POWERED FOR SUCCESS

2011 ANNUAL REPORT
FINNING INTERNATIONAL INC.

Finning International Inc. is the world's largest Caterpillar equipment dealer delivering unrivalled service to customers since 1933.

Finning sells, rents and provides parts and service for equipment and engines to customers in various industries, including mining, construction, power systems, petroleum, and forestry. Finning delivers solutions that enable customers to achieve the lowest owning and operating costs while maximizing equipment uptime.

Headquartered in Vancouver, British Columbia, Finning operates in Western Canada (Alberta, British Columbia, the Northwest Territories and Yukon), South America (Chile, Argentina, Bolivia and Uruguay), as well as the United Kingdom and Ireland. Finning employs over 13,500 people worldwide.

Monetary amounts in this report are in Canadian dollars and from continuing operations unless otherwise noted.

VALUE PROPOSITION TO INVESTORS

- Largest Caterpillar dealer operating in some of the most resource-rich territories in the world
- Unmatched product support capability and customer relationships
- Focused on operational excellence, fiscal discipline and high-performance culture
- Well-positioned to capture growth opportunities
- Strong cash generation business model

MEETING OUR COMMITMENTS

MEDIUM-TERM COMMITMENTS (2011-2013)	2011 PROGRESS
REVENUE GROWTH	
• 10% per annum over 3 years	• 29% revenue growth over 2010 • Record revenue of $5.9 billion
REDUCE SG&A PERCENTAGE	
• Approximately 20% of revenue	• 21.7%, down from 23.1% in 2010
IMPROVE OPERATING LEVERAGE	
• 10% EBIT margin	• 6.4%, up from 6.2% in 2010 • Negative impact of ERP implementation issues • On track to achieve 9-10% EBIT margin in 2013
FREE CASH FLOW	
• Solid across business cycle	• $221 million use of cash • Higher working capital required to support revenue growth
NET DEBT TO TOTAL CAPITAL RATIO	
• 35-45%	• 42.0%
RETURN ON EQUITY	
• Over 18%	• 20.3%

STRATEGIC PLAN

MARGIN EXPANSION

- Improved operating leverage (2012 focus on Canada)
- 2013 EBIT margin target 9%– 10%
- Sustainable improvement in profitability and return on invested capital

BUCYRUS INTEGRATION

- Transaction to close in Q2 2012
- Estimated revenue in the first full year ~$700 million
- Expected to be accretive to EPS within the first full year
- Estimated EBIT margin ~8% within 2 to 3 years

INVESTING IN CAPABILITIES AND CAPACITY

- New ERP system
- Disciplined capital spending on product support infrastructure
- Ongoing technical training

CAPTURING GROWTH

Growth within existing markets

- Mining: oil sands, copper, coal
- Heavy construction: infrastructure projects
- Power Systems: demand for energy

Growth with Caterpillar

- New products: Bucyrus, 795F electric drive truck, vocational truck
- New businesses: truck bodies, engineering services capability
- Global power systems

> We ended 2011 with tremendous momentum and have strong organic growth opportunities across all of our operations. We have genuine competitive advantages, including the unbeatable combination of a broad range of outstanding Caterpillar products and Finning's customer value proposition. Most importantly, we have talented and empowered people who are committed to growing our business.

Mike Waites, President and Chief Executive Officer

Over the past five years, we have made great strides in evolving our company to optimize shareholder value. Our U.K. operations have been completely repositioned to focus on core markets through strategic divestments and acquisitions, which included our expansion to Ireland. In South America, we have made focused investments that complement our core strengths and enable us to provide turn-key customer solutions to capitalize on outstanding growth opportunities. In Canada, we have prudently increased our capacity to meet growing demand while putting a great emphasis on lasting productivity improvements across our operations.

In 2011, we continued on this trajectory of transforming our business to drive greater value for our customers, enhance our competitive advantages and position us to deliver on our company's spectacular potential.

ADVANCING OUR MOMENTUM

2011 was a year of progress and many record setting achievements across our organization. Our revenues grew by 29 percent to $5.9 billion, reflecting record levels achieved across our regions. New equipment sales were up 50 percent and product support revenues grew by 13 percent, setting a new company best at $2.4 billion. Our annual EBIT (earnings before interest and income tax) also improved to a record setting $380 million.

These outstanding numbers reflect the efforts of a solid team effort. South America was a standout performer, ending the year with close to half a billion dollar revenue increase and highest ever EBIT. The region is capitalizing on tremendous growth while remaining diligently focused on expanding operating leverage.

The UK and Ireland team had a turnaround year by squarely focusing their energy and resources on the greatest opportunities. Against a backdrop of a difficult economic environment, the team continues to relentlessly pursue market share and build the business in core markets.

Following a phenomenal first half of the year, Canada was tested with the start-up challenges of our new enterprise resource planning system (ERP) that launched in the third quarter of the year. The team has worked hard to mitigate customer impact while executing on detailed plans to improve system functionality. While these challenges have had a substantial impact on our Canadian operations, we are on the right road to recovery and to take advantage of improved capabilities over the longer term.

Among all of the initiatives we pursued in 2011, partnering with Caterpillar to gain the Bucyrus distribution business will most significantly expand our business. Throughout the year, key team members across our operations worked collaboratively to reach an agreement to acquire a portion of the former Bucyrus distribution business from Caterpillar and build on our leading industry position.Their efforts set the stage for our acquisition announcement at the beginning of 2012.

With the acquisition to close during the second quarter of 2012, planning is already well underway to transition the business and welcome 900 talented new employees to Finning.

By providing us with an industry-leading platform and sizeable Bucyrus machine population, particularly in Chile and our territories in Western Canada, this investment adds new equipment and product support revenue opportunities and robust, long-term growth potential for our company and employees.

With demand from Asia continuing to sustain commodity prices, the outlook for mining remains robust. As a leading supplier to mining customers in some of the most resource-rich areas of the world, Finning is poised to capitalize on this spectacular growth opportunity. Our technical expertise and industry knowledge, combined with our unmatched distribution and support infrastructure, position us well to serve this rapidly growing industry.

The addition of the former Bucyrus equipment to the existing Caterpillar portfolio adds to our leadership position by providing us with the broadest range of surface and underground mining equipment in the industry. The strength and breadth of this mining portfolio is a competitive advantage that sets us apart in the marketplace and will deliver greater value for our customers.

DRIVING GROWTH

As we look forward, the combination of our trusted expertise, world-class service, distribution infrastructure and presence in resource-rich territories provides us with powerful vehicles for growth. Across our operations, demand for our products and services is high. In each of our regions, we are seeing growth in mining, construction and power systems. The increasing machine population is expected to provide us with solid product support opportunities for years to come.

Beyond capitalizing on existing demand, we are also seizing opportunities to grow in ways that complement our business and core strengths. Through our stake in Energyst, we signed an agreement with Caterpillar that strengthens our growth opportunities in the international power projects business. This agreement fits directly with Finning's strategic focus on growing our power systems business.

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

As we continue to invest in our product support capabilities, growing profitably is a key priority. We made significant advances in strengthening our operations to support this goal. Going forward, we continue to be focused on improving operating effectiveness to fuel profitable growth.

SUSTAINABLE ADVANTAGE

We believe a high-performance culture is essential to deliver on our business imperatives of safety, unrivalled service and workplace engagement. We are proud of our world-class safety record and are committed to drive ongoing safety performance improvement across our operations. Through focused investments in our capabilities, the Finning name has become synonymous with service and we continue to cultivate our reputation for service excellence. Our engagement surveys demonstrate progressive improvement to promote an engaging workplace where people are able to achieve their personal and professional aspirations. While our track record in these areas is excellent, we are continuously raising the bar to sustain the competitive advantage our people provide.

I'd like to sincerely thank Finning employees for their hard work and dedication throughout 2011. Our employees are not only making the company stronger and safer through their actions, they are also upholding the core values and commitment that underpin this great company.

I also acknowledge the support of Caterpillar, our strategic business partner, as well as extend my appreciation to our Board of Directors for their ongoing guidance in 2011.

2012 PRIORITIES

Reflecting on our performance and our strengths, it is clear that we are well equipped for success. We ended 2011 with tremendous momentum and have strong organic growth opportunities across all of our operations. We have genuine competitive advantages, including the unbeatable combination of a broad range of outstanding Caterpillar products and Finning's customer value proposition. Most importantly, we have talented and empowered people who are committed to growing our business.

Our performance in 2011 demonstrated that we are on the right strategic path. We will continue to:

- Build a high-performance culture to drive world-class safety, unrivalled service and workplace engagement
- Drive profitability and advance towards our 9-10 percent EBIT margin target in 2013 through operational excellence
- Capitalize on our tremendous growth opportunities, particularly with the successful integration of Bucyrus
- Maintain a strong balance sheet and generate positive free cash flow

Looking ahead to 2012, our focus now is on executing our plans with excellence to achieve our company's vision of providing unrivalled services that earn customer loyalty in order to be Caterpillar's best global business partner.

Sincerely,

Mike Waites
President and Chief Executive Officer

Finning's Board of Directors and management are committed to the highest corporate governance standards and understand that such standards are central to the efficient and effective operation of Finning in a manner that ultimately enhances shareholder value.

Doug Whitehead, Chairman of the Board

In 2011, Finning made continued progress towards advancing its strategic priorities. At the same time, the Company capitalized on robust demand for its products and services to deliver strong financial results, including record annual revenue and EBIT.

In good part, we believe Finning's ongoing success can be attributed to our strong culture of accountability, integrity and excellence in corporate governance. Finning's Board of Directors and management are committed to the highest corporate governance standards and understand that such standards are central to the efficient and effective operation of Finning in a manner that ultimately enhances shareholder value.

To that end, the Board of Directors has overall responsibility for Finning's business conduct. The Board fulfills this responsibility both directly and by delegating certain authority to Board committees and to Finning's senior management. Through continuous evaluation and improvement, the Board of Directors is focused on ensuring Finning upholds the highest corporate governance standards and practices.

Reflecting our belief that dividends are an important component of total shareholder return, the Board increased the quarterly dividend by over 8% to $0.13 per share in 2011. We look forward to continually enhancing shareholder value by successfully advancing our Company's strategic priorities and achieving our financial targets.

On behalf of the Board of Directors, I would like to thank the Company's employees across all our operations for their hard work and contribution towards driving value for our customers and shareholders.

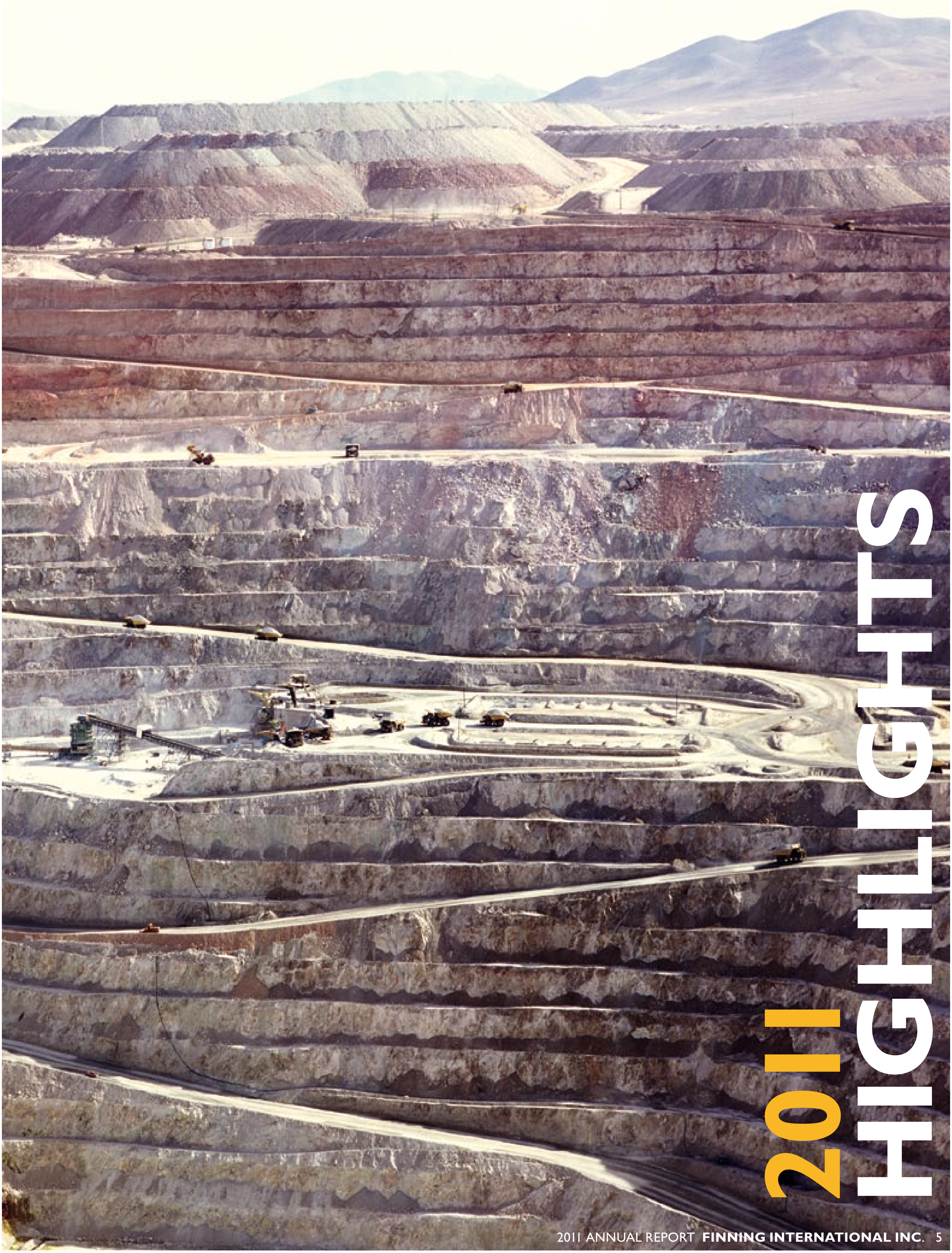
For a more detailed discussion of our corporate governance policies and practices, I encourage you to review Finning's management proxy circular and visit the governance section of www.finning.com.

On behalf of the Board of Directors,

Douglas W.G. Whitehead
Chairman of the Board

PHOTO: ESCONDIDA COPPER MINE, CHILE

2011 HIGHLIGHTS



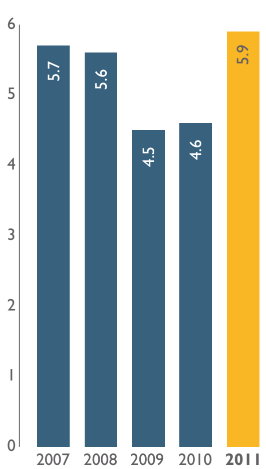
SELECTED FINANCIAL INFORMATION

From continuing operations, reported under IFRS

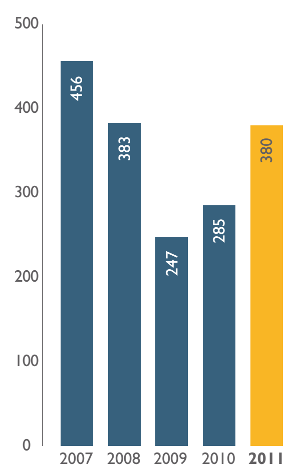
Twelve months ended Dec 31 ($ millions, except per share amounts)	**2011**	2010	% change
Revenue	**5,894.9**	4,584.6	29
Gross profit	**1,679.7**	1,377.8	22
Gross profit margin	***28.5%***	*30.1%*	
Selling, general & administrative expenses (SG&A)	**(1,279.3)**	(1,057.5)	(21)
SG&A as a percentage of revenue	***(21.7)%***	*(23.1)%*	
Equity earnings	**6.7**	5.6	
Other expenses	**(27.4)**	(40.6)	
Earnings Before Interest & Income Taxes (EBIT)	**379.7**	285.3	33
EBIT margin	***6.4%***	*6.2%*	
Income from continuing operations	**259.4**	181.1	43
Loss from discontinued operations, net of tax	**–**	(125.0)	
Net income	**259.4**	56.1	
Basic earnings (loss) per share (EPS)			
from continuing operations	**1.51**	1.06	42
from discontinued operations	**–**	(0.73)	
Total basic earnings per share	**1.51**	0.33	
Earnings Before Interest, Income Taxes, Depreciation and Amortization (EBITDA)	**553.8**	441.8	25
Free Cash Flow	**(220.8)**	262.5	

	Dec 31, 11	Dec 31, 10
Total assets	**4,085.4**	3,429.7
Total shareholders' equity	**1,345.0**	1,203.0
Net debt to total capital	**42.0%**	35.3%

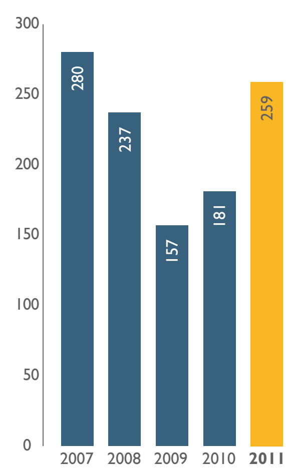
REVENUE
($ billions)



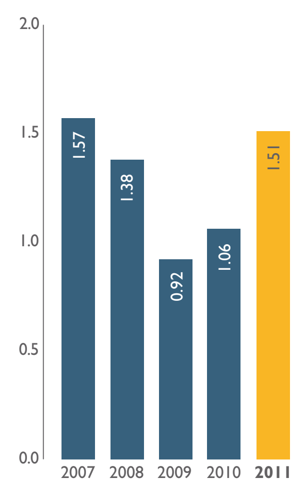
EBIT
($ millions)



NET INCOME
($ millions)



BASIC EPS
($)



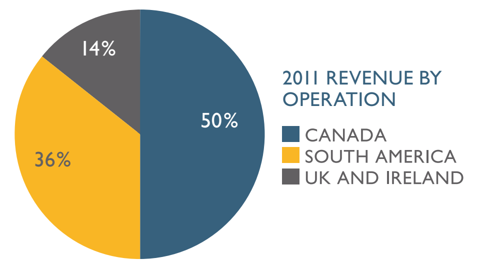
The results for 2011 and 2010 are reported under IFRS.
The results of operations of Hewden Stuart Limited have been reclassified as discontinued operations for 2010, 2009 and 2008.

> In 2011, we posted record revenues and achieved 42% growth in earnings per share. Our focus in 2012 is on improving operating profitability, particularly in Canada; successfully integrating the Bucyrus distribution business into each of our regions; and maintaining a strong balance sheet.

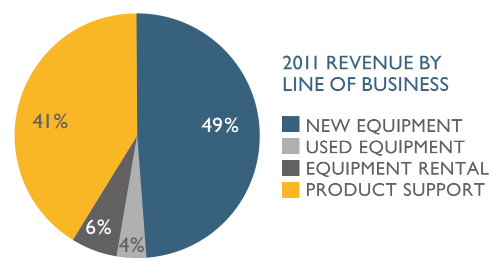
Dave Smith, Executive Vice President and Chief Financial Officer

REVENUE PROFILE

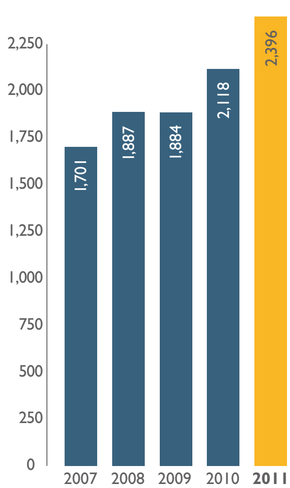
Revenue by Operation ($ millions)	**2011**	% change from 2010
Canada	**2,943.7**	30
South America	**2,120.1**	27
UK and Ireland	**831.1**	28



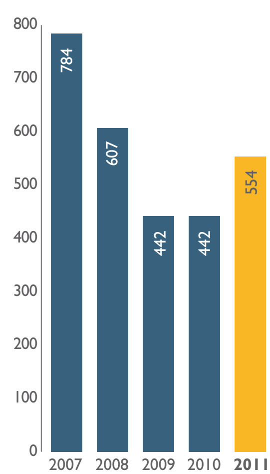
Revenue by Line of Business ($ millions)	**2011**	% change from 2010
New Equipment	**2,889.0**	50
Used Equipment	**253.4**	0
Equipment Rental	**345.5**	26
Product Support	**2,395.6**	13
Other	**11.4**	13

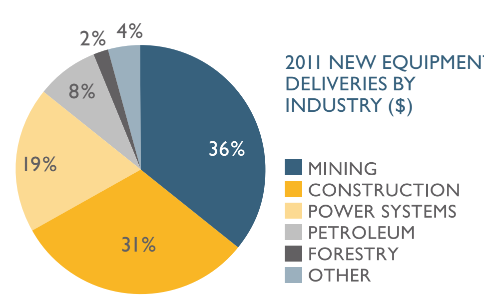


PRODUCT SUPPORT REVENUE
($ millions)



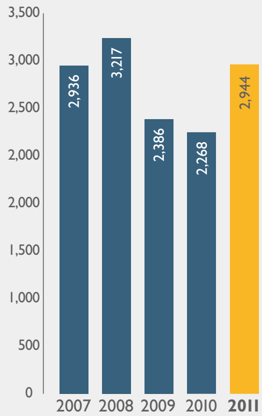
EBITDA
($ millions)





CANADA

CANADA REVENUE
($ millions)



2011 HIGHLIGHTS

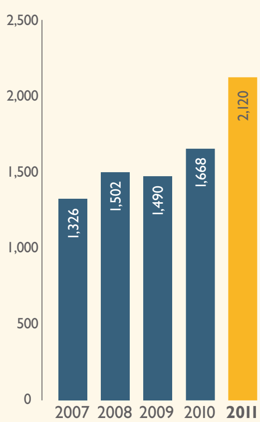
- Strong market conditions in most sectors drove revenues up 30% to $2.9 billion. New equipment sales jumped 58% with higher deliveries to mining customers and healthy activity in construction, petroleum and forestry. Product support revenues grew by 13% to a new record of $1.2 billion, despite a setback in Q3 due to ERP implementation issues.
- Canada's operating costs increased in the second half of 2011, while we mitigated the impact on customers following issues resulting from the July ERP implementation. As we continue to improve the system's functionality, these additional costs are expected to progressively decline, with the majority being eliminated by mid 2012.
- EBIT rose by 22%; however, EBIT margin declined to 5.8% from 6.1% reflecting a lower gross profit margin and incremental ERP costs. We expect gradual and significant improvement in Canada's EBIT margin performance in 2012.

"We are focused on two very important near-term priorities in Canada: delivering world-class product support to our customers, and driving EBIT margin. I am confident in the commitment of our people to make this happen. We are also excited about capturing tremendous growth opportunities, particularly with the addition of Bucyrus and completion of our new Fort McKay service facility in 2012."

Andy Fraser
President, Finning Canada

SOUTH AMERICA

SOUTH AMERICA REVENUE
($ millions)



2011 HIGHLIGHTS

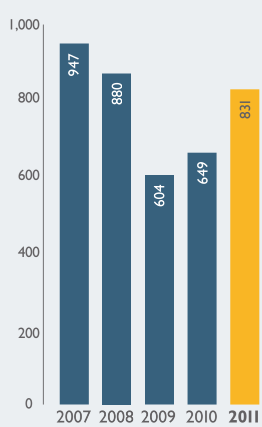
- 2011 was a very successful year for our South American operations, marked by numerous record setting achievements. Revenues were at record levels, up 32% from 2010, surpassing US$2.1 billion. FINSA posted highest-ever new equipment sales and product support revenues in 2011, driven by the continued strength in the Chilean mining sector and robust heavy construction activity.
- FINSA's workforce grew by 9% in 2011 to approximately 6,500 people to meet strong demand for product support. The Company is actively managing cost pressures associated with a highly competitive labour environment, particularly in Chile.
- Finning South America achieved solid operating leverage in 2011, with EBIT up 35% to a new record of US$195 million. EBIT margin improved to 9.1% from 8.9% in 2010, reflecting leverage to record revenues and lower SG&A expense as a percentage of revenue resulting from improved efficiencies.

"We've had several years of spectacular growth in South America, which was very demanding on our people and infrastructure. Looking into 2012, we will continue to drive operational excellence, become more efficient and produce an improved EBIT margin. We are ready for the Bucyrus opportunity and are focused on making the 795F electric drive truck a success."

Juan Carlos Villegas
President, Finning South America

UK & IRELAND

UK & IRELAND REVENUE
($ millions)



2011 HIGHLIGHTS

- 2011 was a turnaround year for our UK and Ireland operations, which delivered strong results in an uncertain economic environment. Revenues increased by 28% to £524 million, driven by the equipment sectors, particularly coal mining and plant hire, and strong activity in power systems, mostly in industrial, oil & gas and electric power generation. In functional currency, both new equipment sales and product support revenue were at record levels.
- EBIT jumped to £33 million from £10 million in 2010, and EBIT margin improved substantially to 6.2% from 2.4% a year ago. After adjusting for one-time pension items, 2011 EBIT nearly doubled from last year, and EBIT margin strengthened significantly, reflecting leverage to record revenues and lower operating costs as a percentage of revenue.
- Our UK and Ireland team consistently delivered solid results in every quarter of 2011, and we are very pleased with this sustainable turnaround in financial performance.

"We are changing the shape of our business to focus on value added opportunities, product support growth and delivering tailored solutions to our customers. We are committed to sustain the significant improvement in our performance and deliver world-class service to our customers."

Neil Dickinson
Managing Director, Finning UK & Ireland

The results for 2011 and 2010 are reported under IFRS.

EXECUTING OUR STRATEGY

Canada's key strategic focus areas are:

- Leveraging revenue growth into EBIT by eliminating ERP implementation-related costs and driving operating efficiencies and process improvements, such as working capital optimization and reduction of the cash to cash cycle.
- Capturing growth opportunities across all industries while integrating the Bucyrus distribution business.
- Strengthening our competitive advantage by investing in product support capabilities, developing and training people, and nurturing a high-performance culture.

Canada is committed to achieving 9 to 10% EBIT margin target in 2013.

CAPTURING GROWTH

The strong commodity cycle is driving continued growth in mining, which translates into significant opportunity for equipment and product support in the oil sands and other mining in BC and Alberta. Capital spending on new projects and mine expansions in the oil sands is expected to increase the mining equipment population by about 50% in the next five years. We will further strengthen our position as the leading provider of mining solutions in western Canada with the addition of the former Bucyrus distribution business, which has over 240 employees and service facilities in Edmonton and Fort McMurray. The mining activity is driving strong demand for rebuilds at our OEM component remanufacturing and COE machine rebuild facilities. Our new 16-bay service facility in Fort McKay will be completed by the end of 2012, positioning us to capture more product support business in the oil sands. We also see significant growth in heavy construction driven by on-going investment in infrastructure; and our power systems business remains strong with robust compression and drilling activity. As we capitalize on the strong organic growth across all our markets, we will continue to provide our customers with world-class product support.

EXECUTING OUR STRATEGY

Our *Growing to Excel* strategy is focused on balancing growth with efficiencies and becoming best-in-class in everything we do:

- Supply chain management is critical to our customer value proposition and a key driver of operational excellence. We have a strong alliance with Caterpillar to improve our supply chain processes, velocity and working capital management.
- We continue to invest in our product support infrastructure, including technical and leadership training to strengthen our competitive edge. With mining growth driving demand for skilled labour, our focus on best-in-class safety and employee engagement will serve us well in recruiting and retaining talented people.
- Our strategic priorities for 2012 include integration of the Bucyrus distribution business, introduction of the 795F electric drive truck and driving operating leverage to achieve a 10 to 11% EBIT margin in 2013.

CAPTURING GROWTH

Significant mining investment in Chile in the coming years supports a strong outlook. The mining machine population is projected to increase by over 50% over the next five years. Our mining projects portfolio in South America will continue to drive product support growth as we benefit from our investment in service capabilities, facilities and people. We have several years of experience with hydraulic shovels and drills in South America, and are excited to take over the former Bucyrus distribution business in our territory and welcome approximately 650 former Bucyrus employees. Government and private sector spending on infrastructure and energy is driving solid activity in construction and power systems. With a strong outlook for all segments and territories, our focus remains on driving efficiencies and operating leverage.

EXECUTING OUR STRATEGY

We are focused on the following imperatives of our *Trusted by Expert* strategy in the UK and Ireland:

- Pursuing higher margin opportunities in equipment solutions and value added power systems segments.
- Accelerating growth in product support.
- Driving operational excellence with a focus on high-performance culture, supply chain improvements and technology solutions.
- Sustaining our breakthrough financial performance to achieve a 7+% EBIT margin in 2013.
- Demonstrating to our customers the wide range of work we do, the diverse segments we serve, and the world-class service we deliver to earn their loyalty.

CAPTURING GROWTH

We have many opportunities to grow our business in the UK and Ireland, despite the fragile economy and uncertain outlook for some sectors. The most promising and active markets include the equipment sectors such as coal mining, quarrying, industrial, re-handling and plant hire. We are excited about the addition of the former Bucyrus distribution business, as it will further strengthen our product and service offering to our mining and quarry customers. In addition, renewable energy opportunities plus marine, oil and gas and electric power generation are expected to remain robust and continue to provide us with exposure to the global power systems markets. The recent acquisition of Damar is a good strategic fit as we can provide a broader range of value added engineering services to power systems customers. We see significant opportunities to grow our product support business, including machine rebuilds, and providing innovative solutions to our customers by continuing to work closely with them and ensure we tailor our support to deliver maximum value.

FINNING OPERATIONS

CORPORATE RESPONSIBILITY

> We believe that our culture, and the way that we work together, enables us in delivering on our strategic objectives. The goal is to raise the bar on our performance so that we can deliver outstanding shareholder value.
>
> Rebecca Schalm
> Senior Vice President, Human Resources

The principle of corporate social responsibility is firmly embedded at Finning. Ensuring the highest environmental, health and safety standards, actively contributing to our communities and supporting employees with an engaging workplace is exemplified in many ways across our operations. This commitment is supported by our Code of Conduct, aligned with our values and it is a responsibility that we take seriously.

WORLD-CLASS SAFETY

Driving a culture where everyone goes home safely at the end of every day is an imperative at Finning. Our safety-focus and ability to deliver on that focus is driven by a rigorous company-wide commitment that starts at the very top. Executive support for our world-class safety standards is unequivocal and is further reinforced at the Board of Directors level through the environment, health and safety committee. This commitment to safety cascades throughout our organization with each and every person at Finning having accountability for ensuring we have a safe place to work.

While each of our operations carried out activities to strengthen our safety culture, our lost time incidents (LTIs) rate was above last year. A key indicator of safety performance, LTIs went from a record 0.15 to 0.20 (lost time injuries per 200,000 hours worked).

Through continued vigilance in applying our safety standards, we aim to achieve our goal of zero injuries. We will continue to practice safety leadership, enable effective hazard management and promote safety in all that we do.

COMMITMENT TO OUR ENVIRONMENT AND COMMUNITIES

Continually reviewing and improving our efforts to lessen our impact on the environment is an important aspect of conducting our business responsibly. By performing regular environmental audits to identify, assess and reduce environmental impacts, we continue to ensure we meet or exceed the environmental standards in all of the areas where we operate.

Finning also plays an important role in energy conservation. We design, engineer and deploy renewable or alternative energy solutions that reduce greenhouse gas emissions. We work with customers on emissions reduction initiatives that further support Caterpillar's industry-leading technologies. And, we remanufacture machine components that keep nonrenewable resources in circulation for multiple lifetimes.

Our commitment to community giving was underscored in 2011 by the single largest post-secondary education donation in our company's history. Finning Canada and Caterpillar partnered to contribute cash and course materials, tooling and equipment, valued at more than $3.5 million, to Keyano College. The funds will go towards the college's new FINNTech Heavy Equipment Technician Diploma Program. The FINNTech program is a 20-month diploma program that will see approximately 50 students a year engaged in a rotation of two months of in-class learning followed by two months of job-site training. The first cohort of 22 students is to begin classes in early 2012. Importantly, the contribution builds on our deep roots in the Fort McMurray community and our longstanding partnership with Keyano College.

INGRAINING A HIGH-PERFORMANCE CULTURE

We began our high-performance journey in 2008 as part of an intentional transformation to redefine how Finning operates as a company. We believe that our culture, and the way that we work together, enables us in delivering on our strategic objectives. The goal is to raise the bar on our performance so that we can deliver outstanding shareholder value.

While high-performance culture is not a term unique to Finning, our framework is tailored to deliver on our specific objectives. High-performance culture at Finning is underpinned by three key pillars. First is safety. As a core value at Finning, we believe safety is our foremost priority. The second is service. The company was founded on a commitment to provide unrivaled service to our customers. Service is a part of our DNA and an incredible source of pride to our employees. The third is an engaged workforce. We live our values every day. We act like owners and we operate like a team.

We believe that we are well on our way towards becoming a high-performance organization, but there is still work to do. Building a high-performance culture is a journey that has no end. Our commitment to this journey is driven by our belief that our high-performance culture builds teams that can make decisions and gain alignment more quickly which allows us to respond and react with greater speed. We believe that it helps us leverage skills, knowledge and experience across our enterprise and drive real advantage from the best practices across our global operations. And, it creates a unique proposition for our current and future employees. It helps to make us a really great place to work. Finally, we believe that it will better prepare us to create the future, whatever the future brings.

PHOTO: LA NEGRA, ANTOFAGASTA, CHILE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FINANCIAL REPORT

This discussion and analysis of the financial results of Finning International Inc. (Finning or the Company) should be read in conjunction with the consolidated financial statements and accompanying notes. The results reported herein have been prepared in accordance with International Financial Reporting Standards (IFRS) and are presented in Canadian dollars unless otherwise stated. Prior to January 1, 2011, Finning prepared its consolidated financial statements in accordance with Canadian generally accepted accounting principles. For more information about the Company's conversion to IFRS, please see the 'Explanation of Transition to IFRS' section of this Management's Discussion and Analysis (MD&A), and Notes 1 and 31 of the annual consolidated financial statements. 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

The results from continuing operations described in this MD&A include those of acquired businesses from the date of their purchase and exclude results from operations that have been disposed of or are classified as discontinued. Results of operations from businesses that qualified as discontinued operations have been reclassified to that category for all periods presented unless otherwise noted.

In January 2012, the Company announced that it had reached an agreement to acquire from Caterpillar the distribution and support business formerly operated by Bucyrus International Inc. (Bucyrus) in Finning's dealership territories in South America, Canada, and the U.K. The transaction is valued at approximately U.S. $465 million. The acquisition is strategically important for Finning as it is expected to expand the Company's leadership position in the growing mining sector. Finning will be able to sell and support a comprehensive product line that meets its customers' surface and underground mining needs. The Company expects to fund the transaction through the issuance of U.S. and Canadian dollar denominated term debt. Subject to customary closing conditions, it is anticipated that the transaction will close in two phases: first in the Company's operations in South America and UK and Ireland and subsequently in the Canadian operations. Both closings are expected to occur in the second quarter of 2012.

On February 3, 2012, the Company acquired 100% of the shares of Damar Group Ltd, an engineering company specializing in the water utility sector in the U.K. The acquired business provides opportunities for Finning to increase market share in the U.K. and Ireland water industries. It also increases Finning's mechanical, electrical and civil engineering capability to deliver a wide range of projects within its target power systems markets which is a key strategic objective of the Company's U.K. and Ireland operations. Cash consideration of £5.7 million was paid at the time of acquisition, which may be subject to customary closing adjustments. Further contingent consideration (with a possible range of £nil-£9.5 million) may be paid on an annual basis after acquisition, contingent upon the acquired business's performance over the next three years.

FOURTH QUARTER OVERVIEW

	($ MILLIONS)		(% OF REVENUE)	
	Q4 2011	Q4 2010	**Q4 2011**	Q4 2010
Revenue	**$ 1,810.6**	$ 1,346.5		
Gross profit	**474.5**	394.0	**26.2%**	29.3%
Selling, general & administrative expenses	**(367.0)**	(298.8)	**(20.3)%**	(22.2)%
Equity earnings of joint venture and associate	**3.0**	3.1	**0.2%**	0.2%
Other expenses	**(3.2)**	(14.5)	**(0.2)%**	(1.1)%
Earnings before interest and income taxes (EBIT)(1)	**107.3**	83.8	**5.9%**	6.2%
Finance costs	**(14.4)**	(12.4)	**(0.8)%**	(0.9)%
Provision for income taxes	**(22.3)**	(15.9)	**(1.2)%**	(1.2)%
Net income	**$ 70.6**	$ 55.5	**3.9%**	4.1%
Basic earnings (loss) per share (EPS)	**$ 0.41**	$ 0.32		
Earnings before interest, taxes, depreciation, and amortization (EBITDA)(1)	**$ 155.7**	$ 125.9	**8.6%**	9.4%
Free Cash Flow(1)(2)	**$ 281.0**	$ 122.3		

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

(2) Free Cash Flow is defined as cash flow provided by (used in) operating activities less net property, plant, and equipment expenditures.

Fourth quarter consolidated revenues of over $1.8 billion were up 34.5% from the comparable quarter in 2010, with higher revenues contributed by all operations, but most significantly from the Company's Canadian operations. The increase in revenues reflected the strong demand for new equipment in all of the Company's regions.

Revenues from the Company's Canadian operations increased 52.0% in the fourth quarter of 2011 compared with the same period last year, largely due to significantly higher new equipment sales. New equipment sales in Canada more than doubled compared with the fourth quarter of 2010, and were robust across all sectors, but particularly strong in mining. Product support revenues in the fourth quarter of 2011 were 7.2% higher than the comparative quarter in 2010, primarily due to increased demand for parts.

MANAGEMENT'S DISCUSSION & ANALYSIS

Fourth quarter revenues from the Company's operations in South America were at record levels, and increased 17.2% compared to the fourth quarter of 2010. Excluding the impact of translating the results of the South American operations with a slightly weaker Canadian dollar, record total revenues for the fourth quarter of 2011 in functional currency (the U.S. dollar) increased by 15.9% over the fourth quarter of 2010. This was driven mainly by record new equipment sales which were up 19.0% from the prior year for the same period due to increased demand in all market segments. Product support revenues were again at record levels and 13.0% higher in functional currency than the fourth quarter of 2010, up particularly in mining.

Revenues from the U.K. and Ireland operations were up 20.3% over the fourth quarter of 2010, and up 19.7% in functional currency (the U.K. pound sterling), reaching a record for quarterly revenues in functional currency. This increase was largely due to record new equipment sales (25.2% higher in functional currency), with increases in both the construction division and power systems, and strong product support revenues (up 10.5% in functional currency).

On a consolidated basis, new equipment sales were up 57.8% compared with the fourth quarter of 2010, an increase in all operating units (particularly the Company's Canadian operations) and supported by continued strength in mining and heavy construction sectors.

Product support revenues in the fourth quarter of 2011 were up 10.2% compared with the same quarter last year, with increases reported in all regions.

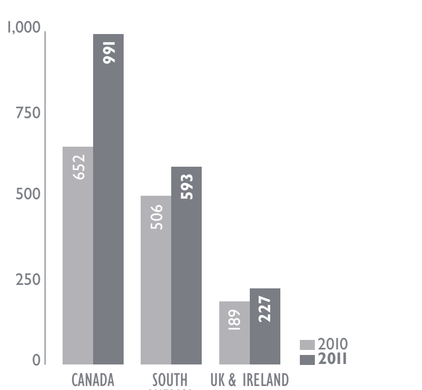
Used equipment revenues were 42.2% higher compared to the prior year's fourth quarter, primarily due to higher sales in the Company's Canadian operations.

Rental revenues were 26.0% higher than the fourth quarter of 2010 primarily due to strong customer demand in Canada.

Finning's global order book or backlog (the retail value of new equipment units ordered by customers for future deliveries) was $1.5 billion at the end of the fourth quarter of 2011, up from $1.3 billion in December 2010. The consolidated backlog had increased in each consecutive quarter since September 2009 until September 2011; however record deliveries in the fourth quarter of 2011 reduced consolidated backlog by 18% compared to September 2011. New order intake remained very robust in the fourth quarter of 2011, up 26% compared to the third quarter of 2011, with no unusual order cancellations in any of the Company's operations in the quarter.

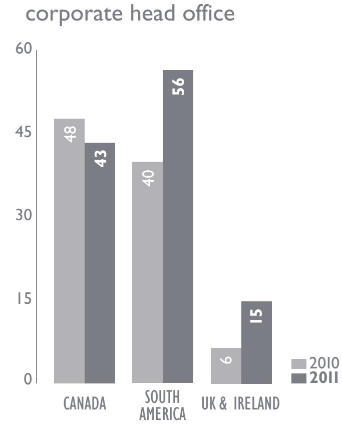
All regions are affected by the pressure on the supply chain resulting from strengthened market conditions. The impact of ongoing longer lead times for products from Caterpillar Inc. (Caterpillar), Finning's key supplier, is being partially mitigated by the Company's successful efforts in finding alternative solutions to meet customers' equipment needs. Such solutions include renting equipment, selling used equipment, repairing or rebuilding equipment, and utilizing the entire Caterpillar dealer global network to source equipment. Finning continues to work closely with Caterpillar and customers to ensure that equipment demands can be met.

REVENUE BY OPERATION
($ millions) 3 months ended December 31



REVENUE BY LINE OF BUSINESS
($ millions) 3 months ended December 31

EBIT BY OPERATION*
($ millions) 3 months ended December 31
*excluding other operations – corporate head office



Earnings Before Interest and Taxes (EBIT)

On a consolidated basis, EBIT was $107.3 million in the fourth quarter of 2011, compared to EBIT of $83.8 million generated in the fourth quarter of 2010. The increase was primarily driven by significantly higher new equipment sales and strong product support revenues in all operations.

Gross profit of $474.5 million in the fourth quarter of 2011 was up 20.4% compared to the fourth quarter of 2010. Quarterly gross profit margin (gross profit as a percentage of revenue) of 26.2% was lower than the prior year's fourth quarter margin of 29.3%. This decline reflected the shift in revenue mix to a higher proportion of new equipment sales which are at lower margins than product support revenues. New equipment sales made up 54.7% of total revenues in the fourth quarter of 2011, compared with 46.6% of total revenues in the same period last year. Comparatively, product support revenues comprised 35.5% of total revenues in the fourth quarter of 2011, compared with 43.3% in the same period last year.

Selling, general, and administrative (SG&A) costs were $367.0 million or 22.8% higher than the fourth quarter of 2010. This increase was primarily due to volume-related costs to support higher revenues and the growing higher margin product support business, in addition to higher system support costs related to the new Enterprise Resource Planning (ERP) system launched in Canada in July 2011, such as freight, consulting, and people expenses. The Company however continued to realize cost savings from productivity initiatives. Reflecting both these cost reductions and efficiency improvements as well as operating leverage to higher sales volumes, and in conjunction with the shift in revenue mix, SG&A costs in the fourth quarter of 2011 decreased as a percentage of revenue to 20.3% from 22.2% in the fourth quarter of 2010.

EBIT in the fourth quarter of 2011 included $2.2 million of costs associated with the planned acquisition from Caterpillar of the distribution and support business formerly operated by Bucyrus in Finning's dealership territories, announced in January 2012. EBIT in the fourth quarter of 2011 also included $1.0 million of support costs (Q4 2010: $7.2 million) related to the new information technology (IT) system to be implemented in the Company's South American and UK and Ireland operations. Included in the results for the fourth quarter of 2010, as part of its review of the valuation of investments and long-lived assets, the Company recorded an impairment charge totalling $6.8 million, primarily related to its equity investment in Energyst B.V. In addition, the Company incurred restructuring and severance costs of $0.5 million in the fourth quarter of 2010.

The Company's EBIT margin (EBIT divided by revenues) was 5.9% in the fourth quarter of 2011 compared with 6.2% in the fourth quarter of 2010. The decline in EBIT margin was primarily driven by lower gross profit margins, reflecting the shift in revenue mix to a higher proportion of new equipment sales, and higher costs incurred due to the IT system implementation issues noted above in the Company's Canadian operations. The decrease in EBIT margin was partly offset by higher profitability in the Company's South American and UK and Ireland operations, which demonstrated improved operating leverage as earnings growth outpaced revenue growth in the fourth quarter of 2011.

Major components of the EBIT variance were:

($ MILLIONS)		
2010 Q4 EBIT	$	83.8
Net change in operations		4.4
Foreign exchange impact		7.8
Lower IT system development and implementation costs in 2011		6.2
Higher acquisition and other related costs in 2011		(2.2)
Impairment of investment and long-lived asset in 2010		6.8
Restructuring costs in 2010		0.5
2011 Q4 EBIT	**$**	**107.3**

The Company's Canadian operations contributed $43.4 million of EBIT in the fourth quarter of 2011 compared with $47.6 million in the comparable period last year. The fourth quarter 2011 results included higher costs incurred due to the system implementation issues noted above which more than offset the earnings from 52.0% higher revenues. EBIT margin was 4.4% compared with 7.3% last year, reflecting the shift in revenue mix to a higher proportion of new equipment sales as well as higher IT system recovery costs.

Fourth quarter 2011 EBIT from the Company's South American operations of $56.3 million was a record, and 41.5% higher than the fourth quarter of 2010 (40.0% higher in functional currency). EBIT margin of 9.5% was up compared to the 7.9% experienced in the fourth quarter of 2010, despite the shift in revenue mix to relatively lower margin new equipment sales and higher volume-related costs. The improvement in EBIT margin reflected operating efficiencies and productivity improvements.

The UK and Ireland operations contributed EBIT of $14.8 million in the fourth quarter of 2011, a record in functional currency and more than double the EBIT generated in the comparable period last year. EBIT margin was 6.5%, up from the EBIT margin of 3.4% in the fourth quarter of 2010. The increase in EBIT and EBIT margin reflected, in functional currency, record revenues and gross profit, driven by the benefit from operating efficiencies and productivity improvements, and a pension curtailment gain recorded in the fourth quarter of 2011 due to the amendment of the UK defined benefit pension plan to cease future accruals from April 2012.

Earnings Before Interest, Taxes, Depreciation, and Amortization (EBITDA) and Free Cash Flow

EBITDA, which management views as an indicator of the Company's cash operating performance, was $155.7 million in the fourth quarter of 2011 compared to $125.9 million in the fourth quarter of 2010.

The Company's Free Cash Flow was $281.0 million compared to $122.3 million in the comparative period of the prior year. The generation of cash in the fourth quarter was primarily driven by strong sales and collections from customers late in the year. As a result of the continuing challenges from the ERP system implementation and its impact on inventory levels and collections in Finning (Canada), Free Cash Flow generated in the fourth quarter of 2011 was slightly lower than previously expected.

Finance Costs

Finance costs for the three months ended December 31, 2011 were $14.4 million compared with $12.4 million in the fourth quarter of 2010, primarily due to higher local currency borrowings in the Company's South American operations.

Provision for Income Taxes

The effective income tax rate for the fourth quarter of 2011 was 24.0% compared to 22.3% in the comparable period of the prior year.

Net Income

Finning's net income was $70.6 million in the fourth quarter of 2011 compared with $55.5 million in the same period in 2010.

Basic EPS in the fourth quarter of 2011 increased 28.1% to $0.41 per share compared to the same period last year. The results for the fourth quarter 2011 reflected higher revenues in all operations. Fourth quarter 2011 results included approximately $0.12 per share of incremental costs associated with the ERP implementation in Canada, as well as $0.01 per share of costs related to support costs for the global IT system to be implemented in the Company's South American and UK and Ireland operations, and $0.01 per share of costs associated with the planned acquisition from Caterpillar of the distribution and support business formerly operated by Bucyrus in Finning's dealership territories. Comparatively, the fourth quarter of 2010 included $0.03 per share of costs related to the global IT system implementation and a $0.04 per share impairment charge related to an investment and a long-lived asset.

Foreign exchange had a positive impact of approximately $0.03 per share in the fourth quarter of 2011 compared to the comparable period last year primarily due to the weaker Canadian dollar relative to the U.S. dollar.

ANNUAL OVERVIEW

	($ MILLIONS)		(% OF REVENUE)	
	YTD 2011	YTD 2010	**YTD 2011**	YTD 2010
Revenue	**$ 5,894.9**	$ 4,584.6		
Gross profit	**1,679.7**	1,377.8	**28.5%**	30.1%
Selling, general & administrative expenses	**(1,279.3)**	(1,057.5)	**(21.7)%**	(23.1)%
Equity earnings of joint venture and associate	**6.7**	5.6	**0.1%**	0.1%
Other expenses	**(27.4)**	(40.6)	**(0.5)%**	(0.9)%
Earnings from continuing operations before interest and income taxes (EBIT)	**379.7**	285.3	**6.4%**	6.2%
Finance costs	**(53.2)**	(57.6)	**(0.9)%**	(1.3)%
Provision for income taxes	**(67.1)**	(46.6)	**(1.1)%**	(1.0)%
Income from continuing operations	**$ 259.4**	$ 181.1	**4.4%**	3.9%
Loss from discontinued operations, net of tax[(1)]	**–**	(125.0)	**–**	(2.7)%
Net income	**$ 259.4**	$ 56.1	**4.4%**	1.2%
Basic earnings (loss) per share (EPS)				
from continuing operations	**$ 1.51**	$ 1.06		
from discontinued operations	**–**	(0.73)		
Total basic earnings per share	**$ 1.51**	$ 0.33		
Earnings from continuing operations before interest, taxes, depreciation, and amortization (EBITDA)	**$ 553.8**	$ 441.8	**9.4%**	9.6%
Free cash flow [(use) source]	**$ (220.8)**	$ 262.5		

(1) On May 5, 2010, the Company sold Hewden Stuart Limited (Hewden), its UK equipment rental business, for an after-tax loss of $120.8 million. As a consequence, the results of operations of Hewden have been reclassified as discontinued operations for all periods presented.

For the year ended December 31, 2011, consolidated revenues of $5.9 billion reached record levels, and increased 28.6% over the comparative year, up in all operations.

Foreign exchange had a negative impact on revenues of approximately $118 million (or 2%), primarily due to the 4.0% stronger Canadian dollar relative to the U.S. dollar for the year ended December 31, 2011 compared to last year.

New equipment sales and product support revenues from the Company's Canadian operations were up 58.4% and 13.3%, respectively, compared to the prior year primarily due to an increase in market demand. The increase in product support revenues occurred despite the ERP implementation issues in Canada, which reduced the Company's ability to efficiently distribute parts and perform service work in the last half of 2011.

In functional currency, record annual revenues from the Company's South American operations (up 32.0%) reflected record new equipment sales, strong in mining and construction, and record product support revenues, up in all sectors.

The Company's UK and Ireland operations also posted record annual revenues, in functional currency, and were up 28.3% compared to 2010. The increase was largely due to higher new equipment sales in the construction division and power systems, and record product support revenues. 2011 results also benefited from a full year of revenues from Northern Ireland and Republic of Ireland dealerships, compared with partial revenues in the prior year.

On a consolidated basis, new equipment sales were 49.8% higher than in 2010, with higher volumes in all operations reflecting strong market conditions. Product support revenues were at record levels, and 13.1% higher than the prior year, up in all operations servicing a growing installed equipment base. Used equipment sales were comparable to 2010. Rental revenues increased by 25.8% compared to 2010, reflecting strong customer demand in Canada.

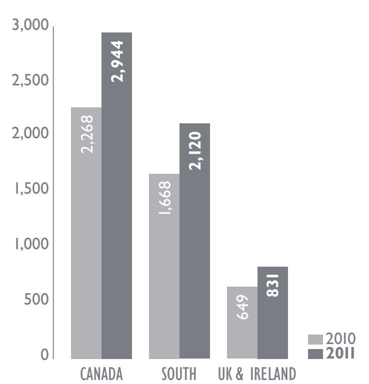
Earnings from Continuing Operations Before Interest and Taxes (EBIT)

On a consolidated basis, annual 2011 EBIT of $379.7 million was the highest ever for the Company, 33.1% higher than EBIT of $285.3 million in 2010. The increase was primarily driven by record product support revenues and very strong new equipment sales.

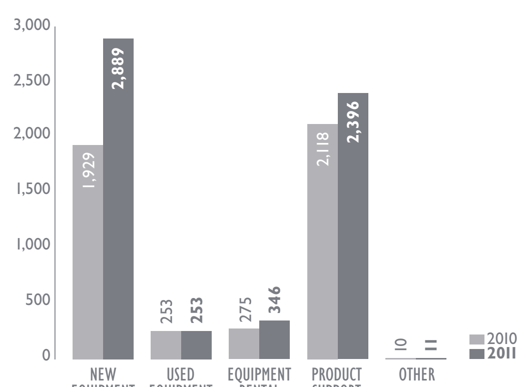
Gross profit of $1,679.7 million reached record levels, and increased 21.9% over the same period in 2010. Gross profit as a percentage of revenue was 28.5%, down compared with 30.1% in 2010. The decline was primarily due to a higher percentage of new equipment sales in all operations, which generate lower margins. New equipment sales made up 49.0% of total revenues in 2011, compared with 42.1% of total revenues last year. Comparatively, product support comprised 40.6% of total revenues in 2011, compared with 46.2% in 2010.

SG&A costs were $1,279.3 million or 21.0% higher than in 2010. This increase was primarily due to volume-related costs to support higher revenues and the growing higher margin product support business, in addition to higher system support costs such as freight, consulting, and people expenses related to the new ERP system in Canada. However, the Company continued to realize cost savings from productivity initiatives and efficiency improvements, as well as operating leverage to higher sales volumes, which in conjunction with the shift in revenue mix to a higher proportion of new equipment sales contributed to lower SG&A costs as a percentage of revenue of 21.7%, down from 23.1% in the same period last year.

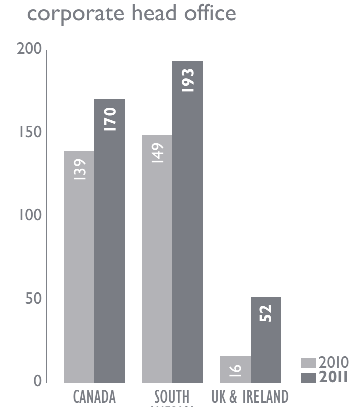
REVENUE FROM CONTINUING OPERATIONS
($ millions) For years ended December 31



REVENUE BY LINE OF BUSINESS FROM CONTINUING OPERATIONS
($ millions) For years ended December 31



EBIT FROM CONTINUING OPERATIONS*
($ millions) For years ended December 31
*excluding other operations – corporate head office



Other expenses in 2011 included costs of $22.4 million (2010: $27.8 million) related to the global IT system which was implemented in the Company's Canadian operations on July 4, 2011. These costs included additional system support expenses incurred in the third quarter of 2011 as well as costs associated with application changes to improve the functionality of the system. EBIT in 2011 also included $5.0 million of costs associated with the acquisition announced in January 2012 from Caterpillar of the distribution and support business formerly operated by Bucyrus in Finning's dealership territories later this year. The annual results for 2010 included $2.0 million of acquisition and other related costs related to the acquisition of the Caterpillar dealerships for Northern Ireland and the Republic of Ireland, and $4.0 million of restructuring and severance costs. In addition, the Company recorded a $6.8 million impairment charge related to an investment and a long-lived asset in the fourth quarter of 2010. The Company's EBIT margin was 6.4% in 2011, up from 6.2% in 2010 primarily due to the factors noted above.

Major components of the EBIT variance were:

($ MILLIONS)		
2010 Annual EBIT	$	285.3
Net change in operations		99.7
Foreign exchange impact		(18.5)
Higher acquisition and other related costs in 2011		(3.0)
Lower IT system development and implementation costs in 2011		5.4
Impairment of investment and long-lived asset in 2010		6.8
Restructuring costs in 2010		4.0
2011 Annual EBIT	**$**	**379.7**

Earnings from Continuing Operations Before Interest, Taxes, Depreciation, and Amortization (EBITDA) and Free Cash Flow

EBITDA, which management views as an indicator of a company's operating performance and generation of operating cash flow, was $553.8 million in 2011 compared to $441.8 million in 2010.

The Company's Free Cash Flow in 2011 was a $220.8 million use of cash compared to a $262.5 million generation of cash in the prior year. With stronger customer demand in 2011 for equipment and parts, the Company experienced increased requirements for working capital, in particular higher inventory and accounts receivable levels. Free Cash Flow in 2011 was also negatively impacted by the ERP system implementation, affecting parts inventory and service work in progress levels. Free Cash Flow from Hewden has been included in the reported amounts for periods prior to its sale – see "Description of Non-GAAP Measures".

Finance Costs

Finance costs in 2011 were $53.2 million compared with $57.6 million in 2010.

Following the May 2010 sale of Hewden that reduced the Company's U.K. pound sterling denominated assets, the Company used a portion of the sale proceeds to purchase £45 million of its £115 million outstanding Eurobond Notes in June 2010. As a result, the Company recorded charges of approximately $6.4 million in 2010, reflecting the premium paid to purchase the Eurobond Notes, costs associated with the recognition of deferred original financing costs, and related purchase costs.

Provision for Income Taxes

The effective income tax rate for 2011 was 20.6% comparable to 20.5% in the prior year.

Income from Continuing Operations

Finning's income from continuing operations was $259.4 million in 2011, up significantly compared to $181.1 million of income from continuing operations in 2010.

Basic EPS from continuing operations in 2011 was $1.51 per share compared with $1.06 per share last year. The results of 2011 reflected higher revenues in all operations reflecting strong market demand and the benefits of cost control and process efficiencies. The ERP system implementation and the five-week BC union strike in the third quarter of 2011 resulted in lower revenues and additional system support costs were incurred in the Company's Canadian operations, reducing earnings in the second half of the year by approximately $0.37 per share. Results of 2011 also included $0.06 per share of costs related to the global IT system implementation, and $0.02 per share of acquisition and other related costs. Results for 2010 included $0.12 per share of costs related to the Company's global IT system implementation, $0.04 per share related to impairment of an investment and a long-lived asset, $0.02 per share of costs related to the acquisition of the Ireland dealerships and restructuring and severance, as well as $0.03 per share of incremental finance costs incurred on the repurchase of a portion of the Company's Eurobond Notes.

Foreign exchange had a negative impact of approximately $0.09 per share in 2011 compared to the prior year primarily due to the stronger Canadian dollar relative to the U.S. dollar.

Discontinued Operations – Hewden

On May 5, 2010, the Company sold Hewden, its UK equipment rental business as the Company determined that a large, short-term rental business operating separately from its UK dealership was not aligned with the Company's strategic objectives. Gross proceeds on the sale of Hewden of $171.1 million (£110.2 million) comprised cash of £90.2 million and a £20.0 million interest bearing 5-year note receivable with a fair value of £16.9 million. Transaction costs of $7.2 million were incurred and paid on the transaction.

The loss on sale was $120.8 million, which included the realization of $21.2 million of foreign exchange losses related to the Company's investment in Hewden which was previously recorded in accumulated other comprehensive loss. The loss on disposal differs from that reported under Canadian GAAP, primarily due to the reclassification of the cumulative translation adjustment and associated net investment hedging gains and losses from accumulated other comprehensive income to retained earnings, and the recognition of unamortized actuarial losses on Hewden's defined benefit pension plan in retained earnings in the IFRS opening consolidated statement of financial position. The results of operations of Hewden for the periods up to May 5, 2010 have been reclassified as discontinued operations in the consolidated statements of income and cash flow. The results of Hewden had previously been reported in the Finning (UK) Group segment.

FOREIGN EXCHANGE

Translation

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

Foreign exchange had a positive impact on consolidated revenues in the fourth quarter of 2011 of $17.1 million primarily due to a 1.0% weaker Canadian dollar relative to the U.S. dollar, compared to the fourth quarter of 2010. As a result, EBIT was positively impacted by $7.8 million and earnings were positively impacted by approximately $0.03 per share in the fourth quarter of 2011 compared to the prior year's fourth quarter.

For the full year (2011), foreign exchange had a negative impact on consolidated revenues of $118.3 million primarily due to a 4.0% stronger Canadian dollar relative to the U.S. dollar. As a result, EBIT was negatively impacted by $18.5 million and earnings were negatively impacted by approximately $0.09 per share in 2011 compared to last year.

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

The impact of foreign exchange due to the value of the Canadian dollar relative to the U.S. dollar and U.K. pound sterling is expected to continue to affect Finning's results. The sensitivity of the Company's net earnings to fluctuations in the average annual foreign exchange rates is summarized in the Risk Management section of this MD&A.

The following tables provide details of revenue and EBIT from continuing operations and the foreign exchange impact for the three and twelve months ended December 31, 2011.

Three months ended December 31 ($ MILLIONS)	Canada	South America	UK & Ireland	Consolidated
Revenues – Q4 2010	$ 652.1	$ 505.6	$ 188.8	$ 1,346.5
Foreign exchange impact	8.1	8.2	0.8	17.1
Operating revenue increase	330.7	78.9	37.4	447.0
Revenues – Q4 2011	**$ 990.9**	**$ 592.7**	**$ 227.0**	**$ 1,810.6**
Total revenue increase	$ 338.8	$ 87.1	$ 38.2	$ 464.1
– percentage increase	52.0%	17.2%	20.3%	34.5%
– percentage increase, excluding foreign exchange	50.7%	15.6%	19.8%	33.2%

For year ended December 31 ($ MILLIONS)	Canada	South America	UK & Ireland	Consolidated
Revenues – 2010	$ 2,267.8	$ 1,668.4	$ 648.4	$ 4,584.6
Foreign exchange impact	(35.8)	(81.5)	(1.0)	(118.3)
Operating revenue increase	711.7	533.2	183.7	1,428.6
Revenues – 2011	**$ 2,943.7**	**$ 2,120.1**	**$ 831.1**	**$ 5,894.9**
Total revenue increase	$ 675.9	$ 451.7	$ 182.7	$ 1,310.3
– percentage increase	29.8%	27.1%	28.2%	28.6%
– percentage increase, excluding foreign exchange	31.4%	32.0%	28.3%	31.2%

Three months ended December 31 ($ MILLIONS)	Canada	South America	UK & Ireland	Other	Consolidated
EBIT – Q4 2010	$ 47.6	$ 39.8	$ 6.4	$ (10.0)	$ 83.8
Foreign exchange impact	1.4	4.4	2.0	–	7.8
Operating EBIT increase (decrease)	(5.6)	12.1	6.4	2.8	15.7
EBIT – Q4 2011	**$ 43.4**	**$ 56.3**	**$ 14.8**	**$ (7.2)**	**$ 107.3**
Total EBIT increase (decrease)	$ (4.2)	$ 16.5	$ 8.4	$ 2.8	$ 23.5
– percentage increase (decrease)	(8.8)%	41.5%	131.2%	n/m	28.1%
– percentage increase (decrease), excluding foreign exchange	(11.8)%	30.4%	100.0%	n/m	18.7%

For year ended December 31 ($ MILLIONS)	Canada	South America	UK & Ireland	Other	Consolidated
EBIT – 2010	$ 139.2	$ 148.8	$ 15.7	$ (18.4)	$ 285.3
Foreign exchange impact	(7.8)	(11.2)	0.5	–	(18.5)
Operating EBIT increase (decrease)	38.7	55.6	35.6	(17.0)	112.9
EBIT – 2011	**$ 170.1**	**$ 193.2**	**$ 51.8**	**$ (35.4)**	**$ 379.7**
Total EBIT increase (decrease)	$ 30.9	$ 44.4	$ 36.1	$ (17.0)	$ 94.4
– percentage increase	22.1%	29.9%	230.3%	n/m	33.1%
– percentage increase, excluding foreign exchange	27.8%	37.4%	226.8%	n/m	39.6%

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

Investment in Foreign Operations

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

Currency translation adjustments arise as a result of fluctuations in foreign currency exchange rates at the period reporting date compared to the previous period reporting date. The unrealized currency translation gain of $24.7 million recorded in 2011 resulted primarily from the weaker spot Canadian dollar against the U.S. dollar and the U.K. pound sterling of 2.3% and 1.8%, respectively, at December 31, 2011 compared to December 31, 2010. For more details, refer to the Company's Consolidated Statements of Comprehensive Income (Loss).

RESULTS BY BUSINESS SEGMENT

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

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

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

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

For year ended December 31, 2010 ($ MILLIONS)	Canada	South America	UK	Consolidated	Revenue percentage
New equipment	$ 817.9	$ 763.3	$ 347.4	$ 1,928.6	42.1%
Used equipment	156.3	41.6	55.6	253.5	5.5%
Equipment rental	189.5	56.3	28.9	274.7	6.0%
Product support	1,095.9	805.3	216.5	2,117.7	46.2%
Other	8.2	1.9	–	10.1	0.2%
Total	$ 2,267.8	$ 1,668.4	$ 648.4	$ 4,584.6	100.0%
Revenue percentage by operations	49.5%	36.4%	14.1%	100.0%	

Canadian Operations

The Canadian operating segment includes Finning (Canada), the Company's interest in OEM Remanufacturing Company Inc. (OEM), and a 25% interest in PipeLine Machinery International (PLM). Finning (Canada) sells, services, and rents mainly Caterpillar mobile equipment and engines in British Columbia, Alberta, Yukon, Northwest Territories, and a portion of Nunavut. The Company's end 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 operating segment:

For years ended December 31 ($ MILLIONS)	2011	2010
Revenue from external sources	$ 2,943.7	$ 2,267.8
Operating costs	(2,654.1)	(2,016.9)
Depreciation and amortization	(110.7)	(98.8)
	178.9	152.1
Equity earnings of joint venture	8.0	7.0
Other expenses		
Information technology system implementation costs	(16.5)	(14.7)
Acquisition costs	(0.3)	–
Restructuring and other costs	–	(5.2)
Earnings before interest and taxes (EBIT)	$ 170.1	$ 139.2
EBIT		
– as a percentage of revenue	5.8%	6.1%
– as a percentage of consolidated EBIT	44.8%	48.8%
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	$ 280.8	$ 238.0

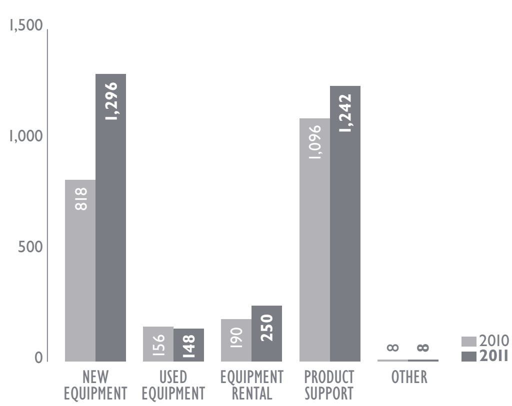
2011 revenues increased 29.8% over 2010 to $2.9 billion, largely due to higher new equipment sales.

New equipment sales, 58.4% higher than in 2010, were robust across all sectors and particularly strong in mining. Record deliveries in the fourth quarter of 2011 reduced Finning (Canada)'s backlog by 27% at the end of the year as compared to September 2011. Order activity in 2011 was strong, 16% higher than 2010.

Product support revenues for the year grew to record levels, 13.3% higher than 2010. This increase, especially in the first half of 2011, reflected increased demand for parts, component repairs, and machine rebuilds, driven by change-out cycles for the large population of mining equipment in Finning (Canada)'s territory as well as higher utilization of heavy construction fleets.

As previously disclosed, following the launch of its new ERP system in Canada on July 4, the Company experienced implementation issues affecting parts supply, warehousing, and distribution operations, which negatively impacted the Company's ability to efficiently distribute parts and perform service work in the third and fourth quarters of 2011. The Canadian operations have since tested and successfully implemented a series of application changes and system performance enhancements to improve the functionality and reliability of the system to process and distribute parts to customers. Improvements to the new ERP system and resulting processes will continue to be deployed with a focus on efficiency, reducing costs, and improving working capital levels.

CANADA – REVENUE BY LINE OF BUSINESS
($ millions) For years ended December 31



In Canada, gross profit in absolute dollars was higher than 2010, driven primarily by record product support revenues and the significant increase in customer demand for new equipment. Gross profit as a percentage of revenue was lower than in 2010, primarily due to the shift in revenue mix to a higher proportion of new equipment sales, which typically return lower margins than product support revenues. New equipment sales made up 44.0% of total revenues in 2011, compared with 36.1% in 2010. Comparatively, product support revenues comprised 42.2% in 2011 compared with 48.3% last year. In addition, the Canadian operations experienced lower gross margins in product support compared with the prior year primarily due to ERP system implementation issues.

SG&A costs in 2011 were higher compared to 2010 primarily due to volume related costs related to higher new equipment sales and to support growing customer demand, as well as system implementation costs. In 2011 the number of employees in the Company's Canadian operations increased by 23% to approximately 5,400 to meet current and anticipated demand. The increase in workforce in 2011 was in customer support areas as well as temporary labour necessary to provide support and resolve the ERP implementation issues encountered. In addition, the ERP system implementation on July 4, 2011 increased costs related to freight, consulting, and people expenses, and other support costs. However, SG&A as a percentage of revenue was lower than the prior year, reflecting actions taken to reduce, where feasible, discretionary expenses and improve productivity and efficiencies, and operating leverage to higher sales volumes, in addition to the impact of the shift in revenue mix.

The equity earnings of joint venture of $8.0 million in 2011 relate to the Company's investment in PLM, and were comparable to the equity income of $7.0 million in 2010.

Included in other expenses was $16.5 million (2010: $14.7 million) of costs in 2011, representing Finning (Canada)'s share of the costs related to the implementation of the new IT system for the Company's global dealership operations incurred in the first half of 2011, and additional system support costs in the third quarter of 2011 related to this ERP implementation, which was launched in Canada on July 4, 2011. Other expenses in 2011 also included $0.3 million of costs associated with the acquisition announced in January from Caterpillar of the distribution and support business formerly operated by Bucyrus in Finning (Canada)'s territory. In 2010, restructuring and other costs of $5.2 million were also incurred; included in this balance were restructuring costs of $3.4 million, incurred in response to market conditions.

In 2011 the Canadian operations generated EBIT of $170.1 million, compared with EBIT of $139.2 million in 2010, primarily due to higher new equipment sales and record product support revenues. EBIT margin was 5.8%, slightly lower than the EBIT margin of 6.1% achieved in 2010, reflecting the shift in revenue mix to a higher proportion of new equipment sales and higher costs incurred due to the IT system implementation issues noted above.

OTHER DEVELOPMENTS

- On October 18, 2011, the Company announced the appointment of Andy Fraser as president of the Company's Canadian operations. Mr. Fraser has held a variety of senior roles across the Company's global operations, including his most recent role as executive vice president, power systems and global business development for Finning International. Mr. Fraser replaces Dave Parker, who stepped down from his role with the Company.
- On July 29, 2011, following a five-week work stoppage, Finning (Canada) and the International Association of Machinists and Aerospace Workers (IAM) – Local Lodge 692, representing approximately 700 employees in B.C. and Yukon, reached agreement on a four-year collective agreement which expires on April 14, 2015. The new agreement provides for a wage increase of 4% in year one, 3% in years two and three, and 4% in year four.
- In early January 2011, the Company received a decision from the Alberta Labour Relations Board (ALRB) relating to the ongoing proceedings with the IAM – Local Lodge 99 relating to Finning (Canada)'s outsourcing of component repair and rebuilding services to OEM in 2005. The ALRB recognized the existing collective agreement with the Christian Labour Association of Canada (CLAC) and found that it should continue to apply to the OEM bargaining unit to the end of the current contract (December 31, 2011). A vote was ordered to be held by the OEM employees (some former Finning (Canada) Component Rebuild Centre (CRC) employees were also eligible to vote) to determine whether the CLAC or IAM – Local Lodge 99 will represent them going forward. These OEM and CRC employees voted in early June 2011 for the CLAC to continue to represent them under the existing collective agreement.
  As noted above, OEM's collective bargaining agreement with CLAC expired at the end of December 2011. Negotiations with the union are underway. OEM is committed to the collective bargaining process and to concluding a fair contract for its employees and for OEM.
- On February 9, 2012, Finning (Canada) and the IAM – Local Lodge 99 representing approximately 1,700 hourly employees in Alberta and the Northwest Territories have reached a memorandum of agreement on a one-year extension to the current collective agreement. The agreement is subject to a ratification vote by the Union membership, which is expected to be concluded within one month. The Union Committee is recommending that its members accept the agreement. The current collective agreement is set to expire on April 30, 2012.

South American Operations

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

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

For years ended December 31 ($ MILLIONS)	**2011**	2010
Revenue from external sources	**$ 2,120.1**	$ 1,668.4
Operating costs	**(1,880.7)**	(1,472.7)
Depreciation and amortization	**(41.2)**	(37.6)
	198.2	158.1
Other expenses		
Information technology system implementation costs	**(4.5)**	(9.3)
Acquisition costs	**(0.5)**	–
Earnings before interest and taxes (EBIT)	**$ 193.2**	$ 148.8
EBIT		
– as a percentage of revenue	**9.1%**	8.9%
– as a percentage of consolidated EBIT	**50.9%**	52.2%
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	**$ 234.4**	$ 186.4

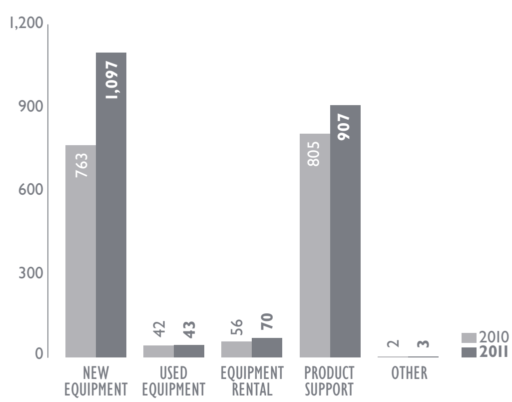
Finning South America's 2011 revenues were at record levels, surpassing $2.1 billion. Revenues in 2011 increased 27.1% over 2010, and were up 32.0% in functional currency (the US dollar), reflecting both record new equipment sales and product support revenues.

In functional currency, new equipment sales were up 49.1% compared with last year, with increased demand in all market sectors. New equipment backlog, in functional currency, was slightly lower than the September and June 2011 levels but continues to be near its highest level since September 2008. Order activity in 2011 was strong, 29% higher than 2010.

Product support revenues were 17.0% higher, in functional currency, compared to 2010, up in all sectors but particularly in mining and construction.

In functional currency, gross profit in 2011 in absolute terms was at record levels, driven primarily by the record new equipment and product support revenues. Gross profit as a percentage of revenue was lower compared with the prior year, primarily due to a shift in revenue mix to a higher proportion of new equipment sales, which typically return lower margins than product support revenues. New equipment sales made up 51.7% of total revenues in 2011, compared with 45.8% last year. Comparatively, product support revenues comprised 42.8% of total revenues in 2011, compared with 48.2% in 2010. The South American operations experienced slightly lower or comparable gross margins in all lines of business compared with 2010.

SOUTH AMERICA – REVENUE BY LINE OF BUSINESS
($ millions) For years ended December 31



SG&A costs, in functional currency, increased in absolute dollars primarily due to volume-related costs and partly due to an increase in workforce costs to support higher revenues and the growing product support business. In 2011, the number of employees in the Company's South American operations increased by 9% to approximately 6,500 to meet current and anticipated customer demand for product support. There is significant demand and competition for highly skilled workers, particularly in Chile, which the Company is actively managing. SG&A as a percentage of revenue was lower than 2010, primarily reflecting management's initiatives to reduce operating cost levels and improve operating efficiencies, as well as operating leverage to higher sales volumes.

Included in other expenses was $4.5 million (2010: $9.3 million) of costs representing the South American operations' share of the costs related to the implementation of a new IT system for the Company's global dealership operations. Other expenses in 2011 also included $0.5 million of costs associated with the acquisition announced in January from Caterpillar of the distribution and support business formerly operated by Bucyrus in the dealership territories of the Company's South American operations.

EBIT from the Company's South American operations of $193.2 million in 2011 was at record levels, and 29.9% higher than the prior year. In functional currency, record EBIT in 2011 increased 34.8% over last year, largely due to record new equipment sales and product support revenues, partly offset by higher SG&A costs related to growth. EBIT as a percentage of revenue for Finning South America was 9.1%, slightly higher than the EBIT margin of 8.9% achieved in 2010, reflecting operating efficiencies and productivity improvements which more than offset the impact of a higher proportion of new equipment sales in revenue.

United Kingdom (UK) and Ireland Operations

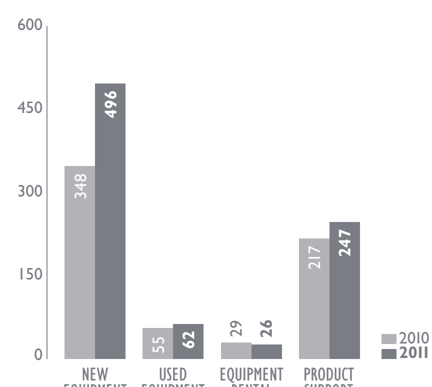
The Company's UK and Ireland operations sell, service, and rent mainly Caterpillar mobile equipment and engines in England, Scotland, Wales, Northern Ireland, the Republic of Ireland, the Falkland Islands, and the Channel Islands. The Company's markets include mining, quarrying, construction, power systems, and rental services. In August 2010, Finning was appointed the Caterpillar dealer for Northern Ireland and the Republic of Ireland. The results of these operations have been included in the consolidated financial statements since their acquisition date.

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

For years ended December 31

($ MILLIONS)	**2011**	2010
Revenue from external sources	**$ 831.1**	$ 648.4
Operating costs	**(755.5)**	(607.5)
Depreciation and amortization	**(21.9)**	(20.0)
	53.7	20.9
Other expenses		
Information technology system implementation costs	**(1.9)**	(2.6)
Acquisition and other related costs	**–**	(2.0)
Restructuring costs	**–**	(0.6)
Earnings before interest and taxes (EBIT)	**$ 51.8**	$ 15.7
EBIT		
– as a percentage of revenue	**6.2%**	2.4%
– as a percentage of consolidated EBIT	**13.6%**	5.5%
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	**$ 73.7**	$ 35.7

UK AND IRELAND – REVENUE BY LINE OF BUSINESS
FROM CONTINUING OPERATIONS
($ millions) For years ended December 31



The UK and Ireland revenues in 2011 of $831.1 million were up 28.2% from the same period last year, (up 28.3% in functional currency, the U.K. pound sterling). The increase was largely due to higher new equipment sales in the construction division (particularly in the coal and plant hire sectors) and power systems, and record product support revenues. 2011 results also benefited from a full year of revenues from Northern Ireland and Republic of Ireland dealerships, compared with partial revenues in the prior year. New equipment backlog, in functional currency, was up slightly compared to December 2010 and was at its highest level since March 2008. Order activity in 2011 was strong, 14% higher than 2010.

Revenues, in functional currency, from all lines of business were higher compared to 2010, with the exception of equipment rental. In functional currency, both new equipment sales and product support revenues were at record levels; new equipment sales were up 42.8%, and revenues from product support were 14.4% higher in 2011 compared to 2010.

Gross profit, in functional currency, in 2011 was higher compared with the prior year in absolute terms. However, gross profit as a percentage of revenue was lower than 2010, reflecting a shift in revenue mix to a higher proportion of new equipment sales, which typically return lower margins than product support revenues. New equipment sales made up 59.7% of total revenues in 2011, compared with 53.6% of total revenues last year. Comparatively, product support revenues comprised 29.7% of total revenues in 2011, compared with 33.3% in 2010. The UK operations experienced higher or comparable gross margins in all lines of business compared with 2010.

SG&A costs, in functional currency, were higher in absolute dollars in 2011 compared to 2010, primarily due to increased volume-related costs to support higher revenues. This increase was partly offset by a pension curtailment gain of $6.4 million due to the amendment of the UK defined benefit pension plan to cease future accruals from April 2012. Comparatively, in 2010, the Finning (UK) defined benefit pension plan was amended to reverse a previous decision to move to a Career Average Re-valued Earnings (CARE) basis of benefit accrual, and as a result recorded past service costs of $7.8 million. SG&A as a percentage of revenue was lower than 2010, reflecting the benefit of management's initiatives to reduce operating cost levels and improve operating efficiencies as well as operating leverage to higher sales volumes.

Other expenses in 2011 included costs of $1.9 million representing the UK dealership's share of costs related to the implementation of a new IT system for the Company's global dealership operations (2010: $2.6 million). In the third quarter of 2010, Finning was appointed the Caterpillar dealer for Northern Ireland and the Republic of Ireland. Acquisition and other related costs of $2.0 million were incurred on the transaction, and were included in other expenses. In response to market conditions, Finning (UK) also incurred some restructuring and severance costs in 2010.

In 2011, the UK and Ireland operations generated EBIT of $51.8 million, a significant improvement compared with EBIT of $15.7 million in 2010. The higher EBIT in 2011 was primarily the result of significantly higher new equipment sales and lower operating cost levels. The UK's EBIT margin (EBIT as a percentage of revenue) in 2011 was 6.2%, significantly improved compared with 2.4% in 2010, primarily due to higher volumes and reduced SG&A costs as a percentage of revenue.

Corporate and Other Operations

For years ended December 31 ($ MILLIONS)	2011	2010
Operating costs – corporate	$ (21.5)	$ (18.8)
Long-term incentive plan (LTIP)	(8.6)	8.1
Depreciation and amortization	(0.3)	(0.1)
	(30.4)	(10.8)
Equity loss of associate	(1.3)	(1.4)
Other income (expenses)		
Acquisition and other related costs	(4.2)	–
Information technology system implementation recovery (costs)	0.5	(1.2)
Impairment of equity investment	–	(5.0)
Earnings before interest and taxes	$ (35.4)	$ (18.4)

In 2011 corporate operating costs of $21.5 million were up 14% compared with 2010.

The Company entered into a compensation hedge at the end of 2007 in order to offset the mark-to-market impact relating to certain share-based compensation plans. In 2011, the compensation hedge expense recorded at the corporate level as a result of a lower market price for the Company's shares was partially offset by the fair value change of the LTIP. In 2010, the Company's share price increased and the LTIP expense was more than offset by the positive fair value change of the LTIP hedge.

The equity loss of associate in 2011 and 2010 relates to the Company's investment in Energyst B.V. In conjunction with the appointment of Finning as the Caterpillar dealer for Northern Ireland and the Republic of Ireland, the Company increased its interest in Energyst by committing to purchase 11,230 shares for cash of $1.4 million (EUR 1.0 million). As a result, the Company's equity interest in Energyst increased to 27.0% from 25.4% in the first quarter of 2011. In the fourth quarter of 2010, the Company reviewed the valuation of its investments. As a result of this review and the continued weak economic conditions in Europe and poor operating performance from Energyst, combined with a very competitive market environment, the Company recorded a $5 million impairment of its investment.

Other expenses in 2011 included $4.2 million of costs associated with the planned acquisition from Caterpillar of the distribution and support business formerly operated by Bucyrus in Finning's dealership territories.

Discontinued Operations – Hewden

Following an extensive strategic review, in May 2010, the Company sold Hewden, its UK equipment rental business.

The results of operations of Hewden for the periods up to May 5, 2010 have been reclassified as discontinued operations in the consolidated statements of income and cash flow. Approximately 1,300 employees were transferred to the buyer with the sale of Hewden.

Loss from discontinued operations to the date of disposition is summarized as follows:

($ THOUSANDS)	January 1 - May 5, 2010
Revenue	$ 65,259
Loss before provision for income taxes	(6,891)
Loss on sale of discontinued operation, pre tax	(130,836)
Provision for income taxes:	
Tax recovery on operating loss	2,702
Tax recovery on loss on sale of discontinued operations	10,002
Loss from discontinued operations	$ (125,023)

LIQUIDITY AND CAPITAL RESOURCES

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

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

Cash Flow from Operating Activities

For the year ended December 31, 2011, cash provided after working capital changes was $75.5 million compared with $399.9 million during the same period in 2010.

The decrease in the generation of cash in 2011 reflected an increase in customer demand for equipment, parts, and service, primarily for mining and construction, with a corresponding increase in working capital requirements, driven by higher accounts receivable levels related to higher sales and increased inventories. Working capital in 2011 was also negatively impacted by the ERP system implementation, affecting parts inventory and service work in progress levels. Throughout all operations, management continues to focus on improving cash cycle times and operating efficiencies while ensuring appropriate levels of working capital are in place to support activity levels.

In 2011 the Company invested $150.0 million in rental assets, net of disposals. In 2010 the Company invested $75.0 million in rental assets for continuing operations, net of disposals. Rental investment had moderated in 2010 as a result of lower demand and a focus on a more selective rental strategy. Rental demand has increased in 2011 in response to improved market conditions and spending was on plan.

As a result of these items, cash flow used in operating activities was $80.9 million in 2011 compared to cash flow provided by operating activities of $319.7 million in 2010.

EBITDA was $553.8 million in 2011 compared to $441.8 million in 2010.

Cash Used For Investing Activities

Net cash used in investing activities in 2011 totalled $139.4 million compared with net cash provided by investing activities from continuing operations of $48.8 million in 2010. The primary use of cash in 2011 and 2010 related to capital asset additions. The primary source of cash in 2010 related to net proceeds of $117.8 million received on the sale of Hewden, net of transaction costs and cash sold. In 2011, the Company received $6.3 million as partial payment of the £20 million 5-year note receivable from the purchaser of Hewden.

Gross capital additions from continuing operations in 2011 were $149.2 million compared with the $70.8 million invested in 2010. Capital additions in 2011 and 2010 generally reflected capital spending related to infrastructure investments to support the growing product support demand. In addition, capital additions in 2011 included capitalized costs of $10.5 million (2010: $17.5 million) related to the Company's new global IT system.

In 2011, the Company acquired certain assets and operations which include the rights to sell and service machine control and monitoring products in the Company's Canadian and South American dealership territories, and paid cash of approximately $2.5 million. The Company also spent $0.7 million in costs associated with the plan to acquire from Caterpillar the distribution and support business formerly operated by Bucyrus in Finning's dealership territories. In addition, in 2011, the Company increased its investment in Energyst B.V. by $1.4 million.

In 2010, the Company paid $6.7 million for certain assets and acquisition and other related costs on the acquisition of the Ireland dealerships; in 2011, the Company paid the remaining $1.3 million of acquisition and other related costs. In addition, the Company received proceeds of $26.0 million in 2010 on the settlement of a cross currency interest rate swap that was part of a hedge against foreign subsidiary investments.

The Company's net capital expenditures for 2012 are expected to be approximately $160 million, including approximately $60 million for the Fort McKay, Alberta truck shop facility. The spend rate is expected to temporarily run above management's annual long-term target to capture product support growth. Net rental additions for 2012 are projected to be at the higher end of management's target range of $100 million to $150 million due to strong market conditions.

The Company believes that internally generated cash flow, supplemented by net borrowings from existing financing sources, if necessary, will be sufficient to meet anticipated capital expenditures and other cash requirements in 2012. Management believes that the 2012 results will generate strong operating cash flows as working capital requirements moderate and capital expenditures and investment in rental fleets continue to be actively managed. At this time, the Company does not expect any presently known trend or uncertainty to affects its ability to access its historical sources of cash.

Financing Activities

As at December 31, 2011, the Company's short and long-term borrowings totalled $1.1 billion, up 9.3% from December 31, 2010. The increase reflected borrowings to support the Company's higher working capital requirements. In the fourth quarter of 2011, the Company repaid its 4.64% $150 million medium term notes. Repayment of the notes was funded by the issuance of commercial paper under the Company's commercial paper program.

Subsequent to year end, in January 2012, the Company issued unsecured senior notes in the U.S. private placement market of U.S. $200 million. The Company issued the notes in two series of U.S. $100 million each: the 3.98% Senior Notes, Series A, due January 19, 2022 and the 4.08% Senior Notes, Series B, due January 19, 2024. Proceeds from the notes were used to repay commercial paper borrowings and for general corporate purposes. In addition, in connection with the Bucyrus announcement, the Company is committed, subject to certain closing conditions, to pay U.S. $465 million on closing in the first half of 2012, to be funded through the issuance of U.S. and Canadian dollar denominated term debt.

In September 2011, the Company entered into a $1.0 billion committed unsecured syndicated global operating credit facility. This facility replaces the previous $800 million global credit facility, which was set to mature in December 2011. The new facility can be accessed in multiple borrowing jurisdictions, in multiple currencies, at various floating rates of interest, and may be drawn by a number of the Company's principal operating subsidiaries. The facility is also used as a back stop for the Company's commercial paper program and, as such, availability under the facility is reduced by the amount of commercial paper Finning has outstanding at any given time. The new committed facility matures in September 2015 and contains annual options to extend the maturity date on terms reflecting market conditions at the time of the extension.

Following the sale of Hewden, the Company's UK equipment rental business in May 2010, the Company used a portion of the proceeds to purchase £45 million of the then outstanding £115 million Eurobond notes.

To complement the internally generated funds from operating and investing activities, the Company has over $1.5 billion in unsecured credit facilities. Included in this amount, Finning has committed bank facilities totalling approximately $1.1 billion with various Canadian, U.S., and South American financial institutions. The largest of these facilities, the $1.0 billion global credit facility, matures in September 2015 as noted above. As at December 31, 2011 approximately $727 million was available under these committed facilities. Based upon the availability of these facilities, the Company's business operating plans, and the discretionary nature of some of the cash outflows such as rental and capital expenditures, the Company believes it has sufficient liquidity to meet operational needs.

Longer-term capital resources are provided by direct access to capital markets. The Company is rated by both Standard and Poor's (S&P) and Dominion Bond Rating Service (DBRS). In 2011, the Company's long-term debt ratings were confirmed at A (low) by DBRS and BBB+ by S&P. The Company's short-term debt rating was also confirmed by DBRS at R-1 (low). Subsequent to the January 2012 announcement that the Company agreed to acquire the former Bucyrus distribution business for all of its dealership territories from Caterpillar, S&P and DBRS reconfirmed the Company's current debt ratings. The Company continues to utilize the Canadian commercial paper market as well as borrowings under its credit facilities as its principal sources of short-term funding. The maximum authorized limit of the Company's commercial paper program is $600 million.

Dividends paid to shareholders in 2011 were $87.5 million, up almost 9% compared to 2010, reflecting the $0.01 per common share increase to a quarterly dividend of $0.13 per common share announced in May 2011.

The Company's Debt Ratio (net debt to total capitalization ratio) at December 31, 2011 was 42.0% compared with 35.3% at December 31, 2010. The increase in the Debt Ratio reflected cash used to fund working capital requirements.

Contractual Obligations

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

($ MILLIONS)	2012	2013	2014	2015	2016	Thereafter	Total
Long-term debt							
– principal repayment	$ 0.5	$ 360.5	$ 0.6	$ 49.7	$ 0.3	$ 351.5	$ 763.1
– interest	41.5	41.4	22.3	22.3	21.3	32.4	181.2
Operating leases	64.5	51.8	42.3	25.7	21.0	104.2	309.5
Capital leases	3.1	2.5	1.5	1.3	1.3	17.2	26.9
Total contractual obligations	$ 109.6	$ 456.2	$ 66.7	$ 99.0	$ 43.9	$ 505.3	$ 1,280.7

The above table does not include obligations to fund pension benefits, although the Company is making regular contributions to its registered defined benefit pension plans in Canada and the UK in order to fund the pension plans as required. Contribution requirements are based on periodic (at least triennial) actuarial funding valuations performed by the Company's (or plan Trustees') actuaries. In 2011, approximately $44 million was contributed by the Company towards the defined benefit pension plans. Defined benefit plan contributions currently expected to be paid during the financial year ended December 31, 2012 amount to approximately $35 million.

Employee Share Purchase Plan

The Company has employee share purchase plans for its Canadian and South American employees. Under the terms of these plans, eligible employees may purchase common shares of the Company in the open market at the then current market price. The Company pays a portion of the purchase price to a maximum of 2% of employee earnings. At December 31, 2011, 62% and 2% of eligible employees in the Company's Canadian and South American operations, respectively, were contributing to these plans. The Company also has an All Employee Share Purchase Ownership Plan for its employees in Finning (UK). Under the terms of this plan, employees may contribute up to 10% of their salary to a maximum of £125.00 per month. The Company will provide one common share, purchased in the open market, for every three shares the employee purchases. At December 31, 2011, 24% of eligible employees in Finning (UK) were contributing to this plan. These plans may be cancelled by Finning at any time.

OUTLOOK

Strong demand for new equipment and robust quotation activity continues in all the Company's regions. In mining, the outlook for commodity prices remains positive, and is expected to continue to support producers' investment plans. Low-hour used equipment remains in short supply, and demand for rental equipment continues to be solid. The Company also continues to experience strong demand for parts and service, including equipment rebuild work for mining and construction customers.

As a result of strong market conditions, all regions are experiencing long lead times from Caterpillar for new equipment. The Company constantly assesses its inventory requirements in response to strong demand and is utilizing the entire Caterpillar dealer global network to source new and used equipment. The Company continues to work closely with customers to find solutions for their equipment needs, include renting, repairing or rebuilding equipment.

In Canada, the Company is experiencing significant demand for new, used and rental equipment. In mining, including the oil sands, new machine sales and quoting activity for projects remains strong. The heavy construction, conventional oil, and forestry sectors are very active, driving increased demand for equipment. The gas sector is showing signs of weakness due to slowing activity in response to low gas prices. Product support business is strong in all sectors; and large equipment overhaul and component remanufacturing remain solid.

Following the implementation issues of its new ERP system in Canada which went live in July 2011, the Company's parts activity levels are back to near normal. The system is reliable and user proficiency has improved. The Company's focus has been on mitigating the impact on customers which has temporarily increased SG&A expenses. These additional costs are expected to progressively decline with the majority being eliminated by mid-year. The Company will continue to improve the system's functionality and efficiency by implementing selective solution enhancements and process improvements which will remove manual workarounds and other incremental costs as well as improve working capital levels.

In South America, new order intake in all sectors is robust. Demand for mining equipment is strong and projected to continue for the foreseeable future. Long-term fundamentals are expected to remain positive. The Company is actively quoting on new equipment and receiving new orders from mining customers. Construction and power systems sectors are projected to remain active as a result of significant investment in infrastructure and energy. The growing installed base of equipment in mining, construction and power systems is expected to continue to drive ongoing product support growth in South America. In Argentina, over the past 12 months the government has introduced certain restrictions on imported goods and limitations on foreign exchange. To date we have not seen any material impacts on our business in Argentina. We continue to monitor the situation and are developing plans to minimize any potential impacts.

In the U.K., the outlook remains encouraging despite the uncertainties in the U.K. and European economies. Sales opportunities to coal mining, quarrying and re-handling customers remain positive. Product support activities, including equipment rebuild work for large accounts, are expected to remain at healthy levels. The Company continues to execute well on its distribution strategy for smaller new equipment. In power systems, order intake for engines and projects has strengthened, particularly in the pleasure craft, industrial, oil and gas, and power and energy sectors. The outlook for Ireland looks positive, mainly in the power systems business.

On January 18, 2012, the Company announced that it had reached an agreement to acquire the former Bucyrus distribution business for all of its dealership territories from Caterpillar in an asset based transaction valued at U.S. $465 million. The acquisition is strategically important for Finning as it is expected to expand the Company's leadership position in the growing mining sector. Finning will be able to sell and support a comprehensive product line that meets its customers' surface and underground mining needs. It is anticipated that the transaction will close in two phases: first in the Company's operations in South America and UK and Ireland, and subsequently in the Canadian operations. Both closings are expected to occur in the second quarter of 2012. The acquisition will be financed with debt, and is expected to be accretive to 2012 earnings per share, excluding transaction costs.

The Company's priorities are to improve operating profitability, particularly in the Canadian operations, successfully integrate the former Bucyrus business, and maintain a strong balance sheet.

ACCOUNTING ESTIMATES AND CONTINGENCIES

ACCOUNTING, VALUATION, AND REPORTING

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

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

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

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

During the year, the Company performed its assessment of goodwill and determined that goodwill was not impaired at December 31, 2011 and 2010.

Due to the size, complexity, and nature of the Company's operations, various legal and tax matters are pending. In the opinion of management, none of these matters are expected to have a material effect on the Company's consolidated financial position or results of operations.

INCOME TAXES

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

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

DESCRIPTION OF NON-GAAP MEASURES

EBIT is defined herein as earnings from continuing operations before interest expense, interest income, and income taxes. EBITDA is defined as earnings from continuing operations before interest, taxes, depreciation, and amortization. Free Cash Flow is defined as cash flow provided by (used in) operating activities less net property, plant, and equipment expenditures. EBIT, EBITDA, and Free Cash Flow are measures of performance utilized by management to measure and evaluate the financial performance of its operating segments. EBITDA and Free Cash Flow are measures commonly reported and widely used by investors as an indicator of a company's cash operating performance and ability to raise and service debt. EBITDA is also commonly regarded as an indirect measure of operating cash flow, a significant indicator of success for many businesses and is a common valuation metric.

Management believes that these measures provide important information regarding the operational performance of the Company's business. By considering these measures in combination with the comparable IFRS (also referred to as generally accepted accounting principles, or GAAP) measures set out below, management believes that shareholders are provided a better overall understanding of the Company's business and its financial performance during the relevant period than if they simply considered the GAAP measures alone. EBIT, EBITDA, and Free Cash Flow do not have any standardized meaning prescribed by GAAP and are therefore unlikely to be comparable to similar measures presented by other issuers. Accordingly, these measures should not be considered as a substitute or alternative for net income or cash flow, in each case as determined in accordance with GAAP.

A reconciliation between EBITDA, EBIT, and net income from continuing operations is as follows:

	Three months ended December 31		Twelve months ended December 31	
($ MILLIONS)	**2011**	2010	**2011**	2010
Earnings from continuing operations before interest, taxes, depreciation, and amortization (EBITDA)	**$ 155.7**	$ 125.9	**$ 553.8**	$ 441.8
Depreciation and amortization	**(48.4)**	(42.1)	**(174.1)**	(156.5)
Earnings from continuing operations before interest and income taxes (EBIT)	**107.3**	83.8	**379.7**	285.3
Finance costs	**(14.4)**	(12.4)	**(53.2)**	(57.6)
Provision for income taxes	**(22.3)**	(15.9)	**(67.1)**	(46.6)
Net income from continuing operations	**$ 70.6**	$ 55.5	**$ 259.4**	$ 181.1

A reconciliation of Free Cash Flow is as follows:

	Three months ended December 31		Twelve months ended December 31	
($ MILLIONS)	**2011**	2010	**2011**	2010
Cash flow provided by (used in) operating activities	**$ 336.3**	$ 141.6	**$ (80.9)**	$ 319.7
Additions to property, plant, and equipment	**(57.2)**	(19.6)	**(149.2)**	(70.8)
Proceeds on disposal of property, plant, and equipment	**1.9**	0.3	**9.3**	9.8
Net capital expenditures of discontinued operations	**–**	–	**–**	3.8
Free Cash Flow	**$ 281.0**	$ 122.3	**$ (220.8)**	$ 262.5

Free Cash Flow from Hewden has been included in the figures for periods prior to the sale.

RISK MANAGEMENT

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

FINANCIAL DERIVATIVES

The Company uses, or may use, various financial instruments such as forward and swap foreign exchange contracts, interest rate swaps, and equity hedges, as well as non-derivative foreign currency debt to manage its foreign exchange exposures, interest rate exposures, and share-based compensation expense exposures (see Note 4 of the Notes to the Consolidated Financial Statements). The Company uses derivative financial instruments only in connection with managing related risk positions and does not use them for trading or speculative purposes.

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

FINANCIAL RISKS AND UNCERTAINTIES

LIQUIDITY RISK

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company's approach to managing liquidity is to ensure, as far as possible, that it will have sufficient liquid financial resources to fund its operations and meet its commitments and obligations. The Company maintains bilateral and syndicated bank credit facilities, a commercial paper program, continuously monitors actual and forecast cash flows, and manages maturity profiles of financial liabilities. Undrawn credit facilities for continuing operations at December 31, 2011 were $1,192 million (2010: $1,027 million), of which approximately $727 million (2010: $803 million) is committed credit facility capacity. The Company believes that it has reasonable access to capital markets which is supported by its investment grade credit ratings. Subsequent to year end, in January 2012, the Company issued unsecured senior notes in the U.S. private placement market of U.S. $200 million. Proceeds from the notes were used to repay commercial paper borrowings and for general corporate purposes.

Financing Arrangements

The Company will require capital to finance its future growth and to refinance its outstanding debt obligations as they come due for repayment. If the cash generated from the Company's operations is not sufficient to fund future capital and debt repayment requirements, the Company will require additional debt or equity financing in the capital markets. The Company's ability to access capital markets on terms that are acceptable will be dependent upon prevailing market conditions, as well as the Company's future financial condition. Further, the Company's ability to increase the level of debt financing may be limited by its financial covenants or its credit rating objectives. Although the Company does not anticipate any difficulties in raising necessary funds in the future, there can be no assurance that capital will be available on suitable terms and conditions, or that borrowing costs and credit ratings will not be adversely affected. In addition, the Company's current financing arrangements contain certain restrictive covenants that may impact the Company's future operating and financial flexibility. Subsequent to the January 2012 announcement that the Company agreed to acquire the former Bucyrus distribution business for all of its dealership territories from Caterpillar, S&P and DBRS reconfirmed the Company's current debt ratings. The Company plans to fund the purchase with U.S. and Canadian dollar denominated term debt.

MARKET RISK

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

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

Foreign Exchange Risk

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

TRANSLATION EXPOSURE

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

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

TRANSACTION EXPOSURE

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

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

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

SENSITIVITY TO VARIANCES IN FOREIGN EXCHANGE RATES

The sensitivity of the Company's net earnings to fluctuations in average annual foreign exchange rates is summarized in the table below. A 5% strengthening of the Canadian dollar against the following currencies for a full year relative to the December 31, 2011 month end rates would increase / (decrease) net income and other comprehensive income by the amounts shown below. This analysis assumes that all other variables, in particular volumes, relative pricing, interest rates, and hedging activities are unchanged.

	December 31, 2011 month end rates	Net Income	Other Comprehensive Income
		($ MILLIONS)	($ MILLIONS)
CAD/USD	**1.0170**	**$ (26)**	**$ (44)**
CAD/GBP	**1.5799**	**(2)**	**(7)**
CAD/CLP	**0.0020**	**$ 1**	**$ –**

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

Interest Rate Risk

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

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

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

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

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

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

Commodity Prices

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

CREDIT RISK

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

SHARE-BASED PAYMENT RISK

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

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

CONTINGENCIES AND GUARANTEES

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

The Company enters into contracts with rights of return, in certain circumstances, for the repurchase of equipment sold to customers for an amount which is generally based on a discount from the estimated future fair value of that equipment. As at December 31, 2011, the total estimated value of these contracts outstanding is $131.0 million coming due at periods ranging from 2012 to 2018. The Company's experience to date has been that the equipment at the exercise date of the contract is generally worth more than the repurchase amount. The total amount recognized as a provision against these contracts is $0.3 million.

For further information on the Company's contingencies, commitments, guarantees, and indemnifications, refer to Notes 29 and 30 of the Notes to the Consolidated Financial Statements.

CONTROLS AND PROCEDURES CERTIFICATION

DISCLOSURE CONTROLS AND PROCEDURES

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

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

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

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

INTERNAL CONTROL OVER FINANCIAL REPORTING

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

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

EVALUATION OF EFFECTIVENESS

As required by National Instrument 52-109, *Certification of Disclosure in Issuers' Annual and Interim Filings* (NI 52-109) issued by the Canadian Securities regulatory authorities, an evaluation of the design and testing of the effectiveness of the operation of the Company's disclosure controls and procedures and internal control over financial reporting were conducted as of December 31, 2011, by and under the supervision of management, including the CEO and CFO. In making the assessment of the effectiveness of the Company's disclosure controls and procedures and internal control over financial reporting, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in *Internal Control – Integrated Framework*. The evaluation included documentation review, enquiries, testing, and other procedures considered by management to be appropriate in the circumstances.

Based on that evaluation, the CEO and CFO have concluded that the Company's disclosure controls and procedures and internal control over financial reporting were effective as of December 31, 2011.

SELECTED QUARTERLY INFORMATION

($ MILLIONS, EXCEPT FOR SHARE AND OPTION DATA)	2011				2010			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Revenue from continuing operations[1][2]								
Canada	$ 990.9	$ 607.7	$ 733.0	$ 612.1	$ 652.1	$ 586.6	$ 551.7	$ 477.4
South America	592.7	528.1	532.7	466.6	505.6	462.2	352.8	347.8
UK & Ireland	227.0	193.3	214.9	195.9	188.8	157.4	160.5	141.7
Total revenue	$ 1,810.6	$ 1,329.1	$ 1,480.6	$ 1,274.6	$ 1,346.5	$ 1,206.2	$ 1,065.0	$ 966.9
Net income (loss)[1][2][3]								
from continuing operations	$ 70.6	$ 35.4	$ 81.9	$ 71.5	$ 55.5	$ 63.4	$ 35.7	$ 26.5
from discontinued operations	–	–	–	–	–	–	(123.2)	(1.8)
Total net income	$ 70.6	$ 35.4	$ 81.9	$ 71.5	$ 55.5	$ 63.4	$ (87.5)	$ 24.7
Basic earnings (loss) per share[1][2][3]								
from continuing operations	$ 0.41	$ 0.21	$ 0.48	$ 0.42	$ 0.32	$ 0.37	$ 0.21	$ 0.16
from discontinued operations	–	–	–	–	–	–	(0.72)	(0.01)
Total basic EPS	$ 0.41	$ 0.21	$ 0.48	$ 0.42	$ 0.32	$ 0.37	$ (0.51)	$ 0.15
Diluted earnings (loss) per share[1][2][3]								
from continuing operations	$ 0.41	$ 0.21	$ 0.47	$ 0.41	$ 0.32	$ 0.37	$ 0.21	$ 0.15
from discontinued operations	–	–	–	–	–	–	(0.72)	(0.01)
Total diluted EPS	$ 0.41	$ 0.21	$ 0.47	$ 0.41	$ 0.32	$ 0.37	$ (0.51)	$ 0.14
Total assets[1][2]	$ 4,085.4	$ 4,086.8	$ 3,645.0	$ 3,511.0	$ 3,429.7	$ 3,356.0	$ 3,231.5	$ 3,273.0
Long-term debt								
Current	$ 0.5	$ 262.3	$ 263.2	$ 209.0	$ 203.1	$ 37.9	$ 32.4	$ 23.7
Non-current	762.6	778.5	710.9	711.7	711.1	861.4	867.4	940.5
Total long-term debt[4]	$ 763.1	$ 1,040.8	$ 974.1	$ 920.7	$ 914.2	$ 899.3	$ 899.8	$ 964.2
Cash dividends paid per common share	$ 0.13	$ 0.13	$ 0.13	$ 0.12	$ 0.12	$ 0.12	$ 0.12	$ 0.11
Common shares outstanding (000's)	171,574	171,571	171,570	171,528	171,431	171,177	171,009	170,907
Options outstanding (000's)	5,411	5,411	5,462	5,371	5,603	6,095	6,455	6,058

(1) In August 2010, the Company was appointed the Caterpillar dealer for Northern Ireland and the Republic of Ireland. The results of operations and financial position of these dealers have been included in the figures above since the date of acquisition.

(2) On May 5, 2010, the Company sold Hewden, its UK equipment rental business. Results from Hewden are presented as discontinued operations and have been reclassified to that category for all periods presented. Included in the loss from discontinued operations in the second quarter of 2010 is the after-tax loss on the disposition of Hewden of $120.8 million. Revenues from Hewden have been excluded from the revenue figures above. Assets from Hewden have been included in the total assets figures for periods prior to the sale.

(3) The results for the third and fourth quarters of 2011 were negatively impacted by the system implementation issues experienced in the Company's Canadian operations. The ERP system implementation and the five-week B.C. union strike in the third quarter of 2011 reduced earnings by approximately $0.25 per share; the fourth quarter of 2011 included costs associated with the ERP system issues of $0.12 per share.

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

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

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

NEW ACCOUNTING PRONOUNCEMENTS

CHANGES IN ACCOUNTING POLICY IN 2011

Explanation of Transition To IFRS

These annual consolidated financial statements represent the Company's first annual consolidated financial statements prepared in accordance with IFRS. As such, the Company's transition activities with respect to IFRS technical analysis, preparation of IFRS compliant comparatives for 2010, transition training, and systems and controls reviews are complete. It should be noted that the transition to IFRS did not impact the Company's underlying business activities or strategy; the changes arising from the adoption of IFRS relate to accounting differences only.

TRANSITION ADJUSTMENTS

The Company's transitional elections, accounting policy choices, and their impact on the financial statements are described in Note 31 to the annual consolidated financial statements. Reconciliations of shareholders' equity at the transition date (January 1, 2010) and at December 31, 2010, and of total comprehensive income for the year ended December 31, 2010 are also provided in Note 31 to the annual consolidated financial statements. Where an accounting policy choice or transitional election was available, the Company considered, amongst other factors, expected developments in International Accounting Standards Board (IASB) standard setting, practice amongst existing IFRS reporters, and the implementation effort required in making the policy choice or election.

KEY PERFORMANCE INDICATORS

The impact of IFRS on the Company's key performance indicators has been summarized below:

NET DEBT TO TOTAL CAPITALIZATION

As a result of the reduction to equity arising in the Company's opening statement of financial position (primarily due to the transitional election taken to write off previously unrecognized actuarial losses to retained earnings), the net debt to total capitalization ratio at December 31, 2010 increased from 33.0% (Canadian GAAP) to 35.3% (IFRS). The Company expects increased variability in this metric under IFRS, as the immediate recognition of actuarial gains and losses in other comprehensive income will increase volatility in shareholders' equity. The Company's underlying financing strategy is not impacted by this accounting change.

FREE CASH FLOW

The revised presentation of the Company's joint venture using the equity method had an insignificant impact on comparative free cash flow, which reduced to $262.5 million (IFRS) from $264.9 million (Canadian GAAP) for the year ended December 31, 2010. Cash and cash equivalents of the Company's joint venture are now disclosed in the 'Investment in and advances to joint venture and associate' line on the statement of financial position and are consequently not included in the calculation of free cash flow.

EBIT MARGIN (EBIT AS A PERCENTAGE OF REVENUE)

The increase in comparative period EBIT margin from 5.9% (Canadian GAAP) to 6.2% (IFRS) for the year ended December 31, 2010 was primarily attributable to lower defined benefit pension expense under IFRS in the Canadian and UK operations due to the fact that actuarial losses have been recognized in equity on January 1, 2010 and are therefore no longer amortized through SG&A, as well as lower share based payment expense in all operations.

EARNINGS PER SHARE

Earnings per share from continuing operations increased to $1.06 (IFRS) from $1.00 (Canadian GAAP) for the year ended December 31, 2010. Improvements to net income under IFRS were primarily driven by reduced share based payment expense arising from the change to a fair value measurement for cash settled share based payment plans (in all operations) and lower defined benefit pension expense in Canada and the UK. In addition, the improvement reflected a reduction in tax expense due to differences in the computation of deferred tax balances (primarily in the Company's South American operations).

CONTROL ACTIVITIES

The Company has assessed the impact of IFRS on internal control over financial reporting. Changes to the Company's control processes were minimal, mainly related to some additional processes to identify the actuarial gains and losses relating to the defined benefit pension plans on a quarterly basis. While IFRS requires substantial additional disclosures in the financial statements, the Company assessed its existing disclosure control framework to be adequate to support these new disclosure requirements. Appropriate training has been delivered to all key finance personnel, as well as senior management and the Company's Board of Directors.

SYSTEMS IMPLICATIONS

The Company's existing systems infrastructure did not require significant adaptation to record the comparative IFRS data or to handle any new accounting policies. The Company's new global IT system supports IFRS reporting, and there was frequent liaison between the IT system and IFRS project teams to ensure alignment of the system design and IFRS reporting requirements.

POST IMPLEMENTATION PLAN

Going forward, the Company will continue to monitor IASB standard setting developments. Current IASB projects relating to financial instruments, revenue, and leases are especially relevant to the Company. Ongoing technical training will be provided to relevant personnel where required as these new and revised standards are issued.

FUTURE ACCOUNTING PRONOUNCEMENTS

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

- Amendments to IAS 19, *Employee Benefits* (effective January 1, 2013) provide new requirements for the accounting for defined benefit pension plans. Most notably, the amendments mandate the immediate recognition of actuarial gains and losses, and require companies to use the same discount rate for both the defined benefit obligation and the expected asset return when calculating the interest component of pension expense. The Company already recognizes all actuarial gains and losses immediately through other comprehensive income, consequently this element of the amendments will not impact the Company. The Company is currently evaluating the impact of other amendments to IAS 19.

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

- Amendments to IFRS 7, *Financial Instruments: Disclosures* are effective for annual periods beginning on or after July 1, 2011 and introduce enhanced disclosure around transfer of financial assets and associated risks.
- Amendments to IAS 1, *Presentation of Financial Statements* (effective for annual periods beginning on or after July 1, 2012) require that elements of other comprehensive income that may subsequently be reclassified through profit and loss be differentiated from those items that will not be reclassified.
- IFRS 10 *Consolidated Financial Statements*, IFRS 11 *Joint Arrangements*, IFRS 12 *Disclosure of Interests in Other Entities*, and consequential revisions to IAS 27 *Separate Financial Statements* and IAS 28 *Investments in Associates* and *Joint Ventures* (all effective January 1, 2013) provide revised guidance on the accounting treatment and associated disclosure requirements for joint arrangements and associates, and a revised definition of 'control' for identifying entities which are to be consolidated.
- IFRS 13 *Fair Value Measurement* (effective January 1, 2013) provides new guidance on fair value measurement and disclosure requirements.
- IFRS 9, *Financial Instruments* (effective January 1, 2015) introduces new requirements for the classification and measurement of financial assets and financial liabilities.

OUTSTANDING SHARE DATA

As at February 10, 2012	
Common shares outstanding	171,592,480
Options outstanding	5,337,670

SELECTED ANNUAL INFORMATION

($ MILLIONS, EXCEPT FOR SHARE DATA)	(IFRS) 2011	(IFRS) 2010	(CANADIAN GAAP) 2009
Total revenue from continuing operations(1)(2)	$ 5,894.9	$ 4,584.6	$ 4,479.9
Net income (loss)(1)(2)			
from continuing operations	$ 259.4	$ 181.1	$ 156.7
from discontinued operations	–	(125.0)	(25.9)
Total net income	$ 259.4	$ 56.1	$ 130.8
Basic earnings (loss) per share(1)(2)			
from continuing operations	$ 1.51	$ 1.06	$ 0.92
from discontinued operations	–	(0.73)	(0.15)
Total basic EPS	$ 1.51	$ 0.33	$ 0.77
Diluted earnings (loss) per share(1)(2)			
from continuing operations	$ 1.51	$ 1.06	$ 0.92
from discontinued operations	–	(0.73)	(0.15)
Total diluted EPS	$ 1.51	$ 0.33	$ 0.77
Total assets(1)(2)	$ 4,085.4	$ 3,429.7	$ 3,671.4
Long-term debt(3)			
Current	$ 0.5	$ 203.1	$ 24.2
Non-current	762.6	711.1	991.7
	$ 763.1	$ 914.2	$ 1,015.9
Cash dividends declared per common share	$ 0.51	$ 0.47	$ 0.44

(1) In August 2010, the Company was appointed the Caterpillar dealer for Northern Ireland and the Republic of Ireland. The results of operations and financial position of these dealers have been included in the figures above since the date of acquisition.

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

(3) In 2010, the Company utilized funds from the sale of Hewden to redeem GBP45 million of its GBP115 million Eurobond Notes.

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

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

FORWARD-LOOKING DISCLAIMER

This report contains statements about the Company's business outlook, objectives, plans, strategic priorities and other statements that are not historical facts. A statement Finning makes is forward-looking when it uses what the Company knows and expects today to make a statement about the future. Forward-looking statements may include words such as aim, anticipate, assumption, believe, could, expect, goal, guidance, intend, may, objective, outlook, plan, project, seek, should, strategy, strive, target, and will. Forward-looking statements in this report include, but are not limited to, statements with respect to: expectations with respect to the economy and associated impact on the Company's financial results; expected revenue and SG&A levels and EBIT growth; anticipated generation of free cash flow (including projected net capital and rental expenditures), and its expected use; anticipated defined benefit plan contributions; the expected target range of Debt Ratio; the impact of new and revised IFRS that have been issued but are not yet effective; the expected timetable for completion of the proposed transaction between the Company and Caterpillar to acquire the distribution and support business formerly operated by Bucyrus in Finning's dealership territories (the Bucyrus transaction); growth prospects for the former Bucyrus business being acquired by the Company and the competitive advantages of the business being acquired; expected future financial and operating results generated from the Bucyrus transaction; anticipated benefits and synergies of the Bucyrus transaction; the expected financing structure for the Bucyrus transaction; and the expected impact of the Bucyrus transaction on Finning's earnings. All such forward-looking statements are made pursuant to the 'safe harbour' provisions of applicable Canadian securities laws.

Unless otherwise indicated by us, forward-looking statements in this report describe Finning's expectations at February 15, 2012. 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 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 successfully integrate the distribution and support business formerly operated by Bucyrus after that transaction closes; Finning's ability to raise the capital needed to implement its business plan; regulatory initiatives or proceedings, litigation and changes in laws or regulations; stock market volatility; changes in political and economic environments for operations; the integrity, reliability, and availability of information technology and the data processed by that technology; operational benefits from the new ERP system. Forward-looking statements are provided in this report for the purpose of giving information about management's current expectations and plans and allowing investors and others to get a better understanding of Finning's operating environment. However, readers are cautioned that it may not be appropriate to use such forward-looking statements for any other purpose.

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

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

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

ATTACHMENT 1: SUPPLEMENTARY INFORMATION

QUARTERLY SEGMENTED REVENUE INFORMATION

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

Three months ended December 31, 2010 ($ MILLIONS)	Canada	South America	UK	Consolidated	Revenue percentage
New equipment	$ 255.1	$ 257.0	$ 115.2	$ 627.3	46.6%
Used equipment	32.9	10.1	12.2	55.2	4.1%
Equipment rental	54.3	16.1	7.0	77.4	5.7%
Product support	306.6	222.1	54.4	583.1	43.3%
Other	3.2	0.3	–	3.5	0.3%
Total	$ 652.1	$ 505.6	$ 188.8	$ 1,346.5	100.0%
Revenue percentage by operations	48.4%	37.6%	14.0%	100.0%	

QUARTERLY SEGMENTED EBIT INFORMATION

Three months ended December 31, 2011 ($ MILLIONS)	Canada	South America	UK & Ireland	Other	Consolidated
Revenue from external sources	**$ 990.9**	**$ 592.7**	**$ 227.0**	**$ –**	**$ 1,810.6**
Operating costs	**(920.1)**	**(523.9)**	**(205.3)**	**(5.4)**	**(1,654.7)**
Depreciation and amortization	**(30.5)**	**(11.6)**	**(6.2)**	**(0.1)**	**(48.4)**
	40.3	**57.2**	**15.5**	**(5.5)**	**107.5**
Equity earnings (loss)	**3.4**	**–**	**–**	**(0.4)**	**3.0**
Other income (expenses)					
IT system support costs	**–**	**(0.4)**	**(0.7)**	**0.1**	**(1.0)**
Other	**(0.3)**	**(0.5)**	**–**	**(1.4)**	**(2.2)**
Earnings before interest and taxes (EBIT)	**$ 43.4**	**$ 56.3**	**$ 14.8**	**$ (7.2)**	**$ 107.3**
EBIT					
– percentage of revenue	**4.4%**	**9.5%**	**6.5%**	**–**	**5.9%**
– percentage by operations	**40.5%**	**52.5%**	**13.7%**	**(6.7)%**	**100.0%**

Three months ended December 31, 2010 ($ MILLIONS)	Canada	South America	UK & Ireland	Other	Consolidated
Revenue from external sources	$ 652.1	$ 505.6	$ 188.8	$ –	$ 1,346.5
Operating costs	(575.5)	(453.1)	(176.7)	(3.9)	(1,209.2)
Depreciation and amortization	(27.0)	(9.9)	(5.2)	–	(42.1)
	49.6	42.6	6.9	(3.9)	95.2
Equity earnings (loss)	3.5	–	–	(0.4)	3.1
Other income (expenses)					
IT system implementation costs	(3.5)	(2.8)	(0.2)	(0.7)	(7.2)
Other	(2.0)	–	(0.3)	(5.0)	(7.3)
Earnings from continuing operations before interest and taxes (EBIT)	$ 47.6	$ 39.8	$ 6.4	$ (10.0)	$ 83.8
EBIT					
– percentage of revenue	7.3%	7.9%	3.4%	–	6.2%
– percentage by operations	56.8%	47.5%	7.6%	(11.9)%	100.0%

QUARTERLY CONSOLIDATED STATEMENTS OF INCOME

Three months ended December 31 (CANADIAN $ THOUSANDS, EXCEPT SHARE AND PER SHARE AMOUNTS)	**2011**	2010
	UNAUDITED	UNAUDITED
Revenue		
New equipment	**$ 990,021**	$ 627,342
Used equipment	**78,544**	55,232
Equipment rental	**97,516**	77,370
Product support	**642,604**	583,100
Other	**1,934**	3,487
Total revenue	**1,810,619**	1,346,531
Cost of sales	**(1,336,110)**	(952,499)
Gross profit	**474,509**	394,032
Selling, general, and administrative expenses	**(366,952)**	(298,805)
Equity earnings of joint venture and associate	**3,009**	3,045
Other expenses	**(3,252)**	(14,497)
Earnings before interest and income taxes	**107,314**	83,775
Finance costs	**(14,480)**	(12,424)
Income before provision for income taxes	**92,834**	71,351
Provision for income taxes	**(22,309)**	(15,875)
Net income	**$ 70,525**	$ 55,476
Earnings per share		
Basic	**$ 0.41**	$ 0.32
Diluted	**$ 0.41**	$ 0.32
Weighted average number of shares outstanding		
Basic	**171,572,073**	171,247,563
Diluted	**172,075,588**	172,224,467

QUARTERLY CONSOLIDATED STATEMENTS OF CASH FLOW

Three months ended December 31 (CANADIAN $ THOUSANDS)	2011 UNAUDITED	2010 UNAUDITED
OPERATING ACTIVITIES		
Net income	$ 70,525	$ 55,476
Add (deduct) items not affecting cash		
Depreciation and amortization	49,042	42,697
Deferred taxes	6,676	5,494
Gain on sale of property, plant, and equipment and rental equipment	(4,119)	(9,688)
Share-based compensation	705	1,335
Impairment of investment and long-lived asset	–	6,788
Other	(2,410)	461
	120,419	102,563
Changes in working capital items	296,691	119,143
Interest paid	(15,664)	(12,929)
Income tax paid	(9,232)	(22,889)
Cash provided after changes in working capital items	392,214	185,888
Additions to rental equipment	(106,543)	(85,400)
Proceeds on disposal of rental equipment	50,511	42,630
Equipment leased to customers, net of disposals	159	(1,565)
Cash flow provided by operating activities	336,341	141,553
INVESTING ACTIVITIES		
Additions to property, plant, and equipment	(57,223)	(19,554)
Proceeds on disposal of property, plant, and equipment	1,867	318
Net proceeds paid on acquisition	(2,750)	(3,381)
Cash used in investing activities	(58,106)	(22,617)
FINANCING ACTIVITIES		
Increase in short-term debt	30,293	26,114
Increase (decrease) long-term debt	(118,318)	21,975
Repayment of 4.64% medium term note	(150,000)	–
Issue of common shares on exercise of stock options	–	1,415
Dividends paid	(22,304)	(20,551)
Cash provided by (used in) financing activities	(260,329)	28,953
Effect of currency translation on cash balances	(483)	(8,464)
Increase in cash and cash equivalents	17,423	139,425
Cash and cash equivalents, beginning of period	105,322	206,962
Cash and cash equivalents, end of period	$ 122,745	$ 346,387

MANAGEMENT'S REPORT TO THE SHAREHOLDERS

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

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

The Company's independent auditors, Deloitte & Touche LLP, have audited the Consolidated Financial Statements, as reflected in their report for 2011.

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

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

M.T. Waites
President and Chief Executive Officer

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

February 15, 2012
1000 – 666 Burrard Street,
Vancouver, B.C., V6C 2X8
Canada

INDEPENDENT AUDITORS' REPORT

To the Shareholders of
Finning International Inc.

We have audited the accompanying consolidated financial statements of Finning International Inc., which comprise the consolidated statements of financial position as at December 31, 2011, December 31, 2010 and January 1, 2010, and the consolidated statements of income, comprehensive income (loss), shareholders' equity and cash flows for the years ended December 31, 2011 and December 31, 2010, and a summary of significant accounting policies and other explanatory information.

MANAGEMENT'S RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

AUDITOR'S RESPONSIBILITY

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

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

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

OPINION

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Finning International Inc. as at December 31, 2011, December 31, 2010 and January 1, 2010 and its financial performance and its cash flows for the years ended December 31, 2011 and December 31, 2010 in accordance with International Financial Reporting Standards.

Deloitte & Touche LLP

Chartered Accountants
February 15, 2012
Vancouver, B.C., Canada

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(CANADIAN $ THOUSANDS)	December 31 2011	December 31 2010	January 1 2010
ASSETS			
Current assets			
Cash and cash equivalents (Note 21)	**$ 122,745**	$ 346,387	$ 194,910
Accounts receivable	**862,698**	663,920	620,151
Service work in progress	**171,214**	73,602	62,563
Inventories (Note 10)	**1,442,829**	1,075,824	968,538
Income taxes recoverable	**20,880**	24,444	35,826
Derivative assets (Note 4)	**2,287**	7,420	3,420
Other assets (Note 12)	**154,803**	114,096	118,120
Total current assets	**2,777,456**	2,305,693	2,003,528
Rental equipment (Note 15)	**402,114**	343,766	600,257
Property, plant, and equipment (Note 15)	**550,524**	463,225	520,448
Intangible assets (Note 16)	**52,032**	45,285	41,457
Goodwill (Note 17)	**92,501**	91,114	94,254
Investment in and advances to joint venture and associate (Note 13)	**61,600**	53,008	60,355
Finance assets (Note 14)	**33,820**	30,158	32,604
Derivative assets (Note 4)	**–**	–	26,079
Deferred tax assets (Note 6)	**81,029**	59,542	33,535
Other assets (Note 12)	**34,284**	37,907	13,735
	$ 4,085,360	$ 3,429,698	$ 3,426,252
LIABILITIES			
Current liabilities			
Short-term debt (Note 3)	**$ 334,525**	$ 89,965	$ 162,238
Accounts payable and accruals	**965,981**	611,051	486,495
Income tax payable	**12,511**	8,225	9,274
Provisions (Note 18)	**88,146**	57,365	63,667
Deferred revenue	**317,299**	318,657	170,034
Derivative liabilities (Note 4)	**23,515**	4,421	5,669
Current portion of long-term debt (Note 3)	**508**	203,087	24,179
Total current liabilities	**1,742,485**	1,292,771	921,556
Long-term debt (Note 3)	**762,571**	711,067	959,157
Long-term obligations (Note 19)	**192,410**	180,725	189,692
Derivative liabilities (Note 4)	**–**	8,672	26,144
Provisions (Note 18)	**2,897**	1,078	4,949
Deferred revenue	**22,320**	18,876	20,500
Deferred tax liabilities (Note 6)	**17,723**	13,524	15,187
Total liabilities	**2,740,406**	2,226,713	2,137,185
Commitments and contingencies (Notes 28 and 29)			
SHAREHOLDERS' EQUITY			
Share capital (Note 7)	**566,452**	564,973	557,052
Contributed surplus	**35,812**	33,128	32,069
Accumulated other comprehensive loss	**(38,193)**	(53,385)	(4,846)
Retained earnings	**780,883**	658,269	704,792
Total shareholders' equity	**1,344,954**	1,202,985	1,289,067
	$ 4,085,360	$ 3,429,698	$ 3,426,252

Approved by the Directors February 15, 2012

Kathleen O'Neill

K.M. O'Neill, Director

D.W.G. Whitehead

D.W.G. Whitehead, Director

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

CONSOLIDATED STATEMENTS OF INCOME

For years ended December 31 (CANADIAN $ THOUSANDS, EXCEPT SHARE AND PER SHARE AMOUNTS)	2011	2010
Revenue		
New equipment	$ 2,889,020	$ 1,928,642
Used equipment	253,407	253,553
Equipment rental	345,486	274,688
Product support	2,395,653	2,117,663
Other	11,344	10,059
Total revenue	5,894,910	4,584,605
Cost of sales	(4,215,195)	(3,206,796)
Gross profit	1,679,715	1,377,809
Selling, general, and administrative expenses	(1,279,240)	(1,057,497)
Equity earnings of joint venture and associate	6,674	5,590
Other expenses (Note 2)	(27,412)	(40,648)
Earnings from continuing operations before interest and income taxes	379,737	285,254
Finance costs (Note 3)	(53,242)	(57,616)
Income from continuing operations before provision for income taxes	326,495	227,638
Provision for income taxes (Note 6)	(67,130)	(46,555)
Income from continuing operations	259,365	181,083
Loss from discontinued operations, net of tax (Note 23)	–	(125,023)
Net income	$ 259,365	$ 56,060
Earnings per share – basic		
From continuing operations (Note 9)	$ 1.51	$ 1.06
From discontinued operations	–	(0.73)
	$ 1.51	$ 0.33
Earnings per share – diluted		
From continuing operations (Note 9)	$ 1.51	$ 1.06
From discontinued operations	–	(0.73)
	$ 1.51	$ 0.33
Weighted average number of shares outstanding		
Basic	171,546,035	171,029,585
Diluted	172,286,925	171,718,261

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

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

For years ended December 31 (CANADIAN $ THOUSANDS)	2011	2010
Net income	$ 259,365	$ 56,060
Other comprehensive income (loss), net of income tax		
Currency translation adjustments	24,713	(87,178)
Unrealized gain (loss) on net investment hedges	(1,702)	16,864
Realized loss on foreign currency translation, net of realized gain on net investment hedges, reclassified to earnings on disposal of discontinued operations	–	19,142
Tax recovery (expense) on net investment hedges	547	(1,144)
Foreign currency translation and gain (loss) on net investment hedges, net of income tax	23,558	(52,316)
Unrealized gain (loss) on cash flow hedges	(8,005)	3,817
Realized loss (gain) on cash flow hedges, reclassified to earnings	(1,994)	1,127
Tax recovery (expense) on cash flow hedges	1,633	(1,167)
Gain (loss) on cash flow hedges, net of income tax	(8,366)	3,777
Actuarial loss (Note 24)	(65,194)	(29,865)
Tax recovery on actuarial loss	15,935	7,678
Actuarial loss, net of income tax	(49,259)	(22,187)
Comprehensive income (loss)	$ 225,298	$ (14,666)

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

	Share Capital			Accumulated Other Comprehensive Income (Loss)			
(CANADIAN $ THOUSANDS, EXCEPT SHARE AMOUNTS)	Shares	Amount	Contributed Surplus	Foreign Currency Translation and Gain/(Loss) on Net Investment Hedges	Gain/(Loss) on Cash Flow Hedges	Retained Earnings	Total
Balance, January 1, 2010	170,746,800	$ 557,052	$ 32,069	$ –	$ (4,846)	$ 704,792	$ 1,289,067
Net income	–	–	–	–	–	56,060	56,060
Other comprehensive income (loss)	–	–	–	(52,316)	3,777	(22,187)	(70,726)
Total comprehensive income (loss)	–	–	–	(52,316)	3,777	33,873	(14,666)
Issued on exercise of share options	684,549	7,921	(3,084)	–	–	–	4,837
Stock option expense	–	–	4,143	–	–	–	4,143
Dividends on common shares	–	–	–	–	–	(80,396)	(80,396)
Balance, December 31, 2010	171,431,349	$ 564,973	$ 33,128	$ (52,316)	$ (1,069)	$ 658,269	$ 1,202,985
Net income	–	–	–	–	–	259,365	259,365
Other comprehensive income (loss)	–	–	–	23,558	(8,366)	(49,259)	(34,067)
Total comprehensive income (loss)	–	–	–	23,558	(8,366)	210,106	225,298
Issued on exercise of share options	142,403	1,479	(779)	–	–	–	700
Stock option expense	–	–	3,463	–	–	–	3,463
Dividends on common shares	–	–	–	–	–	(87,492)	(87,492)
Balance, December 31, 2011	171,573,752	$ 566,452	$ 35,812	$ (28,758)	$ (9,435)	$ 780,883	$1,344,954

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

CONSOLIDATED STATEMENTS OF CASH FLOW

For years ended December 31 (CANADIAN $ THOUSANDS)	2011	2010
OPERATING ACTIVITIES		
Net income	$ 259,365	$ 56,060
Add (deduct) items not affecting cash:		
Depreciation and amortization	176,350	160,576
Deferred taxes	4,792	(2,744)
Gain on sale of property, plant, and equipment and rental equipment	(18,827)	(27,291)
Share-based payments	13,743	3,273
Loss from discontinued operations (Note 23)	–	125,023
Impairment of investment and long-lived asset	–	6,788
Other	(3,509)	3,111
	431,914	324,796
Changes in working capital items (Note 21)	(271,961)	143,306
Interest paid	(45,736)	(49,052)
Income tax paid	(38,679)	(19,174)
Cash provided after changes in working capital items	75,538	399,876
Additions to rental equipment	(311,871)	(195,460)
Proceeds on disposal of rental equipment	161,914	120,477
Equipment leased to customers, net of disposals	(6,498)	(3,528)
Cash provided by (used in) continuing operations	(80,917)	321,365
Cash used in discontinued operations	–	(1,647)
Cash flow provided by (used in) operating activities	(80,917)	319,718
INVESTING ACTIVITIES		
Additions to property, plant, and equipment	(149,160)	(70,788)
Proceeds on disposal of property, plant, and equipment	9,281	9,819
Net proceeds paid on acquisition (Note 22)	(4,450)	(6,725)
Net proceeds from sale of discontinued operations (Note 23)	6,332	117,829
Investment in equity investment (Note 22)	(1,375)	–
Proceeds on settlement of derivatives	–	25,983
Cash provided by (used in) continuing operations	(139,372)	76,118
Cash used in discontinued operations	–	(27,361)
Cash provided by (used in) investing activities	(139,372)	48,757
FINANCING ACTIVITIES		
Increase (decrease) in short-term debt	245,728	(70,011)
Increase (decrease) in long-term debt	(11,745)	19,003
Repayment of 4.64% medium term note	(150,000)	–
Purchase of Eurobond and premium paid (Note 3)	–	(73,156)
Issue of common shares on exercise of stock options	700	4,837
Dividends paid	(87,492)	(80,396)
Cash used in continuing operations	(2,809)	(199,723)
Cash used in discontinued operations	–	–
Cash used in financing activities	(2,809)	(199,723)
Effect of currency translation on cash balances	(544)	(17,275)
Increase (decrease) in cash and cash equivalents	(223,642)	151,477
Cash and cash equivalents, beginning of year	346,387	194,910
Cash and cash equivalents, end of year (Note 21)	$ 122,745	$ 346,387

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

1. SIGNIFICANT ACCOUNTING POLICIES

These consolidated financial statements represent the first annual financial statements of the Company and its subsidiaries prepared in accordance with International Financial Reporting Standards (IFRS), as issued by the International Accounting Standard Board (IASB). IFRS 1, *First-time Adoption of IFRS* has therefore been applied in preparing these consolidated financial statements.

These consolidated financial statements have been prepared in accordance with the accounting policies presented below and are based on the IFRS and International Financial Reporting Interpretations Committee (IFRIC) interpretations issued and effective as of December 31, 2011. The policies set out below were consistently applied to all the periods presented unless otherwise noted.

The Company's consolidated financial statements were previously prepared in accordance with Canadian generally accepted accounting principles (GAAP), which differs in some areas from IFRS. In preparing these consolidated financial statements, management has amended certain accounting methods previously applied in the Canadian GAAP consolidated financial statements to comply with IFRS. The comparative figures for 2010 were restated to reflect these amendments. Reconciliations and descriptions of the effect of the transition from Canadian GAAP to IFRS on equity, earnings, and comprehensive income are provided in Note 31.

These consolidated financial statements were prepared under the historical cost basis except for derivative financial instruments and liabilities for share-based payment arrangements, which have been measured at fair value. The preparation of financial statements in accordance with IFRS requires the use of certain accounting estimates and requires management to exercise judgment in applying the Company's accounting policies. The areas where assumptions, estimates and judgments are significant to the consolidated financial statements are disclosed at (b) below.

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

(A) PRINCIPLES OF CONSOLIDATION

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

JOINT VENTURES AND ASSOCIATES

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

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

(B) KEY ASSUMPTIONS AND SIGNIFICANT JUDGMENTS

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

AREAS OF ESTIMATION UNCERTAINTY

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

ASSET LIVES AND RESIDUAL VALUES

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

GOODWILL AND INTANGIBLE ASSETS

Goodwill and intangible assets with indefinite lives are tested for impairment at least annually. The impairment calculations require the use of estimates related to the future operating results, viability, and cash generating ability of the assets. Judgment is also used in identifying an appropriate discount rate for these calculations.

REVENUE RECOGNITION – LONG-TERM CONTRACTS

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

REVENUE RECOGNITION – REPURCHASE GUARANTEES

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

ALLOWANCE FOR DOUBTFUL ACCOUNTS

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

PROVISION FOR INVENTORY OBSOLESCENCE

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

CURRENT AND DEFERRED TAXATION

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

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

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

AREAS OF SIGNIFICANT JUDGMENT

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

DEFINED BENEFIT PENSION PLANS

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

WARRANTY CLAIMS

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

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

RENTAL PURCHASE OPTIONS

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

OTHER JUDGMENTS

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

(C) FOREIGN CURRENCY TRANSLATION

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

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

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

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

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

(D) CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprise cash on hand together with short-term investments, consisting of highly rated and liquid money market instruments with original maturities of three months or less, and are recorded at fair value, which approximates cost.

(E) INVENTORIES

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

(F) INVESTMENT IN ASSOCIATE

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

(G) INCOME TAXES

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

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

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

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

(H) INSTALMENT NOTES RECEIVABLE AND EQUIPMENT LEASED TO CUSTOMERS

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

(I) RENTAL EQUIPMENT

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

(J) PROPERTY, PLANT, AND EQUIPMENT

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

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

Buildings (including investment property)	2% - 5%
Equipment and vehicles	10% - 33%

Property, plant, and equipment held under finance lease are depreciated over the term of the relevant lease.

(K) INVESTMENT PROPERTY

Investment properties are defined as land or buildings held to earn rentals or for capital appreciation or both. While investment in property is not a core part of the Company's activities, properties held by the Company for which the future use is undetermined, or which are rented to third parties pending determination of future use, are classified as investment property and are included in property, plant, and equipment on the consolidated statement of financial position. Such properties are carried at cost less accumulated depreciation and any impairment losses.

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

(L) INTANGIBLE ASSETS

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

(M) BORROWING COST CAPITALIZATION

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

(N) GOODWILL

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

(O) ASSET IMPAIRMENT

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

(P) LEASES

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

THE COMPANY AS LESSOR

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

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

THE COMPANY AS LESSEE

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

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

SALE AND LEASEBACK TRANSACTIONS

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

SALE AND LEASEBACK RESULTING IN A FINANCE LEASE

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

SALE AND LEASEBACK RESULTING IN AN OPERATING LEASE

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

(Q) DECOMMISSIONING LIABILITIES

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

(R) REVENUE RECOGNITION

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

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

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

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

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

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

(S) SHARE-BASED PAYMENTS

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

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

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

(T) EMPLOYEE FUTURE BENEFITS

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

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

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

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

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

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

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

(U) COMPREHENSIVE INCOME, FINANCIAL INSTRUMENTS, AND HEDGES

COMPREHENSIVE INCOME

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

FINANCIAL ASSETS AND FINANCIAL LIABILITIES

CLASSIFICATION

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

Cash and cash equivalents are classified as Fair Value Through Profit or Loss (FVTPL).

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

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

DERIVATIVES

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

EMBEDDED DERIVATIVES

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

HEDGES

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

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

CASH FLOW HEDGES

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

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

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

From time to time, the Company uses derivative financial instruments to hedge interest rate risk associated with future proceeds of debt.

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

FAIR VALUE HEDGES

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

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

NET INVESTMENT HEDGES

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

(V) ADOPTION OF NEW AND REVISED IFRS AND IFRS NOT YET EFFECTIVE

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

- Amendments to IAS 19, *Employee Benefits* (effective January 1, 2013) provide new requirements for the accounting for defined benefit pension plans. Most notably, the amendments mandate the immediate recognition of actuarial gains and losses, and require companies to use the same discount rate for both the defined benefit obligation and the expected asset return when calculating the interest component of pension expense. The Company already recognizes all actuarial gains and losses immediately through other comprehensive income, consequently this element of the amendments will not impact the Company. The Company is currently evaluating the impact of other amendments to IAS 19.

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

- Amendments to IFRS 7 *Financial Instruments: Disclosures* are effective for annual periods beginning on or after July 1, 2011 and introduce enhanced disclosure around transfer of financial assets and associated risks.
- Amendments to IAS 1 *Presentation of Financial Statements* (effective for annual periods beginning on or after July 1, 2012) require that elements of other comprehensive income that may subsequently be reclassified through profit and loss be differentiated from those items that will not be reclassified.
- IFRS 10 *Consolidated Financial Statements*, IFRS 11 *Joint Arrangements*, IFRS 12 *Disclosure of Interests in Other Entities*, and consequential revisions to IAS 27 *Separate Financial Statements* and IAS 28 *Investments in Associates and Joint Ventures* (all effective January 1, 2013) provide revised guidance on the accounting treatment and associated disclosure requirements for joint arrangements and associates, and a revised definition of 'control' for identifying entities which are to be consolidated.
- IFRS 13 *Fair Value Measurement* (effective January 1, 2013) provides new guidance on fair value measurement and disclosure requirements.
- IFRS 9 *Financial Instruments* (effective January 1, 2015) introduces new requirements for the classification and measurement of financial assets and financial liabilities.

(W) COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform to the 2011 presentation. Standby equipment has been reclassified from rental equipment to property, plant, and equipment as this presentation is thought to provide more useful information to users of the consolidated financial statements. The net book value of standby equipment reclassified was $39.7 million at December 31, 2011 (December 31, 2010: $22.9 million; January 1, 2010: $33.3 million).

2. OTHER EXPENSES

Other expenses (income) include the following items:

For years ended December 31 ($ THOUSANDS)	2011	2010
Project costs (a)	$ 22,412	$ 27,820
Acquisition and other related costs (b)	5,000	1,967
Restructuring (c)	–	4,179
Impairment of investment and long-lived asset (d)	–	6,788
Gain on sale of properties	–	(106)
	$ 27,412	$ 40,648

(a) Project costs incurred in 2011 and 2010 relate to the implementation of a new information technology (IT) system for the Company's global operations. The new IT system was implemented in Finning (Canada) on July 4, 2011 and costs in the second half of 2011 included additional support costs for Finning (Canada)'s implementation. Subsequent implementations are planned for the U.K. and then South American operations.

(b) Acquisition and other related costs incurred in 2011 relate to the acquisition from Caterpillar of the distribution and support business formerly operated by Bucyrus International, Inc (Bucyrus) in Finning's dealership territories in South America, Canada, and the U.K., anticipated to be completed in 2012 (Note 32). Acquisition costs incurred during 2010 relate to the acquisition of the Caterpillar dealerships in Northern Ireland and the Republic of Ireland (Note 22).

(c) During 2010, the Company incurred restructuring and severance costs of $4.2 million. These costs related primarily to severance in the Company's Canadian operations, in response to market conditions.

(d) In 2010, as a result of continued weak economic conditions in Europe and poor operating performance from the Company's equity investment in Energyst B.V., combined with a very competitive market environment, the Company recorded a $5.0 million impairment of its investment. In addition, as part of its review of the valuation of long-lived assets, the Company recorded a $1.8 million impairment of an intangible asset.

3. SHORT-TERM AND LONG-TERM DEBT

($ THOUSANDS)	December 31 2011	December 31 2010	January 1 2010
Short-term debt	$ 334,525	$ 89,965	$ 162,238
Long-term debt:			
Medium Term Notes			
4.64%, $150 million, due December 14, 2011	–	149,909	149,813
5.16%, $250 million, due September 3, 2013	249,662	249,460	249,258
6.02%, $350 million, due June 1, 2018	348,800	348,614	348,427
5.625%, £70 million (January 1, 2010: £115 million) Eurobond, due May 30, 2013	110,343	108,172	193,495
Other term loans (a)	54,274	57,999	42,343
	763,079	914,154	983,336
Less current portion of long-term debt	(508)	(203,087)	(24,179)
Total long-term debt	$ 762,571	$ 711,067	$ 959,157

(a) Other term loans include U.S. $10.0 million, £21.5 million, and EUR 4.0 million (2010: U.S. $35.5 million, £10.0 million, and EUR nil) of unsecured borrowings under committed bank facilities that are classified as long-term debt, and other unsecured term loans primarily from supplier merchandising programs. Other term loans also include £3.1 million (2010: £3.4 million) of unsecured uncommitted loans. In 2010, other loans also included £0.5 million of rental equipment financing secured by the related equipment, with varying rates of interest from 5.8% – 6.8%, which matured in 2011.

SHORT-TERM DEBT

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

As at December 31, 2011, the Company had approximately $1,563 million (2010: $1,194 million) of unsecured credit facilities, and including all bank and commercial paper borrowings drawn against these facilities, approximately $1,192 million (2010: $1,027 million) of capacity remained available, of which approximately $727 million (2010: $803 million) is committed credit facility capacity.

3. SHORT-TERM AND LONG-TERM DEBT (continued)

SHORT-TERM DEBT (CONTINUED)

Included in short-term debt is foreign currency denominated debt of U.S. $181.8 million and Argentine Peso (ARS) 62.0 million (2010: U.S. $59.1 million, ARS nil).

The average interest rate applicable to the consolidated short-term debt for 2011 was 1.6% (2010: 3.9%).

LONG-TERM DEBT

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

In the fourth quarter of 2011, the Company repaid its 4.64% $150 million medium term note. Repayment of the note was funded by the issuance of commercial paper under the Company's commercial paper program.

In September 2011, the Company entered into a new unsecured syndicated operating credit facility of up to $1.0 billion. This new facility replaces the previous $800 million global credit facility, which was set to expire in December 2011. The new facility is available in multiple borrowing jurisdictions and may be drawn by a number of the Company's principal operating subsidiaries. Borrowings under this facility are available in multiple currencies and at various floating rates of interest. The new committed facility matures in September 2015 and contains annual options to extend the maturity date on terms reflecting market conditions at the time of the extension. At December 31, 2011, $273 million (2010: $63 million) was drawn on the global credit facility, including commercial paper issuances.

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

LONG-TERM DEBT REPAYMENTS

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

($ THOUSANDS)	
2012	$ 508
2013	360,546
2014	577
2015	49,650
2016	251
Thereafter	351,547
	$ 763,079

FINANCE COSTS

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

For years ended December 31 ($ THOUSANDS)	2011	2010
Interest on debt securities:		
Short-term debt	$ 2,663	$ 1,548
Long-term debt	48,090	50,364
	50,753	51,912
Loss on interest rate derivatives	1,486	1,663
Costs associated with Eurobond debt purchase (a)	–	6,441
Interest income on tax reassessment	(2,411)	(2,941)
Other finance related expenses	4,875	3,322
	54,703	60,397
Less:		
Borrowing costs capitalized to property, plant, and equipment	(1,461)	(672)
Interest expense related to discontinued operations	–	(2,109)
Finance costs of continuing operations	$ 53,242	$ 57,616

(a) Following the May 2010 sale of Hewden, the Company's UK equipment rental business (see Note 23), the Company used a portion of the proceeds to purchase £45 million of its £115 million 5.625% Eurobond, due 2013. The Company recorded charges of approximately $6.4 million, reflecting the premium paid to purchase the Eurobond, the early recognition of deferred financing costs, and other costs associated with this purchase.

4. FINANCIAL INSTRUMENTS

OVERVIEW

Finning and its subsidiaries are exposed to market, credit, liquidity, and other risks in the normal course of their business activities. The Company's Enterprise Risk Management process is designed to ensure that such risks are identified, managed, and reported. On a quarterly basis, the Audit Committee reviews the Company's process with respect to risk assessment and management of key risks, including the Company's major financial risks and exposures and the steps taken to monitor and control such exposures. Changes to the key risks are reviewed by the Audit Committee. The Audit Committee also reviews the adequacy of disclosures of key risks in the Company's Annual Information Form, Management's Discussion and Analysis, and Consolidated Financial Statements.

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

CREDIT RISK

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

EXPOSURE TO CREDIT RISK

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

($ THOUSANDS)	**December 31 2011**	December 31 2010	January 1 2010
Cash and cash equivalents[(1)]	**$ 122,745**	$ 346,387	$ 194,910
Accounts receivable – trade[(1)]	**819,066**	619,148	589,106
Accounts receivable – other	**43,632**	44,772	31,045
Service work in progress	**171,214**	73,602	62,563
Supplier claims receivable	**83,452**	50,093	40,121
Instalment notes receivable	**32,767**	26,760	32,126
Note receivable	**24,924**	28,078	–
Derivative assets	**2,287**	7,420	29,499
Advance to associate	**2,250**	–	–
	$ 1,302,337	$ 1,196,260	$ 979,370

(1) The January 1, 2010 opening balances disclosed in this note include the cash and trade receivables of discontinued operations of $51.5 million and $38.4 million, respectively.

CASH AND CASH EQUIVALENTS

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

4. FINANCIAL INSTRUMENTS (continued)

ACCOUNTS RECEIVABLE, SERVICE WORK IN PROGRESS, AND OTHER RECEIVABLES

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

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

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

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

($ THOUSANDS)	December 31 2011	December 31 2010	January 1 2010[1]
Canada	$ 475,205	$ 331,141	$ 310,006
Chile	170,953	147,746	109,193
U.K.	96,011	71,504	123,151
Argentina	54,801	49,885	37,125
Bolivia	10,664	4,911	4,782
Europe	5,363	6,788	2,072
Uruguay	3,980	2,992	1,484
U.S.	1,439	1,432	768
Other	650	2,749	525
	$ 819,066	$ 619,148	$ 589,106

(1) The January 1, 2010 opening balances disclosed in this note include the receivables of discontinued operations of $38.4 million.

IMPAIRMENT LOSSES

The aging of trade receivables at the reporting date was:

	December 31, 2011		December 31, 2010		January 1, 2010[1]	
($ THOUSANDS)	Gross	Allowance	Gross	Allowance	Gross	Allowance
Not past due	$ 576,332	$ –	$ 452,558	$ –	$ 409,991	$ 804
Past due 1 – 30 days	149,190	–	111,336	–	122,382	1,223
Past due 31 – 90 days	47,725	475	28,860	586	36,610	1,153
Past due 91 – 120 days	22,613	407	8,092	355	6,094	745
Past due greater than 120 days	43,943	19,855	32,111	12,868	38,229	20,275
Total	$ 839,803	$ 20,737	$ 632,957	$ 13,809	$ 613,306	$ 24,200

(1) The January 1, 2010 opening balances disclosed in this note include the gross receivables and allowance for doubtful accounts of discontinued operations of $43.2 million and $4.8 million, respectively.

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

For years ended December 31 ($ THOUSANDS)	2011	2010
Balance, beginning of year[1]	$ 13,809	$ 19,426
Additional allowance	11,930	9,114
Receivables written off	(4,819)	(14,503)
Foreign exchange translation adjustment	(183)	(228)
Balance, end of year	$ 20,737	$ 13,809

(1) The January 1, 2010 opening balance disclosed in this note excludes the allowance for doubtful accounts of discontinued operations of $4.8 million.

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

DERIVATIVE ASSETS

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

LIQUIDITY RISK

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company's approach to managing liquidity is to ensure, as far as possible, that it will have sufficient liquid financial resources to fund its operations and meet its commitments and obligations. The Company maintains bilateral and syndicated bank credit facilities, a commercial paper program, continuously monitors actual and forecast cash flows, and manages maturity profiles of financial liabilities. Undrawn credit facilities for continuing operations at December 31, 2011 were $1,192 million (2010: $1,027 million). The Company believes that it has reasonable access to capital markets which is supported by its investment grade credit ratings.

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

($ THOUSANDS)	Carrying amount December 31, 2011	Contractual cash flows 2012	2013-2014	2015-2016	Thereafter
Non-derivative financial liabilities					
Short-term debt	**$ (334,525)**	$ (337,236)	$ –	$ –	$ –
Unsecured MTNs	**(598,462)**	(33,970)	(305,040)	(42,140)	(381,576)
Eurobond	**(110,343)**	(6,221)	(116,814)	–	–
Unsecured bank facilities	**(49,415)**	(967)	(1,934)	(50,382)	–
Other term loans	**(4,859)**	(820)	(1,640)	(902)	(3,646)
Finance lease obligations	**(14,891)**	(3,087)	(3,972)	(2,617)	(17,234)
Accounts payable and accruals (excluding current portion of finance lease obligations)	**(963,787)**	(963,787)	–	–	–
Total non-derivative financial liabilities	**$ (2,076,282)**	$ (1,346,088)	$ (429,400)	$ (96,041)	$ (402,456)
Derivatives					
Forward foreign currency contracts and swaps					
Sell CAD	**$ –**	$ (82,062)	$ –	$ –	$ –
Buy USD	**696**	82,578	–	–	–
Sell USD	**–**	(146,448)	–	–	–
Buy CAD	**1,099**	147,613	–	–	–
Sell CLP	**–**	(73,220)	–	–	–
Buy USD	**371**	73,224	–	–	–
Sell USD	**(7,022)**	(122,040)	(33,561)	–	–
Buy CLP	**–**	116,286	35,470	–	–
Sell EUR	**–**	(3,760)	–	–	–
Buy USD	**96**	3,857	–	–	–
Sell GBP	**–**	(2,524)	–	–	–
Buy USD	**25**	2,543	–	–	–
Share forward					
Sell	**(16,493)**	(16,493)	–	–	–
Buy	**–**	–	–	–	–
Total derivatives	**$ (21,228)**	$ (20,446)	$ 1,909	$ –	$ –

Canadian dollar (CAD), United States dollar (USD), Chilean peso (CLP), Euro (EUR), U.K. pound sterling (GBP)

4. FINANCIAL INSTRUMENTS (continued)

MARKET RISK

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

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

FOREIGN EXCHANGE RISK

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

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

TRANSLATION EXPOSURE

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

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

TRANSACTION EXPOSURE

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

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

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

EXPOSURE TO FOREIGN EXCHANGE RISK

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

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

December 31 (THOUSANDS)	2010 CAD	 USD	 GBP	 CLP
Cash and cash equivalents	11,760	255,418	15,559	21,418,441
Accounts receivable	309,158	95,683	48,093	63,119,600
Short-term and long-term debt	(780,259)	(94,550)	(83,685)	–
Accounts payable and accruals	(155,469)	(216,344)	(71,126)	(47,380,918)
Net balance sheet exposure	(614,810)	40,207	(91,159)	37,157,123
Foreign forward exchange contracts and collars	(33,418)	38,144	–	(625,800)

January 1 (THOUSANDS)	2010 CAD	 USD	 GBP	 CLP
Cash and cash equivalents	9,530	84,307	8,892	7,950,752
Accounts receivable	310,568	44,640	49,417	49,970,186
Short-term and long-term debt	(754,355)	(186,190)	(116,061)	–
Accounts payable and accruals	(108,204)	(154,869)	(54,493)	(29,608,930)
Net balance sheet exposure	(542,461)	(212,112)	(112,245)	28,312,008
Foreign forward exchange contracts and collars	(98,347)	118,838	(9,281)	(6,166,140)

SENSITIVITY ANALYSIS

A 5% strengthening of the Canadian dollar against the following currencies for a full year relative to the December 31, 2011 month end rates would increase / (decrease) net income and other comprehensive income by the amounts shown below. This analysis assumes that all other variables, in particular volumes, relative pricing, interest rates, and hedging activities are unchanged.

December 31 ($ THOUSANDS)	**2011** **Net Income**	 **Other Comprehensive Income**	2010 Net Income	 Other Comprehensive Income
CAD/USD	**$ (26,000)**	**$ (44,000)**	$ (24,000)	$ (40,000)
CAD/GBP	**$ (2,000)**	**$ (7,000)**	$ (1,000)	$ (11,000)
CAD/CLP	**$ 400**	**$ –**	$ 2,000	$ –

A 5% weakening of the Canadian dollar against the above currencies relative to the December 31, 2011 month end rates would have an equivalent but opposite effect on the above accounts in the amounts shown on the basis that all other variables are unchanged.

INTEREST RATE RISK

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

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

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

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

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

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

4. FINANCIAL INSTRUMENTS (continued)

PROFILE

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

($ THOUSANDS)	December 31 2011	December 31 2010	January 1 2010
Fixed rate instruments			
Financial assets	$ **57,691**	$ 54,838	$ 58,205
Financial liabilities	**(723,696)**	(872,285)	(964,980)
	$ **(666,005)**	$ (817,447)	$ (906,775)
Variable rate instruments			
Financial assets	$ **124,995**	$ 346,387	$ 194,910
Financial liabilities	**(405,292)**	(156,636)	(230,725)
	$ **(280,297)**	$ 189,751	$ (35,815)

FAIR VALUE SENSITIVITY ANALYSIS FOR FIXED RATE INSTRUMENTS

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

NET INCOME SENSITIVITY ANALYSIS FOR VARIABLE RATE INSTRUMENTS

An increase of 1.0% in short-term interest rates for a full year relative to the interest rates at the reporting date would have decreased net income by approximately $2.0 million (2010: increase to net income of $2.0 million) with a 1.0% decrease having the opposite effect. This analysis assumes that all other variables, in particular foreign currency rates, remain constant.

OTHER RISK

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

SHARE-BASED PAYMENT RISK

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

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

At December 31, 2011 and 2010, the VRSF relates to 1.5 million common shares at a price of $28.71 per share plus interest maturing in 2012. A 5% strengthening in the Company's share price as at December 31, 2011, all other variables remaining constant, would have increased net income by approximately $1.6 million (2010: $1.4 million) as a result of revaluing the Company's VRSF with a 5% weakening having the opposite effect. This fair value impact partially mitigates changes in the fair value of the Company's cash-settled share-based payment liability.

FAIR VALUES

The following fair value information is provided solely to comply with financial instrument disclosure requirements. The classification of fair value measurements is based upon a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The level within which the fair value measurement is categorized is based upon the lowest level of input that is significant to the measurement. Level inputs are as follows:

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

As of December 31, 2011 and 2010, all of the inputs used to value Finning's financial instruments were Level 2, except cash and cash equivalents that were designated within Level 1 of the fair value hierarchy. The Company did not identify any Level 3 measurements as of December 31, 2011 and 2010. The Company did not move any instruments between levels of the fair value hierarchy during the years ended December 31, 2011 and 2010.

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

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

(THOUSANDS)	Balance Sheet Classification	Notional Value	Term to Maturity	Fair Value Receive (Pay)
December 31, 2011				
Foreign Exchange				
Forwards and swaps buy USD / sell CAD	**Derivative assets – current**	**USD 81,198**	**1-12 months**	**$ 696**
Forwards sell USD / buy CAD	**Derivative assets – current**	**USD 144,000**	**1 month**	**$ 1,099**
Forwards buy USD / sell CLP	**Derivative assets – current**	**USD 72,000**	**1-2 months**	**$ 371**
Forwards sell USD / buy CLP	**Derivative liabilities – current**	**USD 153,000**	**1-23 months**	**$ (7,022)**
Forwards sell EUR / buy USD	**Derivative assets – current**	**EUR 2,850**	**1 month**	**$ 96**
Forwards sell GBP / buy USD	**Derivative assets – current**	**GBP 1,567**	**6-8 months**	**$ 25**
Long-Term Incentive Plans				
Variable Rate Share Forward	**Derivative liabilities – current**	**CAD 43,065**	**11 months**	**$ (16,493)**
December 31, 2010				
Foreign Exchange				
Forwards and swaps buy USD / sell CAD	Derivative liabilities – current	USD 132,144	1-18 months	$ (3,937)
Forwards sell USD / buy CAD	Derivative assets – current	USD 100,000	2 months	$ 2,843
Forwards buy USD / sell CLP	Derivative liabilities – current	USD 45,000	1 month	$ (484)
Forwards sell USD / buy CLP	Derivative assets – current	USD 39,000	1-12 months	$ 4,577
Long-Term Incentive Plans				
Variable Rate Share Forward	Derivative liabilities – long term	CAD 43,065	2012	$ (8,672)
January 1, 2010				
Foreign Exchange				
Cross currency interest rate swap pay GBP fixed / receive CAD fixed	Derivative assets – long term	GBP 60,000	December 2020	$ 26,079
Forwards and swaps buy USD / sell CAD	Derivative liabilities – current	USD 88,530	1-8 months	$ (5,669)
Forwards buy USD / sell CLP	Derivative assets – current	USD 39,000	1-2 months	$ 747
Forwards sell USD / buy CLP	Derivative assets – current	USD 24,000	1-12 months	$ 2,348
Forwards buy USD / sell GBP	Derivative assets – current	USD 15,309	1-3 months	$ 325
Long-Term Incentive Plans				
Variable Rate Share Forward	Derivative liabilities – long term	CAD 48,809	November 2012	$ (26,144)

LONG-TERM DEBT

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

	December 31, 2011		December 31, 2010		January 1, 2010	
($ THOUSANDS)	**Book Value**	**Fair Value**	Book Value	Fair Value	Book Value	Fair Value
Long-term debt	**$ 763,079**	**$ 838,548**	$ 914,154	$ 982,002	$ 983,336	$ 1,025,891

4. FINANCIAL INSTRUMENTS (continued)

The following methods and assumptions were used to determine the fair value of each class of assets and liabilities recorded at fair value on the consolidated statement of financial position:

CASH AND CASH EQUIVALENTS (LEVEL 1)

The fair value of cash and cash equivalents is determined using quoted market prices in active markets for foreign denominated cash and cash equivalents.

DERIVATIVE INSTRUMENTS (LEVEL 2)

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

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

VARIABLE RATE SHARE FORWARD (LEVEL 2)

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

5. MANAGEMENT OF CAPITAL

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

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

The Company monitors the following ratios: net debt to total capitalization and dividend payout ratio. Net debt to total capitalization and dividend payout ratio are non-GAAP measures which do not have a standardized meaning prescribed by GAAP and therefore may not be comparable to similar measures presented by other issuers.

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

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

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

As at and for years ended ($ THOUSANDS, EXCEPT AS NOTED)	Company Targets	December 31 2011	December 31 2010	January 1 2010
Components of Debt Ratio				
Cash and cash equivalents		**$ (122,745)**	$ (346,387)	$ (194,910)
Short-term debt		**334,525**	89,965	162,238
Current portion of long-term debt		**508**	203,087	24,179
Long-term debt		**762,571**	711,067	959,157
Net debt		**$ 974,859**	$ 657,732	$ 950,664
Shareholders' equity		**$ 1,344,954**	$ 1,202,985	$ 1,289,067
Net debt to total capitalization	**35 - 45%**	**42.0%**	35.3%	42.4%
Dividend payout ratio	**25 - 30%**	**34.4%**	45.3%	n/a

The dividend payout ratio in 2011 and 2010 exceeded the Company's target levels; however, management believes that with the overall economic and business conditions improving the payout ratio will be back on target within the next year.

COVENANT

The Company is subject to a maximum net debt to total capitalization level pursuant to a covenant within its syndicated bank credit facility. As at December 31, 2011 and 2010, the Company is in compliance with this covenant.

6. INCOME TAXES

PROVISION FOR INCOME TAXES

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

For year ended December 31, 2011

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

For year ended December 31, 2010

($ thousands)	Canada	International	Total
Provision for income taxes			
Current	$ 18,709	$ 31,093	$ 49,802
Adjustment for prior periods recognized in the current year	(3,017)	2,734	(283)
	15,692	33,827	49,519
Deferred			
Origination and reversal of timing differences	4,736	(6,685)	(1,949)
Adjustment for prior periods recognized in the current year	3,760	(3,053)	707
Increase (decrease) due to tax rate changes	835	(2,557)	(1,722)
	9,331	(12,295)	(2,964)
Provision for income taxes	$ 25,023	$ 21,532	$ 46,555

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

For years ended December 31

($ THOUSANDS)	2011		2010	
Combined Canadian federal and provincial income taxes at the statutory tax rate	$ 86,848	26.60%	$ 64,194	28.20%
Increase / (decrease) resulting from:				
Lower statutory rates on the earnings of foreign subsidiaries	(12,100)	(3.71)%	(11,812)	(5.19)%
Income not subject to tax	(7,577)	(2.32)%	(6,770)	(2.97)%
Changes in statutory tax rates	1,764	0.54%	(1,470)	(0.65)%
Non-deductible share-based payment	600	0.18%	239	0.10%
Unrecognized intercompany profits	(1,613)	(0.49)%	(1,102)	(0.48)%
Other	(792)	(0.24)%	3,276	1.44%
Provision for income taxes	$ 67,130	20.56%	$ 46,555	20.45%

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

- Chile's corporate (first tier) income tax rate increased from 17% to 20% effective January 1, 2011 and decreased to 18.5% effective January 1, 2012. The rate will further decrease to 17% effective January 1, 2013.
- The U.K.'s corporate income tax rate decreased from 28% to 27% effective April 1, 2010 and to 26% effective April 1, 2011. The rate will decrease to 25% effective April 1, 2012.

6. INCOME TAXES (continued)

DEFERRED TAX ASSET AND LIABILITY

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

($ THOUSANDS)	December 31 2011	December 31 2010	January 1 2010[1]
Deferred tax assets:			
Accounting provisions not currently deductible for tax purposes	$ **50,403**	$ 53,254	$ 54,999
Employee benefits	**35,042**	28,841	35,845
Share-based payments	**11,026**	6,979	1,907
Loss carry-forwards	**3,629**	3,442	3,563
	100,100	92,516	96,314
Deferred tax liabilities:			
Fixed, rental, and leased assets	**(30,059)**	(39,290)	(73,699)
Other	**(6,735)**	(7,208)	(4,267)
	(36,794)	(46,498)	(77,966)
Net deferred tax asset	$ **63,306**	$ 46,018	$ 18,348

(1) The January 1, 2010 opening balances disclosed in this note include the net deferred tax liability of discontinued operations of $14.9 million.

Deferred taxes are not recognized on retained profits of approximately $837 million (2010: $685 million) of foreign subsidiaries, as it is the Company's intention to invest these profits to maintain and expand the business of the relevant companies.

The Company has recognized the benefit of the following tax loss carry-forwards available to reduce future taxable income and capital gains expiring through 2027 for Canada and expiring between 2013 and 2029 for International:

December 31 ($ THOUSANDS)	2011	2010
Canada	$ **451**	$ –
International	**12,035**	10,551
	$ **12,486**	$ 10,551

As at December 31, 2011, the Company has unrecognized net operating losses and capital loss carry-forwards of $1.5 million and $253 million, respectively, to reduce future taxable income. These amounts do not expire.

7. SHARE CAPITAL

The Company is authorized to issue an unlimited number of preferred shares without par value, of which 4.4 million are designated as cumulative redeemable preferred shares. The Company had no preferred shares outstanding for the years ended December 31, 2011 and 2010.

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

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

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

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

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

8. SHARE-BASED PAYMENTS

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

SHARE OPTIONS

The Company has several share option plans for certain employees with vesting occurring over a three-year period. The exercise price of each option is based on the weighted average trading price of the common shares of the Company on the date prior to the grant. Options granted after January 1, 2004 are exercisable over a seven-year period. Options granted prior to January 1, 2004 are exercisable over a ten-year period. Under the 2005 Stock Option Plan, the Company may issue up to 7.5 million common shares pursuant to the exercise of share options. At December 31, 2011, 1.6 million common shares remain eligible to be issued in connection with future grants under this Stock Option Plan.

Details of the share option plans are as follows:

For years ended December 31	2011 Options		2011 Weighted Average Exercise Price	2010 Options		2010 Weighted Average Exercise Price
Options outstanding, beginning of year	**5,602,612**	**$**	**24.16**	6,299,454	$	22.94
Granted	**479,540**	**$**	**28.28**	548,990	$	17.43
Exercised[1]	**(238,825)**	**$**	**13.92**	(1,086,873)	$	13.42
Forfeited	**(432,721)**	**$**	**30.52**	(158,959)	$	26.06
Options outstanding, end of year	**5,410,606**	**$**	**24.47**	5,602,612	$	24.16
Exercisable at year end	**4,279,839**	**$**	**25.31**	3,934,913	$	25.85

(1) Share options exercised in 2011 comprised both cash and cashless exercises, based on the terms of the particular share option plan. There were 78,568 options exercised under the pre-2005 Stock Option Plan which utilized a cash method of exercise resulting in the same number (78,568) of common shares issued. Under the 2005 Stock Option Plan, exercises are generally by way of the cashless method, whereby the actual number of shares issued is represented by the premium between the fair market value at exercise time and the grant value, and the equivalent value of the number of options up to the grant value is withheld. An additional 160,257 options were exercised in 2011 under the 2005 Stock Option Plan resulting in 63,835 common shares issued and 96,422 options were withheld and returned to the option pool for future issues/grants.

In 2011 and 2010, long-term incentives for executives and senior management were a combination of both share options and performance share units. In 2011, the Company granted 479,540 common share options to senior executives and management of the Company (2010: 548,990 common share options). The Company's practice is to grant and price share options only when it is felt that all material information has been disclosed to the market.

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

	2011 Grant	2010 Grant
Dividend yield	**1.88%**	1.75%
Expected volatility[1]	**33.81%**	33.42%
Risk-free interest rate	**2.65%**	2.65%
Expected life	**5.9 years**	5.8 years

(1) Expected volatility is based on historical share price volatility.

The weighted average grant date fair value of options granted during the year was $8.44 (2010: $5.20).

The following table summarizes information about share options outstanding at December 31, 2011:

Range of exercise prices	Options Outstanding: Number Outstanding	Options Outstanding: Weighted Average Remaining Life		Options Outstanding: Weighted Average Exercise Price	Options Exercisable: Number Outstanding		Options Exercisable: Weighted Average Exercise Price
$14.64 - $16.85	**930,697**	**3.7 years**	**$**	**14.91**	**632,773**	**$**	**15.03**
$16.86 - $19.78	**1,486,833**	**2.8 years**	**$**	**18.94**	**1,132,590**	**$**	**19.41**
$19.79 - $29.06	**481,776**	**6.3 years**	**$**	**28.23**	**3,176**	**$**	**19.82**
$29.07 - $30.72	**1,495,100**	**3.4 years**	**$**	**29.83**	**1,495,100**	**$**	**29.83**
$30.73 - $31.67	**1,016,200**	**2.4 years**	**$**	**31.66**	**1,016,200**	**$**	**31.66**
	5,410,606	**3.3 years**	**$**	**24.47**	**4,279,839**	**$**	**25.31**

8. STOCK-BASED COMPENSATION PLANS (continued)

OTHER SHARE-BASED COMPENSATION PLANS

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

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

Details of the plans are as follows:

DIRECTORS

DIRECTORS' DEFERRED SHARE UNIT PLAN A (DDSU)

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

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

Non-employee Directors of the Company were allocated a total of 21,386 deferred share units in 2011 (2010: 34,430 share units), which were granted to the Directors and expensed over the calendar year as the units are issued. An additional 4,304 (2010: 11,464) DSUs were issued in lieu of cash compensation payable for service as a director. A further 4,171 (2010: 7,770) DSUs were granted to present directors during 2011 as payment for notional dividends.

EXECUTIVE

DEFERRED SHARE UNIT PLAN A (DSU-A)

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

DEFERRED SHARE UNIT PLAN B (DSU-B)

Under the DSU-B Plan, executives of the Company may be awarded performance based deferred share units as approved by the Board of Directors. This plan utilizes notional units that become vested at specified percentages or become vested partially on December 30th of the year following the year of retirement, death, or disability. These specified levels and vesting percentages are based on the Company's common share price at those specified levels exceeding, for ten consecutive days, the common share price at the date of grant. Vested deferred share units are redeemable for a period of 30 days after cessation of employment, or by December 31st of the year following the year of retirement, death, or disability. The notional deferred share units that have not vested within five years from the date that they were granted expire. Only vested units accumulate dividend equivalents in the form of additional units based on the dividends paid on the Company's common shares. No units have been awarded under the DSU-B Plan since 2005. All outstanding DSU-B units are vested.

PERFORMANCE SHARE UNIT PLAN (PSU)

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

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

Executives of the Company were allocated a total of 210,000 performance share units in 2011, based on 100% vesting (2010: 236,390).

The specified levels and respective vesting percentages are as follows:

Performance Level	Average Return on Equity (over three-year period) 2011 Plan	2010 Plan	2009 Plan	Proportion of PSUs Vesting 2011 Plan	2010 and 2009 plans
Below Threshold	<15%	< 12%	< 12%	Nil	Nil
Threshold	15%	12%	12%	50%	25%
Target	18%	14%	15%	100%	100%
Maximum	22% or more	17% or more	17% or more	200%	150%

The return on equity performance levels for PSU granted in 2010 and 2009 have been set with reference to Canadian GAAP financial information. These performance levels have subsequently been reviewed for IFRS impacts; for years where Canadian GAAP financial information is not available, the actual performance will be decreased by approximately 3% to reflect the impact of the transition to IFRS.

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

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

For year ended December 31	2010				
UNITS	DSU-A	DSU-B	DDSU	PSU	Total
Outstanding, beginning of year	17,433	570,490	307,506	–	895,429
Additions	78	10,776	53,908	510,303	575,065
Exercised	(17,511)	(208,014)	–	–	(225,525)
Forfeited	–	–	–	(12,065)	(12,065)
Outstanding, end of year	–	373,252	361,414	498,238	1,232,904
LIABILITY ($ THOUSANDS)					
Balance, beginning of year	$ 262	$ 8,582	$ 4,880	$ –	$ 13,724
Expense	189	4,758	4,070	4,943	13,960
Exercised	(451)	(4,413)	–	–	(4,864)
Forfeited	–	–	–	(6)	(6)
Balance, end of year	$ –	$ 8,927	$ 8,950	$ 4,937	$ 22,814

As at December 31, 2011 and 2010, all outstanding deferred share units have vested. During the year ended December 31, 2011, the 2009 grant of performance share units (PSU) vested (122,701 units). As at December 31, 2011 and 2010, none of the outstanding performance share units (PSU) were vested.

8. STOCK-BASED COMPENSATION PLANS (continued)

MANAGEMENT SHARE APPRECIATION RIGHTS (SAR) PLAN

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

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

For years ended December 31

UNITS	2011	2010
Outstanding, beginning of year	242,440	474,664
Exercised	(124,633)	(225,224)
Forfeited	–	(7,000)
Outstanding, end of year	117,807	242,440
LIABILITY ($ THOUSANDS)		
Balance, beginning of year	$ 2,812	$ 2,474
Expense (recovery)	(510)	1,624
Exercised	(1,386)	(1,344)
Foreign exchange rate changes	12	58
Balance, end of year	$ 928	$ 2,812
Strike price ranges:	$ 16.22	$14.69-$16.22

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

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

December 31, 2010	DSU-B	DDSU	PSU	SAR
Dividend yield	1.74%	2.04%	1.72%	2.01%
Expected volatility	31.63%	36.61%	40.66%	35.04%
Risk-free interest rate	2.70%	2.24%	1.86%	2.29%
Expected life	7.16 years	4.40 years	3.00 years	4.54 years
Share price at December 31 2010	$ 27.09	$ 27.09	$ 27.09	$ 27.09
Estimated fair value per unit at year-end	$ 23.92	$ 24.76	$ 25.73	$ 12.54

SUMMARY – IMPACT OF SHARE-BASED PAYMENT PLANS

For years ended December 31 ($ THOUSANDS)	2011	2010
Consolidated statement of income		
Compensation expense arising from equity-settled share option incentive plan	$ 3,463	$ 4,117
Compensation expense arising from cash-settled share based payments	2,457	15,578
Impact of variable rate share forward	7,823	(16,422)
	$ 13,743	$ 3,273
Consolidated statement of financial position		
Non-current liability for cash-settled share based payments (to be incurred within 1-5 years)	$ 17,622	$ 25,626
Variable rate share forward liability (Note 4)	$ 16,493	$ 8,672

The total intrinsic value of vested but not settled share based payments was $12.4 million (2010: 22.5 million).

9. EARNINGS PER SHARE

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

Net income used in determining EPS from continuing operations are presented below. Net income used in determining EPS from discontinued operations in 2010 is the net income from discontinued operations as reported in the consolidated statements of income.

For years ended December 31 ($ THOUSANDS, EXCEPT SHARE AND PER SHARE AMOUNTS)	Income	Shares	Per Share
2011			
Basic EPS from continuing operations:			
Net income	$ 259,365	171,546,035	$ 1.51
Effect of dilutive securities: share options	–	740,890	–
Diluted EPS from continuing operations:			
Net income and assumed conversions	$ 259,365	172,286,925	$ 1.51
2010			
Basic EPS from continuing operations:			
Net income from continuing operations	$ 181,083	171,029,585	$ 1.06
Effect of dilutive securities: share options	–	688,676	–
Diluted EPS from continuing operations:			
Net income from continuing operations and assumed conversions	$ 181,083	171,718,261	$ 1.06

10. INVENTORIES

($ THOUSANDS)	December 31 2011	December 31 2010	January 1 2010(1)
On-hand equipment	$ 783,755	$ 567,085	$ 564,998
Parts and supplies	540,738	393,146	326,481
Internal service work in progress	118,336	115,593	77,059
Inventories	$ 1,442,829	$ 1,075,824	$ 968,538

(1) The January 1, 2010 opening balances disclosed in this note include the inventory of discontinued operations of $1.4 million.

For the year ended December 31, 2011, on-hand equipment, parts, supplies, and internal service work in progress recognized as an expense in cost of sales amounted to $3,928.0 million (2010: $2,974.6 million from continuing operations). For the year ended December 31, 2011, the write-down of inventories to net realizable value, included in cost of sales, amounted to $28.9 million (2010: $39.0 million from continuing operations).

11. POWER SYSTEMS CONSTRUCTION CONTRACTS

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

December 31 ($ THOUSANDS)	2011	2010
Aggregate of contract costs, profits and losses for contracts in progress	$ 40,396	$ 39,745
Advances from customers under construction contracts	(6,657)	(1,339)
Amounts due from customers under construction contracts	9,544	3,264
Retentions held by customers for contract work	$ 974	$ 445

12. OTHER ASSETS

($ THOUSANDS)	December 31 2011	December 31 2010	January 1 2010(1)
Other assets – current:			
Supplier claims receivable	$ 83,452	$ 50,093	$ 40,121
Prepaid expenses	33,108	25,358	28,551
Current portion of finance assets (Note 14)	23,495	19,444	23,479
Value Added Tax receivable	9,167	7,821	12,400
Other	5,581	11,380	13,569
	$ 154,803	$ 114,096	$ 118,120
Other assets – long term:			
Note receivable (Note 23)	$ 24,924	$ 28,078	$ –
Other	9,360	9,829	13,735
	$ 34,284	$ 37,907	$ 13,735

(1) The January 1, 2010 opening balances disclosed in this note include the current and long-term other assets of discontinued operations of $4.5 million and $0.5 million, respectively.

13. JOINT VENTURE AND ASSOCIATE

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

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

(1) Included in the investment in associate is an advance of $2.2 million to Energyst, bearing interest at 6.5% + 3 month Euribor, and due April 30, 2014.

For year ended December 31, 2010 ($ THOUSANDS) Name of Venture	Type of Venture	Proportion of Ownership Interest Held	Company's Share of Net Assets	Company's Share of Net Income (Loss)
PipeLine Machinery	Jointly Controlled Entity	25.0%	$ 34,995	$ 7,014
Energyst B.V.	Associate	25.4%	18,013	(1,424)
			$ 53,008	$ 5,590

As at January 1, 2010 ($ THOUSANDS) Name of Venture	Type of Venture	Proportion of Ownership Interest Held	Company's Share of Net Assets
PipeLine Machinery	Jointly Controlled Entity	25.0%	$ 32,157
Energyst B.V.	Associate	25.4%	27,687
CSS LLP	Jointly Controlled Entity	25.0%	511(1)
			$ 60,355

(1) This investment in joint venture was part of discontinued operations.

14. FINANCE ASSETS

($ THOUSANDS)	December 31 2011	December 31 2010	January 1 2010
Instalment notes receivable	$ 32,767	$ 26,760	$ 32,126
Equipment leased to customers	38,731	32,253	29,253
Less accumulated depreciation	(14,183)	(9,411)	(5,296)
	24,548	22,842	23,957
Total finance assets	57,315	49,602	56,083
Less current portion of instalment notes receivable	(23,495)	(19,444)	(23,479)
	$ 33,820	$ 30,158	$ 32,604

Depreciation of equipment leased to customers for the year ended December 31, 2011 was $4.9 million (2010: $4.0 million).

December 31 ($ THOUSANDS)	2011	2010
Instalment notes receivable:		
Gross investment	$ 37,390	$ 30,943
Less: unearned finance income	(4,623)	(4,183)
Present value of minimum lease payments receivable	$ 32,767	$ 26,760
Receivable as follows:		
Present value		
Within one year	$ 23,495	$ 19,444
After more than one year	9,272	7,316
	$ 32,767	$ 26,760
Minimum lease payments:		
Within one year	$ 25,400	$ 22,095
After more than one year	11,990	8,848
Less unearned finance income	(4,623)	(4,183)
	$ 32,767	$ 26,760

15. PROPERTY, PLANT, AND EQUIPMENT AND RENTAL EQUIPMENT

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

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

15. PROPERTY, PLANT, AND EQUIPMENT AND RENTAL EQUIPMENT (continued)

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

Land, buildings, and equipment under finance leases of $12.4 million (2010: $14.2 million), which is net of accumulated depreciation of $3.4 million (2010: $4.2 million), are included above, of which $1.2 million (2010: $1.1 million) was acquired during the year.

Rental equipment under finance leases of $2.8 million (2010: $5.3 million), which is net of accumulated depreciation of $9.1 million (2010: $8.6 million), are included above, of which $0.3 million (2010: $nil million) was acquired during the year.

Borrowing costs capitalized into property, plant, and equipment for the year ended December 31, 2011 were $1.2 million (2010: $0.2 million). The average rate used for capitalization of borrowing costs was 4.87% (2010: 5.39%).

Included in property, plant, and equipment is investment property with a net book value of $3.0 million (2010: $4.2 million) and fair value of $10.4 million (2010: $8.0 million). The fair value has been determined by an independent valuator.

($ THOUSANDS)	Land	Buildings	Vehicles and Equipment	Total	Rental Equipment
Cost					
January 1, 2010	$ 50,900	$ 410,634	$ 233,593	$ 695,127	$ 575,067
Additions	1,714	25,885	25,132	52,731	193,356
Acquisitions through business combinations	–	2,945	562	3,507	–
Transfers from inventory	–	–	–	–	2,104
Disposals	(435)	(6,728)	(14,435)	(21,598)	(177,058)
Foreign exchange rate changes	(1,492)	(8,892)	(6,716)	(17,100)	(17,031)
December 31, 2010	$ 50,687	$ 423,844	$ 238,136	$ 712,667	$ 576,438

($ THOUSANDS)	Land	Buildings	Vehicles and Equipment	Total	Rental Equipment
Accumulated depreciation					
January 1, 2010	$ –	$ (86,398)	$ (131,454)	$ (217,852)	$ (225,120)
Depreciation for the year	–	(19,337)	(30,628)	(49,965)	(97,973)
Disposals	–	3,941	7,742	11,683	83,765
Foreign exchange rate changes	–	2,642	4,050	6,692	6,656
December 31, 2010	$ –	$ (99,152)	$ (150,290)	$ (249,442)	$ (232,672)

($ THOUSANDS)	Land	Buildings	Vehicles and Equipment	Total	Rental Equipment
Net book value					
January 1, 2010(1)	$ 50,900	$ 324,236	$ 102,139	$ 477,275	$ 349,947
December 31, 2010	**$ 50,687**	**$ 324,692**	**$ 87,846**	**$ 463,225**	**$ 343,766**

(1) The January 1, 2010 opening balances disclosed in these reconciliations exclude the property, plant, and equipment and rental equipment of discontinued operations of $43.2 million and $250.3 million, respectively.

16. INTANGIBLE ASSETS

($ THOUSANDS)	Customer contracts and relationships	Software	Distribution network	Total
Cost				
January 1, 2011	**$ 10,599**	**$ 54,629**	**$ 646**	**$ 65,874**
Additions	**–**	**12,322**	**–**	**12,322**
Acquisitions through business combinations	**1,000**	**–**	**–**	**1,000**
Disposals	**150**	**(431)**	**–**	**(281)**
Foreign exchange rate changes	**8**	**461**	**–**	**469**
December 31, 2011	**$ 11,757**	**$ 66,981**	**$ 646**	**$ 79,384**

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

($ THOUSANDS)	Customer contracts and relationships	Software	Distribution network	Total
Net book value				
January 1, 2011	$ 2,197	$ 42,442	$ 646	$ 45,285
December 31, 2011	**$ 2,072**	**$ 49,314**	**$ 646**	**$ 52,032**

Borrowing costs capitalized into intangible assets for the year ended December 31, 2011 were $0.3 million (2010: $0.5 million). The average rate used for capitalization of borrowing costs was 4.87% (2010: 5.39%).

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

($ THOUSANDS)	Customer contracts and relationships	Software	Distribution network	Total
Cost				
January 1, 2010	$ 13,349	$ 35,654	$ 646	$ 49,649
Additions	–	20,131	–	20,131
Disposals	(2,750)	(220)	–	(2,970)
Foreign exchange rate changes	–	(936)	–	(936)
December 31, 2010	$ 10,599	$ 54,629	$ 646	$ 65,874

($ THOUSANDS)	Customer contracts and relationships	Software	Distribution network	Total
Accumulated depreciation				
January 1, 2010	$ (6,766)	$ (10,444)	$ –	$ (17,210)
Depreciation for the year	(2,598)	(2,079)	–	(4,677)
Disposals	962	216	–	1,178
Foreign exchange rate changes	–	120	–	120
December 31, 2010	$ (8,402)	$ (12,187)	$ –	$ (20,589)

($ THOUSANDS)	Customer contracts and relationships	Software	Distribution network	Total
Net book value				
January 1, 2010(1)	$ 6,583	$ 25,210	$ 646	$ 32,439
December 31, 2010	$ 2,197	$ 42,442	$ 646	$ 45,285

(1) The January 1, 2010 opening balances disclosed in these reconciliations exclude the intangible assets of discontinued operations of $9.1 million.

17. GOODWILL

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

December 31, 2011

($ THOUSANDS)	Canada	South America	UK & Ireland	Consolidated
Goodwill, beginning of year	$ 43,811	$ 29,889	$ 17,414	$ 91,114
Acquired (Note 22)	392	–	–	392
Foreign exchange rate changes	–	673	322	995
Goodwill, end of year	$ 44,203	$ 30,562	$ 17,736	$ 92,501

December 31, 2010

($ THOUSANDS)	Canada	South America	UK & Ireland	Consolidated
Goodwill, beginning of year	$ 43,811	$ 31,451	$ 18,992	$ 94,254
Foreign exchange rate changes	–	(1,562)	(1,578)	(3,140)
Goodwill, end of year	$ 43,811	$ 29,889	$ 17,414	$ 91,114

18. PROVISIONS

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

($ THOUSANDS)	Warranty Claims	Other	Total
January 1, 2010[1]	$ 50,329	$ 9,963	$ 60,292
New provisions	43,286	4,609	47,895
Charges/credits against provisions	(42,979)	(4,871)	(47,850)
Foreign exchange rate changes	(1,396)	(498)	(1,894)
December 31, 2010	$ 49,240	$ 9,203	$ 58,443
Current portion	$ 49,240	$ 8,125	$ 57,365
Long-term portion	$ –	$ 1,078	$ 1,078

(1) The January 1, 2010 opening balances disclosed in these reconciliations exclude the provisions of discontinued operations of $8.3 million.

WARRANTY CLAIMS

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

OTHER

Other provisions include provisions for losses on long-term contracts, decommissioning liabilities, and lawsuits. To determine the recorded liability for decommissioning liabilities, the future estimated cash flows have been discounted using a rate of 3.4%. The total undiscounted amount of estimated cash flows of decommissioning liabilities is $1.4 million.

19. LONG-TERM OBLIGATIONS

($ THOUSANDS)	December 31 2011	December 31 2010	January 1 2010[1]
Share-based payments (Note 8)	$ 17,622	$ 25,626	$ 16,198
Finance leasing obligations (a) (Note 28)	12,697	13,188	15,428
Employee future benefit obligations (Note 24)	160,882	139,266	157,111
Other	1,209	2,645	955
	$ 192,410	$ 180,725	$ 189,692

(1) Long-term obligations of discontinued operations of $29.6 million are included in the January 1, 2010 disclosure.

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

20. CUMULATIVE CURRENCY TRANSLATION ADJUSTMENTS

The Company's principal subsidiaries operate in three functional currencies: Canadian dollars, U.S. dollars, and the U.K. pound sterling. Assets and liabilities of the Company's foreign operations which have functional currencies other than the Canadian dollar are translated into Canadian dollars using the exchange rates in effect at the statement of financial position dates. Any unrealized translation gains and losses are recorded as an item of other comprehensive income and accumulated other comprehensive income. Currency translation adjustments arise as a result of fluctuations in foreign currency exchange rates at the period reporting date compared to the previous period reporting date. The cumulative currency translation adjustment for 2011 mainly resulted from the weaker spot Canadian dollar relative to the U.S. dollar (2.3% weaker), and the U.K. pound sterling (1.8% weaker), at December 31, 2011 compared to December 31, 2010.

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

Exchange rate	**December 31 2011**	December 31 2010	January 1 2010
U.S. dollar	**1.0170**	0.9946	1.0466
U.K. pound sterling	**1.5799**	1.5513	1.6918

For years ended December 31 Average exchange rates	**2011**	2010
U.S. dollar	**0.9891**	1.0299
U.K. pound sterling	**1.5861**	1.5918

21. SUPPLEMENTAL CASH FLOW INFORMATION

CHANGES IN WORKING CAPITAL ITEMS

For years ended December 31 ($ THOUSANDS)	**2011**	2010
Accounts receivable	**$ (216,781)**	$ (118,045)
Service work in progress	**(96,859)**	(12,694)
Inventories – on-hand equipment	**(207,267)**	(22,150)
Inventories – parts and supplies	**(143,652)**	(118,873)
Accounts payable and accruals	**354,109**	382,644
Income taxes	**43,792**	28,352
Other	**(5,303)**	4,072
Changes in working capital items	**$ (271,961)**	$ 143,306

COMPONENTS OF CASH AND CASH EQUIVALENTS

($ THOUSANDS)	**December 31 2011**	December 31 2010	January 1 2010(1)
Cash	**$ 66,206**	$ 105,888	$ 107,678
Short-term investments	**56,539**	240,499	87,232
Cash and cash equivalents	**$ 122,745**	$ 346,387	$ 194,910

(1) The January 1, 2010 opening balances disclosed in this table include the cash of discontinued operations of $51.8 million.

Dividends of $0.51 (2010: $0.47) per share were paid during the year.

22. ACQUISITION

In 2011, the Company acquired certain assets and operations which include the rights to sell and service machine control and monitoring products in the Company's Canadian and South American dealership territories. The total purchase price was approximately $3 million, to be paid in cash; in 2011, $2.5 million was paid with the remaining $0.5 million expected to be paid over the next four years. In addition, acquisition and other related costs of $0.7 million have been paid in 2011 related to the acquisition announced in January 2012 from Caterpillar of the distribution and support business formerly operated by Bucyrus in Finning's dealership territories (Note 32).

In August 2010, Finning was appointed the Caterpillar dealer for Northern Ireland and the Republic of Ireland. The Company acquired certain assets, comprising inventory, a building, and other fixed assets, from the Administrator or Receiver of the previous Caterpillar dealers in Northern Ireland and the Republic of Ireland. The total purchase price for the assets was approximately $6 million (£3.7 million), representing the fair value of the assets acquired. Acquisition and other related costs of $2.0 million were incurred on the transaction, and were recorded in other expenses on the consolidated statement of income. The total purchase price and acquisition and other related costs were paid in cash; in 2010, $6.7 million was paid with the remaining $1.3 million paid in 2011. The purchase was accounted for as a business combination using the purchase method of accounting. The results of these operations have been included in the consolidated financial statements since that date.

In conjunction with these acquisitions, the Company increased its interest in Energyst B.V. by committing to purchase, at fair value, 11,230 shares for cash of $1.4 million (EUR 1.0 million). As a result, the Company's equity interest in Energyst increased to 27.0% from 25.4% in the first quarter of 2011.

23. DISPOSITION OF DISCONTINUED OPERATION

Following an extensive strategic review, on May 5, 2010, the Company sold its U.K. equipment rental subsidiary, Hewden Stuart Limited (Hewden). The Company determined that a large, short-term rental business operating separately from its UK dealership was not aligned with the Company's strategic objectives. Gross proceeds on the sale of Hewden of $171.1 million (£110.2 million) comprised cash of £90.2 million and a £20.0 million interest bearing 5-year note receivable with a fair value of £16.9 million. Transaction costs of $7.2 million were incurred and paid on the transaction.

The loss on sale was $120.8 million, which included the realization of $21.2 million of foreign exchange losses related to the Company's investment in Hewden which was previously recorded in accumulated other comprehensive loss. The loss on disposal differs from that reported under Canadian GAAP, primarily due to the reclassification of the cumulative translation adjustment and associated net investment hedging gains and losses from accumulated other comprehensive income to retained earnings, and the recognition of unamortized actuarial losses on Hewden's defined benefit pension plan in retained earnings in the IFRS opening consolidated statement of financial position. The results of operations of Hewden for the periods up to May 5, 2010 have been reclassified as discontinued operations in the consolidated statements of income and cash flow. The results of Hewden had previously been reported in the Finning (UK) Group segment.

Loss from discontinued operations to the date of disposition is summarized as follows:

($ THOUSANDS)		January 1 - May 5, 2010
Revenue	$	65,259
Loss before provision for income taxes		(6,891)
Loss on sale of discontinued operation, pre tax		(130,836)
Provision for income taxes:		
Tax recovery on operating loss		2,702
Tax recovery on loss on sale of discontinued operations		10,002
Loss from discontinued operations	$	(125,023)

The carrying amounts of assets and liabilities related to discontinued operations as at the date of disposition are as follows:

($ THOUSANDS)	May 5, 2010 (date of disposition)
ASSETS	
Current assets	
Cash	$ 15,403
Accounts receivable	41,584
Inventories	1,385
Other assets	13,023
Total current assets	71,395
Rental equipment	214,645
Land, building and equipment	36,490
Intangible assets	7,174
Other assets	33,017
Investment in joint venture	428
Total assets	$ 363,149
LIABILITIES	
Current liabilities	
Accounts payable and accruals	$ 41,973
Provisions	5,450
Income tax payable	160
Total current liabilities	47,583
Long-term obligations	28,602
Long-term provisions	1,715
Deferred taxes	12,645
Total liabilities	$ 90,545

24. EMPLOYEE FUTURE BENEFITS

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

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

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

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

24. EMPLOYEE FUTURE BENEFITS (continued)

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

For years ended December 31 ($ THOUSANDS)	2011 Canada	2011 UK & Ireland	2011 Total	2010 Canada	2010 UK	2010 Total
Defined contribution plans						
Net benefit cost	$ 26,303	$ 2,222	$ 28,525	$ 21,684	$ 1,796	$ 23,480
Defined benefit plans						
Current service cost, net of employee contributions	7,615	4,599	12,214	5,847	3,980	9,827
Interest cost	19,058	21,730	40,788	19,072	22,126	41,198
Expected return on plan assets	(20,444)	(25,853)	(46,297)	(18,642)	(22,763)	(41,405)
Past service cost(1)	–	–	–	–	7,800	7,800
Curtailment gain(2)	–	(6,431)	(6,431)	–	–	–
Net benefit cost	6,229	(5,955)	274	6,277	11,143	17,420
Net benefit cost recognized in net income	$ 32,532	$ (3,733)	$ 28,799	$ 27,961	$ 12,939	$ 40,900
Actuarial loss (gain) on plan assets	$ (12,518)	$ 8,922	$ (3,596)	$ (8,590)	$ (15,112)	$ (23,702)
Actuarial loss on plan liabilities	42,442	23,808	66,250	42,439	10,499	52,938
Total actuarial (gain)/loss recognized in other comprehensive income(3)	$ 29,924	$ 32,730	$ 62,654	$ 33,849	$ (4,613)	$ 29,236

(1) In April 2010, the Finning (UK) defined benefit pension plan was amended to reverse a previous decision to move to a Career Average Re-valued Earnings (CARE) basis of benefit accrual. As a result, past service costs of $7.8 million were recognized in Q2 2010.

(2) In December 2011, the UK defined benefit pension plan was amended to cease future accruals from April 2012, resulting in a curtailment gain of $6.4 million.

(3) Included in the comparative consolidated statement of comprehensive income were actuarial losses of discontinued operations of $629 thousand.

Total cash payments for employee future benefits for 2011, which is made up of cash contributed by the Company to its defined benefit plans and its defined contribution plans was $44.0 million and $28.1 million, respectively (2010: $41.0 million and $23.5 million, respectively).

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

For years ended December 31 ($ THOUSANDS)	2011 Canada	2011 UK	2011 Total	2010 Canada	2010 UK	2010 Total
Accrued benefit obligation						
Balance at beginning of year	$ 383,963	$ 407,687	$ 791,650	$ 336,337	$ 412,799	$ 749,136
Current service cost	8,747	4,758	13,505	7,050	4,139	11,189
Interest cost	19,058	21,730	40,788	19,072	22,126	41,198
Benefits paid	(21,155)	(12,213)	(33,368)	(20,935)	(14,008)	(34,943)
Actuarial loss	42,442	23,808	66,250	42,439	10,499	52,938
Past service cost	–	–	–	–	7,800	7,800
Curtailment gain	–	(6,431)	(6,431)	–	–	–
Foreign exchange rate changes	–	7,298	7,298	–	(35,668)	(35,668)
Balance at end of year	$ 433,055	$ 446,637	$ 879,692	$ 383,963	$ 407,687	$ 791,650
Plan assets						
Fair value at beginning of year	$ 313,823	$ 372,312	$ 686,135	$ 283,636	$ 362,553	$ 646,189
Expected return on plan assets	20,444	25,853	46,297	18,642	22,763	41,405
Actuarial gain (loss) on plan assets	12,518	(8,922)	3,596	8,590	15,112	23,702
Employer contributions	25,925	18,082	44,007	22,687	18,306	40,993
Employees' contributions	1,132	159	1,291	1,203	159	1,362
Benefits paid	(21,155)	(12,213)	(33,368)	(20,935)	(14,008)	(34,943)
Foreign exchange rate changes	–	6,423	6,423	–	(32,573)	(32,573)
Fair value at end of year	$ 352,687	$ 401,694	$ 754,381	$ 313,823	$ 372,312	$ 686,135
Funded status – plan deficit(1)	$ 80,368	$ 44,943	$ 125,311	$ 70,140	$ 35,375	$ 105,515

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

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

For years ended December 31	2011			2010		
($ THOUSANDS)	Canada	UK	Total	Canada	UK	Total
Accrued benefit obligation	$ 430,323	$ 446,637	$ 876,960	$ 381,624	$ 407,687	$ 789,311
Fair value of plan assets	347,748	401,694	749,442	308,602	372,312	680,914
Funded status – plan deficit	$ 82,575	$ 44,943	$ 127,518	$ 73,022	$ 35,375	$ 108,397

Plan assets do not include a direct investment in common shares of the Company at December 31, 2011 and 2010.

Plan assets are principally invested in the following securities at December 31, 2011:

	Canada	UK
Equity	40.2%	33.5%
Fixed-income	52.8%	58.2%
Real estate	7.0%	8.3%

The significant actuarial assumptions are as follows:

	2011		2010	
	Canada	UK	Canada	UK
Discount rate – obligation	4.30%	4.80%	5.10%	5.30%
Discount rate – expense(1)	5.10%	5.30%	5.70%	5.70%
Expected long-term rate of return on plan assets(1)	6.75%	6.75%	7.00%	7.00%
Rate of compensation increase	3.50%	4.00%	3.50%	4.00%

(1) Used to determine the expense for the years ended December 31, 2011 and December 31, 2010.

Discount rates are determined based on high quality corporate bonds at the measurement date, December 31. The accrued defined benefit pension obligations and expense are sensitive to changes in the discount rate, among other assumptions. For example, if yields were lower, the accrued defined benefit pension obligations as presented in this note would be higher. As an indication of the sensitivity of Finning's defined benefit pension obligation, if the discount rates were 0.25% lower at December 31, 2011, the accrued defined benefit pension obligation presented would have increased by approximately $13.5 million for Finning (Canada)'s plans and £14.5 million for the Finning (UK) plan. The overall expected rate of return on assets is a weighted average of expected long-term returns of the various categories of plan assets held and considers both the actual asset mix and the Company's investment policy.

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

Defined Benefit Plan	Last Actuarial Valuation Date	Next Actuarial Valuation Date
Canada – BC Regular & Executive Plan	December 31, 2009	December 31, 2012
Canada – Executive Supplemental Income Plan	December 31, 2009	December 31, 2012
Canada – General Supplemental Income Plan	December 31, 2009	December 31, 2012
Canada – Alberta Defined Benefit Plan	December 31, 2010	December 31, 2013
Finning (UK) Defined Benefit Scheme	December 31, 2008	December 31, 2011

The contributions expected to be paid during the financial year ended December 31, 2012 amount to approximately $35 million for the defined benefit plans.

24. EMPLOYEE FUTURE BENEFITS (continued)

SEVERANCE INDEMNITY PROVISIONS

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

The most recent actuarial valuation was carried out in 2010.

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

For years ended December 31 ($ THOUSANDS)	**2011**	2010
Discount rate – obligation	**2.8%**	3.8%
Rate of compensation increase	**3.0%**	3.0%
Average staff turnover	**13.0%**	8.9%

For years ended December 31 ($ THOUSANDS)	**2011**	2010
Movement in the present value of the indemnity provision were as follows:		
Balance at the beginning of the year	**$ 33,751**	$ 28,291
Current service cost	**6,896**	6,400
Interest cost	**1,324**	1,531
Actuarial loss	**2,540**	–
Paid in the year	**(7,684)**	(4,099)
Foreign exchange rate changes	**(1,256)**	1,628
Balance at the end of the year	**$ 35,571**	$ 33,751

25. ECONOMIC RELATIONSHIPS

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

26. SEGMENTED INFORMATION

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

The reportable operating segments are as follows:

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

For year ended December 31, 2011 ($ THOUSANDS)	Canada	South America	UK & Ireland	Other	Consolidated
Revenue from external sources	**$2,943,738**	**$2,120,072**	**$ 831,100**	**$ –**	**$5,894,910**
Operating costs	**(2,654,131)**	**(1,880,634)**	**(755,530)**	**(30,085)**	**(5,320,380)**
Depreciation and amortization	**(110,733)**	**(41,211)**	**(21,825)**	**(286)**	**(174,055)**
	178,874	**198,227**	**53,745**	**(30,371)**	**400,475**
Equity earnings (loss)	**7,990**	**–**	**–**	**(1,316)**	**6,674**
Other income (expenses)					
IT system implementation costs	**(16,528)**	**(4,517)**	**(1,945)**	**578**	**(22,412)**
Acquisition costs	**(262)**	**(488)**	**–**	**(4,250)**	**(5,000)**
Earnings from continuing operations before interest and taxes	**$ 170,074**	**$ 193,222**	**$ 51,800**	**$ (35,359)**	**$ 379,737**
Finance costs					**(53,242)**
Provision for income taxes					**(67,130)**
Net income					**$ 259,365**
Identifiable assets	**$2,066,084**	**$1,445,857**	**$ 502,070**	**$ 71,349**	**$4,085,360**
Property, plant, and equipment and intangible assets	**$ 349,493**	**$ 203,637**	**$ 49,205**	**$ 221**	**$ 602,556**
Gross capital expenditures(1)	**$ 68,684**	**$ 73,028**	**$ 11,168**	**$ –**	**$ 152,880**
Gross rental asset expenditures	**$ 242,423**	**$ 57,696**	**$ 12,769**	**$ –**	**$ 312,888**

(1) Includes finance leases and borrowing costs capitalized.

For year ended December 31, 2010 ($ THOUSANDS)	Canada	South America	UK	Other	Consolidated
Revenue from external sources	$ 2,267,742	$ 1,668,438	$ 648,425	$ –	$ 4,584,605
Operating costs	(2,016,896)	(1,472,765)	(607,407)	(10,653)	(4,107,721)
Depreciation and amortization	(98,757)	(37,577)	(20,070)	(168)	(156,572)
	152,089	158,096	20,948	(10,821)	320,312
Equity earnings (loss)	7,014	–	–	(1,424)	5,590
Other income (expenses)					
IT system implementation costs	(14,663)	(9,311)	(2,637)	(1,209)	(27,820)
Other	(5,201)	–	(2,627)	(5,000)	(12,828)
Earnings from continuing operations before interest and taxes	$ 139,239	$ 148,785	$ 15,684	$ (18,454)	$ 285,254
Finance costs					(57,616)
Provision for income taxes					(46,555)
Income from continuing operations					181,083
Loss from discontinued operations, net of tax					(125,023)
Net income					$ 56,060
Identifiable assets	$ 1,476,986	$ 1,434,998	$ 437,913	$ 79,801	$ 3,429,698
Property, plant, and equipment and intangible assets	$ 316,307	$ 148,671	$ 42,929	$ 603	$ 508,510
Gross capital expenditures(1)	$ 37,281	$ 29,360	$ 9,728	$ –	$ 76,369
Gross rental asset expenditures	$ 127,675	$ 46,581	$ 21,204	$ –	$ 195,460

(1) Includes finance leases and borrowing costs capitalized.

27. RELATED PARTY TRANSACTIONS AND TOTAL STAFF COSTS

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

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

All companies are wholly owned, and unless otherwise stated, incorporated in Canada or in the principal country of operations noted above and are involved in the sale of equipment, power and energy systems, rental of equipment and providing product support including sales of parts and servicing of equipment. All shareholdings are of ordinary shares or other equity capital. Other subsidiaries, while included in the consolidated financial statements, are not material.

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

For years ended December 31 ($ THOUSANDS)	2011	2010
Short term employment benefits	$ 853	$ 704
Share-based payments[1]	(166)	4,161
Total	$ 687	$ 4,865

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

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

For years ended December 31 ($ THOUSANDS)	2011	2010
Short term employment benefits	$ 6,210	$ 5,920
Post employment benefits	2,490	817
Share-based payments	2,347	6,308
Total	$ 11,047	$ 13,045

(d) Total staff costs

Total staff costs, including salaries, benefits, pension, share-based payments, and commissions are $1.2 billion (2010: $1.0 billion). This amount includes staff costs associated with key management personnel noted in (b) and (c) above.

28. CONTRACTUAL OBLIGATIONS

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

For years ended December 31 ($ THOUSANDS)	Finance Leases	Operating Leases
2012	$ 3,087	$ 64,467
2013	2,468	51,791
2014	1,504	42,361
2015	1,299	25,666
2016	1,318	20,978
Thereafter	17,234	104,255
	$ 26,910	$ 309,518
Less imputed interest	(12,019)	
	14,891	
Less current portion of finance lease obligation	(2,194)	
Total long-term finance lease obligation	$ 12,697	

29. COMMITMENTS AND CONTINGENCIES

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

(b) The Company is proceeding with the construction of a new oil sands service facility in Fort McKay, Alberta. Construction of the new building is anticipated to cost approximately $110 million, with completion by the end of 2012. To date, the Company has spent approximately $48 million.

30. GUARANTEES AND INDEMNIFICATIONS

The Company enters into contracts with rights of return, in certain circumstances, for the repurchase of equipment sold to customers for an amount which is generally based on a discount from the estimated future fair value of that equipment. As at December 31, 2011, the total estimated value of these contracts outstanding is $131.0 million coming due at periods ranging from 2012 to 2018. The Company's experience to date has been that the equipment at the exercise date of the contract is generally worth more than the repurchase amount. The total amount recognized as a provision against these contracts is $0.3 million.

The Company has issued certain guarantees to Caterpillar Finance to guarantee, on a pro-rata basis, certain borrowers' obligations. The guarantees would be enforceable in the event that the borrowers defaulted on their obligations to Caterpillar Finance, to the extent that any net proceeds from the recovery and sale of collateral securing repayment of the borrowers' obligations is insufficient to meet those obligations. As at December 31, 2011, the maximum potential amount of future payments that the Company could be required to make under the guarantees, before any amounts that may possibly be recovered under recourse or collateralization provisions in the guarantees, is $8.3 million, covering various periods up to 2016. As at December 31, 2011, the Company had no liability recorded for these guarantees.

As part of the Hewden Purchase and Sale Agreement in 2010, Finning provided indemnifications to the third party purchaser, covering breaches of representation and warranties as well as litigation and other matters set forth in the agreement. Claims may be made by the third party purchaser under the agreement for various periods of time depending on the nature of the claim, up to six years. The maximum potential exposure of Finning under these indemnifications is 100% of the purchase price. As at December 31, 2011, Finning had no material liabilities recorded for these indemnifications.

In connection with the sale of the Materials Handling Division in 2006, the Company provided a guarantee to a third party with respect to a property lease. If the lessee were to default, the Company would be required to make the annual lease payments of approximately $1.0 million to the end of the lease term in 2020. As at December 31, 2011, the Company had no liability recorded for this guarantee.

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

During the year, the Company entered into various other commercial letters of credit in the normal course of operations. The total issued and outstanding letters of credit at December 31, 2011 was $77.5 million, of which $67.3 million relates to letters of credit issued in Chile, principally related to performance guarantees on delivery for prepaid equipment and other operational commitments.

31. EXPLANATION OF TRANSITION TO IFRS

These consolidated financial statements for the year ending December 31, 2011 are the Company's first annual financial statements that comply with IFRS. IFRS 1, *First-Time Adoption of IFRS*, requires that comparative financial information be provided with the Company's first IFRS annual consolidated financial statements. The first date at which the Company applied IFRS was January 1, 2010 (the "Transition Date"). IFRS 1 requires first-time adopters to retrospectively apply all effective IFRS as of the reporting date, which for the Company is December 31, 2011. However, it also provides for certain optional exemptions and certain mandatory exceptions for first time IFRS adopters. The consolidated statement of financial position as at January 1, 2010 was prepared as described in Note 1, including the application of IFRS 1. IFRS 1 requires an entity to adopt IFRS in its first annual financial statements prepared under IFRS by making an explicit and unreserved statement in those financial statements of compliance with IFRS.

Described below are the IFRS 1 applicable exemptions and exceptions applied by the Company in the conversion from Canadian GAAP to IFRS.

IFRS EXEMPTION OPTIONS

I. EMPLOYEE BENEFITS

Any unamortized defined benefit pension plan actuarial gains and losses accumulated at January 1, 2010 were recognized in retained earnings in accordance with the IFRS 1 transitional exemption. Not taking this exemption would have required retrospective application of IAS 19, *Employee Benefits*, from the inception of all defined benefit plans.

II. SHARE-BASED PAYMENTS

IFRS 1 does not require first-time adopters to apply the requirements of IFRS 2 *Share-based Payment*, to equity instruments that were granted on or prior to November 7, 2002 or to equity instruments that were granted after November 7, 2002 and vested before the date of transition to IFRS. The Company has not applied IFRS 2 to share options issued on or prior to November 7, 2002, or share options that were fully vested prior to the transition to IFRS.

III. PROPERTY, PLANT, AND EQUIPMENT (PP&E)

No transitional elections were taken. The Company retained assets at historical cost upon transition rather than taking the allowed election to recognize assets at fair value.

IV. BORROWING COSTS

Borrowing costs were not capitalized retrospectively. The Company only capitalizes borrowing costs for those qualifying assets that commenced construction after the Transition Date.

V. BUSINESS COMBINATIONS

The Company did not retrospectively restate any business combinations; IFRS 3, *Business Combinations*, is applied prospectively to acquisitions after January 1, 2010.

VI. CUMULATIVE TRANSLATION ADJUSTMENTS

All cumulative translation adjustments and associated cumulative hedging gains and losses were transferred to retained earnings from accumulated other comprehensive income upon transition.

IFRS MANDATORY EXCEPTIONS

The mandatory IFRS 1 exceptions applied in the conversion from Canadian GAAP to IFRS are noted below.

I. HEDGE ACCOUNTING

Hedge accounting can only be applied prospectively from the Transition Date to transactions that satisfy the hedge accounting criteria in IAS 39, *Financial Instruments: Recognition and Measurement*, at that date. Hedging relationships cannot be designated retrospectively and the supporting documentation cannot be created retrospectively. All of the Company's hedging relationships satisfied IFRS hedging criteria at the Transition Date, and as such these are reflected as hedges in the Company's results under IFRS, and do not result in any adjustment from the Canadian GAAP financial position.

II. ESTIMATES

Hindsight is not used to create or revise estimates. The estimates previously made by the Company under Canadian GAAP were not revised for application of IFRS except where necessary to reflect any difference in accounting policies.

RECONCILIATIONS OF CANADIAN GAAP TO IFRS

IFRS 1 requires an entity to reconcile equity and comprehensive income for periods prior to January 1, 2011. The following represents the reconciliations from Canadian GAAP to IFRS for the statement of financial position as at January 1, 2010 and December 31, 2010, and consolidated statements of income and comprehensive income for the year ended December 31, 2010. Reconciliations of total operating, investing, and financing cash flows for the year ended December 31, 2010, are not provided as the changes to these cash flows are not material and relate only to the revised presentation of the Company's joint venture under equity accounting.

RECONCILIATION OF THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION PREPARED ACCORDING TO INTERNATIONAL FINANCIAL REPORTING STANDARDS

January 1, 2010 (CANADIAN $ THOUSANDS)	Canadian GAAP	Employee Benefits[1]	Share Based Payment[2]	Leases[3]	Income Taxes[4]	Other[5]	IFRS Reclassi-fications[8]	IFRS
Current assets								
Cash and cash equivalents	$ 197,904	$ –	$ –	$ –	$ –	$ –	$ (2,994)	**$ 194,910**
Accounts receivable	622,641	–	–	–	–	–	(2,490)	**620,151**
Service work in progress	62,563	–	–	–	–	–	–	**62,563**
Inventories	993,523	–	–	–	–	–	(24,985)	**968,538**
Income taxes recoverable	–	–	–	–	–	–	35,826	**35,826**
Derivative assets	–	–	–	–	–	–	3,420	**3,420**
Other assets	207,030	–	–	–	–	–	(88,910)	**118,120**
Total current assets	2,083,661	–	–	–	–	–	(80,133)	**2,003,528**
Rental equipment	657,464	–	–	–	–	–	(57,207)	**600,257**
Property, plant, and equipment	516,433	–	–	4,860	–	(313)	(532)	**520,448**
Intangible assets	41,469	–	–	–	–	–	(12)	**41,457**
Goodwill	94,254	–	–	–	–	–	–	**94,254**
Investment in and advance to joint venture and associate	–	–	–	–	–	–	60,355	**60,355**
Finance assets	32,604	–	–	–	–	–	–	**32,604**
Derivative assets	–	–	–	–	–	–	26,079	**26,079**
Deferred tax assets	–	21,481	(376)	(690)	(793)	244	13,669	**33,535**
Other assets	245,550	(174,554)	–	–	–	(1,738)	(55,523)	**13,735**
	$3,671,435	$(153,073)	$ (376)	$ 4,170	$ (793)	$ (1,807)	$ (93,304)	**$3,426,252**
Current liabilities								
Short-term debt	$ 162,238	$ –	$ –	$ –	$ –	$ –	$ –	**$ 162,238**
Accounts payable and accruals	749,941	–	–	676	–	–	(264,122)	**486,495**
Income tax payable	8,624	–	–	160	–	32	458	**9,274**
Provisions	–	–	–	–	–	–	63,667	**63,667**
Deferred revenue	–	–	–	–	–	–	170,034	**170,034**
Derivative liabilities	–	–	–	–	–	–	5,669	**5,669**
Current portion of long-term debt	24,179	–	–	–	–	–	–	**24,179**
Total current liabilities	944,982	–	–	836	–	32	(24,294)	**921,556**
Long-term debt	991,732	–	–	–	–	–	(32,575)	**959,157**
Long-term obligations	110,147	133,137	544	(2,019)	–	(524)	(51,593)	**189,692**
Derivative liabilities	–	–	–	–	–	–	26,144	**26,144**
Provisions	–	–	–	–	–	–	4,949	**4,949**
Deferred revenue	–	–	–	–	–	–	20,500	**20,500**
Deferred tax liabilities	108,888	(61,730)	49	66	4,530	(181)	(36,435)	**15,187**
TOTAL LIABILITIES	2,155,749	71,407	593	(1,117)	4,530	(673)	(93,304)	**2,137,185**
SHAREHOLDERS' EQUITY								
Share capital	557,052	–	–	–	–	–	–	**557,052**
Contributed surplus	33,509	–	(1,440)	–	–	–	–	**32,069**
Accumulated other comprehensive loss	(293,869)	–	–	–	–	–	289,023	**(4,846)**
Retained earnings	1,218,994	(224,480)	471	5,287	(5,323)	(1,134)	(289,023)	**704,792**
Total shareholders' equity	1,515,686	(224,480)	(969)	5,287	(5,323)	(1,134)	–	**1,289,067**
	$3,671,435	$(153,073)	$ (376)	$ 4,170	$ (793)	$ (1,807)	$ (93,304)	**$3,426,252**

RECONCILIATION OF THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION PREPARED ACCORDING TO INTERNATIONAL FINANCIAL REPORTING STANDARDS

December 31, 2010 (CANADIAN $ THOUSANDS)	Canadian GAAP	Employee Benefits[1]	Share Based Payment[2]	Leases[3]	Income Taxes[4]	Other[5]	Depreciation[6]	IFRS Reclassi-fications[8]	IFRS
Current assets									
Cash and cash equivalents	$ 349,857	$ –	$ –	$ –	$ –	$ –	$ –	$ (3,470)	**$ 346,387**
Accounts receivable	669,192	–	–	–	–	–	–	(5,272)	**663,920**
Service work in progress	73,602	–	–	–	–	–	–	–	**73,602**
Inventories	1,086,924	–	–	–	–	–	22	(11,122)	**1,075,824**
Income taxes recoverable	–	–	–	–	–	–	–	24,444	**24,444**
Derivative assets	–	–	–	–	–	–	–	7,420	**7,420**
Other assets	198,941	–	–	–	–	–	–	(84,845)	**114,096**
Total current assets	2,378,516	–	–	–	–	–	22	(72,845)	**2,305,693**
Rental equipment	396,948	–	–	–	–	–	1,585	(54,767)	**343,766**
Property, plant, and equipment	461,056	–	–	3,473	–	177	(304)	(1,177)	**463,225**
Intangible assets	45,752	–	–	–	–	489	(951)	(5)	**45,285**
Goodwill	91,114	–	–	–	–	–	–	–	**91,114**
Investment in and advance to joint venture and associate	–	–	–	–	–	–	–	53,008	**53,008**
Finance assets	30,158	–	–	–	–	–	–	–	**30,158**
Deferred tax assets	–	36,762	(753)	(604)	2,543	(80)	68	21,606	**59,542**
Other assets	210,097	(151,912)	–	–	–	(542)	–	(19,736)	**37,907**
	$3,613,641	$ (115,150)	$ (753)	$ 2,869	$ 2,543	$ 44	$ 420	$ (73,916)	**$3,429,698**
Current liabilities									
Short-term debt	$ 92,739	$ –	$ –	$ –	$ –	$ –	$ –	$ (2,774)	**$ 89,965**
Accounts payable and accruals	1,004,148	–	–	935	–	–	–	(394,032)	**611,051**
Income tax payable	8,127	–	–	111	–	(13)	–	–	**8,225**
Provisions	–	–	–	–	–	–	–	57,365	**57,365**
Deferred revenue	–	–	–	–	–	–	–	318,657	**318,657**
Derivative liabilities	–	–	–	–	–	–	–	4,421	**4,421**
Current portion of long-term debt	203,087	–	–	–	–	–	–	–	**203,087**
Total current liabilities	1,308,101	–	–	1,046	–	(13)	–	(16,363)	**1,292,771**
Long-term debt	736,056	–	–	–	–	–	–	(24,989)	**711,067**
Long-term obligations	106,477	107,857	(2,071)	(2,726)	–	(186)	–	(28,626)	**180,725**
Derivative liabilities	–	–	–	–	–	–	–	8,672	**8,672**
Provisions	–	–	–	–	–	–	–	1,078	**1,078**
Deferred revenue	–	–	–	–	–	–	–	18,876	**18,876**
Deferred tax liabilities	76,420	(30,467)	–	–	–	–	135	(32,564)	**13,524**
TOTAL LIABILITIES	2,227,054	77,390	(2,071)	(1,680)	–	(199)	135	(73,916)	**2,226,713**
SHAREHOLDERS' EQUITY									
Share capital	564,973	–	–	–	–	–	–	–	**564,973**
Contributed surplus	35,735	–	(2,607)	–	–	–	–	–	**33,128**
Accumulated other comprehensive loss	(274,346)	7,484	–	(27)	119	118	(7)	213,274	**(53,385)**
Retained earnings	1,060,225	(200,024)	3,925	4,576	2,424	125	292	(213,274)	**658,269**
Total shareholders' equity	1,386,587	(192,540)	1,318	4,549	2,543	243	285	–	**1,202,985**
	$3,613,641	$ (115,150)	$ (753)	$ 2,869	$ 2,543	$ 44	$ 420	$ (73,916)	**$3,429,698**

RECONCILIATION OF THE CONSOLIDATED STATEMENT OF INCOME PREPARED ACCORDING TO INTERNATIONAL FINANCIAL REPORTING STANDARDS

For year ended December 31, 2010 (CANADIAN $ THOUSANDS)	Canadian GAAP	Employee Benefits[1]	Share Based Payment[2]	Leases[3]	Income Taxes[4]	Other[5]	Depreciation[6]	Hewden Loss on Disposal[7]	IFRS Reclassi-fications[8]	IFRS
Revenue										
New equipment	$1,940,648	$ –	$ –	$ (872)	$ –	$ –	$ –	$ –	$ (11,134)	**$1,928,642**
Used equipment	272,388	–	–	–	–	–	–	–	(18,835)	**253,553**
Equipment rental	299,911	–	–	–	–	–	–	–	(25,223)	**274,688**
Product support	2,117,663	–	–	–	–	–	–	–	–	**2,117,663**
Other	10,692	–	–	–	–	–	–	–	(633)	**10,059**
Total revenue	4,641,302	–	–	(872)	–	–	–	–	(55,825)	**4,584,605**
Cost of sales	(3,256,098)	–	–	739	–	–	4,598	–	43,965	**(3,206,796)**
Gross profit	1,385,204	–	–	(133)	–	–	4,598	–	(11,860)	**1,377,809**
Selling, general, and administrative expenses	(1,069,593)	7,200	3,782	(395)	–	(46)	(3,925)	–	5,480	**(1,057,497)**
Equity earnings of joint venture and associate	–	–	–	–	–	–	–	–	5,590	**5,590**
Other expenses	(40,648)	–	–	–	–	–	–	–	–	**(40,648)**
Earnings from continuing operations before interest and income taxes	274,963	7,200	3,782	(528)	–	(46)	673	–	(790)	**285,254**
Finance costs	(58,701)	–	–	(134)	–	672	–	–	547	**(57,616)**
Income from continuing operations before provision for income taxes	216,262	7,200	3,782	(662)	–	626	673	–	(243)	**227,638**
Provision for income taxes	(45,546)	(3,954)	(328)	121	3,216	(186)	(121)	–	243	**(46,555)**
Income from continuing operations	170,716	3,246	3,454	(541)	3,216	440	552	–	–	**181,083**
Loss from discontinued operations, net of tax	(249,089)	490	–	(157)	296	176	–	123,261	–	**(125,023)**
Net income	$ (78,373)	$ 3,736	$ 3,454	$ (698)	$ 3,512	$ 616	$ 552	$ 123,261	$ –	**$ 56,060**
Earnings per share – basic										
From continuing operations	$ 1.00									**$ 1.06**
From discontinued operations	(1.46)									**(0.73)**
	$ (0.46)									**$ 0.33**

RECONCILIATION OF THE CONSOLIDATED STATEMENT OF COMPREHENSIVE LOSS PREPARED ACCORDING TO INTERNATIONAL FINANCIAL REPORTING STANDARDS

For year ended December 31, 2010 (CANADIAN $ THOUSANDS)	Canadian GAAP	Employee Benefits(1)	Share Based Payment(2)	Leases(3)	Income Taxes(4)	Other(5)	Depreciation(6)	Hewden Loss on Disposal(7)	IFRS
Net income (loss)	$ (78,373)	$ 3,736	$ 3,454	$ (698)	$ 3,512	$ 616	$ 552	$ 123,261	$ **56,060**
Other comprehensive income (loss), net of income tax									
Currency translation adjustments	(98,793)	7,484	–	(27)	119	20	(7)	4,026	**(87,178)**
Unrealized gain on net investment hedges	16,768	–	–	–	–	96	–	–	**16,864**
Realized loss on foreign currency translation, net of realized gain on net investment hedges, reclassified to earnings on disposal of discontinued operations	82,833	–	–	–	–	–	–	(63,691)	**19,142**
Tax recovery on net investment hedges	14,938	–	–	–	–	2	–	(16,084)	**(1,144)**
Foreign currency translation and gain (loss) on net investment hedges, net of income tax	15,746	7,484	–	(27)	119	118	(7)	(75,749)	**(52,316)**
Unrealized gain on cash flow hedges	3,817	–	–	–	–	–	–	–	**3,817**
Realized loss on cash flow hedges, reclassified to earnings	1,127	–	–	–	–	–	–	–	**1,127**
Tax expense on cash flow hedges	(1,167)	–	–	–	–	–	–	–	**(1,167)**
Gain on cash flow hedges, net of income tax	3,777	–	–	–	–	–	–	–	**3,777**
Actuarial loss	–	(29,236)	–	–	–	–	–	(629)	**(29,865)**
Tax recovery on actuarial loss	–	7,501	–	–	–	–	–	177	**7,678**
Actuarial loss, net of income tax	–	(21,735)	–	–	–	–	–	(452)	**(22,187)**
Comprehensive income (loss)	$ (58,850)	$ (10,515)	$ 3,454	$ (725)	$ 3,631	$ 734	$ 545	$ 47,060	$ **(14,666)**

TRANSITIONAL ADJUSTMENTS AND ACCOUNTING POLICY CHANGES ARISING FROM THE TRANSITION TO IFRS

The following notes explain each adjustment arising from the Company's transition to IFRS as referenced on the reconciliations on the previous pages:

1. *EMPLOYEE BENEFITS*

   Under Canadian GAAP, actuarial gains and losses were deferred and amortized in accordance with the "corridor" method. The excess of the net accumulated actuarial gains or losses over 10% of the greater of the accrued benefit obligation and the fair value of the plan assets was amortized on a straight-line basis over the expected average remaining service life of the active employees covered by the plans.

   As described above in 'IFRS exemption options', the Company elected to recognize all unamortized cumulative actuarial gains and losses that existed at the Transition Date in opening retained earnings for all employee benefit plans. Any unrecognized fully vested past service costs were also recognized in full in retained earnings.

   In addition, IFRS requires that the Company measure the assets and liabilities of the defined benefit plan at the end of the reporting period, whereas Canadian GAAP allows the measurement to occur up to 3 months prior to the reporting date. The Company's measurement date prior to adopting IFRS was November 30th. Plans that were previously measured on November 30, 2009 and 2010 were re-measured as at December 31, 2009 and 2010.

   Under IFRS, the Company has elected to record any actuarial gains and losses arising from its defined benefit pension plans in other comprehensive income. Actuarial gains and losses are separately identified in the consolidated statement of comprehensive income.

   Fully vested past service costs arose in the Company's UK defined benefit pension plans, relating to the reversal of the decision to move to a Career Average Re-valued Earnings basis of benefit accrual during the second quarter of 2010. These past service costs were being deferred and amortized over time for Canadian GAAP purposes, but are required to be recognized immediately under IFRS, as they are fully vested. The IFRS pension expense has therefore been adjusted to reflect these past service costs in full in the second quarter of 2010.

2. *SHARE-BASED PAYMENTS*

   A. CASH SETTLED PLANS

   Under Canadian GAAP, cash settled share-based payments are measured at intrinsic value, with changes in intrinsic value taken to the consolidated statement of income immediately. IFRS requires such cash settled plans to be valued at fair value and valuation movements continue to be taken to the consolidated statement of income. The additional liability arising from the fair valuation of the Company's cash settled plans at the Transition Date is therefore recognized in the opening statement of financial position as at January 1, 2010, and the subsequent share based payment expense is adjusted to reflect the difference in valuation methodology.

   B. EQUITY SETTLED PLANS

   Under Canadian GAAP, the Company previously measured share options that vest in tranches at fair value as a single grant. IFRS requires that each share option tranche be valued as a separate grant with a separate vesting date. In addition, under IFRS, the initial valuation is based upon the amount of awards estimated to vest, whereas under Canadian GAAP the Company only recognized forfeitures of awards as and when they arose. The Company therefore adjusted contributed surplus and retained earnings at January 1, 2010 for unvested share options to reflect these changes in the valuation process. Subsequent grants of share options are also valued using this methodology.

3. *LEASES*

   A. ACCELERATED RECOGNITION OF SALE AND LEASEBACK GAINS

   Under Canadian GAAP, operating sale and leaseback gains were deferred and amortized over the term of the operating lease. Under IFRS, such gains are recognized upfront if the sale and leaseback results in an operating lease, and is undertaken at fair value. As certain sale and leaseback transactions met these criteria, the unamortized portion of the gain on sale is recognized in retained earnings and the deferred gain derecognized in the opening IFRS statement of financial position. The amortization of the deferred gain for these transactions was then reversed in the IFRS comparative consolidated statement of income.

   B. RECLASSIFICATION OF CERTAIN LEASES FROM OPERATING TO FINANCE LEASE

   While the concepts of operating and finance leases are very similar under Canadian GAAP and IFRS, IFRS provides more qualitative indicators to apply in the classification of the lease, and does not specify quantitative thresholds to be applied in the lease classification test. Certain leases which were classified as operating under Canadian GAAP are now classified as financing under IFRS. The leased asset is now capitalized on the opening statement of financial position, with the corresponding payable recognized as a liability. Depreciation and interest expense, rather than operating lease costs, are recognized in the consolidated statement of income.

4. *INCOME TAXES*

IAS 12, *Income Taxes*, requires that deferred tax be recognized on foreign exchange differences where the currency of the tax basis of non monetary assets is different to the functional currency for accounting purposes, whereas no such deferred taxation was recognized under Canadian GAAP. In addition, under IFRS deferred taxes are recognized on temporary differences arising from intra-company transfers, whereas this is not required under Canadian GAAP.

IFRS specifically addresses the accounting for current and deferred taxes arising from share-based payment transactions whereas Canadian GAAP did not. Adjustments have been recorded to conform the Company's accounting treatment to IAS 12.

There are also differences between IFRS and Canadian GAAP with respect to the calculation of the tax basis of certain assets in the UK and Chile. In Chile, inflation adjustments on assets that are subject to income tax are now included in the tax basis of the asset for deferred tax computation purposes. In the UK, the determination of the tax basis for certain buildings is impacted by the different approaches of Canadian GAAP and IFRS with respect to circumstances where the tax deductible amount of a building differs dependent on whether it is used or sold. Under Canadian GAAP the tax basis for certain buildings was determined to be the higher of the tax basis if the building was sold and the tax basis if the building was used, whereas IFRS requires the tax basis to be based on the expected manner of recovery.

Movements in these revised deferred taxation balances are reflected as adjustments to tax expense throughout the 2010 comparative IFRS statement of income. The tax expense adjustment is impacted by exchange rate movements, the timing of asset acquisitions and the volume of non-monetary assets transferred within the consolidated group.

5. *OTHER MISCELLANEOUS ADJUSTMENTS*

Borrowing costs for all qualifying assets (defined as assets constructed by the Company that necessarily take a substantial period of time to be ready for use) that commenced construction after January 1, 2010 are capitalized. This reduces finance costs and increases PP&E and intangible asset balances and associated depreciation for those assets constructed after January 1, 2010.

This section also includes other immaterial adjustments including differences in the accounting treatment of decommissioning liabilities and a financial instrument that did not meet the retrospective quantitative hedge effectiveness test under IFRS.

6. *DEPRECIATION*

IFRS requires that uniform accounting policies be used throughout the Company, while Canadian GAAP had no such explicit requirement. The depreciation methods used for certain assets are therefore aligned throughout the Company for IFRS purposes, and the difference in the Canadian GAAP depreciation charge and the IFRS straight line depreciation charge is adjusted in the 2010 comparative IFRS consolidated statement of income.

7. *HEWDEN LOSS ON DISPOSAL*

The loss on disposal of the Company's discontinued operation, Hewden Stuart Limited, has been adjusted to reflect the impact of IFRS adjustments on the disposal calculation. The adjustments to the loss on disposal were primarily caused by the election to reclassify the cumulative translation adjustment and associated net investment hedge gains and losses to retained earnings upon transition to IFRS, and changes to the accounting for defined benefit pension plans.

8. *PRESENTATION RECLASSIFICATIONS*

The following notes explain financial statement reclassifications arising from the Company's transition to IFRS:

JOINT VENTURE ACCOUNTING

Canadian GAAP prescribed the use of the proportionate consolidation method for joint ventures. Under IFRS, the Company may use either proportionate consolidation or equity method accounting for jointly controlled entities. In anticipation of the new requirements of IFRS 11, *Joint Arrangements*, the Company has elected to adopt the available option in IAS 31, *Joint Ventures*, to use equity accounting for its existing joint venture. This has no overall impact on net assets or net income, but alters the presentation of the Company's joint venture; the joint venture is now presented as a separate line item, 'Investment in and advances to joint venture and associate' on the consolidated statement of financial position, and 'Equity earnings of joint venture and associate' on the consolidated statement of income. The Company's investment in an associate, which was always accounted for using the equity method, was re-classified from 'Other assets' to 'Investment in and advances to joint venture and associate' on the consolidated statement of financial position, and from selling, general, and administrative expenses to 'Equity earnings of joint venture and associate' on the consolidated statement of income.

CUMULATIVE TRANSLATION ADJUSTMENT

As described above in 'IFRS exemption options', the Company elected to reclassify all cumulative translation gains and losses, previously recorded in Accumulated Other Comprehensive Income (AOCI), to retained earnings in the opening statement of financial position.

INCOME TAXES

Canadian GAAP requires deferred tax balances to be split between current and non-current assets and liabilities. In contrast, IAS 12 requires that all deferred tax balances be presented as non-current. Current deferred tax balances were therefore re-classified to non-current assets and liabilities.

PROVISIONS

IAS 1 prescribes that provisions must be presented separately on the face of the statement of financial position. Liabilities meeting the definition of a provision are therefore re-classified from accounts payable and accruals and long-term obligations. The estimation process used for measurement of provisions in the Company's Canadian GAAP consolidated financial statements is compliant with IFRS measurement requirements, consequently no adjustment to these liabilities has been applied in the opening statement of financial position.

DEFERRED REVENUE; DERIVATIVE FINANCIAL ASSETS AND LIABILITIES

The Company has decided that separate presentation of deferred revenue and derivative financial instruments provides users of the financial statements with useful information. These amounts have therefore been re-classified.

32. SUBSEQUENT EVENTS

In January 2012, the Company announced that it had reached an agreement to acquire from Caterpillar the distribution and support business formerly operated by Bucyrus International, Inc (Bucyrus) in Finning's dealership territories in South America, Canada, and the U.K. The transaction is valued at approximately U.S. $465 million. After closing, Finning expects to begin providing sales, service, and support for former Bucyrus mining products in all of Finning's dealership territories. The Company expects to fund the transaction primarily through the issuance of U.S. and Canadian dollar denominated term debt. Subject to customary closing conditions, it is anticipated that the transaction will close in two phases: first in the Company's operations in South America and UK and Ireland, and subsequently in the Canadian operations. Both closings are expected to occur in the second quarter of 2012.

On February 3, 2012, the Company acquired 100% of the shares of Damar Group Ltd, an engineering company specializing in the water utility sector in the U.K. The acquired business provides opportunities for Finning to increase market share in the U.K. and Ireland water industries. It also increases Finning's mechanical, electrical and civil engineering capability to deliver a wide range of projects within its target power systems markets which is a key strategic objective of the Company's U.K. and Ireland operations. Cash consideration of £5.7 million was paid at the time of acquisition, which may be subject to customary closing adjustments. Further contingent consideration (with a possible range of £nil-£9.5 million) may be paid on an annual basis after acquisition, contingent upon the acquired business's performance over the next three years. Due to the short time period that has elapsed since the acquisition was completed, initial accounting for the business combination is not yet complete.

TEN YEAR FINANCIAL SUMMARY

For years ended December 31 ($ THOUSANDS EXCEPT PER SHARE DATA)	IFRS 2011	2010	2009	2008
OPERATING RESULTS				
Revenue from continuing operations(1)(2)				
Canadian operations	$ 2,943,738	$ 2,267,742	$ 2,386,642	$ 3,216,946
South American operations	2,120,072	1,668,438	1,489,600	1,501,633
UK & Ireland	831,100	648,425	603,678	879,777
Other	–	–	–	–
TOTAL CONSOLIDATED	$ 5,894,910	$ 4,584,605	$ 4,479,920	$ 5,598,356
Earnings from continuing operations before interest and tax (EBIT)(1)(2)	$ 379,737	$ 285,254	$ 246,896	$ 383,354
As a percent of revenue	6.4%	6.2%	5.5%	6.8%
Income from continuing operations(1)(2)	$ 259,365	$ 181,083	$ 156,707	$ 236,948
As a percent of revenue	4.4%	3.9%	3.5%	4.2%
Free cash flow(3)	$ (220,796)	$ 262,458	$ 493,891	$ 23,218
RATIOS				
Asset turnover ratio	$ 1.57	$ 1.34	$ 1.07	$ 1.26
Net debt to total capitalization	42.0%	35.3%	39.3%	48.9%
Book value per common share	$ 7.84	$ 7.02	$ 8.88	$ 9.19
Return on average shareholders' equity(1)(2)	20.3%	14.9%	10.0%	13.4%
SHARE AND PER SHARE DATA				
Earnings per common share from continuing operations(1)(2)				
Basic	$ 1.51	$ 1.06	$ 0.92	$ 1.38
Diluted	$ 1.51	$ 1.06	$ 0.92	$ 1.37
Dividends per common share	$ 0.51	$ 0.47	$ 0.44	$ 0.43
Common Share Price				
High	$ 30.25	$ 27.40	$ 19.06	$ 31.15
Low	$ 18.55	$ 16.54	$ 10.15	$ 12.09
Year end	$ 22.21	$ 27.09	$ 16.68	$ 14.25
Common shares outstanding (thousands)	171,574	171,431	170,747	170,445
NUMBER OF EMPLOYEES				
Canada	5,435	4,408	4,144	5,061
South America	6,453	5,907	4,954	4,988
UK and Ireland	1,626	1,533	2,783	3,506
International	78	73	70	65
TOTAL	13,592	11,921	11,951	13,620
Revenue from continuing operations per employee(1)(2)	$ 433,704	$ 384,582	$ 421,045	$ 476,010
Income from continuing operations per employee(1)(2)	$ 19,082	$ 15,190	$ 14,728	$ 20,147

The results reported for 2011 and 2010 have been prepared in accordance with International Financial Reporting Standards (IFRS). Prior to January 1, 2011, the Company prepared its consolidated financial statements in accordance with Canadian generally accepted accounting principles. In addition, financial data has been restated to incorporate common share subdivision occurring during the ten year period.

(1) In August 2010, the Company was appointed the Caterpillar dealer for Northern Ireland and the Republic of Ireland. The results of operations and financial position of these dealers have been included in the figures above since the date of acquisition.

(2) On May 5, 2010, the Company sold Hewden Stuart Limited (Hewden), its UK equipment rental business. Results from that operation have been reclassified to discontinued operations for the years ended December 31, 2010, 2009, and 2008. On July 31, 2007, the Company's U.K. subsidiary, Hewden sold its Tool Hire Division. Results from that operation have been reclassified to discontinued operations for the years ended December 31, 2007, 2006, and 2005. On September 29, 2006, the Company's U.K. subsidiary, Finning (UK) sold its Materials Handling Division. Results from that operation have been reclassified to discontinued operations for the years ended December 31, 2006, 2005, and 2004. Therefore, revenue, EBIT, net income, earnings per common share, and return on average shareholders' equity reflect results from continuing operations for those years.

(3) Free cash flow is defined as cash provided by (used in) operating activities less net property, plant, and equipment expenditures.

(4) Number of employees includes all employees up to the point of sale.

Canadian GAAP					
2007	2006	2005	2004	2003	2002
$ 2,936,229	$ 2,612,597	$ 2,049,675	$ 1,562,584	$ 1,456,357	$ 1,269,275
1,325,582	1,009,906	1,007,341	869,893	561,964	444,644
1,400,427	1,230,730	1,271,264	1,403,807	1,574,950	1,493,512
6	6	–	15	24	55
$ 5,662,244	$ 4,853,239	$ 4,328,280	$ 3,836,299	$ 3,593,295	$ 3,207,486
$ 455,847	$ 373,708	$ 257,955	$ 271,933	$ 255,168	$ 277,783
8.0%	7.7%	6.0%	7.1%	7.1%	8.7%
$ 280,107	$ 236,187	$ 161,672	$ 114,946	$ 131,951	$ 132,253
4.9%	4.9%	3.7%	3.0%	3.7%	4.1%
$ (110,704)	$ 55,253	$ 98,169	$ (193,984)	$ 59,054	$ 160,210
$ 1.36	$ 1.22	$ 1.15	$ 1.15	$ 1.09	$ 1.05
40.8%	40.0%	46.0%	50.5%	42.5%	36.5%
$ 9.19	$ 9.07	$ 7.92	$ 7.50	$ 6.16	$ 6.00
16.8%	15.8%	11.8%	11.0%	14.3%	15.7%
$ 1.57	$ 1.32	$ 0.91	$ 0.73	$ 0.86	$ 0.86
$ 1.55	$ 1.31	$ 0.90	$ 0.72	$ 0.84	$ 0.84
$ 0.36	$ 0.28	$ 0.22	$ 0.20	$ 0.18	$ 0.15
$ 33.50	$ 23.90	$ 20.70	$ 17.70	$ 16.60	$ 14.43
$ 23.10	$ 18.05	$ 16.13	$ 14.43	$ 11.50	$ 9.83
$ 28.66	$ 23.90	$ 18.57	$ 17.50	$ 15.00	$ 12.78
176,132	179,090	178,404	176,780	155,510	155,160
4,618	4,106	3,316	2,936	2,717	2,548
4,638	3,865	3,377	3,203	2,456	1,817
3,543	4,841	6,074	6,097	6,191	5,391
51	44	38	44	45	39
12,850	12,856	12,805	12,280	11,409	9,795
$ 440,642	$ 392,605	$ 377,554	$ 338,918	$ 314,953	$ 327,462
$ 21,798	$ 18,726	$ 12,810	$ 9,360	$ 11,566	$ 13,502

BOARD OF DIRECTORS

RICARDO BACARREZA
Santiago, Chile
Director since 1999
Member of Audit Committee, Environment, Health and Safety Committee and Human Resources Committee

JAMES E.C. CARTER
Edmonton, Alberta, Canada
Director since 2007
Chair of Pension Committee and a member of Corporate Governance Committee and Human Resources Committee

HON. DAVID L. EMERSON PC, OBC
Vancouver, British Columbia, Canada
Director since 2008
Chair of Corporate Governance Committee and a member of Audit Committee and Pension Committee

KATHLEEN M. O'NEILL
Toronto, Ontario, Canada
Director since 2007
Chair of Audit Committee and the designated 'financial expert' for Audit Committee and a member of Corporate Governance Committee, Human Resources Committee and Pension Committee

CHRISTOPHER W. PATTERSON
Greensboro, North Carolina, United States
Director since 2010
Member of Audit Committee and Environment, Health and Safety Committee

JOHN M. REID
Vancouver, British Columbia, Canada
Director since 2006
Lead Director, Chair of Human Resources Committee and a member of Audit Committee and Corporate Governance Committee

ANDREW H. SIMON, OBE
Bougy-Villars, Switzerland
Director since 1999
Member of Audit Committee, Environment, Health and Safety Committee and Pension Committee

BRUCE L. TURNER
Santiago, Chile
Director since 2006
Chair of Environment, Health and Safety Committee and a member of Corporate Governance Committee and Human Resources Committee

MICHAEL T. WAITES
Vancouver, British Columbia, Canada
Director since 2008
Member of Environment, Health and Safety Committee

DOUGLAS W.G. WHITEHEAD
Vancouver, British Columbia, Canada
Director since 1999
Chairman of the Board of Directors

Please refer to the Finning's management proxy circular for detailed biographies of Finning directors.

EXECUTIVE OFFICERS

MICHAEL T. WAITES
President and Chief Executive Officer
Finning International Inc.

NEIL DICKINSON
Managing Director
Finning U.K.

ANDREW S. FRASER
President
Finning (Canada)

ANNA P. MARKS
Senior Vice President,
Corporate Controller
Finning International Inc.

TOM M. MERINSKY
Vice President, Treasurer
Finning International Inc.

REBECCA L. SCHALM
Senior Vice President,
Human Resources
Finning International Inc.

J. GAIL SEXSMITH
Corporate Secretary
Finning International Inc.

DAVID S. SMITH
Executive Vice President
and Chief Financial Officer
Finning International Inc.

JUAN CARLOS VILLEGAS
President
Finning South America

NOTES

Company name: Finning International Inc.
Exchange: Toronto Stock Exchange (TSX)
Symbol: FTT
Filings: SEDAR

HEAD OFFICE

Suite 1000, 666 Burrard Street
Vancouver, British Columbia
Canada V6C 2X8
Telephone: 604-691-6444
Fax: 604-691-6440
Website: www.finning.com

AUDITORS

Deloitte & Touche LLP

SOLICITORS

Borden Ladner Gervais LLP

TRANSFER AGENT AND REGISTRAR

Computershare Trust Company of Canada
Phone: 1-800-564-6253 (North America),
514-982-7555 (international)
Email: service@computershare.com
Website: www.computershare.com

CORPORATE INFORMATION

Finning prepares an Annual Information Form (AIF) which is filed with the securities commission. The AIF, annual and quarterly reports are available on the Investors section of *www.finning.com*

CORPORATE GOVERNANCE INFORMATION

Please refer to Finning's management proxy circular issued in connection with the 2012 Annual Meeting of Shareholders and the Governance section of Finning's website for a full discussion of Finning's corporate governance policies and practices, including: Board mandate and composition; Board committees and terms of references; Shareholder Rights Plan; Compliance Disclosure; Code of Ethics; Corporate Disclosure Policy; Whistleblower Policy as well as Employee Privacy and Share Trading policies. These documents are available on Finning's website.

CODE OF CONDUCT

One important way that Finning promotes our values and communicates the behaviours and actions expected from our employees is through our Code of Conduct. The Code provides a common set of principles and key policies to help guide day-to-day behaviour in support of our values. All employees are required to review the Code and affirm that they understand their role in upholding Finning's ethical standards. The Code of Conduct is available in the Governance section of *www.finning.com*.

ANNUAL GENERAL MEETING

May 8, 2012
2:00 pm Pacific Time

Terminal City Club
837 West Hastings Street
Vancouver, British Columbia

INVESTOR CONTACT INFORMATION

For inquiries related to Finning's operating activities and financial performance:
Mauk Breukels
Vice President, Investor Relations and Corporate Affairs
604-331-4934
investor_relations@finning.ca

For inquiries related to shares or dividends:
Computershare Trust Company of Canada
1-800-564-6253 (North America)
514-982-7555 (international)
service@computershare.com

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