Finning Tractor & Equipment Company Limited

Annual Report 1982

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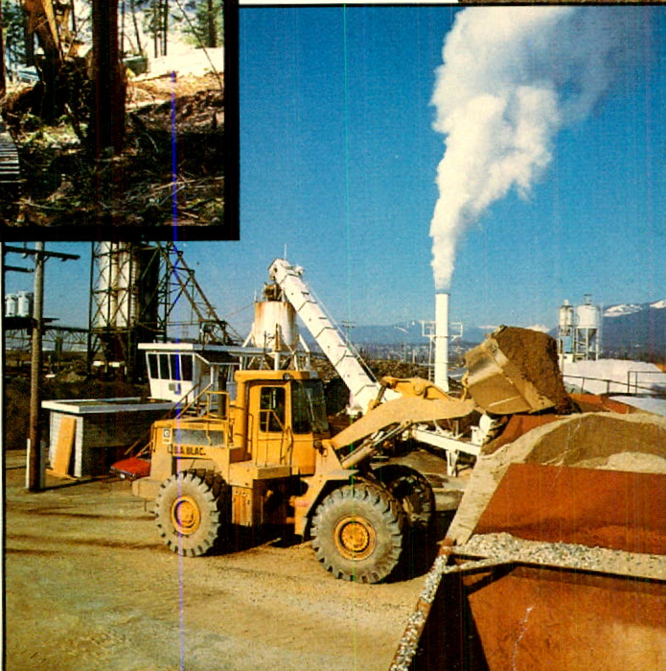
Finning Tractor & Equipment Company Limited

Finning sells, leases and services Caterpillar equipment and related products throughout British Columbia, the Yukon and the Mackenzie Valley in the Northwest Territories. Wholly-owned subsidiaries — Airpro Equipment Ltd. in British Columbia, Alberta and Saskatchewan and Airpro Equipment, Inc. in Washington and Oregon — distribute and service air equipment, rotary drills, compactors and high reach equipment. A division of Finning, Percival Machinery, sells, leases and services cranes and associated products in Alberta. Finning has full sales, parts and service facilities in Campbell River, Chilliwack, Cranbrook, Dawson Creek, Fort St. John, Houston, Kamloops, Langley, Mackenzie, Nanaimo, Nelson, Port Hardy, Prince George, Quesnel, Revelstoke, Sparwood, Terrace, Vancouver, Vernon, Victoria and Williams Lake in British Columbia; Whitehorse, Yukon Territory; Inuvik, Northwest Territories; Calgary, Edmonton and Hinton, Alberta; Saskatoon, Saskatchewan; Seattle and Spokane, Washington; and Portland, Oregon. In addition, there are service depots in nine locations and resident service representatives in 19 others.

Cover
Colorful tent ringed by heavy equipment gives carnival-like atmosphere to "Heads Up '83" show which drew over 1,200 customers to our Vancouver operations in November. Equipment displays, demonstrations, and support services exhibits set the Company's theme of optimism for improved markets in 1983.

JCB 805B hydraulic excavator clears land for residential subdivision above Kootenay Lake.

Caterpillar motor grader helps maintain haul road at Revelstoke Dam site scheduled for completion in 1985.



Two Cat 992C wheel loaders team up with Cat 777 truck with 77 tonne capacity to load and haul overburden at open pit coal mine.

First in British Columbia, Caterpillar 245 front shovel digs fragile coal structure which can't be mined by more traditional methods.

Agile Caterpillar 966D loader, equipped with 3¼ cubic meter bucket, charges hoppers at asphalt plant.

Results in Brief

(dollars in thousands)	1982	1981
Revenue	**$315,113**	$454,377
Income (loss) before income taxes	**(4,621)**	1,092
Net income	**285**	3,485
Capital expenditures	**1,660**	11,889
Net income per share	**$ .01**	$ .20
Income (loss) before income taxes as a percentage of revenue	**(1.5%)**	.2%
Net income as a percentage of revenue	**.1%**	.8%
Number of employees at year end	**1,282**	1,805

Proven performer in logging road construction, powerful Caterpillar 235 Roadbuilder digs in on northern Vancouver Island.

To the Shareholders

Revenue for 1982 was $315,113,000 compared to $454,377,000, a decrease of 30.6 percent. Net income declined from $3,485,000 to $285,000.

We had a loss before income taxes of $4,621,000 for the year and a recovery of income taxes of $4,906,000. This recovery includes recognition of the benefits of the investment tax credit and the 3 percent inventory allowance, which is consistent with computation of tax recovery in 1981.

Several factors contributed to the decline in net income.

Revenues deteriorated throughout the year as the recession deepened in all of our major markets.

Bad debt expense continued at a level which was an all-time high. Total bad debt expense for 1982 was $7.9 million, compared to $6.6 million for 1981.

Short term borrowings decreased from $165 million at December 31, 1981 to $92.7 million at the end of 1982. This decline of $72.3 million, coupled with lower interest rates, reduced our interest costs significantly. Total interest expense in 1982 amounted to $29.7 million, compared to $50.2 million in the previous year.

Consistent with declining revenues, total employment was reduced to 1,282 at the end of 1982, compared to 1,805 at the beginning of the year. This resulted in total wages, salaries and benefits of $59.0 million for 1982, compared to $74.1 million the previous year. The full impact of this staff reduction is not reflected in total payroll costs for 1982 because the adjustments took place throughout the year.

We are aware of the serious difficulties experienced by some of the employees who had to be laid off. It is hoped that the worst is over with respect to layoffs.

Effective September 1, 1982, we implemented a salary deferral of 15 percent for all salaried employees who are not on work-sharing and 20 percent deferral for the Executive and Operating Group. Deferred salaries will have first call on all profits before tax and will be paid at the first opportunity. If the Company does not make any profit by the end of 1983, its obligation to pay back the deferred amounts will cease. A large number of employees are on a work-sharing program, essentially working four days a week.

We are grateful for, and pay tribute to, the dedication and co-operation of all employees, particularly those who have been on work-sharing programs and others who have accepted salary deferral.

Even with the severity of the downturn, we have not found it necessary to close any of our branch operations and we continue to provide a high level of service to all of our customers.

Since entering these difficult times, our goal has been to protect the equity base of the Company. Our costs have been sufficiently reduced so that we can operate profitably, given a modest improvement in our revenues and also provided that bad debt expense returns to normal levels.

Most of the manufacturing operations of the Caterpillar Tractor Co. in the United States have been shut down from midnight, September 30, 1982 as a result of a strike by the United Auto Workers. We had purchased, in anticipation of the strike, additional inventories of machines and parts and our ability to meet our customers' demands has not been materially affected as yet.

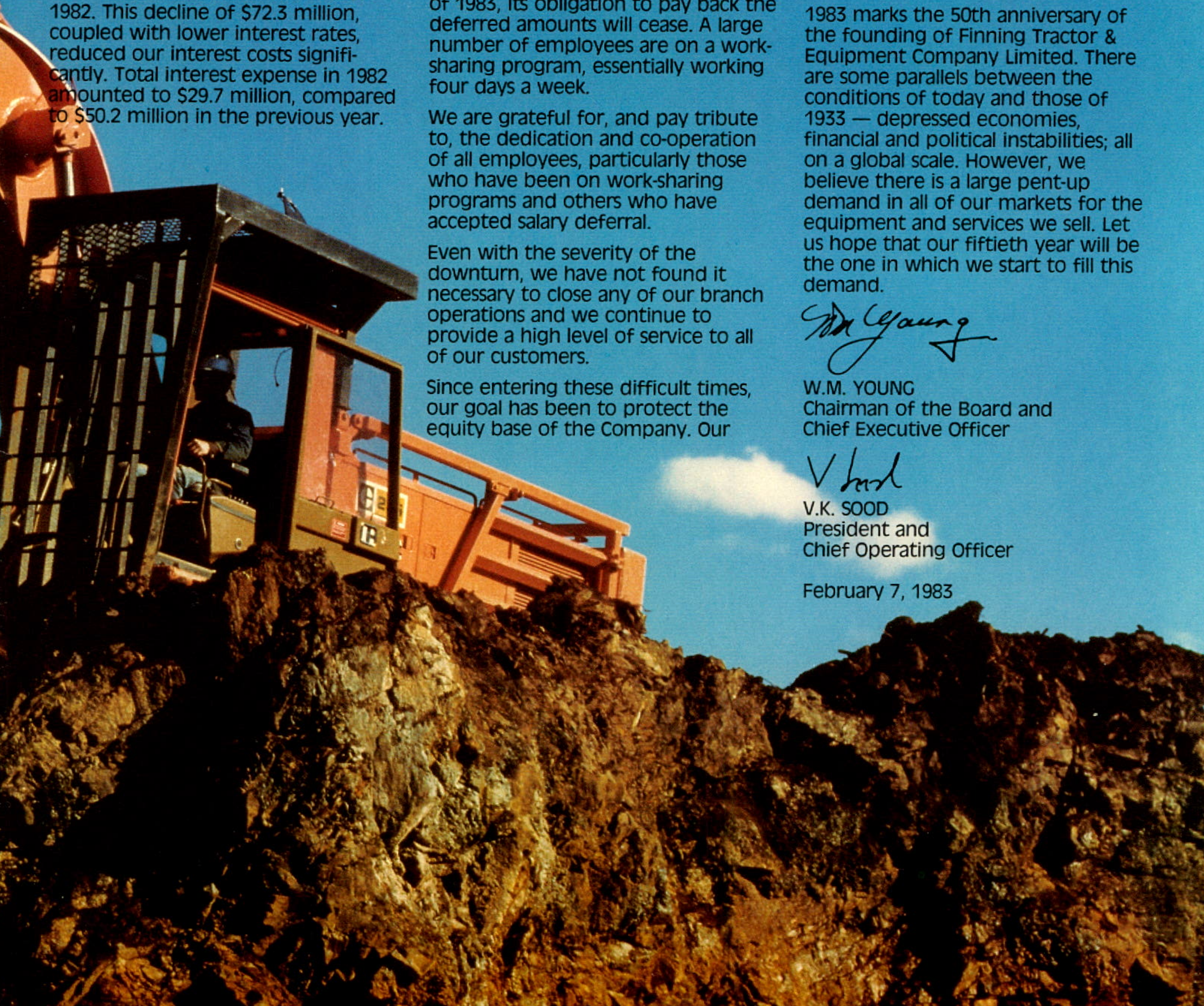
We are in the midst of negotiations, for wages only, in the second year of a two-year contract with the International Association of Machinists and Aerospace Workers. This contract expires on October 14, 1983. At the time of writing, we had signed a Memorandum of Agreement with the union bargaining committee which hopefully will be ratified by the union membership.

1983 marks the 50th anniversary of the founding of Finning Tractor & Equipment Company Limited. There are some parallels between the conditions of today and those of 1933 — depressed economies, financial and political instabilities; all on a global scale. However, we believe there is a large pent-up demand in all of our markets for the equipment and services we sell. Let us hope that our fiftieth year will be the one in which we start to fill this demand.

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

V.K. SOOD
President and
Chief Operating Officer

February 7, 1983

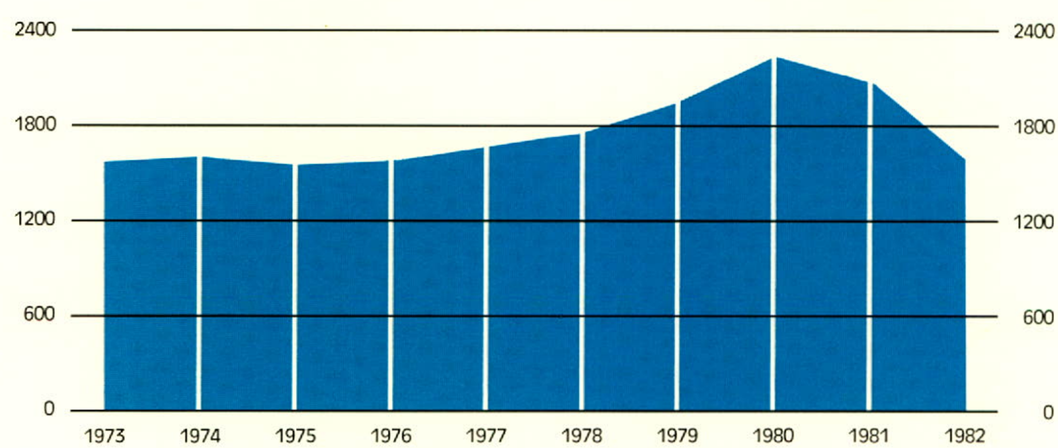


Highlights of Operations

	Revenue	Income (Loss) Before Income Taxes	Net Income	Capital Expenditures	Dividends Paid	Net Income per Share	Income (Loss) Before Income Taxes as a Percentage of Revenue	Net Income as a Percentage of Revenue	Number of Employees at Year End
1973	$148,157,000	$11,241,000	$ 5,475,000	$ 3,533,000	$ 939,000	$ .34	7.6%	3.7%	1,577
1974	162,101,000	15,424,000	7,286,000	3,232,000	1,103,000	.46	9.5%	4.5%	1,542
1975	173,812,000	15,675,000	7,942,000	4,628,000	1,586,000	.50	9.0%	4.6%	1,467
1976	199,795,000	14,583,000	8,609,000	4,497,000	1,589,000	.54	7.3%	4.3%	1,664
1977	246,761,000	19,652,000	12,002,000	5,155,000	1,986,000	.76	8.0%	4.9%	1,694
1978	287,933,000	24,012,000	14,769,000	11,319,000	1,986,000	.93	8.3%	5.1%	1,791
1979	375,417,000	28,322,000	19,459,000	15,182,000	3,574,000	1.23	7.5%	5.2%	2,066
1980	438,327,000	28,180,000	18,237,000	12,018,000	4,766,000	1.15	6.4%	4.2%	2,316
1981	454,377,000	1,092,000	3,485,000	11,889,000	4,997,000	.20	.2%	.8%	1,805
1982	315,113,000	(4,621,000)	285,000	1,660,000	1,371,000	.01	(1.5%)	.1%	1,282

Coquihalla Pass section of Trans Mountain pipeline makes road maintenance work for two Caterpillar D7G track-type tractors.

Average Number of Employees



Consolidated Balance Sheets

as at December 31

Assets	**1982**	1981
Accounts receivable (Note 2)	**$ 43,072,721**	$ 61,537,736
Instalment notes receivable (Note 2)	**46,116,964**	63,361,092
Inventories —		
Equipment	**115,155,181**	110,953,365
Parts and supplies	**38,867,095**	41,945,998
Equipment leased to customers (Note 3)	**60,013,763**	90,057,226
Land, buildings and equipment (Note 4)	**51,101,030**	54,097,262
	$354,326,754	$421,952,679

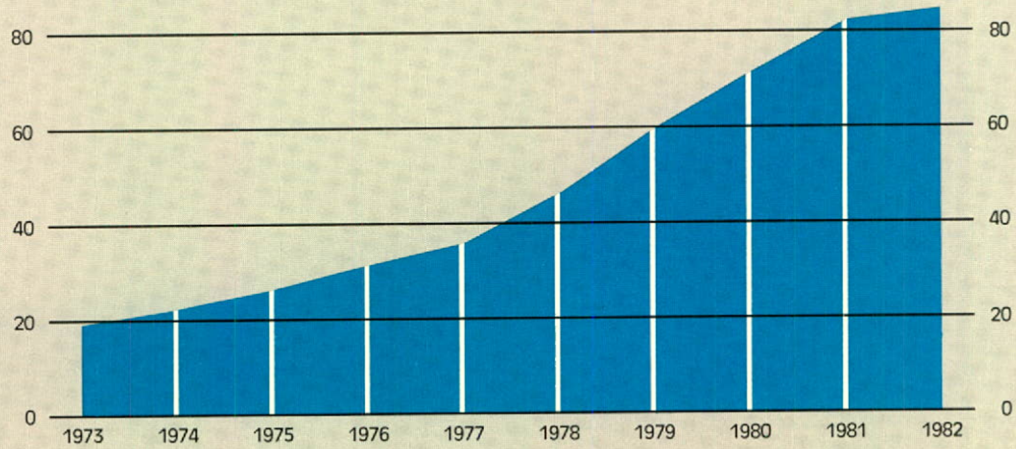
Approved by the Directors:

V.K. Sood, Director

R.C. Biss, Director

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

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

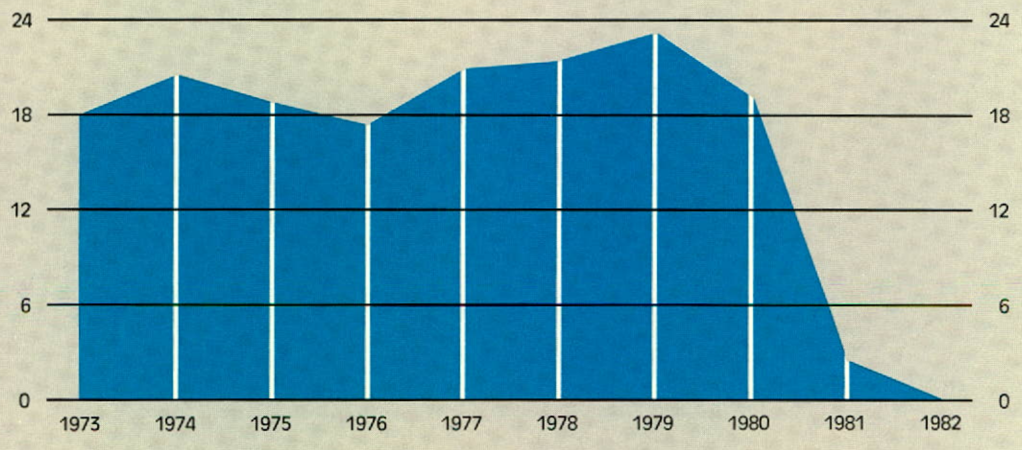


Liabilities and Shareholders' Equity	1982	1981
Bank indebtedness (Note 5)	$ 92,675,847	$165,011,604
Accounts payable and accruals	32,217,433	21,509,239
Income taxes payable (Note 6)	1,637,773	1,244,699
Secured debentures (Note 7)	27,472,000	28,200,000
Convertible debentures (Note 8)	65,000,000	65,000,000
Deferred income taxes (Note 6)	30,151,835	35,509,873
Total liabilities	$249,154,888	$316,475,415
Shareholders' equity (Note 7) —		
Share capital (Notes 8 and 9)	$ 12,132,912	$ 11,351,962
Retained earnings	93,038,954	94,125,302
Total shareholders' equity	$105,171,866	$105,477,264
	$354,326,754	$421,952,679

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 (percent)



Consolidated Statements of Income and Retained Earnings

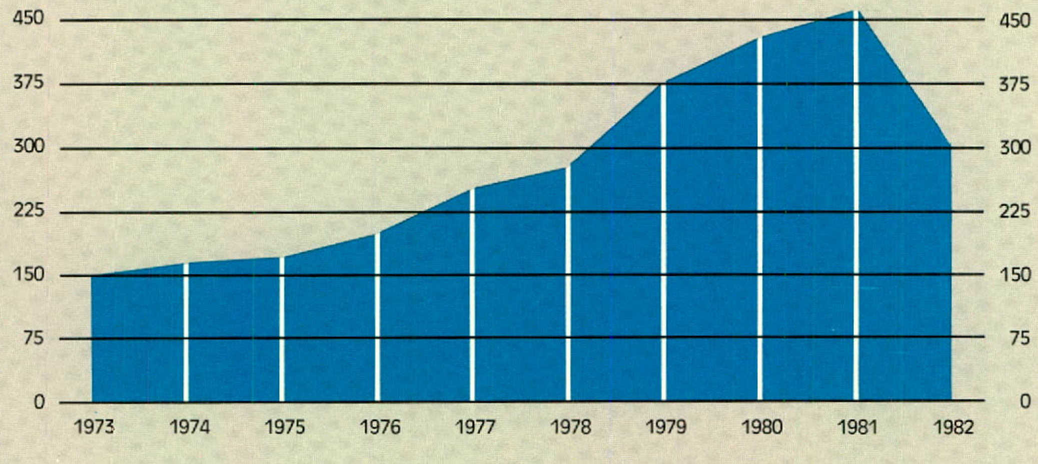
for the years ended December 31

	1982	1981
Revenue	$315,113,310	$454,377,077
Expenses (Notes 10 and 11) —		
Cost of sales and selling	$260,277,878	$370,706,718
General and administrative	29,733,125	32,381,898
Interest	29,723,001	50,196,061
	$319,734,004	$453,284,677
Income (loss) before recovery of income taxes	$ (4,620,694)	$ 1,092,400
Recovery of income taxes (Note 6)	4,905,647	2,392,587
Net income	$ 284,953	$ 3,484,987
Retained earnings, beginning of year	94,125,302	95,637,387
	$ 94,410,255	$ 99,122,374
Dividends paid	1,371,301	4,997,072
Retained earnings, end of year	$ 93,038,954	$ 94,125,302
Net income per share (Note 12)	$ .01	$ .20

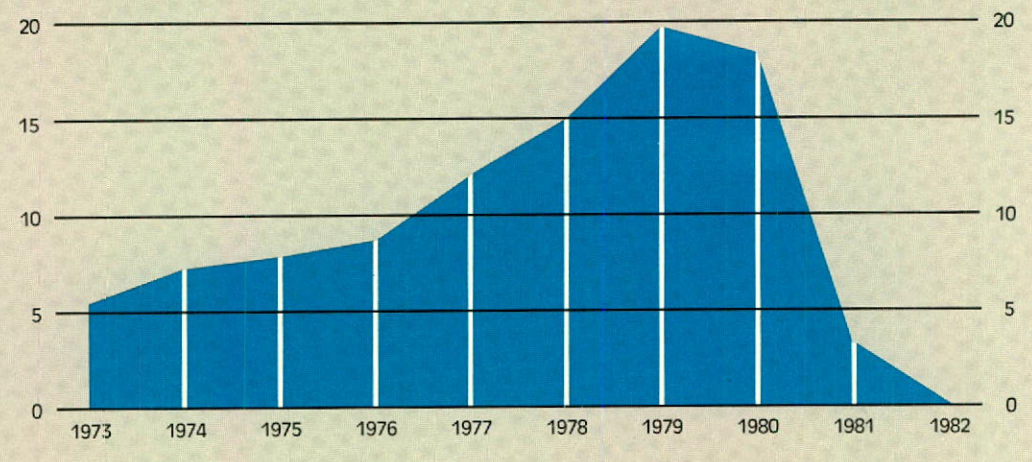
The accompanying Notes to Consolidated Financial Statements are an integral part of these statements.

The following graphs are not a part of the audited consolidated financial statements

Revenue (millions of dollars)



Net Income (millions of dollars)



Consolidated Statements of Changes in Financial Position

for the years ended December 31

	1982	1981
Cash generated by current operations:		
Net income	$ 284,953	$ 3,484,987
Add (deduct) items not involving cash —		
Depreciation —		
Equipment leased to customers	21,224,168	24,951,742
Buildings and equipment	4,312,369	5,222,418
Deferred income taxes	(5,358,038)	(2,313,627)
Total cash from current operations	$ 20,463,452	$ 31,345,520
Cash generated from (used in) operating assets and liabilities:		
Accounts receivable	$ 18,465,015	$ 11,214,725
Instalment notes receivable	17,244,128	(1,392,396)
Inventories —		
Equipment	(4,201,816)	22,645,088
Parts and supplies	3,078,903	7,695,115
Equipment leased to customers, net of disposals	8,819,295	(17,271,861)
Accounts payable and accruals	10,708,194	(24,514,402)
Income taxes	393,074	1,835,958
	$ 54,506,793	$ 212,227
Net cash generated from operations	$ 74,970,245	$ 31,557,747
Other uses (sources) of cash:		
Additions to land, buildings and equipment, net of disposals	$ 1,316,137	$ 11,701,904
Purchase of secured debentures	728,000	600,000
Proceeds on issue of convertible debentures	—	(65,000,000)
Issue of preferred shares, net of redemptions	(780,950)	(2,255,400)
Dividends paid	1,371,301	4,997,072
	$ 2,634,488	$ (49,956,424)
Net decrease in bank indebtedness	$ 72,335,757	$ 81,514,171

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

1. Summary of Significant Accounting Policies

PRINCIPLES OF CONSOLIDATION

The consolidated financial statements include the accounts of the partnership Finning Tractor Co. and of all subsidiary companies.

The subsidiary companies, all of 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.

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

CURRENCY TRANSLATION

All amounts in foreign currencies, including the accounts of Airpro Equipment, Inc., which carries on business in the United States, are translated into Canadian dollars using the exchange rate prevailing at the balance sheet dates.

INVENTORIES

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

EQUIPMENT LEASED TO CUSTOMERS

Depreciation of equipment leased to customers is 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.

BUILDINGS AND EQUIPMENT

Buildings and equipment are depreciated using the following annual rates on a declining balance basis:

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

REVENUE RECOGNITION

For accounting purposes, revenue from sales of products and services is recognized at the time of shipment of products to, and completion of services for, customers. Equipment rental revenue is recognized as rentals are billed to customers and finance income is recognized as earned using the sum of the digits method.

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 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 $15,772,401 due after one year ($25,816,526 in 1981).

3. Equipment Leased to Customers

	1982	1981
Cost	$103,575,063	$135,361,516
Less accumulated depreciation	43,561,300	45,304,290
	$ 60,013,763	$ 90,057,226

Under the terms of the lease agreements in effect at December 31, 1982, $11,065,807 of the above costs will be recovered in 1983 ($21,888,605 in 1982).

4. Land, Buildings and Equipment

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

	1982	1981
Land	$ 11,286,290	$ 11,271,914
Buildings and equipment	$ 72,436,815	$ 71,694,044
Less accumulated depreciation	32,622,075	28,868,696
	$ 39,814,740	$ 42,825,348
	$ 51,101,030	$ 54,097,262

5. Bank Indebtedness

	1982	1981
Demand bank notes	$ 2,933,302	$ 19,191,709
Bankers' acceptances payable at various dates within 32 days after December 31, 1982 (within 34 days after December 31, 1981)	89,742,545	145,819,895
	$ 92,675,847	$165,011,604

The loan agreement with the bank contains certain restrictions which, among other things, limit distribution to shareholders as explained in Note 7.

6. Income taxes

The recovery of income taxes in 1982 and 1981 includes recognition of the benefits of the investment tax credit and the 3% 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 primary 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 1 while for income tax purposes, maximum capital cost allowances are claimed.

7. Secured Debentures

This debt consists of 9¾% Secured Debentures, 1978 Series, to mature September 1, 1985. They are secured by a Trust Indenture which constitutes a first fixed charge on substantially all the real property of the Company and a first floating charge on all other property and assets (except accounts and instalment notes receivable, inventories and equipment leased to customers). In addition, the Trust Indenture 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 $3,484,987 at December 31, 1982 ($12,976,296 at December 31, 1981). In accordance with the terms of the Trust Indenture, the Company is required to use reasonable efforts to purchase in the market at least $300,000 principal amount of these 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. In addition, these Debentures may be redeemed after February 29, 1984 at the option of the Company.

8. Convertible Debentures

This debt consists of 11½% Convertible Subordinated Debentures, to mature June 24, 2001. They are direct unsecured obligations of the Company and are subordinate to all senior indebtedness. On or prior to June 24, 1986, these Debentures are convertible into class B non-voting shares at a price of $18.00 per share and thereafter and on or prior to June 24, 1991, at a price of $18.75 per share. In addition, the Company may, at its option, redeem these Debentures after June 24, 1983 and thereafter on or before June 24, 1986, only if the weighted average price at which the class B non-voting shares traded in a specified period was not less than 125% of the conversion price applicable at that time. After June 24, 1986, they are redeemable at any time. Redemption prices decline from 110.22% in 1984 to par in 2000. The Trust Indenture requires sinking fund payments in each of the years 1992 to 2000 inclusive, of 5%, and at the Company's option, up to a maximum of 10% of the aggregate principal amount of these Debentures outstanding on June 25, 1991.

9. Share Capital

In December, 1982, 600,000 of the preferred shares were designated as Cumulative Redeemable Convertible Preferred Shares, Series B and 127,975 were issued for cash under terms of an employee share purchase plan.

AUTHORIZED —		1982	1981
5,000,000	Preferred shares without par value. 1,200,000 of these shares are designated as follows: 600,000 as Cumulative Redeemable Convertible Preferred Shares, Series A 600,000 as Cumulative Redeemable Convertible Preferred Shares, Series B		
40,000,000	Class A voting shares		
40,000,000	Class B non-voting shares		
ISSUED AND OUTSTANDING —			
175,660	Cumulative Redeemable Convertible Preferred Shares, Series A (225,540 — 1981)	$ 1,756,600	$ 2,255,400
127,975	Cumulative Redeemable Convertible Preferred Shares, Series B	1,279,750	—
7,928,553	Class A voting shares (7,936,007 — 1981)	4,540,123	4,544,392
7,957,047	Class B non-voting shares (7,949,593 — 1981)	4,556,439	4,552,170
		$ 12,132,912	$ 11,351,962

PREFERRED SHARES

The preferred shares are issuable in series and will have such additional rights and restrictions as will be determined by the Board of Directors prior to their being issued.

SERIES A AND SERIES B PREFERRED SHARES

The cumulative preferential cash dividends on the series A and series B preferred shares are payable quarterly at a rate equal to 50% of the prime interest rate of a specified Canadian chartered bank plus ½% per annum.

These shares are redeemable by the Company at its option or retractable at the option of the holder at the issue price.

The series A preferred shares may be converted at the option of the holder two years after date of issue and up to ten years following the date of issue into class A voting shares at a conversion price equal to 115% of the current market price (as defined in the rights and restrictions attached thereto) on the date of issue. The 175,660 series A preferred shares presently outstanding are convertible after January 27, 1983 at a price of $18.40 per class A voting share.

CONTINUED

9. Share Capital (continued)

The series B preferred shares may be converted at the option of the holder two years after date of issue and up to ten years following the date of issue into class B non-voting shares at a conversion price equal to 115% of the current market price (as defined in the rights and restrictions attached thereto) on the date of issue. The 127,975 series B preferred shares presently outstanding are convertible after October 27, 1984 at a price of $8.37 per class B non-voting share.

CLASS A VOTING AND CLASS B NON-VOTING

The holders of class A voting shares are entitled to receive notice of, attend and vote at all general meetings of the Company whereas the holders of class B non-voting shares are not entitled to receive notice of, attend and vote at general meetings of the Company. The class A voting and class B non-voting shares have substantially the same rights in all other aspects. Each class A voting share is convertible at the holder's option into one class B non-voting share.

During the year, 7,454 class A voting shares were converted into class B non-voting shares.

10. 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, 1981. Based on actuarial calculations which include a projection of future remuneration, the value of the plan's assets at December 31, 1981 exceeded the liabilities by $254,300. This surplus was primarily due to improved investment performance totalling $2,021,642 which is being credited to expense in equal annual amounts in 1982 and 1983 ($1,800,000 was credited to expense in equal amounts in 1981 and 1980). Past service costs of $2,204,806 resulting from improved benefits payable by the plan are being charged to expense over varying periods up to 12 years.

Pension expense, including contributions to statutory plans, was $865,395 in 1982 ($1,361,530 in 1981).

11. 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 $973,295 in 1982 ($1,041,231 in 1981).

12. Net Income per Share

Net income per class A voting and class B non-voting share has been calculated after reducing net income by $179,881 in 1982 ($231,392 in 1981) being the dividends on the series A and series B preferred shares.

There would be no dilution of net income per class A voting and class B non-voting share if the series A preferred shares, series B preferred shares or the Convertible Debentures were converted.

13. 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.

14. Deferred Salaries

In September, 1982, the Company implemented a salary deferral of 15% for all salaried employees who are not on a reduced work week and 20% for the Executive and Operating Group. Deferred salaries at December 31, 1982 were $915,145 and will be paid in 1983 if the Company has income before taxes. No accrual has been made for deferred salaries in the accounts for 1982. The Company's obligation to pay the deferred salaries will end on December 31, 1983.

Management's Report to the Shareholders

The consolidated financial statements of the Company have been prepared by management in accordance with generally accepted accounting principles and necessarily include some amounts that are based on management's best estimates and judgments of all relevant information available up to February 2, 1983.

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, appointed by the shareholders, express an opinion as to whether these management financial statements present fairly the Company's financial position, operating results and changes in financial position in accordance with generally accepted accounting principles consistently applied.

An audit committee of the Board of Directors, consisting solely of outside directors, meets regularly during the year with financial officers of the Company and the external auditors to review internal accounting controls, audit results and accounting principles and practices.

The financial statements 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 consolidated financial statements. Financial information elsewhere in this Annual Report is consistent with that in the financial statements.

V.K. SOOD
President and Chief Operating Officer

February 2, 1983

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, 1982 and 1981, 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, 1982 and 1981, 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 2, 1983
Vancouver, Canada

Newest Caterpillar track-type tractor, the D8L, with elevated sprocket design, clears site at Simon Fraser University.

The downturn that began in the second half of 1981 intensified throughout 1982 and had its greatest impact in the fourth quarter of the year. Overall revenues declined by 31 percent over the previous year but in some segments of our business, the decrease was more severe.

FOREST PRODUCTS

Hardest hit was the forest products industry. Traditionally generating half of the Company's machine sales, forest products in 1982 accounted for only 21 percent of units sold and lost its number one market position to mining. Numerous mills and logging operations were temporarily closed down; as many as one-third of woods and mill employees were laid off; and companies reported record financial losses. At year end, demand for lumber and plywood was improving and there were signs of revival in housing starts in the United States and Canada.

Pulp and paper production, which had been a bright spot for the industry earlier, decreased as demand slowed, inventories built up and prices fell. Increased competition came from Scandinavian producers whose efforts were assisted by currency devaluations. Several mills completed expansion projects during the year and two others announced plans to increase their capacity of pulp and newsprint. Little improvement for pulp and paper is predicted for 1983.

MINING

The mining industry did not have a good year in 1982. Coal producers resisted the recession until mid-year but then they too felt the effect and were forced into cutbacks.

The value of minerals produced in British Columbia during the year increased slightly as a result of new mines coming on stream but prices fell so low that closures and drastically reduced production were the norm. Few, if any, mines operated at full capacity.

Copper, which represents nearly half of the total value of metals, decreased in both production and value. The price of copper in mid-year, expressed in constant dollars, was at its lowest since the 1930s.

Gold prices were below $400 US for much of the year which continued to depress activity for our Whitehorse and Dawson City operations in the Yukon. Coupled with the closure of the largest lead and zinc mine in the Territory, this made 1982 one of the lowest periods for mining in the Yukon in decades.

However, as the year closed, there were signs that metal prices had stabilized and were beginning to recover. Copper inventories are low and any resurgence in the economy could lead to steadily rising prices and production.

Coal value increased by almost $95 million but production remained at 1981 levels.

Further long-term contracts were signed by coal producers in south-eastern British Columbia with industrial and public utility concerns in South America, Asia and Denmark. Also, negotiations were completed for sales from two proposed mines in the area.

Two new operations went on stream in the southeast in 1982. At full production, they will add just over 2 million tonnes of thermal and 3 million tonnes of metallurgical coal per year. Capacity of the coal terminal at Roberts Bank was expanded to handle increased shipments.

However, for the first time, temporary shutdowns were necessary as excessive stockpiles forced customers to reduce their orders. Our Sparwood operations finally felt the effects of the recession as activity declined in the last half of the year.

At the North East Coal Development project, construction crews rushed to complete work on highways and access roads, railway lines, power transmission lines, the town of Tumbler Ridge and coal handling facilities at Prince Rupert. Mine sites were being readied for production and construction of preparation

Twin Caterpillar 225 excavators work side by side in building project at the University of B.C.

High lift design gives Cat 992C wheel loader ability to load larger trucks at copper mine in the Highland Valley.


ALASKA
Tuktoyaktuk
Inuvik
Dawson City
Norman Wells
YUKON
NORTHWEST TERRITORIES
Whitehorse
Watson Lake
Cassiar
Fort Nelson
BRITISH COLUMBIA
Kitsault
Prince Rupert
Terrace
Houston
Fort St. James
Sandspit
Fort St. John
Mackenzie
Dawson Creek
Tumbler Ridge
Prince George
Quesnel
ALBERTA
SASKATCHEWAN
Port Hardy
Coal Harbour
Williams Lake
Hinton
Edmonton
Saskatoon
100-Mile House
Clearwater
Campbell River
Pender Harbour
Kamloops
Revelstoke
Highland Valley
Merritt
Golden
Vancouver
Vernon
Nanaimo
Burnaby
Kelowna
Calgary
Lake Cowichan
Langley
Chilliwack
Nakusp
Victoria
Penticton
Nelson
Princeton
Harmer Ridge
Cranbrook
Sparwood
Seattle
Grand Forks
Corbin
Spokane
WASHINGTON
Branches
Depots
Residences
Airpro Branches
Percival Branches
Portland
UNITED STATES
OREGON

plants, maintenance complexes, administration offices and other facilities progressed well. First shipments of coal are scheduled for December, 1983. Contracts with Japanese steel mills call for shipments of 6.7 million tonnes of metallurgical coal and 1.3 million tonnes of thermal coal each year.

This activity was a boost for our operations at Dawson Creek and Fort St. John. Four parts trailers were located in the Tumbler Ridge area, carrying commonly used parts and serving to expedite deliveries from Dawson Creek of out-of-stock items and exchange components. A new parts depot was opened at Prince Rupert to serve contractors building coal and grain terminals. It is supported by our facilities at Terrace and is linked by on-line computer to other Finning locations and Caterpillar parts depots.

HEAVY CONSTRUCTION

The provincial government's declining revenues and the restraint program brought a halt to most highway projects, except for those connected with North East Coal Development. Improvements were made to the highway linking Vancouver and Squamish. Construction began in the Spring on the Vancouver area Advanced Light Rapid Transit. The $729 million system is scheduled for completion in 1986.

OIL AND GAS

In the energy field, production of natural gas was down while production of crude oil was about the same as in 1981. Once again there was a decline in exploration and development. Only an estimated 105 wells were drilled, compared to 212 the previous year.

Sales to this market in 1982 primarily revolved around a single large transaction. Valued at approximately $8,000,000, the shipment involved tractors, excavators, wheel loaders, pipelayers, generator sets and drilling equipment for a joint venture constructing seven islands in the Mackenzie River, south of Norman Wells, NWT, to be used as drilling platforms in oil and gas explorations.

USED EQUIPMENT

Sales volume declined by almost 45 percent, compared to 1981. There were a number of factors contributing to the shortfall in units and dollars. Customers chose lower-priced units on a short-term basis. Competition from auction sales was intense. Inventory was increased by repossessions and we accepted consigned machines to help customers out of difficulties.

However, the year ended on a positive note. New merchandising programs and a stepped-up sales effort in international markets were effective. The inventory was kept under control and consolidated without resorting to distress selling.

FINANCIAL SERVICES

Despite the downturn, the Company's financial services held up as an effective marketing tool. The overall lease and conditional sales contract portfolios decreased to approximately $106 million as against the previous year's $153 million, consistent with the decline in machine sales.

PARTS AND SERVICE

Parts and service revenues were off sharply over 1981 but these operations enabled the Company to maintain a break-even position.

Parts ordering and inventory control systems were enhanced by improvements in data processing and computer operations. A reserve bonus inventory of parts forestalled

Sixty-foot reach of JLG high lift equipment allows welders easy access to outside stairway installation at new food distribution plant.

Familiar machine in building logging roads, Finning-designed pneumatic Tank Drill moves rock on Vancouver Island.

Snow-clad mountains provide scenic backdrop for big Caterpillar 777 off-highway truck.

any negative effect of the strike at Caterpillar's US manufacturing plants.

Finning Transportation Services, in its third year of operation, was extended to service Company operations at Dawson Creek and Fort St. John although daily schedules were reduced somewhat. This service for shipment of parts, attachments and exchange components continues to deliver economies to our customers and to reduce shipping charges between branches.

Service Department revenues ended the year at reduced levels as customers confined repairs and overhauls to patchwork and did more of their own repairs than normal in an effort to retain key employees. It was a year of expense reduction and retrenchment, capital expenditures being restricted to tools and equipment essential for the service of new products that were introduced.

The Company took initial steps towards establishing centralized shop facilities in Vancouver for the remanufacture of components.

Component repair is becoming more and more popular and, in fact, more necessary. Formerly, the use of remanufactured exchanges to replace defective units was a matter of convenience. The customer simply installed an integral unit rather than wait for the defective component to be repaired. But the modular design of new machines now coming off the assembly lines leans heavily to component repair and we are adapting our service department operations to meet that development.

New remanufacturing techniques, greater emphasis on the re-use of parts and centralization of facilities have produced significant cost savings which have been passed on to customers. The exchange inventory now includes more than 500 different types of assemblies.

Exchange components and re-use of parts also are key features of a special engine overhaul program developed during the year. Called the "Cost Watcher", this overhaul offers customers reduced costs and is backed by guarantees on price, parts and workmanship.

All parts are inspected and checked against Caterpillar's parts reusability guidelines. Only those not meeting the specifications are replaced by new. Exchange components are used wherever appropriate; again as a cost control measure. The "Cost Watcher" program has been aggressively merchandised and is well accepted by customers.

Scheduled Oil Sampling, a preventive maintenance service which, through oil analysis, diagnoses the condition of major machine components, continues to receive high usage. The number of oil samples analyzed in 1982 was almost 37,000, down only 12 percent from 1981 despite the drastic decrease in machine activity.

CV100, an effective combustion catalyst which the Company has marketed since mid-1980, almost doubled its 1981 sales volume. This product, which improves fuel efficiency in diesel and gasoline engines, finds its major market in mining vehicles in British Columbia, the Yukon and Alberta, and, as well, in logging trucks and on-highway haulers.

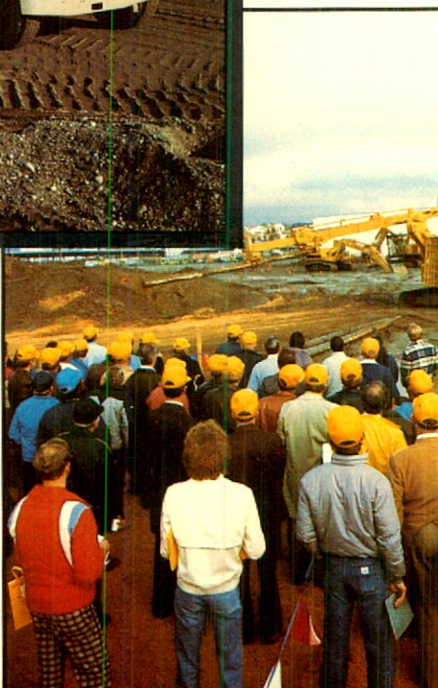
DIVISIONAL OPERATIONS

Results for the Company's Divisions followed the general pattern of the Caterpillar core products. Power Products recorded the best performance, due largely to a good backlog of orders for engines and electric sets that kept the Division on course for the first half of the year. A slowdown became noticeable in the third quarter and by year end, deliveries had significantly declined. The ultimate destination of most of the large sales during the year was for energy-related projects in the Beaufort Sea.

The Lift Truck Division was the hardest hit by the slump in the forest products industry. Sales of trucks for mill operations were well below previous levels. Although industry-wide sales were down by almost two-thirds over 1981, the Division increased its share of the available business.

High interest costs for inventories impacted severely on the results for the Air Products Division and the Airpro subsidiaries in Alberta, Saskatchewan, Washington and

Caterpillar products dominate Fraser Valley gravel pit when Cat 980 wheel loader fills Cat-powered truck.



Oregon. Operating expenses were adjusted to sharp reductions in machine rental volume and revenues.

Excessive inventories also plagued the Crane Division in British Columbia and the Yukon and the crane and power shovel operations of Percival Machinery in Alberta.

CAPITAL EXPENDITURES

Capital expenditures in 1982 dropped to a minimal $1.7 million, compared to last year's $11.9 million, in the

Latest DJB articulated dump truck hauls fill for construction of oil tank farm near Duncan, B.C.

Vancouver staff volunteer, one of 50, explains "Heads Up" program to customer. In other pictures, equipment demonstrations draw wide interest during three-day show.

Company's cost control program. The only new facility was a parts depot at Prince Rupert which serves the port development activity.

UNION NEGOTIATIONS

Bargaining between the Company and the International Association of Machinists and Aerospace Workers continued at year end for a "wages only" agreement in the second year of a two-year contract which expires on October 15, 1983.

The number of employees at December 31 was 1,282, compared to 1,805 in 1981. Total wages, salaries and benefits paid to employees in 1982 was $59,015,015, as against $74,164,109 the previous year.

Corporate Information

Directors

WILLIAM T. BARKER, President, Consolidated Equipment & Supply Co. Ltd., Vancouver
† H. CLARK BENTALL, Chairman of the Board, The Bentall Group Ltd., Vancouver
* ROBERT C. BISS, Executive Vice President, Finning Tractor & Equipment Company Limited, Vancouver
† ROLF B. HOUGEN, Chairman and C.E.O., Canadian Satellite Communications Inc., Whitehorse, Yukon
° MICHAEL M. KOERNER, President, Canada Overseas Investments Limited, Toronto
† THOMAS E. LADNER, Q.C., Partner, Ladner Downs, Vancouver
° J. FRANK LEACH, Vice Chairman of the Board, Arcata Corporation, Menlo Park, California
* VINOD K. SOOD, President and Chief Operating Officer, Finning Tractor & Equipment Company Limited, Vancouver
*° W. MAURICE YOUNG, Chairman of the Board and Chief Executive Officer, Finning Tractor & Equipment Company Limited, Vancouver

* Member, Executive Committee
° Member, Compensation Committee
† Member, Audit Committee

Officers

W. MAURICE YOUNG, Chairman of the Board and Chief Executive Officer
VINOD K. SOOD, President and Chief Operating Officer
ROBERT C. BISS, Executive Vice President
W.F. (JERRY) HOLMES, Vice President Marketing
DONALD W. LORD, Vice President Branch Operations
LYLE E. NORLANDER, Secretary
PETER G. VON DER PORTEN, Treasurer

Operations, Division and Staff Managers

J.A. CARTHY, Power Products
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.D. DEVISSER, Mining Sales
C.A. HARRIS, Data Processing
D.G. HORNER, Whitehorse
E.G. INGLIS, Training
R.M. KAYE, Vancouver
G.F. KISS, General Service
R.C. LEY, Advertising & Public Relations
C.C. LOYST, Personnel
H.H. LUNOW, Purchasing
D.H. MACKAY, Dawson Creek
B.A. MCDOWELL, Cranbrook
W.F. MERRELL, Controller
B.M. MOORE, General Parts
J.J. MULVANEY, Used Equipment Administration
R.S. SCOTT, Finance
J.F. SHEPARD, Product Support Sales
T.A. SHORTER, Used Equipment
F.W. SYLVESTER, Cranes
R.G. WILLIAMSON, Air Products
B. WRIGHT, Construction Sales

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Solicitors LADNER DOWNS, Barristers and Solicitors, Vancouver, Canada

Registrar and Transfer Agent CANADA PERMANENT TRUST COMPANY, Vancouver, Calgary, Winnipeg, Toronto and Montreal, Canada

Stock Exchanges VANCOUVER STOCK EXCHANGE, THE TORONTO STOCK EXCHANGE, MONTREAL STOCK EXCHANGE

Destined for ice breaking and supply transport in the Beaufort Sea, the $13 million Robert Lemeur gets all auxiliary and emergency standby power from five Caterpillar engines.

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