Fourth Quarter and Annual 2005 Results *February 15, 2006*

Finning Announces Fourth Quarter and Annual Results
- Annual Earnings at Record Levels -

Highlights

- Record annual earnings of $1.85 per share
- Cash flow after working capital changes up significantly in the quarter and for the year
- Debt to total capital ratio of 46.6%, down from 50.8% at prior year end
- Record order backlog of $968 million, signals ongoing buoyant conditions
- Quarterly dividend increase of 18% to $0.13 per share

	Three months ended December 31			Twelve months ended December 31		
C$ millions, except per share data	**2005**	**2004**	Change	**2005**	**2004**	Change
Revenue	**1,184.0**	1,075.2	10.1%	**4,834.6**	4,161.9	16.2%
Earnings before interest and taxes	**61.7**	60.7	1.6%	**285.3**	265.7	7.4%
Net income	**36.2**	20.1	80.1%	**164.0**	114.9	42.7%
Basic Earnings Per Share	**$ 0.41**	$ 0.23	78.3%	**$ 1.85**	$ 1.45	27.6%
Diluted Earnings Per Share	**$ 0.40**	$ 0.23	73.9%	**$ 1.83**	$ 1.43	28.0%
Cash flow after working capital changes	**135.2**	1.4		**478.8**	247.4	93.5%

Vancouver, Canada - Finning International Inc. (Finning) today reported fourth quarter net income of $36.2 million or $0.41 per share compared with $20.1 million or $0.23 per share in the fourth quarter of 2004. Fourth quarter 2004 results were negatively impacted by costs related to the redemption of non-controlling interests that resulted in a $14.5 million after-tax expense ($0.18 per share). After adjusting 2004 fourth quarter results for the non-recurring costs associated with the redemption of non-controlling interests, 2005 earnings per share were effectively flat compared with 2004 levels.

Net income for the year was $164.0 million compared to $114.9 million in 2004, or $1.85 per share in 2005 compared to $1.45 per share in the prior year. Adjusting 2004 and 2005 annual results for items that are not considered reflective of ongoing business operations (as detailed in Attachment 1 to the Management's Discussion &Analysis), 2004 normalized earnings per share would have been $1.75 and 2005 normalized earnings per share would be $1.86. On this basis, 2005 annual results were 6.3% higher than 2004.

2005 was another very successful year for Finning's Canadian and South American operations, with Earnings Before Interest and Taxes (EBIT) increasing by 14% and 15%, year over year, respectively. In the U.K., Hewden's 2005 results were modestly better in local currency but not enough to offset the impact of a stronger Canadian dollar and as a result, EBIT was down 5% in Canadian dollar terms. The UK materials handling business was a major disappointment in 2005 with their results more than offsetting the year over year improvement in the construction equipment and power systems businesses of Finning (UK). Overall, 2005 EBIT from Finning (UK) declined 48% from 2004 levels, 45% in local currency and management continues to focus on further improvements.

"For the full year 2005, the very good performance of our Canadian and South American operations offset the weak performance out of the U.K.", said Doug Whitehead, President and CEO of Finning International Inc. "As a result, earnings per share increased to a record level of $1.85. Our Canadian operations could have done even better, however the six-week strike in the fourth quarter cost us an estimated $0.04 per share. The strong contributions from our Canadian and South American operations were also partially offset by the impact of higher long term compensation costs ($0.16 per share) and a stronger Canadian dollar ($0.17 per share), year over year. We were also very pleased with the significant improvement in our cash flow in 2005. This was the result of a strong focus on managing working capital by all of our operations."

"Looking ahead, improving the performance of our UK operations is our number one priority in 2006. We have numerous initiatives underway in the U.K. that are all focused on making the businesses more efficient and improving results while still providing superior service to our customers. Our order backlog remains at a record level and we expect business will continue to be strong in 2006".

Fourth Quarter Results

Finning's revenues in the fourth quarter were $1,184.0 million, up 10.1% from the fourth quarter of 2004 reflecting continued strength in equipment spending by resource-based businesses in South America and Canada. Strong commodity prices and good overall economic conditions are supporting these businesses and management believes the outlook for this to continue is good. Equipment sales to general construction markets are also strong. Quarterly revenues at the Company's Finning (UK) operations also improved year-over-year as a result of new sales programs.

Finning's global order book (the retail value of equipment units ordered by customers for future deliveries) continued to build and achieved a record level of $968 million as of December 2005, up 16% from the December 2004 levels of $835 million.

EBIT for the quarter was $61.7 million, compared with $60.7 million in the fourth quarter of 2004, an increase of 1.6%. Fourth quarter EBIT in the Canadian reporting segment declined from $39.6 million in 2004 to $29.2 million in 2005. The decrease in 2005 was primarily the result of lower revenue and higher expenses associated with a six-week strike at Finning (Canada) impacting EBIT by approximately $5.6 million, start-up operating losses at OEM Remanufacturing in its first year of operations, and the absence of any lease contract sales by Finning (Canada) to Caterpillar Financial Services Limited which totaled $60.0 million in the fourth quarter of 2004.

EBIT for Finning's South American operations in the fourth quarter of 2005 compared to the 2004 fourth quarter increased by 63% to $25.4 million, reflecting continued strong results in all business segments.

Fourth quarter EBIT for Hewden was lower than 2004 by $1.9 million primarily due to foreign exchange translation and higher credit and collection costs.

For Finning (UK), although revenues were higher in the fourth quarter, EBIT was lower by $1.1 million compared to 2004 reflecting a lower contribution from Materials Handling outweighing improvements in the construction equipment and power systems businesses.

Net income for the quarter was $36.2 million compared to $20.1 million in 2004. The 2005 results were higher than last year primarily due to costs in the fourth quarter of 2004 related to the redemption of non-controlling interests which was used to finance a portion of the Hewden Stuart acquisition. Redemption of the non-controlling interests resulted in a $14.5 million after-tax expense in 2004 ($0.18 per share), which included costs to unwind related hedging arrangements and the accelerated write-off of associated deferred financing costs. In the fourth quarter of 2005, foreign exchange negatively impacted earnings by $0.06 per share primarily as a result of a stronger Canadian dollar against the US dollar and pound sterling.

Basic Earnings Per Share (EPS) for the quarter was $0.41 in 2005 compared to $0.23 in the fourth quarter of 2004, primarily due to the costs in 2004 relating to the redemption of non-controlling interests noted above.

Cash flow after working capital changes was $135.2 million for the fourth quarter, compared with $1.4 million for the same period last year. Lower cash in 2004 resulted from higher working capital investments, primarily in the form of higher inventory levels, in order to meet higher sales demands and the longer lead times required for the delivery of equipment and parts.

2005 Results

On an annual basis, consolidated revenue increased by 16.2% to $4,834.6 million and EBIT levels increased 7.4% from the same period in 2004. Net income was $164.0 million (2004: $114.9 million) while Basic EPS was $1.85 (2004: $1.45).

EBIT increased by 7.4% to $285.3 million in 2005 with record EBIT levels achieved in Canada and South America. The increase in gross profit of $147.4 million in 2005 was somewhat offset by higher selling, general and administrative (SG&A) costs. The increased SG&A expense reflects higher long-term incentive plan (LTIP) costs, pension costs and increased headcount to meet business growth and customer service demand. EBIT was also lower in 2005 as a result of the strengthening Canadian dollar relative to the US dollar and pound sterling. The foreign exchange variance is mainly due to translating results from country operations that are based on a foreign currency into Canadian dollars.

Net income increased 42.7% to $164.0 million in 2005 compared with $114.9 million in 2004 reflecting the strong contributions from the Company’s Canadian and South American operations, lower finance costs, the absence of non-controlling interests and lower other expenses. 2005 results were tempered by the unfavourable foreign exchange impact of approximately $15.1 million after-tax, primarily due to translating foreign sourced earnings, and LTIP costs which were higher by $4.7 million after-tax. Basic earnings per share increased to $1.85 in 2005 compared to $1.45 in the prior year.

Important New Contracts

In the fourth quarter of 2005, Finning secured the following important new contracts:

- *Western Canadian Coal Corporation* – the sale of 18 pieces of Caterpillar equipment to Western Canadian Coal Corp. and its intended contract partners for the development of the Wolverine Mine near Tumbler Ridge in northeast British Columbia. The equipment package, valued at approximately $32.6 million, consists of five Cat 789C haul trucks (190 ton capacity), five Cat 785C haul trucks (150 ton capacity), four Cat D10T tractors, a Cat 16H motor grader, a Cat 992 wheel loader, a Cat 834H wheel dozer and a Cat 385 excavator. The equipment was partially delivered during the latter part of 2005 with the remainder being delivered in the first quarter of 2006 and is being used for pre-production stripping, as well as mining operations.

- *De Beers Canada Inc*. – a $16 million contract to supply all on-site power generation equipment for De Beers Canada Inc.'s Snap Lake underground diamond mining project in the Northwest Territories. Under this two-year contract, Finning Power Systems will provide prime and auxiliary generator sets, ancillary equipment, control systems and enclosures to produce approximately 21 megawatts of electricity for the mine.
- *DSG International* – the sale of $3.0 million (£1.5 million) of materials handling equipment (approximately 130 fork lift trucks) together with related service contracts for DSG International, a leading U.K. based specialist retailer of consumer electronics who own several U.K. retail outlets including; Dixons, PC World, Curry's and The Link together with a number of other businesses. Finning's materials handling division has been selected as a preferred supplier to DSG International. This order is the first for DSG's new warehouses in Avonmouth and Newark in the U.K. Additional machine sales to this customer are possible and this business represents a significant increase in Finning's presence in the U.K. warehouse lift truck market.

Financing

- 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 a one year extension option, and may be increased by an additional $400 million. The facility is available in multiple borrowing jurisdictions, and may be drawn by a number of the Company's principal operating subsidiaries.

Other

- On December 5, 2005, Finning (Canada) and the International Association of Machinists and Aerospace Workers – Local Lodge 99, representing Finning (Canada) employees in Alberta and Northwest Territories, reached agreement on a three-year collective agreement which expires April 30, 2008. This ended a strike that commenced October 20, 2005. The new agreement provides for a wage increase of 4.5% in year one, and 4% in each of years two and three, retroactive to May 1, 2005. The settlement also provides improvements in allowances, shift premiums and pension benefits. The ratified agreement retains management's right to contract out work; however, it establishes guiding principles for contracting out decisions and the rights of directly affected employees.
- A number of proceedings 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 in Finning's favour.
- Subsequent to year end, Finning announced that Wayne Bingham, Executive Vice President and Chief Financial Officer, resigned his position with Finning effective January 31, 2006, for personal reasons. Finning is beginning a search process to identify a permanent replacement for Mr. Bingham.

Common Share Dividend

The Board of Directors increased the Company's quarterly dividend to $0.13 per common share, payable on March 15, 2006, to shareholders of record on March 1, 2006. This is the fifth consecutive year of dividend increases.

For more information

Please call Tom Merinsky, Vice President, Investor Relations
Phone: (604) 331-4950
Email: investor_relations@finning.ca

Fourth Quarter / Annual Results Conference Call

Management will hold an investor conference call on Wednesday, February 15, 2006 at 2:30 pm Eastern Time. Dial-in numbers:

1-877-888-3490 (anywhere within Canada and the US)
(416) 695-9757 (for participants dialing from Toronto and overseas)

The call will be webcast live at www.finning.com/investor_relations and www.newswire.ca/webcast, and subsequently archived on the Finning website. Playback recording will be available at **1-888-509-0081** from 5:30 pm Eastern Time on February 15, 2006 until the end of business day on February 22, 2006.

About Finning International

Finning International Inc. sells, rents, finances and provides customer support services for Caterpillar equipment and engines, and complementary equipment, in Western Canada (Alberta, British Columbia, the Northwest Territories and the Yukon Territory and a portion of Nunavut), the U.K. and South America (Argentina, Bolivia, Chile and Uruguay). Headquartered in Vancouver, B.C., Canada. Finning International Inc. (www.finning.com) is a widely held, publicly traded corporation, listed on the Toronto Stock Exchange (symbol FTT). Complete financial statements and Management's Discussion and Analysis can be accessed at www.finning.com.

Forward-Looking Disclaimer

This report contains 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.

Refer to Finning's annual report, management information circular, annual information form and other filings with Canadian securities regulators, which can be found at www.sedar.com, for further information on risks and uncertainties that could cause actual results to differ materially from forward-looking statements contained in this report.

Next Quarterly Results May 10, 2006

Finning International's first quarter results for 2006 will be released and an investor conference call will be held on May 10, 2006.

Annual General Meeting

The Company's annual general meeting will be held at the Crystal Pavilion of the Pan Pacific Hotel, 300-999 Canada Place, Vancouver, British Columbia, at 11:00 am Pacific Time on Wednesday May 10, 2006.

MANAGEMENT'S DISCUSSION AND ANALYSIS

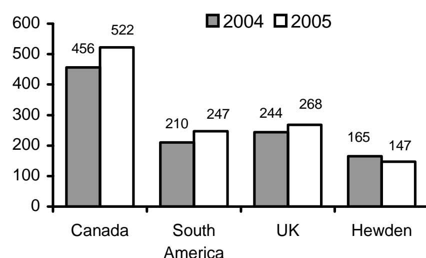
This discussion and analysis of Finning International Inc. (Finning or the Company) should be read in conjunction with the consolidated financial statements and accompanying notes. The results reported herein have been prepared in accordance with Canadian generally accepted accounting principles (GAAP) and are presented in Canadian dollars unless otherwise stated.

Results of Operations

Fourth quarter overview

($ millions)	**Q4 2005**	Q4 2004	**Q4 2005**	Q4 2004
			(% of revenue)	
Revenue	**$ 1,184.0**	$ 1,075.2		
Gross profit	**337.3**	311.1	**28.5%**	28.9%
Selling, general & administrative expenses	**274.7**	250.2	**23.2%**	23.3%
Other expenses	**0.9**	0.2	**0.1%**	0.0%
Earnings Before Interest and Taxes	**61.7**	60.7	**5.2%**	5.6%
Finance costs	**17.8**	45.3	**1.5%**	4.2%
Provision for income taxes	**7.7**	(7.3)	**0.6%**	(0.7)%
Non-controlling interests	—	2.6	—	0.2%
Net income	**$ 36.2**	$ 20.1	**3.1%**	1.9%

Revenue by operation
($ millions)
Three months ended December 31



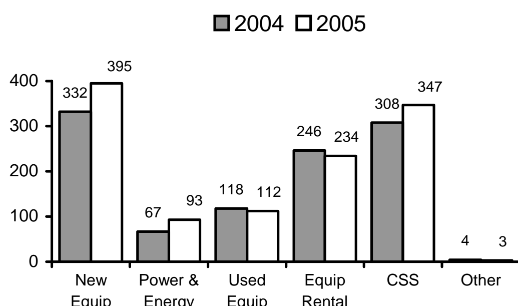
The Company achieved record fourth quarter revenues driven by continued strong equipment sales and customer support services in the quarter. Consolidated revenues increased 10.1% to $1,184.0 million, EBIT increased 1.6% to $61.7 million and consolidated net income increased by 80.1% to $36.2 million. Basic EPS for the quarter was $0.41 compared with $0.23 in the same period last year.

Revenue increased in most operations, year-over-year. Continued strength in commodity prices, infrastructure spending in the regions in which the Company operates, price increases, and strong customer support services activities contributed to higher revenues.

Revenue was higher in 2005 particularly in the Company's Canadian and South American operations as a result of strong equipment and service related spending by our customers that benefit from high commodity prices.

The growth in revenues occurred despite the negative foreign exchange translation impact on revenues of approximately $60 million due to a stronger Canadian dollar in the quarter relative to the pound sterling (9.9% strengthening) and the US dollar (3.9% strengthening), year over year.

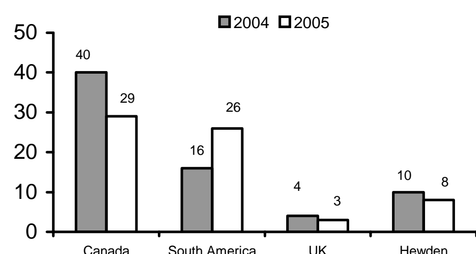
Revenue by Line of Business
($ millions)
Three months ended December 31



From a line of business perspective, strong demand for new equipment and customer support services in the fourth quarter of 2005 was partially offset by lower rental revenues from the UK Materials Handling business. 2005 revenues exceeded 2004 revenues notwithstanding the 2004 sale of the majority of the Company's leased assets to Caterpillar Financial Services Limited which resulted in an additional $60 million of equipment sales revenue in the fourth quarter of 2004. Excluding the impact of foreign exchange and the sale of leased assets, revenues in local currency increased by 37% in Canada; 22% in the UK operations and 21% in South America, while Hewden remained at similar levels to last year's quarter.

Gross profit of $337.3 million in the quarter increased 8.4% over the same period last year. As a percentage of revenue, gross profit decreased slightly over last year primarily due to a higher proportion of 2005 revenues from new equipment sales which experience lower margins than the rental and customer support services line of business.

EBIT by operation *
($ millions)
Three months ended December 31



*excluding other operations – corporate head office

EBIT increased $1.0 million, year over year, with the strong performance in the Company's South American operations partially offset by higher costs and lower contribution from the UK Materials Handling business in the fourth quarter of 2005. Costs were higher in the Canadian operating segment to support the Company's start-up operation, OEM Remanufacturing, which, while in production in the fourth quarter of 2005, was impacted by Finning (Canada)'s labour stoppage and also incurred higher start-up costs. In 2005, the Canadian operating segment's EBIT was also negatively impacted by approximately $5.6 million of additional costs due to a labour strike at Finning (Canada) which lasted approximately 6 weeks. In 2004, Finning (Canada) sold its leased assets which contributed $6.4 million to EBIT.

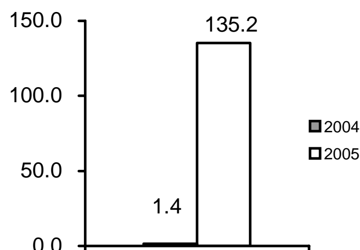
In addition, EBIT from operations were impacted year over year due to the stronger Canadian dollar relative to both the United States dollar and the pound sterling currencies, and the Chilean peso which strengthened relative to the Canadian dollar. The Chilean peso strengthened approximately 8% over the fourth quarter of 2004 and resulted in higher selling, general and administrative (SG&A) costs from our South American operations when translated into Canadian dollars. EBIT for the fourth quarter was approximately $8.0 million lower than last year as a result of these foreign currency movements.

Long-term incentive plan (LTIP) costs were lower in the fourth quarter of 2005. The common share price movement in the fourth quarter of 2005 generated income of $2.8 million, whereas an increase in the common share price in the fourth quarter of 2004 triggered the vesting of deferred share units and resulted in an expense of $6.7 million.

In local currencies, and excluding the impact of the lease asset sales, LTIP and strike costs, EBIT reflects stronger operational performances from the Company's Canadian and South American operations year over year, partially offset by a weaker performance from the Company's UK Materials Handling business.

Net income improved 80.1% in the fourth quarter of 2005 reflecting lower financing costs due to the refinancing of the non-controlling interests in Hewden in November 2004.

Cash Flow (after working capital changes)
($ millions)
Three months ended December 31



Cash flow after changes in working capital for the quarter was $135.2 million, a significant improvement from the minimal cash flow generated in the same period last year. This was primarily due to stabilizing working capital requirements in the last 2 quarters of 2005 as management continues to focus on improving cash cycle times and operating efficiencies. In the fourth quarter of 2005 the Company continued to invest in inventories to support strong customer demand and product availability issues, although at a lower growth rate than the prior year.

The Company made a net investment in rental assets of $29.3 million during the fourth quarter of 2005, a decrease of $40.4 million from the same period in 2004. Rental assets were utilized in 2005 to support customer demand where product availability issues arose and fewer rental assets were purchased by the UK Materials Handling business due to lower demand. As a result of these items and despite the fourth quarter 2004 sale of the majority of the Canadian leased assets, cash flow from operating activities was $98.7 million in 2005 compared to a use of cash of $16.1 million in 2004.

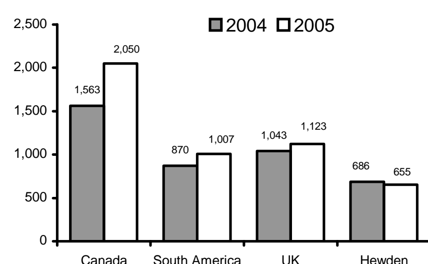
Normalized Results

In prior quarters, certain revenue and expense items that were not reflective of the underlying performance of the Company's ongoing operations were removed from reported results prepared in accordance with generally accepted accounting principles (GAAP) in Canada. For comparative purposes, these non-GAAP measures are presented this quarter. See Attachment 1 for a summary of normalized items and a reconciliation of normalized results to published results. Excluding items that do not reflect the Company's ongoing operations, Normalized EBIT for the quarter was $62.5 million or 2.6% higher than the fourth quarter of 2004. Normalized Net Income was $37.0 million (2004: $34.5 million) while Normalized EPS was $0.41, comparable to the fourth quarter of 2004 ($0.42 per share).

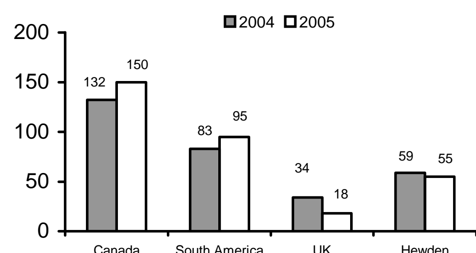
Annual Overview

($ millions)	2005	2004	2005	2004
			(% of revenue)	
Revenue	**$ 4,834.6**	$ 4,161.9		
Gross profit	**1,391.1**	1,243.7	**28.8%**	29.9%
Selling, general & administrative expenses	**1,103.5**	964.3	**22.8%**	23.2%
Other expenses	**2.3**	13.7	**0.1%**	0.3%
Earnings Before Interest and Taxes	**285.3**	265.7	**5.9%**	6.4%
Finance costs	**76.9**	118.1	**1.6%**	2.8%
Provision for income taxes	**44.4**	17.6	**0.9%**	0.4%
Non-controlling interests	—	15.1	—	0.4%
Net income	**$ 164.0**	$ 114.9	**3.4%**	2.8%

Revenue by operation
($ millions)
Twelve months ended December 31



EBIT by operation *
($ millions)
Twelve months ended December 31



*excluding other operations – corporate head office

Finning achieved record consolidated revenues in 2005 and exceeded its goal of 15% annual revenue growth. Revenues are higher, year over year, most notably in the Company's Canadian and South American operations with unprecedented demand for our products and services, increasing 16.2% over 2004 to $4,834.6 million.

EBIT increased 7.4% to $285.3 million and consolidated net income increased 42.7% to $164.0 million despite higher LTIP costs and the negative impact of a stronger Canadian dollar in 2005. Basic EPS was $1.85 compared with $1.45 in 2004.

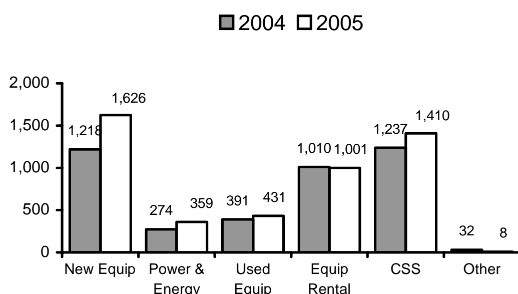
The increase in net income year over year was primarily due to the exceptional performance of the Company's Canadian and South American operations, lower finance costs and other expenses and the elimination of non-controlling interests distributions. The increase in net income compared with 2004 was partially offset by higher pension and LTIP costs. Higher LTIP costs of $0.16 per share (2004: $0.13 per share) were the result of an increase in the Company's share price year over year as well, which hit a high of $41.39 per share in the third quarter of 2005. As a result, five deferred share unit tranches vested in the third quarter of 2005. LTIP costs are directly related to providing shareholder value by achieving a higher share price.

The Company's LTIP includes stock-based compensation plans such as deferred share unit plans, share appreciation rights plans and stock options. The costs incurred in 2005 are primarily due to the vesting of seven tranches of deferred share units and the mark-to-market impact on the valuation of LTIP resulting from the appreciation of the Company's share price in 2005.

Other expenses were lower by $11.4 million in 2005 partially due to the $7.9 million pre-tax settlement of a legal claim in 2004 in the U.K. Finance costs in 2005 were lower compared with 2004 due to foreign exchange and $22.3 million of costs associated with the redemption of non-controlling interests.

The Company is committed to improving its cost structure and continues to progress its plan to reduce annualized costs by $60 million by the end of 2006.

Revenue by Line of Business
($ millions)
Twelve months ended December 31



Finning's business is geographically diversified and the Company conducts business in multiple currencies, the most significant of which are the US dollar, the Canadian dollar, the U.K. pound sterling and the Chilean peso. The most significant foreign exchange impact on the Company's net income is the translation of foreign currency based earnings into Canadian dollars. Compared to the prior year, the strengthening of the Canadian dollar against the US dollar and U.K. pound sterling decreased EBIT and net income by $27.9 million and $15.1 million, respectively.

Finning's order book of $968 million continues at extremely strong levels, up 15.9% from the December 2004 levels of $835 million.

Order book, or backlog, represents the retail value of equipment units ordered by customers for future deliveries and is a measure used by Company management to forecast future revenues. Notwithstanding the strong backlog levels, the Company is dependent on Caterpillar for the timely supply of equipment and parts to fulfill these deliveries. Caterpillar has reported that while they have increased production at some of their manufacturing facilities to meet the increase in demand for their products, they continue to place certain of their models under managed distribution in North America. In addition, Caterpillar continues to face material supply chain constraints for large mining products, in particular a continued tire shortage, thereby increasing the delivery time for these products. Caterpillar is focusing on its production processes to improve order fulfillment and supply chain efficiencies. The Company continues to work closely with Caterpillar and customers to ensure that demand for product can be met. Where supply constraints occur, the Company has been utilizing its rental assets and used equipment to meet demand.

For the year ended December 31, 2005 cash flow after working capital items of $478.8 million was almost double that of the same period in 2004 as a result of stabilizing working capital. The Company decreased net spending on rental assets by 29.6% with a net investment of $310.7 million in 2005 (2004: $441.4 million). In 2004, the Company continued with its strategy to sell its lease portfolio to Caterpillar Financial Services Limited and by the end of 2004 had divested virtually its entire lease portfolio. Cash flow from operating activities was $158.3 million compared to a use of cash of $117.2 million in the same period of 2004.

In November 2004, the Company issued 10 million common shares for proceeds, net of issue costs and income taxes, of $296.8 million, which were used to fund a portion of the cost of refinancing the $425.0 million non-controlling interests in Hewden.

Results by Business Segment

The Company and its subsidiaries have operated primarily in one principal business during the year, that being the selling, servicing, renting and financing of heavy equipment and related products in various markets worldwide as noted below.

Operating units are as follows:

- Canadian operations: British Columbia, Alberta, the Yukon Territory, the Northwest Territories, and a portion of Nunavut.
- South American operations: Chile, Argentina, Uruguay and Bolivia.
- UK operations: England, Scotland, Wales, Falkland Islands and the Channel Islands
- Hewden operations: Equipment rental in England, Scotland, Wales and Jersey.
- Other operations: corporate head office.

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

($ millions) For years ended December 31 2005	Canada	South America	UK	Hewden	Consolidated	Revenue percentage
New mobile equipment	**$ 739.5**	**$ 454.7**	**$ 419.7**	**$ 11.8**	**$ 1,625.7**	**33.6%**
New power & energy systems	**143.7**	**75.4**	**139.9**	**—**	**359.0**	**7.4%**
Used equipment	**253.0**	**29.8**	**119.2**	**28.8**	**430.8**	**8.9%**
Equipment rental	**195.4**	**45.5**	**187.5**	**572.7**	**1,001.1**	**20.7%**
Customer support services	**712.2**	**399.7**	**256.2**	**41.8**	**1,409.9**	**29.2%**
Other	**5.9**	**2.2**	**—**	**—**	**8.1**	**0.2%**
Total	**$ 2,049.7**	**$ 1,007.3**	**$ 1,122.5**	**$ 655.1**	**$ 4,834.6**	**100.0%**
Revenue percentage by operations	**42.4%**	**20.8%**	**23.2%**	**13.6%**	**100.0%**	

For years ended December 31 2004	Canada	South America	UK	Hewden	Consolidated	Revenue percentage
New mobile equipment	$ 510.9	$ 357.6	$ 340.7	$ 9.2	$ 1,218.4	29.3%
New power & energy systems	113.3	54.7	105.5	—	273.5	6.6%
Used equipment	194.9	36.2	128.6	31.5	391.2	9.4%
Equipment rental	148.6	38.6	221.7	600.9	1,009.8	24.3%
Customer support services	564.1	381.6	247.0	44.3	1,237.0	29.7%
Other	30.8	1.2	—	—	32.0	0.7%
Total	$ 1,562.6	$ 869.9	$ 1,043.5	$ 685.9	$ 4,161.9	100.0%
Revenue percentage by operations	37.5%	20.9%	25.1%	16.5%	100.0%	

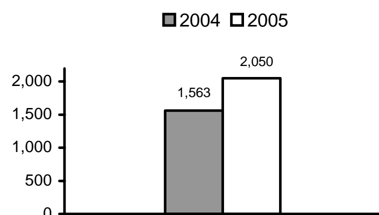
The table below provides annual EBIT contribution by operations:

($ millions) For years ended December 31 2005	Canada	South America	UK	Hewden	Other	Consolidated
Revenue from external sources	**$ 2,049.7**	**$ 1,007.3**	**$ 1,122.5**	**$ 655.1**	**$ —**	**$ 4,834.6**
Operating costs	**1,782.2**	**886.2**	**1,026.9**	**463.9**	**31.0**	**4,190.2**
Depreciation and amortization	**117.3**	**25.6**	**77.9**	**136.0**	**—**	**356.8**
Other expenses	**—**	**—**	**—**	**—**	**2.3**	**2.3**
Earnings before interest and tax	**$ 150.2**	**$ 95.5**	**$ 17.7**	**$ 55.2**	**$ (33.3)**	**$ 285.3**
Earnings before interest and tax						
- percentage of revenue	**7.3%**	**9.5%**	**1.6%**	**8.4%**	**—**	**5.9%**
- percentage by operations	**52.6%**	**33.5%**	**6.2%**	**19.4%**	**(11.7)%**	**100.0 %**

For years ended December 31 2004	Canada	South America	UK	Hewden	Other	Consolidated
Revenue from external sources	$ 1,562.6	$ 869.9	$ 1,043.5	$ 685.9	$ —	$ 4,161.9
Operating costs	1,318.5	764.0	923.4	482.6	27.9	3,516.4
Depreciation and amortization	112.5	22.9	85.9	144.8	—	366.1
Other expenses	—	—	—	—	13.7	13.7
Earnings before interest and tax	$ 131.6	$ 83.0	$ 34.2	$ 58.5	$ (41.6)	$ 265.7
Earnings before interest and tax						
- percentage of revenue	8.4%	9.5%	3.3%	8.5%	—	6.4%
- percentage by operations	49.5%	31.2%	12.9%	22.0%	(15.6)%	100.0 %

Canadian Operations

Canada – Revenue ($ millions)
Twelve months ended December 31

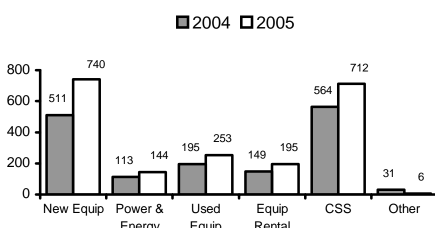


The Canadian operating segment primarily reflects the results of the Company's operating division, Finning (Canada). This reporting segment also includes the Company's interest in OEM Remanufacturing Company Inc. (OEM), which became fully operational late in the second quarter of 2005. OEM is a component rebuild facility based in Edmonton, Alberta.

The table below provides details of the results from the Canadian operating segment:

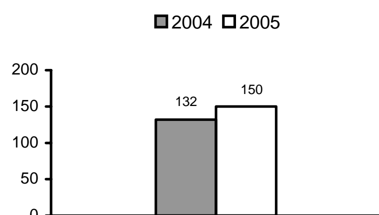
($ millions) **For years ended December 31**	**2005**	2004
Revenue from external sources	**$ 2,049.7**	$ 1,562.6
Operating costs	**1,782.2**	1,318.5
Depreciation and amortization	**117.3**	112.5
Earnings before interest and tax	**$ 150.2**	$ 131.6
Earnings before interest and tax		
- as a percentage of revenue	**7.3%**	8.4%
- as a percentage of consolidated earnings before interest and tax	**52.6%**	49.5%

Canada – Revenue by Line of Business ($ millions)
Twelve months ended December 31



Record results were achieved in the Company's Canadian operations in 2005. Revenues increased 31.2% over the 2004 levels to $2,049.7 million with Alberta-based operations contributing over 68% of revenues in 2005, an increase from 63% in 2004. The increase in revenues was attributable to significant strength in the mining, petroleum and construction sectors driven by strong commodity and energy prices and higher levels of infrastructure spending. In 2005, Finning (Canada) more than doubled the number of equipment units that it delivered to mining customers compared with the same period last year leading to its strongest revenue year in history.

Canada – EBIT ($ millions)
Twelve months ended December 31



This strong activity in 2005 more than offset the shortfall in revenues due to the sale of leased assets in 2004 and the absence of the associated leasing revenues in 2005 which, in total, unfavourably impacted the year-over-year revenues by approximately $130 million. In addition, a 7% strengthening of the Canadian dollar relative to the United States dollar, year-over-year, had a negative impact of approximately $40 million on revenues.

Revenues from all lines of business in Canada increased over 2004 levels with the exception of operating lease revenues. Finning (Canada) experienced continued strong performance in customer support services despite a six-week disruption in service work in the fourth quarter of 2005 due to a labour strike. Revenues were boosted by demand for parts, price realization and the additional revenue from the Company's new product alliance venture with Shell. This alliance contributed a major portion of the overall improvement in customer support services revenues of 26% in 2005 compared with 2004. Although revenues increased, the related margin from the fuel and lubricant sales of this business is lower than that of the traditional dealership parts retail business.

Rental revenues increased over the 2004 comparable period as a result of a larger rental fleet. The growth in the rental fleet reflects the increased demand for the CAT rental store businesses in 2005 and continued strong customer demand to rent equipment with an end of term option to purchase.

New equipment backlog continues to be strong and includes a significant number of mining trucks of all sizes, as well as a large number of mining support equipment orders. Backlog reflects the strong activity in the mining, petroleum, construction and government sectors in which the Canadian operations operate.

In Canada, higher gross profits were achieved due to strong customer demand and price realization, but decreased as a percentage of revenue. This was mainly due to a change in the mix of revenues in 2005 to more equipment sales, which attract a lower margin than the rental and customer support services businesses, as well as lower margins contributed by the ancillary Shell alliance business and the absence of the higher leasing business margins. This reduction was partially offset by improved equipment margins due to strong demand and improved rental margins as a result of the Cat Rental Store growth in 2005.

The record revenue experienced by the Canadian operating segment in 2005 was partially offset by higher SG&A costs. Variable costs were higher in 2005 to support the increased volumes and to meet customer demands. Customer service demand increased due to new maintenance contracts entered into in 2005. As a result, Canada added revenue-generating employees and staff to support the higher level of demand. As well, the start-up of the component rebuild business of OEM increased SG&A expense levels for the Canadian operating segment. Headcount for the Canadian operating segment increased by approximately 250 or 8% over 2004. Other key factors affecting the SG&A increase in 2005 compared with 2004 include:

- Finning (Canada) incurred additional costs to maintain operations during a six-week labour strike which commenced in October 2005 by the International Association of Machinists and Aerospace Workers – Local Lodge 99, representing Finning (Canada) employees in Alberta and Northwest Territories. On December 5, 2005, an agreement was reached on a three-year collective agreement which will expire April 30, 2008. The strike resulted in higher costs of $5.6 million for security, freight and delivery as well as costs related to replacement workers.
- Higher costs incurred in the start-up business of OEM.
- Higher pension and LTIP costs.

Canada has numerous initiatives underway to reduce SG&A costs and has implemented various 6-Sigma projects to facilitate further cost efficiencies.

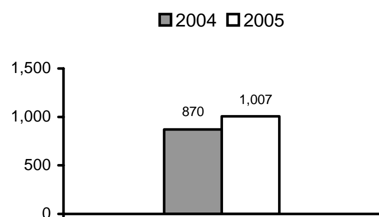
Record revenues in the Canadian operations, partially offset by higher SG&A, costs translated into a strong contribution to EBIT of $150.2 million in 2005 compared with $131.6 million in 2004.

Finning (Canada)'s collective bargaining agreement with the International Association of Machinists and Aerospace Workers, Vancouver Lodge 692, covering approximately 800 unionized employees located in British Columbia, expires on April 14, 2006. The Company is committed to the collective bargaining process and to concluding a fair contract for its employees and for Finning.

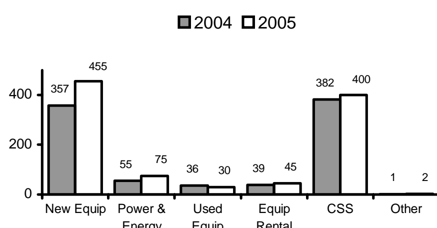
In 2005, Finning (Canada) was selected by Caterpillar to be one of four Caterpillar dealers forming a new global Caterpillar dealership, PipeLine Machinery International (PLM). PLM is now operational and serving the global pipeline construction industry by supplying Caterpillar pipeline products to international 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.

South America

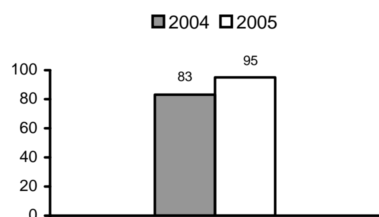
South America – Revenue ($ millions)
Twelve months ended December 31



South America – Revenue by Line of Business ($ millions)
Twelve months ended December 31



South America – EBIT ($ millions)
Twelve months ended December 31



The Company's South American operations include the results of its Caterpillar dealerships in Chile, Argentina, Uruguay and Bolivia.

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

($ millions) **For years ended December 31**	**2005**	2004
Revenue from external sources	**$ 1,007.3**	$ 869.9
Operating costs	**886.2**	764.0
Depreciation and amortization	**25.6**	22.9
Earnings before interest and tax	**$ 95.5**	$ 83.0
Earnings before interest and tax		
- as a percentage of revenue	**9.5%**	9.5%
- as a percentage of consolidated earnings before interest and tax	**33.5%**	31.2%

Revenues in 2005, for the first time ever, exceeded the $1 billion level and increased 15.8%, despite the negative impact of a strengthening Canadian dollar relative to the US dollar. In local currency (US dollar), Finning South America revenues increased 24% reflecting strong machine deliveries to mining and construction customers. This is a result of the strong commodity cycle and high metals prices driven by global demand and strong economic growth in the countries in which Finning South America operates. Finning's expectation is that commodity prices will continue to be strong in 2006 which should encourage more investment in mining and infrastructure spending. Finning South America experienced growth in most lines of business in 2005, particularly in new equipment sales. Growth was also experienced in customer support services to meet the demands of an increasing number of new mining maintenance and repair contracts and higher construction rental activity supported by a larger rental fleet.

New equipment order backlog was higher than last year and shows ongoing strength as significant new mining contracts continue to be secured to more than offset orders being delivered to customers.

Gross profit increased in 2005 over 2004, reflecting the strong demand for the Company's products and favourable performance of customer support contracts.

SG&A costs were higher in 2005 compared with 2004. Variable selling costs were higher, year over year, to support the incremental business volumes experienced in 2005. Other key factors affecting the SG&A increase in 2005 compared with 2004 include:

- Higher LTIP costs.
- Higher costs to support increased volumes and to meet customer demands. Customer service demand has increased due to new maintenance contracts entered into in the last year. As a result, South America added revenue-generating employees and staff to support the higher level of demand in South America and net headcount increased by approximately 282 or 7.5% from one year ago.

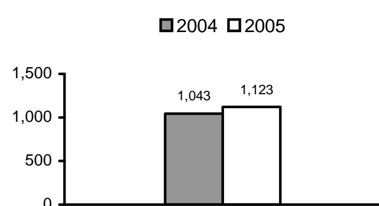
Finning South America has numerous initiatives underway to reduce SG&A costs and has implemented various 6-Sigma projects to facilitate further cost efficiencies. In the fourth quarter of 2005, the Company's South American operations reorganized selected areas of their operations and reduced headcount by approximately 100 employees from 2004 levels. These reductions are anticipated to save costs into the future by approximately $2.4 million per year.

Record revenues partially offset by higher SG&A costs translated into a strong contribution to EBIT of $95.5 million in 2005 compared with $83.0 million in 2004.

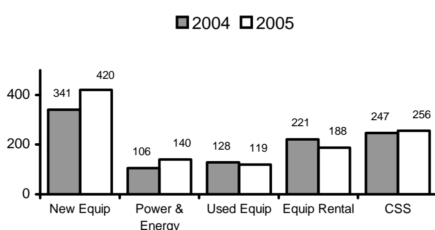
United Kingdom ("UK") Group

The UK Group includes the Company's UK Operations and Hewden Operations, described below.

UK – Revenue ($ millions)
Twelve months ended December 31



UK – Revenue by Line of Business ($ millions)
Twelve months ended December 31



UK – EBIT ($ millions)
Twelve months ended December 31

UK Operations

The Company's UK Operations include the results of Finning (UK) which operates the Caterpillar dealership in the U.K. (Construction Equipment and Power Systems divisions) and the UK Materials Handling business. Also included in the UK operations is Diperk UK, sole distributor of Perkins engines in the U.K. marketplace.

The table below provides details of the results from the UK Operations:

($ millions) **For years ended December 31**	**2005**	2004
Revenue from external sources	**$ 1,122.5**	$ 1,043.5
Operating costs	**1,026.9**	923.4
Depreciation and amortization	**77.9**	85.9
Earnings before interest and tax	**$ 17.7**	$ 34.2
Earnings before interest and tax - as a percentage of revenue	**1.6%**	3.3%
- as a percentage of consolidated earnings before interest and tax	**6.2%**	12.9%

Revenues in 2005 of $1,122.5 million were up by 7.6% from the prior year. Excluding the foreign currency translation impact due to the 7.5% strengthening of the Canadian dollar relative to the pound sterling, revenues in the UK Operations increased 16.3% in local currency over the prior year. This reflected improvements in the Construction Equipment and Power Systems divisions. New mobile equipment revenues increased 23.2% in 2005 compared with 2004. Activity was strong in the quarrying sector in the first half of 2005 with deliveries to customers that had previously been deferring their capital purchases. Activity was also strong in the mining sector with higher coal prices driving increased extraction activity in the U.K. New order backlog at December 2005 was higher than the December 2004 levels.

Revenue for new power and energy systems increased by $34.4 million or 32.6% compared with 2004, with improvements in the marine and power generation sectors. In addition, Power System revenues included $14.3 million from Diperk UK, which began operations in December 2004.

Customer service revenues increased in the UK Operations, year over year, reflecting stronger volumes in the Construction Equipment division and incremental volumes amounting to $13.9 million from Diperk UK.

These improvements were offset by the results of the Materials Handling division of the UK Operation, which experienced a difficult year. In addition to operating in a very competitive marketplace, a number of other factors influenced performance. Combining 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. Information systems upgrades that were originally planned were deferred which has caused the business to operate with two inefficient legacy systems that are challenging to integrate. 2005 saw a higher proportion of customers finance their long-term contracts externally. This increased new equipment sales revenue in 2005 but also had the effect of reducing the Division's long term rental fleet and related rental revenues. At December 31, 2005, the Materials Handling long-term rental fleet was approximately 11,000 units, down 7% from the end of 2004. Rental revenues also decreased in 2005 partially due to a slowing demand for short-term rental of Materials Handling fleet units. As a result, the short-term rental fleet for Materials Handling has been reduced to 2,500 units at the end of December 2005 compared with 3,000 at December 2004. Efforts are ongoing to improve the results of the Materials Handling division. Senior management changes have been implemented. As well, in late 2005, Finning introduced several special programs providing its materials handling customers with favourable financing terms and manufacturer supported pricing incentives. The benefits of these programs were only beginning to materialize in the last few months of the year. In January 2006, the Materials Handling division of the UK Operations was selected as the preferred supplier to provide approximately 130 warehouse lift trucks to DSG International, a large international company. This is a significant new customer with opportunity for growth.

Gross profit in 2005 for the UK Operations was lower in absolute dollars due to the stronger Canadian dollar. In local currency, gross profit increased 4% over last year but gross profit margins were lower in 2005. This is partially due to a higher proportion of revenue from sales of equipment, which typically earn lower margins than other lines of business, and lower margin percentages achieved in the competitive U.K. marketplace. Other factors influencing the lower gross profit margins were lower rental fleet revenues and higher fleet maintenance costs of the Materials Handling business and lower margins achieved by the new Diperk UK business. There has been some improvement in the absolute gross margin contribution achieved by the Construction Equipment and Power Systems divisions while they work on improving their market share, but at lower percentage margins reflecting the competitiveness of the U.K. marketplace. Management at Finning (UK) continues to focus on improving margins in all areas, cost control and working with Caterpillar to improve market share.

The UK Operations also experienced higher SG&A costs. Key factors affecting the SG&A increase in 2005 compared with 2004 include:

- Higher operating costs due to continued systems inefficiencies.
- Higher costs due to the start-up phase of Diperk UK.
- Higher pension, LTIP and other people related costs.

The increase in SG&A in 2005 compared with 2004 was partially offset by the favourable foreign exchange impact due to a stronger Canadian dollar relative to the pound sterling.

Management has identified a number of significant opportunities to reduce costs, including projects already underway at Finning (UK), including reducing the costs associated with their DBSi information system, pension and other areas. Finning (UK) and affected employees have agreed to change employee pensionable benefits which will now increase broadly in line with inflation. This change will be effective early in 2006 and is anticipated to decrease pension expense for Finning (UK) by approximately $5.5

million annually. In February 2006, Finning (UK) implemented a restructuring plan that will result in a reduction in headcount by approximately 50 people to reduce employment related costs by approximately $3 million going forward.

The UK Operations contributed $17.7 million of EBIT in 2005 compared with $34.2 million in 2004, reflecting the impact on revenues, margins and SG&A discussed above.

To support the U.K. effort to grow market share in all sectors and improve profitability, 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 the 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 service offerings for its larger equipment to a more decentralized, regional model, moving its service 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. Also, in 2005 Caterpillar announced a global alliance with JLG Industries Inc. to produce a full line of Caterpillar branded telehandlers by late 2006. This is a key product for Finning as telehandlers are the largest market segments in the U.K. equipment market. Finning in turn has appointed a general manager for the new Cat Compact channel and is proceeding to pilot 2 regions of the new distribution channel.

Hewden Operations

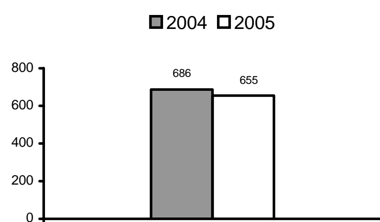
Hewden is an equipment rental and associated services operation in the United Kingdom.

The table below provides details of the results from Hewden:

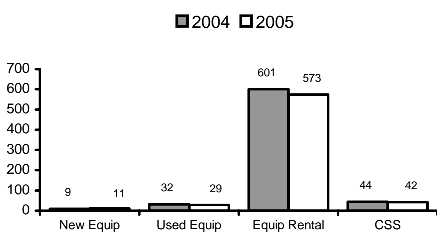
($ millions) **For years ended December 31**	**2005**	2004
Revenue from external sources	**$ 655.1**	$ 685.9
Operating costs	**463.9**	482.6
Depreciation and amortization	**136.0**	144.8
Earnings before interest and tax	**$ 55.2**	$ 58.5
Earnings before interest and tax		
- as a percentage of revenue	**8.4%**	8.5%
- as a percentage of consolidated earnings before interest and tax	**19.4%**	22.0%

Hewden revenues decreased 4.5% to $655.1 million in 2005 compared with 2004, although in local currency, revenues increased 3.2%. Despite early indications of a softening U.K. economic environment, Hewden benefited from moderate increases in rental prices and volumes.

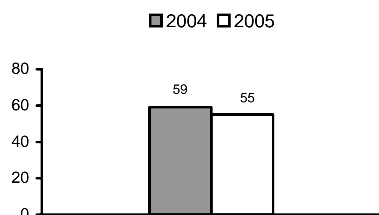
Hewden – Revenue ($ millions)
Twelve months ended December 31



Hewden – Revenue by Line of Business
($ millions)
Twelve months ended December 31



Hewden – EBIT ($ millions)
Twelve months ended December 31



Although price competitiveness in the U.K. rental market continued in 2005, rental margins showed a modest improvement. Revenues increased year over year, in local currency, which improves margins due to the relatively fixed costs associated with the Hewden rental business. The improvement in rental margins was offset by the rapid increase in the cost of fuel in the latter part of 2005 which was not fully absorbed by customers.

Hewden's moderately higher SG&A costs, in local currency, were affected by some of the same factors impacting the UK operations – higher LTIP costs and inflationary impact on people costs. Other items included in SG&A in 2005 were:

- Higher costs associated with credit and collection functions. Some of these costs are system driven and are expected to decrease once Hewden implements its new information technology system in 2007.
- Savings from employee headcount reductions of approximately 120 as a result of cost-saving initiatives and project studies. Efficiencies as a result of restructuring and employee head count reductions are expected to result in $2.5 million of annual cost savings going forward.

To further improve revenues and operational results, Hewden has initiated several inter-related projects to improve financial performance and become more efficient in meeting the needs of a core customer base, with a streamlined product offering and a more strategically structured distribution channel. This is expected, in conjunction with its new information technology system, to increase asset utilization and reduce costs. Project costs relating to these initiatives are expected to continue in 2006 and 2007.

Hewden contributed $55.2 million of EBIT in 2005 compared with $58.5 million in 2004, reflecting the impact on revenues, margins and SG&A discussed above, together with the adverse impact of a stronger Canadian dollar when translating Hewden's results from pound sterling. In local currency, EBIT increased 2.1%.

Other expenses

Other expenses are shown separately on the income statement to allow an easier comparison of the performance of the Company's ongoing operations to the corresponding period in the prior year. As a result of these items, the Company recorded a pre-tax expense of $2.3 million in 2005, compared to a pre-tax expense of $13.7 million for the corresponding period in 2004. See Attachment 1 for a complete listing of these items.

The major items were:

In 2005:

- Restructuring and project costs incurred in all operations of $12.4 million primarily due to:
  - Project costs in the UK operation for business model redesign and in the Hewden operation for its key initiatives which focus on its core customer base, narrowing its product offering and simplifying its operational organization so as to increase asset utilization and reduce costs. These expenditures, which began in 2004 in the Hewden operation, are expected to continue into 2007.
  - Restructuring relating to the outsourcing of Finning (Canada)'s parts warehousing to Tracker Logistics. In the first quarter of 2005, Finning (Canada) entered into a five-year renewable contract with Edmonton, Alberta based Tracker Logistics, to outsource the majority of the warehousing

activities of its Edmonton-based parts distribution centre. The contract, subject to volumes handled, represents commitments of approximately $9.0 million per annum.

    - Restructuring related to centralizing certain functions to be shared throughout the South American operations and realigning of other positions to better service customers, with a headcount reduction of approximately 100 employees and a resulting charge of $2.3 million.
- Sale of the Company's investment in Maxim Power Corp. as part of a strategy to divest non-core assets. The Company recorded a $1.8 million gain on the sale of this investment.
- Gain on sale of surplus properties in the U.K. and Canada of $8.3 million.

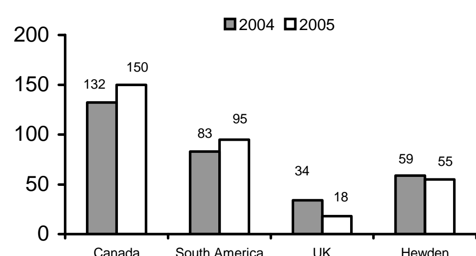
In 2004:

- The Company settled Hewden legal claims for damages arising from the collapse of a tower crane at the Canary Wharf site in the U.K. on May 21, 2000, which was prior to the Company's acquisition of Hewden in 2001. The impact of the settlement, net of previous accruals, was a pre-tax charge of $7.9 million.
- Restructuring and project costs of $16.0 million primarily due to:
    - The implementation of Hewden's key initiatives in 2004
    - Finning (Canada)'s restructuring to take advantage of growth opportunities, reduce its cost base and to cover redundancy costs in preparation of outsourcing its component rebuild service work to OEM
    - Finning (UK)'s downsizing of specialized services and a restructuring of its component rebuild centre.
- Recognition of the $3.8 million unamortized portion of the deferred gain from the sale of the Canadian Materials Handling business in 2001.
- Gain on sale of surplus properties in the U.K. and Canada of $6.8 million.

Earnings before interest and taxes (EBIT)

On a consolidated basis, EBIT increased by 7.4% to $285.3 million in 2005 with record EBIT levels achieved in Canada and South America. The increase in gross profit of $147.4 million in 2005 was somewhat offset by higher SG&A costs. The increased SG&A expense reflects higher LTIP costs, pension costs and increased headcount to meet business growth and customer service demand. EBIT was also lower in 2005 as a result of the strengthening Canadian dollar relative to the US dollar and pound sterling. The foreign exchange variance is mainly due to translating results from country operations that are based on a foreign currency into Canadian dollars. EBIT as a percentage of revenue decreased from 6.4% in 2004 to 5.9% in 2005.

EBIT by operation *
($ millions)
Twelve months ended December 31



* excluding other operations – corporate head office

Major components of the annual EBIT variance were:

	($ millions)
2004 annual EBIT	**265.7**
Net growth in operations, particularly Canada and South America	98.9
Start-up businesses	(7.3)
Higher pension expense	(5.9)
Lower UK Materials Handling contribution	(17.0)
Foreign exchange impact	(27.9)
Higher long-term incentive plan costs	(6.3)
Canada lease sale in 2004	(20.8)
Canada strike	(5.6)
Net change in other expenses *(see note 2 to the Consolidated Financial Statements)*	11.5
2005 annual EBIT	**285.3**

Finance costs

Finance costs for the year ended December 31, 2005 of $76.9 million were 34.9% lower than last year primarily due to the following:

- Lower average long-term borrowing rates in 2005 as term debt matured in 2004 and was refinanced at lower rates.
- Costs incurred in 2004 related to the redemption of the non-controlling interests which was used to finance a portion of the Hewden Stuart acquisition. Redemption of the non-controlling interests resulted in a charge of $22.3 million in 2004, which included costs to unwind related hedging arrangements and the accelerated write-off of associated deferred financing costs.
- Favourable foreign exchange impact of translating pound sterling and US denominated finance costs in 2005 with a stronger Canadian dollar.

These decreases were partially offset by higher debt levels in 2005 and higher short-term interest rates. Debt levels increased in most operations in 2005 to fund the higher investment in working capital and rental assets. Debt levels were also higher in 2005 due to a full year's impact of the refinancing of the non-controlling interests in late 2004 partially with debt.

Provision for income taxes

The 2005 annual income tax expense was $44.4 million (21.3% effective tax rate) compared with $17.6 million (13.2% effective tax rate) for 2004, primarily as a result of a higher level of income and more earnings originating in the higher Canadian tax jurisdiction relative to total earnings than in 2004. Tax expense was also lower in 2004 partially due to favourable tax assessments received which did not recur in 2005. Management anticipates that for 2006, the consolidated effective tax rate will approximate 22-25%.

Non-controlling interests

The Company formed a partnership in 2001 for the purpose of raising capital to fund the acquisition of Hewden. Private investors invested $425.0 million into the partnership in return for non-controlling partnership interests. The financial position, results of operations and cash flows of the partnership were consolidated with the results of the Company from the date of the partnership's inception. On November 24, 2004, Finning redeemed the non-controlling partnership interests held by the private investors for $425.0 million. The removal of the third party interests in Hewden provided increased flexibility in implementing the various initiatives designed to unlock the full value of its businesses in the U.K. and enhance the Company's ability to grow its business. The refinancing of the non-controlling interests was funded principally through a common share equity offering in November 2004, which raised proceeds, net of issue costs and income taxes, of $296.8 million, and short-term borrowings on the Company's bank credit facilities. In December 2004, the Company repaid these short-term bank borrowings by issuing a 7-year, $150.0 million unsecured medium term note (MTN).

The distribution to the non-controlling partnership interests in 2004 (up to November 24, 2004, the date of redemption) was $15.1 million, representing a yield of 4.0%.

Net income

Net income increased 42.7% to $164.0 million in 2005 compared with $114.9 million in 2004 reflecting the strong contributions from the Canadian and South American operations, lower finance costs, the absence of non-controlling interests and lower other expenses. 2005 results were tempered by the unfavourable foreign exchange impact of approximately $15.1 million after-tax, primarily due to translating foreign sourced earnings, and the higher LTIP costs of $4.7 million after-tax. Basic earnings per share increased to $1.85 in 2005 compared to $1.45 in the prior year.

Accounting Estimates and Contingencies

Management's discussion and analysis of the Company's financial condition and results of operations are based on the Company's consolidated financial statements, which have been prepared in accordance with Canadian generally accepted accounting principles. The Company's significant accounting policies are contained in note 1 to the consolidated financial statements. Certain of these policies require management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues, expenses and disclosure of contingent assets and liabilities. These policies may require particularly subjective and complex judgments to be made as they relate to matters that are inherently uncertain and because the likelihood that materially different amounts could be reported under different conditions or using different assumptions. We have discussed the development, selection and application of our key accounting policies, and the critical accounting estimates and assumptions they involve, with the Audit Committee of the Board of Directors. The more significant estimates include: fair values for goodwill impairment tests, reserves for warranty, provisions for income tax, employee future benefits and costs associated with maintenance and repair contracts.

During the year, the Company performed an assessment of goodwill by estimating the fair value of operations to which the goodwill relates using the present value of expected discounted future cash flows, which resulted in no impairment in 2005. The Company performs impairment tests on its goodwill balances on an annual basis or as warranted by events or circumstances. A significant portion of recorded goodwill relates to Hewden Stuart plc, acquired in 2001.

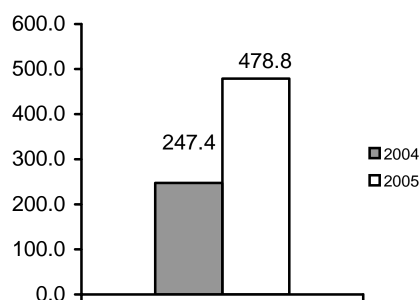
Due to the size, complexity and nature of the Company's operations, various legal and tax matters are pending. In the opinion of management, none of these matters will have a material effect on the Company's consolidated financial position or results of operations.

Liquidity and Capital Resources

Management of the Company assesses liquidity in terms of its ability to generate sufficient cash flow to fund its operations. Net cash flow is affected by the following items:

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

Cash flow after working capital changes
($ millions)
Twelve months ended December 31



Cash flow from operating activities

For the year ended December 31, 2005, cash flow before working capital changes was $521.5 million, an increase of $18.2 million over 2004, and cash flow after working capital changes was $478.8 million, almost double the amount in 2004. Working capital at the end of 2005 increased over the 2004 balances although not at the same growth rate in 2004. The increase in 2005 was to support the increase in customer demand and the revenue growth year over year, and to manage the longer lead times required for delivery of product. Significant progress was made throughout the year on working capital efficiencies which will continue into 2006 with increased focus on credit collections and management of inventory levels.

In addition, 6-Sigma projects have been initiated throughout the Company to improve cash cycle times and operating efficiencies. As a result of management focus, the Company's investment in rental assets of $310.7 million in 2005 was lower than the $441.4 million invested in 2004. In 2004, cash flow benefited from the sale of a portion of the Company's leased assets to Caterpillar Financial Services Limited. Overall, in 2005, cash flow from operations amounted to $158.3 million compared to cash used in operations in 2004 of $117.2 million.

Cash used for investing activities

Net cash invested in 2005 totalled $44.9 million compared with $76.8 million in 2004. Gross capital additions in 2005 were $81.1 million (2004: $106.2 million), of which approximately $33.0 million was invested in OEM's new component rebuild facility built in Edmonton, Alberta. The facility became fully operational late in the second quarter of 2005 at a cost of approximately $72.0 million incurred over 2004 and 2005. The 2005 amounts also reflect the $16.0 million proceeds on the sale of the Company's investment in Maxim Power Corp., proceeds of $8.8 million on the settlement of foreign currency forwards, as well as a further investment of $9.5 million in Energyst B.V. Other spending was for general operational requirements.

The Company's planned capital expenditures for 2006 are projected to be in the range of $75.0 to $125.0 million and will be funded through operations. Net rental additions for 2006 are projected to be in the $350.0 to $400.0 million range.

Financing activities

To complement the internally generated funds from operating and investing activities, the Company has approximately $1,376.0 million in unsecured credit facilities. Included in this amount is a new five-year global syndicated bank credit facility entered into in 2005 which replaced existing Canadian bank lines. At the year-end, approximately $199 million was drawn on these credit facilities.

Longer-term capital resources are provided by direct access to capital markets. The Company is rated by both Standard & Poor's (S&P) and Dominion Bond Rating Service (DBRS). In 2005, the Company's short-term debt rating was upgraded to R-1 (low) and its long-term debt rating was reconfirmed at BBB (high) by DBRS. In addition, the Company's long-term debt rating was reconfirmed at BBB+ by S&P. Since the short-term rating upgrade by DBRS, the Company has utilized the Canadian commercial paper market as its principal source of short-term funding. The Company's commercial paper program has a maximum authorized limit of $500 million, and is backstopped by the global syndicated credit facility.

As at December 31, 2005, the Company's short and long-term borrowings totalled $1,231.7 million, a decrease of $136.2 million compared to December 31, 2004 levels. This reflects lower overall debt in foreign currency ($70.4 million) as well as the impact of translating foreign denominated debt into Canadian dollars ($65.8 million).

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

In December 2004, Finning issued a 7-year, $150 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 were used to repay existing bank indebtedness.

Dividends paid to shareholders were $39.1 million, $7.9 million higher than 2004 due to an increase in the quarterly dividend rate from $0.10 to $0.11 per share announced in early 2005 and the higher number of common shares outstanding in 2005 due primarily to the equity issue in December 2004.

In November 2004, the Company issued 10 million common shares at a price of $30.50 per common share for total gross proceeds of $305.0 million. The proceeds, net of issue costs and income taxes, of $296.8 million were used to fund a portion of the cost of refinancing the $425.0 million non-controlling partnership interests in Hewden. Share capital increased from $557.7 million at December 31, 2004 to $568.1 million at the end of 2005, reflecting the exercise of stock options of approximately 0.8 million common shares for $10.4 million.

In 2004, under a normal course issuer bid that expired December 7, 2004, Finning repurchased approximately 0.3 million common shares. These shares were repurchased at an average price of $29.15 for an aggregate cost of $9.6 million, which was allocated to reduce share capital by $1.1 million and retained earnings by $8.5 million. No common shares were repurchased in 2005.

As a result of management's confidence in the future earnings for the Company and its ongoing commitment to the return of value to its shareholders, the Company increased its quarterly dividend in February 2004, by one cent to ten cents per common share and in February 2005, by one cent to eleven cents per common share. The Company's Board of Directors approved a further increase in Finning's quarterly dividend in February 2006 by two cents to thirteen cents per common share.

Contractual obligations

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

($ millions)	2006	2007	2008	2009	2010	Thereafter	Total
Long-term debt							
- principal repayment	$ 80.3	$ 2.2	$ 203.0	$ —	$ 88.7	$ 550.7	$ 924.9
- interest	54.6	49.9	42.0	35.1	34.2	30.6	246.4
Operating leases	68.1	60.7	51.4	43.4	39.7	183.4	446.7
Argentina additional consideration	14.0	10.7	—	—	—	—	24.7
Total contractual obligations	$ 217.0	$ 123.5	$ 296.4	$ 78.5	$ 162.6	$ 764.7	$ 1,642.7

In January 2003, the Company completed its acquisition of 100% of the voting shares of Macrosa Del Plata S.A. and Servicios Mineras S.A., the Caterpillar dealerships in Argentina and General Machinery Co S.A., the Caterpillar dealership in Uruguay. As part of this agreement, the sellers are entitled to additional future consideration based on the realization of certain performance criteria over a six-year period ending December 31, 2008 for the Argentina operations. Any additional consideration is payable only if certain performance criteria are achieved and maintained for a stipulated period. As a result of the strong performance of the dealership in Argentina since acquisition to date, Finning expects that the maximum future consideration criteria will be met, and these amounts have been recorded in accordance with the agreement as $24.7 million (US$21.2 million) to goodwill. It is estimated that a provisional payment of approximately $14.0 million (US$12.0 million) will be paid in the first half of 2006 with the balance of $10.7 million (US$9.2 million) likely payable in 2007.

Off-balance sheet arrangement

The Company sold a $45.0 million co-ownership interest in a pool of eligible non-interest bearing trade receivables to a multi-seller securitization trust (the “Trust”), net of overcollateralization. Under the terms of the agreement, which expires on November 29, 2007, the Company can sell co-ownership interests of up to $120.0 million on a revolving basis. The Company retains a subordinated interest in the cash flows arising from the eligible receivables underlying the Trust’s co-ownership interest. The Trust and its investors do not have recourse to the Company’s other assets in the event that obligors fail to pay the underlying receivables when due. Pursuant to the agreement, the Company continues to service the pool of underlying receivables.

As at December 31, 2005, the Company is carrying a retained interest in the amount of $7.1 million (as at December 31, 2004: $10.8 million), which equals the amount of overcollateralization in the receivables it sold.

For the year ended December 31, 2005, the Company recognized a pre-tax loss of $1.4 million (2004: $1.0 million) relating to these transfers. The Company estimates the fair value of its retained interest and computes the loss on sale using a discounted cash flow model. The key assumptions underlying this model are:

	December 31, 2005	Range for year ended 2005
Cost of funds	2.96%	2.81% – 3.49%
Weighted average life in days	32.8	29.7 – 36.6
Average credit loss ratio	0.0092%	(0.0004%) – 0.084%
Average dilution ratio	9.66%	5.63% – 9.84%
Servicing fee rate	2.0%	
Fair value of retained interest	$6.9 million	

The impact of an immediate 10 percent and 20 percent adverse change in the average dilution ratio on the current fair value of the retained interest would be reductions of approximately $0.5 million and $1.1 million, respectively. The impact of an immediate 10 percent and 20 percent adverse change in the weighted average life in days on the current fair value of the retained interest would be reductions of approximately $0.6 million and $1.2 million, respectively. The sensitivity of the current fair value of the retained interest or residual cash flows to an immediate 10 percent and 20 percent adverse change in each of the remaining assumptions is not significant.

The table below shows certain cash flows received from and paid to the Trust:

For years ended December 31 ($ in millions)	**2005**	2004
Proceeds from new securitization	**$** —	$ 15.0
Proceeds from revolving reinvestment of collections	**$** 495.5	$ 354.5

Employee share purchase plan

The Company has an employee share purchase plan for its Canadian employees. Under the terms of this plan, eligible employees may purchase common shares of the Company in the open market at the current market price. The Company pays a portion of the purchase price to a maximum of 2% of employee earnings. At December 31, 2005, 59% of Canadian employees were contributing to this plan. The Company has an All Employee Share Purchase Ownership Plan for its employees in Finning (UK) and Hewden. Under the terms of this plan, employees may contribute up to 10% of their salary to a maximum of £125.00 per month. The Company will provide one common share, purchased in the open market, for every three the employee purchases. At December 31, 2005, 22% and 13% of eligible employees in Finning (UK) and Hewden, respectively, were contributing to this plan. These plans may be cancelled by Finning at any time.

Financial Leverage

The Company's overall debt to total capital ratio decreased from 51% at the end of 2004 to 47% at the end of 2005. This decrease in the overall debt to total capital ratio was primarily due to the continued focus on improving the efficiency of current operating assets. The debt to total capital ratios were calculated on a fully consolidated basis.

Risk Management

Finning and its subsidiaries are exposed to market, financial and other risks in the normal course of their business activities. The Company has adopted an Enterprise Risk Management approach in identifying and evaluating risks. This risk management approach assists the Company in managing business activities and risks associated with those activities.

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 with key financial risks also included in the Company's Annual MD&A. On a quarterly basis, the Company assesses all of its key risks and any changes to key financial or business risks are disclosed in the Company's quarterly MD&A.

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, which includes counterparty credit exposure. The Company manages its credit exposure by ensuring there is no significant concentration of credit risk with a single counterparty, and by dealing only with highly rated financial institutions as counterparties.

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 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 investments 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 $20.7 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 for 2006.

Currency	December 31, 2005 month end rates	Increase (decrease) in annual net income $ 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.

Controls and Procedures Certification

The Company is subject to the requirements of Multilateral Instrument 52-109, "Certification of Disclosure in Issuers' Annual and Interim Filings" and proposed Multilateral Instrument 52-111, "Reporting on Internal Control over Financial Reporting", issued by the Canadian Securities regulatory authorities. On a quarterly basis, throughout 2004 and 2005, Finning's Chief Executive Officer (CEO) and Chief Financial Officer (CFO) have been certifying as to the fair presentation of the Company's MD&A and financial statements.

We are 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. To ensure that we meet our obligations and mitigate risks associated with the disclosure of inaccurate or incomplete information, or failure to disclose required information, we have put in place a Disclosure Policy and a Disclosure Committee to guide compliance.

- 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.

The Company has implemented a global project to address internal controls over financial reporting, and regular reporting on the status of the project is provided to senior management and the Company's Audit Committee. 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.

Selected Quarterly Information

$ millions, except for share and option data	2005				2004			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Revenue								
Canada	$ 521.5	531.1	509.5	487.6	$ 456.2	$ 381.5	$ 363.1	$ 361.8
South America	246.9	258.9	274.3	227.2	210.1	256.0	203.1	200.7
UK	268.3	264.9	313.3	276.0	244.4	268.4	290.7	240.0
Hewden	147.3	170.8	174.4	162.6	164.5	180.0	175.7	165.7
Total revenue	$ 1,184.0	1,225.7	1,271.5	1,153.4	$ 1,075.2	$ 1,085.9	$ 1,032.6	$ 968.2
Net income	36.2	44.8	45.6	37.4	20.1	43.1	27.8	23.9
Earnings per common share								
Basic	0.41	0.50	0.52	0.42	0.23	0.56	0.35	0.31
Diluted	0.40	0.50	0.51	0.42	0.23	0.55	0.35	0.30
Total assets	3,736.4	3,754.3	3,916.8	3,905.3	3,804.0	3,683.6	3,744.2	3,555.0
Long-term debt								
Current	80.3	6.3	4.1	5.1	6.5	156.3	158.7	159.1
Non-current	844.6	843.0	866.6	885.3	889.6	738.9	767.3	765.9
Total long-term debt	924.9	849.3	870.7	890.4	896.1	895.2	926.0	925.0
Cash dividends paid per common share	0.11	0.11	0.11	0.11	0.10	0.10	0.10	0.10
Common shares outstanding (000's)	89,202	89,138	88,906	88,608	88,390	78,037	77,849	77,937
Options outstanding (000's)	1,474	1,545	1,810	1,812	2,016	2,359	2,546	2,564

New Accounting Pronouncements

The Company is not aware of any accounting pronouncements that would have an impact on our consolidated financial statements in 2006.

Market Outlook

Finning's success is linked to local economic conditions in the regions where it has operations. In addition, global economic conditions which have a direct bearing on demand for commodities such as oil, copper, coal and gold, in turn influence the heavy equipment buying decisions of many of Finning's key customers in western Canada and South America. The U.K. markets are largely driven by the overall level of "build, repair, maintain" construction activity.

In addition to new equipment sales, as the size of the Caterpillar fleet in Finning's geographic regions grows, a larger proportion of the Company's business will be driven by more stable, higher-margin parts and service revenue. This revenue stream is less sensitive to commodity prices and in some instances is countercyclical as equipment owners will keep their equipment longer in less buoyant economic times and as a result, require more parts and service on the older equipment.

Global economic conditions remain good. Demand for energy and the key mineral commodities remains strong and supply increases appear to be modest. As a result, commodity prices are expected to remain firm for the near future and the outlook for Finning's business in western Canada and South America is expected to continue to be very good.

Finning (Canada)'s resource based customers are prospering. General construction spending is at very high levels and government spending on infrastructure projects is increasing. Finning (Canada)'s positive outlook is reflected in the record level of sales and earnings and the strong order backlog.

Similarly, in South America the strong commodity markets, in particular strong copper prices, are also leading to very good financial results by the Company's customers in this region. Capital spending by mining customers continues at a strong pace, and general construction markets are also strong. In Argentina, the economy is experiencing inflationary pressure on wage rates, however to date, the Company has experienced minimal impact on its results by adjusting its salary structure and passing on price increases to its customers.

Business conditions in the U.K. continue to be somewhat uncertain. After a weaker 2005, expectations are for a modest improvement in 2006. A recent interest rate cut has modestly stimulated housing markets and this is expected to have a beneficial impact on construction activity, which will impact operations at Finning (UK) and Hewden. Currently, construction activity continues at moderate levels.

Hewden continues to review its structure and implement changes in order to improve customer service and profitability as well as simplify the organizational structure. However, competitive pressures continue to impact the Company's operations in the U.K. A realignment of certain back office functions at Hewden and the implementation of a new information system that will enhance the quality of its customer services and reduce transaction costs are underway as is a revised plan to create strategically located rental centers surrounded by smaller satellite rental stores.

In the UK dealership operations, management together with Caterpillar have agreed on an extensive project to increase the dealership's profitability while increasing Caterpillar's market share in the U.K. Finning (UK) will expand its service offering for small and compact machines in the U.K. market and Caterpillar has agreed to product line changes and pricing changes that will make its product line better suited for U.K. markets and more price competitive with U.K. competitors.

Finning (UK) has delayed the systems integration of the Lex Harvey business and as a result, the materials handling business continues to experience inefficiencies. Information technology alternatives are under consideration and the Company is examining potential improvements 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.

The company-wide plan to reduce costs by $60 million by the end of 2006 is on track and the Company expects to have its cost savings fully in place by January 1, 2007. To date, the Company has completed projects that will generate over $37 million of annual savings.

The Company's results are impacted by the stronger Canadian dollar compared to the U.S. dollar and the British pound sterling in the translation of foreign currency earnings. The Company anticipates that its 2006 results will be negatively impacted as a result of translating foreign currency based earnings should the strength of the Canadian dollar continue against the US dollar and the British pound.

The Company's order backlog is at record levels and the company's key customers are for the most part, very profitable and growing. The current economic environment, commodity pricing and launched and pending cost efficiency initiatives, taken together, provide a positive outlook for the Company's medium to long-term growth opportunities.

February 15, 2006

Attachment 1

Description of non-GAAP measures

To supplement Finning's consolidated financial statements, the Company has used certain non-GAAP measures that do not have standardized meanings under Canadian 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 EPS and Normalized EBIT. Finning's management 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.

Reconciliation between reported EBIT and Normalized EBIT

	Three months ended December 31		Twelve months ended December 31	
($ thousands)	**2005**	2004	**2005**	2004
Earnings Before Interest and Taxes (EBIT)	**61,630**	60,680	**285,285**	265,741
Gain on sale of surplus properties in Canada and the U.K.	**(2,487)**	(4,365)	**(8,274)**	(6,770)
Restructuring and project costs	**3,362**	4,374	**12,362**	15,989
(Gain on sale of) loss from equity investment	—	231	**(1,827)**	461
Legal settlement	—	—	—	7,863
Recognition of deferred gain on the 2001 sale of the Canadian Materials Handling business	—	—	—	(3,800)
Normalized EBIT (reflects non-GAAP measure)	**62,505**	60,920	**287,546**	279,484

Reconciliation between reported net income and EPS and Normalized Net Income and Normalized Basic EPS

	Three months ended December 31		Twelve months ended December 31	
($ thousands, except per share data)	**2005**	2004	**2005**	2004
Basic EPS (GAAP measure)	**$0.41**	$0.23	**$1.85**	$1.45
Reported net income (GAAP measure)	**36,184**	20,181	**164,030**	114,946
Gain on sale of surplus properties in Canada and the U.K.	**(1,768)**	(3,337)	**(5,765)**	(5,183)
Restructuring and project costs	**2,633**	2,934	**8,900**	10,812
(Gain on sale of) loss from equity investment	—	231	**(1,653)**	461
Legal settlement	—	—	—	5,504
Recognition of deferred gain on the 2001 sale of the Canadian Materials Handling business	—	(115)	—	(3,115)
Recognition of deferred costs on unwind of non-controlling interests	—	5,264	—	5,264
Unwind of interest rate swaps	—	8,003	—	8,003
Market value adjustment: interest rate swaps not eligible for hedge accounting	—	1,310	—	1,407
Normalized Net Income (reflects non-GAAP measure)	**37,049**	34,471	**165,512**	138,099
Normalized Basic EPS (reflects non-GAAP measure)	**$0.41**	$0.42	**$1.86**	$1.75

Attachment 2

Supplementary Information

Quarterly Segmented Revenue Information

($ millions) **Q4 2005**	**Canada**	**South America**	**UK**	**Hewden**	**Consolidated**	**Revenue percentage**
New mobile equipment	**180.0**	**112.7**	**101.1**	**1.5**	**395.3**	**33.4%**
New power & energy systems	**37.2**	**15.6**	**40.3**	—	**93.1**	**7.9%**
Used equipment	**68.9**	**6.7**	**29.9**	**6.3**	**111.8**	**9.4%**
Equipment rental	**52.3**	**10.7**	**41.9**	**129.4**	**234.3**	**19.8%**
Customer support services	**180.8**	**100.6**	**55.1**	**10.1**	**346.6**	**29.3%**
Other	**2.3**	**0.6**	—	—	**2.9**	**0.2%**
Total	**521.5**	**246.9**	**268.3**	**147.3**	**1,184.0**	**100.0%**
Revenue percentage by operations	**44.0%**	**20.9%**	**22.7%**	**12.4%**	**100.0%**	
Q4 2004						
New mobile equipment	174.5	81.1	73.9	2.2	331.7	30.9%
New power & energy systems	29.1	11.4	26.2	—	66.7	6.2%
Used equipment	66.6	11.2	31.6	9.0	118.4	11.0%
Equipment rental	39.5	10.6	53.7	142.5	246.3	22.9%
Customer support services	142.4	95.4	59.0	10.8	307.6	28.6%
Other	4.1	0.4	—	—	4.5	0.4%
Total	456.2	210.1	244.4	164.5	1,075.2	100.0%
Revenue percentage by operations	42.4%	19.6%	22.7%	15.3%	100.0%	

Quarterly Segmented EBIT Information

($ millions) **Q4 2005**	**Canada**	**South America**	**UK**	**Hewden**	**Other**	**Consolidated**
Revenue from external sources	**521.5**	**246.9**	**268.3**	**147.3**	**—**	**1,184.0**
Operating costs	**461.3**	**215.1**	**247.1**	**106.7**	**3.6**	**1,033.8**
Depreciation and amortization	**31.0**	**6.4**	**17.9**	**32.3**	**—**	**87.6**
Other expenses	**—**	**—**	**—**	**—**	**0.9**	**0.9**
Earnings before interest and tax	**29.2**	**25.4**	**3.3**	**8.3**	**(4.5)**	**61.7**
Finance costs						**17.8**
Provision for income taxes						**7.7**
Non-controlling interests						**—**
Net income						**36.2**
Earnings before interest and tax						
- percentage of revenue	**5.6%**	**10.3%**	**1.2%**	**5.6%**	**—**	**5.2%**
- percentage by operations	**47.3%**	**41.2%**	**5.3%**	**13.5%**	**(7.3)%**	**100.0%**

Q4 2004	**Canada**	**South America**	**UK**	**Hewden**	**Other**	**Consolidated**
Revenue from external sources	456.2	210.1	244.4	164.5	—	1,075.2
Operating costs	390.0	188.9	219.2	117.9	8.9	924.9
Depreciation and amortization	26.6	5.6	20.8	36.4	—	89.4
Other expenses	—	—	—	—	0.2	0.2
Earnings before interest and tax	39.6	15.6	4.4	10.2	(9.1)	60.7
Finance costs						45.3
Provision for income taxes						(7.3)
Non-controlling interests						2.6
Net income						20.1
Earnings before interest and tax						
- percentage of revenue	8.7%	7.4%	1.8%	6.2%	—	5.6%
- percentage by operations	65.2%	25.7%	7.3%	16.8%	(15.0)%	100.0%

Selected annual information

($ millions, except for share data)	2005	2004	2003
Total revenue	**4,834.6**	4,161.9	3,593.3
Net income [(1)]	**164.0**	114.9	132.0
Earnings per common share [(1)]			
Basic	**1.85**	1.45	1.71
Diluted	**1.83**	1.43	1.68
Total assets	**3,736.4**	3,804.0	3,440.6
Long-term debt [(2)]			
Current	**80.3**	6.5	235.2
Non-current	**844.6**	889.6	748.2
	924.9	896.1	983.4
Cash dividends declared per common share	**0.44**	0.40	0.36

[(1)] Net income and basic earnings per share decreased in 2004 primarily due to costs incurred in 2004 not considered reflective of the Company's ongoing operations, such as refinancing costs related to the redemption of non-controlling interests, restructuring costs and settlement of a legal claim.

[(2)] In 2004, the Company repaid its $75.0 million 8.35% debentures and its $150.0 million 7.75% MTN, both of which matured, with short-term borrowings on its bank credit facilities. In December 2005, the Company issued a $150.0 million 4.64% MTN, maturing in 2011.

Outstanding share data

February 10, 2006	
Common shares outstanding	**89,212,030**
Options outstanding	**1,463,927**

CONSOLIDATED STATEMENTS OF INCOME AND RETAINED EARNINGS

For the years ended December 31 ($ thousands, except share and per share amounts)	**2005**	2004
Revenue		
New mobile equipment	**$ 1,625,669**	$ 1,218,432
New power and energy systems	**359,002**	273,456
Used equipment	**430,840**	391,239
Equipment rental	**1,001,124**	1,009,760
Customer support services	**1,409,854**	1,237,046
Finance, operating leases and other	**8,089**	31,974
Total revenue	**4,834,578**	4,161,907
Cost of sales	**3,443,455**	2,918,160
Gross profit	**1,391,123**	1,243,747
Selling, general and administrative expenses	**1,103,577**	964,263
Other expenses (Note 2)	**2,261**	13,743
Earnings before interest, taxes and non-controlling interests	**285,285**	265,741
Finance costs (Notes 3 and 4)	**76,863**	118,100
Income before provision for income taxes and non-controlling interests	**208,422**	147,641
Provision for income taxes (Note 5)	**44,392**	17,546
Non-controlling interests (Note 6)	**—**	15,149
Net income	**$ 164,030**	$ 114,946
Retained earnings, beginning of year	**$ 850,321**	$ 775,113
Net income	**164,030**	114,946
Dividends on common shares	**(39,097)**	(31,181)
Premium on repurchase of common shares (Note 7)	**—**	(8,557)
Retained earnings, end of year	**$ 975,254**	$ 850,321
Earnings per share (Note 9)		
Basic	**$ 1.85**	$ 1.45
Diluted	**$ 1.83**	$ 1.43
Weighted average number of shares outstanding	**88,851,343**	79,018,683

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

CONSOLIDATED BALANCE SHEETS AS AT DECEMBER 31

As at December 31 ($ thousands)	**2005**	2004
ASSETS		
Current assets		
Cash and cash equivalents	**$ 27,683**	$ 15,843
Accounts receivable	**569,098**	578,350
Inventories		
On-hand equipment	**648,853**	641,366
Parts and supplies	**382,963**	346,490
Other assets (Note 10)	**186,180**	176,905
Total current assets	**1,814,777**	1,758,954
Finance assets (Note 11)	**19,826**	16,236
Rental equipment (Note 12)	**1,050,490**	1,163,976
Capital assets (Note 13)	**348,905**	342,472
Goodwill (Note 15)	**364,827**	386,257
Other assets (Note 10)	**137,563**	136,116
	$ 3,736,388	$ 3,804,011
LIABILITIES		
Current liabilities		
Short-term debt (Note 3)	**$ 306,792**	$ 471,811
Accounts payable and accruals	**886,179**	919,612
Income tax payable	**50,758**	4,354
Future income taxes (Note 5)	**—**	2,773
Current portion of long-term debt (Note 3)	**80,294**	6,460
Total current liabilities	**1,324,023**	1,405,010
Long-term debt (Note 3)	**844,638**	889,623
Long-term obligations (Note 16)	**98,083**	108,055
Future income taxes (Note 5)	**56,666**	75,118
Total liabilities	**2,323,410**	2,477,806
Commitments and Contingencies (Notes 22 and 23)		
SHAREHOLDERS' EQUITY		
Share capital (Note 7)	**568,121**	557,740
Contributed surplus	**2,739**	878
Cumulative currency translation adjustments (Note 17)	**(133,136)**	(82,734)
Retained earnings	**975,254**	850,321
Total shareholders' equity	**1,412,978**	1,326,205
	$ 3,736,388	$ 3,804,011

APPROVED BY THE DIRECTORS:

D.W.G. Whitehead, Director C.A. Pinette, Director

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

CONSOLIDATED STATEMENTS OF CASH FLOW

For the years ended December 31 ($ thousands)	**2005**	2004
OPERATING ACTIVITIES		
Net income	**$ 164,030**	$ 114,946
Add items not affecting cash		
Depreciation and amortization	**356,834**	366,087
Future income taxes	**(2,627)**	(2,321)
Stock-based compensation	**13,379**	8,251
Other	**(10,100)**	1,150
Non-controlling interests	**—**	15,149
	521,516	503,262
Changes in working capital items		
Accounts receivable and other	**(39,781)**	(127,247)
Inventories – on-hand equipment	**(39,177)**	(217,612)
Inventories – parts and supplies	**(47,646)**	(85,326)
Instalment notes receivable	**10,290**	(4,648)
Accounts payable and accruals	**21,656**	194,439
Income taxes	**51,899**	(15,446)
Cash provided after changes in working capital items	**478,757**	247,422
Rental equipment, net of disposals	**(310,669)**	(441,352)
Equipment leased to customers, net of disposals	**(9,784)**	76,778
Cash flow provided by (used in) operating activities	**158,304**	(117,152)
INVESTING ACTIVITIES		
Net additions to capital assets	**(60,135)**	(76,832)
Net proceeds on sale of equity investment (Note 10)	**16,000**	—
Investment in equity investment (Note 10)	**(9,479)**	—
Proceeds on settlement of foreign currency forwards	**8,753**	—
Cash used in investing activities	**(44,861)**	(76,832)
FINANCING ACTIVITIES		
Securitization of accounts receivable (Note 19)	**—**	15,000
Increase in (repayment of) short-term debt	**(157,902)**	381,174
Increase in (repayment of) long-term debt	**89,369**	(237,282)
Medium term note issue (Note 3)	**—**	150,000
Non-controlling interests distribution	**—**	(15,149)
Common shares issued (Note 7)	**—**	296,769
Issue of common shares on exercise of stock options (Note 7)	**10,381**	13,095
Redemption of non-controlling interests (Note 6)	**—**	(425,000)
Repurchase of common shares (Note 7)	**—**	(9,620)
Dividends paid	**(39,097)**	(31,181)
Cash provided by (used in) financing activities	**(97,249)**	137,806
Currency translation adjustments	**(4,354)**	5,636
Increase (decrease) in cash and cash equivalents	**11,840**	(50,542)
Cash and cash equivalents, beginning of year	**15,843**	66,385
Cash and cash equivalents, end of year	**$ 27,683**	$ 15,843
Cash flows include the following elements		
Interest paid	**$ (81,528)**	$ (98,736)
Income taxes received (paid)	**$ 7,459**	$ (21,380)

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

December 31, 2005 and 2004

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

These Consolidated Financial Statements have been prepared in accordance with Canadian generally accepted accounting principles and are presented in Canadian dollars, unless otherwise stated.

The preparation of financial statements in accordance with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues, expenses and disclosure of contingent assets and liabilities. Actual amounts could differ from those estimates.

The significant accounting policies used in these Consolidated Financial Statements are as follows:

(a) Principles of Consolidation
The Consolidated Financial Statements include the accounts of Finning International Inc. ("Finning" or "Company"), which includes the division of Finning (Canada), and Finning's wholly owned subsidiaries. Principal operating subsidiaries include Finning (UK) Ltd., Finning Chile S.A., Hewden Stuart plc ("Hewden"), Finning Argentina S.A. and Finning Soluciones Mineras S.A. (in Argentina), Finning Uruguay S.A. and Finning Bolivia S.A.

For interests acquired or disposed of during the year, the results of operations are included in the consolidated statements of income from, or up to, the date of the transaction, respectively.

(b) Foreign Currency Translation
Transactions undertaken in foreign currencies are translated into Canadian dollars at exchange rates prevailing at the time the transactions occurred. Account balances denominated in foreign currencies are translated into Canadian dollars as follows:

- Monetary assets and liabilities are translated at exchange rates in effect at the balance sheet dates and non-monetary items are translated at historical exchange rates.
- Exchange gains and losses are included in income except where the exchange gain or loss arises from the translation of monetary liabilities designated as hedges, in which case the gain or loss is deferred and accounted for in conjunction with the hedged asset.

Financial statements of foreign operations, all considered self-sustaining, are translated into Canadian dollars as follows:

- Assets and liabilities are translated using the exchange rates in effect at the balance sheet dates.
- Revenue and expense items are translated at average exchange rates prevailing during the period that the transactions occurred.
- Unrealized translation gains and losses are deferred and included as a separate component of shareholders' equity. These cumulative currency translation adjustments are recognized in income when there is a reduction in the net investment in the self-sustaining foreign operation.

The Company has hedged some of its investments in foreign subsidiaries using derivatives and foreign denominated borrowings. Exchange gains or losses arising from the translation of the hedge instruments are accounted for in the cumulative currency translation adjustments account on the consolidated balance sheet.

(c) Cash and Cash Equivalents
Short-term investments, consisting of highly rated and liquid money market instruments with original maturities of three months or less, are considered to be cash equivalents and are recorded at cost, which approximates current market value.

(d) Securitization of Trade Receivables

In 2002 and 2004, the Company sold a co-ownership interest in certain present and future accounts receivable in Canada to a securitization trust (the "Trust"). These transactions are accounted for as sales to the extent that the Company is considered to have surrendered control over the interest in the accounts receivables and receives proceeds from the Trust, other than a beneficial interest in the assets sold. Losses on these transactions are recognized in selling, general and administrative expenses and are dependent in part on the previous carrying amount of the receivable interest transferred, which is allocated between the interest sold and the interest retained by the Company, based on their relative value at the date of the transfer. The Company determines fair value based on the present value of future expected cash flows using management's best estimates of key assumptions such as discount rates, weighted average life of accounts receivable, dilution rates and credit loss ratios. The Company continues to service the receivables and recognizes a servicing liability on the date of the transfer, which is amortized to income over the expected life of the transferred receivable interest.

(e) Inventories

Inventories are stated at the lower of cost and net realizable value. Cost is determined on a specific item basis for on-hand equipment. For approximately two-thirds of parts and supplies, cost is determined on a first-in, first-out basis. An average cost basis is used for the remaining inventory of parts and supplies.

(f) Other Assets

Costs incurred in the development of new businesses which benefit future periods are deferred and upon commencement of operations are amortized on a straight-line basis over the expected period of benefit, or expensed upon abandonment of the project.

Costs related to the issuance of long-term debt are deferred and amortized on a straight-line basis over the term of the respective debt issues.

Investments in which the Company exercises significant influence, but not control, are accounted for using the equity method. Other investments are stated at cost. An investment is considered impaired if its fair value falls below its cost, and the decline is considered other than temporary.

(g) Income Taxes

The asset and liability method of tax allocation is used in accounting for income taxes. Under this method, temporary differences arising from the difference between the tax basis of an asset and a liability and its carrying amount on the balance sheet are used to calculate future income tax assets or liabilities. Future income tax assets or liabilities are calculated using tax rates anticipated to be in effect in the periods that the temporary differences are expected to reverse. The effect of a change in income tax rates on future income tax assets and liabilities is recognized in income in the period that the change occurs.

(h) Finance Assets

Finance assets are comprised of instalment notes receivables and equipment leased to customers.

Instalment notes receivable represents amounts due from customers relating to financing of equipment sold and are recorded net of unearned finance charges.

Depreciation of equipment leased to customers is provided in equal monthly amounts over the terms of the individual leases after recognizing the estimated residual value of each unit at the end of each lease.

(i) Rental Equipment

Rental equipment is recorded at cost, net of accumulated depreciation. Cost is determined on a specific item basis. Rental equipment is depreciated to its estimated residual value over its estimated useful life on a straight-line or on an actual usage basis.

(j) Capital Assets
Land, buildings and equipment are recorded at cost, net of accumulated depreciation.

Buildings and equipment are depreciated over their estimated useful lives on either a declining balance or straight-line basis using the following annual rates:

Buildings	2% - 5%
General equipment	10% - 33%
Automotive equipment	20% - 33%

Intangible assets with indefinite lives are not amortized. Intangible assets with finite lives are amortized on a straight-line basis over their estimated useful lives to a maximum period of ten years.

(k) Goodwill
Goodwill represents the excess cost of an investment over the fair value of the net assets acquired and is not amortized.

(l) Asset Impairment
The Company reviews both long-lived assets to be held and used and identifiable intangible assets with finite lives whenever events or changes in circumstances indicate that the carrying amount of such assets may not be fully recoverable. Determination of recoverability is based on an estimate of undiscounted future cash flows resulting from the use of the asset and its eventual disposition. Measurement of an impairment loss for long-lived assets and certain identifiable intangible assets that management expects to hold and use is based on the fair value of the assets, whereas assets to be disposed of are reported at the lower of carrying amount or fair value less estimated selling costs. During 2005, the Company recognized asset impairment charges as described in Note 13. As at December 31, 2005, the Company determined that there were no other triggering events requiring an impairment analysis.

Goodwill and intangible assets with indefinite lives are subject to an annual assessment for impairment primarily by applying a fair value-based test at the reporting unit level. The fair value is estimated using the present value of expected discounted future cash flows. The Company also considers projected future operating results, trends and other circumstances in making such evaluations. An impairment loss would be recognized to the extent the carrying amount of goodwill exceeds the fair value of goodwill.

(m) Leases
Leases entered into are classified as either capital or operating leases. Leases where all of the benefits and risks of ownership of property rest with the Company are accounted for as capital leases. Equipment under capital lease is depreciated on the same basis as capital assets. Gains or losses resulting from sale/leaseback transactions are deferred and amortized in proportion to the amortization of the leased asset. Rental payments under operating leases are expensed as incurred.

(n) Asset Retirement Obligations
The Company recognizes its obligations to account for the retirement of certain tangible long-lived assets. The fair value of a liability for an asset retirement obligation is recognized in the period in which it is incurred if a reasonable estimate of fair value can be made. The associated asset retirement costs are capitalized as part of the carrying amount of the long-lived asset and then amortized over its estimated useful life. In subsequent periods, the asset retirement obligation is adjusted for the passage of time and any changes in the amount or timing of the underlying future cash flows through charges to earnings. A gain or loss may be incurred upon settlement of the liability.

(o) Revenue Recognition

Revenue recognition, with the exception of cash sales, includes obtaining a written arrangement in the form of a contract or purchase order with the customer. A fixed or determinable sales price is established with the customer whereby ultimate collection of the revenue is reasonably assured. Revenue is recognized as performance requirements are achieved in accordance with the following:

- Revenue from sales of equipment is recognized at the time title to the equipment and significant risks of ownership passes to the customer, which is generally at the time of shipment of the product to the customer;
- Revenue from power and energy systems includes construction contracts with customers that involve the design, installation and assembly of power and energy equipment systems. Revenue is recognized on a percentage of completion basis proportionate to the work that has been completed which is based on associated costs incurred;
- Revenue from equipment rentals and operating leases is recognized in accordance with the terms of the relevant agreement with the customer, either evenly over the term of that agreement or on a usage basis such as the number of hours that the equipment is used; and
- Revenue from customer support services includes sales of parts and servicing of equipment. For sales of parts, revenue is recognized when the part is shipped to the customer or when the part is installed in the customer's equipment. For servicing of equipment, revenue is recognized as the service work is performed. Customer support services are also offered to customers in the form of long-term maintenance and repair contracts. For these contracts, revenue is recognized on a percentage of completion basis proportionate to the service work that has been performed based on the parts and labour service provided. Parts revenue is recognized based on parts list price and service revenue is recognized based on standard billing labour rates. At the completion of the contract, any remaining deferred revenue on the contract is recognized as revenue. Any losses estimated during the term of the contract are recognized when identified. For the materials handling business, revenue from long-term maintenance and repair contracts is recognized on a straight-line basis over the life of the contract.

(p) Stock-Based Compensation

The Company has stock option plans and other stock-based compensation plans for directors and certain eligible employees which are described in Note 8. Stock-based awards are measured and recognized using a fair value-based method of accounting.

For stock options granted after January 1, 2003, fair value is determined on the grant date of the stock option and recorded as compensation expense over the vesting period, with a corresponding increase to contributed surplus. For stock options granted prior to January 1, 2003, the Company recorded no compensation expense and will continue to use the intrinsic value-based method of accounting for stock options. When stock options are exercised, the proceeds received by the Company, together with the amount recorded in contributed surplus, are credited to share capital.

Compensation expense, which arises from fluctuations in the market price of the Company's common shares underlying other stock-based compensation plans, is recorded in selling, general and administrative expenses in the consolidated statement of income with a corresponding accrual in long-term obligations or accounts payable and accruals on the consolidated balance sheet.

(q) Derivative Financial Instruments

The Company utilizes derivative financial instruments in the management of its foreign currency and interest rate exposures. The Company uses financial instruments such as interest rate swaps, cross-currency swaps, forward foreign exchange contracts and options as hedges against actual underlying exposures. These instruments are always associated with a related risk position and are not used for trading or speculative purposes. The Company's policy is to utilize derivative financial instruments for hedging purposes only.

The Company formally documents all relationships between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. This process includes linking all derivatives to specific assets and liabilities on the balance sheet or to specific firm commitments or forecasted transactions. The Company also formally assesses, both at the hedge's inception and on an ongoing basis, whether the derivatives that are used in hedging transactions are effective in offsetting changes in fair values or cash flows of hedged items. When derivative instruments have been designated as a hedge and are highly effective in offsetting the identified risk characteristics of the specified hedge exposure, hedge accounting is applied to these derivative instruments. Hedge accounting requires that gains, losses, revenue and expenses of a hedging item be recognized in the same period that the associated gains, losses, revenue and expenses of the hedged item are recognized. Realized and unrealized gains or losses associated with derivative instruments, which have been terminated for hedge accounting purposes or cease to be effective prior to maturity, are deferred in current liabilities on the balance sheet and recognized in income in the period in which the underlying hedged transaction is recognized. In the event a designated hedged item is sold, extinguished or matures prior to the termination of the related derivative instrument, any realized or unrealized gain or loss on such derivative instrument is recognized in income.

FOREIGN EXCHANGE

The Company hedges the foreign currency exposure on its net investment in foreign self-sustaining operations by entering into offsetting forward exchange contracts and cross-currency swap contracts, when it is deemed appropriate. Foreign exchange translation gains and losses on derivative financial instruments used to hedge foreign net investments are recorded as assets or liabilities, as appropriate and recognized in the cumulative currency translation account on the balance sheet, offsetting the respective translation gains and losses recognized on the underlying foreign net investments. The forward premium or discount on forward foreign exchange contracts is amortized as an adjustment of interest expense over the term of the forward contract.

The Company also enters into foreign exchange contracts to hedge purchase commitments and accounts payable denominated in foreign currencies. Foreign exchange translation gains and losses on forward contracts used to hedge purchase commitments are recognized as an adjustment of the purchase cost when the purchase is recorded.

INTEREST RATES

The Company enters into interest rate swaps to manage the fixed and floating interest rate exposures in its debt portfolio. The Company designates its interest rate swap agreements as hedges of the underlying debt or cash flows. Interest expense on the debt is adjusted to include the payments made or received under the interest rate swaps. As a result, hedge accounting treatment for interest rate swaps results in interest expense on the related debt being reflected at hedged rates rather than the original contractual interest rates.

(r) Employee Future Benefits

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

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

The Company accrues its obligations under employee benefit plans and the related costs, net of plan assets.

Defined benefit plans: For the purpose of calculating the expected return on plan assets, those assets are valued at market value. The cost of pensions and other retirement benefits is determined by independent actuaries using the projected benefit method prorated on service and management's best estimates of expected plan investment performance and salary escalation rate.

Past service costs from plan amendments are deferred and amortized on a straight-line basis over the expected average remaining service life of employees active at the date of amendment.

Actuarial gains and losses arise from the difference between the actual and expected long-term rate of return on plan assets for a period, or from changes in actuarial assumptions used to determine the accrued benefit obligation. The excess of the net accumulated actuarial gains or losses over 10% of the greater of the benefit obligation and the market value of the plan assets is amortized on a straight-line basis over the expected average remaining service life of the active employees covered by the plans.

On January 1, 2000, the Company adopted the new Canadian Institute of Chartered Accountants accounting standard on employee future benefits using the prospective application method. The Company is amortizing the transitional obligation on a straight-line basis over 13 years in Canada and Hewden plans and over 14 years in the Finning (UK) plan, which was the average remaining service period of employees expected to receive benefits under the benefit plan as of January 1, 2000.

Defined contribution plans: The cost of pension benefits includes the current service cost based on a fixed percentage of member earnings for the year.

(s) Comparative Figures

Certain comparative figures have been reclassified to conform to the 2005 presentation.

2. Other Expenses

Other expenses (income) include the following items:

For years ended December 31 ($ thousands)	**2005**	2004
Gain on sale of surplus properties in Canada and the U.K.	**$ (8,274)**	$ (6,770)
Restructuring and project costs	**12,362**	15,989
(Gain on sale of) loss from equity investment (Note 10)	**(1,827)**	461
Legal settlement (Note 23)	**—**	7,863
Recognition of deferred gain on the 2001 sale of the Canadian Materials Handling business	**—**	(3,800)
	2,261	13,743
Tax recovery on net other expenses	**779**	5,264
Other expenses, net of tax	**$ 1,482**	$ 8,479

3. Short-Term and Long-Term Debt

December 31 ($ thousands)	**2005**	2004
Short-term debt	**$ 306,792**	$ 471,811
Long-term debt:		
Debenture		
6.60% due December 8, 2006	**75,000**	75,000
Medium Term Notes		
7.40% due June 19, 2008	**200,000**	200,000
4.64% due December 14, 2011	**150,000**	150,000
5.625% Eurobond due May 30, 2013	**400,720**	461,240
Other unsecured term loans [(1)]	**99,212**	9,843
	924,932	896,083
Less current portion of long-term debt	**80,294**	6,460
Total long-term debt	**$ 844,638**	$ 889,623

[(1)] Other unsecured loans consists of US$76.1 million of borrowings under a five-year committed bank facility that is classified as long-term debt, and other unsecured term loans primarily from supplier merchandising programs.

Short-Term Debt

Short-term debt primarily consists of commercial paper borrowings and other short-term bank indebtedness.

The Company maintains a maximum authorized commercial paper program of $500.0 million which is utilized as its principal source of short-term funding. This commercial paper program is backstopped by credit available under a new $800 million long-term committed credit facility. In addition, the Company also maintains, as required, certain other unsecured bank credit facilities to support its local operations. As at December 31, 2005, the Company had approximately $1,376.0 million of unsecured credit facilities, and including all bank and commercial paper borrowings drawn against these facilities, approximately $970.0 million of capacity remained available.

Included in short-term debt is foreign currency denominated debt of US$17.9 million (2004: US$157.6 million), £nil (2004: £50.6 million) and Chilean peso 23,614.1 million (2004: Chilean peso nil).

The average interest rate applicable to the consolidated short-term debt for 2005 was 4.7% (2004: 3.7%).

Long-Term Debt

During the year, 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 a 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.

The Company's Canadian dollar denominated debenture and medium term notes are unsecured, and interest is payable semi-annually with principal due on maturity. The Company's £200.0 million Eurobond is unsecured, and interest is payable annually with principal due on maturity. The Eurobond is subject to early redemption at the option of the Company.

In December 2004, the Company issued a 7-year $150.0 million unsecured Medium Term Note (MTN). The MTN has a coupon interest rate of 4.64% per annum, paid semi-annually. 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.

Covenants

The Company is required to maintain a certain debt to capitalization level covenant with respect to its bank credit facilities. As at December 31, 2005, the Company is in compliance with these covenants.

Long-Term Debt Repayments

Principal repayments on long-term debt in each of the next five years and thereafter are as follows:

($ thousands)	
2006	$ 80,294
2007	2,224
2008	202,966
2009	—
2010	88,725
Thereafter	550,723
	$ 924,932

Finance Expense

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

For years ended December 31 ($ thousands)	**2005**	2004
Interest on debt securities:		
Short-term debt	**$ 27,729**	$ 15,519
Long-term debt	**51,380**	59,846
	79,109	75,365
Interest on swap contracts	**(1,099)**	16,283
Mark to market valuation changes on interest rate swaps not eligible for hedge accounting and the unwind of those interest rate swaps	**—**	14,514
Amortization of deferred debt costs, other finance related expenses and sundry interest earned	**(1,147)**	11,938
	$ 76,863	$ 118,100

In December 2004, the Company unwound its interest rate swaps that were not eligible for hedge accounting treatment and recorded a settlement loss of $14.5 million.

4. Financial Instruments

Foreign Exchange

The Company has an exposure to foreign currency exchange rates primarily because the net assets and earnings of certain investments are denominated in foreign currencies. The Company utilizes perpetual cross-currency swaps and forward contracts to hedge a portion of the foreign exchange exposure relating to these net investments. The Company also uses forward foreign exchange contracts to hedge foreign exchange exposure to certain other liabilities, firm commitments or forecasted transactions.

Interest Costs

The Company monitors its debt portfolio mix of fixed and variable rate instruments and at times, will use forward interest rate agreements, swaps and collars to manage this balance of fixed and floating rate debt. At December 31, 2005 the Company has entered into a fixed to floating interest rate swap, with a notional value of $100.0 million (2004: $100.0 million).

Fair Values

The following fair value information is provided solely to comply with financial instrument disclosure requirements. The Company cautions readers in the interpretation of the impact of these estimated fair values. The fair value of financial instruments is determined by reference to quoted market prices for actual or similar instruments, where available, or by estimates derived using present value or other valuation techniques. The fair value of accounts receivable, notes receivable, short-term debt, accounts payable and accruals approximates their recorded values due to the short-term maturities of these instruments.

The fair values of the derivatives below have been estimated using year-end market information as at December 31, 2005 and 2004. These fair values approximate the amount the Company would receive or pay to terminate the contracts:

($ or £ thousands)			
2005	**Notional**	**Term to**	**Fair Value**
Interest rates	**Value**	**Maturity**	**Receive (Pay)**
Interest rate swaps (CAD $ pay floating, receive fixed)	**$ 100,000**	**2.5 years**	**$ 1,041**
Foreign Exchange			
Cross Currency Interest Rate Swap			
Sell £ (buy CAD $); pay £ fixed / receive CAD $ fixed (1)	**£ 150,000**	**perpetual**	**$ 25,497**
Forward Buy US$ (sell CAD $)	**US$ 237,170**	**1-12 months**	**$ (3,362)**
Forward Buy CLP (sell US$)	**US$ 24,000**	**1-12 months**	**$ 1,739**
Forward Sell £ (buy CAD $) (2)	**£ 80,000**	**perpetual**	**$ 4,147**
2004			
Interest rates			
Interest rate swaps (CAD $ pay floating, receive fixed)	$ 100,000	3.5 years	$ 3,258
Foreign Exchange			
Cross Currency Interest Rate Swap			
Sell £, (buy CAD $); pay £ fixed / receive CAD $ fixed	£ 228,000	perpetual	$ (18,957)
Forward Buy US$ (sell CAD $)	US$ 173,545	1-12 months	$ (5,557)
Forward Sell CLP (buy US $)	US$ 322	1 month	$ (57)
Forward Buy Euro (sell £)	£ 576	10 months	$ 42
Forward Sell £ (buy CAD $) (2)	£ 95,560	perpetual	$ (10,540)

[1] The perpetual cross currency interest rate swaps hedge a portion of the Company's net investment in Hewden. At December 31, 2005, $27.6 million of the positive fair value, representing the mark-to-spot rate gain on the forward foreign exchange component of the swap, has been recognized on the balance sheet in long-term other assets and offset to cumulative currency translation adjustments (2004: a mark-to-spot rate loss of $27.0 million was recognized on the balance sheet in long-term obligations and offset to cumulative currency translation adjustments).

[2] The forward foreign exchange contract hedges a portion of the Company's net investment in Finning (UK). At December 31, 2005, $4.4 million of the positive fair value, representing the mark-to-spot rate gain on the contract, has been recognized on the balance sheet in long-term other assets and offset to cumulative currency translation adjustments (2004: nil).

Long-Term Debt

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

December 31 ($ thousands)	**2005**		2004	
	Book Value	**Fair Value**	Book Value	Fair Value
Long-term debt	**$ 924,932**	**$ 953,796**	$ 896,083	$ 919,755

Credit Risk

The Company operates internationally as a full service provider (selling, servicing, renting and financing) of heavy equipment and related products. The Company is not overly dependent on any single customer or group of customers. There is no significant concentration of credit risk related to the Company's position in trade accounts or notes receivables. Credit risk is minimized because of the diversification of the Company's operations, as well as its large customer base and its geographical dispersion.

The credit risk associated with derivative financial instruments arises from the possibility that the counterparties may default on their obligations. However, the credit risk is limited to those contracts where the Company would incur a loss in replacing the instrument. In order to minimize this risk, the Company enters into derivative transactions only with highly rated financial institutions.

5. INCOME TAXES

Provision for Income Taxes

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

For years ended December 31 ($ thousands)	**2005**	2004
Provision for income taxes		
Current		
Canada	**$ 25,113**	$ (281)
International	**21,906**	20,148
	47,019	19,867
Future		
Canada	**(3,386)**	(5,424)
International	**759**	3,103
	(2,627)	(2,321)
	44,392	17,546

The following table summarizes income taxes charged directly to shareholders' equity:

For years ended December 31 ($ thousands)	**2005**	2004
Realized foreign currency gains	**6,433**	1,283
Share issuance costs	**—**	4,466
	6,433	5,749

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

For years ended December 31 ($ thousands)	**2005**		2004	
Combined Canadian federal and provincial income taxes at the statutory tax rate	**$ 71,247**	**34.18%**	$ 46,597	35.17%
Increase / (decrease) resulting from:				
Lower statutory rates on the earnings of foreign subsidiaries	**(27,297)**	**(13.10)%**	(28,679)	(21.65)%
Large corporation tax	**1,428**	**0.68%**	1,000	0.75%
Income not subject to tax	**(779)**	**(0.37)%**	(156)	(0.12)%
Non-taxable capital gain	**(1,120)**	**(0.54)%**	(1,687)	(1.27)%
Other	**913**	**0.45%**	471	0.36%
Provision for income taxes	**$ 44,392**	**21.30%**	$ 17,546	13.24%

Future Income Tax Asset and Liability

Included in other assets on the consolidated balance sheets are a current future income tax asset and long-term future income tax asset of $35.0 million (2004: $24.8 million) and $28,000 (2004: $31.1 million), respectively.

Temporary differences and tax loss carry-forwards that give rise to future income tax assets and liabilities are as follows.

December 31 ($ thousands)	**2005**	2004
Future income tax assets:		
Accounting provisions currently not deductible for tax purposes	**$ 37,420**	$ 38,156
Loss carry-forwards	**10,505**	8,136
Other stock-based compensation	**8,636**	5,608
Goodwill of foreign subsidiaries	**3,452**	6,896
Other	**223**	2,821
	60,236	61,617
Future income tax liabilities:		
Capital, rental and leased assets	**(65,873)**	(68,732)
Employee benefits	**(16,013)**	(14,865)
	(81,886)	(83,597)
Net future income tax liability	**$ (21,650)**	$ (21,980)

The Company has the following tax loss carry-forwards available to reduce future taxable income and capital gains expiring through 2015 for Canada and available indefinitely for International:

December 31 ($ thousands)	**2005**	2004
Canada	**$ 15,521**	$ 14,267
International	**18,116**	10,989
	$ 33,637	$ 25,256

6. NON-CONTROLLING INTERESTS

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. A subsidiary of the Company was the general partner in the partnership. The partnership interest was reported as non-controlling interests on the financial statements and distributions on the partnership interest were accounted for as distributions to non-controlling interests. The financial position, results of operations and cash flows of the partnership were consolidated with the Company from its date of inception. On November 24 2004, Finning redeemed the non-controlling partnership interests held by the private investors for $425.0 million. The financing of the redemption of the non-controlling interests was funded principally through a common equity offering in November of 2004, which raised proceeds, net of issue costs and income taxes, of $296.8 million, and through short-term borrowings on the Company's bank credit facilities. In December 2004, the Company repaid these short-term bank borrowings by issuing a 7-year, $150.0 million unsecured Medium Term Note.

The return to which the private investors were entitled was limited to a quarterly distribution on their partnership interests, which was calculated with reference to Canadian dollar bankers' acceptances. The distributions to the non-controlling interests totalled $15.1 million in 2004 (representing a yield of 4.0%), up to the date of redemption of the partnership interest.

7. Share Capital

The Company is authorized to issue an unlimited number of preferred shares without par value, of which 4.4 million are designated as cumulative redeemable preferred shares. The Company had no preferred shares outstanding for the years ended December 31, 2005 and 2004.

The Company is authorized to issue an unlimited number of common shares. Common shares issued and outstanding are:

For years ended December 31	**2005**			2004		
($ thousands, except share amounts)	**Shares**		**Amount**	Shares		Amount
Balance, beginning of year	**88,389,881**	**$**	**557,740**	77,754,985	$	248,939
Issued						
Equity issue	**—**		**—**	10,000,000		296,769
Stock option plans	**811,783**		**10,381**	964,796		13,095
Repurchase of common shares	**—**		**—**	(329,900)		(1,063)
Balance, end of year	**89,201,664**	**$**	**568,121**	88,389,881	$	557,740

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 bidder). These criteria include that:

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

Equity Issue

In November 2004, the Company issued 10 million common shares for cash under a public offering at a price of $30.50 per share. Proceeds, net of issue costs and income taxes were $296.8 million.

Repurchase of Common Shares

In 2004, the Company repurchased 329,900 common shares, as part of a normal course issuer bid, at an average price of $29.15 for an aggregate cost of $9.6 million, which was allocated to reduce share capital by $1.1 million and retained earnings by $8.5 million. No common shares were repurchased in 2005.

8. STOCK-BASED COMPENSATION PLANS

The Company has a number of stock-based compensation plans, which are described below.

Stock Options

The Company has several stock option plans for certain employees and directors with vesting occurring over a three-year period. The exercise price of each option is based on the closing price of the common shares of the Company on the date of the grant. Options granted after January 1, 2004 are exercisable over a seven-year period. Options granted prior to January 1, 2004 are exercisable over a ten-year period. Details of the stock option plans are as follows:

For years ended December 31	**2005**		2004	
	Options	**Weighted Average Exercise Price**	**Options**	**Weighted Average Exercise Price**
Options outstanding, beginning of year	**2,016,058**	**$ 15.08**	2,745,620	$ 13.31
Issued	**290,800**	**$ 32.47**	242,200	$ 29.38
Exercised	**(811,783)**	**$ 12.79**	(964,796)	$ 13.56
Cancelled	**(20,782)**	**$ 31.67**	(6,966)	$ 25.21
Options outstanding, end of year	**1,474,293**	**$ 19.54**	2,016,058	$ 15.08
Exercisable at year-end	**1,043,383**	**$ 14.64**	1,773,858	$ 13.13

In May 2005, the Company issued 290,800 common share options to senior executives and management of the Company under the New Option Plan under the conditions specified in the 2005 Management Proxy Circular. The most notable change in the New Option Plan is that in general, the new plan allows for a cashless exercise option which has a less dilutive effect on share capital at the time of exercising and involves the holder giving up the right to exercise a number of vested options with a value equal to the purchase price of the common shares to be issued.

In April 2004, the Company issued 242,200 common share options to senior executives and management of the Company.

The Company determines the cost of all stock options granted since January 1, 2002 using the fair value-based method of accounting for stock options. This method of accounting uses an option-pricing model to determine the fair value of stock options granted which is amortized over the vesting period. The fair value of the options granted has been estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted-average assumptions:

	2005 Grant	2004 Grant
Dividend yield	**1.17%**	1.12%
Expected volatility	**24.15%**	26.82%
Risk-free interest rate	**3.95%**	3.95%
Expected life	**7 years**	7 years

Stock option expense recognized as a result of granting stock options in 2005 and 2004 was $1.9 million (2004: $0.9 million).

8. STOCK-BASED COMPENSATION (continued)

The following table summarizes information about stock options outstanding at December 31, 2005:

	Options Outstanding			Options Exercisable		
Range of exercise prices	Number outstanding	Weighted Average Remaining Contractual Life (in years)	Weighted Average Exercise Price	Number Outstanding	Weighted Average Remaining Contractual Life (in years)	Weighted Average Exercise Price
$9 - 12	112,250	2.8	$ 10.41	112,250	2.82	$ 10.41
$12 - 15	615,335	4.6	$ 12.95	615,335	4.65	$ 12.95
$15 - 17	241,441	1.7	$ 16.36	241,441	1.74	$ 16.36
$29 - $33	505,267	5.9	$ 31.11	74,357	5.33	$ 29.38
	1,474,293	4.5	$ 19.54	1,043,383	3.83	$ 14.64

Other stock-based compensation plans

The Company has other stock-based compensation plans in the form of deferred share unit plans and stock appreciation rights plans that use notional common share units. These notional units, upon vesting, are valued based on the Company's common share price on the Toronto Stock Exchange and are marked to market at the end of each fiscal quarter. Changes in the value of the units as a result of fluctuations in the Company's share price and new issues as they vest are recognized in selling, general and administrative expense in the consolidated statement of income with the corresponding liability recorded on the consolidated balance sheet in long-term obligations. Details of these plans are as follows:

Directors

Directors' Deferred Share Unit Plan A (DDSU)

The Company offers a Deferred Share Unit Plan (DDSU) for members of the Board of Directors. Under the DDSU Plan, non-employee Directors of the Company may elect to allocate all or a portion of their annual compensation as deferred share units. These units are fully vested upon issuance. These units accumulate dividend equivalents in the form of additional units based on the dividends paid on the Company's common shares. Units are redeemable for cash or shares only following termination of service on the Board of Directors and must be redeemed by December 31st of the year following the year in which the termination occurred. The value of the deferred share units when converted to cash will be equivalent to the market value of the Company's common shares at the time the conversion takes place.

Non-employee Directors of the Company were allocated a total of 14,886 share units in 2005 (2004: 19,950 share units).

Executive

Deferred Share Unit Plan A (DSU-A)

Under the DSU-A Plan, senior executives of the Company may be awarded deferred share units as approved by the Board of Directors. This plan utilizes notional units that are fully vested upon issuance to the executives. These units accumulate dividend equivalents in the form of additional units based on the dividends paid on the Company's common shares. Units are redeemable only following termination of employment and must be redeemed by December 31st of the year following the year in which the termination occurred.

No units have been awarded under the DSU-A plan since 2001.

Deferred Share Unit Plan B (DSU-B)

Under the DSU-B Plan, executives of the Company may be awarded performance based deferred share units as approved by the Board of Directors. This plan utilizes notional units that become vested partially on December 30th of the year following the year of retirement, death or disability or at specified percentages if the Company's common share price exceeds specified levels, for ten consecutive days, the common share price at the date of grant. Vested deferred share units are redeemable for a period of 30 days after termination of employment, or by December 31st of the year following the year of retirement, death or disability. The notional deferred share units that have not vested within five years from the date that they were granted expire. Only vested units accumulate dividend equivalents in the form of additional units based on the dividends paid on the Company's common shares.

Executives of the Company were awarded 125,400 deferred share units under the DSU-B plan in 2005 (2004: 118,100 deferred share units)

The specified levels and respective vesting percentages are as follows:

		Common Share Price			
	Vesting %	**2005 Plan**	**2004 Plan**	**2003 Plan**	**2002 Plan**
Grant Price	0	$ 32.44	$ 29.38	$ 26.95	$ 26.05
10% improvement	25	$ 35.68	$ 32.32	$ 29.65	$ 28.66
20% improvement	50	$ 38.93	$ 35.26	$ 32.34	$ 31.26
30% improvement	75	$ 42.17 *	$ 38.19	$ 35.04	$ 33.87
40% improvement	100	$ 45.42 *	$ 41.13 *	$ 37.73	$ 36.47

* Unvested at December 31, 2005.

Details of the deferred share unit plans are as follows:

For years ended December 31	**DSU-A**		**DSU-B**		**DDSU**	
Units	**2005**	2004	**2005**	2004	**2005**	2004
Outstanding, beginning of year	**52,716**	67,607	**723,301**	685,766	**163,072**	132,390
Additions during year	**637**	713	**132,400**	130,951	**23,511**	30,682
Exercised/cancelled during year	**(1,570)**	(15,604)	**(100,615)**	(93,416)	**(28,104)**	—
Outstanding, end of year	**51,783**	52,716	**755,086**	723,301	**158,479**	163,072
Vested, beginning of year	**52,716**	67,607	**388,050**	258,498	**163,072**	132,390
Vested during year	**637**	713	**365,190**	213,802	**23,511**	30,682
Exercised/cancelled during year	**(1,570)**	(15,604)	**(84,479)**	(84,250)	**(28,104)**	—
Vested, end of year	**51,783**	52,716	**668,761**	388,050	**158,479**	163,072
Liability ($ thousands)						
Balance, beginning of year	**$ 1,844**	$ 2,028	**$ 13,578**	$ 7,755	**$ 5,706**	$ 3,972
Expensed during year	**142**	311	**14,402**	8,626	**1,195**	1,734
Exercised/cancelled during year	**(63)**	(495)	**(3,142)**	(2,803)	**(1,015)**	—
Balance, end of year	**$ 1,923**	$ 1,844	**$ 24,838**	$ 13,578	**$ 5,886**	$ 5,706

The value of the outstanding DSUs at December 31, 2005 was $32.6 million (2004: $21.1 million) and is included in long-term obligations on the balance sheet.

8. STOCK-BASED COMPENSATION (continued)

Management

Beginning in 2002, awards under the Share Appreciation Rights Plan (SAR) were granted to senior managers within Canada and the U.K. The exercise price is determined based on the Company's common share price on the Toronto Stock Exchange on the grant date. Under the SAR Plan, awards are expensed over the vesting period of three years when the market price of the common shares exceeds the exercise price under the plan for vested units. Changes, either increases or decreases, in the quoted market value of common shares between the date of grant and the measurement date result in a change in the measure of compensation for the award and will be amortized over the remaining vesting period. The SAR Plan uses notional units that are valued based on the Company's common share price on the Toronto Stock Exchange.

In 2005, 255,872 awards were granted to management in the U.K. and Canada at a grant price of $32.44 (2004: 237,129 awards at a grant price of $29.38).

Details of the SAR plans are as follows:

For years ended December 31 **Units**	**2005**	2004
Outstanding, beginning of year	**649,367**	541,121
Additions during year	**255,872**	237,129
Exercised/cancelled during year	**(190,239)**	(128,883)
Outstanding, end of year	**715,000**	649,367
Vested, beginning of year	**205,073**	163,708
Vested during year	**235,408**	138,665
Exercised/cancelled during year	**(153,781)**	(97,300)
Vested, end of year	**286,700**	205,073
Liability ($ thousands)		
Balance, beginning of year	**$ 3,520**	$ 1,226
Expensed during period	**3,050**	2,837
Exercised/cancelled during period	**(1,915)**	(543)
Balance, end of period	**$ 4,655**	$ 3,520

Exercise price ranges: **$26.05 – $32.44**

Changes in the value of all deferred share units and share appreciation rights as a result of fluctuations in the Company's common share price and the impact of new issues, including stock options, resulted in a charge to income in 2005 of $20.6 million (2004: $14.4 million). This amount was recognized in selling, general and administrative expenses on the consolidated statement of income.

9. EARNINGS PER SHARE

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 exercising outstanding stock options by applying the treasury stock method.

For years ended December 31 ($ thousands, except share and per share amounts)					
2005		Income	Shares		Per Share
Basic earnings per share: net income	**$**	**164,030**	**88,851,343**	**$**	**1.85**
Effect of dilutive securities: stock options		**—**	**1,043,383**		**—**
Diluted earnings per share: net income and assumed conversions	**$**	**164,030**	**89,894,726**	**$**	**1.83**
2004					
Basic earnings per share: net income	$	114,946	79,018,683	$	1.45
Effect of dilutive securities: stock options		—	1,051,870		—
Diluted earnings per share: net income and assumed conversions	$	114,946	80,070,553	$	1.43

10. OTHER ASSETS

December 31 ($ thousands)		**2005**		2004
Other assets – current:				
Future income taxes (Note 5)	**$**	**34,988**	$	24,820
Value Add Tax receivable		**21,777**		25,193
Prepaid expenses		**19,742**		13,398
Current portion of finance assets (Note 11)		**17,255**		24,355
Supplier claims receivable		**16,759**		26,565
Short-term swap contract receivable		**13,723**		—
Retained interest in transferred receivables (Note 19)		**7,133**		10,786
Income taxes recoverable		**7,372**		12,435
Other		**47,431**		39,353
	$	**186,180**	$	176,905
Other assets – long-term:				
Accrued defined benefit pension asset	**$**	**53,748**	$	49,609
Long-term swap contracts receivable		**31,322**		—
Deferred financing costs		**16,085**		17,462
Investment in Maxim Power Corporation (a)		—		14,173
Investment in Energyst B.V. (b)		**14,674**		5,115
Matreq S.A. receivable (c)		**4,664**		4,814
Deferred project costs		**4,315**		2,874
Future income taxes (Note 5)		**28**		31,091
Other		**12,727**		10,978
	$	**137,563**	$	136,116

(a) In March 2005, the Company sold its 36% interest in Maxim Power Corporation for cash of $16.0 million, resulting in a pre-tax gain of approximately $1.8 million.

(b) In April 2005, the Company increased its interest in Energyst B.V. (Energyst) by purchasing 100,000 new shares that were issued from treasury for cash of $9.5 million (EUR 6.0 million). As a result of this transaction, the Company's equity interest in Energyst increased to 24.4% from 15.2%. The Company accounts for its investment in Energyst using the equity method of accounting.

(c) In April 2003, the Company acquired 100% of the voting shares of Matreq S.A. (subsequently renamed Finning Bolivia S.A.). Other consideration of US$4.0 million was advanced to the seller and is contingent upon this operation achieving certain future performance criteria to the end of 2010.

11. Finance Assets

December 31 ($ thousands)		**2005**		2004
Instalment notes receivable	**$**	**25,543**	$	37,234
Equipment leased to customers		**17,648**		25,307
Less accumulated depreciation		**(6,110)**		(21,950)
		11,538		3,357
Total finance assets		**37,081**		40,591
Less current portion of instalment notes receivable (Note 10)		**17,255**		24,355
	$	**19,826**	$	16,236

Depreciation of equipment leased to customers for the year ended December 31, 2005 was $1.6 million (2004: $17.8 million).

During 2004, the Company sold $92.9 million of leases to Caterpillar Financial Services Limited, earning pre-tax income of $13.3 million.

12. Rental Equipment

December 31 ($ thousands)		**2005**		2004
Cost	**$**	**1,948,277**	$	1,999,319
Less accumulated depreciation		**(897,787)**		(835,343)
	$	**1,050,490**	$	1,163,976

Depreciation of rental equipment for the year ended December 31, 2005 was $317.3 million (2004: $314.9 million).

13. Capital Assets

December 31 ($ thousands)		**2005**		2004
Land	**$**	**51,394**	$	54,999
Buildings and equipment		**464,233**		494,554
Less accumulated depreciation		**(186,451)**		(222,938)
		277,782		271,616
Total land, buildings and equipment		**329,176**		326,615
Intangible assets subject to amortization				
Customer contracts and related customer relationships		**15,498**		11,636
Software		**15,548**		10,956
		31,046		22,592
Less accumulated amortization		**(11,963)**		(9,701)
		19,083		12,891
Intangible assets with indefinite lives				
Distribution rights		**646**		2,966
Total intangible assets		**19,729**		15,857
Capital assets	**$**	**348,905**	$	342,472

Depreciation of buildings and equipment for the year ended December 31, 2005 was $32.9 million (2004: $31.4 million).

The Company developed and purchased software for internal use of $4.6 million in 2005. Depreciation of intangible assets subject to amortization for the year ended December 31, 2005 was $2.8 million (2004: $2.0 million).

Certain intangible assets are considered to have indefinite lives because they are expected to generate cash flows indefinitely. As a result of the assessment of the recoverability of long-lived assets, management determined that the carrying amount of certain distribution rights were not recoverable and recorded an impairment charge of $2.3 million in 2005.

14. ACQUISITIONS

During 2003, the Company acquired a materials handling business in the U.K., accounted for under the purchase method of accounting. The allocation of the purchase price to the materials handling business in the U.K. was adjusted in the second quarter of 2004 with final tax adjustments made in the fourth quarter of 2004. The final allocations are reflected in the table below:

($ thousands)	UK Operations: Lex Harvey
Total assets	$ 193,350
Total liabilities	(19,554)
Goodwill	30,450
Intangible assets	8,413
Net assets acquired and total purchase price	$ 212,659

15. GOODWILL

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

December 31 ($ thousands)	**2005**	2004
Goodwill		
Goodwill, beginning of year	**$ 386,257**	$ 393,109
Argentina additional consideration	**24,732**	—
Lex Harvey final purchase price adjustment	**—**	(7,786)
Other acquisitions	**17**	1,872
Foreign exchange translation adjustment	**(46,179)**	(938)
Goodwill, end of year	**$ 364,827**	$ 386,257

In January 2003, the Company acquired 100% of the voting shares of Macrosa Del Plata S.A. (subsequently renamed Finning Argentina S.A.) and Servicios Mineras S.A. (subsequently renamed Finning Soluciones Mineras S.A.), the Caterpillar dealerships in Argentina, and General Machinery Co S.A. (subsequently renamed Finning Uruguay S.A.), the Caterpillar dealership in Uruguay. As part of this agreement, the sellers are entitled to additional future consideration based on the realization of certain performance criteria over a six-year period ending December 31, 2008 for the Argentina operations. Any additional consideration is payable only if certain performance criteria are achieved and maintained for a stipulated period. The strong performance of the dealership in Argentina since acquisition to date indicates the maximum future consideration criteria will likely be met, and has been recorded in accordance with the agreement as $24.7 million (US$21.2 million) to goodwill. It is estimated a provisional payment of approximately $14.0 million (US$12.0 million) will be due early in 2006 and is recorded in accounts payable and accruals. The balance of $10.7 million (US$9.2 million), likely payable in 2007, is recorded as a long-term obligation.

During 2003, the Company acquired the business and assets of Lex Harvey. In 2004, the Company completed its assessment of the final purchase price allocation of Lex Harvey and the resulting purchase price adjustment reduced goodwill by $7.8 million.

During 2004, the Company acquired interests in smaller customer service operations in Canada and in Chile increasing goodwill by $1.3 million and $0.6 million, respectively.

There was no adjustment to goodwill as a result of the Company’s impairment assessment during 2005 and 2004.

16. LONG-TERM OBLIGATIONS

December 31 ($ thousands)	**2005**	2004
Stock-based compensation (Note 8)	**$ 37,302**	$ 24,648
Leasing obligations	**22,555**	15,834
Employee future benefit obligations	**16,754**	14,585
Sale leaseback deferred gain	**8,935**	10,158
Argentina additional consideration (Note 15)	**10,777**	—
Long-term swap contracts payable	**—**	41,977
Other	**1,760**	853
	$ 98,083	$ 108,055

The comparative figures were previously classified in accounts payable and accruals.

17. CUMULATIVE CURRENCY TRANSLATION ADJUSTMENTS

December 31 ($ thousands)	**2005**	2004
Balance, beginning of year	**$ (82,734)**	$ (65,471)
Translation adjustments for the year	**(50,402)**	(17,263)
Balance, end of year	**$ (133,136)**	$ (82,734)

The Company operates in three functional currencies: Canadian dollars, British pound sterling and U.S. dollars. Translation gains or losses on the consolidation of the financial statements of self-sustaining foreign operations are accumulated in the Cumulative Currency Translation Adjustments account on the consolidated balance sheet. Translation adjustments arise as a result of fluctuations in foreign currency exchange rates. The cumulative currency translation adjustment for 2005 mainly resulted from the 13% weakening of the British pound sterling against the Canadian dollar, and the 3% weakening of the U.S. dollar against the Canadian dollar.

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

	2005	2004
Exchange rate as at December 31		
United States dollar	**1.1659**	1.2036
British pound sterling	**2.0036**	2.3062
Average exchange rates for years ended December 31		
United States dollar	**1.2116**	1.3015
British pound sterling	**2.2066**	2.3842

18. EMPLOYEE FUTURE BENEFITS

The Company and its subsidiaries in Canada and the U.K. have defined benefit pension plans and defined contribution pension plans providing retirement benefits for most of their permanent employees.

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

- In Canada, defined benefit plans exist for eligible employees. Final average earnings are based on the highest 5-year average salary and there is no standard indexation feature. Effective July 1, 2004, non-executive members of the defined benefit plan were offered a voluntary opportunity to convert their benefits to a defined contribution pension plan and this defined benefit plan was subsequently closed to all new non-executive employees. The defined benefit pension plan continues to be open to new executives. Pension benefits that exceed the permitted maximums are provided by a non-registered supplemental pension plan for all employees covered by a defined benefit plan. Benefits under this plan are partially secured by a Registered Compensation Arrangement.
- Finning (UK) provides a defined benefit plans for all employees hired prior to January 2003. Final average earnings are based on the highest 3-year period and benefits are indexed annually with inflation. Effective January 2003, this plan was closed to new non-executive employees and replaced with a defined contribution pension plan. The defined benefit plan was temporarily re-opened in June 2003, on a one-time basis, to allow for the transfer of employees assumed upon the acquisition of the Lex Harvey business. These employees were allowed to join the Finning (UK) defined benefit pension plan, for future service only.
- Hewden has a defined benefit plan that is open to eligible management and executive members by invitation only. Final average earnings are based on the highest 3-year period and benefits are indexed annually with inflation. Employees who are ineligible for the defined benefit plans can join a defined contribution plan.

The defined contribution pension plans are registered pension plans that offer a base contribution rate for all members. For the defined contribution plans, where applicable, the company will match contributions made by the plan members. For the Canadian plans, the Company will partially match contributions subject to a maximum of 1% of employee earnings.

The Company's South American employees do not participate in employer pension plans but are covered by country specific legislation with respect to indemnity plans. The Company has recorded a liability to employees based on an actuarial valuation of anticipated payments to employees. An amount of $3.7 million was expensed in 2005 (2004: $4.3 million) for a total obligation of $12.5 million (2004: $11.1 million).

18. EMPLOYEE FUTURE BENEFITS (continued)

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

For years ended December 31	**2005**				2004			
($ thousands)	**Canada**	**UK**	**Hewden**	**Total**	Canada	UK	Hewden	Total
Defined contribution plans								
Net benefit plan expense	**$ 9,815**	**$ 920**	**$ 255**	**$10,990**	$ 8,008	$ 553	$ 279	$ 8,840
Defined benefit plans								
Current service cost, net of employee contributions	**$ 6,375**	**$13,002**	**$ 2,663**	**$22,040**	$ 5,149	$12,083	$ 2,983	$20,215
Interest cost	**15,636**	**21,291**	**9,952**	**46,879**	14,951	20,662	10,104	45,717
Actual return on plan assets	**(21,154)**	**(54,042)**	**(19,672)**	**(94,868)**	(22,081)	(26,167)	(5,765)	(54,013)
Actuarial losses	**42,824**	**48,907**	**18,041**	**109,772**	17,437	44,315	14,110	75,862
Employee future benefit costs before adjustments to recognize the long-term nature of employee future benefit costs	**43,681**	**29,158**	**10,984**	**83,823**	15,456	50,893	21,432	87,781
Adjustments to recognize the long-term nature of employee future benefit costs:								
Difference between expected return and actual return on plan assets for year	**3,967**	**32,408**	**10,607**	**46,982**	5,062	5,948	(2,453)	8,557
Difference between actuarial loss recognized for year and actual actuarial loss on accrued benefit obligation for year	**(40,967)**	**(42,120)**	**(15,373)**	**(98,460)**	(16,841)	(38,838)	(12,131)	(67,810)
Difference between amortization of past service costs for year and actual plan amendments for year	**298**	**—**	**—**	**298**	298	—	—	298
Amortization of transitional obligation / (asset)	**1,047**	**(1,282)**	**1,640**	**1,405**	1,047	(1,385)	1,771	1,433
Defined benefit costs recognized	**8,026**	**18,164**	**7,858**	**34,048**	5,022	16,618	8,619	30,259
Total	**$17,841**	**$19,084**	**$ 8,113**	**$45,038**	$13,030	$17,171	$ 8,898	$39,099

Total cash payments for employee future benefits for 2005, consisting of cash contributed by the Company to its defined benefit plans and its defined contribution plans was $49.0 million (2004: $38.0 million).

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

For years ended December 31	**2005**				2004			
($ thousands)	Canada	UK	Hewden	Total	Canada	UK	Hewden	Total
Accrued benefit obligation								
Balance at beginning of year	**$ 256,462**	**$ 417,596**	**$ 193,160**	**$ 867,218**	$ 228,841	$ 351,208	$ 170,264	$ 750,313
Current service cost	**8,026**	**17,304**	**4,065**	**29,395**	7,069	16,117	4,745	27,931
Interest cost	**15,636**	**21,291**	**9,952**	**46,879**	14,951	20,662	10,104	45,717
Benefits paid	**(15,302)**	**(15,733)**	**(5,086)**	**(36,121)**	(11,836)	(12,398)	(5,257)	(29,491)
Actuarial losses	**42,824**	**48,907**	**18,041**	**109,772**	17,437	44,315	14,110	75,862
Foreign exchange rate changes	**—**	**(60,162)**	**(27,826)**	**(87,988)**	—	(2,308)	(806)	(3,114)
Plan amendments (1)	—	**(13,416)**	—	**(13,416)**	—	—	—	—
Balance at end of year	**$ 307,646**	**$ 415,787**	**$ 192,306**	**$ 915,739**	$ 256,462	$ 417,596	$ 193,160	$ 867,218
Plan assets								
Fair value at beginning of year	**$ 249,187**	**$ 295,814**	**$ 120,273**	**$ 665,274**	$ 233,017	$ 263,356	$ 110,660	$ 607,033
Actual return on plan assets	**21,154**	**54,042**	**19,672**	**94,868**	22,081	26,167	5,765	54,013
Employer contributions	**12,668**	**18,421**	**7,533**	**38,622**	4,005	15,800	7,689	27,494
Employees' contributions	**1,651**	**4,303**	**1,401**	**7,355**	1,920	4,034	1,762	7,716
Benefits paid	**(15,302)**	**(15,733)**	**(5,086)**	**(36,121)**	(11,836)	(12,398)	(5,257)	(29,491)
Foreign exchange rate changes	—	**(44,429)**	**(17,945)**	**(62,374)**	—	(1,145)	(346)	(1,491)
Fair value at end of year	**$ 269,358**	**$ 312,418**	**$ 125,848**	**$ 707,624**	$ 249,187	$ 295,814	$ 120,273	$ 665,274
Funded status – plan surplus/(deficit)	**$ (38,288)**	**$(103,369)**	**$ (66,458)**	**$(208,115)**	$ (7,275)	$(121,782)	$ (72,887)	$(201,944)
Unamortized net actuarial loss	**79,962**	**119,208**	**52,588**	**251,758**	42,961	141,084	56,020	240,065
Unamortized past service costs	**2,663**	—	—	**2,663**	2,960	—	—	2,960
Contributions remitted after valuation date	**517**	**1,364**	**591**	**2,472**	—	1,656	1,261	2,917
Unamortized transitional obligation/asset	**926**	**(9,235)**	**9,056**	**747**	1,974	(11,969)	12,137	2,142
Accrued benefit asset/(liability)[2]	**$ 45,780**	**$ 7,968**	**$ (4,223)**	**$ 49,525**	$ 40,620	$ 8,989	$ (3,469)	$ 46,140

[1] The plan amendment of $13.4 million relates to a reduction in the accrued benefit obligation of the Finning (UK) defined benefit pension plans due to pension benefit changes that have been agreed between Finning (UK) and the plans' trustees and communicated with the employee members of the plans. It has been agreed that employee members' pension benefits will cease to be linked to their final pensionable salary after April 2010. From April 2010, employee members' pension benefits will increase broadly in line with inflation, as opposed to future salary increases. This results in a reduction in the pension plans' accrued benefit obligation because employee members' pension benefits are now assumed to increase in line with the salary increase assumption until April 2010 and then in line with the lower inflation assumption thereafter.

[2] Accrued benefit asset or liability is classified as either other assets or long-term obligations, respectively, on the consolidated balance sheets.

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

For years ended December 31	**2005**				2004			
($ thousands)	Canada	UK	Hewden	Total	Canada	UK	Hewden	Total
Accrued benefit obligation	**$251,154**	**$415,787**	**$192,306**	**$859,247**	$214,333	$417,596	$193,160	$825,089
Fair value of plan assets	**207,513**	**312,418**	**125,848**	**645,779**	188,499	295,814	120,273	604,586
Funded status – plan deficit	**$ 43,641**	**$103,369**	**$ 66,458**	**$213,468**	$ 25,834	$121,782	$ 72,887	$220,503

18. EMPLOYEE FUTURE BENEFITS (continued)

Plan assets are principally invested in the following securities at November 30, 2005:

	Canada	UK	Hewden
Equity	58%	76%	75%
Fixed-income	42%	24%	25%

For measurement purposes, assets and liabilities of the plans are valued as at November 30. Plan assets include common shares of the Company having a fair value of $0.8 million at December 31, 2005 (2004: $0.7 million).

The significant actuarial assumptions adopted in measuring the Company's accrued benefit obligations are as follows:

	2005			2004		
	Canada	**UK**	**Hewden**	Canada	UK	Hewden
Accrued benefit obligation as of December 31:						
Discount rate	5.15%	4.95%	4.95%	6.00%	5.40%	5.40%
Expected long-term rate of return on plan assets	7.25%	7.00%	7.25%	7.50%	7.50%	7.75%
Rate of compensation increase	3.50%	3.50%	3.50%	3.20%	3.25%	3.50%
Benefit costs for years ended December 31:						
Discount rate	6.00%	5.40%	5.40%	6.50%	5.75%	5.75%
Expected long-term rate of return on plan assets	7.50%	7.50%	7.75%	8.00%	7.25%	7.25%
Rate of compensation increase	3.20%	3.25%	3.50%	3.48%	3.20%	3.50%
Estimated remaining service life (years)	10-15	14	13	10-15	14	13

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

Defined Benefit Plan	Last Actuarial Valuation Date	Next Actuarial Valuation Date
Canada – BC Regular & Executive Plan	December 31, 2003	December 31, 2006
Canada – Executive Supplemental Income Plan	December 31, 2004	December 31, 2005
Canada – General Supplemental Income Plan	December 31, 2003	December 31, 2006
Canada – Alberta Defined Benefit Plan	December 31, 2004	December 31, 2005
Finning UK Defined Benefit Scheme	January 1, 2004	January 1, 2006
Hewden Stuart Pension Scheme	December 31, 2002	December 31, 2005
Hewden Pension Plan	January 1, 2005	January 1, 2008

19. Accounts Receivable Securitization

The Company sold a $45.0 million co-ownership interest in a pool of eligible non-interest bearing trade receivables to a multi-seller securitization trust (the "Trust"), net of overcollateralization. Under the terms of the agreement, which expires on November 29, 2007, the Company can sell co-ownership interests of up to $120.0 million on a revolving basis. The Company retains a subordinated interest in the cash flows arising from the eligible receivables underlying the Trust's co-ownership interest. The Trust and its investors do not have recourse to the Company's other assets in the event that obligors fail to pay the underlying receivables when due. Pursuant to the agreement, the Company continues to service the pool of underlying receivables.

As at December 31, 2005, the Company is carrying a retained interest in the transferred receivables in the amount of $7.1 million (as at December 31, 2004: $10.8 million), which equals the amount of overcollateralization in the receivables it sold, and is reported on the consolidated balance sheet in other current assets (Note 10). The servicing liability outstanding is approximately $47,000 as at December 31, 2005 (as at December 31, 2004: $49,000).

For the year ended December 31, 2005, the Company recognized a pre-tax loss of $1.4 million (2004: $1.0 million) relating to these transfers. The Company estimates the fair value of its retained interest and computes the loss on sale using a discounted cash flow model. The key assumptions underlying this model are:

	December 31, 2005	**Range for year ended 2005**
Cost of funds	2.96%	2.81% – 3.49%
Weighted average life in days	32.8	29.7 – 36.6
Average credit loss ratio	0.0092%	(0.0004%) – 0.084%
Average dilution ratio	9.66%	5.63% – 9.84%
Servicing fee rate	2.0%	
Fair value of retained interest	$6.9 million	

The impact of an immediate 10 percent and 20 percent adverse change in the average dilution ratio on the current fair value of the retained interest would be reductions of approximately $0.5 million and $1.1 million, respectively. The impact of an immediate 10 percent and 20 percent adverse change in the weighted average life in days on the current fair value of the retained interest would be reductions of approximately $0.6 million and $1.2 million, respectively. The sensitivity of the current fair value of the retained interest or residual cash flows to an immediate 10 percent and 20 percent adverse change in each of the remaining assumptions is not significant.

The table below shows certain cash flows received from and paid to the Trust:

For years ended December 31 ($ thousands)	**2005**	2004
Proceeds from new securitization	**$ —**	$ 15,000
Proceeds from revolving reinvestment of collections	**$ 495,456**	$ 354,520

20. Economic Relationships

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

21. SEGMENTED INFORMATION

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

Operating units are as follows:

- Canadian operations: British Columbia, Alberta, the Yukon Territory, the Northwest Territories, and a portion of Nunavut.
- South American operations: Chile, Argentina, Uruguay and Bolivia.
- UK operations: England, Scotland, Wales, Falkland Islands and the Channel Islands
- Hewden operations: Equipment rental in England, Scotland, Wales and Jersey.
- Other operations: corporate head office.

The reportable operating segments are:

For years ended December 31 ($ thousands) **2005**	**Canada**	**South America**	**UK**	**Hewden**	**Other**	**Consolidated**
Revenue from external sources	**$ 2,049,675**	**$ 1,007,341**	**$ 1,122,471**	**$ 655,091**	**$ —**	**$ 4,834,578**
Operating costs	**1,782,164**	**886,222**	**1,026,939**	**463,819**	**31,054**	**4,190,198**
Depreciation and amortization	**117,350**	**25,573**	**77,869**	**136,042**	**—**	**356,834**
Other expenses	**—**	**—**	**—**	**—**	**2,261**	**2,261**
Earnings before interest and tax	**$ 150,161**	**$ 95,546**	**$ 17,663**	**$ 55,230**	**$ (33,315)**	**$ 285,285**
Finance costs						**76,863**
Provision for income taxes						**44,392**
Non-controlling interests						**—**
Net income						**$ 164,030**
Identifiable assets	**$ 1,304,802**	**$ 646,286**	**$ 748,976**	**$ 957,023**	**$ 79,301**	**$ 3,736,388**
Gross capital expenditures	**$ 45,858**	**$ 13,601**	**$ 5,756**	**$ 15,607**	**$ 289**	**$ 81,111**
Gross rental asset expenditures	**$ 208,490**	**$ 44,283**	**$ 96,762**	**$ 164,480**	**$ —**	**$ 514,015**

For years ended December 31 ($ thousands) **2004**	**Canada**	**South America**	**UK**	**Hewden**	**Other**	**Consolidated**
Revenue from external sources	$ 1,562,584	$ 869,893	$ 1,043,485	$ 685,930	$ 15	$ 4,161,907
Operating costs	1,318,448	763,975	923,370	482,672	27,871	3,516,336
Depreciation and amortization	112,485	22,885	85,941	144,776	—	366,087
Other expenses	—	—	—	—	13,743	13,743
Earnings before interest and tax	$ 131,651	$ 83,033	$ 34,174	$ 58,482	$ (41,599)	$ 265,741
Finance costs						118,100
Provision for income taxes						17,546
Non-controlling interests						15,149
Net income						$ 114,946
Identifiable assets	$ 1,130,378	$ 652,152	$ 884,308	$ 1,089,257	$ 47,916	$ 3,804,011
Gross capital expenditures	$ 52,908	$ 22,659	$ 13,700	$ 16,935	$ —	$ 106,202
Gross rental asset expenditures	$ 181,092	$ 140,777	$ 34,607	$ 190,140	$ —	$ 546,616

22. OPERATING LEASES

Payments due under various operating lease contracts are as follows:

For years ended December 31 ($ thousands)	
2006	$ 68,112
2007	60,692
2008	51,410
2009	43,432
2010	39,712
Thereafter	183,385
	$ 446,743

23. COMMITMENTS AND CONTINGENCIES

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

(b) In June 2004, Hewden Tower Cranes Limited, a subsidiary of the Company settled its legal claim with Yarm Road Limited and Cleveland Bridge U.K. Limited for damages arising from the collapse of a tower crane at the Canary Wharf site in the U.K. on May 21, 2000. The accident occurred prior to the acquisition of Hewden Tower Cranes Limited by the Company. The final settlement amount totalled £4.9 million in full and final settlement of any claims, counter claims, cross claims or contra charges including interest and costs and incorporating the earlier adjudication award of £1.5 million in January 2004. In addition, Hewden was responsible for the costs of the adjudication, trial and independent legal advice of approximately £0.2 million. An amount of £3.2 million ($7.9 million) pre-tax, net of previous accruals, was charged to the income statement as other expenses in 2004.

24. GUARANTEES AND INDEMNIFICATIONS

The Company enters into contracts with rights of return, in certain circumstances, for the repurchase of equipment sold to customers for an amount estimated to be the future value of the fair market price at that time. As at December 31, 2005, the total estimated value of these contracts outstanding is $160.3 million coming due at periods ranging from 2006 to 2013. The Company's experience to date has been that the equipment at the exercise date of the contract is worth more than the contract value. The total amount recognized as a provision against these contracts is $1.0 million.

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

During the year, the Company entered into various other commercial letters of credit in the normal course of operations.