme	December 31, 2011	December 31, 2014

Plan Assets

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

	Canada			UK		
	Canada	US	International	UK	US	International
Fixed-income [(1)]	65%	—	—	63%	—	—
Equity	9%	10%	9%	3%	14%	13%
Real estate	4%	—	—	7%	—	—
Cash and cash equivalents	3%	—	—	—	—	—

[(1)] Fixed-income includes investments in annuity contracts in Canada.

Plan assets do not include a direct investment in common shares of the Company at December 31, 2014 and 2013.

Key Risks

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

Investment Risk (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 primarily equities, fixed income, and real estate. These investments, in aggregate, are expected to outperform corporate bonds in the long-term but may result in volatility in the shorter-term.

To help mitigate this risk, in selecting the portfolios and the weightings in each category, the Company considers and monitors how the duration and the expected yield of the investments match the expected cash outflows arising from the pension obligations. A framework has been developed and adopted for each of the Canadian and U.K. defined benefit pension plans whereby the investments will be adjusted over time as plan funding positions improve. The planned adjustments are intended to improve the asset-liability match over time. This is to be accomplished primarily by reducing the exposure to equity investments over time and increasing exposure to investments such as long-term fixed interest securities with maturities that better match the benefit payments as they fall due. Progress during 2014 included new investments in annuity contracts in Canada and liability matching funds in the U.K.

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

Discount Rate Risk (ie. changes in bond yields)

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

Inflation Risk

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

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

Longevity Risk (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.

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

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 date was December 31, 2014.

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

December 31	**2014**	2013
Discount rate – obligation	**2.2%**	2.6%
Rate of compensation increase	**3.0%**	3.0%
Average staff turnover	**13.2%**	8.8%

For years ended December 31 ($ thousands)	**2014**	2013
Movement in the present value of the other post-employment benefit obligation was as follows:		
Balance at the beginning of the year	**$ 47,640**	$ 46,011
Current service cost	**4,882**	7,460
Interest cost	**1,132**	1,124
Remeasurement (gains) losses recognized in other comprehensive income:		
- Change in demographic assumptions	**(11,510)**	—
- Change in financial assumptions	**714**	—
- Experience gains	**(564)**	(756)
Paid in the year	**(5,846)**	(6,309)
Foreign exchange rate changes	**91**	110
Balance at the end of the year	**$ 36,539**	$ 47,640

Maturity Analysis

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

December 31, 2014 ($ thousands)	**Less than a year**	**Between 1-2 years**	**Between 2-5 years**	**Over 5 years**	**Total**
Define benefit pension plans	**$ 42,135**	**$ 44,694**	**$ 143,401**	**$2,086,154**	**$2,316,384**
Other post-employment benefits	**7,900**	**3,862**	**10,428**	**46,357**	**68,547**
Total	**$ 50,035**	**$ 48,556**	**$ 153,829**	**$2,132,511**	**$2,384,931**

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 $277 million as at December 31, 2014 (December 31, 2013: $254 million).

23. Supplemental Cash Flow Information

The changes in operating assets and liabilities are as follows:

For years ended December 31 ($ thousands)		2014		2013
Accounts receivable and other assets	**$**	**15,933**	$	(23,601)
Service work in progress		**(1,141)**		21,811
Inventories – on-hand equipment		**109,199**		236,097
Inventories – parts and supplies		**57,739**		181
Instalment notes receivable		**(13,623)**		9,902
Accounts payable and accruals and other liabilities		**(182,662)**		(255,884)
Income tax recoverable/payable		**(3,389)**		(13,497)
Changes in operating assets and liabilities	**$**	**(17,944)**	$	(24,991)

The components of cash and cash equivalents are as follows:

December 31 ($ thousands)		2014		2013
Cash	**$**	**198,829**	$	175,728
Short-term investments		**251,838**		540
Cash and cash equivalents	**$**	**450,667**	$	176,268

Dividends of $0.685 (2013: $0.5975) per share were paid during the year. Subsequent to year end in February 2015, the Board of Directors approved a quarterly dividend of $0.1775 per share payable on March 19, 2015 to shareholders of record on March 5, 2015. This dividend will be considered an eligible dividend for Canadian income tax purposes. As at December 31, 2014, the Company has not recognized a liability for this dividend.

24. Acquisition

On July 4, 2014, the Company's UK & Ireland operations acquired 100% of the shares of Reaction One Limited (UK) and Alveton Limited (Ireland). With this acquisition, the newly formed company named SITECH will sell and service Trimble Navigation Limited's (Trimble) heavy and highway machine control and monitoring products in all of its dealership territories (rights in the Company's Canadian and South American dealership operations were acquired in 2011). Trimble is Caterpillar's global technologies joint venture partner in construction and other industries.

The fair value of the total consideration at the acquisition date was $19.4 million (£11 million) with $13.6 million (£8 million) paid in cash at the time of acquisition. Further contingent consideration with a possible range of £nil - £4 million may be paid after acquisition, contingent upon the profitability of the acquired business over the next three years. The Company recognized $5.8 million (£3 million) of contingent consideration as a liability on the consolidated statement of financial position. Acquisition costs of $0.6 million (£0.4 million) were paid on the transaction and were recorded as an expense in the consolidated statement of income of 2014.

The purchase has been accounted for as a business combination using the acquisition method of accounting. The preliminary allocation of the purchase price, based on management's best estimate at February 18, 2015, is as follows:

Preliminary purchase price allocation ($ millions)		
Working capital	$	1.0
Rental equipment		2.5
Intangible assets		1.7
Goodwill		14.5
Deferred tax liability		(0.3)
Net assets acquired	**$**	19.4

The intangible assets acquired represent customer relationships valued at $1.7 million (£1 million) and are being amortized on a straight-line basis over their estimated life of 2 years. Goodwill recognized relates to expected synergies from combining the operations of Finning UK & Ireland and SITECH which will provide a total solutions and technology strategy to ensure greater productivity to customers within the U.K. and Ireland. The goodwill is assigned to the Equipment Solutions cash-generating unit. Goodwill recognized is not deductible for tax purposes.

The amount of revenue and net income of the acquiree since the acquisition date from the beginning of the reporting period is $15 million (£8 million) and $2 million (£1 million), respectively.

25. 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.

26. 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 & Ireland operations: England, Scotland, Wales, Northern Ireland, and the Republic of Ireland.
- Other: corporate head office.

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

For year ended December 31, 2014 ($ thousands)	Canada	South America	UK & Ireland	Other	Consolidated
Revenue from external sources	$ 3,633,989	$ 2,227,029	$ 1,056,872	$ —	$ 6,917,890
Operating costs	(3,245,341)	(1,945,084)	(974,885)	(30,247)	(6,195,557)
Depreciation and amortization	(112,490)	(71,768)	(31,619)	(97)	(215,974)
Equity earnings	7,299	—	—	4,048	11,347
Other income (Note 4)	—	42	—	—	42
Other expenses (Note 4)	—	(13,832)	—	—	(13,832)
Earnings (loss) before finance costs and income taxes	$ 283,457	$ 196,387	$ 50,368	$ (26,296)	$ 503,916
Finance costs					(84,568)
Provision for income taxes					(101,107)
Net income					$ 318,241
Invested capital [1]	$ 1,475,220	$ 1,347,562	$ 283,854	$ (1,111)	$ 3,105,525
Identifiable assets	$ 2,399,526	$ 2,112,036	$ 619,018	$ 142,098	$ 5,272,678
Capital and rental equipment [2]	$ 642,608	$ 344,522	$ 122,259	$ 537	$ 1,109,926
Distribution network	$ 94,224	$ 243,576	$ 2,835	$ —	$ 340,635
Gross capital expenditures [3]	$ 37,402	$ 34,502	$ 11,719	$ 441	$ 84,064
Gross rental asset expenditures [3]	$ 230,119	$ 20,487	$ 13,546	$ —	$ 264,152

(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 and excludes additions through business acquisitions

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)
Equity earnings (loss) (Note 15)	9,673	—	—	(377)	9,296
Other income (Note 4)	—	120,323	—	—	120,323
Other expenses (Note 4)	—	(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					(90,275)
Provision for income taxes					(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
Distribution network	$ 94,224	$ 223,314	$ 2,762	$ —	$ 320,300
Gross capital expenditures [3]	$ 38,773	$ 38,711	$ 15,689	$ 126	$ 93,299
Gross rental asset expenditures [3]	$ 236,762	$ 43,171	$ 11,463	$ —	$ 291,396

(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 and excludes additions through business acquisitions

27. Related Party Transactions and Total Staff Costs

The consolidated statements include the accounts of Finning 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)		2014		2013
Short-term benefits	**$**	**877**	$	878
Share-based payments		**1,128**		1,822
Total	**$**	**2,005**	$	2,700

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)		2014		2013
Salaries and benefits	**$**	**9,426**	$	8,465
Post-employment benefits		**1,065**		1,522
Share-based payments		**7,257**		8,803
Termination payments		**784**		596
Total	**$**	**18,532**	$	19,386

Total staff costs, including salaries, benefits, pension, share-based payments, termination payments, and commissions are $1.4 billion (2013: $1.4 billion). This amount includes staff costs associated with key management personnel noted above.

In February 2015, the Company announced that it is reducing its workforce in Canada in an attempt to align expenses with lower anticipated business volume. The total impact of this restructuring is not yet known.

28. 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
2015	$	3,907	$	81,400
2016		3,342		63,274
2017		3,340		45,925
2018		3,221		27,390
2019		1,316		22,141
Thereafter		15,116		97,904
	$	30,242	$	338,034
Less imputed interest		(10,449)		
Total finance lease obligation		19,793		
Less current portion of finance lease obligation		(3,130)		
Non-current portion of finance lease obligation	$	16,663		

Minimum lease payments recognized as lease expense for the year ended December 31, 2014 is $109 million (2013: $107 million)

29. Commitments and Contingencies

Due to the size, complexity, and nature of the Company's operations, various legal, customs, and tax matters are pending. These include a number of claims from the Argentina Customs Authority associated with export of agricultural product. The Company has appealed these claims, believes they are without merit, and is confident in its position.

These pending matters may take a number of years to resolve. Should the ultimate resolution of these matters differ from management's assessment, a material adjustment could arise and impact the Company's financial position. However, it is the current opinion of management, that these matters will not have a material effect on the Company's consolidated financial position or results of operations.

30. Guarantees and Indemnifications

The Company enters into contracts with rights of return, in certain circumstances, for the repurchase of equipment sold to customers for an amount which is generally based on a discount from the estimated future fair value of that equipment. As at December 31, 2014, the total estimated value of these contracts outstanding is $154 million (2013: $147 million) coming due at periods ranging from 2015 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 million (2013: $2 million).

The Company has issued certain guarantees to Caterpillar Finance to guarantee certain borrowers' obligations. The guarantees would be enforceable in the event that the borrowers defaulted on their obligations to Caterpillar Finance, to the extent that any net proceeds from the recovery and sale of collateral securing repayment of the borrowers' obligations is insufficient to meet those obligations. As at December 31, 2014, 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 $35 million, covering various periods up to 2018. As at December 31, 2014 and 2013, the Company has not recognized a liability for these guarantees.

As part of the Hewden Purchase and Sale Agreement in 2010, the Company 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 the Company under these indemnifications is 100% of the purchase price. As at December 31, 2014, 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 million to the end of the lease term in 2020. The Company has not recognized a liability for this guarantee in 2014 or 2013.

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, 2014 was $199 million (2013: $171 million), of which $198 million (2013: $169 million) relates to letters of credit issued in Chile, principally related to performance guarantees on delivery for prepaid equipment and other operational commitments.