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FINNING
1984 Annual Report



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Caterpillar skidder with tires 33 inches wide, dubbed "Fat Albert", goes where standard-equipped skidders would bog down. Flotation tires improve stability and traction, minimize environmental damage.



Finning Tractor & Equipment Company Limited

Finning sells, leases and services Caterpillar equipment and allied products throughout British Columbia, the Yukon Territory, the Mackenzie Valley and Arctic coast in the Northwest Territories.

Finning Limited sells, leases and services Caterpillar equipment in southwest England, the Industrial Midlands, Wales and Scotland.

Canadian and United States subsidiaries — Airpro Equipment Ltd. in British Columbia, Alberta and Saskatchewan and Airpro Equipment, Inc. in Washington and Oregon — distribute and service Gardner-Denver air equipment and rock drills, Driltech rotary drills, Tampo compactors and JLG high reach equipment. Airpro Equipment, Inc. also sells and services Gradall hydraulic excavators in northwestern Washington and Alaska.

A division of Finning, Percival Machinery, sells, leases and services P&H products and related lines in Alberta.

Finning has full sales, parts and service facilities in Campbell River, Chilliwack, Cranbrook, Dawson Creek, Fort St. John, Houston, Kamloops, Langley, Nanaimo, Nelson, Port Hardy, Prince George, Quesnel, 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; Portland, Oregon. In addition, there are service depots in 11 locations and resident service representatives in 17 others.

Finning Limited is headquartered in Cannock, near Birmingham. Branches in southwest England, the Midlands and Wales are located in Highbridge, Somerset; St. Austell, Cornwall; Winsford, Cheshire; Clay Cross, Derbyshire; and Cardiff, Wales. Operations in Scotland are directed from Baillieston, near Glasgow, with branches at Aberdeen, Muir of Ord and Perth.

Results in Brief

<i>(dollars in thousands)</i>	1984	*1983
Revenue	\$452,985	\$372,652
Income before provision for income taxes	23,089	9,457
Net income	16,850	8,504
Capital expenditures	4,888	2,602
Net income per share	\$ 1.05	\$.52
Income before income taxes as a percentage of revenue	5.1%	2.5%
Net income as a percentage of revenue	3.7%	2.3%
Number of employees at year end	2,137	2,243

*Figures reflect consolidated results including United Kingdom operations from their respective acquisition dates.

Our Cover

In 1986, in time for Expo, the new Coquihalla Highway will become the primary traffic corridor linking the Coast and the Interior. The four-lane freeway, widening in places to six lanes, was the year's busiest earthmoving project, involving several hundred Caterpillar machines. The most spectacular of the bridges to be built will span the 820-foot wide Dry Gulch ravine, shown on our cover.



W.M. YOUNG
Chairman of the Board

Revenue for the 12 months ended December 31, 1984 was \$452,985,000 compared to \$372,652,000 for the same period in 1983. Net income increased to \$16,850,000 from \$8,504,000. This amounts to \$1.05 per share on the class A voting and class B non-voting shares compared to 52 cents per share in the previous year.

The figures for 1984 are not directly comparable to those of 1983 because revenue and profit last year included results for Bowmaker for only six months and for Caledonian for only the last quarter. This amounted to revenue of \$66,418,000 and net income of \$5,050,000, inclusive of amortization of the purchase discount of \$3,025,000.

Finning Limited, which represents our United Kingdom operation, contributed revenue for the current year of \$146,735,000 and net income of \$9,318,000. This net income includes amortization of the purchase discount of \$5,266,000 after providing for the costs of the merger of the United Kingdom companies.

Report to the Shareholders

In North America, revenue for the year was \$306,250,000 compared to \$306,234,000 in the previous year. Net income was \$7,532,000, a substantial increase from \$3,454,000 for the same period last year. This significant improvement in net income, without any corresponding increase in revenue, was due to reductions in interest and bad debt expenses, and an overall decrease in expense levels coupled with an improvement in margins due to a change in revenue mix. Although our deliveries of new Caterpillar core product were much higher in 1984 in terms of units, we had an actual reduction in revenue due to an increased proportion of leasing and a significant reduction in machine prices as a result of a participatory discount program from Caterpillar required to meet competition.

Employment in North America declined to 1,292, a reduction of 41 due to attrition and early retirements. We also had a reduction of 65 people in the United Kingdom due to the merger of the two companies.

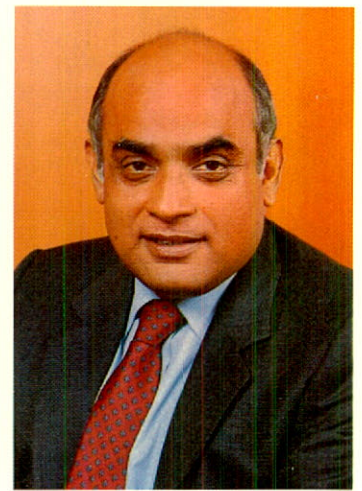
We are especially grateful to all of our employees in the United Kingdom for the successful completion of the merger. This was a trying time for many employees and they coped with the situation extremely well.

The name change to "Finning Limited" was effected on September 17, 1984.

Our major supplier, Caterpillar Tractor Co., continues to record reduced revenue and losses. Major efforts are under way to lower their costs of production and to gear down expense levels to correspond with current revenue. In August, 1984, at the Worldwide Dealer Meeting, Caterpillar shared with dealers not only the problems and solutions in the machinery business but also gave us a preview of 50 new products to be introduced over the next four years. We are confident that Caterpillar will continue to have a technological and quality edge over its competitors and will maintain industry leadership.

At the last Annual General Meeting in April of 1984, Maury Young announced his retirement as Chief Executive Officer of the Company after serving 22 years in that capacity. He will continue as Chairman of the Board of Directors. At the meeting of the Board of Directors following the Annual General Meeting, Vinod Sood was appointed Chief Executive Officer, W. F. "Jerry" Holmes was appointed Executive Vice President, Marketing, and Donald Lord was appointed Executive Vice President, Operations.

It was a great loss to the Company when George Kiss, our General Service Manager, died suddenly in August. His contribution to the operation of the Service Department was outstanding. Our sense of personal loss is felt not only by all within the Company but also by many of our customers. Jack Carthy, formerly manager of our Power Products Division, was appointed to this position.



V.K. SOOD
President and
Chief Executive Officer

Even though all our major markets in North America have not yet recovered from the recession, we look forward to their improvement and to increased revenue and profit for 1985. Our results in the United Kingdom should show further improvement, partly through an anticipated increase in revenue and lower costs of operation due to synergy of the merged companies.

Our profits are still well below historical levels but, considering the economic environment, they are satisfactory.

We sincerely thank and commend all our employees for their performance and dedication.

W.M. Young
Chairman of the Board

V.K. Sood
President and
Chief Executive Officer



Gradall hydraulic excavators, identified by their telescoping boom, are suited to many specialty jobs.



Cat D8L Tractor can push 27 tons of coal in one pass at deepsea terminal at Roberts Bank.

Another of Caterpillar's new products in 1984, the 936 wheel loader, found immediate acceptance in wood yards.



Caterpillar's new three-wheel electric lift trucks are compact, highly maneuverable.



Cat 227 Logger, which fells and bunches trees, is a familiar sight in Interior woods.



W.F. (JERRY) HOLMES
Executive Vice President,
Marketing

Total industry sales of new Caterpillar-type products in British Columbia and the Yukon increased by nearly 25 percent over 1983 but remained well below the levels of the 1970s. We maintained our leadership in the marketplace in the face of intense competition. There was some improvement in the forestry and oil and gas sectors but overall, our markets showed little growth.

It was a year of high production and low prices for the forest industry. Lumber production slightly exceeded 1983's record level but oversupply in the North American market kept prices at depressed levels. Lumber shipments off-shore did not improve due to continued weak demand.

The pulp segment of the industry was relatively buoyant early in the year but demand and prices decreased.

Machine sales to the forest industry were stronger than in the previous year; particularly with skidders, tree harvesters, roadbuilders and most sizes of wheel loaders. The first Tanguay AC200 Tree Harvester was sold as a result of a large-scale

"We maintained our leadership in an intensely competitive market"

demonstration of logging equipment at Prince George.

The estimated value of mineral production in British Columbia was up by some \$428 million over 1983. The quantity and value of coal increased considerably and coal became the province's most important mineral commodity. Most of our sales in the mining industry were to coal producers. Prices for the province's major metals remain depressed to the point where producers can not operate profitably. In the Yukon, we experienced a reasonable year with the placer miners.

Activity in the construction industry moved into high gear in the last half of the year but few new machine sales resulted because of excess capacity in contractors' earthmoving fleets.

In Vancouver, work continued on the light rapid transit system, Expo '86 and related facilities and Canada Place. Construction commenced on the Annacis crossing of the Fraser River and its approaches. CP Rail started its \$600 million project near Golden; the 14.6 kilometre Mount Macdonald tunnel, the longest railway tunnel in North America, along with a smaller tunnel and considerable double-tracking. Both of the trans-continental railways maintained their programs of double-tracking and general upgrading of railbeds.

The largest concentration of men and machines was on the Coquihalla Highway

project between Hope and Merritt. By year end, more than a dozen major construction firms and a number of sub contractors were operating in excess of 400 Caterpillar machines over the 115 kilometre route. Further phases of construction will continue through 1987.

Also near Hope, contracts were let for completion of the remaining sections of the Trans-Canada Highway to be widened to four lanes.

To support all of this Caterpillar equipment, we established a parts depot at Hope and increased Finning Parts Express deliveries to Hope and Kamloops. An additional parts depot in Merritt is scheduled for opening in March, 1985.

An oil find in the Desan Field in northeastern British Columbia generated increased activity at our Fort St. John and Fort Nelson operations. Further drilling and seismic work is being undertaken and all-weather access roads are being built to service the area.

We became distributors for three new product lines during the year. Tanguay tree harvesters, delimiters and rubber-tired and track-type loaders increase our ability to serve the forest industry, complementing the larger Caterpillar harvesting equipment. Tanguay products are manufactured by a Canadian company in St-Prime, Quebec.

Gradall hydraulic excavators are now sold and serviced by

Finning in British Columbia and by Airpro in north-western Washington and Alaska. There are five basic models of these specialty excavators which have application in all key markets. Gradall has their manufacturing facility in New Philadelphia, Ohio. Gradall is a well-known name, highly regarded.

At the close of the year we concluded negotiations to become distributors for Manitowoc cranes. Manitowoc complements the other crane lines we carry and is at the top end of the scale in lift capacity and reach. These very large units range in capacity from 80 tons to more than 1,000 tons and are manufactured in Manitowoc, Wisconsin.

Caterpillar plans to introduce 50 new products over the next four years. The first of these appeared in 1984. Two new wheel loaders, the 926 and 936, broaden the lower range of Cat's loader line and continue the more advanced design of recently introduced larger models. The loaders are manufactured in Brampton, Ontario.

Caterpillar has branded the well-established paving products manufactured by CMI Corporation in Oklahoma City, Oklahoma. This equipment, which includes stationary and portable asphalt plants, asphalt pavers, cold planers and concrete paving and trimming machines, is used in resurfacing, restoration, rehabilitation and reconstruction of roads.

Also of major importance is Caterpillar's newest and largest off-highway truck. The 785 Truck has a 1380 gross horsepower engine, a rated capacity of 130 tons and a maximum capacity of 150 tons. Its application is in the mining industry.



Caterpillar truck engines continue to gain in popularity for all types of vehicles.

Custom version of Cat's smallest tractor, the D3B, handles utility jobs for East Kootenay logger.



These Caterpillar machines were but three of several hundred working on Coquihalla Highway.



Mid-size track loader with cutting head made its debut in Interior forests.



More than 400 loggers attended "Timber Team Days"; a week-long demonstration of harvesting equipment in Prince George.



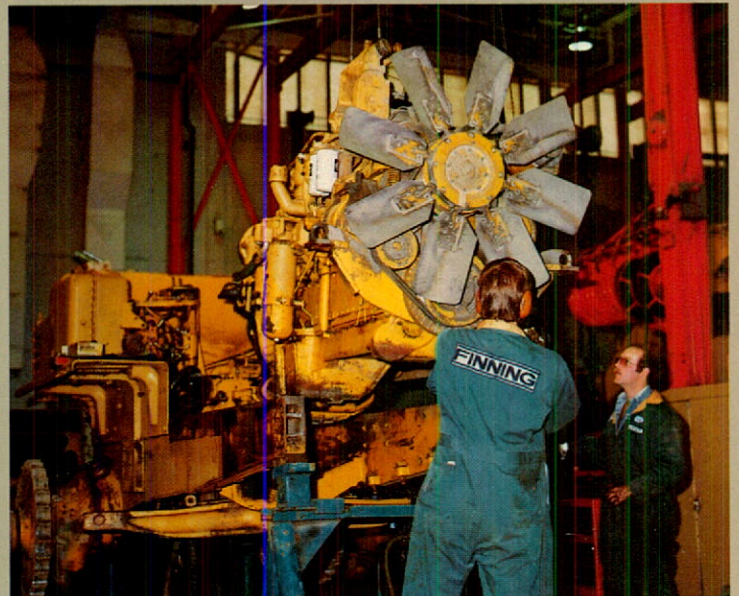


Sales of Caterpillar skidders showed significant increase over the previous year.



Caterpillar wheel loader fills DJB truck for construction of approaches to new Annacis bridge.

Tanguay AC200 tree harvester was star performer at big Prince George logging show.



Remanufacture of used D8K tractors was successfully launched in pilot project with Caterpillar.



Raygo Wagner rubber-tired chip dozer has huge, 75 cubic yard capacity bucket.



D.W. LORD
Executive Vice President,
Operations

The trading of used equipment returned to more normal patterns. Gradually throughout the year, inventories came into line with improvement in turnover and profit margins. We purchased additional used machines on the open market.

DIVISIONAL RESULTS

In divisional operations, improvement in the forest industry late in the year coupled with increased highway construction activity led to slightly better revenue and profit for the Air Products Division.

Although the northwest experienced slower economic recovery than other parts of the United States, Airpro operations in Washington and Oregon gained strength. The new five cents per gallon gasoline tax led to increased highway construction and improved demand for drilling and compaction machines.

Sales of cranes throughout the territory remained slow, due mainly to sluggish markets and excess crane inventories throughout North America.

"No-Risk Repairs — it's our job at Finning"

ENGINE SALES STEADY

Revenue for the Power Products Division continued at 1983 levels but there was marginal improvement in profitability. While all markets — construction, forestry, mining, marine — remained in recession, two bright spots were increased sales and service volume in the Arctic and installation of engines and electric sets in government vessels.

In terms of new products, Caterpillar introduced its 3600 series engines which range in output from 2,250 to 6,000 horsepower. We were successful in selling the first two of these engines into electric set applications. They will be delivered and installed in the fall of 1985.

One electric set will provide power for the entire Yukon community of Watson Lake. We believe that this 3606 power plant, generating 1500 kilowatts and backed by two Caterpillar 3500 series gen sets, will form the most modern on-site power installation in North America. The second 3600 unit is to provide power for a mine and townsite in northern British Columbia.

Caterpillar's share of the market for on-highway truck engines continued to show substantial growth. This results in increased parts and service revenues for the Company.

NEW LIFT TRUCK MODELS

Revenue and profits decreased for the Lift Truck

Division in the face of slow markets. On the positive side, there was good response to several new lift truck models introduced by Caterpillar and brisk fourth quarter sales to millyards.

The smaller three-wheel electric series and two larger gas or propane-powered models, all suited for warehouse and similar applications, were successfully introduced in 1984.

FINANCIAL SERVICES

Despite a slight decrease in dollar value over the previous year, our lease and conditional sales contract portfolios showed an upsurge in the fourth quarter. Total value of the portfolios was \$76.8 million as against \$83.7 million in 1983.

PARTS AND SERVICE

Parts revenue improved over the previous year also due to the stronger activity in forestry and construction. There was growth in sales of used parts and a fourth used parts centre was established at Cranbrook to augment operations at Langley, Prince George and Kamloops.

The number of hours worked in our Service Department and overall service revenue were on a par with 1983 results. Production in the new Remanufacturing Centre increased during its first full year of operation although start-up costs and modification of procedures eroded profitability. Centralized remanufacturing of com-

ponents, using a batch approach wherever appropriate, creates savings in production costs which are passed on to customers.

We launched a program of total machine remanufacture as a pilot project between Caterpillar and the Used Equipment Department. We have completed the remanufacture of three Cat D8K Tractors, a model which was discontinued in 1982. These machines were stripped to the bare frame and the components remanufactured to new Caterpillar specifications. The tractors have been given a warranty similar to that for a new machine.

A major extension of service guarantees was instituted in the fourth quarter. We introduced a program called "No-Risk Repairs — it's our job at Finning." We guarantee that the repairs will be completed on time at the price quoted and free of any defects. Customers have responded favorably and service work has increased.

CAPITAL EXPENDITURES

Capital expenditures for the year increased to \$3.7 million from \$1.5 million in 1983. Major expenditures were for expanding the main computer operations in Vancouver to improve on-line parts and service systems.

The second year of a two-year agreement between the Company and the International Association of Machinists and Aerospace Workers gave unionized employees a four percent wage increase. The contract expires October 14, 1985.

The number of employees in North American operations at December 31 was 1,292 compared to 1,333 in 1983. Total wages, salaries and benefits paid in these operations in 1984 was \$58,310,075 as against \$56,932,260 the previous year.

Sales to quarry operators accounted for almost half of the machine volume in the United Kingdom. The larger models of Caterpillar equipment are used to extract coal, granite, limestone and various types of clay.





BERT MORTON
Managing Director,
Finning Limited
United Kingdom

Revenue from operations in the United Kingdom improved in comparison with that of the previous 12 months due to an increase in sales of prime product. Total industry sales for Caterpillar-type machines were up marginally over 1983 and despite continued heavy competition, we were able to improve our share of the market.

The prolonged strike at coal operations by the National Union of Mineworkers, now in its 10th month, caused a significant loss of revenue for parts and service operations.

The mix of unit sales changed significantly from previous years. The number of the bigger Caterpillar models sold was down considerably but this was compensated for by increased volume of units in the mid-size range of machines. Wheel loaders now represent nearly half of our unit sales with hydraulic excavators being the next most popular product type.

In the second half of the year, Caterpillar extended its range of hydraulic excavators

*“We were able
to improve our
share of market”*

by introducing seven new smaller models. These machines are manufactured by Eder, in West Germany, and are being branded and marketed worldwide by Caterpillar. There are four rubber-tired and three track-type models. With a broad range of attachments, these products fit many smaller excavating and utility jobs.

A reduction in the rate of capital cost allowances, introduced by the government in its April budget, had the effect of increasing sales in the latter part of the year and we expect this to continue until March 31, 1985.

The first year write-down allowance was reduced from 100 percent to 75 percent effective April 1, 1984. This rate will be further reduced to 50 percent from April 1, 1985 and then to 25 percent in 1986.

The mining industry provided us with nearly half of our machine sales volume. The quarrying of limestone, granite and clay and the extraction of sand and gravel were particularly buoyant. Our territory is favored with extensive deposits of these materials.

Open cast coal production was directly affected by the miners' strike. Revenue from this activity was substantially below that of former years.

Only 25 miles of motorway were under construction and this sector of our markets continues to contribute a lower proportion of sales compared to previous years. The main activity was concentrated on building a number of by-passes which generated purchases by owners of the medium-sized and smaller machines. Motorway maintenance, reconstruction and general road upkeep developed other sales opportunities.



Main facility at Cannock, near Birmingham, is centre of operations for merged UK dealerships now known as Finning Limited.

During the year we gained new customers in the industrial market, particularly for wheel loaders. We have sold machines to brick and block manufacturers, metal processing plants, scrap metal merchants and other industrial users.

Used equipment volume remained consistent with previous years. Inventory levels are satisfactory and commensurate with current demand.

Parts and service activity was similar to that of 1983 despite the significant loss of business caused by the miners' strike. Aggressive merchandising of complete machine overhauls and the Parts Exchange program helped maintain last year's levels.

The "Costwatcher" service plan, which has been so successful in North American operations, was introduced to our customers in the United Kingdom. This rebuild program uses remanufactured components, re-uses salvageable parts, incorporates flat-rate pricing and allows the customer to control his overhaul costs. The net result is lower costs, faster repair time plus written guarantees on prices, parts and workmanship.

We enrolled 170 machines in our Value Assurance program. This extends the standard Caterpillar six-month warranty to three years or 5,000 hours, whichever comes first. More than 20 percent of the units carry added options ranging up to full maintenance and repair contracts.

Total industry sales of lift trucks increased by almost 30 percent. We increased our share of the business slightly which resulted in a satisfactory profit



DEREK LEEKS
*Executive Director Sales,
Finning Limited
United Kingdom*

“Over 100 Caterpillar machines working on Falkland Islands”

Rentals of generator sets continue to increase. The rental program has been extended to Scotland with an enlarged fleet.

Our dealership agreement with Caterpillar includes a special arrangement covering Poland. Parts sales in that country continue to be a source of revenue. During the year, we successfully demonstrated a 518 Skidder to the forest industry and a D6D Tractor to the agricultural industry.

A further 40 Caterpillar earth-moving machines were delivered to the Falkland Islands, following up on an earlier, larger sale to a United Kingdom joint venture rebuilding airports and other facilities in the Falklands. We have now supplied 105 machines for this project and all are performing well.

contribution from this Division. We made several multiple-unit sales and added a number of new accounts.

Our long-term contract rental fleet was increased. These rentals are for periods from three to five years and we perform all maintenance and repairs. The biggest contract was for 28 trucks of various sizes at a fruit and vegetable processing plant and distribution depot.

In the Engine Division, sales to the marine and petroleum industries were at much lower levels than in previous years. However, a major order was obtained for eight 1200 horsepower Cat D399 engines to power a production platform destined for North Sea operations. These will be delivered in the first quarter of 1985.

Demand for engines by original equipment manufacturers continues at satisfactory levels. Availability of industrial model 3304 engines (85 to 165 horsepower) from Caterpillar in Gosselies, Belgium has increased our competitiveness in this range.



Caterpillar 215 hydraulic excavator moves material for reinforcement of roadbed eroded by flood waters.

We also provide resident parts and service back-up on the Falkland Islands. The first product support team has completed its tenure there. We have been very pleased with the dedication and workmanship shown under very difficult living and working conditions.

In the second quarter, we introduced leasing and conditional sales contract financing plans similar to those offered North American customers. These plans are in addition to our well-established lift truck lease with maintenance program.

On September 17, the names Bowmaker (Plant) Limited and Caledonian Tractor & Equipment Co. Ltd. changed to Finning Limited, completing the merger of the two companies. To launch the new name, an Open House for all employees and their families was held at Cannock on Sunday, September 16, and more than 2,000 people attended.

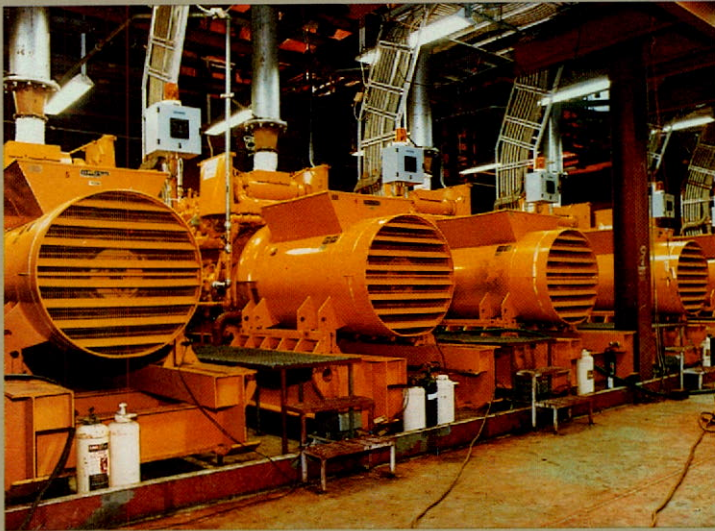
The current one-year collective agreement for hourly paid and salaried employees of the former Bowmaker (Plant) Limited operation expires on February 28, 1985. The current one-year collective agreement for hourly paid employees of the former Caledonian Tractor & Equipment Co. Ltd. operation expires on September 30, 1985.

The number of employees in the United Kingdom at December 31, 1984 was 845 compared to 910 in 1983. Total wages, salaries and benefits paid in 1984 was \$15,511,280.

UK's largest processor of preserves and juices operates 20 Caterpillar lift trucks.



Five 1329 KVA generator sets provide power for huge off-shore drill rig.



Newly-introduced 615 self-loading scraper is used in site stripping and land reclamation.

Fleet of DJB trucks hauls sand and gravel for manufacturer of concrete products.



This 56-foot, Caterpillar-powered craft ferries pilots to ships entering port of Falmouth, Cornwall.

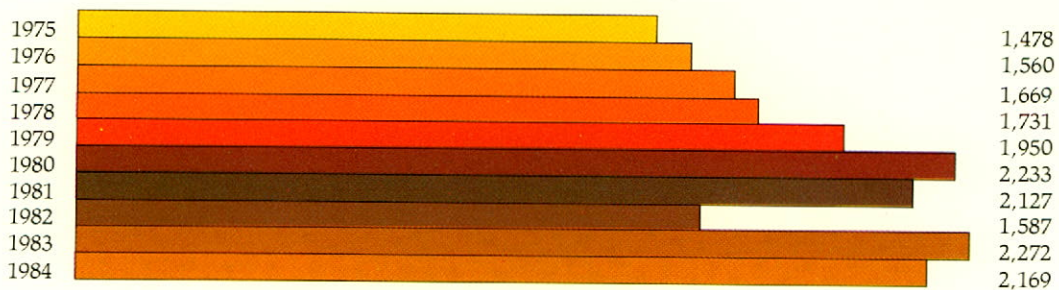
The 235 Roadbuilder, a Caterpillar hydraulic excavator modified by Finning, achieved excellent sales as the forest industry again was the major contributor to machine volume.



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
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
1983	372,652,000	9,457,000	8,504,000	2,602,000	975,000	.52	2.5%	2.3%	2,243
1984	452,985,000	23,089,000	16,850,000	4,888,000	2,894,000	1.05	5.1%	3.7%	2,137

Average Number of Employees

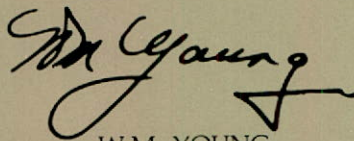


Consolidated Balance Sheets

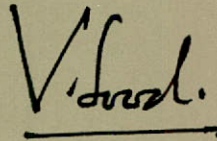
as at December 31

Assets	1984	1983
Accounts receivable	\$ 78,564,069	\$ 79,278,828
Instalment notes receivable (Note 2)	41,961,574	43,874,517
Inventories —		
Equipment (Note 3)	113,724,383	122,179,902
Parts and supplies	49,788,579	49,544,757
Equipment leased to customers (Note 4)	41,347,850	42,331,363
Land, buildings and equipment (Note 5)	<u>56,494,480</u>	<u>59,467,476</u>
	<u>\$381,880,935</u>	<u>\$396,676,843</u>

Approved by the Directors:

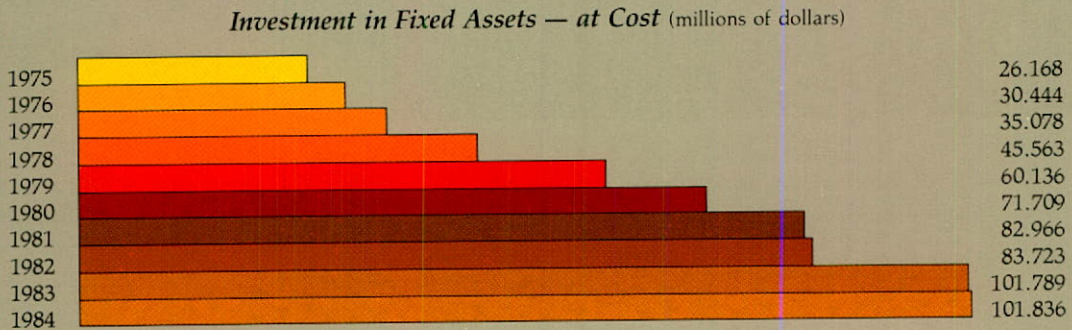


W.M. YOUNG
Director



V.K. SOOD
Director

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

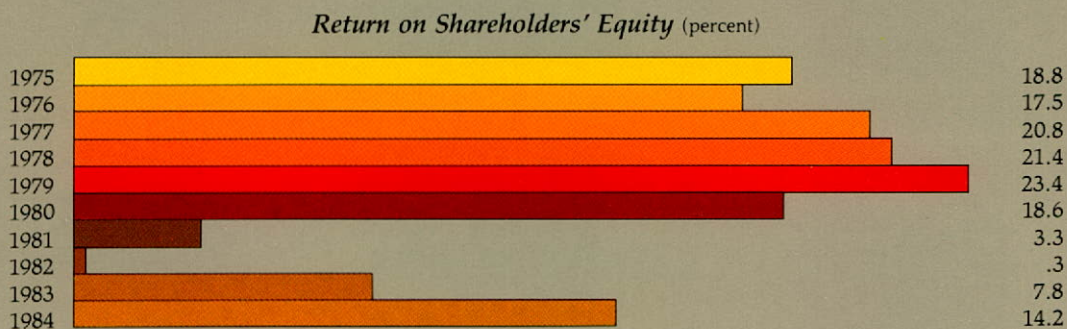


Finning Tractor & Equipment Company Limited

Liabilities and Shareholders' Equity	1984	1983
Bank indebtedness (Note 6)	\$ 89,459,599	\$ 90,725,584
Accounts payable and accruals	42,168,345	66,008,503
Income taxes payable (Note 7)	7,020,594	8,081,635
Secured debentures (Note 8)	26,120,000	26,682,000
Convertible debentures (Note 9)	65,000,000	65,000,000
Deferred income taxes	<u>27,316,544</u>	<u>27,668,166</u>
Total liabilities	<u>\$257,085,082</u>	<u>\$284,165,888</u>
Shareholders' equity (Note 8) —		
Share capital (Notes 9 and 10)	\$ 13,066,462	\$ 11,979,512
Retained earnings	114,524,354	100,568,490
Cumulative currency translation adjustments	<u>(2,794,963)</u>	<u>(37,047)</u>
Total shareholders' equity	<u>\$124,795,853</u>	<u>\$112,510,955</u>
	<u>\$381,880,935</u>	<u>\$396,676,843</u>

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.



Consolidated Statements of Income and Retained Earnings

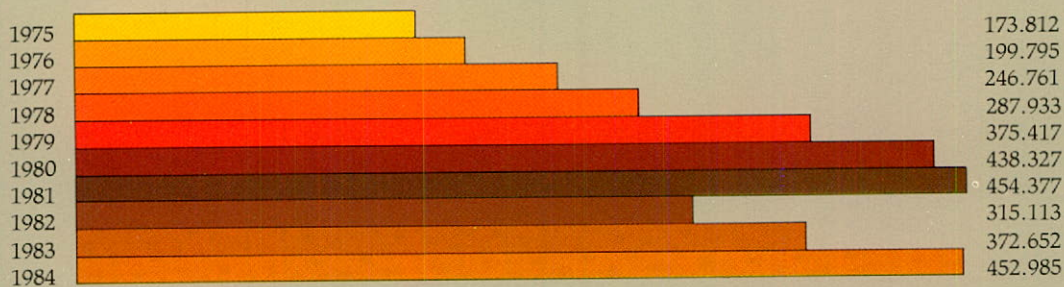
for the years ended December 31

	1984	1983
Revenue	\$452,985,413	\$372,652,126
Expenses (Note 11) —		
Cost of sales and selling	\$384,285,212	\$316,130,923
General and administrative	27,148,771	29,028,303
Interest	18,462,435	18,036,328
	\$429,896,418	\$363,195,554
Income before provision for income taxes	\$ 23,088,995	\$ 9,456,572
Provision for income taxes (Note 7)	6,238,660	952,406
Net income	\$ 16,850,335	\$ 8,504,166
Retained earnings, beginning of year	100,568,490	93,038,954
	\$117,418,825	\$101,543,120
Dividends paid	2,894,471	974,630
Retained earnings, end of year	\$114,524,354	\$100,568,490
Net income per share (Note 12)	\$ 1.05	\$.52

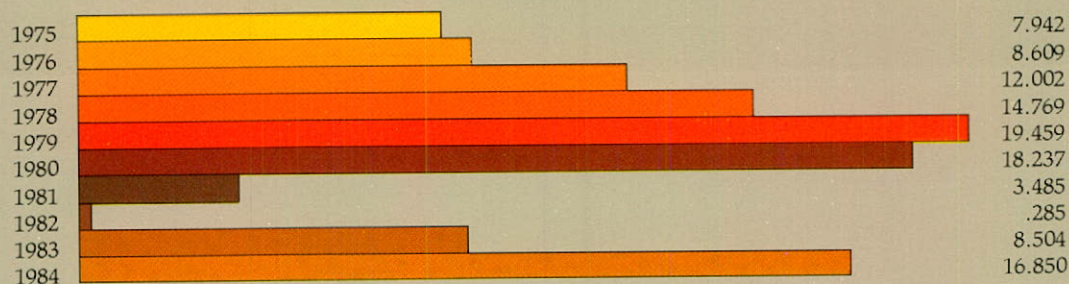
The accompanying Notes to Consolidated Financial Statements are an integral part of these statements.

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

	1984	1983
Cash generated by current operations:		
Net income	\$ 16,850,335	\$ 8,504,166
Add (deduct) items not involving cash —		
Depreciation and amortization—		
Rental inventory	14,599,833	12,012,975
Equipment leased to customers	12,484,058	15,136,851
Buildings and equipment	5,326,732	4,419,011
Purchase discount	(7,010,558)	(3,025,085)
Deferred income taxes	129,794	(2,483,669)
Other items, net	167,991	(551,939)
Total cash from current operations	<u>\$ 42,548,185</u>	<u>\$ 34,012,310</u>
Cash (used in) generated from operating assets and liabilities:		
Accounts receivable	\$ (3,395,743)	\$ (11,289,192)
Instalment notes receivable	1,915,849	2,242,447
Inventories —		
Equipment	(5,262,092)	(2,031,889)
Parts and supplies	20,929	(1,258,709)
Equipment leased to customers, net of disposals	(11,778,567)	4,145,555
Accounts payable and accruals	(21,087,816)	14,671,036
Income taxes	(297,907)	2,849,955
	<u>\$ (39,885,347)</u>	<u>\$ 9,329,203</u>
Net cash generated from operations	<u>\$ 2,662,838</u>	<u>\$ 43,341,513</u>
Other uses (sources) of cash:		
Acquisition of operations in the United Kingdom	\$ —	\$ 26,553,624
Add: bank indebtedness assumed	—	13,844,688
	<u>\$ —</u>	<u>\$ 40,398,312</u>
Land, buildings and equipment —		
Additions	4,888,121	2,602,425
Proceeds on disposal	(766,774)	(3,194,861)
Purchase of secured debentures	562,000	790,000
Issue of preferred shares	(2,698,550)	(26,000)
Redemption of preferred shares	1,611,600	179,400
Dividends paid	2,894,471	974,630
Cumulative currency translation adjustments	(5,094,015)	(332,656)
	<u>\$ 1,396,853</u>	<u>\$ 41,391,250</u>
Net decrease in bank indebtedness	<u>\$ 1,265,985</u>	<u>\$ 1,950,263</u>

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

Notes to Consolidated Financial Statements

December 31, 1984 and 1983

1. *Summary of Significant Accounting Policies*

PRINCIPLES OF CONSOLIDATION

The consolidated financial statements include the accounts of the Company and its subsidiaries, all of which are wholly-owned. Active subsidiaries include:

- Airpro Equipment, Inc.
- Airpro Equipment Ltd., also operating as Finning Air Products Division
- Finning Limited

Bowmaker (Plant) Limited and Caledonian Tractor and Equipment Company Limited were merged during the year into one operating entity which was renamed Finning Limited.

Acquisitions are accounted for by the purchase method and consolidated financial statements include the results of subsidiaries from the dates of acquisition.

CURRENCY TRANSLATION

Accounts in foreign currencies are translated into Canadian dollars as follows: assets and liabilities using the exchange rates in effect at the balance sheet dates; revenue and expense items at approximate exchange rates prevailing at the time the transactions occurred; all unrealized translation gains and losses are deferred and are shown as a separate component on the balance sheet.

INVENTORIES

Inventories are stated at the lower of cost and net realizable value. Cost is determined on a specific item, actual cost basis for both on hand and rental equipment. For parts and supplies, approximately 85% (80% in 1983) is recorded on a first-in, first-out basis and the remainder on a weighted average basis.

Rental equipment inventories are depreciated on the basis of rentals billed over the term of the rental after giving recognition to the estimated residual value of each unit at the end of each rental.

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%
- 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.

PURCHASE DISCOUNT

The purchase discount represents the excess in value of the net assets acquired of subsidiary companies at dates of acquisition over the purchase price. The purchase discount is being amortized to income over two years from the respective acquisition dates.

2. *Instalment Notes Receivable*

Instalment notes receivable are recorded at principal balances and include \$16,602,187 due after one year (\$16,458,798 in 1983).

3. *Equipment Inventories*

Equipment inventories consist of the following:

	1984	1983
On hand equipment	\$ 63,745,155	\$ 65,879,809
Rental equipment	\$ 76,795,079	\$ 81,007,125
Less accumulated depreciation	26,815,851	24,707,032
	\$ 49,979,228	\$ 56,300,093
	\$113,724,383	\$122,179,902

4. <i>Equipment Leased to Customers</i>		1984	1983
	Cost	\$ 67,638,388	\$ 76,348,062
	Less accumulated depreciation	26,290,538	34,016,699
		<u>\$ 41,347,850</u>	<u>\$ 42,331,363</u>

Under the terms of the lease agreements in effect at December 31, 1984, \$5,402,066 of the above costs will be recovered in 1985 (\$8,700,405 in 1984).

5. <i>Land, Buildings and Equipment</i>	Land, buildings and equipment are recorded at cost and consist of the following:		
	Land	1984 \$ 11,619,095	1983 \$ 12,049,004
	Buildings and equipment	\$ 90,216,580	\$ 89,739,511
	Less accumulated depreciation	45,341,195	42,321,039
		<u>\$ 44,875,385</u>	<u>\$ 47,418,472</u>
		<u>\$ 56,494,480</u>	<u>\$ 59,467,476</u>

6. <i>Bank Indebtedness</i>	Bank indebtedness consists of the following:		
	Demand bank notes	1984 \$ 38,495,230	1983 \$ 43,958,614
	Bankers' acceptances payable at various dates within 57 days after December 31, 1984 (within 23 days after December 31, 1983)	50,964,369	46,766,970
		<u>\$ 89,459,599</u>	<u>\$ 90,725,584</u>

The loan agreement with the bank contains certain restrictions which, among other things, limit distribution to shareholders as explained in Note 8.

7. <i>Income Taxes</i>	The Company's income tax provision is made up as follows:		
	Combined basic federal and provincial income tax rates	1984 <u>50.1%</u>	1983 <u>51.2%</u>
	Provision for income taxes based on the combined basic federal and provincial rates	\$ 11,567,586	\$ 4,841,765
	Increase (decrease) in provision for income taxes resulting from:		
	Inventory allowance	(1,317,652)	(1,349,608)
	Investment tax credit	(1,078,976)	(716,706)
	Purchase discount	(3,512,291)	(1,548,844)
	Higher (lower) effective income tax rate on the earnings of the United Kingdom operations	1,181,130	(112,385)
	Other items	(601,137)	(161,816)
	Actual income tax provision	<u>\$ 6,238,660</u>	<u>\$ 952,406</u>

8. *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 \$3,886,096 at December 31, 1984 (\$980,350 at December 31, 1983). 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 and including 1985 at prices not exceeding the principal amount. In addition, these Debentures may be redeemed at the option of the Company.

9. *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 on or before June 24, 1986, but 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.

10. Share Capital

During 1984, all of the outstanding Cumulative Redeemable Convertible Preferred Shares, Series A were redeemed. In March, 1984, 2,100 (nil in 1983) of the Cumulative Redeemable Convertible Preferred Shares, Series B were redeemed.

In September, 1984, 400,000 of the preferred shares were designated as Cumulative Redeemable Convertible Preferred Shares, Series C and 269,855 were issued for cash under terms of an employee share purchase plan. Of these shares, 1,340 were redeemed during the year.

Share capital consists of the following:

AUTHORIZED —	1984	1983
5,000,000 Preferred shares without par value. 1,600,000 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		
400,000 as Cumulative Redeemable Convertible Preferred Shares, Series C		
40,000,000 Class A voting shares		
40,000,000 Class B non-voting shares		
ISSUED AND OUTSTANDING —		
Nil Cumulative Redeemable Convertible Preferred Shares, Series A (157,720 — 1983)	\$ —	\$ 1,577,200
128,475 Cumulative Redeemable Convertible Preferred Shares, Series B (130,575 — 1983)	1,284,750	1,305,750
268,515 Cumulative Redeemable Convertible Preferred Shares, Series C	2,685,150	—
7,919,171 Class A voting shares (7,919,451 — 1983)	4,534,750	4,534,926
7,966,429 Class B non-voting shares (7,966,149 — 1983)	4,561,812	4,561,636
	<u>\$ 13,066,462</u>	<u>\$ 11,979,512</u>

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 B AND SERIES C PREFERRED SHARES

The cumulative preferential cash dividends on the series B and series C 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.

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

The series B and series C 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. The series B preferred shares presently outstanding are convertible at a price of \$8.37 per class B non-voting share. The series C preferred shares presently outstanding are convertible after September 11, 1986 at a price of \$10.23 per class B non-voting share.

CLASS A VOTING AND CLASS B NON-VOTING SHARES

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, as such, 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, 280 (9,102 in 1983) class A voting shares were converted into class B non-voting shares.

STOCK OPTIONS

On December 31, 1984, the Company established a stock option plan for employees of a subsidiary and has reserved for issue 70,769 class B non-voting shares. These options may be exercised after December 31, 1987 and up to December 31, 1994 at a price of \$7.95 per share.

11. Pension Plans The Company and its subsidiaries offer pension plans to employees. Independent consultants prepare actuarial reports every two years for these plans. On the basis of an actuarial valuation made at December 31, 1983, the value of the plans' assets exceeded liabilities by \$3,690,600. This surplus was primarily due to improved investment performance totalling \$3,436,300 which is being credited to expense in equal annual amounts in 1984 and 1985. Remaining past service costs of \$1,382,000 resulting from changes to the Company's plans to improve benefits payable are being charged to expense over the next seven years.

Total pension expense, including contributions to statutory plans, was \$1,358,531 in 1984 (\$842,433 in 1983).

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 \$193,919 in 1984 (\$180,350 in 1983) being the dividends on the series A, series B and series C preferred shares.

There would be no dilution of net income per class A voting and class B non-voting share if the series B and series C preferred shares and 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, of which the most significant ones are with subsidiaries of the Caterpillar Tractor Co. Distribution and servicing of Caterpillar products account for the major portion of the Company's operations.

14. Segmented Information The Company and its subsidiaries have operated primarily in one industry during the year, that being the sale, servicing and financing of heavy equipment and related products.

Operating branches are located in Western Canada, the Northwestern United States, Southwest England, Wales and Scotland. Transfers between segments are made at approximate market values. There were no transfers in 1983.

Information reported for 1983 includes the results of the United Kingdom operations from their respective acquisition dates. Bowmaker (Plant) Limited was acquired on July 1, 1983 and Caledonian Tractor Holdings Limited on October 1, 1983.

The reportable geographic segments are:

1984	Western Canada and the Northwestern United States	United Kingdom	Segment Eliminations	Consolidated
Revenue	\$306,250,219	\$147,066,603		\$453,316,822
Transfers between segments . . .	—	331,409		331,409
Revenue from external sources	<u>\$306,250,219</u>	<u>\$146,735,194</u>		<u>\$452,985,413</u>
Income before amortization of purchase discount, merger costs and provision for income taxes	\$ 9,089,499	\$ 8,733,983		\$ 17,823,482
Amortization of purchase discount	—	7,010,558		7,010,558
Merger costs	—	(1,745,045)		(1,745,045)
Income before provision for income taxes	\$ 9,089,499	\$ 13,999,496		\$ 23,088,995
Provision for income taxes	1,557,173	4,681,487		6,238,660
Net income	<u>\$ 7,532,326</u>	<u>\$ 9,318,009</u>		<u>\$ 16,850,335</u>
Operating assets	\$258,576,651	\$ 68,758,542	\$ (1,948,738)	\$325,386,455
Other assets	46,141,607	10,352,873		56,494,480
Total assets	<u>\$304,718,258</u>	<u>\$ 79,111,415</u>	<u>\$ (1,948,738)</u>	<u>\$381,880,935</u>

1983	Western Canada and the Northwestern United States	United Kingdom	Segment Eliminations	Consolidated
Revenue from external sources .	\$306,233,748	\$ 66,418,378		\$372,652,126
Income before amortization of purchase discount and provision for (recovery of) income taxes . .	\$ 2,511,974	\$ 3,919,513		\$ 6,431,487
Amortization of purchase discount	—	3,025,085		3,025,085
Income before provision for (recovery of) income taxes	\$ 2,511,974	\$ 6,944,598		\$ 9,456,572
Provision for (recovery of) income taxes	(942,000)	1,894,406		952,406
Net income	\$ 3,453,974	\$ 5,050,192		\$ 8,504,166
Operating assets	\$278,816,378	\$ 60,567,381	\$ (2,174,392)	\$337,209,367
Other assets	46,414,590	13,052,886		59,467,476
Total assets	\$325,230,968	\$ 73,620,267	\$ (2,174,392)	\$396,676,843

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 information available up to February 4, 1985.

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 management's 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.

The 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. In addition, the Audit Committee reports its findings to the Board of Directors which reviews and approves the Consolidated Financial Statements contained in this annual report.

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 Executive Officer

February 4, 1985

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, 1984 and 1983, 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, 1984 and 1983, 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 4, 1985
Vancouver, Canada



*This 335 horsepower Cat D8L Tractor pushes 45 cubic yards of wood chips at one time.
Several D8Ls work at pulp mills throughout the province.*

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, Retired. Formerly Executive Vice President,
Finning Tractor & Equipment Company Limited, Vancouver
†ROLF B. HOUGEN, President, Hougen's Limited, 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, Arcata Corporation, Menlo Park, California
*VINOD K. SOOD, President and Chief Executive Officer,
Finning Tractor & Equipment Company Limited, Vancouver
°W. MAURICE YOUNG, Chairman of the Board, Finning Tractor & Equipment Company Limited, Vancouver

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

Officers

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

*Member, Executive Committee

Operations, Division and Staff Managers

J.A. CARTHY, General Service	R.C. LEY, Marketing
C.A. CEDERBERG, Kamloops	C.C. LOYST, Personnel
D.L. CHRISTIE, Administration	H.H. LUNOW, Purchasing
R.W. CLARIDGE, Lift Truck	D.H. MACKAY, Dawson Creek
P. CLARKE, Pipeline Sales	B.A. McDOWELL, Cranbrook
G.M. CORREALE, Vernon	W.F. MERRELL, Controller
B.I. DAVIS, Vancouver Service	B.M. MOORE, General Parts
J.D. DESIMONE, Prince George	R.S. SCOTT, Finance
C.A. HARRIS, Data Processing	J.F. SHEPARD, Product Support Sales
D.G. HORNER, Whitehorse	T.A. SHORTER, Used Equipment
E.G. INGLIS, Training	R.G. WILLIAMSON, Air Products
R.M. KAYE, Vancouver	B. WRIGHT, Construction Sales

Head Office

555 Great Northern Way, Vancouver, Canada, V5T 1E2

Auditors

ARTHUR ANDERSEN & CO., Chartered Accountants, Vancouver, Canada

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

Finning Limited, United Kingdom

Cannock, Staffordshire, England, WS11 3LL

BERTRAM MORTON, Managing Director
DEREK LEEKS, Executive Director



Thomas E. Ladner

H. Clark Bentall

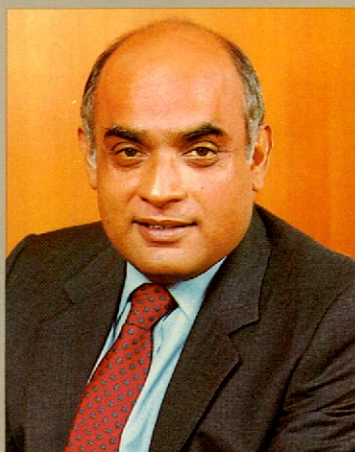


W. Maurice Young



Robert C. Biss

William T. Barker



Vinod K. Sood



J. Frank Leach


Michael M. Koerner



Rolf B. Hougen

FINNING

YOUR CATERPILLAR DEALER

Caterpillar, Cat and  are Trademarks of Caterpillar Tractor Co.

555 Great Northern Way,
Vancouver, B.C., Canada V5T 1E2