

**FINNING INTERNATIONAL INC.**  
**ANNUAL INFORMATION FORM**  
**FOR THE YEAR ENDED**  
**DECEMBER 31, 2004**

DATED AS OF MARCH 18, 2005

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

**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 “Corporation” means Finning International Inc. and “Finning” means Finning International Inc. together with its subsidiaries and operating divisions. All dollars are Canadian dollars unless otherwise indicated.

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

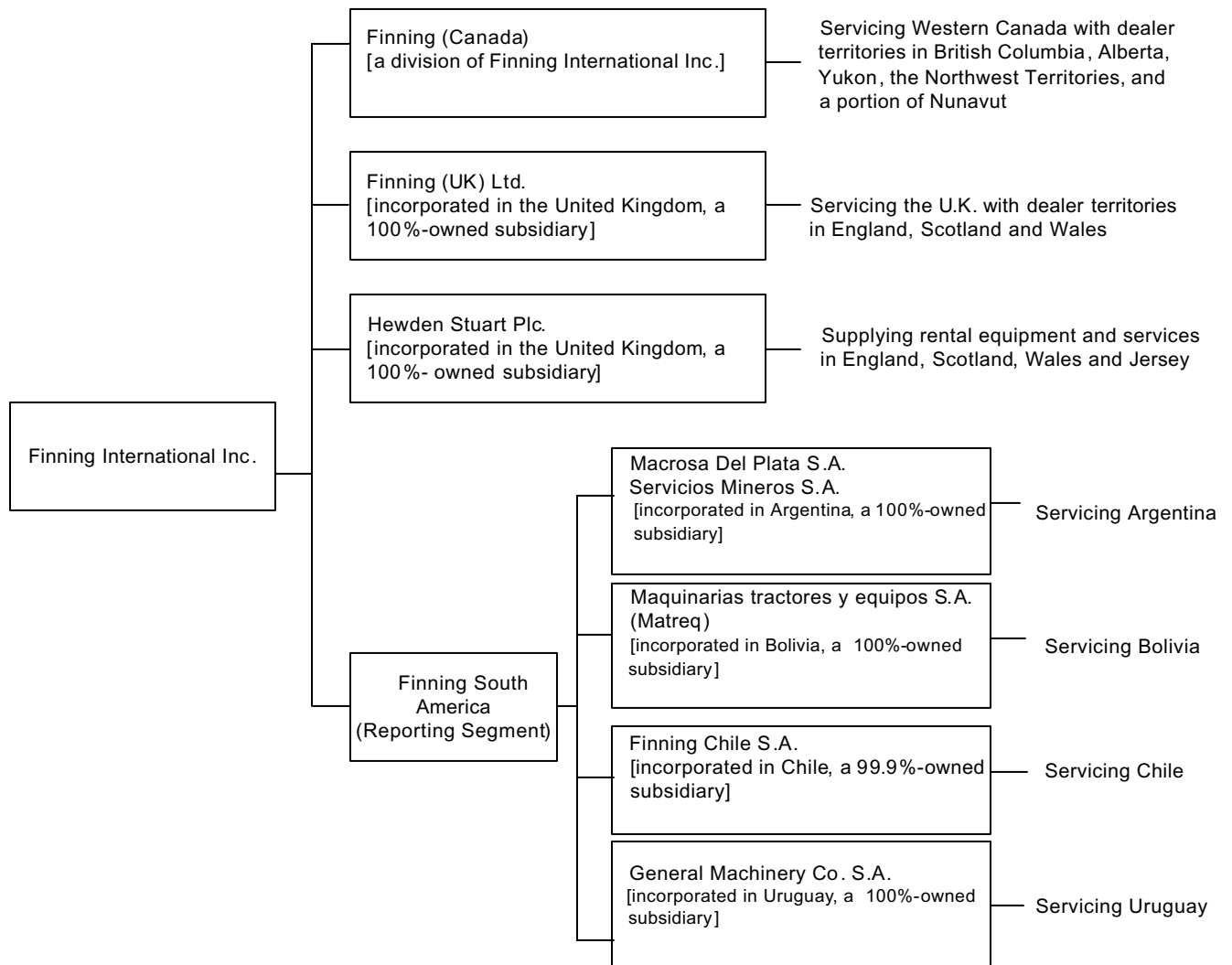
## **1. NAME AND INCORPORATION**

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

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

## **2. PRINCIPAL OPERATING SUBSIDIARIES AND DIVISIONS**

The following organization chart outlines the Company’s principal operating subsidiaries and divisions and the geographic areas they serve. As at December 31, 2004 there were no other subsidiaries of the Company whose total assets represented more than 10% of the consolidated assets of the Company or whose total revenues for the year then ended represented more than 10% of the consolidated revenue of the Company.



### 3. GENERAL DEVELOPMENT OF THE BUSINESS

Finning is a Canadian-based international company which sells, rents, and provides customer support services for Caterpillar Inc. (“Caterpillar”) equipment and engines and complementary equipment on three continents around the world. In terms of sales volume, Finning is one of the largest distributors of Caterpillar products in the world and is the authorized dealer of Caterpillar products in its Western Canada territories, the United Kingdom and the southern cone of South America (defined as the countries of Argentina, Bolivia, Chile and Uruguay). Finning has over 12,000 employees serving in these dealer territories. Finning has been a dealer of Caterpillar products since 1933.

### 3.1 Brief History

#### **Canada**

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

#### **United Kingdom (UK)**

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

#### **South America**

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

| <b>Caterpillar<br/>Dealership</b> | <b>Effective Date of<br/>Acquisition:</b> | <b>Companies Acquired:</b>  |
|-----------------------------------|---|---|
| Argentina                         | January 1, 2003                           | Macrosa Del Plata S.A. and Servicios Mineros S.A.   |
| Bolivia                           | April 1, 2003                             | Matreq Ferreyros S.A., the name of the company was subsequently changed to Matreq S.A.  |
| Chile                             | August 1, 1993                            | Gildemeister S.A.C. (“Gildemeister”). On October 13, 1997, the name of the company was changed to Finning Chile S.A. (“Finning Chile”). |
| Uruguay                           | January 1, 2003                           | General Machinery Co. S.A.  |

#### **Hewden Stuart Plc**

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

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

### **Corporate**

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

### **3.2 Strategy**

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

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

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

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

Finning has established financial expectations throughout the organization by setting a strategic goal of achieving 15% annual growth in revenue and earnings, as well as a 30% market share in each of the core markets it serves. Finning believes its growth will come from a combination of harvesting organic growth opportunities within its existing dealer territories and making strategic, accretive acquisitions in areas where Finning can leverage its competitive strengths.

To complement its growth targets, Finning has also set a strategic performance target of 20% return on equity. Consistent with this goal, Finning has recently launched several initiatives designed to improve profit margins and generate significant cost savings throughout all areas of the organization. Finning believes there are substantial benefits to be realized from these key initiatives and, therefore, Finning management has made the successful implementation of these initiatives its top priority. Executive changes, implemented in late 2004, are intended to provide strong leadership to the business, and to direct implementation of the Company's strategies.

### **3.3 Growth Opportunities**

#### ***Internal Growth***

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

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

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

**United Kingdom:** Growth in the U.K. is primarily organic and the Company is focusing on significant efficiency opportunities by reviewing its business model. Finning believes that the announced £180 billion nationwide infrastructure renewal program in the United Kingdom will provide significant opportunities to increase revenue, at both Finning (UK) and to a lesser extent at Hewden. Many projects associated with this program are already underway and others are scheduled to start in the next few years.

Hewden has initiated several inter-related projects that are designed to improve the financial performance of the rental operation and are expected to drive future revenue growth by enhancing customer service and increasing market share. The goal is to simplify the organizational structure, with streamlined product offerings and one distribution channel to the customer. Finning also believes that Hewden has further growth potential through industry consolidation in the tool hire sector.

**South America:** Commodity prices for copper and gold are expected to remain strong near current levels and this bodes well for the Company's resource-based customers. An increase in mining activity, new development projects and related infrastructure projects stimulated by economic recovery in the region will provide Finning South America with an opportunity to increase its revenues both from equipment sales and customer support services over a longer term period.

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

### ***Growth by Acquisitions***

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

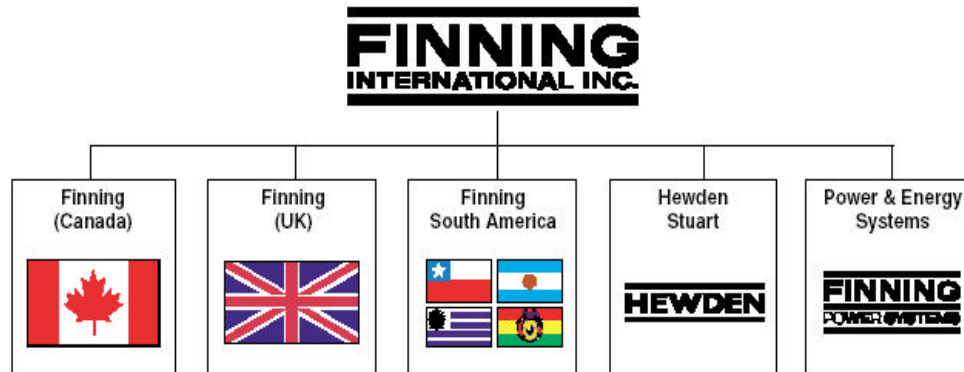
Acquisitions in existing territories enable Finning to leverage industry expertise and local knowledge, such as language, regulatory environment and business practices. As an example, following its 1993 acquisition of the Chilean Caterpillar dealership, Finning took advantage of its presence in the southern cone of South America and its strong relationship with Caterpillar and purchased dealerships in the neighbouring countries of Argentina, Bolivia and Uruguay in 2003. By transferring expertise from its Chilean operations to the newly acquired dealerships, Finning was able to significantly improve their financial and operating performance. Finning was also able to consolidate the operations into a single business unit (Finning South America) aligned by core business lines (such as mining, general machinery and power systems). In this manner, Finning has been able to improve customer marketing and maximize synergies from the acquisitions.

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

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

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

## 4. DESCRIPTION OF FINNING'S BUSINESS



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

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

- *Finning (Canada)*, an operating division of the Company, sells and rents Caterpillar and complementary equipment and provides customer support services throughout British Columbia, Alberta, the Yukon Territory, the Northwest Territories and a portion of Nunavut. Revenue from Canadian operations was \$1,562.6 million in 2004 compared with \$1,456.3 million in 2003. Finning (Canada) serves customers operating in a number of industries including mining, forestry, construction, pipeline/oil field development, government and agriculture.
- *Finning (UK) Ltd.*, which is the sole Caterpillar dealer for Great Britain, sells and rents Caterpillar and complementary equipment and provides customer support services throughout England, Scotland, Wales and the Channel Islands. Revenue from the UK operation was \$1,043.5 million (£437.8 million) in 2004 compared with \$934.2 million (£409.2 million) in 2003. Finning (UK) serves customers operating in a number of industries including mining and quarrying, construction, materials handling, plant hire and other specialist markets (demolition, waste management, landfill, industrial and paving equipment).
- *Finning South America*, comprised of subsidiaries of the Company operating in Argentina, Bolivia, Chile and Uruguay, sells and rents Caterpillar and complementary equipment and provides customer support services throughout these countries. Revenue from South American operations was \$869.9 million (US\$671.1 million) in 2004 compared with \$562.0 million (US\$406.0 million) in 2003. Finning South America serves customers operating in a number of industries including mining, energy, construction, agriculture and forestry.

- *Hewden* is one of the largest U.K. equipment rental and associated services operation in the United Kingdom. Revenue contributed from the operations of Hewden for 2004 was \$685.9 million (£288.1 million) compared with \$640.8 million (£280.5 million) in 2003. Hewden serves customers operating in a number of industries including construction, petro-chemical, engineering, manufacturing, telecommunications and other industries.
- *Finning Power Systems*. In 2001, the Company formed Finning Power Systems (“Power Systems”) to maximize engine sales opportunities that exist within Finning’s dealer territories in this fast-growing segment of Caterpillar’s business. Power Systems sells, rents and services engines and power generation products manufactured by Caterpillar and its subsidiaries. Power Systems also provides value-added solutions in the energy, marine and industrial markets. Total business revenues contributed by Finning Power Systems are reported within the country operation in which the revenues were generated and are not disclosed separately in the consolidated financial statements.

In 2004, Finning generated approximately 37% (2003: 40%) of its revenue from operations in Canada; 42% (2003: 44%) from the U.K.; and 21% (2003: 16%) from South America. Revenue from operations outside of Canada contributed 62% of consolidated revenue, representing a similar global diversification of revenues as experienced in 2003.

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

## REVENUE BY ACTIVITY

|                              | <u>2004</u>       |        | <u>2003</u>       |        | CHANGE          |
|------------------------------|-------------------|--------|-------------------|--------|-----------------|
| New equipment                | \$ 1,218.4        | 29.3%  | \$ 966.0          | 26.9%  | \$ 252.4        |
| New power & energy systems   | 273.5             | 6.6%   | 262.4             | 7.3%   | 11.1            |
| Used equipment               | 391.2             | 9.4%   | 363.6             | 10.1%  | 27.6            |
| Equipment rental             | 1,009.8           | 24.3%  | 821.3             | 22.9%  | 188.5           |
| Customer support services    | 1,237.0           | 29.7%  | 1,109.6           | 30.9%  | 127.4           |
| Operating leases & financing | 32.0              | 0.7%   | 70.4              | 1.9%   | (38.4)          |
|                              | <u>\$ 4,161.9</u> | 100.0% | <u>\$ 3,593.3</u> | 100.0% | <u>\$ 568.6</u> |

(\$ MILLIONS)

### 4.1 New Equipment and Power and Energy Systems

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, pipe-layers. Through its Power System division, Finning also distributes engines and engine packages for use in oil and gas, electric power, marine, trucks and industrial applications. In addition, Finning distributes other Caterpillar brands, including engines branded as MaK and Perkins and paving machines branded as Bitelli. Finning (UK) and Finning South America distribute Caterpillar generators branded as FG Wilson within areas of their territories. In its materials handling division, Finning (UK) distributes Caterpillar branded equipment manufactured by Mitsubishi Caterpillar Forklift Europe B.V. as well as Caterpillar branded warehouse equipment manufactured by Rocla of Finland. To complement its Caterpillar lines,

Finning also distributes some non-Caterpillar brands. Examples include:

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

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

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

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

## **4.2 Used Equipment**

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

## **4.3 Equipment Rental**

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

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

Finning (Canada): maintains a rental fleet consisting of Caterpillar dedicated forestry equipment and earthmoving equipment for the mining, construction and forestry industries. Also included in the fleet are power systems for electrical generation. Finning (Canada) also provides a full line of products from hand tools to smaller Caterpillar products (generally less than 120hp) through its CAT Rental Store locations which have expanded to become a network of 25 stores at the end of 2004.

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

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

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

#### **4.4 Customer Support Services**

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

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

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

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

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

With the exceptions of the Hewden rental operations, more than half of Finning's employees and facilities are devoted to parts warehousing, equipment repair and overhaul services. To provide customer support services, Finning employs approximately 1,800 qualified mechanics, welders, technicians, parts persons and other specialized tradespersons in Canada; approximately 1,200 in the U.K.; and approximately 2,400 in South America, comprising over 60% of the dealership operation's total employees.

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

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

#### ***4.5 Operating Leases and Financing***

In previous years, Finning (Canada), in conjunction with Caterpillar Financial Services Ltd. ("CFSL"), extended financing to its customers through leases and select conditional sales. The Company, with its strategy to focus on its core business of sales, rentals and customer support services, has arranged the sale of the major portions of its finance portfolio to CFSL while continuing to maintain a high level of service to its customers for their loan financing needs. In 2004, Finning (Canada) equipment revenues included \$106.3 million of lease contracts sold to Caterpillar Financial Services Limited (CFSL) (2003: \$74.3 million). As a result of these sales that occurred throughout 2004, the Canadian lease fleet was reduced from \$97.2 million at December 2003 to only \$2.8 million at December 2004. This has resulted in \$40.1 million lower lease revenues in 2004 when compared to 2003 and lease revenues are expected to be minimal for 2005.

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

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

#### **4.6 Organization of Business**

Finning's dealerships operate through an extensive network of (a) branches, which have sales, parts and repair services; (b) depots, which have repair facilities and limited, fast-moving parts stocks; and (c) residences, where one or more field service representatives provide customer support services in communities not otherwise serviced by branches or depots. The Finning dealership operations own approximately 20% of their locations. This network operated by each principal business unit can be summarized as follows:

Finning (Canada): represented by 45 branches, 4 depots and 21 residences.

Finning (UK): represented by 22 branches and 11 depots.

Finning South America: represented by 12 branches and 10 minesite locations in Chile; 10 branches and 4 minesite locations in Argentina; 2 branches in Bolivia; and, a single branch in Uruguay.

Hewden operates through an extensive network of 360 services delivery points at 309 locations throughout the U.K. Each depot varies in size and product offering with some large multi-discipline depots offering a broad range of equipment for hire, from mobile cranes to small tools. Hewden owns approximately 58% of its properties.

#### **4.7 Markets**

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

##### **CANADA**

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

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

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

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

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

## **UNITED KINGDOM**

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

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

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

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

In addition, the materials handling division of Finning (UK) sells and rents equipment in the Industrial Midlands, the north and south east of England and other population centres throughout the U.K. Major customers include automobile and other manufacturing plants, distribution centres, printing industries, food and beverage processing plants, stevedoring and building materials industries. Most of the lift truck fleet rentals are long-term and include maintenance and repair contracts.

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

## **SOUTH AMERICA**

In South America, the industry focus for operations can be summarized as follows:

Chile: supplies products and services for use in mining, construction, forestry and the marine industries. In the northern desert, large open pit copper and gold mines require fleets of off-highway trucks, loaders, tractors and other support equipment. Throughout the country, the construction industry involves highway construction and maintenance, hydroelectric dam construction, and other infrastructure programs. Finally, the forest industry along the southern coast of Chile requires equipment for road building, logging, log transportation and the handling of logs, lumber and finished products in yards and mills and at port facilities.

Argentina, Bolivia, and Uruguay: supplies products and services for use in the mining, oil and gas, construction, forestry and agriculture industries.

## **POWER SYSTEMS**

Power Systems sells engine products manufactured by Caterpillar and its subsidiaries, including Perkins, MaK, and F.G. Wilson. Power System packages Caterpillar products to provide power solutions to customers in the energy, marine, power generation and industrial sectors.

Finning (Canada): The largest potential for growth comes from the oil and gas industry in Alberta, northeast British Columbia and the Northwest Territories due to the need for power generation in remote locations. In addition, Finning participates in the development of independent power producing projects in Western Canada. Parts and service sales to the on-highway truck industry are significant in Western Canada. Finally, equipment management contracts also represent a significant growth opportunity for Power Systems.

Finning (UK): Power Systems has recently enjoyed strong opportunities from the landfill gas industry for power generation. Additional opportunities exist in the oil and gas sector, the pleasure craft industry (which purchases engines for vessels that are sold around the world) and the military and commercial ferry industries, which require large power generation equipment. In addition, in 2003, the Company made an investment in Energyst Rental Solutions (SM) (“Energyst”) formed in Europe by joining with Caterpillar and nine other European Caterpillar dealers in order to provide the rental of Caterpillar power products and packages throughout Europe. As part of the transaction, Finning (UK) sold its power rental business to Energyst. Through this investment, the Company’s power rental business scope has expanded from the U.K. to continental Europe.

Finning South America: Power Systems provides power generation equipment to the mining and oil and gas industries and marine propulsion to the fishing industry and the Chilean Navy. The Company also operates in Chile, through its subsidiary Diperk, which merchandises Perkins engines and FG Wilson generator sets to a wide variety of industrial and marine customers.

#### **4.8 Competition**

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

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

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

#### **4.9 Dealership and Distributor Agreements**

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

Finning has several dealership agreements with Caterpillar. The principal agreements can be terminated on 90 days notice in Canada and 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 started as a Caterpillar dealer in 1933 and has developed a strong relationship with Caterpillar. Caterpillar agreements with the other dealerships in South America are similar to those of Canada and Chile. Finning's management is not aware of any matter that could result in termination of any of the dealership agreements with Caterpillar.

Over 85% of Finning's dealership business involves Caterpillar products. As such, Finning's business is dependent on the market acceptance of Caterpillar products. From time to time, during periods of intense demand, Caterpillar finds it necessary to allocate its supply of particular products among its dealers. Such allocations of supply have not in the past proven to be a significant impediment to Finning in conducting its business.

In 1993, Caterpillar sold the majority of the lift truck manufacturing and marketing segment of its business to Mitsubishi. Mitsubishi ("MCF") then formed the companies Mitsubishi Caterpillar Forklift Americas Inc. and Mitsubishi Caterpillar Forklift Europe B.V. in which Caterpillar Inc. holds a 20% minority interest. MCF manufactures lift trucks and sells basically the same products under the "Caterpillar" and the

“Mitsubishi” brand names. In the U.K. and Chile, Finning continues as the dealer for the Caterpillar brand name materials handling product only.

Finning (Canada) has developed dealer relationships for other product lines in order to create new marketing opportunities and to expand its customer support services. Included are relationships with Boartlongyear Drilling Consumables, Wagner (a division of Allied Systems Company), Brunner Canada, Inc., Cubex Ltd., Blount International Inc., Perkins Western Canada, MaK, and Bitelli. In South America, dealer relationships exist with Ingersoll Rand, Genie Industries, Perkins, MaK, FG Wilson, IMT, Link Belt and Agco Challenger. In the U.K., dealer relationships exist with Eagle Picher, Sabre Perkins, MaK, FG Wilson, and Bitelli.

#### **4.10 Human Resources**

Finning had approximately 12,300 employees at the end of 2004: 3,000 in Canada; 2,400 in Finning (UK); 3,200 in South America; 3,700 in Hewden.

Approximately 46% of Finning’s total employees are skilled mechanics, technicians, parts persons 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. In 2003, a three-year collective agreement was negotiated with the BC/Yukon local, which will expire on April 14, 2006. A separate local of the IAM represents hourly-paid parts and service employees in Alberta and the Northwest Territories. Effective April 2002, a three-year collective agreement was negotiated with this local, which will expire on April 30, 2005.

In the U.K., the majority of the Hewden employees are not covered by union agreements and in Finning (UK) there have been no serious labour disruptions since acquisition in 1983. The collective agreement covering Finning (UK)’s service employees with the Transport and General Workers Union and Amicus was renegotiated in 2004 for a two-year term, expiring December 31, 2006. Negotiations with staff employees took place in January 2005 for the 2005 agreement and were successfully concluded.

In South America, the number of employees grew by 28% from the end of 2003. There are three unions (sindicatos) in Chile that represent the employees. Historically, the relationship between Finning Chile and the unions has been positive. A new four-year collective agreement was signed February 2005 with the unions at Finning Chile. A union at the national level covers mechanics in Argentina by law. This national agreement was signed in 1975 with no end date. A good working relationship with this union is maintained with both Macrosa del Plata S.A. and Servicios Mineros S.A. Bolivia also has a good working relationship with its one union covering 38 employees whose contract has been signed since 1999, with no requirements for a new agreement until both parties deem this necessary. There are no union agreements covering employees in Uruguay.

Finning management believes that employee engagement forms an integral part of achieving the Company's strategic goals. Employee satisfaction surveys and an employee performance appraisal system are used in all operations to assess the level of employee engagement. Finning encourages training and career development for all of its employees. In Hewden, mechanics have been attending additional training courses specifically focused on the maintenance of Caterpillar equipment due to the increase in the number of Caterpillar machines in the fleet. There are currently 105 apprentices employed by Hewden. In addition, Finning (Canada) and Finning South America, in partnership with Caterpillar, support Caterpillar's ThinkBIG equipment technician program at the Northern Alberta Institute of Technology (NAIT) in Edmonton, and Chile's national college, INACAP. In this program, Finning and Caterpillar combine to provide tools, instructors and machinery, and provide job opportunities to graduates.

#### **4.11 Environment**

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

#### **4.12 Health and Safety**

Finning is committed to fostering the health and safety of all its employees in the workplace. Committees at each branch conduct regular site inspections. Compensation plans are in place to reward continued improvement in the reduction of lost time accidents, worldwide. In 2004, the total number of accidents was reduced 11% to those experienced in the previous year, with significant improvements in the operations in Hewden and South America. Finning (Canada) employees celebrated a major safety achievement in 2004, having worked two million hours without a lost time injury.

Finning (Canada) participates in the Environmental Health & Safety committee of the Canadian Association of Equipment Distributors (CAED). This committee tracks injury statistics and identifies industry best practices for safety. Through collection of statistics by the CAED, it has been shown that Finning has one of the safest workplaces in Canada for its industry.

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

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

Hewden continues to focus strongly on safety. In 2002, an initiative was introduced to combine and multi-skill the Health and Safety and Property Auditors into one cohesive depot inspection team to increase efficiency and effectiveness. In 2003, an Environmental, Health & Safety Management System was introduced and divisional safety committees were also established.

### **4.13 Business Processes & Systems**

The Finning dealership operations (which exclude Hewden) are running computer systems supplied by Caterpillar.

Caterpillar's Dealer Business System ("DBS") provides Caterpillar dealers with software to manage parts, service and product support, finance, sales and merchandising, and marketing. From 1999 to 2001, Caterpillar investigated a strategy to replace DBS with a commercial software solution that would provide a standardized, internet-enabled framework and support common dealer business practices and processes. The result was to incorporate the best parts from commercially available software and customize it for Caterpillar and its dealers. The revised system is referred to as "DBSi". DBSi was created to address several tactical areas in the enterprise supply chain and to provide quicker delivery, greater product customization, integrated financial software, and improved customer relationship management and service. DBS and DBSi are used by a large majority of Caterpillar's dealers throughout the world

Finning, working together with Caterpillar, developed a common template for DBSi, to be installed in all the Finning dealerships. In January 2004, DBSi was installed in Finning (UK). As part of the DBSi deployment, Finning (UK)'s computer operations were outsourced to the Caterpillar Solution Centre in Peoria, Illinois. Telus Enterprise Solutions continues to provide services for personal computers and printers, and the wide area and local area networks.

Macrosa, in Argentina, installed the system in January 2003 as a pilot program for DBSi installations. Since that time, the system has been upgraded to include modifications made to the software for other dealerships. Macrosa's computer operations are also outsourced to the Caterpillar Solution Centre in Peoria, Illinois.

Finning's other dealership operations in Canada, Chile, Uruguay and Bolivia continue to run the previous DBS version of Caterpillar software.

The Company and Caterpillar are currently working on optimizing the efficiencies in the U.K. based DBSi system and are discussing future options for rollout of updated systems for the balance of the Company's operations.

Hewden has a project underway to evaluate their current varied software programs and information technology ("IT") processes. Hewden intends to implement a new information system that will support the hub and spoke model, and provide the platform for more efficient business processes. Finning expects that Hewden will realize substantial cost savings from the integration of its back office activities, consolidated supply chain activities, more efficient business processes and improved management information. The costs of these projects will be incurred over the next two to three years.

Similar to Finning (UK), IT operations within Finning (Canada), Finning South America and Hewden are outsourced to established vendors.

## **4.14 Key Business Risks**

### **Risk Management**

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

The Company is dedicated to a strong risk management culture to protect and enhance shareholder value. The processes within Finning's risk management function are designed to ensure that risks are properly identified, managed and reported.

### **Controls and Procedures Certification**

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

The Company will be required to disclose management's evaluation of the effectiveness of the design and operation of the Company's disclosure controls and procedures in 2005 and internal controls in 2006.

The Company has a global project in place and regular reporting on the status of the project is provided to senior management and the Company's Audit Committee. The Company believes it has adequate human and financial resources and project oversight in order to be able to meet the additional certification requirements as required by the regulations.

### **Financial Derivatives**

The Company uses various financial instruments such as interest rate swaps, forward exchange contracts and options to manage its foreign exchange and interest rate exposures. Derivative financial instruments are always associated with a related underlying risk position and are never used for trading or speculative purposes.

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

## **Financial Risks and Uncertainties**

### **INTEREST RATES**

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

### **CREDIT RISK**

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

### **FINANCING ARRANGEMENTS**

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

## **COMMODITY PRICES**

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

## **FOREIGN EXCHANGE EXPOSURE**

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

### *Investment in Foreign Operations*

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

It is the Company's objective to hedge its net foreign investments to the greatest extent possible. The Company has hedged a significant portion of its foreign investments through foreign currency denominated loans and other derivative contracts (forward contracts and cross currency swaps). Any exchange gains or losses arising from the translation of the hedge instruments are deferred and accounted for in the cumulative currency translation adjustment account. A 5% hypothetical strengthening of the Canadian dollar relative to all other currencies from the December 2004 month end rates, assuming the same current level of hedging instruments, would result in a deferred unrealized loss of approximately \$21 million.

### *Transaction Exposure*

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

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

*Translation Exposure*

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

**Sensitivity to variances in foreign exchange rates**

The sensitivity of the Company's annual net earnings to fluctuations in average annual foreign exchange rates is summarized in the table below. The table assumes that the Canadian dollar strengthens 5% against the currency noted, for a full year relative to the December 2004 month end rates, without any change in local currency volumes or hedging activities.

| <b>Currency</b> | <b>December 31, 2004<br/>month end rates</b> | <b>Increase (decrease) in annual<br/>net income (C\$ millions)</b> |
|-----------------|--|--|
| USD             | 1.2036                                       | (12)   |
| GBP             | 2.3062                                       | (3)  |
| EUR             | 1.6292                                       | 3  |
| CHP             | 0.002166                                     | 2  |

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

***Other Key Business Risks*****CATERPILLAR DEALERSHIP AGREEMENTS**

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

#### **RELIANCE ON KEY SUPPLIER**

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

The Company is also dependent on Caterpillar for timely supply of equipment and parts. From time to time, during periods of intense demand, Caterpillar finds it necessary to allocate its supply of particular products among its dealers. Such allocations of supply have not in the past proven to be a significant impediment to the Company in the conduct of its business. However, there can be no assurance that Caterpillar will continue to supply its products in the quantities and timeframes required by the Company's customers. The Company works closely with Caterpillar and our customers to ensure we can meet demand for new products and future deliveries included in our order backlog. Further, the Company's product supply could also be disrupted by potential labour disputes or strike action at Caterpillar. Any prolonged delays in product supply may adversely affect the Company's business, results of operations and financial condition.

#### **COMPETITION**

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

### **ECONOMIC CONDITIONS / BUSINESS CYCLICALITY**

Many of the Company's customers operate in industries that are cyclical in nature. As a result, customer demand for the Company's products and services may be affected by economic conditions on both a global or local level. Changes in interest rates, foreign exchange, commodity prices, and the level of government infrastructure spending may influence capital expenditure decisions, and ultimately the Company's sales. The Company has mitigated some of its exposure to variable business cycles by diversifying its business across a broad range of business activities, industry sectors, and geographic locations. Approximately 80% of the Company's gross margin is now generated from parts, service, and rental activities, which are significantly less sensitive to swings in commodity prices than are equipment sales. Notwithstanding the Company's extensive diversification, an economic downturn may adversely impact the Company's operating results, particularly at a regional level.

### **INTERNATIONAL OPERATIONS**

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

### **GROWTH INITIATIVES / INTEGRATION OF ACQUISITIONS / PROJECT EXECUTION**

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

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

To date, the Company has been very successful in profitably managing its expansion efforts. In 2003, the Company acquired three new Caterpillar dealerships in South America and a materials handling business in the United Kingdom. Although the Company has integrated these operations, there can be no assurance that the Company will fully realize the anticipated revenues, synergies, or other intended benefits associated with these or any other potential acquisitions in the future.

The Company currently has significant integration activities underway for its operations in the U.K. to improve internal controls, achieve cost savings and operational synergies between Hewden and Finning (UK). These activities include: the review of Hewden's business model for the rental business to better compete in the rental market; process efficiency and system improvements in Finning (UK); analysis of Hewden's information systems and technologies to improve customer relationships and better support customer requirements; and, identification of opportunities for synergies within and between the two operations. The Company has adopted and implemented a project management process and is expanding its capabilities in this area in order to manage risks associated with the complexity of the numerous cost initiatives and projects underway.

#### **FUTURE WARRANTY CLAIMS**

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

#### **MAINTENANCE AND REPAIR CONTRACTS**

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

## **GUARANTEES**

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

## **KEY PERSONNEL**

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

## **EMPLOYEE RELATIONS**

Many of the Company's employees are represented by unions and are covered by collective bargaining agreements. The Company is party to a number of collective bargaining agreements worldwide, which are subject to expiration at various dates in the future. Several of these agreements expired in 2004, and most were renewed for additional one-three year terms. Although recent labour negotiations were successful, there can be no assurance that future negotiations will be as successful. The renegotiation process could result in future work stoppages or higher wages and benefits paid to union members. The failure to renew collective agreements upon satisfactory terms could have a material adverse impact on the Company's business, results of operations, or financial condition.

## **INFORMATION SYSTEMS AND TECHNOLOGY**

Information systems are an integral part of the Company's business processes, including marketing of equipment and support services, inventory and logistics, and finance. Some of these systems are integrated with Caterpillar's core processes and systems. In addition, Caterpillar supplies the basic dealer business system used by the Company in its dealership operations, as well as the new dealer business system ("DBSi") recently implemented in Finning (UK). The Company is dependent on Caterpillar for future support and development of these systems and for hosting of the DBSi applications. Any disruptions to these systems or the failure of these systems to operate as expected could, depending on the magnitude of the problem, adversely affect the Company's operating results by limiting the ability to effectively monitor and control the Company's operations.

The Company is currently reviewing other information systems and technologies for its Hewden operation and its U.K. materials handling business to improve customer relationships and support sophisticated customer requirements, to improve internal controls and better manage financial stewardship.

### **DBSi IMPLEMENTATION**

Early in 2004, the Company completed the installation of a new business system at its U.K. dealership. The benefits of this new system are realized in part through process and organizational change, particularly in the areas of customer relationship management and project management. The DBSi initiative is intended to create a standard platform for existing dealerships and future dealership acquisitions. The Company is utilizing a phased deployment approach, territory by territory, to manage the risks surrounding benefits realization in the DBSi project. In addition, the Company has put programs of monitoring and compliance in place to ensure that project scope and project implementation costs are controlled. The suitability of this system for deployment at future acquisitions depends on the nature of the acquisitions, and the continued support of Caterpillar. There can be no absolute assurance that the Company will fully realize the anticipated benefits of the DBSi project, or that the system will meet the needs of potential future acquisitions. The Company is currently discussing with Caterpillar, future options for the rollout of updated systems for the balance of its operations.

### **GOVERNMENT REGULATION**

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

## **INSURANCE**

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

## **DEFINED BENEFIT PENSION PLANS**

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

## 5. SUMMARY OF FINANCIAL INFORMATION

### 5.1 Five Year Summary

Years Ended December 31

(\$ thousands except per share amounts)

|   | <u>2004</u>      | <u>2003</u>      | <u>2002</u>      | <u>2001</u>      | <u>2000</u>      |
|---|------------------|------------------|------------------|------------------|------------------|
| <b>Revenue from external sources</b>    |                  |                  |                  |                  |                  |
| Canada                                  | 1,562,584        | 1,456,357        | 1,269,275        | 1,398,623        | 1,214,516        |
| U.K. (2)                                | 1,043,485        | 934,193          | 828,246          | 804,084          | 682,162          |
| South America (2)                       | 869,893          | 561,964          | 444,644          | 448,005          | 474,145          |
| Hewden (2)                              | 685,930          | 640,757          | 665,266          | 587,482          | -                |
| Other (1)                               | 15               | 24               | 55               | 8,849            | 89,209           |
| <b>Total</b>                            | <b>4,161,907</b> | <b>3,593,295</b> | <b>3,207,486</b> | <b>3,247,043</b> | <b>2,460,032</b> |
| <b>Earnings before interest and tax</b> |                  |                  |                  |                  |                  |
| Canada                                  | 131,651          | 120,477          | 112,936          | 131,861          | 119,189          |
| U.K. (2)                                | 34,174           | 47,616           | 49,312           | 32,088           | 27,621           |
| South America (2)                       | 83,033           | 59,887           | 44,843           | 38,678           | 29,281           |
| Hewden (2)                              | 58,482           | 52,062           | 79,541           | 73,921           | -                |
| Other (1)                               | (41,599)         | (24,874)         | (8,849)          | (34,947)         | (10,828)         |
| <b>Total</b>                            | <b>265,741</b>   | <b>255,168</b>   | <b>277,783</b>   | <b>241,601</b>   | <b>165,263</b>   |
| <b>Net income</b>                       | <b>114,946</b>   | <b>131,951</b>   | <b>132,253</b>   | <b>103,917</b>   | <b>73,391</b>    |
| <b>Earnings per common share</b>        |                  |                  |                  |                  |                  |
| Basic                                   | 1.45             | 1.71             | 1.72             | 1.37             | 0.95             |
| Diluted                                 | 1.43             | 1.68             | 1.68             | 1.34             | 0.94             |
| <b>Dividends paid</b>                   |                  |                  |                  |                  |                  |
| <b>Per common share</b>                 | <b>0.40</b>      | <b>0.36</b>      | <b>0.30</b>      | <b>0.20</b>      | <b>0.20</b>      |
| <b>Long-term debt (3) (5)</b>           | <b>896,083</b>   | <b>983,424</b>   | <b>556,375</b>   | <b>673,742</b>   | <b>544,441</b>   |
| (includes current portion)              |                  |                  |                  |                  |                  |
| <b>Non-controlling interests (4)</b>    | <b>-</b>         | <b>425,000</b>   | <b>425,000</b>   | <b>425,000</b>   | <b>-</b>         |
| <b>Total assets</b>                     | <b>3,804,011</b> | <b>3,440,578</b> | <b>3,162,547</b> | <b>3,038,781</b> | <b>2,157,641</b> |

- The Company's *Other Segment* refers mainly to corporate head office costs and are essentially non-revenue generating. In 2001 and prior years, *Other Segment* also included Universal Machinery Services ("UMS"), which primarily sold used Caterpillar equipment and used parts worldwide. In late 2000, the UMS operations were realigned back into the dealership operations, with the residual used parts business transferred in 2001. The Company's other expense and income items that are not considered reflective of the underlying financial performance of the Company from ongoing operations are also included within *Other Segment* and are not allocated to the operational segment where the expense or income item originated.
- During 2003, the Company acquired the Caterpillar dealerships in Argentina, Uruguay and Bolivia and the materials handling business of Lex Harvey in the U.K. In January 2001, the Company acquired Hewden Stuart, Plc.

3. For further details regarding the long-term debt, see Note #4 to the Consolidated Financial Statements in the Company's 2004 Annual Report, incorporated by reference.
4. In the first quarter of 2001, Finning formed a partnership for the purpose of raising equity capital to fund the acquisition of Hewden. Private investors invested \$425.0 million of capital into the partnership in return for non-controlling partnership interests. The Company redeemed the non-controlling partnership interests held by the private investors in November 2004, through a common equity offering which raised proceeds, net of underwriting fees of \$292.8 million and through short-term bank borrowings.
5. On June 19, 2001, the Company issued \$200.0 million of 7.40% debentures due June 19, 2008 under its \$500.0 million Medium Term Note Program. The debentures are unsecured and interest is payable semi-annually. Proceeds from the debentures were used to reduce the Company's bank indebtedness.

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

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

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

## 5.2 Three Year Summary By Quarter

(Unaudited)

| Fiscal<br>Period | Qtr.         | Revenue<br>(\$000's) | Net Income<br>(\$000's) | Earnings Per Common Share |               |                           |
|------------------|--------------|----------------------|-------------------------|---------------------------|---------------|---------------------------|
|                  |              |                      |                         | Basic<br>\$               | Diluted<br>\$ | Basic<br>Normalized<br>\$ |
| 2004             | 1            | 968,175              | 23,869                  | 0.31                      | 0.30          | 0.37                      |
|                  | 2            | 1,032,667            | 27,781                  | 0.35                      | 0.35          | 0.40                      |
|                  | 3            | 1,085,865            | 43,115                  | 0.56                      | 0.55          | 0.56                      |
|                  | 4            | 1,075,200            | 20,181                  | 0.23                      | 0.23          | 0.42                      |
|                  | <b>Total</b> | <b>4,161,907</b>     | <b>114,946</b>          | <b>1.45</b>               | <b>1.43</b>   | <b>1.75</b>               |
| 2003             | 1            | 874,229              | 35,114                  | 0.45                      | 0.44          | 0.36                      |
|                  | 2            | 861,128              | 32,184                  | 0.42                      | 0.41          | 0.46                      |
|                  | 3            | 924,985              | 36,574                  | 0.48                      | 0.47          | 0.51                      |
|                  | 4            | 932,953              | 28,079                  | 0.36                      | 0.36          | 0.42                      |
|                  | <b>Total</b> | <b>3,593,295</b>     | <b>131,951</b>          | <b>1.71</b>               | <b>1.68</b>   | <b>1.75</b>               |
| 2002             | 1            | 771,569              | 30,736                  | 0.40                      | 0.39          | 0.30                      |
|                  | 2            | 797,386              | 34,690                  | 0.46                      | 0.44          | 0.44                      |
|                  | 3            | 790,872              | 35,600                  | 0.46                      | 0.45          | 0.45                      |
|                  | 4            | 847,659              | 31,227                  | 0.40                      | 0.40          | 0.47                      |
|                  | <b>Total</b> | <b>3,207,486</b>     | <b>132,253</b>          | <b>1.72</b>               | <b>1.68</b>   | <b>1.66</b>               |

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.

Normalized Net Income is not a generally accepted accounting measure but is used by management to assess the financial performance of the Company and its operating segments. Occasional or other significant items that do not reflect the underlying financial performance of the Company's ongoing operations are removed from reported results prepared in accordance with generally accepted accounting principles. Basic Normalized EPS is calculated by dividing Normalized Net Income by the weighted average number of common shares outstanding during the period. (For further information, refer to the Company's 2004 Annual Report, Management's Discussion and Analysis, Schedule 1, page 59, for a description of non-GAAP measures.)

## 6. MANAGEMENT'S DISCUSSION AND ANALYSIS

Management's Discussion and Analysis, relating to the Company's audited comparative consolidated financial statements for the fiscal years ended December 31, 2004 and December 31, 2003 and the report of the auditors thereon, is contained in Finning International Inc.'s *2004 Annual Report* and is incorporated by reference in this Annual Information Form.

## 7. DIVIDENDS

The Board of Directors, in determining whether to declare and pay dividends on the Company's common shares, considers the Company's recent and projected earnings, its capital investment requirements and its total return to shareholders. Dividends on common shares were \$31.2 million or \$0.40 per share in 2004, compared with \$27.8 million (\$0.36 per share) in 2003 and \$23.1 million (\$0.30 per share) in 2002. On February 23, 2005 the Company announced that its regular quarterly dividend would increase to 11 cents per share, payable March 23, 2005 to shareholders of record on March 9, 2005.

The Company has declared and paid the following dividends, on the dates and at the rates shown, since January 1, 2002. Except as prescribed by law, 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 27, 2002       | March 27, 2002    | \$0.07                |
| April 24, 2002          | May 22, 2002      | \$0.07                |
| July 24, 2002           | August 21, 2002   | \$0.08                |
| October 28, 2002        | November 26, 2002 | \$0.08                |
| January 29, 2003        | February 26, 2003 | \$0.09                |
| April 24, 2003          | May 22, 2003      | \$0.09                |
| July 22, 2003           | August 19, 2003   | \$0.09                |
| October 30, 2003        | November 27, 2003 | \$0.09                |
| February 4, 2004        | March 3, 2004     | \$0.10                |
| April 28, 2004          | May 26, 2004      | \$0.10                |
| August 3, 2004          | August 31, 2004   | \$0.10                |
| November 8, 2004        | December 6, 2004  | \$0.10                |
| February 23, 2005       | March 23, 2005    | \$0.11                |

## 8. DESCRIPTION OF CAPITAL STRUCTURE

The authorized share capital of the Company consists of:

- Unlimited preferred shares without par value, of which, 4,400,000 are designated as cumulative redeemable preferred shares. As of March 18, 2005, the Company had no preferred shares outstanding.
- Unlimited common shares. As of March 18, 2005, the Company had 88,596,131 common shares issued and outstanding.

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

The plan provides that one share purchase right has been issued for each common share and will trade with the common shares until such time as any person or group, other than a permitted bidder, bids to acquire or acquires 20% or more of the Company's common shares. The rights may also be triggered by a third party proposal for a merger, amalgamation or a similar transaction. The rights plan will expire at the termination of the Annual Meeting of shareholders to be held in May 2005. At the Company's 2005 meeting, the shareholders will be asked to approve the extension of the rights plan for three years such that it will automatically terminate at the end of the Company's annual meeting in 2008, unless further extended by the shareholders prior to that time.

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.

## 9. CREDIT RATINGS

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

|                                     | <b>DBRS (1)</b> | <b>S&amp;P (2)</b> |
|-------------------------------------|-----------------|--------------------|
| Short-term Debt. ....               | R-2(high)       | N/A                |
| Medium Term Notes / Debentures..... | BBB(high)       | BBB+               |
| Eurobond .....                      | N/A             | BBB+               |

Notes:

(1) Dominion Bond Rating Service Limited ("DBRS") maintains a stable trend on the above securities.

(2) Standard and Poor's ("S&P") maintains a stable outlook on the above securities.

### Long Term Debt Credit Ratings

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

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

### Short-Term Debt Credit Ratings

The R-2(high) rating for the Company is the 4<sup>th</sup> highest of ten categories within the DBRS short-term debt rating scale and is considered to be at the upper end of adequate credit quality. The ability to repay obligations as they mature remains acceptable, although the overall strength and outlook for key liquidity, debt, and profitability ratios is not as strong as credits rated in the R-1(low) category.

### Credit Ratings Generally

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

## 10. MARKETS FOR THE SECURITIES OF THE COMPANY

The common shares of the Company are listed on the Toronto Stock Exchange under the symbol FTT. The following table sets forth the high and low prices and the volume of common shares traded on the Toronto Stock Exchange during 2004.

| <u>Month</u> | <u>High \$</u> | <u>Low \$</u> | <u>Volume (000)</u> |
|--------------|----------------|---------------|---------------------|
| January      | 32.99          | 30.00         | 4,846,300           |
| February     | 31.74          | 29.50         | 6,325,374           |
| March        | 31.00          | 29.50         | 3,943,849           |
| April        | 30.68          | 28.48         | 4,544,953           |
| May          | 32.85          | 29.70         | 2,147,065           |
| June         | 33.75          | 31.20         | 2,490,173           |
| July         | 33.75          | 32.00         | 1,315,886           |
| August       | 33.00          | 29.25         | 2,443,257           |
| September    | 32.00          | 30.25         | 3,561,227           |
| October      | 33.95          | 30.90         | 2,332,610           |
| November     | 33.84          | 30.51         | 6,296,029           |
| December     | 35.75          | 32.65         | 3,556,898           |

### TRANSFER AGENT AND REGISTRAR

The transfer agent and registrar for the Company's common shares is Computershare Trust Company of Canada which has offices in Halifax, Montreal, Toronto, Calgary and Vancouver.

## 11. DIRECTORS AND OFFICERS

### 11.1 Directors as of March 18, 2005

| Name and Municipality of Residence                              | Principal Occupation  | Year First Became Director |
|---|---|----------------------------|
| Ricardo Bacarreza <sup>1, 3</sup><br>Santiago, Chile            | Presidente,<br>Proinvest S.A.   | 1999                       |
| John E. Cleghorn <sup>3, 4</sup><br>Toronto, ON                 | Chairman of the Board,<br>SNC – Lavalin Group Inc.  | 2000                       |
| James F. Dinning <sup>2, 3</sup><br>Calgary, AB                 | Chairman of the Board,<br>Western Financial Group   | 1997                       |
| Timothy S. Howden <sup>2 (chairman), 4</sup><br>Marlow, England | Company Director  | 1998                       |
| Jefferson J. Mooney <sup>1, 2</sup><br>Vancouver, BC            | Chairman,<br>A&W Food Services of Canada, Inc.  | 2000                       |
| Donald S. O'Sullivan <sup>2, 4 (chairman)</sup><br>Edmonton, AB | President,<br>O'Sullivan Resources Ltd.   | 1991                       |
| Conrad A. Pinette <sup>4, 5</sup><br>Vancouver, BC              | Executive Vice President,<br>Riverside Forest Products Limited  | 1992                       |
| Andrew H. Simon <sup>1(chairman), 4</sup><br>London, England    | Company Director  | 1999                       |
| Michael T. Waites <sup>1</sup><br>Calgary, AB                   | Executive Vice President, Chief Financial<br>Officer and Chief Executive Officer,<br>U.S. Network, Canadian Pacific Railway | 2003                       |
| Douglas W.G. Whitehead <sup>3</sup><br>West Vancouver, BC       | President and Chief Executive Officer,<br>Finning International Inc.  | 1999                       |
| John M. Willson <sup>2, 3(chairman)</sup><br>Vancouver, BC      | Company Director  | 2000                       |

<sup>1</sup> Member, Audit Committee

<sup>2</sup> Member, Human Resources, Compensation and Pension Committee

<sup>3</sup> Member, Environmental, Health and Safety Committee

<sup>4</sup> Member, Corporate Governance Committee

<sup>5</sup> Chairman of the Board

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

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

| Director                | Principal Occupation  | From     | To       |
|-------------------------|---|----------|----------|
| John E. Cleghorn        | Chairman of the Board,<br>SNC- Lavalin Group Inc.   | May 2002 | Present  |
|                         | Company Director  | Jul 2001 | May 2002 |
|                         | Chairman & Chief Executive Officer,<br>Royal Bank of Canada   | Jan 1995 | Jul 2001 |
| James F. Dinning        | Chairman of the Board,<br>Western Financial Group   | Sep 2004 | Present  |
|                         | Executive Vice President,<br>TransAlta Corp.  | Jan 2003 | Sep 2004 |
|                         | Executive Vice President, Sustainable<br>Development and External Relations,<br>TransAlta Corp.                             | Jun 1999 | Dec 2002 |
| Jefferson J. Mooney     | Chairman,<br>A&W Food Services of Canada Inc.   | Feb 2005 | Present  |
|                         | Chairman and Chief Executive Officer,<br>A&W Food Services of Canada Inc.   | Mar 2002 | Feb 2005 |
|                         | Chairman, President and Chief Executive<br>Officer,<br>A&W Food Services of Canada Inc.                                     | Sep 1995 | Mar 2002 |
| Conrad A. Pinette       | Executive Vice President,<br>Riverside Forest Products Limited  | Apr 2004 | Present  |
|                         | President and Chief Operating Officer,<br>Lignum Limited  | Jan 1990 | Apr 2004 |
| Andrew H. Simon         | Company Director  | Jul 2002 | Present  |
|                         | Executive Vice Chairman,<br>Diamant Boart S.A.  | Dec 1999 | Jul 2002 |
| Michael T. Waites       | Executive Vice President, Chief Financial<br>Officer and Chief Executive Officer,<br>U.S. Network, Canadian Pacific Railway | Mar 2003 | Present  |
|                         | Executive Vice President and Chief<br>Financial Officer,<br>Canadian Pacific Railway  | Dec 2001 | Mar 2003 |
|                         | Vice President and Comptroller,<br>Canadian Pacific Railway   | Mar 1997 | Dec 2001 |
| Douglas W. G. Whitehead | President and Chief Executive Officer,<br>Finning International Inc.  | Apr 2000 | Present  |
|                         | President and Chief Operating Officer,<br>Finning International Inc.  | Jan 1999 | Apr 2000 |
| John M. Willson         | Company Director  | Apr 2000 | Present  |
|                         | Vice Chairman, Placer Dome Inc.   | Feb 2000 | Apr 2000 |
|                         | Chief Executive Officer,<br>Placer Dome Inc.  | Sep 1999 | Feb 2000 |

**11.2 Officers as of March 18, 2005**

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

| Officer's Name and Municipality of Residence | Positions Held   | From     | To       |
|--|--|----------|----------|
| Brian C. Bell<br>Santiago, Chile             | President,<br>Finning South America  | Jul 2003 | Present  |
|  | Executive Vice President,<br>Customer Support Services,<br>Finning International Inc.          | May 1999 | Jul 2003 |
| Wayne M. Bingham<br>West Vancouver, BC       | Executive Vice President and Chief Financial<br>Officer, Finning International Inc.            | Jun 2003 | Present  |
|  | Executive Vice President, Finance<br>Finning International Inc.                                | May 2003 | Jun 2003 |
|  | Executive Vice President and Chief Financial<br>Officer, Ontario Power Generation Inc.         | Mar 1999 | May 2003 |
| Neil R. Dickinson<br>Staffordshire, England  | Managing Director,<br>Finning (UK) Ltd.  | Nov 2004 | Present  |
|  | Vice President, Human Resources<br>Finning International Inc.                                  | Jul 2003 | Nov 2004 |
|  | Director, Power Systems,<br>Finning (UK) Ltd.  | Oct 1997 | Jul 2003 |
| Anthony R. Guglielmin<br>Vancouver, BC       | Vice President, Corporate Development and<br>Strategic Planning,<br>Finning International Inc. | Oct 2003 | Present  |
|  | Vice President and Corporate Treasurer,<br>Finning International Inc.                          | Aug 2000 | Oct 2003 |
|  | Corporate Treasurer,<br>Finning International Inc.   | May 1998 | Aug 2000 |
| Nicholas B. Lloyd<br>Bednall, UK             | Managing Director,<br>Finning Group, U.K.  | Dec 2004 | Present  |
|  | Managing Director<br>Hewden Stuart, plc.   | Aug 2003 | Dec 2004 |
|  | President and Chief Executive Officer,<br>Finning South America                                | Jan 2003 | Aug 2003 |
|  | President and Chief Executive Officer,<br>Finning Chile S.A.                                   | Jan 2000 | Jan 2003 |
|  | Vice Chairman,<br>Finning (UK) Ltd.  | Oct 1999 | Jan 2000 |

| Officer's Name and Municipality of Residence | Positions Held   | From      | To       |
|--|--|-----------|----------|
| Stephen Mallett<br>Vancouver, BC             | President, Finning Power Systems,<br>Finning International Inc.  | Nov 2004  | Present  |
|  | Managing Director,<br>Finning (UK) Ltd.  | Jul 2001  | Nov 2004 |
|  | Vice President, Customer Support<br>Services,<br>Finning (Canada)  | Nov 1998  | Jul 2001 |
| Anna P. Marks<br>North Vancouver, BC         | Vice President and Corporate Controller,<br>Finning International Inc.   | May 2003  | Present  |
|  | Controller,<br>Union Gas Limited (Subsidiary of Duke<br>Energy Gas Transmission)                               | Dec 2002  | May 2003 |
|  | Director, Accounting,<br>Duke Energy Gas Transmission<br>(Formerly Westcoast Energy Inc.)                      | Nov 2001  | Dec 2002 |
|  | Manager, Finance and Administration,<br>Westcoast Capital Corporation (Subsidiary of<br>Westcoast Energy Inc.) | Feb 2000  | Nov 2001 |
|  | Manager, Accounting Services,<br>Westcoast Energy Inc.   | Jun 1998  | Feb 2000 |
| Conrad A. Pinette<br>Vancouver, BC           | Executive Vice President,<br>Riverside Forest Products   | Apr 2004  | Present  |
|  | President and Chief Operating Officer,<br>Lignum Limited   | Jan 1990  | Apr 2004 |
| Ian M. Reid<br>Edmonton, AB                  | President,<br>Finning (Canada)   | > 5 years | Present  |
| Douglas W. Sprout<br>Burnaby, BC             | UK Executive Director, Support Services<br>Finning (UK) Ltd.   | Dec 2004  | Present  |
|  | Executive Vice President, Customer Support<br>Services,<br>Finning International Inc.                          | Jul 2003  | Dec 2004 |
|  | Vice President, Customer Support Services,<br>Finning Chile  | Jan 2000  | Jun 2003 |
| John T. Struthers<br>Delta, BC               | Corporate Secretary,<br>Finning International Inc.   | > 5 years | Present  |
| Douglas W.G. Whitehead<br>West Vancouver, BC | President and Chief Executive Officer,<br>Finning International Inc.   | Apr 2000  | Present  |
|  | President and Chief Operating Officer,<br>Finning International Inc.   | Jan 1999  | Apr 2000 |

| Officer's Name and Municipality of Residence | Positions Held   | From     | To       |
|--|--|----------|----------|
| Shelley C. Williams<br>Coquitlam, BC         | Vice President, Corporate Treasurer,<br>Finning International Inc. | Aug 2004 | Present  |
|  | Corporate Treasurer,<br>Finning International Inc.                 | Dec 2003 | Aug 2004 |
|  | Assistant Treasurer,<br>Finning International Inc.                 | Jan 2003 | Dec 2003 |
|  | Acting Treasurer,<br>Crystal Decisions                             | Sep 2001 | Feb 2002 |
|  | Treasurer,<br>Fletcher Challenge Canada                            | Jul 2000 | Dec 2000 |
|  | Assistant Treasurer,<br>Fletcher Challenge Canada                  | Jan 1997 | Jul 2000 |

### 11.3 Shareholdings of Directors and Officers

The directors and the officers of the Company as a group beneficially own, directly or indirectly, or exercise control or direction over, 0.35% of the Company's voting common shares.

### 11.4 Cease Trade Orders, Bankruptcies, Penalties or Sanctions

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

John E. Cleghorn, a director of the Company, was acting as a director of Nortel Networks ("Nortel") when a cease trade order was issued by the Ontario Securities Commission (the "OSC") on May 31, 2004, prohibiting trading in Nortel securities by certain directors, officers and insiders of Nortel until two full business days following the receipt by the OSC of all filings that Nortel is required to make pursuant to Ontario securities law. This cease trade order is still in effect.

## 12. INTERESTS OF EXPERTS

The Company's auditors are Deloitte & Touche LLP who provide the following services to the Company:

- (a) quarterly review of the Company's consolidated financial statements.
- (b) annual audit of the Company's consolidated financial statements.
- (c) tax and audit related services in compliance with the Company's *'Terms of Reference for External Auditors'*.

The Company's consolidated annual financial statements for the year ended December 31, 2004 have been filed under National Instrument 51-102 in reliance on the report of Deloitte & Touche LLP, independent chartered accountants, given on their authority as experts in auditing and accounting. As of March 18, 2005, the partners and staff of Deloitte & Touche LLP do not own, directly or indirectly, more than 1% of any class of securities of the Company.

## 13. AUDIT COMMITTEE

The Terms of Reference for the Audit Committee (a copy of which is attached as Appendix A to this Annual Information Form) require that it be comprised of at least three unrelated directors. The current members of the Committee are A.H. Simon (Chairman), R. Bacarreza, J.J. Mooney and M.T. Waites. In addition, Conrad A. Pinette attends meetings of the Audit Committee in his capacity as Chairman of the Board. All Committee members are required to be independent and financially literate (as such terms are defined in Multilateral Instrument 52-110 – Audit Committees) and at least one member is required to have accounting or related financial management expertise. Mr. Waites is the designated financial expert member of the Committee.

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

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

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

University of Chile and an M.A., M.Sc. and Ph.D. from Stanford University.

**Jefferson J. Mooney** is the Chairman of A&W Food Services of Canada Inc. Mr. Mooney is also a director of A&W Canada Inc., A&W Food Services of Canada Inc., A&W Trademarks Inc., The Cadillac Fairview Corporation Limited, Ontrea Inc. and Ontrasia Inc. Mr. Mooney is an alumnus of the University of Saskatchewan and the Harvard University Graduate School of Business.

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

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

The Committee met 5 times in 2004 in conjunction with regularly scheduled Board meetings.

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

| <b>Type of Service</b>     | <b>2004</b>               | <b>2003</b>               |
|----------------------------|---------------------------|---------------------------|
| Audit Services             | \$ 2,191,400              | \$ 1,834,150              |
| Audit-Related Services (1) | 62,700                    | 555,330                   |
| Tax Services (2)           | 1,678,896                 | 2,366,225                 |
| Other Services (3)         | <u>Nil</u>                | <u>Nil</u>                |
| <b>Total:</b>              | <b><u>\$3,932,996</u></b> | <b><u>\$4,755,705</u></b> |

- (1) Audit related services include: audit of the Company's pension plans, and advice on compliance with regulatory pronouncements and for services in respect of the Company's business acquisition activities.
- (2) Tax services include: tax compliance reviews, tax planning and review on the tax impact of specific transactions, assistance with inquiries from tax authorities, and international relocation advice.
- (3) Other services would include any non audit-related or tax services

### **Pre-approval Policies and Procedures**

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

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

### **Recent Regulatory Developments**

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

- (a) Multilateral Instrument 51-109, which requires the Company's Chief Executive Officer and Chief Financial Officer to certify the Company's interim and annual filings;
- (b) Multilateral Instrument 52-110, which contains rules relating to the composition and obligations of audit committees; and
- (c) National Instrument 51-102, which details the continuous disclosure obligations of public companies and indicates what approvals are required in respect of annual and interim financial information filed with regulatory agencies.

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

- ensuring the appropriate level of internal control, analysis and reporting systems are in place to permit the Chief Executive Officer and Chief Financial Officer to provide all necessary certifications of the Company's interim and annual filings. In 2004, the Chief Executive Officer and Chief Financial Officer each certified that the interim and annual filings did not contain a misrepresentation or omission of material fact and that the filings present fairly the Company's financial condition, results of operations and cash flow. In addition, beginning with the 2005 annual filing, the Chief Executive Officer and Chief Financial Officer will also certify the effectiveness of the disclosure controls and procedures the Company has in place to ensure all relevant information is disclosed in interim and annual filings.

- ensuring the composition of the Audit Committee and its mandate satisfy all requirements of Multilateral Instrument 52-110. In this regard, the Audit Committee and the Board are satisfied that all members of the Audit Committee are independent and financially literate. In addition, the Audit Committee's Terms of Reference and the Terms of Reference for External Auditors are designed to ensure that the Audit Committee satisfies all of its obligations under the Instrument including: recommending to the Board both the firm to serve as external auditor and the compensation to be paid to that firm; overseeing the work of the external auditor; approving all non-audit services to be provided by the auditor; reviewing the Company's interim and annual filings and financial press releases; reviewing the accuracy and adequacy of the Company's public disclosure of financial information; establishing procedures to deal with internal complaints or issues relating to the Company's accounting, internal controls or audit matters; and approving the Company's hiring policy with respect to present or former partners and employees of the Company's auditors.

### **Enterprise Risk Management**

The Company is dedicated to strengthening its risk management capability to protect and enhance shareholder value. As such, the Company has adopted an Enterprise Risk Management approach to identifying and evaluating risks. On a regular basis (quarterly for 2004), the Audit Committee reviews the Company's processes with respect to risk assessment and management of key risks, including the Company's major financial risks and exposures and the steps taken to monitor and control such exposures. The Enterprise Risk Management Process involves the identification, by each of the Company's significant operations, of key risks that could impact the achievement of the Company's strategic plan. The management of each of these key risks is monitored closely and disclosed annually in the Company's Annual Information Form. Any changes to the key risks are disclosed on a quarterly basis in the Company's interim financial filings.

## **14. ADDITIONAL INFORMATION**

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

- (a) when the securities of the Company are in the course of a distribution pursuant to a short form prospectus or a preliminary short form prospectus has been filed in respect of a distribution of its securities,
  - (i) one copy of the Annual Information Form of the Company, together with one copy of any document, or the pertinent pages of any document, incorporated by reference in the Annual Information Form,
  - (ii) one copy of the comparative financial statements of the Company for its most recently completed financial year together with the accompanying report of the auditor and one copy of any interim financial statements of the issuer subsequent to the financial statements for the Company's most recently completed financial year,

- (iii) one copy of the Management Proxy Circular of the Company in respect of its most recent annual meeting of shareholders that involved the election of directors or one copy of any annual filing prepared in lieu of that Management Proxy Circular, as appropriate, and
  - (iv) one copy of any other document that is incorporated by reference into the preliminary short form prospectus or the short form prospectus and is not required to be provided under (i) to (iii) above; or
- (b) at any other time, one copy of any documents referred to in (a)(i), (ii) and (iii) above, provided the Company may require the payment of a reasonable charge if the request is made by a person who is not a security holder of the Company.

Additional information, including directors' and officers' remuneration, indebtedness, options to purchase securities and interests of insiders in material transactions is contained in the Company's Management Proxy Circular for its most recent annual meeting of shareholders, a copy of which may be obtained upon request to the Corporate Secretary of the Company. Additional financial information is provided in the Company's consolidated financial statements for its year ended December 31, 2004 included in the Company's 2004 Annual Report.

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

## Appendix A

### Terms of Reference for the Audit Committee

#### (I) PURPOSE

- A.** The primary purpose of the Audit Committee (the “Committee”) is to assist the Board in fulfilling its oversight responsibilities to the shareholders, potential shareholders, the investment community, and others by overseeing:
- (i) the financial information that will be provided to the shareholders and others;
  - (ii) audits of the financial statements;
  - (iii) the systems of internal and disclosure controls established by management and the Board;
  - (iv) all audit, accounting and financial reporting processes; and
  - (v) compliance with relevant laws, regulations and policies.
- B.** Primary responsibility for the financial reporting, information systems, risk management and internal and disclosure controls of the Corporation is vested in management and is overseen by the Board.
- C.** It is the Committee’s responsibility to maintain an open avenue of communication between the Committee, the External Auditors, the Internal Auditors and management of the Corporation.
- D.** In discharging its oversight role, the Committee is empowered to investigate any matter brought to its attention with full access to all books, records, facilities, and personnel of the Corporation and the power to retain outside counsel, or other experts for this purpose.

#### (II) COMPOSITION AND OPERATIONS

- A.** This charter governs the operations of the Committee.
- B.** The Committee is appointed by the Board and shall consist of at least three directors, all of whom shall be independent as defined in the Guidelines for the Board of Directors.
- C.** An Audit Committee member may belong to a maximum of two Audit Committees at publicly listed companies other than the Audit Committee of the Corporation.

- D. All Committee members are financially literate, (or will become financially literate within a reasonable period of time after appointment to the Committee), and at least one member shall be an “Audit Committee Financial Expert”<sup>1</sup>.
- E. The Committee shall meet not less than four times per year.
- F. A majority of Committee members constitute a quorum.
- G. In the exercise of its oversight responsibilities, it is not the duty of the Committee to plan or conduct audits or to determine that the Corporation’s financial statements fairly present the Corporation’s financial position and results of operation and are in accordance with generally accepted accounting principles. Such duties remain the responsibility of management and the External Auditor.

### **(III) DUTIES AND RESPONSIBILITIES**

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

#### **A. Financial Statements and Other Financial Information**

The Committee shall:

- (i) review and discuss with management and the External Auditor before public disclosure:
  - (a) Consolidated Financial Statements of the Corporation;
  - (b) Management’s Discussion and Analysis; and
  - (c) Quarterly financial statements and interim earnings press releases of the Corporation;
- (ii) satisfy itself that adequate procedures are in place for the review of the public disclosure of financial information extracted or derived from the Corporation’s financial statements and periodically assess the adequacy of those procedures;
- (iii) receive quarterly updates and reports on the Corporation’s credit status with banks and credit rating agencies;
- (iv) discuss with management and the External Auditor the quality of reporting and adherence to generally accepted accounting principles (“GAAP”);

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

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

- (v) review significant changes in the Corporation's selection or application of accounting principles, and major issues as to the adequacy of the Corporation's internal controls and any special audit steps adopted in light of material control deficiencies; and
- (vi) review analyses prepared by management and/or the External Auditor setting forth significant financial reporting issues and judgments made in connection with the preparation of the financial statements, including analyses of the effects of alternative GAAP methods on the financial statements.

**B. External Auditors**

- (i) The Committee shall:
  - (a) review and recommend to the Board the selection of the Corporation's External Auditors;
  - (b) The Committee has the authority and responsibility to hire, evaluate, determine compensation for and, where appropriate, replace the External Auditor, subject to shareholder approval.
  - (c) require the External Auditors to report directly to the Committee;
  - (d) communicate directly with the External Auditors, including the ability to meet independently with the External Auditors;
  - (e) annually obtain and review a report by the External Auditor describing:
    - 1. recommendations resulting from their review of internal control and accounting systems;
    - 2. any material issues raised by the most recent internal control review, or peer review, of the Corporation, or by any inquiry or investigation by governmental or professional authorities, within the preceding five years, respecting one or more independent audits carried out by the Corporation, and
    - 3. any steps taken to deal with any such issues.
  - (f) review with the External Auditor any audit problems or difficulties and management's response;
- (ii) The Committee shall be responsible for ensuring that the External Auditors submit on a periodic basis to the Committee a formal written statement delineating all relationships between the External Auditors and the Corporation; actively engaging in a dialogue with the External Auditors with respect to any disclosed relationships or services that may impact the objectivity and independence of the External Auditors; and for recommending that the Board take appropriate action in response to the External Auditors' report to satisfy itself of the External Auditors' independence.

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

**C. Internal Auditor**

The Committee will:

- (i) review the activities, resources and organization structure of the internal audit function and ensure no unjustified restrictions or limitations are made;
- (ii) participate in the appointment, promotion or dismissal of the Internal Auditor; and discuss with the External Auditor the standard of work of the Internal Auditors;
- (iii) review the effectiveness of the internal audit function.
- (iv) meet separately with the Internal Auditor to discuss any matters the Committee or the Internal Auditor believes should be discussed privately;
- (v) ensure the internal audit's significant findings and recommendations are received, discussed and appropriately acted on by management; and
- (vi) review the proposed annual internal audit plan and ensure it addresses key areas of risk and ensure there is appropriate coordination with the Committee and the External Auditor.

**D. Risk Management, Internal Control and Information Systems**

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

- (i) discussion with management, the Internal Auditors and the External Auditors of the adequacy and effectiveness of the internal controls, including financial controls and the Corporation's system to monitor and manage business risk; and
- (ii) obtaining reasonable assurance that the information systems are reliable and the systems of internal controls are properly designed and effectively implemented through discussions with and reports from management, the Internal Auditor and External Auditor.

**E. Compliance**

The Committee shall:

- (i) assist with Board oversight of the Corporation's compliance with legal and regulatory requirements;
- (ii) review the process for the certification of the interim and annual financial statements by the CEO and Chief Financial Officer ("CFO"), and the certifications made by the CEO and CFO;
- (iii) discuss the Corporation's compliance with tax laws, legal withholdings requirements, environmental protection laws<sup>2</sup>, privacy laws, and any other area of compliance monitoring that the Committee considers appropriate;
- (iv) ensure the External Auditor's fees are disclosed by category in the Annual Information Form in compliance with regulatory requirements and in such other documents the Committee may determine;
- (v) disclose any specific policies or procedures adopted for pre-approving non-audit services by the External Auditor, including affirmation that they meet regulatory requirements;
- (vi) prepare a report of the Committee's activities to be included in the annual proxy statement;
- (vii) with regard to the Code of Ethics for Senior Executive and Financial Officers:
  - (a) consider any amendments to this Code in conjunction with the Board; and
  - (b) consider any request for a waiver to the provision of this Code in conjunction with the Board and if such waiver is approved, ensure it is disclosed promptly to meet regulatory requirements, if any.
- (viii) assist the Corporate Governance Committee with preparing the Corporation's governance disclosure by ensuring it has current and accurate information with respect to:
  - (a) the independence of each Committee member relative to regulatory requirements for the Audit Committee;
  - (b) the state of financial literacy of each Committee member, including the name of any member(s) currently in the process of acquiring financial literacy and when they are expected to attain this status;
  - (c) the education and experience of each Committee member relevant to his or her responsibilities as Committee member; and

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<sup>2</sup> This function is reported by the Environment, Health and Safety Committee.

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

**F. OTHER**

The Committee shall:

- (i) establish and periodically review implementation of procedures for:
  - (a) the receipt, retention and anonymous treatment of complaints received by the Corporation regarding accounting, internal accounting controls, or auditing matters; and
  - (b) the confidential, anonymous submission by employees of concerns regarding questionable accounting or auditing matters;
- (ii) review and approve the Corporation's hiring policies regarding partners, employees and former partners and employees of the present and former External Auditor;
- (iii) review expenses of the Board Chair and CEO;
- (iv) review and approve all related party transactions;
- (v) review the effect of regulatory and accounting initiatives, as well as off balance sheet structures, on the financial statements of the Company;
- (vi) review the succession plan for the Corporation's financial and accounting management.
- (vii) conduct a self-assessment annually and discuss the results with the Board.
- (viii) review and update its terms of reference annually.

**(IV) ACCOUNTABILITY**

- A. The Committee Chair has the responsibility to make periodic reports to the Board, as requested, on financial matters relative to the Corporation.
- B. The Committee shall report its discussions and activities to the Board by maintaining minutes of its meetings and providing an oral report at each regular Board meeting.