

c

FINNING
1986
ANNUAL REPORT



Finning Tractor & Equipment Company Limited

Finning sells, leases and services Caterpillar and complementary equipment throughout British Columbia, the Yukon Territory, the Mackenzie Valley and Arctic coast in the Northwest Territories.

Finning Limited sells, leases and services Caterpillar equipment in southwest England, the Industrial Midlands, Wales and Scotland and is the "preferred" Caterpillar dealer for Poland.

Canadian and United States subsidiaries — Airpro Equipment Ltd. in British Columbia, Alberta and Saskatchewan and Airpro Equipment, Inc. in Washington — distribute Gardner-Denver air equipment and drills, Driltech rotary drills, Tampro compactors and JLG high reach equipment. Airpro also distributes Perkins diesel engines in Alberta and Saskatchewan and Grove cranes in British Columbia and Saskatchewan. Airpro sells and services Perkins diesel engines in Washington, western Idaho, western Montana, Alaska and Hawaii and Gradall hydraulic excavators in northwest Washington and Alaska.

Finning has full sales, parts and service facilities in Campbell River, Chilliwack, Cranbrook, Dawson Creek, Fort St. John, Houston, Kamloops, Langley, Nanaimo, Nelson, Port Hardy, Prince George, Quesnel, Sparwood, Terrace, Vancouver, Vernon, Victoria and Williams Lake in British Columbia; Whitehorse, Yukon Territory; Calgary and Edmonton, Alberta; Saskatoon, Saskatchewan; Seattle and Spokane, Washington. There are service depots in 11 locations and resident service representatives in seven others.

Finning Limited is headquartered in Cannock, near Birmingham. Branches in southwest England, the Midlands and Wales are located in Cardiff, Wales; Clay Cross, Derbyshire; Highbridge, Somerset; Leicester, Leicestershire; St. Austell, Cornwall; and Winsford, Cheshire. Operations in Scotland are directed from Baillieston, near Glasgow, with branches at Aberdeen, Muir of Ord and Perth.



RESULTS IN BRIEF

<i>(dollars in thousands)</i>	1986	1985
Revenue	\$559,137	\$533,819
Income before provision for income taxes	34,329	30,318
Net income	20,761	19,274
Capital expenditures	7,094	5,801
Basic earnings per share	\$ 1.32	\$ 1.20
Income before income taxes as a percentage of revenue	6.1%	5.7%
Net income as a percentage of revenue	3.7%	3.6%
Number of employees at year end	2,179	2,197



New technique in resurfacing highways was tested. Work was done with a big spread of Caterpillar paving equipment.

REPORT TO THE SHAREHOLDERS

Revenue for 1986 was \$559,137,000, compared to \$533,819,000 in 1985. Net income increased to \$20,761,000 from \$19,274,000. Earnings per share were \$1.32 versus \$1.20 in 1985.

The increase in net income is much greater when measured by excluding amortization of the purchase discount of \$3,441,000 from 1985. On this basis, the improvement in net income amounts to 31.1 percent.

In North America, revenue for the year was \$374,252,000, compared to \$365,127,000. Net income was \$10,882,000, virtually unchanged from the previous year's net income of \$10,455,000. Both revenue and net income were adversely affected by prolonged work stoppages in the forest industry and at coal mining operations in southeastern British Columbia. Net income was further reduced by recording reserves on some of our divisional used equipment inventories in order to recognize current market values. After this adjustment, all inventories are properly valued.

We experienced a significant increase in our leasing activity in 1986. Our accounting practice recognizes revenue and corresponding income over the life of the lease. Therefore, the full benefit of this surge in leasing will not be felt until future years.

On the positive side, receipt of dividends from our United Kingdom subsidiary company, Finning Limited, resulted in partial realization of a currency translation gain.

Although the yen has had considerable appreciation against the United States and Canadian dollars, competitive pressures from Japanese manufacturers continue. The increase in the

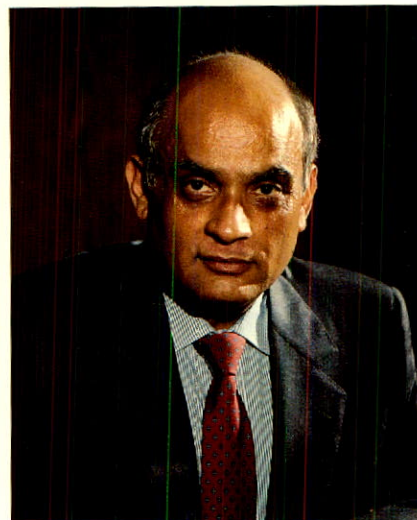
value of the yen is still not being reflected in terms of higher transaction prices. However, we expect transaction prices of Japanese equipment to start increasing in 1987 as inventories at the old value are liquidated.

Finning Limited contributed revenue of \$184,885,000, compared to \$168,692,000. Net income increased to \$9,879,000 from \$8,819,000, an improvement of 12 percent. This increase in profit was mainly due to lower interest costs and the strength of the pound sterling in relation to the Canadian dollar.

The year 1986 was one of historical importance for the Company. Members of the founding family divested their controlling interest after 53 years. The divestiture was accomplished through a secondary offering to the public in conjunction with purchase by the Company of 3,850,000 shares at a cost of \$46,237,000, including acquisition costs.

The Company was able to purchase these shares below the market price rather than at the premium which would ordinarily be required. With this transaction, the number of shares outstanding has been reduced by 24 percent. This will result in improved earnings per share, assuming the current level of profitability is maintained. The full impact of this decrease in the number of shares outstanding will be felt in 1987 and beyond.

Purchase of shares by the Company has also offset dilution which could result if the 11½ percent Convertible Subordinated Debentures are converted into Common Shares.



V.K. Sood

In order to effect the transaction directly with the selling shareholders, the Company was converted into a federal company to continue business under the Canada Business Corporations Act.

The class A voting and class B non-voting shares were eliminated and we now have a single class of voting Common Shares.

After completion of the divestiture on November 10, Mr. W.M. Young resigned as Chairman of the Board and as a Director of the Company. At the same time, Mr. W.T. Barker tendered his resignation as a Director. In accepting the resignations, the Board of Directors paid tribute to Mr. Young and Mr. Barker for their excellent contributions to the Company.

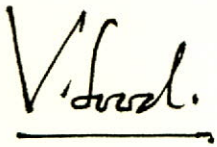
Maury Young's association with the Company started in 1948. He became President and Chief Executive Officer in 1962 and Chairman in 1973, continuing as Chief Executive Officer until 1984. By unanimous resolution, the Board recorded its thanks and appreciation for his outstanding leadership and stated: "This

Company will always be indebted to Maury Young for his unique and enduring contribution."

At a meeting of the Board of Directors on November 20, V.K. Sood was elected Chairman of the Board. He will continue as President and Chief Executive Officer. D.W. Lord, Executive Vice President, Operations, Vancouver, and B. Morton, Managing Director, Finning Limited, Cannock, were appointed as Directors.

In terms of revenue as well as profitability, 1986 was a record year. If current economic conditions continue to prevail in our markets in both Western Canada and the United Kingdom, we expect improved results in 1987.

We wish to record our appreciation to all of our employees in North America and the United Kingdom for their contribution to a successful year.



V.K. Sood
Chairman of the Board
and Chief Executive Officer

Caterpillar 980C wheel loader moves logs from sorting area to water to be boomed and towed to mills.





REVIEW OF OPERATIONS — North America

Total industry sales of machines increased substantially in comparison to 1985. The Company's machine sales volume kept pace with this growth and maintained a dominant share of the expanded market.

A resurgence in the forest industry released the pent-up demand for replacement of older equipment. This resurgence was fuelled by much-improved markets and prices for pulp, paper and newsprint which benefitted the integrated forest companies. An estimated 1.8 million housing starts in the United States kept lumber production at a high level but the year ended on a note of uncertainty for softwood lumber producers with imposition of a 15 percent export tax on shipments to the United States. Production was severely curtailed on the Coast and in some Interior operations during the prolonged strike by the International Woodworkers of America.

The trend to mechanized tree harvesting systems accelerated as the costs of recovering timber continued to increase. Loggers are turning more and more to specialty machines that cut, bunch, trim and haul the trees from the woods to landings. Sales of feller bunchers and log skidders were particularly good.

Opposite Page: Cat feller bunchers, which cut and gather trees, have key role in accelerated trend to mechanized harvesting systems.

Scheduled Oil Sampling laboratory in Vancouver, relocated in new Technical Centre and updated with latest diagnostic equipment, analyzed more than 55,000 oil samples.

In March, Caterpillar completed an agreement to brand and market Tanguay logging equipment. Six log loader models, a feller buncher and a delimeter/processor, manufactured in Quebec, complement Caterpillar's larger machines and fit neatly into mechanized harvesting systems.

Caterpillar's new H series crawler tractors, featuring the exclusive elevated sprocket design common to larger models in the tractor family, were well accepted in roadbuilding, reforestation and other industry practices.

Construction Activity Down

In the heavy construction industry, work continued on the Coquihalla Highway project.

Phase One, from Hope to Merritt, was completed and opened in May. Construction of Phase Two, an 80 kilometre link between Merritt and Kamloops, peaked in late summer. Initial contracts were awarded for Phase Three, to join Merritt with Peachland in the Okanagan, a distance of 125 kilometres. There were other smaller highway and related construction projects in different areas of the province but overall, business declined from the previous year's level.

Although activity in the mining industry remained slow, sales volume was maintained as the Company captured most of the orders for replacement machines. The first of Caterpillar's new 150-ton 785 trucks went to work in coal mining operations. Sales at Whitehorse and Dawson City reflected favorable gold prices for placer mining operators.

The troubled oil and gas industry sharply reduced exploration and development expenditures. The



REVIEW OF OPERATIONS — North America

major operators in the Beaufort Sea shut down their drilling camps which resulted in closure of the Company's depot at Tuktoyaktuk and staff reductions at Inuvik. Conventional drilling took a brief spurt in autumn but Company operations at Fort St. John, Fort Nelson and Dawson Creek experienced a slow year.

New Products Successful

The hydraulic excavator has become the most popular type of machine in the industry worldwide. Recognizing this, Caterpillar has announced a partnership agreement with Mitsubishi Heavy Industries of Japan to significantly expand their excavator line.

Sales of hydraulic excavators to all markets increased by more than 50 percent, aided by the addition to the line of the seven models Caterpillar branded in 1985.

Caterpillar's integrated toolcarriers, introduced in 1985, are beginning to make their mark as customers recognize the usefulness of these highly versatile machines. The "ITs," from 65 to 105 horsepower, are wheel loaders with a different front end and loader linkage. A special arrangement permits simple installation and replacement of as many as 60 different materials handling attachments.

A segment of the construction market previously unattainable produced excellent revenue. Caterpillar entered the paving business in 1984 by branding asphalt and concrete paving equipment manufactured by CMI Corporation, Oklahoma. The following year, CMI acquired RayGo, Bros and Albaret compactors, giving Caterpillar and its dealers a total of almost 80 models of paving products.



Supermarket approach to merchandising supply items and other small parts proved successful in this "Parts Mart" at Campbell River branch.

In 1986, Finning was in the forefront of Caterpillar dealers in paving equipment sales. Notable was the sale of a complete "cold mix train" which introduced a new technique with potential for significant savings in road resurfacing and maintenance.

The "train" consists of a profiler, asphalt distributor truck, a paver, windrow elevator and compactor. Existing pavement is removed, milled to size, mixed with rejuvenating agents, windrowed, relaid and compacted. This cold mix, in-place asphalt recycling process was tested on a 48-kilometre stretch of deteriorating highway in the summer and further test sections are planned.

To supplement Caterpillar paving products with smaller compactors, distributor trucks,

sweepers and similar equipment, the Company acquired the franchise for products of Rosco Manufacturing Company.

Caterpillar's first loader backhoe, the 416, was successfully introduced and later in the year, a second, larger model, the 426, was in production.

First Auction Sale Held

Used equipment sales volume was down overall in comparison to 1985, due mainly to the strike in the forest industry. International sales increased modestly.

The Company's first venture into the used equipment auction

Caterpillar model 785 trucks carry payloads of up to 150 tons of waste rock from the pit to the dump at coal mining operations in southeastern British Columbia.



6602
FINNING
785

CATERPILLAR

6602
FINNING

6602

REVIEW OF OPERATIONS — North America

business in British Columbia, in partnership with Miller & Miller, Inc., of Texas, was very successful. Another innovation saw the Company act as an agent, at times in combination with other Caterpillar dealers and auctioneers, in disposal of equipment fleets.

Rental fleets at Langley and Prince George were kept busy despite lower activity in the construction market. New, small Caterpillar machines have increased demand for rentals.

Finance Portfolios Increase

The value of lease and conditional sales contract portfolios increased by slightly more than 35 percent, from \$85.1 million in 1985 to \$114.9 million. Three major lease packages were negotiated; two to forestry companies for 29 and 23 machines and one to a mining operation for nine machines. The increase in financing is attributed to the need to replace aged equipment and the Company's ability to offer attractive finance packages through leasing.

In divisional operations, a downturn in business activity prompted a consolidation and restructuring of Finning Air Products and Airpro organizations. In the United States, operations in Oregon were discontinued and staff at Spokane and Seattle, Washington, was reduced. Spokane was designated as the major centre for equipment repairs. In Western Canada, Edmonton and Vancouver are major repair centres.

There are changes in product lines. At year end, two crane

Cat hydraulic excavator helps improve scenic coastal highway to popular Whistler Mountain resort area.





CATERPILLAR

REVIEW OF OPERATIONS — North America

manufacturers, Manitowoc and P & H, cancelled their dealer agreements and will now sell direct to customers. Distributor agreements for Perkins diesel engines in Oregon, British Columbia and the Yukon were also discontinued.

Lift truck sales were excellent as volume and market share improved markedly. Service revenue was relatively flat but parts revenue increased. Despite the forestry strike, sales of the bigger lift trucks for use in lumber mill-yards were up. Better deliveries of Caterpillar's new 4,000 to 6,000-pound capacity trucks, manufactured in Korea, led to greater penetration of the warehousing and service industry markets.

Initial sales were made of an improved series of Caterpillar electric lift trucks. The rental fleet is being expanded to meet demand and used equipment volume remains high.

Engine Revenues Decline

Revenue dropped slightly for the Power Products Division as engine sales and service suffered from the decline in Beaufort Sea activity and forestry's labor problems. Sales of marine engines for crew boats and pleasure craft were the best in several years. Caterpillar's 3500 series of engines, 700 to 1400 horsepower, achieved considerable success in repowering workboats and fishing boats due to their excellent fuel economy. A 1500 kw 3606 generator set was installed as the prime power source for a northern mine and townsite. This was the second unit of this size to find application in remote northern communities and both are performing well. The generator set market in the construction and forestry sectors was down from 1985 but engine

sales to original equipment manufacturers improved.

The Caterpillar 3406B truck engine, rated to 425 horsepower, continues to be the most popular choice for Class 8 on-highway trucks. The growth in the truck engine population throughout the territory provides increasing parts and service volume for the Burnaby Truck Shop, branches and service depots.

Caterpillar has announced plans to manufacture a family of 1.1 litre engines to fill out the smaller end of their engine range. These new models will appear in equipment in 1987 and as standard engine configurations in 1988.

Product Support Services

Parts and service volume declined marginally as a result of the work stoppages in the forest industry and at coal mining operations in the southeast. The forestry strike from July to December came during what is ordinarily the busiest season of the year and impacted particularly on Coastal branches. Up to 60 service department employees had to be laid off, principally in September and October, but all were back by year-end.

In 1985, the Company developed a house brand, under the name of Sure-Craft, for batteries, hydraulic hose and fittings. In 1986, this branding was extended to anti-freeze and sales of all items contributed to significant incremental business.

A new technique in parts merchandising was introduced at Campbell River. This "Parts Mart" employs a supermarket approach to the sale of supply items, automotive-type parts and house brands. While initial results were adversely affected by the forestry shutdown, they were

sufficient to consider the opening of a second operation in Prince George in 1987.

The Scheduled Oil Sampling laboratory in Vancouver was re-located in larger premises in the Technical Centre and the latest state of the art diagnostic equipment was installed. This service analyzes used oil to determine the condition of critical machine components. Use of S.O.S. increases annually; by approximately 10 percent in 1986.

Hydraulic Reman Started

The Remanufacturing Centre in Vancouver maintained steady employment. A hydraulic remanufacturing project was undertaken in co-operation with Caterpillar and was still in the start-up stage at year-end. The Company is one of two pilot dealers worldwide nominated to establish this service.

New techniques developed by Caterpillar will be used to remanufacture hydraulic cylinders, cylinder rods, pumps, motors, valves and controls. The potential for this new business is substantial.

The Company continues to invest heavily in new diagnostic tools, many of which are developed by Caterpillar's recently-organized Service Technology Group. In the last two years the entire service vehicle fleet has been replaced and re-equipped.

Customer service hours declined slightly over the year while market share improved due to the exclusive "No-Risk" repair policy and other product support merchandising programs.

The number of employees in North American operations at December 31 was 1,332, compared to 1,370 in 1985.

The Company has had employee share purchase plans in place since 1981. In 1986, a plan was extended to all employees with a few qualifications as to tenure and years remaining before retirement. Out of 1,064

employees who were qualified, 664 subscribed for 493,675 Series D preferred shares for a total investment of \$4,936,750.

A stock option plan, with modifications which make it more relevant to practices in the United Kingdom, is in effect for employees of Finning Limited. At present, 37 management and supervisory employees are participating.

The Company's first venture into used equipment auction sales saw profitable disposal of approximately \$5 million in used construction equipment.



REVIEW OF OPERATIONS — United Kingdom

Machine sales volume declined in 1986 due mainly to lower demand for prime product. Reductions in first year capital cost allowances, legislated in 1984, pulled forward what normally would have been 1986 demand into the previous two years.

Industry-wide sales of earth-moving equipment were down by 25 percent, which increased competitive pressures, but market leadership was maintained. Coal mining was the most active industry, returning fully to normal levels and generating good demand for the larger machines. Mining sales were assisted by the introduction of Caterpillar's range of articulated dump trucks.

Sales of track-type tractors were strong in all sectors. Success of Caterpillar's elevated sprocket undercarriage design, now extended to all models, helped attain a higher share of market.

Rental activity showed good growth. The Company entered into a large rental contract involving ten 50-ton trucks and including full maintenance and repair over a five-year term.

New Backhoe Loader

November saw initial sales of the 426 backhoe loader which opens up new market areas of considerable opportunity. This broadening of the customer base has prompted the addition of other related equipment and in December, an agreement was signed to distribute Antruck skid loaders, manufactured in the United Kingdom.

Parts and service revenues remained at last year's level despite changes in population mix and lower machine utilization. This was achieved by offering

customers many maintenance and repair options on a "before failure" basis. Engine repair options were particularly well accepted which increased volume substantially. Service contracts continue to gain customer favor and show good growth.

A branch operation was opened near Leicester; the first new facility in over 10 years. The branch network will be extended to facilitate the merchandising of backhoe loaders and other small machines and to provide more localized service.

Finance portfolios continue to increase and leases and conditional

sales contracts are becoming a significant marketing aid.

Divisional Operations

More lift trucks were shipped than in 1985 but because demand for larger models decreased, dollar volume was slightly lower. Total industry sales fell by 17 percent, chiefly in Scotland, but the Company increased its market share. Rentals made an important contribution to overall business.

Service revenues in the United Kingdom were maintained at 1985 levels despite a decrease in machine utilization.





First Caterpillar D7H tractor to be sold in the United Kingdom went to work at an opencast coal mine near Ayr, Scotland.



One of seven models branded by Caterpillar, the 205 excavator finds ready application in the construction market.

REVIEW OF OPERATIONS — United Kingdom

Long-term rentals and preventive maintenance contracts led to substantial increases in lift truck parts and service sales. A micro-computer base software program was developed to ensure efficient administration of these contracts and to take full advantage of parts and service sales opportunities.

In December, Caterpillar introduced a line of 15 narrow aisle warehouse units. Most models will be available in 1987 to increase sales opportunities.

Engine Sales Bright

Engine sales increased but a change in mix to smaller horsepower models reduced average unit revenue. Profit contribution, however, was higher than in the previous year. Sales to original equipment manufacturers improved. Demand from the fishing industry continued to be strong and market share was increased. The first installation in the United Kingdom of Caterpillar's largest engine, the 2000 horsepower 3606, took place in the second half of the year in a fishing vessel which will operate from the west coast of Scotland. To broaden market opportunities, a range of small Perkins-powered generator sets has been added to the engine line.

Parts sales to Poland declined considerably, owing to that country's shortage of hard currency. In November, the Company concluded its first contract for a substantial order of parts to Iran. A number of outstanding quotations are expected to be concluded in 1987.

The current one-year collective agreement for hourly-paid and salaried employees in the Transport & General Workers

Union (South) expires on February 27, 1987. The current one-year collective agreement for hourly-paid employees in the Amalgamated Union of Engineering Workers (North) expires on September 30, 1987.

The number of employees in the United Kingdom at December 31 was 847, compared to 827 in 1985.

V40D lift truck handles 4,000 pound loads in Glasgow soft drinks plant.



NEW PRODUCTS CREATE NEW OPPORTUNITIES

More than 20 new and improved products were introduced in 1986 as Caterpillar continued the most extensive product introduction program in its history. Additional new models were announced for delivery in 1987. All of these create expanded sales opportunities throughout all of the Company's markets both in North America and the United Kingdom.

As first 150-ton trucks were delivered to coal mines, Caterpillar introduced a 185-ton model. Extension of Caterpillar's off-highway truck family presents significant sales potential.

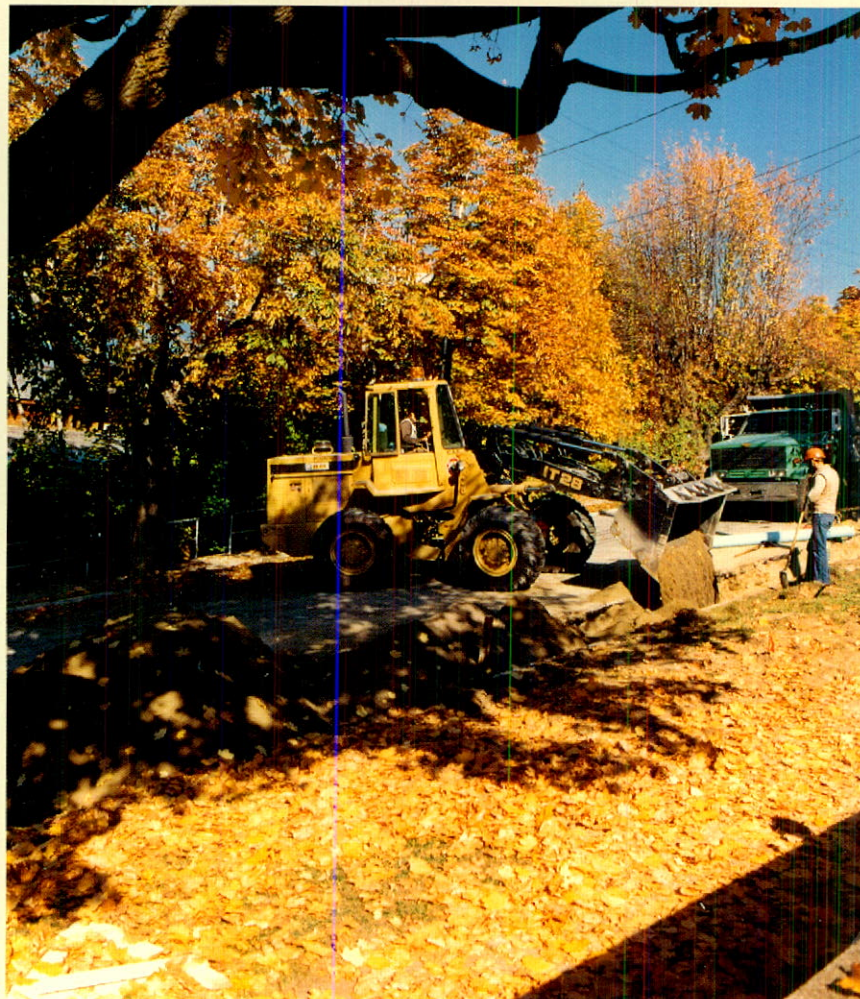
Cat 205 excavator backfills trenches for utility lines in 73-unit townhouse development in Vancouver suburb.



Caterpillar now offers the world's largest line of paving equipment. Previously precluded from this segment of the construction business, the Company recorded an excellent year in sales of paving products.



First two models of loader backhoes were well received by contractors. Hundreds of this type of machine are sold annually in the Company's dealership territories.



Caterpillar's new integrated toolcarriers handle many jobs. This IT28, with easily installed attachments, serves a municipality as a loader, lift truck, snow plow and small crane.



Four new tractors made their debut, incorporating the elevated sprocket design proven on larger models. This 90 horsepower D4H tractor handles steep slopes easily in Kootenay logging operation.

Improved delivery of new series of lift trucks manufactured in South Korea resulted in increased sales to warehousing and service industries.



This 213LC hydraulic excavator and other new models helped the Company's excavator sales increase by more than 50 percent in 1986.

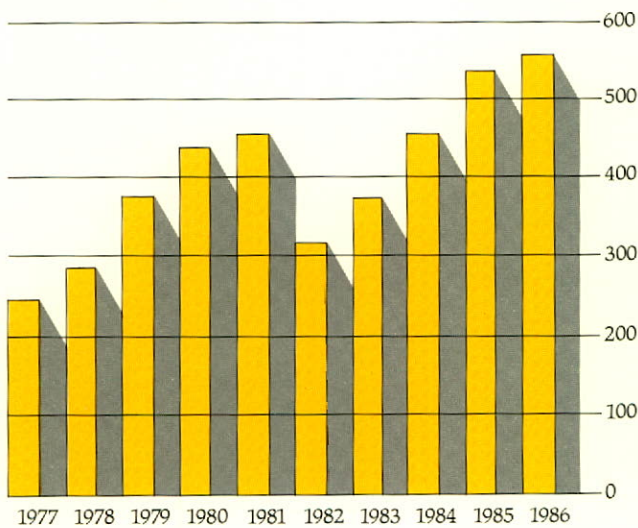


BOARD OF DIRECTORS

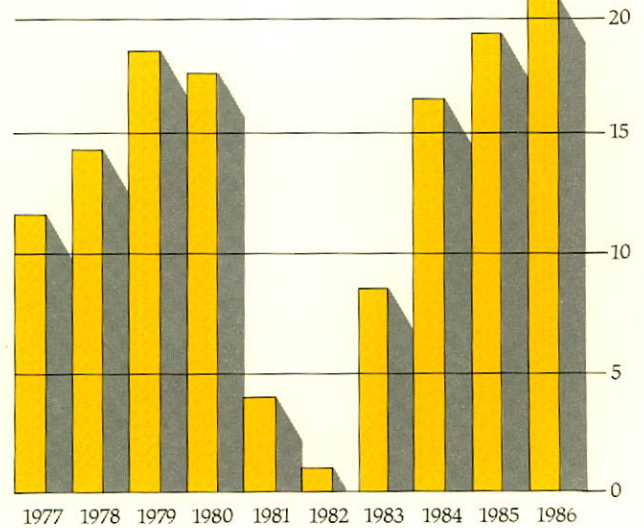


(Clockwise, from left) Bert Morton, Robert Biss, Clark Bentall, Frank Leach, Vinod Sood, Michael Koerner, Thomas Ladner, Donald Lord and Rolf Hougen.

REVENUE
(millions of dollars)



NET INCOME
(millions of dollars)



Opposite Page: One of 40 Cat-powered trucks hauls ore concentrates from mine at Faro, Yukon to port of Skagway, Alaska. Engine features new air to air cooling technology which improves fuel efficiency.



HIGHLIGHTS OF OPERATIONS

	Revenue	Income (Loss) Before Income Taxes	Net Income	Capital Expenditures	Dividends Paid	Basic Earnings per Share	Income (Loss) Before Income Taxes as a Percentage of Revenue	Net Income as a Percentage of Revenue	Number of Employees at Year End
1977	\$246,761,000	\$21,033,000	\$11,686,000	\$ 5,155,000	\$1,986,000	\$.74	8.5%	4.7%	1,694
1978	287,933,000	26,108,000	14,451,000	11,319,000	1,986,000	.91	9.1%	5.0%	1,791
1979	375,417,000	31,459,000	18,776,000	15,182,000	3,574,000	1.18	8.4%	5.0%	2,066
1980	438,327,000	32,670,000	17,720,000	12,018,000	4,766,000	1.12	7.5%	4.0%	2,316
1981	454,377,000	5,679,000	4,011,000	11,889,000	4,997,000	.24	1.2%	0.9%	1,805
1982	315,113,000	(1,700,000)	981,000	1,660,000	1,371,000	.05	(0.5%)	0.3%	1,282
1983	372,652,000	11,030,000	8,555,000	2,602,000	975,000	.53	3.0%	2.3%	2,243
1984	452,985,000	24,689,000	16,570,000	4,888,000	2,894,000	1.03	5.5%	3.7%	2,137
1985	533,819,000	30,318,000	19,274,000	5,801,000	5,305,000	1.20	5.7%	3.6%	2,197
1986	559,137,000	34,329,000	20,761,000	7,094,000	6,748,000	1.32	6.1%	3.7%	2,179



Caterpillar delimeter removes branches and cuts trees to specified length in one easy operation.

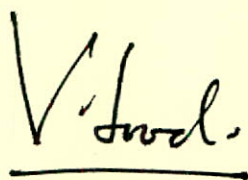
Opposite: D8L tractor and 631D tractor-scraper move material for Phase Two of Coquihalla Highway project.

CONSOLIDATED BALANCE SHEETS

as at December 31

Assets	1986	1985
Accounts receivable	\$ 111,559,609	\$ 98,475,707
Instalment notes receivable (Note 2)	64,316,951	49,877,817
Inventories —		
Equipment (Note 3)	118,297,032	139,204,692
Parts and supplies	56,185,559	58,947,343
Equipment leased to customers (Note 4)	75,107,205	53,332,762
Land, buildings and equipment (Note 5)	<u>59,464,253</u>	<u>59,394,821</u>
	<u>\$ 484,930,609</u>	<u>\$ 459,233,142</u>

Approved by the Directors:



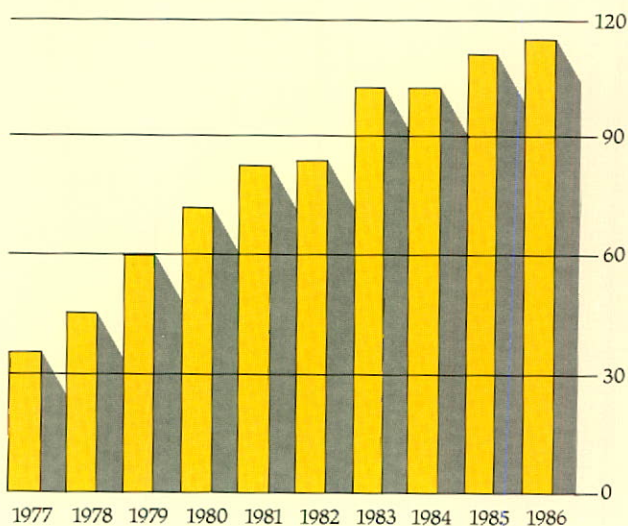
V.K. SOOD, Director



T.E. LADNER, Q.C., Director

The following graph is not a part of the audited consolidated financial statements.

INVESTMENT IN FIXED ASSETS — AT COST
(millions of dollars)



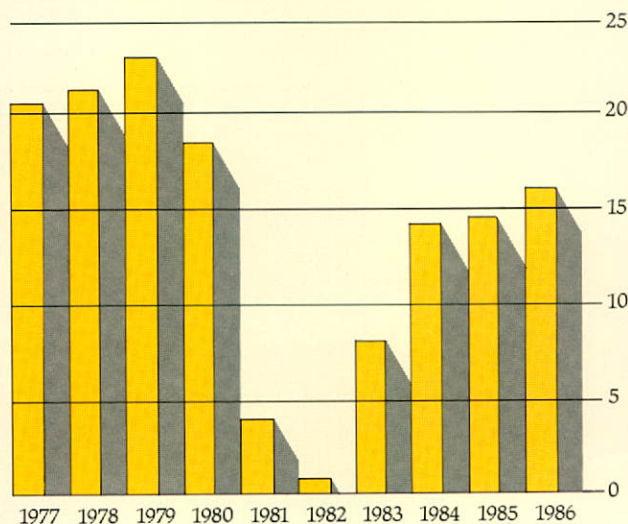
FINNING TRACTOR & EQUIPMENT COMPANY LIMITED

Liabilities and Shareholders' Equity	1986	1985
Bank indebtedness (Note 6)	\$217,504,913	\$165,294,089
Accounts payable and accruals	56,528,586	52,985,688
Income taxes payable	5,683,126	4,516,408
Convertible debentures (Note 7)	60,725,000	65,000,000
Deferred income taxes	<u>28,745,569</u>	<u>27,842,271</u>
Total liabilities	<u>369,187,194</u>	<u>315,638,456</u>
Shareholders' equity		
Share capital (Notes 7 and 8)	15,524,106	12,992,262
Retained earnings	97,216,014	127,148,147
Cumulative currency translation adjustments	<u>3,003,295</u>	<u>3,454,277</u>
Total shareholders' equity	<u>115,743,415</u>	<u>143,594,686</u>
	<u>\$484,930,609</u>	<u>\$459,233,142</u>

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

The following graph is not a part of the audited consolidated financial statements.

RETURN ON SHAREHOLDERS' EQUITY
(percent)



CONSOLIDATED STATEMENTS OF INCOME AND RETAINED EARNINGS

for the years ended December 31

	1986	1985
Revenue	<u>\$ 559,136,603</u>	<u>\$ 533,819,089</u>
Expenses (Note 9) —		
Cost of sales and selling	478,095,725	448,895,793
General and administrative	22,236,715	31,595,909
Interest	<u>24,474,691</u>	<u>23,009,729</u>
	<u>524,807,131</u>	<u>503,501,431</u>
Income before provision for income taxes	34,329,472	30,317,658
Provision for income taxes (Note 10)	<u>13,568,169</u>	<u>11,043,611</u>
Net income	20,761,303	19,274,047
Dividends on preferred shares	<u>375,508</u>	<u>213,778</u>
Earnings attributable to Common Shares	20,385,795	19,060,269
Retained earnings, beginning of year	<u>127,148,147</u>	<u>113,178,887</u>
	147,533,942	132,239,156
Reduction in retained earnings due to purchase of Common Shares (Note 8)	43,945,791	—
Dividends on Common Shares	<u>6,372,137</u>	<u>5,091,009</u>
Retained earnings, end of year	<u>\$ 97,216,014</u>	<u>\$ 127,148,147</u>
Net income per share (Note 11)		
Basic	\$ 1.32	\$ 1.20
Fully diluted	\$ 1.26	\$ 1.15

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

CONSOLIDATED STATEMENTS OF CHANGES IN FINANCIAL POSITION

for the years ended December 31

	1986	1985
Cash generated from (used in) operations:		
Net income	\$ 20,761,303	\$ 19,274,047
Add (deduct) items not affecting cash —		
Depreciation —		
Rental inventory	16,421,747	21,086,209
Equipment leased to customers	16,831,723	14,349,477
Buildings and equipment	5,678,985	5,387,946
Deferred income taxes	2,975,169	(4,628,800)
Other items, net	<u>(3,006,599)</u>	<u>6,093,266</u>
	59,662,328	61,562,145
Changes in operating assets and liabilities:		
Accounts receivable	(5,036,001)	(10,608,466)
Instalment notes receivable	(14,408,033)	(7,915,729)
Inventories —		
Equipment	1,051,913	(38,691,448)
Parts and supplies	2,797,011	(5,057,154)
Equipment leased to customers, net of disposals . . .	(41,134,574)	(27,375,920)
Accounts payable and accruals	3,013,861	4,314,862
Income taxes	<u>1,102,853</u>	<u>(3,767,979)</u>
Cash generated from (used in) operations	<u>7,049,358</u>	<u>(27,539,689)</u>
Dividends paid	<u>(6,747,645)</u>	<u>(5,304,787)</u>
Cash invested in land, buildings and equipment, net of disposals	<u>(5,193,326)</u>	<u>(5,085,023)</u>
Cash generated from (used in) financing activities:		
Purchase of secured debentures	—	(26,120,000)
Purchase of convertible debentures	(4,460,438)	—
Issue (redemption) of preferred shares, net	4,836,550	(74,200)
Conversion of preferred shares	(88,350)	(353,050)
Issue of class B non-voting shares on conversion of preferred shares	88,350	353,050
Purchase of Common Shares	(46,250,497)	—
Currency translation adjustments	<u>(1,444,826)</u>	<u>(11,710,791)</u>
Cash generated from (used in) financing activities	<u>(47,319,211)</u>	<u>(37,904,991)</u>
Decrease (increase) in bank indebtedness	<u>\$ (52,210,824)</u>	<u>\$ (75,834,490)</u>

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 1986 and 1985

1. Summary of Significant Accounting Policies

PRINCIPLES OF CONSOLIDATION

The consolidated financial statements include the accounts of the Company and its subsidiaries, all of which are wholly-owned. Principal operating subsidiaries include:

- Airpro Equipment, Inc.
- Airpro Equipment Ltd., also operating as Finning Air Products Division
- Finning Limited
- Finning Equipment Hire Limited

CURRENCY TRANSLATION

Transactions and accounts in foreign currencies are translated into Canadian dollars as follows: Monetary assets and liabilities at exchange rates in effect at the balance sheet dates; non-monetary assets and liabilities at historical exchange rates; revenue and expense items at approximate exchange rates prevailing at the time the transactions occurred; exchange gains and losses are included in income except for gains and losses related to monetary liabilities which are considered to be hedges in which case they are deferred and included as a separate component of shareholders' equity.

The accounts of self-sustaining foreign operations are translated into Canadian dollars as follows: Assets and liabilities using the exchange rates in effect at the balance sheet dates; revenue and expense items at approximate exchange rates prevailing at the time the transactions occurred; unrealized translation adjustments are deferred and are reflected in a separate component of shareholders' equity. Translation adjustments are recognized in income when there has been a reduction in the net investment in the self-sustaining foreign operation.

INVENTORIES

Inventories are stated at the lower of cost and net realizable value. Cost is determined on a specific item, actual cost basis for both on-hand and rental equipment. For parts and supplies, approximately 79% (83% in 1985) is recorded on a first-in, first-out basis and the remainder on a weighted average basis.

Rental equipment inventories are depreciated over the term of the rental after recognizing the estimated residual value of each unit at the end of each rental.

EQUIPMENT LEASED TO CUSTOMERS

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

BUILDINGS AND EQUIPMENT

Buildings and equipment are depreciated using the following annual rates on a declining balance basis:

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

REVENUE RECOGNITION

For accounting purposes, revenue from sales of products and services is recognized at the time of shipment of products to, and performance of services for, customers. Equipment lease and rental revenue is recognized as billed to customers. Finance income is recognized as earned.

2. Instalment Notes Receivable

Instalment notes receivable are recorded net of unearned finance charges and include \$29,421,783 due after one year (\$21,702,587 in 1985).

3. Equipment Inventories

Equipment inventories consist of the following:

	1986	1985
On hand equipment	\$ 74,378,356	\$ 85,480,150
Rental equipment	69,019,832	82,903,601
Less accumulated depreciation	25,101,156	29,179,059
	<u>43,918,676</u>	<u>53,724,542</u>
	<u>\$118,297,032</u>	<u>\$139,204,692</u>

NOTES

		1986	1985
4. Equipment Leased to Customers	Cost	\$104,840,708	\$ 77,496,763
	Less accumulated depreciation	<u>29,733,503</u>	<u>24,164,001</u>
		<u>\$ 75,107,205</u>	<u>\$ 53,332,762</u>

Under the terms of the lease agreements in effect at December 31, 1986, \$17,724,785 of the above costs will be recovered in 1987 (\$12,277,178 in 1986).

		1986	1985
5. Land, Buildings and Equipment	Land, buildings and equipment are recorded at cost and consist of the following:		
	Land	<u>\$ 12,880,673</u>	<u>\$ 12,346,413</u>
	Buildings and equipment	<u>101,519,377</u>	<u>98,558,263</u>
	Less accumulated depreciation	<u>54,935,797</u>	<u>51,509,855</u>
		<u>46,583,580</u>	<u>47,048,408</u>
		<u>\$ 59,464,253</u>	<u>\$ 59,394,821</u>

		1986	1985
6. Bank Indebtedness	Bank indebtedness consists of the following:		
	Bank loans	\$ 10,571,820	\$ 31,197,963
	Bankers' acceptances payable at various dates within 36 days after December 31, 1986 (within 59 days after December 31, 1985)	<u>206,933,093</u>	<u>134,096,126</u>
		<u>\$217,504,913</u>	<u>\$165,294,089</u>

7. Convertible Debentures
This debt consists of 11½% Convertible Subordinated Debentures, to mature June 24, 2001. These Debentures are direct unsecured obligations of the Company and are convertible into Common Shares on or prior to June 24, 1991 at a price of \$18.75 per share. In addition, the Company may redeem these Debentures at any time at redemption prices declining from 108.30% in 1986 to par in 2000. The Trust Indenture requires sinking fund payments in each of the years 1992 to 2000 inclusive, of 5%, and at the Company's option, up to a maximum of 10%, of the aggregate principal amount of these Debentures outstanding on June 25, 1991.

8. Share Capital
Share capital consists of the following:

	1986	1985
AUTHORIZED —		
5,000,000 Preferred shares without par value of which 2,100,000 are designated as follows:		
600,000 as Cumulative Redeemable Convertible Preferred Shares, Series A		
600,000 as Cumulative Redeemable Convertible Preferred Shares, Series B		
400,000 as Cumulative Redeemable Convertible Preferred Shares, Series C		
500,000 as Cumulative Redeemable Convertible Preferred Shares, Series D		
Unlimited Common Shares		
ISSUED AND OUTSTANDING —		
91,170 Cumulative Redeemable Convertible Preferred Shares, Series B (93,170 — 1985)	\$ 911,700	\$ 931,700
251,860 Cumulative Redeemable Convertible Preferred Shares, Series C (261,095 — 1985)	<u>2,518,600</u>	<u>2,610,950</u>
486,055 Cumulative Redeemable Convertible Preferred Shares, Series D	<u>4,860,550</u>	—
— Class A voting shares (7,915,221 — 1985)	—	4,532,488
— Class B non-voting shares (8,012,556 — 1985)	—	4,917,124
12,085,943 Common Shares	<u>7,233,256</u>	—
	<u>\$ 15,524,106</u>	<u>\$ 12,992,262</u>

NOTES

CHANGES DURING THE YEAR

In 1986, 500,000 of the preferred shares were designated as Cumulative Redeemable Convertible Preferred Shares, Series D and 493,675 were issued for cash under terms of an employee share purchase plan. Subsequently, 7,620 shares were redeemed.

During the year, 2,400 (7,420 in 1985) of the series C preferred shares were redeemed.

On October 8, 1986, special meetings of shareholders approved: (1) the conversion of both the class A voting and class B non-voting shares into a single class of Common Shares on a share for share basis; (2) the increase in the number of Common Shares to an unlimited number; (3) the purchase by the Company of Common Shares of the Company from the controlling shareholders; and (4) the conversion of the Company into a federal company to continue under the Canada Business Corporations Act.

On October 23, 1986, the Company entered into an agreement to purchase 3,850,000 Common Shares for an aggregate consideration, including acquisition costs, of \$46,236,997. The purchase, which was completed on November 10, 1986, was financed by drawing down available lines of credit. The Company also agreed to purchase 900 class A voting shares for a total cash consideration of \$13,500. The effect of these purchases was to reduce share capital by \$2,304,706 and retained earnings by \$43,945,791.

A summary of the changes to class A voting and class B non-voting shares is as follows:

	Class A voting		Class B non-voting	
	Shares	Amount	Shares	Amount
Balance outstanding, December 31, 1984	7,919,171	\$ 4,534,750	7,966,429	\$ 4,561,812
Class A voting shares converted to class B non-voting shares	(3,950)	(2,262)	3,950	2,262
Conversion of 35,305 series B preferred shares to class B non-voting shares			42,177	353,050
Balance outstanding, December 31, 1985	7,915,221	4,532,488	8,012,556	4,917,124
Conversion of 2,000 series B preferred shares to class B non-voting shares			2,388	20,000
Conversion of 6,835 series C preferred shares to class B non-voting shares			6,678	68,350
Purchase and cancellation of class A voting shares	(900)	(539)		
Conversion of class A voting and class B non-voting shares into a single class of Common Shares	(7,914,321)	(4,531,949)	(8,021,622)	(5,005,474)
Balance outstanding, December 31, 1986	<u>—</u>	<u>\$ —</u>	<u>—</u>	<u>\$ —</u>

A summary of the changes to Common Shares is as follows:

	Shares	Amount
Balance outstanding, December 31, 1985	—	\$ —
Common Shares resulting from conversion of class A voting and class B non-voting shares	15,935,943	9,537,423
Purchase and cancellation of Common Shares	(3,850,000)	(2,304,167)
Balance outstanding, December 31, 1986	<u>12,085,943</u>	<u>\$ 7,233,256</u>

PREFERRED SHARES

The preferred shares are issuable in series and will have such additional rights and restrictions as will be determined by the Board of Directors prior to their being issued.

NOTES

SERIES B, SERIES C AND SERIES D PREFERRED SHARES

The cumulative preferential cash dividends on the series B and series C preferred shares are payable quarterly at a rate equal to 50% of the prime interest rate of a specified Canadian chartered bank plus ½% per annum. For the series D preferred shares, cumulative preferential cash dividends are payable at a rate equal to ⅓ of the prime interest rate of a specified Canadian chartered bank.

The preferred shares were issued under terms of an employee share purchase plan and are redeemable by the Company at its option or retractable at the option of the employee at the issue price.

The series B, series C and series D preferred shares may be converted into Common Shares at the option of the holder after two years and up to ten years following the date of issue. The series B and series C preferred shares presently outstanding are convertible into Common Shares at a price of \$8.37 and \$10.23 respectively. The series D preferred shares presently outstanding are convertible after June 6, 1988 at a price of \$17.19 per Common Share.

STOCK OPTIONS

On December 31, 1984, the Company established a stock option plan for employees in the United Kingdom and has reserved for issue 100,000 Common Shares. Options have been granted for a total of 70,769 Common Shares. These options may be exercised after December 31, 1987 and up to December 31, 1994 at a price of \$7.95 per share.

9. Pension Plans

The Company and its subsidiaries offer pension plans to employees. Independent consultants prepare actuarial reports every two years for the Canadian and United Kingdom plans. On the basis of the latest actuarial reports made at December 31, 1985, the value of the Canadian and United Kingdom plans' assets exceeded liabilities by \$22,630,300. The amount of surplus credited to expense in 1986 was \$9,269,300 (in 1985 \$2,460,625). Remaining past service costs of \$982,000 resulting from improvements to the Company's Canadian plans are being charged to expense over the next five years.

10. Income Taxes

Current and deferred income taxes are as follows:

	1986	1985
Current	\$ 10,593,000	\$ 15,672,411
Deferred	<u>2,975,169</u>	<u>(4,628,800)</u>
Total income tax provision	<u>\$ 13,568,169</u>	<u>\$ 11,043,611</u>

The Company's income tax provision is determined as follows:

	1986	1985
Combined basic federal and provincial income tax rates	<u>52.2%</u>	<u>51.3%</u>
Provision for income taxes based on the combined basic federal and provincial rates	\$ 17,919,984	\$ 15,552,959
Increase (decrease) in provision for income taxes resulting from:		
Inventory allowance	(239,002)	(1,222,742)
Purchase discount	—	(2,052,167)
Realization of currency translation adjustment	(453,582)	—
Lower effective rate on the earnings of subsidiaries	(2,445,895)	(811,608)
Other items	<u>(1,213,336)</u>	<u>(422,831)</u>
Actual income tax provision	<u>\$ 13,568,169</u>	<u>\$ 11,043,611</u>

11. Net Income per Share

Fully diluted net income per Common Share has been calculated on the assumption that the preferred shares and the Convertible Debentures were converted and all stock options were exercised at the beginning of the year or date of issuance.

12. Economic Relationships

The Company distributes and services heavy equipment and related products. The Company has dealership agreements with several equipment manufacturers, of which the most significant ones are with subsidiaries of Caterpillar Inc. Distribution and servicing of Caterpillar products account for the major portion of the Company's operations.

NOTES

13. Segmented Information

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

Operating branches are located in Western Canada, the Northwest United States, Southwest England, Wales and Scotland. Transfers between segments are made at approximate market values.

The reportable geographic segments are:

	North America	United Kingdom	Segment Eliminations	Consolidated
1986				
Revenue	\$375,363,523	\$185,215,868		\$560,579,391
Transfers between segments	1,111,318	331,470		1,442,788
Revenue from external sources	<u>\$374,252,205</u>	<u>\$184,884,398</u>		<u>\$559,136,603</u>
Income before provision for income taxes	\$ 18,907,935	\$ 15,421,537		\$ 34,329,472
Provision for income taxes	8,025,377	5,542,792		13,568,169
Net income	<u>\$ 10,882,558</u>	<u>\$ 9,878,745</u>		<u>\$ 20,761,303</u>
Identifiable assets	<u>\$402,073,374</u>	<u>\$127,545,859</u>	<u>\$ (44,688,624)</u>	<u>\$484,930,609</u>
1985				
Revenue	\$365,126,796	\$170,395,375		\$535,522,171
Transfers between segments	—	1,703,082		1,703,082
Revenue from external sources	<u>\$365,126,796</u>	<u>\$168,692,293</u>		<u>\$533,819,089</u>
Income before amortization of purchase discount, net of merger costs and provision for income taxes	\$ 18,088,688	\$ 8,788,198		\$ 26,876,886
Amortization of purchase discount, net of merger costs	—	3,440,772		3,440,772
Income before provision for income taxes	18,088,688	12,228,970		30,317,658
Provision for income taxes	7,633,925	3,409,686		11,043,611
Net income	<u>\$ 10,454,763</u>	<u>\$ 8,819,284</u>		<u>\$ 19,274,047</u>
Identifiable assets	<u>\$342,367,200</u>	<u>\$119,116,327</u>	<u>\$ (2,250,385)</u>	<u>\$459,233,142</u>

14. Comparative Figures

Certain comparative figures have been reclassified to conform to the current financial statement presentation.

MANAGEMENT'S REPORT TO THE SHAREHOLDERS

The Consolidated Financial Statements of the Company have been prepared by management in accordance with generally accepted accounting principles and necessarily include some amounts that are based on management's best estimates and judgements of all information available up to January 30, 1987.

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

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

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

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

January 30, 1987

V.K. SOOD
Chairman of the Board and
Chief Executive Officer

AUDITORS' REPORT

To The Shareholders of Finning Tractor & Equipment Company Limited:

We have examined the consolidated balance sheets of FINNING TRACTOR & EQUIPMENT COMPANY LIMITED (a Canada corporation) AND SUBSIDIARIES as at December 31, 1986 and 1985 and the related consolidated statements of income and retained earnings and changes in financial position for the years then ended. Our examinations were made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, the accompanying consolidated financial statements present fairly the financial position of the Company and its subsidiaries as at December 31, 1986 and 1985 and the results of their operations and the changes in their financial position for the years then ended in accordance with generally accepted accounting principles applied on a consistent basis.

January 30, 1987
Vancouver, Canada

ARTHUR ANDERSEN & CO.
Chartered Accountants

CORPORATE INFORMATION

Directors

- †H.C. BENTALL
Chairman of the Board,
The Bentall Group Ltd., Vancouver
- †R.C. BISS
Retired. Formerly Executive Vice President,
Finning Tractor & Equipment Company Limited, Vancouver
- †§R.B. HOUGEN
President, Hougen's Limited, Whitehorse, Yukon
- †§M.M. KOERNER
President, Canada Overseas Investments Limited, Toronto
- †T.E. LADNER, Q.C.
Partner, Ladner Downs, Vancouver
- †§J.F. LEACH
Chairman of the Board,
Acme Fixture Company, Inc., Menlo Park, California
- D.W. LORD
Executive Vice President, Operations,
Finning Tractor & Equipment Company Limited, Vancouver
- B. MORTON
Managing Director, Finning Limited, Cannock, England
- †§V.K. SOOD
Chairman of the Board,
President and Chief Executive Officer,
Finning Tractor & Equipment Company Limited, Vancouver
- †Member, Committee on Directors †Member, Audit Committee
§Member, Management Resources and Compensation Committee

Officers

- *V.K. SOOD, Chairman of the Board,
President and Chief Executive Officer
- *W.F. HOLMES, Executive Vice President, Marketing
- *D.W. LORD, Executive Vice President, Operations
- W.F. MERRELL, Controller
L.E. NORLANDER, Secretary
P.G. VON DER PORTEN, Treasurer
- *Member, Executive Committee

Head Office

555 Great Northern Way, Vancouver, Canada, V5T 1E2

Auditors

ARTHUR ANDERSEN & CO.
Chartered Accountants, Vancouver, Canada

Solicitors

LADNER DOWNS
Barristers and Solicitors, Vancouver, Canada

Registrar and Transfer Agent

THE CANADA TRUST COMPANY
Vancouver, Calgary, Winnipeg, Toronto and
Montreal, Canada

Stock Exchanges

VANCOUVER, TORONTO, MONTREAL

Operations, Division and Staff Managers

- A.J. ALLAN, Power Products
G.W. CARRUTHERS, Parts Operations
J.A. CARTHY, General Service
C.A. CEDERBERG, Kamloops
R.W. CLARIDGE, Lift Truck
P. CLARKE, Victoria
G.M. CORREALE, Vernon
B.I. DAVIS, Vancouver Service
J.D. DESIMONE, Prince George
C.A. HARRIS, Data Processing
D.G. HORNER, Sparwood
R.M. KAYE, Vancouver
C.C. LOYST, Human Relations
H.H. LUNOW, Machine Sales Administration
D.H. MACKAY, Dawson Creek
B.A. McDOWELL, Industrial Products, Langley
R.S. SCOTT, Finance
J.F. SHEPARD, General Parts and Product Support Sales
T.A. SHORTER, Used Equipment
B. WRIGHT, Construction Sales

Finning Limited, United Kingdom

- B. MORTON, Managing Director
D. LEEKS, Executive Director, Sales
E.G. MACLEOD, Associate Director, Finance
C.W. PEAKE, Associate Director, Parts and Service
R. BENDELOW, Marketing Manager
I.A. CAMERON, Commercial Manager
D. COLLIER, General Manager, Engines
T. COUGHLIN, Parts Operations Manager
R. EVANS, Product Support Sales Manager
B. FIRTH, Overseas Manager, Poland
A.D. FRENCH, General Service Manager
J.K. GREENSHIELDS, General Manager, Scotland
R. HAY, General Manager, Lift Trucks
N.B. LLOYD, General Sales Manager
B. MERRETT, General Manager, Used Equipment
N. RIVERIN, General Manager, Data Processing
C.O. STEVENSON, Administration Manager

Caterpillar excavator, with grapple bucket, shows its versatility by clearing small trees, brush and stumps in land development project.

Notice of Annual General Meeting of Shareholders

TO THE SHAREHOLDERS:

NOTICE IS HEREBY GIVEN that an Annual General Meeting of shareholders of FINNING TRACTOR & EQUIPMENT COMPANY LIMITED will be held at the offices of the Company, 555 Great Northern Way, Vancouver, British Columbia, on Wednesday, April 9, 1986 at the hour of 4:00 in the afternoon, Vancouver time, for the following purposes:

1. To receive and consider the report of the directors to the shareholders and the consolidated financial statements of the Company and the auditors' report thereon for the year ended December 31, 1985;
2. To elect directors for the ensuing year;
3. To appoint auditors for the ensuing year and to empower the directors to determine their remuneration;
4. To transact all such other business which may properly come before the Meeting or any adjournment thereof.

Copies of the report of the directors to the shareholders, which includes the consolidated financial statements of the Company as at December 31, 1985, an Information Circular and a form of proxy accompany this Notice.

If you are unable to attend the Annual General Meeting in person, please date and sign the enclosed proxy and return it to The Canada Trust Company, 1055 Dunsmuir Street, Vancouver, British Columbia, V7X 1P3, to arrive not less than 48 hours, excluding Saturdays and holidays, prior to the time for holding the Meeting.

DATED at Vancouver, British Columbia, the 11th day of March, 1986.

BY ORDER OF THE BOARD

L.E. Norlander
Secretary



Information Circular

SOLICITATION OF PROXIES:

This Information Circular is furnished in connection with the solicitation by the management of Finning Tractor & Equipment Company Limited (the "Company") of proxies for use at the Annual General Meeting of shareholders of the Company (the "Meeting") to be held at the same time and place and for the purposes set forth in the accompanying Notice of Meeting. The cost of solicitation will be borne by the Company.

APPOINTMENT AND REVOCATION OF PROXIES:

A shareholder has the right to appoint a person, who need not be a shareholder, to represent him at the Meeting other than the persons designated in the enclosed proxy, who are directors of the Company. A shareholder wishing to exercise this right may strike out the names now designated and insert the name of the desired person in the blank space provided.

A shareholder executing the enclosed proxy may revoke it at any time before the Meeting.

VOTING BY PROXIES:

If the instructions given by a shareholder in the proxy accompanying this Information Circular are certain, the shares represented by the proxy will be voted on any poll in accordance with those instructions, unless there is a specification to withhold voting. The proxy confers discretionary authority with respect to amendments or variations to matters identified in the Notice of Meeting and with respect to other matters which may properly come before the Meeting. The Company has no knowledge at this time of any such amendments, variations or other matters.

VALIDITY AND DEPOSIT OF PROXIES:

The proxy will not be valid unless completed and deposited in accordance with the instructions set out in the proxy.

VOTING SHARES:

The Company is authorized to issue 40,000,000 class A voting shares without par value and 40,000,000 class B non-voting shares without par value of which 7,915,221 class A voting shares and 8,012,556 class B non-voting shares are outstanding. Holders of class A voting shares of record at the close of business on March 25, 1986 are entitled to one vote per share. Holders of class B non-voting shares are not entitled to vote.

To the knowledge of the directors and executive officers of the Company, no person or company beneficially owns directly or indirectly, or exercises direction or control over, voting securities carrying more than 10% of the voting rights attached to all voting securities of the Company except:

Name	Number of Class A Voting Shares	Percentage of Class A Voting Shares
Bartrac Holdings Ltd.	2,788,940	35.24%
Marin Investments Limited	2,788,940	35.24%

Of the class A voting shares owned beneficially by Bartrac Holdings Ltd. and Marin Investments Limited, 1,577,048 owned by each are the subject of a Voting Trust Agreement between W. Maurice Young, a director and Chairman of the Board of Directors of the Company, The Canada Trust Company, Bartrac Holdings Ltd. and Marin Investments Limited, under the terms of which Mr. Young is Voting Trustee. The voting shares of Bartrac Holdings

Ltd. are owned by Joanne Earlene Barker. The voting shares of Marin Investments Limited are owned by Mary Margaret Young. Joanne Earlene Barker is the wife of William T. Barker, a director of the Company. Mary Margaret Young is the wife of W. Maurice Young.

PARTICULARS OF MATTERS TO BE ACTED UPON:

Election of Directors

The Board of Directors at present consists of nine directors, all of whom are deemed to retire at the Meeting but are eligible for re-election. Unless the instructions given by a shareholder on the proxy are uncertain or there is a specification to withhold voting, the persons named in the enclosed proxy intend to vote for the election of the nominees whose names are set forth below, all of whom are presently directors of the Company.

Each of the following persons is proposed to be nominated for election as a director of the Company to hold office until his successor is elected at the next annual general meeting or until his office is earlier vacated under any of the relevant provisions of the Articles of the Company. The management of the Company does not contemplate that any nominee will be unable to serve as a director for any reason, but should this be the case, the persons named in the accompanying proxy reserve the right to vote for any person of their choice in his place and stead.

All of the persons proposed to be nominated for election as directors are ordinarily resident in Canada with the exception of J. Frank Leach, who is ordinarily resident in the United States.

Name	Principal Occupation	Year First Became Director	Class A Shares Beneficially Owned February 14, 1986
William T. Barker	President, Consolidated Equipment & Supply Co. Ltd., Vancouver	1976	4,000
H. Clark Bentall†	Chairman of the Board, The Bentall Group Ltd., Vancouver	1969	400
Robert C. Biss	Retired	1969	20,000
Rolf B. Hougen†	President, Hougen's Limited, Whitehorse	1980	Nil
Michael M. Koerner‡	President, Canada Overseas Investments Limited, Toronto	1978	3,176
Thomas E. Ladner, Q.C.†	Partner, Ladner Downs, Barristers and Solicitors, Vancouver	1970	7,000
J. Frank Leach‡	Chairman of the Board, Acme Fixture Company, Inc., Menlo Park, California	1980	Nil
Vinod K. Sood*	President and Chief Executive Officer of the Company	1969	20,600
W. Maurice Young‡	Chairman of the Board of the Company	1965	84,000

*Member, Executive Committee †Member, Audit Committee ‡Member, Compensation Committee

Advance notice of the Meeting inviting nominations for directors of the Company, as required by Section 135 of the Company Act of British Columbia, was published in the Vancouver Sun on February 8, 1986 and was mailed to the Superintendent of Brokers and to the Vancouver Stock Exchange. No further nominations for the election of directors were received by the Company as of the date of mailing of this Information Circular.

Appointment of Auditors

Unless otherwise instructed by a shareholder in the proxy, the persons named in the enclosed proxy will vote for the reappointment of Arthur Andersen & Co. as auditors of the Company to hold office until the next annual general meeting at a remuneration to be determined by the directors.

STATEMENT OF EXECUTIVE COMPENSATION

Number of Executive Officers of the Company	5
Cash Compensation Paid to Executive Officers	\$707,222
Aggregate Cost of Pension Benefits Payable to Executive Officers	\$ 30,695

Plans

The Company does not have any plans pursuant to which cash or non-cash compensation was paid or distributed to the Executive Officers during the most recently completed financial year nor any plans pursuant to which cash or non-cash compensation will be paid or distributed to the Executive Officers in a subsequent year. The Company has no plans pursuant to which the Executive Officers have been granted options to purchase securities of the Company during the most recently completed financial year.

Other Compensation

No compensation other than the cash compensation set out above was paid to the Executive Officers of the Company during the most recently completed financial year other than personal benefits, the aggregate value of which does not exceed the lesser of \$10,000 times the number of Executive Officers or ten percent of the cash compensation paid to the Executive Officers.

COMPENSATION OF DIRECTORS

Directors of the Company who are employees of the Company do not receive any additional compensation for acting as Directors. Directors of the Company who are not employees of the Company are compensated in accordance with the following schedule:

Annual Retainer	\$6,000
Meeting Fee:	
Directors resident in the area of the Company's head office	\$ 500
Directors not resident in the area of the Company's head office	\$1,000
Audit Committee:	
Meeting Fee — Chairman	\$ 500
Meeting Fee — Member	\$ 400

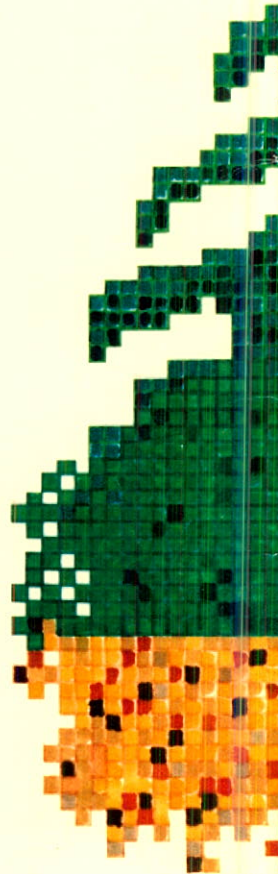
The aggregate cost of pension benefits paid to Directors during the Company's most recently completed financial year was \$154,661.

INTEREST OF INSIDERS IN MATERIAL TRANSACTIONS

No insider of the Company, proposed nominee for election as a director of the Company or associate or affiliate of such insider or proposed nominee, has any interest, direct or indirect, in any transaction since the commencement of the Company's last financial year or in any proposed transaction which has materially affected or would materially affect the Company or any of its subsidiaries.


DATED as of the 14th day of February, 1986.





FINNING

YOUR CATERPILLAR DEALER

CATERPILLAR, CAT and  are trademarks of Caterpillar Inc.

555 Great Northern Way
Vancouver, B.C. Canada V5T 1E2