FINNING INTERNATIONAL INC.

ANNUAL INFORMATION FORM

FOR THE YEAR ENDED

DECEMBER 31, 2005

DATED AS OF MARCH 20, 2006

Finning International Inc.
Suite 1000, Park Place
666 Burrard Street
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Additional copies of this document may be obtained upon request from the Corporate Secretary, Finning International Inc. at the above address or through the Company's internet site – http://www.finning.com

TABLE OF CONTENTS

In this Annual Information Form, the terms the "Company" and "Corporation" means Finning International Inc. and "Finning" means Finning International Inc. together with its subsidiaries and operating divisions. All dollars are Canadian dollars unless otherwise indicated.

This Annual Information Form may contain forward-looking statements and information, which reflect the current view of Finning International Inc. with respect to future events and financial performance. Any such forward-looking statements are subject to risks and uncertainties and Finning's actual results of operations could differ materially from historical results or current expectations. Finning assumes no obligation to publicly update or revise its forward-looking statements even if experience or future changes make it clear that any projected results expressed or implied therein do not materialize.

1. NAME AND INCORPORATION

Finning International Inc. was incorporated as Finning Tractor & Equipment Company Limited on January 4, 1933 under the *Company Act* (British Columbia). On September 2, 1969 the Company became a public corporation. The Company was continued under the *Canada Business Corporations Act* on October 8, 1986 and changed its name to Finning Ltd. on April 23, 1987 and to Finning International Inc. on April 25, 1997.

Finning International Inc. is a widely held, publicly traded corporation, listed on the Toronto Stock Exchange (symbol FTT). The registered and head office of the Company is located at Suite 1000, Park Place, 666 Burrard Street, Vancouver, British Columbia, V6C 2X8 (telephone (604) 691-6444; fax (604) 691-6440; website: www.finning.com).

2. PRINCIPAL OPERATING SUBSIDIARIES AND DIVISIONS

The following organization chart outlines the Company's principal operating subsidiaries and divisions and the geographic areas they serve. As at December 31, 2005 there were no other subsidiaries of the Company whose total assets represented more that 10% of the consolidated assets of the Company or whose total revenues for the year then ended represented more than 10% of the consolidated revenue of the Company.

Finning International Inc.

- Canada – Reporting Segment
  - **Finning (Canada)** a division of Finning International Inc., servicing Western Canada with dealer territories in British Columbia, Alberta, the Yukon territory, the Northwest Territories and a portion of Nunavut
  - **OEM Remanufacturing Company Inc.** a joint venture company, incorporated in Alberta, Canada with 100% common shares owned by Finning International Inc.
- Finning South America - Reporting Segment
  - **Finning Argentina S.A** and **Finning Soluciones Mineras S.A.** both incorporated in Argentina, 100% owned subsidiaries, servicing Argentina
  - **Finning Bolivia S.A.** incorporated in Bolivia, a 100% owned subsidiary, servicing Bolivia
  - **Finning Chile S.A.** incorporated in Chile, a 99.99% owned subsidiary, servicing Chile
  - **Finning Uruguay S.A.** incorporated in Uruguay, a 100% owned subsidiary, servicing Uruguay
- UK – Reporting Segment
  - **Finning (UK) Ltd.** incorporated in the United Kingdom, a 100% owned subsidiary, servicing the UK with dealer territories in England, Scotland, Wales, Falkland Islands and the Channel Islands
- Hewden – Reporting Segment
  - **Hewden Stuart PLC** incorporated in the United Kingdom, a 100% owned subsidiary, supplying rental equipment and services in England, Scotland, Wales and Jersey

3. GENERAL DEVELOPMENT OF THE BUSINESS

Finning is a Canadian-based international company which sells, rents, and provides customer support services for Caterpillar Inc. ("Caterpillar") equipment and engines and complementary equipment on three continents around the world. In terms of sales volume, Finning is one of the largest distributors of Caterpillar products in the world and is the authorized dealer of Caterpillar products in its Western Canada territories, the United Kingdom and the southern cone of South America (defined as the countries of Argentina, Bolivia, Chile and Uruguay). Finning has over 12,800 employees serving in these dealer territories.

3.1 Brief History

Canada

The Company has been the dealer for Caterpillar products since 1933 in British Columbia and since 1977 in the Yukon Territory. In December 1989, the Company acquired all of the shares of R. Angus Alberta Limited, the Caterpillar dealer for Alberta and a portion of the Northwest Territories. By 1995, additional territory was added to the existing area within the Northwest Territories and Nunavut, making the Company the Caterpillar dealer for an area, covering all of the Northwest Territories and the portion of the Territory of Nunavut that is west of 110 degrees west longitude. The Company services its Canadian dealership territory through its division, Finning (Canada).

In 2004, Finning International Inc. made an investment in OEM Remanufacturing Inc. (OEM), a component rebuilding business located in Edmonton, Alberta. Construction was completed in 2005 and the business is now fully operational providing customers with component rebuild products and services throughout North America.

South America

Operations in South America ("Finning South America") include the operating results of the Caterpillar dealerships for Argentina, Bolivia, Chile, and Uruguay and their subsidiaries.

Caterpillar Dealership	Effective Date of Acquisition:	Companies Acquired:
Argentina	January 1, 2003	Macrosa Del Plata S.A. and Servicios Mineras S.A., subsequently renamed Finning Argentina S.A. and Finning Soluciones Mineras S.A. respectively in 2005
Bolivia	April 1, 2003	Matreq Ferreyros S.A., subsequently renamed Finning Bolivia S.A. in 2005
Chile	August 1, 1993	Gildemeister S.A.C. ("Gildemeister"), subsequently renamed Finning Chile S.A. in 1997
Uruguay	January 1, 2003	General Machinery Co. S.A., subsequently renamed Finning Uruguay S.A. in 2005

United Kingdom (UK)

In 1983, the Company acquired two Caterpillar dealerships in Great Britain. The acquisition of the remaining U.K. dealer, H. Leverton Limited was completed on October 1, 1997. With the completion of this acquisition, the Company, which now operates in the U.K. under the name of Finning (UK) Ltd. ("Finning (UK)"), became the sole Caterpillar dealer in Great Britain. Effective June 1, 2003, Finning (UK) acquired the majority of the assets of Lex Harvey Limited, an independent materials handling company in the U.K.

Hewden Stuart Plc

On January 26, 2001 Finning acquired Hewden Stuart Plc ("Hewden"). Hewden is a leading national equipment rental business in the U.K., operating throughout Scotland, England, Wales and Jersey. Since the acquisition, Hewden has made additional acquisitions of assets and small businesses that contribute to the strategic growth of the core rental business of Hewden, such as purchases in 2001 and 2002 amounting to $64.0 million of rental and other assets from Maxxiom Limited and the smaller $2.0 million purchase in 2003 of Blandin Light Plant Limited, an equipment rental company located in Jersey, Channel Islands. Likewise, divestitures have been made of assets which are not considered part of Hewden's core rental business such as the 2002 sale of Hewden's Tower Crane business and the 2003 sale of its Northern Ireland business.

In 2001, the Company formed a partnership with third party private investors to raise capital to fund the acquisition of Hewden. The private investors injected $425.0 million into the partnership in return for non-controlling partnership interests. In November 2004, the Company redeemed the non-controlling partnership interests, funded partially through an issue of common equity. The equity issue proceeds, net of underwriting fees, funded $292.8 million of the redemption and the remainder was financed by the Company's bank short-term credit facilities. In December 2004, the Company repaid these short-term borrowings by issuing a 7-year $150 million unsecured Medium Term Note.

Corporate

The corporate head office of the Company is located in Vancouver, British Columbia.

3.2 Strategy

Finning is part of Caterpillar's global dealer network. This network allows users of Caterpillar products and services in specific markets to deal with people with whom they are familiar and who have an intimate knowledge of the local market. As such, both Finning and Caterpillar benefit from their strong strategic alliance. The Company's vision is two-fold: to be Caterpillar's best global business partner and to provide unrivalled services that earn customer loyalty.

To earn customer loyalty, Finning works with its customers to help make them more productive. In particular, the Company develops customized solutions designed to meet customer specific operating and financial objectives, including solutions that lower their operating costs and address the risk of owning and operating heavy equipment.

The Company has been successful in growing profitability, with a focus on the "Finning Formula", which can be summarized as follows:

- Leverage the Caterpillar brand
- Build strong regional market shares
- Maximize parts, service and rental revenues
- Solve difficult customer problems
- Establish clear financial expectations throughout the Company
- Transfer the Finning Formula to other territories

Finning believes future growth will come from a combination of harvesting organic growth opportunities within its existing dealer territories and making strategic, accretive acquisitions in areas where Finning can leverage its competitive strengths. To complement this growth, Finning has progressed with several initiatives designed to improve profit margins and generate significant cost savings throughout all areas of the organization. Finning believes there are substantial benefits to be realized from these key initiatives and, therefore, Finning management has made the successful implementation of these initiatives its top priority. Executive changes implemented in late 2004 and 2005, primarily in the U.K., are intended to provide strong leadership to the business, and to direct implementation of the Company's strategies.

To support its effort to grow market share in all sectors and improve profitability in the U.K., Finning (UK) has agreed to a 3 year strategic plan with Caterpillar. The plan is based on a mutual commitment to double the present market share and concurrently to improve the profitability of the dealership to a median level of dealers in the Caterpillar dealer network. Caterpillar, for its part, has agreed to ensure that its products in the U.K. will have market based pricing and that its equipment will at least have parity in terms of key technical capabilities and specifications. Finning, for its part, has agreed to adjust its existing centralized product offering closer to the customer. In addition, Finning has agreed to launch a new "Cat Compact" distribution channel for the smaller equipment in the product line. In support of this strategic plan, certain product lines have seen adjustments to pricing levels.

3.3 Growth Opportunities

Internal Growth

Finning has identified a number of organic growth opportunities in each of its existing territories. The opportunities exist in several different end markets, and further illustrate the benefits of Finning's extensive diversification efforts over the years.

Canada: The outlook for growth in Canada is good, reflecting current strong oil and gas prices, significant development in the Alberta oil sands and associated pipeline projects in Western Canada, including a new Arctic gas pipeline and a pipeline to transport oil from the Alberta oil sands to the west coast of Canada for export. Finning (Canada) is well positioned to compete for this business, which would include both product sales and customer service contracts.

Finning expects that new infrastructure projects scheduled to occur in Alberta and British Columbia over the next few years, including those anticipated in connection with the 2010 Winter Olympics in Vancouver, will provide additional opportunities to increase revenues.

In 2005, Finning (Canada) was selected by Caterpillar to be one of four Caterpillar dealers forming a new global Caterpillar dealership, PipeLine Machinery International (PLM). PLM is now operational and serving the global pipeline construction industry by supplying Caterpillar pipeline products to international customers who specialize in large diameter pipeline projects. Global energy demand is expected to drive an increase in worldwide construction activity in the future and Finning's 25% interest in PLM provides an opportunity to participate in this growth.

Finning (Canada) entered into a long term agreement with Shell Canada in 2004 whereby Finning assumed sales and marketing responsibilities for the sale of packaged and bulk Shell branded fuel and lubricant products to identified agricultural and commercial customer segments. In geographic areas where no current Finning branch exists (predominantly rural areas), Finning occupies and leases warehouse and storefront facilities from Shell. Under the terms of this alliance, Shell is responsible for the operation of all bulk fuel and bulk lubricant facilities, and for their distribution.

The alliance with Shell provides exposure for the Finning and Caterpillar brands into new markets and to a wider array of customers. The addition of Shell fuels also enhances Finning's ability to offer customers bundled solutions covering all aspects of equipment sales and rentals, as well as maintenance, repair programs, parts, and fleet related services.

South America: The strength in commodity prices for copper and gold bodes well for the Company's resource-based customers. An increase in mining activity, new development projects and related infrastructure projects stimulated by economic recovery in South America will provide Finning with an opportunity to increase its revenues both from equipment sales and customer support services over a longer term period.

In addition, the Company consolidated its South American operations into a single business segment (Finning South America) aligned by core business lines (such as mining, general machinery and power systems). Finning South America now also operates a shared services centre in Uruguay, providing back office and call centre services to all the South American operations. In this manner, Finning has been able to improve customer marketing and maximize synergies from the acquisitions.

United Kingdom: Business conditions in the U.K. continue to be steady. After a challenging year in 2005, expectations are for modest improvements in 2006. An interest rate cut by the Bank of England in 2005 has modestly stimulated housing markets and is expected to have a beneficial impact on construction activity, which is expected to modestly benefit operations at Finning (UK) and Hewden. Construction activity continues at moderate levels. However, competitive pressures continue to impact the Company's operations in the U.K.

Hewden continues to review its operations and implement changes in order to improve customer service and profitability as well as simplify its organizational structure. A realignment of certain back office functions was completed in 2005. Hewden has committed £13.8 million to a new information system that will enhance the quality of its customer services and information and reduce transaction costs. System implementation is anticipated to occur in 2007. Furthermore, a new regional operational structure was implemented and a concept rental store is under development.

In the U.K. dealership operations, management together with Caterpillar have agreed to a three year plan to improve market penetration for Caterpillar products. Finning (UK) will expand its service offering for small and compact machines as Caterpillar produces products more suited to the U.K. marketplace at values more competitively priced for the U.K. market. The Materials Handling division of the UK Operation experienced a difficult year which can be somewhat attributed to operating in a very competitive marketplace. In addition, combining two very different business models, Finning Materials Handling and Lex Harvey, has proven to be a challenging and costly process that to date has not been fully successful. Information systems upgrades that were originally planned were deferred which has caused the business to operate two inefficient legacy systems that are challenging to integrate. Information technology alternatives are under consideration and the Company is examining potential efficiencies in its service delivery. Discussions continue with the supplier of the materials handling equipment to negotiate more competitive pricing. Finning (UK) management is focusing on improving margins in all areas, achieving efficiencies and controlling costs.

In addition, in each of its markets, Finning seeks to increase revenues from Power Systems, customer support services and equipment rental, including increasing the number of Cat Rental Stores.

Growth by Acquisitions

Finning continually examines opportunities to acquire complementary businesses in regions where it currently operates. Finning also evaluates opportunities to expand into new geographical territories where both Caterpillar and the Company can benefit from developing market opportunities and economic expansion. Finning generally targets regions where it can provide substantial value to customers through its extensive expertise in core industries such as mining.

Acquisitions in existing territories enable Finning to leverage industry expertise and local knowledge, such as language, regulatory environment and business practices. As an example, following its 1993 acquisition of the Chilean Caterpillar dealership, Finning took advantage of its presence in the southern cone of South America and its strong relationship with Caterpillar and purchased dealerships in the neighbouring countries of Argentina, Bolivia and Uruguay in 2003. By transferring expertise from its Chilean operations to the newly acquired dealerships, Finning was able to significantly improve its financial and operating performance.

Finning's growth strategy in the United Kingdom market has been similar to its strategy in South America. Between 1983 and 1997, Finning purchased three separate Caterpillar dealerships in the United Kingdom and integrated them into a single business unit, which became Finning (UK). Finning subsequently purchased the Hewden rental business in 2001 and the materials handling business of Lex Harvey Ltd. in 2003. All of these acquisitions complemented Finning's existing business lines and provided critical mass, supplying customers with a more complete range of products and services.

In 2004 and 2005, Finning International Inc. invested in a new world-class component rebuilding centre that was built by OEM Remanufacturing Company Inc. ("OEM"). A 10-year customer services agreement with OEM was established to rebuild Caterpillar components that Finning (Canada) previously remanufactured in its own Edmonton facility. The new state-of-the-art facility was completed in 2005 and is now fully operational, providing Finning and OEM with a competitive advantage over North American equipment distributors and remanufacturing suppliers. In addition, this venture allows for growth into the segment of competitive (non-Caterpillar) large component rebuild.

Finning is looking to expand its Power Systems business by acquiring the distribution rights to the engines and power generation products manufactured by Caterpillar subsidiaries (for example, Perkins and MaK). Finning currently has the distribution rights for these products in several of its existing territories, and was awarded the Perkins distribution rights in the United Kingdom (effective December 1, 2004) and in Argentina (effective January 1, 2005). Finning's goal is to expand its distribution rights for Caterpillar subsidiary products as they become available within its existing territories, and potentially new strategic markets as well.

In March 2005, the Company sold its 36% interest in Maxim Power Corporation as part of a strategy to divest non-core assets resulting in a $1.8 million gain on the sale. In April 2005, the Company increased its interest in Energyst B.V. (Energyst) by purchasing 100,000 new shares. As a result of this transaction, the Company's equity interest in Energyst increased to 24.4% from 15.2%.

In the future, Finning will continue to review similar opportunities and may complete additional acquisitions that meet the Company's economic and strategic criteria.

4. DESCRIPTION OF FINNING'S BUSINESS

Finning's business consists of four principal activities: new equipment sales, used equipment sales, customer support services and equipment rental. Finning serves customers operating in a diverse range of end markets, including those involved in mining and quarrying, construction (including pipeline and oil field development), forestry, power generation, agriculture, materials handling and plant hire. Customers include private enterprise and government.

Finning focuses on diversifying its business by product and service type, by geography and by end customer, with the goal of providing more stable and predictable earnings and cash flow. Finning operates through five principal business units as described below.

- *Canada*: The Canadian operating segment primarily reflects the results of Finning (Canada). Finning (Canada) an operating division of the Company which sells and rents Caterpillar and complementary equipment and provides customer support services throughout British Columbia, Alberta, the Yukon Territory, the Northwest Territories and a portion of Nunavut. The Canadian segment also includes the Company's interest in OEM Remanufacturing Company Inc. (OEM), which became fully operational late in the second quarter of 2005. Revenue from the Canadian segment was $2,049.7 million in 2005 compared with $1,562.6 million in 2004. Finning (Canada) serves customers operating in a number of industries including mining, forestry, construction, pipeline/oil field development, government and agriculture.

- *South America*: Finning South America is comprised of subsidiaries of the Company operating in Argentina, Bolivia, Chile and Uruguay, sells and rents Caterpillar and complementary equipment and provides customer support services throughout these countries. Revenue from the South American operating segment was $1,007.3 million (US$832.3 million) compared with $869.9 million (US$671.1 million) in 2004. Finning South America serves customers operating in a number of industries including mining, energy, construction, agriculture and forestry.

- *UK:* The UK segment primarily reflects the results of Finning (UK) Ltd., which is the sole Caterpillar dealer for Great Britain. Finning (UK) sells and rents Caterpillar and complementary equipment and provides customer support services throughout England, Scotland, Wales, Falkland Islands and the Channel Islands. The UK operating segment also includes the results of Diperk UK. Revenue from the UK operating segment was $1,122.5 million (£509.3 million) compared with $1,043.5 million (£437.8 million) in 2004. Finning (UK) serves customers operating in a number of industries including mining and quarrying, construction, materials handling, plant hire and other specialist markets (demolition, waste management, landfill, industrial and paving equipment).

- *Hewden* is the largest equipment rental and associated services operations in the United Kingdom. Revenue contributed from the operations of Hewden for 2005 was $655.1 million (£297.1 million) compared with $685.9 million (£288.1 million) in 2004. Hewden serves customers operating in a number of industries including construction, petro-chemical, engineering, manufacturing, telecommunications and other industries.

- *Finning Power Systems:* In 2001, the Company formed Finning Power Systems (''Power Systems'') to maximize engine sales opportunities that exist throughout Finning's dealer territories in this fast-growing segment of Caterpillar's business. Power Systems sells, rents and services engines and power generation products manufactured by Caterpillar and its subsidiaries. Power Systems also provides value-added solutions in the energy, marine and industrial markets. Total business revenues contributed by Finning Power Systems are reported within the country operation in which the revenues are generated and are not disclosed separately in the consolidated financial statements.

In 2005, Finning generated approximately 42% (2004: 37%) of its revenue from operations in Canada; 21% (2004: 21%) from South America and 37% (2004: 42%) from the U.K. Revenue from operations outside of Canada contributed 58% of consolidated revenue, compared to 63% in 2004.

A summary of revenue by activity is contained in the following table:

REVENUE BY ACTIVITY

($ MILLIONS)

	2005		2004		CHANGE
New mobile equipment	$ 1,625.7	33.6%	$ 1,218.4	29.3%	$ 407.3
New power & energy systems	359.0	7.4%	273.5	6.6%	85.5
Used equipment	430.8	8.9%	391.2	9.4%	39.6
Equipment rental	1,001.1	20.7%	1,009.8	24.3%	(8.7)
Customer support services	1,409.9	29.2%	1,237.0	29.7%	172.9
Other	8.1	0.2%	32.0	0.7%	(23.9)
	$ 4,834.6		$ 4,161.9		$ 672.7

4.1 New Mobile Equipment and Power and Energy Systems

Finning distributes Caterpillar products, including tractors, loaders, log loaders, tree harvesters, skidders, off-highway trucks, backhoe loaders, excavators, articulated trucks, motor graders, paving products, compactors, wheel tractor-scrapers and pipe-layers. Through its Power System division, Finning also distributes engines and engine packages for use in oil and gas, electric power, marine, trucks and industrial applications. In addition, Finning distributes other Caterpillar brands, including engines branded as MaK and Perkins and paving machines branded as Bitelli. Finning South America distributes Caterpillar generators branded as FG Wilson within areas of their territory. In its materials handling division, Finning (UK) distributes Caterpillar branded equipment manufactured by Mitsubishi Caterpillar Forklift Europe B.V. as well as Caterpillar branded warehouse equipment manufactured by Rocla of Finland. To complement its Caterpillar lines, Finning also distributes some non-Caterpillar brands. Examples include:

Finning (Canada): distributes Allied Wagner log stackers and chip dozers, Blount Timberking products, Agco Agriculture products, Claas-Lexion combines, Bourgault seeding and tillage equipment.

Finning South America: distributes Atlas Copco drills, Denharco forestry equipment, and Genie platforms.

Finning (UK): distributes materials handling equipment manufactured by other companies.

Finning also modifies and adapts the products it sells as necessary to meet special application needs of its customers and to pursue new market opportunities.

4.2 Used Equipment

In addition to sales of new equipment, Finning buys and sells used equipment domestically and internationally. Machines are accepted in trade, received from the rental fleet, returned from lease and purchased from customers and others on the open market. Most of this equipment is reconditioned in Finning's service shops and resold under a short-term warranty program. Finning also purchases and sells entire fleets of used equipment and sells used equipment on consignment. The used equipment business is generally focused on the product lines and types of equipment for which Finning is a dealer. Finning has developed expertise in the used equipment market and has been successful in determining appropriate residual values. This expertise has helped Finning earn a reputation as one of the world's largest used equipment dealers. It also enables the company to earn an attractive margin on the dispositions from its rental fleet.

4.3 Equipment Rental

Finning owns fleets of equipment for short-term and long-term rental to customers. Rental agreements range from short-term arrangements which provide customers with the flexibility to utilize reliable equipment on a "needs-only" basis, to longer term arrangements which provide customers with the ability to effectively outsource their need to have reliable equipment available at all times.

The equipment rental business offers Finning enhanced stability and predictability in revenues and cash flow. During peak periods, the rental fleet can be used to satisfy heavy customer demand, particularly during periods of longer lead times for product supply. During weaker commodity markets, customers may use the rental fleets to defer capital expenditures on equipment fleets. Hewden and Cat Rental Stores focus on the smaller end of the product range. Revenues in these rental businesses are driven more by general economic conditions than by the cyclicality of the commodity markets.

Finning (Canada): maintains a rental fleet consisting of Caterpillar dedicated forestry equipment and earthmoving equipment for the mining, construction and forestry industries. Also included in the fleet are power systems for electrical generation. Finning (Canada) also provides a full line of products from hand tools to smaller Caterpillar products (generally less than 120hp) through its Cat Rental Store locations which have expanded to become a network of 27 stores at the end of 2005.

Finning South America: maintains fleets of rental equipment consisting of large mining vehicles, motor graders, compactors, excavators, backhoe loaders, tractors, compressors, power generators, lift and light towers. The rental business mainly serves customers in the construction and mining industries. Tractors rented by construction companies involved in highway construction and pre-mining activities dominate the fleet. In addition, in order to offer the full range of Caterpillar product, the South American operations have nine Cat Rental Stores: three in Argentina, four in Chile, one in Uruguay and one in Bolivia and continue to grow this area of its business.

Finning (UK): maintains fleets of rental equipment mainly consisting of diesel, gas or electric lift trucks, backhoe loaders, hydraulic excavators, articulated and rigid dump trucks, telescopic handlers, and rollers. Customers served include the construction, plant hire, mining and agricultural industries; food and beverage processing plants; distribution centres; and utility companies.

Hewden: operates the largest equipment rental businesses in the United Kingdom, providing a comprehensive product portfolio including general plant, passenger and goods hoists, materials handling, compaction, compressed air, power, surfacing, modular accommodation, earthmoving, powered access, mobile cranes and tools.

4.4 Customer Support Services

Finning provides replacement parts and repair services for the products it sells. Finning believes that a high level of customer service is essential to its success. A continuing emphasis on customer support promotes customized solutions to customers' needs. These solutions are often provided under long-term contracts entered into at the time the equipment is sold and, as such, increase the stability and predictability of Finning's future revenues and cash flow. In addition, the implementation of market opportunity performance tools enhances Finning's ability to identify and grow customer support service market share.

Finning maintains parts stocks at over 100 locations, in Western Canada, South America and the U.K. to provide customers with convenient access to parts supplies. All major Finning dealership centres within each geographic area are connected through computer systems, which provide immediate information regarding both Finning and Caterpillar parts inventories. Parts distribution routes are varied:

Finning (Canada): during 2005 the primary parts distribution centre in Edmonton was outsourced to Tracker Logistics in Nisku, Alberta. Under an arrangement with an independent contractor, a fleet of dedicated trucks and trailers makes daily deliveries of new and remanufactured parts, components, attachments and small equipment to Finning (Canada)'s major locations. The routes run from the Tracker Logistics warehouse in Nisku, Alberta; from Caterpillar's parts warehouses in Denver, Colorado and Spokane, Washington; and from various branch locations to other branches throughout the territory.

Finning South America: parts are primarily sourced from the Caterpillar parts distribution centres in Miami, Florida and Piracicaba, Brazil. Parts order shipments from Caterpillar are ocean and air shipped to Finning parts distribution centres in Antofagasta, Chile and Buenos Aires, Argentina and warehouses in Santa Cruz and LaPaz, Bolivia and Montevideo, Uruguay. Through independent sub-contractors, a dedicated fleet of trucks makes daily deliveries of new parts and re-manufactured components to all branches in Chile and to major operations in Argentina.

Finning (UK): sources parts from the Caterpillar parts distribution centre in Grimbergen, Belgium. These parts are then redistributed to Finning (UK) branches either directly by trucks enroute from Grimbergen, or by the Finning (UK) interbranch transport network and an independent contractor.

With the exception of the Hewden rental operations, approximately 60% of Finning's employees and facilities are devoted to parts warehousing, equipment repair and overhaul services. To provide customer support services, Finning employs approximately 1,900 qualified mechanics, welders, technicians, parts persons and other specialized tradespersons in Canada; approximately 1,200 in the U.K.; and approximately 2,200 in South America.

In addition to the in-shop capability, Finning provides service at customer locations with specialized personnel and equipment. Finning offers its customers maintenance and repair contracts for preventive maintenance, planned component replacement and guaranteed cost per hour/cost per ton contracts. This aspect of Finning's business has grown over the last several years and the Company believes it will continue to grow in the future.

To meet the continuing demand for component replacement arising from the modular design of Caterpillar's products, Finning extensively uses remanufactured components sourced from Caterpillar. In addition, Finning has invested in centralized component rebuild centres in Edmonton, Alberta; in Leeds, England; in Antofagasta, Chile; and in Buenos Aires, Argentina. Trained technicians dismantle, test, repair and replace worn components. This centralization, through specialization and volume, creates economies of scale, resulting in lower prices for customers. The remanufactured components are used in repairs and in an exchange program whereby the customer replaces a worn component with a repaired or rebuilt component at specified intervals before failure, thus maximizing machine availability.

4.5 Other

Other revenues include revenues generated from providing financing and operating leases to customers. In previous years, Finning (Canada), in conjunction with Caterpillar Financial Services Ltd. ("CFSL"), extended financing to its customers through leases and select conditional sales contracts. In

2004, the Company sold a major portion of its finance portfolio to CFSL in order to increase its focus on core business activities. This resulted in minimal lease revenues in 2005 of $2.5 million, compared with $25.2 million in 2004 and $65.9 million in 2003. Despite the smaller finance portfolio, the Company continues to maintain a high level of service to its customers for their loan financing needs.

Customer financing of equipment from Finning (UK) is provided by Caterpillar Financial Services (UK) Limited and other external finance companies. In South America, the majority of the equipment financing is provided by Caterpillar Leasing Company. External finance companies, mainly local banks, also provide financing to customers.

In Canada, the Company operates a licensed insurance agency, with licensed brokers located in Surrey, Kamloops, Williams Lake and Edmonton to provide physical damage insurance for all makes of heavy equipment and liability insurance to its customers in connection with equipment purchases.

4.6 Organization of Business

Finning's dealerships operate through an extensive network of: (a) branches, which have sales, parts and repair services; (b) depots, which have repair facilities and limited, fast-moving parts stocks; and (c) residences, where one or more field service representatives provide customer support services in communities not otherwise serviced by branches or depots. The Finning dealership operations own approximately 25% of their locations. This network operated by each principal business unit can be summarized as follows:

Finning (Canada): represented by 48 branch locations and depots, 16 Shell locations and 29 resident locations.

Finning South America: represented by 12 branches and 12 mine site locations in Chile; 10 branches and 2 mine site locations in Argentina; 2 branches in Bolivia; and, a single branch in Uruguay.

Finning (UK): represented by 20 branches and 7 depots.

Hewden operates through an extensive network of 353 services delivery points at 304 locations throughout the U.K. Each depot varies in size and product offering with some large multi-discipline depots offering a broad range of equipment for hire, from mobile cranes to small tools. Hewden owns approximately 54% of its properties.

4.7 Markets

Finning has established industry and product specialists for the major markets in the geographic regions in which they operate:

CANADA

Finning's Canadian operations are based in British Columbia, the Yukon territory, Alberta, the Northwest Territories and a portion of Nunavut. In these regions Finning (Canada) serves diverse markets, including mining, forestry, construction, pipeline/oil field construction, agriculture, government sector, marine transportation, fisheries, and commercial transport the most significant of which are:

Mining Industry: provides products and services for use in the mining of coal, copper, molybdenum, gold, diamonds, silver, lead, zinc and other metals and minerals as well as the development of the Alberta oil sands. Most of the mining is done by the open pit method that lends itself to the application of large off-highway trucks, shovels, tractors, loaders and graders. Operations in remote areas also require electric power generation sets. High hour usage of equipment creates substantial demand for parts and repair services from this market sector.

Forestry Industry: provides products and services for use in road building, harvesting and processing trees, silviculture, log transport to mills, and the handling of logs, lumber and finished products in mill yards.

Construction Industry: provides products and services for use in the building and maintenance of highways, railway extensions, site development, residential and commercial construction, installation of utility services, and similar projects.

Pipeline/Oil Field Development Industry: provides product and services including mobile earthmoving equipment for use in exploration and drill site preparation; excavators and pipe-layers for use in gathering and delivery systems; diesel and natural gas engines in the operation of drill rigs, pumps and compressors; and electric sets for camp power generation.

SOUTH AMERICA

Finning's South American operations serve diverse markets in Chile, Argentina, Uruguay and Bolivia including mining, construction, forestry, oil and gas, marine and agriculture, the most significant of which are:

Mining: provides products and services to large open pit copper and gold mines. These mine sites require fleets of off-highway trucks, loaders, tractors and other support equipment and often include long-term agreements for maintenance of the equipment.

Construction: provides products and services to the construction industry involving road construction and maintenance projects, and other infrastructure projects.

Forestry: provides products and services along the southern coast of Chile and in Uruguay required for road building, logging, log transportation, and the handling of logs, lumber and finished products in yards and mills and at port facilities.

UNITED KINGDOM

Finning (UK):

Finning (UK) operations also serve diverse markets, with the principal contributors to revenue being the mining and quarrying, construction, and plant hire industries.

Mining and Quarrying Industry: provides products and services for use in open pit mining and reclamation of open pit mine sites, quarrying of limestone, granite and clay, and extraction of sand and gravel.

Construction Industry: provides products and services for use in highway construction and maintenance, residential and industrial development, and the installation of sewer, water and other utility services. Backhoe loaders, hydraulic excavators and articulated dump trucks are the most popular types of Caterpillar machines for these applications.

Plant Hire: provides equipment to the plant hire industry which involves customers who buy equipment and then rent that equipment to others, with or without operating personnel. The equipment is used for mining and quarrying, construction, agriculture and other types of work.

In addition, the materials handling division of Finning (UK) sells and rents equipment throughout England, Scotland and Wales to customers in manufacturing, distribution, printing industries, food and beverage processing, stevedoring and building materials industries. Most of the lift truck rental business is under long-term fully maintained contracts.

Hewden:

Hewden rents equipment to customers in various industries in the U.K. including construction, petro-chemical, engineering, telecommunications, utilities, manufacturing and event management.

POWER SYSTEMS

Finning Power Systems delivers power solutions providing products manufactured by Caterpillar and its subsidiaries, including Perkins, MaK and F.G. Wilson to customers in the energy, marine, petroleum and industrial sectors.

Canada: The largest potential for growth comes from the oil and gas industry in Alberta, northeast British Columbia and the Northwest Territories due to the need for engines to provide power generation in remote locations. In addition, Finning participates in the development of independent power producing projects in Western Canada. Parts and service sales to the on-highway truck industry are significant in Western Canada. Finally, equipment management contracts also represent a significant growth opportunity for Power Systems. Finning has a strong focus on parts and service support to end-users, gas compression manufacturers and On Highway Truck Dealers.

South America: Power Systems provides primary, stand by or customized turnkey power solutions to customers engaged in various markets from mining to general construction. In addition, it provides marine propulsion to the fishing industry and the Chilean Navy. The Company also operates in Chile and Argentina, through its subsidiary Diperk, which distributes Perkins engines and FG Wilson generator sets to a wide variety of industrial and marine customers.

United Kingdom: Power Systems has enjoyed strong opportunities from the landfill gas industry for power generation. Additional opportunities exist in the oil and gas sector, the pleasure craft industry (which purchases engines for vessels that are sold around the world) and the military and commercial ferry industries, which require large power generation equipment. Through it's subsidiary, Diperk (UK) Ltd., Finning distributes Perkins engines to a number of dealers throughout the U.K. In April 2005, the Company increased its equity interest in Energyst B.V. (Energyst) to 24.4% from 15.2%, furthering the Company's participation in pan-European markets. Energyst was formed in Europe in 2003 by Caterpillar, Finning and nine European Caterpillar dealers, in order to provide the rental of Caterpillar power products and packages throughout Europe. As part of the original transaction, Finning (UK) sold its power rental business to Energyst. Through this investment, the Company's power rental business scope has expanded from the U.K. to continental Europe.

4.8 Competition

Finning primarily competes with a large number of worldwide equipment vendors who sell equipment manufactured by companies other than Caterpillar. The competitive environment for Caterpillar's machinery and engine business consists of global, regional and specialized local competition. Historically, product quality, wide scale servicing, component rebuild, customization, distribution capabilities, the number of locations, proximity of locations to customers, financial services and the wide product range offered by Caterpillar have enhanced Finning's ability to compete throughout its market areas.

Caterpillar manufactures a broad range of products. In addition, Caterpillar has expanded its line of products through distribution of products manufactured by other firms and distributed under the Caterpillar brand name. Caterpillar's competitors provide a more limited range of products, in many cases specific to particular industries and to applications within particular industries. Most of Finning's competitors, worldwide, also specialize in more limited and specific lines of equipment and services. Consequently, Finning's share of industry-wide sales varies significantly across product lines and industries.

The rental market in the United Kingdom is quite fragmented. As a result, Hewden has a wide variety of competitors throughout its territory but most of these competitors are significantly smaller, both in terms of geographic coverage and product offering.

4.9 Dealership and Distributor Agreements

Finning has dealership and distributor agreements with several equipment manufacturers and distributors, the most significant being Caterpillar. Under the terms of these agreements, Finning is responsible for marketing and servicing the manufacturer's products in its areas of primary responsibility.

Finning has several dealership agreements with Caterpillar. The principal agreements can be terminated on 90 days notice in Canada and South American and six months notice in the U.K. Other agreements can be terminated on three to six months notice. In the event of termination of an agreement by Caterpillar, Caterpillar will purchase substantially all related inventories of new equipment and new parts stock from Finning at cost. Finning started as a Caterpillar dealer in 1933 and has developed a strong relationship with Caterpillar. Finning's management is not aware of any matter that could result in termination of any of the dealership agreements with Caterpillar.

Approximately 80% of Finning's dealership business involves Caterpillar products. As such, Finning's business is dependent on the market acceptance of Caterpillar products. From time to time, during periods of intense demand, Caterpillar finds it necessary to allocate its supply of particular products among its dealers. Such allocations of supply have not in the past proven to be a significant impediment to Finning in conducting its business.

In 1993, Caterpillar sold the majority of the lift truck manufacturing and marketing segment of its business to Mitsubishi. Mitsubishi ("MCF") then formed the companies Mitsubishi Caterpillar Forklift Americas Inc. and Mitsubishi Caterpillar Forklift Europe B.V. in which Caterpillar Inc. holds a 20% minority interest. MCF manufactures lift trucks under two brands "Caterpillar" and the "Mitsubishi"and distributes both brands in the markets in which it operates. In the U.K. and South America, Finning is only the dealer for the Caterpillar brand name materials handling product only.

Finning (Canada) has developed dealer relationships for other product lines in order to create new marketing opportunities and to expand its customer support services. Included are relationships with Waratah, Risley, and Allied Systems in Forestry, Claas, and Agco in Agriculture, and others such as, Perkins Western Canada, MaK, and Kress. In South America, dealer relationships exist with Ingersoll Rand, Genie Industries, Perkins, MaK, FG Wilson, IMT, Link Belt and Agco Challenger. In the U.K., dealer relationships exist with Eagle Picher, Sabre Perkins, MaK, FG Wilson, and Bitelli.

4.10 Human Resources

Finning had approximately 12,800 employees at the end of 2005: 3,300 in Canada; 2,500 in Finning (UK); 3,400 in South America; 3,600 in Hewden. Approximately 45% of Finning's total employees are skilled mechanics, technicians, parts persons and apprentices.

At Finning (Canada), the International Association of Machinists and Aerospace Workers ("IAM") represents hourly-paid parts and service employees in British Columbia, the Yukon Territory, Alberta and the Northwest Territories. This union was certified in 1951 in British Columbia and, in its history, Finning (Canada) has never experienced a work stoppage in British Columbia or the Yukon Territory. In 2003, a three-year collective agreement was negotiated with the BC/Yukon local, which will expire on April 14, 2006, negotiations are currently underway. A separate local of the IAM represents hourly-paid parts and service employees in Alberta and the Northwest Territories. Finning (Canada's) collective bargaining agreement with the IAM expired on April 30, 2005. After a six-week labour strike which commenced in October 2005, an agreement was reached in December 2005 on a three-year collective agreement which will expire on April 30, 2008.

A number of proceedings that were before the Alberta Labour Relations Board and Court relating to the outsourcing of service activities to OEM, a joint venture company, and Tracker Logistics, an unrelated company, were resolved in December 2005 in Finning's favour, although an appeal of these decisions, from the union is possible. OEM employees are represented by the Transport Warehousemen and Allied Trades (CLAC Local 56), which is affiliated with the Christian Labour Association of Canada. The current collective agreement for OEM employees will expire on October 31, 2006.

There are three unions (sindicatos) that represent the Finning South America employees in Chile. Historically, the relationship between Finning Chile and the unions has been positive. A new four-year collective agreement was signed February 2005 with the unions at Finning Chile. A new union was recently formed covering the employees in the Cat Rental Store. Negotiations were amicably concluded in 2005 resulting in a three year contract for the Cat Rental Stores and a four year contract for Chile. A union at the national level covers mechanics in Argentina by law. This national agreement was signed in 1975 with no end date. A good working relationship with this union is maintained with both Finning Argentina S.A. and Finning Soluciones Mineras S.A. Bolivia also has a good working relationship with its one union covering 38 employees whose contract has been signed since 1999, with no requirements for a new agreement until both parties deem this necessary. There are no union agreements covering employees in Uruguay.

In the U.K., the majority of the Hewden employees are not covered by union agreements and in Finning (UK) there have been no serious labour disruptions since acquisition in 1983. The collective agreement covering Finning (UK)'s service employees with the Transport and General Workers Union and

Amicus was renegotiated in 2004 for a two-year term, expiring December 31, 2006. Negotiations with staff employees took place in January 2005 for the 2005 agreement and were successfully concluded.

Finning management believes that employee engagement forms an integral part of achieving the Company's strategic goals. Employee satisfaction surveys and an employee performance appraisal system are used to assess the level of employee engagement. Finning encourages training and career development for all of its employees. In Hewden, mechanics have attended additional training courses specifically focused on the maintenance of Caterpillar equipment due to the increase in the number of Caterpillar machines in the fleet. There are currently 84 apprentices employed by Hewden. In addition, Finning (Canada) and Finning South America, in partnership with Caterpillar, support Caterpillar's ThinkBIG equipment technician program at the Northern Alberta Institute of Technology (NAIT) in Western Canada, and Chile's college, INACAP. In this program, Finning and Caterpillar combine to provide tools, instructors and machinery, and provide job opportunities to graduates. Finning South America launched an innovative program called Finning University which defines career progression opportunities in service, sales, parts & logistics among others. Training is tied to performance appraisals and pay scales. About 90% of all positions are covered in these programs. There is also a specific training program for managers which is developed and delivered by the business school of Pontificia Universidad Catolica de Chile, which is recognized as one of the top business schools in Latin America.

4.11 Environment

Finning has programs in place throughout its operations to monitor and satisfy environmental protection requirements. Through an environmental audit program, Finning identifies, assesses and reduces environmental risk. Key employees are educated on changes to relevant environmental laws and regulations. Regular environmental reports are made to the Environmental, Health and Safety Committee of the Board of Directors. Management of Finning is not aware of any environmental protection requirements that are likely to have a material adverse effect on its capital expenditures, earnings or competitive position of the Company.

4.12 Health and Safety

Finning is committed to fostering the health and safety of all its employees in the workplace. Committees at each branch conduct regular site inspections. Compensation plans are in place to reward continued improvement in the reduction of lost time injuries, worldwide. In 2005, the total number of lost time injuries was 5% lower than what was experienced in the previous year, with significant improvements in Finning (UK).

Finning (Canada) participates in the Environmental Health & Safety committee of the Canadian Association of Equipment Distributors (CAED). This committee tracks injury statistics and identifies industry best practices for safety. Through collection of statistics by the CAED, it has been shown that Finning has one of the safest workplaces in Canada for its industry. In 2005, Finning (Canada) was named a "Work Safe Alberta 2004 Best Safety Performer" for exceptional performance in workplace health and safety. Of Alberta's 128,800 employers, only 350 received this award. To qualify, companies need to meet a number of criteria including posting lost time claim rate 40% better than their industry's lost time claim rate. In addition, Finning (Canada) employees celebrated a major safety achievement in 2004 and 2005 having worked two million hours without a lost time injury.

The health and safety programs cover the South American operations through special training and educational programs with follow-up mechanisms.

Divisional safety action teams ("DSAT") at Finning (UK) continue to emphasize employee involvement in health and safety. The DSAT meet quarterly to review site inspections and accident prevention initiatives and undertake quarterly audits at their various locations.

Hewden continues to focus strongly on safety. In 2002, an initiative was introduced to combine and multi-skill the Health and Safety and Property Auditors into one cohesive depot inspection team to increase efficiency and effectiveness. In 2003, an Environmental, Health & Safety Management System was introduced and divisional safety committees were also established. Despite our high standards and emphasis on safety, an employee fatality occurred in 2005 at one of the Hewden branches in the U.K. Workplace safety continues to be the first and foremost consideration of the Company everyday.

4.13 Business Processes & Systems

The Finning dealership operations (which exclude Hewden) are running computer systems supplied by Caterpillar. Caterpillar provides its dealers with software to manage parts, service and product support, finance, sales and merchandising, and marketing. This dealer based system (DBS) was further enhanced with a commercial software solution that provides a standardized, internet-enabled framework and supports common dealer business practices and processes. The revised system is referred to as "DBSi". DBSi was created to address several tactical areas in the enterprise supply chain and to provide quicker delivery, greater product customization, integrated financial software, and improved customer relationship management and service. DBS and DBSi are used by a large majority of Caterpillar's dealers throughout the world.

Finning's dealership operations in Canada, Chile, Uruguay and Bolivia continue to run the previous DBS version of Caterpillar software, while DBSi is being used in the dealership operations in the UK (since 2004) and Argentina (since 2003). Finning's DBSi computer systems are supported by the Caterpillar Solution Centre located in Peoria, Illinois.

In latter part of 2005, Caterpillar announced a change of direction with respect to their dealer applications software. Caterpillar intends to move towards a single software product offering for dealers and is targeting to make it available to dealers in 2008. As Caterpillar's intended dealer software and timeframes are finalized in 2006, the Company will be in a position to revisit its dealership software systems strategy and assess the impact on all of its dealership operations. Hewden has a project underway to replace their legacy software systems and information technology ("IT") processes. This new system is expected to provide improved quality of its customer information and also enable it to focus on reducing its transaction costs. This investment will support business changes focused on giving Hewden's customers the most convenient and cost effective one-stop shop for all their rental and related service requirements. Hewden is expected to realize cost savings from the integration of its back office activities, consolidated supply chain activities, more efficient business processes, improved management information and improved internal controls. The costs of these projects will be incurred primarily over 2006 and 2007.

Where appropriate and/or cost effective Finning, in all of its operations, has outsourced support for personal computers and printers, and its operations' wide area and local area networks.

4.14 Key Business Risks

Risk Management

Finning and its subsidiaries are exposed to market, financial and operating risks in the normal course of their business activities. The Company has adopted an Enterprise Risk Management ("ERM") approach in identifying and evaluating risks. This ERM framework provides an integrated approach to managing business activities and risks as well as assisting the Company in achieving its strategic objectives.

The Company is dedicated to a strong risk management culture to protect and enhance shareholder value. The processes within Finning's risk management function are designed to ensure that risks are properly identified, managed and reported. The Company discloses all of its key risks in its most recent Annual Information Form. On a quarterly basis, the Company assesses all of its key risks and any financial or new business risks are disclosed in the company's quarterly MD&A.

Controls and Procedures Certification

As a reporting issuer, the Company is required to comply with the requirements of Multilateral Instrument 52-109, "Certification of Disclosure in Issuers' Annual and Interim Filings" ("MI 52-109) issued by the Canadian Securities regulatory authorities (often referred to as Bill 198). Finning has a global project in place to evaluate the Company's disclosure and internal controls over financial reporting. Regular reporting on the status of the project is provided to senior management and the Company's Audit Committee on a quarterly basis. The Company believes it has adequate human and financial resources and project oversight in place in order to be able to meet all certification requirements required by the regulations.

In compliance with the requirements of MI 52-109, Finning's Chief Executive Officer (CEO) and Chief Financial Officer (CFO) certified as to the fair presentation of the Company's MD&A and financial statements on a quarterly basis throughout 2004 and 2005.

Beginning with the 2005 annual filings, the Company is also required to comply with securities reporting legislation and accounting standards that are intended to ensure the full, accurate and timely communication of financial and other material information to the public. The Company has a Disclosure Policy and Disclosure Committee in place to mitigate risks associated with the disclosure of inaccurate or incomplete information, or failure to disclose required information.

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

In compliance with MI 52-109, the Company's CEO and CFO, or the person performing those functions ("Certifying Officers") have reviewed and certified the consolidated financial statements for the year ended December 31, 2005, together with other financial information included in annual securities filings. Under the supervision and with the participation of Finning's management, the

Company conducted an evaluation of its disclosure controls and procedures. Based on this evaluation, the Company's Certifying Officers have also certified that disclosure controls and procedures have been put in place, and that these controls and procedures provide reasonable assurance that all information considered necessary for appropriate disclosure has been accumulated and communicated to management on a timely basis and disclosed in the annual filings.

Financial Derivatives

The Company uses various financial instruments such as interest rate swaps, forward foreign exchange contracts and options to manage its foreign exchange and interest rate exposures (see notes 3 and 4 of Notes to the Consolidated Financial Statements). The Company's derivative financial instruments are always associated with a related underlying risk position and are not used for trading or speculative purposes. The Company continually evaluates and manages risks associated with financial derivatives, including counterparty credit exposure.

Financial Risks and Uncertainties

INTEREST RATES

The Company's debt portfolio is comprised of both fixed and floating rate debt instruments, with terms to maturity ranging up to ten years. In relation to its debt financing, the Company is exposed to potential changes in interest rates, which may cause the Company's borrowing costs to fluctuate. Floating rate debt exposes the Company to fluctuations in short-term interest rates, while fixed rate debt exposes the Company to future interest rate movements upon refinancing the debt at maturity. Fluctuations in current or future interest rates could result in a material adverse impact on the Company's financial results, by causing related finance expense to rise. Further, the fair value of the Company's fixed rate debt obligations may be negatively affected by declines in interest rates, thereby exposing the Company to potential losses on early settlements or refinancing. The Company minimizes its interest rate risk by balancing its portfolio of fixed and floating rate debt, as well as managing the term to maturity of its debt portfolio. At certain times the Company utilizes derivative instruments such as interest rate swaps to adjust the balance of fixed and floating rate debt to appropriately determined levels.

CREDIT RISK

The Company has a large diversified customer base, and is not overly dependent on any single customer or group of customers. Although there is usually no significant concentration of credit risk related to the Company's position in trade accounts or notes receivable, the Company does have a certain degree of credit exposure arising from its foreign exchange and interest rate derivative contracts. There is a risk that counterparties to these derivative contracts may default on their obligations. However, the Company minimizes this risk by ensuring there is no excessive concentration of credit risk with any single counterparty, by active credit management and monitoring, and by dealing only with highly rated financial institutions.

FINANCING ARRANGEMENTS

The Company will require capital to finance its future growth and to refinance its outstanding debt obligations as they come due for repayment. If the cash generated from the Company's business, together with the credit available under existing bank facilities, is not sufficient to fund future capital requirements, the Company will require additional debt or equity financing in the capital markets. The Company's ability to access capital markets on terms that are acceptable will be dependent upon prevailing market conditions, as well as the Company's future financial condition. Further, the Company's ability to increase its debt financing may be limited by its financial covenants or its credit rating objectives. Although the Company does not anticipate any difficulties in raising funds in the future, there can be no assurance that capital will be available on suitable terms and conditions, or that borrowing costs and credit ratings won't be adversely affected. In addition, the Company's current financing arrangements contain certain restrictive covenants that may impact the Company's future operating and financial flexibility.

COMMODITY PRICES

The Company's sales are affected by fluctuations in commodity prices. In Canada, commodity price movements in the forestry, metals, coal and petroleum sectors can have an impact on customers' demands for equipment and customer service. In Chile and Argentina, significant fluctuations in the price of copper and gold can have similar effects, and customers base their decisions on the long-term outlook for metals. In the U.K., lower prices for thermal coal may reduce equipment demand in that sector.

FOREIGN EXCHANGE EXPOSURE

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

Investment in Foreign Operations

All of the Company's foreign operations are considered self-sustaining. Accordingly, assets and liabilities are translated into Canadian dollars using the exchange rates in effect at the balance sheet dates. Any unrealized translation gains and losses are deferred and included in a separate component of shareholders' equity. These cumulative currency translation adjustments are recognized in income when there has been a reduction in the net investment in the foreign operations.

It is the Company's objective to minimize its net foreign investment exposure. The Company has hedged a significant portion of its foreign investments through foreign currency denominated loans and other derivative contracts (forward contracts and cross currency swaps). Any exchange gains or losses arising from the translation of the hedge instruments are deferred and accounted for in the cumulative currency translation adjustment account. A 5% hypothetical strengthening of the Canadian dollar relative to all other currencies from the December 2005 month end rates, assuming the same current level of hedging instruments, would result in a deferred unrealized loss of approximately $35.0 million.

Transaction Exposure

Many of the Company's operations purchase, sell, rent, and lease products throughout the world using different currencies. This potential mismatch of currencies creates transactional exposure at the operational level, which may affect the Company's profitability as exchange rates fluctuate. It may also impact the Company's competitive position as relative currency movements affect the business practices and/or pricing strategies of the Company's competitors.

It is the Company's objective to minimize the impact of exchange rate movements and volatility in results. Each operation manages the majority of its transactional exposure through effective sales pricing policies. The Company also enters into forward exchange and option contracts to manage residual mismatches in foreign currency cash flows. As a result, the foreign exchange impact on earnings with respect to transactional activity is minimal.

Translation Exposure

The most significant foreign exchange impact on the Company's net income is the translation of foreign currency based earnings into Canadian dollars each reporting period. All of the Company's foreign subsidiaries report their operating results in currencies other than the Canadian dollar. Therefore, exchange rate movements in the US dollar and U.K. pound sterling relative to the Canadian dollar will impact the consolidated results of the U.K. and South American operations in Canadian dollar terms. In addition, the Company's Canadian results are impacted by the translation of their US dollar based earnings. The Company hedges some of its earnings translation exposure through foreign currency denominated loans and derivative contracts associated with the net investment hedges.

Sensitivity to variances in foreign exchange rates

The sensitivity of the Company's annual net earnings to fluctuations in average annual foreign exchange rates is summarized in the table below. The table assumes that the Canadian dollar strengthens 5% against the currency noted, for a full year relative to the December 2005 month end rates, without any change in hedging activities and using forecasted volumes of 2006.

Currency	December 31, 2005 month end rates	Increase (decrease) in annual net income *(C$ millions)*
USD	1.1659	(13)
GBP	2.0036	(4)
EUR	1.3805	1
CHP	0.002267	1

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

Other Key Business Risks

CATERPILLAR DEALERSHIP AGREEMENTS

The Company has a long-standing relationship with Caterpillar that dates back to 1933, when it was awarded its first dealer territory in Canada. For the past 70 years, the Company has continued to develop its relationship with Caterpillar, expanding its dealer territories to the United Kingdom and South America. The Company enjoys an excellent relationship with Caterpillar, which management is confident will continue to be very strong in the future. However, as is customary in dealership arrangements of this type, the sales and service agreements with Caterpillar are terminable by either party upon 90 days notice in most regions, and upon 180 days notice in the United Kingdom. In the event Caterpillar terminates an agreement, it must repurchase substantially all inventories of new equipment and parts from the Company at cost. Any such termination could have a material adverse impact on the Company's business, results of operations, and future prospects.

RELIANCE ON KEY SUPPLIER

The majority of the Company's business involves the distribution and servicing of Caterpillar products. As such, the Company's business is highly dependent on the continued market acceptance of Caterpillar's products. The Company believes that Caterpillar has a solid reputation as a high quality manufacturer, with excellent brand recognition and customer support and high market shares in many of the markets it serves. However, there can be no assurance that Caterpillar will be able to maintain its reputation and market position in the future. If Caterpillar is unsuccessful in developing and enhancing its product lines to meet evolving and sophisticated customer needs, is unable to maintain the quality of its products, or if it is unable to provide its products at competitive prices, the market acceptance for Caterpillar products may deteriorate over time. Any resulting decrease in the demand for Caterpillar products could have a material adverse impact on the Company's business, results of operations and future prospects.

The Company is also dependent on Caterpillar for the timely supply of equipment and parts. From time to time, during periods of intense demand, Caterpillar finds it necessary to allocate its supply of particular products among its dealers. Such allocations of supply have not in the past proven to be a significant impediment to the Company in the conduct of its business. However, there can be no assurance that Caterpillar will continue to supply its products in the quantities and timeframes required by the Company's customers. Due to high demand, Caterpillar has been facing material supply chain constraints for large mining products, in particular a continued tire shortage, thereby increasing the delivery times for these products. Caterpillar is focusing on its production processes to improve order fulfilment and supply chain efficiencies. The Company works closely with Caterpillar and its customers to ensure it can meet demand for new products and future deliveries included in its order backlog. When supply constraints have occurred in the past, the Company has been successful in utilizing its rental assets and used equipment to meet demand. Finally, the Company's product supply could also be disrupted by potential labour disputes or strike action at Caterpillar. Any prolonged delays in product supply may adversely affect the Company's business, results of operations and financial condition.

COMPETITION

The Company competes with a large number of equipment vendors worldwide that sell equipment manufactured by companies other than Caterpillar. In addition, the Company operates in a very competitive market in the U.K. Although price competition between the Company and its competitors can be intense, there are a number of factors that have enhanced the Company's ability to compete throughout its market areas, including: the range and quality of Caterpillar products; the range and quality of the Company's services; the Company's ability to meet sophisticated customer requirements, the Company's extensive distribution capabilities; the number of sales and service locations; the Company's proximity to its customers; and the extent of financial services offered by the Company and its suppliers. The Company may encounter increased competition in the future, which may put pressure on sales prices. Further, foreign currency movements could provide relative pricing advantages to competitors who transact their business in different currencies than the Company. Increased competitive pressures or the inability of the Company to maintain the factors which have enhanced its competitive position could adversely affect the Company's business, results of operations, and financial condition.

GROWTH INITIATIVES / INTEGRATION OF ACQUISITIONS / PROJECT EXECUTION

As part of its long-term corporate strategy, the Company intends to grow its business through a combination of organic growth and strategic acquisitions. The Company's ability to successfully grow its business will be dependent on a number of factors including: identification of accretive new business or acquisition opportunities; negotiation of purchase agreements on satisfactory terms and prices; prior approval of acquisitions by Caterpillar or other parties, including regulatory authorities; securing attractive financing arrangements; and integration of newly acquired operations into the existing business. All of these activities may be more difficult to implement or may take longer to execute than management anticipates. Further, any significant expansion of the business may increase the operating complexity of the Company, and divert management attention away from regular business activities. Any failure of the Company to manage its acquisition strategy successfully could have a material adverse impact on the Company's business, results of operations, and financial condition.

The Company believes that a significant opportunity for growth exists in its Power Systems business. To be successful in this area requires strong project management and control procedures. The Company is developing processes to capitalize on this growth area.

To date, the Company has been successful in profitably managing its expansion particularly in South America. Although the Company makes every effort to integrate new operations, there can be no assurance that the Company will fully realize the anticipated revenues, synergies, or other intended benefits associated with potential acquisitions. In the U.K., efforts to combine two very different business models, Finning Materials Handling with Lex Harvey, has proven to be a challenging and costly process that to date has not been fully successful. Significant efforts are underway to improve the results of the Materials Handling division.

The Company currently has significant integration activities and strategic initiatives underway for its operations in the U.K. to achieve efficiencies and realize operational synergies within and between Hewden and Finning (UK) while still providing superior service to its customers. These activities include: the review of the rental business models to better compete in the rental market; process efficiency; system improvements in Finning (UK); analysis of Finning (UK)'s centralized service offering and moving closer to customers; implementation of a new information system at Hewden and analysis of a new information system for the UK materials handling business to improve customer relationships and better support customer requirements; and, identification of opportunities for synergies within and between the two operations. The Company has adopted and implemented a project management process and is expanding its capabilities in this area in order to manage risks associated with the complexity of the numerous cost initiatives and projects underway.

INFORMATION SYSTEMS AND TECHNOLOGY

Information systems are an integral part of the Company's business processes, including marketing of equipment and support services, inventory and logistics, and finance. Some of these systems are integrated with Caterpillar's core processes and systems. In addition, Caterpillar supplies the basic dealer business system ("DBS") used by the Company in most of its dealership operations, as well as the new dealer business system ("DBSi") used by Finning (UK) and Finning Argentina. The Company is dependent on Caterpillar for future support and development of these systems and for hosting its DBSi applications. Any disruptions to these systems or the failure of these systems to operate as expected could, depending on the magnitude of the problem, adversely affect the Company's operating results by limiting the ability to effectively monitor and control the Company's operations. The Company has selected a new information system for Hewden that is expected to significantly improve the quality of its customer information and services and reduce transaction costs. Hewden has implemented a project management process to manage the risks associated with implementing its new information system and related process changes. The Company is also reviewing other information systems and technologies for its U.K. materials handling business to improve customer relationships and support sophisticated customer requirements.

The Caterpillar DBSi system was intended to create a standard platform for existing dealerships and future dealership acquisitions. In 2005, Caterpillar announced plans to redesign its dealership systems strategy. The proposed changes are currently under development and implementation of any changes is expected to extend into 2008. The Company is reviewing and discussing future options for the rollout of updated systems for its dealership operations.

KEY PERSONNEL

The success of the Company is largely dependent on the abilities and experience of its senior management team and other key personnel. The Company's future performance will also depend on its ability to attract, develop, and retain highly qualified employees in all areas of its business. Competition for highly skilled management, sales, and technical personnel is intense, particularly in certain geographic areas where the Company operates. In order to address this risk, the Company has implemented a number of human resource initiatives, including: training and career development programs, succession plans, engagement surveys, performance appraisal systems, and recruiting strategies. Although the Company actively manages its human resource risks, there can be no assurance the Company will be successful in its efforts. The loss of certain key employees, or failure to attract and retain new talent as needed, may have an adverse impact on the Company's business, results of operations, and future prospects.

EMPLOYEE RELATIONS

Many of the Company's employees are represented by unions and are covered by collective bargaining agreements. The Company is party to a number of collective bargaining agreements worldwide, which are subject to expiration at various dates in the future. One of these agreements expired in 2005, and was renewed for an additional three year term, after a six week labour strike. Although most negotiations are successful, there can be no assurance regarding future labour negotiations. The renegotiation process could result in future work stoppages or higher wages and benefits paid to union members. The Company is committed to the collective bargaining process and to concluding a fair contract for its employees and for Finning. The failure to renew collective agreements upon satisfactory terms could have a material adverse impact on the Company's business, results of operations, or financial condition.

MAINTENANCE AND REPAIR CONTRACTS

The Company frequently enters into long-term maintenance and repair contracts with its customers, whereby the Company agrees to maintain certain fleets of equipment at various negotiated performance levels. The length of these contracts varies, often ranging up to five or more years. The contracts are generally fixed price, although many contracts have additional provisions for inflationary or currency adjustments. The Company has developed processes and has controls in place to ensure contracts are bid appropriately but due to the long-term nature of these contracts, there is a risk that significant cost overruns may be incurred. If the Company has miscalculated the extent of maintenance work required, or if actual parts and service costs increase beyond the agreed adjustments, contract profitability may be adversely affected. In order to mitigate this risk, the Company closely monitors the contracts for early warning signs of cost overruns. In addition, the manufacturer may, in certain circumstances, share in the cost overruns if profitability falls below a certain threshold. Any failure by the Company to effectively price and manage these contracts could have a material adverse impact on the Company's business, results of operations and financial condition.

ECONOMIC CONDITIONS / BUSINESS CYCLICALITY

Many of the Company's customers operate in industries that are cyclical in nature. As a result, customer demand for the Company's products and services may be affected by economic conditions on both a global or local level. Changes in interest rates, foreign exchange, commodity prices, and the level of government infrastructure spending may influence capital expenditure decisions, and ultimately the Company's sales. The Company has mitigated some of its exposure to variable business cycles by diversifying its business across a broad range of business activities, industry sectors, and geographic locations. Approximately 76% of the Company's gross margin was generated from parts, service, and rental activities in 2005, which are significantly less sensitive to swings in commodity prices than are equipment sales. Notwithstanding the Company's extensive diversification, an economic downturn may adversely impact the Company's operating results, particularly at a regional level.

INTERNATIONAL OPERATIONS

The Company has operations outside of Canada, including the United Kingdom, Chile, Argentina, Uruguay, and Bolivia. The Company's international subsidiaries are subject to risks normally associated with the conduct of any business in foreign jurisdictions, including: uncertain political and economic environments; war, insurrection, and other civil disturbances; changes in laws, regulations, and taxation; foreign currency exchange controls; and limitations on the repatriation of earnings. These risks may limit or disrupt operations, increase costs, restrict the movement of funds, or result in the loss of property. Although the Company closely monitors its foreign investment risks, there can be no assurance that the Company will not be adversely affected by political and other events beyond its control.

GOVERNMENT REGULATION

The Company's business is subject to evolving laws and government regulations, particularly in the areas of environment, health, and safety. Changes to such laws and regulations may impose additional costs on the Company and may affect its business in other ways, including requiring compliance by the Company with various operating procedures and guidelines that could adversely affect the Company's operations. The Company has in place, in each of its business units, programs of monitoring and compliance to ensure that it meets or exceeds applicable laws and regulatory requirements. In addition, the Board of Directors of the Company has established and maintains an Environmental, Health and Safety Committee. The mandate of the Committee is to encourage, assist and counsel management of the Company in its drive towards attaining and maintaining the highest level of performance in areas relating to the environment, health, and safety.

FUTURE WARRANTY CLAIMS

The Company provides warranties for most of the equipment it sells. In many cases, the warranty claim risk is shared jointly with the equipment manufacturer. Accordingly, the Company's liability is generally limited to the service component of the warranty claim, while the manufacturer is responsible for providing the required parts. There is a risk that a possible product quality erosion or a lack of a skilled workforce could increase warranty claims in the future, or may be greater than management anticipates. If the Company's liability in respect of such claims is greater than anticipated, it may have a material adverse impact on the Company's business, results of operations, and financial condition.

DEFINED BENEFIT PENSION PLANS

In addition to having defined contribution plans, the Company has a number of defined benefit plans covering certain employee groups in the United Kingdom and Canada. The Company is responsible for funding its defined benefit plans to ensure accrued benefit obligations will continue to be met by plan assets in the future. The Company's funding requirements are dependent upon many factors, including the rate of return earned on plan assets, the discount rate used to calculate accrued benefit obligations, and several other actuarial assumptions and experiences. Changes in any of these factors may cause the Company's pension contributions and related pension expense to fluctuate. As investment markets can be variable, there is a risk that asset returns and discount rates may fall below management's current estimates. If these unfavourable events transpire, the Company may experience an increase in its future pension contributions and related pension expense, which could have a material adverse impact on the Company's cash flow, results of operations, and financial condition.

Management has recently taken steps to mitigate some of the risk associated with its defined benefit plans, including: offering existing members the opportunity to convert to defined contribution plans; closing defined benefit plans to new members; amending plan benefit formulas; and modifying investment and funding strategies to achieve better asset/liability matching. Management anticipates that these changes will help reduce overall pension costs and will decrease future volatility.

INSURANCE

The Company maintains a program of insurance coverage that is ordinarily maintained by similar businesses, including property insurance and general liability insurance. Although the limits and deductibles of such insurance have been established through risk analysis and the recommendation of professional advisors, there can be no assurance that such insurance will remain available to the Company at commercially reasonable rates or that the amount of such coverage will be adequate to cover all liability incurred by the Company. If the Company is held liable for amounts exceeding the limits of its insurance coverage or for claims outside the scope of that coverage, its business, results of operations and financial condition could be adversely affected.

GUARANTEES

In certain circumstances, the Company enters into rights of return for the repurchase of equipment sold to customers, whereby the Company offers to repurchase equipment at a guaranteed price at the end of a specified term. The guaranteed repurchase price is set at an amount estimated to be the future value of the equipment at the exercise date. The right of return is dependent upon a number of factors, including the condition of the equipment. Historically, the fair market value of the equipment at the exercise date has usually been greater than the guaranteed repurchase price. Although the Company believes it has been very successful in estimating equipment values to date, there can be no assurance that the Company will not incur a loss on such arrangements in the future.

5. SUMMARY OF FINANCIAL INFORMATION

5.1 Five Year Summary

Years Ended December 31

($ thousands except per share amounts)

	2005	2004	2003	2002	2001
Revenue from external sources					
Canada	2,049,675	1,562,584	1,456,357	1,269,275	1,398,623
South America (2)	1,007,341	869,893	561,964	444,644	448,005
U.K. (2)	1,122,471	1,043,485	934,193	828,246	804,084
Hewden	655,091	685,930	640,757	665,266	587,482
Other (1)	-	15	24	55	8,849
Total	4,834,578	4,161,907	3,593,295	3,207,486	3,247,043
Earnings before interest and tax					
Canada	150,161	131,651	120,477	112,936	131,861
South America (2)	95,546	83,033	59,887	44,843	38,678
U.K. (2)	17,663	34,174	47,616	49,312	32,088
Hewden	55,230	58,482	52,062	79,541	73,921
Other (1)	(33,315)	(41,599)	(24,874)	(8,849)	(34,947)
Total	285,285	265,741	255,168	277,783	241,601
Net income	164,030	114,946	131,951	132,253	103,917
Earnings per common share					
Basic	1.85	1.45	1.71	1.72	1.37
Diluted	1.83	1.43	1.68	1.68	1.34
Dividends paid **Per common share**	0.44	0.40	0.36	0.30	0.20
Long-term debt (3) (5) (includes current portion)	924,932	896,083	983,424	556,375	673,742
Non-controlling interests (4)	-	-	425,000	425,000	425,000
Total assets	3,736,388	3,804,011	3,440,578	3,162,547	3,038,781

1. The Company's *Other Segment* refers mainly to corporate head office costs and are essentially non-revenue generating. In 2001, the *Other Segment* also included Universal Machinery Services ("UMS"), which primarily sold used Caterpillar equipment and used parts worldwide. The Company's other expense and income items that are not considered reflective of the underlying financial performance of the Company from ongoing operations are also included within *Other Segment* and are not allocated to the operational segment where the expense or income item originated.

2. During 2003, the Company acquired the Caterpillar dealerships in Argentina, Uruguay and Bolivia and the materials handling business of Lex Harvey in the U.K.

3. For further details regarding the Company's long-term debt, see Note #3 to the Consolidated Financial Statements in the Company's *2005 Annual Report*, incorporated by reference.

4. In the first quarter of 2001, Finning formed a partnership for the purpose of raising equity capital to fund the acquisition of Hewden. Private investors invested $425.0 million of capital into the partnership in return for non-controlling partnership interests. The Company redeemed the non-controlling partnership

interests held by the private investors in November 2004, through a common equity offering which raised proceeds, net of underwriting fees of $292.8 million and through short-term bank borrowings.

5. On May 30, 2003 the Company issued a 10-year unsecured £200.0 million Eurobond, bearing coupon interest at 5.625% per annum, payable annually on May 30th of each year. The Eurobond was priced at 99.043% of its principal amount to yield 5.753% per annum. Proceeds of $449.5 million from the Eurobond at the date of issuance were used to finance the acquisition of Lex Harvey and also to repay existing bank indebtedness. The Eurobond is subject to early redemption, in whole, at the option of the company as described and outlined in the Eurobond prospectus. Unless redeemed early, the Eurobond will mature on May 30, 2013.

   During 2004, the Company repaid its $75.0 million 8.35% debentures and its $150.0 million 7.75% medium term note (MTN), both of which matured, with short-term borrowings on its bank credit facilities.

   In December 2004, the Company issued a 7-year $150.0 million unsecured MTN. The MTN has a coupon interest rate of 4.64% per annum, payable semi-annually commencing June 14, 2005. The MTN was priced at 99.97% of its principal amount to yield 4.645% per annum. Proceeds from the issuance were used to repay existing bank indebtedness. The MTN will mature on December 14, 2011.

   In December 2005, the Company entered into an $800 million unsecured syndicated revolving credit facility, which replaced all of its Canadian bilateral bank lines. The facility has a five-year committed term with one year extension option. The facility is available in multiple borrowing jurisdictions, and may be drawn by a number of the Company's principal operating subsidiaries. Borrowings under this facility are available in multiple currencies and at various floating rates of interest.

5.2 Three Year Summary By Quarter

(Unaudited)

Fiscal Period	Qtr.	Revenue	Net Income	Earnings Per Common Share Basic	Diluted	Basic Normalized
		($000's)	($000's)	$	$	$
2005	**1**	1,153,386	37,360	0.42	0.42	0.42
	2	1,271,533	45,645	0.52	0.51	0.50
	3	1,225,670	44,841	0.50	0.50	0.53
	4	1,183,989	36,184	0.41	0.40	0.41
	Total	4,834,578	164,030	1.85	1.83	1.86
2004	**1**	968,175	23,869	0.31	0.30	0.37
	2	1,032,667	27,781	0.35	0.35	0.40
	3	1,085,865	43,115	0.56	0.55	0.56
	4	1,075,200	20,181	0.23	0.23	0.42
	Total	4,161,907	114,946	1.45	1.43	1.75
2003	**1**	874,229	35,114	0.45	0.44	0.36
	2	861,128	32,184	0.42	0.41	0.46
	3	924,985	36,574	0.48	0.47	0.51
	4	932,953	28,079	0.36	0.36	0.42
	Total	3,593,295	131,951	1.71	1.68	1.75

Notes:

Basic Earnings Per Share is calculated by dividing net income available to common shareholders by the weighted average number of common shares outstanding during the period. Diluted Earnings Per Share is calculated to reflect the dilutive effect of outstanding stock options by applying the treasury stock method.

To supplement Finning's consolidated financial statements, the Company has used certain measures that do not have standardized meanings under generally accepted accounting principles in Canada ("GAAP") and are therefore unlikely to be comparable to similar measures used by other companies. These non-GAAP measures are Normalized Net Income, Normalized Basic Earnings Per Share and Normalized Earnings Before Interest and Taxes. Finning's management has provided these financial measures to investors because they contain the same meaningful information that is used by Finning management to assess the financial performance of the Company and its operating segments. To allow the reader to view financial results in this way, occasional or other significant items that do not reflect the underlying financial performance of the Company's ongoing operations have been removed from reported results prepared in accordance with GAAP.

Basic Normalized Earnings Per Share is calculated by dividing Normalized Net Income by the weighted average number of common shares outstanding during the period. (For further information, refer to the Company's *2005 Annual Report, Management's Discussion and Analysis*, Schedule 1, page 56, for a description of non-GAAP measures.)

6. MANAGEMENT'S DISCUSSION AND ANALYSIS

Management's Discussion and Analysis, relating to the Company's audited comparative consolidated financial statements for the fiscal years ended December 31, 2005 and December 31, 2004 and the report of the auditors thereon, is contained in Finning International Inc.'s *2005 Annual Report* and is incorporated by reference in this Annual Information Form.

7. DIVIDENDS

The Board of Directors, in determining whether to declare and pay dividends on the Company's common shares, considers the Company's recent and projected earnings, its capital investment requirements and its total return to shareholders. Dividends on common shares were $39.1 million or $0.44 per share in 2005, compared with $31.2 million ($0.40 per share) in 2004 and $27.8 million ($0.36 per share) in 2003. On February 15, 2006 the Company announced that its regular quarterly dividend would increase to 13 cents per share, payable March 15, 2006 to shareholders of record on March 1, 2006.

The Company has declared and paid the following dividends, on the dates and at the rates shown, since January 29, 2003. Except as prescribed by law, Finning is not subject to any restrictions with respect to its ability to declare or pay dividends.

Declaration Date	Date Paid	Rate Per Share
January 29, 2003	February 26, 2003	$0.09
April 24, 2003	May 22, 2003	$0.09
July 22, 2003	August 19, 2003	$0.09
October 30, 2003	November 27, 2003	$0.09
February 4, 2004	March 3, 2004	$0.10
April 28, 2004	May 26, 2004	$0.10
August 3, 2004	August 31, 2004	$0.10
November 8, 2004	December 6, 2004	$0.10
February 23, 2005	March 23, 2005	$0.11
May 11, 2005	June 8, 2005	$0.11
August 9, 2005	September 6, 2005	$0.11
November 13, 2005	December 12, 2005	$0.11
February 15, 2006	March 15, 2006	$0.13

8. DESCRIPTION OF CAPITAL STRUCTURE

The authorized share capital of the Company consists of:

- Unlimited preferred shares without par value, of which, 4,400,000 are designated as cumulative redeemable preferred shares. As of March 20, 2006, the Company had no preferred shares outstanding.
- Unlimited common shares. As of March 20, 2006, the Company had 89,302,830 common shares issued and outstanding.

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

The plan provides that one share purchase right has been issued for each common share and will trade with the common shares until such time as any person or group, other than a "permitted bidder", bids to acquire or acquires 20% or more of the Company's common shares, at which time the plan rights become exercisable. The rights may also be triggered by a third party proposal for a merger, amalgamation or a similar transaction. The rights plan will expire at the termination of the Annual Meeting of shareholders to be held in May 2008.

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

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

9. CREDIT RATINGS

The current credit ratings on the Company's securities are as follows:

	DBRS (1)	**S&P (2)**
Short-term Debt. …..	R-1(low)	N/A
Medium Term Notes / Debentures.............…................................	BBB(high)	BBB+
Eurobond ....…………….…......	N/A	BBB+

Notes:
(1) Dominion Bond Rating Service Limited ("DBRS") maintains a stable trend on the above securities.
(2) Standard and Poor's ("S&P") maintains a stable outlook on the above securities.

<u>Credit Ratings Note</u>: A security rating is not a recommendation to buy, sell or hold securities and may be subject to revision or withdrawal at any time by the rating organization.

Long Term Debt Credit Ratings

The BBB(high) rating for the Company is the highest grade or standing within the BBB category of the DBRS rating scale. The BBB category is the 4th highest of ten categories within the DBRS rating scale and reflects long-term debt that is of adequate credit quality. Protection of interest and principal is considered acceptable, but is still susceptible to adverse changes in financial and economic conditions.

The BBB+ rating for the Company is the highest grade or standing within the BBB category of the S&P rating scale. The BBB category is the 4th highest of ten categories within the S&P rating scale and reflects long-term debt obligations that exhibit adequate protection measures. However, adverse economic conditions or changing circumstances may lead to a weakened capacity of the obligor to meet financial commitments on an obligation.

Short-Term Debt Credit Ratings

The R-1 (low) rating for the Company is the 3rd highest of ten categories within the DBRS short-term debt rating scale and considered to be satisfactory credit quality. The overall strength and outlook for key liquidity, debt, and profitability ratios is not normally as favorable as with higher rating categories in the R-1 rating level, but these considerations are still respectable. Any qualifying negative factors that exist are considered quite manageable, given entities rated R-1 (low) are normally of sufficient size to have some influence in their industry.

10. MARKETS FOR THE SECURITIES OF THE COMPANY

The common shares of the Company are listed on the Toronto Stock Exchange under the symbol FTT. The following table sets forth the high and low prices and the volume of common shares traded on the Toronto Stock Exchange during 2005.

Month	High $	Low $	Volume
January	35.40	33.50	2,983,053
February	36.65	33.05	3,479,951
March	34.80	32.80	3,908,900
April	34.08	32.73	2,563,700
May	35.25	32.25	2,185,005
June	36.70	34.75	3,241,899
July	38.75	36.35	2,282,784
August	39.25	37.60	3,804,848
September	40.04	38.60	4,346,629
October	41.26	37.13	4,278,781
November	40.60	36.53	4,968,124
December	37.88	36.45	6,849,705

TRANSFER AGENT AND REGISTRAR

The transfer agent and registrar for the Company’s common shares is Computershare Investor Services Inc. which has offices in Montreal, Toronto, Calgary and Vancouver.

11. DIRECTORS AND OFFICERS

11.1 Directors as of March 20, 2006

Name and Municipality of Residence	Principal Occupation	Year First Became Director
Ricardo Bacarreza [1, 3] Santiago, Chile	President, Proinvest S.A.	1999
James F. Dinning [2, 3] Calgary, AB	Chairman of the Board, Western Financial Group	1997
Timothy S. Howden [1, 3] Marlow, England	Corporate Director	1998
Jefferson J. Mooney [2 (chairman), 4] Vancouver, BC	Chairman, A&W Food Services of Canada Inc.	2000
Donald S. O'Sullivan [1,4 (chairman)] Calgary, AB	President, O'Sullivan Resources Ltd.	1991
Conrad A. Pinette [4,5] Vancouver, BC	Corporate Director	1992
Andrew H. Simon, OBE [1(chairman), 4] London, England	Corporate Director	1999
Michael T. Waites [1,2] Calgary, AB	Executive Vice President, Chief Financial Officer Canadian Pacific Railway Chief Executive Officer, U.S. Network, Canadian Pacific Railway	2003
Douglas W.G. Whitehead [3] West Vancouver, BC	President and Chief Executive Officer, Finning International Inc.	1999
John M. Willson [2, 3(chairman)] Vancouver, BC	Corporate Director	2000

[1] Member, Audit Committee
[2] Member, Human Resources Committee
[3] Member, Environmental, Health and Safety Committee
[4] Member, Corporate Governance Committee
[5] Chairman of the Board

The Company currently has 4 committees of the Board of Directors: the Audit Committee, the Human Resources Committee, the Environmental, Health and Safety Committee, and the Corporate Governance Committee. The members of each committee are indicated by footnote in the list of directors above.

The term of office for all current directors will end on the day of the next Annual Meeting of the Company's shareholders. Each of the directors has held their principal occupation set out above for the past five years with the exception of James F. Dinning, Jefferson J. Mooney, Conrad A. Pinette, Andrew H. Simon and Michael T. Waites, whose principal occupations are listed in the following table.

Director	Principal Occupation	From	To
James F. Dinning	Chairman of the Board, Western Financial Group	Dec 2004	Present
	Executive Vice President, TransAlta Corp.	Jan 2003	Dec 2004
	Executive Vice President, Sustainable Development and External Relations, TransAlta Corp.	Jun 1999	Dec 2002
Jefferson J. Mooney	Chairman, A&W Food Services of Canada Inc.	Feb 2005	Present
	Chairman and Chief Executive Officer, A&W Food Services of Canada Inc.	Mar 2002	Feb 2005
	Chairman, President and Chief Executive Officer, A&W Food Services of Canada Inc.	Sep 1995	Mar 2002
Conrad A. Pinette	Corporate Director	Jan 2006	Present
	Executive Vice President, Tolko Industries Ltd.	Jan 2005	Dec 2005
	Executive Vice President, Riverside Forest Products Limited	Apr 2004	Dec 2004
	President and Chief Operating Officer, Lignum Limited	Jan 1990	Apr 2004
Andrew H. Simon	Corporate Director	Jul 2002	Present
	Executive Vice Chairman, Diamant Boart S.A.	Dec 1999	Jul 2002
Michael T. Waites	Executive Vice President, Chief Financial Officer and Chief Executive Officer, U.S. Network, Canadian Pacific Railway	Mar 2003	Present
	Executive Vice President and Chief Financial Officer, Canadian Pacific Railway	Dec 2001	Mar 2003
	Vice President and Comptroller, Canadian Pacific Railway	Mar 1997	Dec 2001

11.2 Officers as of March 20, 2006

Each of the officers and other senior executives is listed in the table below with their principal occupations held for the past five years:

Officer's Name and Municipality of Residence	Positions Held	From	To
Brian C. Bell Santiago, Chile	President, Finning South America	Jul 2003	Present
	Executive Vice President, Customer Support Services, Finning International Inc.	May 1999	Jul 2003
Sebastian T. Guridi Vancouver, BC	Corporate Secretary, Finning International Inc.	May 2005	Present
	Executive Director Corporate and Taxation Services, Finning International Inc.	Jun 2004	May 2005
	Legal Director, Finning South America	Apr 2003	Jun 2004
	General Counsel, Finning Chile S.A.	Nov 1998	Mar 2003
Nicholas B. Lloyd Bednall, UK	Managing Director, Finning Group, U.K.	Dec 2004	Present
	Managing Director Hewden Stuart, plc.	Aug 2003	Dec 2004
	President and Chief Executive Officer, Finning South America	Jan 2003	Aug 2003
	President and Chief Executive Officer, Finning Chile S.A.	Jan 2000	Jan 2003
Stephen Mallett Vancouver, BC	President, Finning Power Systems, Finning International Inc.	Nov 2004	Present
	Managing Director, Finning (UK) Ltd.	Jul 2001	Nov 2004
	Vice President, Customer Support Services, Finning (Canada)	Nov 1998	Jul 2001

Officer's Name and Municipality of Residence	Positions Held	From	To
Anna P. Marks North Vancouver, BC	Vice President and Corporate Controller, Finning International Inc.	May 2003	Present
	Controller, Union Gas Limited (Subsidiary of Duke Energy Gas Transmission)	Dec 2002	May 2003
	Director, Accounting, Duke Energy Gas Transmission (Formerly Westcoast Energy Inc.)	Nov 2001	Dec 2002
	Manager, Finance and Administration, Westcoast Capital Corporation (Subsidiary of Westcoast Energy Inc.)	Feb 2000	Nov 2001
	Manager, Accounting Services Westcoast Energy Inc.	June 1998	Feb 2000
Conrad A. Pinette Vancouver, BC	Corporate Director	Jan 2006	Present
	Executive Vice President Tolko Industries Ltd.	Jan 2005	Dec 2005
	Executive Vice President, Riverside Forest Products Limited	Apr 2004	Dec 2004
	President and Chief Operating Officer, Lignum Limited	Jan 1990	Apr 2004
Ian M. Reid Edmonton, AB	President, Finning (Canada)	> 5 years	Present
Douglas W.G. Whitehead West Vancouver, BC	President and Chief Executive Officer, Finning International Inc.	Apr 2000	Present
	President and Chief Operating Officer, Finning International Inc.	Jan 1999	Apr 2000
Shelley C. Williams Coquitlam, BC	Vice President, Corporate Treasurer, Finning International Inc.	Aug 2004	Present
	Corporate Treasurer, Finning International Inc.	Dec 2003	Aug 2004
	Assistant Treasurer, Finning International Inc.	Jan 2003	Dec 2003
	Acting Treasurer, Crystal Decisions	Sep 2001	Feb 2002
	Treasurer, Fletcher Challenge Canada	Jul 2000	Dec 2000

11.3 Shareholdings of Directors and Officers

The directors and the officers of the Company as a group beneficially own, directly or indirectly, or exercise control or direction over, approximately 0.32% of the Company's voting common shares.

11.4 Cease Trade Orders, Bankruptcies, Penalties or Sanctions

To the knowledge of the Company, in the last 10 years, no director or officer of the Company or a shareholder holding a significant number of securities of the Company to affect materially the control of the Company, is or has been a director or officer of any other issuer that, while that person was acting in that capacity: (i) was the subject of a cease trade order or similar order, or an order that denied the other issuer access to any exemptions under Canadian securities legislation for a period of more than 30 consecutive days; or (ii) became bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency, or was subject to or instituted any proceedings, arrangement or compromise with creditors, or had a receiver, receiver manager or trustee appointed to hold its assets.

12. INTERESTS OF EXPERTS

Deloitte & Touche LLP is the independent auditor of the Company. Deloitte & Touche LLP have audited the Company's consolidated financial statements and have prepared and executed the audit report which accompanies the consolidated financial statements in the Company's *2005 Annual Report.* The audit report indicates that the statements present fairly, in all material respects, the financial position of the Company as at the two most recently ended financial year ends, results of its operations and cash flows for the years then ended, in accordance with Canadian generally accepted accounting principles.

13. AUDIT COMMITTEE

The Terms of Reference for the Audit Committee (a copy of which is attached as Appendix A to this Annual Information Form) require that it be comprised of at least three independent directors. The current members of the Committee are A.H. Simon (Chairman), R. Bacarreza, T.S. Howden, D.S. O'Sullivan and M.T. Waites and all are independent directors. In addition, Conrad A. Pinette attends meetings of the Audit Committee in his capacity as Chairman of the Board. All Committee members are required to be independent and financially literate (as such terms are defined in Multilateral Instrument 52-110 – Audit Committees) and at least one member is required to have accounting or related financial management expertise. Mr. M.T. Waites is the designated "financial expert" member of the Committee.

In addition to each member's general business experience, the education and experience of each member of the Audit Committee that is relevant to the performance of their responsibilities as a member of the Audit Committee is set forth below.

Andrew H. Simon, OBE, is currently a member of the Board of Directors of a number of companies including SGL Carbon AG, Associated British Ports Plc, Dalkia Plc, Travis Perkins Plc, Management Consulting Group Plc and Brake Brothers Ltd. For most of his career, Mr. Simon worked for the Evode Group, an international specialty chemicals and materials company. At Evode, he held various positions including Managing Director and Chairman and Chief Executive Officer. Mr. Simon holds a Bachelor of Science degree from Southampton University and an MBA from the Wharton School of Finance.

Ricardo Bacarreza is currently the President of Proinvest S.A., a financial services company based in Santiago, Chile. In his career, Mr. Bacarreza has been an Economist at the World Bank (Washington, D.C.), a Vice President of Banco Unido De Fomento (Chile) and the President and Chief Executive Officer of Banco Del Trabajo (Chile), La Chilena Consolidada Insurance Company (Chile), Banco Sudamericano (Chile), Banco Del Trabajo (Chile), and Banco BHIF (Chile). Mr. Bacarreza has been on the Board of Directors of a number of companies and has served as director and chairman of the Chilean Management Institute. He holds a civil engineering degree from Catholic University of Chile and an M.A., M.Sc. and Ph.D. from Stanford University.

Timothy S. Howden is a Corporate Director who serves on the Boards of Hyperion Insurance Group Ltd. and Rudland Hall Ltd. In his career, Mr. Howden has held executive positions at a number of companies involved in the food and household distribution industries including Reckitt & Colman Plc (General Manager, Marketing Manager and Regional Director, European Division), Rank Hovis McDougall Plc (Group Managing Director, Group Deputy Managing Director, Group Planning Director, Chairman and Chief Executive – Bakeries, Managing Director – Grocery and Sales Director – Flour Milling) and The Albert Fisher Group Plc (Chairman – North America, Chief Executive Officer – North America and Group Chief Executive – Europe).

Donald S. O'Sullivan is currently the President of O'Sullivan Resources Ltd. In his career he has also been a director of and involved in a number of businesses including Babichuk Construction, Ft. McMurray Land Development Ltd., Twin Bridges Gravel Ltd., the Westin Hotel (Edmonton), Pacemaker Employee Investments Inc., Time Air Corp., Intera Technologies Corp., and New Gateway Oil and Minerals Ltd. Mr. O'Sullivan also served as a Vice President and Secretary-Treasurer of B&B Distributors Inc. In addition to acting as a director of the Company, Mr. O'Sullivan is a director of National Life Assurance Company of Canada Ltd. He has also been a director of the National Sand and Gravel Association and the STARS Foundation. He holds a Bachelor of Science in Business Administration from the University of Denver.

Michael T. Waites is Executive Vice President, Chief Financial Officer of Canadian Pacific Railway and Chief Executive Officer, U.S. Network, Canadian Pacific Railway. Prior to joining Canadian Pacific Railway in 1997, he was Vice President and Chief Financial Officer, Chevron Canada Resources. Mr. Waites holds a B.A. (Hons.) in Economics from the University of Calgary, an MBA from Saint Mary's College of California and an M.A. (Graduate Studies) in Economics from the University of Calgary. He has also completed the Executive Program at the University of Michigan Business School. Mr. Waites is a Governor of Shawnigan Lake School, Vancouver Island.

The Committee provides assistance to the Board of Directors in fulfilling its oversight responsibility to the shareholders with respect to the Company's: (a) financial statements; (b) financial reporting process; (c) systems of internal and disclosure controls; (d) internal audit function; (e) external audit function; (f) financial arrangements and liquidity and (g) risk identification, assessment and management program. It is the responsibility of the Committee to maintain an open avenue of communication between itself, the external auditors, the internal auditors and the management of the Company. In performing its role, the Committee is empowered to investigate any matter brought to its attention, with full access to all books, records, facilities and personnel of the Company. It is also empowered to retain outside counsel or other experts as required.

The Committee met 4 times in 2005 in conjunction with regularly scheduled Board meetings.

Fees paid or accrued by the Company and its major business units or subsidiaries for audit and other services provided by Deloitte & Touche LLP (the Company's external auditors) during 2005 and 2004 were as follows (such amounts were billed in various currencies and converted to Canadian dollars using the exchange rates in existence at the time of billing):

Type of Service	**2005**	**2004**
Audit Services	$ 2,262,750	$ 2,191,400
Audit-Related Services (1)	61,200	62,700
Tax Services (2)	862,975	1,678,896
Other Services (3)	Nil	Nil
Total:	**$3,186,925**	**$3,932,996**

Notes:
(1) Audit related services include assurance and related services, such as audits of the Company's pension plans, that were reasonably related to the performance of the audit or review of the Company's financial statements not reported as Audit Services.
(2) Tax services include tax compliance reviews, review of the tax impact of specific transactions, assistance with inquiries from tax authorities, and international relocation advice.
(3) Other services would include any non audit-related or non tax services.

Pre-approval Policies and Procedures

The Audit Committee has adopted a formal policy requiring the pre-approval of non-audit services to be provided by its external auditors, Deloitte & Touche LLP, prior to the commencement of the engagement. Between regularly scheduled Audit Committee meetings, the Committee has delegated to the Chair of the Audit Committee the authority to approve individual non-audit service engagements that have not been pre-approved. All engagements where such approval was granted will be reported at the next Audit Committee meeting. Under no circumstances will the Company's management engage the external auditors to perform services that have not been approved by the Audit Committee. Management and the external auditor are required to report quarterly to the Audit Committee all services provided by the external auditor and fees paid or accrued for the fiscal year-to-date.

The Committee determined that the provision of the audit-related and tax services described above did not compromise the independence of Deloitte & Touche LLP for purposes of performing audit services for the Company. In addition, as the Company's external auditors, Deloitte & Touche LLP are required to comply with the terms of the Company's "Terms of Reference for External Auditors".

Recent Regulatory Developments

During 2004 and 2005, there were a number of regulatory instruments issued by the Canadian Securities Administrators (the "CSA") which impacted the Audit Committee and its mandate. These instruments include:

(a) Multilateral Instrument 52-109, which requires the Company's CEO and CFO to certify the Company's interim and annual filings;

(b) Multilateral Instrument 52-110, which contains rules relating to the composition and obligations of audit committees and

(c) National Instrument 51-102, which details the continuous disclosure obligations of public companies and indicates what approvals are required in respect of annual and interim financial information filed with regulatory agencies.

In response to these developments, the Audit Committee, both directly and through oversight and direction of management, has taken steps and implemented processes to ensure that the Company complies with its obligations under each of these instruments. These steps include:

- ensuring the appropriate level of internal controls, analysis and reporting systems are in place to permit the Certifying Officers to provide all necessary certifications of the Company's interim and annual filings.
- monitoring the Company's progress on its project related to management's first report on their assessment of the effectiveness of internal controls over financial reporting currently proposed under Multilateral Instrument 52-109. Management's first report is expected to be signed as at December 31, 2007.
- ensuring the composition of the Audit Committee and its mandate satisfy all requirements of Multilateral Instrument 52-110. In this regard, the Audit Committee and the Board are satisfied that all members of the Audit Committee are independent and financially literate. In addition, the Audit Committee's Terms of Reference and the Terms of Reference for External Auditors are designed to ensure that the Audit Committee satisfies all of its obligations under the Instrument including: recommending to the Board both the firm to serve as external auditor and the compensation to be paid to that firm; overseeing the work of the external auditor; approving all non-audit services to be provided by the auditor; reviewing the Company's interim and annual filings and financial press releases; reviewing the accuracy and adequacy of the Company's public disclosure of financial information; establishing procedures to deal with internal complaints or issues relating to the Company's accounting, internal controls or audit matters; and approving the Company's hiring policy with respect to present or former partners and employees of the Company's external auditors.

Enterprise Risk Management

The Company has adopted an Enterprise Risk Management approach to identifying and evaluating risks in order to protect and enhance shareholder value. On a quarterly basis, the Audit Committee reviews the Company's processes with respect to risk assessment and management of key risks, including the Company's major financial risks and exposures and the steps taken to monitor and control such exposures. The Enterprise Risk Management Process involves the identification, by each of the Company's significant operations, of key risks that could impact the achievement of the Company's strategic plan. The management of each of these key risks is monitored closely and disclosed annually in the Company's Annual Information Form. Any changes to the key risks are disclosed on a quarterly basis in the Company's interim financial filings.

14. ADDITIONAL INFORMATION

The Company shall provide to any person, upon request to the Corporate Secretary of the Company at Suite 1000, Park Place, 666 Burrard Street, Vancouver, BC V6C 2X8:

(a) when the securities of the Company are in the course of a distribution pursuant to a short form prospectus or a preliminary short form prospectus has been filed in respect of a distribution of its securities,

  (i) one copy of the Annual Information Form of the Company, together with one copy of any document, or the pertinent pages of any document, incorporated by reference in the Annual Information Form,

  (ii) one copy of the comparative financial statements of the Company for its most recently completed financial year together with the accompanying report of the auditor and one copy of any interim financial statements of the issuer subsequent to the financial statements for the Company's most recently completed financial year,

  (iii) one copy of the Management Proxy Circular of the Company in respect of its most recent annual meeting of shareholders that involved the election of directors or one copy of any annual filing prepared in lieu of that Management Proxy Circular, as appropriate, and

  (iv) one copy of any other document that is incorporated by reference into the preliminary short form prospectus or the short form prospectus and is not required to be provided under (i) to (iii) above; or

(b) at any other time, one copy of any documents referred to in (a)(i), (ii) and (iii) above, provided the Company may require the payment of a reasonable charge if the request is made by a person who is not a security holder of the Company.

Additional information, including directors' and officers' remuneration, indebtedness, options to purchase securities and interests of insiders in material transactions is contained in the Company's Management Proxy Circular for its most recent annual meeting of shareholders, a copy of which may be obtained upon request to the Corporate Secretary of the Company. Additional financial information is provided in the Company's consolidated financial statements for its year ended December 31, 2005 included in the Company's 2005 Annual Report.

Copies of documents noted above and other disclosure documents may also be examined and/or obtained through the internet by accessing the Company's website at www.finning.com or by accessing the Canadian System for Electronic Document Analysis and Retrieval (SEDAR) website at www.sedar.com.

Appendix A

Terms of Reference for the Audit Committee

(I) PURPOSE

A. The primary purpose of the Audit Committee (the "Committee") is to assist the Board in fulfilling its oversight responsibilities to the shareholders, potential shareholders, the investment community, and others by overseeing:

(i) the financial information that will be provided to the shareholders and others;

(ii) audits of the financial statements;

(iii) the systems of internal and disclosure controls established by management and the Board;

(iv) all audit, accounting and financial reporting processes; and

(v) compliance with relevant laws, regulations and policies.

B. Primary responsibility for the financial reporting, information systems, risk management and internal and disclosure controls of the Corporation is vested in management and is overseen by the Board.

C. It is the Committee's responsibility to maintain an open avenue of communication between the Committee, the External Auditors, the Internal Auditors and management of the Corporation.

D. In discharging its oversight role, the Committee is empowered to investigate any matter brought to its attention with full access to all books, records, facilities, and personnel of the Corporation and the power to retain outside counsel, or other experts for this purpose.

(II) COMPOSITION AND OPERATIONS

A. This charter governs the operations of the Committee.

B. The Committee is appointed by the Board and shall consist of at least three directors, all of whom shall be independent as defined in the Guidelines for the Board of Directors.

C. An Audit Committee member may belong to a maximum of two Audit Committees at publicly listed companies other than the Audit Committee of the Corporation.

D. All Committee members are financially literate, (or will become financially literate within a reasonable period of time after appointment to the Committee), and at least one member shall be designated as an "Audit Committee Financial Expert"[1].

E. The Committee shall meet not less than four times per year.

F. A majority of Committee members constitute a quorum.

G. The function of the Committee is oversight. It is not the duty of the Committee to plan or conduct audits or to determine that the Corporation's financial statements fairly present the Corporation's financial position and results of operation and are in accordance with generally accepted accounting principles. Such duties remain the responsibility of management and the External Auditor.

(III) DUTIES AND RESPONSIBILITIES

Subject to the powers and duties of the Board, the Committee will perform the following duties:

A. Financial Statements and Other Financial Information

The Committee shall:

(i) review and discuss with management and the External Auditor before public disclosure:
- (a) Consolidated Financial Statements of the Corporation;
- (b) Management's Discussion and Analysis; and
- (c) Interim earnings press releases of the Corporation;

(ii) satisfy itself that adequate procedures are in place for the review of the public disclosure of financial information extracted or derived from the Corporation's financial statements and periodically assess the adequacy of those procedures;

(iii) receive quarterly updates and reports on the Corporation's credit status with banks and credit rating agencies;

(iv) discuss with management and the External Auditor the quality of reporting and adherence to generally accepted accounting principles ("GAAP");

(v) review significant changes in the Corporation's selection or application of accounting principles, and major issues as to the adequacy of the Corporation's internal controls and any special audit steps adopted in light of material control deficiencies; and

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1 Definition in the United States Sarbanes-Oxley Act of 2002: An Audit Committee Financial Expert has, through education and experience as a public accountant or auditor or a principal financial officer, comptroller, or principal accounting officer of an issuer, or from a position involving the performance of similar functions:
1) an understanding of generally accepted accounting principles and financial statements;
2) experience in— (A) the preparation or auditing of financial statements of generally comparable issuers; and (B) the application of such principles in connection with the accounting for estimates, accruals, and reserves;
3) experience with internal accounting controls; and
4) an understanding of audit committee functions.

(vi) review analyses prepared by management and/or the External Auditor setting forth significant financial reporting issues and judgments made in connection with the preparation of the financial statements, including analyses of the effects of alternative GAAP methods on the financial statements.

B. External Auditors

(i) The Committee shall:

(a) review and recommend to the Board the selection of the Corporation's External Auditors;

(b) The Committee has the authority and responsibility to hire, evaluate, determine compensation for and, where appropriate, replace the External Auditors, subject to shareholder approval.

(c) require the External Auditors to report directly to the Committee;

(d) communicate directly with the External Auditors, including the ability to meet independently with the External Auditors;

(e) annually obtain and review a report by the External Auditor describing:

1. recommendations resulting from their review of internal control and accounting systems;

2. any material issues raised by the most recent internal control review, or peer review, of the Corporation, or by any inquiry or investigation by governmental or professional authorities, within the preceding five years, respecting one or more independent audits carried out by the Corporation, and

3. any steps taken to deal with any such issues.

(f) review with the External Auditor any audit problems or difficulties and management's response;

(ii) The Committee shall be responsible for ensuring that the External Auditors submit on a periodic basis to the Committee a formal written statement delineating all relationships between the External Auditors and the Corporation; actively engaging in a dialogue with the External Auditors with respect to any disclosed relationships or services that may impact the objectivity and independence of the External Auditors; and for recommending that the Board take appropriate action in response to the External Auditors' report to satisfy itself of the External Auditors' independence.

(iii) The Committee shall discuss with the External Auditors the scope and plans for their audits including the adequacy of resources. The Committee shall meet separately with the External Auditors, with and without management present, to discuss the results of their examinations.

C. Internal Auditors

The Committee will:

(i) review the activities, resources and organization structure of the internal audit function and ensure no unjustified restrictions or limitations are made;

(ii) participate in the appointment, promotion or dismissal of the lead Internal Auditor; and discuss with the External Auditor the standard of work of the Internal Auditors;

(iii) review the effectiveness of the internal audit function.

(iv) meet separately with the Internal Auditors to discuss any matters the Committee or the Internal Auditors believe should be discussed privately;

(v) ensure the internal audit's significant findings and recommendations are received, discussed and appropriately acted on by management; and

(vi) review the scope and proposed annual internal audit plan and ensure it addresses key areas of risk and ensure there is appropriate coordination with the Committee and the External Auditor.

D. Risk Management, Internal Control and Information Systems

The Committee will review and obtain reasonable assurance that the risk management, internal control and information systems are operating effectively to produce accurate, appropriate and timely management and financial information. This includes:

(i) discussion with management, the Internal Auditors and the External Auditors of the adequacy and effectiveness of the internal controls, including financial controls and the Corporation's system to monitor and manage business risk; and

(ii) obtaining reasonable assurance that the information systems are reliable and the systems of internal controls are properly designed and effectively implemented through discussions with and reports from management, the Internal Auditor and External Auditor.

E. Compliance

The Committee shall:

(i) assist with Board oversight of the Corporation's compliance with legal and regulatory requirements;

(ii) review the process for the certification of the interim and annual financial statements by the Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO"), and the certifications made by the CEO and CFO;

(iii) discuss the Corporation's compliance with tax laws, legal withholdings requirements, environmental protection laws[2], privacy laws, and any other area of compliance monitoring that the Committee considers appropriate;

(iv) ensure the External Auditor's fees are disclosed by category in the Annual Information Form in compliance with regulatory requirements and in such other documents the Committee may determine;

(v) disclose any specific policies or procedures adopted for pre-approving non-audit services by the External Auditor, including affirmation that they meet regulatory requirements;

(vi) prepare a report of the Committee's activities to be included in the annual proxy statement;

(vii) with regard to the Code of Ethics for Senior Executive and Financial Officers:

(a) consider any amendments to this Code in conjunction with the Board; and

(b) consider any request for a waiver to the provision of this Code in conjunction with the Board and if such waiver is approved, ensure it is disclosed promptly to meet regulatory requirements, if any.

(viii) assist the Corporate Governance Committee with preparing the Corporation's governance disclosure by ensuring it has current and accurate information with respect to:

(a) the independence of each Committee member relative to regulatory requirements for the Audit Committee;

(b) the state of financial literacy of each Committee member, including the name of any member(s) currently in the process of acquiring financial literacy and when they are expected to attain this status;

(c) the education and experience of each Committee member relevant to his or her responsibilities as Committee member; and

(d) disclose if the Corporation has relied upon any exemptions to the requirements for Audit Committees under regulatory requirements.

F. OTHER

The Committee shall:

(i) establish and periodically review implementation of procedures for:

(a) the receipt, retention and anonymous treatment of complaints received by the Corporation regarding accounting, internal accounting controls, or auditing matters; and

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2 This function is reported by the Environment, Health and Safety Committee.

(b) the confidential, anonymous submission by employees of concerns regarding questionable accounting or auditing matters;

(ii) review and approve the Corporation's hiring policies regarding partners, employees and former partners and employees of the present and former External Auditor;

(iii) review expenses of the Board Chair and CEO;

(iv) review and approve all related party transactions;

(v) review the effect of regulatory and accounting initiatives, as well as off balance sheet structures, on the financial statements of the Company;

(vi) review the succession plan for the Corporation's financial and accounting management;

(vii) conduct a self-assessment annually and discuss the results with the Board; and

(viii) review and update its terms of reference at least annually.

(IV) ACCOUNTABILITY

A. The Committee Chair has the responsibility to make periodic reports to the Board, as requested, on financial matters relative to the Corporation.

B. The Committee shall report its discussions and activities to the Board by maintaining minutes of its meetings and providing an oral report at each regular Board meeting.