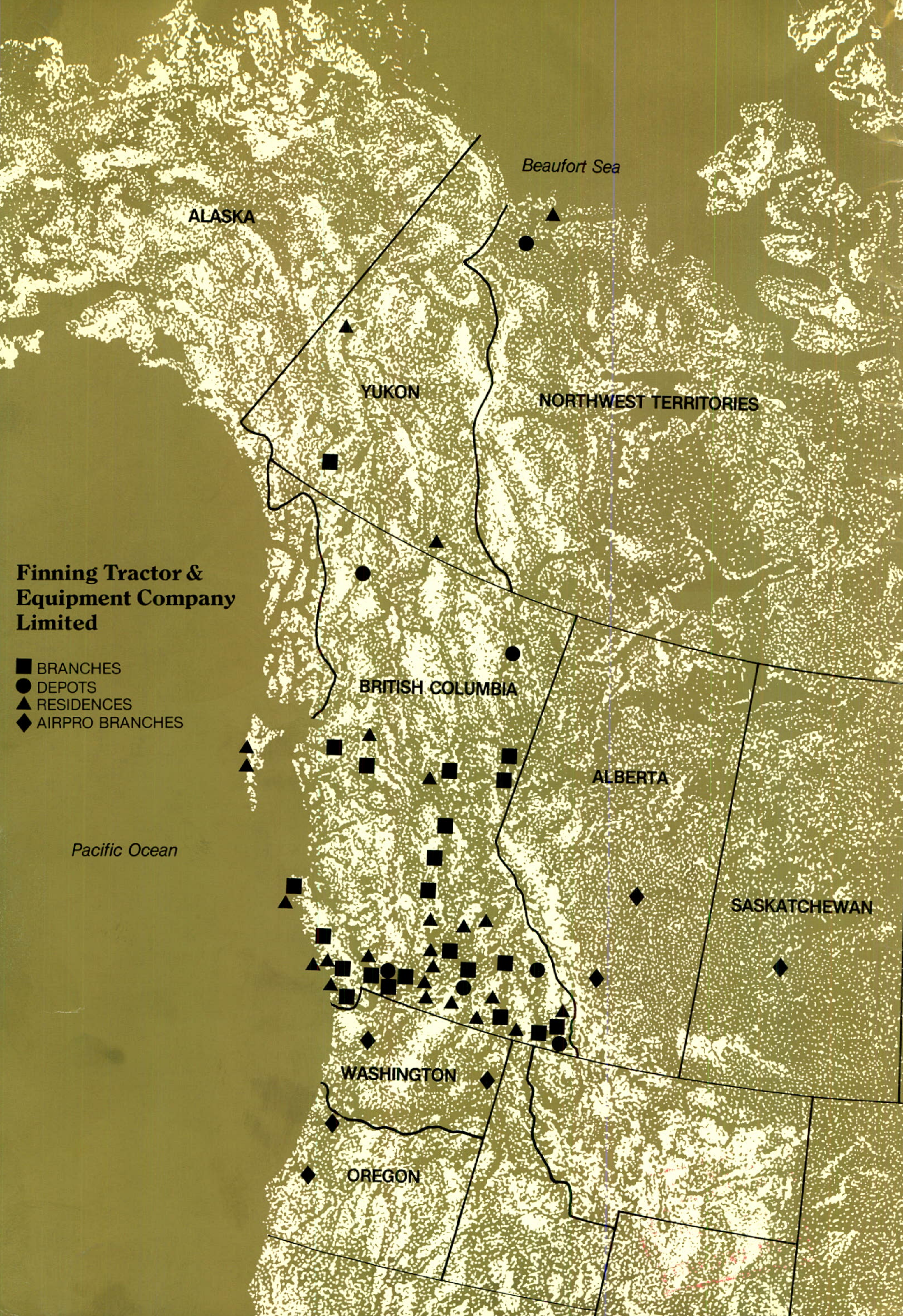
FINNING

Annual Report 1980

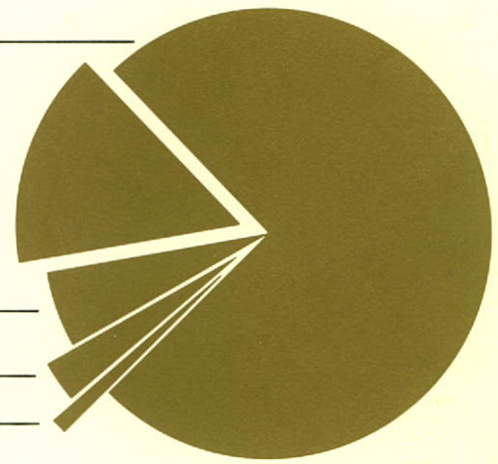

Finning Tractor & Equipment Company Limited
BRANCHES
DEPOTS
RESIDENCES
AIRPRO BRANCHES
Beaufort Sea
ALASKA
YUKON
NORTHWEST TERRITORIES
BRITISH COLUMBIA
ALBERTA
SASKATCHEWAN
Pacific Ocean
WASHINGTON
OREGON

Results in Brief

(dollars in thousands)	1980	1979
Revenue	$438,327	$375,417
Income before income taxes	28,180	28,322
Net income	18,237	19,459
Capital expenditures	12,018	15,182
*Net income per share	$ 2.30	$ 2.45
Income before income taxes as a percentage of revenue	6.4%	7.5%
Net income as a percentage of revenue	4.2%	5.2%
Number of employees at year end	2,316	2,066

**Based on the number of Common Shares outstanding at December 31, 1980 after giving retroactive effect to the subdivision of Common Shares during 1980.*

Distribution of the Revenue Dollar



1980 GOLD RUSH

Modern-day Yukon gold rush, opening of new hard rock mines, and strong exploration activity throughout the territory made mining the bright spot of 1980 markets.

In one of the largest volume sales of the year, $6.25 million in Caterpillar equipment was shipped by barge from Vancouver to Skagway, Alaska, then transported on narrow gauge railway to Whitehorse for use by placer miners and other customers.

On back cover, Cat 631 scraper hauls materials for expansion of tailing ponds at one of Canada's largest lead-zinc mining operations in the Yukon.

To the Shareholders

Revenue for the year 1980 was $438,327,000, compared with $375,417,000 for 1979, an increase of 16.8 per cent. Net income decreased to $18,237,000 from $19,459,000, down 6.3 per cent.

These results are somewhat disappointing. Although revenues were on target, the net profit was lower than anticipated.

The decline in profitability reflects, in part, the impact of higher interest rates and an increase in our provision for bad debts resulting from weakness in some of our markets.

We experienced difficulty in controlling costs in the inflationary environment. Historic operating expense ratios were unfavourable in many areas of the Company's operation, particularly sales and service. Plans are in effect to correct this situation.

The effective tax rate increased in 1980 by four per cent, primarily as a result of the imposition of the corporate surtax coupled with the tax impact of changes in the composition of our lease and rental fleets.

You will have seen from our Interim Report that we have changed the presentation of the Company's financial statements. This new presentation is more appropriate for our business as a heavy equipment dealer providing financing to our customers.

Capital investment in 1980 declined to $12 million from $15.2 million in 1979. We still have several major building projects to be completed in the next few years where major market developments will take place.

1980 saw the opening of new branch facilities at Campbell River, on Vancouver Island, and at Fort Nelson. A new parts depot was opened at Dawson City, in the Yukon.

Your Company was successful in providing all of the new tractors, pipelayers and hydraulic excavators for the British Columbia section of the prebuild of the Foothills Pipe Line. This line will follow the Alaska Highway through British Columbia and the Yukon on its way to the natural gas fields in the north slope area of Alaska. Hopefully, an early start will be made on construction of the main line.

Practically all models of equipment that we sell are in reasonable supply. Caterpillar has announced four new products that fit well in our types of application — a track loader, a wheel loader, a tree harvester, and a new configuration of the D9 tractor.

We are greatly encouraged by Caterpillar Tractor Co.'s rationalization of Canadian production whereby their Canadian factory becomes the North American supplier of the 950 wheel loader. This arrangement, which is somewhat similar to the Canadian-United States Auto Pact, allows duty-free import of other models of wheel loaders. It makes good economic sense in that it will provide long and more efficient factory runs in Canada and at the same time reduce customer costs.

We enter the year with a good backlog of orders, particularly from the five operating coal companies in the East Kootenays. The announcement of development in the northeast corner of the province certainly augurs well. We are strategically situated in relation to the new coal fields with our long-established branch in Dawson Creek, our new facility in Fort St. John, and property we hold in Chetwynd, closest community to the Sukunka, Quintette and Bullmoose coal area.

We continue to view your Company's investment in the Dome Petroleum Limited off-shore drilling program in the Beaufort Sea as very worthwhile. The investment was made in the original drilling program in 1977 and entitles us to a carried interest in 115,680 acres. This is the section containing the Kopanoar and Ukalerk exploratory wells. We believe that public expectations of the drilling program in the Beaufort Sea have been overly optimistic with regard to the time required to prove up the area; it is so vast and the climatic conditions so difficult. In this fourth summer of seasonal exploration, we are looking forward to the evidence of the value of our investment. We are well pleased with Dome's performance.

Under the terms of the National Energy Program, the Federal Government can confiscate 25 per cent of our interest without compensation to us.

1981 is a promising year and if we accomplish all of the goals we have set for ourselves it should be a good year for your Company.

W.M. Young

W.M. YOUNG
Chairman of the Board and
Chief Executive Officer

J.D. Frazee

J.D. FRAZEE
President and
Chief Operating Officer

February 13, 1981

Multiple Caterpillar engine installation powers drill rig near Fort St. John. Brisk exploration activity kept new northern facilities operating at full capacity.

Downstream view of huge Revelstoke Dam where men and machinery keep province's largest construction site on schedule in preparation for 1981 earthfill portion.

Overleaf. . . .

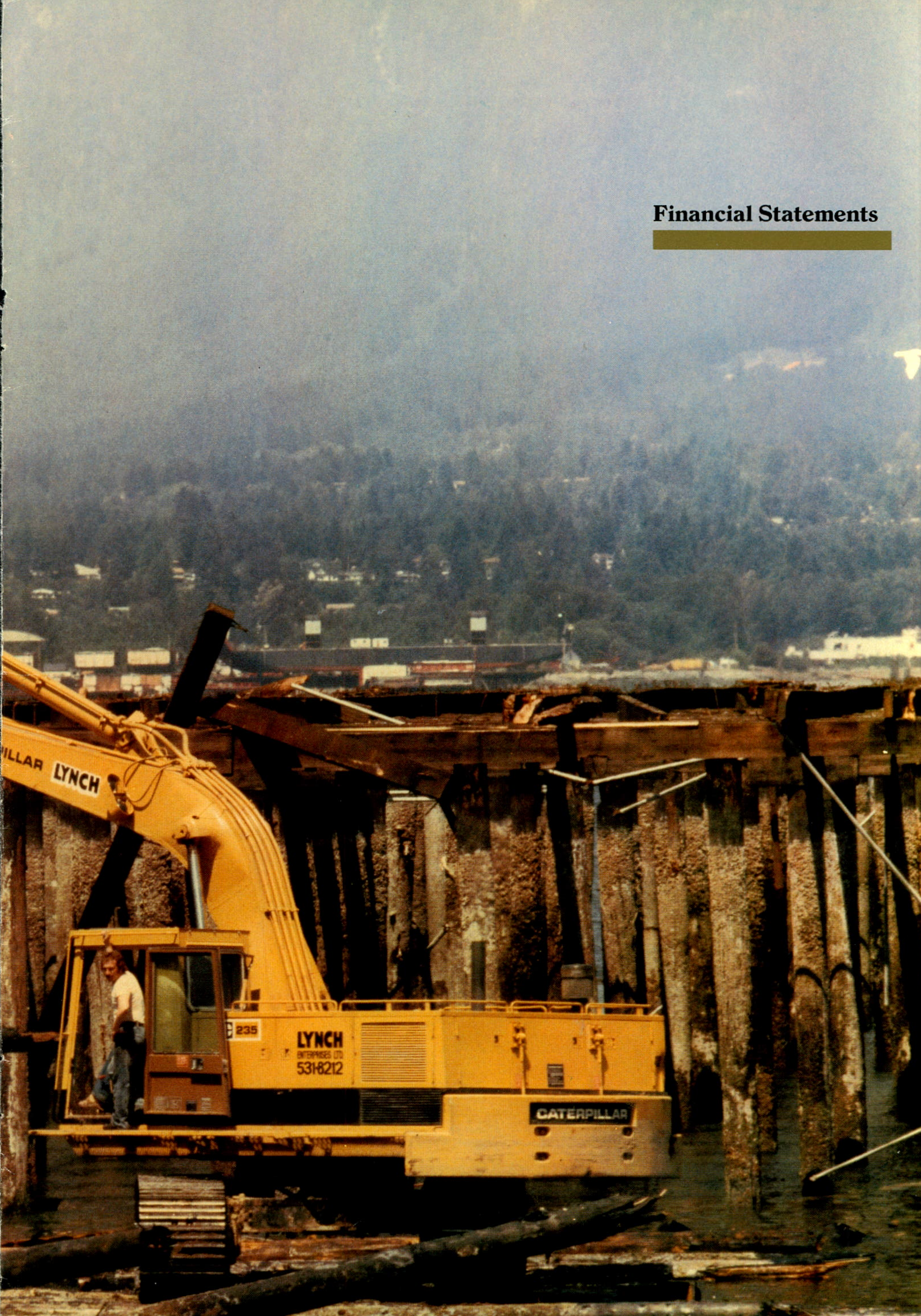
Caterpillar 235 excavator works from perch on raft of logs to uproot pilings on Vancouver pier built in 1893. The machine supplemented a barge-mounted crane, cutting demolition time.

Highlights of Operations

	Revenue	Income Before Income Taxes	Net Income	Capital Expenditures	Dividends Paid	Net Income Per Share*	Income Before Income Taxes as a Percentage of Revenue	Net Income as a Percentage of Revenue	Number of Employees at Year End
1971	$ 91,707,000	$ 6,422,000	$ 3,286,000	$ 1,786,000	$ 486,000	$ .42	7.0%	3.6%	1,180
1972	126,622,000	9,732,000	5,084,000	2,552,000	583,000	.65	7.7%	4.0%	1,373
1973	148,157,000	11,241,000	5,475,000	3,533,000	939,000	.70	7.6%	3.7%	1,577
1974	162,101,000	15,424,000	7,286,000	3,232,000	1,103,000	.92	9.5%	4.5%	1,542
1975	173,812,000	15,675,000	7,942,000	4,628,000	1,586,000	1.00	9.0%	4.6%	1,467
1976	199,795,000	14,583,000	8,609,000	4,497,000	1,589,000	1.08	7.3%	4.3%	1,664
1977	246,761,000	19,652,000	12,002,000	5,155,000	1,986,000	1.51	8.0%	4.9%	1,694
1978	287,933,000	24,012,000	14,769,000	11,319,000	1,986,000	1.86	8.3%	5.1%	1,791
1979	375,417,000	28,322,000	19,459,000	15,182,000	3,574,000	2.45	7.5%	5.2%	2,066
1980	438,327,000	28,180,000	18,237,000	12,018,000	4,766,000	2.30	6.4%	4.2%	2,316

*Based on the number of Common Shares outstanding at December 31, 1980 after giving retroactive effect to the subdivision of Common Shares during 1980.

Financial Statements



Consolidated Balance Sheets

as at December 31

ASSETS	1980	1979
Accounts receivable (Notes 2 and 6)	**$ 72,752,461**	$ 55,584,343
Instalment notes receivable (Notes 2 and 6)	**61,968,696**	54,089,792
Income taxes refundable (Note 9)	**591,259**	—
Inventories (Notes 3 and 6) —		
Equipment	**133,598,453**	95,114,682
Parts and supplies	**49,641,113**	36,153,273
Equipment leased to customers (Notes 4 and 6)	**97,737,107**	78,887,287
Land, buildings and equipment (Notes 5 and 8)	**47,617,776**	40,453,850
	$463,906,865	$360,283,227

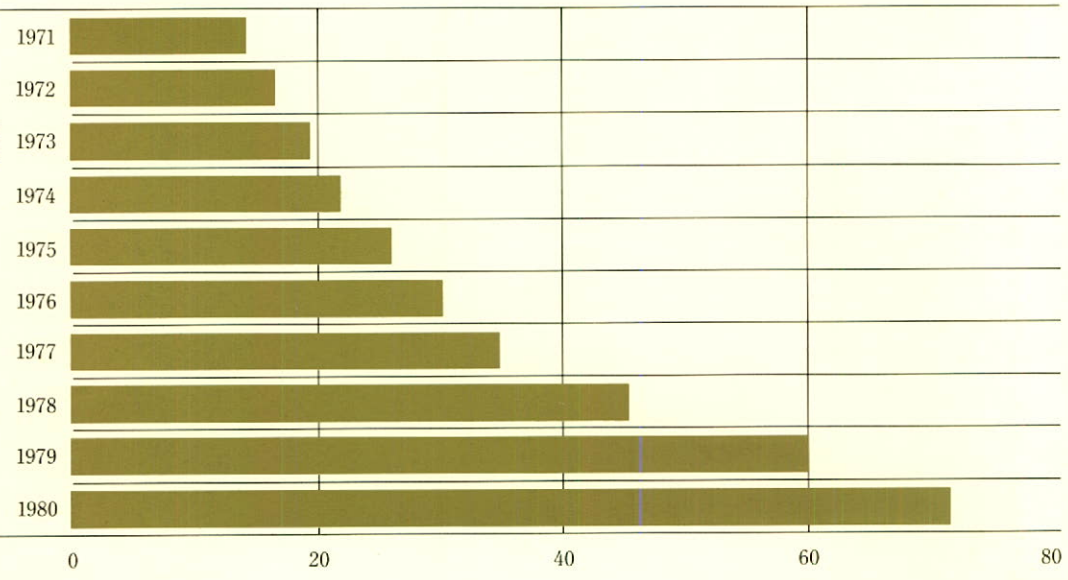
Approved by the Directors:

J.D. FRAZEE, *Director*

V.K. SOOD, *Director*

The following graph is not a part of the audited consolidated financial statements.

Investment in Fixed Assets — at Cost *(millions of dollars)*



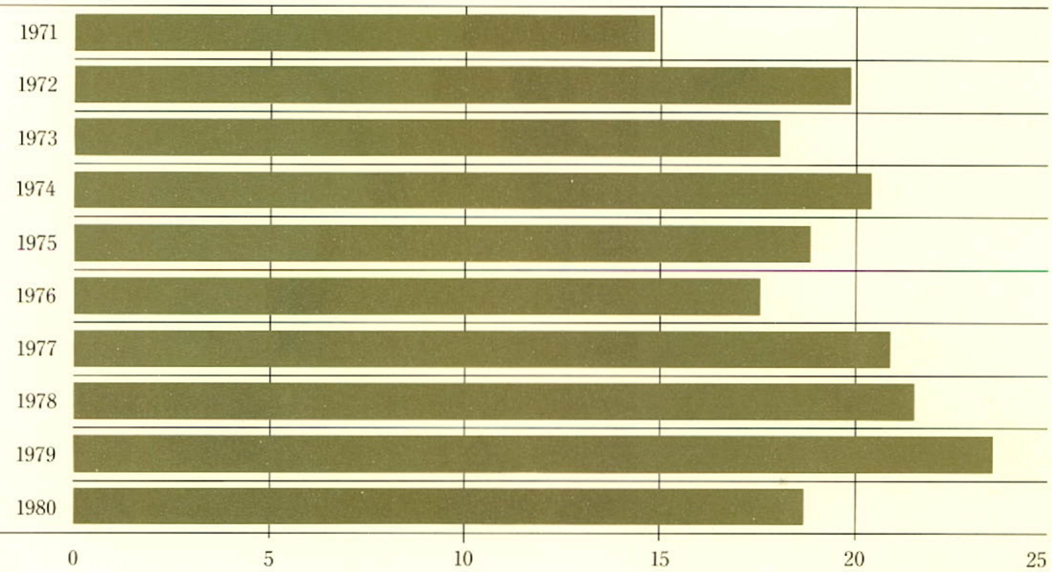
Finning Tractor & Equipment Company Limited

LIABILITIES	1980	1979
Bank indebtedness (Note 6)	$246,525,775	$179,458,055
Accounts payable and accruals (Note 7)	46,023,641	30,391,020
Income taxes payable (Note 9)	—	299,764
Debentures payable (Note 8)	28,800,000	29,400,000
Deferred income taxes (Note 9)	37,823,500	29,471,427
Total liabilities	$359,172,916	$269,020,266
Shareholders' equity (Note 10) —		
Share capital (Notes 11, 12 and 17)	$ 9,096,562	$ 9,096,562
Retained earnings	95,637,387	82,166,399
Total shareholders' equity	$104,733,949	$ 91,262,961
	$463,906,865	$360,283,227

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

The following graph is not a part of the audited consolidated financial statements.

Return on Shareholders' Equity
(per cent)



Consolidated Statements of Income and Retained Earnings

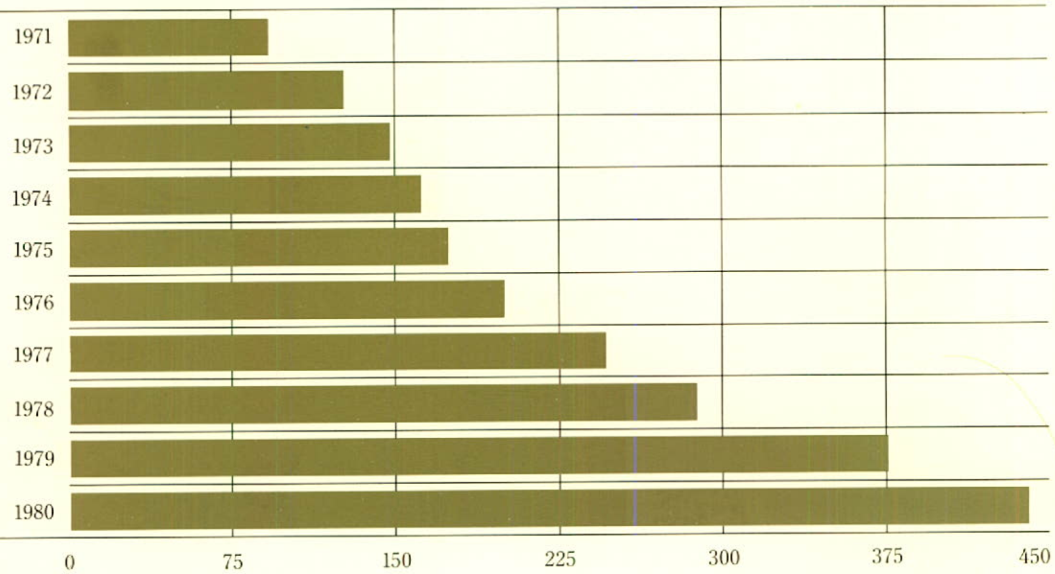
for the years ended December 31

	1980	1979
Revenue	$438,327,098	$375,417,004
Expenses (Notes 13 and 14) —		
Cost of sales and selling	$356,496,469	$307,236,286
General and administrative	22,544,168	18,519,632
Interest	31,106,229	21,338,814
	$410,146,866	$347,094,732
Income before income taxes	$ 28,180,232	$ 28,322,272
Provision for income taxes (Note 9)	9,943,564	8,862,804
Net income	$ 18,236,668	$ 19,459,468
Retained earnings, beginning of year	82,166,399	66,281,191
	$100,403,067	$ 85,740,659
Dividends paid	4,765,680	3,574,260
Retained earnings, end of year	$ 95,637,387	$ 82,166,399
Net income per share (Note 15)	$ 2.30	$ 2.45

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

The following graph is not a part of the audited consolidated financial statements.

Revenue
(millions of dollars)



Consolidated Statements of Changes in Financial Position

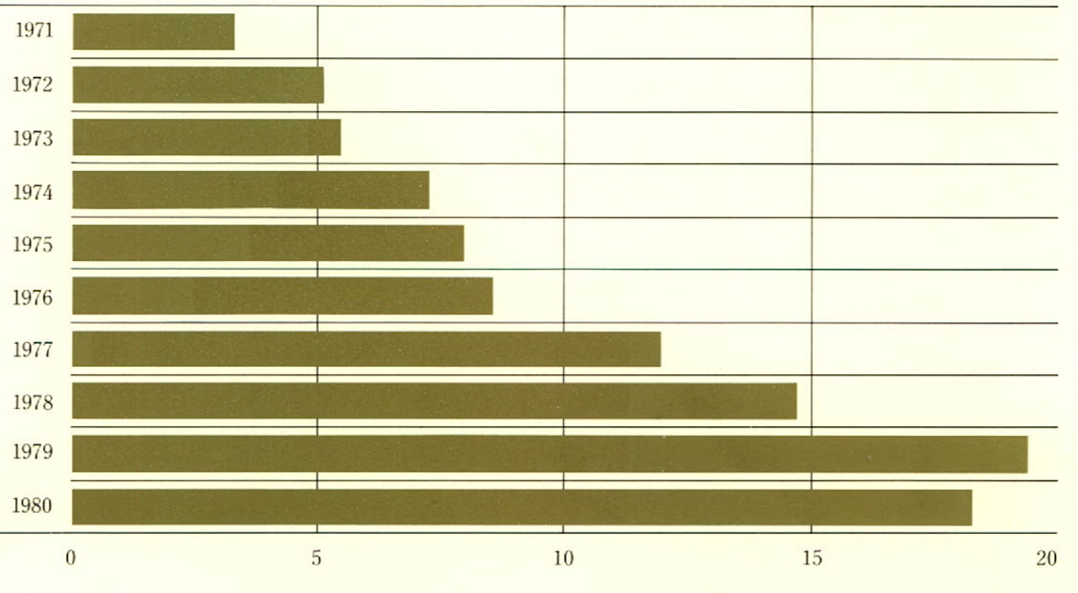
for the years ended December 31

	1980	1979
Cash generated by current operations:		
Net income	$ 18,236,668	$ 19,459,468
Add charges not requiring the outlay of cash —		
Depreciation —		
Equipment leased to customers	21,234,381	16,941,680
Buildings and equipment	4,657,043	3,860,043
Deferred income taxes	8,352,073	3,765,018
Total cash from current operations	$ 52,480,165	$ 44,026,209
Cash used in (generated from) operating assets and liabilities:		
Accounts receivable	$ 17,168,118	$ 12,967,540
Instalment notes receivable	7,878,904	4,774,551
Inventories —		
Equipment	38,483,771	26,039,286
Parts and supplies	13,487,840	2,498,255
Equipment leased to customers, net of disposals	40,084,201	44,001,476
Accounts payable and accruals	(15,632,621)	4,821,127
Income taxes	891,023	1,141,218
	$102,361,236	$ 96,243,453
Net cash used in operations	$ 49,881,071	$ 52,217,244
Other uses of cash:		
Additions to land, buildings and equipment, net of disposals	$ 11,820,969	$ 14,900,120
Purchase of debentures payable	600,000	600,000
Dividends paid	4,765,680	3,574,260
	$ 17,186,649	$ 19,074,380
Net increase in bank indebtedness	$ 67,067,720	$ 71,291,624

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

The following graph is not a part of the audited consolidated financial statements.

Net Income
(millions of dollars)



Notes to Consolidated Financial Statements

December 31, 1980 and 1979

1. PRINCIPLES OF CONSOLIDATION

The consolidated financial statements include the assets, liabilities and results of the operations of all subsidiary companies and of the partnership, Finning Tractor Co.

The subsidiary companies, which are wholly-owned, are:
Airpro Equipment, Inc.
Airpro Equipment Ltd., also operating
as Finning Air Products Division
Finning Computer Services Ltd.
Finning Finance Limited
Finning Tractor (1959) Ltd.
Finning Transportation Services Ltd.

The accounts of Airpro Equipment, Inc., which carries on business in the United States, have been translated into Canadian dollars using the exchange rate prevailing at the balance sheet dates.

Finning Tractor Co. is a partnership between Finning Tractor & Equipment Company Limited and Finning Tractor (1959) Ltd.

2. ACCOUNTS AND INSTALMENT NOTES RECEIVABLE

The Company has invested $2,500,000 in a Dome Petroleum Limited off-shore drilling program in the Beaufort Sea. This is a "carried interest" arrangement whereby the Company does not have to provide further funds to bring about the completion of the drilling program, regardless of circumstances.

After application of federal income tax recoveries, this investment is recorded at a net cost of $460,000 and is included in accounts receivable.

Instalment notes receivable are recorded at principal balances and include $29,099,627 due after one year ($25,503,759 in 1979).

3. INVENTORIES

Inventories are stated at the lower of cost and net realizable value. Cost has been determined on a specific item, actual cost basis for equipment and on a first-in, first-out basis for parts and supplies.

4. EQUIPMENT LEASED TO CUSTOMERS

	1980	1979
Cost	$134,890,627	$106,368,896
Less accumulated depreciation	37,153,520	27,481,609
	$ 97,737,107	$ 78,887,287

Depreciation of equipment leased to customers has been provided in the accounts in equal monthly amounts over the terms of the individual leases after giving recognition to the estimated residual value of each unit of equipment at the end of each lease.

Under the terms of the lease agreements in effect at December 31, 1980, $18,411,342 of the above costs will be recovered in 1981 ($13,438,077 in 1980).

5. LAND, BUILDINGS AND EQUIPMENT

Land, buildings and equipment are recorded at cost and consist of the following:

	1980	1979
Land	$ 9,455,444	$ 8,028,152
Buildings and equipment	$ 62,253,155	$ 52,107,688
Less accumulated depreciation	24,090,823	19,681,990
	$ 38,162,332	$ 32,425,698
Land, buildings and equipment	$ 47,617,776	$ 40,453,850

Depreciation of the buildings and equipment has been provided in the accounts at the following annual rates on a declining balance basis:

Buildings	5% and 10%
General equipment	20%
Automotive equipment	30%

6. BANK INDEBTEDNESS

	1980	1979
Demand bank notes	$ 31,070,551	$ 8,112,735
Bankers' acceptances payable at various dates within 34 days after December 31, 1980 (within 22 days after December 31, 1979)	215,455,224	171,345,320
	$246,525,775	$179,458,055

Demand bank notes and bankers' acceptances are secured by a general assignment of accounts and notes receivable, by an assignment of insurance on inventories and by a first floating charge on these assets and equipment leased to customers. The loan agreement with the bank contains certain restrictions which, among other things, limit distribution to shareholders as explained in Note 10.

7. CURRENCY TRANSLATION

The accounts payable and accruals include $10,596,799 ($2,933,692 in 1979) payable in U.S. funds which has been translated into Canadian dollars using the exchange rate prevailing at the respective balance sheet dates.

8. DEBENTURES PAYABLE

This debt consists of 9¾% Secured Debentures, 1978 Series, to mature September 1, 1985. They are secured by a Trust Deed which constitutes a first fixed charge on substantially all the real property of the Company and a first floating charge on all other fixed assets. The Company is required to use reasonable efforts to purchase in the market at least $300,000 principal amount of Debentures in each six-month period ending the last day of February and August in the years to 1985 at prices not exceeding the principal amount and in accordance with the terms of the Trust Deed. In addition, these Debentures may be redeemed after February 29, 1984 at the option of the Company.

9. INCOME TAXES

The provision for income taxes is calculated on the basis of current effective tax rates. The provision represents 35.3% (31.3% in 1979) of pre-tax income of $28,180,232 ($28,322,272 in 1979) and is net of the federal investment tax credit and the impact of the 3% federal inventory allowance.

Deferred income taxes have resulted from reporting certain items for income tax purposes on bases which differ from the Company's accounting policies. The sources of these differences relate to the following assets:

(a) Inventories, which include equipment rented to customers on a short-term basis. For accounting purposes, depreciation is recorded on the basis of rentals billed while for income tax purposes maximum capital cost allowances are claimed.

(b) Instalment notes, which include conditional sales contracts relating to equipment sales. For accounting purposes, the profit is recognized when the sale is made while for income tax purposes the profit is reported as principal payments are received.

(c) Equipment leased to customers. For accounting purposes, depreciation is recorded as explained in Note 4 while for income tax purposes, maximum capital cost allowances are claimed.

10. RESTRICTIONS ON THE DISTRIBUTION OF SHAREHOLDERS' EQUITY

The Trust Deed securing the 9¾% Secured Debentures, 1978 Series, and an agreement with the Company's bank contain restrictions on the declaration and payment of dividends and the reduction of share capital. Under the most restrictive provision, the amount available for these purposes was $14,693,788 at December 31, 1980 ($15,885,208 at December 31, 1979).

11. SHARE CAPITAL

On March 31, 1980, the shareholders approved a special resolution to subdivide the authorized and outstanding Common Shares of the Company on a two-for-one basis. Consequently, the Company is now authorized to issue 20,000,000 Common Shares without par value (10,000,000 Common Shares at December 31, 1979) of which 7,942,800 Common Shares are outstanding (3,971,400 Common Shares at December 31, 1979).

At the same time, a special resolution was passed by the shareholders increasing the authorized capital of the Company by the creation of 5,000,000 Preferred Shares without par value issuable in series. These Preferred Shares will have such additional rights and restrictions as will be determined by the Board of Directors prior to their being issued.

12. STOCK OPTIONS

During 1980, the reservation of 111,000 Common Shares under an employee stock option plan established in 1969 was cancelled.

13. PENSION PLAN

The Company retains an independent consultant who prepares actuarial reports every two years, the most recent of which was prepared as at December 31, 1979. The consultant has estimated that the funds in the plan were more than adequate to meet the liabilities which existed at that date.

Based on actuarial calculations which include a projection of future remuneration, the estimated unfunded past service cost was $2,124,900 at December 31, 1979. Commencing in 1980, this cost is being funded in equal annual instalments over a period of 20 years. Unfunded past service costs resulting from improved benefits payable by the plan are being charged to expense in equal annual amounts over 12 years. Actuarial revaluations have resulted in cost reductions totalling $1,800,000 which are being credited to expense in equal annual amounts in 1980 and 1981.

Pension expense, including contributions to statutory plans, was $1,120,426 in 1980 ($1,416,913 in 1979).

14. REMUNERATION OF DIRECTORS AND SENIOR OFFICERS

The aggregate remuneration paid by the Company and its subsidiaries directly or indirectly to the directors and senior officers was $942,640 in 1980 ($1,000,983 in 1979).

15. NET INCOME PER SHARE

Net income per share has been calculated on the 7,942,800 Common Shares outstanding during 1980 and 1979 after giving retroactive effect to the subdivision of Common Shares referred to in Note 11.

16. ECONOMIC RELATIONSHIPS

The Company distributes and services heavy equipment and related products. The Company has dealership agreements with several equipment manufacturers, the most significant of which is the Caterpillar Tractor Co. Distribution and servicing of Caterpillar products account for the major portion of the Company's operations.

17. SUBSEQUENT EVENTS

In January, 1981, 600,000 of the Preferred Shares referred to in Note 11 were designated by the Board of Directors as Cumulative Redeemable Convertible Preferred Shares, Series A, and 251,870 were issued under the terms of an employee share purchase plan for consideration of $2,518,700. The dilution of net income per share which would occur if these shares were converted is insignificant.

18. COMPARATIVE FIGURES

The 1979 comparative figures have been reclassified to conform to the financial statement presentation adopted for 1980.

Auditors' Report

TO THE SHAREHOLDERS, FINNING TRACTOR & EQUIPMENT COMPANY LIMITED:

We have examined the consolidated balance sheets of FINNING TRACTOR & EQUIPMENT COMPANY LIMITED (a British Columbia company) AND SUBSIDIARIES as at December 31, 1980 and 1979, and the related consolidated statements of income and retained earnings and changes in financial position for the years then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, the accompanying consolidated financial statements present fairly the financial position of the Company and its subsidiaries as at December 31, 1980 and 1979, and the results of their operations and the changes in their financial position for the years then ended in accordance with generally accepted accounting principles consistently applied during the periods.

ARTHUR ANDERSEN & CO.
Chartered Accountants

February 12, 1981
Vancouver, Canada

Winding detour through 1965 slide area on Hope Princeton will soon be replaced by four lane highway. Cat D8 tractor aids in widening and reconstruction of 14 kilometre stretch.

Review of Operations

REVIEW OF 1980 OPERATIONS

A continuing surge of activity in mining, heavy construction, and oil and gas exploration was the key to record unit sales and revenue for the Company in 1980.

The forest industry was flat relative to its three preceding, record-breaking years. Non-resource based markets were more adversely affected by the economic negatives of high, erratic interest rates and continuing inflation. But mining, construction, and oil and gas expenditures took up the slack and produced the revenue results.

The overall value of mineral production in British Columbia was down slightly from 1979 but the number of mines opened or reopened plus exploration and development led to the industry increasing its contribution to Finning's total revenue by more than 50 per cent over 1979.

Six mines were opened or reopened during the year. These included copper and gold properties near Stewart, adjacent to the Alaska Panhandle; gold near Cassiar by the Yukon border; a silver, copper, gold operation in the Central Interior; and copper-molybdenum in the Highland Valley near Kamloops.

Four other mines came under development during the year. These were a large molybdenum deposit on the north coast, gold properties in the Interior and copper-moly in the Highland Valley.

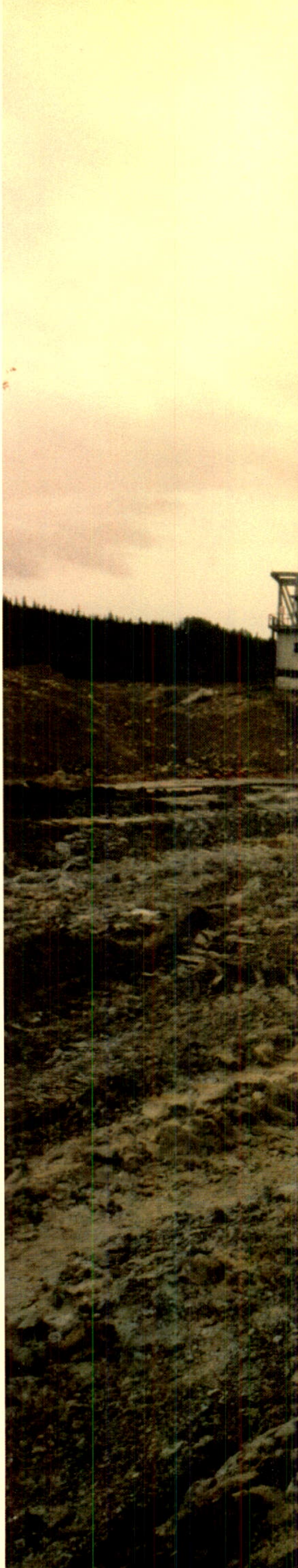
In addition, major coal operations in the East Kootenays began expansion programs, preparation work started on a large scale new coal mine, and further exploration and testing were carried on in the much-publicized northeast coal fields.

7,300 GOLD PLACER CLAIMS

The most feverish, concentrated activity took place in the Yukon. The "1980 Gold Rush" was compared to the historic 1898 Klondike days as prospectors and miners swarmed over the fabled creeks and gravel beds. Total number of gold placer claims staked in the Yukon reached more than 7,300. Activity increased more than 50 per cent over 1979. Most of the action centred in the Dawson City area where the Company opened a new 3,000 sq. ft. parts and service depot.

While the atmosphere was reminiscent of 1898, mining methods were vastly different. Hand shovels, gold pans and dredges were replaced by Caterpillar equipment; 35 to 46 ton crawler tractors, 5 to 8 cu. yd. wheel loaders, 14 to 21 cu. yd. tractor scrapers and

New generation of Cat track loaders, the 943 with bucket capacities to 1½ yards, features hydrostatic drive and rear mounted engine for improved production and operation.



Modern-day gold pan, twin-powered Cat 627 scraper hauls load of gold-bearing gravel to sluice box as abandoned dredge in background serves as reminder of earlier mining activities.

1⅛ to 3¼ cu. yd. excavators. Cat diesel engines powered high volume pumps bringing water for the sluice boxes.

And all was not just gold as increased business was derived from expansion at one of Canada's largest lead, zinc producers.

Indicative of machine sales to the Yukon during the year is the picture on the front cover of this Report showing a single $6.25 million shipment of Caterpillar equipment en route to Whitehorse. It was one of several fleet sales of tractors, loaders and off-highway trucks to the mining industry.

HIGHWAYS, DAMS, RAIL LINES

Heavy construction maintained a strong pace throughout the year. No tenders were called on new major earthmoving projects but work continued on various highway contracts, the upgrading and double tracking of trans-continental rail lines. Most of the major equipment sales for B.C. Hydro's Revelstoke Dam were completed. The large earthmoving contractors derived a sizable percentage of their work from construction of access roads, preparation and development, and stripping of overburden at mine sites.

Sales to the forest industry were down although they picked up somewhat in the last quarter. A drastic decrease in housing starts in the United States had serious impact on Interior lumber producers, some of whom described their markets as "worst ever". Production slowdowns and temporary layoffs spread to Coastal mill operations by mid-year as interest rates in international markets followed the U.S. lead.

However, production of pulp, newsprint and other paper products remained at very high levels and lessened the effect of depressed lumber and plywood sales.

Most of the activity in the logging market was in Caterpillar wheel loaders, rubber-tired skidders and mid-size track-type tractors.

Demand for machines in the "oil patch" in the northeastern part of the province was good overall though the pace slowed perceptibly on release of the October federal budget and the national energy program.

First section of Alaska Highway natural gas pipeline got underway in B.C. with prebuild work comprising four loops of 36-inch pipe over 87 kilometres in Kootenays.

ALL CAT MACHINES

Pipeline construction was confined mainly to prebuild of the Foothills Pipe Lines project in the East Kootenays. The Company was successful in placing all new equipment —some 30 Caterpillar hydraulic excavators, tractors and pipelayers — for the four sections of 36-inch line over 87 kilometres.

A distinct advantage in negotiating this deal was the proximity of parts and service facilities at Cranbrook and Sparwood. Representation and coverage are also important factors in sales to the mining industry with full sales, parts and service centres and/or parts and service depots conveniently close to the existing or developing producers.

Several new products were introduced during the year, further refinements were made to equipment adapted for special purposes by Finning, and pre-production models of new Caterpillar machines were demonstrated with considerable success.

Caterpillar unveiled the first in a new generation of track loaders. The 943, a 1½-yd. capacity unit, has many new design features including rear-mounted engine and hydrostatic drive. It is more productive than the previous model and moves more material per gallon of fuel. Larger models of the same design will be introduced in 1981.

A "high lift" version of Caterpillar's largest wheel loader, the 992, is producing encouraging results in its first application at a mine in the Yukon. Extended lift and reach enable the machine, with its 10 cu. yd. bucket, to load 120-ton trucks, a popular size in open pit mines. This gives the Company entry to a previously unattainable market.

D10 DEBUTS IN MINE WORK

The world's largest tractor, Caterpillar's 700 horsepower, 90-ton D10, was demonstrated on the prebuild section of the Foothills natural gas pipeline. The huge machine ripped rock that otherwise would have had to be drilled and blasted, speeding and simplifying ditching.

This capacity to rip and to bulldoze large volumes of material created the first sale to coal operations in the East Kootenays. In a successful demonstration, the D10 ripped, to a depth of five feet, rock that smaller tractors couldn't touch, again eliminating the need to drill and blast. This success opened another new market opportunity.

A Running Skyline Yarder, introduced in 1979 after joint development by Finning, Caterpillar and Lantec Industries, Langley, B.C., cleared field trials. Some modifications were made to the prototype and production models are now underway. This machine was designed to harvest Coastal second growth timber and to enable Interior loggers to comply with new ecological standards set by the forest service whereby sub-alpine, ecologically sensitive slopes have to be logged by yarders rather than the traditional rubber-tired skidders. While the present market is limited, demand will grow as loggers continue to move to higher, steeper slopes for their timber.

Further refinements were made to the popular 225 Tree Harvester to meet rapidly changing demands of the industry. An optional saw-type head, which gives a clean cut, is now being used to eliminate butt shatter and waste prevalent with earlier types of cutters. The original scissor-type head and shears remain available where their usage is preferred. The redesigned 225 matches the trend to smaller, lighter harvesters and smaller wood. In initial field tests, the Harvester cut and bunched as many as 1,200 trees per day.

The 235 Roadbuilder has also been modified to overcome problems largely caused by the machine's fast, powerful hydraulics when used for roadbuilding rather than for its primary design as a ditcher. This machine pioneered a new concept of building logging roads, using the versatile, selective excavator to replace power shovels and crawler tractors, a technique that was quickly adopted by the industry.

Modification and redesign of several major components have alleviated these problems and with its ability to outproduce its competitors, the 235 should once again be the leader in this application.

Wheel loaders are one of the most widely used products in the Caterpillar line. During the year, an agreement between Canada and the United States made possible the elimination of duty on wheel loaders imported from the U.S. Under the agreement, manufacturers who make one or more wheel loaders to a specific degree in Canada or who maintain a stated amount of Canadian content, are allowed to bring wheel loaders into Canada duty free. Caterpillar is qualifying through manufacture and assembly of all of its model 950 wheel loaders at Mississauga, Ont. for sale not just in Canada but in all of North America. This creates a substantial price reduction for the Company's customers and a breakthrough for mass machinery manufacture in Canada.

USED SALES UP SLIGHTLY

Used equipment volume was slightly above forecast. International sales were constant at the 1979 level. Locally, the largest single increase came from placer mining activity.

There was a strong upswing in used equipment rentals and leases, continuing the trend

Customers are introduced to new Caterpillar lift truck line, the M Series B electrics, at one of several open houses held to demonstrate new products during the year.

Working in higher reaches of Fraser Valley, 140 h.p. Cat D6D tractor helps build and maintain haul road at 22,460 acre tree farm operated by Mission municipality.

Dust flies in Vancouver's West End as old buildings give way to new residential construction. Cat 235 excavator is equipped with serrated steel thumb to increase versatility.

to this type of business. Higher interest rates on used inventory and lower than forecast turnover weakened profitability.

EXPANSION INTO OREGON

In June, Airpro Equipment, Inc., a subsidiary company, expanded further into U.S. markets with the acquisition of Philpott-Close operations located in Portland and Springfield, Oregon. Airpro acquired Philpott-Close operations in Washington State in 1979 with facilities in Seattle and Spokane. Fluctuating interest rates and the U.S. economic recession had an adverse effect on operations.

The Air Products Division in B.C. and Airpro in Alberta and Saskatchewan had another record year overall, increasing gross revenues by 30 per cent, profitability by 23 per cent.

The Division recorded its first sale of Gardner-Denver products to underground mines, a market previously served directly by the manufacturer. Sales of large Driltech rotary drills, Tampo compactors, Finning Tank Drills and JLG and Smith high reach equipment were strong.

In Alberta, brisk construction activity resulted in increased volume while in Saskatchewan, sales and rentals improved during the last half of the year.

PARTS, SERVICE VOLUME UP

Service revenue hours continued to grow. Larger repair facilities and improved tools and equipment increased capacity for repair work at many of the major operations.

Field service work at customer job sites, especially in the Yukon Territory, was brisk. The Dawson City depot is now open throughout the summer work season, serving as a base for field crews on repair and maintenance of machines in placer mining.

Service programs, such as Preventive Maintenance, Component Exchange, and Scheduled Oil Sampling, helped boost product support sales.

The Company's world-wide search for fully qualified mechanics, coupled with accelerated apprenticeship and upgrading programs internally, helped alleviate the chronic shortage of skilled servicemen.

The Parts Department showed growth in real terms, although the effect of bonus ordering during the Caterpillar strike in late 1979 was reflected by higher than normal inventories in some areas during the first quarter of 1980.

Finning Transportation Services, initiated to speed deliveries of parts between branches and from Caterpillar parts depots, resulted in greater efficiencies for customers at less cost to the Company.

CRANE VOLUME STRONG

Unit sales of Grove cranes increased some 30 per cent over 1979. Most popular models were 35-ton truck mounts and 22-ton rough terrain units. Their main application was in the northeast oil patch. There was also, for the first time, a demand for 65-ton and 80-ton truck mounts, these big models being used in pulp mills and mines and in the erection of power transmission lines. Business was particularly heavy with crane rental firms

Twin Caterpillar 260 h.p. 3208T diesels offer popular features of economy, efficiency and safety in powering sleek pleasure craft.

who purchased in greater numbers than at any time in the past. The lease portfolio for cranes was up markedly.

NEW LIFT TRUCK MODELS

The Lift Truck Division showed improvement despite depressed markets. Unit volume reflected the industry-wide decline in sales but increased penetration was made into the 16,000 to 30,000 pound truck market.

A new series of electric lift trucks assembled in Canada was introduced. These models are more energy efficient, saving up to 20 per cent in a typical application, and are expected to put the Division in a dominant position in electric lift truck sales.

The lift truck rental fleet was expanded and showed good returns. Repair activity exceeded forecasts.

BEST YEAR EVER

The Light Industrial Division had its best year ever in unit sales. An increase in housing starts, 50 per cent ahead of last year, and other residential and commercial development spurred demand for compact Caterpillar wheel loaders, track loaders, tractors and JCB backhoe loaders and hydraulic excavators. There is increasing acceptance of these compact machines in the marketplace and this, coupled with greatly increased merchandising and product support programs, led to an excellent year.

JCB, a British manufacturer, introduced their 805B hydraulic excavator early in the year. This machine, which is smaller than, and complementary to, Caterpillar excavators, was immediately popular and the year's sales were well above forecast. It has opened up for the Company a segment of the compact equipment market previously unavailable.

JCB has announced new versions of their 3C and 3D backhoe loaders, the first of which were scheduled for delivery in January, 1981. These models, and the Caterpillar 943 track loader discussed earlier, will add impetus to the aggressive compact equipment program.

ENGINE MARKETS SLOW

In the Power Products Division, dollar volume was steady at last year's level, unit volume was down. This was a considerable achievement considering the depressed markets for engines and electric sets.

Hardest hit was the marine engine sector. The fishing industry suffered a complete reversal from the good harvests and premium prices of 1979. Resistance to high fish prices, diminishing stocks, a low cycle year for salmon, and an abundance of boats all contributed to a poor year for fishermen.

Sales of Caterpillar and the smaller Perkins diesels for pleasure craft power were steady. Perkins introduced its Range IV line of redesigned marine engines which fit neatly into the trend away from gasoline to diesel power for most boats over 28 feet.

The difficulties experienced by Massey Ferguson have had no apparent effect on their profitable subsidiary's shipments to us of their well accepted Perkins diesel engines.

Caterpillar continues to improve its position in the truck engine market. The 3400 series engines at 380 and 450 horsepower are winning a reputation for fuel economy, durability and quiet operation in on- and off-highway trucks. Burnaby Truck Shop

New Fort Nelson facility serves oil, gas and logging markets. The Company has operated in the area since 1958.

Raygo Wagner L120 log loader with 120,000 pound lifting capacity empties flat cars in one bite on rail line in the East Kootenays.

Cat 816 landfill compactor reclaims project in Richmond. Machine is equipped with landfill dozer and chopper wheels to spread, compact and cover refuse.

facilities were expanded and upgraded while new repair and test equipment, such as a chassis dynamometer, was installed.

INDUSTRIAL PRODUCTS DIVISION

A new Industrial Products Division was established and located in Vancouver near the Great Northern Way complex. This Division was formed to market Caterpillar high pressure hydraulic hose and couplings as well as lower pressure hose and attachments from Synflex and other manufacturers.

Another industrial product acquired and marketed through this Division was CV100, a combustion catalyst which when mixed with petroleum fuels improves fuel economy, decreases maintenance costs, and promotes cleaner burning.

The Company's lease and conditional sales contracts portfolios maintained their steady growth, totalling some $160,000,000 at year end. This is an increase of more than 20 per cent over 1979. Our finance operations continue to be an important marketing tool.

NEW BUILDINGS OPENED

Capital expenditures for 1980 were reduced to $12 million compared to the record high of $15.2 million the previous year. The Company has invested close to $50 million in land, buildings and equipment since 1975.

Major projects opened last year included a $4 million sales, parts and service centre at Campbell River, a new facility at Fort Nelson and a new depot in Dawson City. Construction began on a new branch building at Port Hardy and land was purchased for future development in Victoria and Chetwynd.

The Company completed work on a new service shop in Spokane where the Finning Tank Drill will be manufactured for markets in the United States.

Other capital items included start up costs of the new Industrial Products Division in Vancouver, depot facilities serving new mining operations at Kitsault, near Terrace, and expansion to Whitehorse buildings.

In October, under the provisions of the Combines Investigation Act, the Company was requested to supply information relative to equipment sales for previous years. This information was provided. Other information was supplied as requested in March, 1977 and in January, 1980.

The two-year collective agreement between the Company and the International Association of Machinists and Aerospace Workers expires in October, 1981.

The number of employees on December 31 was 2,316, compared to 2,066 in 1979. Total wages, salaries and benefits paid to employees in 1980 was $68,547,955, against $55,064,814 the previous year.

Boosting strong demand for air equipment, Driltech D40K drills eight-inch diameter blasting holes in limestone quarry in Alberta.

Corporate Information

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VINOD K. SOOD
Executive Vice President

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Vice President Marketing

DONALD W. LORD
Vice President Branch Operations

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Secretary

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C.A. Cederberg, Kamloops
D.L. Christie, Administration
R.W. Claridge, Lift Truck
P. Clarke, Pipeline Sales
G.M. Correale, Vernon
B.I. Davis, Vancouver Service
J.D. Desimone, Prince George
C.A. Harris, Data Processing
A.E. Holden, Light Industrial
E.G. Inglis, Training
G.E. Johnson, Dawson Creek
R.M. Kaye, Vancouver
G.F. Kiss, General Service
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C.C. Loyst, Personnel
H.H. Lunow, Purchasing
B.A. McDowell, Cranbrook
J.J. Malden, Terrace
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B.M. Moore, General Parts
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L.E. Norlander, Audit & Tax
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Vancouver, Calgary, Winnipeg, Toronto
and Montreal, Canada

Stock Exchanges

Vancouver Stock Exchange
The Toronto Stock Exchange

Lights focus on indoor display area, unique feature of new Campbell River facility opened in July. Modern, $4 million complex replaces original premises established in 1962.

FINNING

YOUR CATERPILLAR DEALER

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