



Fourth Quarter and Annual 2004 Results

February 23, 2005

Finning Announces Fourth Quarter and Annual 2004 Results

Vancouver, Canada – Finning International Inc. (Finning) today reported fourth quarter net income of \$20.1 million or \$0.23 per share compared with \$28.1 million or \$0.36 per share in the fourth quarter of 2003. Net income for the year was \$114.9 million or \$1.45 per share compared to \$132.0 million or \$1.71 per share in the prior year. Adjusting for items not reflective of the Company's ongoing operations, normalized earnings were \$0.42 per share for the fourth quarter and \$1.75 for the year.

"Finning finished 2004 on a strong note with record fourth quarter revenue and a record order book of \$835 million", said Doug Whitehead, President and CEO of Finning International Inc. "Our fourth quarter net income however was negatively impacted by a \$14.5 million after tax expense related to the redemption of the non-controlling partnership interests. The strengthening Canadian dollar relative to the United States dollar, higher pension costs, and higher long-term incentive plan costs also affected our results.

Nevertheless, the outlook for our business is very strong in most markets with continued strength in resource-based industries driving our growth."

"2004 was a great year for Finning", said Wayne Bingham, Executive Vice President and CFO of Finning International Inc. "We exceeded the \$4 billion mark in revenues, accessed equity capital markets and boosted our market capitalization above the \$3 billion level. Our results for 2004 are in line with our expectations even after incurring higher costs due to foreign exchange of \$0.18 per share and long-term incentive plan costs of \$0.13 per share mainly related to share price appreciation."

<i>C\$ millions, except EPS data</i>	Three months ended December 31			Twelve months ended December 31		
	2004	2003	Change	2004	2003	Change
Revenue	1,075.2	933.0	15.2%	4,161.9	3,593.3	15.8%
EBIT	60.7	54.5	11.4%	265.7	255.2	4.1%
Net Income	20.1	28.1	(28.5)%	114.9	132.0	(13.0)%
Basic EPS	\$ 0.23	\$ 0.36	(36.1)%	\$ 1.45	\$ 1.71	(15.2)%
Diluted EPS	\$ 0.23	\$ 0.36	(36.1)%	\$ 1.43	\$ 1.68	(14.9)%
Normalized Basic EPS ⁽¹⁾	\$ 0.42	\$ 0.42	—	\$ 1.75	\$ 1.75	—
Cash Flow ⁽²⁾	(2.4)	91.8	(102.6)%	243.6	384.2	(36.6)%

⁽¹⁾ See Footnote 1

⁽²⁾ After working capital changes

Footnote 1 on Normalized Basic EPS

Revenue and expense items not considered reflective of the underlying financial performance of the Company from ongoing operations are included as other expenses and various costs associated with the unwind of the non-controlling interests and related swaps included in finance costs on the Consolidated Income Statement in both 2003 and 2004. These items are not included in the calculation of Normalized Basic EPS, Normalized EBIT and Normalized Net Income, which are not Generally Accepted Accounting Principle (GAAP) measures. Please refer to Attachment 1 titled "Description of non-GAAP measures" in the 2004 Management's Discussion and Analysis for a summary of these items and a reconciliation of normalized (non-GAAP) results to published results.

Fourth Quarter Results

Finning generated revenues in the fourth quarter of \$1,075.2 million, up 15.2% from the fourth quarter of 2003 reflecting continued strength in equipment spending by resource-based businesses in South America and Canada. Strong commodity prices and good overall economic conditions are supporting these resource-based businesses and the outlook for this to continue is good. Equipment sales to general construction markets are also strong. Quarterly revenues at the Company's U.K. operations also improved year-over-year. Finning's order book continued to build and achieved a record level of \$835 million as at December 2004, up from the December 2003 levels of \$420 million and September 2004 levels of \$647 million. Order book, or backlog, represents the retail value of equipment units ordered by customers for future deliveries.

Earnings Before Interest and Taxes (EBIT) for the quarter was \$60.7 million, compared with \$54.5 million in the fourth quarter of 2003, an increase of 11.4%. Higher EBIT levels reflected the increase in sales noted above. Normalized EBIT, further described in Attachment 1 to Management's Discussion and Analysis (MD&A), was \$60.9 million (2003: \$61.0).

Net income for the quarter was \$20.1 million compared to \$28.1 million in 2003. The 2004 results were lower due to costs related to the redemption, in the fourth quarter of 2004, of the non-controlling interest which was used to finance a portion of the Hewden Stuart acquisition. Redemption of this non-controlling interest necessitated a \$14.5 million after-tax expense, which included costs to unwind related hedging arrangements and the accelerated write-off of associated deferred financing costs. In the fourth quarter, foreign exchange negatively impacted earnings by \$0.06 per share primarily as a result of a stronger Canadian dollar against the US dollar. Also, higher expenses for long-term incentive plans of \$4.5 million or \$0.06 per share impacted fourth quarter results. The long-term incentive costs are directly related to providing shareholder value by achieving the common share price hurdles established in the long-term incentive plans.

After normalizing for the \$14.5 million of financing charges and certain other items that do not reflect the financial performance of the Company's ongoing operations, (but not the foreign exchange or long-term incentive plan expenses), the fourth quarter Normalized Net Income was \$34.5 million compared to \$32.7 million in the same period in 2003.

Basic EPS for the quarter was \$0.23 in 2004 compared to \$0.36 in the fourth quarter of 2003. Normalized Basic Earnings Per Share (EPS) was \$0.42, in line with the same period last year.

Cash flow after working capital changes was a use of cash of \$2.4 million for the fourth quarter, compared with \$91.8 million provision of cash for the same period last year. The higher use of cash reflects higher working capital requirements in 2004, primarily in the form of higher inventory levels, relating to higher sales demands and the longer lead times required for the delivery of equipment and parts.

2004 Results

On an annual basis, consolidated revenue increased by 15.8% to \$4,161.9 million and EBIT levels increased 4.1% from the same period in 2003. Net income was \$114.9 million (2003: \$132.0 million) while Basic EPS was \$1.45 (2003: \$1.71). Reported results have been significantly impacted by expenses incurred that are not reflective of ongoing operations. When these items are excluded, Normalized EBIT for the year ended December 31, 2004 was \$279.4 million, up 7.7% from 2003, while Normalized Net Income was \$138.1 million (2003: \$135.0 million) and Normalized Basic EPS was \$1.75, the same as in the prior year. A complete discussion of the 2004 full year results is provided in the MD&A that accompanies this press release.

Important New Contracts

- In November, Finning announced that its Canadian division secured a \$130 million equipment and parts/components contract with Syncrude Canada. The contract includes the sale of 11 Caterpillar 797B off-highway trucks and a 9-year parts and components agreement. The new equipment will be used to support Syncrude's oil sands expansion plans in Fort McMurray.
- In December, the Company's South American division secured the sale of 31 pieces of Caterpillar equipment to Minera Escondida, which is part of BHP Billiton Group. The equipment package, valued at approximately \$48 million, includes 8 Caterpillar 797B off-highway trucks in addition to other support equipment. The new machines are part of Escondida's sustaining capital program.

Financing

- In November, Finning issued 10 million common shares at a price of \$30.50 per common share for total gross proceeds of \$305 million. The proceeds, net of underwriting fees, of \$292.8 million were used to fund a portion of the cost of refinancing the \$425 million non-controlling partnership interests.
- In December, Finning issued a 7-year, \$150 million unsecured Medium Term Note (MTN). The MTN has a coupon rate of 4.64% per annum, payable semi-annually until maturity. Proceeds from the issuance were used to repay existing bank indebtedness.

Other

- Subsequent to the year-end, Finning announced that Caterpillar Inc. had selected Finning (Canada) to be one of four CAT dealers to form a new global CAT dealership, PipeLine Machinery International (PLM), to serve the global pipeline construction industry. PLM, a partnership amongst Finning and three CAT dealers in the U.S. (each with a 25% interest), will be responsible for supplying purpose-built CAT pipeline products to mainline pipeline construction customers who specialize in large diameter pipeline projects.
- Early in February, the Company announced that its Canadian division entered into a five-year renewable contract with Edmonton-based Tracker Logistics to outsource the majority of the warehousing activities of its Edmonton-based Parts Distribution Centre.

Common Share Dividend

The Board of Directors increased the Company's quarterly dividend to \$0.11 per common share, payable on March 23, 2005, to shareholders of record on March 9, 2005.

Fourth Quarter / Annual Results Conference call

Management will hold an investor conference call on February 23, 2005 at 2:30 pm Eastern Time. Dial-in numbers:

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

The call will be webcast live at www.finning.com/investor_relations and www.newswire.ca/webcast, and subsequently archived on the Finning website.

Playback recording will be available at **1-888-509-0081** from 5:30 pm Eastern Time on February 23, 2005 until the end of business day on March 2, 2005.

About Finning International

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

Complete financial statements and management discussion and analysis can be accessed at www.finning.com.

Forward-looking disclaimer

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

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

Next Quarterly Results May 11, 2005

Finning International's first quarter results for 2005 will be released at 2:00 p.m. Eastern Time on May 11, 2005. The conference call will be held at 4:00 p.m. Eastern Time on May 11, 2005.

The Company's annual general meeting will be held on Wednesday May 11, 2005 at 11:00 AM, Pacific Standard Time, at the Hyatt Regency Hotel, Plaza A&B Rooms, 655 Burrard Street, in Vancouver BC.

For more information

Please call Tom Merinsky, Vice President, Investor Relations

Phone: (604) 331-4950

Email: investor_relations@finning.ca

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

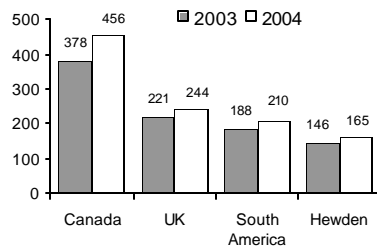
Results of Operations

Fourth quarter overview

Revenue by operation

C\$ millions

Three months ended December 31



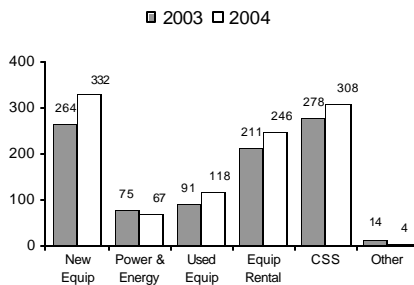
The Company achieved record quarterly revenues driven by higher new equipment sales, customer support services and equipment rental. Consolidated revenues increased 15.2% to \$1,075.2 million, earnings before interest and taxes (EBIT) increased 11.4% to \$60.7 million and consolidated net income decreased by 28.5% to \$20.1 million. Basic Earnings Per Share (EPS) for the quarter was \$0.23 compared with \$0.36 in the same period last year.

Revenue increased in all operations, year-over-year, but is primarily due to the strong performance of the Company's South American and Canadian operations as a result of strong equipment and service related spending by our customers that benefit from high commodity prices. This increase is offset by higher costs in the fourth quarter of 2004 to meet increased customer service demand and higher costs relating to information systems, pensions, long-term incentive plans, refinancing costs and the negative impact of a stronger Canadian dollar to the US dollar.

Revenue by line of business

C\$ millions

Three months ended December 31



Excluding items that do not reflect the Company's ongoing operations, Normalized EBIT for the quarter was \$60.9 million (2003: \$61.0 million). Normalized Net Income was \$34.5 million (2003: \$32.7 million) and Normalized Basic EPS was \$0.42, comparable to the fourth quarter of 2003. Please refer to Attachment 1 for a summary of normalized items and a reconciliation of normalized (non-GAAP) results to published results.

During the fourth quarter, the Canadian dollar was stronger against the US dollar and relatively unchanged against the U.K. pound sterling compared to the same period last year. As a result, foreign exchange negatively impacted earnings by \$0.06 per share. Also, in the fourth quarter, the Company experienced higher expenses for long-term incentive plans of \$4.5 million after tax, or \$0.06 per share. The long-term incentive costs are primarily related to providing shareholder value by achieving the common share price hurdles for vesting, which are established under long-term incentive plans.

Cash utilized after changes in working capital for the fourth quarter of 2004 was \$2.4 million, compared with positive cash flow of \$91.8 million for the same quarter last year. This reflects a higher investment in inventories in the fourth quarter of 2004 to meet current sales demand and managing the longer lead times required for delivery of product. The Company made a net investment of \$17.6 million in revenue earning assets this quarter compared to \$48.0 million for the comparable period last year.

Annual overview

Finning achieved record consolidated revenues in 2004 and exceeded its goal of 15% annual revenue growth. Revenues increased 15.8% to \$4,161.9 million from the 2003 level and were higher in all operations, year-over-year, most notably in the Company's South American operations. The revenue results also included a full year of contribution from the Lex Harvey business which was acquired by Finning (UK) during 2003. EBIT increased 4.1% to \$265.7 million and consolidated net income decreased 13.0% to \$114.9 million. Basic EPS was \$1.45 compared with \$1.71 in the same period last year. This decrease is primarily due to higher net expenses incurred in 2004 that management regards as not reflective of the ongoing operations of the Company.

Adjusting for those items not reflective of the Company's ongoing operations as outlined in Attachment 1, Normalized EBIT was \$279.4 million, compared to \$259.5 million in 2003. Normalized Net Income was \$138.1 million (2003: \$135.0 million) and Normalized Basic EPS was unchanged from 2003 at \$1.75.

While the revenue growth rate did not translate to the bottom line, Normalized EBIT was higher than the prior year. This increase occurred notwithstanding expenditures in 2004 relating to a higher operating cost structure as the Company positions itself to deliver service for large maintenance contracts announced during the year in South America, higher information system expenses in the UK, and higher pension and long-term incentive plan (LTIP) costs. Higher LTIP costs of \$0.13 per share (2003: \$0.09 per share) are the result of a 16.6% increase in the Company's share price, year-over-year.

Higher finance costs relating to higher average borrowing levels offset the increased Normalized EBIT so that Normalized Basic EPS was unchanged year-over-year. The higher borrowing levels reflect increased investments in working capital and a full year of financing for the June 2003 Lex Harvey acquisition.

The further strengthening of the Canadian dollar relative to the United States dollar negatively impacted Normalized Basic EPS by \$0.18 per share compared to the prior year. Finning's business is geographically diversified and the Company conducts business in multiple currencies, the most significant of which are the US dollar, the Canadian dollar, the U.K. pound sterling and the Chilean peso. The most significant foreign exchange impact on the Company's net income is the translation of foreign currency based earnings into Canadian dollars. Compared to the prior year, the Canadian dollar strengthened against the US dollar while it weakened against all the other currencies in which the Company transacts its business. As a result, EBIT and net income decreased by \$17.8 million and \$14.4 million, respectively.

Cash flow after changes in working capital was \$243.6 million, which is \$140.6 million lower than the same period last year. This decrease reflects the following items:

- Higher investment in inventories in all operations to meet the increased demand for sales and service as well as to address delivery lead times. This was partially offset by higher supplier payables at the end of 2004.
- Higher customer accounts receivable reflecting higher sales activity in December compared to the previous year.

The Company increased spending in revenue-earning assets by 39.4% with a net investment of \$364.6 million in 2004 (2003: \$261.6 million). This reflects an increased investment in the Company's CAT Rental Stores, increased activity in rent-to-purchase customer agreements, and investing in operational rental fleets to maintain the Company's competitive position. In 2004, the Company continued with its strategy to sell its lease portfolio to Caterpillar Financial Services (2004: \$93.0 million compared to 2003: \$63.6 million) and by the end of 2004 had divested virtually all of its lease portfolio. As a result of these activities, \$121.0 million of cash was used in operating activities in 2004 compared to \$122.7 million generated from operating activities in 2003.

In November 2004, the Company issued 10 million common shares for proceeds, net of underwriting fees, of \$292.8 million, which were used to fund a portion of the cost of refinancing the \$425 million non-controlling partnership interests.

The table below sets forth summary financial data for the years indicated.

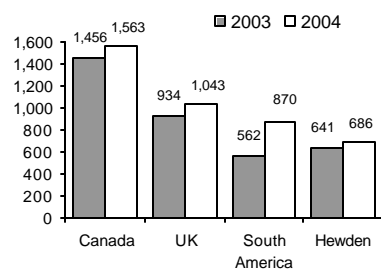
<i>C\$ millions</i>	2004	2003	2004	2003
			(% of revenue)	
Revenue	\$ 4,161.9	\$ 3,593.3		
Gross profit	1,243.7	1,037.6	29.9%	28.9%
Selling, general & administrative expenses	964.3	778.1	23.2%	21.7%
Normalized EBIT	279.4	259.5	6.7%	7.2%
Other expenses	13.7	4.3	0.3%	0.1%
EBIT	265.7	255.2	6.4%	7.1%
Finance costs and interest on other indebtedness	118.1	76.9	2.8%	2.1%
Provision for income taxes	17.6	26.6	0.4%	0.7%
Non-controlling interests	15.1	19.7	0.4%	0.6%
Net income	\$ 114.9	\$ 132.0	2.8%	3.7%

Revenues

Revenue by operation

C\$ millions

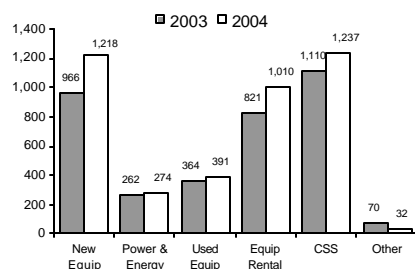
Twelve months ended December 31



Revenue by line of business

C\$ millions

Twelve months ended December 31



Revenues in 2004 increased 15.8% to \$4,161.9 million. Most of the increase was contributed by the Company's South American and UK operations and reflects the impact of stronger commodity prices, higher rental revenues in the UK with an additional 5 months contribution from the Lex Harvey business acquired in 2003, and a weaker Canadian dollar relative to the U.K. pound sterling.

Finning's order book continued to build, reaching a record level of \$835 million at December 2004, up from the December 2003 level of \$420 million. Order book, or backlog, represents the retail value of equipment units ordered by customers for future deliveries and is a measure used by Company management to forecast future revenues. The Company is dependent on Caterpillar for the timely supply of equipment and parts to fulfill these deliveries. Caterpillar has announced that certain of its models are under managed distribution, which would increase the time necessary to deliver these products when ordered. The Company is working closely with Caterpillar and our customers to ensure we can meet demand for new product. In addition, the Company is committed to utilize its asset pool of rental and used equipment in order to meet customer demand in the event of a shortage in supply.

From a line of business perspective, revenue mix shifted slightly towards new equipment sales in 2004 as a result of large deliveries in South America. It also shifted towards equipment rentals, reflecting the expansion of the Company's rental business. All components of revenue increased except for operating leases which reflect the 2003 and 2004 sales of substantially all of the lease portfolio assets to Caterpillar Financial Services Limited.

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

<i>C\$ millions</i> For the year ended December 31 2004	Canada	UK	South America	Hewden	Consolidated	Revenue percentage
New mobile equipment	\$ 510.9	\$ 340.7	\$ 357.6	\$ 9.2	\$ 1,218.4	29.3%
New power & energy systems	113.3	105.5	54.7	—	273.5	6.6%
Used equipment	194.9	128.6	36.2	31.5	391.2	9.4%
Equipment rental	148.6	221.7	38.6	600.9	1,009.8	24.3%
Operating leases	25.3	—	—	—	25.3	0.6%
Customer support services	564.1	247.0	381.6	44.3	1,237.0	29.7%
Finance and other	5.5	—	1.2	—	6.7	0.1%
Total	\$ 1,562.6	\$ 1,043.5	\$ 869.9	\$ 685.9	\$ 4,161.9	100.0%
Revenue percentage by operations	37.5%	25.1%	20.9%	16.5%	100.0%	

For the year ended December 31 2003	Canada	UK	South America	Hewden	Consolidated	Revenue percentage
New mobile equipment	\$ 494.9	\$ 318.2	\$ 138.5	\$ 14.4	\$ 966.0	26.9%
New power & energy systems	101.8	118.1	42.5	—	262.4	7.3%
Used equipment	177.4	115.9	26.7	43.6	363.6	10.1%
Equipment rental	116.1	137.4	25.8	542.0	821.3	22.9%
Operating leases	65.4	—	0.5	—	65.9	1.8%
Customer support services	497.1	244.6	327.1	40.8	1,109.6	30.9%
Finance and other	3.6	—	0.9	—	4.5	0.1%
Total	\$ 1,456.3	\$ 934.2	\$ 562.0	\$ 640.8	\$ 3,593.3	100.0%
Revenue percentage by operations	40.5%	26.0%	15.6%	17.9%	100.0%	

Canada

The Canadian operating segment primarily reflects the results of the Company's operating division, Finning (Canada). Also included in this operating segment is Finning International's interest in OEM Remanufacturing Company Inc. (OEM). OEM will be fully operational in a new component rebuild facility in Edmonton, Alberta, in the first half of 2005 and will provide component rebuild services to Finning (Canada) as well as other companies.

Record revenues were achieved by the Company's Canadian operations in 2004. Revenues increased 7.3% over the 2003 levels to \$1,562.6 million mainly due to higher customer support services, equipment rentals, used equipment and new mobile equipment revenues, partially offset by lower leasing revenues. Continued strong performance from customer support services produced an improvement in revenues of 13.5%.

The increase in revenue occurred despite an increase in the value of the Canadian dollar relative to the United States dollar, year-over-year, which negatively impacted revenue by approximately \$56 million. Revenues were enhanced by deliveries of power systems units to power generation projects. In addition, rental revenues increased year-over-year as a result of higher rental activity and more CAT rental store business in 2004. There were 25 CAT rental stores servicing Western Canada at the end of 2003 and throughout 2004. 2004 has benefited from the 13 locations that were added during 2003 and their contribution for a full year adds an incremental \$16.7 million to 2004 rental revenues.

Revenue for 2003 reflected significant mining equipment package deliveries that were not repeated in 2004. Finning (Canada)'s new equipment order backlog at December 31, 2004 includes a significant number of mining trucks of all sizes, as well as a large number of mining support equipment orders. This backlog would indicate that 2005 may be one of the strongest years in history for mining equipment

deliveries in Canada. Backlog is strong and reflects increased activity in the mining, construction, forestry and petroleum sectors. A stronger construction and petroleum market in 2004 and the sale of lease contracts to Caterpillar Financial Services Limited (CFSL) has more than offset the absence of large truck deliveries in 2004. In 2004, equipment revenues included \$106.3 million of lease contracts sold to 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.

United Kingdom

Revenues in 2004 increased 11.7% to \$1,043.5 million for the Company's UK operations. In local currency, revenues rose by 6.8%. The materials handling rental business, which includes the Lex Harvey business acquired in June 2003, contributed most of the revenue improvement while revenue from both power systems and customer support services was lower than in 2003. New power and energy systems revenue was down 10.7% from the prior year reflecting the significant power systems sales made in 2003 to the electric power generation diesel sector that did not recur in 2004. New equipment revenues increased in 2004 compared to the prior year primarily due to a higher volume of sales to the construction sector. Quarrying activity in 2004 was weaker than 2003 as major quarrying customers have been deferring their capital purchases. Revenues in the U.K. were also impacted by government infrastructure projects which, although temporarily delayed, are expected to provide significant opportunities in the future.

In the second quarter of 2004, the Company was granted the distribution rights for Perkins Engines, a leading manufacturer of diesel engines, for mainland U.K. Finning took over responsibility for Perkins' distribution business effective December 2004. Revenue contribution for the month of December was \$1.4 million.

New equipment order backlog closed the year at a record high dollar value. Backlog units for quarrying and government sectors contributed to the increase over last year.

The U.K. market continues to be competitive, and together with Caterpillar, the Company has a number of initiatives underway to increase profitability and market share.

South America

Revenues in 2004 from South America increased 54.8% to \$869.9 million, driven by the continued strength in commodity prices, higher activity in customer support services with large mining customers and strong construction activity in Argentina. In local currency, revenues increased 65.3%. South America experienced growth in all core lines of business and particularly in new equipment, which more than doubled the revenues achieved in 2003. Significant revenue improvement was also experienced in customer support services (CSS) as general activity increased and the Company continued to be successful in its bids for long-term maintenance contracts for mining equipment. Approximately 47% of CSS revenue is currently generated by maintenance and repair contracts. Power and energy systems revenues also improved in the year with the strength of the mining sector. The 2003 acquisitions of the Caterpillar dealerships in Argentina, Uruguay and Bolivia contributed \$235.7 million to revenues in 2004 (2003: \$142.0 million).

New equipment order backlog continues at very strong levels and is comparable to the record levels set in the previous two quarters and has surpassed December 2003 year-end levels.

In 2004, South America operations now contributed 20.9% of the total consolidated revenue of the Company, up from 15.6% one year ago.

Hewden

Hewden revenues increased 7.0% to \$685.9 million in 2004 compared with 2003. In local currency, revenues increased 2.7%. Although competitive constraints in the U.K. rental hire market and overcapacity continue to apply downward pressure on rental pricing, rental revenues are higher reflecting increased volumes, an improvement in rental utilization and a slight improvement in margins from the prior year. This trend has positively impacted revenues for the past three quarters. To further improve revenues and operational results, Hewden has initiated several inter-related projects to improve financial performance and become more efficient in meeting the needs of a core customer base, with a streamlined product offering and a more strategically structured distribution channel.

Gross profit

Gross profit of \$1,243.7 million in 2004 was 19.9% higher than 2003. As a percentage of revenue, consolidated gross profit in 2004 improved to 29.9% from 28.9% in 2003. Factors affecting the net improvement in gross profit for the year are detailed below:

- In Canada, gross profits increased 10.5%. Improvements were achieved in customer support services margins, equipment rental and new equipment sales related to higher volumes. Gross profit as a percentage of revenue also increased as a result of a slight revenue mix shift and higher margins achieved on equipment in 2004, as the prior year had more large mining equipment sales at lower margins.
- In the UK operation, gross profits increased 20.4% reflecting rental volume increase as a result of acquiring the Lex Harvey business mid-2003 and stronger margins from used equipment.
- In South America, gross profits increased 49.8% reflecting increased demand for the Company's products and services, driven by robust commodity prices and strength in the economic activity of the countries in which Finning South America operates, primarily mining and construction sectors. Gross margin as a percentage of revenue declined slightly in 2004 due to the higher proportion of lower margined equipment sales.
- In Hewden, price competitiveness in the U.K. rental market continued in 2004. However, rental gross margin as a percentage of sales increased by 2.2% compared to the prior year with volumes and equipment utilization showing positive increases year-over-year.

Selling, general and administrative expenses

Selling, general and administrative (SG&A) expenses increased \$186.2 million to \$964.3 million in 2004 compared to the prior year. As a percentage of revenue, these expenses were 23.2% in 2004 compared to 21.7% in 2003. This percentage increase is partially due to the Company's strategic focus and efforts to meet customer demands by growing the customer support services and rental businesses, which attract a higher level of SG&A. The customer support services cost base increased in 2004 to support new customer contracts for repair and maintenance of equipment. In South America, to support the revenue growth, headcount increased by over 800 people most of which were for direct revenue generating positions. The productivity of these new recruits is improving as they complete their training programs.

Selling costs were higher in 2004 by \$102.8 million, to support the incremental sales volumes experienced in the year and related manpower requirements. Selling expenses as a percentage of revenue increased from 13.5% in 2003 to 14.1% for 2004.

General and administrative expenses increased by \$83.4 million over 2003. Some of the significant items contributing to this increase were:

- Increased headcount costs as mentioned above.
- Higher pension costs in Canada and the U.K. of \$10.3 million.
- Higher business information systems costs incurred in the UK operations of \$13.4 million.
- Long-term incentive plan (LTIP) costs and stock option expenses were higher by \$4.1 million compared to 2003. LTIP costs are directly related to providing shareholder value by achieving a higher share price which results in a higher degree of vesting as well as valuing vested awards at a higher share price.

The Company is committed to improving its cost structure and implemented a formalized program in 2004 to reduce annualized costs by \$60 million by 2006. Management has already identified a number of significant opportunities to reduce costs, including projects already underway at Hewden and Finning (UK), the disposition of non-core assets, various 6-Sigma projects in Canada and South America and certain initiatives to achieve company-wide efficiencies.

Hewden has initiated 3 major inter-related projects that are designed to improve the financial performance of its rental operation. The goal is to simplify its organizational structure, with streamlined product offerings and a single distribution channel to the customer. To achieve these goals, Hewden intends to:

- Target a core customer base, with more focus on professional contractors and less on general consumers;
- Narrow its product offerings to align with the needs of its target customers, which will reduce the total investment in inventory and working capital; and
- Organize its rental operations into a regional “hub and spoke” system, where strategic locations will act as a hub for a defined sales area, carrying the full line of products and services, and smaller surrounding stores will carry a more limited inventory.

The Company believes that these initiatives will increase equipment utilization and reduce logistics costs. In conjunction with these sales and distribution initiatives, Hewden has embarked on a strategy to integrate all of its operating divisions into a single organizational structure, supported by common business processes and a single information system. The supply chain will be centralized in order to attain better vendor pricing and procurement terms. The implementation of a new information system will support the hub and spoke model, and provide the platform for more efficient business processes. Management expects 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 a two to three-year period and will partially be offset by the sale of surplus depots and non-core assets.

Finning (UK) has also initiated programs, some jointly with Caterpillar, which will focus on process efficiency improvements as well as the rationalization of non-core assets.

Changes have recently been made to the senior management teams in the United Kingdom designed to ensure strong leadership for the two businesses as key projects and programs are underway. The new management team will focus on maximizing synergies between the two organizations and leverage the benefits of shared customer information across all lines of business.

In Canada and South America, senior management is leading several initiatives to improve business processes and generate maximum efficiency within the operations using the 6-Sigma approach. The Company continues to investigate opportunities for maximizing shared services within each of its operations, as well as on a global basis.

Other expenses

Other expenses are shown separately on the income statement to allow an easier comparison of the performance of the Company's ongoing operations to the corresponding period in the prior year and are excluded from the calculation of normalized results. As a result of these items, the Company recorded a pre-tax expense of \$13.7 million in 2004, compared to a pre-tax expense of \$4.3 million for the corresponding period in 2003. See Attachment 1 for a complete listing of these items.

The major pre-tax items were:

In 2004:

- In June, the Company settled proceedings against Hewden Tower Cranes Limited, a subsidiary of the Company, with Yarm Road Limited and Cleveland Bridge U.K Limited totalling £5.2 million (\$12.8 million). The settlement was for damages arising from the collapse of a tower crane at the Canary Wharf site in the U.K. on May 21, 2000, prior to the Company acquiring the business. The impact of the settlement, net of previous accruals, was a pre-tax charge of \$7.9 million.
- Restructuring and project costs incurred in Canada, UK and Hewden operations of \$16.0 million which included the following significant costs:
 - In the UK operation, downsizing of specialized services and a restructuring of their component rebuild centre resulted in a redundancy charge of \$1.0 million in the second quarter.
 - Costs of \$6.1 million were incurred on the 3 key projects at Hewden mentioned previously. These initiatives will address the increasingly sophisticated expectations of Hewden's customers and include a complete review of the information technology systems supporting Hewden's entire business as well as integrating functions into a single back office and management structure.
 - Finning (Canada) re-organized its operations to improve its customer service focus to take advantage of growth opportunities and reduce its cost base. This restructuring involved the re-alignment of various customer-facing positions and streamlining of other functions. As a result, a restructuring charge was taken of \$3.7 million for redundancy charges. Annualized savings from this re-organization are estimated at \$2.5 million. Finning (Canada) also recorded a further restructuring charge of \$2.2 million mainly to cover redundancy costs as a result of outsourcing its component rebuild service work to OEM.
- Gain on sale of surplus properties in Canada and the UK in 2004 of \$6.8 million (2003: \$1.8 million).
- Recognition of the unamortized portion of the deferred gain from the sale of the Canadian Materials Handling business in 2001. In the first quarter of 2004, Finning assessed that the risk associated with receiving payments from the purchaser had been substantially reduced and as such, the Company recognized the remaining portion of the deferred gain (2004: \$3.8 million; 2003 \$1.6 million).

In 2003:

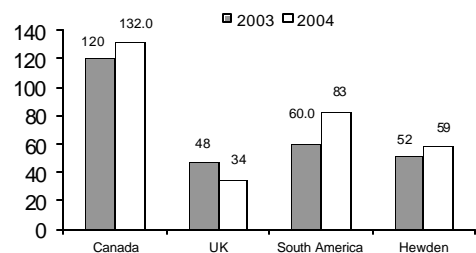
- Costs incurred on the DBSi process re-engineering project of \$22.1 million. DBSi was the new process and systems technology from Caterpillar and enhancements include customer relationship management, finance and administration, and supply chain management. The DBSi project was initiated in 2002, and implementation was completed in the Company's UK operation in January 2004. Ongoing post-implementation costs in 2004 were reported as part of regular general and administrative costs.
- The sale of the UK power rental business to Energyst Rental Solutions (SM) for a pre-tax gain of \$13.8 million recorded in the first quarter of 2003.

Earnings before interest and taxes (EBIT)

EBIT increased by 4.1% to \$265.7 million in 2004 with record EBIT levels achieved in Canada and South America. The increase in gross profit of \$206.1 million in 2004 was primarily offset by an increase in SG&A costs of \$186.2 million. The increased SG&A expense reflects higher pension and information system costs and increased headcount to meet business growth and customer service demand. EBIT was also reduced as a result of the strengthening Canadian dollar relative to the United States dollar. The foreign exchange variance is mainly due to translating foreign currency based earnings into Canadian dollars. Most of the foreign exchange impact reflected in 2004 EBIT was due to a 7.1% stronger Canadian dollar relative to the United States dollar year-over-year. This was partially offset by the impact of a 4.2% weaker Canadian dollar relative to the U.K. pound sterling, year-over-year. EBIT as a percentage of revenue decreased from 7.1% in 2003 to 6.4% in 2004.

Normalized EBIT by operation* *C\$ millions*

Twelve months ended December 31



* see Attachment 1: Description of Non-GAAP Measures

Major components of the annual EBIT variance were: *C\$ millions*

2003 annual EBIT	255.2
Net growth in operations	65.5
Long-term incentive plan costs	(4.1)
Pension expense	(10.3)
Foreign exchange impact	(17.8)
Increased UK IT implementation and running costs	(13.4)
Net change in normalizing items (see note 2 to the Consolidated Financial Statements)	(9.4)

2004 annual EBIT	265.7
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The table below illustrates annual EBIT contribution by operations:

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

2003	Canada	UK	South America	Hewden	Other	Consolidated
Revenue from external sources	\$ 1,456.3	\$ 934.2	\$ 562.0	\$ 640.8	\$ —	\$ 3,593.3
Operating costs	1,210.5	820.9	480.0	446.9	20.6	2,978.9
Depreciation and amortization	125.3	65.7	22.1	141.8	—	354.9
Other expenses (income)	—	—	—	—	4.3	4.3
Earnings before interest and tax	\$ 120.5	\$ 47.6	\$ 59.9	\$ 52.1	\$ (24.9)	\$ 255.2
EBIT as percentage of revenue	8.3%	5.1%	10.7%	8.1%	—	7.1%
EBIT percentage by operations	47.2%	18.7%	23.5%	20.4%	(9.8)%	100.0%

Finance costs and interest on other indebtedness

Finance costs and interest on other indebtedness for the year ended December 31, 2004 of \$118.1 million was 53.6% higher than last year. The increase in 2004 is primarily due to the following:

- Higher finance costs associated with the redemption of the non-controlling partnership interests related to the Company's investment in Hewden. The Company incurred a \$14.2 million refinancing charge to unwind a hedging arrangement associated with the non-controlling partnership interests. The Company also expensed \$8.1 million of related unamortized deferred financing costs. These costs form part of normalizing items in Attachment 1 and are not considered reflective of ongoing operating finance costs.
- Higher short-term borrowing levels in most operations in 2004 to fund the higher investment in working capital and rental assets.
- Foreign exchange impact of translating sterling denominated interest in 2004 with a stronger U.K. pound sterling relative to the Canadian dollar.
- Higher average borrowing levels, year-over-year, due to a full year of financing for the June 2003 acquisition of the Lex Harvey business in the U.K.

The increase was partially offset by lower interest rates achieved on the refinancing of two MTN maturities in 2004.

Provision for income taxes

The 2004 annual income tax expense was \$17.6 million (13.3% effective tax rate) compared with \$26.6 million (16.8% effective tax rate) for 2003, primarily as a result of a higher proportion of earnings generated in jurisdictions with lower tax rates as well as adjustments for favourable tax assessments realized in 2004 relating to previous years. Adjusting for the tax on items not considered reflective of the Company's ongoing operations, the effective tax rates, after adjusting for non-controlling interests, would be 18.2% for 2004 compared with 17.1% for 2003. Management anticipates that for 2005, the consolidated effective tax rate will approximate 20%.

Non-controlling interests

The Company formed a partnership in 2001 for the purpose of raising capital to fund the acquisition of Hewden. Private investors invested \$425 million into the partnership in return for non-controlling partnership interests. The financial position, results of operations and cash flows of the partnership have been consolidated with the results of the Company from its date of inception. On November 24 2004, Finning redeemed the non-controlling partnership interests held by the private investors for \$425 million. Management believes that the removal of the third party interests in Hewden will allow full flexibility in implementing various initiatives designed to unlock the full value of its businesses in the U.K. and to enhance the Company's ability to grow its business. The refinancing of the non-controlling interests was funded principally through a common equity offering in November of 2004, which raised proceeds, net of underwriting fees, of \$292.8 million, and short-term borrowings on the Company's bank credit facilities. In December 2004, the Company repaid these short-term bank borrowings by issuing a 7-year, \$150 million unsecured Medium Term Note.

The distribution to the non-controlling partnership interests in 2004 (up to November 24, 2004, the date of redemption) was \$15.1 million, representing a yield of 4.0% compared to \$19.7 million and a yield of 4.6% in 2003.

Net income

Net income declined by \$17.1 million to \$114.9 million in 2004 and basic earnings per share decreased to \$1.45 in 2004 compared to \$1.71 in the prior year primarily due to incurring net costs that are not considered reflective of the Company's ongoing operations, such as refinancing costs related to the redemption of the non-controlling interests, restructuring costs and settlement of a legal claim. On a normalized basis, net income was \$138.1 million (2003: \$135.0 million) and Normalized Basic EPS was \$1.75, comparable to 2003.

Accounting Estimates and Contingencies

The preparation of financial statements in accordance with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues, expenses and disclosure of contingent assets and liabilities. The more significant estimates include: fair market values for goodwill impairment tests, reserves for warranty, provisions for income tax, and costs associated with maintenance and repair contracts.

During the year, the Company performs an assessment of goodwill by estimating the fair value of operations to which the goodwill relates using the expected present value of future discounted cash flows, which resulted in no impairment in 2004. The Company performs impairment tests on its goodwill balances on an annual basis or as warranted by events or circumstances. A significant portion of recorded goodwill relates to Hewden Stuart plc, acquired in 2001.

Due to the size, complexity and nature of the Company's operations, various legal matters are pending. In the opinion of management, none of these matters will not have a material effect on the Company's consolidated financial position or results of operations.

In June 2004, Hewden Tower Cranes Limited settled its legal claim with Yarm Road Limited and Cleveland Bridge U.K. Limited. A claim of £16.6 million plus costs and interest was brought against Hewden Tower Cranes Limited, a subsidiary of the Company, by Yarm Road Limited and Cleveland Bridge U.K. Limited, for damages arising from the collapse of a tower crane at the Canary Wharf site in the U.K. on May 21, 2000. The accident occurred prior to the acquisition of Hewden Tower Cranes Limited by the Company. The business of Hewden Tower Cranes Limited was sold by the Company in October 2002. The final settlement amount for this claim totalled £4.9 million in full and final settlement of any claims, counter claims, cross claims or contra charges including interest and costs and incorporating

an earlier adjudication award of £1.5 million in January 2004. In addition, Hewden was responsible for the costs of the adjudication, trial and independent legal advice of approximately £0.3 million. An amount of £3.2 million (\$7.9 million) pre-tax, net of previous accruals, was charged to the income statement as “other expenses” in the second quarter of 2004.

Liquidity and Capital Resources

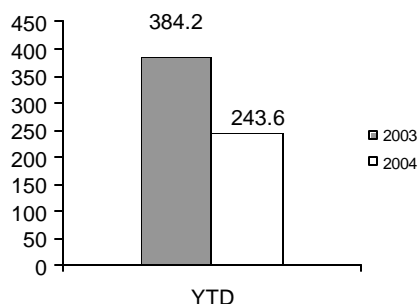
Management of the Company assesses liquidity in terms of its ability to generate sufficient cash flow to fund its operations. Net cash flow is affected by the following items:

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

Cash Flow

C\$ millions

Cash flow after working capital changes



Cash flow from operating activities

For the year ended December 31, 2004, cash flow after working capital changes of \$243.6 million was \$140.6 million lower than 2003. In the twelve months ended December 31, 2004, \$261.3 million more cash was invested in inventories to meet current sales demand and managing the longer lead time required for delivery of product. Accounts receivable also increased with stronger December activity in 2004 with cash collection to follow in 2005. Net cash invested in rental assets was a record \$441.4 million and was \$128.5 million higher than the investment in 2003. The increased investment was required to support the Company’s expanded rental business in both rental fleet and rental purchase options for customers. During 2004, the Company also sold \$92.9 million of leased equipment, the majority of its remaining lease fleet, to Caterpillar Financial Services Limited (2003: \$64.2 million) as the Company exited this line of business. Overall, in 2004, cash used in operations amounted to \$121.0 million compared to cash flow from operations in 2003 of \$122.7 million.

Cash used for investing activities

Net cash invested in 2004 totalled \$73.0 million compared to \$314.3 million in 2003. Gross capital additions in 2004 was \$106.2 million (2003: \$89.7 million), of which approximately \$32.4 million has been invested in Edmonton for the new component rebuild facility being built by OEM which will be completed in the first half of 2005. The balance in 2003 includes an investment of \$284.8 million for the acquisitions of Lex Harvey and the Caterpillar dealerships in Argentina, Bolivia and Uruguay partially offset by proceeds of \$34.1 million from the sale of the UK power rental business.

The Company’s planned capital expenditures for 2005 are projected to be in the range of \$125 to \$150 million and will be funded through operations. Gross rental additions for 2005 are projected to be in the \$375 to \$425 million range.

Financing activities

To complement the internally generated funds from operating and investing activities, the Company has approximately \$1.1 billion in unsecured short-term credit facilities. At the year-end, approximately \$472 million was drawn against these short-term credit facilities.

Longer-term capital resources are provided by direct access to capital markets. The Company is rated by both Standard & Poor's (S&P) and Dominion Bond Rating Service (DBRS). DBRS rates the Company's senior debentures and medium term notes as BBB (high) and S&P rates the Company's long-term debt at BBB+ stable.

As at December 31, 2004, the Company's short and long-term borrowings totalled \$1,367.9 million, an increase of \$279.6 million compared to December 31, 2003 levels. The increase in debt is attributable to the refinancing of the non-controlling partnership interests and an increased investment in working capital due to a decision made by the Company to increase inventory levels to meet current sales demand and manage the longer lead times required for delivery of product. During 2004, the Company repaid its \$75 million 8.35% debenture and its \$150 million 7.75% medium term note (MTN), both of which matured, with short-term borrowings on its bank credit facilities.

In December 2004, Finning issued a 7-year, \$150 million unsecured MTN. The MTN has a coupon interest rate of 4.64% per annum, payable semi-annually commencing June 14, 2005. The MTN was priced at 99.97% of its principal amount to yield 4.645% per annum. Proceeds were used to repay existing bank indebtedness.

In November 2004, the Company issued 10 million common shares at a price of \$30.50 per common share for total gross proceeds of \$305 million. The proceeds, net of underwriting fees, of \$292.8 million were used to fund a portion of the cost of refinancing the \$425 million non-controlling partnership interests in Hewden. Share capital increased from \$248.9 million at December 31, 2003 to \$557.7 million at the end of 2004, reflecting the common share issuance and the exercise of stock options of approximately 1.0 million common shares for \$13.1 million.

Under a normal course issuer bid, which began on December 8, 2003, the Company was allowed to buy back a maximum of approximately 7.8 million shares (10% of the Company's public float) up to December 7, 2004. The Company launched this issuer bid earlier in 2004, as it believed that the market price of its common shares at that time did not reflect the underlying value of the Company. Finning repurchased approximately 0.3 million common shares during 2004 as part of the normal course issuer bid. These shares were repurchased at an average price of \$29.15 for an aggregate cost of \$9.6 million, which was allocated to reduce share capital by \$1.1 million and retained earnings by \$8.5 million. Finning repurchased approximately 1.3 million common shares during 2003 under the previous year's normal course issuer bid, at an average price of \$24.51 for an aggregate cost of \$32.8 million. The normal course issuer bid has now expired and management has not instituted a new normal course issuer bid.

In May 2003, Finning issued a 10-year, unsecured £200 million Eurobond. The Eurobond bears interest at a rate of 5.625% per annum, payable annually on May 30 of each year until maturity. The Eurobond was priced at 99.043% of its principal amount to yield 5.753% per annum. The Eurobond proceeds of \$449.5 million at the date of issuance were utilized to finance the acquisition of Lex Harvey as well as repaying existing bank indebtedness.

As a result of management's confidence in the future earnings for the Company and its ongoing commitment to the return of value to its shareholders, the Company increased its quarterly dividend in February 2004, by one cent to ten cents per common share and in February 2005, by one cent to eleven cents per common share.

Contractual obligations

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

<i>C\$ millions</i>	2005	2006	2007	2008	2009	Thereafter	Total
Long-term debt	\$ 6,460	\$ 78,383	\$ -	\$200,000	\$ -	\$611,240	\$ 896,083
Operating leases	64,749	56,569	46,689	39,219	33,205	203,606	444,037
Total contractual obligations	\$ 71,209	\$134,952	\$ 46,689	\$239,219	\$ 33,205	\$814,846	\$1,340,120

Off-balance sheet arrangement

Under an agreement dated November 29, 2002, the Company sold a \$30 million co-ownership interest in a pool of eligible non-interest bearing trade receivables to a multi-seller securitization trust. In September 2004, an additional \$15 million was sold under the same agreement to bring the total to \$45 million. Under the terms of this agreement, which expires on November 29, 2007, the Company can sell co-ownership interests of up to \$120 million on a revolving basis. The Company retains a subordinated interest in the cash flows arising from the eligible receivables underlying the trust's co-ownership interest. The trust and its investors do not have recourse to the Company's other assets in the event that obligors fail to pay the underlying receivables when due. Pursuant to the agreement, the Company continues to service the pool of underlying receivables.

As at December 31, 2004, the Company is carrying a retained interest (which, in effect, is an overcollateralization of the trade receivables which have been sold) in the amount of \$10.8 million (as at December 31, 2003: \$9.0 million).

In each of the years ended December 31, 2004 and 2003, the Company recognized a pre-tax loss of \$0.9 million relating to these transfers. The Company estimates the fair value of its retained interest and computes the loss on sale using a discounted cash flow model. The key assumptions underlying this model are:

	December 31, 2004	Range for year ended 2004
Cost of funds	2.83%	2.32% - 3.02%
Weighted average life in days	32	30.14 - 40.54
Average credit loss ratio	0.0086%	(0.0058%) - 0.0933%
Average dilution ratio	7.09%	5.46% - 8.08%
Servicing fee rate	2.0%	
Fair value of retained interest	\$9.7 million	

The impact of an immediate 10 percent and 20 percent adverse change in the average dilution ratio on the current fair value of the retained interest would be reductions of approximately \$0.4 million and \$0.8 million, respectively. The impact of an immediate 10 percent and 20 percent adverse change in the weighted average life in days on the current fair value of the retained interest would be reductions of approximately \$0.9 million and \$1.6 million, respectively. The sensitivity of the current fair value of the retained interest or residual cash flows to an immediate 10 percent and 20 percent adverse change in each of the remaining assumptions is not significant.

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

For the years ended December 31 (\$ in millions)	2004	2003
Proceeds from new securitization	\$ 15.0	\$ —
Proceeds from revolving reinvestment of collections	\$ 354.5	\$ 356.1

Employee share purchase plan

The Company has an employee share purchase plan for its Canadian employees. Under the terms of this plan, eligible employees may purchase common shares of the Company in the open market at current market price. The Company pays a portion of the purchase price to a maximum of 2% of employee earnings. At December 31, 2004, 59% of Canadian employees were contributing to this plan. The Company has an All Employee Share Purchase Ownership Plan for its employees in Finning (UK) and Hewden. Under the terms of this plan, employees may contribute up to 10% of their salary to a maximum of £125.00 per month. The Company will provide one common share, purchased in the open market, for every three the employee purchases. At December 31, 2004, 23% and 15% of eligible employees in Finning (UK) and Hewden, respectively, were contributing to this plan. These plans may be cancelled by Finning at any time.

Financial Leverage

The Company's overall debt to total capital ratio increased from 44% at the end of 2003 to 51% at the end of 2004. This increase in the overall debt to total capital ratio was primarily due to the refinancing of the non-controlling partnership interests and the additional debt in 2004 to fund working capital requirements, partially offset by the Company's continued focus on improving the efficiency of current operating assets. The debt to total capital ratios were calculated on a fully consolidated basis including the non-controlling interests as equity in 2003.

Management believes that the redemption of the non-controlling partnership interests will enhance the Company's ability to implement organizational changes and efficiencies in its U.K. operations, strengthen the Company's financial position and simplify Finning's capital structure.

Risk Management

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

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

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

Financial Derivatives

The Company uses various financial instruments such as interest rate swaps, forward exchange contracts and options to manage its foreign exchange and interest rate exposures (see notes 3 and 4 of Notes to the Consolidated Financial Statements). 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 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 of the Company can be categorized as follows:

Investment in Foreign Operations

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

Currency	December 31, 2004 month end rates	Increase (decrease) in annual net income C\$ millions
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.

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 MD&A 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 is confident that it will meet the additional certification requirements as required by the regulations. The Company is confident that any weaknesses in internal controls are either not material, or will be remediated. Failure to remediate any material weaknesses will be disclosed as required by the regulations and may have an impact on the Company's business or financial condition.

Selected Quarterly Information

<i>C\$ millions, except for share and option data</i>	2004				2003			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Revenue								
Canada	\$ 456.2	\$ 381.5	\$ 363.1	\$ 361.8	\$ 378.4	\$ 373.2	\$ 347.8	\$ 356.9
UK	244.4	268.4	290.7	240.0	220.5	242.0	242.3	229.4
South America	210.1	256.0	203.1	200.7	187.7	143.6	111.7	119.0
Hewden	164.5	180.0	175.7	165.7	146.4	166.2	159.3	168.9
Total revenue	\$ 1,075.2	\$ 1,085.9	\$ 1,032.6	\$ 968.2	\$ 933.0	\$ 925.0	\$ 861.1	\$ 874.2
Net income	20.1	43.1	27.8	23.9	28.1	36.6	32.2	35.1
Earnings per common share								
Basic	0.23	0.56	0.35	0.31	0.36	0.48	0.42	0.45
Diluted	0.23	0.55	0.35	0.30	0.36	0.47	0.41	0.44
Normalized	0.42	0.56	0.40	0.37	0.42	0.51	0.46	0.36
Total assets	3,804.0	3,683.6	3,744.2	3,555.0	3,440.6	3,204.5	3,168.1	2,902.9
Long-term debt								
Current	6.5	156.3	158.7	159.1	235.2	82.6	78.9	41.1
Non-current	889.6	738.9	767.3	765.9	748.2	882.0	886.4	516.6
Total long-term debt	896.1	895.2	926.0	925.0	983.4	964.6	965.3	557.7
Cash dividends paid per common share	0.10	0.10	0.10	0.10	0.09	0.09	0.09	0.09
Common shares outstanding (000's)	88,390	78,037	77,849	77,937	77,755	77,779	77,394	76,573
Options outstanding (000's)	2,016	2,359	2,546	2,564	2,746	2,825	3,210	4,093

New Accounting Pronouncements

Hedging instruments

Effective January 1, 2004, the Company adopted The Canadian Institute of Chartered Accountants (CICA) Accounting Guideline 13, *Hedging Relationships* (AcG-13). The guideline specifies the conditions under which hedge accounting is appropriate, includes requirements for the identification, documentation and designation of hedging relationships, sets standards for determining hedge effectiveness, and establishes criteria for the discontinuance of hedge accounting. At the time of AcG-13 implementation, the Company met the criteria for all hedging relationships with the exception of certain interest rate swaps. AcG-13 did not permit hedge accounting for these derivative instruments and as a result, hedge accounting was discontinued in 2004 for these derivative instruments in accordance with the guideline. The market values on January 1, 2004 were initially recorded on the balance sheet as a deferred loss, and were being amortized to finance expense over the remaining life of the derivative contracts. In addition, the derivative contracts were marked-to-market each month during the year, with changes in market value being recorded in finance expense each period. In December 2004, the Company elected to terminate these interest rate swaps, for a net settlement loss of \$14,514. This loss was comprised of the net cumulative effect of deferred loss amortization and mark-to-market adjustments up to the date of settlement (\$2,170) as well as the write-off of the remaining deferred loss balance at the settlement date (\$12,344). The settlement loss was recorded as a charge to finance expense, of which, \$14,364 was recognized in the fourth quarter. As at December 31 2004, there are no derivative instruments outstanding that do not receive hedge accounting treatment.

Asset retirement obligations

Effective January 1, 2004, the Company adopted Section 3110 of the CICA Handbook *Asset Retirement Obligations*. The accounting recommendations focus on the recognition and measurement of liabilities for obligations associated with the retirement of property, plant and equipment when those obligations result from the acquisition, construction, development or normal operations of the assets. The standard requires the recognition of any statutory, contractual or other legal obligation, normally when incurred. The obligations are measured initially at fair value and the resulting costs capitalized into the carrying amount of the related asset. In subsequent periods, the liability is adjusted for the accretion of discount and any changes in the amount or timing of the underlying future cash flows. The asset retirement cost is amortized to income on a systematic and rational basis. Adoption of this standard does not have a significant impact on the consolidated financial statements.

Impairment of long-lived assets

Effective January 1, 2004, the Company adopted Section 3063 of the CICA Handbook *Impairment of Long-Lived Assets*, which establishes standards for the recognition, measurement and disclosure of the impairment of long-lived assets. Impairment of long-lived assets held for use is determined in a two-step process, with the first step determining when an impairment arises and the second step measuring the amount of the impairment. An impairment loss is recognized when the carrying amount of a long-lived asset exceeds the sum of the undiscounted cash flows expected to result from its use and eventual disposition. An impairment loss is measured as the amount by which the long-lived asset's carrying amount exceeds its fair value. To test for and measure impairment, long-lived assets are grouped at the lowest level for which identifiable cash flows are largely independent. Adoption of this standard does not have a significant impact on the consolidated financial statements.

Vendor rebates

Effective July 1, 2004, the Company adopted CICA Emerging Issues Committee (EIC) 144 *Accounting by a Customer (Including a Reseller) for Certain Consideration Received from a Vendor*. EIC 144 provides guidance on how a customer (including a reseller) of a vendor's products should account for cash consideration received from a vendor. Adoption of this standard does not have a significant impact on the consolidated financial statements.

Variable interest entities

In June 2003, The Canadian Institute of Chartered Accountants (CICA) issued Accounting Guideline 15, *Consolidation of Variable Interest Entities (AcG-15)*. A recent announcement by the CICA deferred the effective dates of AcG-15, which requires consolidation of certain "variable interest entities" (VIEs) beginning in the first quarter of 2005. A VIE is any type of legal structure not controlled by voting equity, but rather by contractual or other financial arrangements. The rules are complex and views on implementation are evolving. The Company has reviewed AcG-15 and does not anticipate that adoption of this standard will have any impact on the consolidated financial statements.

Market Outlook

Economic conditions in the Company's markets were very strong in 2004 and we expect those conditions to continue into 2005. Our medium to long-term future prospects are excellent, given the Company's strong order backlog in most of its operations and the strength in the key economic indicators that impact the Company's customers.

Commodity prices for copper, gold, coal and oil and gas are expected to remain strong near current levels into 2005. Strong commodity prices bode well for our customers resulting in an increase in mining activity and new development. This activity has resulted in large new equipment sales in Chile, Argentina and Canada. These equipment sales provide future opportunity as the Company services the equipment through long-term maintenance contracts a number of years after the original sale. The increased mining activity and new development experienced by our customers is also reflected in our strong order book/backlog, which reached record levels yet again at December 31, 2004.

Strong commodity prices will benefit our Canadian operations resulting from the growth in the Alberta oil sands as well as proposed pipeline projects in Western Canada and the Northwest Territories.

The Company's results are impacted by the stronger Canadian dollar compared to the U.S. dollar in the translation of foreign currency earnings. The Company expects that our 2005 results will be negatively impacted as a result of translating foreign currency based earnings in the first, second and third quarters of 2005 in comparison to 2004 due to the current strength of the Canadian dollar.

U.K. economic indicators forecast continued growth in 2005 and the ongoing £180 billion nationwide infrastructure renewal program in the U.K. is expected to provide significant opportunities in the latter half of 2005 to increase revenue, at both Finning (UK) and to a lesser extent at Hewden. Many projects associated with this infrastructure program are already underway and others are scheduled to start in the next few years. Finning (UK) has also undertaken a major marketing initiative with Caterpillar with a goal of doubling the number of units sold by 2007 and significantly increasing Finning (UK)'s market share. Together, Finning and Caterpillar are working to increase Finning (UK) profitability.

Although competitive pressures continue to impact the U.K. rental business, Hewden experienced increased volumes and higher utilization of equipment, year-over-year, in the second, third and fourth quarters of 2004, which the Company believes bodes well for future improvement in results.

The Company has initiated several inter-related projects at Hewden that are designed to improve the financial performance of the rental operation. The goal is to simplify the organizational structure, with streamlined product offerings and one distribution channel to the customer. Costs related to these initiatives will be incurred over the next two to three years and will result in increased equipment utilization, lower logistics costs and more efficient business processes. Management anticipates certain one-time costs to implement these initiatives.

Management plans to achieve \$60 million in annual cost reductions throughout its business units by the end of 2006 and has already identified a number of significant opportunities to reduce costs. Projects are already underway at Hewden and Finning (UK) as noted above, numerous 6 Sigma projects are underway in Canada and South America and there is potential to realize company-wide efficiencies and dispose of non-core assets.

The current economic environment, commodity pricing and launched and pending cost efficiency initiatives, together, provide a positive outlook for the Company's medium to long-term growth opportunities.

February 23, 2005

Attachment 1

Description of non-GAAP measures

To supplement Finning's consolidated financial statements, the Company uses certain non-GAAP measures that do not have standardized meanings under Canadian GAAP and are therefore unlikely to be comparable to similar measures used by other companies. These non-GAAP measures are Normalized Net Income, Normalized Basic EPS and Normalized EBIT. Finning's management believes these financial measures are useful to investors because they contain the same meaningful information that is used by Finning management to assess the financial performance of the Company and its operating segments. To allow the reader to view financial results in this way, occasional or other significant items that do not reflect the underlying financial performance of the Company's ongoing operations have been removed from reported results prepared in accordance with GAAP.

Reconciliation between reported EBIT and Normalized EBIT

<i>C\$ thousands</i>	Three months ended		Twelve months ended	
	December 31		December 31	
	2004	2003	2004	2003
Reported EBIT (GAAP measure)	60,680	54,478	265,741	255,168
Gain on sale of surplus properties in Canada and the U.K.	(4,365)	(1,139)	(6,770)	(1,791)
Restructuring and project costs in Canada and the U.K.	4,374	—	15,989	—
Recognition of deferred gain on the 2001 sale of the Canadian Materials Handling business (2003 reflects amortization of the gain)	—	—	(3,800)	(1,600)
Loss (income) from equity investment	231	(55)	461	(606)
Canary Wharf legal settlement	—	—	7,863	—
Costs incurred on DBSi business process reengineering project	—	7,691	—	22,104
Gain on sale of the UK Power Rental business	—	—	—	(13,800)
Normalized EBIT (reflects non-GAAP measure)	60,920	60,975	279,484	259,475

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

<i>C\$ thousands, except EPS data</i>	Three months ended		Twelve months ended	
	December 31		December 31	
	2004	2003	2004	2003
Basic EPS (GAAP measure)	\$0.23	\$0.36	\$1.45	\$1.71
Reported net income (GAAP measure)	20,181	28,079	114,946	131,951
Gain on sale of surplus properties in Canada and the U.K.	(3,337)	(800)	(5,183)	(1,248)
Restructuring and project costs in Canada and the U.K.	2,934	—	10,812	—
Recognition of deferred gain on the 2001 sale of the Canadian Materials Handling business (2003 reflects amortization of the gain)	(115)	—	(3,115)	(1,288)
Loss (income) from equity investment	231	(55)	461	(606)
Canary Wharf legal settlement	—	—	5,504	—
Costs incurred on DBSi business process reengineering project	—	5,447	—	15,352
Gain on sale of the UK Power Rental business	—	—	—	(9,168)
Recognition of deferred costs on unwind of non-controlling interests	5,264	—	5,264	—
Unwind of interest rate swaps	8,003	—	8,003	—
Market value adjustment: interest rate swaps not eligible for hedge accounting	1,310	—	1,407	—
Normalized Net Income (reflects non-GAAP measure)	34,471	32,671	138,099	134,993
Normalized Basic EPS (reflects non-GAAP measure)	\$0.42	\$0.42	\$1.75	\$1.75

Attachment 2

Supplementary Information

Quarterly Segmented Revenue Information

<i>C\$ millions</i> Q4 2004	Canada	UK	South America	Hewden	Consolidated	Revenue percentage
New mobile equipment	174.5	73.9	81.1	2.2	331.7	30.9%
New power & energy systems	29.1	26.2	11.4	—	66.7	6.2%
Used equipment	66.6	31.6	11.2	9.0	118.4	11.0%
Equipment rental	39.5	53.7	10.6	142.5	246.3	22.9%
Operating leases	2.4	—	—	—	2.4	0.2%
Customer support services	142.4	59.0	95.4	10.8	307.6	28.6%
Finance and other	1.7	—	0.4	—	2.1	0.2%
Total	456.2	244.4	210.1	164.5	1,075.2	100.0%
Revenue percentage by operations	42.4%	22.7%	19.6%	15.3%	100.0%	
Q4 2003						
New mobile equipment	127.7	60.8	73.1	1.9	263.5	28.2%
New power & energy systems	33.2	23.7	18.4	—	75.3	8.1%
Used equipment	48.8	26.4	6.1	9.4	90.7	9.7%
Equipment rental	29.1	49.7	7.1	125.2	211.1	22.6%
Operating leases	12.3	—	0.1	—	12.4	1.3%
Customer support services	125.9	59.9	82.7	9.9	278.4	29.9%
Finance and other	1.4	—	0.2	—	1.6	0.2%
Total	378.4	220.5	187.7	146.4	933.0	100.0%
Revenue percentage by operations	40.6%	23.6%	20.1%	15.7%	100.0%	

Quarterly Segmented EBIT Information

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

Q4 2003	Canada	UK	South America	Hewden	Other	Consolidated
Revenue from external sources	378.4	220.5	187.7	146.4	—	933.0
Operating costs	316.6	188.6	164.1	102.9	1.5	773.7
Depreciation and amortization	28.1	27.4	5.7	37.1	—	98.3
Other expenses	—	—	—	—	6.5	6.5
Earnings before interest and tax	33.7	4.5	17.9	6.4	(8.0)	54.5
Finance costs and interest on other indebtedness						23.4
Provision for income taxes						(1.6)
Non-controlling interests						4.6
Net income						28.1
EBIT as percentage of revenue	8.9%	2.0%	9.5%	4.4%	—	5.8%
EBIT percentage by operations	61.8%	8.3%	32.8%	11.7%	(14.6)%	100.0%

Selected annual information

C\$ million, except for share data	2004	2003 ⁽¹⁾	2002 ⁽²⁾
Total revenue	4,161.9	3,593.3	3,207.5
Net income	114.9	132.0	132.3
Earnings per common share			
Basic	1.45	1.71	1.72
diluted	1.43	1.68	1.68
Total assets	3,804.0	3,440.6	3,162.5
Long-term debt ⁽³⁾			
current	6.5	235.2	42.3
non-current	889.6	748.2	514.1
	896.1	983.4	556.4
Cash dividends declared per common share	0.40	0.36	0.30

⁽¹⁾ 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.

⁽²⁾ During 2002, the Company acquired the majority of the remaining rental assets of Maxxiom Limited in the U.K., and acquired 100% of the voting shares of Distribuidora Perkins Chilena SAC (Diperk), in Chile.

⁽³⁾ During 2003, the Company issued a 10-year, unsecured £200 million Eurobond. The Eurobond bears coupon interest at 5.625% per annum and was priced at 99.043% of its principal amount to yield 5.753% per annum. The Eurobond proceeds of \$449.5 million at the date of issuance were utilized to finance the acquisition of Lex Harvey as well as repaying existing bank indebtedness. During 2004, the Company issued a 7-year, unsecured \$150 million Medium Term Note (MTN). The MTN bears a coupon interest rate of 4.64% per annum and 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.

Outstanding share data

December 31, 2004

Common shares outstanding	88,389,881
Options outstanding	2,016,058

CONSOLIDATED STATEMENTS OF INCOME AND RETAINED EARNINGS FOR THE YEARS ENDED DECEMBER 31

C\$ thousands except per share amounts

	2004	2003
Revenue		
New mobile equipment	\$ 1,218,432	\$ 966,042
New power and energy systems	273,456	262,352
Used equipment	391,239	363,549
Equipment rental	1,009,760	821,315
Operating leases	25,264	65,925
Customer support services	1,237,046	1,109,571
Finance and other	6,710	4,541
Total revenue	4,161,907	3,593,295
Cost of sales	2,918,160	2,555,682
Gross profit	1,243,747	1,037,613
Selling, general and administrative expenses	964,263	778,138
Other expenses (Note 2)	13,743	4,307
Earnings before interest, taxes and non-controlling interests	265,741	255,168
Finance costs and interest on other indebtedness (Notes 3 and 4)	118,100	76,868
Income before provision for income taxes and non-controlling interests	147,641	178,300
Provision for income taxes (Note 5)	17,546	26,648
Non-controlling interests (Note 6)	15,149	19,701
Net income	\$ 114,946	\$ 131,951
Retained earnings, beginning of year	\$ 775,113	\$ 699,741
Net income	114,946	131,951
Dividends on common shares	(31,181)	(27,816)
Premium on repurchase of common shares (Note 7)	(8,557)	(28,763)
Retained earnings, end of year	\$ 850,321	\$ 775,113
Earnings per share (Note 8)		
Basic	\$ 1.45	\$ 1.71
Diluted	\$ 1.43	\$ 1.68
Weighted average number of shares outstanding	79,018,683	77,326,253

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

CONSOLIDATED BALANCE SHEETS AS AT DECEMBER 31

C\$ thousands

	2004	2003
ASSETS		
Current assets		
Cash and short-term investments	\$ 15,843	\$ 66,385
Accounts receivable	578,350	481,397
Inventories		
On-hand equipment	641,366	438,715
Parts and supplies	346,490	270,984
Other assets (Note 13)	115,295	98,379
Income taxes recoverable	12,435	11,968
Future income taxes (Note 5)	24,820	35,133
Current portion of instalment notes receivable	24,355	25,944
Total current assets	1,758,954	1,428,905
Finance assets		
Instalment notes receivable	12,879	7,145
Equipment leased to customers (Note 9)	3,357	97,925
Total finance assets	16,236	105,070
Rental equipment (Note 10)	1,163,976	1,046,130
Land, buildings and equipment (Note 11)	330,430	287,778
Future income taxes (Note 5)	31,091	39,344
Goodwill (Note 12)	386,257	393,109
Intangible assets (Note 12)	12,042	9,692
Other assets (Note 13)	105,025	130,550
Total assets	\$ 3,804,011	\$ 3,440,578
LIABILITIES		
Current liabilities		
Short-term debt (Note 3)	\$ 471,811	\$ 104,910
Accounts payable and accruals	1,027,667	848,888
Income tax payable	4,354	20,852
Future income taxes (Note 5)	2,773	5,711
Current portion of long-term debt (Note 3)	6,460	235,243
Total current liabilities	1,513,065	1,215,604
Long-term debt (Note 3)	889,623	748,181
Future income taxes (Note 5)	75,118	93,212
Total liabilities	2,477,806	2,056,997
Commitments and Contingencies (Notes 21 and 22)		
NON-CONTROLLING INTERESTS (Note 6)	—	425,000
SHAREHOLDERS' EQUITY		
Share capital (Note 7)	557,740	248,939
Retained earnings	850,321	775,113
Contributed surplus	878	—
Cumulative currency translation adjustments (Note 15)	(82,734)	(65,471)
Total shareholders' equity	1,326,205	958,581
Total liabilities and equity	\$ 3,804,011	\$ 3,440,578

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

CONSOLIDATED STATEMENTS OF CASH FLOW FOR THE YEARS ENDED DECEMBER 31
C\$ thousands

	2004	2003
OPERATING ACTIVITIES		
Net income	\$ 114,946	\$ 131,951
Add		
Depreciation and amortization	366,087	354,959
Future income taxes	(2,321)	17,256
Stock option expense	878	—
Other items	1,150	(17,797)
Non-controlling interests distribution	15,149	19,701
	495,889	506,070
Changes in working capital items		
Accounts receivable and other	(131,051)	(38,828)
Inventories – on-hand equipment	(217,612)	(37,027)
Inventories – parts and supplies	(85,326)	(4,593)
Instalment notes receivable	(4,648)	(5,030)
Accounts payable and accruals	201,812	13,612
Income taxes	(15,446)	(49,994)
Cash provided after changes in working capital items	243,618	384,210
Rental equipment, net of disposals	(441,352)	(312,881)
Equipment leased to customers, net of disposals	76,778	51,325
Cash flow (used) provided by operating activities	(120,956)	122,654
INVESTING ACTIVITIES		
Net cash invested in land, buildings and equipment	(73,028)	(63,600)
Proceeds from UK power rental business sale	—	34,056
Acquisitions (Note 16)	—	(284,805)
Cash used by investing activities	(73,028)	(314,349)
FINANCING ACTIVITIES		
Increase (decrease) in short-term debt	381,174	(149,700)
Repayment of long-term debt	(237,282)	(29,843)
Securitization of accounts receivable (Note 18)	15,000	—
Medium term note issue (Note 3)	150,000	—
Eurobond issue (Note 3)	—	449,520
Non-controlling interests distribution	(15,149)	(19,701)
Common shares issued (Note 7)	296,769	—
Issue of common shares on exercise of stock options (Note 7)	13,095	19,538
Redemption of non-controlling interests	(425,000)	—
Repurchase of common shares	(9,620)	(32,812)
Dividends paid	(31,181)	(27,816)
Cash provided by financing activities	137,806	209,186
Currency translation adjustments	5,636	14,268
(Decrease) increase in cash and short-term investments	(50,542)	31,759
Cash and short-term investments, beginning of year	66,385	34,626
Cash and short-term investments, end of year	\$ 15,843	\$ 66,385
Cash flows include the following elements		
Interest paid	\$ 98,736	\$ 59,900
Income taxes paid	\$ 21,380	\$ 35,297

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

December 31, 2004 and 2003

(\$ and £ in thousands, except for exercise and share prices)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

The preparation of financial statements in accordance with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues, expenses and disclosure of contingent assets and liabilities. Actual amounts could differ from those estimates. The significant accounting policies used in these Consolidated Financial Statements are as follows:

(a) Principles of Consolidation

The Consolidated Financial Statements include the accounts of Finning International Inc. (“Finning” or “Company”), which includes the division of Finning (Canada), and its wholly owned subsidiaries. Principal operating subsidiaries include Finning (UK) Ltd., Finning Chile S.A., and Hewden Stuart plc (“Hewden”) as well as the Caterpillar dealerships in Argentina, Uruguay and Bolivia (Note 16).

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

(b) Currency Translation

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

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

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

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

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

(c) Cash and Short-Term Investments

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

(d) Securitization of Trade Receivables

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

(e) Inventories

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

(f) Instalment Notes Receivables

Instalment notes receivables are recorded net of unearned finance charges.

(g) Equipment Leased to Customers

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

(h) Rental Equipment

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

(i) Land, Buildings and Equipment

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

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

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

(j) Deferred Costs

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

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

Deferred costs are included in long-term other assets on the consolidated balance sheets.

(k) Revenue Recognition

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

Revenue from sales of equipment is recognized at the time of shipment of the product to the customer at which time title to the equipment and significant risks of ownership passes to the customer;

Revenue from power and energy systems includes construction contracts with customers that involve the design, installation and assembly of power and energy equipment systems. Revenue is recognized on a percentage of completion basis proportionate to the work that has been completed which is based on associated costs incurred;

Revenue from equipment rentals and operating leases is recognized in accordance with the terms of the relevant agreement with the customer, either evenly over the term of that agreement or on a usage basis such as the number of hours that the equipment is used; and

Revenue from customer support services includes sales of parts and servicing of equipment. For sales of parts, revenue is recognized when the part is shipped to the customer or when the part is installed in the customer's equipment. For servicing of equipment, revenue is recognized as the service work is performed. Customer support services are also offered to customers in the form of long-term maintenance and repair contracts. For these contracts, revenue is recognized on a percentage of completion basis proportionate to the service work that has been performed based on the parts and labour service provided. Parts revenue is recognized based on parts list price and service revenue is recognized based on standard billing labour rates. At the completion of the contract, any remaining deferred revenue on the contract is recognized as revenue. Any losses estimated during the term of the contract are recognized when identified. For the materials handling business, revenue from long-term maintenance and repair contracts is recognized on a straight-line basis over the life of the contract.

(l) Stock-Based Compensation

The Company has stock option plans and other stock-based compensation plans for directors and certain eligible employees. Stock-based payments to non-employees and direct awards to employees and non-employees are accounted for using a fair value-based method of accounting. Share appreciation rights (SAR) and similar awards to be settled in cash are accounted for by measuring the amount by which the quoted market price exceeds the strike price at the balance sheet date. The fair value-based method of accounting is used to account for all other stock-based transactions with employees, including stock options.

The Company accounts for SAR by measuring the amount by which the quoted market price exceeds the strike price at the balance sheet date. Changes in the quoted market value of SAR between the date of the grant and the measurement date result in a change in the measure of compensation for the award and is amortized over the remaining vesting period.

In accordance with the recommendations of The Canadian Institute of Chartered Accountants (CICA), the Company adopted the fair value-based method of accounting for stock options in 2003, applied on a prospective basis. The Company will continue to use the intrinsic value-based method of accounting for stock options granted prior to January 1, 2003. When options are exercised, the proceeds received by the Company are credited to share capital in the consolidated balance sheet.

Changes in the Company's obligations under other stock-based compensation plans, which arise from fluctuations in the market price of the Company's common shares underlying these compensation plans, are

recorded in selling, general and administrative expenses in the consolidated statement of income with a corresponding accrual in the consolidated balance sheet.

(m) Employee Benefits

The Company and its subsidiaries have a number of defined benefit and defined contribution plans providing pension and other benefits to most of its employees in the Canadian and the U.K. operations. The Company accrues its obligations under employee benefit plans and the related costs, net of plan assets and has adopted the following policies:

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

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

The excess of net actuarial gains or losses over 10% of the greater of the benefit obligation and the market value of the plan assets is amortized on a straight-line basis over the expected average remaining service life of the active employees covered by the plans.

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

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

(n) Goodwill and Other Intangible Assets

Goodwill represents the excess cost of an investment over the fair value of the net assets acquired. Goodwill and intangible assets with indefinite lives are not amortized and are subject to an annual assessment for impairment primarily by applying a fair value-based test at the reporting unit level. The fair value is estimated using the expected present value of future discounted cash flows. The Company also considers projected future operating results, trends and other circumstances in making such evaluations. An impairment loss would be recognized to the extent the carrying amount of goodwill exceeds the fair value of goodwill. Separable intangible assets that are not deemed to have an indefinite life are amortized on a straight-line basis over their useful lives to a maximum period of ten years. The Company did not recognize any impairment to goodwill as a result of the annual impairment assessment.

(o) Income Taxes

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

(p) Derivatives

The Company utilizes derivative financial instruments in the management of its foreign currency and interest rate exposures. The Company uses financial instruments such as interest rate swaps, cross-currency swaps, forward exchange contracts and options as hedges against actual underlying exposures. These instruments are always associated with a related risk position and are never used for trading or speculative purposes. The Company's policy is to utilize derivative financial instruments for hedging purposes only.

The Company formally documents all relationships between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. This process includes linking all derivatives to specific assets and liabilities on the balance sheet or to specific firm commitments or forecasted transactions. The Company also formally assesses, both at the hedge's inception and on an ongoing basis, whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

FOREIGN EXCHANGE

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

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

INTEREST RATES

The Company enters into interest rate swaps to manage the fixed and floating interest rate exposures in its debt portfolio. The Company designates its interest rate swap agreements as hedges of the underlying debt or cash flows. Interest expense on the debt is adjusted to include the payments made or received under the interest rate swaps.

TERMINATION OF HEDGES

Realized and unrealized gains or losses associated with derivative instruments, which have been terminated for hedge accounting purposes or cease to be effective prior to maturity, are deferred under current liabilities on the balance sheet and recognized in income in the period in which the underlying hedged transaction is recognized. In the event a designated hedged item is sold, extinguished or matures prior to the termination of the related derivative instrument, any realized or unrealized gain or loss on such derivative instrument is recognized in income.

(q) Change in Functional Currency

It is management's view that the United States dollar best portrays the economic results of all the South American operations and thereby best achieves the objectives of foreign currency translation. As a result, effective October 1, 2003, the functional currency of the Chilean operation was changed from the Chilean peso to the United States dollar to reflect the increased exposure to the US dollar as a result of the growth in international operations. The method used to translate the results and financial position for items and transactions denominated in non-US currency is described in the notes above on currency translation. The Company applied the functional currency change for the Chilean operation on a prospective basis as of the beginning of the fourth quarter of 2003. The net effect of this change in functional currency for the three months ended December 31, 2003 was to decrease net assets by \$18,300 and increase the net income reported by approximately \$3,587.

(r) Comparative Figures

Certain comparative figures have been reclassified to conform to the 2004 presentation.

2. OTHER EXPENSES

Other expenses (income) for the years ended December 31 include the following items:

	2004	2003
Gain on sale of surplus properties in Canada and the U.K.	\$ (6,770)	\$ (1,791)
Restructuring and project costs in Canada and the U.K.	15,989	—
Recognition of deferred gain on the 2001 sale of the Canadian Materials Handling business (2003 reflects amortization of the gain)	(3,800)	(1,600)
Loss (income) from equity investment	461	(606)
Canary Wharf legal settlement (Note 22)	7,863	—
Costs incurred on DBSi business process reengineering project	—	22,104
Gain on sale of the UK Power Rental business	—	(13,800)
	13,743	4,307
Tax recovery on net other expenses	5,264	1,265
Other expenses, net of tax	\$ 8,479	\$ 3,042

3. SHORT-TERM AND LONG-TERM DEBT

December 31	2004	2003
Short-term debt:		
Bank indebtedness, commercial paper and other loans (a)	\$ 471,811	\$ 104,910
Long-term debt:		
Debtures		
8.35% due March 22, 2004 (b)	\$ —	\$ 75,000
6.60% due December 8, 2006	75,000	75,000
Medium Term Notes		
7.75% due November 1, 2004 (b)	—	150,000
7.40% due June 19, 2008	200,000	200,000
4.64% due December 14, 2011 (c)	150,000	—
5.625% Eurobond due May 30, 2013 (d)	461,240	461,320
Other unsecured term loans due 2005 to 2006 (e)	9,843	22,104
	896,083	983,424
Less current portion of long-term debt	6,460	235,243
Total long-term debt	\$ 889,623	\$ 748,181

(a) Bank indebtedness, commercial paper and other loans

The Company has approximately \$1.1 billion in unsecured short-term credit facilities. Borrowings under the credit facilities are at floating rates of interest at a margin over Canadian dollar bankers' acceptance yields, and U.S. and U.K. LIBOR rates. In addition, the Company has a Canadian commercial paper program for \$300,000 which can be issued against the available credit amount. Included in short-term debt are foreign currency denominated debt of US\$157,602 (2003: US\$55,190) and £50,554 (2003: £14,070).

(b) Debentures and Medium Term Notes

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

During 2004, the Company repaid its \$75,000 8.35% debentures and its \$150,000 7.75% medium term note, both of which matured, with short-term borrowings on its bank credit facilities.

(c) Medium Term Note

In December 2004, the Company issued a 7-year, \$150,000 unsecured Medium Term Note (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.

(d) Eurobond

On May 30, 2003 the Company issued a 10-year £200,000 unsecured Eurobond, bearing coupon interest at 5.625% per annum, payable annually on May 30 of each year until maturity. The Eurobond was priced at 99.043% of its principal amount to yield 5.753% per annum. Proceeds of \$449,520 from the Eurobond at the date of issuance were used to finance the acquisition of Lex Harvey and also to repay existing bank indebtedness. Unless redeemed early, the Eurobond will mature on May 30, 2013. The Eurobond is subject to early redemption, in whole, at the option of the Company as described and outlined in the Eurobond prospectus.

(e) Other unsecured term loans

Other unsecured term loans primarily consist of supplier merchandising programs at a floating rate of interest based on Canadian dollar bankers' acceptance yields.

Covenants

The Company is required to meet various covenants with respect to its debt facilities. As at December 31, 2004, the Company is in compliance with these covenants.

Long-Term Debt Repayments

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

2005	\$ 6,460
2006	78,383
2007	—
2008	200,000
2009	—
Thereafter	611,240
	\$ 896,083

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

Finance costs and interest on other indebtedness as shown on the consolidated statement of income is comprised of the following elements:

	2004	2003
Interest on debt securities:		
Debentures	\$ 59,206	\$ 52,778
Bank indebtedness, commercial paper and other loans	15,519	8,012
Term facilities	640	931
	75,365	61,721
Interest on swap contracts	16,283	13,074
Mark to market valuation changes on interest rate swaps not eligible for hedge accounting and the unwind of those interest rate swaps	14,514	—
Amortization of deferred debt costs and other finance related expenses	11,938	2,073
	\$ 118,100	\$ 76,868

Interest expense includes interest on debt incurred for a term greater than one year of \$59,846 (2003: \$53,832).

In December 2004, the Company unwound its interest rate swaps that did not receive hedge accounting treatment. A settlement loss of \$14,514 was recorded on the unwind transactions.

4. FINANCIAL INSTRUMENTS

The Company is subject to various financial risks including interest rate risk and foreign exchange risk. To manage this risk, the Company uses interest rate swaps, cross-currency swaps, forward exchange contracts and options as hedges against actual assets, liabilities, firm commitments or forecasted transactions.

The following derivative contracts were in place at December 31, 2004 and 2003:

2004	Notional Value	Term to Maturity	Total Fair Value
Interest rate swaps			
Fixed / Floating Swaps:			
Canadian \$ pay floating, received fixed	\$ 100,000	3.5 years	\$ 3,258
Cross-Currency Interest Rate Swap: ⁽¹⁾			
Buy Canadian \$ (sell £228,000), pay £ fixed; receive C\$ fixed	\$ 498,849	perpetual	\$ (18,957)
Forward Foreign Exchange Contracts			
Buy US\$ (sell Canadian \$)	US\$ 173,545	1 – 12 months	\$ (5,557)
Sell CLP (buy US\$)	US\$ 322	1 month	\$ (57)
Buy Euro (sell £)	£ 576	10 months	\$ 42
Sell £ (buy Canadian \$) ⁽²⁾	£ 95,560	Perpetual	\$ (10,540)

2003			
Interest rate swaps	Notional Value	Term to Maturity	Total Fair Value
Fixed / Floating Swaps:			
Canadian \$ pay fixed; receive floating	\$ 22,613	1-4 years	\$ (506)
Canadian \$ pay floating; receive fixed	\$ 100,000	4.5 years	\$ 2,237
Cross-Currency Interest Rate Swap: ⁽¹⁾			
Buy Canadian \$ (sell £228,000), pay £ fixed; receive C\$ floating	\$ 498,849	perpetual	\$ (41,272)
Forward Foreign Exchange Contracts	Notional Value	Term to Maturity	Total Fair Value
Buy US\$ (sell Canadian \$)	US\$ 81,269	1-2 years	\$ (4,500)
Sell US\$ (buy Canadian \$)	US\$ 29,000	1-4 months	\$ 983
Sell £ (buy Canadian \$) ⁽²⁾	£ 95,560	perpetual	\$ (8,277)

⁽¹⁾ The perpetual cross-currency interest rate swap contract hedges the Company's net investment in Hewden and a fixed amount of annual U.K. pound sterling cash flows. At December 31, 2004, \$26,965 of the negative fair value, representing the mark-to-spot rate loss on the forward foreign exchange component of the swap, has been recognized on the balance sheet in current liabilities and offset to cumulative currency translation adjustments.

⁽²⁾ The forward foreign exchange contract hedges the Company's net investment in Hewden. At December 31, 2004, \$11,037 of the negative fair value, representing the mark-to-spot rate loss on the contract, has been recognized on the balance sheet in current liabilities and offset to cumulative currency translation adjustments.

Fair Values

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

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

December 31	2004		2003	
	Book Value	Fair Value	Book Value	Fair Value
Long-term debt	\$ 896,083	\$ 919,755	\$ 983,424	\$ 1,007,579

Effective January 1, 2004, the Company adopted The Canadian Institute of Chartered Accountants (CICA) Accounting Guideline 13, *Hedging Relationships* (AcG-13). The guideline specifies the conditions under which hedge accounting is appropriate, includes requirements for the identification, documentation and designation of hedging relationships, sets standards for determining hedge effectiveness, and establishes criteria for the discontinuance of hedge accounting. At the time of AcG-13 implementation, the Company met the criteria for all hedging relationships with the exception of certain interest rate swaps. AcG-13 did not permit hedge accounting for these derivative instruments and as a result, hedge accounting was discontinued in 2004 for these derivative instruments in accordance with the guideline. The market values on January 1, 2004 were initially recorded on the balance sheet as a deferred loss, and were being amortized to finance expense over the remaining life of the derivative contracts. In addition, the derivative contracts

4. FINANCIAL INSTRUMENTS (continued)

were marked-to-market each month during the year, with changes in market value being recorded in finance expense each period. In December 2004, the Company elected to terminate these interest rate swaps, for a net settlement loss of \$14,514. This loss was comprised of the net cumulative effect of deferred loss amortization and mark-to-market adjustments up to the date of settlement (\$2,170) as well as the write-off of the remaining deferred loss balance at the settlement date (\$12,344). The settlement loss was recorded as a charge to finance expense, of which, \$14,364 was recognized in the fourth quarter. As at December 31 2004, there are no derivative instruments outstanding that do not receive hedge accounting.

Credit Risk

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

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

5. INCOME TAXES

Provision for Income Taxes

For years ended December 31	2004	2003
Current income tax expense	\$ 19,867	\$ 9,392
Future income tax expense	(2,321)	17,256
	\$ 17,546	\$ 26,648

Reconciliation of the Company's effective income tax rate from statutory Canadian tax rates for the years ended December 31, 2004 and 2003 is as follows:

For years ended December 31	2004	2003
Combined federal and provincial tax rates	35.17%	37.10%
Provision for income taxes based on the combined federal and provincial rates	\$ 46,597	\$ 58,840
Increase / (decrease) in provision resulting from:		
Lower effective rates on the earnings of foreign subsidiaries	(29,023)	(29,206)
Large corporation tax	1,000	1,741
Income not subject to tax	(1,136)	(433)
Other items	108	(4,294)
Provision for income taxes	\$ 17,546	\$ 26,648

At December 31, 2004, the Company has loss carry-forwards of approximately \$25,256 for income tax purposes that expire through 2014. For financial reporting purposes a deferred tax asset of \$8,136 has been recognized in respect of these loss carry-forwards.

Future Income Tax Asset and Liability

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

December 31	2004	2003
Future income tax assets	\$ 66,166	\$ 75,156
Future income tax liabilities:		
Capital, rental and leased assets, inventories and reserves	(68,732)	(78,713)
Pensions	(14,865)	(18,104)
Other	(4,549)	(2,785)
	(88,146)	(99,602)
Net future income tax liability	\$ (21,980)	\$ (24,446)
Presented on balance sheet as:		
Future income tax asset – current	\$ 24,820	\$ 35,133
Future income tax asset – non-current	31,091	39,344
Future income tax liability – current	(2,773)	(5,711)
Future income tax liability – non-current	(75,118)	(93,212)
	\$ (21,980)	\$ (24,446)

6. NON-CONTROLLING INTERESTS

In 2001, the Company formed a partnership with third party private investors to raise capital to fund the acquisition of Hewden. The private investors injected \$425,000 into the partnership in return for non-controlling partnership interests. A subsidiary of the Company was the general partner in the partnership. The partnership interest was reported as non-controlling interests on the financial statements and distributions on the partnership interest were accounted for as distributions to non-controlling interests. The financial position, results of operations and cash flows of the partnership were consolidated with the Company from its date of inception. On November 24 2004, Finning redeemed the non-controlling partnership interests held by the private investors for \$425,000. Management believes that the removal of the third party interests in Hewden will allow full flexibility in implementing the various initiatives designed to unlock the full value of its businesses in the U.K. and enhance the Company's ability to grow its business. The financing of the redemption of the non-controlling interests was funded principally through a common equity offering in November of 2004, which raised proceeds, net of underwriting fees, of \$292,800, and through short-term borrowings on the Company's bank credit facilities. In December 2004, the Company repaid these short-term bank borrowings by issuing a 7-year, \$150,000 unsecured Medium Term Note.

Through their partnership interest, the private investors had a preferred interest in the shares of Hewden ranking in priority to the debt securities issued by the Company. The return to which the private investors were entitled was limited to a quarterly distribution on their partnership interests, which was calculated with reference to Canadian dollar bankers' acceptances. The distributions to the non-controlling interests totalled \$15,149 in 2004 (representing a yield of 4.0%), up to the date of redemption of the partnership interest (2003: \$19,701 and a yield of 4.6%).

7. SHARE CAPITAL

The Company is authorized to issue an unlimited number of preferred shares without par value, of which 4,400,000 are designated as cumulative redeemable preferred shares. The Company had no preferred shares outstanding for the years ended December 31, 2004 and 2003.

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

	2004		2003	
	Shares	Amount	Shares	Amount
Balance, beginning of year	77,754,985	\$ 248,939	77,579,954	\$ 233,450
Equity issue	10,000,000	296,769	—	—
Exercise of stock options	964,796	13,095	1,513,931	19,538
Repurchase of common shares	(329,900)	(1,063)	(1,338,900)	(4,049)
Balance, end of year	88,389,881	\$ 557,740	77,754,985	\$ 248,939

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.

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

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

Equity Issue

In November 2004, the Company issued 10 million common shares for cash under a public offering at a price of \$30.50 per share. Proceeds, net of underwriting fees, were \$292,800.. After tax-affecting the underwriting fees and issue costs, share capital increased by \$296,769.

Repurchase of Common Shares

The Company repurchased 329,900 common shares during 2004 as part of normal course issuer bids. These shares were repurchased at an average price of \$29.15 for an aggregate cost of \$9,620, which has been allocated to reduce share capital by \$1,063 and retained earnings by \$8,557. In 2003, the Company repurchased 1,338,900 common shares at an average price of \$24.51 for an aggregate cost of \$32,812, which was allocated to reduce share capital by \$4,049 and retained earnings by \$28,763.

Stock Options

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

	2004		2003	
	Options	Weighted Average Exercise Price	Options	Weighted Average Exercise Price
Options outstanding, beginning of year	2,745,620	\$ 13.31	4,323,218	\$ 13.20
Issued	242,200	\$ 29.38	—	n/a
Exercised	(964,796)	\$ 13.56	(1,513,931)	\$ 12.91
Cancelled	(6,966)	\$ 25.21	(63,667)	\$ 14.55
Options outstanding, end of year	2,016,058	\$ 15.08	2,745,620	\$ 13.31
Exercisable at year-end	1,773,858	\$ 13.13	2,516,904	\$ 13.30

In April 2004, the Company issued 242,200 common share options to senior executives and management of the Company, representing the first issuance of stock options since February 2001. These stock options, similar to the previous stock options issued by the Company, give the holder the right, but not the obligation, to purchase common shares at a predetermined price based on the fair market value of the common shares at the time the option is granted. After the date of grant, the options vest one-third per year over a three-year period.

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

Dividend yield	1.12%
Expected volatility	26.82%
Risk-free interest rate	3.95%
Expected life	7 years

Stock option expense recognized as a result of granting stock options in 2004 was \$878 (2003: \$nil).

The following table summarizes information about the stock options outstanding at December 31, 2004:

Range of exercise prices	Options Outstanding			Options Exercisable		
	Number outstanding	Weighted Average Remaining Contractual Life (in years)	Weighted Average Exercise Price	Number Outstanding	Weighted Average Remaining Contractual Life (in years)	Weighted Average Exercise Price
\$9 – 12	419,850	3.37	\$ 10.27	419,850	3.37	\$ 10.27
\$12 – 15	930,151	5.61	\$ 12.92	930,151	5.61	\$ 12.92
\$15 – 17	423,857	2.77	\$ 16.41	423,857	2.77	\$ 16.41
\$29.38	242,200	6.33	\$ 29.38	—	—	—
	2,016,058	4.63	\$ 15.08	1,773,858	4.40	\$ 13.13

7. SHARE CAPITAL (continued)

Other stock-based compensation plans

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

Directors

Directors' Deferred Share Unit Plan A (DDSU)

Under the DDSU Plan, non-employee Directors of the Company may elect to allocate all or a portion of their cash compensation as deferred share units. These units are fully vested upon issuance. These units accumulate dividend equivalents in the form of additional units based on the dividends paid on the Company's common shares. Units are redeemable only following termination of service on the Board of Directors and must be redeemed by December 31st of the year following the year in which the termination occurred.

Non-employee Directors of the Company were allocated a total of 19,950 share units in 2004.

Executive

Deferred Share Unit Plan A (DSU-A)

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

Deferred Share Unit Plan A (DSU-B)

Under the DSU-B Plan, executives of the Company may be awarded performance based deferred share units as approved by the Board of Directors. This plan utilizes notional units that become partially vested on December 31st of the year following the year of retirement, death or disability or at specified percentages if the Company's common share price exceeds, for ten consecutive days, at specified levels, the common share price at the date of grant.

Executives of the Company were awarded 118,100 deferred share units in 2004 with similar terms to the existing DSU-B plan.

The specified levels and respective vesting percentages are as follows:

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

Vested deferred share units are redeemable for a period of 30 days after termination, or by December 31st of the year following the year of retirement, death or disability. The notional deferred share units that have not vested within five years to the date that they were granted expire. Only vested units accumulate dividend equivalents in the form of additional units based on the dividends paid on the Company's common shares.

Details of the deferred share unit plans are as follows:

Units	DSU-A		DSU-B		DDSU	
	2004	2003	2004	2003	2004	2003
Outstanding, beginning of year	67,607	66,740	685,766	275,200	132,390	95,089
Additions during year	713	867	130,951	423,820	30,682	38,328
Exercised/cancelled during year	(15,604)	—	(93,416)	(13,254)	—	(1,027)
Outstanding, end of year	52,716	67,607	723,301	685,766	163,072	132,390
Vested, beginning of year	67,607	66,740	258,498	28,050	132,390	95,089
Vested during year	713	867	213,802	230,448	30,682	38,328
Exercised/cancelled during year	(15,604)	—	(84,250)	—	—	(1,027)
Vested, end of year	52,716	67,607	388,050	258,498	163,072	132,390
Liability (C\$ thousands)						
Balance, beginning of year	\$ 2,028	\$ 1,705	\$ 7,755	\$ 717	\$ 3,972	\$ 2,430
Expensed during year	311	323	8,626	7,038	1,734	1,568
Exercised/cancelled during year	(495)	—	(2,803)	—	—	(26)
Balance, end of year	\$ 1,844	\$ 2,028	\$ 13,578	\$ 7,755	\$ 5,706	\$ 3,972

Management

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

In 2004, 237,129 awards were granted to management in the U.K. and Canada at a grant price of \$29.38.

7. SHARE CAPITAL (continued)

Details of the SAR plans are as follows:

Units	2004	2003
Outstanding, beginning of year	541,121	282,500
Additions during year	237,129	279,500
Exercised/cancelled during year	(128,883)	(20,879)
Outstanding, end of year	649,367	541,121
Vested, beginning of year	163,708	84,500
Vested during year	138,665	96,587
Exercised/cancelled during year	(97,300)	(17,379)
Vested, end of year	205,073	163,708
Liability (C\$ thousands)		
Balance, beginning of year	\$ 1,226	\$ —
Expensed during period	2,837	1,341
Exercised/cancelled during period	(543)	(115)
Balance, end of period	\$ 3,520	\$ 1,226

Strike price ranges: **\$26.05 – \$29.38**

Changes in the value of all deferred share units and share appreciation rights as a result of fluctuations in the Company's common share price, the impact of vesting during 2004 and the impact of stock options resulted in a charge to income of \$14,387 (2003: \$10,270). This amount was recognized in selling, general and administrative expenses on the consolidated statement of income.

8. EARNINGS PER SHARE

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

	Income (Numerator)	Shares (Denominator)	Per Share Amount
2004			
Basic earnings per share: net income	\$ 114,946	79,018,683	\$ 1.45
Effect of dilutive securities: stock options	—	1,051,870	—
Diluted earnings per share: net income and assumed conversions	\$ 114,946	80,070,553	\$ 1.43
2003			
Basic earnings per share: net income	\$ 131,951	77,326,253	\$ 1.71
Effect of dilutive securities: stock options	—	1,468,380	—
Diluted earnings per share: net income and assumed conversions	\$ 131,951	78,794,633	\$ 1.68

9. EQUIPMENT LEASED TO CUSTOMERS

December 31	2004	2003
Cost	\$ 25,307	\$ 159,735
Less accumulated depreciation	(21,950)	(61,810)
	\$ 3,357	\$ 97,925

Depreciation of equipment leased to customers for the year ended December 31, 2004 was \$17,752 (2003: \$48,588).

During 2004, the Company sold \$92,930 of leases to Caterpillar Financial Services Limited (2003: \$64,213), earning income of \$13,339 (2003: \$11,470).

10. RENTAL EQUIPMENT

December 31	2004	2003
Cost	\$ 1,999,319	\$ 1,821,314
Less accumulated depreciation	(835,343)	(775,184)
	\$ 1,163,976	\$ 1,046,130

Depreciation of rental equipment for the year ended December 31, 2004 was \$314,886 (2003: \$275,320).

11. LAND, BUILDINGS AND EQUIPMENT

December 31	2004	2003
Land	\$ 54,999	\$ 58,692
Buildings and equipment	505,510	432,186
Less accumulated depreciation	(230,079)	(203,100)
	275,431	229,086
Total land, buildings and equipment	\$ 330,430	\$ 287,778

Depreciation of buildings and equipment for the year ended December 31, 2004 was \$31,954 (2003: \$31,051).

12. GOODWILL AND OTHER INTANGIBLE ASSETS

December 31	2004	2003
Goodwill		
Goodwill, beginning of year	\$ 393,109	\$ 379,866
South America and Lex Harvey acquisitions (2003) and final purchase price adjustments (2004)	(7,786)	41,312
Other acquisitions	1,872	1,963
Divestitures	—	(452)
Foreign exchange translation adjustment	(938)	(29,580)
Goodwill, end of year	\$ 386,257	\$ 393,109
Intangible Assets		
Intangible assets, beginning of year	\$ 10,757	\$ 2,300
South America and Lex Harvey acquisitions (2003) and final purchase price adjustments (2004)	3,587	7,761
Other acquisitions	217	1,043
Foreign exchange translation adjustment	41	(347)
Intangible assets, end of year	14,602	10,757
Accumulated amortization	(2,560)	(1,065)
Net intangible assets	\$ 12,042	\$ 9,692

During 2004, the Company acquired interests in smaller customer service operations in Canada and in Chile providing goodwill of \$1,271 and \$601, respectively (2003: \$1,963 for smaller Canadian rental operations). During 2003, the Company acquired certain Caterpillar dealership operations in Argentina, Uruguay and Bolivia for a total purchase price of \$52,233, resulting in goodwill of \$3,076 and intangible assets in Argentina, representing customer contracts and the related customer relationships, of \$2,935. The Argentina intangible assets will be amortized over 4 years. The Company also acquired the business and assets of Lex Harvey for a total purchase price of \$212,659. The preliminary allocation of the purchase price resulted in goodwill of \$38,236 and intangible assets, representing customer contracts and the related customer relationships, of \$4,826. In 2004, the Company completed its assessment of the final purchase price allocation of Lex Harvey and the resulting purchase price adjustment reduced goodwill by \$7,786 and liabilities by \$1,720 and increased deferred tax assets by \$2,479 and intangible assets by \$3,587. The Lex Harvey intangible assets will be amortized over 10 years.

13. OTHER ASSETS

December 31	2004	2003
Other assets – current:		
Supplier claims receivable	\$ 26,565	\$ 39,500
Retained interest in transferred receivables (Note 18)	10,786	9,040
Value added tax receivable	25,193	11,000
Prepaid expenses	13,398	10,100
Other	39,353	28,739
	\$ 115,295	\$ 98,379
Other assets – long-term:		
Accrued defined benefit pension asset	\$ 49,609	\$ 51,004
Deferred financing costs	17,462	25,292
Investment in Maxim Power Corporation (Note 24)	14,173	14,634
Investment in Energyst Rental Solutions	5,115	5,115
Deferred project costs	2,874	8,544
Matreq S.A. receivable US\$4,000 (Note 16)	4,814	5,170
Other	10,978	20,791
	\$ 105,025	\$ 130,550

14. INVESTMENTS

During 2003, the Company invested \$6,755 to acquire a 15.17% ownership interest in Energyst Rental Solutions (SM) (Energyst), a newly established company offering energy rental services to national and international customers across Europe. As part of this transaction, the Company's UK operation sold its power rental business to Energyst for \$34,056 with a resulting after-tax gain of \$9,168. The investment in Energyst is accounted for using the cost method and is reported in other assets on the consolidated balance sheet.

15. CUMULATIVE CURRENCY TRANSLATION ADJUSTMENTS

December 31	2004	2003
Balance, beginning of year	\$ (65,471)	\$ (2,831)
Gain realized during the year	—	(2,578)
Translation adjustments for the year	(17,263)	(60,062)
Balance, end of year	\$ (82,734)	\$ (65,471)

The Company operates in three main currencies: Canadian dollars, U.K. pound sterling and U.S. dollars. Translation gains or losses on the consolidation of the financial statements of self-sustaining foreign operations are accumulated in this account. Translation adjustments arise as a result of fluctuations in foreign currency exchange rates. The cumulative currency translation adjustment for 2004 mainly resulted from the 6.9% weakening of the U.S. dollar against the Canadian dollar.

At December 31, 2004 and 2003, the exchange rates of the Canadian dollar against the following foreign currencies were as follows:

	2004	2003
Exchange rate as at December 31		
United States dollar	1.2036	1.2924
U.K. pound sterling	2.3062	2.3066
Average exchange rates for years ended December 31 ⁽¹⁾		
United States dollar	1.3015	1.4015
U.K. pound sterling	2.3842	2.2883

⁽¹⁾ Effective October 1, 2003, the functional currency for Finning Chile S.A. was changed from the Chilean peso to the US dollar. The Chilean peso average exchange rate for the nine months ended September 30, 2003 was 0.002032.

16. ACQUISITIONS

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

	Argentina and Uruguay (a)	Bolivia (b)	UK Operations: Lex Harvey (c)
Total assets	\$ 91,915	\$ 18,043	\$ 193,350
Total liabilities	(37,981)	(5,842)	(19,554)
Goodwill	953	2,123	30,450
Intangible assets	2,935	—	8,413
Net assets acquired	57,822	14,324	212,659
Less assumed debt	(14,497)	(5,416)	—
Total purchase price	\$ 43,325	\$ 8,908	\$ 212,659

(a) In January 2003, the Company completed its acquisition of 100% of the voting shares of Macroasa Del Plata S.A. and Servicios Mineros S.A., the Caterpillar dealerships in Argentina and General Machinery Co S.A., the Caterpillar dealership in Uruguay. The purchase price of \$43,325 (US\$27,951) was financed through debt. The sellers are also entitled to additional future consideration, to a maximum of US\$20,000, based on realization of certain performance criteria over a six-year period ending December 31, 2008 for these operations. This other consideration will be accrued as a cost of the acquisition if and when the performance criteria is achieved. Any additional consideration is payable only if certain performance criteria are achieved and maintained to December 31, 2008. With the strong performance of the dealership in Argentina in 2003 and 2004, the performance criteria may be met in 2005 which would trigger a payment in early 2006. No additional consideration has been recorded in the accounts.

(b) In April 2003, the acquisition of 100% of the voting shares of Matreq S.A., the Bolivian Caterpillar dealership was completed. The purchase price of \$8,908 (US\$6,000) was financed through debt. In addition, other consideration of \$5,938 (US\$4,000) was advanced to the seller and is contingent upon certain future performance criteria of this operation extending to the end of 2010. This other consideration is recorded in other assets.

(c) In June 2003, the Company, through its UK operation, acquired the materials handling business and majority of the assets of Lex Harvey Limited and its associated company (Lex Harvey) from RAC plc, a publicly listed company in the U.K. The results from Lex Harvey have been integrated and reported within the UK operation results. The aggregate purchase price of \$212,659 (£94,616) was funded through debt.

17. EMPLOYEE BENEFITS

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

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

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

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

The Company's South American employees do not participate in employer pension plans but are covered by country specific legislation with respect to indemnity plans.

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

For years ended December 31	2004				2003			
	Canada	UK	Hewden	Total	Canada	UK	Hewden	Total
Defined contribution plans								
Net benefit plan expense	\$ 8,008	\$ 553	\$ 279	\$ 8,840	\$ 5,939	\$ 158	\$ 263	\$ 6,360
Defined benefit plans								
Current service cost, net of employee contributions	\$ 5,149	\$12,083	\$ 2,983	\$20,215	\$ 4,566	\$ 9,137	\$ 3,046	\$16,749
Interest cost	14,951	20,662	10,104	45,717	14,903	16,368	8,247	39,518
Actual return on plan assets	(22,081)	(26,167)	(5,765)	(54,013)	(18,273)	(22,720)	(7,487)	(48,480)
Actuarial losses	17,437	44,315	14,110	75,862	6,688	39,161	17,597	63,446
Employee future benefit costs before adjustments to recognize the long-term nature of employee future benefit cost	15,456	50,893	21,432	87,781	7,884	41,946	21,403	71,233
<i>Adjustments to recognize the long-term nature of employee future benefit costs:</i>								
Difference between expected return and actual return on plan assets for year	5,062	5,948	(2,453)	8,557	1,808	5,604	452	7,864
Difference between actuarial loss recognized for year and actual actuarial loss on accrued benefit obligation for year	(16,841)	(38,838)	(12,131)	(67,810)	(6,099)	(35,600)	(16,695)	(58,394)
Difference between amortization of past service costs for year and actual plan amendments for year	298	—	—	298	298	—	—	298
Amortization of transitional obligation / (asset)	1,047	(1,385)	1,771	1,433	1,047	(1,330)	1,700	1,417
Defined benefit costs recognized	5,022	16,618	8,619	30,259	4,938	10,620	6,860	22,418
Total	\$13,030	\$17,171	\$ 8,898	\$39,099	\$10,877	\$10,778	\$ 7,123	\$28,778

Total cash payments for employee future benefits for 2004, consisting of cash contributed by the Company to its funded pension plans, cash payments made directly to beneficiaries for its unfunded other benefit plans, and cash contributed to its defined contribution plans, was \$38,032 (2003: \$32,029)

17. EMPLOYEE BENEFITS (continued)

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

For years ended December 31	2004				2003			
	Canada	UK	Hewden	Total	Canada	UK	Hewden	Total
Accrued benefit obligation								
Balance at beginning of year	\$ 228,841	\$ 351,208	\$ 170,264	\$ 750,313	\$ 212,167	\$ 320,128	\$ 159,342	\$ 691,637
Current service cost	7,069	16,117	4,745	27,931	6,396	12,794	4,668	23,858
Interest cost	14,951	20,662	10,104	45,717	14,903	16,499	8,313	39,715
Benefits paid	(11,836)	(12,398)	(5,257)	(29,491)	(11,313)	(7,639)	(4,855)	(23,807)
Actuarial losses	17,437	44,315	14,110	75,862	6,688	39,161	17,597	63,446
Foreign exchange rate changes	—	(2,308)	(806)	(3,114)	—	(29,735)	(14,801)	(44,536)
Balance at end of year	\$ 256,462	\$ 417,596	\$ 193,160	\$ 867,218	\$ 228,841	\$ 351,208	\$ 170,264	\$ 750,313
Plan assets								
Fair value at beginning of year	\$ 233,017	\$ 263,356	\$ 110,660	\$ 607,033	\$ 220,782	\$ 255,239	\$ 108,041	\$ 584,062
Actual return on plan assets	22,081	26,167	5,765	54,013	18,273	22,720	7,487	48,480
Employer contributions	4,005	15,800	7,689	27,494	3,135	13,161	2,551	18,847
Employees' contributions	1,920	4,034	1,762	7,716	1,830	3,584	1,598	7,012
Benefits paid	(11,836)	(12,398)	(5,257)	(29,491)	(11,313)	(7,639)	(4,855)	(23,807)
Foreign exchange rate changes	—	(1,145)	(346)	(1,491)	—	(23,709)	(10,035)	(33,744)
Fair value at end of year	\$ 249,187	\$ 295,814	\$ 120,273	\$ 665,274	\$ 232,707	\$ 263,356	\$ 104,787	\$ 600,850
Funded status – plan								
surplus/(deficit)	\$ (7,275)	\$ (121,782)	\$ (72,887)	\$ (201,944)	\$ 3,866	\$ (87,852)	\$ (65,477)	\$ (149,463)
Unamortized net actuarial loss	42,961	141,084	56,020	240,065	31,182	109,289	41,918	182,389
Unamortized past service costs	2,960	—	—	2,960	3,258	—	—	3,258
Contributions remitted after								
valuation date	—	1,656	1,261	2,917	310	—	5,873	6,183
Adjustment	—	—	—	—	—	1,241	—	1,241
Unamortized transitional								
obligation/asset	1,974	(11,969)	12,137	2,142	3,021	(13,311)	13,851	3,561
Accrued benefit asset/(liability) ⁽¹⁾	\$ 40,620	\$ 8,989	\$ (3,469)	\$ 46,140	\$ 41,637	\$ 9,367	\$ (3,835)	\$ 47,169

⁽¹⁾ Accrued benefit asset or liability is classified as either other assets or accounts payable and accruals, respectively, on the Consolidated Balance Sheets.

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

For years ended December 31	2004				2003			
	Canada	UK	Hewden	Total	Canada	UK	Hewden	Total
Accrued benefit obligation	\$214,333	\$417,59	\$193,160	\$825,089	\$185,871	\$351,208	\$170,264	\$707,343
Fair value of plan assets	188,499	295,814	120,273	604,586	173,473	263,356	104,787	541,616
Funded status – plan deficit	\$ 25,834	\$121,78	\$ 72,887	\$220,503	\$ 12,398	\$ 87,852	\$ 65,477	\$165,727

Plan assets are principally invested in the following securities at November 30, 2004:

	Canada	UK	Hewden
Equity	57%	74%	72%
Fixed-income	43%	26%	28%

For measurement purposes, assets and liabilities of the plans are valued as at November 30. Plan assets include common shares of the Company having a fair value of \$724 at December 31, 2004 (2003: \$684).

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

	2004			2003		
	Canada	UK	Hewden	Canada	UK	Hewden
Accrued benefit obligation as of December 31:						
Discount rate	6.00%	5.40%	5.40%	6.50%	5.75%	5.75%
Expected long-term rate of return on plan assets	7.50%	7.50%	7.75%	8.00%	7.25%	7.25%
Rate of compensation increase	3.20%	3.25%	3.50%	3.48%	3.20%	3.50%
Benefit costs for years ended December 31:						
Discount rate	6.50%	5.75%	5.75%	7.00%	5.75%	5.75%
Expected long-term rate of return on plan assets	8.00%	7.25%	7.25%	8.50%	7.25%	7.25%
Rate of compensation increase	3.48%	3.20%	3.50%	4.10%	3.20%	3.50%
Estimated remaining service life (years)	10-15	14	13	10-15	14	13

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

Defined Benefit Plan	Last Actuarial Valuation Date	Next Actuarial Valuation Date
Canada – BC Regular & Executive Plan	December 31, 2003	December 31, 2006
Canada – Executive Supplemental Income Plan	December 31, 2002	December 31, 2005
Canada – General Supplemental Income Plan	December 31, 2002	December 31, 2005
Canada – Alberta Defined Benefit Plan	December 31, 2002	December 31, 2005
Finning UK Defined Benefit Scheme	January 1, 2004	January 1, 2006
Hewden Stuart Pension Scheme	December 31, 2002	December 31, 2005
Hewden Pension Plan	April 6, 2002	December 31, 2004

18. ACCOUNTS RECEIVABLE SECURITIZATION

Under an agreement dated November 29, 2002, the Company sold a \$30,000 co-ownership interest in a pool of eligible non-interest bearing trade receivables to a multi-seller securitization trust. In September 2004, an additional \$15,000 was sold under this agreement, increasing the co-ownership interest total to \$45,000. Under the terms of this agreement, which expires on November 29, 2007, the Company can sell co-ownership interests of up to \$120,000 on a revolving basis. The Company retains a subordinated interest in the cash flows arising from the eligible receivables underlying the trust's co-ownership interest. The trust and its investors do not have recourse to the Company's other assets in the event that obligors fail to pay the underlying receivables when due. Pursuant to the agreement, the Company continues to service the pool of underlying receivables.

As at December 31, 2004, the Company is carrying a retained interest (which, in effect, is an overcollateralization of the trade receivables which have been sold) in the amount of \$10,786 (as at December 31, 2003: \$9,040) and is reported on the consolidated balance sheet in other current assets (Note 13). The servicing liability outstanding is approximately \$49 as at December 31, 2004 (as at December 31, 2003: \$33).

For the year ended December 31, 2004, the Company recognized a pre-tax loss of \$964 (2003: \$929) relating to these transfers. The Company estimates the fair value of its retained interest and computes the loss on sale using a discounted cash flow model. The key assumptions underlying this model are:

	December 31, 2004	Range for year ended 2004
Cost of funds	2.8257%	2.32% - 3.02%
Weighted average life in days	32	30.14 - 40.54
Average credit loss ratio	0.0086%	(0.0058%) - 0.0933%
Average dilution ratio	7.09%	5.46% - 8.08%
Servicing fee rate	2.0%	
Fair value of retained interest	\$9,656	

The impact of an immediate 10 percent and 20 percent adverse change in the average dilution ratio on the current fair value of the retained interest would be reductions of approximately \$400 and \$801, respectively. The impact of an immediate 10 percent and 20 percent adverse change in the weighted average life in days on the current fair value of the retained interest would be reductions of approximately \$887 and \$1,627, respectively. The sensitivity of the current fair value of the retained interest or residual cash flows to an immediate 10 percent and 20 percent adverse change in each of the remaining assumptions is not significant.

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

For the years ended December 31	2004	2003
Proceeds from new securitization	\$ 15,000	\$ —
Proceeds from revolving reinvestment of collections	\$ 354,520	\$ 356,143

19. ECONOMIC RELATIONSHIPS

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

20. SEGMENTED INFORMATION

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

Operating units are as follows:

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

The reportable operating segments are:

2004	Canada	UK	South America	Hewden	Other	Consolidated
Revenue from external sources	\$ 1,562,584	\$ 1,043,485	\$ 869,893	\$ 685,930	\$ 15	\$ 4,161,907
Operating costs	1,318,448	923,370	763,975	482,672	27,871	3,516,336
Depreciation and amortization	112,485	85,941	22,885	144,776	—	366,087
Other expenses	—	—	—	—	13,743	13,743
Earnings before interest and tax	\$ 131,651	\$ 34,174	\$ 83,033	\$ 58,482	\$ (41,599)	\$ 265,741
Finance costs and interest on other indebtedness						118,100
Provision for income taxes						17,546
Non-controlling interests						15,149
Net income						\$ 114,946
Identifiable assets	\$ 1,078,278	\$ 884,308	\$ 652,152	\$ 1,089,257	\$ 100,016	\$ 3,804,011
Gross capital expenditures	\$ 52,908	\$ 13,700	\$ 22,659	\$ 16,935	\$ —	\$ 106,202
Gross rental fleet acquired	\$ 125,347	\$ 105,921	\$ 34,633	\$ 190,140	\$ —	\$ 456,041

2003	Canada	UK	South America	Hewden	Other	Consolidated
Revenue from external sources	\$ 1,456,357	\$ 934,193	\$ 561,964	\$ 640,757	\$ 24	\$ 3,593,295
Operating costs	1,210,548	820,845	480,004	446,873	20,591	2,978,861
Depreciation and amortization	125,332	65,732	22,073	141,822	—	354,959
Other expenses	—	—	—	—	4,307	4,307
Earnings before interest and tax	\$ 120,477	\$ 47,616	\$ 59,887	\$ 52,062	\$ (24,874)	\$ 255,168
Finance costs and interest on other indebtedness						76,868
Provision for income taxes						26,648
Non-controlling interests						19,701
Net income						\$ 131,951
Identifiable assets	\$ 1,025,144	\$ 733,314	\$ 529,115	\$ 1,044,990	\$ 108,015	\$ 3,440,578
Gross capital expenditures	\$ 38,113	\$ 14,276	\$ 16,640	\$ 20,628	\$ —	\$ 89,657
Gross rental fleet acquired	\$ 71,600	\$ 25,571	\$ 33,540	\$ 166,534	\$ —	\$ 297,245

21. OPERATING LEASES

Payments due under various operating lease contracts are as follows:

2005	\$ 64,749
2006	56,569
2007	46,689
2008	39,219
2009	33,205
Thereafter	203,606
	\$ 444,037

22. COMMITMENTS AND CONTINGENCIES

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

(b) In June 2004, Hewden Tower Cranes Limited, a subsidiary of the Company settled its legal claim with Yarm Road Limited and Cleveland Bridge U.K. Limited for damages arising from the collapse of a tower crane at the Canary Wharf site in the U.K. on May 21, 2000. The accident occurred prior to the acquisition of Hewden Tower Cranes Limited by the Company. The final settlement amount totalled £4,875 in full and final settlement of any claims, counter claims, cross claims or contra charges including interest and costs and incorporating the earlier adjudication award of £1,485 in January 2004. In addition, Hewden was responsible for the costs of the adjudication, trial and independent legal advice of approximately £293. An amount of £3,168 (\$7,863) pre-tax, net of previous accruals, was charged to the income statement as "other expenses" in 2004.

23. GUARANTEES AND INDEMNIFICATIONS

In 2003, the Company adopted CICA Accounting Guideline 14, *Disclosure of Guarantees* (AcG-14) on a prospective basis. AcG-14 supplements other disclosure requirements and as such, some of these disclosures are reported in other notes throughout the Consolidated Financial Statements.

The Company enters into contracts with rights of return, in certain circumstances, for the repurchase of equipment sold to customers for an amount estimated to be the future value of the fair market price at that time. As at December 31, 2004 the total estimated value of these contracts outstanding is \$156,976 coming due at periods ranging from 2005 to 2013. Usually, the equipment at the exercise date of the contract is worth more than the contract value. The total amount recognized as a provision against these contracts is \$1,896.

The Company has also guaranteed the residual value of certain assets up to a maximum of \$4,000 extending over periods up until 2008.

24. SUBSEQUENT EVENT

On December 31, 2004, the Company entered into an agreement to sell its 36% interest in Maxim Power Corporation for cash of \$16,000, resulting in a pre-tax gain of approximately \$1,827. This transaction is expected to close March 31, 2005.