

FINNING INTERNATIONAL INC.
ANNUAL INFORMATION FORM
2013

FEBRUARY 20, 2014

Finning International Inc.
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In this Annual Information Form, the terms the “Company” and “Corporation” mean Finning International Inc. and “Finning” means Finning International Inc. together with its subsidiaries and operating divisions. The results reported herein have been prepared in accordance with International Financial Reporting Standards (IFRS). All dollar amounts are Canadian dollars unless otherwise indicated. All information in this Annual Information Form is presented as at December 31, 2013, unless otherwise specified herein.

FORWARD LOOKING INFORMATION

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

Unless otherwise indicated by us, forward-looking statements in this report reflect Finning’s expectations at February 20, 2014. Except as may be required by Canadian securities laws, Finning does not undertake any obligation to update or revise any forward-looking statement, whether as a result of new information, future events, or otherwise.

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

provided in this report for the purpose of giving information about management's current expectations and plans and allowing investors and others to get a better understanding of Finning's operating environment. However, readers are cautioned that it may not be appropriate to use such forward-looking statements for any other purpose.

Forward-looking statements made in this report are based on a number of assumptions that Finning believed were reasonable on the day the Company made the forward-looking statements. Refer in particular to the Outlook section of the Company's Management's Discussion and Analysis (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.

Finning cautions readers that the risks described in the Annual Information Form 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.

1. CORPORATE STRUCTURE

1.1 NAME, ADDRESS AND INCORPORATION

Finning was incorporated as Finning Tractor & Equipment Company Limited on January 4, 1933, under the *Company Act* (British Columbia). On September 2, 1969, the Company became a public corporation. The Company was continued under the Canada Business Corporations Act on October 8, 1986, and changed its name to Finning Ltd. on April 23, 1987, and to Finning International Inc. on April 25, 1997.

Finning International Inc. is a widely held, publicly traded corporation, listed on the Toronto Stock Exchange (symbol: FTT). The registered and head office of the Company is located at Suite 1000, Park Place, 666 Burrard Street, Vancouver, British Columbia, V6C 2X8 (telephone: 604.691.6444; fax: 604.691.6440; website: www.finning.com).

1.2 INTERCORPORATE RELATIONSHIPS

The Company's principal operating subsidiaries, divisions, and joint ventures and the geographic areas they serve are noted below. As at December 31, 2013, there were no other subsidiaries of the Company whose total assets represented more than 10% of the consolidated assets of the Company or whose total revenues for the year then ended represented more than 10% of the consolidated revenue of the Company.

Finning International Inc.

- Canada – Reporting Segment
 - **Finning (Canada)** a division of Finning International Inc., servicing Western Canada with dealer territories in British Columbia, Alberta, the Yukon Territory, the Northwest Territories and a portion of Nunavut.
 - **OEM Remanufacturing Company Inc.** a joint venture company, incorporated in Alberta, Canada; 100% owned by Finning.
- South America – Reporting Segment
 - **Finning Argentina S.A.** and **Finning Soluciones Mineras S.A.** both incorporated in Argentina, 100% owned by Finning and servicing Argentina.
 - **Finning Bolivia S.A.** incorporated in Bolivia, 100% owned by Finning and servicing Bolivia.
 - **Finning Chile S.A.** incorporated in Chile, 100% owned by Finning and servicing Chile.
 - **Finning Uruguay S.A.** incorporated in Uruguay, 100% owned by Finning and servicing Uruguay.
 - **Moncouver S.A.** incorporated in Uruguay, 100% owned by Finning and offering shared services and centralized purchasing to the South American operations.
- UK and Ireland – Reporting Segment
 - **Finning (UK) Ltd.** incorporated in the United Kingdom, 100% owned by Finning and servicing the U.K. with dealer territories in England, Northern Ireland, Scotland and Wales.
 - **Finning (Ireland) Limited** incorporated in the Republic of Ireland, 100% owned by Finning, and servicing the Republic of Ireland.

2. GENERAL DEVELOPMENT OF THE BUSINESS

2.1 OVERVIEW OF OPERATIONS

Finning is a Canadian-based international company that provides sales, rental, parts and support services for Caterpillar Inc. (Caterpillar or CAT) equipment and engines and complementary equipment on three continents. In terms of sales volume, Finning is the largest dealer of Caterpillar products in the world and is the authorized dealer of Caterpillar products in its Western Canada territories, the United Kingdom, the Republic of Ireland, and in the southern cone of South America. At December 31, 2013, Finning had approximately 15,000 employees serving within its territories.

Canada

The Company has been the authorized dealer for Caterpillar products in British Columbia since 1933 and in the Yukon Territory since 1977. In December 1989, the Company acquired all of the shares of R. Angus Alberta Limited, the Caterpillar dealer for Alberta and a portion of the Northwest Territories. By 1995, additional territory was added to the existing area within the Northwest Territories and Nunavut, making the Company the Caterpillar dealer for an area covering all of the Northwest Territories and the portion of Nunavut west of 110 degrees west longitude. The Company services its Canadian dealership territory through its Finning (Canada) division.

South America

In August 1993, the Company acquired its first Caterpillar dealership territory in South America through the acquisition of Gildemeister S.A.C., the authorized Caterpillar dealer for Chile (subsequently renamed Finning Chile S.A. in 1997). In January 2003, the Company expanded its Caterpillar dealership territories in South America by becoming the authorized Caterpillar dealer in both Argentina, through the acquisition of Macrosa Del Plata S.A., and Servicios Mineras S.A. (subsequently renamed Finning Argentina S.A. and Finning Soluciones Mineras S.A., respectively, in 2005), and in Uruguay through the acquisition of General Machinery Co. S.A. (subsequently renamed Finning Uruguay S.A. in 2005). Later in April 2003, the Company completed the acquisition of Matreq Ferreyros S.A. (subsequently renamed Finning Bolivia S.A. in 2005), the authorized Caterpillar dealer for Bolivia. In March 2004, the Company formed a free trade zone company in Uruguay – Finning South America S.A. (subsequently renamed Moncouver S.A. in 2006) and developed a shared services and centralized purchasing centre for its South American operations.

UK and Ireland

In 1983, the Company acquired two Caterpillar dealerships in Great Britain, Bowmaker (Plant) Ltd. and Caledonian Tractor and Equipment Co. Ltd. The acquisition of the remaining U.K. dealer, H. Leverton Limited, was completed in October 1997. In August 2010, the Company was appointed the Caterpillar dealer for Northern Ireland and for the Republic of Ireland. The Company now operates in the U.K. under the name of Finning (UK) Ltd. as the authorized Caterpillar dealer in England, Northern Ireland, Scotland and Wales and in the Republic of Ireland under the name of Finning (Ireland) Limited as the authorized Caterpillar dealer for that territory.

2.2 THREE YEAR HISTORY

The following is a summary of significant developments in the strategy of the Company and in each of the Company's core operating segments over the past three years.

2.2.1 Strategic Plan

Finning is part of Caterpillar's global dealer network and both Finning and Caterpillar benefit from this strong and highly successful relationship, formed in 1933, 81 years ago. The Company's vision is to provide unrivalled services that earn customer loyalty and to be Caterpillar's best global business partner. To achieve this vision, the Company's mission is to be a world-class service and distribution organization through operational excellence.

The Company's strategic plan leverages Finning's core capabilities and establishes a platform for improved business performance and profitable growth and is intended to guide Finning's business into the future. The current strategic plan focuses on key initiatives that Finning expects will drive the Company towards achieving its goals. With safety and talent management as the foundation of the Company's priorities, management is executing on its short and medium-term operational excellence agenda to improve return on invested capital (ROIC)¹ by improving earnings before finance costs and income taxes (EBIT) while utilizing a disciplined approach to capital deployment. Initiatives to improve EBIT are primarily focused on growing market share in new equipment sales and product support and increasing profitability of service operations. Invested capital efficiency will be driven through the optimization of the supply chain, which should reduce working capital, and improving asset utilization. Longer term, the Company's objectives are to expand its mining, power systems and core product offerings and pursue other profitable organic growth opportunities and acquisitions which leverage Finning's competitive strengths.

2.2.2 Current Developments in the Business over the Last Three Years

Acquisitions and investments in strategic growth and operational excellence

Over the past three years, strategic investments have been made by Finning to support market growth and operational excellence. Finning is well positioned to support future customer demands and will focus, over the near term, on driving the utilization of these investments.

- Investment in mining solutions:
 - In October 2012, the Company completed its acquisition from Caterpillar of the former Bucyrus International Inc. (Bucyrus) distribution and support business in its dealership territory across Western Canada. In May 2012, the Company completed its acquisition of the Bucyrus business in its South American and U.K. and Ireland territories. The total value of Finning's acquisition of Bucyrus was approximately U.S. \$466 million. This business is now referred to as the shovels and drills business. The acquisition was strategically important as it allows Finning to sell and support a very comprehensive product line in the mining industry to meet customers' surface and underground mining equipment needs, particularly in resource rich Canada and South

¹ ROIC is measured as earnings before finance costs and income taxes divided by invested capital

America. Approximately 900 former Bucyrus employees transitioned to Finning as part of the acquisition (Canada: 210; South America: 700; U.K.: 1).

- In December 2011, Finning (South America) began fabricating and selling dump bodies for large haul mining trucks under an agreement with Caterpillar. The expansion into the dump body business allows Finning (South America) to reduce the lead times for Caterpillar dump bodies, has reduced the landed cost of dump bodies in Finning's South American territories and provides dump bodies to Caterpillar for resale to other South American territories. This vertical integration supports the Company's profitable growth strategy and the infrastructure investment required to develop the fabrication plant was U.S. \$19 million.
- Investment in Power Systems solutions
 - In 2012, the Company invested approximately \$8.0 million for the acquisition of Damar Group Ltd., an engineering company specializing in the water utility sector in the U.K. The acquired business provides opportunities for Finning to increase market share in the U.K. and Ireland water utility industries. It also increases Finning's mechanical, electrical and civil engineering capability to deliver a wide range of projects within its target power systems markets, which is a key strategic objective of the Company's UK and Ireland operations.
 - In 2011 Finning acquired the power solutions business Rollo U.K. Ltd. from its Netherlands based owner Pon Holdings. Rollo U.K. operates primarily in the marine and power generation sectors. This acquisition complements the existing Power and Energy Systems business in the U.K. and offers significant growth potential.
- Investments in new technologies
 - In 2011, Finning acquired the rights to sell and service Trimble's heavy and highway machine control and monitoring products in its existing dealership territories in Canada and in South America for approximately \$2.0 million and \$1.0 million respectively. Trimble is Caterpillar's global technologies joint venture partner in construction and other industries. SITECH Western Canada Solutions Ltd. and SITECH Southern Cone SPA were formed to bring the specialized products to market. SITECH will sell and support both Trimble and Caterpillar machine control systems along with Trimble's portfolio of connected site solutions, including site positioning systems, construction asset management services, software and wireless and internet-based site communications infrastructure. These products are designed for all-makes of heavy and highway machines. SITECH will provide solutions for Caterpillar equipment as well as competitive makes.
 - In July 2011, Finning's Canadian operations launched a new Enterprise Resource Planning (ERP) system in Canada that is expected to generate long-term operational benefits to the Company. The Company invested approximately \$140 million in the development of the design and implementation of this system in Canada. Following the launch, the Company experienced implementation issues affecting parts supply,

warehousing, and distribution operations, which negatively impacted the Company's ability to efficiently distribute parts and perform service work in the last half of 2011 and into 2012. In 2012, the Canadian operations executed on its ERP business recovery plan to reduce ERP related costs and implement new system enhancements to deliver productivity improvements and in 2013 the Company benefitted from its system enhancements and efficiency initiatives. The system is stable, software applications changes have been made to the parts distribution, service and financial systems and user proficiency has improved. Focus for the future will continue on process efficiencies and improvements to realize the expected operational benefits from the new system.

- **Infrastructure Investments:**
 - Consistent with the Company's long-term strategic focus on key growth markets, the Canadian operations are committed to increasing product support capacity and in 2012 completed construction of a new service facility located in Fort McKay, just north of Fort McMurray, Alberta at a cost of \$107 million.
 - Finning South America has invested approximately U.S. \$55 million in its infrastructure over the past three years.
 - U.S. \$9 million to expand its component repair centre and machine shop in Antofagasta to better serve the customers' growing fleets of 797 trucks which require more space due to the increase in number and large size of components.
 - U.S. \$12 million to build the Finning Technical Institute in Antofagasta, Chile. This training institute is being utilized to train both Finning and customer employees to provide a continuous supply of qualified technicians to meet the required demand to support forecasted growth in the mining sector in Chile. The 7,550 square meter facility was built on 13,000 square meters of space provided by the government under a 30 year concession use agreement.
 - Other strategic investments focused on improving branch infrastructure for service capacity and parts distribution.
 - Finning UK & Ireland has made investments in its infrastructure during the past year, including:
 - £5 million to purchase a new parts warehouse facility in Cannock, U.K. to support its focus on supply chain and operational excellence.
 - £4 million to acquire a purpose-built dealership facility in Dublin, Republic of Ireland with sufficient work bays to better serve that market.

Investment in our people:

- To support the Company in achieving its strategic objectives, Finning is committed to the safety of its employees, development of its employees and having a highly engaged workforce across its operations. A talented and highly engaged workforce that lives the Finning values, acts like owners and delivers through teamwork will drive world-class safety performance, enhanced sales and solutions, excellence in customer service and

profitability, a sustainable, efficient and consistent supply chain and continuous improvement of systems and processes.

- Key executive appointments over the three years to support the strategy:
 - In November 2013, the Company appointed Juan Carlos Villegas as President, Finning (Canada) in addition to his role as Chief Operating Officer, Finning International Inc. Mr. Villegas will oversee all aspects of the Canadian operations with a mandate for delivering on Finning's key priorities in supply chain, service excellence, asset utilization, customer loyalty, market share growth and talent development.
 - In November 2013, the Company appointed Andrew S. Fraser as Executive Vice President, Customer and External Relations for Finning International Inc. Mr. Fraser will focus on strengthening relationships with Finning's largest customers and will assume ownership for fostering community and government relations and will provide strategic oversight and coordination across the operations to meet Finning's commitment to continued safety excellence. Mr. Fraser will provide additional support for Finning's dealer principals' ongoing collaboration with Caterpillar. Previously, Mr. Fraser was President of Finning (Canada) from October 2011 to November 2013. Prior to November 2011, he held a variety of senior roles across the Company's global operations, including Executive Vice President, Power Systems and Global Business Development for the Company and Managing Director, Finning (UK).
 - In June 2013, the Company appointed L. Scott Thomson as President and Chief Executive Officer of Finning International Inc. Mr. Thomson was also appointed to the Board of Directors concurrent with this appointment. Mr. Thomson's international experience, broad financial capabilities and considerable strategic acumen complement his team's existing operational strengths. Mr. Thomson's appointment follows a thorough succession process to identify a candidate to succeed Mike Waites, former President and Chief Executive Officer and director of the Company, who retired in June 2013.
 - In June 2013, the Company appointed Dave Cummings as Senior Vice President and Chief Information Officer. Mr. Cummings brings extensive experience in implementation and optimization of global business processes and advanced technology solutions. Mr. Cummings will oversee Finning's global business processes and systems and will work with our global leaders to develop processes and technology solutions that support Finning's strategic objectives.
 - In November 2012, the Company appointed Neil Dickinson as Executive Vice President, Global Power Systems in addition to his role as Managing Director, Finning (UK). Mr. Dickinson will lead the Company's global power systems strategy and will drive a collaborative approach fully leveraging the Company's enterprise-wide expertise in order to strengthen its position as a leading provider of innovative power and energy solutions.

- In June 2012, Marcello Marchese was appointed President of Finning South America, succeeding Mr. Juan Carlos Villegas, who was appointed Executive Vice President and Chief Operating Officer for Finning International Inc. Mr. Marchese has 14 years of experience in management roles at Finning, most recently as Senior Vice President construction and power systems for Finning South America.
- In May 2012, the Company announced the appointment of Juan Carlos Villegas, formerly President of Finning South America, to the newly created position of Executive Vice President and Chief Operating Officer for Finning International Inc. Reporting to the Chief Executive Officer, Mr. Villegas oversees and drives operational excellence across the Company's three operating units and has a key role in increasing efficiencies and profitability.

Key director changes over the past three years

- In December 2013, Kevin Neveu was appointed as a director of the Company. Mr. Neveu has more than 30 years of experience in the oil and gas industry. Mr. Neveu is President and Chief Executive Officer of Precision Drilling Corporation.
- In June 2013, Bruce L. Turner resigned as a director of the Company due to personal reasons.
- In June 2013, L. Scott Thomson was appointed as a director of the Company, concurrent with his appointment as President and Chief Executive Officer.
- In May 2013, Mike Waites retired as a director.
- In January 2013, Michael Wilson was appointed as a director of the Company. Mr. Wilson has more than 30 years of international and executive management experience in the agricultural and chemical industries and is formerly the President and Chief Executive Officer of Agrium Inc.

Financing and Other Corporate Initiatives and Significant Events

- In February 2014, the Board adopted a new Advance Notice By-law which requires that advance notice be given to the Company in circumstances where nominations of persons for election as a director of the Company are made by shareholders. Shareholders will be asked to ratify and confirm the adoption of the Company's Advance Notice By-law at its Annual Meeting to be held on May 13, 2014. A copy of the Advance Notice By-law has been filed under Finning's profile at www.sedar.com.
- In September 2013, the Company extended the maturity of its global operating credit facility by two years to September 2017. The facility is a \$1 billion operating facility to September 2015, after which it reduces to \$937.5 million to September 2017. This credit facility was originally put in place in September 2011, when the Company entered into a new committed unsecured \$1 billion global operating credit facility with a syndicate of banks. The September 2011 facility replaced the previous \$800 million global credit facility which matured in December 2011. The facility can be accessed in multiple borrowing jurisdictions, in multiple currencies and at various floating rates of interest, and

may be drawn by a number of the Company's principal operating subsidiaries. The facility is also used as a back stop for the Company's commercial paper program, to a maximum of \$600 million and, as such, availability under the facility is reduced by the amount of commercial paper Finning has outstanding at any given time. The facility contains annual options, subject to mutual consent of the syndicate bank lenders and Finning, to extend the maturity date on terms reflecting market conditions at the time of extension.

- In July 2013, the Company issued 3.232% \$200 million unsecured Medium Term Notes ("MTN") due July 3, 2020. Proceeds from this MTN were used to early redeem, on July 5, 2013, the Company's 5.16% \$250 million MTN, due September 3, 2013.
- In May 2013, the Company refinanced the 5.625% £70 million Eurobond, due May 30, 2013 with an issuance of unsecured Notes, Series F, of £70 million in the U.S. private placement market. The 3.40% Notes are due May 22, 2023.
- In June 2012, the Company issued \$150 million 5.077% MTN due June 13, 2042. Proceeds from the MTN were used to fund the purchase of the Bucyrus business in the Company's Canadian operations on October 1, 2012.
- In April 2012, the Company issued unsecured notes in the U.S. private placement market of U.S. \$300 million. The Company issued the notes in three series: the U.S. \$50 million 4.18% Notes, Series C due April 3, 2022, the U.S. \$50 million 4.28% Notes, Series D due April 3, 2024 and the U.S. \$200 million 4.53% Notes, Series E, due April 3, 2027. Proceeds from the notes were used to fund the acquisition of Bucyrus in the Company's South American operations.
- In January 2012, the Company issued unsecured notes in the U.S. private placement market of U.S. \$200 million. The Company issued the notes in two series of U.S. \$100 million each: the Series A Notes and the Series B Notes. The Series A Notes have a term to maturity of ten years and a coupon of 3.98%. The Series B Notes have a term to maturity of twelve years and a coupon of 4.08%. The proceeds from the notes were used to repay commercial paper borrowings and for general corporate purposes.
- In December 2011, the Company repaid its 4.64% \$150 million MTN. Repayment of the notes was funded by the issuance of commercial paper under the Company's commercial paper program.
- The regular dividend has increased over the past three years. For 2013, the total annual dividend paid increased to \$0.5975 per share, an 8.6% increase over the previous year. Dividends paid in 2012 and 2011 totalled \$0.55 and \$0.51 per share, respectively.
- A shareholders' rights plan is in place 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. This plan is set to automatically expire after a three-year term which ends in May 2014. The Company intends to seek shareholder and regulatory approval to extend the plan for a further three years.

2.2.3 Growth by Acquisitions

As part of its overall strategic plan, Finning regularly examines opportunities to acquire complementary businesses in regions where it operates. Finning also evaluates opportunities for expansion into new geographies where the Company can benefit from developing markets. Finning generally targets regions and markets where it can provide substantial customer value through its extensive expertise in its principal markets of mining, construction (including pipeline and oil field development) and power generation.

Acquisitions in existing and adjacent territories enable Finning to lever industry expertise in those markets and local knowledge, such as language, regulatory environment and business practices. As an example, following its 1993 acquisition of the Chilean Caterpillar dealership, Finning's presence in the southern cone of South America and its strong relationship with Caterpillar provided the opportunity to purchase dealerships in the neighbouring countries of Argentina, Bolivia and Uruguay in 2003. Similarly, in 2010 Finning took advantage of its presence in the U.K. and added the adjacent Ireland dealerships. By transferring expertise from its existing operations to the newly acquired adjacent dealerships, Finning benefits from improved financial and operating performance of these dealerships.

Acquisition growth opportunities within the Company's dealership territories are further facilitated by acquiring distribution businesses which expand our existing distribution product lines. The Company's mining and distribution business was significantly enhanced with the 2012 acquisition of the shovels and drills business assets from Caterpillar. For further details on the acquisition of the shovels and drills business refer to item 2.2.2 Current Developments in the Business over the Last Three Years – Acquisitions and investments in strategic growth and operational excellence. These assets are complementary to the Company's existing mining business and support the Company's strategic growth plans by offering a broader range of mining equipment and services for customers' surface and underground mining equipment needs.

Acquisition growth opportunities within the Company's dealership territories are also facilitated by investing in businesses that expand product support opportunities, such as its investment in OEM Remanufacturing in Canada. The acquisition of SITECH in its Canadian and South American operations supports Finning's strategy for growth with the expansion of its offerings to include Caterpillar's and Trimble's heavy and highway machine control and monitoring products to an expanded customer base. In 2011, Finning acquired the power solutions business Rollo U.K. Ltd. from its Netherlands based owner Pon Holdings. Rollo U.K. operates primarily in the marine and power generation sectors. The acquisition complements the existing Power Systems business in the U.K. and offers significant growth potential. In 2012, the acquisition of Damar Group Ltd. in the U.K. provides opportunities for Finning to increase market share in the U.K. and Ireland water utility industries.

Acquisition growth opportunities also arise in the form of global equity investments in businesses involving Caterpillar products such as the Company's investment in Energyst B.V. (a 27.9% investment in a company involved in international power projects worldwide and which also offers power generation rental services across Europe) and in PLM (a 25% investment in an entity serving the global pipeline industry).

Finning plans to continue to evaluate similar opportunities and will consider additional acquisitions that meet its financial and strategic goals.

2.2.4 Organic Growth Opportunities

In addition to growth opportunities resulting from the launch of new Caterpillar products and technologies, Finning has identified a number of organic growth opportunities in each of its existing territories. As the size of the Caterpillar fleet in Finning's geographic regions grows, there is an increased opportunity to offer more stable, higher-margin product support solutions such as long-term parts and service maintenance contracts. In addition, the business has new complementary organic business growth opportunities, such as technology solutions, rebuild products, and manufacturing of truck bodies.

Canada

In Western Canada, Finning has a significant presence as a supplier of large mobile equipment to oil sands producers and contractors. Mining producers are focused on reducing operating costs and this has impacted Finning's product support business. Finning continues to sell equipment into the oil sands and has equipment deliveries scheduled in this area in 2014 and 2015. The Company selectively invests in growth areas to support customers. This is evidenced by the \$107 million service facility housing a 16 bay shop complex, regional offices and training centre in Fort McKay in the oil sands to support the large and growing equipment fleet. As new equipment is introduced and heavily utilized, opportunities to sell parts and service to support the customers' large equipment fleets continue to grow. The Company's Canadian operations continues to actively bid for new equipment and product support opportunities with copper and metallurgical coal mines within its dealership territory. Finning continues to successfully build market share and customers loyalty in non-mining sectors such as heavy construction and forestry. Infrastructure projects such as LNG pipeline opportunities are expected to be a positive driver for heavy construction and power systems activity for the next few years. Market conditions in the conventional oil segment remain weak, while gas compression and electric power generation have strengthened. Demand for rental equipment remains strong across all sectors.

The Company will continue to introduce product support solutions with its existing customer base and will drive a pro-active service culture that has the attitude, ability, technology and resources to provide cost effective value added solutions to customers.

South America

In South America, market conditions have softened. In mining, the Company expects continued equipment replacement and fleet growth, but at a slower pace. While copper prices are at healthy levels, concerns regarding capital expenditures, project execution, and production costs have resulted in delays of greenfield projects and revision of investments for brownfield projects as producers focus on productivity and efficiencies. Mining customers are maintaining production and equipment utilization levels, but are delaying decisions on component purchases, major repairs and equipment and maintenance contracts. Consequently, new order intake for mining equipment has declined, however, this should be partially offset by continued growth in product support. The slowdown in the mining sector is also impacting the power systems and construction equipment markets in Chile, where machine utilization levels and product support activity have been reduced.

The Company's South American operations began to export an agricultural product from Argentina in the third quarter of 2012, in response to the Argentinean government's efforts to balance imports and exports and to manage access to foreign currency exchange. The exportation facilitated the Company to continue to import goods into Argentina to satisfy customer demand, while meeting government's requirements. Other international companies operating in the country are also exporting product to meet these requirements. In the fourth quarter of 2013, the Company did not export any product as it had already met the annual commitment agreed to with the government. In the meantime, the Company's market share for new equipment in Argentina is strong.

Over the past few years, Finning has experienced significant growth in its maintenance support agreements with major mining customers in South America and is well positioned to capture equipment and product support opportunities in a softer market environment. The Company has continued to invest in its infrastructure for growth in this area as evidenced by its investment in training, such as the Finning Technical Institute and expansion of the Component Rebuild Centre, both in Antofagasta, improvements to branch infrastructure for service capacity and parts distribution, completion of the truck body fabrication facility in Chile and the acquisition of the shovels and drills business. We anticipate that these investments will increase Finning's value proposition to mining customers.

Finning continues to experience strong demand for energy solutions in South America, with a significant increase in Argentina due to an energy shortfall resulting from a shortage of oil and natural gas and lack of investment in energy generation capacity over the past several years. Energy demand presents a growth opportunity for Caterpillar products in all four South American countries in which Finning operates. Finning is leveraging its expertise to supply energy solutions to various industries such as petroleum, mining and energy production.

UK and Ireland

In the U.K. and Ireland, the Company is seeing steady order intake in Power Systems and Equipment Solutions despite soft economic conditions. In Equipment Solutions, the backlog for core products is strong. The coal mining sector declined significantly in 2013, but is now showing signs of stability following some customer consolidation. While the heavy construction industries are impacted by low infrastructure project activity levels, quarrying and aggregates remain the most active markets for large core products. The Company's sales to the small machine market are growing as the multi-channel sales approach is building momentum. Equipment sales to the plant hire sector are also strong due to the increase in house building and general construction work. The Power Systems division continues to develop its expertise in power and energy, including water treatment, waste and recycling, oil and gas, marine and industrial and power generation. The Power Systems division has been recognized by Caterpillar as a lead dealer for renewable energy and larger power projects.

Finning's management team for the UK and Ireland has concentrated on driving a culture focused on customers, assets and costs in its equipment solutions and power systems divisions. Improvements are being made in employee engagement, customer satisfaction and operational performance. These changes strongly align the UK and Ireland dealership with Caterpillar and increase Finning's ability to offer tailored solutions to all its customers. Delivery of customer solutions and being number one for service are key strategies to grow the product support business.

3. DESCRIPTION OF FINNING'S BUSINESS

3.1 PRINCIPAL BUSINESS UNITS

Finning has diversified its business through: reporting segments in different geographic areas; different lines of business based on the product or service supplied; and different end use customers or markets. As a result of this diversification, earnings and cash flow are less exposed to fluctuations in business or economic trends that impact a specific geography, customer or market. While revenues reported by each reporting segment are mainly derived through business within their designated territories, opportunities exist for international power systems projects, pipeline business and used equipment sales. The table below provides details of revenue by reporting segment and lines of business:

Revenues for year ended December 31, 2013 (\$ millions)	Canada	South America	UK & Ireland	Consolidated
Product support	\$ 1,558.3	\$ 1,318.8	\$ 266.7	\$ 3,143.8
New equipment	1,315.1	1,068.9	524.3	2,908.3
Equipment rental	288.2	75.3	28.4	391.9
Used equipment	190.9	48.2	64.2	303.3
Other	5.4	3.3	-	8.7
Total	\$ 3,357.9	\$ 2,514.5	\$ 883.6	\$ 6,756.0
Revenue percentage by operations	49.7%	37.2%	13.1%	100%

- *Canada:* Revenue from the Canadian operating segment was \$3,357.9 million in 2013 compared with \$3,277.6 million in 2012. Finning (Canada) serves customers operating in a number of principal markets including mining (which includes the Alberta oil sands), construction, conventional oil and gas, forestry, and power systems.
- *South America:* Revenue from the South American operating segment was \$2,514.5 million (U.S. \$2,439.5 million) in 2013 compared with \$2,397.1 million (U.S. \$2,399.8 million) in 2012. Finning South America serves customers operating in a number of principal markets including mining, construction and power systems.
- *UK and Ireland:* Revenue from the UK and Ireland operating segment was \$883.6 million (£547.9 million) in 2013 compared with \$900.9 million (£568.5 million) in 2012. In this operating segment, Finning serves customers operating in several principal markets which include mining, quarrying, construction, and power systems.

3.2 PRODUCTS & SERVICES

Finning's operations in Canada, South America, and the UK and Ireland offer products and services through four principal lines of business: product support, new equipment sales, equipment rental and used equipment sales. The following table summarizes the Company's revenue by principal lines of business:

REVENUE BY PRINCIPAL LINES OF BUSINESS

Revenues:

(\$ MILLIONS)

	<u>2013</u>			<u>2012</u>			CHANGE
Product support	\$	3,143.8	46.5%	\$	2,815.4	42.8%	\$ 328.4
New equipment		2,908.3	43.0%		3,077.2	46.8%	(168.9)
Equipment rental		391.9	5.8%		379.8	5.8%	12.1
Used equipment		303.3	4.5%		295.4	4.5%	7.9
Other		8.7	0.2%		7.8	0.1%	0.9
	\$	<u>6,756.0</u>	100%	\$	<u>6,575.6</u>	100%	\$ 180.4

Below is a brief description of the Company's products and services offered through the principal lines of business:

3.2.1 Product Support

Finning provides replacement parts and repair services for the products it sells. The recent acquisition of the shovels and drills business completed in 2012 will provide significant opportunity for Finning to grow its share of aftermarket business – both for parts and service. Finning believes that a high level of customer service is essential to its success. A continuing emphasis on product support promotes customized solutions to meet customers' needs. These solutions are often provided under long-term contracts entered into at the time the equipment is sold and, as such, increase the stability and predictability of Finning's future revenues and cash flows. In addition, Finning offers customers the service of rebuilding and refurbishing of their aging equipment fleets to a new condition, to extend their fleet's operating life and help our customers defer major capital expenditures during times of economic uncertainties. To facilitate customer needs and changes in technology, Finning offers other customer solutions to maximize operational efficiencies.

Finning maintains parts inventory throughout its locations in Western Canada, South America, and the U.K and Ireland to provide customers with a convenient access to a supply of parts. All major Finning centres within each geographic area are connected through information systems, which provide immediate information on both Finning and Caterpillar parts inventories.

Nearly half of Finning's employees are specialized tradespersons dedicated to product support. Finning employs approximately 2,670 qualified mechanics, welders, technicians, parts persons and other specialized tradespersons in Canada; approximately 680 in the UK and Ireland; and approximately 3,820 in South America.

In addition to the in-shop capability at Finning locations, Finning provides service at customer locations with specialized personnel and equipment. Many of Finning's customer sites are in remote

locations at very high altitudes or experience severe climatic conditions. Finning has consistently demonstrated its ability to successfully maintain and service equipment under these conditions, enhancing its reputation as a full service provider to its customers. Finning offers its customers maintenance and repair contracts for preventive maintenance, planned component replacement and guaranteed cost-per-hour contracts.

To meet the continuing demand for component replacement arising from the modular design of Caterpillar's products, Finning extensively uses remanufactured components sourced from Caterpillar. In addition, Finning has invested in centralized component remanufacturing centres in Edmonton, Alberta; Leeds, England; Antofagasta, Chile; and Buenos Aires, Argentina. Trained technicians dismantle, test, repair and replace worn components. This centralization, through specialization and volume, creates economies of scale, resulting in lower prices for customers. The remanufactured components are used in repairs and in an exchange program whereby the customer replaces a worn component with a repaired or remanufactured component at specified intervals before failure, maximizing machine availability at an attractive cost compared to new replacement components.

3.2.2 New Equipment

Finning distributes Caterpillar products, including tractors, off-highway trucks, drills, electric rope shovels, hydraulic excavators and drag lines, backhoe loaders, excavators, articulated trucks, loaders, log loaders, tree harvesters, skidders, motor graders, paving products, compactors, wheel tractor-scraper, pipe layers, extensive underground equipment and products complementary to Caterpillar-branded products.

Finning also sells Caterpillar-branded and non-branded engines and power systems for use in electric power generation, oil and gas, marine, on-highway trucking and industrial applications and supplies complete or partial power systems engineering projects to customers.

New equipment revenue is recognized upon the direct sale of products (equipment, engines and power systems) to customers or as a result of a customer exercising its purchase option for products they have rented. In addition, Finning may, from time to time, sell packages of select rental agreements/assets to third party financial institutions.

3.2.3 Equipment Rental

Finning owns fleets of equipment for short-term rental and medium-term rental to meet customer needs. The rental business is carried out through both the dealerships as well as the CAT Rental Store operations. Finning also provides customers with equipment under term rental agreements that include an option to purchase the equipment. These are known as Rental Purchase Options (RPO's).

Rental agreements range from short-term arrangements that provide customers with the flexibility to access reliable equipment to meet short term needs, to longer term arrangements that provide customers with the ability to effectively have reliable equipment available at all times without having to invest the capital required to own the equipment.

During peak periods, the rental fleet in the dealership business can be used to satisfy heavy customer demand, particularly during periods of longer lead times when customers are waiting for new product supply to be delivered. When slower economic conditions exist, customers may use the rental fleets to continue working while deferring capital expenditures on new equipment fleets until markets

improve. Rental revenues are driven more by general economic conditions and construction related demand.

Canada: operates three rental fleets. The mid to heavy rental fleet is operated through the dealership network and focuses mainly on mid to large size Caterpillar earth moving equipment, such as track type tractors, articulated trucks, wheel loaders and excavators, primarily for the construction industry. Finning (Canada) is also a significant player in the power generation rental market and services a wide variety of customers for larger temporary power generation applications. The CAT Rental Stores, through their 29 locations, offer rental products that are complementary to Finning (Canada) customers. These include smaller Caterpillar earth moving equipment, aerial work platforms, light towers, power generation and distribution, and air compressors.

South America: maintains a rental fleet consisting of motor graders, compactors, excavators, backhoe loaders, tractors, compressors, power generators, aerial work platforms and light towers. The rental business mainly serves customers in the construction and mining industries. Tractors, which are rented by construction companies that are involved in highway construction and pre-mining activities, dominate the fleet. The South American rental operations offer these Caterpillar products through their 20 CAT Rental Store locations and in locations where there are no CAT Rental Stores, rentals are facilitated through dealership branches.

UK and Ireland: maintains a fleet of rental equipment for rental contracts which are normally more long-term in nature. The fleet consists mainly of larger equipment such as articulated and rigid chassis dump trucks. Customers served include coal mining, quarrying and construction companies, as well as waste and recycling customers. All rentals of equipment are facilitated through the dealership locations.

3.2.4 Used Equipment

In addition to sales of new equipment, Finning buys and sells used equipment domestically and internationally. Machines are accepted in trade, received from the rental fleet, and purchased from customers and others on the open market. Most of this equipment is reconditioned or rebuilt in Finning's service shops or rebuild centres and resold under a short-term warranty program. Finning also purchases and sells entire fleets of used equipment and sells used equipment on consignment. Used equipment demand will vary depending on general economic conditions, product availability, customer buying preferences, and exchange rate considerations. The used equipment business is generally focused on the products and types of equipment for which Finning is a dealer. Finning has developed expertise in the used equipment market which can contribute to attractive margins on dispositions from its rental fleet.

3.2.5 Other Products & Services

Other revenues include non-material revenues ancillary to support the business.

3.3 PRINCIPAL MARKETS

Finning serves customers operating in a diverse range of end markets, including those involved in mining and quarrying, construction (including pipeline and oil field development), power generation, and forestry. Customers include private enterprise and government. Finning has established industry and product specialists for the major markets in the geographic regions in which it operates.

Canada

Finning's Canadian operations span British Columbia, the Yukon Territory, Alberta, the Northwest Territories and a portion of Nunavut. In these regions, Finning (Canada) serves diverse markets, including mining (including the oil sands), quarrying, forestry, construction, pipeline/oil and gas field construction, government sector, marine transportation, fisheries, and commercial transport. The most significant markets served by Finning (Canada) are as follows:

Mining: provides products and services for use in development of the Alberta oil sands and the mining of coal, copper, molybdenum, gold, diamonds, silver, lead, zinc and other metals and minerals. Most of the mining is done by open pit method that lends itself to the application of large off-highway trucks, shovels, tractors, loaders, graders and draglines. With the acquisition of the shovels and drills business in 2012, Finning's surface mining products expanded to include drills, electric rope shovels, hydraulic excavators and draglines, in addition to extensive underground mining equipment. Operations in remote areas also require electric power generation equipment. High-hour usage of equipment in demanding applications creates substantial demand for parts and repair services from this market sector.

Construction: provides products and services for use in the building and maintenance of highways, railway extensions, site development, residential and commercial construction, installation of utility services and similar projects.

Conventional Oil and Gas: provides products and services including mobile earthmoving equipment for use in exploration and drill site preparation; excavators and pipe layers for use in gathering and delivery systems. In addition to its Western Canadian market exposure, Finning (Canada) has access to supply both purpose built pipeline and traditional Caterpillar products to the global pipeline construction market through its 25% investment in PLM.

Forestry: provides products and services for use in road building, harvesting and processing trees, silviculture, log transport to mills and ports and the handling of logs, lumber and finished products in mill yards.

Power Systems: provides products and systems for use in oil and gas exploration and production, electric power generation, plus marine and industrial applications. Oil and gas markets include drilling, hydraulic fracturing, well servicing and gas compression, with particular applicability in high horsepower applications. Electric power generation markets include power for remote communities and mines, local specialized power projects, camp power and electric power rentals. Increasing market demand for natural gas and dual gas/diesel power solutions represents growth opportunities across all markets. Increasing marine shipbuilding activity will also be a growth opportunity over the next few years.

South America

Finning's South American operations serve a variety of markets in Chile, Argentina, Uruguay and Bolivia including mining, construction, forestry, oil and gas, marine and electric power generation, the most significant of which are:

Mining: provides products and services mainly to copper, coal, gold and iron ore mines. These mine sites require fleets of off-highway trucks, loaders, tractors and other support equipment and often include long-term agreements for maintenance of the equipment. Finning also provides technology solutions, including fleet management, condition monitoring, productivity solutions and proximity awareness. With the acquisition of the shovels and drills business in 2012, Finning's surface mining products expanded to include drills, electric rope shovels and hydraulic excavators, in addition to extensive underground mining equipment. High-hour usage of equipment in demanding applications creates substantial demand for parts and repair services from this market sector.

Construction: provides products and services to the construction industry involving road construction and maintenance projects, and other mine site preparation and infrastructure projects as well as residential and commercial construction. Finning also provides technology solutions, including fleet management, condition monitoring, productivity solutions and proximity awareness.

Forestry: provides products and services in the southern half of Chile, the northeast of Argentina and in Uruguay for road building, logging, log transportation and the handling of logs, lumber and finished products in yards and mills and at port facilities.

Power Systems: provides products and systems for use in electric power generation, oil and gas and marine power. Growth in electric power generation was delivered through sales of engines, generator sets and custom engineered power solutions for primary, stand-by or turnkey applications for customers engaged in various dry-land markets, including mining, oil and gas, telecommunications, utilities and general construction. Finning also provides marine propulsion systems to the fishing industry and the Chilean Navy.

UK and Ireland

Finning's operations in the UK and Ireland also serve diverse markets, with the principal contributors to revenue being the mining and quarrying, power and energy and construction sectors.

Mining and Quarrying: provides products and services for use in coal mining and site reclamation, quarrying of limestone, granite and clay and extraction of sand and gravel.

Power Systems: provides products and systems for use in electric power generation, water treatment, marine power, industrial applications and oil and gas. Electric power generation orders continue to be strong in such markets as landfill-gas-to-energy and mission critical power for commercial applications such as hospitals and data centres. Additional markets served in the U.K. are pleasure craft and commercial marine which purchase engines for vessels manufactured in the U.K. and sold around the world, as well as certain industrial sectors (such as rock crushing), offshore oil platforms and the shipping industry.

Construction: provides products and services for use in highway construction and maintenance, residential and industrial development, waste and recycling landfill sites, recycling centres and transfer stations and the installation of sewer, water and other utility services. Hydraulic excavators and articulated dump trucks are the most common types of Caterpillar machines for these applications.

3.4 DISTRIBUTION METHODS

Finning operates through an extensive network of branch locations, local field representatives and at customer mine sites. Finning's operations are represented across their dealer territories by approximately 236 locations, of which approximately 20% are owned, with the balance held under lease.

Finning's operations place a strong focus on providing customer support solutions to end-users. An efficient parts distribution network assists in achieving this objective. The distribution network operated by each operating segment can be summarized as follows:

Canada: Parts distribution for Finning (Canada) is managed under an arrangement with an independent contractor through which a fleet of dedicated trucks and trailers makes daily deliveries of new and remanufactured parts, components, attachments and small equipment to major locations in Finning (Canada)'s territory. In the fourth quarter of 2012, Caterpillar opened a new distribution facility in Spokane, Washington. This new facility has become the main distribution centre for Finning (Canada) with delivery routes direct from this warehouse or via a central Finning warehouse in Nisku, Alberta. This new Caterpillar distribution facility is much closer to Finning (Canada)'s business and significantly improves the efficiency of the supply chain. In the previous legacy supply chain network, the majority of parts were sourced from Morton, Illinois which added up to ten days to the shipping time for regular stock orders. This lead time included four days for transportation from Morton to the Finning facility. With direct shipment routes from Spokane, this lead time for regular stock orders was reduced to less than three days, including ½ day for transportation from Spokane to a Finning facility. In 2013, Finning implemented direct shipment to five southern routes in Alberta and British Columbia to benefit from these efficiencies.

South America: Parts are primarily sourced from the Caterpillar parts distribution centres in Miami, Florida and Piracicaba, Brazil. Parts order shipments from Caterpillar are shipped by ocean and air to Finning-owned parts distribution centres in Antofagasta, Chile and Buenos Aires, Argentina and warehouses in Santa Cruz and LaPaz, Bolivia and Montevideo, Uruguay. Through independent sub-contractors, a dedicated fleet of trucks makes daily deliveries of new parts and remanufactured components to all branches.

UK & Ireland: Parts are sourced from the Caterpillar parts distribution centre in Grimbergen, Belgium. These parts are then redistributed to UK and Ireland branches either directly by trucks enroute from Grimbergen, or by Finning's interbranch transport network and an independent contractor.

3.5 EMPLOYEE DEVELOPMENT

Finning's ability to succeed over time depends on the strength and capabilities of its employees. As such, enabling an environment where every employee can perform to his or her full potential is imperative.

Finning is committed to developing a highly engaged workforce. Finning believes this will help the Company, across all operations at all levels, to achieve its strategic and operational goals.

Finning employs highly qualified and professional individuals and encourages training and career development for all of its employees. Nearly half of Finning's total employees are skilled mechanics, technicians, parts persons and apprentices. To enhance skill levels and expertise, Finning offers the following:

- All of the Finning operations, in partnership with Caterpillar, support Caterpillar's ThinkBIG equipment technician program. In this program, Finning and Caterpillar combine to provide tools, instructors and machinery, as well as job opportunities to graduates. Finning UK and Ireland is a leader in technician development in its sector and is the first European dealer to deploy Caterpillar's ThinkBIG in-house apprentice development program. The program was rated by Ofsted (U.K. government body with responsibility for inspecting educational establishments) as "outstanding" which is the highest grading possible, and is marketed by Ofsted as best practice for other U.K. organizations to consider. Finning South America has been recognized both by local authorities and local industries as a leader in best practices with regard to technician development.
- Finning (Canada) and Caterpillar support the Keyano College, in Fort McMurray for the FINN Tech Heavy Equipment Diploma program. This twenty-month diploma program will train 40 technicians a year for classroom and job-site training.
- Formalized intern programs provide learning and development opportunities in the sales and operations areas of Finning (Canada). South America has launched an innovative program called "Finning University" which defines career progression opportunities in service, sales, parts & logistics among others. Finning UK and Ireland remains committed to the development of its sales force and technicians and has a range of programs in place both internally and externally to support this.
- In South America, construction of the Finning Technical Institute was completed and opened in July 2013. This training institute located in Antofagasta, Chile is being utilized to train both Finning and customer employees to provide a continuous supply of qualified technicians to meet the required demand to support forecasted growth in the mining sector in Chile. This newly constructed 7,550 square meter facility is located on 13,000 square meters of land provided by the government under a 30 year concession use agreement.
- Structured programs for management are currently in place with a focus on leadership development. Management development programs are offered to supervisors, new management and existing management of all levels in order to ensure that Finning managers have the appropriate skills to meet current and future business needs. To assist those employees promoted to more senior leadership roles, Finning provides the appropriate tools, training and coaching. At least annually, the Company reviews succession plans for key management positions and identifies

what programs and plans need to be in place in order for the identified successors to be prepared to take on their new roles.

- Each year, each Finning business identifies priorities to advance its long-term strategy and focus its efforts during the year. Salaried employees work with their managers to identify individual performance objectives that are linked to their department's goals and to the overall Company objectives and priorities. Throughout the year, employees stay on track with their objectives through one-on-one meetings with their manager and team meetings. At year-end, employees meet with their manager to review their performance during the year and to identify strengths and any areas for development for the following year. During the annual review, the employee also has the opportunity to discuss how these objectives align with the employee's career aspirations.

The Company administers Employee Opinion Surveys (EOS) to monitor employee engagement. In 2013, of the employees surveyed, 84% of employees participated and employee engagement was rated at 75%, a strong indicator of the commitment and dedication of Finning's employees. Based on an analysis of the EOS results, teams are tasked with developing and implementing action plans that will maintain team strengths and focus on those areas where there are opportunities for improvement.

3.6 EMPLOYEE RELATIONS

Finning had 14,924 employees at the end of 2013 compared to 15,382 employees at the end of 2012. A breakdown of where these employees are located is as follows:

Continuing operations:	Canada	UK and Ireland	South America	Total
2013	5,784	1,677	7,463	14,924
2012	6,146	1,814	7,422	15,382
Change	(362)	(137)	41	(458)

In Canada, as ERP efficiencies increased in 2012 and 2013, opportunities to reduce the workforce were realized. In the UK and Ireland the workforce was reduced as a result of cost management initiatives driven by the economic environment.

Approximately 65% of Finning's employees are represented by unions and are covered by collective agreements. The more significant agreements covering the majority of Finning's unionized employees, are as follows:

Canada: At Finning (Canada), hourly paid parts and service employees are represented by the International Association of Machinists and Aerospace Workers (IAM) and covered by two collective bargaining agreements:

- Finning's collective bargaining agreement with IAM – Local Lodge 99, representing approximately 1,700 hourly employees in Alberta and Northwest Territories expired on April 30, 2013. In December 2013, Finning (Canada) and the IAM – Local Lodge 99 reached a three-year collective agreement which expires in April 2016.

- Finning's collective bargaining agreement with IAM – Local Lodge 692, representing approximately 700 employees in British Columbia and Yukon Territory has a four-year term which expires on April 14, 2015.

OEM employees are represented by the Transport Warehousemen and Allied Trades (CLAC Local 56), which is affiliated with the Christian Labour Association of Canada (CLAC). The current three-year collective agreement between OEM and CLAC, representing approximately 500 employees, expires on December 31, 2014.

South America: In Chile, approximately 4,800 of Finning's unionized employees are represented by eight unions (sindicatos). Six of these unions, representing approximately 87% (4,180) of the workforce, renewed their collective bargaining agreements in 2012 for a four year period that will expire on April 1, 2016. Another union recently renewed its collective agreement in December 2013 covering 540 employees, which expires in 2017, and one other union will be involved in collective bargaining agreement negotiations during 2014.

A national union represents Finning mechanics in Argentina pursuant to a country wide agreement. This national agreement was signed in 1975 with no end date. A good working relationship with this union, covering approximately 480 employees, is maintained with both Finning Argentina S.A. and Finning Soluciones Mineras S.A.

UK and Ireland: At Finning (UK) Ltd., there have been no serious labour disruptions since the business was acquired in 1983. Finning (UK) Ltd. recognizes the Unite trade union for collective bargaining purposes for its service and staff employees. A Collective Agreement was renegotiated with the Unite trade union for a two-year period which expires on December 31, 2014.

3.7 COMPETITIVE CONDITIONS

Finning is part of Caterpillar's global dealer network. As a dealer, Finning sells, rents and supports Caterpillar equipment in the territories in which it represents Caterpillar.

Finning primarily competes with a large number of equipment distributors who sell and support equipment manufactured by companies other than Caterpillar. The competitive environment for Caterpillar's machinery and engine business consists of global, regional and specialized local enterprises. Historically, superior product quality, exceptional service capability, remanufactured components, product customization, strong distribution capability and parts availability, an extensive branch network, proximity to customers, financial services and the wide product range offered by Caterpillar have defined Finning's competitive advantage throughout its territories. With the acquisition of the shovels and drills business from Caterpillar, Finning has further enhanced its product and service offering to mining customers.

Caterpillar manufactures a broad range of products. In addition, Caterpillar has expanded its product line through the strategic acquisitions of companies supplying complementary product lines and through the distribution of products manufactured by other companies and distributed under the Caterpillar brand name. Caterpillar's competitors generally provide a more limited range of products, and in many cases these are specific to particular market segment and applications within those segments. As a result, most of Finning's competitors specialize in more limited and specific lines of equipment and services.

Consequently, Finning's share of industry-wide sales varies significantly across product lines and industries.

In general, due to its strong product support capability, Finning is able to compete very successfully when customers are driven to achieve the lowest owning and operating cost over the life of their equipment.

3.8 DEALERSHIP AND DISTRIBUTOR AGREEMENTS

Finning has dealership and distributor agreements with several equipment manufacturers and distributors, the most significant being Caterpillar. Under the terms of its agreements with Caterpillar, Finning is responsible for marketing, distributing and servicing Caterpillar's products in its dealership territories.

Finning has several dealership agreements with Caterpillar, including companies owned by Caterpillar such as Perkins, MaK and F.G. Wilson. The principal agreements can be terminated on 90 days notice in Canada and South America and six months notice in the U.K. Other agreements can be terminated on three to six months notice. In the event of termination of an agreement by Caterpillar, Caterpillar will purchase substantially all related inventories of new equipment and new parts inventory from Finning at cost. Finning started as a Caterpillar dealer in 1933 and has developed a strong relationship with Caterpillar. Finning's management is not aware of any matter that could result in termination of any of the dealership agreements with Caterpillar.

Over 90% of Finning's business involves Caterpillar products. As such, Finning's business is dependent on the market acceptance of Caterpillar products. From time to time, during periods of intense demand, Caterpillar finds it necessary to allocate its supply of particular products among its dealers. Such allocations of supply have not in the past proven to be a significant impediment to Finning in conducting its business. In periods of lower demand, Caterpillar may reduce its production capacity which may also result in longer lead times for delivery of product. By working closely with Caterpillar, Finning has been able to mitigate any significant impact to its business thus far.

In addition to the Caterpillar dealer relationships noted above, Finning has developed dealer relationships for other complementary product lines in order to create new marketing opportunities and to expand its product support. In Canada, relationships exist with Waratah, Risley, Allied Systems, JLG, Genie, Atlas Copco, Godwin, HaulMax, Trimble and Kress. In South America, dealer relationships exist with Genie Industries, Reedrill, Metso, Trimble and Waratah. In the U.K., a dealer relationship exists with Komptech which was extended to include Ireland in 2013.

3.9 BUSINESS CYCLES

Many of Finning's customers operate in industries that are cyclical in nature. As a result, customer demand for its products and services may be affected by economic conditions on both a global or local level. Changes in interest rates, inflation, economic growth, levels of taxation, foreign exchange, commodity prices, and the level of government infrastructure spending may influence capital expenditure decisions, and ultimately Finning's sales. Through diversification by geography and by the services offered, Finning mitigates some of this cyclical impact.

3.10 BUSINESS PROCESSES & SYSTEMS

Finning's Business Processes and Systems (BP&S) function, under the guidance of the new Chief Information Officer, has launched a review of its strategy, organizational capabilities, service models and long range plans. A BP&S transformation program was launched in 2013 to focus on creating a sustainable information technology (IT) services model, sustaining the security and reliability of the IT and data assets, maintaining an acceptable cost to serve and driving business top and bottom line results.

Historically, Caterpillar had provided its dealers with a core business solutions service offering, consisting of packaged and maintained software that enabled the dealer processes for finance; parts and supply chain; service and product support; sales, marketing and merchandising. The backbone of this dealer service offering was a core ERP solution, a mainframe system named DBS. In the mid 2000's the original Caterpillar DBS mainframe ERP system was updated and further enhanced with a commercial software solution which was named "DBSi". DBS and DBSi were used by the majority of Caterpillar's dealers throughout the world as their core ERP, along with a variety of other Caterpillar developed software applications that expanded and supported DBS and DBSi solutions.

In the mid 2000's Caterpillar announced the decision to license and outsource the DBS and DBSi solutions and services for dealers to a third party - or to the dealers themselves. As of 2013, the license for operating the DBS and DBSi systems is owned by this third party, and the DBS and DBSi information systems are now supported by dealers themselves or by a third party hosting and support provider.

Given the Caterpillar announcement to no longer run and operate the DBS and DBSi solutions, Finning undertook a project in 2007 to evaluate alternative commercial offerings to support the Company's strategic goals of "best in class" customer solutions. This project resulted in the selection of the Infor M3 Equipment Service Management and Rental (formerly Lawson M3) solution in late 2007. In early 2008 an ERP design and implementation project was approved and initiated to implement the Finning solution, commencing with implementation in the Company's Canadian operations.

The core ERP system development was completed in late 2010 and the first go-live occurred on July 4, 2011 in the Company's Canadian operations. Following the go-live of the ERP system in Canada, Finning experienced implementation issues affecting parts supply, warehousing and distribution operations, which negatively impacted the Company's ability to efficiently distribute parts and perform service work in the last half of 2011 and during 2012. Following these operational issues post go-live, Finning launched a business recovery program and have since tested and successfully implemented a series of process changes and system performance enhancements to improve the functionality and reliability of the system, to stabilize the system and improve the business process operations.

Selective solution enhancements and process improvements undertaken in 2013 continued to drive functionality and efficiency.

For the Finning core ERP solutions in Chile, Uruguay, and Bolivia, Finning continues to run the original DBS version of Caterpillar software, while DBSi is being used in Finning's operations in the U.K. and Ireland and Argentina.

As a result of the lessons learned during the implementation of Infor M3 in Canada, and the advancement of technologies and cloud based service models, in 2013 Finning chose to take a three pronged approach to the ERP strategy going forward. In the Canadian operations the Infor M3 system will

continue to be the core ERP solution and there will be a continued focus on improving the solution to drive both top and bottom line business results. In the UK and Ireland operations the current DBSi systems will be upgraded to assure reliability for the next 2 to 4 years. In 2014, management will perform an evaluation in its South American operations, to review the most appropriate core ERP system for its business needs.

3.11 FOREIGN OPERATIONS

In both 2013 and 2012, Finning generated approximately 50% of revenue from operations in Canada; 37% from South America in 2013 (2012: 36%); and 13% from operations in the UK and Ireland in 2013 (2012: 14%). Revenue from operations outside of Canada contributed approximately 50% of consolidated revenue, which was comparable to 2012.

3.12 ETHICS

Finning's Code of Conduct (Code) forms the cornerstone of how Finning conducts business and how its employees' actions contribute to Finning's collective goals. The Code sets out Finning's expectations for the ethical behaviour of all its directors, officers and employees. The Code is reviewed annually by Finning's senior management and Board of Directors and all directors, officers and key employees are required to acknowledge their compliance with the Code. The Code encompasses member ambassadorship and accountability, privacy, ethical conduct, confidentiality, environment, health and safety, anti-bribery and anti-corruption, financial accuracy and accountability including fair and full disclosure of Finning's financial results, and how to deal with breaches to the Code. The Code is further supported by Finning's Global Anti-Bribery and Anti-Corruption Policy.

The Board monitors compliance with the Code through the Audit Committee. All directors, officers and employees have a duty to report suspected Code violations. Suspected Code violations are reported to the Audit Committee. In order to address Code matters in a timely, unbiased and confidential manner, the Company has established a Global Ethics Committee comprised of the Compliance Officer (Corporate Secretary), Vice President, Risk Management, Senior Vice President and Chief Human Resources Officer and the Senior Vice President, Corporate Controller. The Global Ethics Committee investigates and, where appropriate, delegates potential violation claim reports to the Regional Ethics Committees (comprised of senior level executives in finance, legal, human resources and internal audit). The Global and Regional Ethics Committees are management committees.

The Company also has a Whistleblower Policy in place to enable any issues which may arise to be resolved within the Company, rather than outside it, without fear of retaliation. Anyone who believes that a violation of the Code has occurred or who requires advice regarding compliance with the Code, is encouraged to report such violation or concerns through Finning's compliance website or telephone hotline. Both the compliance website and the telephone hotline are managed by an independent global reporting agency. In addition, the Compliance Officer can be contacted directly at complianceofficer@finning.ca. Further information on the reporting of ethics violations or concerns is provided in Finning's Whistleblower Policy, which is available on Finning's corporate website www.finning.com.

3.13 ENVIRONMENT, HEALTH AND SAFETY

Finning aims to eliminate all job related injuries and illnesses and minimize the impact of its activities on the environment. The Company's commitment to the environment, health and safety is underpinned by its Code, which guides the actions of all employees. The Code emphasizes collective accountability for upholding Finning's values and standards.

In each of its regions, Finning employs a team of Environment, Health and Safety (EH&S) professionals led by a senior manager. The teams work closely with the operations on the development and implementation of safe operating procedures. The senior EH&S managers work across the regions to share best practices. On a quarterly basis, regional presidents report to the Safety, Environment & Social Responsibility (SE&SR) Committee of the Board of Directors. The SE&SR Committee oversees continuous improvement in employee health and safety and environmental standards of Company facilities; ensures Finning's commitment to environmental sustainability is articulated to its stakeholders and that societal and regulatory expectations are met; and assures that the significant contributions the Company and its employees make to its communities are directed strategically.

Above all, Finning is committed to continuously improving its safety performance. By continuing to promote a safe working environment, Finning aims to reduce the frequency of injuries and the occurrence of all serious incidents. In 2013, Finning's consolidated safety record, as measured by Lost Time Injury Frequency (LTIF) was 0.19 compared to 0.22 for 2012. LTIF measures the number of lost time injuries for every 200,000 hours worked. The Company also measures total recordable injury frequency (TRIF) across its operations. This measurement provides insight into root causes of injuries and incidents and allows the Company to take actions to prevent more serious injuries from occurring. The Company strives to maintain its leadership position in the industry and demonstrate the strong commitment of all employees to follow safe work practices. Despite Finning's high standards and emphasis on safety, our South American operations experienced two fatalities in 2013. Following thorough investigations, the Company has taken steps in an effort to prevent such tragedies from occurring in the future.

Implementing practices that eliminate or minimize Finning's impact on the environment is a high priority. Focus in this area is viewed as a shared responsibility between each and every Finning employee and an important part of Finning's corporate culture.

Finning has programs in place throughout its operations to monitor and meet or exceed environmental protection regulations. Through an environmental audit program, Finning monitors compliance. Key employees are educated on changes to relevant environmental laws and regulations. Finning management is not aware of any environmental protection requirements that are likely to have a material adverse effect on the capital expenditures, earnings or competitive position of the Company.

Through investment in component remanufacturing facilities which rebuild equipment components such as engines and transmissions, Finning reduces waste, saves energy, and decreases the consumption of raw materials required to produce new components.

Finning works closely with Caterpillar and its customers to develop products that are more fuel efficient and produce lower emissions. In addition, as a leading supplier of renewable energy solutions, Finning aims to reduce its impact on land, water and climate. Over the past decade, Finning has developed extensive expertise in supplying and servicing power generation systems which produce electricity using

bio-gas containing methane from landfills, sewage treatment plants and coal mines. Harnessing methane, which would otherwise be released as a greenhouse gas, to generate electricity is one example of Finning's commitment to sustainable development and environmental stewardship.

In 2013, the Company undertook a strategic review of its community investment philosophy and practices across its operations. The goal of this assessment was to build on Finning's long-standing tradition of community involvement and to provide guidance on leading community investment practices.

4. KEY BUSINESS RISKS

4.1 RISK MANAGEMENT

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

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

4.2 CONTROLS AND PROCEDURES CERTIFICATION

Disclosure Controls and Procedures

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

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

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

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

Internal Control over Financial Reporting

Management is responsible for establishing and maintaining adequate internal control over financial reporting. Management has designed internal control over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements in accordance with IFRS.

There has been no change in the design of the Company's internal control over financial reporting during the year ended December 31, 2013, that would materially affect, or is reasonably likely to materially affect, the Company's internal control over financial reporting. Since the implementation of a new ERP system in the third quarter of 2011 in the Company's Canadian operations, management has employed additional procedures to ensure key financial internal controls remained in place. Management also performed additional account reconciliations and other analytical and substantive procedures to mitigate any financial risks from the introduction of the new system.

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

Evaluation of Effectiveness

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

Based on that evaluation, the CEO and CFO have concluded that the Company's disclosure controls and procedures and internal control over financial reporting were effective as of December 31, 2013.

4.3 FINANCIAL RISKS AND UNCERTAINTIES

4.3.1 Credit Risk

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

4.3.2 Liquidity Risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company's approach to managing liquidity is to ensure, as far as possible, that it will have sufficient liquid financial resources to fund its operations and meet its commitments and obligations. The Company maintains bilateral and syndicated bank credit facilities, a commercial paper program, continuously monitors actual and forecast cash flows, and manages maturity profiles of financial liabilities. Undrawn credit facilities at December 31, 2013 were \$1,587 million (2012: \$1,223 million), of which approximately \$922 million (2012: \$743 million) is committed credit facility capacity. The Company believes that it has good access to capital markets which is supported by its investment grade credit ratings.

Financing arrangements

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

4.3.3 Market Risk

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

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

Foreign Exchange Risk

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

Translation Exposure

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

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

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

Transaction Exposure

Many of the Company's operations purchase, sell, rent and lease products as well as incur costs in currencies other than their functional currency. This mismatch of currencies creates

transactional exposure at the operational level, which may affect the Company's profitability as exchange rates fluctuate. For example, the Company's Canadian operating results are exposed to volatility in foreign exchange rates (USD/CAD) between the timing of equipment and parts purchases and the ultimate sale to customers. A portion of this exposure is hedged through the use of forward exchange contracts as well as managed through pricing practices. The Company's competitive position may also be impacted as relative currency movements affect the business practices and/or pricing strategies of the Company's competitors.

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

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

Sensitivity to Variances in Foreign Exchange Rates

The sensitivity of the Company's net earnings to fluctuations in average annual foreign exchange rates is summarized in the table below. A 5% strengthening of the Canadian dollar against the following currencies for a full year relative to the December 31, 2013 month end rates would increase / (decrease) annual net income by the amounts shown below. This analysis assumes that all other variables, in particular volumes, relative pricing, interest rates, and hedging activities are unchanged.

<u>(\$ millions)</u>	December 31, 2013 month end rates	Net Income
CAD/USD	1.0636	(34)
CAD/GBP	1.7627	(1)
CAD/CLP	0.0020	4
CAD/ARS	0.1631	2

A 5% weakening of the Canadian dollar against the above currencies relative to the December 31, 2013 month end rates would have an equivalent but opposite effect on the above accounts in the amounts shown on the basis that all other variables are unchanged.

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

Interest Rate Risk

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

The Company is exposed to changes in interest rates on its interest bearing financial assets including cash and cash equivalents and instalment and other notes receivable. The short-term nature of investments included in cash and cash equivalents limits the impact to fluctuations in fair value, but

interest income earned will be impacted. Instalment and other notes receivable bear interest at a fixed rate thus their fair value will fluctuate prior to maturity but, absent monetization, future cash flows do not change.

The Company is exposed to changes in interest rates on its interest bearing financial liabilities including short and long-term debt and variable rate share forward (VRSF). The Company's debt portfolio comprises both fixed and floating rate debt instruments, with terms to maturity ranging up to June 2042. Floating rate debt, due to its short-term nature, exposes the Company to limited fluctuations in changes to fair value, but finance expense and cash flows will increase or decrease as interest rates change. The fair value of the Company's fixed rate debt obligations fluctuate with changes in interest rates, but absent early settlement, related cash flows do not change. The Company does not measure any fixed rate long-term debt at fair value. The Company is exposed to changes in future interest rates upon refinancing of any debt prior to or at maturity. The Company pays floating interest rates on its VRSF. Both fair value and future cash flows are impacted by changes in interest rates. The Company manages its interest rate risk by balancing its portfolio of fixed and floating rate debt, as well as managing the term to maturity of its debt portfolio. At certain times the Company may utilize derivative instruments such as interest rate swaps to adjust the balance of fixed and floating rate debt.

Commodity Prices

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

4.3.4 Share-Based Payment Risk

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

A 5% strengthening in the Company's share price as at December 31, 2013, all other variables remaining constant, would have increased pre-tax income by approximately \$2.0 million (2012: \$1.8 million) as a result of revaluing the Company's VRSF, with a 5% weakening having the opposite effect. This fair value impact partially mitigates changes in the fair value of the Company's cash-settled share-based payment liability.

4.3.5 Hedges

The Company utilizes derivative financial instruments and foreign currency debt in order to manage its foreign currency and interest rate exposures, and share-based compensation expenses (see Notes 4 and 8 of the Notes to the Company's 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.

4.4 OTHER KEY BUSINESS RISKS

4.4.1 Key Personnel

The success of the Company in achieving its goals is largely dependent on the abilities and experience of its senior management team and other key personnel. The Company's future performance will also depend on its ability to attract, develop, and retain highly qualified employees in all areas of its business and to successfully integrate employees transitioned to Finning from acquisitions. Competition for highly skilled management, sales, and technical personnel is intense, particularly in certain geographic areas where the Company operates. To help mitigate this risk, the Company has implemented a number of human resource initiatives, including: training and career development programs, succession plans, engagement surveys, performance management systems, compensation programs and recruiting strategies.

Although the Company actively manages its human resource risks, there can be no assurance the Company will be successful in its efforts. The loss of certain key employees, or failure to attract and retain new talent as needed, may have an adverse impact on the Company's business, results of operations, and future prospects.

4.4.2 Information Systems and Technology

Information systems and technology enable both categories of solutions that facilitate internally consumed services and solutions that facilitate external customer facing solutions. The integrity, reliability, and availability of technology and the data processed by that technology is an integral part of the Company's business processes, including marketing of equipment and support services, inventory and logistics, and finance. Some of these systems are integrated with Caterpillar's core processes and systems.

Given the continued advancement of technologies as the enabler of internally consumed services and the escalating importance of technology in the marketplace to facilitate value added services, Finning recruited a Chief Information Officer in 2013 to oversee its global business processes and systems.

Caterpillar no longer provides support services for its core ERP offering to dealers DBS or DBSi - preferring to licence the rights for these products to a third party who provides product support and operational services to the dealers who wish to maintain the DBS environments as their core ERP solution.

As a result of Caterpillar's strategic decision to no longer support the dealer ERP systems themselves, Finning undertook a project in 2007 to evaluate future ERP strategy which included the former Caterpillar DBS systems as well as alternative commercial products. This evaluation resulted in the selection and implementation of the Infor M3 solution in Finning's Canadian operations on July 4, 2011, is hosted on third party infrastructure in an outsourced arrangement. Go-live challenges did occur with this implementation and these challenges have been addressed and the system is now stable. In 2013, Finning focused on improving the system's functionality and efficiency by implementing, in partnership with the ERP vendor, selective solution enhancements and process improvements. Finning has now transitioned to a steady state operational model and continues to focus on continuous improvement and operational excellence. Finning continues to look at enhancements for ongoing improvement with respect to the ERP platform solutions.

As a result of the lessons learned during the implementation of Infor M3 in Canada, and the advancement of technologies and cloud based service models, in 2013 Finning chose to take a three pronged approach to the ERP strategy going forward. In the Canadian operations the Infor M3 system will continue to be the core ERP solution and there will be a continued focus on improving the solution to drive both top and bottom line business results. In the UK and Ireland operations the current DBSi systems will be upgraded to assure reliability for the next 2 to 4 years. In 2014, management will perform an evaluation in its South American operations, to review the most appropriate core ERP system for its business needs.

The implementation of any large IT system involves significant process change and organization change which carries the risk of business disruption, failure to achieve expected business benefits, cost overruns and ineffective design and operation of the Company's internal control over financial reporting. Change management, risk and impact assessment, solution validation, strong project disciplines and training have been identified as critical success factors in the successful implementation of the new systems. Any disruptions to these systems or the failure of these systems to operate as expected could, depending on the magnitude of the problem, adversely impact the Company's operating results by limiting the ability to effectively monitor and control the Company's operations. A rigorous management process is being followed to manage these risks.

4.4.3 Economic Conditions / Business Cyclicity

Many of the Company's customers operate in industries that are cyclical in nature. As a result, customer demand for the Company's products and services may be affected by economic conditions on both a global or local level. Changes in interest rates, inflation, economic growth, levels of taxation, foreign exchange, commodity prices, customer access to resources and the level of government infrastructure spending may influence capital expenditure decisions, and ultimately the Company's sales. The Company has mitigated some of its exposure to variable business cycles by diversifying its business across a broad range of business activities, industry sectors, and geographic locations. A significant amount of the Company's gross margin is generated from parts, service, and rental activities, which are less sensitive to swings in commodity prices than are equipment sales. In spite of the Company's geographic and business diversification, an economic downturn in one or more markets or regions may adversely

impact the Company's operating results, particularly at a regional level. The Company mitigates the economic risks at a regional level through cost initiatives in areas of lowered business volumes and through constant evaluation of efficiencies and process improvements.

4.4.4 Caterpillar

The majority of the Company's business involves the distribution and servicing of Caterpillar products. As such, the Company's business is highly dependent on the continued market acceptance of Caterpillar's products. The Company believes that Caterpillar has a solid reputation as a manufacturer, with excellent brand recognition and customer support and has high market share in many of the markets it serves. However, there can be no assurance that Caterpillar will be able to maintain its reputation and market position in the future. If Caterpillar is unsuccessful in developing and enhancing its product lines to meet evolving and sophisticated customer needs, is unable to maintain the quality of its products, or if it is unable to provide its products at competitive prices, the market acceptance for Caterpillar products may deteriorate over time. Any resulting decrease in the demand for Caterpillar products could have a material adverse impact on the Company's business, results of operations and future prospects.

The Company is also dependent on Caterpillar for the timely supply of parts and equipment to fulfill its deliveries to customers and meet the requirements of the Company's service maintenance contracts. From time to time, during periods of intense demand, Caterpillar finds it necessary to allocate its supply of particular products among its dealers. Such allocations of supply have not, in the past, proven to be a significant impediment to the Company in the conduct of its business. However, there can be no assurance that Caterpillar will continue to supply its products in the quantities and timeframes required by the Company's customers. When supply constraints have occurred in the past, the Company has been successful in utilizing its rental assets and used equipment to meet demand. Finally, the Company's product supply could also be disrupted by potential labour disputes or strike action at Caterpillar. Any prolonged delays in product supply may adversely affect the Company's business, results of operations and financial condition.

The Company has also been reliant on Caterpillar to supply financing to its customers. In periods of global market credit disruption, Caterpillar may tighten sources or terms of financing for Finning's customers. When credit constraints have occurred, the Company and its customers have historically been successful in finding alternate sources of financing or arranged alternate terms of purchase to facilitate delivery of products to customers. However, any prolonged disruption in Caterpillar's or Finning's customers' access to liquidity markets could have a material adverse impact on the Company's business, results of operations and financial condition.

In addition, the Company has a long-standing relationship with Caterpillar that dates back to 1933, when it was awarded its first dealer territory in Canada. Since 1933 and as part of its strategic plan, the Company has continued to develop its relationship with Caterpillar, expanding its dealer territories in Canada, the U.K., Ireland and South America. The relationship was further enhanced by the acquisition of the Bucyrus distribution business from Caterpillar in 2012. The Company enjoys an excellent relationship with Caterpillar, which management is confident will continue to be very strong in the future. However, as is customary in dealership arrangements of this type, the sales and service agreements with Caterpillar are terminable by either party upon 90 days notice in most regions, and upon 180 days notice in the U.K. and Ireland. In the event Caterpillar terminates an agreement, it must repurchase substantially all

inventories of new equipment and parts from the Company at cost. Any such termination could have a material adverse impact on the Company's business, results of operations, and future prospects.

In addition, Caterpillar may, from time to time, change various elements of the dealership operating model which could also have a material effect on Finning's business.

4.4.5 Growth Initiatives / Integration of Acquisitions / Project Execution

As part of its long-term corporate strategy, the Company intends to grow its business through a combination of organic growth and strategic acquisitions as well as focusing on its core business. The Company's ability to successfully grow its business will be dependent on a number of factors including: identification of value creating business or acquisition opportunities; negotiation of purchase agreements on satisfactory terms and prices; prior approval of certain acquisitions by Caterpillar or other parties, including regulatory authorities; securing attractive financing arrangements; and integration of newly acquired operations into the existing business. The Company purchased the Bucyrus distribution business (now referred to as shovels and drills) from Caterpillar in 2012. The integration of this business has now been completed with the successful transition of employees, assets and assumed customer contracts. Although the Company makes every effort to integrate new operations, there can be no assurance that the Company will fully realize the anticipated revenues, synergies, or other intended benefits associated with potential acquisitions.

The Company believes that an opportunity for growth exists in its Power Systems business. To be successful in this area requires strong project management and engineering skills, systems and control procedures. All of these activities may be more difficult to implement or may take longer to execute than management anticipates. Further, any significant expansion of the business may increase the operating complexity of the Company, and divert management attention away from regular business activities. Any failure of the Company to manage its growth strategy successfully could have a material adverse impact on the Company's business, results of operations, and financial condition.

The Company has many operational excellence initiatives underway, such as improving customer loyalty, supply chain and service excellence for all of its operations. A greater focus will be placed on meeting customer expectations and numerous actions have been taken to continuously sustain or improve employee engagement. Failure to effectively execute on the operational excellence agenda may result in the inability to obtain desired business results.

The Company has adopted and implemented a project management process and is expanding its capabilities in this area in order to manage risks associated with the complexity of the numerous cost initiatives and projects underway.

4.4.6 Competition

The Company competes with a large number of equipment vendors worldwide that sell equipment manufactured by companies other than Caterpillar. In addition, the Company operates in a very competitive market in the U.K. Although price competition between the Company and other equipment vendors can be intense, there are a number of factors that have enhanced the Company's ability to compete throughout its market areas, including: the range and quality of Caterpillar products; the range and quality of the Company's services and solutions; the Company's ability to meet sophisticated customer

requirements; the Company's effective and efficient distribution capabilities; the number of sales and service locations; the Company's proximity to its customers; and the extent of financial services offered by the Company and its suppliers. The Company may encounter increased competition in the future through expanded entrants into the market and the expansion of e-commerce channels for parts sales, which may put pressure on sales prices. Further, foreign currency movements could provide relative pricing advantages to competitors who transact their business in different currencies than the Company. Increased competitive pressures or the inability of the Company to maintain the factors which have enhanced its competitive position to date could adversely affect the Company's business, results of operations, and financial condition.

4.4.7 Maintenance and Repair Contracts

The Company enters into long-term maintenance and repair contracts with some of its customers. Under these contracts, the Company agrees to maintain certain fleets of customer equipment at negotiated performance levels. The lengths of these contracts vary, often ranging up to five or more years. The contracts are generally a fixed price over the term, although many contracts have additional provisions for inflationary or currency adjustments.

The Company has developed processes and has controls in place to ensure contracts are bid appropriately but due to the long-term nature of these contracts, there is a risk that significant cost overruns may be incurred. If the Company has miscalculated the extent of maintenance work required, or if actual parts and service costs increase beyond the agreed adjustments, contract profitability may be adversely affected. All maintenance and repair contracts are validated against historic Finning and Caterpillar data based on conservative component change out periods and usually include an escalation clause to cover inflationary increases where appropriate in the contract. The Company closely monitors the contracts for early warning signs of cost overruns. Preventative measures such as scheduled oil sampling helps to identify problems early on and reduces the risk of costly repair work.

Caterpillar may, in certain circumstances, share in the cost overruns if profitability falls below a certain threshold. Any failure by the Company to effectively price and manage these contracts could have a material adverse impact on the Company's business, results of operations and financial condition.

4.4.8 Defined Benefit Pension Plans

In addition to having defined contribution pension plans, the Company has a number of closed defined benefit pension plans covering certain legacy employee groups in the U.K. and Canada. The predominant pension arrangements in Canada and in the U.K. and Ireland going forward are defined contribution plans, with all existing defined benefit plans now closed to new members. The non-executive defined benefit provisions have been closed to new members since 2004 in Canada and 2003 in the U.K. The executive defined benefit provisions were closed to new members effective January 1, 2010. During 2012, existing UK defined benefit plan members were transitioned to a defined contribution plan on a go-forward basis, with all future defined benefit service ceasing. The Company's South American employees do not participate in a Company pension plan.

The Company is responsible for funding its defined benefit plans to ensure accrued benefit obligations will continue to be met by plan assets in the future. The Company's funding requirements are dependent upon many factors, including the rate of return earned on plan assets, the discount rate used to

calculate accrued benefit obligations, and several other actuarial assumptions and experiences. Changes in any of these factors may cause the Company's pension contributions and related pension expense to fluctuate. Both the Canadian and U.K. plans invest in various asset categories including 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. 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 UK defined benefit plans whereby the investments will be adjusted over time as plan funding positions improve to continue improving the asset-liability match. This is to be accomplished primarily by reducing the exposure to equity investments over time and increasing exposure to investments such as long-term fixed interest securities with maturities that match the benefit payments as they fall due. Management believes that the Company has the financial capacity to fully fund its accrued obligations as necessary under the various defined benefit pension plans. The Board of Directors established a Board Pension Committee to oversee the Company's pension plans. This oversight includes the responsibility to analyze policies and strategies developed by management.

4.4.9 Employee Relations

Many of the Company's employees are represented by unions and are covered by collective bargaining agreements. The Company is party to a number of collective bargaining agreements worldwide, which are subject to expiration at various dates in the future.

While the Company is committed to the collective bargaining process and to concluding a fair contract for its employees and for Finning, the renegotiation process could result in future work stoppages or higher wages and benefits paid to union members. The failure to renew collective agreements upon satisfactory terms could have a material adverse impact on the Company's business, results of operations, or financial condition.

4.4.10 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 CFO. Senior financial representatives are assigned to all significant projects that impact financial accounting and reporting. Policies are in place to ensure completeness and accuracy of reported transactions. Key transaction controls are in place, and there is a segregation of duties between transaction initiation, processing, and cash receipt or disbursement. Accounting, measurement, valuation, and reporting of accounts, which involve estimates and / or valuations, are reviewed quarterly by the CFO and the Audit Committee of the Board of Directors. Significant accounting and financial topics and issues are presented and discussed with the Audit Committee.

Management's discussion and analysis of the Company's financial condition and results of operations are based on the Company's Consolidated Financial Statements, which have been prepared in accordance with IFRS. The Company's significant accounting policies are contained in Note 1 to the Consolidated Financial Statements for the year ended December 31, 2013. Certain policies require management to make judgments, estimates, and assumptions in respect of the application of accounting

policies and the reported amounts of assets, liabilities, revenues, expenses, and disclosure of contingent assets and liabilities. These policies may require particularly subjective and complex judgments to be made as they relate to matters that are inherently uncertain and because there is a likelihood that materially different amounts could be reported under different conditions or using different assumptions. The Company has discussed the development, selection, and application of its key accounting policies, and the critical accounting estimates and assumptions they involve, with the Audit Committee. The more significant estimates include: recoverable values for goodwill and other asset impairment tests, determination of the value of separable identifiable intangible assets other than goodwill acquired in a business combination, allowance for doubtful accounts, reserves for warranty, provisions for income tax, the determination of employee benefits, provisions for inventory obsolescence, the useful lives of the rental fleet and capital assets and related residual values, revenues and costs associated with maintenance and repair contracts, revenues and costs associated with the sale of assets with either repurchase commitments or rental purchase options, and reserves for legal claims.

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

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

The Company performed its assessment of goodwill and intangible assets with indefinite lives and determined there was no impairment at December 31, 2013, 2012 and 2011.

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

4.4.11 International Operations

The Company has operations outside of Canada, including the U.K., Republic of Ireland, Chile, Argentina, Uruguay, and Bolivia. The Company's international subsidiaries are subject to risks normally associated with the conduct of any business in foreign jurisdictions, including: uncertain political and economic environments; war, insurrection, and other civil disturbances; changes in laws, regulations, and

taxation; foreign currency exchange controls; and limitations on the repatriation of earnings. These risks may limit or disrupt operations, increase costs, restrict the movement of funds, or result in the loss of property. Although the Company closely monitors its foreign investment risks, there can be no assurance that the Company will not be adversely affected by political and other events beyond its control.

The Argentinean economy is challenging and devaluation of the Argentinean peso continued throughout 2013. During the fourth quarter of 2013 the devaluation was accelerated with an approximate 26% devaluation of the Argentinean peso relative to the U.S. dollar (the functional currency of the Company's South American operations). Management has taken steps to reduce this risk by ensuring its net balance sheet exposure to the Argentinean peso is minimized as much as possible such that further declines in the Argentinean peso would not have a material impact on the Company's results.

The Company's South American operations began to export an agricultural product from Argentina in the third quarter of 2012, in response to the Argentinean government's efforts to balance imports and exports and to manage access to foreign currency exchange. The exportation facilitated the Company to continue to import goods into Argentina to satisfy customer demand, while meeting government's requirements. Other international companies operating in the country are also exporting products to meet these requirements.

4.4.12 Future Warranty Claims

The Company provides warranties for most of the equipment, parts and services supplied. In many cases, the warranty claim risk is shared jointly with the equipment manufacturer. Accordingly, the Company's liability is generally limited to the service component of the warranty claim, while the manufacturer is responsible for providing the required parts. There is a risk that product quality erosion or lack of skilled workforce could increase warranty claims in the future, or may be greater than management anticipates. If the Company's liability in respect of such claims is greater than anticipated, it may have a material adverse impact on the Company's business, results of operations, and financial condition. To mitigate this risk, the Company reviews every warranty offering by product at least annually to assess the experience with the product and ensure that the appropriate cost factors to service the product over its warranty period are adequate. Insurance may at times be obtained on equipment to further mitigate any warranty exposure. Additionally, the Company works closely with Caterpillar on all product quality issues and has extensive product improvement, product support and pre-delivery inspection programs in place.

4.4.13 Income Taxes

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

Deferred tax assets and liabilities comprise the tax effect of temporary differences between the carrying amount and tax basis of assets and liabilities, as well as the tax effect of undeducted tax losses, and are measured according to the income tax law that is expected to apply when the asset is realized or

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

4.4.14 Government Regulation

The Company's business is subject to evolving laws and government regulations, particularly in the areas of environment, health and safety. Changes to such laws and regulations may impose additional costs on the Company and may affect its business in other ways, including the requirement to comply with various operating procedures and guidelines that may impact the Company's operations or may effect our customers and the demand for our products. The Company has in place, in each of its business units, programs of monitoring and compliance to ensure that it meets or exceeds applicable laws and regulatory requirements. In addition, the Board of Directors of the Company has established and maintains a Safety, Environment & Social Responsibility Committee. The mandate of this Committee is to encourage, assist and counsel management of the Company in its drive towards attaining and maintaining the highest level of performance in areas relating to the environment, health, and safety. Ensuring a healthy and safe workplace minimizes injuries and other risks employees may face in carrying out their duties, improves productivity and avoids penalties or other liabilities.

4.4.15 Scope of Insurance Coverage

The Company maintains a program of insurance coverage that is ordinarily maintained by similar businesses, including property insurance and general liability insurance. Although the limits and deductibles of such insurance have been established through risk analysis and the recommendation of professional advisors, there can be no assurance that such insurance will remain available to the Company at commercially reasonable rates or that the amount of such coverage will be adequate to cover all liability incurred by the Company. If the Company is held liable for amounts exceeding the limits of its insurance coverage or for claims outside the scope of that coverage, its business, results of operations and financial condition could be adversely affected.

4.4.16 Repurchase Guarantees

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. The right of return is dependent upon a number of factors, including the condition of the equipment. 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. Although the Company believes it has been very successful in estimating equipment values to date, there can be no assurance that the Company will not incur a loss on such arrangements in the future. To mitigate this risk all guarantees are reviewed on a quarterly basis and where deemed necessary, a provision is made at that time to record a potential loss.

5. SUMMARY OF FINANCIAL INFORMATION

5.1 THREE YEAR SUMMARY

Years Ended December 31
(\$ millions except per share amounts)

	2013	2012	2011
		Restated	Restated
Revenue ⁽¹⁾			
Canada	\$ 3,357.9	\$ 3,277.6	\$ 2,943.7
South America	2,514.5	2,397.1	2,120.1
UK and Ireland	883.6	900.9	831.1
Total	\$ 6,756.0	\$ 6,575.6	\$ 5,894.9
Earning before finance costs and income taxes ^{(1) (4)}			
Canada	\$ 262.9	\$ 231.1	\$ 167.2
South America	248.6	238.5	194.5
UK and Ireland	42.9	45.2	46.8
Other ⁽³⁾	(33.7)	(26.2)	(34.3)
Total	\$ 520.7	\$ 488.6	\$ 374.2
Net income ⁽¹⁾	\$ 335.3	\$ 326.8	\$ 251.4
Basic earnings per share ⁽¹⁾	\$ 1.95	\$ 1.90	\$ 1.47
Diluted earnings per share ⁽¹⁾	\$ 1.94	\$ 1.90	\$ 1.46
Dividends paid per common share	\$ 0.5975	\$ 0.55	\$ 0.51
Long-term debt ⁽²⁾ (includes current portion)	\$ 1,367.2	\$ 1,375.8	\$ 763.1
Total assets ⁽¹⁾	\$ 5,057.6	\$ 5,118.0	\$ 4,085.4

⁽¹⁾ In 2012, the Company acquired the former Bucyrus distribution and support business in its dealership territories of Canada, South America and the U.K. Also in 2012, the Company acquired Damar, an engineering company specializing in the water utility sector in the U.K. The results of operations and financial position of these acquired businesses have been included in the figures above since the date of acquisition.

Results for 2012 and 2011 have been restated to reflect the Company's adoption of the amendments to International Accounting Standard (IAS) 19, Employee Benefits, which became effective on January 1, 2013.

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

other income and other expenses beginning in the third quarter of 2013, and comparative figures in the three year summary have been adjusted accordingly.

- (2) In September 2011, the Company entered into a \$1.0 billion committed unsecured syndicated operating credit facility. This facility replaced the previous \$800 million global credit facility, which was set to expire in December 2011. In September 2013, the Company negotiated a two-year extension to its \$1.0 billion committed unsecured syndicated operating credit facility, under which \$937.5 million was extended to September 2017 from the original maturity of September 2015.

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

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

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

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

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

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

- (3) The Company's Other segment refers mainly to corporate head office costs and mark-to-market costs associated with the Company's VRSF and is essentially non-revenue generating.
- (4) Earnings before finance costs and income taxes (EBIT) is defined herein as earnings before finance costs and income taxes and is a measure of performance 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. For a description and reconciliation of non-GAAP and additional GAAP measures, please refer to the section entitled "Description of Non-GAAP and Additional GAAP Measures" in the annual Management Discussion and Analysis relating to the Company's audited comparative Consolidated Financial Statements.

5.2 THREE YEAR SUMMARY BY QUARTER**(Unaudited)**

(\$ millions except per share amounts)

Results from Continuing Operations:

<u>Period</u>	<u>Qtr.</u>	<u>Revenue</u>	<u>Net Income</u>	<u>Basic EPS</u>	<u>Diluted EPS</u>
2013	1	\$ 1,559.9	\$ 73.4	\$ 0.43	\$ 0.43
	2	1,620.1	82.7	0.48	0.48
	3	1,780.2	86.2	0.50	0.50
	4	1,795.8	92.9	0.54	0.54
	Total	\$ 6,756.0	\$ 335.3	\$ 1.95	\$ 1.94
2012 (restated)⁽¹⁾	1	\$ 1,471.8	\$ 64.3	\$ 0.37	\$ 0.37
	2	1,764.5	78.7	0.46	0.46
	3	1,593.7	81.2	0.47	0.47
	4	1,745.7	102.6	0.60	0.60
	Total	\$ 6,575.6	\$ 326.8	\$ 1.90	\$ 1.90
2011 (restated)⁽¹⁾	1	\$ 1,274.6	\$ 69.6	\$ 0.41	\$ 0.40
	2	1,480.6	79.8	0.47	0.46
	3	1,329.1	33.5	0.20	0.19
	4	1,810.6	68.5	0.40	0.40
	Total	\$ 5,894.9	\$ 251.4	\$ 1.47	\$ 1.46

⁽¹⁾ See footnote (1) in Section 5.1.

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. EPS for each quarter has been computed based on the weighted average number of shares issued and outstanding during the respective quarter; therefore, quarterly amounts may not add to the annual or year-to-date total.

6. MANAGEMENT'S DISCUSSION AND ANALYSIS

For further financial information please refer to the MD&A, relating to the Company's audited Consolidated Financial Statements for the fiscal years ended December 31, 2013 and December 31, 2012 and the report of the auditors thereon. The MD&A is available on the Canadian System for Electronic Document Analysis and Retrieval (SEDAR) at www.sedar.com and can also be found on Finning's website at www.finning.com.

7. DIVIDENDS

The Company has a practice of paying quarterly dividends on its outstanding common shares. The declaration and payment of future dividends is subject to the discretion of its Board of Directors and will be dependent on the Company's results of operations, financial condition, cash requirements, future outlook and other factors deemed relevant by the Board of Directors. Dividends paid on common shares were \$103 million or \$0.5975 per share in 2013, compared with \$95 million or \$0.55 per share in 2012. In 2013, the Company increased its quarterly dividend rate by 9% to \$0.1525 per quarter. The increase in dividend reflects the Company's confidence in the outlook and expectation for earnings growth.

In May 2013, the Company increased its target dividend payout ratio to 25 – 35% from 25 – 30% of its Basic EPS. This ratio is defined as the indicated annual dividend declared per share divided by basic EPS for the last twelve month period. In 2011, the dividend payout ratio exceeded the targeted level, however, the 2013 and 2012 payout ratio was within the target range. The 2013 payout ratio is 31.3%.

The Company has declared and paid the following dividends, on the dates and at the rates shown, since February 16, 2011. Except as prescribed by law, Finning is not subject to any restrictions with respect to its ability to declare or pay dividends.

<u>Declaration Date</u>	<u>Date Paid</u>	<u>Rate Per Share</u>
February 16, 2011	March 18, 2011	\$0.12
May 11, 2011	June 10, 2011	\$0.13
August 11, 2011	September 9, 2011	\$0.13
November 8, 2011	December 9, 2011	\$0.13
February 15, 2012	March 16, 2012	\$0.13
May 8, 2012	June 8, 2012	\$0.14
August 8, 2012	September 7, 2012	\$0.14
November 7, 2012	December 7, 2012	\$0.14
February 12, 2013	March 14, 2013	\$0.14
May 8, 2013	June 6, 2013	\$0.1525
August 7, 2013	September 5, 2013	\$0.1525
November 13, 2013	December 12, 2013	\$0.1525
February 19, 2014	March 20, 2014*	\$0.1525

(*) Dividend Payable

8. DESCRIPTION OF CAPITAL STRUCTURE

The authorized share capital of the Company consists of:

- Unlimited number of preferred shares without par value, of which 4,400,000 are designated as cumulative redeemable preferred shares. As of February 20, 2014, the Company had no preferred shares outstanding.
- Unlimited number of common shares. As of February 20, 2014, the Company had 172,078,194 common shares issued and outstanding.

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 plan provides that one share purchase right has been issued for each common share and will trade with the common shares until such time as any person or group, other than a "permitted bidder", bids to acquire or acquires 20% or more of the Company's common shares, at which time the plan rights become exercisable. The rights may also be triggered by a third party proposal for a merger, amalgamation or a similar transaction. In May 2011, the rights plan was extended for three years such that it will automatically terminate at the end of the Company's Annual Meeting of shareholders in 2014 unless further extended by shareholders prior to that time. The Company intends to seek shareholder approval at its 2014 Annual Meeting to extend the rights plan for three years such that it will automatically terminate at the end of the Company's Annual Meeting in 2017.

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

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

As well, it should be noted that the Company's dealership agreements with subsidiaries of 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. A copy of the plan is available at www.sedar.com.

9. CREDIT RATINGS

The current credit ratings on the Company's securities are as follows:

	DBRS ⁽¹⁾	S&P ⁽²⁾
Short-Term Debt.....	R-1(low)	N/A
Long-Term Debt/Senior Unsecured Debentures and Notes.....	A (low)	BBB+

Notes:

⁽¹⁾ Dominion Bond Rating Service Limited (DBRS) maintains a stable outlook on the above securities.

⁽²⁾ Standard and Poor's (S&P) maintains a stable outlook on the above securities.

Credit Ratings Note: A security rating is not a recommendation to buy, sell or hold securities and may be subject to revision or withdrawal at any time by the rating organization.

9.1 LONG-TERM DEBT CREDIT RATINGS

In January 2014, the Company's long-term rating was reaffirmed at A (low) by DBRS with a stable outlook. The A (low) rating for the Company is the lowest grade or standing within the A category of the DBRS rating scale. The A category is the 3rd highest of ten categories within the DBRS rating scale and reflects long-term debt that is of satisfactory credit quality. Protection of interest and principal is still substantial, but is still susceptible to adverse economic conditions and has greater cyclical tendencies than higher-rated securities.

During 2013, S&P completed its annual review of the Company's ratings and re-affirmed the BBB+ rating and stable outlook. The BBB+ rating for the Company is the highest grade or standing within

the BBB category of the S&P rating scale. The BBB category is the 4th highest of ten categories within the S&P rating scale and reflects long-term debt obligations that exhibit adequate protection parameters. However, adverse economic conditions or changing circumstances are more likely to lead to a weakened capacity of the obligor to meet its financial commitments on the obligation.

9.2 SHORT-TERM DEBT CREDIT RATINGS

In January 2014, the Company's short-term rating was reaffirmed at R-1 (low) rating by DBRS. The R-1 (low) rating is the 3rd highest of ten categories within the DBRS short-term debt rating scale and is considered to be satisfactory credit quality. The overall strength and outlook for key liquidity, debt, and profitability ratios is not normally as favourable as with higher rating categories in the R-1 rating level, but these considerations are still respectable. Any qualifying negative factors that exist are considered manageable, and the entity is normally of sufficient size to have some influence in its industry.

10. MARKETS FOR THE SECURITIES OF THE COMPANY

The common shares of the Company are listed on the Toronto Stock Exchange under the symbol FTT. The following table sets forth the high and low closing prices and the volume of common shares traded on the Toronto Stock Exchange during 2013.

<u>Month</u>	<u>High \$</u>	<u>Low \$</u>	<u>Volume</u>
January	26.63	24.77	11,269,658
February	27.30	25.50	9,334,600
March	26.00	24.31	8,333,600
April	25.39	21.29	12,202,900
May	23.85	20.91	15,233,000
June	23.06	21.12	11,775,500
July	24.20	21.70	7,766,400
August	22.54	20.37	13,790,000
September	23.88	20.40	11,229,600
October	25.04	22.99	9,119,300
November	26.22	22.85	6,970,500
December	27.68	24.31	8,421,500

10.1 TRANSFER AGENT AND REGISTRAR

The transfer agent and registrar for the Company's common shares is Computershare Investor Services Inc. which has offices in Montreal, Toronto, Calgary and Vancouver.

11. MATERIAL CONTRACTS

The following sets out a list of all of the Company's material contracts entered into either: (a) within the last financial year; or (b) subsequent to the last financial year and filed as a material contract up to the date of the Annual Information Form; or (c) before the last financial year but still in effect, other than (in either case) those contracts entered into before January 1, 2002:

- an amended and restated unsecured credit facility dated September 11, 2013 with a syndicate of banks. This new facility amends Finning's previous \$1 billion credit facility which was set to fully mature in September 2015 by, among other things, extending \$937.5 million of the facility to now mature in September 2017. This credit facility is a source of financing for all global operations.
- note purchase agreement dated as of May 22, 2013 between Finning and various note purchasers pursuant to which Finning issued £70 million principal amount of 3.40% Senior Notes, Series F, due May 22, 2023.
- note purchase agreement dated as of April 3, 2012 between Finning and various note purchasers pursuant to which Finning issued: (a) U.S. \$50 million principal amount of 4.18% Series C Senior Notes due April 3, 2022; (b) U.S. \$50 million principal amount of 4.28% Series D Senior Notes due April 3, 2024; and (c) U.S. \$200 million principal amount of 4.53% Series E Senior Notes due April 3, 2027.
- note purchase agreement dated as of January 19, 2012 between Finning and various note purchasers pursuant to which Finning issued: (a) U.S. \$100 million principal amount of 3.98% Series A Senior Notes due January 19, 2022; and (b) U.S. \$100 million principal amount of 4.08% Series B Senior Notes due January 19, 2024.
- In January 2012, the Company entered into a Master Asset Purchase Agreement, as amended, to acquire from Caterpillar the distribution and support business formerly operated by Bucyrus in Finning's dealership territories in Canada, U.K. and South America, for a purchase price of U.S. \$466 million.
- an amended and restated rights agreement (Rights Agreement) dated as of May 11, 2011 between the Company and Computershare. The Rights Agreement is set to automatically expire after a three-year term which ends in May 2014. Shareholders will be required to approve the extension of the shareholders' right plan for an additional three year period at the Company's annual meeting to be held in May 2014. The Rights Agreement sets out the terms and conditions of the Company's shareholder rights plan and is described in more detail in the Company's 2011 management proxy circular dated March 17, 2011.
- an indenture (Indenture) dated March 22, 1994 between the Company and Computershare Trust Company of Canada (formerly Montreal Trust Company of Canada) (Computershare) and a second supplemental indenture (Second Supplemental Indenture) dated September 23, 1998 between the Company and Computershare. The Indenture and the Second Supplemental Indenture relate to the Company's Medium Term Notes. The terms of these agreements were fully described in the

Company's final short form prospectus dated May 22, 2012 and pricing supplement No. 1 dated May 13, 2012 and pricing supplement No. 2 dated June 18, 2013.

12. DIRECTORS AND OFFICERS

12.1 DIRECTORS AS OF FEBRUARY 20, 2014

The name, municipality of residence and principal occupation during the past five years of each director of the Company are described as follows.

Name and Municipality of Residence	Principal Occupation During the Past Five Years	Year First Became Director ⁸
Ricardo Bacarreza ^{1, 2, 3} Santiago, Chile	President, Proinvest S.A.	1999
James E.C. Carter ^{2, 3 (chair), 4, 5 (chair)} Edmonton, AB, Canada	Corporate Director	2007
Honourable David L. Emerson PC, OBC ^{1, 4(chair), 5} Vancouver, BC, Canada	Corporate Director and Public Policy Advisor	2008
Kathleen M. O'Neill ^{1 (chair), 2, 4} Toronto, ON, Canada	Corporate Director	2007
Kevin A. Neveu Calgary, AB, Canada	President & Chief Executive Officer, Precision Drilling Corporation, since 2007	2013
Christopher W. Patterson ^{1, 3, 5} Bonita Springs, FL, USA	Corporate Director President & Chief Executive Officer, Daimler Trucks North America LLC, 2005 - 2009	2010
John M. Reid ^{1, 2(chair), 4, 6} Vancouver, BC, Canada	Corporate Director	2006
Andrew H. Simon, OBE ^{1, 3, 5} Bougy-Villars, Switzerland	Corporate Director	1999
L. Scott Thomson ³ Vancouver, BC, Canada	President & Chief Executive Officer, Finning International Inc., since June 2013; Chief Financial Officer, Talisman Energy Inc., 2008 - 2013	2013
Douglas W.G. Whitehead ⁷ North Vancouver, BC, Canada	Corporate Director	1999

Name and Municipality of Residence	Principal Occupation During the Past Five Years	Year First Became Director ⁸
Michael M. Wilson ^{1, 2, 3} Bragg Creek, AB, Canada	Corporate Director President & Chief Executive Officer, Agrium Inc. 2003 - 2013	2013

¹ Member, Audit Committee

² Member, Human Resources Committee

³ Member, Safety, Environment & Social Responsibility Committee

⁴ Member, Corporate Governance Committee

⁵ Member, Pension Committee

⁶ Lead Director

⁷ Chairman of the Board

⁸ The Directors of the Company are elected each year at the Annual Meeting of the Company and hold office until the close of the next Annual Meeting or until their successors are elected or appointed.

The Company currently has five committees of the Board of Directors: the Audit Committee, the Human Resources Committee, the Safety, Environment & Social Responsibility Committee, the Corporate Governance Committee and the Pension Committee. The members of each committee are indicated by footnote in the list of directors above.

The term of office for all current directors will end on the day of the next Annual Meeting of the Company's shareholders.

12.2 OFFICERS AS OF FEBRUARY 20, 2014

Each of the officers are listed in the table below with their principal occupations held for the past five years:

Officer's Name and Municipality of Residence	Principal Occupation During the Past Five Years
Dave W. Cummings Vancouver, BC, Canada	Senior Vice President and Chief Information Officer, Finning International Inc., since June 2013; Consultant - Chief Information Officer advisor, Board and Executive Advisor, Decision Consulting, 2012 – 2013; Senior Vice President and Chief Information Officer, Maxum Petroleum Inc., 2012 – 2013; Senior Vice President and Chief Information Officer, Univar, 2009 - 2012
Neil Dickinson Staffordshire, UK	Managing Director, Finning (UK) & Executive Vice President, Global Power Systems since 2012; Managing Director, Finning (UK), since 2010; Director, Construction Finning (UK), 2004 – 2010

Officer's Name and Municipality of Residence	Principal Occupation During the Past Five Years
Andrew S. Fraser West Vancouver, BC, Canada	Executive Vice President, Customer and External Relations, Finning International Inc., since November 2013; President, Finning (Canada), 2011 – 2013 Executive Vice President, Power Systems & Global Business Development, Finning International Inc., 2010 – 2011; Managing Director, Finning (UK), 2006 – 2010
Marcello Marchese Santiago, Chile	President, Finning South America since 2012; Senior Vice President, Construction & Power Systems, Finning South America, 2008 – 2012
Anna P. Marks North Vancouver, BC, Canada	Senior Vice President and Acting Chief Human Resources Officer, since September 2013; Senior Vice President and Corporate Controller, Finning International Inc., 2008 – 2013
Thomas M. Merinsky North Vancouver, BC, Canada	Vice President, Treasurer, Finning International Inc., since 2009; Vice President, Investor Relations & Corporate Affairs, Finning International Inc., 2004 – 2009
J. Gail Sexsmith Aldergrove, BC, Canada	Corporate Secretary, Finning International Inc., since 2009; Director, Corporate Reporting, Finning International Inc., 2003 – 2009
David S. Smith West Vancouver, BC, Canada	Executive Vice President and Chief Financial Officer, Finning International Inc., since 2009; Vice President and Chief Financial Officer, Ballard Power Systems Inc., 2002 – 2009
L. Scott Thomson Vancouver, BC, Canada	President and Chief Executive Officer, Finning International Inc., since June 2013; Chief Financial Officer, Talisman Energy Inc., 2008 – 2013
Juan Carlos Villegas Edmonton, AB, Canada	President, Finning (Canada), since November 2013 and Chief Operating Officer, Finning International Inc., since 2012; President, Finning South America, 2006 – 2012
Douglas W.G. Whitehead North Vancouver, BC, Canada	Chairman of the Board, since 2008;

12.3 SHAREHOLDINGS OF DIRECTORS AND OFFICERS

As of February 20, 2014, the directors and the officers of the Company as a group beneficially own, directly or indirectly, or exercise control or direction over 487,312 common shares, representing approximately 0.28% of the Company's voting common shares.

12.4 CEASE TRADE ORDERS, BANKRUPTCIES, PENALTIES OR SANCTIONS

To the knowledge of the Company, no director or executive officer of the Company:

- (a) is, at the date hereof or has been, within the 10 years before, a director, chief executive officer or chief financial officer of any company (including Finning), that while that person was acting in that capacity:
 - (i) was the subject of a cease trade or similar order or an order that denied the relevant company access to any exemption under securities legislation, for more than 30 consecutive days, or
 - (ii) was subject to an event that resulted, after the director or executive officer ceased to be a director, chief executive officer or chief financial officer, in the company being the subject of a cease trade or similar order or an order that denied the relevant company access to any exemption under securities legislation, for more than 30 consecutive days, or
- (b) is, as at the date hereof or has been, within the 10 years before, a director or executive officer of any company (including Finning), that while that person was acting in that capacity or within a year of that person ceasing to act in that capacity, became bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency or was subject to or instituted any proceedings, arrangement or compromise with creditors or had a receiver, receiver manager or trustee appointed to hold its assets; or
- (c) has, within the 10 years before the date hereof, become bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency, or become subject to or instituted any proceedings, arrangement or compromise with creditors, or had a receiver, receiver manager or trustee appointed to hold the assets of the director or executive officer.

13. INTERESTS OF EXPERTS

Deloitte LLP is the auditor of the Company and is independent within the meaning of the Rules of Professional Conduct of the Institute of Chartered Accountants of British Columbia.

14. AUDIT COMMITTEE

The Terms of Reference for the Audit Committee (attached as Appendix A to this Annual Information Form) require that it comprise at least three directors, all of whom must be independent. The current members of the Committee are R. Bacarreza, D.L. Emerson, K.M. O'Neill (Chair), C.W. Patterson, J.M Reid, A.H. Simon and M.M. Wilson and all are independent directors. In addition D.W.G. Whitehead attends meetings of the Audit Committee in his capacity as Chairman of the Board. All Committee members are required to be independent and financially literate (as such terms are defined in National Instrument 52-110 – *Audit Committees*) and at least one member is required to have accounting or related financial management expertise. Ms. K.M. O'Neill is the designated “financial expert” member of the Audit Committee.

In addition to each member's general business experience, the education and experience of each member of the Audit Committee that is relevant to the performance of their responsibilities as a member of the Audit Committee is set forth below.

Ricardo Bacarreza is currently the President of Proinvest S.A., a financial services company based in Santiago, Chile. In his career, Mr. Bacarreza has been an Economist at the World Bank (Washington, D.C.), Vice President of Banco Unido De Fomento (Chile) and Chief Executive Officer of Banco Del Trabajo (Chile), La Chilena Consolidada Insurance Company (Chile), Banco Sudamericano (Chile), and Banco BHIF (Chile). Mr. Bacarreza has been on the Board of Directors of a number of companies and has served as director and Chairman of the Chilean Management Institute. He currently serves on the Board of Directors for Sociedad de Rentas Palo Alto SA. He holds a Civil Engineering degree from Catholic University of Chile and an M.A., M.Sc. and Ph.D. from Stanford University and is fluent in Spanish.

The Honourable **David L. Emerson** PC, OBC is a Corporate Director, Public Policy Advisor and a senior advisor to CAI Managers, a private equity fund. Nationally he has held senior positions with the Government of Canada, including: Minister of Foreign Affairs, Minister of International Trade with responsibility for the Asia Pacific Gateway Initiative and the 2010 Vancouver Olympics and Minister of Industry. In British Columbia, Mr. Emerson was the Province's Deputy Minister of Finance, Secretary to Treasury Board, Deputy Minister to the Premier and Secretary to Cabinet. His leadership roles in the private sector included: President and CEO of Canfor Corporation, President and CEO of the Vancouver International Airport Authority and Chairman and CEO of Canadian Western Bank. Mr. Emerson is currently Board Chair of Maple Leaf Foods Inc. and TimberWest Forest Corporation and serves on the Boards of Directors of New Gold Inc. and Stantec Inc. In addition, Mr. Emerson is a director of the Institute of Corporate Directors, the Trudeau Foundation, a member of The Alberta Asia Advisory Council and a Distinguished Fellow of the Asia Pacific Foundation. Mr. Emerson is a recipient of the Order of British Columbia, the 2013 Honorary Associate of the Conference Board of Canada and a recipient of the Peter Lougheed Award of Excellence in Public Policy. Mr. Emerson holds a Bachelors and Masters Degree in Economics from the University of Alberta and Doctorate in Economics from Queen's University.

Kathleen M. O'Neill, Chair of the Audit Committee, is a Corporate Director and experienced audit committee chair. Prior to 2005, Ms. O'Neill was an Executive Vice-President at BMO Financial Group where her most recent position was Executive Vice-President, Personal & Commercial Development and Head of Small Business Banking. Prior to joining BMO Financial Group in 1994, Ms. O'Neill was with PriceWaterhouseCoopers LLP for 19 years including eight years as a tax partner. Ms. O'Neill currently serves on the Board of Directors of ARC Resources Limited, Invesco Canada Funds (Invesco Canada Fund Inc. and Invesco Corporate Class Inc. boards, and Invesco Canada Funds Advisory Board and Independent Review Committee) and Cadillac Fairview Corporation Ltd. Ms. O'Neill is past Chair of St. Joseph's Health Centre and St. Joseph's Health Centre Foundation and past director of the University of St. Michael's College in Toronto. In 2005, she was accredited through the Institute of Corporate Directors / Rotman School of Management Directors Education Program. She is on the Ontario Advisory Council for the Institute of Corporate Directors (ICD) and is a frequent examiner/executive in residence for the ICD. She holds a Bachelor of Commerce Degree (with Honours) from the University of Toronto and is a Fellow of the Ontario Institute of Chartered Accountants. Ms. O'Neill was on the Steering Committee on Enhancing Audit Quality jointly sponsored by the Canadian Institute of Chartered

Accountants and by the Canadian Public Accountability Board.

Christopher W. Patterson is a Corporate Director. From April 2005 until his retirement in June 2009, he was President and Chief Executive Officer of Daimler Trucks North America LLC. Prior to 2005, he held progressively senior executive positions with Freightliner LLC, predecessor to Daimler Trucks North America, including Senior Vice President, Service and Parts and was Executive Vice President, Sales and Marketing of Volvo Trucks North America. Mr. Patterson is a director of Gates Corporation, Jeld-Wen Manufacturing Co., Fleetpride Inc. and Modine Manufacturing Company. He holds a BA degree in economics and a MBA from the University of Western Ontario.

John M. Reid is a Corporate Director. From November 1997 to November 2005 he was President and Chief Executive Officer of Terasen Inc. (formerly BC Gas Inc.). Mr. Reid joined Terasen Inc. in May 1995 as Executive Vice President, Finance and Chief Financial Officer. Formerly, Mr. Reid worked with Scott Paper Limited for 15 years in a number of senior financial positions and as President and Chief Executive Officer. Mr. Reid currently serves on the boards of Methanex Corporation and Corix. Over the years, he has served on many boards including MacDonald Dettwiler & Associates Ltd., the University of British Columbia, Lester B. Pearson College, St. Paul's Hospital Foundation, Vancouver Board of Trade, Junior Achievement of British Columbia and the Financial Executives Institute. Mr. Reid holds a Bachelor of Economics degree from the University of Newcastle in the United Kingdom and is a Fellow of the British Columbia and England and Wales Institutes of Chartered Accountants.

Andrew H. Simon, OBE, is a Corporate Director who serves on the Boards of Directors of a number of companies including Exova Group plc, SGL Carbon SE Supervisory Board, Travis Perkins plc, Management Consulting Group plc, Icon Infrastructure Management Ltd., Icon 1A GP Limited, BCA Osprey 1 Ltd. and Gulf Keystone Petroleum. For most of his career, Mr. Simon worked for the Evode Group, an international specialty chemicals and materials company. At Evode, he held various positions including Managing Director and Chairman and Chief Executive Officer. Mr. Simon holds a Bachelor of Science degree from Southampton University and an MBA from the Wharton School of Finance.

Michael M. Wilson, is a Corporate Director. Mr. Wilson retired from Agrium Inc. in December 2013 after 13 years, including 10 years as President and Chief Executive Officer. Prior to joining Agrium, Mr. Wilson was a senior executive at Methanex Corporation, a leading global producer of methanol, headquartered in Vancouver, B.C. where he was Executive Vice President, and President, Methanol. In addition, he held various senior positions in North America and Asia during his 18 years with Dow Chemical. Mr. Wilson brings over 30 years of international and executive management experience in the chemical industry. Mr. Wilson currently serves as a director of Agrium Inc., Suncor Energy Inc., Celestica Inc. and is Chair of the Calgary Prostate Cancer Foundation. Mr. Wilson is a graduate of the University of Waterloo, Ontario where he earned his degree in Chemical Engineering.

The Committee provides assistance to the Board of Directors in fulfilling its oversight responsibility to the shareholders with respect to the Company's: (a) financial statements; (b) financial reporting process; (c) systems of internal and disclosure controls; (d) internal audit function; (e) external

audit function; (f) financial arrangements and liquidity and (g) risk identification, assessment and management program. It is the responsibility of the Committee to maintain an open avenue of communication between itself, the external auditors, the internal auditors and the management of the Company. In performing its role, the Committee is empowered to investigate any matter brought to its attention, with full access to all books, records, facilities and personnel of the Company. It is also empowered to retain outside counsel or other experts as required.

The Committee met 4 times in 2013 in conjunction with regularly scheduled Board meetings.

14.1 AUDIT FEES

Fees paid or accrued by the Company and its major business units or subsidiaries for audit and other services provided by Deloitte LLP (the Company's external auditors) during 2013 and 2012 were as follows:

Type of Service	2013*	2012*
Audit Services ⁽¹⁾	\$2,639,378	\$2,736,368
Audit-Related Services ⁽²⁾	195,007	146,330
Tax Services ⁽³⁾	15,760	11,750
Other Services ⁽⁴⁾	<u>157,377</u>	<u>43,182</u>
Total:	<u>\$3,007,522</u>	<u>\$2,937,630</u>

* amounts were billed in various currencies and converted to Canadian dollars using the exchange rates in existence at the time of billing

Notes:

- (1) Audit Services generally relate to reviewing interim financial statements and notes, conducting the annual audit and providing other services regulators may require of auditors. Reported amount for Audit Services now includes the administrative charge and the 2012 amount was restated to reflect this.
- (2) Audit related services include assurance and related services, such as audits of the Finning's pension plans that were reasonably related to the performance of the annual audit, and French translation of interim and annual financial statement and notes.
- (3) Tax services include foreign tax advice and filings for corporate directors.
- (4) Other services would include any non audit-related or non tax services. Services provided relate to an assessment of supply chain performance in Finning (Canada) initiated in 2013 and anticipated to conclude in 2014 (\$99,720 in 2013) and an assessment of the Company's community investment programs (\$57,657 in 2013 and \$43,182 in 2012).

Pre-approval Policies and Procedures

The Audit Committee has adopted a formal policy requiring the pre-approval of non-audit services to be provided by its external auditors, Deloitte LLP, prior to the commencement of the engagement. On an annual basis, the Audit Committee pre-approves non-audit and tax related services to be provided by the Company's external auditors. Between regularly scheduled Audit Committee meetings, the Committee has delegated to the Chair of the Audit Committee the authority to approve individual non-audit service engagements up to a value of \$100,000 that have not been pre-approved. All engagements where such approval was granted will be reported at the next Audit Committee meeting. Under no circumstances will the Company's management engage the external auditors to perform services that have not been approved by the Audit Committee. Management and the external auditor are required to report quarterly to the Audit Committee all services provided by the external auditor and fees paid or accrued for the quarter and the fiscal year.

The Committee determined that the provision of the audit-related and tax services described above did not compromise the independence of Deloitte LLP for purposes of performing audit services for the Company.

15. ADDITIONAL INFORMATION

Additional information, including directors' and officers' remuneration, indebtedness, options to purchase securities and interests of insiders in material transactions is contained in the Company's Management Proxy Circular for its most recent annual meeting of shareholders, a copy of which may be obtained upon request to the Corporate Secretary of the Company. Additional financial information is provided in the Company's Consolidated Financial Statements for its year ended December 31, 2013 and its accompanying Management Discussion and Analysis.

Copies of documents noted above and other disclosure documents may also be examined and/or obtained through the internet by accessing the Company's website at www.finning.com or by accessing the SEDAR website at www.sedar.com.

Appendix A

Finning International Inc.

Audit Committee Terms of Reference

I. PURPOSE

- A.** The primary purpose of the Audit Committee (the “Committee”) is to assist the Board in fulfilling its oversight responsibilities to the shareholders, potential shareholders, the investment community, and others with respect to:
- i) the integrity of annual and quarterly financial statements that will be provided to the shareholders and others;
 - ii) audits of the financial statements;
 - iii) the systems of internal and disclosure controls established by management and the Board;
 - iv) all audit, accounting and financial reporting processes;
 - v) risk management processes;
 - vi) compliance with accounting and finance based legal and regulatory requirements, relevant laws, regulations and policies;
 - vii) the External Auditors’ qualifications and independence;
 - viii) performance of the internal and external audit process and of the independent auditor; and
 - ix) implementation and effectiveness of the Ethics Program Charter and the compliance program under the Ethics Program Charter.
- B.** Primary responsibility for the financial reporting, information systems, risk management and internal and disclosure controls of the Corporation is vested in management and is overseen by the Board.
- C.** It is the Committee’s responsibility to maintain an open avenue of communication between the Committee, the External Auditors, the Internal Auditors and management of the Corporation. At each meeting, the Committee may meet separately with management and will meet in separate closed sessions with:
- a) The External Auditor
 - b) The Internal Auditor
 - c) Independent directors in attendance only.
- D.** In discharging its oversight role, the Committee is empowered to investigate any matter brought to its attention with full access to all books, records, facilities, and personnel of the Corporation and the power to retain outside counsel, or other experts for this purpose.

II. COMPOSITION AND OPERATIONS

- A.** This charter governs the operations of the Committee.
- B.** Committee members are appointed and removed by the Board and the Committee shall consist of at least three directors, all of whom shall be independent as defined in the Guidelines for the Board of Directors.
- C.** The Committee Chair is appointed by the Board.
- D.** All Committee members are financially literate, (or will become financially literate within a reasonable period of time after appointment to the Committee), and at least one member shall be designated as an “Audit Committee Financial Expert”².
- E.** The Committee shall meet not less than four times per year.
- F.** A majority of Committee members constitute a quorum.
- G.** The function of the Committee is oversight. It is not the duty of the Committee to plan or conduct audits or to determine that the Corporation’s financial statements fairly present the Corporation’s financial position and results of operation and are in accordance with generally accepted accounting principles. Such duties remain the responsibility of management and the External Auditor.

2 Definition in the United States Sarbanes-Oxley Act of 2002: An Audit Committee Financial Expert has, through education and experience as a public accountant or auditor or a principal financial officer, comptroller, or principal accounting officer of an issuer, or from a position involving the performance of similar functions:

- 1) an understanding of generally accepted accounting principles and financial statements;
- 2) experience in— (A) the preparation or auditing of financial statements of generally comparable issuers; and (B) the application of such principles in connection with the accounting for estimates, accruals, and reserves;
- 3) experience with internal accounting controls; and
- 4) an understanding of audit committee functions.

III. DUTIES AND RESPONSIBILITIES

Subject to the powers and duties of the Board, the Committee will perform the following duties:

A. Financial Statements and Other Financial Information

The Committee shall:

- i) review and discuss with management and the External Auditor before public disclosure:
 - a) Consolidated Financial Statements of the Corporation, including the notes to the Financial Statements;
 - b) Management's Discussion and Analysis (MD&A); and
 - c) Interim earnings press releases of the Corporation;
- ii) recommend to the Board for approval and for public disclosure the annual and interim earnings press releases of the Corporation including the Consolidated Financial Statements of the Corporation and MD&A;
- iii) satisfy itself that adequate procedures are in place for the review of the public disclosure of financial information extracted or derived from the Corporation's financial statements and periodically assess the adequacy of those procedures;
- iv) receive quarterly updates and reports on the Corporation's credit status with banks and credit rating agencies;
- v) discuss with management and the External Auditor the quality of reporting and adherence to generally accepted accounting principles ("GAAP");
- vi) review significant reporting principles, practices and procedures applied by the Corporation in preparing its financial statements, including any newly adopted accounting policies and the reasons for their adoption. Review changes in the Corporation's selection or application of accounting principles, and major issues as to the adequacy of the Corporation's internal controls and any special audit steps adopted in light of material control deficiencies; and
- vii) review analyses prepared by management and/or the External Auditor setting forth significant financial reporting issues and accounting judgments and estimates made in connection with the preparation of the financial statements, including analyses of the effects of alternative GAAP methods on the financial statements.

B. External Auditors

The Committee has the authority and responsibility to select, evaluate, determine compensation for and, where appropriate, replace the External Auditor, subject to shareholder approval. In that respect, the Committee shall:

- i) review and recommend to the Board the selection of the Corporation's External Auditors;
- ii) require the External Auditors to report directly to the Committee;
- iii) communicate directly with the External Auditors, including the ability to meet independently with the External Auditors;
- iv) be responsible for evaluating the External Auditors' performance and independence:
 - a) On an annual basis, obtain and review a report by the External Auditor describing any material issues, defects, restrictions or sanctions raised or imposed by the most recent internal quality-control review, or peer review, of the External Auditor, or by any inquiry or investigation by governmental or professional authorities or board, within the preceding five years, with respect to one or more independent audits carried out by the External Auditor or otherwise arising, and any steps taken to deal with any such issues, defects, restrictions or sanctions;
 - b) Ensure that the External Auditors submit, at least annually or on a periodic basis, to the Committee a formal written statement delineating all relationships between the External Auditors and the Corporation including the extent and amount of fees received by the External Auditor for audit services and for non-audit services on a quarterly basis;
 - c) Actively engage in a dialogue with the External Auditors with respect to any disclosed relationships or services that may impact the objectivity and independence of the External Auditors as prescribed by the Canadian Public Accountability Board or other applicable professional accounting or regulatory agency;
 - d) Shall review and confirm with management and the External Auditor: the timing and process for implementing the rotation of the lead audit partner of the External Auditor as required by the applicable rules governing the audit profession as set out by the Canadian Public Accountability Board, the Canadian Institute of Chartered Accountants or other applicable professional regulatory agencies; and the review of External Auditor resources providing audit services to the Corporation;
 - e) Review and approve the Corporation's policies regarding the hiring of partners, employees and former partners and employees of the External Auditor; and
 - f) Review with the External Auditor any audit problems or difficulties with respect to the audit and management's response.

Conclusions on the performance and independence of the External Auditor should be reported to the Board and the Committee should recommend any appropriate action to be taken to satisfy the requirement of the External Auditors' independence. When necessary, the Committee may recommend the removal of the External Auditor to the Board and may periodically issue a request for proposal from other external audit firms;

- v) the Committee shall review and approve the scope, plans and associated fees relating to the External Auditors' annual audit and quarterly reviews including the adequacy of resources. The External Auditors shall report to the Committee all significant changes to the approved audit plan;
- vi) the Committee shall meet separately with the External Auditors, with and without management present, to review and discuss the results of the audit, audit-related services, tax and other services performed by the External Auditor in the prior quarter;
- vii) the Committee is responsible for pre-approving all audit and non-audit services performed by the External Auditor that are permitted under applicable law and are in accordance with the Corporation's *Approval of Audit and Non-Audit Services Provided by the Independent Audit* policy. Between scheduled Committee meetings, the Chair of the Committee, on behalf of the Committee, is authorized to approve the fees and terms of any audit or non-audit services, up to a value of \$100,000 that are not pre-approved. At the next Committee meeting, the Chair shall report to the Committee any such pre-approval given; and
- viii) the Committee shall also annually obtain and review a report by the External Auditor describing recommendations resulting from their review of internal control and accounting systems. Management to provide a quarterly follow-up report on actions taken concerning recommendations made by the External Auditor;

C. Internal Auditors

The Committee will:

- i) review the activities, resources and organization structure of the internal audit function and ensure no unjustified restrictions or limitations are made;
- ii) participate in the appointment, promotion or dismissal of the lead Internal Auditor; and discuss with the External Auditor the standard of work of the Internal Auditors;
- iii) participate in the annual performance and compensation review of the lead internal auditor;
- iv) review the effectiveness and independence of the internal audit function;

- v) meet separately with the Internal Auditors to discuss any matters the Committee or the Internal Auditors believe should be discussed privately;
- vi) ensure the internal audit's significant findings and recommendations are received, discussed and appropriately acted on by management;
- vii) review and approve the scope and proposed annual internal audit plan, resourcing plan and financial budget and ensure it addresses key areas of risk and that there is appropriate coordination with the Committee and the External Auditor;
- viii) review and approve the Internal Audit Charter on an annual basis; and
- ix) review periodic reports from internal audit addressing
 - a) Progress on the Audit Plan, including any significant changes to it;
 - b) Significant internal audit findings, including issues as to the adequacy of internal control over financial reporting and any procedures implemented in light of significant control deficiencies; and
 - c) Any significant internal fraud issues.

D. Risk Management, Internal Control and Information Systems

The Committee will review and obtain reasonable assurance that the risk management, internal control and information systems are operating effectively to produce accurate, appropriate and timely management and financial information. This includes:

- i) discussion with management and Internal Audit of the guidelines and policies with respect to risk assessment and risk management, including the processes management used to assess and manage the Corporation's risk. Discuss major financial risk exposures and steps management has taken to monitor and control such exposures including an annual review of the significant insurable risks and the adequacy of the insurance coverage of the Corporation;
- ii) discussion with management, the Internal Auditors and the External Auditors of the adequacy and effectiveness of the internal controls, including financial controls and the Corporation's system to monitor and manage business risk and produce reliable financial statements; and
- iii) obtaining reasonable assurance that the information systems are reliable and the systems of internal controls are properly designed and effectively implemented through discussions with and reports from management, the Internal Auditor and External Auditor.

E. Compliance

The Committee shall:

- i) assist with Board oversight of the Corporation's compliance with legal and regulatory requirements by receiving a report from the Corporation's corporate secretary concerning legal and regulatory matters that may have a material impact on the financial statements;
- ii) review the process for the certification of the interim and annual financial statements by the Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO"), and the certifications made by the CEO and CFO;
- iii) review with Management, Internal Audit and External Audit the Corporation's internal control over financial reporting, any significant deficiencies or material weaknesses in their design or operation, any proposed major changes to them and any fraud involving management or other employees who have a significant role in the Corporation's internal control over financial reporting;
- iv) discuss the Corporation's compliance with tax laws, legal withholdings requirements, environmental protection laws³, privacy laws, and any other area of compliance monitoring that the Committee considers appropriate;
- v) ensure the External Auditor's fees are disclosed by category in the Annual Information Form in compliance with regulatory requirements and in such other documents the Committee may determine;
- vi) disclose any specific policies or procedures adopted for pre-approving non-audit services by the External Auditor, including affirmation that they meet regulatory requirements;
- vii) prepare a report of the Committee's activities to be included in the annual proxy statement; and

³ This function is reported by the Safety, Environment & Social Responsibility Committee.

- viii) assist the Corporate Governance Committee with preparing the Corporation's governance disclosure by ensuring it has current and accurate information with respect to:
 - a) the independence of each Committee member relative to regulatory requirements for the Audit Committee;
 - b) the state of financial literacy of each Committee member, including the name of any member(s) currently in the process of acquiring financial literacy and when they are expected to attain this status;
 - c) the education and experience of each Committee member relevant to his or her responsibilities as Committee member; and
 - d) disclose if the Corporation has relied upon any exemptions to the requirements for Audit Committees under regulatory requirements.

F. OTHER

The Committee shall:

- i) periodically review the Ethics Program Charter and approve any amendments as recommended by management's Global Ethics Committee. The Committee shall also annually review management's report on the Global Ethics Committee self-assessment. The Ethics Program Charter includes procedures for:
 - a) the receipt, retention and anonymous treatment of complaints received by the Corporation regarding accounting, internal accounting and financial reporting controls, or auditing matters;
 - b) the confidential, anonymous submission by employees of concerns regarding questionable accounting or auditing matters; and
 - c) addressing a reporting attorney's report of a material breach of securities law, material breach of fiduciary duty or similar material violation.
- ii) review expenses of the Board Chair and CEO;
- iii) on an annual basis, review and approve key Treasury policies including the Global Investment Policy, the Global Debt and Interest Rate Management Policy, the Global Foreign Exchange Risk Management Policy, and the Requests for Approval of Capital Expenditures Policy;
- iv) review on an annual basis, and recommend any material changes to the capital structure plan to the Board for approval;
- v) review and recommend to the Board for approval, new or refinancing of material financing contracts;
- vi) review and approve all related party transactions;

- vii) review the effect of regulatory and accounting initiatives, as well as off balance sheet structures, on the financial statements of the Corporation;
- viii) review the succession plan for the Corporation's financial and accounting management;
- ix) conduct a self-assessment annually and discuss the results with the Board; and
- x) review and update its terms of reference at least annually.

IV. ACCOUNTABILITY

- A.** The Committee Chair has the responsibility to make periodic reports to the Board, as requested, on financial matters relative to the Corporation.
- B.** The Committee shall report its discussions and activities to the Board by maintaining minutes of its meetings and providing an oral report at each regular Board meeting.

V. COMMITTEE TIMETABLE

The major annual activities of the Committee are outlined in the schedule on the following pages.

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
A. Financial Statements and Other Financial Information												
i) Review and discuss with management and External Auditor:												
a) Consolidated Financial Statements and Notes to the Financial Statements		√			√			√			√	
b) Management's discussion and analysis		√			√			√			√	
c) Interim earnings press releases		√			√			√			√	
ii) Recommend to the Board for approval and public disclosure the items in Section A. i) (a) – (c).		√			√			√			√	
iii) Review procedures for disclosure of financial information		√			√			√			√	
iv) Review updates and report on the Corporation's credit status with banks and credit rating agencies		√			√			√			√	
v) Discuss quality of reporting and adherence to GAAP with management and External Auditor		√			√			√			√	
vi) Review significant reporting principles. Review changes in selection or application of accounting principles or changes adopted in light of material control deficiencies.		√			√			√			√	
vii) Review significant financial reporting issues and accounting judgments and estimates identified by management and/or External Auditor		√			√			√			√	
B. External Auditors												
The Committee shall:												
i) Review and recommend selection of External Auditor to the Board		√										
ii) Require External Auditor to report directly to the Committee		√			√			√			√	
iii) Meet independently with External Auditor		√			√			√			√	

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
iv) Evaluate External Auditor qualifications, performance and independence by:												
a) review report of any material issues, defects, restrictions or sanctions raised following an external review of the External Auditor for the preceding five years								√				
b) Ensure External Auditors independence with a formal written report from External Auditors, including relationships with the corporation and details on the fees received for audit and non-audit services		√			√			√			√	
c) Ensure External Auditors disclose any relationships which may impact their objectivity and independence		√			√			√			√	
d) Review with Management and the External Auditor the rotation of lead audit partner and resources of the External Auditor		√			√			√			√	
e) Review and approve the Corporation's policies regarding the hiring of partners, employees and former partners and employees of External Auditor					√							
f) Review with the External Auditor any audit issues or difficulties with respect to the audit and management's responses		√			√			√			√	
Report to the Board on External Auditor performance and independence		√										
v) Approve scope and annual audit plan of the External Auditor								√				
Quarterly reviews on any changes to the annual plan or resources		√			√			√			√	
vi) Meet with External Auditor, with and without management, to review results of audit, audit-related services, tax and services provided by External Auditor		√			√			√			√	
vii) Pre-approve all audit and non-audit services performed by the External Auditor	AS REQUIRED											
viii) External Auditor to provide a report detailing recommendations resulting from their review of internal control and accounting systems		√			√			√			√	

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
C. Internal Auditors												
i) Review activities, resources and structure of the Internal Audit function		√			√			√			√	
ii) Participate in appointment, promotion or dismissal of Internal Auditor	O N G O I N G											
iii) Participate in the annual performance and compensation review of the lead internal auditor		√										
iv) Review effectiveness and independence of the internal audit function	O N G O I N G											
v) Meet separately with Internal Auditor		√			√			√			√	
vi) Ensure the internal audit's significant findings and recommendations are acted on by management		√			√			√			√	
vii) Review and approve the scope and proposed internal audit plan and resources.											√	
viii) Review and approve the Internal Audit Charter on an annual basis											√	
ix) Review internal audit reports on progress to Audit Plan; significant internal audit findings; any significant internal fraud issues		√			√			√			√	
D. Risk Management, Internal Control and Information Systems												
i) Review adequacy and effectiveness of internal controls, including financial controls and system to assess and monitor business risk. Review major financial risk exposures and action plans. Review significant insurable risks and the adequacy of the Corporation's insurance coverage.		√			√			√			√	
ii) Review internal controls to ensure properly designed to produce reliable financial statements		√			√			√			√	
iii) Review adequacy of information systems through discussions with management, Internal and External Auditors		√			√			√			√	
E. Compliance												

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
i) Provide oversight with respect to compliance with legal and regulatory requirements. Review on a quarterly basis, significant legal and regulatory matters		√			√			√			√	
ii) Review process for CEO/CFO certification of interim and annual financial statements		√			√			√			√	
iii) Review internal controls over financial reporting and any significant deficiencies or material weaknesses and proposed changes		√			√			√			√	
iv) Review compliance with tax laws, legal withholdings requirements, environmental protection laws, privacy laws, and any other area of compliance monitoring		√			√			√			√	
v) Ensure External Auditor's fees are disclosed in Annual Information Form		√										
vi) Disclose any policies or procedures adopted for pre-approving non-audit services by External Auditor		√										
vii) Report of Committee's activities to be included in annual proxy statements		√										
viii) Assist in preparation of governance disclosure with respect to:												
a) Independence of each Committee member		√										
b) Financial literacy of each Committee member		√										
c) Education and experience of each Committee member		√										
d) Disclose any exemptions		√										
F. Other												
i) Review the Ethics Program Charter and approve any changes recommended by management's Global Ethics Committee. Review management's Global Ethics Committee annual self-assessment of performance											√	
Review:											√	
a) process for receipt, retention and anonymous treatment of complaints		√			√			√			√	

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
b) process for confidential, anonymous submission by employees of concerns regarding accounting or auditing matters		√			√			√			√	
c) Address any material breach of securities law, fiduciary duty or similar material violation		√			√			√			√	
ii) Review expenses of the Board Chair and CEO		√										
iii) Review and approve key Treasury policies and the Requests for Approval of Capital Expenditures								√				
iv) Review and endorse capital structure plan								√				
v) review and recommend to Board for approval any new or refinancing of material financing contracts	AS REQUIRED											
vi) Review and approve all related party transactions		√			√			√			√	
vii) Review the effect of regulatory and accounting initiatives as well as off balance sheet structures on financial statements		√			√			√			√	
viii) Review succession plan for financial and accounting management											√	
ix) Conduct a self-assessment annually		√										
x) Review and update terms of reference								√				