FINNING INTERNATIONAL INC.

ANNUAL INFORMATION FORM

2010

FEBRUARY 16, 2011

Finning International Inc.
Suite 1000, Park Place
666 Burrard Street
Vancouver, British Columbia
V6C 2X8

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In this Annual Information Form, the terms the "Company" and "Corporation" mean Finning International Inc. and "Finning" means Finning International Inc. together with its subsidiaries and operating divisions. All dollar amounts are Canadian dollars unless otherwise indicated. All information in this Annual Information Form is presented as at December 31, 2010, unless otherwise specified herein

FORWARD LOOKING INFORMATION

This report contains statements about the Company's business outlook, objectives, plans, strategic priorities and other statements that are not historical facts. A statement we make is forward-looking when it uses what we know and expect today to make a statement about the future. Forward-looking statements may include words such as aim, anticipate, assumption, believe, could, expect, goal, guidance, intend, may, objective, outlook, plan, project, seek, should, strategy, strive, target, and will. Forward-looking statements in this report include, but are not limited to, statements with respect to: expectations with respect to the economy and associated impact on the Company's financial results; the estimated annualized cost savings and anticipated restructuring charges related to actions taken by the Company in response to the economic downturn; expected revenue and EBIT growth; anticipated generation of free cash flow (including projected net capital and rental expenditures), and its expected use; anticipated defined benefit plan contributions; expected target range of Debt Ratio; and the expected quantitative impact on the consolidated statement of financial position of the Company's transition to IFRS at January 1, 2010. All such forward-looking statements are made pursuant to the 'safe harbour' provisions of applicable Canadian securities laws.

Unless otherwise indicated by us, forward-looking statements in this report describe our expectations at February 16, 2011. Except as may be required by Canadian securities laws, we do not undertake any obligation to update or revise any forward-looking statement, whether as a result of new information, future events, or otherwise.

Forward-looking statements, by their very nature, are subject to numerous risks and uncertainties and are based on several assumptions which give rise to the possibility that actual results could differ materially from our expectations expressed in or implied by such forward-looking statements and that our business outlook, objectives, plans, strategic priorities and other statements that are not historical facts may not be achieved. As a result, we cannot guarantee that any forward-looking statement will materialize. Factors that could cause actual results or events to differ materially from those expressed in or implied by our forward-looking statements include: general economic and credit market conditions; foreign exchange rates; commodity prices; the level of customer confidence and spending, and the demand for, and prices of, our products and services; our dependence on the continued market acceptance of Caterpillar's products and Caterpillar's timely supply of parts and equipment; our ability to continue to implement our cost reduction initiatives while continuing to maintain customer service; our ability to control cost pressures as growth in revenues occur; our ability to attract sufficient skilled labour resources to meet growing product support demand; the intensity of competitive activity; our ability to raise the capital we need to implement our business plan; regulatory initiatives or proceedings, litigation and changes in laws or regulations; stock market volatility; changes in political and economic environments for operations; new or amended IFRS or interpretations that become effective prior to the inclusion of the Company's financial statement of position in its first annual audited IFRS financial statements. Forward-looking statements are provided in this report for the purpose of giving information about management's current expectations and plans and allowing investors and others to get a better understanding of our operating environment. However, readers are cautioned that it may not be appropriate to use such forward-looking statements for any other purpose.

Forward-looking statements made in this Annual Information Form and in the Management's Discussion and Analysis (MD&A) incorporated by reference hereto, are based on a number of assumptions that we believed were reasonable on the day we made the forward-looking statements. Refer in particular to the Market Outlook section of the MD&A. Some of the assumptions, risks, and other factors which could cause results to differ materially from those expressed in the forward-looking statements contained in this report are discussed in Section 4.

We caution readers that the risks described in the AIF are not the only ones that could impact us. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial may also have a material adverse effect on our business, financial condition, or results of operations.

Except as otherwise indicated by us, forward-looking statements do not reflect the potential impact of any non-recurring or other unusual items or of any dispositions, mergers, acquisitions, other business combinations or other transactions that may be announced or that may occur after the date hereof. The financial impact of these transactions and non-recurring and other unusual items can be complex and depends on the facts particular to each of them. We therefore cannot describe the expected impact in a meaningful way or in the same way we present known risks affecting our business.

1. CORPORATE STRUCTURE

1.1 NAME, ADDRESS AND INCORPORATION

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

Finning International Inc. is a widely held, publicly traded corporation, listed on the Toronto Stock Exchange (symbol: FTT). The registered and head office of the Company is located at Suite 1000, Park Place, 666 Burrard Street, Vancouver, British Columbia, V6C 2X8 (telephone: 604.691.6444; fax: 604. 691.6440; website: www.finning.com).

1.2 INTERCORPORATE RELATIONSHIPS

The following outlines the Company's principal operating subsidiaries and divisions and the geographic areas they serve. As at December 31, 2010, there were no other subsidiaries of the Company whose total assets represented more than 10% of the consolidated assets of the Company or whose total revenues for the year then ended represented more than 10% of the consolidated revenue of the Company.

Finning International Inc.

- Canada – Operating Segment
  - **Finning (Canada)** a division of Finning International Inc., servicing Western Canada with dealer territories in British Columbia, Alberta, the Yukon territory, the Northwest Territories and a portion of Nunavut.
  - **OEM Remanufacturing Company Inc.** a joint venture company, incorporated in Alberta, Canada; 100% owned by Finning.
  - **PipeLine Machinery International ULC and related entities** (together referred to as "**PLM**") 25% owned by Finning. PLM was formed by four Caterpillar dealers for the purpose of focusing on servicing the global pipeline construction industry.
- South America – Operating Segment
  - **Finning Argentina S.A.** and **Finning Soluciones Mineras S.A.** both incorporated in Argentina, 100% owned by Finning and servicing Argentina.
  - **Finning Bolivia S.A.** incorporated in Bolivia, 100% owned by Finning and servicing Bolivia.
  - **Finning Chile S.A.** incorporated in Chile, 100% owned by Finning and servicing Chile.
  - **Finning Uruguay S.A.** incorporated in Uruguay, 100% owned by Finning and servicing Uruguay.
  - **Moncouver S.A.** incorporated in Uruguay, 100% owned by Finning and offering shared services and centralized purchasing to the South American operations.
- UK and Ireland – Operating Segment
  - **Finning (UK) Ltd.** incorporated in the United Kingdom, 100% owned by Finning and servicing the U.K. with dealer territories in England, Northern Ireland, Scotland, Wales, the Falkland Islands and the Channel Islands.
  - **Finning (Ireland) Limited** incorporated in the Republic of Ireland, 100% owned by Finning, and servicing the Republic of Ireland.

2. GENERAL DEVELOPMENT OF THE BUSINESS

2.1 OVERVIEW OF OPERATIONS

Finning is a Canadian-based international company that provides sales, rental, parts and support services for Caterpillar Inc. ("Caterpillar" or "CAT") equipment and engines and complementary equipment on three continents. In terms of sales volume, Finning is one of the largest distributors of Caterpillar products in the world and is the authorized dealer of Caterpillar products in its Western Canada territories, the United Kingdom, including England, Northern Ireland, Scotland, Wales, Falkland Islands and Channel Islands, the Republic of Ireland, and in the southern cone of South America (defined as the countries of Argentina, Bolivia, Chile and Uruguay). At December 31, 2010, Finning had approximately 11,900 employees serving within its territories.

Canada

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

In addition to dealership territory expansion, the Company has made key strategic investments in complementary businesses which enhance servicing capabilities or strengthen global opportunities:

- In 2004, Finning International Inc. made an investment in OEM Remanufacturing Company Inc. ("OEM"), a component remanufacturing business located in Edmonton, Alberta. Under a long-term contract, OEM provides Finning (Canada) with remanufacturing services on parts and components for CAT branded equipment.
- In 2005, Finning (Canada) was selected by Caterpillar to be one of four Caterpillar dealers to form a new global Caterpillar dealership, PLM. PLM serves the global pipeline construction industry as the sole supplier of new Caterpillar pipelaying equipment to customers who specialize in constructing large diameter pipeline projects.
- In January 2008, Finning (Canada) acquired all of the issued and outstanding shares of Collicutt Energy Services Ltd. ("Collicutt"), a Canadian oil field services company. The acquisition provided the Company the opportunity to establish a Centre of Excellence ("COE") at Collicutt's former facilities in Red Deer. The COE now provides a central point of expertise for large machine overhauls and complete rebuilds. It also encompasses a new machine preparation centre for new machines to be delivered to customers. Both of these primary COE activities have allowed the remainder of the branch network to focus on direct customer service and support to ensure maximum up-time of customers' machines.

South America

In August 1993, the Company acquired its first Caterpillar dealership territory in South America through the acquisition of Gildemeister S.A.C., the authorized Caterpillar dealer for Chile (subsequently renamed Finning Chile S.A. in 1997). In January 2003, the Company expanded its Caterpillar dealership territories in South America by becoming the authorized Caterpillar dealer in both Argentina, through the acquisition of Macrosa Del Plata S.A., and Servicios Mineras S.A. (subsequently renamed Finning Argentina S.A. and Finning Soluciones Mineras S.A., respectively, in 2005), and in Uruguay through the acquisition of General Machinery Co. S.A. (subsequently renamed Finning Uruguay S.A. in 2005). Later in April 2003, the Company completed the acquisition of Matreq Ferreyros S.A. (subsequently renamed Finning Bolivia S.A. in 2005), the authorized Caterpillar dealer for Bolivia. In March 2004, the Company formed a free trade zone company in Uruguay – Finning South America S.A. (subsequently renamed Moncouver S.A. in 2006) and developed a shared services and centralized purchasing centre for its South American operations.

UK and Ireland

In 1983, the Company acquired two Caterpillar dealerships in Great Britain, Bowmaker (Plant) Ltd. and Caledonian Tractor and Equipment Co. Ltd. The acquisition of the remaining U.K. dealer, H. Leverton Limited, was completed in October 1997. In August 2010, the Company was appointed the Caterpillar dealer for Northern Ireland and for the Republic of Ireland. The Company now operates in the U.K. under the name of Finning (UK) Ltd. as an authorized Caterpillar dealer in England, Northern Ireland, Scotland, Wales, Falkland Islands and Channel Islands and in the Republic of Ireland under the name of Finning (Ireland) Limited as the authorized Caterpillar dealer for that territory.

2.2 THREE YEAR HISTORY

The following is a summary of significant developments in the strategy of the Company and in each of the Company's core operating segments over the past three years.

2.2.1 Strategic Plan

Finning is part of Caterpillar's global dealer network and both Finning and Caterpillar benefit from this strong strategic alliance. 2010 marked the 77th anniversary of the Company's highly successful partnership with Caterpillar. The Company's vision is two-fold: to be Caterpillar's best global business partner and to provide unrivalled services that earn customer loyalty. To achieve this vision, the Company's mission is to be a world-class distribution and service organization through operational excellence.

During 2010, following the strategic decision to divest its Hewden rental business, the Company completed a review and update of its strategic plan. The plan leverages Finning's core capabilities and establishes a platform for improved business performance and profitable growth. The Company's updated strategic plan is intended to guide Finning's business through 2016. Management reviews the strategic plan annually, evaluates progress against the plan monthly, and reports to the Board of Directors on the plan quarterly. The Board of Directors approves the strategic plan annually.

The 2011-2016 strategic plan focuses on key initiatives that will drive the Company towards achieving its goals through 2016, with a vision of creating the future through short-term, intermediate and long-term goals.

The short-term goals aim to strengthen the Company’s foundation, including the balance sheet, and enhance operating leverage. For the intermediate term, the Company has launched a number of initiatives to achieve operational excellence. These initiatives are related to safety, sales, service and parts, supply chain, and systems. Longer term, the Company targets to expand its mining, power systems and core product support offerings and pursue other profitable growth opportunities which leverage Finning’s competitive strengths. To successfully execute the strategy, management is building a high performance culture.

2.2.2 Current Developments in the Company’s Operating Segments

Canada

- As described above, in January 2008, Finning (Canada) acquired all of the issued and outstanding shares of Collicutt, a Canadian oil field services company.
- Canadian operations experienced significant revenue and earnings growth from 2005 through the first half of 2008, with Alberta experiencing very strong economic growth during that period. Due to the speed and severity of the economic downturn in the latter half of 2008 and into 2009, Finning (Canada) restructured portions of its operations, resulting in a reduction of approximately 1,200 employees during that timeframe. Throughout 2009 and 2010, the Company also actively worked to cut costs across its operations to align to the lower business volumes. With the strengthening of the economy in 2010 and the resultant increased activity and revenues, the Canadian operations added approximately 250 employees mainly in those areas of recovery while continuing to strive towards operational efficiencies and a lower cost structure.
- In addition to the investment in people, the Canadian operations committed to a $110 million capital investment for a new facility in Fort McKay, northern Alberta in 2010. Consistent with the Company's long-term strategic focus on key growth markets, the facility will further expand the Company's strong product support capabilities. Construction of the new building is expected to commence in Q2 2011, with completion targeted by the end of 2012.

South America

- To benefit from the business opportunities generated by the continued strength in the commodity cycle that boosted copper prices and production, Finning invested USD $19.4 million in its La Negra facility in Antofagasta, Chile, between 2008 and 2010, which includes a truck shop for servicing equipment and a parts distribution warehouse. These expansions allow Finning to: assemble, test and deliver over 200 mining trucks and support equipment per year; offer complete equipment rebuild services; and, distribute parts and components to mining customers in the north of Chile. These were strategic investments which provide Finning with significant additional capacity to service its mining customers.
- To meet strong customer service demand and the increasing number of service maintenance contracts, over 640 additional revenue-generating technicians and support staff were hired from

2008 through 2010, representing a 26% increase over December 2007 levels. Service delivery is strategic to Finning's success in South America, accordingly considerable resources have been spent on recruiting, developing and retaining employees. Chile's mining companies are among the world's lowest cost copper-producers, and parts and service revenues are expected to continue to grow over time to support the large volume of new equipment deliveries to the industry.

UK and Ireland

- Finning's strategic plans required a restructuring of its UK business model to reduce the cost base of its operations and divest of certain non-core elements of the business. The most significant divestiture was that of the Hewden Rental business which was facilitated through a series of business divesture decisions over the past three years including:
    - Hewden's Equipment Rental business on May 5, 2010;
    - Hewden's Hoists business on January 31, 2008;
    - Hewden's Tool Hire Division on July 31, 2007, and associated properties throughout 2008 and 2009.

  For further information, refer to *Section 2.2.3 - Divestitures*.
- In August, 2010 the Company was appointed as the Caterpillar dealer for Northern Ireland and the Republic of Ireland. The addition of these two territories will allow Finning to leverage its existing infrastructure and service expertise to complement its U.K. and Ireland dealerships. Through the acquisitions, Finning has acquired an active power systems portfolio, as well as access to opportunities in construction.
- As a result of the divestitures, acquisitions and internal restructuring over the past three years, Finning (UK and Ireland) is now headed by a new leadership team and organized into two divisions: Construction and Power Systems with centralized business support services in Cannock, England. Both divisions are segmented by end-user markets and focus on supplying customized customer solutions. The Construction division continues to work closely with Caterpillar to enhance its offering to the mining and construction sectors and develop new specialized segments including waste management and re-handling. The regionalization of service support from a centralized service centre has led to increased loyalty and customer service work. Additional investments have been made to pursue a strategy of "Number 1 for Service" to generate additional growth of the product support business. The Power Systems division, utilizing its engineering design expertise, continues to provide unique customer solutions in each of its business lines and is also working closely with other Caterpillar dealers to develop and grow its power projects business outside of the U.K. and Ireland.

General

- The regular dividend has increased over the past three years. For 2010, the total dividend paid increased to $0.47 per share, a 6.8% increase over the previous year. Dividends paid in 2009 and 2008 totalled $0.44 and $0.43 respectively.
- Since the fourth quarter of 2008, cost reduction and efficiency initiatives were undertaken to deal with the challenging economic conditions. As a result, continuing operations incurred restructuring and severance costs of $4.2 million in 2010 ($23.9 million in 2009; $11.7 million in 2008), primarily in the Company's operations in Canada and the U.K. Throughout 2009 and 2010, Finning undertook several initiatives designed to improve profit margins and generate significant cost savings throughout all areas of the organization. Finning believes there are substantial benefits to be realized from these initiatives and, therefore, management has made the successful implementation of these initiatives one of its top priorities and will continue to manage cost levels as growth returns. As at December 2010, Finning had achieved $120 million of annual permanent savings when compared to 2008 levels.
- Finning has initiated a project to replace its information technology (IT) system globally and enhance its IT capabilities. The Company has invested over $100 million to December 31, 2010 in the development of the global design and Canadian implementation of this new system. System development is now complete and full-scale testing of the system is underway. Depending on the results of this testing and any remediation, if required, the new system is expected to go live in 2011 shortly after this stage of the project is completed. Subsequent implementations will commence for the U.K. and then South America.
- During the year, the Company performed its annual goodwill impairment tests and determined that goodwill was not impaired at December 31, 2010 and December 31, 2009. In 2008, the Company determined that the carrying value of goodwill established on the acquisition of Hewden in 2001 exceeded its fair value. As a result, in 2008, the Company recorded a full goodwill impairment charge of $151.4 million.
- In 2010, the Company sold its remaining investment in Hewden for an after-tax loss of $244.1 million, which included the realization of $100.8 million of foreign exchange losses related to the Company's investment in Hewden previously recorded in accumulated other comprehensive loss, and $68.0 million related to Hewden's unfunded pension liability, which the buyer assumed. After taking this into account, the balance of $75.3 million was attributed to the loss on the Company's net carrying value of Hewden operations, net of tax.
- In 2010 the Company reviewed the valuation of its investments. As a result of this review and the continued weak economic conditions in Europe and poor operating performance from Energyst, combined with a very competitive market environment, the Company recorded a $5 million impairment of its investment.
- During 2008, the Company issued a total of $600 million of Medium Term Notes ("MTN"). Of these MTNs, $350 million matures June 1, 2018, with a coupon of 6.02% and $250 million matures September 3, 2013, with a coupon of 5.16%. Proceeds from these issuances were used for

debt repayment including the repayment of the Company's $200 million 7.4% MTN which matured in June 2008 as well as outstanding commercial paper borrowings.

- In 2009, the Company entered into a one year, $30 million committed operating facility with a Canadian chartered bank which was renewed in 2010 for an additional one year. The facility supports day-to-day cash management activities. In 2009, Finning Chile also entered into a USD $50 million one-year term loan with three Chilean banks. This facility provided incremental liquidity which was deemed appropriate during the financial market crisis in 2009 and has since been repaid in full.

- The Company has in place a global committed revolving credit facility for $800 million with an international syndicate of banks which matures in December 2011. This credit facility is a source of financing for all global operations. The Company expects to replace this facility prior to December 2011.

- In June 2010, following the sale of Hewden that reduced the Company's U.K. pound sterling denominated assets, the Company used a portion of the sale proceeds to purchase and cancel £45 million of its £115 million outstanding Eurobond Notes. As a result, the Company recorded charges of approximately $6.4 million, reflecting the premium paid to purchase the Eurobond Notes, costs associated with the recognition of deferred original financing costs, and related purchase costs. Future reporting periods will benefit from lower interest costs as a result of the lower debt outstanding. Following the purchase, £70 million of the 5.625% Eurobond Notes due in 2013 remain outstanding.

- A shareholders' rights plan is in place 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. This plan is set to automatically expire after a three-year term which ends in May 2011. The Company intends to seek shareholder and regulatory approval to extend the plan for a further three years. The Company's dealership agreements with subsidiaries of Caterpillar are fundamental to its business and any change in control of Finning must be approved by Caterpillar.

2.2.3 Divestitures

Following an extensive review of the Company's U.K. based business, it was determined that certain operating divisions were no longer considered core businesses, and as a result, divestitures were made between 2007 and 2009 which focused on selling a portion of the Hewden rental business and included its Tool Hire and Hoist divisions and their associated properties. On May 5, 2010, Finning sold its remaining interest in the Hewden equipment rental business, for gross proceeds of approximately $171 million (GBP 110 million) with an after-tax loss of $244 million. Approximately 1,300 employees were transferred to the buyer with the sale of the equipment rental business of Hewden. This transaction completed the strategic realignment of the Company's U.K. operations. The results of operations of Hewden for the periods up to May 5, 2010 have been reclassified as discontinued operations in the Company's consolidated statements of income and cash flow. The assets and liabilities of Hewden in the consolidated balance sheet for periods prior to the date of disposition have been presented separately.

Similarly, Hewden is now excluded throughout the discussion of the UK and Ireland sections of this Annual Information Form and any reported numbers.

2.2.4 Growth by Acquisitions

As part of its overall strategic plan, Finning regularly examines opportunities to acquire complementary businesses in regions where it operates. Finning also evaluates opportunities to expand into new geographies where the Company can benefit from developing market opportunities. Finning generally targets regions and markets where it can provide substantial value to customers through its extensive expertise in its principal markets of mining and quarrying, construction (including pipeline and oil field development) and power generation.

Acquisitions in existing and adjacent territories enable Finning to lever industry expertise in those markets and local knowledge, such as language, regulatory environment and business practices. As an example, following its 1993 acquisition of the Chilean Caterpillar dealership, Finning's presence in the southern cone of South America and its strong relationship with Caterpillar provided the opportunity to purchase dealerships in the neighbouring countries of Argentina, Bolivia and Uruguay in 2003. Similarly, in 2010 Finning took advantage of its presence in the U.K. and added the adjacent Ireland dealerships. By transferring expertise from its existing operations to the newly acquired dealerships, Finning anticipates benefitting from improved financial and operating performance of these dealerships.

Acquisition growth opportunities within the Company's dealership territories are also facilitated by infrastructure acquisition such as the Company's purchase of Collicutt in its Canadian operations in 2008, or by investing in businesses that expand its complementary product support, such as its investment in OEM Remanufacturing in its Canadian operations.

Acquisition growth opportunities also arise in the form of global equity investments in businesses involving Caterpillar products such as the Company's investment in Energyst B.V. (a 25% investment in a company offering power generation rental services to international customers across Europe) and in PLM (a 25% investment in entities serving the global pipeline industry).

Finning plans to continue to review similar opportunities and will consider additional acquisitions that meet its economic and strategic criteria.

2.2.5 Organic Growth Opportunities

In addition to growth opportunities resulting from the launch of Caterpillar products and technologies and new products offered as a result of Caterpillar acquiring companies, which broadens the depth of their product offering into key markets, Finning has identified a number of organic growth opportunities in each of its existing territories. As the size of the Caterpillar fleet in Finning's geographic regions grows, there is an increased opportunity to offer more stable, higher-margin product support solutions such as long-term parts and service maintenance contracts. In addition, new complementary business growth opportunities exist in such areas as technology solutions, rebuilding products, and manufacturing of truck bodies.

Canada

In Western Canada, Finning has a significant presence as a supplier of large mobile equipment to oil sands producers and contractors. The Company continues to see strong growth opportunities in the oil sands as producers open new mines and expand existing operations. As a result, the Company is willing to invest further in these growth areas to support customers. This is evidenced by its 2010 - 2012 commitment to invest $110 million for a 16 bay shop complex, regional offices and training centre in Fort McKay in the oil sands to capture the large and growing product support opportunity. As new equipment is introduced and heavily utilized, opportunities to sell parts and service to support the customers' large equipment fleets continue to grow. The Company's Canadian operation also sees ongoing growth of equipment and product support opportunities with copper and metallurgical coal mines. Growth opportunities are also expected in non-mining sectors in the near term with improving activity in heavy construction and forestry.

The Company will continue to introduce product support opportunities with its existing customer base and will drive a pro-active service culture that has the attitude, ability, technology and resources to provide value added solutions to customers.

South America

Heavy equipment markets in Chile remain active and demand for the Company's products and services persists at good levels. Demand for equipment and support services for the Chilean construction and mining markets remain buoyant. Copper prices were strong in 2010 and were higher than in 2009 and the latter part of 2008. Copper prices are expected to remain at a level which supports attractive economic operations for Finning's large South American mining customers, which are among the lowest cost producers of copper in the world. Product support revenues are expected to continue to grow over time reflecting the impact of the large installed base of equipment. Copper is also expected to drive infrastructure projects in South America and should provide Finning with an opportunity to increase its revenues both from equipment sales and product support over the long-term.

In Argentina, demand for equipment and parts for 2010 were at a higher level than 2009 resulting from the positive economic environment in the region. Construction has experienced strong business activity due to higher infrastructure investment, supported by access to financing. Finning's service business remains stable in Argentina and the outlook for 2011 is optimistic as it is an election year and generally election years are accompanied by increased infrastructure expenditure.

Over the past few years, Finning has experienced significant growth in its maintenance support agreements with major mining customers in South America. The Company continues to invest in its infrastructure for growth in this area as evidenced by recent investments in its La Negra Center in Antofagasta, Chile and its component repair center in Buenos Aires, Argentina. Growth opportunities in South America remain strong facilitated through these infrastructure investments and through complementary new business with the introduction of new mining products and through new complementary business development. As a result, Finning has plans to continue to invest in capacity, expanding upgrades and its branch network structure in strong business activity areas in Chile and Argentina.

Finning has experienced strong demand for energy solutions in South America, with a significant increase in Argentina due to an energy crisis which is a consequence of a shortage of oil and natural gas and the lack of investment in energy generation capabilities over the past several years. Energy demand presents a growth opportunity for Caterpillar products in all four South American countries in which

Finning operates. Finning is leveraging its energy related expertise to supply energy solutions to various industries such as petroleum, mining and energy production.

UK and Ireland

In the UK and Ireland, Finning has re-engineered its business plan and identified growth opportunities in the following segments: coal mining, quarrying, waste, recycling, demolition, agriculture, petroleum and the energy sector. While the traditional construction and house building sectors are currently in decline due to challenging economic conditions, a number of these other segments are driven by population and energy demand, thus producing opportunities. Infrastructure spending continues due to government support. The Power Systems division continues to develop its expertise in marine, petroleum and power generation and has been recognized by Caterpillar as a lead dealer for renewable and larger power projects.

Finning's management team for the UK and Ireland has focused resources on opportunities within Construction and Power and Energy Systems. By driving a high performance culture focused on customers, assets and costs, improvements are being made in employee engagement, customer satisfaction and operational performance. These changes better align the UK and Ireland dealership with its partner, Caterpillar and increase Finning's ability to offer tailored solutions to all customers in these territories. Delivery of customer solutions and being number one for service are key strategies to grow the product support business.

3. DESCRIPTION OF FINNING'S BUSINESS

3.1 PRINCIPAL BUSINESS UNITS

Finning has diversified its business through: operating segments in different geographic areas; different lines of business based on the product or service supplied; and, different end use customers or markets. As a result of this diversification, earnings and cash flow are less exposed to fluctuations in business or economic trends that impact a specific geography, customer or market. While revenues reported by each operating segment are mainly derived through business within their designated territories, opportunities exist for international power systems projects, pipeline business and used equipment sales. The table below provides details of revenue by operating segment and lines of business for continuing operations:

For year ended December 31, 2010 ($ millions)	**Canada**	**South America**	**UK & Ireland**	**Consolidated**
Product support	$1,095.9	$805.3	$216.5	**$2,117.7**
New equipment	$829.0	$763.3	$348.3	**$1,940.6**
Equipment rental	$214.7	$56.3	$28.9	**$299.9**
Used equipment	$175.2	$41.6	$55.6	**$272.4**
Other	$8.8	$1.9	-	**$10.7**
Total	**$2,323.6**	**$1,668.4**	**$649.3**	**$4,641.3**
Revenue percentage by operations	**50.1%**	**35.9%**	**14.0%**	**100.0%**

- *Canada:* Revenue from the Canadian segment was $2,323.6 million in 2010 compared with $2,386.6 million in 2009. Finning (Canada) serves customers operating in a number of principal markets including mining, energy, construction, pipeline/oil field development, on-highway trucks, forestry, and government.
- *South America*: Revenue from the South American operating segment was $1,668.4 million (USD$1,622.2 million) in 2010 compared with $1,489.6 million (USD$1,305.2 million) in 2009. Finning South America serves customers operating in a number of principal markets including mining, energy, construction and forestry.
- *UK and Ireland:* Revenue from the UK and Ireland operating segment was $649.3 million (£408.7 million) in 2010 compared with $603.7 million (£339.0 million) in 2009. In this operating segment, Finning serves customers operating in several principal markets which include mining, quarrying, construction, power and energy. Finning also serves other specialized markets such as demolition, waste management, including recycling and paving equipment.

3.2 PRODUCTS & SERVICES

Finning's operations in Canada, South America, and the U.K. and Ireland offer products and services through four principal lines of business: new equipment sales, used equipment sales, equipment rental and product support. The following table summarizes the Company's revenue from continuing operations by principal lines of business:

REVENUE BY PRINCIPAL LINES OF BUSINESS

Revenues:

($ MILLIONS)

	2010		2009		CHANGE
Product support	$ 2,117.7	45.6%	$ 1,883.7	42.0%	$ 234.0
New equipment	1,940.6	41.8%	1,983.8	44.3%	(43.2)
Equipment rental	299.9	6.5%	310.2	6.9%	(10.3)
Used equipment	272.4	5.9%	290.2	6.5%	(17.8)
Other	10.7	0.2%	12.0	0.3%	(1.3)
	$ 4,641.3	100.0%	$ 4,479.9	100.0%	$ 161.4

Below is a brief description of the Company's products and services offered through the principal lines of business:

3.2.1 Product Support

Finning provides replacement parts and repair services for the products it sells. Finning believes that a high level of customer service is essential to its success. A continuing emphasis on product support promotes customized solutions to meet customers' needs. These solutions are often provided under long-term contracts entered into at the time the equipment is sold and, as such, increase the stability and predictability of Finning's future revenues and cash flow. Other customer solutions to maximize operational efficiencies include developing new businesses to facilitate customer needs and changes in technology.

Finning maintains parts inventory throughout its locations in Western Canada, South America, and the U.K and Ireland to provide customers with a convenient access to a supply of parts. All major Finning centres within each geographic area are connected through information systems, which provide immediate information on both Finning and Caterpillar parts inventories.

Over half of Finning's employees and facilities are dedicated to product support. Finning employs approximately 2,100 qualified mechanics, welders, technicians, parts persons and other specialized tradespersons in Canada; approximately 700 in the U.K. and Ireland; and approximately 2,700 in South America.

In addition to the in-shop capability at Finning locations, Finning provides service at customer locations with specialized personnel and equipment. Many of Finning's customer sites are in remote locations at very high altitudes or experience severe climatic conditions. Finning has consistently demonstrated its ability to successfully maintain and service equipment under these conditions, enhancing its reputation as a full service provider to its customers. Finning offers its customers maintenance and repair contracts for preventive maintenance, planned component replacement and guaranteed cost-per-hour contracts.

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

3.2.2 New Equipment

Finning distributes Caterpillar products, including tractors, off-highway trucks, backhoe loaders, excavators, articulated trucks, loaders, log loaders, tree harvesters, skidders, motor graders, paving products, compactors, wheel tractor-scrapers and pipe layers and products complementary to Caterpillar-branded products.

Finning also sells Caterpillar and other Caterpillar-branded engines and power systems for use in electric power generation, oil and gas, marine, on-highway trucking and industrial applications and supplies complete or partial power systems engineering projects to customers.

New equipment revenue is recognized upon the direct sale of equipment to customers or as a result of a customer exercising its purchase option for equipment they have rented. In addition, Finning may, from time to time, sell packages of select rental agreements/assets to third party financial institutions.

3.2.3 Equipment Rental

Finning owns fleets of equipment for short-term rental (mainly through CAT Rental Stores) and medium-term rental to meet customer needs. Finning also offers equipment under a Rental Purchase Option ("RPO"). These are term rental agreements with customers that include an option to purchase the equipment. Rental agreements range from short-term arrangements that provide customers with the flexibility to utilize reliable equipment on a "needs-only" basis, to longer term arrangements that provide customers with the ability to effectively outsource their need to have reliable equipment available at all times.

During peak periods, the rental fleet in the dealership business can be used to satisfy heavy customer demand, particularly during periods of longer lead times for product supply. When commodity markets are weaker, or other recessionary economic conditions exist, customers may use the rental fleets to defer capital expenditures on equipment fleets. Revenues in these rental businesses are driven more by general economic conditions and construction related demand.

Canada: operates three rental fleets. The mid to heavy rental fleet is operated through the dealership network and focuses on mid to large size Caterpillar earth moving equipment, such as track type tractors, articulated trucks, wheel loaders and excavators, primarily for the construction industry. Finning (Canada) is also a dominant player in the power generation rental market and services a wide variety of customers for larger portable power generation. The Cat Rental Stores, through their 33 locations, offer rental products such as light towers, power generation and distribution, air compressors, and smaller Caterpillar earth moving equipment that are complimentary to Finning (Canada) customers.

South America: maintains a rental fleet consisting of large mining vehicles, motor graders, compactors, excavators, backhoe loaders, tractors, compressors, power generators, lift and light towers. The rental business mainly serves customers in the construction and mining industries. Tractors, which are rented by construction companies that are involved in highway construction and pre-mining activities, dominate the fleet. The South American rental operations offer these Caterpillar products through their 14 CAT Rental Stores.

UK and Ireland: maintains fleets of rental equipment for rental contracts which are normally more long-term in nature, and the fleet mainly consists of larger equipment such as articulated and rigid chasis dump trucks. Customers served include waste and recycling, construction, quarry and coal mining companies.

3.2.4 Used Equipment

In addition to sales of new equipment, Finning buys and sells used equipment domestically and internationally. Machines are accepted in trade, received from the rental fleet, and purchased from customers and others on the open market. Most of this equipment is reconditioned or rebuilt in Finning's service shops and resold under a short-term warranty program. Finning also purchases and sells entire fleets of used equipment and sells used equipment on consignment. Used equipment demand will vary depending on general economic conditions, product availability, customer buying preferences, and exchange rate considerations. The used equipment business is generally focused on the products and types of equipment for which Finning is a dealer. Finning has developed expertise in the used equipment market which can contribute to attractive margins on dispositions from its rental fleet.

3.2.5 Other Products & Services

Other products and services revenues include revenues generated by providing financing and operating leases to customers and providing insurance coverage.

Finning maintains a high level of service to its customers by working in conjunction with Caterpillar financing and leasing companies or other external finance companies for their customers' financing needs. Occasionally, Finning will also offer direct financing to customers.

Finning (Canada) operates a licensed insurance agency, with licensed brokers located in Surrey and Williams Lake, British Columbia and Edmonton, Alberta to provide various commercial insurance products to its customers. Types of insurance offered include, but are not limited to, the following: physical damage insurance for equipment, commercial general liability insurance, cargo insurance, auto fleet insurance (Alberta), construction bonding, and marine.

3.3 PRINCIPAL MARKETS

Finning serves customers operating in a diverse range of end markets, including those involved in mining and quarrying, construction (including pipeline and oil field development), power generation, and forestry. Customers include private enterprise and government. Finning has established industry and product specialists for the major markets in the geographic regions in which it operates.

Canada

Finning's Canadian operations span British Columbia, the Yukon Territory, Alberta, the Northwest Territories and a portion of Nunavut. In these regions, Finning (Canada) serves diverse markets, including mining, quarrying, forestry, construction, pipeline/oil and gas field construction, government sector, marine transportation, fisheries, and commercial transport. The most significant markets served by Finning (Canada) are as follows:

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

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

Pipeline/Oil and Gas Field Development: provides products and services including mobile earthmoving equipment for use in exploration and drill site preparation; excavators and pipe layers for use in gathering and delivery systems; diesel and natural gas engines in the operation of drill rigs, pumps and compressors; and electric sets for camp power generation. In addition to its Western Canadian market exposure, Finning (Canada) has access to supply both purpose built pipeline and traditional Caterpillar products to the global pipeline construction market through its 25% investment in PLM.

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

Electric Power: provides products and systems for use in electric power generation, marine and industrial applications. Primary markets are oil & gas and electric power generation. Good growth opportunities also exist with projects related to electrical prime power generation in remote locations, local specialized electric power projects, and electrical power rentals.

South America

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

Mining: provides products and services mainly to copper and gold mines. These mine sites require fleets of off-highway trucks, loaders, tractors and other support equipment and often include long-term agreements for maintenance of the equipment. High hour-usage of equipment in demanding applications creates substantial demand for parts and repair services from this market sector.

Construction: provides products and services to the construction industry involving road construction and maintenance projects, and other mine site preparation and infrastructure projects as well as residential and commercial construction.

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

Electric Power: provides products and systems for use in electric power generation, oil and gas, and marine power. Growth in electric power generation was delivered through sales of engines, generator sets and custom engineered power solutions for primary, stand-by or turnkey applications for customers engaged in various dry-land markets, including mining, oil and gas, telecommunications, utilities and general construction. Finning also provides marine propulsion systems to the fishing industry and the Chilean Navy.

UK and Ireland

Finning's operations in the U.K. and Ireland also serve diverse markets, with the principal contributors to revenue being the mining and quarrying, power and energy and construction sectors.

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

Power and Energy: provides products and systems for use in electric power generation, marine power, industrial applications and oil and gas. Electric power generation orders continued to be strong in such markets as landfill-gas-to-energy and stand-by power for commercial applications such as hospitals and data centres. Additional markets served in the U.K. are pleasure craft and commercial marine which purchase engines for vessels manufactured in the U.K. and sold around the world, as well as certain industrial sectors (such as rock crushing), offshore oil platforms and the shipping industry.

Construction: provides products and services for use in highway construction and maintenance, residential and industrial development, waste and recycling landfill sites, recycling centres and transfer stations, and the installation of sewer, water and other utility services. Backhoe loaders, hydraulic excavators and articulated dump trucks are the most common types of Caterpillar machines for these applications.

3.4 DISTRIBUTION METHODS

Finning's operates through an extensive network of branch locations, local field representatives and at customer mine sites. Finning's operations are represented across their dealer territories by approximately 181 locations, of which approximately 18% are owned, with the balance held under lease.

Finning's operations place a strong focus on providing customer support solutions to end-users. An efficient parts distribution network assists in achieving this objective. The distribution network operated by each operating segment can be summarized as follows:

Canada: Parts distribution for Finning (Canada) is facilitated by Tracker Logistics, an unrelated company and wholly owned subsidiary of Excel Logistics Inc. Under an arrangement with an independent contractor, a fleet of dedicated trucks and trailers makes daily deliveries of new and remanufactured parts, components, attachments and small equipment to major locations in Finning (Canada). The routes run from the Tracker Logistics warehouse in Nisku, Alberta; from Caterpillar's parts warehouses in the United States in Denver, Colorado and Western Washington; and from various branch locations to other branches throughout the territory.

The performance of Tracker Logistics as a service provider to Finning (Canada) has shown continuous improvement with each year of operation. Key benchmarks, such as order accuracy and bay status accuracy used by Finning (Canada) to assess the Tracker Logistics operation have been exceeded and have allowed Finning (Canada) to improve overall service to its customers and branches.

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

UK & Ireland: Parts are sourced from the Caterpillar parts distribution centre in Grimbergen, Belgium. These parts are then redistributed to UK and Ireland branches either directly by trucks enroute from Grimbergen, or by Finning's interbranch transport network and an independent contractor.

3.5 EMPLOYEE DEVELOPMENT

Finning's ability to succeed over time depends on the strength of its employees. As such, enabling a high-performance workplace where every employee can perform to his or her full potential is imperative.

Continuing through 2010, Finning focused on providing training to further build a high-performance culture in key areas of the business starting initially with the Finning leadership teams in each region. This ongoing investment will further engage and align its workforce to achieve its strategies and operational goals.

Finning employs highly qualified and professional individuals and encourages training and career development for all of its employees. Over half of Finning's total employees are skilled mechanics, technicians, parts persons and apprentices. To enhance skill levels and expertise, Finning offers the following:

- All of the Finning's operations, in partnership with Caterpillar, support Caterpillar's ThinkBIG equipment technician program. In this program, Finning and Caterpillar combine to provide tools, instructors and machinery, as well as job opportunities to graduates. Finning UK and Ireland is a leader in technician development in its sector and is the first European dealer to deploy Caterpillar's ThinkBIG in-house apprentice development program. Finning South America has been recognized both by local authorities and local industry as a leader in best practices with regard to technician development.
- Formalized sales and operations intern programs provide learning and development opportunities in the sales and operations areas of Finning (Canada). South America has launched an innovative program called "Finning University" which defines career progression opportunities in service, sales, parts & logistics among others. Finning UK and Ireland remains committed to the development and external accreditation of the sales force and technicians through the adoption of the CAT Sales Effectiveness program, and the CAT Accredited Technician Career Development program deployed in 2008.
- Structured programs for management are currently in place with a focus on leadership development. Management development programs are offered to supervisors, new management and existing management of all levels in order to ensure that Finning managers are skilled professionals able to meet current and future business needs. To assist those employees promoted to more senior leadership roles, Finning provides the appropriate tools, training and coaching. At least annually, the Company reviews succession plans for key management positions and identifies what programs and plans need to be in place in order for the identified successors to be prepared to take on their new roles.
- Each year, each Finning business identifies priorities to advance its long-term strategy and focus its efforts during the year. Employees work with their managers to identify individual performance objectives that are linked to their department's goals and to the overall Company objectives. Throughout the year, employees stay on track with their objectives through one-on-one and team meetings. Prior to year-end, employees meet with their manager to review their performance during the year and to identify strengths and any areas for development for the following year. During the

annual review, the employee also has the opportunity to discuss how these objectives align with the employee's career aspirations.

Finning believes that highly engaged employees play an integral part in helping the Company to achieve its strategic goals. Regular Employee Opinion Surveys ("EOS") are one way that Finning measures the level of employee engagement. Despite the impact of the economic downturn and the many cost reduction initiatives taken across Finning in the last two years, employee engagement in Finning is strong. In the 2010 EOS, 86% of our employees participated and employee engagement was rated at 85% on a consolidated basis, a strong indicator of the commitment and dedication of Finning's employees. Based on an analysis of the EOS results, action planning teams are tasked with developing and implementing plans that will maintain team strengths and focus on those areas where there are opportunities for improvement.

3.6 EMPLOYEE RELATIONS

Finning had 11,921 employees at the end of 2010. The comparable 2009 numbers have been restated to exclude those employees of Hewden which was sold in May 2010.

Continuing operations:	Canada	UK and Ireland	South America	Total
2010	4,481	1,533	5,907	11,921
2009	4,214	1,472	4,954	10,640
Change	267	61	953	1,281

Approximately 66% of Finning's employees are represented by unions and are covered by collective agreements.

Canada: At Finning (Canada), hourly paid parts and service employees are represented by the International Association of Machinists and Aerospace Workers ("IAM"). Finning's collective bargaining agreement with Local 99, representing Alberta and Northwest Territories expires in April, 2012. Finning's collective bargaining agreement with Local 692, representing British Columbia and Yukon Territory employees expires in April, 2011. Finning is committed to the collective bargaining process and to concluding a fair contract in 2011.

OEM employees are represented by the Transport Warehousemen and Allied Trades (CLAC Local 56), which is affiliated with the Christian Labour Association of Canada ("CLAC"). The current collective agreement for OEM employees will expire on December 31, 2011.

Finning International, Finning (Canada), and OEM have been involved in legal proceedings for the past five years with the Alberta division of the IAM Local Lodge 99 ("IAM 99") relating to Finning (Canada)'s outsourcing of component repair and rebuilding services to OEM in 2005. On October 17, 2007, the Alberta Court of Appeal overturned previous decisions in favour of Finning and OEM made by the Court of Queen's Bench and by a Reconsideration Panel of the Alberta Labour Relations Board (ALRB), and reinstated a finding of the original ALRB panel. The original ALRB panel had found that OEM was a successor employer to Finning (Canada) in respect of the component repair and rebuilding activities being carried out by OEM as a service provider to Finning (Canada). The result of the Court of Appeal finding was that IAM 99 may have the right to assert that it is the authorized bargaining agent for some or all of the non-management employees of OEM. These OEM employees are currently represented by another union, the Christian Labour Association of Canada. The ALRB Hearing that concluded in May 2009 dealt with the main issue of union representation of OEM. A final decision from the ALRB was received on January 11, 2011. The decision recognized the existing collective agreement with the CLAC and found that it should continue to apply to the OEM bargaining unit to the end of the current contract in December 2011. A vote has been ordered to be held by the OEM employees (some former Finning (Canada) Component Rebuild Centre employees will also be eligible to vote) within 90 days to determine whether CLAC or IAM – Local Lodge 99 will represent them. Finning and OEM are considering the findings and orders of the Board and are assessing next steps. Regardless of the outcome of the vote, OEM is committed to the collective bargaining process and to concluding a fair contract for its employees and for OEM.

South America: In Chile, Finning's unionized employees are represented by eight unions (sindicatos). Three of these unions represent approximately 85% of the Chilean employees. The current collective agreements for these unions were renewed in 2008 with a four year term and included enhanced wage settlements.

A national union represents Finning mechanics in Argentina pursuant to a country wide agreement. This national agreement was signed in 1975 with no end date. A good working relationship with this union is maintained with both Finning Argentina S.A. and Finning Soluciones Mineras S.A. In 2010, wage increases of 25% were awarded to all employees in Argentina, reflecting high inflation rates there, and 7% in Uruguay in accordance with national agreements. Finning also awarded employees in Bolivia a 7% increase to match inflation.

Finning's Bolivia union represent approximately 50% of the Bolivian employees. The current collective agreement was signed in 2007 and expires in December 2011. Uruguayan employees are not affiliated with any union.

UK and Ireland: At Finning (UK) Ltd., there have been no serious labour disruptions since the business was acquired in 1983. Finning (UK) Ltd. recognizes the Unite trade union for collective bargaining purposes for its service and staff employees. The Collective Agreement expired on January 1, 2011 and was renegotiated with the Unite trade union for a two year period, expiring December 31, 2012.

In Ireland, in addition to Unite, employees are also recognized by the Services, Industrial, Professional and Technical (SIPTU) trade union.

3.7 COMPETITIVE CONDITIONS

Finning is part of Caterpillar's global dealer network. As a dealer, Finning is the supplier of new Caterpillar equipment and parts in the territories in which it represents Caterpillar.

Finning primarily competes with a large number of worldwide equipment vendors who sell equipment manufactured by companies other than Caterpillar. The competitive environment for

Caterpillar's machinery and engine business consists of global, regional and specialized local competition. Historically, superior product quality, wide scale service capability, remanufactured components and customization, distribution capabilities, the number of locations, proximity of locations to customers, financial services and the wide product range offered by Caterpillar have enhanced Finning's ability to compete throughout its territories.

Caterpillar manufactures a broad range of products. In addition, Caterpillar has expanded its product line through the strategic acquisitions of companies supplying complementary product lines which enhance the vertical integration of a complete product offering and through the distribution of products manufactured by other companies and distributed under the Caterpillar brand name. Caterpillar's competitors generally provide a more limited range of products, and in many cases these are specific to particular industries and to applications within particular industries. Most of Finning's competitors specialize in more limited and specific lines of equipment and services. Consequently, Finning's share of industry-wide sales varies significantly across product lines and industries.

In general, due to its strong product support capability, Finning is able to compete very successfully when customers are driven to achieve the lowest total cost of ownership over the life of their equipment.

3.8 DEALERSHIP AND DISTRIBUTOR AGREEMENTS

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

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

Over 90% of Finning's business involves Caterpillar products. As such, Finning's business is dependent on the market acceptance of Caterpillar products. From time to time, during periods of intense demand, Caterpillar finds it necessary to allocate its supply of particular products among its dealers. Such allocations of supply have not in the past proven to be a significant impediment to Finning in conducting its business. In periods of lower demand, Caterpillar may reduce its production capacity which may also result in longer lead times for delivery of product. By working closely with Caterpillar, Finning has been able to mitigate any significant impact to its business thus far.

In addition to the Caterpillar dealer relationships noted above Finning has developed dealer relationships for other complementary product lines in order to create new marketing opportunities and to expand its product support. In Canada, relationships exist with Waratah, Risley, and Allied Systems in

Forestry; and others such as Kress. In South America, dealer relationships exist with Genie Industries, Reedrill, IMT, Link Belt, O&K and Waratah.

3.9 BUSINESS CYCLES

Many of Finning's customers operate in industries that are cyclical in nature. As a result, customer demand for its products and services may be affected by economic conditions on both a global or local level. Changes in interest rates, inflation, economic growth, levels of taxation, foreign exchange, commodity prices, and the level of government infrastructure spending may influence capital expenditure decisions, and ultimately Finning's sales. Through diversification by geography and by the services offered, Finning mitigates some of this cyclical impact.

3.10 BUSINESS PROCESSES & SYSTEMS

Finning currently utilizes information systems supplied by Caterpillar. Caterpillar provides its dealers with software to manage parts, service and product support, finance, sales and merchandising, and marketing. The Caterpillar core dealer based system (DBS) was further enhanced with a commercial software solution, and was labelled "DBSi". DBS and DBSi are used by a majority of Caterpillar's dealers throughout the world, along with a variety of other personal computer-based Caterpillar software applications that expand and support DBS and DBSi.

Finning's operations in Canada, Chile, Uruguay, and Bolivia continue to run the previous DBS version of Caterpillar software, while DBSi is being used in the operations in the U.K. (since 2004) and Argentina (since 2003). Finning's DBS and DBSi information systems are now supported by a new hosting and support provider, following Caterpillar's move out of the dealer management software business and the application hosting business for dealers. The current products will be supported through 2012 at a minimum.

Finning initiated a project to evaluate alternative commercial offerings that will support the Company's strategic goals of "best in class" customer solutions. This project ran through 2007 and resulted in the selection of the Lawson Equipment Service Management and Rental ("ESM&R") solution in late 2007. A project was approved and initiated to implement the Lawson solution in all Finning operations, commencing in early 2008 with the design of a template and more common business processes for use by all Finning operations. Hosting, application management and product support for the new applications will be provided by a common shared services centre for all Finning operations globally.

Additional time and resources have been necessary to re-engineer existing business processes to facilitate a more standard practice and minimize the amount of software enhancements. In line with the Strategic Plan, the implementation of the new software platform will integrate several data sources and processes into a unified system and will provide data that is more reliable, accessible and easily shareable between departments and across country operations. The potentially higher costs of ownership of the new IT system are being managed through the use of shared technology across all Finning operations, and the shared services centre for hosting services. System development is now complete and full-scale testing of the system is underway. Depending on the results of this testing and any remediation, if required, the new system is expected to go live in 2011 shortly after this stage of the project is completed. Subsequent implementations will commence for the U.K. operations, to be followed with implementation in South America.

3.11 FOREIGN OPERATIONS

In 2010, Finning generated approximately 50% (2009: 53%) of revenue from operations in Canada; 36% (2009: 33%) from South America; and 14% (2009: 14%) from continuing operations in the UK and Ireland. Revenue from operations outside of Canada contributed 50% of consolidated revenue compared to 47% in 2009.

3.12 ETHICS

The Company's Code of Conduct (the "Code") forms the cornerstone of how Finning conducts business and how its employees' actions contribute to Finning's collective goals. The Code sets out the Company's expectations for the ethical behaviour of all its directors, officers and employees. The Code is reviewed annually by the Company's senior management and Board of Directors and all directors, officers and key employees are required to acknowledge their compliance with the Code. The Code encompasses member ambassadorship and accountability, privacy, ethical conduct, confidentiality, environment, health and safety, financial accuracy and accountability including fair and full disclosure of the Company's financial results, and how to deal with breaches to the Code. The Company also has a Whistleblower Policy in place to enable any issues which may arise to be resolved within the Company, rather than outside it, without fear of retaliation. Under the Whistleblower Policy, an employee may contact the Human Resources Department, other members of management, or the Finning Compliance Office directly by phone or e-mail. A confidential compliance Ethics Hotline or Website can be also utilized by employees to report any suspected breach of the Code of Conduct. For more information on Finning's values, Code of Conduct and corporate social responsibility, please refer to the Company's website, www.finning.com.

3.13 ENVIRONMENT, HEALTH AND SAFETY

Finning aims to eliminate all job related injuries and illnesses and minimize the impact of its activities on the environment. The Company's commitment to the environment, health and safety is underpinned by its Code, which guides the actions of all employees. The Code emphasizes collective accountability for upholding Finning's values and standards.

In each of its regions, Finning employs teams of Environment, Health and Safety ("EH & S") professionals led by a senior manager. The teams work closely with the operations to continuously improve performance and develop and implement policies and procedures. The senior EH & S managers work across the regions to share best practices. On a quarterly basis, country presidents report to the EH & S Committee of the Board of Directors on the environment, health and safety performance of their operations.

Above all, Finning is committed to continuously improving its safety performance. By continuing to promote a safe working environment, we aim to reduce the frequency of injuries and the occurrence of all serious incidents. In 2010, Finning's safety record, as measured by Lost Time Injury (LTI) Frequency Rate, was reduced to .16, a record low for Finning with new records for safety performance achieved in Canadian and South American operations. This consolidated result is a 33% improvement over 2009, and places the Company in a leadership position in its industry. This achievement demonstrates the strong commitment of all employees to follow safe work practices.

	2008	2009	2010
LTI Frequency*	0.38	0.24	0.16

* lost time injuries per 200,000 man-hours of work

Notable achievements in 2010 resulting from Finning's high standards in environment, health and safety are detailed below.

Canada: Every three years a full external audit of the Finning (Canada) safety program is performed in order to ensure compliance and maintain in good standing the Certificate of Recognition. This Certificate recognizes adherence to a high standard developed by WorkSafe BC, which Finning has implemented through its Canadian branch network. In 2010, a maintenance audit was successfully conducted in order to ensure safety consistency and compliance. A number of Canada-wide initiatives improved 2010 safety performance and the audit confirmed improvements in safe work procedures, safety communication, and incident investigation. In 2010 Finning (Canada) was ranked #1 for safety among Caterpillar dealerships in North America. Finning (Canada) was also awarded the Caterpillar Dealer Marketing Award for best internal safety communication plan in 2010.

South America: The Environmental, Health and Safety Management System in Finning South America complies with the International Environment Management Standard (ISO 14001) and International Occupational Health and Safety Management Standard (OHSAS 18001) guidelines. The system includes all activities carried out in all operating and administrative areas of Finning South America, including work undertaken by contractors, external service providers and trainees. In November 2010, Finning Chile was awarded the Supplier Award in the Safety category by Anglo American at the closing event of the Supplier Conference in London for being the role model of all Anglo American values. The prestigious award recognized Finning's improvements, embedding improvements into business practices, incorporating people and family beyond work and the outstanding safety performance.

UK & Ireland: In the U.K., Finning is certified in International Environment Management Standard (ISO14001), International Occupational Health and Safety Management Standard (OHSAS 18001), and International Quality Management Standard (ISO9001). Guided by these standards, the Company sets clear EH&S objectives which are cascaded throughout the business to achieve performance improvements. In 2010, Finning (UK) achieved certification by Achilles for the global Oil and Gas Industry and Building Confidence Certification for the Construction industry. Importantly, the Company's industry leading EH&S performance was recognized in 2010 with the Engineering Services Sector award by the Royal Society for the Prevention of Accidents.

Implementing practices that eliminate or minimize Finning's impact on the environment is a high priority. Focus in this area is viewed as a shared responsibility between each and every Finning employee and an important part of Finning's corporate culture.

Finning has programs in place throughout its operations to monitor and meet or exceed environmental protection regulations. Through an environmental audit program, Finning monitors compliance. Key employees are educated on changes to relevant environmental laws and regulations. Finning management is not aware of any environmental protection requirements that are likely to have a material adverse effect on the capital expenditures, earnings or competitive position of the Company.

Through investment in component remanufacturing facilities which rebuild equipment components such as engines and transmissions, Finning reduces waste, saves energy, and decreases the consumption of raw materials required to produce new components.

Finning works closely with Caterpillar and its customers to develop products that are more fuel efficient and produce lower emissions. In addition, as a leading supplier of renewable energy solutions, Finning aims to reduce its impact on land, water and climate. Over the past decade, Finning has developed extensive expertise in supplying and servicing power generation systems which produce electricity using bio-gas containing methane from landfills, sewage treatment plants, and coal mines. Harnessing methane, which would otherwise be released as a greenhouse gas, to generate electricity is one example of Finning's commitment to sustainable development and environmental stewardship.

4. KEY BUSINESS RISKS

4.1 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 in order to achieve the Company's 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 financial and business risks 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. Also on a quarterly basis, the Audit Committee reviews the Company's process with respect to risk assessment and management of key risks, including the Company's major financial risks and exposures and the steps taken to monitor and control such exposures. Changes to the key risks are also reviewed by the Audit Committee.

4.2 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 CEO and the CFO, together with other members of management, have designed the Company's disclosure controls and procedures in order to provide reasonable assurance that material information relating to the Company and its consolidated subsidiaries would have been known to them, and by others, within those entities.

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 Finning's approach to the determination, preparation, and dissemination of material information. The policy also defines restrictions on insider trading and the handling of confidential information.
- A Disclosure Committee, consisting of senior management and external legal counsel, 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.

Internal Control over Financial Reporting

Management is responsible for establishing and maintaining adequate internal control over financial reporting. Management has designed internal control over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements in accordance with Canadian generally accepted accounting principles (GAAP). There has been no change in the design of the Company's internal control over financial reporting during the year ended December 31, 2010, that would materially affect, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

Regular involvement of the Company's internal audit function and quarterly reporting to the Audit Committee and the Company's external auditors assist in providing reasonable assurance that the objectives of the control system are met. While the officers of the Company have designed the Company's disclosure controls and procedures and internal control over financial reporting, they expect that these controls and procedures may not prevent all errors and fraud. A control system, no matter how well conceived or operated, can only provide reasonable, not absolute, assurance that the objectives of the control system are met.

Evaluation of Effectiveness

As required by National Instrument 52-109, *Certification of Disclosure in Issuers' Annual and Interim Filings* (NI 52-109) issued by the Canadian Securities regulatory authorities, an evaluation of the design and testing of the effectiveness of the operation of the Company's disclosure controls and procedures and internal control over financial reporting were conducted as of December 31, 2010, by and under the supervision of management, including the CEO and CFO. In making the assessment of the effectiveness of the Company's disclosure controls and procedures and internal control over financial reporting, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in *Internal Control – Integrated Framework.* The evaluation included documentation review, enquiries, testing, 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 and procedures and internal control over financial reporting were effective as of December 31, 2010.

4.3 FINANCIAL DERIVATIVES

The Company uses, or may use, various financial instruments such as forward and swap foreign exchange contracts, interest rate swaps, and equity hedges, as well as non-derivative foreign currency debt to manage its foreign exchange exposures, interest rate exposures, and stock-based compensation expense exposures (see Note 4 of the Notes to the Company's Consolidated Financial Statements for the year ended December 31, 2010). The Company uses derivative financial instruments only in connection with managing related risk positions and does not use them for trading or speculative purposes.

The Company continually evaluates and manages risks associated with financial derivatives, which includes counterparty credit exposure.

4.4 FINANCIAL RISKS AND UNCERTAINTIES

4.4.1 Liquidity Risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company's approach to managing liquidity is to ensure, as far as possible, that it will have sufficient liquid financial resources to fund its operations and meet its commitments and obligations. The Company maintains bilateral and syndicated bank credit facilities, a commercial paper program, continuously monitors actual and forecast cash flows, and manages maturity profiles of financial liabilities. Undrawn credit facilities for continuing operations at December 31, 2010 were $1,039 million (2009: $987 million), of which approximately $815 million (2009: $725 million) is committed credit facility capacity. The Company believes that it has reasonable access to capital markets which is supported by its investment grade credit ratings.

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 operations is not sufficient to fund future capital and debt repayment 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 the level of debt financing may be limited by its financial covenants or its credit rating objectives. Although the Company does not anticipate any difficulties in raising necessary 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.

4.4.2 Market Risk

Market risk is the risk that changes in the market, such as foreign exchange rates and interest rates, will affect the Company's income or the fair value of its financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters.

The Company buys and sells derivatives in the ordinary course of business, and also incurs financial liabilities, in order to manage market risks. All such transactions are carried out within the guidelines set by the Company's Global Foreign Exchange Risk Management Policy approved by the Audit Committee.

Foreign Exchange Risk

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 (USD), the Canadian dollar (CAD), the U.K. pound sterling (GBP), and the Chilean peso (CLP). As a result, the Company has foreign currency exposure with respect to items denominated in foreign currencies. The main types of foreign exchange risk of the Company can be categorized as follows:

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, which is the Company's reporting currency. All of the Company's foreign subsidiaries are considered self-sustaining and 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 South American and UK operations in Canadian dollar terms. In addition, the results of the Company's Canadian operations are impacted by the translation of its U.S. dollar based earnings. The Company does not hedge its exposure to foreign exchange risk with regard to foreign currency earnings.

The Company's UK and South American operations have functional currencies other than the Canadian dollar, and as a result foreign currency gains and losses arise in the cumulative translation adjustment account from the translation of the Company's net investment in these operations. To the extent practical, it is the Company's objective to manage this exposure. The Company has hedged a portion of its foreign investments through foreign currency denominated loans and, periodically, through other derivative contracts. For those derivatives and loans where hedge accounting has been elected, any exchange gains or losses arising from the translation of the hedging instruments are recorded, net of tax, as an item of other comprehensive income and accumulated other comprehensive income. Cumulative currency translation adjustments, net of gains or losses of the associated hedging instruments, are recognized in net income when there is a reduction in the Company's net investment in the self-sustaining foreign operation.

Transaction Exposure

Many of the Company's operations purchase, sell, rent, and lease products as well as incur costs in currencies other than their functional currency. This mismatch of currencies creates transactional exposure at the operational level, which may affect the Company's profitability as exchange rates fluctuate. The Company's competitive position may also be impacted as relative currency movements affect the business practices and/or pricing strategies of the Company's competitors. The Company is also exposed to currency risks related to the future cash flows on its non-Canadian denominated short and long-term debt.

To the extent practical, it is the Company's objective to manage the impact of exchange rate movements and volatility on its financial results. Each operation manages the majority of its transactional exposure through sales pricing policies and practices. The Company also enters into forward exchange contracts to manage residual mismatches in foreign currency cash flows.

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. A 5% strengthening of the Canadian dollar against the following currencies for a full year relative to the December 31, 2010 month end rates would increase / (decrease) net income by the amounts shown below. A 5% strengthening of the Canadian dollar against the following currencies from the December 31, 2010 month end rates would increase / (decrease) other comprehensive income by the amounts shown below. This analysis assumes that all other variables, in particular volumes, relative pricing, interest rates, and hedging activities are unchanged.

($ thousands)	**December 31, 2010 month end rates**	**Net Income**	**Other Comprehensive Income**
USD	**0.9946**	**(23,700)**	**(40,400)**
GBP	**1.5513**	**(600)**	**(11,100)**
CLP	**0.0021**	**2,200**	**-**

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.

Interest Rate Risk

Changes in market interest rates will cause fluctuations in the fair value or future cash flows of financial instruments.

The Company is exposed to changes in interest rates on its interest bearing financial assets including cash and cash equivalents and instalment and other notes receivable. The short-term nature of investments included in cash and cash equivalents limits the impact to fluctuations in fair value, but interest income earned will be impacted. Instalment and other notes receivable bear interest at a fixed rate thus their fair value will fluctuate prior to maturity but, absent monetization, future cash flows do not change.

The Company is exposed to changes in interest rates on its interest bearing financial liabilities including short and long-term debt and variable rate share forward (VRSF). The Company's debt portfolio comprises both fixed and floating rate debt instruments, with terms to maturity ranging up to fifteen years. Floating rate debt, due to its short-term nature, exposes the Company to limited fluctuations in changes to fair value, but finance expense and cash flows will increase or decrease as interest rates change. The fair value of the Company's fixed rate debt obligations fluctuate with changes in interest rates, but absent early settlement, related cash flows do not change. The Company does not measure any fixed rate long-term debt at fair value. The Company is exposed to future interest rates upon refinancing of any debt prior to or at maturity. The Company pays floating interest rates on its VRSF. Both fair value and future cash flows are impacted by changes in interest rates. The Company manages 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 may utilize derivative instruments such as interest rate swaps to adjust the balance of fixed and floating rate debt.

Commodity Prices

The Company's revenues can be indirectly affected by fluctuations in commodity prices; in particular, changes in expectations of longer-term prices. In Canada, commodity price movements in the metals, coal, petroleum and forestry sectors can have an impact on customers' demands for equipment and product support. In Chile and Argentina, fluctuations in the price of copper and gold can have similar effects, as customers base their capital expenditure decisions on the long-term price outlook for these commodities. In the U.K., changes to prices for thermal coal may impact equipment demand in that sector. Significant fluctuations in commodity prices could result in a material impact on the Company's financial results. With significantly lower commodity prices, demand is reduced as development of new projects is slowed or stopped and production from existing projects can be curtailed, both leading to less demand for equipment. In addition, product support growth has been, and is expected to continue to be, important in mitigating the effects of downturns in the business cycle. Alternatively, if commodity prices rapidly increase, customer demand for Finning's products and services could increase and apply pressure on the Company's ability to supply the products or skilled technicians on a timely and cost efficient basis. To assist in mitigating the impacts of fluctuations in demand for its products, Finning management works closely with Caterpillar to ensure an adequate and timely supply of product or offers customers alternative solutions and has implemented human resources recruiting strategies to ensure adequate staffing levels are achieved.

4.4.3 Credit Risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally in respect of the Company's cash and cash equivalents, receivables from customers, instalment notes receivable, and derivative assets. Credit risk associated with cash and cash equivalents is managed by ensuring that these financial assets are held with major financial institutions with strong investment grade ratings and by maintaining limits on exposures with any single institution. An ongoing review is performed to evaluate the changes in the credit rating of counterparties. The Company has a large diversified customer base, and is not dependent on any single customer or group of customers. Credit risk is minimized because of the diversification of the Company's operations as well as its large customer base and its geographical dispersion. 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 derivative instruments relating to counterparties defaulting 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 monitoring, and by dealing only with major financial institutions that have a credit rating of at least A from Standard and Poor's.

4.4.4 Stock-Based Compensation Risk

Stock-based compensation is an integral part of the Company's compensation program, and can be in the form of the Company's common shares or cash payments that reflect the value of the shares. Since Canadian GAAP require certain stock-based compensation plans accounted for as liability-based awards to be recorded at intrinsic value, compensation expense can vary as the price of the Company's common shares changes. The Company has entered into a derivative contract to partly offset this exposure, called a Variable Rate Share Forward.

A 5% strengthening in the Company's share price as at December 31, 2010, all other variables remaining constant, would have increased net income by approximately $1.4 million as a result of revaluing the Company's VRSF, with a 5% weakening having the opposite effect. This impact partially mitigates changes in the stock based compensation expense; as the Company's share price changes, the intrinsic value impact related to the stock-based compensation liability is partially offset by the fair value impact related to the VRSF.

4.5 OTHER KEY BUSINESS RISKS

4.5.1 Competition

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

4.5.2 Reliance on Key Supplier

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

The Company is also dependent on Caterpillar for the timely supply of parts and equipment to fulfill its deliveries to customers and meet the requirements of the Company's service maintenance contracts. From time to time, during periods of intense demand, Caterpillar finds it necessary to allocate its supply of particular products among its dealers. Such allocations of supply have not, in the past, proven to be a significant impediment to the Company in the conduct of its business. However, there can be no assurance that Caterpillar will continue to supply its products in the quantities and timeframes required by the Company's customers. When supply constraints have occurred in the past, the Company has been successful in utilizing its rental assets and used equipment to meet demand. Finally, the Company's product supply could also be disrupted by potential labour disputes or strike action at Caterpillar. Any prolonged delays in product supply may adversely affect the Company's business, results of operations and financial condition.

The Company has also been reliant on Caterpillar to supply financing to its customers. In periods of global market credit disruption, Caterpillar may tighten sources or terms of financing for Finning's customers. When credit constraints have occurred, the Company and its customers have historically been successful in finding alternate sources of financing or arranged alternate terms of purchase to facilitate delivery of products to customers. However, any prolonged disruption in Caterpillar's or Finning's customers' access to liquidity markets could have a material adverse impact on the Company's business, results of operations and financial condition.

4.5.3 Maintenance and Repair Contracts

The Company enters into long-term maintenance and repair contracts with some of its customers. Under these contracts, the Company agrees to maintain certain fleets of customer equipment at negotiated performance levels. The lengths of these contracts vary, often ranging up to five or more years. The contracts are generally a fixed price over the term, although many contracts have additional provisions for inflationary or currency adjustments.

The Company has developed processes and has controls in place to ensure contracts are bid appropriately but due to the long-term nature of these contracts, there is a risk that significant cost overruns may be incurred. If the Company has miscalculated the extent of maintenance work required, or if actual parts and service costs increase beyond the agreed adjustments, contract profitability may be adversely affected. All maintenance and repair contracts are validated against historic Finning and Caterpillar data based on conservative component change out periods and usually include an escalation clause to cover inflationary increases where appropriate in the contract. The Company closely monitors the contracts for early warning signs of cost overruns. Preventative measures such as scheduled oil sampling helps to identify problems early on and reduces the risk of costly repair work.

The manufacturer may, in certain circumstances, share in the cost overruns if profitability falls below a certain threshold. Any failure by the Company to effectively price and manage these contracts could have a material adverse impact on the Company's business, results of operations and financial condition.

4.5.4 Key Personnel

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

4.5.5 Information Systems and Technology

The integrity, reliability, and availability of technology and the data processed by that technology is an integral part of the Company's business processes, including marketing of equipment and support services, inventory and logistics, and finance. Some of these systems are integrated with Caterpillar's core processes and systems. Historically, Caterpillar has supplied and supported the DBS or DBSi systems used by the Company in all of its operations.

Caterpillar no longer supports the current version of DBSi operating in Finning in the U.K. and Argentina. As the Company's operations in the U.K. and Argentina had not migrated to the Company's new Lawson system prior to the loss of Caterpillar's system support for DBSi, Finning moved to a new hosting and support provider in 2009. With this change, there will be a risk of reliance on a service provider. Any disruptions to these systems or the failure of these systems to operate as expected could, depending on the magnitude of the problem, adversely impact the Company's operating results by limiting the ability to effectively monitor and control the Company's operations. A rigorous management process is being followed to manage these risks.

Finning initiated a project in 2007 to evaluate future Caterpillar systems as well as alternative commercial products which resulted in the selection of the Lawson ESM&R (formerly M3) solution. The implementation of the Lawson solution in all of Finning's operations was initiated in 2008. System development is now complete and full-scale testing of the system is underway. Depending on the results of this testing and any remediation, if required, the new system is expected to go live in 2011 shortly after this stage of the project is completed. Subsequent implementations will commence for the U.K. to be followed with implementation in South America. The implementation of any large IT system involves significant process change and organization change which carries the risk of business disruption, failure to achieve expected business benefits, cost overruns and ineffective design and operation of the Company's internal control over financial reporting. Change management and training have been identified as critical success factors in the successful implementation of the new systems.

4.5.6 Economic Conditions / Business Cyclicality

Many of the Company's customers operate in industries that are cyclical in nature. As a result, customer demand for the Company's products and services may be affected by economic conditions on both a global or local level. Changes in interest rates, inflation, economic growth, levels of taxation, foreign exchange, commodity prices, and the level of government infrastructure spending may influence capital expenditure decisions, and ultimately the Company's sales. The Company has mitigated some of its exposure to variable business cycles by diversifying its business across a broad range of business activities, industry sectors, and geographic locations. A significant amount of the Company's gross margin was generated from parts, service, and rental activities in 2010, which are less sensitive to swings in commodity prices than are equipment sales. In spite of the Company's geographic and business diversification, an economic downturn in one or more markets or regions may adversely impact the Company's operating results, particularly at a regional level. The Company mitigates the economic risks at a regional level through cost initiatives in areas of lowered business volumes and through constant evaluation of efficiencies and process improvements.

4.5.7 Defined Benefit Pension Plans

In addition to having defined contribution plans, the Company has a number of closed defined benefit plans covering certain legacy employee groups in the U.K. and Canada. The Company's South American employees do not participate in a Company pension plan.

The Company is responsible for funding its defined benefit plans to ensure accrued benefit obligations will continue to be met by plan assets in the future. The Company's funding requirements are dependent upon many factors, including the rate of return earned on plan assets, the discount rate used to calculate accrued benefit obligations, and several other actuarial assumptions and experiences. Changes in any of these factors may cause the Company's pension contributions and related pension expense to fluctuate. Management regularly monitors the financial position of these plans, and is addressing the associated risks by taking actions such as diversifying investments, gradually improving the plans' asset-liability matching and moving towards defined contribution arrangements. The predominant pension arrangements in Canada and in the U.K. going forward are defined contribution plans, with all existing defined benefit plans now closed to new members. The non-executive defined benefit provisions have been closed to new members since 2004, and the executive defined benefit provisions were closed to new members effective January 1, 2010. Management believes that the Company has the financial capacity to fully fund its accrued obligations as necessary under the various defined benefit pension plans.

4.5.8 Employee Relations

Many of the Company's employees are represented by unions and are covered by collective bargaining agreements. The Company is party to a number of collective bargaining agreements worldwide, which are subject to expiration at various dates in the future. Although, in 2010, there were no labour disruptions and all negotiations were successfully concluded, there can be no assurance regarding future negotiations.

The Company is currently engaged in labour negotiations in Canada, the U.K. and South America. Finning (Canada)'s collective bargaining agreement with the British Columbia division of the IAM – Local Lodge 692 will expire in April 2011. The Company is committed to the collective bargaining process and to concluding a fair contract for its employees and for Finning. The renegotiation process could result in future work stoppages or higher wages and benefits paid to union members. The failure to renew collective agreements upon satisfactory terms could have a material adverse impact on the Company's business, results of operations, or financial condition.

4.5.9 Caterpillar Dealership Agreements

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

4.5.10 Growth Initiatives / Integration of Acquisitions / Project Execution

As part of its long-term corporate strategy, the Company intends to grow its business through a combination of organic growth and strategic acquisitions as well as focusing on its core business. The Company's ability to successfully grow its business will be dependent on a number of factors including: identification of value creating new business or acquisition opportunities; negotiation of purchase agreements on satisfactory terms and prices; prior approval of certain acquisitions by Caterpillar or other parties, including regulatory authorities; securing attractive financing arrangements; and integration of newly acquired operations into the existing business. The Company believes that an opportunity for growth exists in its Power Systems business. To be successful in this area requires strong project management and engineering skills, systems and control procedures. All of these activities may be more difficult to implement or may take longer to execute than management anticipates. Further, any significant expansion of the business may increase the operating complexity of the Company, and divert management attention away from regular business activities. Any failure of the Company to manage its acquisition strategy successfully could have a material adverse impact on the Company's business, results of operations, and financial condition.

The Company has many initiatives underway, such as improving customer segmentation, facility throughput, and improving its forecasting capability to focus on its parts and service revenue growth strategy for all of its operations. A greater focus will be placed on meeting customer expectations and numerous actions have been taken to continuously sustain or improve employee engagement.

Although the Company makes every effort to integrate new operations, there can be no assurance that the Company will fully realize the anticipated revenues, synergies, or other intended benefits associated with potential acquisitions.

The Company has adopted and implemented a project management process and is expanding its capabilities in this area in order to manage risks associated with the complexity of the numerous cost initiatives and projects underway.

4.5.11 Accounting, Valuation and Reporting

Changes in the rules or standards governing accounting can impact Finning's financial reporting. The Company employs professionally qualified accountants throughout its finance group and all of the operating unit financial officers have a reporting relationship to the Company's CFO. Senior financial representatives are assigned to all significant projects that impact financial accounting and reporting. 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 receipt or disbursement. Accounting, measurement, valuation, and reporting of accounts, which involve estimates and / or valuations, are reviewed quarterly by the CFO and the Audit Committee of the Board of Directors. 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 for the year ended December 31, 2010. Certain 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 there is a likelihood that materially different amounts could be reported under different conditions or using different assumptions. The Company has discussed the development, selection, and application of its key accounting policies, and the critical accounting estimates and assumptions they involve, with the Audit Committee. The more significant estimates include: fair values for goodwill and other asset impairment tests, allowance for doubtful accounts, reserves for warranty, provisions for income tax, the determination of employee future benefits, provisions for inventory obsolescence, the useful lives of the rental fleet and capital assets and related residual values, revenues and costs associated with maintenance and repair contracts, asset retirement obligations, reserves for legal claims, and provisions for restructuring costs.

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 its 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. The Company determined that goodwill was not impaired at December 31, 2010 or 2009. In 2008, the Company determined that the fair value of its investment in Hewden was less than its book value, primarily due to the higher cost of capital assumptions in the valuation methodology, reflecting year-end market conditions. As a result in 2008, the Company recorded a full goodwill impairment charge of $151.4 million. The goodwill impairment charge is non-cash in nature and does not affect the Company's liquidity, cash flows from operating activities, or debt covenants and will not have an impact on future operations.

In 2010 the Company reviewed the valuation of its investments. As a result of this review and the continued weak economic conditions in Europe and poor operating performance from Energyst, combined with a very competitive market environment, the Company recorded a $5 million impairment of its investment.

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 are expected to have a material effect on the Company's consolidated financial position or results of operations.

Convergence with International Financial Reporting Standards

In February 2008, Canada's Accounting Standards Board confirmed that Canadian GAAP, as used by public companies, will be converged with International Financial Reporting Standards (IFRS) effective January 1, 2011. The transition from Canadian GAAP to IFRS will be applicable for the Company for the first quarter of 2011 when the Company will prepare both the current and comparative financial information using IFRS. The Company must also present an opening IFRS statement of financial position as at January 1, 2010, its date of transition to IFRS (Transition Date) which will form part of its interim financial report for the quarter ending March 31, 2011.

The Company's consolidated financial statements for the year ending December 31, 2011 will be its first annual financial statements that comply with IFRS. As this will be the Company's first year of reporting under IFRS, IFRS 1 *First-time Adoption of IFRS* will be applicable.

In accordance with IFRS 1, the Company will apply IFRS retrospectively as of January 1, 2010, for comparative purposes as if IFRS had always been in effect, subject to certain mandatory exceptions and optional exemptions applicable to the Company, discussed below.

Senior management and the Audit Committee have approved the Company's IFRS accounting policies, but IFRS standards are evolving and may be different at the time of transition. The International Accounting Standards Board (IASB) has several projects underway that could affect the differences currently identified between Canadian GAAP and IFRS.

While IFRS uses a conceptual framework similar to Canadian GAAP, there are significant differences on recognition, measurement, and disclosures. The Company commenced its IFRS conversion project in late 2007. The project consists of four phases: raise awareness; assessment; design; and implementation. The Company is currently in the implementation phase. While a number of differences were identified, the areas of highest potential impact to the Company are employee future benefits, income taxes, share-based payment, presentation, and disclosure, as well as the initial selection of applicable transitional exemptions under the provisions of IFRS 1 *First Time Adoption*. The Company has not identified any further areas subject to significant change during subsequent phases of the transition project. The Company's IFRS transition project is on-schedule. For further details of the Company's progress to key milestones in the project, please see the table in the Company's 2010 Annual Management's Discussion and Analysis in the section Convergence with International Financial Reporting Standards.

Management continues to monitor standards to be issued by the IASB, but it remains difficult to predict the IFRS that will be effective at the end of the Company's first IFRS reporting period, as the IASB work plan anticipates the completion of several projects during 2011. Their projects on employee benefits, leases, revenue, financial instruments, and provisions are especially relevant to the Company.

4.5.12 International Operations

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

4.5.13 Future Warranty Claims

The Company provides warranties for most of the equipment, parts and services supplied. In many cases, the warranty claim risk is shared jointly with the equipment manufacturer. Accordingly, the Company's liability is generally limited to the service component of the warranty claim, while the manufacturer is responsible for providing the required parts. There is a risk that product quality erosion or lack of skilled workforce could increase warranty claims in the future, or may be greater than management anticipates. If the Company's liability in respect of such claims is greater than anticipated, it may have a material adverse impact on the Company's business, results of operations, and financial condition. To mitigate this risk, the Company reviews every warranty offering by product at least annually to assess the experience with the product and ensure that the appropriate cost factors to service the product over its warranty period are adequate. Insurance may at times be obtained on equipment to further mitigate any warranty exposure. Additionally, the Company works closely with Caterpillar on all product quality issues and has extensive product improvement, product support and pre-delivery inspection programs in place.

4.5.14 Income Taxes

The Company exercises judgment in estimating the provision for income taxes. Provisions for federal, provincial, and foreign taxes are based on the respective laws and regulations in each jurisdiction within which the Company operates. Income tax laws and regulations can be complex and are potentially subject to different interpretation between the Company and the respective tax authority. Due to the number of variables associated with the differing tax laws and regulations across the multiple jurisdictions, the precision and reliability of the resulting estimates are subject to uncertainties and may change as additional information becomes known.

Future income tax assets and liabilities comprise the tax effect of temporary differences between the carrying amount and tax basis of assets and liabilities as well as the tax effect of undeducted tax losses, and are measured according to the income tax law that is expected to apply when the asset is realized or liability settled. Assumptions underlying the composition of future income tax assets and liabilities include estimates of future results of operations and the timing of reversal of temporary differences as well as the tax rates and laws in each respective jurisdiction at the time of the expected reversal. The composition of future income tax assets and liabilities is reasonably likely to change from period to period due to the uncertainties surrounding these assumptions.

4.5.15 Government Regulation

The Company's business is subject to evolving laws and government regulations, particularly in the areas of environment, health and safety. Changes to such laws and regulations may impose additional costs on the Company and may affect its business in other ways, including the requirement to comply with various operating procedures and guidelines that may impact the Company's operations. The Company has in place, in each of its business units, programs of monitoring and compliance to ensure that it meets or exceeds applicable laws and regulatory requirements. In addition, the Board of Directors of the Company has established and maintains an Environment, Health and Safety Committee. The mandate of this Committee is to encourage, assist and counsel management of the Company in its drive towards attaining and maintaining the highest level of performance in areas relating to the environment, health, and safety. Ensuring a healthy and safe workplace minimizes injuries and other risks employees may face in carrying out their duties, improves productivity and avoids penalties or other liabilities.

4.5.16 Scope of Insurance Coverage

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

4.5.17 Repurchase Guarantees

The Company enters into contracts with rights of return in certain circumstances, for the repurchase of equipment sold to customers, whereby the Company offers to repurchase equipment at a guaranteed price at the end of a specified term. The guaranteed repurchase price is set at an amount which is generally based on a discount from the estimated future fair value of that equipment. The right of return is dependent upon a number of factors, including the condition of the equipment. Historically, the fair market value of the equipment at the exercise date has usually been greater than the guaranteed repurchase price. Although the Company believes it has been very successful in estimating equipment values to date, there can be no assurance that the Company will not incur a loss on such arrangements in the future. To mitigate this risk all guarantees are reviewed on a quarterly basis and where deemed necessary, a provision is made at that time to record a potential loss.

5. SUMMARY OF FINANCIAL INFORMATION

5.1 THREE YEAR SUMMARY

Years Ended December 31

($ millions except per share amounts)

	2010	2009	2008
Revenue from continuing operations			
Canada	$ 2,323.6	$ 2,386.6	$ 3,216.9
South America	1,668.4	1,489.6	1,501.6
UK and Ireland [1] [2]	649.3	603.7	879.8
Total	**$ 4,641.3**	**$ 4,479.9**	**$ 5,598.3**
Earnings before interest and income tax from continuing operations [6]			
Canada	$ 131.5	$ 98.3	$ 234.5
South America	147.5	153.7	148.2
UK and Ireland [1] [2]	16.0	19.6	48.7
Other [4]	(20.0)	(24.7)	(48.0)
Total	**$ 275.0**	**$ 246.9**	**$ 383.4**
Net income (loss)			
from continuing operations	$ 170.7	$ 156.7	$ 236.9
from discontinued operations [2] [5]	(249.1)	(25.9)	(140.9)
Total net income	**$ (78.4)**	**$ 130.8**	**$ 96.0**
Basic earnings (loss) per share			
from continuing operations	$ 1.00	$ 0.92	$ 1.38
from discontinued operations [2] [5]	(1.46)	(0.15)	(0.82)
Total basic earnings (loss) per share	$ (0.46)	$ 0.77	$ 0.56
Diluted earnings (loss) per share			
from continuing operations	$ 0.99	$ 0.92	$ 1.37
from discontinued operations [2] [5]	(1.45)	(0.15)	(0.82)
Total diluted earnings (loss) per share	**$ (0.46)**	**$ 0.77**	**$ 0.55**
Dividends paid per common share	**$ 0.47**	**$ 0.44**	**$ 0.43**
Long-term debt [3] (includes current portion)	**$ 939.1**	**$ 1,015.9**	**$ 1,413.3**
Total assets [1] [2]	**$ 3,613.6**	**$ 3,671.4**	**$ 4,720.4**

(1) In August 2010, the Company was appointed the Caterpillar dealer for Northern Ireland and the Republic of Ireland. The results of operations and financial position of these dealers have been included in the figures above since the date of acquisition.

(2) In May 2010, the Company sold Hewden, its U.K. equipment rental business. Results from Hewden are presented as discontinued operations and have been reclassified to that category for all periods presented. Included in the loss from discontinued operations in 2010 is the after-tax loss on the disposition of Hewden of $244.1 million or $1.43 per share. Revenues from Hewden have been excluded from the revenue figures above. Assets from Hewden have been included in the total assets figures for periods prior to the sale.

(3) In 2010, the Company utilized funds from the sale of Hewden to redeem GBP45 million of its GBP115 million Eurobond Notes.

(4) The Company’s Other segment refers mainly to corporate head office costs and mark-to-market costs associated with the Company’s hedge of stock based compensation and is essentially non revenue generating.

(5) The Company performed its annual goodwill impairment review in the fourth quarter of 2008 and determined that the fair value of Hewden was less than its book value, which included goodwill on acquisition. As a result, the Company recorded a full goodwill impairment charge of $151.4 million for Hewden in the fourth quarter of 2008. The goodwill impairment charge was non-cash in nature and did not affect the Company’s liquidity, cash flows from operating activities, or debt covenants and is not expected to have any adverse impact on future operations. The Company did not expect an income tax deduction from this charge.

(6) Earnings before Interest and Income Taxes (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 as a non-GAAP measure does not have any standardized meaning prescribed by 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. For a reconciliation of non-GAAP measures, please refer to the section description of non-GAAP measures in the annual Management Discussion and Analysis relating to the Company's audited comparative Consolidated Financial Statements.

5.2 Three Year Summary By Quarter

(Unaudited)

($ millions except per share amounts)

Results from Continuing Operations:

Period	Qtr.	Revenue	Net Income	Basic EPS	Diluted EPS
2010	**1**	979.7	23.1	0.14	0.14
	2	1,075.2	36.0	0.21	0.21
	3	1,220.1	61.5	0.36	0.36
	4	1,366.3	50.1	0.29	0.29
	Total	4,641.3	170.7	1.00	0.99
2009	**1**	1,289.4	52.9	0.31	0.31
	2	1,097.4	56.5	0.33	0.33
	3	1,012.3	25.6	0.15	0.15
	4	1,080.8	21.7	0.13	0.13
	Total	4,479.9	156.7	0.92	0.92
2008	**1**	1,334.0	59.8	0.35	0.34
	2	1,428.9	68.6	0.40	0.39
	3	1,357.5	61.7	0.36	0.35
	4	1,477.9	46.8	0.27	0.27
	Total	5,598.3	236.9	1.38	1.37

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 EPS is calculated to reflect the dilutive effect of exercising outstanding stock options by applying the treasury stock method. 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 or year-to-date total.

6. MANAGEMENT'S DISCUSSION AND ANALYSIS

For further financial information please refer to the Management's Discussion and Analysis, relating to the Company's audited comparative Consolidated Financial Statements for the fiscal years ended December 31, 2010 and December 31, 2009 and the report of the auditors thereon. The MD&A is available on the Canadian System for Electronic Document Analysis and Retrieval (SEDAR) at www.sedar.com and can also be found on Finning's website at www.finning.com.

7. DIVIDENDS

The Company has a practice of paying quarterly dividends on its outstanding common shares. The declaration and payment of future dividends is subject to the discretion of its Board of Directors and will be dependent on the Company's results of operations, financial condition, cash requirements, future outlook and other factors deemed relevant by the Board of Directors. Dividends paid on common shares were $80 million or $0.47 per share in 2010, compared with $75 million or $0.44 per share in 2009. In 2010, given the improving outlook for economic recovery, the Company increased its quarterly dividend rate by 9.1% to $0.12 per quarter.

The Company targets a dividend payout ratio between 25% and 30% of its Basic EPS. This ratio is defined as the indicated annual dividend declared per share divided by basic EPS from continuing operations achieved over the previous twelve month period. In 2010 and 2009, the dividend payout ratio exceeded the targeted level; however, management believes that with overall economic and business conditions improving, the payout ratio will be back on target within the next two years. The Company believes that the higher payout was acceptable given the strong cash flow generated in the year, among other considerations.

The Company has declared and paid the following dividends, on the dates and at the rates shown, since February 19, 2008. Except as prescribed by law, Finning is not subject to any restrictions with respect to its ability to declare or pay dividends.

Declaration Date	Date Paid	Rate Per Share
February 19, 2008	March 18, 2008	$0.10
May 6, 2008	June 6, 2008	$0.11
August 12, 2008	September 12, 2008	$0.11
November 13, 2008	December 12, 2008	$0.11
February 18, 2009	March 18, 2009	$0.11
May 14, 2009	June 11, 2009	$0.11
August 12, 2009	September 11, 2009	$0.11
November 10, 2009	December 11, 2009	$0.11
February 23, 2010	March 24, 2010	$0.11
May 13, 2010	June 11, 2010	$0.12
August 11, 2010	September 10, 2010	$0.12
November 10, 2010	December 10, 2010	$0.12
February 16, 2011	March 18, 2011*	$0.12

(*) Dividend Payable

8. DESCRIPTION OF CAPITAL STRUCTURE

The authorized share capital of the Company consists of:

- Unlimited number of preferred shares without par value, of which 4,400,000 are designated as cumulative redeemable preferred shares. As of February 16, 2011, the Company had no preferred shares outstanding.

- Unlimited number of common shares. As of February 16, 2011, the Company had 171,511,069 common shares issued and outstanding.

A shareholders' rights plan is in place which is intended to provide all holders of common shares with the opportunity to receive full and fair value for all of their shares in the event a third party attempts to acquire a significant interest in the Company. The 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. In May 2008, the rights plan was extended for three years such that it will automatically terminate at the end of the Company's Annual Meeting of shareholders in 2011 unless further extended by shareholders prior to that time. The Company will be seeking shareholder approval at its 2011 Annual Meeting to extend the rights plan for three years such that it will automatically terminate at the end of the Company's Annual Meeting in 2014.

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

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

As well, it should be noted that the Company's dealership agreements with Caterpillar companies are fundamental to Finning's business and any change in control of Finning must be approved by Caterpillar Inc. A copy of the plan is available at www.sedar.com.

9. CREDIT RATINGS

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

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

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

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

9.1 LONG-TERM DEBT CREDIT RATINGS

In April 2010, the Company's long-term rating was confirmed at A (low) by DBRS. The A (low) rating for the Company is the lowest grade or standing within the A category of the DBRS rating scale. The A category is the 3rd highest of ten categories within the DBRS rating scale and reflects long-term debt that is of satisfactory credit quality. Protection of interest and principal is still substantial, but is still susceptible to adverse economic conditions and has greater cyclical tendencies than higher-rated securities.

In August 2010, the Company's long-term rating was affirmed at BBB+ by S&P. The BBB+ rating for the Company is the highest grade or standing within the BBB category of the S&P rating scale. The BBB category is the 4th highest of ten categories within the S&P rating scale and reflects long-term debt obligations that exhibit adequate protection parameters. However, adverse economic conditions or changing circumstances are more likely to lead to a weakened capacity of the obligor to meet its financial commitments on the obligation.

9.2 SHORT-TERM DEBT CREDIT RATINGS

In April 2010, DBRS confirmed the R-1 (low) rating for the Company. The R-1 (low) rating is the 3rd highest of ten categories within the DBRS short-term debt rating scale and is considered to be satisfactory credit quality. The overall strength and outlook for key liquidity, debt, and profitability ratios is not normally as favourable as with higher rating categories in the R-1 rating level, but these considerations are still respectable. Any qualifying negative factors that exist are considered manageable, and the entity is normally of sufficient size to have some influence in its industry.

10. MARKETS FOR THE SECURITIES OF THE COMPANY

The common shares of the Company are listed on the Toronto Stock Exchange under the symbol FTT. The following table sets forth the high and low closing prices and the volume of common shares traded on the Toronto Stock Exchange during 2010.

Month	High $	Low $	Volume
January	18.18	16.54	10,559,700
February	18.35	17.46	9,856,600
March	18.40	17.22	9,756,900
April	19.83	18.20	9,235,200
May	19.51	17.41	6,794,700
June	18.36	16.76	7,901,000
July	20.09	17.50	5,538,700
August	22.10	19.76	12,697,600
September	24.25	20.92	13,322,700
October	24.10	23.12	10,236,700
November	26.54	23.72	14,173,400
December	27.40	24.77	12,372,600

10.1 TRANSFER AGENT AND REGISTRAR

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

11. MATERIAL CONTRACTS

The following sets out a list of all of the Corporation's material contracts entered into either: (a) within the last financial year; or (b) before the last financial year but still in effect, other than (in either case) those contracts entered into before January 1, 2002:

- a global credit agreement (the "Credit Agreement"), dated as of December 6, 2005 among the Corporation and certain of its subsidiaries (as borrowers), and a syndicate of financial institutions, as lenders. The Credit Agreement provides an $800 million unsecured revolving credit facility, which matures in December 2011. Borrowings under this facility are available in multiple currencies and at various floating rates of interest. At December 31, 2010, $62.8 million (2009: $142.5 million) was drawn on this facility, including commercial paper issuances.

- an indenture (the "Indenture") dated March 22, 1994 between the Corporation and Computershare Trust Company of Canada (formerly Montreal Trust Company of Canada) ("Computershare") and a second supplemental indenture (the "Second Supplemental Indenture") dated September 23, 1998 between the Corporation and Computershare. The Indenture and the Second Supplemental Indenture relate to the Corporation's Medium Term Notes. The terms of these agreements were fully described in the Corporation's final short form prospectus dated May 5, 2008 and pricing supplements No. 1 and No. 2, dated May 13, 2008.
- an amended and restated rights agreement (the "Rights Agreement") dated as of May 6, 2008 between the Corporation and Computershare. The Rights Agreement is set to automatically expire after a three-year term which ends in May 2011. Shareholders will be requested to approve the extension of the shareholders' right plan for an additional three year period at the Company's annual meeting to be held in May 2011. The Rights Agreement sets out the terms and conditions of the Corporation's shareholder rights plan and is described in more detail in the Corporation's 2008 management proxy circular dated March 28, 2008.

12. DIRECTORS AND OFFICERS

12.1 DIRECTORS AS OF FEBRUARY 16, 2011

The name, municipality of residence and principal occupation during the past five years of each director of the Company are described as follows.

Name and Municipality of Residence	Principal Occupation During the Past Five Years	Year First Became Director [9]
Ricardo Bacarreza [1, 2, 3] Santiago, Chile	President, Proinvest S.A.	1999
James E. C. Carter [2, 4, 5(chair)] Edmonton, AB , Canada	Corporate Director, since 2007; President, Syncrude Canada Ltd., 1997 - 2007	2007
Honourable David L. Emerson P.C. [1, 4(chair), 5] Vancouver, BC , Canada	Corporate Director and Public Policy Advisor; Minister of Foreign Affairs, Government of Canada, 2008; Minister of International Trade with Responsibility for 2010 Winter Olympics and Asia Pacific Gateway Initiative, Government of Canada, 2006 - 2008; Minister of Industry, Government of Canada, 2004 - 2006	2008

Name and Municipality of Residence	**Principal Occupation During the Past Five Years**	**Year First Became Director** [9]
Kathleen M. O'Neill [1 (chair), 2, 4, 5] Toronto, ON, Canada	Corporate Director	2007
Christopher W. Patterson [1, 3] Greensboro, NC, USA	Corporate Director, since 2010; President & Chief Executive Officer, Daimler Trucks North America LLC, 2005 - 2009	2010
John M. Reid [1, 2(chair), 4, 6] Vancouver, BC, Canada	Corporate Director	2006
Andrew H. Simon, OBE [1, 3, 5] Bougy-Villars, Switzerland	Corporate Director	1999
Bruce L. Turner [2, 3(chair), 4] Santiago, Chile	President & Chief Executive Officer, AQM Copper Inc. and President, Turner Minerals S.A., since 2005	2006
Michael T. Waites [3] Vancouver, BC, Canada	President and Chief Executive Officer, Finning International Inc., since 2008; Executive Vice President and Chief Financial Officer, Finning International Inc., 2006 - 2008; Executive Vice President, Chief Financial Officer and Chief Executive Officer, U.S. Network, Canadian Pacific Railway, 2003 - 2006	2008[8]
Douglas W.G. Whitehead [7] North Vancouver, BC, Canada	Corporate Director, since 2008; President and Chief Executive Officer, Finning International Inc., 2000 - 2008	1999

1 Member, Audit Committee
2 Member, Human Resources Committee
3 Member, Environment, Health and Safety Committee
4 Member, Corporate Governance Committee
5 Member, Pension Committee
6 Lead Director
7 Chairman of the Board
8 Mr. Waites first became a director of the Company in 2004. This appointment ceased in 2006 when he was selected as the Executive Vice President and Chief Financial Officer of the Company. He was subsequently reappointed to the Board of Directors for a second term in May 2008, upon appointment as the President and Chief Executive Officer of the Company
9 The Directors of the Company are elected each year at the Annual Meeting of the Company and hold office until the close of the next Annual Meeting or until their successors are elected or appointed.

The Company currently has 5 committees of the Board of Directors: the Audit Committee, the Human Resources Committee, the Environment, Health and Safety Committee, the Corporate Governance Committee, and the Pension Committee. The members of each committee are indicated by footnote in the list of directors above.

The term of office for all current directors will end on the day of the next Annual Meeting of the Company's shareholders.

12.2 OFFICERS AS OF FEBRUARY 16, 2011

Each of the officers are listed in the table below with their principal occupations held for the past five years:

Officer's Name and Municipality of Residence	Principal Occupation During the Past Five Years
Neil Dickinson Staffordshire, UK	Managing Director, Finning (UK), since August 2010; Director, Construction Finning (UK), 2004 – 2010
Andrew S. Fraser North Vancouver, BC, Canada	Executive Vice President, Power Systems & Global Business Development, Finning International Inc., since August 2010; Managing Director, Finning (UK), 2006 - 2010; Group Vice President, Finning (Canada), 2005 – 2006
Anna P. Marks North Vancouver, BC, Canada	Senior Vice President and Corporate Controller, Finning International Inc., since 2008; Vice President and Corporate Controller, Finning International Inc., 2003 – 2008
Thomas M. Merinsky North Vancouver, BC, Canada	Vice President, Treasurer, Finning International Inc., since 2009; Vice President, Investor Relations & Corporate Affairs, Finning International Inc., 2004 - 2009
David E. Parker St. Albert, AB, Canada	President, Finning (Canada), since 2008; Senior Vice President, Finning (Canada), 2006 – 2008; Group Vice President, Finning (Canada), 2005 – 2006
Rebecca Schalm Vancouver, BC, Canada	Senior Vice President, Human Resources, Finning International Inc., since January 2011; Partner, RHR International, 1999 – January 2011
J. Gail Sexsmith Aldergove, BC, Canada	Corporate Secretary, Finning International Inc., since 2009; Director, Corporate Reporting, Finning International Inc., 2003 – 2009
David S. Smith West Vancouver, BC, Canada	Executive Vice President and Chief Financial Officer, Finning International Inc., since 2009; Vice President and Chief Financial Officer, Ballard Power Systems Inc., 2002 – 2009

Officer's Name and Municipality of Residence	Principal Occupation During the Past Five Years
Juan Carlos Villegas Santiago, Chile	President, Finning South America, since August 2006; Vice President, Power Systems, Finning (Canada), June 2005 – July 2006
Michael T. Waites Vancouver, BC, Canada	President and Chief Executive Officer, Finning International Inc., since 2008; Executive Vice President and Chief Financial Officer, Finning International Inc., 2006 – 2008; Executive Vice President, Chief Financial Officer and Chief Executive Officer, U.S. Network, Canadian Pacific Railway, 2003 – 2006
Douglas W.G. Whitehead North Vancouver, BC, Canada	Chairman of the Board, since 2008; President and Chief Executive Officer, Finning International Inc., 2000 – 2008

12.3 SHAREHOLDINGS OF DIRECTORS AND OFFICERS

As of February 16, 2011, the directors and the officers of the Company as a group beneficially own, directly or indirectly, or exercise control or direction over 477,878 common shares, representing approximately 0.28% of the Company's voting common shares.

12.4 CEASE TRADE ORDERS, BANKRUPTCIES, PENALTIES OR SANCTIONS

To the knowledge of the Company, no director or executive officer of the Company:

(i) is, at the date hereof or has been, within the 10 years before, a director, chief executive officer or chief financial officer of any company (including Finning), that while that person was acting in that capacity:

  (a) was the subject of a cease trade or similar order or an order that denied the relevant company access to any exemption under securities legislation, for more than 30 consecutive days, or

  (b) was subject to an event that resulted, after the director or executive officer ceased to be a director, chief executive officer or chief financial officer, in the company being the subject of a cease trade or similar order or an order that denied the relevant company access to any exemption under securities legislation, for more than 30 consecutive days, or

(ii) is, as at the date hereof or has been, within the 10 years before, a director or executive officer of any company (including Finning), that while that person was acting in that capacity or within a year of that person ceasing to act in that capacity, became bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency or was subject to or instituted any proceedings, arrangement or compromise with creditors or had a receiver, receiver manager or trustee appointed to hold its assets; or

(iii) has, within the 10 years before the date hereof, become bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency, or become subject to or instituted any proceedings, arrangement or compromise with creditors, or had a receiver, receiver manager or trustee appointed to hold the assets of the director or executive officer.

13. INTERESTS OF EXPERTS

Deloitte & Touche LLP is the auditor of the Company and is independent within the meaning of the Rules of Professional Conduct of the Institute of Chartered Accountants of British Columbia.

14. AUDIT COMMITTEE

The Terms of Reference for the Audit Committee (attached as Appendix A to this Annual Information Form) require that it be comprised of at least three directors, all of whom must be independent. The current members of the Committee are R. Bacarreza, D.L. Emerson, K.M. O'Neill (Chair), C.W. Patterson, J.M Reid and A.H. Simon and all are independent directors. In addition D.W.G. Whitehead attends meetings of the Audit Committee in his capacity as Chairman of the Board. All Committee members are required to be independent and financially literate (as such terms are defined in National Instrument 52-110 – *Audit Committees*) and at least one member is required to have accounting or related financial management expertise. Ms. K.M. O'Neill is the designated "financial expert" member of the Audit Committee.

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

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

The Honourable David L. Emerson P.C. is a Corporate Director, Public Policy Advisor and serves as a senior advisor to CAI Managers, a private equity fund. Nationally he has held senior positions with the Government of Canada that included Minister of Foreign Affairs, Minister of International Trade with responsibility for the Asia Pacific Gateway initiative and the 2010 Vancouver Olympics and Minister of Industry. In British Columbia, Mr. Emerson was the Province's Deputy Minister of Finance, Secretary to Treasury Board and Deputy Minister to the Premier, Secretary to Cabinet. He has also served in leadership roles in the private sector, including President and CEO of Canfor Corporation, President and CEO of the Vancouver International Airport Authority and Chairman and CEO of Canadian Western Bank. Mr. Emerson currently serves on the Boards of Directors of TimberWest Forest Corporation, Stantec Inc., Jazz Air, LP, Postmedia Networks Inc., Conair Group Inc. and D-Wave Systems Inc. In addition, Mr. Emerson is Chair, Alberta Premier's Council for Economic Strategy, Chair, Energy Policy Institute of Canada, Co-Chair, Prime Minister's Advisory Committee on the Public Service and a member of the China Investment Corporation International Advisory Council. Mr. Emerson holds a Bachelor and Master Degree in Economics from the University of Alberta and Doctorate in Economics from Queen's University.

Kathleen M. O'Neill, Chair of the Audit Committee, is a Corporate Director. Prior to 2005, Ms. O'Neill was an Executive Vice-President at BMO Financial Group where her most recent position was Executive Vice-President, Personal & Commercial Development and Head of Small Business Banking. Prior to joining BMO Financial Group in 1994, Ms. O'Neill was with PriceWaterhouseCoopers LLP for 19 years including eight years as a tax partner. Ms. O'Neill currently serves on the Board of Directors of the TMX Group Inc., ARC Resources Limited, Invesco Trimark Funds (Invesco Canada Fund Inc. and Invesco Corporate Class Inc. boards, and Invesco Trimark Funds Advisory Board and Independent Review Committee) and Canadian Tire Bank, a subsidiary of Canadian Tire Corporation. Ms. O'Neill is past Chair of St. Joseph's Health Centre Foundation, a director of the University of St. Michael's College in Toronto and a director of the Canadian Tire Jumpstart Foundation. In 2005, she was accredited through the Institute of Corporate Directors / Rotman School of Management Directors Education Program. She holds a Bachelor of Commerce Degree (with Honours) from the University of Toronto and is a Fellow of the Ontario Institute of Chartered Accountants.

Christopher W. Patterson is a Corporate Director. From April 2005 until his retirement in June 2009, he was President and Chief Executive Officer of Daimler Trucks North America LLC. Prior to 2005, he held progressively senior executive positions with Freightliner LLC, predecessor to Daimler Trucks North America, including Senior Vice President, Service and Parts and was Executive Vice President, Sales and Marketing of Volvo Trucks North America. Mr. Patterson is a director of Modine Manufacturing Company. He holds a BA degree in economics and a MBA from the University of Western Ontario.

John M. Reid is a Corporate Director. From November 1997 to November 2005 he was President and Chief Executive Officer of Terasen Inc. (formerly BC Gas Inc.). Mr. Reid joined Terasen Inc. in May 1995 as Executive Vice President, Finance and Chief Financial Officer. Formerly, Mr. Reid worked with Scott Paper Limited for 15 years in a number of senior financial positions and as President and Chief Executive Officer. Mr. Reid currently serves on the boards of Methanex Corporation and Corix. Over the years, he has served on many boards including MacDonald Dettwiler & Associates Ltd., the University of British Columbia, Lester B. Pearson College, St. Paul's Hospital Foundation, Vancouver Board of Trade, Junior Achievement of British Columbia and the Financial Executives Institute. Mr. Reid holds a Bachelor of Economics degree from the University of Newcastle in the United Kingdom and is a Fellow of the British Columbia and England and Wales Institutes of Chartered Accountants.

Andrew H. Simon, OBE, is a Corporate Director who serves on the Boards of Directors of a number of companies including Exova Group plc, SGL Carbon SE Supervisory Board, Travis Perkins plc, Management Consulting Group plc, Icon Infrastructure Management Ltd. and BCA Osprey 1 Ltd. For most of his career, Mr. Simon worked for the Evode Group, an international specialty chemicals and materials company. At Evode, he held various positions including Managing Director and Chairman and Chief Executive Officer. Mr. Simon holds a Bachelor of Science degree from Southampton University and an MBA from the Wharton School of Finance.

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

The Committee met 4 times in 2010 in conjunction with regularly scheduled Board meetings.

14.1 AUDIT FEES

Fees paid or accrued by the Company and its major business units or subsidiaries for audit and other services provided by Deloitte & Touche LLP (the Company's external auditors) during 2009 and 2010 were as follows:

Type of Service	2010*	2009*
Audit Services (1)	$1,882,987	$2,163,124
Audit-Related Services (2)	464,417	93,469
Tax Services (3)	21,500	18,552
Other Services (4)	Nil	Nil
Total:	$2,368,904	$2,275,145

* amounts were billed in various currencies and converted to Canadian dollars using the exchange rates in existence at the time of billing

Notes:

(1) Audit Services generally relate to reviewing annual and interim financial statements and notes, conducting the annual audit and providing other services regulators may require of auditors.

(2) Audit related services include assurance and related services, such as audits of the Finning's pension plans that were reasonably related to the performance of the annual audit, and assistance with Finning's IFRS transition. IFRS services provided by the external auditor included a review of accounting policy choices and any related adjustments to Finning's opening balance sheet under IFRS, as well as 2010 IFRS quarterly comparative financial statements.

(3) Tax services include tax compliance reviews, review of the tax impact of specific transactions, assistance with inquiries from tax authorities, and international employee relocation advice and personal tax assistance.

(4) Other services would include any non audit-related or non tax services. There were no other services provided in 2010 or 2009.

Pre-approval Policies and Procedures

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

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

15. ADDITIONAL INFORMATION

Additional information, including directors' and officers' remuneration, indebtedness, options to purchase securities and interests of insiders in material transactions is contained in the Company's Management Proxy Circular for its most recent annual meeting of shareholders, a copy of which may be obtained upon request to the Corporate Secretary of the Company. Additional financial information is provided in the Company's Consolidated Financial Statements for its year ended December 31, 2010 and its accompanying Management Discussion and Analysis.

Copies of documents noted above and other disclosure documents may also be examined and/or obtained through the internet by accessing the Company's website at www.finning.com or by accessing the SEDAR website at www.sedar.com.

APPENDIX A

FINNING INTERNATIONAL INC. –

TERMS OF REFERENCE FOR THE AUDIT COMMITTEE

I. PURPOSE

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

i) the integrity of annual and quarterly financial statements that will be provided to the shareholders and others;

ii) audits of the financial statements;

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

iv) all audit, accounting and financial reporting processes;

v) risk management processes;

vi) compliance with accounting and finance based legal and regulatory requirements, relevant laws, regulations and policies;

vii) the External Auditors' qualifications and independence;

viii) performance of the internal and external audit process and of the independent auditor; and

ix) implementation and effectiveness of the Ethics Program Charter and the compliance program under the Ethics Program Charter.

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

C. It is the Committee's responsibility to maintain an open avenue of communication between the Committee, the External Auditors, the Internal Auditors and management of the Corporation. At each meeting, the Committee may meet separately with management and will meet in separate closed sessions with:

a) The External Auditor
b) The Internal Auditor
c) Audit Committee members only.

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

II. COMPOSITION AND OPERATIONS

A. This charter governs the operations of the Committee.

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

C. The Committee Chair is appointed by the Board.

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

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

F. A majority of Committee members constitute a quorum.

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

III. DUTIES AND RESPONSIBILITIES

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

A. Financial Statements and Other Financial Information

The Committee shall:

i) review and discuss with management and the External Auditor before public disclosure:

a) Consolidated Financial Statements of the Corporation, including related footnotes;

b) Management's Discussion and Analysis (MD&A); and

c) Interim earnings press releases of the Corporation;

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[1] Definition in the United States Sarbanes-Oxley Act of 2002: An Audit Committee Financial Expert has, through education and experience as a public accountant or auditor or a principal financial officer, comptroller, or principal accounting officer of an issuer, or from a position involving the performance of similar functions:

1) an understanding of generally accepted accounting principles and financial statements;
2) experience in— (A) the preparation or auditing of financial statements of generally comparable issuers; and (B) the application of such principles in connection with the accounting for estimates, accruals, and reserves;
3) experience with internal accounting controls; and
4) an understanding of audit committee functions.

ii) recommend to the Board for approval and for public disclosure the interim earnings press releases of the Corporation including the Consolidated Financial Statements of the Corporation and MD&A;

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

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

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

vi) review significant reporting principles, practices and procedures applied by the Corporation in preparing its financial statements, including any newly adopted accounting policies and the reasons for their adoption. Review changes in the Corporation's selection or application of accounting principles, and major issues as to the adequacy of the Corporation's internal controls and any special audit steps adopted in light of material control deficiencies; and

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

B. External Auditors

i) The Committee has the authority and responsibility to select, evaluate, determine compensation for and, where appropriate, replace the External Auditor, subject to shareholder approval. In that respect, the Committee shall:

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

b) The Committee has the authority and responsibility to select, evaluate, determine compensation for and, where appropriate, replace the External Auditor, subject to shareholder approval;

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

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

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

1. recommendations resulting from their review of internal control and accounting systems. Management to provide a quarterly follow-up report on actions taken concerning recommendations made by the External Auditor;

2. any material issues, defects, restrictions or sanctions raised or imposed by the most recent internal quality-control review, or peer review, of the External Auditor, or by any inquiry or investigation by governmental or professional authorities or board, within the preceding five years, respecting one or more independent audits carried out by the External Auditor or otherwise arising, and any steps taken to deal with any such issues, defects, restrictions or sanctions;

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

g) review with the External Auditor any audit problems or difficulties with respect to the audit and management's response.

ii) The Committee is responsible for pre-approving all audit and non-audit services performed by the External Auditor that are permitted under applicable law;

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

iv) The Committee shall review and approve the scope and plans relating to the External Auditors' annual audit including the adequacy of resources. The Committee shall meet separately with the External Auditors, with and without management present, to discuss the results of their examinations.

C. Internal Auditors

The Committee will:

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

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

iii) review the effectiveness and independence of the internal audit function;

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

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

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

vii) review periodic reports from internal audit addressing
  a) Progress on the Audit Plan, including any significant changes to it;
  b) Significant internal audit findings, including issues as to the adequacy of internal control over financial reporting and any procedures implemented in light of significant control deficiencies; and
  c) Any significant internal fraud issues.

D. Risk Management, Internal Control and Information Systems

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

i) discussion with management and Internal Audit of the guidelines and policies with respect to risk assessment and risk management, including the processes management used to assess and manage the Corporation's risk. Discuss major financial risk exposures and steps management has taken to monitor and control such exposures including an annual review of the significant insurable risks and the adequacy of the insurance coverage of the Corporation;

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

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

E. Compliance

The Committee shall:

i) assist with Board oversight of the Corporation's compliance with legal and regulatory requirements by receiving a report from the Corporation's corporate secretary concerning legal and regulatory matters that may have a material impact on the financial statements;

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

iii) review with Management, Internal Audit and External Audit the Corporation's internal control over financial reporting, any significant deficiencies or material weaknesses in their design or operation, any proposed major changes to them and any fraud involving management or other employees who have a significant role in the Corporation's internal control over financial reporting.

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

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

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

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

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

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

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

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

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

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

F. OTHER

The Committee shall:

i) periodically review the Ethics Program Charter and recommend any amendments to the Governance Committee of the Board. The Ethics Program Charter includes procedures for:

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

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

c) addressing a reporting attorney's report of a material breach of securities law, material breach of fiduciary duty or similar material violation.

ii) review expenses of the Board Chair and CEO;

iii) review and approve all related party transactions;

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

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

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

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

IV. ACCOUNTABILITY

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

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

V. COMMITTEE TIMETABLE

The major annual activities of the Committee are outlined in the schedule on the following pages.

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
A. Financial Statements and Other Financial Information												
i) Review and discuss with management and External Auditor:												
a) Consolidated Financial Statements and Notes to the Financial Statements		√			√			√			√	
b) Management discussion and analysis		√			√			√			√	
c) Interim earnings press releases		√			√			√			√	
ii) Recommend to the Board for approval and public disclosure the items in Section A. i) (a) – (c).		√			√			√			√	
iii) Review procedures for disclosure of financial information		√			√			√			√	
iv) Review update and report on the Corporation’s credit status with banks and credit rating agencies		√			√			√			√	
v) Discuss quality of reporting and adherence to GAAP		√			√			√			√	
vi) Review significant reporting principles. Review significant changes in selection or application of accounting principles or changes adopted in light of material control deficiencies.		√			√			√			√	
vii) Significant reporting issues identified by management and/or the External Auditor		√			√			√			√	

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
B. External Auditors												
i) The Committee shall:												
a) Review and recommend selection of External Auditor to the Board		√										
b) Approve External Auditor compensation for current year								√				
c) Require External Auditors to report directly to the Committee		√			√			√			√	
d) Meet independently with External Auditor		√			√			√			√	
e) Review annual report by External Auditor describing												
1(a) Recommendations resulting from internal controls and accounting systems review,					√							
1(b) Management to provide quarterly updates on progress		√			√			√			√	
2) Material issues raised following an external review of the External Auditor for the preceding five years								√				
f) Review and approve the Corporation's policies regarding the hiring of partners, employees and former partners and employees of the present or former External Auditor					√							
g) Review with the External Auditor any audit issues or difficulties with respect to the audit and management's responses		√			√			√			√	

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
ii) Pre-approve all audit and non-audit services performed by the External Auditor					√							
iii) Ensure External Auditors independence with a formal written report from External Auditors		√			√			√			√	
iv) Approve scope and annual audit plan of the External Auditor								√				
C. Internal Auditor												
i) Review activities, resources and structure of the Internal Audit function		√			√			√			√	
ii) Participate in appointment, promotion or dismissal of Internal Auditor		O N G O I N G										
iii) Review effectiveness of the internal audit function		O N G O I N G										
iv) Meet separately with Internal Auditor		√			√			√			√	
v) Ensure the internal audit's significant findings and recommendations are acted on by management		√			√			√			√	
vi) Review and approve the scope and proposed internal audit plan.											√	

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
vii) Review internal audit reports on progress to Audit Plan; significant internal audit findings; any significant internal fraud issues		√			√			√			√	
D. Risk Management, Internal Control and Information Systems												
i) Review adequacy and effectiveness of internal controls, including financial controls and system to assess and monitor business risk. Review major financial risk exposures and action plans.		√			√			√			√	
Review significant insurable risks and the adequacy of the Corporations insurance coverage.											√	
ii) Review internal controls to ensure properly designed to produce reliable financial statements		√			√			√			√	
iii) Review adequacy of information systems through discussions with management, internal and External Auditors		√			√			√			√	
E. Compliance												
i) Provide oversight with respect to compliance with legal and regulatory requirements	ONGOING											
ii) Review process for CEO/CFO certification of interim and annual financial statements		√			√			√			√	
iii) Review internal controls over financial reporting and any significant deficiencies or material weaknesses and proposed changes		√			√			√			√	

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
iv) Compliance with tax laws, legal withholdings requirements, environmental protection laws, privacy laws, and any other area of compliance monitoring	O N G O I N G											
v) Ensure External Auditor's fees are disclosed in Annual Information Form		√										
vi) Disclose any policies or procedures adopted for pre-approving non-audit services by External Auditor		√										
vii) Report of Committee's activities to be included in annual proxy statements		√										
viii) Assist in preparation of governance disclosure with respect to: a) Independence of each Committee member		√										
b) Financial literacy of each Committee member		√										
c) Education and experience of each Committee member		√										
d) Disclose any exemptions		√										
F. Other												
i) Review the Ethics Program Charter and recommend any changes to the Governance Committee.											√	
Review: a) Receipt, retention and anonymous treatment of complaints		√			√			√			√	

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
b) Confidential, anonymous submission by employees of concerns regarding accounting or auditing matters		√			√			√			√	
c) Address any material breach of securities law, fiduciary duty or similar material violation		√			√			√			√	
ii) Review expenses of the Board Chair and CEO		√										
iii) Review and approve all related party transactions		√			√			√			√	
iv) Review the effect of regulatory and accounting initiatives as well as off balance sheet structures on financial statements		√			√			√			√	
v) Review succession plan for financial and accounting management											√	
vi) Conduct a self-assessment annually		√										
vii) Review and update terms of reference								√				