FINNING

**Q3 2014 EARNINGS RELEASE** **November 13, 2014**

# Finning Reports Q3 2014 Results

**Vancouver, B.C.** – Finning International Inc. (TSX: FTT) reported third quarter 2014 results today (all monetary amounts are in Canadian dollars unless otherwise stated).

"Canada delivered a strong quarter, marked by improved profitability and return on invested capital. I am very pleased with the progress we are making on our operational priorities and the pace of transformation in our Canadian operations," said Scott Thomson, President and CEO of Finning International. "At the same time, we are managing through a challenging macro-economic environment in South America, where our results were negatively impacted by lower revenues and a number of one-time charges. We continue to take steps to control costs and invested capital in the region to maintain profitability. In the UK & Ireland, we achieved record new equipment sales in a highly competitive market; however, profitability was below our expectations this quarter due to lower gross profit margins and continued weakness in coal mining," continued Mr. Thomson. "Throughout the organization, we remain focused on what we can control: costs and capital efficiency. Our disciplined management of working capital and improved inventory turns enabled us to generate strong free cash flow for a second consecutive quarter. We are well positioned to accelerate free cash flow generation through the fourth quarter and expect to end 2014 at the bottom of our net debt to invested capital target range."

During the quarter, the Company recorded the expected tax charge resulting from the revaluation of deferred tax balances in Chile due to recently enacted tax changes, and wrote off the previously capitalized enterprise resource planning (ERP) system costs in South America since it does not expect to implement an ERP in South America in the near future. Other significant items negatively impacting reported earnings per share included higher severance costs, costs related to the resolved labour disruption in South America, and an increase in the annual effective tax rate in Argentina.

## Q3 2014 HIGHLIGHTS

- Revenues of $1.7 billion declined by 6% as a result of lower new equipment sales in Canada and South America compared to very strong deliveries last year in Canada.
- Product support revenues grew by 4% to record levels, driven primarily by higher parts sales in Canada.
- Consolidated EBIT(1)(2) of $114 million declined by 16% and EBIT margin was 6.8%, primarily due to a $12 million non-cash, non-recurring write-off of ERP costs in South America. EBIT was also negatively impacted by severance costs incurred globally and labour disruption costs in South America that totaled approximately $9 million, which was significantly higher than severance costs of $4 million in the third quarter of 2013.
  - In Canada, EBIT of $80 million rose by 5%, despite a 10% decline in revenues compared to Q3 2013, which benefited from significant mining deliveries. EBIT margin improved to 9.2%, reflecting continued progress on the supply chain and service profitability initiatives, as well as a shift in revenue mix to product support.
  - In South America, EBIT of $32 million decreased by 43% on a 14% decline in revenue, and EBIT margin was 6.2%. EBIT was negatively impacted by the $12 million ERP write-off, as well as higher severance costs and costs related to the labour disruption which totaled $5 million this year. Excluding these items, EBIT margin would have been 9.4%.
- Basic EPS(2) was $0.33 per share. Negative impact of Chile tax changes was $0.04 per share. ERP write-off was $0.06 per share. Severance and strike costs totaled $0.04 per share this quarter. Higher effective tax rate in Argentina was $0.03 per share.
- The Company generated $109 million in free cash flow(1) in Q3 and reflects continued focus on improving working capital(1) efficiencies throughout the organization.
- Invested capital(1) of $3.3 billion was unchanged compared to Q3 of last year. Invested capital turnover(1), inventory turns(1) and working capital to sales ratio(1) improved from Q3 2013, reflecting progress on improving capital efficiencies in Canada, as well as inventory reduction in South America in response to weak demand. Canada's invested capital turnover improved to 2.15 times in the third quarter of 2014 from 1.95 times in the third quarter of 2013.

- Canada's return on invested capital (ROIC) improved to 16.8% from 15.9% in Q3 of last year; however, the consolidated ROIC declined to 15.4% from 15.8% in Q3 2013, as a higher ROIC in Canada has been offset by lower ROIC in South America due to reduction in activity levels and the ERP write-off.

"Looking ahead, we expect demand for new equipment in South America to remain low through 2015; however, I am encouraged by the fiscal clarity and recent infrastructure announcements in Chile, which provide support for the market. We are expecting the resumption of product support growth in South America in 2015, driven by improved economic activity. In Canada, despite the recent decline in the price of oil and other commodities, we continue to see healthy demand for equipment and product support across most market segments. In the fourth quarter, we expect strong new equipment deliveries and solid demand for product support in Canada. We are monitoring market conditions closely and remain focused on executing on the operational improvement priorities within our control," concluded Scott Thomson.

**Q3 2014 FINANCIAL SUMMARY**

| $ millions, except per share amounts | **Three months ended Sep 30** | | |
|---|---|---|---|
| | **2014** | 2013 | % change |
| Revenue | **1,670** | 1,780 | (6) |
| EBIT | **114** | 136 | (16) |
| *EBIT margin* | ***6.8%*** | *7.6%* | |
| Net income | **57** | 86 | (34) |
| Basic EPS | **0.33** | 0.50 | (34) |
| EBITDA(1)(2) | **170** | 191 | (11) |
| Free cash flow | **109** | 163 | (33) |

- Revenues of $1.7 billion decreased by 6%, driven primarily by a 13% reduction in new equipment sales due to lower volumes in Canada and South America compared to very strong equipment deliveries in Canada in Q3 of last year. Product support revenues grew by 4% to record levels, reflecting higher parts sales in Canada and the UK and Ireland.

- Gross profit of $511 million was relatively unchanged from Q3 of last year and gross profit margin(1) improved to 30.6% from 28.9% in Q3 2013. The increase in gross profit margin was due to the shift in revenue mix to higher-margin product support, as well as improved gross profit margins in all lines of business, with the exception of rental. Consolidated new equipment sales comprised 40% of total revenue compared to 44% a year ago, while product support contributed 50% to total revenue, up from 45% in Q3 2013.

- SG&A(2) of $386 million was 2% above Q3 2013 levels, reflecting an increase in employee-related costs, including about $7 million of severance costs in all operations compared to $4 million of severance costs in Q3 2013. SG&A also included approximately $2 million of costs incurred due to the resolved labour disruption in South America.

- EBIT of $114 million declined by 16%, and EBIT margin of 6.8% was below 7.6% in Q3 2013, primarily due to a $12 million non-cash, non-recurring write-off of ERP costs in South America. Q3 2014 EBIT was also negatively impacted by higher severance costs incurred globally and labour disruption costs in South America. Higher EBIT in Canada and the UK and Ireland was offset by lower EBIT in South America due to continued challenging market conditions.

- Basic EPS of $0.33 per share declined from $0.50 per share in Q3 2013.

- Q3 2014 EPS was negatively impacted by the following items:
  - Non-cash, non-recurring charge of $0.04 per share resulting from the expected revaluation of deferred income tax balances in Chile following recent tax reform;
  - Non-cash, non-recurring write-off of ERP costs in South America of $0.06 per share;
  - Global severance costs and costs related to the labour disruption in South America totaling approximately $0.04 per share; and
  - Higher annual effective tax rate in Argentina of $0.03 per share.

- The effective tax rate was 39.2%, up from 23.4% in Q3 2013, reflecting the tax charges discussed above.

- Quarterly free cash flow was $109 million compared to $163 million in Q3 2013. Free cash flow for the first three quarters of 2014 was $98 million, which is $22 million higher than the free cash flow generated during the same period of last year, reflecting continued progress on improving working capital efficiencies and lower net rental spend.

- Net debt to invested capital(1) was 39.4% at the end of September 2014, an improvement from the prior quarter.

| | **Q3 2014** | Q2 2014 | Q3 2013 |
|---|---|---|---|
| Invested capital ($ millions) | **3,340** | 3,334 | 3,342 |
| Invested capital turnover(1)(3) (times) | **2.09** | 2.12 | 2.03 |
| Return on invested capital(2) (%) | **15.4** | 16.0 | 15.8 |

- Invested capital was in line with the prior quarter and with Q3 2013. Invested capital turnover of 2.09, while below the Q2 2014 level, showed an improvement from Q3 of last year, driven primarily by improved invested capital turnover in Canada and the UK & Ireland. Return on invested capital of 15.4% was below Q3 2013. Higher ROIC in Canada from improved capital efficiencies was offset by lower ROIC in South America due to significant reduction in activity levels compared to 2013 and the ERP costs write-off.

***Backlog***

- The order backlog was $1.1 billion at the end of September 2014, unchanged from the end of June 2014, as the deliveries were in line with order intake in the quarter. Order intake continued to be at good levels in Canada and the UK & Ireland, but remained very soft in South America, reflecting reduced mining activity in the region.

## Q3 2014 HIGHLIGHTS BY OPERATION

***Canada***

- Revenues were down 10% from the strong Q3 of last year. New equipment sales declined by 23% compared to Q3 2013, which saw significant mining deliveries and near record unit sales. Product support revenues grew by 5%, driven mostly by higher parts sales in power systems.

- Gross profit margin was higher relative to Q3 2013 due to a shift in revenue mix to product support (49% vs. 42% in Q3 2013) and higher margins in all lines of business, with the exception of rental. SG&A expenses were slightly above last year, mostly as a result of higher employee-related costs, including severance costs associated with operational improvement initiatives. EBIT rose by 5% to $80 million and EBIT margin improved to 9.2% from 7.9% in Q3 2013, reflecting a favourable shift in revenue mix and continued progress on the supply chain and service profitability initiatives.

- Invested capital decreased by $42 million from the end of June, mainly due to lower inventory. While invested capital turnover of 2.15 times was below 2.20 times in Q2 2014 due to lower sales, it increased from 1.95 times a year ago, mostly as a result of improved inventory management. ROIC increased to 16.8% from 15.9% in Q3 2013, driven primarily by an increase in EBIT for the last twelve months, as well as lower average invested capital.

***South America***

- Revenues declined by 14% (down 18% in functional currency - USD) due to reduced market activity in the region compared to Q3 of last year. New equipment sales were down 33% in functional currency, reflecting decreased demand, predominantly in mining. Product support revenue declined by 5% in functional currency, impacted by lower service revenues in mining as customers continued to minimize operating costs. Parts sales were similar to last year.

- EBIT declined by 43% to $32 million (down 45% in functional currency) and EBIT margin was 6.2%, down from 9.4% a year ago, reflecting reduction in revenues and a number of significant one-time charges. EBIT in Q3 of this year was negatively impacted by the $12 million ERP write-off, as well as higher severance costs and costs related to the labour disruption which totaled $5 million this year. Excluding these items, EBIT margin would have been 9.4%.

- The Company continued to reduce SG&A costs and invested capital in South America to maintain profitability under challenging and uncertain market conditions. SG&A expenses were down by 11% in functional currency compared to Q3 of last year, despite higher severance costs and strike costs. The Company reduced its workforce in South America by 560 people since September 2013, including approximately 100 people in October 2014, bringing total workforce down by 7% to about 6,900 employees.

- Invested capital was down by US$36 million from Q2 2014, driven primarily by lower equipment inventory, reflecting continued focus on inventory management in light of the uncertain market environment. However, the weakening Canadian dollar relative to the US dollar resulted in a reported $24 million increase in invested capital in South America. Despite improved inventory turns and overall decrease in invested capital from Q3 of last year, ROIC declined to 15.8% from 17.9% due to volume-driven reduction in earnings and the ERP costs write-off.

***United Kingdom & Ireland***

- Revenues rose by 29% (up 15% in functional currency - GBP), and were driven by a 29% increase in new equipment sales in functional currency due to higher demand for new machines from plant hire and power systems sectors. Product support revenue was up by 3% in functional currency, with higher parts sales compared to Q3 2013.

- EBIT was up by $2 million to $14 million (up slightly in functional currency). A significant shift in revenue mix to new equipment sales (64% vs. 57% in Q3 2013) and lower margins in all lines of business compared to last year resulted in reduced gross profit margins. In addition, persistent weakness in the coal mining sector in the UK continued to negatively impact profitability. As a result, EBIT margin declined to 4.8% from 5.3% a year ago, despite flat SG&A costs in functional currency relative to Q3 2013.

- Invested capital increased by £20 million from Q2 2014 (up $35 million in Canadian dollars) due to higher accounts receivable, reflecting an increase in sales volumes over Q2 2014.

## CORPORATE AND BUSINESS DEVELOPMENTS

### Dividend

The Board of Directors has approved a quarterly dividend of $0.1775 per share, payable on December 11, 2014 to shareholders of record on November 27, 2014. This dividend will be considered an eligible dividend for Canadian income tax purposes.

### Board of Directors Appointment

On September 9, 2014, Finning announced the appointment of Jacynthe Côté to the company's Board of Directors. Ms. Côté was president and chief executive officer of Rio Tinto Alcan from 2009 until June 2014 and served in an advisory role until her retirement on September 1, 2014. Prior to that, Ms. Côté was president and chief executive officer of Rio Tinto Alcan's Primary Metal business group where she was responsible for all primary metal facilities and power generation installations worldwide. She was previously president and chief executive officer of Alcan's Bauxite & Alumina business unit. Ms. Côté originally joined Alcan Inc. in 1988 and over the course of her 26-year career with Alcan she held senior management roles in business planning, human resources, environment, and health and safety in Quebec and England.

**SELECTED CONSOLIDATED FINANCIAL INFORMATION**
**(C$ millions, except per share amounts)**

| | Three months ended Sep 30 | | | Nine months ended Sep 30 | | |
|---|---|---|---|---|---|---|
| Revenue | **2014** | 2013 | % change | **2014** | 2013 | % change |
| New equipment | **672.1** | 777.0 | (13) | **2,145.4** | 2,073.9 | 3 |
| Used equipment | **63.0** | 91.3 | (31) | **185.8** | 221.2 | (16) |
| Equipment rental | **92.8** | 103.8 | (11) | **266.6** | 289.7 | (8) |
| Product support | **837.2** | 805.7 | 4 | **2,498.4** | 2,369.4 | 5 |
| Other | **5.3** | 2.4 | | **18.4** | 6.0 | |
| **Total revenue** | **1,670.4** | 1,780.2 | (6) | **5,114.6** | 4,960.2 | 3 |
| Gross profit | **511.1** | 514.3 | (1) | **1,533.1** | 1,526.2 | 0 |
| *Gross profit margin* | ***30.6%*** | *28.9%* | | ***30.0%*** | *30.8%* | |
| SG&A | **(386.3)** | (378.9) | (2) | **(1,162.8)** | (1,152.8) | (1) |
| *SG&A as a percentage of revenue* | ***(23.1)%*** | *(21.3)%* | | ***(22.7)%*** | *(23.3)%* | |
| Equity earnings of joint venture and associate | **1.9** | 2.6 | | **5.7** | 9.0 | |
| Other expenses | **(12.5)** | (2.4) | | **(13.8)** | (7.2) | |
| **EBIT** | **114.2** | 135.6 | (16) | **362.2** | 375.2 | (3) |
| *EBIT margin* | ***6.8%*** | *7.6%* | | ***7.1%*** | *7.6%* | |
| **Net income** | **56.8** | 86.2 | (34) | **211.1** | 242.3 | (13) |
| **Basic EPS** | **0.33** | 0.50 | (34) | **1.23** | 1.41 | (13) |
| **EBITDA** | **170.3** | 190.7 | (11) | **526.1** | 536.2 | (2) |
| **Free cash flow** | **109.3** | 162.6 | | **97.9** | 75.8 | |

| | Sep 30, 14 | Dec 31, 13 |
|---|---|---|
| Invested capital | **3,340.2** | 3,138.1 |
| Invested capital turnover (times) | **2.09** | 2.04 |
| Net debt to invested capital | **39.4%** | 40.8% |
| Return on invested capital | **15.4%** | 15.7% |

## Q3 2014 RESULTS INVESTOR CALL

The Company will hold an investor call on Thursday, November 13 at 11:00 am Eastern Time. Dial-in numbers: 1-800-766-6630 (anywhere within Canada and the U.S.) or 416-340-8527 (for participants dialing from Toronto and overseas). The call will be webcast live and subsequently archived at www.finning.com. Playback recording will be available at 1-800-408-3053 from 1:00 pm Eastern Time on November 13 until November 20. The pass code to access the playback recording is 6787278 followed by the number sign.

## ABOUT FINNING

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

## CONTACT INFORMATION

Mauk Breukels
Vice President, Investor Relations and Corporate Affairs
Phone: (604) 331-4934
Email: mauk.breukels@finning.com
www.finning.com

## FOOTNOTES

(1) These financial metrics do not have a standardized meaning under IFRS, which are also referred to herein as generally accepted accounting principles (GAAP), and may not be comparable to similar measures used by other issuers. The Company's Management's Discussion and Analysis (MD&A) includes additional information regarding these financial metrics, including definitions, under the heading "Description of Non-GAAP and Additional GAAP Measures".

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

(3) Invested capital turnover is calculated as total revenue for the last twelve months divided by invested capital, based on an average of the last four quarters.

## FORWARD-LOOKING DISCLAIMER

This report contains statements about the Company's business outlook, objectives, plans, strategic priorities and other statements that are not historical facts. A statement Finning makes is forward-looking when it uses what the Company knows and expects today to make a statement about the future. Forward-looking statements may include words such as aim, anticipate, assumption, believe, could, expect, goal, guidance, intend, may, objective, outlook, plan, project, seek, should, strategy, strive, target, and will. Forward-looking statements in this report include, but are not limited to, statements with respect to: expectations with respect to the economy and associated impact on the Company's financial results; expected revenue; EBIT margin; ROIC; market share growth; expected results from service excellence action plans; anticipated asset utilization, inventory turns and parts service levels; the expected target range of the Company's net debt to invested capital ratio; and the expected target range of the Company's dividend payout ratio. All such forward-looking statements are made pursuant to the 'safe harbour' provisions of applicable Canadian securities laws.

Unless otherwise indicated by us, forward-looking statements in this report reflect Finning's expectations at November 12, 2014. Except as may be required by Canadian securities laws, Finning does not undertake any obligation to update or revise any forward-looking statement, whether as a result of new information, future events, or otherwise.

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

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

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

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

# MANAGEMENT'S DISCUSSION AND ANALYSIS

November 12, 2014

This discussion and analysis of the financial results of Finning International Inc. (Finning or the Company) should be read in conjunction with the interim condensed consolidated financial statements and accompanying notes. The results reported herein have been prepared in accordance with International Accounting Standard (IAS) 34*, Interim Financial Reporting*, and are presented in Canadian dollars unless otherwise stated. Additional information relating to the Company, including its current Annual Information Form (AIF), can be found on the SEDAR (System for Electronic Document Analysis and Retrieval) website at www.sedar.com.

## Results of Operations and Financial Performance

During the quarter, the Company recorded the expected tax charge resulting from the revaluation of deferred tax balances in Chile due to recently enacted tax reforms, and wrote-off the previously capitalized enterprise resource planning (ERP) system costs in South America since it does not expect to implement an ERP in South America in the near future. Other significant items negatively impacting reported earnings per share included higher severance costs, costs related to the resolved labour disruption in South America, and an increase in the estimated annual effective tax rate in Argentina.

### Third Quarter Overview

| | **Q3 2014** | Q3 2013 | **Q3 2014** | Q3 2013 |
|---|---|---|---|---|
| | ($ millions) | | (% of revenue) | |
| Revenue | **$ 1,670.4** | $ 1,780.2 | | |
| Gross profit[1] | **511.1** | 514.3 | **30.6%** | 28.9% |
| SG&A[2] | **(386.3)** | (378.9) | **(23.1)%** | (21.3)% |
| Equity earnings of joint venture and associate | **1.9** | 2.6 | **0.1%** | 0.1% |
| Other income | — | 42.4 | **0.0%** | 2.4% |
| Other expenses | **(12.5)** | (44.8) | **(0.8)%** | (2.5)% |
| EBIT | **114.2** | 135.6 | **6.8%** | 7.6% |
| Finance costs | **(20.8)** | (23.0) | **(1.2)%** | (1.3)% |
| Provision for income taxes | **(36.6)** | (26.4) | **(2.2)%** | (1.5)% |
| Net income | **$ 56.8** | $ 86.2 | **3.4%** | 4.8% |
| Basic EPS | **$ 0.33** | $ 0.50 | | |
| EBITDA[1][2] | **$ 170.3** | $ 190.7 | **10.2%** | 10.7% |
| Free Cash Flow | **$ 109.3** | $ 162.6 | | |

## 2014 Third Quarter Highlights

- Revenues of $1.7 billion, down by 6% compared to the same period of 2013, primarily driven by lower new equipment revenues from the Company's Canadian and South American operations compared to very strong deliveries last year in Canada.
- Product support revenues grew by 4% to record levels, compared to the same period of 2013, driven primarily by higher parts revenue in the Company's Canadian operations.
- Consolidated EBIT[1][2] of $114.2 million declined by 16% and EBIT margin was 6.8%, primarily due to a $12.2 million non-cash, non-recurring write-off of ERP costs in the Company's South American operations. EBIT was also negatively impacted by severance costs incurred globally and labour disruption costs in South America that totaled approximately $9.0 million, which was significantly higher than severance costs of $3.6 million in the third quarter of 2013.
    - o In Canada, EBIT of $79.8 million was up by 5%, despite a 10% decline in revenues compared to Q3 2013, which benefited from significant mining deliveries. EBIT margin improved to 9.2%, reflecting continued progress on the supply chain and service profitability initiatives, as well as a shift in revenue mix to product support.

(1) These financial metrics do not have a standardized meaning under International Financial Reporting Standards (IFRS), which are also referred to herein as Generally Accepted Accounting Principles (GAAP), and may not be comparable to similar measures used by other issuers. For additional information regarding these financial metrics, see the heading "Description of Non-GAAP and Additional GAAP Measures" later in this MD&A.

(2) Selling, General & Administrative Expenses (SG&A); Earnings Before Finance Costs and Income Taxes (EBIT); Earnings Before Finance Costs, Income Taxes, Depreciation and Amortization (EBITDA).

   - In South America, EBIT of $31.8 million was down by 43% on a 14% decline in revenue, and EBIT margin was 6.2%. EBIT was negatively impacted by the $12.2 million ERP write-off, as well as higher severance costs and costs related to the labour disruption which totaled $4.6 million this year. Excluding these items, EBIT margin would have been 9.4%.

- Basic EPS[(2)] was $0.33 per share in the third quarter of 2014. EPS was negatively impacted by the Chilean tax reform of $0.04 per share and ERP write-off of $0.06 per share. Severance and labour disruption costs totaled $0.04 per share in Q3 2014 and the increase in the estimated annual effective tax rate in Argentina had a negative impact of $0.03 per share.
- The Company generated $109.3 million in free cash flow[(1)] in Q3 2014, bringing the year-to-date free cash flow to $97.9 million, an increase in free cash flow generated of $22.1 million over the first nine months of 2013.
- Invested capital[(1)] of $3.3 billion was unchanged compared to Q3 of last year. Invested capital turnover[(1)], inventory turns[(1)] and working capital to sales ratio[(1)] improved from Q3 2013, reflecting progress on improving capital efficiencies in Canada, as well as the inventory reduction in South America in response to weak demand. Invested capital turnover in the Company's Canadian operations improved to 2.15 times in the third quarter of 2014 from 1.95 times in the third quarter of 2013.
- Canada's ROIC[(1)(2)] improved to 16.8% from 15.9% in Q3 of last year; however, consolidated ROIC declined to 15.4% from 15.8% in Q3 2013, with the higher ROIC in Canada offset by lower ROIC in South America due to a significant reduction in activity levels and the ERP write-off.

(1) These financial metrics do not have a standardized meaning under International Financial Reporting Standards (IFRS), which are also referred to herein as Generally Accepted Accounting Principles (GAAP), and may not be comparable to similar measures used by other issuers. For additional information regarding these financial metrics, see the heading "Description of Non-GAAP and Additional GAAP Measures" later in this MD&A.

(2) Earnings per Share (EPS); Return on Invested Capital (ROIC).

## Key Performance Measures

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

| | **2014** | | | 2013 | | | | 2012 (Restated)[2] | |
|---|---|---|---|---|---|---|---|---|---|
| | **Q3** | Q2 | Q1 | Q4 | Q3 | Q2 | Q1 | Q4 | Q3 |
| ***Return on Invested Capital*** | | | | | | | | | |
| ROIC | | | | | | | | | |
| Consolidated | **15.4%** | 16.0% | 15.4% | 15.7% | 15.8% | 15.8% | 16.2% | 16.5% | 16.2% |
| Canada | **16.8%** | 16.6% | 15.7% | 15.9% | 15.9% | 15.5% | 16.3% | 15.7% | 14.7% |
| South America | **15.8%** | 17.4% | 17.0% | 17.6% | 17.9% | 18.1% | 18.4% | 19.7% | 19.7% |
| UK & Ireland | **15.6%** | 15.9% | 16.3% | 16.4% | 16.8% | 15.4% | 15.3% | 16.3% | 18.3% |
| ***Earnings Before Finance Costs and Income Taxes*** | | | | | | | | | |
| EBIT ($ millions) | | | | | | | | | |
| Consolidated | **114** | 137 | 111 | 145 | 136 | 123 | 117 | 148 | 124 |
| Canada | **80** | 77 | 54 | 69 | 76 | 61 | 57 | 73 | 59 |
| South America | **32** | 57 | 50 | 76 | 56 | 59 | 57 | 76 | 58 |
| UK & Ireland | **14** | 14 | 12 | 8 | 12 | 13 | 10 | 9 | 10 |
| EBIT Margin[1] | | | | | | | | | |
| Consolidated | **6.8%** | 7.8% | 6.6% | 8.1% | 7.6% | 7.6% | 7.5% | 8.5% | 7.8% |
| Canada | **9.2%** | 8.3% | 6.0% | 7.9% | 7.9% | 7.9% | 7.5% | 9.2% | 7.7% |
| South America | **6.2%** | 10.0% | 9.0% | 11.3% | 9.4% | 9.5% | 9.3% | 10.3% | 9.6% |
| UK & Ireland | **4.8%** | 5.1% | 4.9% | 3.3% | 5.3% | 5.7% | 5.4% | 4.2% | 4.6% |
| ***Invested Capital*** | | | | | | | | | |
| Invested Capital[3] ($ millions) | | | | | | | | | |
| Consolidated | **3,340** | 3,334 | 3,414 | 3,138 | 3,342 | 3,443 | 3,317 | 3,131 | 3,070 |
| Canada | **1,714** | 1,756 | 1,682 | 1,488 | 1,716 | 1,740 | 1,663 | 1,589 | 1,424 |
| South America | **1,298** | 1,274 | 1,443 | 1,391 | 1,379 | 1,454 | 1,419 | 1,298 | 1,357 |
| UK & Ireland | **344** | 309 | 296 | 265 | 268 | 259 | 256 | 260 | 320 |
| Invested Capital Turnover[1] (times) | | | | | | | | | |
| Consolidated | **2.09x** | 2.12x | 2.06x | 2.04x | 2.03x | 2.01x | 2.12x | 2.22x | 2.41x |
| Canada | **2.15x** | 2.20x | 2.11x | 2.03x | 1.95x | 1.92x | 2.13x | 2.22x | 2.54x |
| South America | **1.71x** | 1.74x | 1.73x | 1.78x | 1.86x | 1.87x | 1.88x | 1.98x | 2.02x |
| UK & Ireland | **3.43x** | 3.43x | 3.41x | 3.37x | 3.27x | 3.12x | 3.13x | 3.25x | 3.37x |
| Inventory[3] ($ millions) | **1,806** | 1,835 | 1,945 | 1,756 | 1,904 | 1,978 | 1,911 | 1,930 | 1,903 |
| Inventory Turns[1] (times) | **2.64x** | 2.56x | 2.61x | 2.74x | 2.44x | 2.23x | 2.38x | 2.43x | 2.49x |
| Working Capital to Sales Ratio[1] | **26.0%** | 25.5% | 26.3% | 26.5% | 26.7% | 27.0% | 25.4% | 24.5% | 22.9% |
| Free Cash Flow ($ millions) | **109** | 123 | (134) | 365 | 163 | 6 | (93) | 245 | (28) |
| Net Debt to Invested Capital Ratio[1] | **39.4%** | 40.9% | 42.9% | 40.8% | 47.8% | 50.6% | 51.1% | 50.0% | 52.3% |
| Net Debt to EBITDA Ratio[1] | **1.8** | 1.8 | 2.0 | 1.7 | 2.2 | 2.4 | 2.3 | 2.2 | 2.5 |

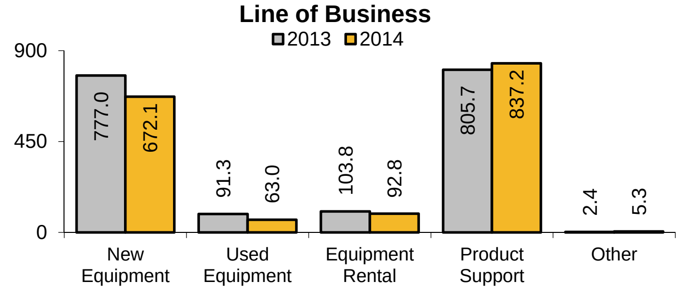
(1) These financial metrics do not have a standardized meaning under GAAP, and may not be comparable to similar measures used by other issuers. For additional information regarding these financial metrics, including definitions, see the heading "Description of Non-GAAP and Additional GAAP Measures" later in this MD&A.

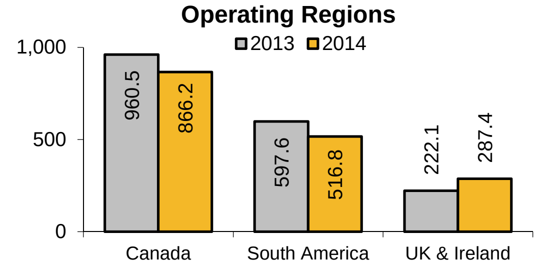
(2) The comparative results described in this MD&A have been restated to reflect the Company's adoption of the amendments to IAS 19, Employee Benefits, for the financial year beginning January 1, 2013.

(3) Calculated at end of period. Refer to the heading "Description of Non-GAAP and Additional GAAP Measures" later in this MD&A for the calculation of this metric using an average of the last two or four quarters, as applicable.

## Revenue

Three months ended September 30
($ millions)




For the three months ended September 30, 2014, the Company generated revenue of $1.7 billion, a decrease of 6% from the same period in 2013. This decrease was driven primarily by lower new equipment revenue in the Company's Canadian and South American operations, which more than offset the increase in revenues from the Company's UK & Ireland operations.

Foreign exchange had a positive impact on revenue, mainly due to the 5% weaker Canadian dollar relative to the U.S. dollar and the 13% weaker Canadian dollar relative to the U.K. pound sterling, for the third quarter of 2014 compared to the same period last year.

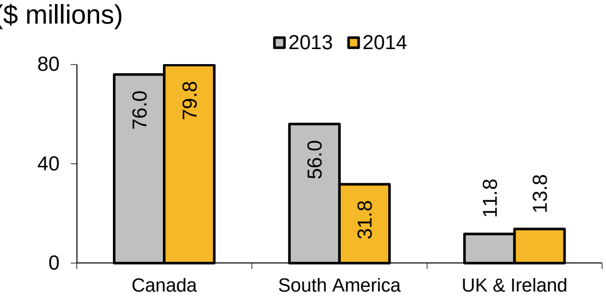
New equipment sales were down 13% compared to the prior year. The decrease in new equipment revenue in the Company's Canadian operations was primarily the result of lower mining equipment sales compared to very strong equipment deliveries in Q3 2013. The decrease in South America was led by lower activity in the mining sector, whereas the increase in the UK & Ireland operations was driven primarily by the plant hire and power systems sectors.

Product support revenue was up 4% over the same period in 2013, driven by the Company's Canadian operations, reflecting stronger demand for parts in the power systems and mining markets. Product support revenues in the Company's UK & Ireland operations were up 16% (3% in functional currency), driven by parts sales. Although product support revenues in the Company's South American operations were flat in Canadian dollars, they were down 5% in functional currency, primarily due to reduced service revenues from the mining sector. The order backlog was $1.1 billion at the end of September 2014, down slightly from the end of June 2014, and 9% above the levels of September 2013. Soft market conditions in the Company's South American operations, particularly in mining, impacted order intake during the quarter. The order intake and backlog levels in Canada and the UK & Ireland were solid by historical standards.

## Earnings Before Finance Costs and Income Taxes

On a consolidated basis, third quarter 2014 EBIT was $114.2 million, and included a $12.2 million write-off of previously capitalized ERP costs in South America, discussed further below. The EBIT decrease of 16% from the prior year, driven primarily by lower sales volumes in the Company's South American operations, was partly offset by higher profitability in the Company's Canadian operations reflecting progress on operational initiatives. The strengthening U.S. dollar against the Argentinean peso, Canadian dollar and Chilean peso as well as the strengthening U.K. pound sterling against the Canadian dollar did not have a material impact on EBIT.

**EBIT by Operation**[(1)]
Three months ended September 30
($ millions)




(1) Excluding other operations – corporate head office

Gross profit of $511.1 million in the third quarter of 2014 was down marginally compared to the $514.3 million earned in the same period in 2013 on 6% lower revenues. Gross profit margin was 30.6%, up from 28.9% in the third quarter of 2013.

The revenue mix in the Company's Canadian operations included a higher proportion of product support sales and a lower proportion of lower-margin mining equipment sales, which were the main contributors to an overall higher gross profit margin as compared to the same period in 2013. Also contributing to the increase were higher service margins, reflecting improving service efficiencies. In the Company's South American operations, the decrease in gross profit from lower sales volumes was partially offset by a shift in revenue mix to a higher proportion of product support revenues. Gross profit was negatively impacted by lower rental gross profit in all operations due to softening in the rental market compared to the third quarter of 2013.

SG&A costs were $386.3 million for the third quarter of 2014, a slight increase over the same period last year. SG&A costs in the third quarter of 2014 reflected an increase in employee-related costs, including $6.7 million of severance costs incurred in all operations, which represents a $3.1 million increase over Q3 2013. During the quarter, the Company resolved a labour disruption by a union representing roughly 15% of the workforce in South America, which resulted in approximately $2.0 million of costs. The Company now has an agreement in place that is equitable and brings this union's agreement in line with the other collective agreements in South America. These SG&A cost increases were partly offset by a volume-related decrease in the Company's South American operations.

In December 2013, the Company reported that management would perform an evaluation in its South American operations to review the most appropriate core ERP system for its business needs. In September 2014, as a result of this evaluation and a capability analysis, management determined that any implementation of a full ERP system in its South American operations would not occur in the near future. Although existing system maintenance requirements are being reviewed, the delay in the implementation of a full ERP system led to an accounting review and decision to write-off $12.2 million of previously capitalized costs, contributing to the lower EBIT in the third quarter of 2014 compared to the same period of 2013.

The Company's EBIT margin was 6.8% in the third quarter of 2014, or 7.6% excluding the write-off of previously capitalized ERP costs discussed above, consistent with the 7.6% earned in the same period of 2013. The increase driven by the Company's Canadian operations was offset by the decrease from its South American operations.

## Finance Costs

Finance costs in the three months ended September 30, 2014 of $20.8 million were down from the $23.0 million reported in the third quarter of 2013, driven largely by a gain on a foreign currency swap contract recognized during the quarter.

## Provision for Income Taxes

The effective income tax rate for the third quarter of 2014 was 39.2%, up from 23.4% in the comparable period of 2013. The increase was primarily driven by an increase in the substantively enacted tax rate in Chile and a higher estimated annual effective tax rate for Argentina.

In September 2014, the Chilean government signed into law an extensive series of tax reforms. These tax reforms included a gradual increase in the substantively enacted income tax rate from 20% to 27%, which resulted in a one-time revaluation adjustment of the Company's deferred income tax balances of $7.4 million and additional current income tax expense of $0.5 million. Also negatively impacting the provision for income taxes in the third quarter of 2014, compared to the same period of 2013, was the impact of a higher estimated annual effective tax rate in Argentina.

## Net Income

Net income was $56.8 million in the third quarter of 2014, a decrease of 34% from the $86.2 million earned in the same period last year. Basic EPS was $0.33 per share compared with $0.50 per share in the comparative period last year.

Net income and EPS in the third quarter of 2014 were negatively impacted by:

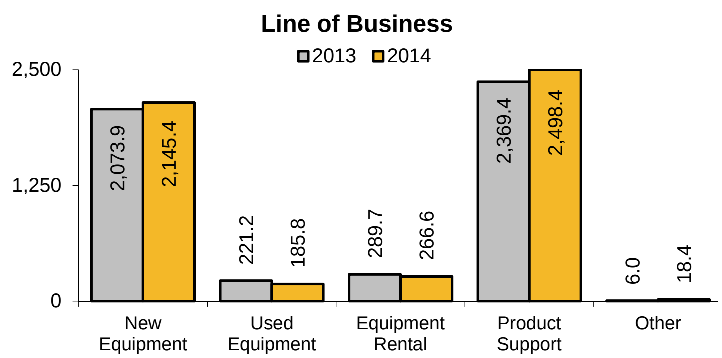
- a one-time non-cash write-off of previously capitalized ERP costs in the Company's South American operations ($0.06 per share);
- a one-time non-cash charge from the revaluation of deferred income tax balances in Chile following an increase in the substantively enacted tax rate ($0.04 per share);
- a higher estimated annual effective tax rate in Argentina ($0.03 per share);
- severance costs incurred in all operations and labour disruption costs in the Company's South American operations ($0.04 per share); and
- lower earnings from the Company's South American operations due to weak market conditions.

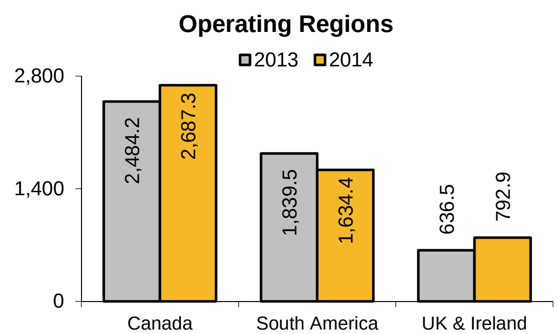
## Year-to-Date Overview

| | **YTD 2014** | YTD 2013 | **YTD 2014** | YTD 2013 |
|---|---|---|---|---|
| | ($ millions) | | (% of revenue) | |
| Revenue | **$ 5,114.6** | $ 4,960.2 | | |
| Gross profit | **1,533.1** | 1,526.2 | **30.0%** | 30.8% |
| SG&A | **(1,162.8)** | (1,152.8) | **(22.7)%** | (23.3)% |
| Equity earnings of joint venture and associate | **5.7** | 9.0 | **0.1%** | 0.2% |
| Other income | **0.1** | 119.6 | **0.0%** | 2.4% |
| Other expenses | **(13.9)** | (126.8) | **(0.3)%** | (2.5)% |
| EBIT | **362.2** | 375.2 | **7.1%** | 7.6% |
| Finance costs | **(64.7)** | (68.9) | **(1.3)%** | (1.4)% |
| Provision for income taxes | **(86.4)** | (64.0) | **(1.7)%** | (1.3)% |
| Net income | **$ 211.1** | $ 242.3 | **4.1%** | 4.9% |
| Basic EPS | **$ 1.23** | $ 1.41 | | |
| EBITDA | **$ 526.1** | $ 536.2 | **10.3%** | 10.8% |
| Free Cash Flow | **$ 97.9** | $ 75.8 | | |

## Revenue

Nine months ended September 30
($ millions)




For the nine months ended September 30, 2014, the Company generated revenue of $5.1 billion, an increase of 3% over the same period last year, driven primarily by an increase in new equipment and parts revenues in the Company's Canadian operations. This, together with an increase in revenues from the Company's UK & Ireland operations, more than offset the decrease in new equipment revenues from the Company's South American operations.

Foreign exchange had a positive impact on revenue, mainly due to the 7% weaker Canadian dollar relative to the U.S. dollar and 15% weaker Canadian dollar relative to the U.K. pound sterling for the first nine months of 2014 compared to the same period last year.

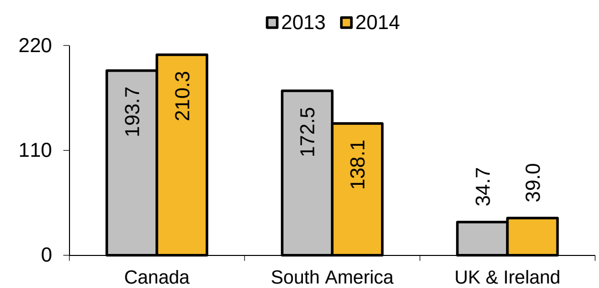
Product support revenue was up 5% over the first nine months of 2013. The most notable increase was in the Company's Canadian operations, with parts revenues up in mining and power systems markets. Although up in Canadian dollars, product support revenues were down in functional currency in both the Company's UK & Ireland and South American operations for similar reasons as noted in the quarter overview. In functional currency, product support revenues in the Company's South American operations were down 6% and the UK & Ireland operations were slightly down compared to the same period of 2013.

New equipment sales were up 3% compared to the first nine months of the prior year. The increase was largely due to greater demand for new equipment in the mining sector in the Company's Canadian operations combined with increases in the plant hire sector and power systems in the Company's UK & Ireland operations, which more than offset decreased mining activity in the Company's South American operations.

## Earnings Before Finance Costs and Income Taxes

On a consolidated basis, EBIT was $362.2 million in the first nine months of 2014, 3% lower than the $375.2 million earned in the first nine months of the prior year. The decrease was primarily driven by the $12.2 million write-off of previously capitalized ERP costs in the Company's South American operations, higher severance costs, and lower equity earnings.

**EBIT by Operation[1]**
Nine months ended September 30
($ millions)




(1) Excluding other operations – corporate head office

Gross profit of $1.5 billion in the first nine months of the year was up slightly compared to the same period in 2013. Gross profit margin was 30.0%, down marginally from 30.8% in the first nine months of 2013.

The increase in sales volume in the Company's Canadian operations included a greater proportion of new equipment sales in the revenue mix. In the Company's South American operations, the decrease in gross profit from lower sales volumes was partially offset by a shift in revenue mix to a higher proportion of product support revenues. Gross profit was negatively impacted by lower rental gross profit in all operations due to softening in the rental market compared to the first nine months of 2013.

SG&A costs of $1.2 billion were marginally higher compared to the first nine months of 2013, and included an increase in employee-related costs, with $13.8 million of severance costs, $6.0 million higher than the same period last year. Also contributing to the increase were higher SG&A costs in the Company's Canadian operations driven by increased volumes and higher service-related expenses in the Company's South American operations. These increases were partly offset by a decrease in SG&A in the Company's South American operations reflecting lower sales volumes and actions taken to reduce operating costs. The weaker Argentinean and Chilean pesos against the U.S. dollar also lowered operating costs in comparison to the same period of 2013, which reduced the overall increase to SG&A. The positive impact of foreign exchange on EBIT was largely offset by the foreign exchange impact on the provision for income taxes, primarily from Argentina.

Contributing to lower EBIT for the first nine months of 2014 compared to the same period of 2013 was a $12.2 million write-off of previously capitalized ERP costs, discussed above, and $3.3 million in lower equity earnings from PipeLine Machinery International (PLM).

The Company's EBIT margin was 7.1% in the first nine months of 2014, down from 7.6% in the same period of 2013, driven mainly by the write-off of ERP costs and lower equity earnings discussed above.

## Finance Costs

Finance costs in the nine months ended September 30, 2014 were $64.7 million, lower than the $68.9 million reported in the first nine months of 2013, largely driven by a gain on a foreign currency swap contract recognized during Q3 2014. The prior nine month period included $1.5 million of early redemption costs related to the Company's previously issued $250 million medium term notes (MTN).

## Provision for Income Taxes

The effective income tax rate for the first nine months of 2014 was 29.0%, up from 20.9% in the comparable period of the prior year, for the same reasons noted in the third quarter results. The lower effective tax rate for the prior year included a $6.0 million benefit of previously unrecognized capital tax losses to offset taxable amounts in the second quarter of 2013.

## Net Income

Net income was $211.1 million in the first nine months of 2014, down from the $242.3 million of net income earned in the same period last year. Basic EPS was $1.23 per share compared with $1.41 per share in the comparative period last year.

Net income and EPS in the first nine months of 2014 were negatively impacted by:

- a one-time non-cash write-off of previously capitalized ERP costs in the Company's South American operations ($0.06 per share);
- a one-time non-cash charge from the revaluation of deferred income tax balances in Chile following an increase in the substantively enacted tax rate ($0.04 per share);
- a higher estimated annual effective tax rate in Argentina ($0.03 per share); and
- severance costs incurred in all operations ($0.06 per share).

## Invested Capital

| ($ millions, unless otherwise stated) | | **September 30, 2014** | | June 30, 2014 | | Increase (Decrease) from June 30, 2014 | | December 31, 2013 | | Increase (Decrease) from December 31, 2013 |
|---|---|---|---|---|---|---|---|---|---|---|
| Consolidated | **$** | **3,340.2** | $ | 3,333.6 | $ | 6.6 | $ | 3,138.1 | $ | 202.1 |
| Canada | **$** | **1,713.8** | $ | 1,755.6 | $ | (41.8) | $ | 1,487.6 | $ | 226.2 |
| South America | **$** | **1,297.6** | $ | 1,274.2 | $ | 23.4 | $ | 1,390.9 | $ | (93.3) |
| UK & Ireland | **$** | **343.7** | $ | 308.7 | $ | 35.0 | $ | 265.3 | $ | 78.4 |
| *South America (U.S. dollar)* | ***$*** | ***1,157.8*** | *$* | *1,193.6* | *$* | *(35.8)* | *$* | *1,307.7* | *$* | *(149.9)* |
| *UK & Ireland (U.K. pound sterling )* | ***£*** | ***189.1*** | *£* | *169.1* | *£* | *20.0* | *£* | *150.5* | *£* | *38.6* |

The increase in consolidated invested capital of $6.6 million from Q2 2014 to Q3 2014 reflects approximately $60 million of foreign exchange from the 5% weakening of the Canadian dollar relative to the US dollar in translating the Company's South American operations' invested capital balances. Consolidated invested capital decreased by approximately $53.4 million excluding the impact of foreign exchange, primarily driven by:

- A decrease in inventory, primarily in new equipment inventory in Canada with lower purchases and in South America as a result of management's focus on adjusting asset levels due to lower mining activity;
- A decrease in accounts receivable, primarily driven by an increase in collections in the Company's Canadian operations;
- Partly offset by a decrease in accounts payable, largely in the Company's Canadian operations due to a focus on managing aged payable balances.

In functional currency, invested capital in the Company's South American operations decreased 3% (increased 2% in Canadian dollars) and was up 12% (up 11% in Canadian dollars) in the UK & Ireland operations from June 2014. The increase in the UK & Ireland is primarily the result of higher accounts receivable due to an increase in sales volumes over Q2 2014.

The increase in consolidated invested capital of $202.1 million from Q4 2013 to Q3 2014 was primarily driven by:

- Lower deferred revenue, largely in the Company's South American operations, due to lower advance payments from customers for mining equipment; and
- A decrease in accounts payable driven primarily by the Company's Canadian operations for the same reason noted above.

In functional currency, invested capital in the Company's South American operations decreased 11% (decreased 7% in Canadian dollars) and was up 26% (up 29% in Canadian dollars) in the UK & Ireland operations from December 2013 for the reasons noted above. The weakening of the Canadian dollar relative to the U.S. dollar and U.K. pound sterling increased consolidated invested capital from Q4 2013 by approximately $75 million.

Invested capital turnover at Q3 2014 was 2.09 times. While this was below Q2 2014 levels, it showed an improvement over Q1 2014 and Q4 2013 levels. This is reflective of improvement in invested capital efficiencies in the Company's Canadian operations, with revenue growth exceeding the increase in invested capital to support the business. Invested capital turnover has also improved in the Company's UK & Ireland operations since Q4 2013, but was down in South America over the same period.

Return on invested capital at Q3 2014 was 15.4%, a decrease from Q2 2014 and Q4 2013. The operating and invested capital efficiencies from the Company's Canadian operations were more than offset by the decline in the Company's South American operations.

- ROIC increased to 16.8% from 15.9% in Q3 2013 in the Company's Canadian operations, driven primarily by an increase in EBIT for the last twelve months, as well as slightly lower average invested capital. Invested capital decreased $41.8 million from the end of June, mainly due to lower inventory. While invested capital turnover of 2.15 times was below 2.20 times in Q2 2014 due to lower sales, it increased from 1.95 times a year ago, mostly as a result of improved inventory management.
- Despite improved inventory turns and an overall decrease in invested capital from Q3 of last year, ROIC in the Company's South American operations declined to 15.8% from 17.9% due to a volume-driven reduction in earnings and the write-off of ERP costs. The decrease in invested capital of US$35.8 million from Q2 2014 was driven primarily by lower equipment inventory, reflecting a continued focus on inventory management in light of the uncertain market environment. The Company will continue to monitor business conditions closely in its South American operations as necessary to align its cost structure and invested capital with expected activity levels.

## Results by Reportable Segment

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

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

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

| **Three months ended September 30, 2014** ($ millions) | **Canada** | **South America** | **UK & Ireland** | **Consolidated** | **Revenue percentage** |
|---|---|---|---|---|---|
| New equipment | **$ 328.5** | **$ 158.4** | **$ 185.2** | **$ 672.1** | **40.2%** |
| Used equipment | **44.3** | **7.4** | **11.3** | **63.0** | **3.8%** |
| Equipment rental | **69.1** | **16.3** | **7.4** | **92.8** | **5.6%** |
| Product support | **423.2** | **334.2** | **79.8** | **837.2** | **50.1%** |
| Other | **1.1** | **0.5** | **3.7** | **5.3** | **0.3%** |
| Total | **$ 866.2** | **$ 516.8** | **$ 287.4** | **$ 1,670.4** | **100.0%** |
| Revenue percentage by operations | **51.9%** | **30.9%** | **17.2%** | **100.0%** | |

| Three months ended September 30, 2013 ($ millions) | Canada | South America | UK & Ireland | Consolidated | Revenue percentage |
|---|---|---|---|---|---|
| New equipment | $ 424.6 | $ 224.9 | $ 127.5 | $ 777.0 | 43.7% |
| Used equipment | 53.5 | 19.0 | 18.8 | 91.3 | 5.1% |
| Equipment rental | 78.4 | 18.5 | 6.9 | 103.8 | 5.8% |
| Product support | 402.6 | 334.2 | 68.9 | 805.7 | 45.3% |
| Other | 1.4 | 1.0 | — | 2.4 | 0.1% |
| Total | $ 960.5 | $ 597.6 | $ 222.1 | $ 1,780.2 | 100.0% |
| Revenue percentage by operations | 53.9% | 33.6% | 12.5% | 100.0% | |

| **Nine months ended September 30, 2014** ($ millions) | **Canada** | **South America** | **UK & Ireland** | **Consolidated** | **Revenue percentage** |
|---|---|---|---|---|---|
| New equipment | **$ 1,075.0** | **$ 575.9** | **$ 494.5** | **$ 2,145.4** | **42.0%** |
| Used equipment | **128.7** | **21.7** | **35.4** | **185.8** | **3.6%** |
| Equipment rental | **194.5** | **51.9** | **20.2** | **266.6** | **5.2%** |
| Product support | **1,284.7** | **983.1** | **230.6** | **2,498.4** | **48.8%** |
| Other | **4.4** | **1.8** | **12.2** | **18.4** | **0.4%** |
| Total | **$ 2,687.3** | **$ 1,634.4** | **$ 792.9** | **$ 5,114.6** | **100.0%** |
| Revenue percentage by operations | **52.5%** | **32.0%** | **15.5%** | **100.0%** | |

| Nine months ended September 30, 2013 ($ millions) | Canada | South America | UK & Ireland | Consolidated | Revenue percentage |
|---|---|---|---|---|---|
| New equipment | $ 939.0 | $ 766.9 | $ 368.0 | $ 2,073.9 | 41.8% |
| Used equipment | 140.2 | 37.8 | 43.2 | 221.2 | 4.5% |
| Equipment rental | 212.0 | 55.9 | 21.8 | 289.7 | 5.8% |
| Product support | 1,189.3 | 976.6 | 203.5 | 2,369.4 | 47.8% |
| Other | 3.7 | 2.3 | — | 6.0 | 0.1% |
| Total | $ 2,484.2 | $ 1,839.5 | $ 636.5 | $ 4,960.2 | 100.0% |
| Revenue percentage by operations | 50.1% | 37.1% | 12.8% | 100.0% | |

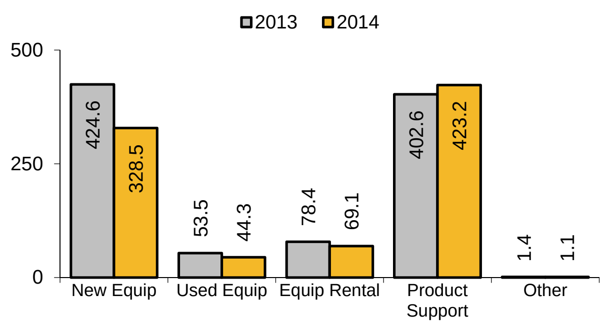
## Canadian Operations

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

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

| | Three months ended September 30 | | Nine months ended September 30 | |
|---|---|---|---|---|
| **($ millions)** | **2014** | 2013 | **2014** | 2013 |
| Revenue from external sources | **$ 866.2** | $ 960.5 | **$ 2,687.3** | $ 2,484.2 |
| Operating costs | **(756.9)** | (856.9) | **(2,396.6)** | (2,213.6) |
| Depreciation and amortization | **(30.2)** | (30.2) | **(85.9)** | (84.7) |
| | **79.1** | 73.4 | **204.8** | 185.9 |
| Equity earnings of joint venture | **0.7** | 2.6 | **5.5** | 7.8 |
| Earnings before finance costs and income taxes | **$ 79.8** | $ 76.0 | **$ 210.3** | $ 193.7 |
| EBIT | | | | |
| - as a percentage of revenue | **9.2%** | 7.9% | **7.8%** | 7.8% |
| - as a percentage of consolidated EBIT | **69.9%** | 56.1% | **58.1%** | 51.6% |

**Canada – Revenue by Line of Business**
Three months ended September 30
($ millions)




Third quarter 2014 revenues of $866.2 million decreased 10% compared to the third quarter of 2013, largely due to lower new equipment sales.

New equipment revenues in the three months ended September 30, 2014 were down 23% compared with the same period in 2013. This decrease was primarily due to lower mining activity, combined with near record new equipment unit deliveries in the comparable period of 2013.

Product support revenues were 5% higher than in the third quarter of 2013, driven primarily by increased parts sales in power systems.

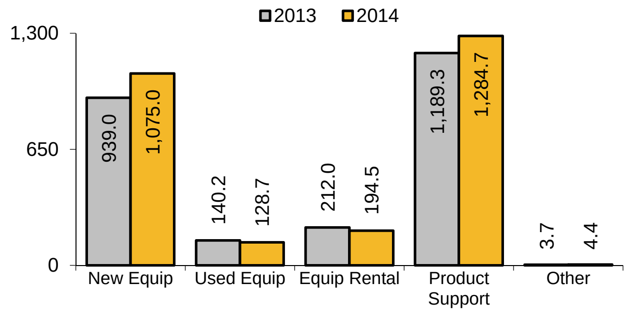
The weaker Canadian dollar relative to the U.S. dollar in 2014 had a positive impact on total revenue of approximately $30 million compared to 2013, largely offset by the negative foreign exchange impact on the cost of equipment and parts.

Gross profit in absolute dollars compared to the third quarter of 2013 increased 4% on lower sales volumes. Gross profit margin was also higher than the third quarter of 2013, driven primarily by a lower proportion of lower-margin mining equipment this year and higher service margins, a result of improved service efficiencies reflecting progress on the operational improvement initiatives. Also contributing to the higher gross profit margin was a shift in revenue mix to a higher proportion of product support revenues, which typically generate higher margins. Product support revenues comprised 49% of third quarter 2014 total revenues relative to 42% in the third quarter of 2013, while new equipment revenues made up 38% of total revenues in the third quarter of 2014 compared to 44% in the prior year quarter. The increase in gross profit was partially offset by a decrease in rental revenue driven by lower volume from the continued softening of the short-term rental market compared to the strong third quarter of 2013.

SG&A increased slightly over the same period last year driven primarily by higher employee-related costs, including severance costs, partially offset by volume-related decreases in the current period. A higher positive foreign exchange impact in the third quarter of 2013 contributed to lower SG&A costs in that period.

EBIT in the Canadian operations of $79.8 million in the third quarter of 2014 was up 5% from $76.0 million in the same period of 2013 on lower revenues, due to the higher gross profit described above, partly offset by higher SG&A and a decrease in equity earnings from PLM of $1.9 million, reflecting the delay of certain global projects. EBIT margin of 9.2% in the third quarter of 2014 was up from 7.9% in the comparative period, reflecting a favourable shift in revenue mix and continued progress on the supply chain and service profitability initiatives.

**Canada – Revenue by Line of Business**
Nine months ended September 30
($ millions)




Revenues for the nine months ended September 30, 2014 increased 8% to $2.7 billion compared to the same period last year, primarily driven by higher new equipment revenues largely as a result of increased market activity in mining in the first half of 2014. New equipment revenues in the first nine months of 2014 were up 14% compared with the same period in 2013.

Product support revenues were 8% higher than the first nine months of 2013, driven primarily by higher demand for parts in the power systems and mining markets.

The weaker Canadian dollar relative to the U.S. dollar had a positive impact on total revenue for the first nine months of 2014 of approximately $100 million compared to 2013, largely offset by the negative foreign exchange impact on the cost of equipment and parts.

Gross profit in absolute dollars for the first nine months of 2014 increased 4% compared to the first nine months of 2013, primarily due to higher sales volumes, while gross profit margin was lower. The decrease in gross profit margin was primarily driven by a greater proportion of new equipment sales in the revenue mix.

SG&A costs for the first nine months of 2014 increased 3% over the same period of 2013, largely due to volume-related increases and higher employee-related costs, primarily severance and restructuring costs. These increases were partially offset by cost savings from supply chain and service initiatives. SG&A costs in the first nine months of 2013 were reduced by positive provision adjustments.

The Canadian operations contributed EBIT of $210.3 million for the nine months ended September 30, 2014, 9% higher than the prior year, with the increase in gross profit partially offset by increased SG&A costs and lower equity earnings from PLM. EBIT margin in the first nine months of 2014 was 7.8%, consistent with the same period of 2013, with the lower gross profit margin earned in 2014 offset by an improvement in SG&A relative to revenue over prior year.

## South American Operations

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

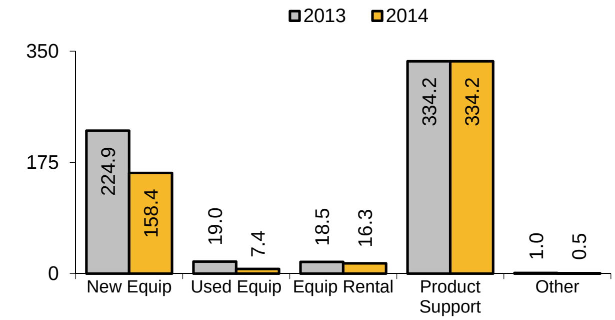
The table below provides details of the results from the South American operations:

| | **Three months ended September 30** | | **Nine months ended September 30** | |
|---|---|---|---|---|
| **($ millions)** | **2014** | 2013 | **2014** | 2013 |
| Revenue from external sources | **$ 516.8** | $ 597.6 | **$ 1,634.4** | $ 1,839.5 |
| Operating costs | **(454.7)** | (522.0) | **(1,428.7)** | (1,608.1) |
| Depreciation and amortization | **(17.8)** | (17.5) | **(53.8)** | (52.7) |
| | **44.3** | 58.1 | **151.9** | 178.7 |
| Other income (expenses) | | | | |
| Capitalized ERP costs written off | **(12.2)** | — | **(12.2)** | — |
| Export of agricultural product | **—** | 42.4 | **0.1** | 119.7 |
| Costs of export of agricultural product | **—** | (43.5) | **(0.2)** | (122.9) |
| Other | **(0.3)** | (1.0) | **(1.5)** | (3.0) |
| Earnings before finance costs and income taxes | **$ 31.8** | $ 56.0 | **$ 138.1** | $ 172.5 |
| EBIT | | | | |
| - as a percentage of revenue | **6.2%** | 9.4% | **8.4%** | 9.4% |
| - as a percentage of consolidated EBIT | **27.9%** | 41.2% | **38.1%** | 46.0% |

In the third quarter of 2014, revenues decreased 14% to $516.8 million compared to the same period in 2013 (down 18% in functional currency, U.S. dollars). Softening market conditions throughout the Company's South American operations led to a decrease in revenue in functional currency in all lines of business compared to the third quarter of 2013.

New equipment revenue was down 30% (33% in functional currency) compared to the third quarter of 2013. The slowdown in mining activity from the end of 2013 continued into the third quarter of 2014, driving a decrease in new equipment demand and lower deliveries.

**South America – Revenue by Line of Business**
Three months ended September 30
($ millions)




Product support revenue was comparable over the same period last year, but was down 5% in functional currency. The decrease in functional currency was driven primarily by lower service revenue in the mining sector in Chile, where customers continue to focus on reducing operating costs. Parts revenue for the third quarter of 2014 was comparable to the same period of 2013.

The positive impact on total revenue in the third quarter of 2014 relative to the prior year period from the weaker Canadian dollar relative to the U.S. dollar was partially offset by the negative impact from the weaker Chilean and Argentinean pesos against the U.S. dollar. The net positive impact on total revenue was approximately $10 million.

Gross profit decreased 12% from 2013 (down 16% in functional currency), reflecting lower sales volumes from the comparative period. Gross profit margin increased over the third quarter of 2013 driven by a shift in revenue mix to higher margin product support sales. Product support revenues comprised 65% of total revenues in the third quarter 2014 relative to 56% in the third quarter of 2013, while new equipment revenues made up 31% of total revenues in the third quarter 2014 compared to 38% in the third quarter 2013. Also contributing to the higher gross profit margin in the third quarter of 2014 compared to the same period last year was a lower proportion of mining equipment.

SG&A costs were down 6% (down 11% in functional currency) in the Company's South American operations compared to the third quarter of 2013, as a result of lower sales volumes and actions taken to reduce operating costs, partly offset by severance costs and costs associated with the labour disruption resolved in the third quarter of 2014. The weaker Argentinean and Chilean pesos in comparison to the third quarter of 2013 also contributed to the lower operating costs.

In response to decreased activity levels, the Company's South American operations continued to reduce its workforce since September 2013 by approximately 560 people, including approximately 100 people in October 2014. These reductions bring the total workforce in South America down by 7% to approximately 6,900 employees. The Company will continue to monitor business conditions closely in its South American operations to align its cost structure with expected activity levels as necessary.

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

In December 2013, the Company reported that management would perform an evaluation in its South American operations to review the most appropriate core ERP system for its business needs. In September 2014, as a result of this evaluation and a capability analysis, management determined that any implementation of a full ERP system in its South American operations would not occur in the near future. Although existing system maintenance requirements are being reviewed, the delay in the implementation of a full ERP system led to an accounting review and decision to write-off $12.2 million of previously capitalized costs.

During the third quarter of 2014, the Company's South American operations continued to import goods into Argentina to satisfy customer demand without further exportation of agricultural product. The Company has not exported agricultural product since Q3 2013. Net costs associated with exporting an agricultural product from Argentina were $1.1 million in the third quarter of 2013. Although the Company's South American operations have been able to import goods into Argentina to satisfy customer demand, the business is still subject to import and foreign currency restrictions.

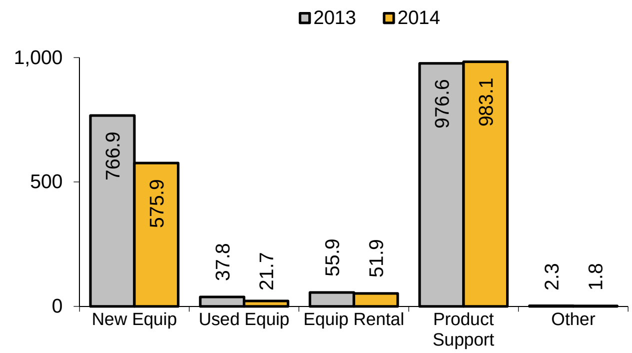
Third quarter EBIT for the Company's South American operations decreased 43% (45% in functional currency) from the third quarter of 2013, reflecting the decrease in revenues and gross profit reflecting softer market conditions and the write-off of previously capitalized ERP costs, partially offset by the lower SG&A costs. The weaker Argentinean and Chilean pesos relative to the U.S. dollar, as it relates to operating costs, combined with the positive impact from the weaker Canadian dollar against the U.S. dollar in translating results, had a positive impact on EBIT of approximately $10 million. However, this increase was primarily offset by higher taxes due to the devaluation of the Argentinean peso. EBIT margin of 6.2% in the third quarter of 2014 was down from 9.4% in the comparative period. Excluding the ERP write-off, severance costs ($2.2 million) and labour disruption costs ($2.4 million), EBIT margin would have been 9.4% in Q3 2014.

For the nine months ended September 30, 2014, revenues decreased 11% to $1.6 billion compared to the same period in 2013 (down 17% in functional currency), driven primarily by lower new equipment revenues.

New equipment revenue was down 25% (30% in functional currency) compared to the first nine months of 2013, driven primarily by reduced demand in the mining and construction sectors.

Although comparable in Canadian dollars, product support revenues were down 6% in functional currency, primarily related to service revenues and also largely due to reduced activity in the mining and construction sectors in Chile.

**South America – Revenue by Line of Business**
Nine months ended September 30
($ millions)




The positive impact on total revenue of the weaker Canadian dollar relative to the U.S. dollar was partially offset by the negative impact of the weaker Chilean and Argentinean pesos against the U.S. dollar. The net positive impact on total revenue was approximately $60 million.

SG&A costs were down 6% (13% in functional currency) in the first nine months of 2014 as a result of lower sales volumes, lower warranty expenses, and actions taken to reduce operating costs. These decreases were partially offset by higher service-related expenses and severance costs. The weaker Argentinean and Chilean pesos against the U.S. dollar also lowered operating costs in comparison to the same period of 2013. For the first nine months of 2014, EBIT of $138.1 million was 20% lower compared to the same period last year (down 25% in functional currency), reflecting the decrease in gross profit and write-off of previously capitalized ERP costs, partially offset by the lower SG&A costs. The weaker Argentinean and Chilean pesos relative to the U.S. dollar, combined with the positive impact from the weaker Canadian dollar against the U.S. dollar had a positive impact on EBIT of approximately $50 million. However, this increase was largely offset by higher taxes due to the devaluation of the Argentinean peso. EBIT margin of 8.4% for the first nine months of 2014 was down from 9.4% achieved in the same period in 2013.

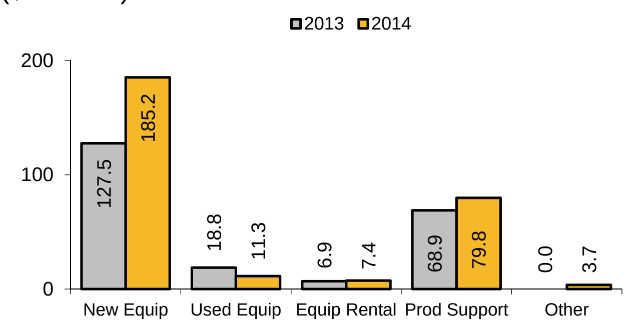
## UK & Ireland Operations

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

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

| | Three months ended September 30 | | Nine months ended September 30 | |
|---|---|---|---|---|
| **($ millions)** | **2014** | 2013 | **2014** | 2013 |
| Revenue from external sources | **$ 287.4** | $ 222.1 | **$ 792.9** | $ 636.5 |
| Operating costs | **(265.5)** | (202.6) | **(729.8)** | (577.3) |
| Depreciation and amortization | **(8.1)** | (7.4) | **(24.1)** | (23.5) |
| | **13.8** | 12.1 | **39.0** | 35.7 |
| Other expenses | **—** | (0.3) | **—** | (1.0) |
| Earnings before finance costs and income taxes | **$ 13.8** | $ 11.8 | **$ 39.0** | $ 34.7 |
| EBIT | | | | |
| - as a percentage of revenue | **4.8%** | 5.3% | **4.9%** | 5.5% |
| - as a percentage of consolidated EBIT | **12.1%** | 8.7% | **10.8%** | 9.3% |

**UK & Ireland – Revenue by Line of Business**
Three months ended September 30
($ millions)




Revenues from the UK & Ireland operations for the third quarter of 2014 were $287.4 million, 29% higher than in the prior year (up 15% in functional currency, U.K. pound sterling) driven by record new equipment revenues. The increase in functional currency was primarily driven by higher new equipment sales in the plant hire sector, reflecting improved demand for small to mid-size machines for use in construction and infrastructure work, as well as higher revenues from project work in the power systems sector.

Product support revenue increased 16% over the same period last year (up 3% in functional currency), driven by higher parts revenue.

The weaker Canadian dollar relative to the U.K. pound sterling had a positive impact on revenue of approximately $30 million.

Gross profit in absolute dollars was higher in the third quarter of 2014 compared to 2013, up slightly in functional currency. Gross profit margin was lower compared to the same period last year, reflecting a shift in mix to lower margin new equipment revenues and lower margins in all lines of business. New equipment revenues comprised 64% of total revenues in the third quarter of 2014 compared to 57% in the same period of 2013, while product support revenues comprised 28% of third quarter 2014 total revenues relative to 31% in the same period of 2013.

SG&A costs increased compared to the same period in 2013, but were comparable in functional currency on higher revenues.

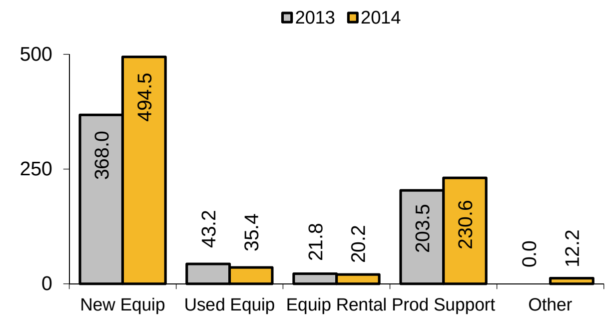
2014 third quarter EBIT was $13.8 million, representing a $2.0 million increase over the prior year primarily due to the weaker Canadian dollar when translating results from the U.K. pound sterling (up slightly in functional currency). EBIT margin of 4.8% was down compared to the 5.3% earned in the same period last year, reflecting the shift in mix to lower-margin new equipment revenues.

For the nine months ended September 30, 2014, revenues of $792.9 million were 25% higher than the same period in the prior year. In functional currency, total revenues were 8% higher compared to that reported in the first nine months of 2013. As noted for the third quarter results, the increase was primarily due to higher new equipment sales, mainly in the plant hire sector.

Product support revenue was up compared to the same period last year, but down marginally in functional currency largely due to lower parts revenues in the mining and power system sectors.

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

**UK & Ireland – Revenue by Line of Business**
Nine months ended September 30
($ millions)




Gross profit in absolute dollars was higher for the nine months ended September 30, 2014 compared to 2013, but down slightly in functional currency. Gross profit margin was lower compared to the same period last year, reflecting a shift in mix to lower margin new equipment revenues similar to the shift noted for the third quarter.

SG&A costs increased compared to the same period in 2013, but were comparable in functional currency on higher revenues.

For the first nine months of 2014, EBIT of $39.0 million was 12% higher compared to the same period last year due to the weaker Canadian dollar when translating results from the U.K. pound sterling, but down 3% in functional currency. The decrease was driven primarily by lower gross profit, which reflects the shift in mix to lower-margin new equipment sales. EBIT margin of 4.9% was down compared to the 5.5% earned in the same period last year for similar trends noted for the third quarter.

Other Developments

On July 4, 2014, the Company's UK & Ireland operations acquired 100% of the shares of Reaction One Limited (UK) and Alveton Limited (Ireland). With this acquisition, the newly formed company, named SITECH, will sell and service Trimble's heavy and highway machine control and monitoring products in all of its dealership territories (rights in the Company's Canadian and South American dealership operations were acquired in 2011). Trimble is Caterpillar's global technologies joint venture partner in construction and other industries. Cash consideration of $13.8 million (£7.6 million) was paid at the time of acquisition. Further contingent consideration with a possible range of £nil - £3.5 million may be paid after acquisition, contingent upon the profitability of the acquired business over the next three years. The Company recognized $6.4 million (£3.5 million) of contingent consideration as a liability on the consolidated statement of financial position at September 30, 2014. Total consideration of $20.2 million is subject to customary closing adjustments.

## Corporate and Other Operations

| ($ millions) | Three months ended September 30 2014 | | Three months ended September 30 2013 | | Nine months ended September 30 2014 | | Nine months ended September 30 2013 |
|---|---|---|---|---|---|---|---|
| Operating costs – corporate | **$** | **(10.8)** | $ | (7.3) | **$** | **(21.6)** | $ | (19.5) |
| Long-term incentive plan (LTIP) | | **(1.6)** | | (0.9) | | **(3.7)** | | (7.3) |
| Depreciation and amortization | | **—** | | — | | **(0.1)** | | (0.1) |
| | | **(12.4)** | | (8.2) | | **(25.4)** | | (26.9) |
| Equity gain of associate | | **1.2** | | — | | **0.2** | | 1.2 |
| Loss before finance costs and income taxes | **$** | **(11.2)** | $ | (8.2) | **$** | **(25.2)** | $ | (25.7) |

Fluctuations in the Company's share price during the first nine months of the year led to a cost recovery from the Company's compensation hedge, which partially offset the mark-to-market impact relating to certain stock-based compensation plans.

The equity gain of associate for the three and nine months ended September 30, 2014 and 2013 relates to the Company's investment in Energyst B.V. (Energyst). Results from Energyst for the first nine months of 2014 have been impacted by the slowdown in the mining industry and the competitive pressures on its international power projects business. During the third quarter, the Company's equity investment in Energyst increased to 28.8% from 27.9% in July 2014.

## Outlook

The Company is committed to improving ROIC over time, and is executing on its operational excellence agenda to improve performance. Initiatives to increase EBIT are primarily focused on growing market share in non-mining segments and increasing the profitability of service operations. The expected improvement in capital efficiency will be driven through optimization of the supply chain to reduce working capital and improvements in asset utilization. The Company is well positioned to accelerate free cash flow generation through the fourth quarter and expects to end 2014 at the bottom of its net debt to invested capital target range.

The Company sees strong business activity in Western Canada, with healthy demand for new equipment and product support in most markets. At the moment, with the exception of the slowdown in metallurgical coal, mining activity is expected to be stable. The Company is closely monitoring whether the recent reduction in the price of oil will impact this outlook. At this time, mining customers are maintaining production levels while focusing on operating cost efficiencies. Solid infrastructure activity in Western Canada remains a positive driver for heavy construction and power systems. Pipeline activity continues with several projects underway, and the Company expects that liquefied natural gas (LNG) pipeline developments under consideration could be a positive driver for power systems, earthmoving and pipelaying opportunities for the next few years. Market conditions in the gas compression and electric power generation segments have strengthened. Activity levels in heavy rent with a purchase option are strong, and demand for short term rental equipment has improved. The Company is making progress to improve profitability of the Canadian operations; however, achieving the full benefits of the service excellence and supply chain initiatives will take time.

Looking ahead, the Company expects challenging market conditions in South America to continue into 2015. Concerns regarding higher production costs in the mining sector have resulted in delays of greenfield projects and revision of investments for brownfield projects. As a result, the Company expects new equipment sales to the mining industry to remain slow through 2015. However, mining customers are expected to moderately increase production levels next year, while continuing to focus on reducing costs and improving productivity and efficiencies. At this time, customers are delaying decisions on component purchases, major repairs and new maintenance contracts, which impact the Company's product support business, notably service. The slowdown in the mining sector is anticipated to be partially offset by the positive impact of the Chilean government's infrastructure and energy agenda during 2015. In Argentina, the Company's market share for new equipment and product support remains subject to current import restrictions. In addition, a significant devaluation of the Argentine peso affects the Company effective tax rate. The Company continues to monitor market conditions in South America closely to ensure that its cost structure and invested capital are aligned with expected activity levels to maintain profitability.

In the UK & Ireland, the outlook for new equipment and order intake are solid, as macro-economic conditions continue to show signs of stability. Equipment sales to the plant hire sector have increased due to the strengthening in house building and general construction sectors. The coal mining industry remains weak due to inexpensive coal imports, and consolidation continues in the quarry and aggregates market, impacting new equipment sales and product support in those industries. The Company continues to deliver on significant electric power generation projects in its Power Systems division.

## Liquidity and Capital Resources

### Operating Activities

For the three months ended September 30, 2014, cash provided by operations was $136.1 million (year-to-date 2014: $142.8 million), compared to $159.5 million in the comparative period in 2013 (year-to-date 2013: $113.2 million).

The higher cash inflow for the first nine months of 2014 compared to the same period last year was mainly the result of lower working capital spend in the Company's South American operations, reflecting lower inventory investment and a reduction in supplier payments to match activity level, partially offset by higher working capital spend in Canada and the UK & Ireland.

In the third quarter of 2014, the Company invested $12.4 million in rental assets (year-to-date 2014: $61.1 million), net of disposals, compared to the third quarter of 2013 with cash invested of $24.5 million (year-to-date 2013: $75.9 million).

EBITDA was $170.3 million in the third quarter of 2014 (year-to-date 2014: $526.1 million), lower than the $190.7 million in the comparative period in 2013 (year-to-date 2013: $536.2 million).

### Investing Activities

Net cash used in investing activities in the third quarter of 2014 totalled $41.7 million (year-to-date 2014: $63.6 million use of cash) compared with $3.2 million cash provided by invested activities in the comparative period in 2013 (year-to-date 2013: $41.9 million use of cash).

The primary use of cash in 2014 related to additions to property, plant and equipment and intangible assets, net of disposals, of $26.8 million (year-to-date 2014: $44.9 million), compared to $3.2 million cash provided in the third quarter of 2013 (year-to-date 2013: $37.4 million use of cash). The primary use of cash during Q3 2014 related to a payment made to negotiate a four-year collective agreement with certain unions in the Company's South American operations, along with lower proceeds generated on dispositions compared to Q3 2013. The greater use of cash for the first nine months of 2014 compared to the same period of 2013 was primarily due to lower proceeds generated on dispositions. Also contributing to the use of cash in the third quarter and first nine months of 2014 was the acquisition of SITECH in the Company's UK & Ireland operations for cash consideration of $13.8 million.

In the three and nine month periods ended September 30, 2014, the Company invested $1.1 million and $4.9 million, respectively, to increase its investment in Energyst. Comparatively, in the nine month period ended September 30, 2013, the Company invested $4.5 million in Energyst.

### Financing Activities

To complement the internally generated funds from operating and investing activities in 2014, the Company has $1.8 billion in unsecured credit facilities. Included in this amount are committed bank facilities totalling $1.1 billion with various Canadian, U.S., and South American financial institutions. At September 30, 2014, $0.9 billion was available under these committed facilities.

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

The Company is rated by both Dominion Bond Rating Service (DBRS) and Standard & Poor's (S&P). During the first quarter of 2014, DBRS re-confirmed the Company's short-term and long-term debt ratings at R-1 (low) and A (low), respectively, and S&P re-confirmed the Company's long-term debt rating at BBB+. The Company continues to utilize the Canadian commercial paper market, as well as borrowings under its credit facilities as its principal sources of short-term funding. Cash flow used in financing activities in the third quarter of 2014 was lower than the same period last year primarily due to a reduction in short-term debt compared to the prior year period as well as cash used in the refinancing of senior and medium term notes in the prior year.

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

In July 2013, the Company issued unsecured 3.232% $200 million MTN due July 3, 2020. Proceeds from this issuance were used to early redeem its 5.16% $250 million MTN due September 3, 2013. The resulting early redemption fees of approximately $1.5 million have been reflected in finance costs in the nine month period ended September 30, 2013.

Dividends paid to shareholders in the third quarter of 2014 were $30.6 million, up 17% compared to the third quarter of 2013, reflecting the $0.025 per share increase to a quarterly dividend of $0.1775 per share announced in May 2014. For similar reasons, dividends paid to shareholders for the first nine months of 2014 increased 14% to $87.4 million compared to the first nine months of 2013.

### Free Cash Flow

The Company's Free Cash Flow was $109.3 million (year-to-date 2014: $97.9 million) compared to Free Cash Flow of $162.6 million in the third quarter of 2013 (year-to-date 2013: $75.8 million Free Cash Flow). The higher free cash flow for the first nine months of 2014 compared to the same period last year was largely from lower working capital spend discussed above, as well as a lower investment in rental assets, net of disposals.

### Net Debt to Invested Capital

Net Debt to Invested Capital at September 30, 2014 was 39.4%, the lowest level since Q4 2010, and compared with 40.9% at June 30, 2014 and 40.8% at December 31, 2013. Net Debt to Invested Capital is within the Company's target range of 35% to 45%. The Company is subject to a maximum Net Debt to Invested Capital level pursuant to a covenant within its syndicated bank credit facility. The Company was in compliance with this covenant at the end of Q3 2014.

## Description of Non-GAAP and Additional GAAP Measures

### Additional GAAP Measures

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

*EBIT*

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

A reconciliation between EBIT and net income is as follows:

| | **Three months ended September 30** | | **Nine months ended September 30** | |
|---|---|---|---|---|
| **($ millions)** | **2014** | 2013 | **2014** | 2013 |
| EBIT | **$ 114.2** | $ 135.6 | **$ 362.2** | $ 375.2 |
| Finance costs | **(20.8)** | (23.0) | **(64.7)** | (68.9) |
| Provision for income taxes | **(36.6)** | (26.4) | **(86.4)** | (64.0) |
| Net income | **$ 56.8** | $ 86.2 | **$ 211.1** | $ 242.3 |

*Net Debt to Invested Capital*

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

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

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

| **($ millions, except as noted)** | **September 30, 2014** | December 31, 2013 |
|---|---|---|
| Cash and cash equivalents | **$ (214.5)** | $ (176.3) |
| Short-term debt | **121.0** | 89.4 |
| Current portion of long-term debt | **0.4** | 0.7 |
| Long-term debt | **1,408.3** | 1,366.5 |
| Net debt | **1,315.2** | 1,280.3 |
| Shareholders' equity | **2,025.0** | 1,857.8 |
| Invested capital | **$ 3,340.2** | $ 3,138.1 |
| Net debt to invested capital | **39.4%** | 40.8% |

**Non-GAAP Measures**

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

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

*EBITDA*

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

A reconciliation between EBITDA and net income is as follows:

| | **Three months ended September 30** | | **Nine months ended September 30** | |
|---|---|---|---|---|
| **($ millions)** | **2014** | 2013 | **2014** | 2013 |
| EBITDA | **$ 170.3** | $ 190.7 | **$ 526.1** | $ 536.2 |
| Depreciation and amortization | **(56.1)** | (55.1) | **(163.9)** | (161.0) |
| Finance costs | **(20.8)** | (23.0) | **(64.7)** | (68.9) |
| Provision for income taxes | **(36.6)** | (26.4) | **(86.4)** | (64.0) |
| Net income | **$ 56.8** | $ 86.2 | **$ 211.1** | $ 242.3 |

*ROIC*

Return on Invested Capital, or ROIC, is defined as EBIT (adjusted for significant non-recurring items) for the last twelve months divided by invested capital, based on an average of the last four quarters.

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

| **September 30<br>($ millions, except as noted)** | **2014** | 2013 |
|---|---|---|
| EBIT – last twelve months | **$ 507.7** | $ 523.0 |
| Invested capital – four quarter average | **$ 3,306.5** | $ 3,308.3 |
| ROIC | **15.4%** | 15.8% |

*Working Capital*

Working capital is defined as total current assets (excluding cash) less total current liabilities (excluding short-term debt and current portion of long-term debt). Management views working capital as a measure for assessing overall liquidity.

| | **2014** | | | 2013 | | | | 2012 |
|---|---|---|---|---|---|---|---|---|
| **($ millions)** | **Q3** | Q2 | Q1 | Q4 | Q3 | Q2 | Q1 | Q4 |
| Total current assets | **$ 3,435.3** | $ 3,421.2 | $ 3,553.6 | $ 3,248.6 | $ 3,325.6 | $ 3,463.4 | $ 3,408.0 | $ 3,317.2 |
| Cash | **(214.5)** | (185.0) | (210.4) | (176.3) | (83.1) | (115.0) | (116.2) | (114.9) |
| Total current assets(1) | **$ 3,220.8** | $ 3,236.2 | $ 3,343.2 | $ 3,072.3 | $ 3,242.5 | $ 3,348.4 | $ 3,291.8 | $ 3,202.3 |
| | | | | | | | | |
| Total current liabilities | **$ 1,501.9** | $ 1,580.4 | $ 1,730.7 | $ 1,549.3 | $ 1,737.5 | $ 2,156.4 | $ 2,256.3 | $ 2,250.2 |
| Short-term debt | **(121.0)** | (175.2) | (279.2) | (89.4) | (327.3) | (454.2) | (429.2) | (303.3) |
| Current portion of long-term debt | **(0.4)** | (0.5) | (0.6) | (0.7) | (0.6) | (250.5) | (358.3) | (363.6) |
| Total current liabilities (2) | **$ 1,380.5** | $ 1,404.7 | $ 1,450.9 | $ 1,459.2 | $ 1,409.6 | $ 1,451.7 | $ 1,468.8 | $ 1,583.3 |
| | | | | | | | | |
| Working capital | **$ 1,840.3** | $ 1,831.5 | $ 1,892.3 | $ 1,613.1 | $ 1,832.9 | $ 1,896.7 | $ 1,823.0 | $ 1,619.0 |
| *Four quarter average* | **$ 1,794.3** | | | $ 1,791.4 | $ 1,792.9 | | | $ 1,611.0 |

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

*Free Cash Flow*

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

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

A reconciliation of Free Cash Flow is as follows:

| | **Three months ended September 30** | | **Nine months ended September 30** | |
|---|---|---|---|---|
| **($ millions)** | **2014** | 2013 | **2014** | 2013 |
| Cash flow provided by operating activities | **$ 136.1** | $ 159.4 | **$ 142.8** | $ 113.2 |
| Additions to property, plant, and equipment and intangible assets | **(30.1)** | (16.8) | **(61.7)** | (60.0) |
| Proceeds on disposal of property, plant, and equipment | **3.3** | 20.0 | **16.8** | 22.6 |
| Free Cash Flow | **$ 109.3** | $ 162.6 | **$ 97.9** | $ 75.8 |

**Key Performance Indicators**

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

*Gross Profit Margin*

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

*EBIT Margin*

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

*Inventory Turns*

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

| **($ millions, except as noted)** | **September 30, 2014** | December 31, 2013 |
|---|---|---|
| Cost of sales – annualized | **$ 4,808.7** | $ 5,014.8 |
| Inventory – two quarter average | **$ 1,820.3** | $ 1,830.1 |
| Inventory turns (number of times) | **2.64** | 2.74 |

*Invested Capital Turnover*

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

| **($ millions, except as noted)** | **September 30, 2014** | December 31, 2013 |
|---|---|---|
| Revenue – last twelve months | **$ 6,910.4** | $ 6,756.0 |
| Invested capital – four quarter average | **$ 3,306.5** | $ 3,310.1 |
| Invested capital turnover | **2.09** | 2.04 |

*Working Capital to Sales Ratio*

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

| **($ millions, except as noted)** | **September 30, 2014** | December 31, 2013 |
|---|---|---|
| Working capital – four quarter average | **$ 1,794.3** | $ 1,791.4 |
| Revenue – last twelve months | **$ 6,910.4** | $ 6,756.0 |
| Working capital to sales | **26.0%** | 26.5% |

*Order Backlog*

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

*Net Debt to EBITDA Ratio*

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

| **($ millions, except as noted)** | **September 30, 2014** | December 31, 2013 |
|---|---|---|
| Net debt | **$ 1,315.2** | $ 1,280.3 |
| EBITDA – last twelve months | **$ 726.3** | $ 736.4 |
| Net Debt to EBITDA | **1.8** | 1.7 |

## Risk Management

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

The Company is dedicated to a strong risk management culture to protect and enhance shareholder value. The Company discloses all of its key risks in its AIF with key financial risks also included in the Company's annual MD&A. 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. For further details on the management of liquidity and capital resources, financial derivatives, and financial risks and uncertainties, please refer to the Company's AIF and MD&A for the year ended December 31, 2013. There have been no material changes to existing risk factors and no new key risks identified from the key risks disclosed in the Company's AIF for the year ended December 31, 2013, which can be found at www.sedar.com and www.finning.com.

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

| **Exchange rate** | **September 30, 2014** | December 31, 2013 | September 30, 2013 |
|---|---|---|---|
| U.S. dollar | **1.1208** | 1.0636 | 1.0285 |
| U.K. pound sterling | **1.8178** | 1.7627 | 1.6639 |
| Chilean peso | **0.0019** | 0.0020 | 0.0020 |
| Argentine peso | **0.1330** | 0.1631 | 0.1775 |

| **Three months ended September 30**<br>**Average exchange rates** | **2014** | 2013 |
|---|---|---|
| U.S. dollar | **1.0890** | 1.0386 |
| U.K. pound sterling | **1.8169** | 1.6107 |
| Chilean peso | **0.0019** | 0.0020 |
| Argentine peso | **0.1313** | 0.1861 |

| **Nine months ended September 30**<br>**Average exchange rates** | **2014** | 2013 |
|---|---|---|
| U.S. dollar | **1.0942** | 1.0235 |
| U.K. pound sterling | **1.8260** | 1.5822 |
| Chilean peso | **0.0020** | 0.0021 |
| Argentine peso | **0.1373** | 0.1941 |

## 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 quarter ended September 30, 2014, that would materially affect, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

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

## Selected Quarterly Information

| $ millions (except for share and option data) | 2014 Q3 | 2014 Q2 | 2014 Q1 | 2013 Q4 | 2013 Q3 | 2013 Q2 | 2013 Q1 | 2012 (Restated) Q4 |
|---|---|---|---|---|---|---|---|---|
| Revenue from operations [1] | | | | | | | | |
| Canada | **$ 866.2** | $ 930.1 | $ 891.0 | $ 873.7 | $ 960.5 | $ 767.7 | $ 756.0 | $ 788.2 |
| South America [2] | **516.8** | 567.9 | 549.7 | 674.9 | 597.6 | 628.9 | 613.0 | 740.3 |
| UK & Ireland | **287.4** | 270.0 | 235.5 | 247.2 | 222.1 | 223.5 | 190.9 | 217.2 |
| Total revenue | **$1,670.4** | $1,768.0 | $1,676.2 | $1,795.8 | $1,780.2 | $1,620.1 | $1,559.9 | $1,745.7 |
| Net income [1] [3] | **$ 56.8** | $ 86.4 | $ 67.9 | $ 92.9 | $ 86.2 | $ 82.7 | $ 73.4 | $ 102.6 |
| Earnings Per Share [1] [3] | | | | | | | | |
| Basic EPS | **$ 0.33** | $ 0.50 | $ 0.39 | $ 0.54 | $ 0.50 | $ 0.48 | $ 0.43 | $ 0.60 |
| Diluted EPS | **$ 0.33** | $ 0.50 | $ 0.39 | $ 0.54 | $ 0.50 | $ 0.48 | $ 0.43 | $ 0.60 |
| Total assets [1] | **$5,237.1** | $5,196.2 | $5,353.2 | $5,057.6 | $5,138.6 | $5,301.6 | $5,194.4 | $5,118.0 |
| Long-term debt | | | | | | | | |
| Current | **$ 0.4** | $ 0.5 | $ 0.6 | $ 0.7 | $ 0.6 | $ 250.5 | $ 358.3 | $ 363.6 |
| Non-current | **1,408.3** | 1,373.2 | 1,393.7 | 1,366.5 | 1,351.4 | 1,152.4 | 1,022.5 | 1,012.2 |
| Total long-term debt [4] | **$1,408.7** | $1,373.7 | $1,394.3 | $1,367.2 | $1,352.0 | $1,402.9 | $1,380.8 | $1,375.8 |
| Cash dividends paid per common share | **17.75¢** | 17.75¢ | 15.25¢ | 15.25¢ | 15.25¢ | 15.25¢ | 14.00¢ | 14.00¢ |
| Common shares outstanding (000's) | **172,369** | 172,182 | 172,126 | 172,014 | 172,000 | 171,999 | 171,971 | 171,910 |
| Options outstanding (000's) | **4,237** | 5,437 | 5,381 | 5,685 | 5,596 | 5,643 | 4,708 | 5,060 |

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

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

2) In response to the Argentinean government's efforts to balance imports and exports and to manage access to foreign currency, the Company's South American operations began to export an agricultural product from Argentina in the third quarter of 2012. As these export activities are not related to the Company's core business, income and expenses related to these exports have been reported in other income and other expenses effective second quarter of 2013 and comparative periods adjusted accordingly. The Company has not exported agricultural product since Q3 2013.

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

   The results for 2012 were negatively impacted by the ERP system implementation issues experienced in the Company's Canadian operations. The fourth quarter of 2012 included costs associated with the ERP system issues of $0.04 per share.

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

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

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

## New Accounting Pronouncements

### (a) Changes in Accounting Policy

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

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

### (b) Future Accounting Pronouncements

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

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

## Outstanding Share Data

| As at November 6, 2014 | |
|---|---|
| Common shares outstanding | 172,370,152 |
| Options outstanding | 4,229,973 |

### *Forward-Looking Disclaimer*

This report contains statements about the Company's business outlook, objectives, plans, strategic priorities and other statements that are not historical facts. A statement Finning makes is forward-looking when it uses what the Company knows and expects today to make a statement about the future. Forward-looking statements may include words such as aim, anticipate, assumption, believe, could, expect, goal, guidance, intend, may, objective, outlook, plan, project, seek, should, strategy, strive, target, and will. Forward-looking statements in this report include, but are not limited to, statements with respect to: expectations with respect to the economy and associated impact on the Company's financial results; expected revenue; EBIT margin; ROIC; market share growth; expected results from service excellence action plans; anticipated asset utilization; inventory turns and parts service levels; the expected target range of the Company's net debt to invested capital ratio; and the expected target range of the Company's dividend payout ratio. All such forward-looking statements are made pursuant to the 'safe harbour' provisions of applicable Canadian securities laws.

Unless otherwise indicated by us, forward-looking statements in this report reflect Finning's expectations at November 12, 2014. Except as may be required by Canadian securities laws, Finning does not undertake any obligation to update or revise any forward-looking statement, whether as a result of new information, future events, or otherwise.

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

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

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

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

## UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

| (Canadian $ thousands) | September 30, 2014 | December 31, 2013 |
|---|---|---|
| **ASSETS** | | |
| Current assets | | |
| Cash and cash equivalents | **$ 214,523** | $ 176,268 |
| Accounts receivable | **987,810** | 963,733 |
| Service work in progress | **132,152** | 101,544 |
| Inventories | **1,806,047** | 1,755,808 |
| Income tax recoverable | **4,036** | 9,086 |
| Other assets | **290,776** | 242,172 |
| Total current assets | **3,435,344** | 3,248,611 |
| Property, plant, and equipment | **669,003** | 668,094 |
| Rental equipment | **420,247** | 414,126 |
| Intangible assets | **57,473** | 75,881 |
| Distribution network | **332,399** | 320,300 |
| Goodwill | **132,498** | 114,131 |
| Investment in and advances to joint venture and associate | **81,631** | 77,988 |
| Finance assets | **17,741** | 36,065 |
| Deferred tax assets | **43,967** | 53,216 |
| Other assets | **46,821** | 49,156 |
| Total assets | **$ 5,237,124** | $ 5,057,568 |
| **LIABILITIES** | | |
| Current liabilities | | |
| Short-term debt | **$ 121,038** | $ 89,423 |
| Accounts payable and accruals | **988,521** | 1,010,747 |
| Income tax payable | **21,043** | 6,409 |
| Provisions | **93,454** | 93,978 |
| Deferred revenue | **268,780** | 332,040 |
| Derivative liabilities | **8,755** | 16,045 |
| Current portion of long-term debt | **371** | 643 |
| Total current liabilities | **1,501,962** | 1,549,285 |
| Long-term debt | **1,408,313** | 1,366,512 |
| Long-term obligations | **84,174** | 80,486 |
| Net employee benefit obligations | **147,054** | 144,930 |
| Provisions | **6,312** | 6,528 |
| Deferred revenue | **5,359** | 9,931 |
| Deferred tax liabilities | **58,969** | 42,132 |
| Total liabilities | **3,212,143** | 3,199,804 |
| **SHAREHOLDERS' EQUITY** | | |
| Share capital | **583,423** | 573,165 |
| Contributed surplus | **36,922** | 40,296 |
| Accumulated other comprehensive income | **63,601** | 13,803 |
| Retained earnings | **1,341,035** | 1,230,500 |
| Total shareholders' equity | **2,024,981** | 1,857,764 |
| Total liabilities and shareholder's equity | **$ 5,237,124** | $ 5,057,568 |

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

## UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENTS OF INCOME

| | Three months ended September 30 | | Nine months ended September 30 | |
|---|---|---|---|---|
| **(Canadian $ thousands, except share and per share amounts)** | **2014** | 2013 | **2014** | 2013 |
| Revenue | | | | |
| New equipment | **$ 672,186** | $ 777,040 | **$ 2,145,386** | $ 2,073,885 |
| Used equipment | **63,001** | 91,266 | **185,781** | 221,209 |
| Equipment rental | **92,780** | 103,870 | **266,644** | 289,702 |
| Product support | **837,221** | 805,623 | **2,498,412** | 2,369,438 |
| Other | **5,267** | 2,344 | **18,382** | 5,979 |
| Total revenue | **1,670,455** | 1,780,143 | **5,114,605** | 4,960,213 |
| Cost of sales | **(1,159,368)** | (1,265,817) | **(3,581,477)** | (3,434,041) |
| Gross profit | **511,087** | 514,326 | **1,533,128** | 1,526,172 |
| Selling, general, and administrative expenses | **(386,317)** | (378,936) | **(1,162,854)** | (1,152,781) |
| Equity earnings of joint venture and associate | **1,916** | 2,631 | **5,706** | 8,952 |
| Other income (Note 2) | **—** | 42,357 | **42** | 119,658 |
| Other expenses (Note 2) | **(12,453)** | (44,759) | **(13,832)** | (126,763) |
| Earnings before finance costs and income taxes | **114,233** | 135,619 | **362,190** | 375,238 |
| Finance costs (Note 3) | **(20,791)** | (23,034) | **(64,657)** | (68,917) |
| Income before provision for income taxes | **93,442** | 112,585 | **297,533** | 306,321 |
| Provision for income taxes | **(36,646)** | (26,352) | **(86,410)** | (63,995) |
| Net income | **$ 56,796** | $ 86,233 | **$ 211,123** | $ 242,326 |
| | | | | |
| Earnings per share (Note 7) | | | | |
| Basic | **$ 0.33** | $ 0.50 | **$ 1.23** | $ 1.41 |
| Diluted | **$ 0.33** | $ 0.50 | **$ 1.22** | $ 1.41 |
| | | | | |
| Weighted average number of shares outstanding | | | | |
| Basic | **172,277,759** | 171,999,447 | **172,163,996** | 171,973,419 |
| Diluted | **173,374,668** | 172,315,884 | **173,058,287** | 172,376,844 |

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

## UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

| (Canadian $ thousands) | Three months ended September 30 2014 | Three months ended September 30 2013 | Nine months ended September 30 2014 | Nine months ended September 30 2013 |
|---|---|---|---|---|
| Net income | **$ 56,796** | $ 86,233 | **$ 211,123** | $ 242,326 |
| Other comprehensive income (loss), net of income tax | | | | |
| Items that may be reclassified subsequently to net income: | | | | |
| Foreign currency translation adjustments | **71,083** | (23,107) | **85,655** | 57,898 |
| Unrealized (loss) gain on net investment hedges | **(26,019)** | 13,456 | **(33,234)** | (28,951) |
| Income tax recovery (expense) on net investment hedges | **—** | (1,682) | **197** | 1,973 |
| Foreign currency translation and gain (loss) on net investment hedges, net of income tax | **45,064** | (11,333) | **52,618** | 30,920 |
| Unrealized (loss) gain on cash flow hedges | **(7,000)** | 2,969 | **(9,176)** | (1,538) |
| Realized loss (gain) on cash flow hedges, reclassified to earnings | **2,072** | (3,007) | **5,653** | (4,697) |
| Income tax recovery (expense) on cash flow hedges | **1,012** | (7) | **703** | 1,184 |
| Loss on cash flow hedges, net of income tax | **(3,916)** | (45) | **(2,820)** | (5,051) |
| Items that will not be reclassified subsequently to net income: | | | | |
| Actuarial loss | **(18,568)** | (4,749) | **(16,826)** | (19,991) |
| Income tax recovery (expense) on actuarial loss | **3,957** | (607) | **3,628** | 3,241 |
| Actuarial loss, net of income tax | **(14,611)** | (5,356) | **(13,198)** | (16,750) |
| Total comprehensive income | **$ 83,333** | $ 69,499 | **$ 247,723** | $ 251,445 |

## UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

| (Canadian $ thousands, except share amounts) | Share Capital: Shares | Share Capital: Amount | Contributed Surplus | Accumulated Other Comprehensive Income (Loss): Foreign Currency Translation and Gain / (Loss) on Net Investment Hedges | Accumulated Other Comprehensive Income (Loss): Gain / (Loss) on Cash Flow Hedges | Retained Earnings | Total |
|---|---|---|---|---|---|---|---|
| Balance, January 1, 2013 | 171,909,758 | $ 571,100 | $ 36,046 | $ (43,868) | $ (6,606) | $ 1,009,882 | $ 1,566,554 |
| Net income | — | — | — | — | — | 242,326 | 242,326 |
| Other comprehensive income (loss) | — | — | — | 30,920 | (5,051) | (16,750) | 9,119 |
| Total comprehensive income (loss) | — | — | — | 30,920 | (5,051) | 225,576 | 251,445 |
| Issued on exercise of share options | 90,624 | 1,897 | (1,834) | — | — | — | 63 |
| Share option expense | — | — | 4,466 | — | — | — | 4,466 |
| Dividends on common shares | — | — | — | — | — | (76,532) | (76,532) |
| Balance, September 30, 2013 | 172,000,382 | $ 572,997 | $ 38,678 | $ (12,948) | $ (11,657) | $ 1,158,926 | $ 1,745,996 |
| | | | | | | | |
| **Balance, January 1, 2014** | **172,014,230** | **$ 573,165** | **$ 40,296** | **$ 28,103** | **$ (14,300)** | **$ 1,230,500** | **$ 1,857,764** |
| Net income | **—** | **—** | **—** | **—** | **—** | **211,123** | **211,123** |
| Other comprehensive income (loss) | **—** | **—** | **—** | **52,618** | **(2,820)** | **(13,198)** | **36,600** |
| Total comprehensive income (loss) | **—** | **—** | **—** | **52,618** | **(2,820)** | **197,925** | **247,723** |
| Issued on exercise of share options | **354,292** | **10,258** | **(10,076)** | **—** | **—** | **—** | **182** |
| Share option expense | **—** | **—** | **6,702** | **—** | **—** | **—** | **6,702** |
| Dividends on common shares | **—** | **—** | **—** | **—** | **—** | **(87,390)** | **(87,390)** |
| Balance, September 30, 2014 | **172,368,522** | **$ 583,423** | **$ 36,922** | **$ 80,721** | **$ (17,120)** | **$ 1,341,035** | **$ 2,024,981** |

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

## UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOW

| | Three months ended September 30 | | Nine months ended September 30 | |
|---|---|---|---|---|
| **(Canadian $ thousands)** | **2014** | 2013 | **2014** | 2013 |
| **OPERATING ACTIVITIES** | | | | |
| Net income | **$ 56,796** | $ 86,233 | **$ 211,123** | $ 242,326 |
| Adjusting for: | | | | |
| Depreciation and amortization | **56,048** | 55,075 | **163,856** | 160,930 |
| Gain on sale of rental equipment and property, plant, and equipment | **(7,672)** | (10,779) | **(19,499)** | (23,579) |
| Derecognition of intangible assets (Note 2) | **12,234** | — | **12,234** | — |
| Equity earnings of joint venture and associate | **(1,916)** | (2,631) | **(5,706)** | (8,952) |
| Share-based payment expense | **5,385** | 4,425 | **12,663** | 14,923 |
| Provision for income taxes | **36,646** | 26,352 | **86,410** | 63,995 |
| Finance costs | **20,791** | 23,034 | **64,657** | 68,917 |
| Defined benefit and other post-employment benefit expense | **3,693** | 5,011 | **10,611** | 14,041 |
| Changes in operating assets and liabilities (Note 8) | **1,122** | 14,706 | **(248,024)** | (259,243) |
| Additions to rental equipment | **(64,709)** | (106,335) | **(211,466)** | (239,900) |
| Proceeds on disposal of rental equipment | **52,260** | 81,805 | **150,376** | 163,954 |
| Equipment leased to customers, net of disposals | **—** | 140 | **—** | 140 |
| Interest paid | **(13,849)** | (12,245) | **(50,046)** | (55,276) |
| Income tax paid | **(20,715)** | (5,338) | **(34,351)** | (29,125) |
| Cash flow provided by operating activities | **136,114** | 159,453 | **142,838** | 113,151 |
| **INVESTING ACTIVITIES** | | | | |
| Additions to property, plant, and equipment and intangible assets | **(30,117)** | (16,825) | **(61,739)** | (59,996) |
| Proceeds on disposal of property, plant, and equipment | **3,343** | 20,021 | **16,808** | 22,631 |
| Investment in and advances to associate | **(1,093)** | — | **(4,864)** | (4,542) |
| Net payment for acquisition (Note 11) | **(13,821)** | — | **(13,821)** | — |
| Cash flow (used in) provided by investing activities | **(41,688)** | 3,196 | **(63,616)** | (41,907) |
| **FINANCING ACTIVITIES** | | | | |
| (Decrease) increase in short-term debt | **(55,077)** | (119,570) | **29,994** | 15,433 |
| Increase in long-term debt | **8,913** | 5,526 | **8,069** | 6,063 |
| Issue of senior notes | **—** | — | **—** | 108,389 |
| Repayment of Eurobond | **—** | — | **—** | (109,725) |
| Issue of Medium Term Notes, net of issue costs | **—** | 198,856 | **—** | 198,856 |
| Repayment of Medium Term Notes | **—** | (251,503) | **—** | (251,503) |
| Issue of common shares on exercise of share options | **63** | — | **182** | 63 |
| Dividends paid | **(30,585)** | (26,230) | **(87,390)** | (76,532) |
| Cash flow used in financing activities | **(76,686)** | (192,921) | **(49,145)** | (108,956) |
| Effect of currency translation on cash balances | **11,729** | (1,626) | **8,178** | 5,931 |
| Increase (decrease) in cash and cash equivalents | **29,469** | (31,898) | **38,255** | (31,781) |
| Cash and cash equivalents, beginning of period | **185,054** | 115,041 | **176,268** | 114,924 |
| Cash and cash equivalents, end of period (Note 8) | **$ 214,523** | $ 83,143 | **$ 214,523** | $ 83,143 |

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

## 1. SIGNIFICANT ACCOUNTING POLICIES

These unaudited interim condensed consolidated financial statements (Interim Statements) of Finning International Inc. ("Finning" or "Company") and its subsidiaries were prepared in accordance with International Accounting Standard (IAS) 34, *Interim Financial Reporting,* as issued by the International Accounting Standard Board (IASB). Accordingly, certain information and footnote disclosure normally included in annual financial statements prepared in accordance with International Financial Reporting Standards (IFRS) have been omitted or condensed, and therefore these Interim Statements should be read in conjunction with the December 31, 2013 audited annual consolidated financial statements and the accompanying notes. These Interim Statements are presented in Canadian dollars, unless otherwise stated.

These Interim Statements are based on the IFRS and IFRS Interpretations Committee interpretations (IFRIC) issued and effective as of November 12, 2014, the date these Interim Statements were authorized for issuance by the Company's Board of Directors, and follow the same accounting policies and methods of computation as the most recent annual consolidated financial statements, except for the changes in accounting policy disclosed below:

### (a) Changes in Accounting Policy

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

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

### (b) Future Accounting Pronouncements

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

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

## 2. Other Income and Other Expenses

Other income includes the following items:

| ($ thousands) | Three months ended September 30 2014 | Three months ended September 30 2013 | Nine months ended September 30 2014 | Nine months ended September 30 2013 |
|---|---|---|---|---|
| Export of agricultural product (a) | **$ —** | $ 42,357 | **$ 42** | $ 119,658 |

Other expenses include the following items:

| ($ thousands) | Three months ended September 30 2014 | Three months ended September 30 2013 | Nine months ended September 30 2014 | Nine months ended September 30 2013 |
|---|---|---|---|---|
| Derecognition of Enterprise Resource Planning system implementation costs (b) | **12,234** | — | **12,234** | — |
| Costs of export of agricultural product (a) | **$ —** | $ 43,504 | **$ 158** | $ 122,845 |
| Project costs (c) | **219** | 1,255 | **1,440** | 3,918 |
| | **$ 12,453** | $ 44,759 | **$ 13,832** | $ 126,763 |

(a) In response to the Argentinean government's efforts to balance imports and exports and to manage access to foreign currency, the Company's South American operations began to export an agricultural product from Argentina in the third quarter of 2012. As these export activities are not related to the Company's core business, income and expenses related to these exports have been reported in other income and other expenses effective second quarter 2013.

(b) Following an evaluation of the business needs of the Company's South American operations and a capability analysis, management determined that the implementation of a full Enterprise Resource Planning (ERP) system in its South American operations would not occur in the near future. Although existing system maintenance requirements are being reviewed, the delay in the implementation of a full ERP system led to an accounting review and a decision to derecognize the previously capitalized costs of $12.2 million.

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

## 3. Finance Costs

Finance costs include the following items:

| ($ thousands) | Three months ended September 30 **2014** | Three months ended September 30 2013 | Nine months ended September 30 **2014** | Nine months ended September 30 2013 |
|---|---|---|---|---|
| Short-term debt | **$ 3,826** | $ 3,005 | **$ 10,131** | $ 6,559 |
| Long-term debt | **15,909** | 15,445 | **47,381** | 49,834 |
| Interest on debt securities | **19,735** | 18,450 | **57,512** | 56,393 |
| Loss on interest rate derivatives | **225** | 226 | **668** | 912 |
| Gain on foreign currency swap contracts | **(3,530)** | — | **(3,530)** | — |
| Net interest on pension and other post-employment benefit obligations | **1,147** | 1,212 | **3,576** | 3,648 |
| Other finance related expenses | **3,345** | 3,219 | **6,756** | 8,272 |
| | **20,922** | 23,107 | **64,982** | 69,225 |
| Less: | | | | |
| Borrowing costs capitalized to property, plant, and equipment | **(131)** | (73) | **(325)** | (308) |
| Finance costs | **$ 20,791** | $ 23,034 | **$ 64,657** | $ 68,917 |

## 4. Financial Instruments

### Fair Values

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

Level 1 – quoted prices in active markets for identical securities
Level 2 – significant observable inputs other than quoted prices included in Level 1
Level 3 – significant unobservable inputs

| **September 30, 2014 ($ thousands)** | **Level 1** | **Level 2** | **Level 3** | **Total** |
|---|---|---|---|---|
| Financial assets at fair value through profit or loss | | | | |
| Foreign currency forward and swap contracts | **$ —** | **$ 1,897** | **$ —** | **$ 1,897** |
| Financial liabilities at fair value through profit or loss | | | | |
| Foreign currency forward and swap contracts | **$ —** | **$ (7,570)** | **$ —** | **$ (7,570)** |
| Variable rate share forward contract | **—** | **(2,075)** | **—** | **(2,075)** |
| Total | **$ —** | **$ (9,645)** | **$ —** | **$ (9,645)** |

| December 31, 2013 ($ thousands) | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| Financial assets at fair value through profit or loss | | | | |
| Foreign currency forward and swap contracts | $ — | $ 1,403 | $ — | $ 1,403 |
| Financial liabilities at fair value through profit or loss | | | | |
| Foreign currency forward and swap contracts | $ — | $ (4,372) | $ — | $ (4,372) |
| Variable rate share forward contract | — | (11,673) | — | (11,673) |
| Total | $ — | $ (16,045) | $ — | $ (16,045) |

The Company did not move any instruments between levels of the fair value hierarchy during the nine months ended September 30, 2014 and year ended December 31, 2013.

Variable rate share forward (Level 2)

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

Other derivative instruments (Level 2)

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

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

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

### Long-Term Debt

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

| | **September 30, 2014** | | December 31, 2013 | |
|---|---|---|---|---|
| **($ thousands)** | **Carrying Amount** | **Fair Value** | Carrying Amount | Fair Value |
| Long-term debt | **$ 1,408,684** | **$ 1,486,233** | $ 1,367,155 | $ 1,376,578 |

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

## 5. INCOME TAXES

In September 2014, the Chilean government signed into law an extensive series of tax reforms. These tax reforms are considered substantively enacted and include gradual increases to the corporate income tax rates from 20% to 27% from 2014 to 2018. The Company recognized a tax expense of $7.9 million in the third quarter ended September 30, 2014 related to a one-time revaluation of $7.4 million for the Company's deferred tax balances and current income tax expense of $0.5 million.

Last year, in the nine months ended September 30, 2013, the consolidated effective tax rate included a $6 million benefit of previously unrecognized capital tax losses. This, together with the tax reforms discussed above, resulted in a higher consolidated effective tax rate this year than the comparable period of 2013.

## 6. SHARE-BASED PAYMENTS

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

### Share Options

Details of the share option plans are as follows:

| | **Nine months ended September 30, 2014** | | Twelve months ended December 31, 2013 | |
|---|---|---|---|---|
| | **Options** | **Weighted Average Exercise Price** | Options | Weighted Average Exercise Price |
| Options outstanding, beginning of period | **5,684,770** | **$ 24.93** | 5,060,053 | $ 25.53 |
| Granted | **1,020,100** | **$ 29.23** | 1,536,900 | $ 22.64 |
| Exercised [1] | **(1,646,050)** | **$ 25.23** | (420,419) | $ 18.67 |
| Forfeited | **(821,407)** | **$ 31.11** | (491,764) | $ 29.30 |
| Options outstanding, end of period | **4,237,413** | **$ 24.65** | 5,684,770 | $ 24.93 |
| Exercisable at period end | **1,971,774** | **$ 23.16** | 3,548,564 | $ 25.67 |

[1] Share options exercised in 2014 comprised both cash and cashless exercises. Under the 2005 Stock Option Plan, exercises generally utilize the cashless method, whereby the actual number of shares issued is represented by the premium between the fair value at the time of exercise and the grant value, and the equivalent value of the number of options up to the grant value is withheld. 1,646,050 options were exercised in 2014 under the 2005 Stock Option Plan resulting in 354,292 common shares issued; 1,291,758 options were withheld and returned to the option pool for future issues/grants.

In the nine months ended September 30, 2014, the Company granted 1,020,100 common share options to senior executives and management of the Company (nine months ended September 30, 2013: 1,361,900 common share options). The Company's practice is to grant and price share options only when it is felt that all material information has been disclosed to the market.

The fair value of the options granted in 2014 has been estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted-average assumptions:

| | |
|---|---|
| Dividend yield | 2.39% |
| Expected volatility [1] | 33.82% |
| Risk-free interest rate | 1.65% |
| Expected life | 5.59 years |

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

The weighted average grant date fair value of options granted during the nine months ended September 30, 2014 was $7.58 (nine months ended September 30, 2013: $6.36).

**Other Share-Based Compensation Plans**

The Company has other share-based compensation plans in the form of deferred share units and performance share units that use notional common share units. Details of the plans with significant changes subsequent to December 31, 2013 are as follows:

**Directors**

Directors' Deferred Share Unit Plan A (DDSU)

Under the Deferred Share Unit Plan (DDSU) for members of the Board of Directors, non-employee Directors of the Company were granted a total of 23,802 share units in the nine months ended September 30, 2014 (nine months ended September 30, 2013: 28,006 share units).

**Executive**

Performance Share Unit Plan (PSU)

Under the 2014 PSU Plan, executives of the Company may be awarded performance share units as approved by the Board of Directors. This plan utilizes notional units that become vested dependent on achieving future specified performance levels. All PSUs granted in 2014 will be divided equally into two categories. Half of the awards is based on the extent to which the Company's average return on invested capital achieves or exceeds the specified performance levels over a three-year period (ROIC PSUs). The remaining half of the awards is based on the performance of the Company's share price over the three-year period relative to the performance of the share prices of all companies in the S&P/TSX Capped Industrials Index (TSR PSUs). Vested performance share units are redeemable in cash based on the common share price at the end of the performance period.

Executives of the Company were granted a total of 341,610 performance share units in 2014, based on 100% vesting (2013: 456,830 performance share units).

## 7. Earnings Per Share

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

| **($ thousands, except share and** | **Three months ended September 30** | | | **Nine months ended September 30** | | |
|---|---|---|---|---|---|---|
| **per share amounts)** **2014** | **Income** | **Shares** | **Per Share** | **Income** | **Shares** | **Per Share** |
| **Basic EPS:** | | | | | | |
| Net income | **$ 56,796** | **172,277,759** | **$ 0.33** | **$ 211,123** | **172,163,996** | **$ 1.23** |
| Effect of dilutive securities: share options | — | **1,096,909** | — | — | **894,291** | — |
| **Diluted EPS:** | | | | | | |
| Net income and assumed conversions | **$ 56,796** | **173,374,668** | **$ 0.33** | **$ 211,123** | **173,058,287** | **$ 1.22** |
| 2013 | | | | | | |
| **Basic EPS:** | | | | | | |
| Net income | $ 86,233 | 171,999,447 | $ 0.50 | $ 242,326 | 171,973,419 | $ 1.41 |
| Effect of dilutive securities: share options | — | 316,437 | — | — | 403,425 | — |
| **Diluted EPS:** | | | | | | |
| Net income and assumed conversions | $ 86,233 | 172,315,884 | $ 0.50 | $ 242,326 | 172,376,844 | $ 1.41 |

## 8. Supplemental Cash Flow Information

### Changes in operating assets and liabilities

| ($ thousands) | Three months ended September 30 | | Nine months ended September 30 | |
|---|---|---|---|---|
| | **2014** | 2013 | **2014** | 2013 |
| Accounts receivable and other assets | **$ 14,460** | $ 17,636 | **$ (20,013)** | $ (44,924) |
| Service work in progress | **1,107** | (7,022) | **(28,625)** | (8,516) |
| Inventories – on-hand equipment | **62,523** | 55,580 | **8,620** | 100,120 |
| Inventories – parts and supplies | **(2,414)** | 8,925 | **(6,300)** | (45,700) |
| Instalment notes receivable | **929** | 6,029 | **(10,152)** | 11,971 |
| Accounts payable and accruals and other liabilities | **(84,288)** | (62,457) | **(189,794)** | (261,601) |
| Income tax recoverable/payable | **8,805** | (3,985) | **(1,760)** | (10,593) |
| Changes in operating assets and liabilities | **$ 1,122** | $ 14,706 | **$ (248,024)** | $ (259,243) |

### Components of cash and cash equivalents

| September 30 ($ thousands) | **2014** | 2013 |
|---|---|---|
| Cash | **$ 169,193** | $ 82,613 |
| Short-term investments | **45,330** | 530 |
| Cash and cash equivalents | **$ 214,523** | $ 83,143 |

## 9. Employee Benefits

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

| | **September 30, 2014** | | December 31, 2013 | | September 30, 2013 | |
|---|---|---|---|---|---|---|
| | **Canada** | **UK** | Canada | UK | Canada | UK |
| Discount rate – obligation | **4.0%** | **3.9%** | 4.6% | 4.5% | 4.6% | 4.5% |
| Discount rate – expense [(1)] | **4.6%** | **4.5%** | 4.1% | 4.6% | 4.1% | 4.6% |
| Retail price inflation – obligation | **n/a** | **3.2%** | n/a | 3.5% | n/a | 3.4% |
| Retail price inflation – expense [(1)] | **n/a** | **3.5%** | n/a | 3.0% | n/a | 3.0% |

[(1)] Used to determine the net interest cost and expense for the three months ended September 30, 2014 and September 30, 2013, and the year ended December 31, 2013.

The Company's Canadian defined benefit obligation was revised during the second quarter of 2014 using updated mortality assumptions resulting in actuarial losses on plan liabilities of approximately $8 million being recognized in the three months ended June 30, 2014.

The three and nine month expense and actuarial loss (gain) for the Company's pension plans is as follows:

| **Three months ended ($ thousands)** | **September 30, 2014** Canada | **September 30, 2014** UK & Ireland | **September 30, 2014** Total | September 30, 2013 Canada | September 30, 2013 UK & Ireland | September 30, 2013 Total |
|---|---|---|---|---|---|---|
| **Defined contribution (DC) pension plans** | | | | | | |
| Net benefit cost | **$ 9,612** | **$ 2,211** | **$ 11,823** | $ 8,879 | $ 1,712 | $ 10,591 |
| **Defined benefit (DB) pension plans** | | | | | | |
| Current service cost, net of employee contributions | **1,870** | **—** | **1,870** | 2,405 | — | 2,405 |
| Administration costs | **99** | **273** | **372** | 99 | 308 | 407 |
| Net interest cost | **376** | **540** | **916** | 510 | 443 | 953 |
| Net benefit cost | **2,345** | **813** | **3,158** | 3,014 | 751 | 3,765 |
| Net DC and DB benefit cost recognized in net income | **$ 11,957** | **$ 3,024** | **$ 14,981** | $ 11,893 | $ 2,463 | $ 14,356 |
| Actuarial loss (gain) on plan assets | **$ 9,141** | **$(19,096)** | **$ (9,955)** | $ 756 | $ 528 | $ 1,284 |
| Actuarial loss (gain) on plan liabilities | **6,857** | **22,562** | **29,419** | (5,863) | 9,328 | 3,465 |
| Total actuarial loss (gain) recognized in other comprehensive income | **$ 15,998** | **$ 3,466** | **$ 19,464** | $ (5,107) | $ 9,856 | $ 4,749 |

| **Nine months ended ($ thousands)** | **September 30, 2014** Canada | **September 30, 2014** UK & Ireland | **September 30, 2014** Total | September 30, 2013 Canada | September 30, 2013 UK & Ireland | September 30, 2013 Total |
|---|---|---|---|---|---|---|
| **Defined contribution (DC) pension plans** | | | | | | |
| Net benefit cost | **$ 28,796** | **$ 6,571** | **$ 35,367** | $ 27,236 | $ 5,053 | $ 32,289 |
| **Defined benefit (DB) pension plans** | | | | | | |
| Current service cost, net of employee contributions | **5,500** | **—** | **5,500** | 7,210 | — | 7,210 |
| Administration costs | **297** | **822** | **1,119** | 297 | 648 | 945 |
| Net interest cost | **1,120** | **1,628** | **2,748** | 1,530 | 1,297 | 2,827 |
| Net benefit cost | **6,917** | **2,450** | **9,367** | 9,037 | 1,945 | 10,982 |
| Net DC and DB benefit cost recognized in net income | **$ 35,713** | **$ 9,021** | **$ 44,734** | $ 36,273 | $ 6,998 | $ 43,271 |
| Actuarial (gain) loss on plan assets | **$(18,667)** | **$(29,583)** | **$(48,250)** | $ 4,800 | $(10,442) | $ (5,642) |
| Actuarial loss (gain) on plan liabilities | **34,936** | **40,628** | **75,564** | (1,625) | 27,258 | 25,633 |
| Total actuarial loss recognized in other comprehensive income | **$ 16,269** | **$ 11,045** | **$ 27,314** | $ 3,175 | $ 16,816 | $ 19,991 |

In the third quarter of 2014, the Company invested a portion of its Canadian defined benefit plan assets in annuity contracts (totaling $129.2 million) in order to partly mitigate the Company's exposure to investment and longevity risk. This change in investments resulted in an actuarial loss on plan assets of approximately $10 million that is recognized in other comprehensive income. There is no change to the Company's responsibility and commitment to the Canadian defined benefit pension plans and their members.

The actuarial gain recognized in other comprehensive income for the Company's other post-employment benefit obligations for the nine months ended September 30, 2014 was $10.5 million.

## 10. Segmented Information

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

| **Three months ended September 30, 2014 ($ thousands)** | **Canada** | **South America** | **UK & Ireland** | **Other** | **Consolidated** |
|---|---|---|---|---|---|
| Revenue from external sources | **$ 866,217** | **$ 516,823** | **$ 287,415** | **$ —** | **$ 1,670,455** |
| Operating costs | **(756,906)** | **(454,767)** | **(265,523)** | **(12,441)** | **(1,489,637)** |
| Depreciation and amortization | **(30,164)** | **(17,781)** | **(8,075)** | **(28)** | **(56,048)** |
| | **79,147** | **44,275** | **13,817** | **(12,469)** | **124,770** |
| Equity earnings | **694** | **—** | **—** | **1,222** | **1,916** |
| Other expenses (Note 2) | **—** | **(12,453)** | **—** | **—** | **(12,453)** |
| Earnings (loss) before finance costs and income taxes | **$ 79,841** | **$ 31,822** | **$ 13,817** | **$ (11,247)** | **$ 114,233** |
| Finance costs | | | | | **(20,791)** |
| Provision for income taxes | | | | | **(36,646)** |
| Net income | | | | | **$ 56,796** |
| Invested capital [1] | **$ 1,713,777** | **$ 1,297,639** | **$ 343,665** | **$ (14,902)** | **$ 3,340,179** |
| Identifiable assets | **$ 2,414,615** | **$ 2,100,741** | **$ 660,886** | **$ 60,882** | **$ 5,237,124** |
| Capital and rental equipment [2] | **$ 674,545** | **$ 353,872** | **$ 117,776** | **$ 530** | **$ 1,146,723** |
| Gross capital expenditures [3] | **$ 6,386** | **$ 20,392** | **$ 3,797** | **$ 42** | **$ 30,617** |
| Gross rental asset expenditures [3] | **$ 54,856** | **$ 9,103** | **$ 750** | **$ —** | **$ 64,709** |

| Three months ended September 30, 2013 ($ thousands) | Canada | South America | UK & Ireland | Other | Consolidated |
|---|---|---|---|---|---|
| Revenue from external sources | $ 960,498 | $ 597,547 | $ 222,098 | $ — | $ 1,780,143 |
| Operating costs | (856,900) | (522,014) | (202,618) | (8,146) | (1,589,678) |
| Depreciation and amortization | (30,204) | (17,490) | (7,362) | (19) | (55,075) |
| | 73,394 | 58,043 | 12,118 | (8,165) | 135,390 |
| Equity earnings | 2,626 | — | — | 5 | 2,631 |
| Other income (Note 2) | — | 42,357 | — | — | 42,357 |
| Other expenses (Note 2) | — | (44,487) | (272) | — | (44,759) |
| Earnings (loss) before finance costs and income taxes | $ 76,020 | $ 55,913 | $ 11,846 | $ (8,160) | $ 135,619 |
| Finance costs | | | | | (23,034) |
| Provision for income taxes | | | | | (26,352) |
| Net income | | | | | $ 86,233 |
| Invested capital [1] | $ 1,715,842 | $ 1,379,065 | $ 267,563 | $ (20,302) | $ 3,342,168 |
| Identifiable assets | $ 2,448,309 | $ 2,090,790 | $ 549,095 | $ 50,407 | $ 5,138,601 |
| Capital and rental equipment [2] | $ 686,159 | $ 367,636 | $ 104,855 | $ 213 | $ 1,158,863 |
| Gross capital expenditures [3] | $ 1,790 | $ 8,607 | $ 6,883 | $ 1 | $ 17,281 |
| Gross rental asset expenditures [3] | $ 95,483 | $ 7,336 | $ 3,516 | $ — | $ 106,335 |

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

| **Nine months ended September 30, 2014 ($ thousands)** | **Canada** | **South America** | **UK & Ireland** | **Other** | **Consolidated** |
|---|---|---|---|---|---|
| Revenue from external sources | **$ 2,687,334** | **$ 1,634,387** | **$ 792,884** | **$ —** | **$ 5,114,605** |
| Operating costs | **(2,396,601)** | **(1,428,714)** | **(729,796)** | **(25,364)** | **(4,580,475)** |
| Depreciation and amortization | **(85,895)** | **(53,821)** | **(24,071)** | **(69)** | **(163,856)** |
| | **204,838** | **151,852** | **39,017** | **(25,433)** | **370,274** |
| Equity earnings | **5,490** | **—** | **—** | **216** | **5,706** |
| Other income (Note 2) | **—** | **42** | **—** | **—** | **42** |
| Other expenses (Note 2) | **—** | **(13,832)** | **—** | **—** | **(13,832)** |
| Earnings (loss) before finance costs and income taxes | **$ 210,328** | **$ 138,062** | **$ 39,017** | **$ (25,217)** | **$ 362,190** |
| Finance costs | | | | | **(64,657)** |
| Provision for income taxes | | | | | **(86,410)** |
| Net income | | | | | **$ 211,123** |
| Invested capital [1] | **$ 1,713,777** | **$ 1,297,639** | **$ 343,665** | **$ (14,902)** | **$ 3,340,179** |
| Identifiable assets | **$ 2,414,615** | **$ 2,100,741** | **$ 660,886** | **$ 60,882** | **$ 5,237,124** |
| Capital and rental equipment [2] | **$ 674,545** | **$ 353,872** | **$ 117,776** | **$ 530** | **$ 1,146,723** |
| Gross capital expenditures [3] | **$ 24,161** | **$ 27,578** | **$ 10,289** | **$ 405** | **$ 62,433** |
| Gross rental asset expenditures [3] | **$ 192,145** | **$ 15,791** | **$ 3,535** | **$ —** | **$ 211,471** |

| Nine months ended September 30, 2013 ($ thousands) | Canada | South America | UK & Ireland | Other | Consolidated |
|---|---|---|---|---|---|
| Revenue from external sources | $ 2,484,198 | $ 1,839,534 | $ 636,481 | $ — | $ 4,960,213 |
| Operating costs | (2,213,607) | (1,608,111) | (577,300) | (26,874) | (4,425,892) |
| Depreciation and amortization | (84,671) | (52,737) | (23,464) | (58) | (160,930) |
| | 185,920 | 178,686 | 35,717 | (26,932) | 373,391 |
| Equity earnings | 7,747 | — | — | 1,205 | 8,952 |
| Other income (Note 2) | — | 119,658 | — | — | 119,658 |
| Other expenses (Note 2) | — | (125,807) | (956) | — | (126,763) |
| Earnings (loss) before finance costs and income taxes | $ 193,667 | $ 172,537 | $ 34,761 | $ (25,727) | $ 375,238 |
| Finance costs | | | | | (68,917) |
| Provision for income taxes | | | | | (63,995) |
| Net income | | | | | $ 242,326 |
| Invested capital [1] | $ 1,715,842 | $ 1,379,065 | $ 267,563 | $ (20,302) | $ 3,342,168 |
| Identifiable assets | $ 2,448,309 | $ 2,090,790 | $ 549,095 | $ 50,407 | $ 5,138,601 |
| Capital and rental equipment [2] | $ 686,159 | $ 367,636 | $ 104,855 | $ 213 | $ 1,158,863 |
| Gross capital expenditures [3] | $ 25,173 | $ 21,229 | $ 7,799 | $ 126 | $ 54,327 |
| Gross rental asset expenditures [3] | $ 200,153 | $ 32,244 | $ 7,503 | $ — | $ 239,900 |

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

## 11. ACQUISITION

On July 4, 2014, the Company's UK and Ireland operations acquired 100% of the shares of Reaction One Limited (UK) and Alveton Limited (Ireland). With this acquisition, the newly formed company named SITECH will sell and service Trimble's heavy and highway machine control and monitoring products in all of its dealership territories (rights in the Company's Canadian and South American dealership operations were acquired in 2011). Trimble is Caterpillar's global technologies joint venture partner in construction and other industries. Cash consideration of $13.8 million (£7.6 million) was paid at the time of acquisition. Further contingent consideration with a possible range of £nil - £3.5 million may be paid after acquisition, contingent upon the profitability of the acquired business over the next three years. The Company recognized $6.4 million (£3.5 million) of contingent consideration as a liability on the consolidated statement of financial position. Total consideration of $20.2 million is subject to customary closing adjustments.

The purchase has been accounted for as a business combination using the acquisition method of accounting. The net assets acquired primarily comprise goodwill; limited working capital and rental equipment was also acquired. Goodwill is assigned to the Finning UK and Ireland reporting segment.

The amount of revenue and net income of the acquiree since the acquisition date and the beginning of the reporting period are not material.

The preliminary allocation of the purchase price is based on management's best estimate at November 12, 2014.