

FINNING INTERNATIONAL INC.
ANNUAL INFORMATION FORM
FOR THE YEAR ENDED
DECEMBER 31, 2000

DATED AS OF MARCH 6, 2001

Finning International Inc.
555 Great Northern Way
Vancouver, British Columbia
V5T 1E2

**Additional copies of this document may be obtained upon request from the
Corporate Secretary, Finning International Inc. at the above address
or through the Company's internet site – <http://www.finning.com>.**

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In this Annual Information Form, the terms the “Company” and “Finning” mean Finning International, Inc. and its subsidiaries. All dollars are Canadian dollars unless otherwise indicated.

1. NAME AND INCORPORATION

The registered and principal office of the Company is located at 555 Great Northern Way, Vancouver, British Columbia, V5T 1E2. The Company was incorporated as Finning Tractor & Equipment Company Limited on January 4, 1933 under the Company Act of 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. On April 25, 1997, the Company changed its name to Finning International Inc.

2. PRINCIPAL OPERATING SUBSIDIARIES AND DIVISIONS

The following organization chart outlines the Company’s principal operating subsidiaries and divisions and the geographic areas they serve.



3. GENERAL DEVELOPMENT OF THE BUSINESS

In terms of sales volume, Finning is one of the largest dealers in the world for products distributed by Caterpillar Inc. ("Caterpillar").

Canada

The Company has been the dealer for Caterpillar products since 1933 in British Columbia and since 1977 in the Yukon Territory. In December 1989, the Company acquired all of the shares of R. Angus Alberta Limited ("Angus"), 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 with the result being the Company is now the Caterpillar dealer over an area which comprises all of the Northwest Territories except for the portion of the new Territory of Nunavut which is east of 110 degrees west longitude. The Company services its Canadian dealership territory through Finning (Canada), a division of the parent company.

United Kingdom

In 1983, the Company acquired two Caterpillar dealerships in the U.K. The acquisition of the remaining U.K. dealer, H. Leverton Limited ("H. Leverton") was completed on October 1, 1997. The Company now operates in the U.K. under the name of Finning (UK). In February 1999, Finning (UK) sold BCP Plant Hire, an equipment rental business included in the acquisition of H. Leverton. On December 22, 2000 Finning (UK) acquired distribution rights for marine power engines from Sabre Perkins covering England and Wales and on December 31, 2000 it acquired the MaK marine engine distribution business for the UK and Ireland.

Chile

Effective August 1, 1993, the Company acquired Gildemeister S.A.C. ("Gildemeister"), the Caterpillar dealer in Chile. On October 13, 1997, the name of the company was changed to Finning Chile S.A. ("Finning Chile").

Universal Machinery Services (UMS)

UMS, a division of the parent company, sells used equipment and used parts worldwide. For the year ended December 31, 2000, international sales of used equipment were recorded in UMS. However as of January 1st, 2001 international used equipment sales have been realigned into the existing country operations. UMS will continue to be the global service provider of quality used parts and selective used equipment through the

division of UMS Used Parts. UMS Used Parts currently is located in Canada, the United Kingdom, the U.A.E., and the United States.

Corporate

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

Acquisition of Hewden Stuart, Plc

On January 26, 2001 Finning acquired control of Hewden Stuart, Plc ("Hewden") through the purchase of 95.7% of the issued and outstanding shares of Hewden for 115 pence per Hewden share. Also, see note describing this acquisition on page 25.

4. DESCRIPTION OF THE BUSINESS

Finning's operations consist of five principal activities: new equipment sales, used equipment sales, equipment rental, equipment financing and leasing and customer support services.

Finning serves the following principal markets: forestry, mining and quarrying, construction, pipeline/oil field construction, government, power generation, agriculture, and plant hire (equipment rental with or without an operator).

Finning (Canada) sells, rents, leases and finances Caterpillar and complementary equipment and provides customer support services throughout British Columbia, Alberta, the Yukon Territory, and the major portion of the Northwest Territories. Revenue from Canadian operations was \$1,214.5 million in 2000 compared with \$1,032.9 million in 1999.

Finning (UK) sells and rents Caterpillar and complementary equipment and provides customer support services throughout England, Scotland, Wales and the Channel Islands, and through an agency agreement sells Caterpillar equipment and parts in the Falkland Islands. With the completion of the H. Leverton acquisition in 1997, Finning (UK) became the single Caterpillar dealer in Britain. Revenue from the U.K. operations was \$682.2 million (£303.3 million) in 2000 compared with \$712.9 million (£296.6 million) in 1999.

Finning Chile sells and rents Caterpillar and complementary equipment and provides customer support services throughout Chile. Revenue from Chilean operations was \$474.1 million (171,916 million Chilean pesos) in 2000 compared with \$377.8 million (129,110 million Chilean pesos) in 1999.

In the Company's International operations for 2000, UMS primarily sold Caterpillar and allied used equipment and parts worldwide. Revenue from UMS operations was \$89.0 million in 2000 compared with \$106.2 million in 1999. In 2001, UMS will primarily sell Caterpillar and competitive used parts worldwide.

Finning has been profitable in every year since its incorporation in 1933. In 2000, Finning derived approximately 49% (1999: 46%) of its revenue from operations in Canada; 28% (1999: 32%) from the U.K.; 19% (1999: 17%) from Chile; and 4% (1999: 5%) from its International operations. Sales from operations outside of Canada contributed 51% of consolidated revenue, down from 54% in 1999.

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

REVENUE BY ACTIVITY

(\$ MILLIONS)	2000		1999		CHANGE
New equipment	\$ 990.4	40.3%	\$ 856.2	38.4%	15.7%
Used equipment	342.7	13.9%	311.4	14.0%	10.1%
Equipment rental	166.8	6.8%	155.7	7.0%	7.1%
Operating leases & Financing	117.9	4.8%	109.1	4.9%	8.1%
Customer support services	842.2	34.2%	797.5	35.7%	5.6%
	\$ 2,460.0	100.0%	\$ 2,229.9	100.0%	10.3%

4.1 New Equipment

Finning distributes Caterpillar products, including tractors, loaders, log loaders, tree harvesters, skidders, off-highway trucks, backhoe loaders, excavators, motor graders, paving products, compactors, tractor-scrappers, pipelayers, and engines for use in heavy equipment, marine and industrial, gas compression and electric power generation applications.

To complement its Caterpillar equipment line in Canadian operations, Finning (Canada) distributes Caterpillar and Mitsubishi branded lift trucks manufactured by Mitsubishi Caterpillar Forklift Americas Inc., Svedala Reedrill rock drills, CompAir LeROI air compressors, Finning mobile rock drills, JLG aerial work platforms, Kaldnes Scandlog log handlers, Thunderbird logging systems, Risley feller bunchers, Wagner log stackers and chip dozers, LeeBoy motor graders and paving products, Barber-Greene, Gomaco and Rosco paving products, Amida light towers and John Henry rock drills.

Finning (UK) distributes Caterpillar branded materials handling equipment manufactured by Mitsubishi Caterpillar Forklift Europe B.V., Caterpillar branded warehouse equipment manufactured by Rocla of Finland and also the Caterpillar Olympian line of power generating systems manufactured by F.G. Wilson in Ireland. With the acquisition of the MaK distribution business and distribution rights for Sabre Perkins marine power products, Finning (UK) is now able to supply and service the entire Caterpillar marine range, from 65 HP to 22,030 HP. Finning is now also able to supply the complete range of propulsion engines and generators on vessels of all sizes, from small pleasurecraft to large ocean going container ships.

In Chile, complementary product lines include Ingersoll Rand air compressors and drills and Denharco forestry equipment.

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

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

4.2 Used Equipment

In addition to sales of new equipment, Finning buys and sells used equipment domestically and internationally. Machines are accepted in trade, turned out from the rental fleet, returned from lease and purchased from customers and others on the open market. Much of this equipment is reconditioned in Finning's service shops and resold under warranty. Finning also purchases and sells entire fleets of used equipment and sells used equipment on consignment. The used equipment business is generally concentrated in the product lines and types of equipment for which Finning is a dealer.

During 2000, the Company held eight online auctions with proceeds approaching \$3.0 million under "Finning-Auctions.com" for the sale of used equipment during the year.

4.3 Equipment Rental

Finning also owns fleets of equipment for short-term rental to customers. Rental agreements are available with buyout options to meet customer needs. The rental business provides customers with the freedom to utilize reliable equipment on a "needs-only basis" to maximize return, without the risks inherent in longer-term capital investment.

In Finning (Canada), the majority of the rental fleet is general line equipment, and is dominated by excavators, tractors, loaders and articulated trucks used in construction projects. Customers use short-term rentals to supplement their own fleets to complete contract work. Also included in the fleet are power systems for electrical generation as well as materials handling and high-reach equipment, which is used primarily in building construction, warehousing, plant maintenance and mill yard applications. Rental agreement terms are generally from one day to twelve months, but can also be for as long as four years, in the case of materials handling equipment.

Finning (UK) owns fleets of rental equipment mainly consisting of backhoe loaders, hydraulic excavators, articulated dump trucks, telescopic handlers, rollers, acoustic generator sets and diesel, gas or electric lift trucks. Customers served include the construction, plant hire, mining and agricultural industries, food and beverage processing plants, distribution centres and utility companies. Typically, contracts in respect of construction machines range from one month up to twelve months although there are a number of high value contracts extending up to six years. Materials handling contracts can range from one month to three years and power systems contracts are generally one month or less.

Finning Chile operates a fleet of rental equipment consisting of motor graders, compactors, excavators, backhoe loaders, loaders, tractors, compressors, power generators, lifts and light towers. The rental business mainly serves customers in the construction, mining and forestry industries. Tractors rented by construction companies involved in gas pipeline and highway construction dominate the fleet. Rental agreements are generally from two to three months on average.

4.4 Operating Leases and Financing

Finning (Canada), in conjunction with Caterpillar Financial Services Ltd., extends financing to its customers through conditional sales, leases, and equity loans. Most of the leases are operating leases with residual values set by Finning (Canada) based on estimates of the market value of the equipment at the end of the lease term. Due to its experience in the used equipment market, Finning (Canada) can effectively assess the risks and profitability in financing equipment, particularly in determining the residual value of the equipment. Financing extended to customers generally ranges for terms up to five years on a fixed or variable rate basis, depending upon the type of equipment, its use and the customer's needs and credit worthiness.

In the U.K., financing of equipment is handled by Caterpillar Financial Services (UK) Limited and other external finance companies. In Chile, financing of equipment is handled by Caterpillar Financial Services Corporation and other external finance companies.

4.5 Customer Support Services

Finning provides replacement parts and repair services for the products it sells. Finning believes that a high level of customer service is essential to its success.

Finning maintains parts stocks at 100 locations in Western Canada, the U.K. and Chile to provide customers with convenient access to parts supplies. All major Finning centres within each geographic area are connected through sophisticated computer systems, which provide immediate information regarding both Finning and Caterpillar parts inventories.

In Western Canada, under an arrangement with an independent contractor, a fleet of trucks and trailers dedicated to Finning (Canada) make daily deliveries of new and remanufactured parts, components, attachments and small equipment to Finning (Canada)'s major locations. The routes run from distribution centres in Langley, British Columbia and Edmonton, Alberta; from Caterpillar's parts warehouse in Spokane, Washington; and from various branch locations to other branches throughout the territory. The availability of excess truck capacity on return trips from branches facilitates the supply of used parts and components to Finning (Canada)'s centralized component rebuild centre in Edmonton. This transportation system minimizes inventory, speeds parts delivery and reduces shipping costs compared with those of commercial transport lines.

Finning (UK) sources parts from the Caterpillar parts distribution centre in Grimbergen, Belgium. These parts are then redistributed to Finning branches.

In Chile, parts orders are primarily sourced from the Caterpillar parts distribution centres in Miami, Florida and Morton, Illinois. Parts stock order shipments from Caterpillar are ocean shipped to Finning Chile's distribution centre ("C.D.R.") in Antofagasta, Chile. Through an independent sub-contractor, a dedicated fleet of trucks makes daily deliveries of new parts and re-manufactured components to the major Finning branches in northern and central Chile. These same trucks return spent component cores for rebuild in the component rebuild center located adjacent to the C.D.R. in Antofagasta.

UMS sells used parts internationally. Used parts are sourced from various locations worldwide.

More than half of Finning's employees and facilities (including facilities at almost all of its locations for Canada) are devoted to parts warehousing, equipment repair and

overhaul services. In addition to this in-shop capability, Finning provides service at customer locations with specialized personnel and equipment. Finning offers its customers maintenance and repair contracts for preventative maintenance, planned component replacement and guaranteed cost per hour/cost per ton contracts. This aspect of Finning's business has grown over the last several years and this growth is expected to continue.

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

Finning (Canada) also designs customized attachments in order to satisfy customers' special needs at a centre in Vancouver. In 2000, Finning (Canada) sold its attachment fabrication business, "Finning Attachment Services", based in Vancouver. In 1993, Finning (Canada) established a chroming and hydraulic rebuild division, Pacific Fluid Power, in Edmonton. In 1999, Pacific Fluid Power, a division of Finning (Canada), entered into an agreement with Phoenix Hydraulics in Alberta for the repair and rebuild of hydraulic pumps and motors and the rechroming of cylinder rods. Finning (UK) offers a full welding and fabrication service from its Cannock facility. This division uses automatic submerged arc-welding processes to rebuild large circular components for heavy industry. This business complements, supports and extends Finning's traditional customer base.

To provide customer support services, Finning employs approximately 1,384 qualified mechanics, welders, technicians, partspersons and other specialized tradespersons in Canada; approximately 673 in the U.K.; and approximately 1,132 in Chile.

4.6 Organization of Business

Finning (Canada) has established industry and product specialists in the forestry, mining, construction, petroleum, governmental and agricultural markets. Separate divisions offer specialized product lines and services. These product lines include engines and

electric power generation sets, lift trucks, high-reach equipment, compressed air equipment and tools, and rock drills.

Finning (UK) has also established industry and product specialists in the mining and quarrying, construction and plant hire (equipment rental with or without an operator) and specialist markets (demolition, landfill, industrial and paving equipment). Separate divisions specialize in engines and electric power generation sets and lift trucks.

Industry and product specialists in mining, construction and forestry have also been established in Chile. On-highway trucks division discontinued operations on March 31st, 2000.

Finning operates through an extensive network of branches, which have sales, parts and repair services; depots, which have repair facilities and limited, fast-moving parts stocks; and residences, where one or more field service representatives provide customer support services in communities not otherwise serviced by branches or depots.

Finning (Canada) is represented by 32 branches, 9 depots and 43 residences in Western Canada. Finning (UK) has 15 branches and 8 depots in the U.K. Finning Chile has 7 branches and 19 depots and 2 residences in Chile. Finning owns more than half of its locations.

4.7 Markets

CANADA

Canadian operations are concentrated in British Columbia, Yukon, Alberta and the Northwest Territories. In this territory Finning (Canada) serves diverse markets, including mining, forestry, construction, pipeline/oil field construction, governmental and agricultural sectors.

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

The forest industry in British Columbia and Alberta is also a key market for Finning (Canada). Customers served are involved in almost every phase of the industry, including

road building, harvesting and processing trees, silviculture, log transport to mills, and the handling of logs, lumber and finished products in yards and mills.

Another important market is construction, which includes the building and maintenance of highways, railway extensions, site development, residential and commercial construction, installation of utility services, and similar projects.

In Alberta, northeastern British Columbia and the high Arctic, the pipeline/oil field construction industry is also an important market. Mobile earthmoving equipment is used in exploration and drill site preparation; excavators and pipelayers 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.

The governmental sector is also a significant market in Alberta, particularly in municipal highway and road maintenance.

Other important markets for Finning (Canada) include agriculture, marine transportation, fisheries, commercial transport, warehousing, stevedoring and related service industries.

UNITED KINGDOM

The U.K. operations also serve diverse markets, with the principal contributors to revenue being the mining and quarrying, construction, and plant hire industries. The mining and quarrying markets account for most of the sales of the larger Caterpillar tractors, excavators, wheel loaders and off-highway trucks. Open pit mining and reclamation of open pit mine sites, quarrying of limestone, granite and clay, and extraction of sand and gravel are a large part of the mining and quarrying market.

The construction market includes highway construction and maintenance, residential and industrial development, and the installation of sewer, water and other utility services. Backhoe loaders, hydraulic excavators and articulated dump trucks are the popular types of Caterpillar machines in these applications.

A significant market for the U.K. is plant hire in which businesses buy equipment and then rent the equipment, with or without operating personnel, for mining and quarrying, construction, agriculture and other types of work. The acquisition of Hewden will significantly expand Finning's activities in this area. (See acquisition of Hewden on page 25)

Engines and electric power generation sets and support services are supplied to North Sea exploration and production rigs, fishing fleets, marine transport and commercial

vessels, and are sold for a wide variety of industrial uses and to original equipment manufacturers.

The Industrial Midlands, the north and south east of England and other centres of population provide an active market for lift truck sales and rentals. Major customers include automobile and other manufacturing plants, distribution centres, potteries, food and beverage processing plants, stevedoring and building materials industries. Most of the lift truck fleet rentals include maintenance and repair contracts.

CHILE

The diverse geography of Chile provides a broad base of industrial markets for Finning Chile. The principal markets include mining, construction, forestry and marine.

In the northern desert, large open pit copper and gold mines require fleets of off-highway trucks, loaders, tractors and other support equipment. In this industry sector, rebuilt components, parts and service, and maintenance and repair contracts are also supplied to support the around-the-clock use of these machines.

The construction market includes highway construction and maintenance, hydro-electric dam construction, site development, natural gas pipeline and gas distribution construction, and residential and commercial construction. The concession method of highway development is becoming the norm. Sections of highway are put out to tender on a build/own/transfer basis. This strategy of private financing is enabling an accelerated highway infrastructure development program without the traditional governmental financial burden of public projects.

The coastal forests in the south represent another important market. To this market, Finning Chile supplies equipment for road building, logging, log transportation and the handling of logs, lumber and finished products in yards and mills and at port facilities.

Chile's 4,300 kilometer coastline creates a strong demand for marine power. The fishing and marine industries provide active markets for both the repowering of existing vessels and the powering of newly constructed vessels.

UMS

Finning, through UMS, serves diverse markets worldwide, including mining, construction, pipeline/oil field construction and quarrying. UMS, prior to its reorganization effective January 1, 2001, focused on selling both Caterpillar and non-Caterpillar used equipment and used parts to these markets for use in a variety of applications.

The majority of UMS' sales in 2000 and 1999 were to customers in the U.S., however Mexico and South America were also significant markets. UMS Redistribution Services will continue to penetrate new geographical markets that will bring their expertise in mining and construction directly to their customers. UMS has been reorganized to focus on international used parts sales from January 1, 2001.

4.8 Competition

Finning competes with a large number of vendors of equipment manufactured worldwide. Historically product quality, wide scale servicing, component rebuild, customizing, distribution capabilities, the number of locations, proximity of locations to customers, financial services and the wide product range offered by Caterpillar have enhanced Finning's ability to compete throughout its market areas.

Caterpillar manufactures a broad range of products. In addition, Caterpillar expands its line of products through distribution of a few products manufactured for it by others and distributed under the Caterpillar brand name. Caterpillar's competitors provide a more limited range of products, in many cases specific to particular industries and to applications within particular industries. As a result, most of Finning's competitors, worldwide, 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.

4.9 Dealership and Distributor Agreements

Finning has dealership and distributor agreements with several equipment manufacturers, the most significant of which are with Caterpillar. Under the terms of these agreements, Finning is responsible for marketing and servicing the manufacturer's products in its areas of primary responsibility. These agreements do not preclude other equipment dealers from marketing the same products in Finning's areas of primary responsibility.

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

Approximately 90% of Finning's equipment, parts and service sales involve 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 the conduct of its business.

In 1993, Caterpillar sold the majority of the lift truck manufacturing and marketing segment of its business to Mitsubishi. Mitsubishi then formed the companies Mitsubishi Caterpillar Forklift Americas Inc. ("MCFA") and Mitsubishi Caterpillar Forklift Europe B.V. ("MCF") in which Caterpillar Inc. holds a 20% minority interest. MCF manufactures lift trucks and sells basically the same products under the "Caterpillar" and the "Mitsubishi" brand names. Finning (Canada) is the dealer for the Caterpillar brand products and the Mitsubishi brand products. In the U.K. and Chile, Finning is the dealer for the Caterpillar brand name only.

Finning (Canada) has developed dealer relationships for other product lines in order to create new marketing opportunities and to expand its customer support services. Included are relationships with JLG Industries Inc., Rosco Manufacturing Co., Wagner (a division of Allied Systems Company), Ross Corporation, Amida Industries, Inc., Brunner Canada, Inc., Svedala Drilling (a division of Svedala Industries, Inc.), CompAir LeROI International Inc., Gomaco Corporation (a division of Godbersen-Smith Construction Company), and Risley Equipment Ltd. In Chile, dealer relationships exist with Ingersoll Rand and Grove Manufacturing Company. In the U.K., dealer relationships exist with Eagle Picher.

4.10 Human Resources

Finning had 5,156 full-time employees at the end of 2000: 2,326 in Canada; 1,404 in the U.K.; 1,390 in Chile; and 36 at corporate headquarters and UMS. The majority of these employees are skilled mechanics, technicians, partspersons and apprentices. The International Association of Machinists and Aerospace Workers ("IAM") represents hourly-paid parts and service employees in British Columbia, the Yukon, Alberta and the Northwest Territories. This union was certified in 1951 in British Columbia and, in its history, Finning (Canada) has never experienced a work stoppage in British Columbia or the Yukon. A separate local of the IAM represents hourly paid parts and service employees in Alberta and the Northwest Territories. In 1999, a three-year collective agreement was negotiated with this local. This agreement will expire on April 30, 2002.

Finning (Canada) has experienced one two-week work stoppage in Alberta and the Northwest Territories since acquisition in 1989.

There have been no serious labour disruptions in the U.K. operations since acquisition in 1983. The collective agreements with the Transport and General Workers Union (T&GWU), the Amalgamated Union of Engineers (AEEU) and the Administrative, Clerical, Technical, Supervisory Staff (A.C.T.S.S.) expired on 31st December 2000. Negotiations took place in November and December 2000 towards renewed collective agreements. An agreement, subject to member ratification, was reached with the A.C.T.S.S. effective 1st January 2001. Salaries and wages were reviewed in 1999, and the employment terms and benefits for service engineers and parts people formerly employed by H. Leverton were harmonized in July 1999.

There are two sindicatos (unions) in Chile that represent the employees. During 2000 there were no major changes in the relations with unions and company and historically, the relationship between Finning Chile and the unions has been positive. As part of their union agreement, the Company introduced a competency based pay system. During year 2000 Finning Chile implemented a Classification Program to Customer Support Services employees, according to their skills and knowledge. Finning conducts in-house sales, parts and service training programs in all its operations. It operates apprenticeship programs for service and parts personnel. Supervisory and management training courses are also provided. Employees are further encouraged to develop their skills through external education. Programs are in place which reimburse employees for successful new studies.

4.11 Environment

Finning has programs in place throughout its operations to monitor and satisfy environmental protection requirements. Regular environmental reports are made to the Environmental, Health and Safety Committee of the Board of Directors. The management of Finning is not aware of any environmental protection requirements that are likely to have a material adverse effect on its capital expenditures, earnings or competitive position.

4.12 Health and Safety

Finning is committed to fostering the health and safety of all its employees in the workplace. Committees at each branch conduct regular site inspections. In addition, Finning (Canada) is investing in health and safety training for its employees through special programs and internal publications. A new behavioural-based safety initiative has been

introduced at most locations in Canada. This process is based on peer-to-peer feedback and employee involvement. In the U.K., branch safety committees continue to emphasize employee involvement in health and safety. The branch committees meet quarterly to review site inspections and accident prevention initiatives. Finning (UK) has commenced a behavioural-based safety program at its Glasgow branch. The Manager of Safety & Environment for Finning Chile has implemented a new health and safety program in 1999, and it now leads Finning's other operations in the reduction of lost-time accidents. A complete Health and Safety management system has been implemented, which includes the Safety and Environmental Policies, a Reference Manual, Strategic Direction, Organization, Communication system, Benchmarking and Audit. This program emphasizes the employees participation at all levels in the organization and each branch and reports health and safety issues on a monthly basis

4.13 Information Systems

In 2000, Finning completed the implementation of a new version of Caterpillar's Dealer Business System ("DBS"). DBS consists of five major modules: parts, service and product support, finance, sales and merchandising, and marketing. This system is used by a large majority of Caterpillar's dealers throughout the world. The latest version allows Finning to respond to customers' inquiries and needs quickly and efficiently. DBS software runs on the IBM AS/400 hardware platform and is complemented by other third party software packages. Finning is part of the Dealer Advisory Panel that provides input into future releases of software.

In 1999, Finning (Canada) signed an agreement with ISM-BC (now Telus Enterprise Solutions) for the operation, maintenance and support of its mainframe computer, personal computers and printers and its wide-area and local-area network system. In addition, Telus Enterprise Solutions performs centralized printing and document processing services.

During year 2000, Finning Chile developed some projects to take advantage of their information resources including introduction of AdamV3, software developed specifically for Human Resources management, installation of Projections and Improvement Module to Contracts Management System, upgrade to DBS 2.3 and IAS 4.0, installation of Control Clocks in Workshops to measure mechanical staff time dedicated to Work Orders, and improvements to Control Management and Budget Systems.

5. SUMMARY OF FINANCIAL INFORMATION

5.1 Five Year Summary

Years Ended December 31

(\$ thousands except per share amounts)

	<u>2000</u>	<u>1999</u>	<u>1998</u>	<u>1997</u>	<u>1996</u>
Revenue from external sources					
Canada	1,214,516	1,032,922	1,136,917	1,146,406	926,653
U.K.	682,162	712,941	793,020	565,376	437,949
Chile	474,145	377,777	503,505	514,068	408,616
International	89,209	106,221	151,979	101,214	101,491
Total	<u>2,460,032</u>	<u>2,229,861</u>	<u>2,585,421</u>	<u>2,327,064</u>	<u>1,874,709</u>
Earnings before interest and tax					
Canada	122,978	102,481	85,434	124,035	98,726
U.K.	27,621	18,917	(30,429)	47,049	51,189
Chile	29,281	29,292	25,415	38,695	32,324
Other	(14,617)	(1,778)	2,309	6,846	6,165
Total	<u>165,263</u>	<u>148,912</u>	<u>82,729</u>	<u>216,625</u>	<u>188,404</u>
Net income	<u>73,391</u>	<u>59,600</u>	<u>3,185</u>	<u>103,695</u>	<u>88,184</u>
Earnings per common share					
Basic	<u>0.95</u>	<u>0.75</u>	<u>0.04</u>	<u>1.32</u>	<u>1.13</u>
Diluted (1)	<u>0.94</u>	<u>0.74</u>	<u>0.04</u>	<u>1.27</u>	<u>1.09</u>
Dividends paid per common share	<u>0.20</u>	<u>0.20</u>	<u>0.20</u>	<u>0.20</u>	<u>0.20</u>
Long-term debt (2) (includes current portion)	544,441	592,920	523,161	521,203	475,464
Preferred shares (3)	-	-	996	1,166	1,480
Total long-term debt and preferred shares	<u>544,441</u>	<u>592,920</u>	<u>524,157</u>	<u>522,369</u>	<u>476,944</u>
Total assets	<u>2,157,641</u>	<u>2,026,234</u>	<u>2,229,601</u>	<u>2,351,877</u>	<u>1,810,814</u>

1. The Company changed its method of calculating diluted earnings per share to reflect the dilutive effect of exercising outstanding stock options by application of the treasury method. Diluted earnings per share for 1999 have been restated on the same basis.
2. For further details regarding the long-term debt, see Note #7 to the Consolidated Financial Statements in Appendix A.
3. The Company issued several series of preferred shares under the terms of an employee and director share purchase plan. In 1999, the outstanding preferred shares were converted into common shares at a conversion rate of \$6.3675 per common share. For more details see Note #9 to the Consolidated Financial Statements in Appendix A.

5.2 Two Year Summary By Quarter (Unaudited)

<u>Fiscal Period</u>	<u>Qtr.</u>	<u>Revenue</u> (\$000's)	<u>Net Income</u> (\$000's)	<u>Earnings Per Common Share</u>	
				<u>Basic</u> \$	<u>Diluted</u> \$
2000	1	612,683	13,358	.17	.17
	2	630,515	19,849	.25	.25
	3	533,174	18,688	.25	.24
	4	683,660	21,496	.28	.28
1999	1	548,977	6,249	.08	.08
	2	574,714	15,924	.20	.20
	3	503,616	16,233	.20	.20
	4	602,554	21,194	.27	.26

Notes:

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

6. MANAGEMENT'S DISCUSSION AND ANALYSIS

Results of operations:

Finning International achieved higher revenues, net income and cash flows from operating activities in 2000 compared with 1999. Consolidated revenues increased 10.3% to \$2,460.0 million, whereas consolidated net income increased 23.1% to \$73.4 million. Earnings per share for the year 2000 were \$0.95 compared with \$0.75 in 1999, representing a 26.7% increase. Cash flow from operating activities for the period increased 8.7% to \$240.6 million.

The table below sets forth certain financial data expressed as a percentage of revenue for the years indicated.

	2000	1999	Change
Revenue	<u>100.0%</u>	<u>100.0%</u>	
Gross profit	25.4%	26.1%	-0.7%
Selling, general & administrative expenses	<u>18.7%</u>	<u>19.4%</u>	<u>0.7%</u>
EBIT	<u>6.7%</u>	<u>6.7%</u>	<u>0.0%</u>
Finance costs and interest on other indebtedness	2.4%	2.9%	0.5%
Income before provision for income taxes	4.3%	3.8%	0.5%
Provision for income taxes	<u>1.3%</u>	<u>1.1%</u>	<u>-0.2%</u>
Net income	<u>3.0%</u>	<u>2.7%</u>	<u>0.3%</u>

During the year, the Company initiated a bid for Hewden Stuart Plc., which was successfully concluded in January 2001 (See note on Acquisition of Hewden). Hewden is a leading small equipment rental business in the U.K. In addition, Finning (UK) acquired distribution rights for marine power engines for Sabre Perkins covering England and Wales and acquired the MaK marine engine distribution business for the U.K. and Ireland.

During 2000, the Company divested its non-core attachment fabrication services business in Canada. The Company also decided to exit the Kenworth dealership business in Chile effective March 31, 2000 due to difficult market conditions.

Despite a slowdown of the North American economy, the outlook for 2001 remains positive for all the major operations. Finning (Canada) should continue to benefit from activity in the energy sector, Finning (Chile) from stabilized copper prices, and Finning (UK) and Hewden Stuart from the greatly increased government spending on infrastructure.

Revenues:

In 2000, all lines of business recorded increases over 1999. Consolidated revenues were higher by \$230.2 million (10.3%), new mobile equipment revenues were higher by \$84.2 million (11.8%), new power systems products revenues were higher by \$50.0 million (34.7%), customer support services revenues were higher by \$44.8 million (5.6%) and used equipment revenues were higher by \$31.3 million (10.1%).

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

	Canada	UK	Chile	UMS	Corp.	Consol.	Revenue percentage
2000 (dollars in thousands)							
New mobile equipment	\$ 344,290	\$ 287,377	\$ 164,834	\$ -	\$ -	\$ 796,501	32.4%
New power systems products	104,321	78,463	11,122	-	-	193,906	7.9%
Used equipment	148,459	85,171	31,145	77,959	-	342,734	13.9%
Equipment rental	100,202	49,461	14,883	2,225	-	166,771	6.8%
Operating leases	98,451	-	-	-	-	98,451	4.0%
Customer support services	405,782	181,690	245,965	8,806	-	842,243	34.2%
Finance and other	13,011	-	6,196	23	196	19,426	0.8%
Total	\$ 1,214,516	\$ 682,162	\$ 474,145	\$ 89,013	\$ 196	\$ 2,460,032	100.0%
Revenue percentage by operations	49.4%	27.7%	19.3%	3.6%	0.0%	100.0%	
1999 (dollars in thousands)							
New mobile equipment	\$ 283,916	\$ 325,082	\$ 103,255	\$ -	\$ -	\$ 712,253	31.8%
New power systems products	58,520	68,971	16,410	-	-	143,901	6.5%
Used equipment	125,368	76,086	18,597	91,378	-	311,429	14.0%
Equipment rental	89,634	46,484	14,826	4,715	-	155,659	7.0%
Operating leases	95,427	-	587	-	-	96,014	4.3%
Customer support services	370,131	196,318	221,009	10,014	-	797,472	35.8%
Finance and other	9,926	-	3,093	109	5	13,133	0.6%
Total	\$ 1,032,922	\$ 712,941	\$ 377,777	\$ 106,216	\$ 5	\$ 2,229,861	100.0%
Revenue percentage by operations	46.3%	32.0%	16.9%	4.8%	0.0%	100.0%	

Revenues from Canada, UK, Chile and UMS were 49.4% (1999: 46.3%), 27.9% (1999: 32.0%), 19.3% (1999: 16.9%) and 3.6% (1999: 4.8%) respectively. Revenues increased 17.6% in Canada and 25.5% in Chile, whereas UK and UMS recorded revenues lower by 4.3% and 16.2% respectively over 1999.

Canada

Led by a resurgent petroleum sector, revenues in Finning (Canada) reached record highs of \$1,214.5 million. Revenues were over 1999 levels in all areas, most notably in

new and used equipment sales. New mobile equipment sales increased \$60.4 million (21.3%), power systems product sales increased by \$45.8 million (78.3%), while used equipment sales rose \$23.1 million (18.4%) primarily as a result of mining truck sales. Equipment rental revenue increased to \$100.2 million (11.8%), while leasing and finance revenues increased to \$111.5 million (5.8%).

Oil sands and diamond mining along with improved copper prices also contributed to the growth in revenues across most of the sectors, most notably customer support services. Customer support services showed strong revenue growth as revenues were up \$35.6 million or 9.6%.

United Kingdom

In the UK, the decrease in revenue of \$30.8 million was attributable to a 6.4% depreciation of the pound sterling against the Canadian dollar. In sterling terms, UK revenue increased 2.3%.

In Canadian dollar terms, new mobile equipment revenue fell by \$37.7 million (11.6%) compared with 1999. The decrease is primarily due to the Construction Equipment Division which experienced a difficult year as only a few infrastructure projects commenced.

Weakness in Construction Equipment was partially offset by growth in the Materials Handling Division that won several national account deals. The Power Systems Division showed strong growth of \$9.5 million (13.8%) largely due to major deals with Internet service providers.

Rental revenue increased \$3.0 million (6.4%) as Material Handling fleet size increased to over 1000 units at year-end and as the Power Systems rental division benefited from the rental of standby generator equipment over the Millenium period. Demand for rental units also increased due to extreme weather conditions that caused extensive flooding during the last few months of the year. The increase in rental revenue is also a reflection of the trend towards usership from ownership of equipment.

Customer support services revenue decreased \$14.6 million (7.5%) over 1999 revenue in Canadian dollar terms. This was largely due to intense competition in the parts market especially for larger construction equipment parts together with a marketplace trend towards lower value unit equipment.

In July 2000, the U.K. government announced plans to invest 180.0 billion pound sterling on the roads and the railways in the country. The largest single road project ever in the U.K., the Birmingham Northern Relief Road project, commenced in early 2001. The

total government expenditure on this project is 450.0 million pounds sterling. It is expected that this will stimulate demand for heavy equipment in the U.K.

Chile

Total revenues increased by \$96.4 million (25.5%) mainly due to a strong performance in the mining sector, as copper production in Chile rose slightly above the 1999 levels with stabilization in copper prices.

New mobile equipment sales increased \$61.6 million (59.6%) mainly due to introduction of the new 380 ton truck to the mining sector. Twelve of these trucks were sold to two major mining customers in Chile. In addition, there was a large new equipment package sold to another mining operation. Increase of \$12.5 million (67.5%) in used equipment sales is also attributable to sales to mining contractors.

New power systems products sales were affected by a slowdown across major industrial sectors. Market size for power system products shrank almost by half in 2000 as economic activity slowed, affecting all major industrial sectors.

Very few major infrastructure and highway projects were started in 2000 as expropriation issues relating to bids awarded in 1999 had yet to be resolved. The Chilean Chamber of Construction reported that the construction activity dropped 20% in 2000 compared with 1999. The forestry industry was dramatically affected by new environmental regulations, diverting investment in plantations to other South American countries.

Universal Machinery Services (UMS)

Used equipment revenues fell \$13.4 million (14.7%) over 1999. The decrease was attributable to fewer major projects worldwide in the face of weak commodity prices and economic uncertainties. Increased competition in the global used equipment market also contributed to the weakening of sales in 2000.

The majority of used equipment sales for the year were concentrated in North America (62.0%), and Latin America (29.0%) with the balance of revenues distributed amongst Europe, West Africa, India, New Zealand, Australia and the Netherlands.

Used Parts revenues were down \$1.2 million (12.1%) compared with 1999. Revenue shift to the domestic used parts divisions, delay of expansion plans into Dubai,

U.K. and Miami and softening of the U.S. economy towards the end of 2000 further impacted the revenues on both used equipment and used parts.

The Company held eight online auctions with proceeds approaching \$3.0 million under "Finning-Auctions.com" for the sale of used equipment during the year. These auctions were successful in generating traffic and creating awareness among the target audience. The Company plans to conduct online auctions regularly in 2001.

Gross profits:

Gross profits increased \$43.0 million (7.4%) to \$624.4 million in 2000 compared with 1999. As a percentage of revenue, however, gross profit was lower at 25.4% compared with 26.1% in 1999.

Gross margin as a percentage of revenue was lower in Canada due to a shift in sales mix. Higher gross margin activities such as customer support services did not grow as fast as the lower gross margin power systems for the gas compression and electric markets.

Gross margin as a percentage of revenue was higher in the U.K. due to improvement in rental and material handling margins. Rental margins improved due to increased volumes in a relatively fixed cost business, whereas materials handling margins benefited from better pricing from suppliers.

Gross margin as a percentage of revenue was lower in Chile due to a shift in sales mix and higher service contract costs. It was also lower in UMS as a result of reducing aged inventory.

Selling, general and administrative expenses:

Selling, general and administrative expenses increased \$26.7 million (6.2%) to \$459.1 million in 2000 compared with 1999. As a percentage of revenue, however, these expenses were lower at 18.7% compared with 19.4% in 1999.

Selling, general and administrative expenses as a percentage of revenue were lower in Canada, U.K. and Chile due to operating leverage and focus on cost control. Corporate expenses were higher mainly due to foreign exchange losses of \$1.3 million and absence of foreign exchange translation gains of \$5.4 million on inter-company dividends recorded in 1999.

Earnings before interest and taxes (EBIT):

EBIT increased by 11.0% to \$165.3 million due to significant increases in Canada and UK. EBIT as a percentage of revenue was 6.7% in both 2000 and 1999 as the effect of lower gross margin percentage was offset by lower selling, general and administrative expense percentage. EBIT contribution from Canada, UK, Chile and UMS was 74.4% (1999: 68.8%), 16.7% (1999: 12.7%), 17.7% (1999: 19.7%) and (1.7%) (1999: 1.1%) respectively.

The table below illustrates EBIT contribution by operations.

	Canada	UK	Chile	UMS	Corporate	Consolidated
2000 (dollars in thousands)						
Revenue from external sources	\$1,214,516	\$ 682,162	\$ 474,145	\$ 89,013	\$ 196	\$ 2,460,032
Operating costs	943,226	629,309	435,877	91,784	12,042	2,112,238
Depreciation	147,300	24,389	8,987	-	-	180,676
Amortization of goodwill	1,012	843	-	-	-	1,855
Earnings before interest and tax	<u>\$ 122,978</u>	<u>\$ 27,621</u>	<u>\$ 29,281</u>	<u>\$ (2,771)</u>	<u>\$ (11,846)</u>	<u>\$ 165,263</u>
EBIT as a percentage of revenue	10.1%	4.0%	6.2%	-3.1%		6.7%
EBIT percentage by operations	74.4%	16.7%	17.7%	-1.7%	-7.2%	100.0%
1999 (dollars in thousands)						
Revenue from external sources	\$1,032,922	\$ 712,941	\$ 377,777	\$ 106,216	\$ 5	\$ 2,229,861
Operating costs	785,290	669,520	332,638	103,734	3,415	1,894,597
Depreciation	144,167	23,668	15,463	850	-	184,148
Amortization of goodwill	984	836	384	-	-	2,204
Earnings before interest and tax	<u>\$ 102,481</u>	<u>\$ 18,917</u>	<u>\$ 29,292</u>	<u>\$ 1,632</u>	<u>\$ (3,410)</u>	<u>\$ 148,912</u>
EBIT as a percentage of revenue	9.9%	2.7%	7.8%	1.5%		6.7%
EBIT percentage by operations	68.8%	12.7%	19.7%	1.1%	-2.3%	100.0%

Finance costs and interest on other indebtedness:

Finance costs and interest on other indebtedness decreased \$7.2 million (10.9%) to \$58.6 million in 2000 compared with 1999, as debt was reduced during the year by focusing on asset management. The overall interest rate for the Company was 98 basis points higher in 2000 compared with the rates in 1999. Also, financing costs in 2000 include \$1.3 million for amounts borrowed for acquiring Hewden shares.

Provision for income taxes:

Income tax expense in 2000 amounted to \$33.3 million, reflecting an effective tax rate of 31.2% during the year compared with 28.3% in 1999. The increase in Company's effective tax rate is mainly due to provision for income taxes in Chile at a nominal rate of 15% (Nil in 1999).

Net income:

Net income improved by 23.1% to \$73.4 million in 2000 compared to a year earlier. The stronger earnings performance and the Company's repurchase of 4.1 million common shares during 2000, as part of a normal course issuer bid, contributed to a 26.7% increase in basic earnings per share to \$0.95.

Acquisition of Hewden Stuart Plc.:

Finning International Inc., through a new wholly-owned, U.K.-based subsidiary, reached agreement with the Board of Directors of Hewden Stuart Plc. (Hewden) on the terms of a recommended cash offer for all of the issued and to be issued share capital of Hewden. The offer was for 115 pence in cash for each Hewden share, valuing the existing issued share capital of Hewden at approximately 322 million pounds sterling (\$700 million), based on 280.3 million shares in issue. Finning International's offer, made on November 29, 2000 represented a 68-percent premium to Hewden's closing share price on October 23, the day before Hewden announced that it was in talks on a possible offer for the company.

On January 12, 2001 Finning International declared its offer for Hewden wholly unconditional. As of January 30, 2001, Finning International owned or had received valid acceptances in respect of approximately 95.7% of Hewden shares. The Company is taking steps to acquire the remaining shares of Hewden and Hewden has been delisted from the London Stock Exchange.

Hewden is a leader in the U.K. for small equipment rental and related services, with approximately 370 locations throughout Scotland, England, Wales and Northern Ireland and more than 4,300 employees. It offers a modern range of equipment to a variety of industry sectors in the General Hire, Tool Hire and Lifting Hire markets. For the year ended January 31, 2000, Hewden reported revenue from continuing operations of 256.0 million

pounds sterling (\$612.0 million) and operating profit from continuing operations of 42.8 million pounds sterling (\$102.0 million).

The acquisition of Hewden is consistent with Finning International's growth strategy to expand operations internationally and to diversify through the addition of new product lines and entry into the small equipment rental market. The equipment rental business of Hewden is highly complementary to the business and will enable Finning International to provide comprehensive services to a wider customer base through both channels.

LIQUIDITY AND CAPITAL RESOURCES:

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

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

CASH FLOW FROM OPERATING ACTIVITIES

Cash flow from operating activities was \$240.6 million in 2000 compared with \$221.3 million in 1999, an increase of \$19.3 million.

The increase from 1999 was primarily a result of improved cash earnings of \$4.2 million (\$258.6 vs. \$254.4 million), bolstered by lower net outflow of \$99.7 million on rental and leased equipment (\$117.2 vs. \$216.9 million), but offset by \$84.6 million less provided by working capital changes (\$99.2 vs. \$183.8 million).

CASH USED FOR INVESTING ACTIVITIES

Cash used in investing activities totalled \$229.9 million, representing net capital expenditures of \$7.7 million (1999: \$9.0 million) on tangible assets, \$4.2 million in goodwill paid on the acquisition of MaK and Sabre distribution operations in the U.K. and \$218.1 million in investment in Hewden.

FINANCING ACTIVITIES

To complement the internally generated funds from operating and investing activities, the Company has available to itself approximately \$907.8 million in unsecured short-term credit facilities and \$135.0 million in unsecured term facilities. The Company also has a commercial paper program for \$300.0 million, which can be issued against the designated short-term credit facilities amount. At the year-end, approximately \$532.5 million, including commercial paper, was drawn against the bank facilities.

Longer-term capital resources are provided by direct access to capital markets. The Company is rated by both Standard & Poor's (S&P) and Dominion Bond Rating Service (DBRS). On October 31, 2000, S&P and Canadian Bond Rating Service (CBRS) announced that they have combined operations in Canada. On November 29, 2000, S&P placed the Company on CreditWatch with negative implications following the announcement of the Company's proposed acquisition of Hewden and as a result of the harmonization between CBRS and S&P. On January 24, 2001, S&P subsequently lowered its corporate credit and senior unsecured debt ratings on the Company to BBB with a positive outlook from BBB+. The ratings are expressed on S&P's global ratings scale and the CBRS long-term debt ratings on the Company have been withdrawn and are superseded by the harmonized S&P rating. The outstanding 'A-1 (Low)' CBRS rating on commercial paper issued by Finning has not been harmonized and remains unchanged.

On November 29, 2000, DBRS placed the rating of the Company, Under Review with Developing Implications. DBRS rates Finning's senior debentures and medium term notes BBB (high) and its commercial paper R-2 (high).

As at December 31, 2000 overall debt, after making an investment of \$218.1 million in Hewden, increased by \$44.1 million. Short-term debt increased by \$92.6 million to \$398.2 million during the year while long-term debt was reduced by \$48.5 million from \$592.9 million to \$544.4 million.

The acquisition of Hewden was financed through a combination of operating bank lines and an acquisition finance facility for the Canadian dollar equivalent of 340 million pounds sterling which was arranged for the purposes of making the offer to Hewden shareholders. On February 7, 2001, the Company refinanced \$425.0 million of the facilities, with this financing being recorded as a minority interest.

The Company did not have any equity issues in 2000. Share capital decreased from \$210.0 million in 1999 to \$200.6 million at the end of 2000 reflecting the exercise of stock options and the repurchase of 4.1 million common shares as part of a normal course

issuer bid in which the Company was allowed to buy back a maximum of 6.8 million shares.

The Company has an employee share purchase plan for its Canadian employees. Under the terms of this plan, eligible employees may purchase common shares of the Company in the open market at market value. The Company pays a portion of the purchase price to a maximum of 2% of employee earnings. The plan may be cancelled by Finning at any time. At December 31, 2000, over 65% of Canadian employees were contributing to this plan compared with 62% at the end of 1999.

FINANCIAL LEVERAGE:

The Company's operations consist of three major components, namely its operating (new and used equipment sales and customer support services), finance (equipment leasing and financing) and equipment rental activities. Each of these major components has a different risk profile. Accordingly, Finning applies a different capital structure and financial leverage to each component based on industry norms.

The finance assets and rental assets are supported by a combination of debt and equity. Finning applies a debt to equity ratio of 7:1 to its finance operation and 5:1 to its rental operation. Total debt and shareholders' equity is allocated to the operating, finance and rental activities. Future income taxes are allocated based on the assets and liabilities assigned to the operating, finance and rental activities.

The Company's overall debt to equity ratio improved from 1.29 at the end of 1999 to 1.04 at the end of 2000. Debt to equity ratio for its operating activities (excluding finance and rental activities and the debt and investment in Hewden) also improved significantly from 0.47:1 to 0.20:1 over the same period. The continued improvement in the debt to equity ratio was primarily due to the Company's focused asset management program to improve current operating asset efficiency and short-term borrowings. The Company achieved an improvement in receivables collections, inventory turnover and earnings in 2000 as a result of the program.

The table below compares financial leverage and operating debt to equity ratio for the Company as at the end of 2000 with the corresponding ratios for 1999.

(dollars in thousands)

As at Dec 31, 2000	Operations	Rental	Finance	Consolidated
Total assets	\$ 1,180,287	\$ 347,339	\$ 404,500	\$ 1,932,126
Payables and accruals	482,328	14,466	3,328	500,122
Future income taxes, net	(15,722)	11,240	13,431	8,949
Liabilities	466,606	25,706	16,759	509,071
Net investment	\$ 713,681	\$ 321,633	\$ 387,741	\$ 1,423,055
Short & long term debt	\$ 117,298	\$ 268,028	\$ 339,273	\$ 724,599
Shareholders' equity	596,383	53,605	48,468	698,456
Total debt and shareholders' equity	\$ 713,681	\$ 321,633	\$ 387,741	\$ 1,423,055
Debt to equity	0.20	5.00	7.00	1.04
As at Dec 31, 1999	Operations	Rental	Finance	Consolidated
Total assets	\$ 1,269,999	\$ 354,454	\$ 401,781	\$ 2,026,234
Payables and accruals	410,301	-	3,107	413,408
Future income taxes, net	(7,230)	11,471	13,431	17,672
Liabilities	403,071	11,471	16,538	431,080
Net investment	\$ 866,928	\$ 342,983	\$ 385,243	\$ 1,595,154
Short & long term debt	\$ 275,652	\$ 285,819	\$ 337,088	\$ 898,559
Shareholders' equity	591,276	57,164	48,155	696,595
Total debt and shareholders' equity	\$ 866,928	\$ 342,983	\$ 385,243	\$ 1,595,154
Debt to equity	0.47	5.00	7.00	1.29

Note:

- i) Transactions between segments have been eliminated to arrive at consolidated results.
- ii) Investment in Hewden and debt associated therewith has not been included as the acquisition had not been completed by year-end.

FINANCIAL DERIVATIVES AND RISK MANAGEMENT:

The Company uses various financial instruments such as interest rate swaps and forward exchange contracts and options as hedges against actual assets or liabilities. Derivative financial instruments are always associated with a related risk position. For example, the Company has a policy of arranging its financing such that the fixed rate financing offered to its customers is matched by fixed rate borrowings. As well, the portfolio is matched on currency and term. Finning enters into swap agreements, which fix the effective interest rate and currency of the borrowing. This is an effective and flexible method of matching fixed rate terms provided to customers with fixed rate debt obligations.

Finning continually evaluates and manages risks associated with financial derivatives. This includes counter-party credit exposure. Finning manages its credit exposure by ensuring there is no substantial concentration of credit risk with a single counter-party, and by dealing only with highly rated financial institutions as counter-parties.

FINANCIAL RISKS AND UNCERTAINTIES:

The Company's financial performance may be influenced either favourably or adversely by fluctuations in foreign exchange and commodity prices.

The Company is subject to three main direct sources of foreign exchange risk: transaction, translation and economic. The first source of foreign exchange risk, transaction risk, relates to fluctuations in the purchase price of inventory. The Company's operations in Canada and Chile source the majority of their products from the United States and, as a consequence, exchange rate movements affect the transaction price for most equipment and parts. Finning is generally able to manage this risk through adjustments in the pricing of its product sales, and through the use of financial derivatives. Finning uses a combination of forward, option or spot strategies to manage the foreign exchange transaction exposure.

The second source of foreign exchange risk, translation risk, relates to the fact that the Company's U.K. and Chilean operations are recorded in its financial statements in Canadian dollars, while those operations conduct business primarily in British pounds in the U.K., and Chilean pesos and U.S. dollars in Chile. Changes in the British pound, Chilean peso and U.S. dollar to the Canadian dollar exchange rate directly affect the financial performance in Canadian dollars of the Company's U.K. and Chilean operations. The Company hedges its investments in some of its foreign subsidiaries by borrowing funds in foreign currency or with long term cross currency swaps.

The third source of foreign exchange risk, economic risk, is characterized by the risk associated with cash flows from subsidiary companies. To minimize fluctuations in the amount received in GBP currency dividends from its Hewden subsidiary, Finning has entered into a long term cross currency swap that fixes the foreign exchange rate on a certain amount of dividends received.

The Company's sales are also indirectly affected by fluctuations in commodity prices and exchange rates. In Canada, commodity price movements in the forestry, metals and petroleum sectors can have an impact on customers' demands for equipment and customer service. In Chile, significant fluctuations in the price of copper and gold can have similar effects. In the U.K., lower prices for thermal coal may reduce equipment demand in that sector. In addition, the strength of the British pound and/or Canadian dollar relative to other currencies may result in lower activity levels in the used equipment market and increased competition from competitive imports.

7. SECURITIES MARKET

The Company's common shares are listed and posted for trading on the Toronto Stock Exchange under the symbol "FTT".

8. DIVIDENDS

The Board of Directors, in setting dividend payments, considers the Company's recent and projected earnings, its capital investment requirements and its total return to shareholders. Dividends on common shares were \$15.5 million or \$0.20 per share in 2000, compared with \$15.9 million or \$0.20 per share in 1999.

The Company has declared and paid the following dividends, on the dates and at the rates shown, since January 1, 1998. Finning is not subject to any restrictions with respect to its ability to declare or pay dividends.

<u>Declaration Date</u>	<u>Date Paid</u>	<u>Rate Per Share</u>
February 20, 1998	March 20, 1998	\$0.05
May 6, 1998	June 3, 1998	\$0.05
August 3, 1998	August 31, 1998	\$0.05
October 23, 1998	November 20, 1998	\$0.05
February 19, 1999	March 19, 1999	\$0.05
April 23, 1999	May 21, 1999	\$0.05
July 30, 1999	August 27, 1999	\$0.05
October 29, 1999	November 26, 1999	\$0.05
February 18, 2000	March 17, 2000	\$0.05
April 26, 2000	May 24, 2000	\$0.05
July 26, 2000	August 23, 2000	\$0.05
October 26, 2000	November 22, 2000	\$0.05
February 28, 2001	March 28, 2001	\$0.05

9. DIRECTORS AND OFFICERS

Directors

Name and Municipality of Residence	Principal Occupation	Year First Became Director
M. Norman Anderson ^{2, 4} Vancouver, BC	President, Anderson & Associates	1989
Ricardo Bacarreza ^{1, 3} Santiago, Chile	President, Proinvest S.A.	1999
John E. Cleghorn ^{1, 5} Toronto, ON	Chairman and Chief Executive Officer, Royal Bank of Canada	2000
James F. Dinning ^{1, 4} Calgary, AB	Executive Vice President, Sustainable Development and External Relations, TransAlta Corp.	1997
Timothy S. Howden ^{2, 3} Marlow, England	Company Director	1998
Nicholas B. Lloyd Santiago, Chile	President and Chief Executive Officer, Finning Chile S.A.	1993
Jefferson J. Mooney ² Vancouver, BC	Chairman, President and CEO A&W Food Services of Canada, Inc.	2000
Donald S. O'Sullivan ^{3, 4} Edmonton, AB	President, O'Sullivan Resources Ltd.	1991
Conrad A. Pinette ⁴ Vancouver, BC	President and Chief Operating Officer, Lignum Limited	1992
Andrew H. Simon ¹ London, England	Executive Vice Chairman, Diamant Boart S.A.	1999
Monica E. Sloan ¹ Calgary, AB	Management & Strategy Consultant	2000
Douglas W.G. Whitehead ³ Coquitlam, BC	President and Chief Executive Officer, Finning International Inc.	1999
John M. Willson ^{2, 3} Vancouver, BC	Company Director	2000

¹ Member, Audit Committee

² Member, Human Resources and Compensation Committee

³ Member, Environmental, Health and Safety Committee

⁴ Member, Governance Committee

⁵ Member, Pension Fund Performance Committee

Each of the above-listed directors will be deemed to retire and will be eligible for re-election at the next Annual Meeting of the Company's shareholders. Each of the directors has held his principal occupation set out above for the past five years with the exception of James F. Dinning, Timothy S. Howden, Nicholas B. Lloyd, Andrew H. Simon, Monica E. Sloan, Douglas W.G. Whitehead and John M. Willson whose principal occupations are listed below:

<u>Director</u>	<u>Principal Occupation</u>	<u>From</u>	<u>To</u>
James F. Dinning	Executive Vice President, Sustainable Development and External Relations, TransAlta Corp.	June 1999	Present
	Executive Vice President, Energy Marketing, TransAlta Energy Corp.	June 1998	June 1999
	Senior Vice President, Corporate Development, TransAlta Energy Corp.	Aug. 1997	June 1998
	Provincial Treasurer, Province of Alberta	Dec. 1992	Mar. 1997
Timothy S. Howden	Company Director	Sept. 1997	Present
	Chairman and Chief Executive Officer, North America, The Albert Fisher Group PLC	Dec. 1996	Aug. 1997
	Group Chief Executive, Europe, The Albert Fisher Group PLC	Apr. 1992	Dec. 1996
Nicholas B. Lloyd	President and Chief Executive Officer, Finning Chile S.A.	Jan. 2000	Present
	Vice Chairman, Finning (UK) Ltd.	Oct. 1999	Jan. 2000
	Managing Director, Finning (UK) Ltd.	Jan. 1992	Oct. 1999

Andrew H. Simon	Executive Vice Chairman, Diamant Boart S.A.	Dec. 1999	Present
	Company Director	Feb. 1993	Dec. 1999
Monica E. Sloan	Management & Strategy Consultant	Oct. 1999	Present
	President, Kelman Technologies Limited	Jan. 1998	Oct. 1999
	President, Telus Advanced Communications Division, Telus Inc.	Jan. 1995	June 1997
Douglas W.G. Whitehead	President and Chief Executive Officer, Finning International Inc.	Apr. 2000	Present
	President and Chief Operating Officer, Finning International Inc.	Jan. 1999	Apr. 2000
	President and Chief Executive Officer, Fletcher Challenge Canada Ltd.	Apr. 1992	Dec. 1998
John M. Willson	Company Director	April 2000	Present
	Vice Chairman, Placer Dome Inc.	Feb. 2000	April 2000
	Chief Executive Officer, Placer Dome Inc.	Sept. 1999	Feb. 2000
	President and Chief Executive Officer, Placer Dome Inc.	Jan. 1993	Sept. 1999

The Company has an Audit Committee, a Human Resources and Compensation Committee, an Environmental, Health and Safety Committee, a Governance Committee and a Pension Fund Performance Committee. The members are indicated by footnote in the list of directors above. The Company does not have an Executive Committee.

Officers

<u>Name and Municipality of Residence</u>	<u>Position Held</u>
B. C. Bell Coquitlam, BC	Executive Vice President, Customer Support Services, Finning International Inc.
J. A. Carthy Sutton Coldfield West Midlands, U.K.	Managing Director Finning (UK) Ltd.
A. R. Guglielmin Vancouver, BC	Vice President & Corporate Treasurer, Finning International Inc.
N. B. Lloyd Santiago, Chile	President and Chief Executive Officer, Finning Chile S.A.
R. T. Mahler West Vancouver, BC	Executive Vice President and Chief Financial Officer, Finning International Inc.
Conrad A. Pinette Vancouver, BC	Chairman of the Board, Finning International Inc.
I. M. Reid Edmonton, AB	President and Chief Operating Officer, Finning (Canada)
J.T. Struthers Delta, BC	Corporate Secretary, Finning International Inc.
D.W.G. Whitehead Coquitlam, BC	President and Chief Executive Officer, Finning International Inc.

The past five years' occupations held by each of the officers, with the exception of Nicholas B. Lloyd and Douglas W. G. Whitehead whose previous principal occupation are listed above, are listed below:

<u>Officer</u>	<u>Principal Occupation</u>	<u>From</u>	<u>To</u>
B. C. Bell	Executive Vice President, Customer Support Services, Finning International Inc.	May 1999	Present
	Vice President Logistics & Information Systems, Emco Ltd.	Jan. 1996	May 1999
	Senior Director BPR Canadian Tire Corp.	Aug. 1993	Jan. 1996
J. A. Carthy	Managing Director, Finning (UK) Ltd.	Oct. 1999	Present
	Vice President, Operations, General Manager, Finning Chile S.A.	Jan. 1997	Sept. 1999
	Vice President, Mining and Construction, Finning Chile S.A.	Aug. 1995	Dec. 1996
A. R. Guglielmin	Vice President & Corporate Treasurer, Finning International Inc.	Aug 2000	Present
	Corporate Treasurer, Finning International Inc.	May 1998	Aug 2000
	Treasurer, British Columbia Hydro and Power Authority	Dec. 1992	Apr. 1998
R. T. Mahler	Executive Vice President and Chief Financial Officer, Finning International Inc.	Aug. 1996	Present
	Vice President and Chief Financial Officer, Finning International Inc.	May 1990	Aug. 1996

<u>Officer</u>	<u>Principal Occupation</u>	<u>From</u>	<u>To</u>
I. M. Reid	President and Chief Operating Officer, Finning (Canada)	Nov. 1997	Present
	Vice President, Canadian Operations, Finning International Inc.	Sep. 1996	Nov. 1997
	Regional Manager, England and Wales, Finning (UK) Ltd.	Mar. 1995	Sep. 1996
J. T. Struthers	Corporate Secretary, Finning International Inc.	June 1997	Present
	Manager, Corporate Services and Insurance, Finning International Inc.	Dec. 1993	June 1997

10. OWNERSHIP OF VOTING SECURITIES

The directors and the officers of the Company as a group beneficially own, directly or indirectly, or exercise control or direction over, 0.12% of the Company's voting common shares.

11. 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 annexed to this Annual Information Form as Appendix A.

In addition, the Company shall provide to any person, upon request to the Corporate Secretary of the Company:

- (a) when the securities of the Company are in the course of a distribution pursuant to a short form prospectus or a preliminary short form prospectus has been filed in respect of a distribution of its securities,
 - (i) one copy of the Annual Information Form of the Company, together with one copy of any document, or the pertinent pages of any document, incorporated by reference in the Annual Information Form,
 - (ii) one copy of the comparative financial statements of the Company for its most recently completed financial year together with the accompanying report of the auditor and one copy of any interim financial statements of the issuer subsequent to the financial statements for the Company's most recently completed financial year,
 - (iii) one copy of the Management Proxy Circular of the Company in respect of its most recent annual meeting of shareholders that involved the election of directors or one copy of any annual filing prepared in lieu of that Management Proxy Circular, as appropriate, and
 - (iv) one copy of any other documents that are incorporated by reference into the preliminary short form prospectus or the short form prospectus and are not required to be provided under (i) to (iii) above; or
- (b) at any other time, one copy of any other documents referred to in (a)(i), (ii) and (iii) above, provided the Company may require the payment of a reasonable charge if the request is made by a person who is not a security holder of the Company.

Appendix A

Consolidated Financial Statements
Year Ended December 31, 2000

Consolidated Balance Sheets as at December 31
(\$ thousands)

	2000	1999
ASSETS		
Current assets		
Accounts receivable	\$ 375,208	\$ 386,561
Inventories		
On-hand equipment	395,420	406,882
Parts and supplies	203,579	219,423
Current portion of instalment notes receivable	66,476	47,442
Total current assets	<u>1,040,683</u>	<u>1,060,308</u>
Finance assets		
Instalment notes receivable	72,569	71,628
Equipment leased to customers (Note 2)	253,949	272,151
Total finance assets	<u>326,518</u>	<u>343,779</u>
Rental equipment (Note 3)	311,019	341,534
Land, buildings and equipment (Note 4)	189,961	206,254
Investment (Note 5)	218,050	-
Future income taxes (Note 12)	7,465	-
Goodwill (Note 6)	63,945	74,359
Total assets	<u>\$ 2,157,641</u>	<u>\$ 2,026,234</u>
LIABILITIES		
Current liabilities		
Short-term debt (Note 7)	\$ 398,208	\$ 305,639
Accounts payable and accruals	495,239	424,609
Income tax payable	4,883	(11,201)
Current portion of long-term debt (Note 7)	67,224	70,494
Total current liabilities	<u>965,554</u>	<u>789,541</u>
Long-term debt (Note 7)	477,217	522,426
Future income taxes (Note 12)	16,414	17,672
Total liabilities	<u>1,459,185</u>	<u>1,329,639</u>
SHAREHOLDERS' EQUITY		
Share capital (Note 9)	200,629	209,955
Retained earnings	521,569	502,028
Cumulative currency translation adjustments (Note 10)	(23,742)	(15,388)
Total shareholders' equity	<u>698,456</u>	<u>696,595</u>
Total liabilities and shareholders' equity	<u>\$ 2,157,641</u>	<u>\$ 2,026,234</u>

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

Approved by the directors:

D.W.G. Whitehead, Director

C.A. Pinette, Director

Consolidated Statements of Income and Retained Earnings for the years ended December 31
(\$ thousands except per share amounts)

	<u>2000</u>	<u>1999</u>
Revenue		
New mobile equipment	\$ 796,503	\$ 712,253
New power systems products	193,906	143,901
Used equipment	342,734	311,429
Equipment rental	166,770	155,659
Operating leases	98,451	96,014
Customer support services	842,244	797,472
Finance and other	19,424	13,133
Total revenue	<u>2,460,032</u>	2,229,861
Cost of sales	<u>1,835,644</u>	1,648,478
Gross profit	624,388	581,383
Selling, general and administrative expenses	<u>459,125</u>	432,471
Earnings before interest and taxes	165,263	148,912
Finance cost and interest on other indebtedness (Notes 7 and 8)	<u>58,552</u>	65,768
Income before provision for income taxes	106,711	83,144
Provision for income taxes (Note 12)	<u>33,320</u>	23,544
Net income	73,391	59,600
Dividends on preferred shares	-	19
Earnings attributable to common shares	73,391	59,581
Retained earnings, beginning of year	<u>502,028</u>	458,366
	575,419	517,947
Dividends on common shares	15,452	15,919
Premium on common share repurchase (Note 9)	<u>38,398</u>	-
Retained earnings, end of year	<u>\$ 521,569</u>	<u>\$ 502,028</u>
Earnings per share (Note 13)		
Basic	\$ 0.95	\$ 0.75
Diluted	\$ 0.94	\$ 0.74
Weighted average number of shares outstanding	77,436,109	79,616,362

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

Consolidated Statements of Cash Flow for the years ended December 31
(\$ thousands)

	2000	1999
OPERATING ACTIVITIES		
Net income	\$ 73,391	\$ 59,600
Add items not affecting cash		
Depreciation	180,676	184,148
Amortization of goodwill	1,855	2,204
Future income taxes	1,774	6,037
Other items	892	2,438
	<u>258,588</u>	<u>254,427</u>
Changes in working capital items and other		
Accounts receivable	(7,840)	(13,770)
Inventories		
On-hand equipment	4,502	147,328
Parts and supplies	27,678	36,959
Instalment notes receivable	(20,074)	(20,116)
Accounts payable and accruals	78,939	33,202
Income taxes	15,987	202
Cash provided by working capital items and other	99,192	183,805
Rental equipment, net of disposals	(68,581)	(117,866)
Equipment leased to customers, net of disposals	(48,584)	(99,043)
Cash flow from operating activities	<u>240,615</u>	<u>221,323</u>
INVESTING ACTIVITIES		
Cash invested in land, buildings and equipment, net of disposals	(11,893)	(9,020)
Investment in Hewden Stuart Plc (Note 5)	(218,050)	-
Cash used for investing activities	<u>(229,943)</u>	<u>(9,020)</u>
FINANCING ACTIVITIES		
Increase in long-term debt	-	150,000
Repayment of long-term debt	(42,746)	(66,370)
Conversion and redemption of preferred shares	-	(996)
Issue of common shares on conversion of preferred shares and on exercise of stock options	1,472	2,372
Repurchase of common shares	(49,196)	-
Dividends paid	(15,452)	(15,938)
Currency translation adjustments	2,681	21,964
Cash provided by (used for) financing activities	<u>(103,241)</u>	<u>91,032</u>
Decrease/(increase) in short-term debt	(92,569)	303,335
Short-term debt at beginning of year	305,639	608,974
Short-term debt at end of year	<u>\$ 398,208</u>	<u>\$ 305,639</u>
Cash flows include the following elements:		
Interest paid	\$ 59,610	\$ 56,698
Income taxes paid	\$ 14,461	\$ 19,924

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

Notes to Consolidated Financial Statements

December 31, 2000 and 1999

(\$ and £ in thousands, except the number of shares and per share amounts)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

These Consolidated Financial Statements have been prepared in accordance with accounting principles generally accepted in Canada that require management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of income and expenses during the reporting period. Actual amounts could differ from those estimates. The significant accounting policies used in these Consolidated Financial Statements are as follows:

Principles of Consolidation

The Consolidated Financial Statements include the accounts of Finning International Inc. ("Finning" or "Company") and its wholly owned subsidiaries. Principal operating subsidiaries include Finning (UK) Ltd. and Finning Chile S.A.

Currency Translation

Transactions undertaken in foreign currencies are translated into Canadian dollars at approximate exchange rates prevailing at the time the transactions occurred.

Account balances denominated in foreign currencies are translated into Canadian dollars as follows:

Monetary assets and liabilities are translated at exchange rates in effect at the balance sheet dates and non-monetary items are translated at historical exchange rates.

Exchange gains and losses are included in income except where the exchange gain or loss arises from the translation of monetary liabilities considered to be hedges, in which case the gain or loss is deferred and accounted for in conjunction with the hedged asset.

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

Assets and liabilities are translated using the exchange rates in effect at the balance sheet dates.

Revenue and expense items are translated at average exchange rates prevailing during the period that the transactions occurred.

Unrealized translation gains and losses are deferred and included as a separate component of shareholders' equity. These cumulative currency translation adjustments are recognized in income when there is a reduction in the net investment in the self-sustaining foreign operation.

The Company has hedged its investments in its foreign subsidiaries by borrowing funds in foreign currency. Exchange gains or losses are accounted for in the cumulative currency translation adjustments.

Inventories

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

Instalment Notes Receivables

Instalment notes receivables are recorded net of unearned finance charges.

Equipment Leased to Customers

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

Rental Equipment

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

Land, Buildings and Equipment

Land, buildings and equipment are recorded at cost, net of accumulated depreciation.

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

Buildings	5%
General equipment	20%-30%
Automotive equipment	30%

Revenue Recognition

Revenue from sales of products and services is recognized at the time of shipment of products to, and performance of services for, customers. Equipment lease and rental revenue is recognized over the term of the lease or rental. Finance income is recognized as earned.

Employee Benefits

The Company and its subsidiaries have a number of defined benefit and defined contribution plans providing pension and other benefits to most of its employees in Canada and the UK. Effective January 1, 2000 the Company adopted, on a prospective basis, the method of accounting for these benefits recommended by section 3461 of the CICA handbook. The transitional balance as a result of this change in accounting policy is being amortized over the expected average remaining service life of the employees covered by the plans. The Company accrues its obligations under employee benefit plans and the related costs, net of plan assets. The Company has adopted the following policies:

Defined benefit plans:

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

Adjustments arising from plan amendments, changes in assumptions and the excess of net actuarial gains or losses over 10% of the greater of the benefit obligation and the fair value of the plan assets are amortized on a straight line basis over the expected average remaining service life of the employees covered by the plans. The average remaining service life of the employees covered by these plans ranges from 2 to 14 years.

Defined contribution plans:

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

Goodwill

Goodwill acquired on the acquisition of subsidiaries is amortized to income on a straight line basis over 40 years. Goodwill is evaluated annually, and is written down when the undiscounted future earnings of the related business are less than its carrying amount.

Income Taxes

Effective January 1, 2000, the Company changed its method of accounting for income taxes from the deferral method to the liability method. Under this method, temporary differences arising from the difference between the tax basis of an asset and a liability and its carrying amount on the balance sheet are used to calculate future income tax assets or liabilities. Future income tax assets or liabilities are calculated using tax rates anticipated to be in effect in the periods that the temporary differences are expected to reverse. The effect of a change in income tax rates on future income tax assets and liabilities is recognized in income in the period that the change occurs. The Company has applied this accounting change without restatement of prior period financial statements. The impact on the current year financial statements resulting from this change in the current year is an increase in provision for taxes for \$2,836, decrease in current tax liability by \$239, recognition of a future income tax asset of \$7,465, increase in cumulative translation adjustment of \$2,434 and a decrease in net purchased goodwill by \$12,974.

Prior Year Comparatives

Certain prior year amounts have been reclassified to conform to the 2000 presentation.

2. EQUIPMENT LEASED TO CUSTOMERS

	2000	1999
Cost	\$ 393,604	\$ 392,366
Less accumulated depreciation	<u>(139,655)</u>	<u>(120,215)</u>
	<u>\$ 253,949</u>	<u>\$ 272,151</u>

Depreciation of equipment leased to customers for the year ended December 31, 2000 was \$66,709 (1999: \$66,539).

3. RENTAL EQUIPMENT

	2000	1999
Cost	\$ 418,304	\$ 465,628
Less accumulated depreciation	<u>(107,285)</u>	<u>(124,094)</u>
	<u>\$ 311,019</u>	<u>\$ 341,534</u>

Depreciation of rental equipment for the year ended December 31, 2000 was \$96,168 (1999: \$91,924).

4. LAND, BUILDINGS AND EQUIPMENT

	2000	1999
Land	<u>\$ 47,017</u>	<u>\$ 47,647</u>
Buildings and equipment	302,215	321,573
Less accumulated depreciation	<u>(159,271)</u>	<u>(162,966)</u>
	<u>142,944</u>	<u>158,607</u>
Total land, buildings and equipment	<u>\$ 189,961</u>	<u>\$ 206,254</u>

Depreciation of buildings and equipment for the year ended December 31, 2000 was \$17,799 (1999: \$25,685).

5. INVESTMENT

Finning, through a new wholly-owned, U.K.-based subsidiary, reached agreement with the Board of Directors of Hewden Stuart Plc ("Hewden") on the terms of a recommended cash offer for all of the issued and to be issued ordinary share capital of Hewden. The offer was for 115 pence in cash for each Hewden share, valuing the existing issued share capital of Hewden at approximately £322,000 (\$700,000), based on 280.3 million shares in issue. Finning's offer, made on November 29, 2000 represented a 68-percent premium to Hewden's closing share price on October 23, the day before Hewden announced that it was in talks on a possible offer for the company.

Prior to December 31, 2000, Finning had acquired 29.4% of the issued ordinary share capital of Hewden for \$218,050. This acquisition is recorded at cost and reported as an investment on the balance sheet. On

January 12, 2001 Finning declared the offer wholly unconditional. As of January 30, 2001 Finning owned approximately 95.7% of Hewden shares. The Company is taking steps to acquire the remaining shares of Hewden and delist them from the London Stock Exchange.

The acquisition of Hewden will initially be financed through acquisition finance facilities for the purposes of making the offer to Hewden shareholders. Following completion of the takeover, Finning intends to refinance this facility through a combination of debt and minority interest.

GOODWILL

	2000	1999
Purchased goodwill, beginning of year	\$ 88,619	\$ 88,619
Goodwill on acquisitions made during the year	4,195	-
Reduction in goodwill in recognition of future income tax asset (Note 12)	(15,257)	-
Foreign exchange translation adjustment	220	-
Purchased goodwill, end of year	<u>77,777</u>	<u>88,619</u>
Accumulated amortization, beginning of year	(14,260)	(12,056)
Amortization for the year	(1,855)	(2,204)
Reduction in accumulated amortization of goodwill (Note 12)	2,283	-
Accumulated amortization, end of year	<u>(13,832)</u>	<u>(14,260)</u>
Net purchased goodwill	<u>\$ 63,945</u>	<u>\$ 74,359</u>

During the year the Company acquired two marine products distribution businesses operating in the U.K. and Ireland, namely MaK parts and service operations and Sabre Perkins operations for \$6,168. The acquisitions are accounted for under the purchase method. The excess of the cost of the acquisitions over the amounts assigned to the identifiable assets acquired less the liabilities assumed is assigned to goodwill.

As a result of the Company changing its method of accounting for income taxes in 2000, the Company adjusted its goodwill to recognize a previously unrecognized future income tax asset with respect to tax loss carry-forwards for \$12,974 that was acquired from the purchase of Finning Chile in 1993.

Amortization of goodwill for the year ended December 31, 2000 was \$1,855 (1999: \$2,204).

7.SHORT-TERM AND LONG-TERM DEBT

	2000	1999
Short-term debt		
Bank indebtedness, commercial paper and other loans (a)	<u>\$ 398,208</u>	<u>\$ 305,639</u>
Long-term debt		
Debtures (b)		
8.35% due March 22, 2004	75,000	75,000
7.75% due November 1, 2004	150,000	150,000
6.60% due December 8, 2006	75,000	75,000
Bank term facilities (c)	134,291	75,576
Bank term facilities denominated in pound sterling (d)	89,728	151,541
Other unsecured loans denominated in U.S. dollars and Chilean pesos, maturing between 2001 and 2004	20,422	65,803
	<u>544,441</u>	<u>592,920</u>
Less current portion of long-term debt	67,224	70,494
Total long-term debt	<u>\$ 477,217</u>	<u>\$ 522,426</u>

(a) Bank indebtedness, commercial paper and other loans

The Company has available \$907,800 in unsecured short-term credit facilities. Borrowings under the credit facilities are at floating rates of interest at a margin over Canadian dollar bankers' acceptance yields, and U.S. and U.K. LIBOR rates. In addition, the Company has a Canadian commercial paper program for \$300,000 which can be issued against the available credit amount. Other loans include supplier merchandising programs. Included in short-term debt are foreign currency amounts denominated in US \$26,599 (1999: US \$26,428) and in £22,256 (1999: £11,555).

(b) Debentures

The Company's debentures are unsecured, and interest is payable semi-annually with principal due on maturity.

(c) Bank term facilities

The Company has available \$135,000 in unsecured term facilities. Borrowings under the term facilities are at floating rates of interest which averaged 6.24% in 2000 (1999: 5.23%). These facilities expire on August 31, 2001 and December 31, 2002.

(d) Bank term facilities denominated in pound sterling

The pound sterling term facilities are unsecured and are comprised of a £15,000 floating rate loan at an average interest rate of 6.63% (1999: 6.09%), maturing May 25, 2003; and a £25,000 fixed rate loan at 7.675%, maturing May 8, 2002. The proceeds of these loans have been used to finance the Company's investment in the U.K.

Long-Term Debt Repayments

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

2001	\$ 67,224
2002	133,918
2003	36,865
2004	228,217
2005	3,217
Thereafter	75,000
	<u>\$ 544,441</u>

Interest expense includes interest on debt incurred for a term greater than one year of \$36,935 (1999: \$34,111).

8. FINANCIAL INSTRUMENTS

The Company uses derivative financial instruments as part of an overall risk management strategy to manage the underlying financial and economic risks of the Company and to achieve lower cost financing. The Company uses derivative financial instruments to manage the mix of fixed and floating interest rate exposure, to manage foreign exchange exposure, and to diversify sources of financing.

Interest Rate Risk Management

The Company has a policy of arranging its financing so that the fixed rate financing offered to its customers on its lease and notes portfolio is matched by fixed rate borrowings. As well, the portfolio is matched on currency and term. To meet this objective, the Company enters into interest rate swap agreements, which fix the effective interest rate and currency of the borrowing. At December 31, 2000, interest rate swap agreements having a notional principal amount of \$80,043 (1999: \$104,810) at a weighted average fixed pay rate of 5.69% (1999: 5.49%) were outstanding. These agreements expire on various dates between 2001 and 2005. Additionally, the Company had an interest rate swap agreement outstanding at a notional principal amount of \$150,000 (1999: \$150,000). The Company received a fixed rate of 7.75% (1999: 7.75%) and paid a floating bankers' acceptances based rate determined quarterly. This rate was 7.00% at December 31, 2000 (6.41% at

December 31, 1999). On January 22, 2001, the Company unwound the swap, thus fixing \$150,000 of its debt portfolio. The market value adjustment of the interest rate swap agreements as at December 31, 2000 was \$4,597 (1999: \$458) in favor of the Company, taking into account interest rates in effect at the time.

Foreign Exchange Risk Management

The Company manages foreign exchange risk by matching assets with related liabilities, through adjustments in the pricing of its product sales, and through the use of derivative instruments such as forward exchange contracts.

As at December 31, 2000, the Company had forward exchange contracts to sell £95,560 and option contracts to purchase £227,000 to hedge exchange exposure on its investment in Hewden shares (Note 5).

Subsequent to the year-end, the Company completed the acquisition of Hewden. The forward and option contracts described above were settled and the Company entered into a long term forward contract and cross currency swap to hedge its investment in Hewden. Under the terms of the contracts, the Company is obligated to deliver a notional amount of £323,560 and receive Canadian dollars at an exchange rate of 2.189. In addition, Finning has hedged £19,000 of annual cash flows from Hewden. Under the cross currency swap, Finning is obligated to deliver £19,000 annually and receive a floating Canadian dollar amount.

Fair Values

The fair value of financial instruments is determined by reference to quoted market prices for actual or similar instruments, where available, or by estimates derived using present value or other valuation techniques. The fair value of accounts receivable, notes receivable, short-term debt, accounts payable and accruals approximates their recorded values due to the short-term maturities of these instruments.

	Asset (Liability)			
	2000		1999	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Long-term debt (includes current portion)	\$(544,441)	\$ (545,903)	\$ (592,920)	\$ (590,995)
Interest rate swaps		\$ 4,597	\$	458
Forward exchange and options contracts		\$ 9,922	\$	(28)

Credit Risk

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

The credit risk of the foreign currency contracts and interest rate swap agreements arises from the possibility that the counterparties to the agreements or contracts may default on their obligations; however, the Company does not anticipate such an event to occur. In order to minimize this risk, the Company enters into such agreements only with highly rated financial institutions.

9. SHARE CAPITAL

AUTHORIZED

Unlimited	Preferred shares without par of which 4,400,000 are designated as Cumulative Redeemable Preferred shares
Unlimited	Common shares

ISSUED AND OUTSTANDING

Common Shares

	2000		1999	
	Shares	Amount	Shares	Amount
Balance, beginning of year	79,736,877	\$209,955	79,427,879	\$207,583
Conversion of preferred shares	-	-	156,352	996
Exercise of stock options	147,406	1,472	152,646	1,376
Repurchase of common shares	(4,093,820)	(10,798)	-	-
	<u>75,790,463</u>	<u>\$200,629</u>	<u>79,736,877</u>	<u>\$209,955</u>

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

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. The rights may also be triggered by a third party proposal for merger, amalgamation or a similar transaction. The rights plan will expire at the termination of the Annual Meeting of shareholders to be held in 2002.

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

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

Stock Options

The Company has several stock option plans for employees and directors, the details of which are as follows:

	<u>Shares</u>	<u>Option Price</u>
Options outstanding, beginning of year	5,932,918	\$ 6.00 to \$17.00
Issued	1,085,917	\$11.96 to \$12.98
Exercised	(147,406)	\$ 7.58 to \$11.86
Cancelled	(252,988)	\$ 7.58 to \$17.00
Options outstanding, end of year	<u>6,618,441</u>	<u>\$ 6.00 to \$17.00</u>

There were 4,494,635 options exercisable at December 31, 2000 with the remaining options outstanding exercisable at various times to July 26, 2010.

Repurchase of Common Shares

The Company repurchased 4,093,820 common shares during 2000 as part of a normal course issuer bid under which the Company was allowed to buy back a maximum of 6.8 million shares. These shares were repurchased at an average price of \$12.02 for an aggregate cost of \$49,196 which has been allocated to reduce share capital by \$10,798 and retained earnings by \$38,398.

10. CUMULATIVE CURRENCY TRANSLATION ADJUSTMENTS

	2000	1999
Balance, beginning of year	\$ (15,388)	\$ 9,970
Gain realized during the year	-	(5,435)
Translation adjustments for the year	<u>(8,354)</u>	<u>(19,923)</u>
Balance, end of year	<u>\$ (23,742)</u>	<u>\$ (15,388)</u>

Translation gains or losses on the consolidation of foreign subsidiaries' financial statements are accumulated in this account. Translation adjustments arise as a result of fluctuations in foreign currency exchange rates. At December 31, 2000, 1999 and 1998, the Canadian dollar exchange rates against the British pound sterling were 2.2432, 2.3314 and 2.5448 respectively, and the Chilean peso exchange rates against the Canadian dollar were 382, 367 and 308, respectively. The cumulative currency translation adjustment for 2000 resulted from the weakening of the Chilean peso and pound sterling against the Canadian dollar.

During 1999, a dividend of £10,000 was paid from Finning Holdings Limited (U.K.) to the Company which generated a foreign exchange gain of \$5,435.

11. EMPLOYEE BENEFITS**2000**

	<u>CANADA</u>	<u>UK</u>	<u>TOTAL</u>
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The expense for the Company's benefit plans, primarily for pension benefits, is as follows:

Defined contribution plans

Current service cost	\$ 3,896	\$ -	\$ 3,896
Net benefit plan expense	<u>\$ 3,896</u>	<u>\$ -</u>	<u>\$ 3,896</u>

Defined benefit plans

Current service cost, net of employee contributions	\$ 4,716	\$ 9,873	\$ 14,589
Interest cost	12,926	15,327	28,253
Expected return on plan assets	(15,420)	(19,492)	(34,912)
Amortization of transitional obligation/ (asset)	1,144	(1,307)	(163)
Net benefit plan expense	<u>\$ 3,366</u>	<u>\$ 4,401</u>	<u>\$ 7,767</u>
 Total	 <u><u>\$ 7,262</u></u>	 <u><u>\$ 4,401</u></u>	 <u><u>\$ 11,663</u></u>

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

Accrued benefit obligation -

Balance at the beginning of the year	\$ 183,926	\$ 279,801	\$ 463,727
Current service cost	6,698	12,176	18,874
Interest cost	12,926	15,327	28,253
Benefits paid	(11,936)	(5,787)	(17,723)
Actuarial gains	-	(3,810)	(3,810)
Foreign exchange rate changes	-	(10,631)	(10,631)
Balance at the end of year	<u>\$ 191,614</u>	<u>\$ 287,076</u>	<u>\$ 478,690</u>

Plan Assets -

Fair value at the beginning of the year	\$ 186,377	\$ 298,760	\$ 485,137
Actual return on plan assets	20,074	(6,147)	13,927
Employer contributions	30	6,756	6,786
Employees' contributions	1,982	2,303	4,285
Benefits paid	(11,936)	(5,787)	(17,723)
Foreign exchange rate changes	-	(11,294)	(11,294)
Fair value at the end of year	<u>\$ 196,527</u>	<u>\$ 284,591</u>	<u>\$ 481,118</u>

	2000		
	<u>CANADA</u>	<u>UK</u>	<u>TOTAL</u>
Funded status - plan surplus (deficit)	\$ 4,913	\$ (2,485)	\$ 2,428
Unamortized net actuarial loss	(4,654)	21,772	17,118
Unamortized transitional obligation (asset)	<u>6,259</u>	<u>(16,936)</u>	<u>(10,677)</u>
Accrued benefit asset	<u>\$ 6,518</u>	<u>\$ 2,351</u>	<u>\$ 8,869</u>

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

Accrued benefit obligation	\$ 21,283	\$ -	\$ 21,283
Fair value of plan assets	<u>8,930</u>	<u>-</u>	<u>8,930</u>
Funded status - plan deficit	<u>\$ 12,353</u>	<u>\$ -</u>	<u>\$ 12,353</u>

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

Discount rate	7.0%	5.5%
Expected long-term rate of return on plan assets	8.5%	6.8%
Rate of compensation increase	3.4%	4.5%
Rate of increase in non-pension benefits	4.7%	N/A
Estimated Remaining Service Life (Years)	2 - 13	14

Plan assets include common shares of the Company having a fair value of \$906 at December 31, 2000.

In 1999, the Company's obligations for pension benefits, under its defined benefit plans, were estimated by the plans' actuaries to be \$356,734. The pension plan assets, on an adjusted market value basis were \$373,182.

12. INCOME TAXES

Provision for Income Taxes

	<u>2000</u>	<u>1999</u>
Current income tax expense	\$ 30,886	\$ 17,507
Future income tax expense	2,434	6,037
Provision for income taxes	<u>\$ 33,320</u>	<u>\$ 23,544</u>

Reconciliation of the Company's effective income tax rate from statutory Canadian tax rates for the years ended December 31, 2000 and 1999 is as follows:

	<u>2000</u>	<u>1999</u>
Combined federal and provincial tax rates	<u>43.79%</u>	<u>43.99%</u>
Provision for income taxes based on the combined federal and provincial rates	\$ 46,729	\$ 36,575
Increase (decrease) in provision resulting from:		
Lower effective rates on the losses(earnings) of foreign subsidiaries	(15,823)	(9,049)
Benefit of unrecognized loss carry-forward of foreign subsidiary	-	(2,320)
Amortization of goodwill and increase in assigned asset value	431	433
Large corporation tax	1,651	2,002
Income not subject to tax	(694)	(2,735)
Other items	1,026	(1,362)
Provision for income taxes	<u>\$ 33,320</u>	<u>\$ 23,544</u>

Future Income Tax Asset and Liability

Temporary differences and tax loss carry-forwards that give rise to future income tax assets and liabilities as at December 31, 2000 and 1999 are described below. As a result of the Company changing its method of accounting for income taxes in 2000, the Company adjusted its goodwill to recognize a previously

unrecognized future income tax asset with respect to tax loss carry-forwards for \$12,974 that was acquired from the purchase of Finning Chile in 1993.

As at December 31, 2000 tax loss carry forwards of \$49,767 in Chilean pesos equivalent is available to Finning Chile S.A. to offset future taxable income. This loss is indexed to Chile's inflation rate and has no expiry date.

	<u>2000</u>	<u>1999</u>
Future income tax assets:		
Tax loss carry-forwards	\$ 7,465	\$ -
Future income tax liabilities:		
Capital, rental, leased assets, inventories and reserves	(8,009)	(5,475)
Pensions	(3,349)	(6,790)
Other	(5,056)	(5,407)
	<u>\$ (8,949)</u>	<u>\$ (17,672)</u>
Net future income tax liability distributed as such:		
Future income tax asset – non-current	\$ 7,465	\$ -
Future income liability– current	(2,471)	(2,491)
Future income liability– non-current	(13,943)	(15,181)
	<u>\$ (8,949)</u>	<u>\$ (17,672)</u>

13. EARNINGS PER SHARE

Basic earnings per share is calculated by dividing net income available to the shareholders by the weighted average number of common shares outstanding during the period. Diluted earnings per share is calculated to reflect the dilutive effect of exercising outstanding stock options by application of the treasury stock method. The comparative diluted earnings per share for 1999 has been restated.

Calculation of earnings per share:

	Income (Numerator) (\$ in '000's)	Shares (Denominator)	Per Share Amount
<u>2000</u>			
Basic earnings per share:			
Income available to common shareholders	\$73,391	77,436,109	\$ 0.95
Effect of dilutive securities:			
Stock options		704,950	(0.01)
Diluted earnings per share:			
Income available to common shareholders and assumed conversions	<u>\$73,391</u>	<u>78,141,059</u>	<u>\$ 0.94</u>
<u>1999</u>			
Basic earnings per share:			
Income available to common shareholders	\$59,581	79,616,362	\$ 0.75
Effect of dilutive securities:			
Stock options		846,529	(0.01)
Diluted earnings per share:			
Income available to common shareholders and assumed conversions	<u>\$59,581</u>	<u>80,462,891</u>	<u>\$ 0.74</u>

14. ECONOMIC RELATIONSHIPS

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

15. SEGMENTED INFORMATION

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

Operating units are as follows:

- Canadian operations: British Columbia, Alberta, most of the Northwest Territories and the Yukon.
- U.K. operations: England, Scotland, Wales, Falkland Islands and the Channel Islands.
- Chilean operations: throughout the country.
- UMS represents the international used equipment and parts operations.
- Corporate includes corporate head office operations.

The reportable operating segments are:

	Canada	UK	Chile	UMS	Corporate	Consolidated
2000						
Revenue from external sources	\$ 1,214,516	\$ 682,162	\$ 474,145	\$ 89,013	\$ 196	\$ 2,460,032
Operating costs	943,226	629,309	435,877	91,874	12,042	2,112,238
Depreciation	147,300	24,389	8,987	-	-	180,676
Amortization of goodwill	1,012	843	-	-	-	1,855
Earnings before interest and tax	\$ 122,978	\$ 27,621	\$ 29,281	\$ (2,771)	\$ (11,846)	\$ 165,263
Finance cost and interest on other indebtedness						58,552
Provision for income taxes						33,320
Net income						\$ 73,391
Identifiable assets	\$ 1,195,607	\$ 433,161	\$ 226,422	\$ 82,744	\$ 219,707	\$ 2,157,641
Capital expenditures	\$ 7,851	\$ 3,862	\$ 3,324	\$ -	\$ -	\$ 15,037
Corporate assets include \$218,050 investment in Hewden shares.						
1999						
Revenue from external sources	\$ 1,032,922	\$ 712,941	\$ 377,777	\$ 106,216	\$ 5	\$ 2,229,861
Operating costs	785,290	669,520	332,638	103,734	3,415	1,894,597
Depreciation	144,167	23,668	15,463	850	-	184,148
Amortization of goodwill	984	836	384	-	-	2,204
Earnings before interest and tax	\$ 102,481	\$ 18,917	\$ 29,292	\$ 1,632	\$ (3,410)	\$ 148,912
Finance cost and interest on other indebtedness						65,768
Provision for income taxes						23,544
Net income						\$ 59,600
Identifiable assets	\$ 1,242,837	\$ 454,267	\$ 245,725	\$ 83,405	\$ -	\$ 2,026,234
Capital expenditures	\$ 8,703	\$ 6,106	\$ 6,055	\$ -	\$ -	\$ 20,864

MANAGEMENT'S REPORT TO THE SHAREHOLDERS

The Consolidated Financial Statements of the Company have been prepared by management in accordance with generally accepted accounting principles and necessarily include some amounts that are based on management's best estimates and judgement of all information available up to January 30, 2001.

The Company maintains an accounting system and related controls to provide management with reasonable assurance that transactions are executed and recorded in accordance with its authorizations, that assets are properly safeguarded and accounted for, and that financial records are reliable for preparation of financial statements.

The Company's independent auditors, appointed by the shareholders, express an opinion as to whether management's financial statements present fairly the Company's financial position, operating results and cash flow in accordance with generally accepted accounting principles.

The Audit Committee of the Board of Directors, consisting solely of outside directors, meets regularly during the year with financial officers of the Company and the external auditors to review internal accounting controls, risk management, audit results, quarterly financial results and accounting principles and practices. In addition, the Audit Committee reports its findings to the Board of Directors which reviews and approves the Consolidated Financial Statements contained in this Annual Report.

The financial statements have, in management's opinion, been properly prepared within reasonable limits of materiality and within the framework of the accounting policies summarized in Note 1 of the Notes to Consolidated Financial Statements. Financial information elsewhere in this Annual Report is consistent with that in the financial statements.



R. T. Mahler
Executive Vice President and Chief Financial Officer
January 30, 2001, Vancouver, BC Canada

AUDITORS' REPORT

To the Shareholders of Finning International Inc.:

We have audited the consolidated balance sheets of Finning International Inc. (a Canadian corporation) as at December 31, 2000 and 1999 and the consolidated statements of income and retained earnings and cash flow for the years then ended. These Consolidated Financial Statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these Consolidated Financial Statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the Consolidated Financial Statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the Consolidated Financial Statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall Consolidated Financial Statement presentation.

In our opinion, these Consolidated Financial Statements present fairly, in all material respects, the financial position of the Company as at December 31, 2000 and 1999 and the results of its operations and cash flow for the years then ended in accordance with Canadian generally accepted accounting principles.



ARTHUR ANDERSEN LLP, Chartered Accountants

January 30, 2001, Vancouver, BC Canada