FINNING CAT

Fourth Quarter and Annual 2006 Results *February 13, 2007*

Finning Announces Best Ever Fourth Quarter and Annual Results

Highlights from Continuing Operations

- Highest ever fourth quarter diluted earnings per share, up 40% from 2005
- Record annual diluted earnings per share of $2.68 is up 42% from 2005
- Highest annual net income as a percentage of revenue in over 10 years
- Record new equipment order backlog of $1.5 billion

	Three months ended December 31			Twelve months ended December 31		
$ millions, except per share data	**2006**	2005	Change	**2006**	2005	Change
Revenue	**1,413.4**	1,117.9	26.4%	**5,047.3**	4,542.5	11.1%
Earnings from continuing operations before interest and income taxes	**85.7**	61.4	39.6%	**387.8**	277.3	39.8%
Net income (loss)						
from continuing operations	**52.7**	38.4	37.2%	**240.8**	169.5	42.1%
from discontinued operations (1)	—	(2.2)		**(36.7)**	(5.5)	
Total net income	**52.7**	36.2	45.6%	**204.1**	164.0	24.5%
Diluted Earnings (Loss) Per Share						
from continuing operations	**$ 0.59**	$ 0.42	40.5%	**$ 2.68**	$ 1.89	41.8%
from discontinued operations (1)	—	(0.02)		**(0.41)**	(0.06)	
Total diluted earnings per share	**$ 0.59**	$ 0.40	47.5%	**$ 2.27**	$ 1.83	24.0%
Cash flow after working capital changes	**79.0**	135.2	(41.6)%	**460.2**	478.8	(3.9)%

(1) In the third quarter of 2006, the Company's U.K. subsidiary, Finning (UK) Ltd., sold its Materials Handling Division, having determined that this division no longer represents a core business for Finning. A loss of $0.37 per share on the sale of this Division was recorded in the third quarter of 2006. In addition, the results of operations of the Materials Handling Division have been reclassified as discontinued operations for all periods presented.

Vancouver, Canada - Finning International Inc. (Finning) today reported 2006 fourth quarter revenue from continuing operations of $1,413.4 million, an increase of 26.4% over the fourth quarter of 2005 and a record for fourth quarter revenues. Earnings from continuing operations before interest and income taxes (EBIT) were $85.7 million in the fourth quarter of 2006, an increase of 39.6% compared with the same period last year. Fourth quarter net income from continuing operations was $52.7 million or $0.59 per share, an increase of 40.5% in diluted earnings per share compared with the fourth quarter of 2005 and the best ever fourth quarter results earned by the Company.

"Finning had a very strong fourth quarter which capped an outstanding year", said Doug Whitehead, President and CEO of Finning International Inc. "In 2006 our Canadian and South American operations continued their dramatic growth and our UK dealership operations more than doubled their contribution to earnings from continuing operations before interest and income taxes. Our order book is at an all time high of $1.5 billion, and contains a number of large orders for mining trucks with deliveries ranging from 2007 to 2010. We are increasingly optimistic about the outlook for Finning over the next few years".

"We are very pleased with the improved profitability of our business in 2006", said Mike Waites, Executive Vice President and CFO of Finning International Inc. "We were able to realize a 40% increase in annual EBIT from an 11% increase in revenues. In addition, our overall EBIT margin (EBIT divided by revenue), net of non-recurring gains, has improved to 7.3% from 6.1% in the prior year. This improvement reflects better price realization, good control of expenses and a modest shift in overall sales mix in favour of parts and service revenues".

Fourth Quarter Results

Finning's revenues from continuing operations in the fourth quarter were $1,413.4 million, up 26.4% from the fourth quarter of 2005 reflecting continued strength in equipment spending by resource-based businesses and general construction markets in Canada and growth in customer support services both in Canada and South America. Strong commodity prices and good overall economic conditions are supporting these businesses and management believes these conditions are likely to continue into 2007.

Finning's global order book (the retail value of new equipment units ordered by customers for future deliveries) of approximately $1,547 million at the end of the fourth quarter of 2006 remains strong and is at record levels. This is the fifth consecutive quarter of record breaking backlog levels which management believes is a good indicator of strong future revenues.

EBIT for the quarter was $85.7 million, compared with $61.4 million in the fourth quarter of 2005, an increase of 39.6%.

Fourth quarter EBIT in the Canadian reporting segment almost doubled from the fourth quarter of 2005, increasing from $28.7 million to $55.6 million in 2006. The increase in 2006 was primarily the result of strong volumes in all lines of business.

EBIT for Finning's South American operations in the fourth quarter of 2006 of $29.4 million was 26.7% higher than the 2005 fourth quarter. Finning South America's EBIT in the fourth quarter of 2006 was positively affected by an increase in both equipment sales and customer support services. Revenues in the fourth quarter of 2006 shifted from equipment sales to customer support services, which return a higher margin.

For Finning (UK), EBIT from continuing operations increased significantly in the fourth quarter of 2006 to $9.4 million compared to $4.9 million in the fourth quarter of 2005, reflecting improved margins and cost efficiencies.

Fourth quarter EBIT for Hewden of $8.2 million was comparable to the 2005 levels reflecting higher revenues from asset sales offset by higher project and restructuring costs. Hewden's hire revenue and EBIT continue to be affected by competitive pressures in the U.K. marketplace.

Finning's net income from continuing operations for the quarter was $52.7 million compared with $38.4 million in 2005. Basic Earnings Per Share (EPS) from continuing operations for the quarter was $0.59, and improved over the 2005 comparable EPS of $0.42 reflecting the EBIT improvements noted above.

Cash flow after working capital changes was $79.0 million for the fourth quarter of 2006, compared with $135.2 million for the same period last year. This reduction was primarily due to funding growth in inventories in the Company's Canadian operations to meet strong customer demand and deliveries planned for the first half of 2007.

Annual 2006 Results

On an annual basis, revenue from continuing operations increased by 11.1% to $5,047.3 million. EBIT from continuing operations of $387.8 million for 2006 is up 39.8% from the year ended 2005. Annual revenue, EBIT and net income are the highest ever recorded by the Company.

Annual revenue was up 27.5% at the Company's Canadian operations, reflecting strong equipment sales to resource-based businesses and the general construction markets. EBIT margin (EBIT divided by revenue) for the Canadian operations of 8.9% was up from 7.3% in the prior year reflecting higher volumes from most lines of business and higher margins from all lines of business as well as gains on sales of properties in the first and third quarters of 2006. Excluding these non-recurring gains, EBIT margin would be 8.2%.

As anticipated, the Company's South American operations experienced a significant revenue mix shift from equipment sales to customer support services and as a result, revenues increased modestly. In local currency, revenues increased 7.0% and as a percentage of revenue, gross profit increased in 2006 due to the revenue mix shift to higher margin customer support services. Annual 2006 EBIT of $108.9 million was 16.7% higher compared to the same period last year. In local currency EBIT improved 24.7%. The positive impact of the growth in customer support services on the Company's profitability was evident in the improvement in Finning South America's EBIT margin from 9.3% in 2005 to 10.8% for the year ended 2006.

Annual revenues from Finning (UK)'s continuing operations decreased 4.1% in 2006, but in local currency total revenue was 1% higher than that reported 2005. The UK Operations contributed $34.9 million of EBIT in 2006, more than double the EBIT contributed during 2005 with improved contributions from all lines of business, and reflecting lower expenses as a result of various initiatives and management's focus on realizing cost efficiencies.

Hewden's revenues decreased 4.0% in 2006 compared with 2005, but in local currency revenues were 1.3% higher than those reported in 2005. EBIT decreased 11.2% compared to 2005, and in local currency EBIT decreased 6.3%. EBIT margin decreased from 7.6% last year to 7.0% in 2006 partially due to lower volumes as well as higher project costs.

Consolidated net income from continuing operations increased by 42.1% to $240.8 million. Diluted EPS from continuing operations for the year ended December 31, 2006 was $2.68 compared with $1.89 in the same period last year, up 41.8%. The increase in net income from continuing operations, year over year, was primarily due to the continued strong performance of the Company's Canadian operations. Management is focused on improving the results of the Company's operations in the U.K through efficient use of assets and capturing customer and market opportunities. A new management team and organizational structure is in place to focus on increasing market share, realizing additional cost efficiencies together with the implementation of a new information technology system at Hewden. Annual 2006 results benefited from savings realized from the Company's various initiatives to reduce costs by $60 million by the end of 2006. The target savings of $60 million from 2004 was achieved and exceeded at December 31 2006, with estimated annualized savings going forward of $64 million.

Results for the year ended December 31, 2006 also include non-recurring gains of approximately $0.17 per share recorded in the first and third quarters of 2006 on the disposal of properties in Canada and a portion of OEM Remanufacturing's business, partially offset by incremental finance costs of approximately $0.07 per share for the early repayment of Finning's previously issued Eurobond notes in the third quarter of 2006.

Excluding the gains recorded in the first and third quarters of 2006 from the dispositions noted above and the incremental finance costs incurred as a result of the early repayment of the Eurobond, diluted EPS from continuing operations would have been $2.58, up 36.5% from the prior year.

Important New Contracts

In the fourth quarter of 2006, Finning entered into the following noteworthy new contracts:

- *North American Energy Partners Inc.* – Finning (Canada) announced a $51 million order for mining equipment to North American Energy Partners Inc. for nine 793D, nine 777F and four 785C haul trucks, all of which are expected to be delivered in 2007.
- *Suncor Energy* – In June 2005, Finning (Canada) announced a $115 million product support contract that included the sale to Suncor of nine 797B-series trucks and the option to purchase an additional six. The nine trucks were delivered between April and July 2006 and are the first B-series trucks added to Suncor's fleet. In December 2006, Suncor Energy exercised the option granted in June 2005 to purchase six additional Caterpillar 797B haul trucks and an associated 10-year product support services agreement. In addition, Suncor has purchased 14 pieces of new mining support equipment in 2006. The total value of these transactions amounts to approximately $75 million.

  Of the six 797B trucks, one has already been delivered. The remaining five will be delivered by June 2007. Delivery of the mining support equipment including dozers, motor graders and wheel loaders, representing additional new fleet capacity for Suncor, was completed at the end of 2006.
- *Minera Escondida* – Finning's South American mining division has received a letter of intent from Minera Escondida, a part of the BHP Billiton Group, regarding the purchase of approximately 45 Caterpillar 797B mining trucks. Delivery of the trucks is expected to begin in early 2009. The transaction will be governed by the long-term strategic alliance between BHP Billiton and Caterpillar.
- *Silver Standard Resources* – Finning's South American mining division has sold a package of mining equipment that will operate in the Pirquitas Mine, located in north-western Argentina, a wholly-owned project of Silver Standard Resources Inc. The package includes one O&K RH90 hydraulic shovel as well as a fleet of 7 Caterpillar 777 haul trucks and 10 pieces of support equipment. Finning is currently negotiating the terms of a multi-year maintenance and repair contract to support these and future units at the Pirquitas Mine. The value of the service agreement is expected to be in the range of approximately $70 million. Delivery of the equipment is expected to occur in 2007.

Subsequent to the fourth quarter of 2006:

- *Syncrude Canada* – Finning (Canada) announced an order for equipment and product support services package worth approximately $230 million to Syncrude Canada Ltd. The transaction includes 20 Caterpillar 797B off-highway trucks that will be delivered during 2009 and a multi-year product support agreement. The product support agreement covers specified parts, components and product support associated with this equipment. Syncrude's equipment maintenance personnel will service and maintain this equipment. The trucks are being purchased to support Syncrude's oil sands mining operations near Fort McMurray in Alberta.
- *Tarmac Group* – Finning's UK Group completed a multi-million dollar transaction with Tarmac Group for the sale of Caterpillar equipment, scheduled for delivery over 2007 and 2008. The deal will see Finning supply the vast majority of Tarmac's requirements for wheel loaders over the next two years as well as excavators, telehandlers and off-highway trucks. This is the first time Tarmac has awarded such a significant portion of its wheel-loader business to a single supplier.

Director and Executive Appointments

- We are pleased to announce that at Finning's board meeting today, Ms. Kathleen M. O'Neill was appointed to the Board of Directors. Ms. O'Neill is a corporate director and resident of Canada and was an Executive Vice-President of BMO Financial Group with accountability for a number of major business units prior to 2005. Ms. O'Neill is an FCA (Fellow of Institute of Chartered Accountants) and prior to BMO Financial Group was a partner with PricewaterhouseCoopers. Ms. O'Neill currently

serves on the board of directors of TSX Group Inc., a public company which operates Canada's two national stock exchanges; MDS Inc., a public company which is a global health and life science firm; and Canadian Tire Bank, a subsidiary of Canadian Tire Corporation. She has also been appointed to Finning's Audit Committee, and has been designated the "financial expert" on that committee.

- Andy Bone, currently Vice President, Branch Operations, Finning (Canada) is appointed to the role of Senior Vice President, Customer Support Solutions at Finning International, effective March 1, 2007. Andy will play a key strategic role in the development of new solutions, better customer value, improved customer segmentation, and in the development of better delivery mechanisms and selling tools.

Common Share Dividend

The Board of Directors approved the Company's quarterly dividend at $0.16 per common share, payable on March 15 2007, to shareholders of record on March 1 2007.

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 Tuesday, February 13, 2007 at 3:00 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 http://www.finning.com/investors/investors.aspx and subsequently archived on the Finning website. Playback recording will be available at **1-888-509-0081** from 6:00 pm Eastern Time on February 13, 2007 until the end of business day on February 20, 2007. The passcode to access the playback recording is 639063 followed by the number sign.

About Finning International

Finning International Inc. sells, rents 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 (including the attached Management's Discussion and Analysis) 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 9, 2007

Finning International's first quarter for 2007 will be released and an investor conference call will be held on May 9, 2007.

Annual General Meeting

The Company's annual general meeting will be held at the Four Seasons Hotel, 791 West Georgia Street, Vancouver, British Columbia, at 11:00 am Pacific Time on Wednesday May 9, 2007.

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.

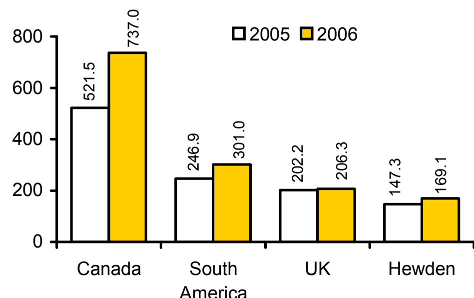
Results of Operations

The results from continuing operations include the performance of acquired businesses from the date of their purchase and exclude results from operations that have been disposed or are classified as discontinued. Results from operations that qualify as discontinued operations have been reclassified to that category for all periods presented unless otherwise noted. Please see the section entitled "Discontinued Operations" for a discussion of these operations.

Fourth Quarter Overview

	Q4 2006	Q4 2005	**Q4 2006**	Q4 2005
($ millions)			(% of revenue)	
Revenue	**$ 1,413.4**	$ 1,117.9		
Gross profit	**393.2**	318.9	**27.8%**	28.5%
Selling, general & administrative expenses	**304.5**	256.6	**21.5%**	22.9%
Other expenses (income)	**3.0**	0.9	**0.2%**	0.1%
Earnings from continuing operations before interest and income taxes	**85.7**	61.4	**6.1%**	5.5%
Finance costs	**17.9**	14.4	**1.3%**	1.3%
Provision for income taxes	**15.1**	8.6	**1.1%**	0.8%
Net income from continuing operations	**52.7**	38.4	**3.7%**	3.4%
Loss from discontinued operations, net of tax	**—**	2.2	**—**	0.2%
Net income	**$ 52.7**	$ 36.2	**3.7%**	3.2%

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



Fourth quarter consolidated revenues from continuing operations of $1,413.4 million continued to be strong, driven by revenue growth of 41.3% from the Company's Canadian operations. Consolidated revenues increased 26.4% from the fourth quarter of 2005. Earnings from continuing operations before interest and income taxes (EBIT) increased 39.6% to $85.7 million and consolidated net income from continuing operations increased by 37.2% to $52.7 million.

Net income was $52.7 million compared with $36.2 million in the same period in 2005.

Basic Earnings Per Share (EPS) from continuing operations for the quarter was $0.59 compared with $0.43 in the same period last year. Including the loss from discontinued operations, basic EPS was $0.59 in the fourth quarter of 2006 compared with $0.41 in the fourth quarter of 2005.

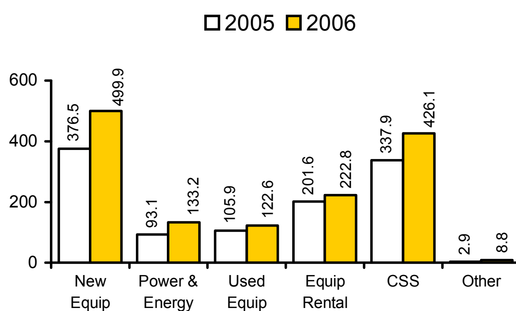
Revenue was higher in the fourth quarter of 2006 in the Company's Canadian operations as a result of robust activity driven by high commodity prices and an increase in infrastructure spending. Revenue from the Company's operations in South America increased 21.9% in Canadian dollars compared with the

fourth quarter of 2005 with a strong revenue mix shift to customer support services. The Company's operations in the U.K. also experienced an increase in revenue in Canadian dollars, year over year.

Finning's business is geographically diversified and the Company conducts business in multiple currencies, the most significant of which are the U.S. dollar, the Canadian dollar and the U.K. pound sterling. The most significant foreign exchange impact on the Company's net income is the translation of foreign currency based earnings into Canadian dollars. Excluding the impact of foreign exchange when translating results, revenues for the fourth quarter of 2006 in local currency increased by 25.4% in South America and by 8.4% in Hewden, and decreased by 4.3% in the UK Operations when compared to last year's fourth quarter.

Foreign exchange had a minimal impact on consolidated revenues in the fourth quarter compared to the prior year, with a positive impact on revenues of $22 million due to a weaker Canadian dollar relative to the U.K. pound sterling (6.4% weakening), offset by the negative impact on revenues of $32 million due to a stronger Canadian dollar in the quarter relative to the U.S. dollar (2.9% strengthening).

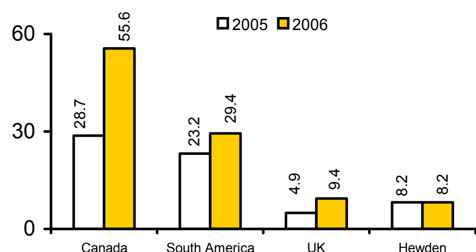
Revenue by Line of Business
($ millions)
Three months ended December 31



Strong demand continued in the fourth quarter of 2006 for both new equipment and customer support services. On a consolidated basis, all lines of business increased over the 2005 levels maintaining a similar revenue mix. Canada recorded a 66% increase in new equipment revenues as demand in both mining and construction continued to be strong. The UK Operations achieved a 30% increase in customer support services which was offset by lower new equipment deliveries to customers, partially due to product availability constraints. Hewden maintained rental activity at 2005 levels and benefited from a higher level of rental asset disposals in the fourth quarter of 2006. South America posted a strong quarter in new equipment sales and even stronger customer support services benefiting from a higher level of long term service contracts with their customers.

Gross profit of $393.2 million in the quarter increased 23.3% over the same period last year. As a percentage of revenue, gross profit for the quarter decreased slightly from the same period last year due to escalating labour costs in South America and lower rental asset utilization in Hewden. In markets where we have strong demand, some improvement in price realization has been achieved. In the more competitive U.K. market, the UK Operations generated higher gross margins with a revenue mix shift towards customer support services.

EBIT by Operation – continuing operations
($ millions)
Three months ended December 31



Excluding other operations – corporate head office

EBIT from continuing operations of $85.7 million increased 39.6% year over year, primarily due to the strong performance of the Company's Canadian and South American operations and a notable improvement in the UK Operations. Hewden's contribution to overall EBIT was at the same level compared with the prior year's quarter. EBIT in the fourth quarter of 2006 included higher variable operating costs to support the increased level of activity, higher employee costs and higher long-term incentive plan (LTIP) charges. The LTIP charges in the fourth quarter of 2006 are higher by $23.4 million compared with the same period in 2005, primarily due to the vesting of three tranches of deferred share units and the mark-to-market impact on the valuation of vested units resulting from the appreciation of the Company's share price in the quarter. Performance in the fourth quarter of 2006 benefited from cost savings achieved globally through the Company's cost reduction program whereas the fourth quarter of 2005 incurred higher costs to support customers amidst the Company's Canadian operations one month labour stoppage.

Net income from continuing operations improved 37.2% in the fourth quarter of 2006 reflecting the solid fourth quarter activity noted above.

Cash flow after changes in working capital for the quarter was $79.0 million, compared with cash flow of $135.2 million generated in the same period last year. The Company's Canadian operations experienced a significant increase in its investment in equipment in the fourth quarter of 2006 to meet strong customer demand and deliveries planned for the first half of 2007. Throughout all operations, management continues to focus on improving cash cycle times and operating efficiencies.

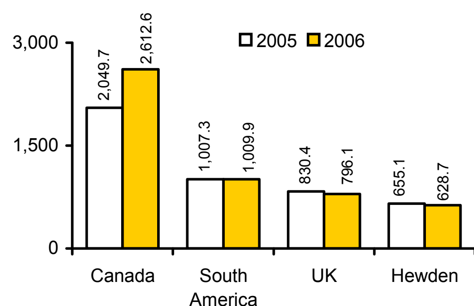
The Company's net investment in rental assets of $64.2 million in the fourth quarter was $34.9 million higher than the same period in 2005 with higher demand for Canada's rental business and timing of product delivery in Hewden.

As a result of these items, cash flow from operating activities was $11.7 million in the fourth quarter of 2006 compared to $98.7 million in the fourth quarter of 2005.

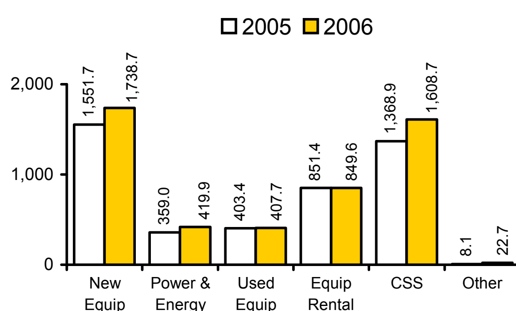
Annual Overview

($ millions)	2006	2005	2006 (% of revenue)	2005 (% of revenue)
Revenue	**$ 5,047.3**	$ 4,542.5		
Gross profit	**1,460.2**	1,303.1	**28.9%**	28.7%
Selling, general & administrative expenses	**1,078.8**	1,023.5	**21.3%**	22.5%
Other expenses (income)	**(6.4)**	2.3	**(0.1)%**	0.1%
Earnings from continuing operations before interest and taxes (EBIT)	**387.8**	277.3	**7.7%**	6.1%
Finance costs	**75.7**	61.0	**1.5%**	1.4%
Provision for income taxes	**71.3**	46.8	**1.4%**	1.0%
Net income from continuing operations	**240.8**	169.5	**4.8%**	3.7%
Loss from discontinued operations, net of tax	**36.7**	5.5	**0.8%**	0.1%
Net income	**$ 204.1**	$ 164.0	**4.0%**	3.6%

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



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



For the fourth consecutive year, revenues reached record levels. Annual revenues from continuing operations of $5,047.3 million increased 11.1%, year over year, primarily as a result of the strong contribution from the Company's Canadian operations.

Foreign exchange translation had a negative impact of approximately $250 million on revenues due to the stronger Canadian dollar in 2006 relative to the U.K. pound sterling (5.3% strengthening) and the U.S. dollar (6.4% strengthening), year over year. In local currency, the Company's UK and Hewden operations contributed revenues slightly higher to that of 2005, while revenues earned by the South American operations were 7.0% above the 2005 level.

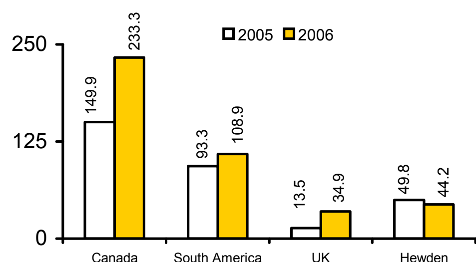
From a line of business perspective, the strong demand for new equipment was almost equalled by the strong growth in customer support services in 2006. Customer support services, which generally contribute a higher EBIT as a percentage of revenue, are viewed by management as a major potential growth area and related revenues are anticipated to comprise a larger percentage of total revenues in the future. Rental revenue and used equipment revenues are relatively unchanged year over year. Used equipment revenues typically will vary depending on product availability, customer buying preferences and exchange rate considerations. As new equipment is currently in high demand and certain models are in short supply, customers are utilizing their older units longer and as such, availability of used equipment is low.

Finning's global order book or backlog (the retail value of new equipment units ordered by customers for future deliveries) remained strong and achieved a record level of approximately $1,547 million at the end of the fourth quarter of 2006. This is up from the previous record level experienced in the third quarter of 2006 of approximately $1,219 million and the December 2005 level of approximately $968 million.

The Company is dependent on Caterpillar for the timely supply of parts and equipment to fulfill its deliveries and meet the requirements of the Company's service maintenance contracts. Although availability of certain models has improved, Caterpillar continues to have certain medium and large machine models under managed distribution. Finning continues to work closely with Caterpillar and customers to ensure that demand for parts and equipment can be met. Where supply constraints occur, the Company has been supplementing its new equipment inventory by utilizing its rental assets and used equipment to meet demand.

Gross profit of $1,460.2 million in 2006 increased 12.1% over last year and increased slightly as a percentage of revenue. The gross profit margin improvement reflects improved equipment margins due to strong overall demand and higher customer support services margins despite escalating labour costs, particularly in the South American operations.

EBIT by Operation
($ millions)
Twelve months ended December 31



Excluding other operations – corporate head office

EBIT from continuing operations increased 39.8% to $387.8 million in spite of the negative impact of foreign exchange in 2006. Annual 2006 EBIT was reduced by approximately $33 million compared to 2005 as a result of the stronger Canadian dollar relative to both the U.S. dollar and the U.K. pound sterling. EBIT in 2006 was also negatively affected by higher LTIP costs compared to 2005. The Company's LTIP includes stock-based compensation plans such as deferred share unit plans, share appreciation rights plans and stock options. The LTIP costs in 2006 are $5.2 million higher than 2005 primarily due to more stock options outstanding and include the mark-to-market impact on the valuation of LTIP resulting from the appreciation of the Company's share price year over year, which hit a high of $47.79 in the fourth quarter of 2006.

Annual 2006 EBIT benefited from savings realized from the Company's various initiatives to reduce costs by $60 million by the end of 2006. The target savings of $60 million from 2004 was achieved and exceeded at December 31 2006, with estimated annualized savings going forward of $64 million.

Consolidated net income from continuing operations in 2006 increased by 42.1% to $240.8 million. Basic EPS from continuing operations for the year ended December 31, 2006 was $2.69 compared with $1.91 in the same period last year, up 40.8%. Annual 2006 results include non-recurring gains of approximately $0.17 per share recorded in the first and third quarters of 2006 on the disposal of properties in Canada and the sale of OEM Remanufacturing's railroad and non-Caterpillar engine component remanufacturing business to Caterpillar in the first quarter of 2006. The 2006 results also include $0.07 per share in incremental finance costs incurred on the early repayment of a portion of the Company's previously issued £200 million Eurobond notes.

The increase in 2006 net income from continuing operations, year over year, was primarily due to the continued strong performance of the Company's Canadian operations and the gains from the dispositions noted above partially offset by higher finance costs as a result of the early repayment of a portion of the Eurobond notes. Excluding the gains recorded in the first and third quarters of 2006 from the dispositions noted above and the incremental finance costs, basic EPS from continuing operations would have been $2.59, an increase of 35.6% from the prior year.

Discontinued Operations

Following an extensive strategic review of the Company's U.K. based businesses, it was determined that the Materials Handling Division in the U.K. no longer represented a core business for Finning. On September 29 2006, the Materials Handling Division was sold and is now classified as discontinued operations within the consolidated financial statements for all periods presented.

The sale of the business resulted in a one-time after-tax loss of approximately $32.7 million (approximately £15.5 million) in the third quarter of 2006, which included the write-off of the goodwill and intangible assets associated with this business.

Net income after discontinued operations for 2006 was $204.1 million compared with $164.0 million for 2005, reflecting the loss incurred on the sale discussed above.

Cash Flow After Changes in Working Capital

Cash flow after changes in working capital for year ended December 31, 2006 was $460.2 million, a decrease of 3.9% from $478.8 million generated last year. Strong cash flow from operations was used to fund growth in inventories to meet customer demand in Canada. Throughout all operations, management continues to focus on improving cash cycle times and operating efficiencies.

The Company's net spending on rental assets increased marginally with a net investment of $343.6 million in 2006 (year ended December 31, 2005: $310.7 million). Rental additions were lower in the U.K. due to the sale of the Materials Handling Division in 2006 as well as management focus on increasing asset utilization at Hewden. Growth in rental assets occurred primarily in Canada to accommodate customer demand.

As a result of the above, cash flow from operating activities for the year was $97.2 million compared with $158.3 million for 2005.

Results by Business Segment

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

Finning's 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*: corporate head office.

The table below provides details of revenue by operations and lines of business for continuing operations. Comparative periods have been reclassified to conform to the 2006 presentation.

For year ended December 31 2006 ($ millions)	**Canada**	**South America**	**UK**	**Hewden**	**Consolidated**	**Revenue percentage**
New mobile equipment	**$ 1,033.1**	**$ 389.5**	**$ 304.1**	**$ 12.0**	**$ 1,738.7**	**34.4%**
New power & energy systems	**196.8**	**69.8**	**153.3**	**—**	**419.9**	**8.3%**
Used equipment	**248.3**	**38.7**	**80.8**	**39.9**	**407.7**	**8.1%**
Equipment rental	**240.4**	**38.1**	**33.9**	**537.2**	**849.6**	**16.9%**
Customer support services	**873.4**	**471.7**	**224.0**	**39.6**	**1,608.7**	**31.9%**
Other	**20.6**	**2.1**	**—**	**—**	**22.7**	**0.4%**
Total	**$ 2,612.6**	**$ 1,009.9**	**$ 796.1**	**$ 628.7**	**$ 5,047.3**	**100.0%**
Revenue percentage by operations	**51.8%**	**20.0%**	**15.8%**	**12.4%**	**100.0%**	

For year ended December 31 2005 ($ millions)	Canada	South America	UK	Hewden	Consolidated	Revenue percentage
New mobile equipment	$ 739.5	$ 454.7	$ 345.7	$ 11.8	$ 1,551.7	34.2%
New power & energy systems	143.7	75.4	139.9	—	359.0	7.9%
Used equipment	253.0	29.8	91.8	28.8	403.4	8.9%
Equipment rental	195.4	45.5	37.8	572.7	851.4	18.7%
Customer support services	712.2	399.7	215.2	41.8	1,368.9	30.1%
Other	5.9	2.2	—	—	8.1	0.2%
Total	$ 2,049.7	$ 1,007.3	$ 830.4	$ 655.1	$ 4,542.5	100.0%
Revenue percentage by operations	45.1%	22.2%	18.3%	14.4%	100.0%	

The table below provides selected income statement information by business segment for continuing operations:

For year ended December 31 2006 ($ millions)	**Canada**	**South America**	**UK**	**Hewden**	**Other**	**Consolidated**
Revenue from external sources	**$ 2,612.6**	**$ 1,009.9**	**$ 796.1**	**$ 628.7**	**$ —**	**$ 5,047.3**
Operating costs	**2,251.3**	**876.3**	**734.5**	**446.6**	**32.9**	**4,341.6**
Depreciation and amortization	**145.7**	**24.7**	**24.2**	**129.7**	**—**	**324.3**
Other expenses	**(17.7)**	**—**	**2.5**	**8.2**	**0.6**	**(6.4)**
Earnings before interest and tax	**$ 233.3**	**$ 108.9**	**$ 34.9**	**$ 44.2**	**$ (33.5)**	**$ 387.8**
Earnings before interest and tax						
- percentage of revenue	**8.9%**	**10.8%**	**4.4%**	**7.0%**		**7.7%**
- percentage by operations	**60.2%**	**28.1%**	**9.0%**	**11.4%**	**(8.7)%**	**100.0%**

For year ended December 31 2005 ($ millions)	Canada	South America	UK	Hewden	Other	Consolidated
Revenue from external sources	$ 2,049.7	$ 1,007.3	$ 830.4	$ 655.1	$ —	$ 4,542.5
Operating costs	1,783.8	886.2	793.6	463.9	31.0	3,958.5
Depreciation and amortization	115.7	25.6	27.1	136.0	—	304.4
Other expenses	0.3	2.2	(3.8)	5.4	(1.8)	2.3
Earnings before interest and tax	$ 149.9	$ 93.3	$ 13.5	$ 49.8	$ (29.2)	$ 277.3
Earnings before interest and tax						
- percentage of revenue	7.3%	9.3%	1.6%	7.6%		6.1%
- percentage by operations	54.0%	33.6%	4.9%	18.0%	(10.5)%	100.0%

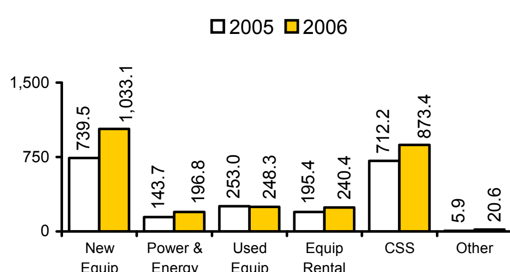
Canadian Operations

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 is separately managed from Finning (Canada). OEM is a component rebuild facility based in Edmonton, Alberta and became fully operational late in the second quarter of 2005.

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

For years ended December 31 ($ millions)	**2006**	2005
Revenue from external sources	**$ 2,612.6**	$ 2,049.7
Operating costs	**2,251.3**	1,783.8
Depreciation and amortization	**145.7**	115.7
Other expenses (income)	**(17.7)**	0.3
Earnings before interest and taxes	**$ 233.3**	$ 149.9
Earnings before interest and taxes		
- as a percentage of revenue	**8.9%**	7.3%
- as a percentage of consolidated earnings before interest and taxes	**60.2%**	54.0%

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



Record results were again achieved in the Company's Canadian operations in 2006. Revenues increased 27.5% over the 2005 levels to $2,612.6 million. Revenues from all lines of business in Canada, except for used equipment, increased over 2005 levels, most notably in new equipment and customer support services. This occurred in spite of a 6.4% strengthening of the Canadian dollar relative to the U.S. dollar year over year.

The increase in new equipment revenues was attributable to significant strength in the construction, mining and petroleum sectors driven by strong commodity and energy prices as well as higher levels of infrastructure spending.

Higher revenues from customer support services were a result of servicing a growing Caterpillar fleet in our Canadian dealership territory and the resulting strong demand for Caterpillar parts. Rental revenues increased over 2005 as a result of a higher investment in rental assets required to meet increased customer demand including increased investment in the Company's Cat Rental Stores and its joint venture investment in PipeLine Machinery International, LLP, both of which continue to generate good return on assets.

In the third quarter of 2006, Finning (Canada) acquired the assets and business operations of Wirtanen Electric Ltd., an electric distribution rental company based in Alberta, for cash of approximately $10.3 million. This acquisition increased the number of the Company's Cat Rental Stores in operation in Western Canada to 29 at December 31, 2006, compared with 27 stores at December 31, 2005. A 30th Cat Rental Store was added in January 2007.

New equipment orders from customers continued to outpace prior year volumes and as a result, the backlog achieved new record levels at the end of 2006. Backlog reflects the strong activity in the mining, petroleum, and construction sectors where the Canadian operations operate.

In Canada, higher gross profits were achieved in all lines of business. Gross profit as a percentage of revenue increased slightly from that achieved in 2005 partially due to a modest shift in the mix of revenues

in 2006 towards customer support services, which attract a higher margin than the equipment sales business. In addition, strong customer demand has led to higher equipment margins.

SG&A costs increased in 2006 largely due to a higher number of employees supporting record activity levels and meeting customer demands. As a percentage of revenue, SG&A is lower in 2006 compared with last year, reflecting cost efficiencies. Key factors affecting the SG&A increase in 2006 compared with 2005 for the Company's Canadian operations include:

- As a result of increased customer demand and continued strength in resource based businesses and infrastructure spending in western Canada, headcount for Finning (Canada) increased by approximately 770 or 25% compared to December 2005. As a result, higher salaries, benefit, pension, recruitment, relocation and training costs were incurred in 2006.
- Variable selling costs such as warranty, freight and building occupancy costs have increased in proportion with the increase in revenue.
- Higher LTIP costs due to the appreciation of the Company's share price.

Other income for 2006 includes a $12.9 million total pre-tax gain on the sale of certain properties at Finning (Canada) and a $5.3 million pre-tax gain recorded on the sale of a portion of OEM's remanufacturing business.

- Finning (Canada) sold certain properties pursuant to a sale leaseback type transaction in which Finning (Canada) will lease back the properties involved over lease terms ranging from 2 to 22 years. Net proceeds from this transaction were $12.7 million, resulting in a pre-tax gain in the third quarter of 2006 of $7.8 million. Finning (Canada) also sold surplus properties during the year for a pre-tax gain of $5.1 million.
- OEM sold its railroad and non-Caterpillar engine component remanufacturing business to Caterpillar in the first quarter of 2006, resulting in a pre-tax gain of $5.3 million. Caterpillar and OEM have signed an initial two-year agreement under which OEM will provide remanufacturing services to Caterpillar for these lines of business..

Strong revenues due to demand and activity in the Canadian operations and gain on property and business sales, partially offset by demand related SG&A costs, translated into a significant contribution by the Company's Canadian operating segment which achieved an EBIT of $233.3 million in 2006 compared with $149.9 million in 2005. As a result of improved margins and cost efficiencies, the Canadian operating segment experienced an improved EBIT margin (EBIT divided by revenues) of 8.9% in 2006, up from 7.3% last year. EBIT margin, excluding the gains from dispositions described above would be 8.2% compared with 7.3% in 2005.

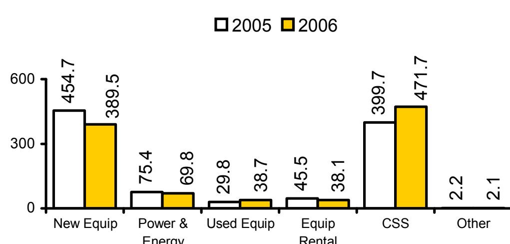
South America

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:

For years ended December 31 ($ millions)		**2006**		2005
Revenue from external sources	**$**	**1,009.9**	$	1,007.3
Operating costs		**876.3**		886.2
Depreciation and amortization		**24.7**		25.6
Other expenses (income)		**—**		2.2
Earnings before interest and taxes	**$**	**108.9**	$	93.3
Earnings before interest and taxes				
- as a percentage of revenue		**10.8%**		9.3%
- as a percentage of consolidated earnings before interest and taxes		**28.1%**		33.6%

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



Annual 2006 revenues of $1,009.9 million achieved record levels in both Canadian and local currency, despite the negative impact of a 6.4% strengthening of the Canadian dollar relative to the U.S. dollar. In local currency (U.S. dollar), Finning South America revenues increased 7.0% reflecting higher revenues from customer support services in 2006. The strong commodity cycle and continued high metal prices, together with strong economic growth in the countries in which Finning South America operates, continues to fuel the demand for equipment, although at a slightly lower level in 2006. New equipment order backlog achieved record levels at the end of 2006 with strong new customer orders.

Significant growth experienced in customer support services is primarily the result of servicing the numerous mining maintenance and repair contracts entered into over the past couple of years. The Company's South American operations experienced a revenue mix shift from equipment sales towards higher margined customer support services in 2006.

In both Canadian and local currency, gross profit increased in 2006 in absolute terms and as a percentage of revenue. This occurred partially due to the revenue mix shift toward customer support services but was also due to stronger margins earned in new equipment and rentals, partially through price realization. In South America, high commodity prices have also driven labour costs upward as wages increase to support demand in a highly competitive market for skilled workers. South America operations were adversely impacted by these higher wage demand settlements and by some degree of inefficiencies of newly hired employees to meet customer demand. As a result, margin returns from customer support services have decreased slightly from 2005 levels.

In order to meet strong customer service demand arising from a higher number of service maintenance contracts, 607 additional revenue-generating employees and support staff have been hired, representing a 15% increase over December 2005 levels. As a result, higher salaries and benefit costs were incurred in 2006. Parts availability constraints also increased costs to expedite delivery of product to customers. Other operating costs reflect the upward pressure of inflationary increases, especially from Argentina which continues to have a high rate of inflation. In spite of the increase in SG&A costs to manage growth in demand, SG&A as a percentage of revenue decreased in 2006 as a result of numerous initiatives to manage

costs. Management continues to undertake cost saving initiatives to drive efficiencies in work flow processes and improving working capital management. These costs were mostly offset by lower variable equipment selling costs and productivity improvements.

In local currency, EBIT improved 24.7% in 2006 compared to the prior year. When translated into Canadian dollars, EBIT of the Company's South American operations of $108.9 million in 2006 was 16.7% higher than 2005. EBIT as a percentage of revenue for Finning South America at 10.8% was up from 9.3% in 2005 as a result of the revenue mix shift to higher margined customer support services and cost saving initiatives.

United Kingdom ("UK") Group

In the fourth quarter of 2006, Finning implemented a new organizational structure for its UK Group and appointed a new management team. Effective November 1 2006, Finning Group, UK will be organized along four core lines of business; Heavy Construction, General Construction, Power Systems and Hewden. These four business units will, over time, be supported by a single back office operation that will provide centralized head office services, allowing further synergies among the business units.

For most of the 2006 year, the Company's operations in the U.K. operated separately as UK Operations and Hewden Operations as noted below. The changes implemented in the fourth quarter are expected to improve the performance of the Company's operations in the U.K.

UK Operations

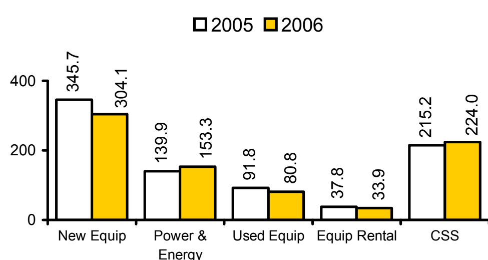
The continuing operations of this segment reflect the results of Finning (UK), the UK Caterpillar dealership operation and Diperk UK, which distributes and services Perkins engines in the U.K.

In September 2006, Finning (UK) sold its Materials Handling Division and as a result, the results from the Materials Handling Division are recorded as discontinued operations with prior period results restated accordingly.

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

For years ended December 31 ($ millions)	**2006**	2005
Revenue from external sources	**$ 796.1**	$ 830.4
Operating costs	**734.5**	793.6
Depreciation and amortization	**24.2**	27.1
Other expenses (income)	**2.5**	(3.8)
Earnings before interest and taxes	**$ 34.9**	$ 13.5
Earnings before interest and taxes		
- as a percentage of revenue	**4.4%**	1.6%
- as a percentage of consolidated earnings before interest and taxes	**9.0%**	4.9%

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



Annual 2006 revenues of $796.1 million were down 4.1% from the prior year. Excluding the impact of foreign currency translation resulting from the 5.3% strengthening of the Canadian dollar relative to the U.K. pound sterling, revenues in the UK Operations increased marginally by 1% in local currency compared to the prior year.

Revenues, in local currency, from customer support services and power and energy solutions were higher in 2006 compared to the prior year, partially offset by lower revenues from new and used equipment sales and rentals. Power and energy solutions increased in 2006 supported by the completion of a number of large power generation projects and higher activity in the offshore petroleum market.

New order backlog at December 2006 achieved record levels.

Gross profit, in local currency, for 2006 for the UK Operations was 9.9% higher in absolute terms compared with last year. Gross profit margin as a percentage of revenue was higher than 2005 due to higher margins achieved across all lines of business.

SG&A costs decreased in 2006 compared with 2005, in both Canadian and local currency, mainly as a result of various initiatives and management's focus on realizing cost efficiencies. The UK Operations incurred lower information system charges as well as lower pension costs as changes to employee pensionable benefits were implemented in the first quarter of 2006.

In 2006, the UK Operations contributed $34.9 million of EBIT, a significant increase compared with the EBIT of $13.5 million recorded in 2005, primarily due to cost containment initiatives, higher levels of product support and improved margins in all lines of business.

EBIT as a percentage of revenue for the UK Operations increased to 4.4% in 2006 from 1.6% last year and the UK Operations contributed 9.0% of the Company's consolidated EBIT, a significant improvement from 4.9% last year.

Discontinued Operations – Materials Handling Division

Following an extensive strategic review of the Company's U.K. based businesses, the Finning Board of Directors determined that the Materials Handling Division of Finning (UK) was no longer a core business for Finning. On September 29 2006, this division was sold and is classified as discontinued operations within the consolidated income statements for all periods presented.

The sale of this business resulted in an after-tax loss of approximately $32.7 million (approximately £15.5 million) in the third quarter, which included the write-off of the goodwill and intangible assets associated with this business.

The table below provides details of the discontinued operations of Finning (UK)'s Materials Handling Division excluding the loss on sale:

($ millions)		Nine months ended September 30, 2006		Twelve months ended December 31, 2005
Revenue from external sources	**$**	**183.5**	$	292.1
Operating costs		**147.6**		233.3
Depreciation and amortization		**31.1**		50.8
Earnings before interest and taxes	**$**	**4.8**	$	8.0

Approximately 1,000 employees were transferred with the sale of the Materials Handling Division.

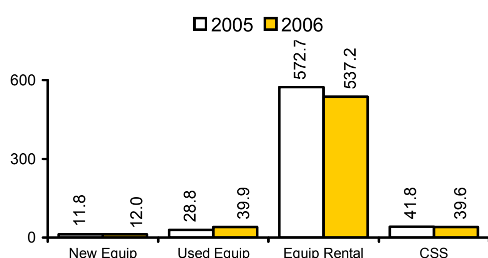
Hewden Operations

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

The table below provides details of the results from Hewden:

For years ended December 31 ($ millions)		2006		2005
Revenue from external sources	**$**	**628.7**	$	655.1
Operating costs		**446.6**		463.9
Depreciation and amortization		**129.7**		136.0
Other expenses (income)		**8.2**		5.4
Earnings before interest and taxes	**$**	**44.2**	$	49.8
Earnings before interest and taxes				
- as a percentage of revenue		**7.0%**		7.6%
- as a percentage of consolidated earnings before interest and taxes		**11.4%**		18.0%

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



Hewden revenues decreased 4.0% to $628.7 million for the year ended 2006 compared with 2005. In local currency, revenues increased marginally by 1.3%. The increase in local currency revenues was primarily a result of rental asset sales during the year partially offset by a reduction in rental revenues. This was somewhat attributable to continued competitive pressures in the U.K. rental marketplace with limited opportunities for price realization and rental revenue growth.

Gross profit for 2006 decreased in absolute terms and as a percentage of revenue. Positively affecting margins in 2006 was the disposal of retired rental assets, including several auctions, which partially offset the lower rental margins being achieved due to lower utilization.

In local currency, Hewden's SG&A costs decreased 2.2% in 2006, largely achieved through cost containment actions, improved credit and collection efforts and managed headcount savings. At December 2006, headcount was 116 or 3.2% lower than at December 2005.

Hewden's rental revenue decreased in 2006 due in part to lower utilization rates and its inability to achieve price realization due to a competitive market in the U.K. A renewal of Hewden's strategic focus and

structure is expected to improve operational excellence and consequently operating results. Hewden's business model is being evolved through an assessment of products, network and structure to ensure it continues to meet the needs of its customers. These activities, in conjunction with Hewden's new information technology system which will be implemented in 2007, are expected to be key elements in meeting customers' needs, increasing asset utilization and reducing operating costs. Project costs relating to these initiatives are expected to continue thoughout 2007. Other expenses incurred in 2006 primarily related to these projects. Progress on these projects continued throughout the year, albeit slow in some areas, while focus was placed on the implementation of Hewden's new information technology system. This system is expected to simplify and standardize business processes and provide improved management and customer information to improve performance.

In the fourth quarter of 2006, to better serve its customers and improve returns, Hewden restructured its Cranes business converting from a widespread rental depot approach to an approach centered in three regions with management focus on each region together with a more customer aligned product offering. Projects such as this may result in a short term adverse impact on revenues as resources and management are deployed in the implementation of these initiatives to generate longer term benefits. Anticipated annualized savings from this reorganization are $3.7 million.

Hewden contributed $44.2 million of EBIT in 2006 compared with $49.8 million in 2005, an 11.2% decrease, reflecting the impact on revenues, margins, SG&A and other items discussed above, and the adverse impact of a stronger Canadian dollar when translating Hewden's results from U.K. pound sterling. In local currency, EBIT decreased 6.3% compared to that reported in 2005.

EBIT as a percentage of revenues decreased from 7.6% last year to 7.0% in 2006.

Corporate and Other Operations

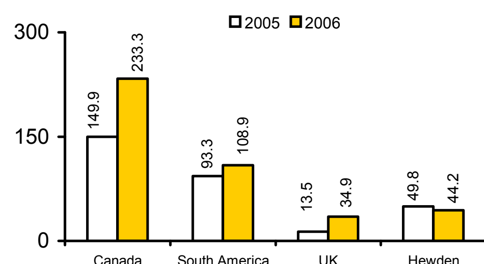
For years ended December 31 ($ millions)		**2006**		2005
Operating costs	**$**	**32.9**	$	31.0
Other expenses (income)		**0.6**		(1.8)
Earnings before interest and taxes	**$**	**(33.5)**	$	(29.2)

For the year ended December 31 2006, operating costs were $32.9 million, compared with $31.0 million for the same period in 2005. LTIP costs incurred in 2006 were $5.2 million higher than 2005, partially offset by improved performance from the Company's investment in Energyst B.V. In 2005, the Company reported a $1.8 million gain as other income on the sale of its investment in Maxim Power Corp.

Earnings Before Interest and Taxes (EBIT)

On a consolidated basis, EBIT from continuing operations in 2006 increased by 39.8% over 2005 to $387.8 million, primarily due to the strong demand and activity at the Company's Canadian and South American operations. In addition, improvements were evident in the UK Operations due to the realization of cost efficiencies. Gross profit increased $157.1 million to $1,460.2 million in 2006 compared with 2005. Although SG&A costs were higher in 2006 compared with 2005 reflecting higher costs incurred to meet customer demand and also higher LTIP charges, overall SG&A costs as a percentage of revenue were lower in 2006 as a result of global cost saving initiatives. EBIT was also negatively impacted in 2006 due to the strengthening Canadian dollar relative to the U.S. dollar and U.K. pound sterling. The foreign exchange variance is mainly due to translating foreign currency based results into Canadian dollars. EBIT as a percentage of revenue increased from 6.1% in 2005 to 7.7% in 2006. The increase in EBIT was also partially due to the gains realized in the first and third quarters of 2006 on the disposal of surplus properties in Canada and a portion of OEM Remanufacturing's business. Excluding these gains, EBIT would have been $369.6 million and EBIT as a percentage of revenue would have been 7.3%.

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



Excluding other operations – corporate head office

Major components of the annual EBIT variance were:

	($ millions)
2005 EBIT	277.3
Net growth in operations	140.2
Gain on sale of OEM's railroad and non-Cat remanufacturing business	5.3
Gain on sale of properties in Canada	12.9
Higher LTIP costs	(5.2)
Foreign exchange impact	(33.2)
Other net expenses *(see Note 2 to the Consolidated Financial Statements)*	(9.5)
2006 EBIT	387.8

Finance Costs

Finance costs for the year ended December 31, 2006 of $75.7 million were 24.1% higher than 2005 primarily due to the following:

- Following the sale of the Company's Materials Handling Division in the U.K., the Company used a portion of the proceeds to redeem £75 million of its £200 million Eurobond Notes. As a result, the Company recorded a charge of approximately $8.9 million, reflecting costs associated with the recognition of deferred financing costs and related redemption costs.
- Higher short-term interest rates.
- Higher average short-term debt levels at the Company's Canadian operations to support working capital requirements.

These increases were partially offset by the following:

- Favourable foreign exchange impact of translating U.S. and U.K. pound sterling denominated finance costs in 2006 with a stronger Canadian dollar, and
- Lower average short-term debt levels at the Company's U.K. and South America operations.

Provision for Income Taxes

Finning's 2006 annual income tax expense was $71.3 million (22.9% effective tax rate) compared with $46.8 million (21.6% effective tax rate) for 2005. The higher effective tax rate in 2006 reflects the change in the Company's earnings mix with more income earned in the higher tax jurisdictions of the Canadian and UK Operations, partially offset by a lower capital tax rate on gains on property sales in Canada in 2006.

Management anticipates that for 2007, the consolidated effective tax rate will approximate 25 - 30%.

Net Income

Finning's net income from continuing operations increased 42.1% to $240.8 million in 2006 compared with $169.5 million in 2005 reflecting improved contributions from all operations, particularly from the Company's operations in Canada and South America. The Company realized improved margins, controlled spending, and the gains on the sale of surplus properties and business divestitures in Canada in 2006. This was partially offset by higher costs to meet customer demand, higher LTIP costs and the incremental finance costs incurred on the early partial repayment of the Eurobond notes. Annual 2006 results were tempered by the unfavourable foreign exchange impact of approximately $22 million after-tax, primarily due to translating foreign currency based earnings with a stronger Canadian dollar. Basic earnings per share from continuing operations increased 40.8% to $2.69 in 2006 compared with $1.91 last year. Excluding gains on the sale of properties in Canada and a portion of the OEM remanufacturing business, as well as the incremental finance costs, basic earnings per share would have been $2.59, 35.6% higher than 2005.

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 from Operating Activities

For the year ended December 31 2006, cash flow after working capital changes was $460.2 million, a decrease from cash flow of $478.8 million generated last year. While cash flow strengthened from the higher operating results in the year, the decrease in cash flow after working capital changes was primarily due to strong demand for product at the Company's Canadian operations. Investment in inventories was significantly higher in 2006 compared with 2005 in order to meet customer delivery requirements.

The Company made a net investment in rental assets of $343.6 million during 2006 compared to $310.7 million in 2005. Rental expenditures increased in Canada as rental fleets were being replenished in 2006 as a result of rental assets being utilized in 2005 to support customer demand and help offset product availability issues. Continuing the 2005 trend, expenditures in Hewden's rental assets were deferred as rental utilization rates have declined. In 2006, Hewden's gross expenditures on rental assets were 19.7% lower than in 2005.

Overall, cash flow provided by operating activities was $97.2 million in 2006 compared to cash flow of $158.3 million in 2005.

Cash Used For Investing Activities

Net cash provided by investing activities in 2006 totalled $107.8 million compared with cash invested of $44.9 million in 2005. The primary source of cash in 2006 was the proceeds of $170.6 million received on the sale of the Materials Handling division.

Gross capital additions for the year ended December 31 2006, including capital leases, were $89.4 million which is comparable with $81.1 million for the year ended December 31, 2005. The capital additions in 2006 reflect general capital spending to support operations and also included the capitalization of certain costs related to the development of Hewden's new information system. The capital additions in 2005 related primarily to cash invested in OEM's new component rebuild facility which became fully operational late in the second quarter of 2005.

Other cash flow items related to investing activities include:

2006:

- $10.3 million investment in a new Cat Rental Store by Finning (Canada)
- Payment of the $22.4 million (U.S.$ 20.0 million) performance based purchase price adjustment for the Argentina business acquired in 2003

2005

- Additional $9.5 million investment in Energyst B.V.
- $16.0 million of proceeds were received on the sale of the Company's investment in Maxim Power Corp.

The Company's planned capital expenditures for 2007 are projected to be in the range of $75 million to $125 million and will be funded through operations' cash flows. Net rental additions for 2007 are projected to be in the $325 million to $375 million range.

The Company believes that internally generated cash flow, supplemented by borrowing from existing financing sources, if necessary, will be sufficient to meet anticipated capital expenditures and other cash requirements in 2007. At this time, the Company does not reasonably expect any presently known trend or uncertainty to affect our ability to access our historical sources of cash.

Financing Activities

To complement the internally generated funds from operating and investing activities, the Company has approximately $1,358 million in unsecured credit facilities. Included in this amount is a five-year global syndicated bank credit facility entered into in 2005. During the year, the Company exercised its option, on the first anniversary date of the credit facility, to extend its maturity date an additional year to 2011. At December 31 2006, approximately $212.0 million was drawn on the Company's 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 2006, the Company's short-term and long-term debt ratings were both reconfirmed at R-1 (low) and BBB (high), respectively, by DBRS. In addition, the Company's long-term debt rating was reconfirmed at BBB+ by S&P. The Company continues to utilize the Canadian commercial paper market as its principal source of short-term funding in Canada. 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 2006, the Company's short and long-term borrowings totalled $1,163.6 million, a decrease of $68.2 million or 5.5% since December 31, 2005 primarily due to the early redemption of £75 million of the outstanding £200 million Eurobond with the proceeds received from the sale of the UK Materials Handling Division.

During 2006, the Company repaid its $75.0 million 6.60% debenture, on maturity, with short-term borrowings from its commercial paper program.

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 2006 by two cents to thirteen cents per common share, and in November 2006 by three cents to sixteen cents per common share. As a result, dividends paid to shareholders increased in 2006 by $10.1 million to $49.2 million.

Contractual Obligations

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

($ millions)	2007	2008	2009	2010	2011	Thereafter	Total
Long-term debt							
- principal repayment	$ 2.2	$ 203.1	$ 0.1	$ —	$ 247.4	$ 285.3	$ 738.1
- interest	43.6	35.7	28.6	28.6	27.2	16.1	179.8
Operating leases	62.9	51.8	42.1	32.3	26.9	164.4	380.4
Capital leases	6.0	6.0	5.6	5.3	5.3	18.3	46.5
Total contractual obligations	$ 114.7	$ 296.6	$ 76.4	$ 66.2	$ 306.8	$ 484.1	$ 1,344.8

Off-Balance Sheet Arrangement

The Company has 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 2006, the Company is carrying a retained interest in the transferred receivables in the amount of $9.5 million (as at December 31, 2005: $7.1 million), which equals the amount of overcollateralization in the receivables it sold, and is reported on the consolidated balance sheet in other current assets.

For the year ended December 31 2006, the Company recognized a pre-tax loss of $2.0 million (2005: $1.4 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, 2006	Range for year ended 2006
Cost of funds	**4.32%**	**3.64% – 4.62%**
Weighted average life in days	**31.4**	**28.1 – 34.0**
Average credit loss ratio	**0.043%**	**0.000% – 0.327%**
Average dilution ratio	**7.10%**	**5.65% – 8.82%**
Servicing fee rate	**2.0%**	
Fair value of retained interest	**$ 9.4 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 $0.3 million and $0.7 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 $0.9 million and $1.6 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.

Proceeds from revolving reinvestment of collections were $520.6 million in 2006 (2005: 495.5 million).

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 2006, 71% 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 shares the employee purchases. At December 31 2006, 27% and 12% of eligible employees in Finning (UK) and Hewden, respectively, were contributing to this plan. These plans may be cancelled by Finning at any time.

Accounting Estimates and Contingencies

Accounting, Valuation and Reporting

Changes in the rules or standards governing accounting can impact our financial reporting. We employ numerous professionally qualified accountants throughout our finance group and all of our divisional financial officers have a reporting relationship to our Chief Financial Officer (CFO). Senior financial representatives are assigned to all significant projects that impact financial accounting and reporting systems. Policies are in place to ensure completeness and accuracy of reported transactions. Key transaction controls are in place, and there is a segregation of duties between transaction initiation, processing and cash disbursement, and restricted physical access to the Treasury and cash settlements area. Accounting, measurement, valuation, and reporting of accounts, which involve estimates and / or valuations, are reviewed quarterly by the CFO and the Audit Committee. Significant accounting and financial topics and issues are presented to and discussed with the Audit Committee.

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 GAAP. 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.

A significant portion of goodwill relates to Hewden Stuart plc, acquired in 2001. The Company performs impairment tests on its goodwill balances on at least an annual basis or as warranted by events or circumstances. 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 2006.

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.

Tax Compliance

In the ordinary course of business, the Company is subject to ongoing audits by tax authorities. While the Company believes that its tax filing positions are appropriate and supportable, the possibility exists that certain matters may be reviewed and challenged by the tax authorities. The Company regularly reviews the potential for adverse outcomes and the adequacy of its tax provisions and believes it has adequately provided for these matters. Should the ultimate outcomes materially differ from the provisions, the Company's effective tax rate and its earnings could be affected positively or negatively in the period in which the matters are resolved. The Company mitigates this risk through ensuring tax staff are well trained and supervised and that tax filing positions are carefully scrutinized by management and external consultants, as appropriate.

Financial Leverage

The Company's overall debt to total capital ratio decreased from 47% at the end of 2005 to 42% at the end of 2006. This decrease in the overall debt to total capital ratio was primarily due to growth in retained earnings and the redemption of £75 million ($156.6 million) of it's previously issued £200 million Eurobond following the sale of the Company's Materials Handling Division in the U.K. The debt to total capital ratios are calculated on a fully consolidated basis.

Description of Non-GAAP Measure

EBIT is defined herein as earnings from continuing operations before interest expense, interest income and income taxes and is a measure of performance utilized by management to measure and evaluate the financial performance of its operating segments. It is also a measure that is commonly reported and widely used in the industry to assist in understanding and comparing operating results. EBIT does not have any standardized meaning prescribed by generally accepted accounting principles (GAAP) and is therefore unlikely to be comparable to similar measures presented by other issuers. Accordingly, this measure should not be considered as a substitute or alternative for net income or cash flow, in each case as determined in accordance with GAAP.

Reconciliation between EBIT and net income from continuing operations:

For years ended December 31 **($ thousands)**	**2006**	2005
Earnings from continuing operations before interest and income taxes (EBIT)	**$ 387,793**	$ 277,344
Finance costs	**75,712**	61,023
Provision for income taxes	**71,343**	46,764
Net income from continuing operations	**$ 240,738**	$ 169,557

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 (ERM) approach in identifying, prioritizing and evaluating risks. This ERM framework assists the Company in managing business activities and risks across the organization to assist the Company in achieving its strategic objectives.

The Company is dedicated to a strong risk management culture to protect and enhance shareholder value. The processes within Finning's risk management function are designed to ensure that risks are properly identified, managed and reported. The Company discloses all of its key risks in its most recent Annual Information Form (AIF) with key financial risks also included herein. 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 and forward foreign exchange contracts 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 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 will not 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 revenues can be affected by fluctuations in commodity prices; in particular, changes in views on long term 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. The Company anticipates continued strong activity in mining and the oil and gas sectors in the upcoming year in the areas in which we operate.

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 U.S. dollar, the Canadian dollar, the U.K. pound sterling and the Chilean peso. 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 Company's net investment in the foreign operations.

It is the Company's objective to minimize its exposure in net foreign investments. 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 hedging 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 2006 month end rates, assuming the same current level of hedging instruments, would result in an after tax deferred unrealized loss of approximately $50 million.

Transaction Exposure

Many of the Company's operations purchase, sell, rent, and lease products as well as incur costs 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 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 U.S. 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 U.S. dollar based earnings. Some of the Company's earnings translation exposure is offset by interest on 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 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 2006 month end rates, without any change in local currency volumes or hedging activities.

Currency	December 31, 2006 month end rates	Increase (decrease) in annual net income $ millions
USD	1.1653	**(19)**
GBP	2.2824	**(3)**
CHP	0.0022	**3**

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

Disclosure Controls and Procedures

Management is responsible for establishing and maintaining a system of controls and procedures over the public disclosure of financial and non-financial information regarding the Company. Such controls and procedures are designed to provide reasonable assurance that all relevant information is gathered and reported to senior management, including the Chief Executive Officer (CEO) and Chief Financial Officer (CFO), on a timely basis so that appropriate decisions can be made regarding public disclosure.

The Company has a Disclosure Policy and a Disclosure Committee in place to mitigate risks associated with the disclosure of inaccurate or incomplete information, or failure to disclose required information.

- The Disclosure Policy sets out accountabilities, authorized spokespersons and our approach to the determination, preparation and dissemination of material information. The policy also defines restrictions on insider trading and the handling of confidential information.
- The Disclosure Committee, or its delegates, review 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.

As required by Multilateral Instrument 52-109, "Certification of Disclosure in Issuers' Annual and Interim Filings" issued by the Canadian Securities regulatory authorities, an evaluation of the effectiveness of the design and operation of the Company's disclosure controls and procedures was conducted as of December 31 2006, by and under the supervision of management, including the CEO and CFO. The evaluation included documentation review, enquiries and other procedures considered by management to be appropriate in the circumstances.

Based on that evaluation, the CEO and CFO have concluded that the Company's disclosure controls were effective as of December 31, 2006.

Internal Control over Financial Reporting

Management is responsible for establishing and maintaining adequate internal control over financial reporting. Internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements in accordance with Canadian generally accepted accounting principles.

There have been no changes in internal control over financial reporting during the quarter ended December 31, 2006 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

Selected Quarterly Information

$ millions, except for share and option data	2006 Q4	2006 Q3	2006 Q2	2006 Q1	2005 Q4	2005 Q3	2005 Q2	2005 Q1
Revenue (1)								
Canada	$ 737.0	$ 594.7	$ 681.0	$ 599.9	$ 521.5	$ 531.1	$ 509.5	$ 487.6
South America	301.0	261.0	216.2	231.7	246.9	258.9	274.3	227.2
UK	206.3	195.3	195.1	199.4	202.2	200.6	230.1	197.5
Hewden	169.1	165.7	147.6	146.3	147.3	170.8	174.4	162.6
Total revenue	$1,413.4	$1,216.7	$ 1,239.9	$ 1,177.3	$ 1,117.9	$ 1,161.4	$ 1,188.3	$ 1,074.9
Net income (loss)								
from continuing operations	$ 52.7	$ 72.8	$ 57.7	$ 57.6	$ 38.4	$ 46.1	$ 45.8	$ 39.2
from discontinued operations	—	(34.9)	(1.1)	(0.7)	(2.2)	(1.3)	(0.2)	(1.8)
Total net income	$ 52.7	$ 37.9	$ 56.6	$ 56.9	$ 36.2	$ 44.8	$ 45.6	$ 37.4
Basic Earnings (Loss) Per Share (2)								
from continuing operations	$ 0.59	$ 0.81	$ 0.64	$ 0.65	$ 0.43	$ 0.52	$ 0.52	$ 0.44
from discontinued operations	—	(0.39)	(0.01)	(0.01)	(0.02)	(0.02)	—	(0.02)
Total basic EPS	$ 0.59	$ 0.42	$ 0.63	$ 0.64	$ 0.41	$ 0.50	$ 0.52	$ 0.42
Diluted Earnings (Loss) Per Share (2)								
from continuing operations	$ 0.59	$ 0.81	$ 0.64	$ 0.64	$ 0.42	$ 0.52	$ 0.51	$ 0.44
from discontinued operations	—	(0.39)	(0.01)	(0.01)	(0.02)	(0.02)	—	(0.02)
Total diluted EPS	$ 0.59	$ 0.42	$ 0.63	$ 0.63	$ 0.40	$ 0.50	$ 0.51	$ 0.42
Total assets (1)	$ 4,200.8	$ 3,786.4	$ 3,900.2	$3,868.0	$ 3,736.4	$ 3,754.3	$ 3,916.8	$ 3,905.3
Long-term debt								
Current	$ 2.2	$ 79.3	$ 79.1	$ 80.3	$ 80.3	$ 6.3	$ 4.1	$ 5.1
Non-current	735.9	710.7	851.5	848.9	844.6	843.0	866.6	885.3
Total long-term debt (3)	$ 738.1	$ 790.0	$ 930.6	$ 929.2	$ 924.9	$ 849.3	$ 870.7	$ 890.4
Cash dividends paid per common share	$ 0.16	$ 0.13	$ 0.13	$ 0.13	$ 0.11	$ 0.11	$ 0.11	$ 0.11
Common shares outstanding (000's)	89,545	89,404	89,389	89,371	89,202	89,138	88,906	88,608
Options outstanding (000's)	1,952	2,151	2,165	1,305	1,474	1,545	1,810	1,812

(1) On September 29 2006, the Company's U.K. subsidiary, Finning (UK), sold its Materials Handling Division. Results from the Materials Handling Division qualify as discontinued operations and have been reclassified to that category for all periods presented. Included in the loss from discontinued operations is the after-tax loss on the sale of the Materials Handling Division of $32.7 million or $0.37 per share. Revenues from the UK Materials Handling Division have been excluded from the revenue figures above. Assets from the Materials Handling Division have been included in the total assets figures for periods prior to its sale – see Note 14 to the Consolidated Financial Statements.

(2) Earnings per share (EPS) for each quarter has been computed based on the weighted average number of shares issued and outstanding during the respective quarter; therefore, quarterly amounts may not add to the annual total.

(3) In the third quarter of 2006, the Company utilized funds from the sale of the UK Materials Handling Division to redeem £75 million of its £200 million Eurobond notes.

New Accounting Pronouncements

Change in Accounting Policies in 2006

Stock Based Compensation

During the year ended December 31 2006, the Company adopted the Canadian Institute of Chartered Accountants (CICA) new accounting requirements on stock-based compensation, Emerging Issues Committee 162 *Stock-Based Compensation for Employees Eligible to Retire Before the Vesting Date*. The new rules require that stock-based compensation granted to employees eligible to retire be expensed at the time of grant or at the time that the employee becomes eligible to retire. Previously, these costs were amortized over the vesting period. Comparative periods have not been restated to reflect the change in accounting policy as the impact is not significant. The new rules resulted in a decrease in net income of approximately $1 million in the Consolidated Statement of Income for the year ended December 31, 2006.

Future Changes in Accounting Policies

Financial Instruments and Comprehensive Income

The CICA has issued new accounting rules on financial instruments (Section 3855 *Financial Instruments – Recognition and Measurement*), hedges (Section 3865 *Hedges*) and comprehensive income (Section 1530 *Comprehensive Income*) that require all derivatives to be recorded on the balance sheet at fair value. The new standards, effective for the Company January 1 2007, also establish new accounting requirements for hedges. In addition, these standards provide guidance for reporting items in other comprehensive income, which will be included on the Consolidated Balance Sheets as a separate component of shareholders' equity.

If the derivative qualifies as a hedge, depending on the nature of the hedge, the effective portion of changes in the fair value of the derivative will either be offset against the change in fair value of the hedged assets, liabilities, or firm commitments through earnings or recognized in other comprehensive income until the hedged item is recognized in earnings. Any ineffective portion of designated hedges will be recognized immediately in income.

The Company is currently evaluating the impact of adopting the new standards. Prior periods will not be restated in accordance with the prospective application required by the new standards.

Market Outlook

The general outlook for Finning's business continues to be very good.

In western Canada, the region's resource based industries continue to prosper and drive strong overall economic growth that in turn fuels construction spending for infrastructure, commercial and residential projects. Demand for heavy equipment from the resource and construction industries remains strong and Finning's operations in this region are producing record results. Notwithstanding some weakness in the natural gas sector, very strong economic conditions, and good demand for heavy equipment are expected to continue.

Similarly, in South America, attractive commodity prices are driving strong profitability for the mining industry. This in turn generates considerable economic expansion for the private sector as well as significant revenue to the governments supporting both public and private sector construction activity. Finning's operations in South America are also producing record results and the outlook for continued growth in the region is very good. Inflationary pressure on wage rates is occurring in the region, however to date there has been no significant impact on the Company's results.

Global economic conditions remain good. Demand for energy and the key mineral commodities remains strong and supply increases appear to be reasonable. While commodity prices are no longer at peak levels, prices remain at levels where commodity producers can earn attractive returns. As a result, the outlook for Finning's business in western Canada and South America is expected to continue to be very positive.

The outlook for the UK operations is also good. Demand for heavy equipment in the UK, both the purchase of equipment as well as equipment rental, is primarily a function of a healthy construction industry. The outlook for UK construction activity is expected to remain healthy as demand for new housing, upgrading of existing buildings and renewal and expansion of infrastructure is expected to underpin the construction industry in the near and medium term. The outlook for the UK economy is good.

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 is being 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.

In order to meet the growth in business that is projected, Finning will require a large number of additional human resources. Recruiting efforts are ongoing and to date have been successful in attracting sufficient numbers of appropriate new employees. Finning is confident it will continue to have success in attracting additional human resources as required to meet future growth requirements.

Some challenges are occurring in meeting customer demand as a result of constrained supply of some equipment, engines, components and parts from Caterpillar. The Company is working with Caterpillar to manage these supply constraints as effectively as possible. It is anticipated that supply will improve over the next 12 months.

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

February 13, 2007

Selected annual information

($ millions, except for share data)	2006	2005	2004
Total revenue [1]	**5,047.3**	4,542.5	3,836.2
Net income (loss) [1]			
from continuing operations	**240.8**	169.5	114.9
from discontinued operations	**(36.7)**	(5.5)	—
Total net income	**204.1**	164.0	114.9
Basic Earnings (Loss) Per Share [1]			
from continuing operations	**2.69**	1.91	1.45
from discontinued operations	**(0.41)**	(0.06)	—
Total basic EPS	**2.28**	1.85	1.45
Diluted Earnings (Loss) Per Share [1]			
from continuing operations	**2.68**	1.89	1.43
from discontinued operations	**(0.41)**	(0.06)	—
Total diluted EPS	**2.27**	1.83	1.43
Total assets [1]	**4,200.8**	3,736.4	3,804.0
Long-term debt [2]			
Current	**2.2**	80.3	6.5
Non-current	**735.9**	844.6	889.6
	738.1	924.9	896.1
Cash dividends declared per common share	**0.55**	0.44	0.40

(1) On September 29 2006, the Company's U.K. subsidiary, Finning (UK), sold its Materials Handling Division. Results from the Materials Handling Division qualify as discontinued operations and have been reclassified to that category for the years ended December 31, 2006, 2005 and 2004. Included in the loss from discontinued operations for the year ended December 31, 2006 is the after-tax loss on the sale of the Materials Handling Division of $32.7 million or $0.37 per share. Revenues from the UK Materials Handling Division have been excluded from the 2006, 2005 and 2004 revenue figures above. Assets from the Materials Handling Division have been included in the total assets figures for periods prior to its sale – see Note 14 to the Consolidated Financial Statements.

(2) In 2006, the Company utilized funds from the sale of the UK Materials Handling Division to redeem £75 million of its £200 million Eurobond notes.

Outstanding Share Data

As at February 9, 2007	
Common shares outstanding	**89,596,955**
Options outstanding	**1,837,510**

Attachment 1

Supplementary Information

Quarterly Segmented Revenue Information

Three months ended December 31 2006 ($ millions)	**Canada**	**South America**	**UK**	**Hewden**	**Consolidated**	**Revenue percentage**
New mobile equipment	**$ 300.5**	**$ 121.5**	**$ 72.8**	**$ 5.1**	**$ 499.9**	**35.4%**
New power & energy systems	**60.2**	**29.4**	**43.6**	**—**	**133.2**	**9.4%**
Used equipment	**77.7**	**8.1**	**20.3**	**16.5**	**122.6**	**8.7%**
Equipment rental	**65.9**	**10.2**	**9.5**	**137.2**	**222.8**	**15.8%**
Customer support services	**224.7**	**131.0**	**60.1**	**10.3**	**426.1**	**30.1%**
Other	**8.0**	**0.8**	**—**	**—**	**8.8**	**0.6%**
Total	**$ 737.0**	**$ 301.0**	**$ 206.3**	**$ 169.1**	**$ 1,413.4**	**100.0%**
Revenue percentage by operations	**52.1%**	**21.3%**	**14.6%**	**12.0%**	**100.0%**	

Three months ended December 31 2005 ($ millions)	Canada	South America	UK	Hewden	Consolidated	Revenue percentage
New mobile equipment	$ 180.0	$ 112.7	$ 82.3	$ 1.5	$ 376.5	33.7%
New power & energy systems	37.2	15.6	40.3	—	93.1	8.3%
Used equipment	68.9	6.7	24.0	6.3	105.9	9.5%
Equipment rental	52.3	10.7	9.2	129.4	201.6	18.0%
Customer support services	180.8	100.6	46.4	10.1	337.9	30.2%
Other	2.3	0.6	—	—	2.9	0.3%
Total	$ 521.5	$ 246.9	$ 202.2	$ 147.3	$ 1,117.9	100.0%
Revenue percentage by operations	46.6%	22.1%	18.1%	13.2%	100.0%	

Quarterly Segmented EBIT Information

For three months ended December 31 2006 ($ millions)	**Canada**	**South America**	**UK**	**Hewden**	**Other**	**Consolidated**
Revenue from external sources	**$ 737.0**	**$ 301.0**	**$ 206.3**	**$ 169.1**	**$ —**	**$ 1,413.4**
Operating costs	**650.9**	**265.3**	**189.6**	**125.5**	**16.3**	**1,247.6**
Depreciation and amortization	**30.4**	**6.3**	**6.2**	**34.2**	**—**	**77.1**
Other expenses	**0.1**	**—**	**1.1**	**1.2**	**0.6**	**3.0**
Earnings before interest and tax	**$ 55.6**	**$ 29.4**	**$ 9.4**	**$ 8.2**	**$ (16.9)**	**$ 85.7**
Earnings before interest and tax						
- percentage of revenue	**7.5%**	**9.8%**	**4.6%**	**4.8%**		**6.1%**
- percentage by operations	**64.9%**	**34.3%**	**10.9%**	**9.6%**	**(19.7)%**	**100.0%**

For three months ended December 31 2005 ($ millions)	Canada	South America	UK	Hewden	Other	Consolidated
Revenue from external sources	$ 521.5	$ 246.9	$ 202.2	$ 147.3	$ —	$ 1,117.9
Operating costs	462.9	215.1	192.7	106.7	3.6	981.0
Depreciation and amortization	29.4	6.4	6.5	32.3	—	74.6
Other expenses	0.5	2.2	(1.9)	0.1	—	0.9
Earnings before interest and tax	$ 28.7	$ 23.2	$ 4.9	$ 8.2	$ (3.6)	$ 61.4
Earnings before interest and tax						
- percentage of revenue	5.5%	9.4%	2.4%	5.6%		5.5%
- percentage by operations	46.7%	37.8%	8.0%	13.4%	(5.9)%	100.0%

CONSOLIDATED STATEMENTS OF INCOME AND RETAINED EARNINGS

For years ended December 31 ($ thousands, except share and per share amounts)	**2006**	2005
Revenue		
New mobile equipment	**$ 1,738,651**	$ 1,551,743
New power and energy systems	**419,954**	359,002
Used equipment	**407,690**	403,401
Equipment rental	**849,580**	851,427
Customer support services	**1,608,690**	1,368,857
Other	**22,765**	8,089
Total revenue	**5,047,330**	4,542,519
Cost of sales	**3,587,179**	3,239,453
Gross profit	**1,460,151**	1,303,066
Selling, general and administrative expenses	**1,078,782**	1,023,461
Other expenses (income) (Note 2)	**(6,424)**	2,261
Earnings from continuing operations before interest and income taxes	**387,793**	277,344
Finance costs (Notes 3 and 4)	**75,712**	61,023
Income from continuing operations before provision for income taxes	**312,081**	216,321
Provision for income taxes (Note 5)	**71,343**	46,764
Net income from continuing operations	**240,738**	169,557
Loss from discontinued operations, net of tax (Note 14)	**36,662**	5,527
Net income	**$ 204,076**	$ 164,030
Retained earnings, beginning of year	**$ 975,254**	$ 850,321
Net income	**204,076**	164,030
Dividends on common shares	**(49,159)**	(39,097)
	$ 1,130,171	$ 975,254
Earnings (loss) per share – basic		
From continuing operations (Note 9)	**$ 2.69**	$ 1.91
From discontinued operations	**(0.41)**	(0.06)
	$ 2.28	$ 1.85
Earnings (loss) per share – diluted		
From continuing operations (Note 9)	**$ 2.68**	$ 1.89
From discontinued operations	**(0.41)**	(0.06)
	$ 2.27	$ 1.83
Weighted average number of shares outstanding		
Basic	**89,370,667**	88,851,343
Diluted	**89,899,470**	89,524,005

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

CONSOLIDATED BALANCE SHEETS

December 31 **($ thousands)**	**2006**	2005
ASSETS		
Current assets		
Cash and cash equivalents	**$ 78,485**	$ 27,683
Accounts receivable	**666,602**	569,098
Inventories		
On-hand equipment	**839,819**	648,853
Parts and supplies	**450,612**	382,963
Other assets (Note 10)	**196,509**	186,180
Total current assets	**2,232,027**	1,814,777
Finance assets (Note 11)	**34,046**	19,826
Rental equipment (Note 12)	**1,038,640**	1,050,490
Land, building and equipment (Note 13)	**365,656**	332,504
Intangible assets (Note 13)	**24,931**	16,401
Goodwill (Note 15)	**381,870**	364,827
Other assets (Note 10)	**123,583**	137,563
	$ 4,200,753	$ 3,736,388
LIABILITIES		
Current liabilities		
Short-term debt (Note 3)	**$ 425,423**	$ 306,792
Accounts payable and accruals	**1,176,531**	886,179
Income tax payable	**33,554**	50,758
Current portion of long-term debt (Note 3)	**2,224**	80,294
Total current liabilities	**1,637,732**	1,324,023
Long-term debt (Note 3)	**735,926**	844,638
Long-term obligations (Note 16)	**131,294**	98,083
Future income taxes (Note 5)	**71,395**	56,666
Total liabilities	**2,576,347**	2,323,410
Commitments and Contingencies (Notes 23 and 24)		
SHAREHOLDERS' EQUITY		
Share capital (Note 6)	**573,482**	568,121
Contributed surplus (Note 7)	**7,791**	2,739
Cumulative currency translation adjustments (Note 17)	**(87,038)**	(133,136)
Retained earnings	**1,130,171**	975,254
Total shareholders' equity	**1,624,406**	1,412,978
	$ 4,200,753	$ 3,736,388

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

CONSOLIDATED STATEMENTS OF CASH FLOW

For years ended December 31 ($ thousands)	2006	2005
OPERATING ACTIVITIES		
Net income	**$ 204,076**	$ 164,030
Add items not affecting cash		
Depreciation and amortization	**358,089**	356,834
Future income taxes	**(9,518)**	(2,627)
Stock-based compensation	**25,783**	20,650
Loss (gain) on disposal of capital assets (Note 2)	**(21,359)**	(8,274)
Loss on disposal of discontinued operations (Note 14)	**33,974**	—
Other	**8,191**	(1,826)
	599,236	528,787
Changes in working capital items (Note 18)	**(139,026)**	(50,030)
Cash provided after changes in working capital items	**460,210**	478,757
Rental equipment, net of disposals	**(343,564)**	(310,669)
Equipment leased to customers, net of disposals	**(19,490)**	(9,784)
Cash flow provided by operating activities	**97,156**	158,304
INVESTING ACTIVITIES		
Additions to capital assets	**(76,074)**	(81,111)
Payment of contingent consideration (Note 15)	**(22,350)**	—
Proceeds from sale of discontinued operations (Note 14)	**170,595**	—
Net proceeds on sale of equity investment (Note 2)	**—**	16,000
Acquisition of business (Notes 10 and 15)	**(10,250)**	(9,479)
Proceeds on sale of business (Note 2)	**5,331**	—
Proceeds on disposal of capital assets	**34,171**	20,976
Proceeds on settlement of foreign currency forwards	**6,383**	8,753
Cash provided by (used in) investing activities	**107,806**	(44,861)
FINANCING ACTIVITIES		
Increase (decrease) in short-term debt	**117,926**	(157,902)
Increase (repayment) of long-term debt	**(71,570)**	89,369
Repayment of Eurobond and premium paid (Note 3)	**(159,413)**	—
Issue of common shares on exercise of stock options (Note 6)	**5,140**	10,381
Dividends paid	**(49,159)**	(39,097)
Cash used in financing activities	**(157,076)**	(97,249)
Currency translation adjustments	**2,916**	(4,354)
Increase (decrease) in cash and cash equivalents	**50,802**	11,840
Cash and cash equivalents, beginning of year	**27,683**	15,843
Cash and cash equivalents, end of year	**$ 78,485**	$ 27,683

See supplementary cash flow information, Note 18

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

1. 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 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 Finning (Canada) division, Finning's wholly owned subsidiaries and investments in joint ventures. 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) Use of Estimates
The preparation of consolidated financial statements in accordance with Canadian generally accepted accounting principles requires the Company's management to make estimates and assumptions about future events that affect the reported amounts of assets, liabilities, revenues, expenses and disclosure of contingent assets and liabilities. Actual amounts may differ from those estimates.

Significant estimates used in the preparation of these consolidated financial statements include, but are not limited to, fair values for goodwill impairment tests, reserves for warranty, provisions for income tax, employee future benefits and costs associated with maintenance and repair contracts.

(c) 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.

(d) 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.

(e) 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 receivable 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.

(f) 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.

(g) 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.

(h) 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.

(i) Finance Assets

Finance assets are comprised of instalment notes receivables and equipment leased to customers on long-term financing leases.

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.

(j) Rental Equipment
Rental equipment is available for short and medium term rentals and 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.

(k) Capital Assets
Land, buildings and equipment are recorded at cost, net of accumulated depreciation. Depreciation is recorded in selling, general and administrative expenses in the consolidated statement of income.

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. Amortization is recorded in selling, general and administrative expenses in the consolidated statement of income.

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

(m) 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 2006, 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 unless events or changes in circumstances indicate that the value may not be fully recoverable, in which case the assessment is done at that time. Goodwill and intangible assets with indefinite lives are assessed 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 or intangible asset exceeds their fair value.

(n) Leases
Leases entered into by the Company as lessee 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.

(o) 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.

(p) Revenue Recognition

Revenue recognition, with the exception of cash sales, occurs when there is 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, performance requirements are achieved and 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 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.

(q) 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 those stock options. When stock options are exercised, the proceeds received by the Company, together with any related 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 with a corresponding accrual in long-term obligations or accounts payable and accruals on the consolidated balance sheet. Compensation expense is reported in selling, general and administrative expenses and cost of sales in the consolidated statement of income.

(r) 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 and forward foreign exchange contracts as hedges against actual 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 or current assets 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 adjustments account on the balance sheet, offsetting the respective translation losses and gains 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.

(s) 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.

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 assumptions including expected plan investment performance and salary escalation rate, along with the use of a discount rate as prescribed under Canadian Institute of Chartered Accountants Section 3461 *Employee Future Benefits* .

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 accrued 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.

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, the transition date.

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

(t) Comparative Figures

Certain comparative figures have been reclassified to conform to the 2006 presentation. The consolidated income statement has been restated for discontinued operations (see Note 14).

2. OTHER EXPENSES (INCOME)

Other expenses (income) include the following items:

For years ended December 31 ($ thousands)		**2006**		2005
Gain on sale of properties in Canada (a)	**$**	**(12,854)**	$	—
Gain on sale of railroad and non-Cat remanufacturing business in Canada (b)		**(5,331)**		—
Restructuring and project costs		**14,935**		12,362
Gain on sale of other surplus properties		**(3,174)**		(8,274)
Gain on sale of equity investment (c)		**—**		(1,827)
		(6,424)		2,261

The tax expense on other expenses for the year ended December 31, 2006 was $0.5 million (2005: tax recovery of $0.8 million on other income).

(a) In March 2006, the Company sold certain surplus properties at Finning (Canada) for cash proceeds of $6.3 million, resulting in a pre-tax gain of $5.1 million. In September 2006, the Company sold its interest in its Canadian operation's head office properties in Edmonton. As part of this transaction, the Company

also terminated lease agreements for land and building in the same area and assigned the repurchase option to the buyer so as to lease back the entire property over lease terms ranging from 2 to 22 years. Net proceeds from this transaction were $12.7 million, resulting in a pre-tax gain of $7.8 million and a deferred gain of $2.5 million, which will be amortized to income over the lease terms.

(b) In March 2006, the Company sold its railroad and non-Cat engine component remanufacturing business for cash proceeds of $5.3 million, resulting in a pre-tax gain of approximately $5.3 million.

(c) 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.

3. Short-Term and Long-Term Debt

December 31 ($ thousands)		2006		2005
Short-term debt	**$**	**425,423**	$	306,792
Long-term debt:				
Debenture				
6.60% due December 8, 2006		—		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		**285,301**		400,720
Other unsecured term loans (a)		**102,849**		99,212
		738,150		924,932
Less current portion of long-term debt		**2,224**		80,294
Total long-term debt	**$**	**735,926**	$	844,638

(a) Other unsecured loans include U.S. $83.6 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 million which is utilized as its principal source of short-term funding. This commercial paper program is backstopped by credit available under an $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 2006, the Company had approximately $1,358 million of unsecured credit facilities, and including all bank and commercial paper borrowings drawn against these facilities, approximately $830 million of capacity remained available.

Included in short-term debt is foreign currency denominated debt of U.S. $38.1 million (2005: U.S. $17.9 million), £8.0 million (2005: £nil) and Chilean peso nil (2005: Chilean peso 23,614.1 million).

The average interest rate applicable to the consolidated short-term debt for 2006 was 6.3% (2005: 4.7%).

Long-Term Debt

The Company's Canadian dollar denominated medium term notes are unsecured, and interest is payable semi-annually with principal due on maturity. The Company’s £125.0 million (2005: £200.0 million) 5.625% Eurobond is unsecured, and interest is payable annually with principal due on maturity. Following the September 2006 sale of the Company’s Materials Handling Division in the U.K. (see Note 14), the Company used a portion of the proceeds to redeem £75 million ($156.6 million) of the £200 million Eurobond.

3. SHORT-TERM AND LONG-TERM DEBT (CONTINUED)

The Company recorded a pre-tax charge of approximately $8.9 million, reflecting the early recognition of deferred financing costs and other costs associated with this redemption.

In December 2006, the Company repaid its $75.0 million 6.60% debenture, on maturity, with short-term borrowings from its commercial paper program.

During 2005, the Company entered into an $800 million unsecured syndicated revolving credit facility. 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. During the year, the Company exercised its option, on the first anniversary date of the credit facility, to extend its maturity date an additional year to 2011. At December 31 2006, $97.4 million (2005: $88.7 million) was drawn on this facility.

Covenant

The Company is subject to a maximum debt to capitalization level pursuant to a covenant within its syndicated bank credit facility. As at December 31 2006, the Company is in compliance with this covenant.

Long-Term Debt Repayments

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

($ thousands)		
2007	$	2,224
2008		203,121
2009		78
2010		—
2011		247,426
Thereafter		285,301
	$	738,150

Finance Expense

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

For years ended December 31 ($ thousands)		**2006**		2005
Interest on debt securities:				
Short-term debt	**$**	**22,032**	$	27,729
Long-term debt		**52,414**		51,380
		74,446		79,109
Interest on swap contracts		**(319)**		(1,099)
Costs associated with debt redemption		**8,864**		—
Amortization of deferred debt costs, other finance related expenses and sundry interest earned		**3,251**		(1,147)
		86,242		76,863
Interest expense related to discontinued operations		**10,530**		15,840
Finance costs from continuing operations	**$**	**75,712**	$	61,023

Amortization of deferred debt costs for the year ended December 31, 2006 was $2.7 million (2005: $2.1 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 interest rate 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 had a fixed to floating interest rate swap, with a notional value of $100.0 million outstanding. The Company had no interest rate swaps outstanding as at December 31, 2006.

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, 2006 and 2005. These fair values approximate the amount the Company would receive or pay to terminate the contracts:

($ or £ thousands) **2006** **Foreign Exchange**	**Notional Value**	**Term to Maturity**	**Fair Value Receive (Pay)**
Cross Currency Interest Rate Swap			
Sell £ (buy CAD $); pay £ fixed / receive CAD $ fixed (a)	**£ 150,000**	**perpetual**	**$ (1,094)**
Forward Buy US$ (sell CAD $)	**US$ 215,998**	**1-12 months**	**$ 9,806**
Forward Buy US$ (sell CLP)	**US$ 32,000**	**1-2 months**	**$ 278**
Forward Sell £ (buy CAD $) (b)	**£ 155,000**	**perpetual**	**$ (28,612)**

2005 **Interest rates**	**Notional Value**	**Term to Maturity**	**Fair Value 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 (a)	**£ 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 $) (b)	**£ 80,000**	**perpetual**	**$ 4,147**

4. Financial Instruments (continued)

(a) The perpetual cross currency interest rate swap hedges a portion of the Company's net investment in Hewden. At December 31 2006, $14.2 million of the fair value, representing the mark-to-spot rate loss on the forward foreign exchange component of the swap, has been recognized on the balance sheet in long-term other obligations and offset to cumulative currency translation adjustments (2005: $27.6 million gain was recorded in long-term other assets).

(b) The forward foreign exchange contract hedges a portion of the Company's net investment in Finning's U.K. operations. At December 31 2006, $27.3 million of the fair value, representing the mark-to-spot rate loss on the contract, has been recognized on the balance sheet in accounts payable and accruals and offset to cumulative currency translation adjustments (2005: $4.4 million gain was recorded in long-term other assets).

Long-Term Debt

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

December 31	**2006**		2005	
($ thousands)	**Book Value**	**Fair Value**	Book Value	Fair Value
Long-term debt	**$ 738,150**	**$ 745,734**	$ 924,932	$ 953,796

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)	**2006**	2005
Provision for income taxes		
Current		
Canada	**$ 51,703**	$ 25,113
International	**29,158**	24,278
	80,861	49,391
Future		
Canada	**(10,459)**	(3,386)
International	**941**	759
	(9,518)	(2,627)
	$ 71,343	$ 46,764

An income tax recovery of $0.9 million (2005: an income tax provision of $6.4 million) was directly charged to shareholders' equity resulting from the tax impact on foreign exchange gains or losses realized on loans and derivatives hedging investments in self-sustaining foreign operations.

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

For years ended December 31 ($ thousands)		**2006**			2005	
Combined Canadian federal and provincial income taxes at the statutory tax rate	**$**	**103,624**	**33.21%**	$	73,946	34.18%
Increase / (decrease) resulting from:						
Lower statutory rates on the earnings of foreign subsidiaries		**(33,270)**	**(10.66)%**		(27,627)	(12.77)%
Large corporation tax		**—**	**—**		1,428	0.66%
Income not subject to tax		**158**	**0.05%**		(779)	(0.36)%
Non-taxable capital gain		**(2,817)**	**(0.90)%**		(1,120)	(0.52)%
Other		**3,648**	**1.16%**		916	0.43%
Provision for income taxes	**$**	**71,343**	**22.86%**	$	46,764	21.62%

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 $47.6 million (2005: $35.0 million) and $5.2 million (2005: $28,000), respectively.

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

December 31 ($ thousands)		**2006**		2005
Future income tax assets:				
Accounting provisions not currently deductible for tax purposes	**$**	**47,151**	$	37,420
Loss carry-forwards		**9,885**		10,505
Other stock-based compensation		**11,128**		8,636
Goodwill of foreign subsidiaries		**965**		3,452
Other		**5,911**		223
		75,040		60,236
Future income tax liabilities:				
Capital, rental and leased assets		**(71,368)**		(65,873)
Employee benefits		**(22,252)**		(16,013)
		(93,620)		(81,886)
Net future income tax liability	**$**	**(18,580)**	$	(21,650)

The Company has recognized the benefit of the following tax loss carry-forwards available to reduce future taxable income and capital gains expiring through 2026 for Canada and available indefinitely for International:

December 31 ($ thousands)		**2006**		2005
Canada	**$**	**23,652**	$	15,521
International		**9,229**		18,116
	$	**32,881**	$	33,637

6. 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, 2006 and 2005.

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

For years ended December 31	**2006**			2005		
($ thousands, except share amounts)	**Shares**		**Amount**	Shares		Amount
Balance, beginning of year	**89,201,664**	**$**	**568,121**	88,389,881	$	557,740
Issued – stock options	**343,705**		**5,361**	811,783		10,381
Balance, end of year	**89,545,369**	**$**	**573,482**	89,201,664	$	568,121

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.

7. Contributed Surplus

December 31 **($ thousands)**		**2006**		2005
Balance, beginning of year	**$**	**2,739**	$	878
Stock option expense recognized		**5,273**		1,861
Charged to share capital upon exercise of stock options		**(221)**		—
Balance, end of year	**$**	**7,791**	$	2,739

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. Under the 2005 Stock Option Plan, the Company may issue up to 2.4 million common shares pursuant to the exercise of stock options.

Details of the stock option plans are as follows:

	2006		2005	
For years ended December 31	**Options**	**Weighted Average Exercise Price**	Options	Weighted Average Exercise Price
Options outstanding, beginning of year	**1,474,293**	**$ 19.54**	2,016,058	$ 15.08
Issued	**884,700**	**$ 39.50**	290,800	$ 32.47
Exercised / cancelled	**(407,230)**	**$ 18.16**	(832,565)	$ 13.26
Options outstanding, end of year	**1,951,763**	**$ 28.88**	1,474,293	$ 19.54
Exercisable at year end	**845,987**	**$ 17.17**	1,043,383	$ 14.64

In May 2006, the Company issued 884,700 common share options to senior executives and management of the Company (May 2005: 290,800 common share options). In 2006, long term incentives for executives and senior management were all made in the form of stock options. In prior years, deferred share units were also issued as long term incentives. It is the Company's practice to grant and price stock options only when it is felt that all material information has been disclosed to the market.

The Company determines the cost of all stock options granted since January 1, 2003 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:

	2006 Grant	2005 Grant
Dividend yield	**1.16%**	1.17%
Expected volatility	**21.32%**	24.15%
Risk-free interest rate	**4.21%**	3.95%
Expected life	**5.5 years**	5.5 years

The weighted average grant-date fair value of options granted during the year was $8.8 million (2005: $2.5 million). Total stock option expense recognized in 2006 was $5.3 million (2005: $1.9 million).

8. STOCK-BASED COMPENSATION PLANS (CONTINUED)

The following table summarizes information about stock options outstanding at December 31, 2006:

	Options Outstanding				Options Exercisable		
Range of exercise prices	Number outstanding	Weighted Average Remaining Life		Weighted Average Exercise Price	Number Outstanding		Weighted Average Exercise Price
$9 - $12	94,250	2.11 years	$	9.10	94,250	$	9.10
$12.01 - $15	441,501	3.69 years	$	12.96	441,501	$	12.96
$15.01 - $17	111,411	0.94 years	$	16.67	111,411	$	16.67
$29 - $33	431,401	4.93 years	$	31.17	198,825	$	30.64
$33.01 - $40	873,200	6.40 years	$	39.50	—	$	—
	1,951,763	4.93 years	$	28.88	845,987	$	17.17

During the year ended December 31 2006, the Company adopted the Canadian Institute of Chartered Accountants' new accounting requirements for stock-based compensation. The new rules require that stock-based compensation granted to employees eligible to retire be expensed at the time of grant. Previously, these costs were amortized over the vesting period. Comparative periods have not been restated to reflect the change in accounting policy as the impact is not significant. The new rules resulted in a decrease in net income of approximately $1 million in the Consolidated Statement of Income for the year ended December 31, 2006.

Other Stock-Based Compensation Plans

The Company has other stock-based compensation plans in the form of deferred share units 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 the 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 11,476 share units in 2006 (2005: 14,886 share units), which were issued to the Directors and expensed equally over the 2006 calendar year.

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 at specified percentages or become vested partially on December 30th of the year following the year of retirement, death or disability. These specified levels and vesting percentages are based on the Company's common share price at those specified levels exceeding, 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 not awarded any deferred share units in 2006 (2005: 125,400 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

As at December 31 2006, all outstanding DSU units have vested.

Details of the deferred share unit plans, which reflect the vestings in the year as well as mark-to-market adjustments, as are follows:

For years ended December 31		**2006**				2005		
Units	**DSU-A**	**DSU-B**	**DDSU**	**Total**	DSU-A	DSU-B	DDSU	Total
Outstanding, beginning of year	**51,783**	**755,086**	**158,479**	**965,348**	52,716	723,301	163,072	939,089
Additions	**699**	**8,340**	**20,661**	**29,700**	637	132,400	23,511	156,548
Exercised/cancelled	—	**(86,678)**	—	**(86,678)**	(1,570)	(100,615)	(28,104)	(130,289)
Outstanding, end of year	**52,482**	**676,748**	**179,140**	**908,370**	51,783	755,086	158,479	965,348
Vested, beginning of year	**51,783**	**668,761**	**158,479**	**879,023**	52,716	388,050	163,072	603,838
Vested	**699**	**86,415**	**20,661**	**107,775**	637	365,190	23,511	389,338
Exercised/cancelled	—	**(78,428)**	—	**(78,428)**	(1,570)	(84,479)	(28,104)	(114,153)
Vested, end of year	**52,482**	**676,748**	**179,140**	**908,370**	51,783	668,761	158,479	879,023
Liability ($ thousands)								
Balance, beginning of year	**$ 1,923**	**$ 24,838**	**$ 5,886**	**$ 32,647**	$ 1,844	$ 13,578	$ 5,706	$ 21,128
Expensed	**585**	**10,682**	**2,675**	**13,942**	142	14,402	1,195	15,739
Exercised/cancelled	—	**(3,178)**	—	**(3,178)**	(63)	(3,142)	(1,015)	(4,220)
Balance, end of year	**$ 2,508**	**$ 32,342**	**$ 8,561**	**$ 43,411**	$ 1,923	$ 24,838	$ 5,886	$ 32,647

8. STOCK-BASED COMPENSATION PLANS (CONTINUED)

Management Share Appreciation Rights Plan (SAR)

Beginning in 2002, awards under the 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 2006, there were no SAR units issued to management. In 2005, 255,872 SAR units were granted to management in the U.K. and Canada at a grant price of $32.44. Details of the SAR plans are as follows:

For years ended December 31 **Units**	**2006**	2005
Outstanding, beginning of year	**715,000**	649,367
Additions	—	255,872
Exercised/cancelled	**(133,934)**	(190,239)
Outstanding, end of year	**581,066**	715,000
Vested, beginning of year	**286,700**	205,073
Vested	**204,528**	235,408
Exercised/cancelled	**(109,867)**	(153,781)
Vested, end of year	**381,361**	286,700
Liability ($ thousands)		
Balance, beginning of year	**$ 4,655**	$ 3,520
Expensed	**6,588**	3,050
Exercised/cancelled	**(1,278)**	(1,915)
Balance, end of year	**$ 9,965**	$ 4,655

Strike price ranges: **$26.05 - $32.44**

Summary – Impact of Stock Based Compensation Plans

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, was an expense of $25.8 million in 2006 (2005: $20.6 million).

9. EARNINGS PER SHARE

Basic earnings per share (EPS) 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.

Earnings used in determining earnings per share from continuing operations are presented below. Earnings used in determining earnings per share from discontinued operations are the earnings from discontinued operations as reported within the consolidated statements of income and retained earnings.

($ thousands, except share and per share amounts) 2006		Income	Shares		Per Share
Basic EPS from continuing operations:					
Net income from continuing operations	**$**	**240,738**	**89,370,667**	**$**	**2.69**
Effect of dilutive securities: stock options		**—**	**528,803**		**—**
Diluted EPS from continuing operations:					
Net income from continuing operations and assumed conversions	**$**	**240,738**	**89,899,470**	**$**	**2.68**
2005					
Basic EPS from continuing operations:					
Net income from continuing operations	$	169,557	88,851,343	$	1.91
Effect of dilutive securities: stock options		—	672,662		—
Diluted EPS from continuing operations:					
Net income from continuing operations and assumed conversions	$	169,557	89,524,005	$	1.89

10. Other Assets

December 31 ($ thousands)		2006		2005
Other assets – current:				
Future income taxes (Note 5)	**$**	**47,611**	$	34,988
Value Added Tax receivable		**14,416**		21,777
Prepaid expenses		**20,980**		19,742
Current portion of finance assets (Note 11)		**14,274**		17,255
Supplier claims receivable		**42,630**		21,456
Short-term swap contract receivable		**—**		13,723
Retained interest in transferred receivables (Note 20)		**9,481**		7,133
Income taxes recoverable		**5,337**		7,372
Other		**41,780**		42,734
	$	**196,509**	$	186,180
Other assets – long-term:				
Accrued defined benefit pension asset (Note 19)	**$**	**77,285**	$	53,748
Long-term swap contracts receivable		**—**		31,322
Deferred financing costs		**8,937**		16,085
Investment in Energyst B.V. (a)		**16,388**		14,674
Matreq S.A. receivable (Note 15)		**—**		4,664
Deferred project costs		**2,988**		4,315
Future income taxes (Note 5)		**5,204**		28
Asset retirement obligation		**3,876**		—
Other		**8,905**		12,727
	$	**123,583**	$	137,563

(a) 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.

11. Finance Assets

December 31 ($ thousands)		2006		2005
Instalment notes receivable	**$**	**27,176**	$	25,543
Equipment leased to customers		**38,303**		17,648
Less accumulated depreciation		**(17,159)**		(6,110)
		21,144		11,538
Total finance assets		**48,320**		37,081
Less current portion of instalment notes receivable		**14,274**		17,255
	$	**34,046**	$	19,826

Depreciation of equipment leased to customers for the year ended December 31, 2006 was $9.9 million (2005: $1.6 million).

12. Rental Equipment

December 31 ($ thousands)		2006		2005
Cost	**$**	**1,918,880**	$	1,948,277
Less accumulated depreciation		**(880,240)**		(897,787)
	$	**1,038,640**	$	1,050,490

Rental equipment under capital leases of $19.4 million (2005: $20.1 million), net of accumulated amortization of $6.8 million (2005: $2.9 million), is included above.

Depreciation of rental equipment for the year ended December 31, 2006 was $275.4 million (2005: $266.7 million).

13. Capital Assets

Land, Buildings and Equipment

December 31	2006			2005		
($ thousands)	**Cost**	**Accumulated depreciation**	**Net book value**	Cost	Accumulated depreciation	Net book value
Land	**$ 58,805**	**$ —**	**$ 58,805**	$ 51,394	$ —	$ 51,394
Buildings and equipment	**516,274**	**209,423**	**306,851**	468,903	187,793	281,110
	$ 575,079	**$ 209,423**	**$ 365,656**	$ 520,297	$ 187,793	$ 332,504

Land, buildings and equipment under capital leases of $13.0 million (2005: $1.3 million), net of accumulated amortization of $11.7 million (2005: $8.8 million), are included above.

Depreciation of buildings and equipment for the year ended December 31, 2006 was $34.9 million (2005: $32.9 million).

Intangible Assets

December 31 **($ thousands)**	**2006** **Cost**	**Accumulated amortization**	**Net book value**	2005 Cost	Accumulated amortization	Net book value
Subject to amortization						
Customer contracts and related customer relationships	**$ 9,400**	**$ 4,095**	**$ 5,305**	$ 10,828	$ 2,922	$ 7,906
Software	**28,431**	**9,451**	**18,980**	15,548	7,699	7,849
	37,831	**13,546**	**24,285**	26,376	10,621	15,755
Indefinite lives						
Distribution rights	**646**	**—**	**646**	646	—	646
	$ 38,477	**$ 13,546**	**$ 24,931**	$ 27,022	$ 10,621	$ 16,401

The Company acquired intangible assets subject to amortization of $15.1 million in 2006 (2005: $4.6 million). Depreciation of intangible assets subject to amortization for the year ended December 31, 2006 was $2.9 million (2005: $2.8 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 from the Canada reporting segment were not recoverable and recorded an impairment charge to selling, general and administrative expenses of $2.3 million in 2005.

14. DISPOSITION OF DISCONTINUED OPERATION

Finning's Board of Directors approved the sale of the Materials Handling Division of the Company's UK subsidiary, Finning (UK), following an extensive strategic review of the Company's U.K. based businesses and determining that this division no longer represents a core business for Finning. On September 29 2006, the Company sold its Materials Handling Division for cash proceeds of approximately $170.6 million (approximately £81.7 million), net of costs.

The sale of this business resulted in a one-time after-tax loss of approximately $32.7 million (approximately £15.5 million) in 2006, which includes the write-off of the goodwill and intangible assets associated with this business.

The results of operations of the Materials Handling Division have been included in the consolidated statements of cash flow up to the date of disposition and as discontinued operations in the consolidated statements of income up to the date of disposition. The results of the Materials Handling Division had previously been reported in the UK segment.

Income (loss) from the Materials Handling Division to the date of disposition is summarized as follows:

($ thousands)	**Jan 1, 2006 – Sep 29, 2006**	Jan 1, 2005 – Dec 31, 2005
Revenue	**$ 183,563**	$ 292,059
Loss before provision for income taxes	**(5,690)**	(7,899)
Loss on sale of discontinued operations	**(33,974)**	—
Provision for income taxes – recovery	**3,002**	2,372
Loss from discontinued operations	**$ (36,662)**	$ (5,527)

14. Disposition of Discontinued Operation (continued)

The assets and liabilities of the Materials Handling Division have been removed from the Consolidated Balance Sheet upon disposition and are not presented on the December 31, 2006 Consolidated Balance Sheet. The carrying amounts of assets and liabilities related to the Materials Handling Division as at the date of disposition and for the comparative period presented were as follows:

($ thousands)	**September 29 2006 [date of disposition]**	December 31 2005
ASSETS		
Current assets		
Accounts receivable	**$ 33,806**	$ 37,894
Inventories	**24,740**	26,245
Total current assets	**58,546**	64,139
Rental equipment	**131,406**	150,160
Capital assets	**8,554**	8,447
Goodwill	**28,274**	27,139
Intangible assets	**5,454**	5,824
	$ 232,234	$ 255,709
LIABILITIES		
Current liabilities		
Accounts payable and accruals	**27,913**	35,770
Total current liabilities	**$ 27,913**	$ 35,770

The significant net cash flows from the Materials Handling Division to the date of disposition are as follows:

For years ended December 31 ($ thousands)	**2006**	2005
Cash flows provided by operating activities	**$ 28,052**	$ 71,644

15. Goodwill

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

December 31 2006 ($ thousands)	**Canada**	**South America**	**UK**	**Hewden**	**Consolidated**
Goodwill, beginning of year	**$ 30,304**	**$ 29,862**	**$ 49,631**	**$ 255,030**	**$ 364,827**
Acquired (a)	**2,084**	**—**	**—**	**—**	**2,084**
Adjustment to purchase price (b)	**—**	**3,402**	**—**	**—**	**3,402**
Disposed (Note 14)	**—**	**—**	**(28,274)**	**—**	**(28,274)**
Foreign exchange translation adjustment	**—**	**78**	**4,265**	**35,488**	**39,831**
Goodwill, end of year	**$ 32,388**	**$ 33,342**	**$ 25,622**	**$ 290,518**	**$ 381,870**

December 31 2005 ($ thousands)	**Canada**	**South America**	**UK**	**Hewden**	**Consolidated**
Goodwill, beginning of year	$ 30,287	$ 5,296	$ 57,127	$ 293,547	$ 386,257
Acquired	17	—	—	—	17
Adjustment to purchase price (c)	—	24,732	—	—	24,732
Disposed	—	—	—	—	—
Foreign exchange translation adjustment	—	(166)	(7,496)	(38,517)	(46,179)
Goodwill, end of year	$ 30,304	$ 29,862	$ 49,631	$ 255,030	$ 364,827

(a) In September 2006, the Company acquired the assets and business operations of Wirtanen Electric Ltd., an electric distribution rental company based in Alberta, Canada, for cash of approximately $10.3 million.

(b) In April 2003, the Company acquired 100% of the voting shares of Matreq S.A. (subsequently renamed Finning Bolivia S.A.), the Caterpillar dealership in Bolivia. As part of this agreement, additional contingent consideration of U.S. $4.0 million was advanced to the seller in April 2003, and was settled in 2006 for U.S. $3.8 million. The agreed consideration was reclassified from other assets to goodwill and future income tax asset.

(c) 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. As part of this agreement, the sellers were 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 would be payable only if certain performance criteria were achieved and maintained for a stipulated period. The strong performance of the dealership in Argentina since acquisition to the end of 2005 indicated that the maximum future consideration criteria would likely be met, and was recorded in 2005 in accordance with the agreement as $24.7 million (U.S. $21.2 million) to goodwill.

In June 2006, a provisional payment of this additional consideration of approximately $14.8 million (U.S. $13.2 million) was paid directly to the sellers, and an additional $7.6 million (U.S. $6.8 million) was paid in trust as partial security and will be paid upon achievement of the performance criteria.

16. LONG-TERM OBLIGATIONS

December 31 ($ thousands)		2006		2005
Stock-based compensation (Note 8)	**$**	**53,376**	$	37,302
Leasing obligations (a) (Note 23)		**28,453**		22,555
Employee future benefit obligations		**14,727**		16,754
Long-term swap contract payable		**14,170**		—
Sale leaseback deferred gain		**9,230**		8,935
Asset retirement obligations (b)		**6,223**		—
Argentina additional consideration (Note 15)		**1,414**		10,777
Other		**3,701**		1,760
	$	**131,294**	$	98,083

(a) Capital leases issued at varying rates of interest from 3.5% - 6.8% and maturing on various dates up to 2026.

(b) Asset retirement obligations relate to estimated future costs to remedy dilapidation costs on certain operating leases in the U.K. and Canada and are based on the Company's prior experience, including estimates for labour, materials, equipment and overheads such as surveyor and legal costs. To determine the recorded liability, the future estimated cash flows have been discounted using the Company's credit-adjusted risk-free rate of 4% - 6%. Should changes occur in estimated future dilapidation costs, revisions to the liability could be made. The total undiscounted amount of estimated cash flows is $7.3 million, and the expected timing of payment of the cash flows is estimated to be between two and thirty years.

17. CUMULATIVE CURRENCY TRANSLATION ADJUSTMENTS

December 31 ($ thousands)		2006		2005
Balance, beginning of year	$	(133,136)	$	(82,734)
Translation adjustments for the year		46,098		(50,402)
Balance, end of year	$	(87,038)	$	(133,136)

The Company operates in three functional currencies: Canadian dollars, U.K. 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 2006 mainly resulted from the 14% strengthening of the U.K. pound sterling against the Canadian dollar.

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

December 31 Exchange rate	2006	2005
U.S. dollar	1.1653	1.1659
U.K. pound sterling	2.2824	2.0036
For years ended December 31 Average exchange rates		
U.S. dollar	1.1341	1.2116
U.K. pound sterling	2.0886	2.2066

18. SUPPLEMENTAL CASH FLOW INFORMATION

Non cash working capital changes

For years ended December 31 ($ thousands)		2006		2005
Accounts receivable and other	$	(127,177)	$	(29,491)
Inventories – on-hand equipment		(186,024)		(39,177)
Inventories – parts and supplies		(66,344)		(47,646)
Accounts payable and accruals		255,050		14,385
Income taxes		(14,531)		51,899
		(139,026)		(50,030)

Components of cash and cash equivalents

December 31 ($ thousands)		2006		2005
Cash	$	13,059	$	26,897
Short-term investments		65,426		786
Cash and cash equivalents	$	78,485	$	27,683

Interest and tax payments

For years ended December 31 ($ thousands)		2006		2005
Interest paid	$	(89,045)	$	(81,528)
Income taxes received (paid)	$	(84,258)	$	7,459

19. 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 maximum taxation limits are provided from a non-registered supplemental pension plan. Benefits under this plan are partially funded by a Retirement Compensation Arrangement.
- Finning (UK) provides a defined benefit plan 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 subject to limits. 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. With the sale of the UK Materials Handling business, certain employees became non-active members of the defined benefit plan.
- Hewden has two defined benefit plans that are 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.

The defined contribution pension plans are registered pension plans that offer a base contribution rate for all members. For certain plans, the Company will partially match employee contributions 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 $3.2 million was expensed in 2006 (2005: $3.7 million) for a total obligation of $14.7 million (2005: $12.5 million).

19. EMPLOYEE FUTURE BENEFITS (CONTINUED)

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

For years ended December 31	**2006**				2005			
($ thousands)	**Canada**	**UK**	**Hewden**	**Total**	Canada	UK	Hewden	Total
Defined contribution plans								
Net benefit plan expense	**$ 12,838**	**$ 948**	**$ 244**	**$ 14,030**	$ 9,815	$ 920	$ 255	$ 10,990
Defined benefit plans								
Current service cost, net of employee contributions	**$ 8,465**	**$ 9,557**	**$ 2,673**	**$ 20,695**	$ 6,375	$ 13,002	$ 2,663	$ 22,040
Interest cost	**15,956**	**21,137**	**9,808**	**46,901**	15,636	21,291	9,952	46,879
Actual return on plan assets	**(30,932)**	**(43,336)**	**(9,639)**	**(83,907)**	(21,154)	(54,042)	(19,672)	(94,868)
Actuarial (gains) losses	**(4,349)**	**28,202**	**(8,776)**	**15,077**	42,824	48,907	18,041	109,772
Plan curtailment	**—**	**3,342**	**—**	**3,342**	—	—	—	—
Employee future benefit costs before adjustments to recognize the long-term nature of employee future benefit costs	**(10,860)**	**18,902**	**(5,934)**	**2,108**	43,681	29,158	10,984	83,823
Adjustments to recognize the long-term nature of employee future benefit costs:								
Difference between expected return and actual return on plan assets for year	**12,882**	**19,944**	**(98)**	**32,728**	3,967	32,408	10,607	46,982
Difference between actuarial loss recognized for year and actual actuarial loss on accrued benefit obligation for year	**8,348**	**(21,515)**	**11,452**	**(1,715)**	(40,967)	(42,120)	(15,373)	(98,460)
Difference between amortization of past service costs for year and actual plan amendments for year	**298**	**(3,739)**	—	**(3,441)**	298	—	—	298
Amortization of transitional obligation / (asset)	**1,047**	**(1,213)**	**1,552**	**1,386**	1,047	(1,282)	1,640	1,405
Defined benefit costs recognized	**11,715**	**12,379**	**6,972**	**31,066**	8,026	18,164	7,858	34,048
Total	**$ 24,553**	**$ 13,327**	**$ 7,216**	**$ 45,096**	$ 17,841	$ 19,084	$ 8,113	$ 45,038

Total cash payments for employee future benefits for 2006, which is made up of cash contributed by the Company to its defined benefit plans and its defined contribution plans was $55.8 million and $14.0 million, respectively (2005: $38.0 million and $11.0 million, respectively).

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

For years ended December 31	**2006**				2005			
($ thousands)	**Canada**	**UK**	**Hewden**	**Total**	Canada	UK	Hewden	Total
Accrued benefit obligation								
Balance at beginning of year	**$ 307,646**	**$ 415,787**	**$ 192,306**	**$ 915,739**	$ 256,462	$ 417,596	$ 193,160	$ 867,218
Current service cost	**10,190**	**13,446**	**4,039**	**27,675**	8,026	17,304	4,065	29,395
Interest cost	**15,956**	**21,137**	**9,808**	**46,901**	15,636	21,291	9,952	46,879
Benefits paid	**(16,008)**	**(12,910)**	**(8,783)**	**(37,701)**	(15,302)	(15,733)	(5,086)	(36,121)
Actuarial (gains) losses	**(4,349)**	**28,202**	**(6,792)**	**17,061**	42,824	48,907	18,041	109,772
Foreign exchange rate changes	**—**	**62,795**	**26,414**	**89,209**	—	(60,162)	(27,826)	(87,988)
Plan curtailment (a)	**—**	**3,342**	**—**	**3,342**	—	—	—	—
Plan amendments (b)	**—**	**—**	**(1,984)**	**(1,984)**	—	(13,416)	—	(13,416)
Balance at end of year	**$ 313,435**	**$ 531,799**	**$ 215,008**	**$1,060,242**	$ 307,646	$ 415,787	$ 192,306	$ 915,739
Plan assets								
Fair value at beginning of year	**$ 269,358**	**$ 312,418**	**$ 125,848**	**$ 707,624**	$ 249,187	$ 295,814	$ 120,273	$ 665,274
Actual return on plan assets	**30,932**	**43,336**	**9,639**	**83,907**	21,154	54,042	19,672	94,868
Employer contributions	**9,012**	**26,928**	**13,730**	**49,670**	12,668	18,421	7,533	38,622
Employees' contributions	**1,725**	**3,889**	**1,366**	**6,980**	1,651	4,303	1,401	7,355
Benefits paid	**(16,008)**	**(12,910)**	**(8,783)**	**(37,701)**	(15,302)	(15,733)	(5,086)	(36,121)
Foreign exchange rate changes	**—**	**51,321**	**18,992**	**70,313**	—	(44,429)	(17,945)	(62,374)
Fair value at end of year	**$ 295,019**	**$ 424,982**	**$ 160,792**	**$ 880,793**	$ 269,358	$ 312,418	$ 125,848	$ 707,624
Funded status – plan surplus/(deficit)	**$ (18,416)**	**$(106,817)**	**$ (54,216)**	**$(179,449)**	$ (38,288)	$(103,369)	$ (66,458)	$(208,115)
Unamortized net actuarial loss	**58,732**	**149,223**	**47,661**	**255,616**	79,962	119,208	52,588	251,758
Unamortized past service costs	**2,365**	**(9,791)**	**—**	**(7,426)**	2,663	—	—	2,663
Contributions remitted after valuation date	**505**	**6,818**	**1,915**	**9,238**	517	1,364	591	2,472
Unamortized transitional obligation/asset	**(121)**	**(9,194)**	**8,621**	**(694)**	926	(9,235)	9,056	747
Accrued benefit asset/(liability) (c)	**$ 43,065**	**$ 30,239**	**$ 3,981**	**$ 77,285**	$ 45,780	$ 7,968	$ (4,223)	$ 49,525

(a) As a result of the sale of the Materials Handling Division, the Company recognized a curtailment to reflect the impact of the significant reduction of the expected years of future services of active employees participating in the Finning (UK) defined benefit plan.

(b) The plan amendment of $2.0 million in 2006 in Hewden and $13.4 million in 2005 in Finning (UK) related to a reduction in the accrued benefit obligation of the defined benefit pension plans due to pension benefit changes that were agreed between the Company and the plans' trustees and communicated with the employee members of the plans. It was agreed that employee members' pension benefits would 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 resulted 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.

(c) Accrued benefit asset or liability is classified as either other assets or long-term obligations, respectively, on the consolidated balance sheets.

19. EMPLOYEE FUTURE BENEFITS (CONTINUED)

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	2006				2005			
($ thousands)	**Canada**	**UK**	**Hewden**	**Total**	Canada	UK	Hewden	Total
Accrued benefit obligation	**$ 256,477**	**$ 531,800**	**$ 215,009**	**$1,003,286**	$ 251,154	$ 415,787	$ 192,306	$ 859,247
Fair value of plan assets	**229,213**	**424,983**	**160,793**	**814,989**	207,513	312,418	125,848	645,779
Funded status – plan deficit	**$ 27,264**	**$ 106,817**	**$ 54,216**	**$ 188,297**	$ 43,641	$ 103,369	$ 66,458	$ 213,468

Plan assets are principally invested in the following securities at November 30, 2006:

	Canada	**UK**	**Hewden**
Equity	**60%**	**72%**	**67%**
Fixed-income	**40%**	**28%**	**33%**

For measurement purposes, assets and liabilities of the plans are valued as at November 30. Plan assets no longer include direct investment in common shares of the Company at December 31, 2006 (2005: $0.8 million).

The significant actuarial assumptions are as follows:

	2006			2005		
	Canada	**UK**	**Hewden**	Canada	UK	Hewden
Discount rate – obligation	**5.25%**	**5.30%**	**5.30%**	5.15%	4.95%	4.95%
Discount rate – expense	**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%
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, 2005	December 31, 2006
Canada – General Supplemental Income Plan	December 31, 2003	December 31, 2006
Canada – Alberta Defined Benefit Plan	December 31, 2005	December 31, 2008
Finning UK Defined Benefit Scheme	January 1, 2006	January 1, 2009
Hewden Stuart Pension Scheme	December 31, 2005	December 31, 2008
Hewden Pension Plan	January 1, 2005	January 1, 2008

20. 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 2006, the Company is carrying a retained interest in the transferred receivables in the amount of $9.5 million (as at December 31, 2005: $7.1 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).

For the year ended December 31 2006, the Company recognized a pre-tax loss of $2.0 million (2005: $1.4 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, 2006	**Range for year ended 2006**
Cost of funds	**4.32%**	**3.64% – 4.62%**
Weighted average life in days	**31.4**	**28.1 – 34.0**
Average credit loss ratio	**0.043%**	**0.000% – 0.327%**
Average dilution ratio	**7.10%**	**5.65% – 8.82%**
Servicing fee rate	**2.0%**	
Fair value of retained interest	**$ 9.4 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 $0.3 million and $0.7 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 $0.9 million and $1.6 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)	**2006**	2005
Proceeds from new securitization	**$ —**	**$ —**
Proceeds from revolving reinvestment of collections	**$ 520,626**	**$ 495,456**

21. 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.

22. SEGMENTED INFORMATION

The Company and its subsidiaries have operated primarily in one industry during the year, that being the selling, servicing and renting 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: corporate head office.

The reportable operating segments are:

For year ended December 31 2006 ($ thousands)	**Canada**	**South America**	**UK**	**Hewden**	**Other**	**Consolidated**
Revenue from external sources	**$ 2,612,597**	**$ 1,009,906**	**$ 796,080**	**$ 628,741**	**$ 6**	**$ 5,047,330**
Operating costs	**2,251,348**	**876,286**	**734,447**	**446,641**	**32,916**	**4,341,638**
Depreciation and amortization	**145,664**	**24,660**	**24,269**	**129,730**	**—**	**324,323**
Other expenses (income)	**(17,729)**	**—**	**2,467**	**8,190**	**648**	**(6,424)**
Earnings from continuing operations before interest and taxes	**$ 233,314**	**$ 108,960**	**$ 34,897**	**$ 44,180**	**$ (33,558)**	**$ 387,793**
Finance costs						**75,712**
Provision for income taxes						**71,343**
Net income from continuing operations						**240,738**
Loss from discontinued operations, net of tax						**36,662**
Net income						**$ 204,076**
Identifiable assets	**$ 1,691,743**	**$ 779,817**	**$ 570,997**	**$ 1,121,215**	**$ 36,981**	**$ 4,200,753**
Gross capital expenditures	**$ 41,817**	**$ 15,003**	**$ 6,270**	**$ 26,280**	**$ —**	**$ 89,370**
Gross rental asset expenditures	**$ 295,512**	**$ 42,157**	**$ 68,588**	**$ 132,068**	**$ —**	**$ 538,325**

For year ended December 31 2005 ($ thousands)	**Canada**	**South America**	**UK**	**Hewden**	**Other**	**Consolidated**
Revenue from external sources	$ 2,049,675	$ 1,007,341	$ 830,412	$ 655,091	$ —	$ 4,542,519
Operating costs	1,783,724	886,222	793,659	463,819	31,054	3,958,478
Depreciation and amortization	115,790	25,573	27,031	136,042	—	304,436
Other expenses (income)	223	2,283	(3,756)	5,338	(1,827)	2,261
Earnings from continuing operations before interest and taxes	$ 149,938	$ 93,263	$ 13,478	$ 49,892	$ (29,227)	$ 277,344
Finance costs						61,023
Provision for income taxes						46,764
Net income from continuing operations						169,557
Loss from discontinued operations, net of tax						5,527
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

23. Contractual Obligations

Future minimum lease payments due under capital lease contracts and payments due under various operating lease contracts are as follows:

For years ended December 31 ($ thousands)	Capital Leases	Operating Leases
2007	**$ 6,053**	$ **62,928**
2008	**5,996**	**51,764**
2009	**5,593**	**42,065**
2010	**5,272**	**32,312**
2011	**5,290**	**26,885**
Thereafter	**18,295**	**164,485**
	46,499	$ **380,439**
Less imputed interest	**13,832**	
	32,667	
Less current portion of capital lease obligation	**4,214**	
Total long-term capital lease obligation	**$ 28,453**	

24. Contingencies

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.

25. 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 based on an estimate of the future value of the fair market price at that time. As at December 31 2006, the total estimated value of these contracts outstanding is $181.2 million coming due at periods ranging from 2007 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 $1.4 million.

As part of the Materials Handling Division Purchase and Sale Agreement, Finning has provided indemnifications to the third party purchaser, covering environmental, tax, litigation and other matters, as well as breaches of representation and warranties set forth in the agreement. Claims may be made by the third party under this agreement for various periods of time depending on the nature of the claim. The maximum potential exposure of Finning under these indemnifications is 75% of the purchase price. As at December 31 2006, Finning had no material liabilities recorded for these indemnifications.

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.