FINNING INTERNATIONAL INC.

ANNUAL INFORMATION FORM

2006

FEBRUARY 13, 2007

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

(Copies of the ANNUAL INFORMATION FORM, AS WELL AS COPIES OF THE COMPANY'S FINANCIAL STATEMENTS, MAY BE OBTAINED UPON REQUEST FROM THE CORPORATE SECRETARY, THROUGH THE COMPANY'S INTERNET SITE - WWW.FINNING.COM, OR AT WWW.SEDAR.COM)

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In this Annual Information Form, the terms the "Company" and "Corporation" mean Finning International Inc. and "Finning" means Finning International Inc. together with its subsidiaries and operating divisions. All dollars are Canadian dollars unless otherwise indicated. All information in this annual information form is presented as at December 31, 2006 unless otherwise specified herein.

FORWARD LOOKING STATEMENTS

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

1. CORPORATE STRUCTURE

1.1 Name, Address and Incorporation

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

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

1.2 INTERCORPORATE RELATIONSHIPS

The following outlines the Company's principal operating subsidiaries and divisions and the geographic areas they serve. As at December 31, 2006 there were no other subsidiaries of the Company whose total assets represented more than 10% of the consolidated assets of the Company or whose total revenues for the year then ended represented more than 10% of the consolidated revenue of the Company.

Finning International Inc.

- Canada – Operating Segment
    - **Finning (Canada)** a division of Finning International Inc., servicing Western Canada with dealer territories in British Columbia, Alberta, the Yukon territory, the Northwest Territories and a portion of Nunavut
    - **OEM Remanufacturing Company Inc.** a joint venture company, incorporated in Alberta, Canada with 100% of the common shares owned by Finning International Inc.
- South America – Operating Segment (Finning South America)
    - **Finning Argentina S.A** and **Finning Soluciones Mineras S.A.** both incorporated in Argentina, 100% owned subsidiaries, servicing Argentina
    - **Finning Bolivia S.A.** incorporated in Bolivia, a 100% owned subsidiary, servicing Bolivia
    - **Finning Chile S.A.** incorporated in Chile, a 99.99% owned subsidiary, servicing Chile
    - **Finning Uruguay S.A.** incorporated in Uruguay, a 100% owned subsidiary, servicing Uruguay
- UK Group – Operating Segment
    - **Finning (UK) Ltd.** incorporated in the United Kingdom, a 100% owned subsidiary, servicing the UK with dealer territories in England, Scotland, Wales, Falkland Islands and the Channel Islands
    - **Hewden Stuart PLC** incorporated in the United Kingdom, a 100% owned subsidiary, supplying rental equipment and services in England, Scotland, Wales and Jersey

2. GENERAL DEVELOPMENT OF THE BUSINESS

2.1 OVERVIEW OF OPERATIONS

Finning is a Canadian-based international company which provides sales, rental and customer support services for Caterpillar Inc. ("Caterpillar") equipment and engines and complementary equipment on three continents. In terms of sales volume, Finning is one of the largest distributors of Caterpillar products in the world and is the authorized dealer of Caterpillar products in its Western Canada territories, the United Kingdom and the southern cone of South America (defined as the countries of Argentina, Bolivia, Chile and Uruguay). Finning has over 12,800 employees serving in these dealer territories.

Canada

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

In 2004, Finning International Inc. made an investment in OEM Remanufacturing Inc. ("OEM"), a component remanufacturing business located in Edmonton, Alberta providing customers with remanufactured components. OEM provides remanufacturing services to Finning (Canada) on parts and components for Caterpillar ("CAT") branded equipment under a long-term contract.

South America

In August 1993, the Company acquired its first Caterpillar dealership territory in South America through the acquisition of Gildemeister S.A.C., the authorized Caterpillar dealer for Chile (subsequently renamed Finning Chile S.A. in 1997). In January 2003, the Company expanded its Caterpillar dealership territories in South America by becoming the authorized Caterpillar dealer in both Argentina, through the acquisition of Macrosa Del Plata S.A., and Servicios Mineras S.A. (subsequently renamed Finning Argentina S.A. and Finning Soluciones Mineras S.A. respectively in 2005), and in Uruguay through the acquisition of General Machinery Co. S.A. (subsequently renamed Finning Uruguay S.A. in 2005). Later in April 2003, the Company completed the acquisition of Matreq Ferreyros S.A. (subsequently renamed Finning Bolivia S.A. in 2005), the authorized Caterpillar dealer for Bolivia.

UK Group

In the fourth quarter of 2006, Finning implemented a new organizational structure for its United Kingdom ("UK") Group and appointed a new management team responsible for combined operations of Finning (UK) and Hewden. As a result of this reorganization, the Finning UK Group will be reported as one operating segment beginning in 2007 and will be organized along four core lines of business: Heavy Construction, General Construction, Power Systems and Hewden. These four business units will, over time, be supported by a single back office operation that will provide centralized head office services, allowing further synergies among the operations in the U.K. Prior to 2007, results from the UK Group were reported as two separate operating segments as follows:

UK

In 1983, the Company acquired two Caterpillar dealerships in Great Britain. The acquisition of the remaining U.K. dealer, H. Leverton Limited, was completed on October 1, 1997. The Company now operates in the U.K. under the name of Finning (UK) Ltd. ("Finning (UK)"), and is the authorized Caterpillar dealer in Great Britain.

Hewden

On January 26 2001, Finning acquired Hewden Stuart Plc ("Hewden"). Hewden is a large national equipment rental business in the U.K., operating throughout England, Scotland, Wales and Jersey.

2.2 THREE YEAR HISTORY

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

2. 2.1 Strategic Plan

During 2006, in order to leverage Finning's core capabilities and establish a platform for sustainable growth and enhanced business performance, the Company completed an extensive review and update of its strategic plan. The Company's updated strategic plan, which is intended to guide efforts through to the end of 2010, is based on the progress made under previous plans and builds upon the Company's strengths and vision for enhanced growth and business performance.

Finning is part of Caterpillar's global dealer network and both Finning and Caterpillar benefit from this strong strategic alliance. The Company's vision is two-fold: to be Caterpillar's best global business partner and to provide unrivalled services that earn customer loyalty.

The Company's mission statement to achieve this vision is "Great people. Great solutions. Great results." Management believes that this mission statement has meaning for all the Company's stakeholders: investors, employees, customers, and Caterpillar.

To accomplish this mission which centers on its people, its customers and its growth, the Company has identified three distinct but very interrelated critical success factors:

- Customer Solutions: continue development of a customer solutions culture driven by the Company's core values. Making its customers more successful is a corner stone to this portion of the Company's strategy. Service excellence and service quality continue to be key areas of focus.
- People: attract and retain talented skilful people who are quality focused, take initiative and solve problems quickly.
- Information Technology ("IT"): continue to develop technology and systems solutions and processes that are user friendly and drive the best in class customer solutions.

2. 2.2 Current Developments in the Company's Operating Segments

Canada

- In 2004, Finning International Inc. made an investment in OEM, a component remanufacturing business located in Edmonton, Alberta. Construction was completed in 2005 and the business is now fully functional, providing Finning (Canada) and other customers with remanufactured components.
- In 2005, Finning (Canada) was selected by Caterpillar to be one of four Caterpillar dealers to form a new global Caterpillar dealership, PipeLine Machinery International ("PLM"). PLM serves the global pipeline construction industry as the sole supplier of new Caterpillar pipelaying equipment to customers who specialize in constructing large diameter pipeline projects.
- The number of CAT Rental Store locations increased from 25 at the end of 2003 to its current level of 30 locations.

South America

- In 2005 and 2006, the Company consolidated its South American operations into a single business operating segment, aligned by core business lines (mining, general machinery and power systems). Operations now benefit from a centralized shared services centre in Uruguay which provides back office and call centre services to all of the South American operations. As a result, Finning has been able to improve customer service and marketing and generate synergies from its acquisitions in 2003.
- The new organizational structure is intended to enhance customer contact, provide improved services to key industries and capture an even larger portion of the product support market. Finning South America has more than doubled its revenues in the past five years, and has recruited more than 2,000 employees. Service delivery is an important line of business in South America, and recruiting, developing and retaining employees has become a key competitive strength.

UK Group

Execution of Finning's strategic plans in 2005 and 2006 focused on a restructuring of the UK business model resulting in a significant reduction of costs and the divestment of certain non-core businesses. To support the strategic growth of operations within the U.K., the Company implemented a new organizational structure in late 2006 and appointed a new management team. *Finning UK Group* is organized along four core lines of business: Heavy Construction, General Construction, Power Systems and Hewden. The four business units will, over time, be supported by a single back office operation that will provide centralized head office services, allowing further synergies among the business units.

UK

- To support its effort to grow market share in all sectors and improve profitability in the U.K., Finning (UK) has partnered with Caterpillar in the development of a 3 year strategic plan. The plan is based on a mutual commitment to double the present machine market share in the U.K. and concurrently to improve the profitability of the Company's dealership to at least the median level of dealers in the Caterpillar dealer network. Caterpillar, for its part, has agreed to move to more products that meet the design requirements of the UK marketplace while implementing a pricing strategy appropriate for the UK environment. Finning, for its part, will be moving its centralized support structure closer to the customer by moving it back into the regions. In addition, Finning is also launching a new General Construction distribution channel as a separate line of business to support those customers requiring the smaller end of the product line.
- In September 2006, as a result of this extensive review, Finning (UK) sold its Materials Handling Division. For further information, refer to *Section 2.2.3 Divestitures*.

Hewden

- In November 2004, the Company redeemed its non-controlling partnership interests. The non-controlling partnership interest was formed with third party private investors to raise capital to fund the acquisition of Hewden in 2001. The private investors injected $425.0 million into the partnership in return for non-controlling partnership interests. The redemption was funded partially through an issue of common equity. The equity issue proceeds, net of underwriting fees, funded $292.8 million of the redemption and the remainder was financed by the Company's bank short-term credit facilities. In December 2004, the Company repaid these short-term borrowings by issuing a 7-year $150 million unsecured Medium Term Note.
- Over the past three years, various initiatives have been undertaken to simplify the organizational structure of the Hewden rental business. These changes will improve financial performance, support operating efficiencies, and will better meet the needs of the core customer base with a streamlined product offering and a more strategically structured distribution channel.
- In 2005, as a result of an intensive review of the information technology requirements to support its rental business and integrate back office functions, Hewden announced an investment of £13.8 million to implement a new information system which is scheduled to become operational in 2007. The new information system is expected to enhance the quality of Hewden's customer services and improve management information while reducing overall transaction costs.

General

- To complement the large growth in business experienced by the Company, Finning has undertaken several initiatives designed to improve profit margins and generate significant cost savings throughout all areas of the organization. Finning believes there are substantial benefits to be realized from these initiatives and, therefore, Finning management has made the successful implementation of these initiatives its top priority. In 2004 Finning launched its "60 by 06" cost savings program to generate $60 million in savings. At the end of December 2006 Finning exceeded its goal and generated an estimated annualized savings going forward of $64 million across its global operations through a combination of reducing selling, general and administration costs, debt refinancing, tax initiatives, and working capital improvements.
- During 2005, the Company negotiated a global, five year committed revolving credit facility for $800 million with an international syndicate of banks. This credit facility will be a source of financing for all global operations and will provide improved pricing and liquidity through to 2011.
- In 2006, the Company utilized funds from the sale of the UK Materials Handling Division to redeem £75 million of its £200 million Eurobond notes.
- The regular dividend rate has increased several times over the past three years. Dividends paid in 2004 increased 11%; in 2005 increased 10%; and in 2006 increased 25% to a current quarterly dividend of $0.16 per share.

2. 2.3 Divestitures

Following an extensive strategic review of the Company's UK based business, it was determined that the Materials Handling Division was no longer a core business for Finning. In September 2006, the Company's UK operations divested its Materials Handling business. The sale of this business resulted in an after-tax loss of $32.7 million and included the write off of intangible assets and goodwill previously associated with the business. As a result of the divestiture, headcount in the UK was reduced by approximately 1,000 employees.

In the first quarter of 2006, OEM sold its railroad and non-Caterpillar engine component remanufacturing business to Caterpillar, resulting in a pre-tax gain of $5.3 million. Caterpillar and OEM have signed an initial two-year agreement under which OEM will provide remanufacturing services to Caterpillar for these lines of businesses.

In March 2005 the Company sold its 36% interest in Maxim Power Corporation as part of a strategy to divest non-core assets, resulting in a $1.8 million pre-tax gain on the sale.

2. 2.4 Growth by Acquisitions

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

Acquisitions in existing and adjacent territories enable Finning to lever industry expertise in those markets and local knowledge, such as language, regulatory environment and business practices. As an example, following its 1993 acquisition of the Chilean Caterpillar dealership, Finning took advantage of its presence in the southern cone of South America and its strong relationship with Caterpillar to purchase dealerships in the neighbouring countries of Argentina, Bolivia and Uruguay in 2003. By transferring expertise from its Chilean operations to the newly acquired dealerships, Finning was able to significantly improve the financial and operating performance of these dealerships.

In 2004 and 2005, Finning International Inc. invested in a new world-class component remanufacturing centre that was built by OEM and established a 10-year customer services agreement between OEM and Finning (Canada) to remanufacture Caterpillar components. The facility was completed in 2005 and is now fully operational, providing Finning with what management believes is a competitive advantage over other North American equipment distributors.

Acquisition growth opportunities also arise in the form of global equity investments in businesses involving Caterpillar products such as the Company's investment in Energyst (a 24.4% investment in a company offering power generating rental services to international customers across Europe) and in PLM (a 25% investment in a company serving the global pipeline construction industry).

Finning plans to continue to review similar opportunities and will consider additional acquisitions that meet the Company's economic and strategic criteria.

2. 2.5 Organic Growth Opportunities

Finning has identified a number of organic growth opportunities in each of its existing territories. Management believes that opportunities exist in several different markets, and some of these are the result of Finning's ability to provide customer solutions. As the size of the Caterpillar fleet in Finning's geographic regions grows, a larger proportion of the Company's business is being driven by more stable, higher-margin parts and service revenue. This revenue stream is less sensitive to changes in commodity prices and in some instances is countercyclical as equipment owners will keep their equipment longer in less buoyant economic times and as a result, require more parts and service on the older equipment. Customer support solutions such as long-term service contracts offer an important organic growth opportunity for the Company.

Canada:

The outlook for growth in Canada is promising, reflecting current strong commodity prices, significant development in the Alberta oil sands, associated pipeline projects in Western Canada, conventional oil and gas, as well as mining projects. Finning (Canada) is well positioned to compete for this business, which includes both product sales and customer support services.

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

Global energy demand is expected to drive an increase in worldwide pipeline construction activity in the future and Finning's interest in PLM provides an opportunity to participate in this growth. In 2006, Finning's proportionate share of revenues from PLM increased by $37 million over 2005.

South America:

The strength in commodity prices for copper and gold indicates continued growth in demand for products and services for the Company's resource-based customers. Continued strength in mining activity, and related infrastructure projects in South America should provide Finning with an opportunity to increase its revenues both from equipment sales and customer support services over a long-term period. Finning is experiencing strong demand for energy solutions, which presents a growth opportunity with Caterpillar products in all four countries, where Finning can lever its expertise with finished products and services.

UK Group:

The U.K. has experienced modest growth opportunities in coal mining and quarrying, with the majority of its market primarily driven by construction activities, due to infrastructure spend and house building. However, competitive pressures continue to negatively impact the Company's operations in the U.K.

The new organizational structure in the U.K. should enhance the operations ability to meet customer demands, empower employees and improve operational performance. These changes better align and focus the UK dealership on its 3 year strategic plan with Caterpillar. Finning (UK), through a separate line of business, will focus on customers that require small and compact machines which Caterpillar produces. Caterpillar will produce more products better suited to the U.K. market that are competitively priced. UK management continues its efforts to improve margins in all areas, containing and controlling costs and growing the customer support business.

3. DESCRIPTION OF FINNING'S BUSINESS

3.1 PRINCIPAL BUSINESS UNITS

Finning has diversified its business through operating segments in different geographical areas, through different lines of business based on the product or service supplied and through different end use customers or markets. As a result of this diversification, earnings and cash flow are more stable and predictable. The table below provides details of revenue by operating segment and lines of business for continuing operations:

			UK Group			
For year ended December 31 2006 ($ millions)	**Canada**	**South America**	**UK**	**Hewden**	**Consolidated**	**Revenue percentage**
New mobile equipment	$1,033.1	$389.5	$304.1	$12.0	**$1,738.7**	**34.4%**
Customer support services	$873.4	$471.7	$224.0	$39.6	**$1,608.7**	**31.9%**
Equipment rental	$240.4	$38.1	$33.9	$537.2	**$849.6**	**16.9%**
New power & energy systems	$196.8	$69.8	$153.3	—	**$419.9**	**8.3%**
Used equipment	$248.3	$38.7	$80.8	$39.9	**$407.7**	**8.1%**
Other	$20.6	$2.1	—	—	**$22.7**	**0.4%**
Total	**$2,612.6**	**$1,009.9**	**$796.1**	**$628.7**	**$5,047.3**	**100%**
Revenue percentage by operations	**51.8%**	**20.0%**	**15.8%**	**12.4%**	**100.0%**	

Prior to 2007, Finning operated through four principal operating segments with the UK Group reported as two operating segments:

- *Canada*: Revenue from the Canadian segment was $2,612.6 million in 2006 compared with $2,049.7 million in 2005. Finning (Canada) serves customers operating in a number of principal markets including mining, forestry, construction, pipeline/oil field development, and government.
- *South America*: Revenue from the South American operating segment was $1,009.9 million (US$890.4 million) compared with $1,007.3 million (US$832.3 million) in 2005. Finning (South America) serves customers operating in its principal markets of mining, energy, construction, and forestry.
- *UK Group* prior to 2007 was reported as two operating segments:
  UK: Revenue from the UK operating segment was $796.1 million (£381.1 million) compared with $830.4 million (£377.2million) in 2005. Finning (UK) serves customers operating in several principal markets which include mining and quarrying, construction and plant hire. Finning (UK) also serves other specialized markets such as demolition, waste management, landfill, and paving equipment.
  Hewden: Revenue contributed from the operations of Hewden for 2006 was $628.7 million (£300.9 million) compared with $655.1 million (£297.1 million) in 2005. Hewden principally provides plant and tool hire services to customers operating in a number of markets including construction, civil engineering, petro-chemical, manufacturing, telecommunications and other industries.

The total business revenues contributed by the Company's Finning Power Systems (''Power Systems'') are locally managed and reported within the country operation in which the revenues are generated and as such, are not disclosed separately in the consolidated financial statements. The Power Systems Divisions of the Company operate in each of its dealer territories and sells, rents, and services engines and power generation products manufactured by Caterpillar and its subsidiaries. Finning Power Systems maximizes global engine sales and service opportunities in this fast-growing segment of Caterpillar's business. Power Systems also provides value-added solutions in the energy, marine and industrial markets.

3.2 PRODUCTS & SERVICES

Finning dealership operations, namely Canada, South America, and UK, offer products and services through five principal lines of business: New mobile equipment sales, customer support services, equipment rental, new power & energy systems, and used equipment. Hewden's principal line of business is equipment rental. The following table summarizes the Company's revenue from continuing operations by principal lines of business:

REVENUE BY PRINCIPAL LINES OF BUSINESS

Revenues from Continuing Operations:

($ MILLIONS)

	2006		2005		CHANGE
New mobile equipment	$ 1,738.7	34.4%	$ 1,551.7	34.2%	$ 187.0
Customer support services	1,608.7	31.9%	1,368.9	30.1%	239.8
Equipment rental	849.6	16.9%	851.4	18.7%	(1.8)
New power & energy systems	419.9	8.3%	359.0	7.9%	60.9
Used equipment	407.7	8.1%	403.4	8.9%	4.3
Other	22.7	0.4%	8.1	0.2%	14.6
	$ 5,047.3	100.0%	$ 4,542.5	100.0%	$ 504.8

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

3. 2.1 New Mobile Equipment

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

3. 2.2 Customer Support Services

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

Finning maintains parts inventories at over 100 locations, in Western Canada, South America, and the U.K to provide customers with convenient access to a supply of parts. All major Finning dealership centres within each geographic area are connected through computer systems, which provide immediate information on both Finning and Caterpillar parts inventories.

Over half of the employees and facilities in the dealership operations are dedicated to customer support services. Finning employs approximately 2,200 qualified mechanics, welders, technicians, parts persons and other specialized tradespersons in Canada; approximately 500 in the U.K.; and approximately 2,500 in South America.

In addition to the in-shop capability, Finning provides service at customer locations with specialized personnel and equipment. Many of Finning´s customer sites are located at very high altitudes or experience severe climatic conditions. Finning has consistently demonstrated its ability to successfully maintain and service equipment under these conditions, enhancing its reputation as a full service provider to its customers. Finning offers its customers maintenance and repair contracts for preventive maintenance, planned component replacement and guaranteed cost per hour contracts. This aspect of Finning's business has grown over the last several years and the Company believes the demand for this customer service solution will continue to grow in the future.

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

3. 2.3 Equipment Rental

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

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

> Canada: maintains a rental fleet consisting of Caterpillar dedicated forestry equipment and earthmoving equipment for the mining, construction and forestry industries. Also included in the fleet are power systems for electrical generation. Finning (Canada) also provides a full line of products from hand tools to smaller Caterpillar products (generally less than 120 horsepower) through its network of 30 CAT Rental Store locations.

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

UK Group:

UK: maintains fleets of rental equipment mainly consisting of backhoe loaders, hydraulic excavators, articulated and rigid dump trucks, telescopic handlers, and rollers. Customers served include construction and mining companies. Rental of the smaller unit Caterpillar products is further complemented by Finning's new General Construction distribution channel.

Hewden: has a large number of rental equipment locations in the U.K. Hewden provides a comprehensive product line of smaller Caterpillar product complemented by non-Caterpillar products including powered access, mobile cranes, modular accommodation, power, industrial services, hoists and tools.

3. 2.4 New Power and Energy

Finning's Power Systems division distributes engines and engine packages for use in oil and gas, electric power, marine, on-highway trucks and industrial applications. The Company distributes other Caterpillar brands, including engines branded as MaK and Perkins. In South America, Caterpillar generators branded as F.G. Wilson are also distributed.

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

3. 2.5 Used Equipment

In addition to sales of new equipment, Finning buys and sells used equipment domestically and internationally. Machines are accepted in trade, received from the rental fleet, returned from lease and purchased from customers and others on the open market. Most of this equipment is reconditioned in Finning's service shops and resold under a short-term warranty program. Finning also purchases and sells entire fleets of used equipment and sells used equipment on consignment. The used equipment business is generally focused on the products and types of equipment for which Finning is a dealer. Finning has developed expertise in the used equipment market which has earned Finning a reputation as one of the world's largest used equipment dealers. It also enables the Company to earn an attractive margin on the dispositions from its rental fleet.

3. 2.6 Other Products & Services

Other products and services revenues include revenues generated by providing financing and operating leases to customers and providing insurance coverage. In previous years, Finning (Canada) extended financing to its customers through leases and select conditional sales contracts. In 2004, the Company sold the majority of its outstanding finance portfolio to Caterpillar Financial Services Ltd. ("CFSL") and, as a result, revenues from this business have been minimal. Despite the smaller finance portfolio that has been retained, Finning (Canada) continues to maintain a high level of service to its customers by working in conjunction with CFSL (and other financial institutions) for their customers' financing needs.

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

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

3.3 PRINCIPAL MARKETS

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

Canada

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

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

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

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

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

South America

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

Mining: provides products and services to large open pit copper and gold mines. These mine sites require fleets of off-highway trucks, loaders, tractors and other support equipment and often include long-term agreements for maintenance of the equipment.

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

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

UK Group

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

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

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

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

Hewden's operations serve a variety of customers in industries such as general construction, civil engineering, petro-chemical, telecommunications, utilities, manufacturing and events management. The core customer base of Hewden is in the construction industry. Hewden provides products and a variety of services for use in the building maintenance and repair of the primary infrastructure including hospitals, schools, highways and building projects.

Power Systems

Finning Power Systems delivers comprehensive power solutions to customers utilizing products manufactured by Caterpillar and its subsidiaries, including Perkins, MaK and F.G. Wilson to customers in the energy, marine, petroleum and industrial sectors.

Canada:

Power Systems experienced strong growth in 2006 in the Alberta oil and gas industry, and throughout Finning (Canada)'s territory in electrical power projects associated with prime power generation in remote locations and local specialized electric power projects. Product support sales also grew in all industries in 2006, with notable increases in parts and service volumes associated with the on-highway truck business.

Equipment management contracts and product support sales to the industries we serve continue to represent significant growth opportunities for Power Systems. Finning continues to place a strong focus on providing customer support solutions to end-users including gas compression manufacturers and the on-highway truck dealers in order to increase customer satisfaction and provide sustainable growth to the business.

South America:

Power Systems provides primary, stand by or customized turnkey power solutions to customers engaged in various markets from mining to general construction including non-traditional Finning markets, such as oil & gas, telecommunications and utilities. In addition, Finning provides marine propulsion systems to the fishing industry and the Chilean Navy. The Company also operates in Chile and Argentina, through its subsidiary Diperk, which distributes Perkins engines and F.G. Wilson generator sets to a wide variety of industrial and marine customers.

UK:

Power Systems has enjoyed strong opportunities from the landfill gas industry for power generation. Additional opportunities exist in the oil and gas sector, the pleasure craft industry (which purchases engines for vessels manufactured in the U.K. and sold around the world) and the military and commercial ferry industries, which require large power generation equipment. Through its subsidiary, Diperk (UK) Ltd., Finning distributes Perkins engines to a number of dealers and end use customers throughout the U.K.

Energyst B.V. (Energyst) was formed in Europe in 2003 by Caterpillar, Finning and nine European Caterpillar dealers, and provides the rental of Caterpillar power generation solutions throughout Europe. Through this investment, the Company's power rental business scope has expanded from the U.K. to continental Europe. In April 2005, the Company increased its equity interest in Energyst to 24.4% from 15.2%.

3.4 DISTRIBUTION METHODS

Finning's dealerships operate through an extensive network of: (a) branches, which have sales, parts and repair services; (b) depots, which have repair facilities and limited, fast-moving parts inventories; and (c) residences, where one or more field service representatives provide customer support services in communities not otherwise serviced by branches or depots. The Finning dealership operations are represented across their dealer territories by approximately 150 locations, of which approximately 20% are owned, with the balance held under lease.

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

Canada:

During 2005 the primary parts distribution centre in Edmonton was outsourced to Tracker Logistics, an unrelated company, in Nisku, Alberta. The outsourcing and transition to Tracker Logistics was completed in 2006. Under an arrangement with an independent contractor, a fleet of dedicated trucks and trailers makes daily deliveries of new and remanufactured parts, components, attachments and small equipment to Finning (Canada)'s major locations. The routes run from the Tracker Logistics warehouse in Nisku, Alberta; from Caterpillar's parts warehouses in Denver, Colorado and Spokane, Washington; and from various branch locations to other branches throughout the territory.

South America:

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

UK:

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

Hewden operates through an extensive network of depots throughout the U.K and is represented in over 280 locations. Each depot varies in size and product offering with some large multi-discipline depots offering a broad range of equipment for hire, from mobile cranes to small tools. Hewden owns approximately 60% of its properties.

3.5 EMPLOYEE DEVELOPMENT

Finning employs highly qualified and professional individuals and encourages training and career development for all of its employees. Approximately 60% of Finning's total employees from dealership operations are skilled mechanics, technicians, parts persons and apprentices. To enhance skill levels and expertise, the Company offers the following:

- Finning dealership operations, in partnership with Caterpillar, support Caterpillar's ThinkBIG equipment technician program. In this program, Finning and Caterpillar combine to provide tools, instructors and machinery, and provide job opportunities to graduates.
- Formalized sales and operations intern programs to provide learning and development opportunities in the sales and operations areas of the Company in Canada. South America has launched an innovative program called Finning University which defines career progression opportunities in service, sales, parts & logistics among others. Finning UK Group remains committed to the development and external accreditation of the sales force and technicians through the adoption of the CAT Sales Effectiveness, and CAT accredited Technician Career Development programs.
- Structured programmes for management are currently in place and will be strengthened in 2007 with a focus on leadership development. In Canada a new level I leadership development program was launched in 2006 for supervisors and new managers. Level II will be launched in June of 2007 with a focus on developing mid level management.

Finning believes that employee engagement forms an integral part of achieving the Company's strategic goals. Employee opinion surveys, an employee performance appraisal system, and career development planning are used to assess the level of employee engagement.

3.6 EMPLOYEE RELATIONS

Finning had approximately 12,850 employees at the end of 2006: 3,850 in Finning (Canada); 300 in OEM; 3,900 in South America; 1,300 in Finning (UK); and 3,500 in Hewden.

At Finning (Canada), the International Association of Machinists and Aerospace Workers ("IAM") represents hourly paid parts and service employees in British Columbia and the Yukon Territory. In its history, Finning (Canada) has never experienced a work stoppage in British Columbia or the Yukon Territory. In 2006, a three-year collective agreement was negotiated with the BC/Yukon local, which will expire on April 14, 2009. A separate local of the IAM represents hourly paid parts and service employees in Alberta and the Northwest Territories. Finning (Canada)'s collective bargaining agreement with this local of the IAM expired on April 30, 2005. After a six-week labour strike which commenced in October 2005, an agreement was reached in December 2005 on a three-year collective agreement which will expire on April 30, 2008.

A number of proceedings that were before the Alberta Labour Relations Board and Court relating to the outsourcing by Finning (Canada) of service activities to OEM, a joint venture company, and to Tracker Logistics, an unrelated company, were decided in December 2005 in Finning's favour. The IAM has appealed these decisions and these appeal proceedings are expected to be resolved in 2007. OEM employees are represented by the Transport Warehousemen and Allied Trades (CLAC Local 56), which is affiliated with the Christian Labour Association of Canada. The current collective agreement for OEM employees will expire on March 31, 2009.

There are three unions (sindicatos) that represent the Company's employees in Chile. Historically, the relationship between Finning and the unions has been positive. A new four-year collective agreement was signed in February 2005 with these unions. A new union was recently formed with successful negotiations resulting in a three year contract covering the employees in the CAT Rental Stores in Chile. At the end of 2006, Diperk employees in Chile formed a new union, with negotiations expected to conclude in early 2007.

A national union represents Finning mechanics in Argentina pursuant to a country wide agreement. This national agreement was signed in 1975 with no end date. A good working relationship with this union is maintained with both Finning Argentina S.A. and Finning Soluciones Mineras S.A. Wage increases of 15% were awarded to all employees in Argentina 2006 in accordance with a national agreement.

At Finning (UK), there have been no serious labour disruptions since the business was acquired in 1983. The collective agreement covering Finning (UK)'s service employees with the Transport and General Workers Union and Amicus expired December 31, 2006. In January 2007, a new two-year deal, expiring December 31 2008, was reached. The majority of the Hewden employees are not covered by union agreements.

3.7 Competitive Conditions

Finning is part of Caterpillar's global dealer network. This network allows users of Caterpillar products and services in specific markets to deal with people with whom they are familiar, and who have an intimate knowledge of the local market and the Caterpillar product. As such, both Finning and Caterpillar benefit from their strong strategic alliance.

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

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

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

3.8 Dealership and Distributor Agreements

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

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

Over 80% of Finning's dealership business involves Caterpillar products. As such, Finning's business is dependent on the market acceptance of Caterpillar products. From time to time, during periods of intense demand, Caterpillar finds it necessary to allocate its supply of particular products among its dealers. Such allocations of supply have not in the past proven to be a significant impediment to Finning in conducting its business.

Finning (Canada) has developed dealer relationships for other product lines in order to create new marketing opportunities and to expand its customer support services. Included are relationships with Waratah, Risley, and Allied Systems in Forestry; Claas, and Agco in Agriculture; and others such as Perkins Western Canada, MaK, and Kress. In South America, dealer relationships exist with Atlas Copco drills, Genie Industries, Perkins, MaK, F.G. Wilson, IMT, Link Belt and O&K. In the UK, dealer relationships exist with Eagle Picher, Sabre Perkins, MaK, and F.G. Wilson.

3.9 Intangible Properties (Goodwill)

As at December 31 2006, Finning's goodwill had a net book value of approximately $382 million. Goodwill represents the excess of cost of an acquired business over the fair value attributed to the net identifiable assets. During the year, the Company performed an assessment of goodwill by estimating the fair value of operations to which the goodwill relates using the present value of expected discounted future cash flows, which resulted in no impairment of goodwill in 2006. The Company performs impairment tests on its goodwill balances on at least an annual basis or as warranted by events or circumstances throughout the year.

3.10 Business Cycles

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

3.11 Business Processes & Systems

The Finning dealership operations (which exclude Hewden) utilize computer systems supplied by Caterpillar. Caterpillar provides its dealers with software to manage parts, service and product support, finance, sales and merchandising, and marketing. The Caterpillar core dealer based system (DBS) was further enhanced with a commercial software solution that provides a standardized, internet-enabled framework and supports common dealer business practices and processes. The revised "DBSi" application was created to address several tactical areas in the enterprise supply chain and to provide integrated financial software, and improved customer relationship management and service. DBS and DBSi are used by a large majority of Caterpillar's dealers throughout the world, along with a variety of other personal computer-based Caterpillar software applications that expand and support DBS and DBSi.

Finning's dealership operations in Canada, Chile, Uruguay and Bolivia continue to run the previous DBS version of Caterpillar software, while DBSi is being used in the dealership operations in the UK (since 2004) and Argentina (since 2003). Finning's DBSi computer systems are supported by the Caterpillar Solution Centre located in Peoria, Illinois.

In the latter part of 2005, Caterpillar announced a change of direction with respect to their dealer applications software. Caterpillar intends to move towards a single software product offering for dealers, referred to as DBSi v5, and is targeting to make it available to dealers in 2008. As such, Finning has initiated a project to evaluate future Caterpillar software products, as well as alternative commercial offerings that will support the company's strategic goals in best of class customer solutions. This project will be carried out in 2007, and will result in a recommended direction for 2008 and onwards.

Hewden has a project underway to replace their legacy software systems and IT processes. This new system is expected to improve customer information and also enable Hewden to focus on reducing its transaction costs. The new systems will support business changes focused on giving Hewden's customers the most convenient and cost effective one-stop shop for all their rental and related service requirements. In addition, Hewden is expected to realize cost savings from the integration of its back office activities, consolidated supply chain activities, more efficient business processes, improved management information and improved internal controls. The cost of these initiatives will extend throughout 2007.

Where appropriate, Finning, in all of its operations, has outsourced support for personal computers and printers, and its wide area and local area networks.

3.12 FOREIGN OPERATIONS

In 2006, Finning generated approximately 52% (2005: 45%) of its revenue from operations in Canada; 20% (2005: 22%) from South America; and 28% (2005: 33%) from the UK Group. Revenue from operations outside of Canada contributed 48% of consolidated revenue compared to 55% in 2005.

3.13 ETHICS

The Company's Code of Conduct ("the Code") forms the cornerstone of how Finning conducts business and how its employees' actions contribute to Finning's collective goals. Finning's Code sets out the Company's expectations for the ethical behaviour of all its directors, officers and employees. The Code is reviewed annually by the Company's senior management and Board of Directors and all directors, officers and key employees are required to sign an acknowledgement of their compliance with the Code. The Code encompasses member ambassadorship, privacy, ethical conduct, confidentiality, health and safety and the environment, and how to deal with breaches to the Code. The Company also has a Whistleblower Policy in place to enable any issues which may arise to be resolved within the Company, rather than outside it, without fear of retaliation. Under the Whistleblower Policy, an employee may contact the Human Resources Department, other members of management, or the Finning Compliance Office directly by phone or e-mail. A confidential compliance Ethics Hotline or Website can be also utilized by employees to report any suspected breach of the Code of Conduct. The web address is:

https://secure.ethicspoint.com/domain/en/report_custom.asp?clientid=13881

3.14 ENVIRONMENTAL, HEALTH, AND SAFETY

Environmental protection and worker health and safety are integral parts of Finning´s organizational culture. Finning is committed to the protection of its employees and contractors and to minimizing the impact of their activities on the environment. Finning has programs in place throughout its operations to monitor and satisfy environmental protection requirements. Through an environmental audit program, Finning identifies, assesses and reduces environmental risk. Key employees are educated on changes to relevant environmental laws and regulations. Regular environmental reports are made to the Environmental, Health, and Safety ("EH&S") Committee of the Board of Directors. The Company adheres to the Canadian Association of Petroleum Producers (CAPP) Guidelines for reporting its safety statistics and actively seeks Environmental ISO 14001 and Health and Safety ISO 9000 accreditation for its operating sites. Additional EH&S highlights for 2006 included the following:

- There were no significant environmental incidents in 2006. Finning management is not aware of any environmental protection requirements that are likely to have a material adverse effect on its capital expenditures, earnings or competitive position of the Company.
- There were no work related fatalities in its operations during the year. In 2005, despite the high standards and emphasis on safety, an employee fatality occurred in 2005 at one of the Hewden branches in the U.K. A Coroner's court inquest is scheduled to be held in 2007.
- In 2006, Finning reported an average Lost Time Frequency Rate of 0.80 accidents per 200,000 man hours worked, a significant achievement in the face of unprecedented growth in the business. Finning (Canada) achieved a first place ranking for worker safety amongst member companies of the Canadian Association of Equipment Distributors and achieved 1.6 million man hours without Lost Time Incidents ("LTI") while OEM achieved one year without an LTI.
- In 2007, Finning expanded its reporting measures to include a consolidated Severity Rate and a Total Recordable Accident Rate.

4. KEY BUSINESS RISKS

4.1 RISK MANAGEMENT

Finning and its subsidiaries are exposed to market, financial and operating risks in the normal course of their business activities. The Company has adopted an Enterprise Risk Management ("ERM") approach in identifying prioritizing and evaluating risks. This ERM framework assists the Company in managing business activities and risks across the organization to assist the Company in achieving its strategic objectives.

The Company is dedicated to a strong risk management culture to protect and enhance shareholder value. The processes within Finning's risk management function are designed to ensure that risks are properly identified, managed and reported. The Company discloses all of its key risks herein. On a quarterly basis, the Company assesses all of its key risks and any changes to key financial or business risks are disclosed in the Company's quarterly Management's Discussion and Analysis ("MD&A").

4.2 CONTROLS AND PROCEDURES CERTIFICATION

Disclosure Controls and Procedures

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

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

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

The Disclosure Committee or its delegates, review all financial information prepared for communication to the public to ensure it meets all regulatory requirements and is responsible for raising all outstanding issues it believes require the attention of the Audit Committee prior to recommending disclosure for that Committee's approval.

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

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

Internal Control over Financial Reporting

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

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

4.3 FINANCIAL DERIVATIVES

The Company uses various financial instruments such as interest rate swaps and forward foreign exchange contracts to manage its foreign exchange and interest rate exposures (see notes 3 and 4 of the Notes to the Consolidated Financial Statements for the year ended December 31, 2006). The Company's derivative financial instruments are always associated with a related underlying risk position and are not used for trading or speculative purposes. The Company continually evaluates and manages risks associated with financial derivatives, which includes counterparty credit exposure. The Company manages its credit exposure by ensuring there is no significant concentration of credit risk with a single counterparty, and by dealing only with highly rated financial institutions as counterparties.

4.4 FINANCIAL RISKS AND UNCERTAINTIES

4. 4.1 Foreign Exchange Exposure

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

Investment in Foreign Operations

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

It is the Company's objective to minimize its exposure in net foreign investments. The Company has hedged a significant portion of its foreign investments through foreign currency denominated loans and other derivative contracts (forward contracts and cross currency swaps). Any exchange gains or losses arising from the translation of the hedging instruments are deferred and accounted for in the cumulative currency translation adjustment account. A 5% hypothetical strengthening of the Canadian dollar relative to all other currencies from the December 2006 month end rates, assuming the same current level of hedging instruments, would result in an after-tax deferred unrealized loss of approximately $50 million.

Transaction Exposure

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

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

Translation Exposure

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

Sensitivity to Variances in Foreign Exchange Rates

The sensitivity of the Company's net earnings to fluctuations in average annual foreign exchange rates is summarized in the table below. The table assumes that the Canadian dollar strengthens 5% against the currency noted, for a full year relative to the December 2006 month end rates, without any change in local currency volumes or hedging activities.

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

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

4. 4.2 Financing Arrangements

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

4. 4.3 Commodity Prices

The Company's revenues can be affected by fluctuations in commodity prices; in particular, changes in views on long-term commodity prices. In Canada, commodity price movements in the forestry, metals, coal, and petroleum sectors can have an impact on customers' demands for equipment and customer service. In Chile and Argentina, significant fluctuations in the price of copper and gold can have similar effects, as customers base their capital expenditure decisions on the long-term outlook for metals. In the U.K., changes to prices for thermal coal may impact equipment demand in that sector. The Company anticipates continued strong activity in the mining and oil and gas sectors in the upcoming year in the territories in which it operates.

4. 4.4 Interest Rates

The Company's debt portfolio is comprised of both fixed and floating rate debt instruments, with terms to maturity ranging up to seven 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.

4. 4.5 Credit Risk

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

4.5 OTHER KEY BUSINESS RISKS

4. 5.1 Reliance on Key Supplier

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

The Company is also dependent on Caterpillar for the timely supply of parts and equipment to fulfil its deliveries to customers and meet the requirements of the Company's service maintenance contracts. From time to time, during periods of intense demand, Caterpillar finds it necessary to allocate its supply of particular products among its dealers. Such allocations of supply have not in the past proven to be a significant impediment to the Company in the conduct of its business. However, there can be no assurance that Caterpillar will continue to supply its products in the quantities and timeframes required by the Company's customers. Due to high current demand, Caterpillar continues to have certain models on managed distribution. Caterpillar is implementing initiatives that are expected to improve manufacturing line and supply chain capability. The Company works closely with Caterpillar and its customers to ensure it can meet demand for new products and future deliveries included in its order backlog. When supply constraints have occurred in the past, the Company has been successful in utilizing its rental assets and used equipment to meet demand. Finally, the Company's product supply could also be disrupted by potential labour disputes or strike action at Caterpillar. Any prolonged delays in product supply may adversely affect the Company's business, results of operations and financial condition.

4. 5.2 Competition

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

4. 5.3 Key Personnel

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

4. 5.4 Information Systems and Technology

The integrity, reliability, and availability of technology and the data processed by that technology is an integral part of the Company's business processes, including marketing of equipment and support services, inventory and logistics, and finance. Some of these systems are integrated with Caterpillar's core processes and systems. In addition, Caterpillar supplies the basic dealer business system used by the Company in all of its dealership operations, (DBSi is used by Finning (UK) and Finning Argentina; "DBS" is used in all other dealership operations).The Company is dependent on Caterpillar for future support and development of these systems and for hosting its DBSi applications. Any disruptions to these systems or the failure of these systems to operate as expected could, depending on the magnitude of the problem, adversely affect the Company's operating results by limiting the ability to effectively monitor and control the Company's operations. The Company is in the process of implementing a new information system for Hewden that is expected to significantly improve the quality of its customer information and services and reduce transaction costs. A project management process is being followed at Hewden to manage the risks associated with implementing its new information system and related process changes.

The Caterpillar DBSi system was intended to create a standard platform for existing dealerships and future dealership acquisitions. In 2005, Caterpillar announced plans to redesign its dealership systems strategy. That strategy will result in a new version of DBSi, to be available in 2008. The Company is reviewing future options for the rollout of updated systems for its dealership operations, including a review of other commercially-available information systems and technologies for its dealership operations. The evaluation of these products will continue throughout 2007, following a rigorous business-requirements-gathering process. Information technology is regarded as a critical success factor in the Company's strategy. It is expected that decisions will be made during 2007, resulting in mobilization in 2008 for the replacement of major systems, subject to appropriate approvals and business justification.

4. 5.5 Growth Initiatives / Integration of Acquisitions / Project Execution

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

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

Although the Company makes every effort to integrate new operations, there can be no assurance that the Company will fully realize the anticipated revenues, synergies, or other intended benefits associated with potential acquisitions. To date, the Company has been successful in profitably managing its expansion particularly in South America. In the U.K., efforts to combine two very different business models, Finning Materials Handling with Lex Harvey, proved to be a challenging and costly process. During 2006 the Company sold its Material Handling Division in the U.K. following an extensive strategic review from which it was determined that this business was not core to the Company.

The Company currently has several inter-related projects and strategic initiatives underway for its operations in the U.K. These projects are intended to improve financial performance and realize operational synergies within and between Hewden and Finning (UK) while still providing superior service to customers. As a result, a new organizational structure was implemented for the UK Group along four core lines of business to be supported by a single back office operation that will provide centralized head office services. Other activities in the UK include: the review of the rental business model to better compete in the rental market; system improvements in Finning (UK); analysis of Finning (UK)'s centralized service offering; implementation of a new information system at Hewden to simplify business processes, provide a lower cost per transaction, improve customer relationships and better support customer requirements; and identification of opportunities for synergies within and between the two operations. The Company has adopted and implemented a project management process and is expanding its capabilities in this area in order to manage risks associated with the complexity of the numerous cost initiatives and projects underway.

4. 5.6 Economic Conditions / Business Cyclicality

Many of the Company's customers operate in industries that are cyclical in nature. As a result, customer demand for the Company's products and services may be affected by economic conditions on both a global or local level. Changes in interest rates, inflation, economic growth, levels of taxation, foreign exchange, commodity prices, and the level of government infrastructure spending may influence capital expenditure decisions, and ultimately the Company's sales. The Company has mitigated some of its exposure to variable business cycles by diversifying its business across a broad range of business activities, industry sectors, and geographic locations. Approximately 55% of the Company's gross margin was generated from parts, service, and rental activities in 2006, which are significantly less sensitive to swings in commodity prices than are equipment sales. In spite of the Company's geographic and business diversification, an economic downturn in one or more markets or regions may adversely impact the Company's operating results, particularly at a regional level.

4. 5.7 Maintenance and Repair Contracts

The Company enters into long-term maintenance and repair contracts with some of its customers. Under these contracts, the Company agrees to maintain certain fleets of customer equipment at negotiated performance levels. The lengths of these contracts vary, often ranging up to five or more years. The contracts are generally a fixed price over the term, although many contracts have additional provisions for inflationary or currency adjustments. The Company has developed processes and has controls in place to ensure contracts are bid appropriately but due to the long-term nature of these contracts, there is a risk that significant cost overruns may be incurred. If the Company has miscalculated the extent of maintenance work required, or if actual parts and service costs increase beyond the agreed adjustments, contract profitability may be adversely affected. In order to mitigate this risk, the Company closely monitors the contracts for early warning signs of cost overruns. In addition, the manufacturer may, in certain circumstances, share in the cost overruns if profitability falls below a certain threshold. Any failure by the Company to effectively price and manage these contracts could have a material adverse impact on the Company's business, results of operations and financial condition.

4. 5.8 Future Warranty Claims

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

4. 5.9 Defined Benefit Pension Plans

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

Management has taken steps to mitigate some of the risk associated with its defined benefit plans, including: offering existing members the opportunity to convert to defined contribution plans; closing defined benefit plans to new members; amending plan benefit formulas; and modifying investment and funding strategies to achieve better asset/liability matching. Management anticipates that these changes will help reduce overall pension costs and will decrease future volatility.

4. 5.10 Tax Compliance

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

4. 5.11 International Operations

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

4. 5.12 Employee Relations

Many of the Company's employees are represented by unions and are covered by collective bargaining agreements. The Company is party to a number of collective bargaining agreements worldwide, which are subject to expiration at various dates in the future. Although, in 2006, there were no labour disruptions and all negotiations were successfully concluded, there can be no assurance regarding future negotiations. The renegotiation process could result in future work stoppages or higher wages and benefits paid to union members. The Company is committed to the collective bargaining process and to concluding a fair contract for its employees and for Finning. The failure to renew collective agreements upon satisfactory terms could have a material adverse impact on the Company's business, results of operations, or financial condition.

4. 5.13 Accounting, Valuation and Reporting

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

4. 5.14 Caterpillar Dealership Agreements

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

4. 5.15 Government Regulation

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

4. 5.16 Insurance

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

4. 5.17 Guarantees

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

5. SUMMARY OF FINANCIAL INFORMATION

5.1 THREE YEAR SUMMARY

Years Ended December 31

($ thousands except per share amounts)

	2006	2005	2004
Revenue from external sources			
Canada	2,612,597	2,049,675	1,562,584
South America	1,009,906	1,007,341	869,893
UK [(1)]	796,080	830,412	717,877
Hewden	628,741	655,091	685,930
Other [(2)]	6	-	15
Total	**5,047,330**	**4,542,519**	**3,836,299**
Earnings before interest and income tax [(3)]			
Canada	233,314	149,938	131,651
South America	108,960	93,263	83,033
UK [(1)]	34,897	13,478	40,366
Hewden	44,180	49,892	58,482
Other [(2)]	(33,558)	(29,227)	(41,599)
Total	**387,793**	**277,344**	**271,933**
Net income from continuing operations	240,738	169,557	114,946
Loss from discontinued operations, net of tax	(36,662)	(5,527)	-
Net income	**204,076**	**164,030**	**114,946**
Earnings (loss) per share - basic			
From continuing operations	$ 2.69	$ 1.91	$ 1.45
From discontinued operations	(0.41)	(0.06)	-
	$ 2.28	**$ 1.85**	**$ 1.45**
Earnings (loss) per share - diluted			
From continuing operations	$ 2.68	$ 1.89	$ 1.43
From discontinued operations	(0.41)	(0.06)	-
	$ 2.27	**$ 1.83**	**$ 1.43**
Dividends paid			
Per common share	$ 0.55	$ 0.44	$ 0.40
Long-term debt [(4)] (includes current portion)	738,150	924,932	896,083
Total assets	4,200,753	3,736,388	3,804,011

1. On September 29 2006, the Company's U.K. subsidiary, Finning (UK), sold its Materials Handling Division. Results from that operation have been reclassified to discontinued operations for the years ended December 31, 2006, 2005, and 2004 in the Company's *2006 Audited Annual Financial Statements*, incorporated by reference.

2. The Company's Other Segment refers mainly to corporate head office costs and are essentially non revenue generating. The Company's other expense and income items that are not considered reflective of the underlying financial performance of the Company from ongoing operations are also included within the Other Segment for 2004. In the 2005 and 2006 results, other expense and income items have been allocated to the operational segment where the expense or income item originated.

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

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

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

   In December 2005, the Company entered into an $800 million unsecured syndicated revolving credit facility, which replaced all of its Canadian bilateral bank lines. The facility has a five-year committed term with a one year extension option. During 2006, the Company exercised its option, on the first anniversary date of the credit facility, to extend its maturity date an additional year to 2011. The facility is available in multiple borrowing jurisdictions, and may be drawn by a number of the Company's principal operating subsidiaries. Borrowings under this facility are available in multiple currencies and at various floating rates of interest.

   Following the September 2006 sale of the Company's Materials Handling Division in the U.K., the Company used a portion of the proceeds to redeem £75 million ($156.6 million) of the £200 million Eurobond. The Company's £125.0 million (2005: £200.0 million) 5.625% Eurobond is unsecured, and interest is payable annually with principal due on maturity. For further details regarding the Company's long-term debt, see Note 3 of the Consolidated Financial Statements for the year ended December 31, 2006.

   In December 2006, the Company repaid its $75.0 million 6.60% debenture, on maturity, with short-term borrowings on its bank credit facilities. The Company's Canadian dollar denominated debenture and medium term notes are unsecured, and interest is payable semi-annually with principal due on maturity.

5.2 THREE YEAR SUMMARY BY QUARTER

(Unaudited)

Results from Continuing Operations:

				Earnings Per Common Share	
Fiscal Period	**Qtr.**	**Revenue**	**Net Income**	**Basic**	**Diluted**
		($000's)	($000's)	$	$
2006	**1**	1,177,283	57,566	0.65	0.64
	2	1,239,945	57,685	0.64	0.64
	3	1,216,682	72,817	0.81	0.81
	4	1,413,420	52,670	0.59	0.59
	Total	5,047,330	240,738	2.69	2.68
2005	**1**	1,074,907	39,172	0.44	0.44
	2	1,188,258	45,814	0.52	0.51
	3	1,161,413	46,174	0.52	0.52
	4	1,117,941	38,397	0.43	0.42
	Total	4,542,519	169,557	1.91	1.89
2004	**1**	891,729	23,869	0.31	0.30
	2	953,001	27,781	0.35	0.35
	3	998,802	43,115	0.56	0.55
	4	992,767	20,181	0.23	0.23
	Total	3,836,299	114,946	1.45	1.43

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 outstanding stock options by applying the treasury stock method.

6. MANAGEMENT'S DISCUSSION AND ANALYSIS

Management's Discussion and Analysis, relating to the Company's audited comparative consolidated financial statements for the fiscal years ended December 31, 2006 and December 31, 2005 and the report of the auditors thereon, is contained in Finning International Inc.'s *2006 Audited Annual Financial Statements* and is incorporated by reference in this Annual Information Form.

7. DIVIDENDS

The Board of Directors, in determining whether to declare and pay dividends on the Company's common shares, considers the Company's recent and projected earnings, its capital investment requirements and its total return to shareholders. Dividends on common shares were $49.2 million or $0.55 per share in 2006, compared with $39.1 million ($0.44 per share) in 2005 and $31.2 million ($0.40 per share) in 2004. On February 15, 2006 the Company announced that its regular quarterly dividend would increase to 13 cents per share, payable March 15, 2006 to shareholders of record on March 1, 2006. On November 14, 2006 the Company announced that its regular quarterly dividend would increase to 16 cents per share, payable December 13, 2006 to shareholders of record on November 29, 2006.

The Company has declared and paid the following dividends, on the dates and at the rates shown, since February 4, 2004. Except as prescribed by law, Finning is not subject to any restrictions with respect to its ability to declare or pay dividends.

Declaration Date	Date Paid	Rate Per Share
February 4, 2004	March 3, 2004	$0.10
April 28, 2004	May 26, 2004	$0.10
August 3, 2004	August 31, 2004	$0.10
November 8, 2004	December 6, 2004	$0.10
February 23, 2005	March 23, 2005	$0.11
May 11, 2005	June 8, 2005	$0.11
August 9, 2005	September 6, 2005	$0.11
November 13, 2005	December 12, 2005	$0.11
February 15, 2006	March 15, 2006	$0.13
May 10, 2006	June 7, 2006	$0.13
August 8, 2006	September 5, 2006	$0.13
November 14, 2006	December 13, 2006	$0.16

8. DESCRIPTION OF CAPITAL STRUCTURE

The authorized share capital of the Company consists of:

- Unlimited preferred shares without par value, of which 4,400,000 are designated as cumulative redeemable preferred shares. As of February 13 2007, the Company had no preferred shares outstanding.
- Unlimited common shares. As of February 13 2007, the Company had 89,596,955 common shares issued and outstanding.

A shareholders' rights plan is in place which is intended to provide all holders of common shares with the opportunity to receive full and fair value for all of their shares in the event a third party attempts to acquire a significant interest in the Company. The plan provides that one share purchase right has been issued for each common share and will trade with the common shares until such time as any person or group, other than a “permitted bidder”, bids to acquire or acquires 20% or more of the Company's common shares, at which time the plan rights become exercisable. The rights may also be triggered by a third party proposal for a merger, amalgamation or a similar transaction. The rights plan will expire at the termination of the Annual Meeting of shareholders to be held in 2008.

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

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

As well, it should be noted that the Company's dealership agreements with Caterpillar companies are fundamental to Finning’s business and any change in control must be approved by Caterpillar Inc.

9. CREDIT RATINGS

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

	DBRS (1)	S&P (2)
Short-Term Debt. …...	R-1(low)	N/A
Medium Term Notes / Debentures............….................................	BBB(high)	BBB+
Eurobond ....…………….......	N/A	BBB+

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

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

9.1 LONG-TERM DEBT CREDIT RATINGS

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

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

9.2 SHORT-TERM DEBT CREDIT RATINGS

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

10. MARKETS FOR THE SECURITIES OF THE COMPANY

The common shares of the Company are listed on the Toronto Stock Exchange under the symbol FTT. The following table sets forth the high and low prices and the volume of common shares traded on the Toronto Stock Exchange during 2006.

Month	High $	Low $	Volume
January	39.75	36.75	4,927,304
February	39.65	37.02	3,829,853
March	40.52	37.97	6,614,977
April	41.55	38.38	5,889,711
May	41.27	37.25	5,428,435
June	39.09	36.10	3,290,471
July	39.97	36.92	3,349,285
August	39.73	38.65	2,917,099
September	39.82	37.30	3,861,542
October	40.05	37.30	3,339,600
November	45.77	39.26	4,420,700
December	47.79	44.70	3,917,700

10.1 TRANSFER AGENT AND REGISTRAR

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

11. DIRECTORS AND OFFICERS

11.1 Directors as of February 13, 2007

Name and Municipality of Residence	Principal Occupation	Year First Became Director
Ricardo Bacarreza [1, 3] Santiago, Chile	President, Pro Invest S.A.	1999
James F. Dinning [2, 3] Calgary, AB	Chairman of the Board, Western Financial Group	1997
Timothy S. Howden [1, 3] Marlow, England	Corporate Director	1998
Jefferson J. Mooney [2 (chairman), 4] Vancouver, BC	Chairman, A&W Food Services of Canada Inc.	2000
Kathleen M. O'Neill [1,2] Toronto, Ontario	Corporate Director	2007
Donald S. O'Sullivan [1,4 (chairman)] Calgary, AB	President, O'Sullivan Resources Ltd.	1991
Conrad A. Pinette [4,5] Vancouver, BC	Corporate Director	1992
John M. Reid [1,2] Vancouver, BC	Corporate Director	2006
Andrew H. Simon, OBE [1(chairman), 4] London, England	Corporate Director	1999
Bruce L. Turner[2, 3] Santiago Chile	President Turner Minerals S.A.	2006
Douglas W.G. Whitehead [3] West Vancouver, BC	President and Chief Executive Officer, Finning International Inc.	1999
John M. Willson [2, 3(chairman)] Vancouver, BC	Corporate Director	2000

[1] Member, Audit Committee
[2] Member, Human Resources Committee
[3] Member, Environmental, Health and Safety Committee
[4] Member, Corporate Governance Committee
[5] Chairman of the Board

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

The term of office for all current directors will end on the day of the next Annual Meeting of the Company's shareholders. Of the directors, Ricardo Bacarreza, Timothy.S. Howden, Donald O'Sullivan, Doug W.G. Whitehead, and John M. Willson have held their principal occupation for the past five years. The remaining directors are listed in the following table.

Director	**Principal Occupation**	**From**	**To**
James F. Dinning	Chairman of the Board, Western Financial Group	2004	Present
	Executive Vice President, TransAlta Corp.	2003	2004
	Executive Vice President, Sustainable Development and External Relations, TransAlta Corp.	1999	2002
Jefferson J. Mooney	Chairman, A&W Food Services of Canada Inc.	2005	Present
	Chairman and Chief Executive Officer, A&W Food Services of Canada Inc.	2002	2005
	Chairman, President and Chief Executive Officer, A&W Food Services of Canada Inc.	1995	2002
Kathleen M. O´Neill	Corporate Director	2005	Present
	Executive Vice President, Personal & Commercial Development & Head of Small Business Banking, BMO Financial Group	2002	2004
	Executive Vice-President, Performance Enhancement BMO Financial Group	2002	2002
Conrad A. Pinette	Corporate Director	2006	Present
	Executive Vice President, Tolko Industries Ltd.	2005	2005
	Executive Vice President, Riverside Forest Products Limited	2004	2004
	President and Chief Operating Officer, Lignum Limited	1990	2004
John M. Reid	Corporate Director	2005	Present
	President and Chief Executive Officer, Terasen Inc.	1997	2005
Andrew H. Simon	Corporate Director	2002	Present
	Executive Vice Chairman, Diamant Boart S.A.	1999	2002
Bruce L. Turner	President Turner Minerals S.A.	2005	Present
	Retirement Agreement President of Minera Escondida Ltd. of BHP Billiton Ltd	2004	2005
	President of Minera Escondida Ltd. of BHP Billiton Ltd.	2000	2004

11.2 Officers as of February 13, 2007

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

Officer's Name and Municipality of Residence	Positions Held	From	To
Nadine J. Block South Surrey, BC	Senior Vice President, Corporate Human Resources, Finning International Inc.	2006	Present
	Vice President, Corporate Human Resources, Finning International Inc.	2005	2006
	Director, Corporate Human Resources, Finning International Inc.	2004	2005
	Human Resources Manager, Finning International Inc.	2004	2004
	Senior level Human Resource Roles, TimberWest Forest Corp	2001	2002
Andrew S. Fraser Brocton, UK	Managing Director, Finning Group, UK	2006	Present
	Group Vice President, Finning (Canada)	2005	2006
	Vice President, Sales and Marketing, Finning (Canada)	2003	2005
	Vice President, Operations and Customer Relations, Finning (Canada)	2001	2003
Sebastian T. Guridi Santiago, Chile	Corporate Secretary, Finning International Inc.	2005	Present
	Executive Director of Corporate and Taxation Services, Finning International Inc.	2004	2005
	Legal Director, Finning South America	2003	2004
	General Counsel, Finning Chile	1997	2002
Stephen Mallett Vancouver, BC	President, Finning Power Systems, Finning International Inc.	2004	Present
	Managing Director, Finning (UK) Ltd.	2001	2004

Officer's Name and Municipality of Residence	Positions Held	From	To
Anna P. Marks North Vancouver, BC	Vice President and Corporate Controller, Finning International Inc.	2003	Present
	Controller, Union Gas Limited (Subsidiary of Duke Energy Gas Transmission)	2002	2003
	Director, Accounting, Duke Energy Gas Transmission (Formerly Westcoast Energy Inc.)	2001	2002
Thomas M. Merinsky North Vancouver, BC	Vice President, Investor Relations, Finning International Inc.	2004	Present
	Director, Investor Relations, Teck Cominco Limited	2002	2004
	Director, Investor Relations, Westcoast Energy Inc.	2001	2002
Conrad A. Pinette Vancouver, BC	Corporate Director,	2006	Present
	Executive Vice President, Tolko Industries Ltd.	2005	2005
	Executive Vice President, Riverside Forest Products Limited	2004	2004
	President and Chief Operating Officer, Lignum Limited	1990	2004
Ian M. Reid Edmonton, AB	President, Finning (Canada)	> 5 years	Present
Juan Carlos Villegas Santiago, Chile	President, Finning South America	2006	Present
	Vice President, Power Systems, Finning (Canada)	2005	2006
	Vice President, Mining, Finning South America	2003	2005
	Vice President, Operations, Finning (Chile)	2000	2003
Michael T. Waites Vancouver, BC	Executive Vice President and Chief Financial Officer, Finning International Inc.	2006	Present
	Executive Vice President, Chief Financial Officer and Chief Executive Officer, U.S. Network, Canadian Pacific Railway	2003	2006
	Executive Vice President and Chief Financial Officer, Canadian Pacific Railway	2001	2003

Officer's Name and Municipality of Residence	Positions Held	From	To
Douglas W.G. Whitehead West Vancouver, BC	President and Chief Executive Officer, Finning International Inc.	2000	Present
Shelley C. Williams Coquitlam, BC	Vice President, Corporate Treasurer, Finning International Inc.	2004	Present
	Corporate Treasurer, Finning International Inc.	2003	2004
	Assistant Treasurer, Finning International Inc.	2002	2003
	Acting Treasurer, Crystal Decisions	2001	2002

11.3 Shareholdings of Directors and Officers

The directors and the officers of the Company as a group beneficially own, directly or indirectly, or exercise control or direction over, approximately 0.39 % of the Company's voting common shares.

11.4 Cease Trade Orders, Bankruptcies, Penalties or Sanctions

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

12. INTERESTS OF EXPERTS

Deloitte & Touche LLP is the independent auditor of the Company. Deloitte & Touche LLP have audited the Company's consolidated financial statements and have prepared and executed the audit report which accompanies the consolidated financial statements in the Company's *2006 Audited Annual Financial Statements*. The audit report indicates that the statements present fairly, in all material respects, the financial position of the Company as at the two most recently ended financial year ends, results of its operations and cash flows for the years then ended, in accordance with Canadian generally accepted accounting principles.

13. AUDIT COMMITTEE

The Terms of Reference for the Audit Committee (a copy of which is attached as Appendix A to this Annual Information Form) require that it be comprised of at least three independent directors. The current members of the Committee are A.H. Simon (Chairman), R. Bacarreza, T.S. Howden, K.M. O'Neill, D.S. O'Sullivan and J.M Reid and all are independent directors. In addition, Conrad A. Pinette attends meetings of the Audit Committee in his capacity as Chairman of the Board. All Committee members are required to be independent and financially literate (as such terms are defined in Multilateral Instrument 52-110 – Audit Committees) and at least one member is required to have accounting or related financial management expertise. Ms. K.M. O'Neill is the designated "financial expert" member of the Committee.

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

Andrew H. Simon, OBE, is a Corporate Director who serves on the Boards of Directors of a number of companies including SGL Carbon AG, Dalkia Plc, Travis Perkins Plc, Management Consulting Group Plc and Brake Brothers Ltd. He is also currently the Chairman of Meretec Ltd. For most of his career, Mr. Simon worked for the Evode Group, an international specialty chemicals and materials company. At Evode, he held various positions including Managing Director and Chairman and Chief Executive Officer. Mr. Simon holds a Bachelor of Science degree from Southampton University and an MBA from the Wharton School of Finance.

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

Timothy S. Howden is a Corporate Director who serves on the Board of Hyperion Insurance Group Ltd. In his career, Mr. Howden has held executive positions at a number of companies involved in the food and household distribution industries including Reckitt & Colman Plc (General Manager, Marketing Manager and Regional Director, European Division), Rank Hovis McDougall Plc (Group Managing Director, Group Deputy Managing Director, Group Planning Director, Chairman and Chief Executive – Bakeries, Managing Director – Grocery and Sales Director – Flour Milling) and The Albert Fisher Group Plc (Chairman – North America, Chief Executive Officer – North America and Group Chief Executive – Europe).

Kathleen M. O'Neill is a Corporate Director and currently is a member of the Board of Directors of the TSX Group Inc., MDS Inc., and Canadian Tire Bank. Prior to 2005, Ms O'Neill was an Executive Vice-President at BMO Financial Group where her most recent position was Executive Vice-President, Personal & Commercial Development and Head of Small Business Banking. Prior to joining BMO Financial Group in 1994, Ms. O'Neill was with PricewaterhouseCoopers LLP for 19 years including eight years as a tax partner. Ms O'Neill is a past Chair of St Josephs Health

Centre in Toronto, a member of the board of directors of the Canadian Chamber of Commerce and is active on several non-profit boards. In 2005, she was accredited through the Institute of Corporate Directors / Rotman School of Management Directors Education Program. She holds a Bachelor of Commerce Degree (with Honours) from the University of Toronto and is a Fellow of the Institute of Chartered Accountants.

Donald S. O'Sullivan is the President of O'Sullivan Resources Ltd. In his career, he has also been a director of and involved in a number of businesses including Babichuk Construction, Ft. McMurray Land Development Ltd., Twin Bridges Gravel Ltd., the Westin Hotel (Edmonton), Pacemaker Employee Investments Inc., Time Air Corp., Intera Technologies Corp. and New Gateway Oil and Minerals Ltd. Mr. O'Sullivan also served as the Vice President and Secretary-Treasurer of B&B Distributors, Inc. Mr. O'Sullivan is also a former director of National Life Assurance Company of Canada Ltd., National Sand and Gravel Association and the STARS Foundation. He holds a Bachelor of Science in Business Administration from the University of Denver.

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

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

The Committee met 4 times in 2006 in conjunction with regularly scheduled Board meetings.

13.1 AUDIT FEES

Fees paid or accrued by the Company and its major business units or subsidiaries for audit and other services provided by Deloitte & Touche LLP (the Company's external auditors) during 2005 and 2006 were as follows:

Type of Service	2006*	2005*
Audit Services	$2,180,850	$ 2,262,750
Audit-Related Services (1)	50,000	61,200
Tax Services (2)	489,000	862,975
Other Services (3)	Nil	Nil
Total:	**$2,719,850**	**$3,186,925**

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

Notes:

(1) Audit related services include assurance and related services, such as audits of the Company's pension plans, that were reasonably related to the performance of the audit or review of the Company's financial statements not reported as Audit Services.

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

(3) Other services would include any non audit-related or non tax services.

Pre-approval Policies and Procedures

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

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

Recent Regulatory Developments

During 2005 and 2006, there were a number of regulatory instruments issued by the Canadian Securities Administrators (the "CSA") which impacted the Audit Committee and its mandate. These instruments include:

(a) Multilateral Instrument 52-109, which requires the Company's CEO and CFO to certify the Company's interim and annual filings;

(b) Multilateral Instrument 52-110, which contains rules relating to the composition and obligations of audit committees; and

(c) National Instrument 51-102, which details the continuous disclosure obligations of public companies and indicates what approvals are required in respect of annual and interim financial information filed with regulatory agencies.

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

- ensuring the appropriate level of internal controls, analysis and reporting systems are in place to permit the Certifying Officers to provide all necessary certifications of the Company's interim and annual filings.
- monitoring the Company's progress on its process related to management's first report on their assessment of the effectiveness of internal control over financial reporting currently proposed under Multilateral Instrument 52-109. Management's first report is expected to be signed as at December 31, 2008.
- ensuring the composition of the Audit Committee and its mandate satisfy all requirements of Multilateral Instrument 52-110. In this regard, the Audit Committee and the Board are satisfied that all members of the Audit Committee are independent and financially literate. In addition, the Audit Committee's Terms of Reference and the Terms of Reference for External Auditors are designed to ensure that the Audit Committee satisfies all of its obligations under the Instrument including: recommending to the Board both the firm to serve as external auditor and the compensation to be paid to that firm; overseeing the work of the external auditor; approving all non-audit services to be provided by the auditor; reviewing the Company's interim and annual filings and financial press releases; reviewing the accuracy and adequacy of the Company's public disclosure of financial information; establishing procedures to deal with internal complaints or issues relating to the Company's accounting, internal controls or audit matters; and approving the Company's hiring policy with respect to present or former partners and employees of the Company's external auditors.

Enterprise Risk Management

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

14. ADDITIONAL INFORMATION

Additional information, including directors' and officers' remuneration, indebtedness, options to purchase securities and interests of insiders in material transactions is contained in the Company's Management Proxy Circular for its most recent annual meeting of shareholders, a copy of which may be obtained upon request to the Corporate Secretary of the Company. Additional financial information is provided in the Company's consolidated financial statements for its year ended December 31, 2006 and its accompanying management discussion and analysis.

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

Appendix A

Terms of Reference for the Audit Committee

(I) PURPOSE

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

(i) the financial information that will be provided to the shareholders and others;

(ii) audits of the financial statements;

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

(iv) all audit, accounting and financial reporting processes; and

(v) compliance with relevant laws, regulations and policies.

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

C. It is the Committee's responsibility to maintain an open avenue of communication between the Committee, the External Auditors, the Internal Auditors and management of the Corporation.

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

(II) COMPOSITION AND OPERATIONS

A. This charter governs the operations of the Committee.

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

C. An Audit Committee member may belong to a maximum of two Audit Committees at publicly listed companies other than the Audit Committee of the Corporation.

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

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

F. A majority of Committee members constitute a quorum.

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

(III) DUTIES AND RESPONSIBILITIES

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

A. Financial Statements and Other Financial Information

The Committee shall:

(i) review and discuss with management and the External Auditor before public disclosure:
  (a) Consolidated Financial Statements of the Corporation;
  (b) Management's Discussion and Analysis; and
  (c) Interim earnings press releases of the Corporation;

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

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

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

(v) review significant changes in the Corporation's selection or application of accounting principles, and major issues as to the adequacy of the Corporation's internal controls and any special audit steps adopted in light of material control deficiencies; and

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1 Definition in the United States Sarbanes-Oxley Act of 2002: An Audit Committee Financial Expert has, through education and experience as a public accountant or auditor or a principal financial officer, comptroller, or principal accounting officer of an issuer, or from a position involving the performance of similar functions:
1) an understanding of generally accepted accounting principles and financial statements;
2) experience in— (A) the preparation or auditing of financial statements of generally comparable issuers; and (B) the application of such principles in connection with the accounting for estimates, accruals, and reserves;
3) experience with internal accounting controls; and
4) an understanding of audit committee functions.

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

B. External Auditors

(i) The Committee shall:

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

(b) The Committee has the authority and responsibility to hire, evaluate, determine compensation for and, where appropriate, replace the External Auditors, subject to shareholder approval.

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

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

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

1. recommendations resulting from their review of internal control and accounting systems;

2. any material issues raised by the most recent internal control review, or peer review, of the Corporation, or by any inquiry or investigation by governmental or professional authorities, within the preceding five years, respecting one or more independent audits carried out by the Corporation, and

3. any steps taken to deal with any such issues.

(f) review with the External Auditor any audit problems or difficulties and management's response;

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

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

C. Internal Auditors

The Committee will:

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

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

(iii) review the effectiveness of the internal audit function.

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

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

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

D. Risk Management, Internal Control and Information Systems

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

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

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

E. Compliance

The Committee shall:

(i) assist with Board oversight of the Corporation's compliance with legal and regulatory requirements;

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

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

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

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

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

(vii) with regard to the Code of Ethics for Senior Executive and Financial Officers:

(a) consider any amendments to this Code in conjunction with the Board; and

(b) consider any request for a waiver to the provision of this Code in conjunction with the Board and if such waiver is approved, ensure it is disclosed promptly to meet regulatory requirements, if any.

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

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

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

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

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

F. OTHER

The Committee shall:

(i) establish and periodically review implementation of procedures for:

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

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

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

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

(iii) review expenses of the Board Chair and CEO;

(iv) review and approve all related party transactions;

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

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

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

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

(IV) ACCOUNTABILITY

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

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