James F. Shepard
Chairman and Chief Executive Officer

FINNING INTERNATIONAL INC.

**Dear Shareholders,
Customers, and Employees:**

In 1998, after four years of continuous record revenues and profits, Finning International Inc. received a resounding message.

The slowdown in Asia and decline in commodity prices was having a significant impact on most of our markets, especially in the United Kingdom and British Columbia. While the Company's geographic diversification allowed us to achieve increased revenue, our unsatisfactory profitability showed that we needed to redefine the way we do business.

We needed to examine how we allocated capital within the Company in areas such as inventory, rentals, real estate and technology. We had to harness advances in information technology, transportation and communications to build on our competitive advantage in each of the markets we serve.

By combining our "best solutions" practices with this new way of thinking, we had an opportunity to rebuild our Company from the ground up – based on flexibility and speed – to compete in the next millennium.

So we have embarked on a process of rebuilding the Company. Decisions are now being made that are changing the shape of our operations. From a reduced cost base, our dealer network is now focusing not only on the traditional business segment but is also pursuing new emerging segments of the industry.

To better serve our traditional customers who own and operate their equipment, we have committed to raising our customer support service levels. We will achieve this through improved logistics and the application of information technology. By taking advantage of our global connections and our Dealer Business System (DBS) that links us from the factory floor to the branch shop, Finning will improve service and delivery with a high-tech, high-touch approach.

In addition, we will enhance our "best solutions" approach for customers who currently own and operate equipment, but whose core competency lies elsewhere. This will allow Finning to ensure optimal performance of Caterpillar equipment for these customers by applying our Company's knowledge of equipment operation and maintenance. The depth of human talent at Finning boasts an expertise in equipment solutions that has few peers. We are focused on intimately understanding our customers' businesses and on providing the best solutions to lower unit operating costs – be it the production or transportation of ore, timber, grain, oil, gravel or goods.

Our Company is undergoing a renewal that combines the vitality of "start-up" thinking with the culture of proven profitability performance. We will combine the best people, the best equipment and the best technologies to sustain our competitive advantage in the marketplace.

Underpinning this "start-up" approach is a population of thousands of Caterpillar machines throughout our territories that will require parts and service support for years to come. The growth opportunities that will be afforded by Caterpillar's imaginative product expansion will open new markets in the future. Augmenting this growing market opportunity is the strong capital base we have as a publicly traded company, and a record of growth and uninterrupted profitability.

In 1998, our Company achieved substantial successes despite difficult market conditions in our territories. In Western Canada, we generated a significant increase in market share based on the growing line-up of quality equipment from Caterpillar. In Chile, we completed an organizational restructuring that has brought new, high-calibre talent into the operation. And in the U.K., we completed the merger of H. Leverton Limited into Finning (UK) Ltd., forming a national Caterpillar dealership in Britain. In addition, we installed the most recent version of DBS, a dealer-designed information system that is Year 2000 compliant, throughout all our operations.

As we move forward, there will be exciting opportunities for employees to grasp new ideas and implement them for the benefit of our customers. At Finning, we want our employees to grow through self-renewal and to be part of a learning organization that allows them to realize their potential.

I am pleased to welcome Doug Whitehead to the Company. Mr. Whitehead brings a proven record of senior management achieved through an outstanding career in retail marketing and forestry. His appointment as President and Chief Operating Officer adds more depth to the strong management team of Finning International Inc.

Additionally, the Board appointed Andrew Simon of London, England as a Director, effective January 1999, and Ricardo Bacarreza of Santiago, Chile as a Director, effective February 1999. These Board appointments are a reflection of the substantial growth of our operations outside Canada. The Board thanks Rolf Hougen of Whitehorse, Yukon for his excellent service as a Director of the Company for the past 19 years.

I would like to thank Bill Merrell and Dave Edwards, both of whom retired after making unique and outstanding contributions to Finning over the course of their careers.

On behalf of the Board of Directors, I wish to thank our employees for their committed effort in what has been a very challenging year.

Looking to the future, I see our Company taking advantage of the unrealized opportunities that will come with the next millennium. With vision, courage and commitment, Finning will continue to deliver profitability and growth for its shareholders.

Sincerely,

James F. Shepard
CHAIRMAN AND CHIEF EXECUTIVE OFFICER

CORPORATE PROFILE

Finning International Inc. is one of Caterpillar's largest dealers worldwide, serving markets in Western Canada, the U.K. and Chile. Our business is to consistently provide the best solutions to people who move, harvest or transform goods and materials so they can meet the needs of their customers.

We are rebuilding our organization so it has the vitality, flexibility and speed to compete in the next millennium. We're focused on becoming a leading solutions provider through unmatched excellence in customer support services.

Finning's employees and management are committed to making both our customers and our Company successful. And to delivering improved returns to our shareholders from a more efficient operating base.

At Finning, we've created a climate in which our people have the competence and freedom to deliver the best solutions to our customers.

We can only do this successfully if we listen closely to the needs of our customers, drawing on our years of product and industry knowledge.

Once we have an intimate understanding of a customer's problem, the Finning team can deliver solutions that will increase productivity and lower operating costs – key goals of our customers. We support and service the best equipment in its class, namely Caterpillar.

[1] WE LISTEN

ADD CHANGE DELETE

ROUTE TO: MARKE

SALESMAN	DIVISION	TYPE	SALESMAN No.	BRANCH	DATE M D Y

ACCOUNT No.

PRIME MARKET CLASS (CIRCLE) – REFER TO LIST ON REVERSE
010 020 030 100 200 206 300 400 404
405 500 504 600 700 704 800 900

COMPANY NAME

PRIME ADDRESS

RETURN TO: MARKE

CITY POSTAL CODE PHONE ( ) FAX ( )

ALTERNATE CUSTOMER NAME:

SHIP TO ADDRESS:
LOCATION ADDRESS:

MACHINE AND/OR CUSTOMER NOTES:

INFLUENCER CALL CODES:
ACTIVE LIST MAIL LIST TELEMARKET L

	INFLUENCER NAME	TITLE	ADDRESS (IF DIFFERENT FROM PRIME)	PHONE (TYPE + NU
Add Change Delete				
Add Change Delete				
Add Change Delete				

CALL CODES (CIRCLE)
CS CATERPILLAR – SATISFACTION S
CP CATERPILLAR – POPS – C SURVE

PRINCIPAL WORK CODES (REFER TO LIST ON REVERSE)
(CIRCLE) – MAXIMUM 4

105 110 120 128 130 131 132 140 150 155 200 205 206 209
220 230 240 250 255 260 270 275 280 290 312 313 314
315 316 320 321 322 331 340 390 405 410 420 440 450 510
511 525 526 530 531 535 536 540 541 545 546 548 549 550
551 560 570 571 590 591 600 610 710 720 730

MAIL CODES
(CIRCLE) – MAXIMUM 10
CA - CALENDAR
OY - ON YOUR OWN
TT - TRACKS & TREADS (U/E INSERT)
SP - SERVICE POINTS FLYER
GP - GAS ENGINE (PIPELINE)
PA - POWER ADVISER FLYER
TP - TRUCK POWER

MACHINE POPULATION UPDATES ADD: (IF ADD LIST SOURCE OF MACHINE) CHANGE

MAKE	TYPE	MODEL	SERIAL No.	EQUIP. No.	EQUIV. CAT MODEL	ATTACHM

In becoming a leading solutions provider to industry, we must excel at customer service throughout our business.

We work closely with our large and small customers to ensure the optimal performance of their equipment on the worksite – whether it's for part-time operation or 24 hours a day, 365 days a year.

With more than 36,000 Caterpillar machines currently operating in our three dealer territories, we have extensive knowledge in the maintenance and repair of Cat equipment.

The Finning team is there to serve – wherever our customers may be.

[2] WE SUPPORT

OSSIBLE CAUSES
3. POSSIBLE SOLUTIONS
4. ACTION
Who:
step #2
develop a list of possible causes
what caused the failure
ask why it happened 5 times
look for root causes
what is different in this repair
don't lay blame
don't include disguised solutions
don't include opinions
don't jump to conclusions
step #3
develop a list of possible fixes
has any other branch solved this
what can we do different next time
what have we learned from this
What:
When:
se Categories
Repair Process
Following Process
cial Policy
Parts Reusability
Poor Instruction
Other
Specify
Tooling
Training
nments
JOB VALUE $:
CSM SIGNATURE

With a growing, innovative Caterpillar product line, it's essential that our people receive the training and education needed to provide the best solutions for our customers.

Educating our workforce is a constant process at Finning and one that occurs daily – in the shop, in the classroom and on the job.

Given the size and strength of the Company, training can be focused by industry and by product application. Having developed expertise in specific areas, we're eager to share that knowledge base with our customers.

We want all of our employees to be part of a learning organization – one that uses information technology to improve customer service, product knowledge and communication.

[3] WE TRAIN

BRANCH ______ TEL. LO
EE # ______ PRESENT POSITION ______ HIRE DATE ______
N FOR WHICH YOU HAVE APPLIED ______
TION # ______ SUPERVISOR'S NAME ______

y are you interested in this career opportunity? ______

mal Education Level of Education Attained:
9 – 10 ☐ 11 – 12 ☐ Grade 12 Diploma ☐ College or University Degree(s) ☐ Trade School
Years Completed: ______
Degree(s)/Diploma(s) ______ Certificates ______

e you pursued any additional training or education outside of the Company? ie. management/supervisory cours
keting/business related courses, languages, vocational, technical etc.
s, provide details. ______

t types of Company sponsored training have you had?
Sales Training (list completed courses)
Product courses (list completed courses)
Apprenticeship (which trade)
WHMIS Certification
Quality Training
☐ S-Level courses (list completed courses)
☐ Supervisory skills training
☐ Survival/Industrial First Aid (describe certificate)
☐ TDG Certification
☐ Other
ase provide details: ______

To maintain our competitiveness in technology, Finning is investing in the latest computer hardware and software, diagnostic equipment, mobile trucks and information systems.

By taking advantage of our global connections and Dealer Business System (DBS), we're linked from the factory floor to the branch shop and can connect with other Cat dealers around the world. This allows us to improve our service and delivery with a high-tech, high-touch approach.

We also see information technology as a means by which to share more information with our customers, faster and more conveniently – enabling us to be more responsive to their needs.

[4]
WE UPGRADE

FINNING (CAN

555 GREAT NORTHERN WAY, VANCOUVER, B.C. V

PURCHASE O

DS AS SELECTED BY

ch Dept.

CHARGE ALL TAXE

By

More of our customers are focusing on their own core competencies and seeking equipment solutions externally that can improve their productivity. This has created a business opportunity for Finning, where customers are now asking us to do the work for them.

And with our expert knowledge of operating and maintaining Caterpillar equipment, we can serve this emerging market profitably while assuming some of the risk of doing this work.

We're also pursuing new channels of distribution, using e-commerce to redistribute used equipment and used parts to sophisticated buyers worldwide. As the adoption of the internet increases rapidly into the next millennium, we'll be prepared to meet the changing demands of our customers.

[5] WE PURSUE NEW MARKETS

FINNING (CANADA)

[A DIVISION OF FINNING INTERNATIONAL INC.]

Servicing Western Canada with dealer territories in British Columbia, Alberta, Yukon and the Northwest Territories

FINNING (UK) LTD.

[100% – OWNED SUBSIDIARY OF FINNING INTERNATIONAL INC.]

Servicing Britain with dealer territories in England, Scotland and Wales

FINNING CHILE S.A.

[100% – OWNED SUBSIDIARY OF FINNING INTERNATIONAL INC.]

Servicing the northern, central and southern regions of Chile

UNIVERSAL MACHINERY SERVICES

[A DIVISION OF FINNING INTERNATIONAL INC.]

Selling used equipment and used parts internationally

FINNING INTERNATIONAL INC.

REVIEW OF OPERATIONS

HIGHLIGHTS Consolidated revenue increased 11% to $2.6 billion in 1998 compared with $2.3 billion the previous year. In both Canada and Chile, revenue was flat on a year-over-year basis. In the United Kingdom, revenue was up 40% to $793 million, reflecting an additional nine months contribution from H. Leverton Limited in 1998. Revenue in Universal Machinery Services (UMS) was also up during the year, increasing 50% to $152 million.

Total equipment revenue, which includes new and used equipment sales and rentals, increased 15% to $1.8 billion in 1998. Customer service revenue increased 5% to $783 million. The Company's net income was $3.2 million compared with $103.7 million the previous year. Excluding non-recurring charges of $15.5 million in 1998 and non-recurring gains of $13.2 million in the prior year, net income declined to $18.6 million from $90.5 million in 1997.

While Finning International Inc. achieved record revenue in 1998, the Company faced difficult market conditions in many of its dealer territories. These conditions can be summarized as follows:

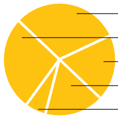
- A slowdown in the U.K. economy and a strong British pound had a negative effect on both new and used domestic equipment in that market;
- Lower Asian demand for forest products resulted in significantly lower activity levels in the forest industry in British Columbia; and
- Depressed copper prices caused a slow-down in mine expansions and new mining projects in Chile.

In response to these conditions, Finning launched a major restructuring program in 1998 to reduce its cost base throughout its operations. The program included closing five branches and downsizing five other locations in British Columbia as well as implementing an early retirement program for employees in Finning (Canada). In the U.K., one branch and one depot were closed in 1998 as the dealership continued its efforts to resize the scale of its national dealership. In addition, the Company completed several major steps towards its reorganization, including: (1) the integration of H. Leverton into its Finning (UK) Ltd. operation; (2) the relocation of Finning (Canada)'s head office to Edmonton; and (3) the reorganization of management in all three of its dealer operations.

REVENUE BY ACTIVITY

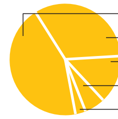
($ MILLIONS)	1998		1997		GROWTH
New equipment	$ 1,187	46%	$ 1,115	48%	6%
Used equipment	442	17%	309	13%	43%
Equipment rental	134	5%	104	5%	28%
Customer support services	783	30%	744	32%	5%
Finance and other	39	2%	55	2%	(29)%
	$ 2,585	100%	$ 2,327	100%	11%

REVENUE BY GEOGRAPHIC SEGMENT (%)



United Kingdom	31
Alberta/Northwest Territories	27
Chile	19
British Columbia/Yukon	17
International	6

CONSOLIDATED REVENUE (BY ACTIVITY) (%)



New equipment	46
Customer service	30
Used equipment	17
Equipment rental	5
Finance	2

REVENUE Total revenue was $2.6 billion compared with $2.3 billion last year, an increase of 11%. All activity levels increased, except finance revenue which declined 29% due to the sale of the U.K. finance portfolio to Caterpillar Financial Services (UK) Limited in November of 1997. Of the 11% increase in total revenue, 6% was related to the appreciation of the British pound and the U.S. dollar relative to the Canadian dollar. Price increases on new equipment and customer support services, both averaging 2% across operations, increased revenue by 1%. The balance of the increase in total revenue was attributable to increased activity due to the acquisition of H. Leverton in 1997.

EQUIPMENT REVENUE Equipment revenue totalled $1.8 billion compared with $1.5 billion in the prior year, an increase of 15%. Sales of new equipment were up 6% to $1.2 billion in 1998 as weaker sales in both Canada and Chile were offset by higher sales in the U.K. The increase in the U.K. was entirely a result of the acquisition of H. Leverton, purchased by Finning (UK) on October 1, 1997. Used equipment sales increased 43% to $442 million as all operations focused on reducing aged used equipment inventories at lower than normal margins. Rental revenue increased 28% to $134 million as total rental fleet assets grew 20% during the year. Rental revenue was higher in all operations with the exception of Chile which experienced a marginal decline in rental activity.

CUSTOMER SUPPORT SERVICES Total parts and customer service revenue was $783 million, a 5% increase compared with the prior year. Revenue increased in all dealer territories with the exception of Canada, where revenue declined by 7% from prior year levels due to lower parts and service sales in B.C. The improvement in the U.K. reflected the additional contribution from H. Leverton, while the increase in Chile was due to higher parts revenue from an increased population of Caterpillar equipment. Parts revenue in UMS grew 67% to $11 million in 1998.

FINANCE REVENUE Finance revenue declined to $39.1 million in 1998, a decrease of 29% compared with the prior year. This decrease was due to the sale of the U.K. finance portfolio in November 1997, resulting in a reduction in finance revenue of $14 million in 1998. Finance revenue in Finning (Canada) remained flat from the prior year. Finning and Caterpillar Finance have arrangements in place to provide customers with competitive financial services in each of Finning's dealer territories.

Total finance assets declined 19% to $418 million at the end of 1998. A 1% increase in leased equipment was offset by a 51% reduction in instalment notes receivable. The decline in finance assets was due to the sale of a portion of the Canadian finance portfolio to Caterpillar Financial Services Ltd. during the year. Finning (Canada) and Caterpillar Financial Services Ltd. are parties to a joint marketing agreement in which personnel from both Finning (Canada) and Caterpillar Finance market a common array of financial services to customers in the Canadian dealer territory, including leasing, rental-purchase financing, conditional sales, and equity financing.

CONSOLIDATED REVENUE/NET INCOME/EARNINGS PER SHARE

($ THOUSANDS)		1998		1997
Revenue	$2,585,421		$2,327,064	
Net income	$ 3,185	$ 0.04	$ 103,695	$ 1.32
Non-recurring items	15,461	0.19	(13,190)	(0.17)
Adjusted net income	$ 18,646	$ 0.23	$ 90,505	$ 1.15

NET INCOME Net income was $3.2 million compared with $103.7 million in 1997. Excluding non-recurring charges of $15.5 million in 1998 and non-recurring gains of $13.2 million in 1997, net income in 1998 declined to $18.6 million from $90.5 million in the prior year.

Earnings per share were lower at $0.04 compared with $1.32 for 1997. Non-recurring charges in 1998 were $0.19 per share, while non-recurring gains in the previous year were $0.17 per share. Adjusting for these non-recurring items, earnings per share were $0.23 in 1998 compared with $1.15 in 1997.

Net income also included $27.1 million after-tax charges on aged inventories in Finning's four operating units: $13.6 million in the first quarter ($0.17 per share) and $13.5 million in the fourth quarter ($0.17 per share).

Canadian operations contributed $34.7 million to consolidated net income, a decrease of 44% from 1997. Excluding a non-recurring charge of $8.2 million in 1998 and a non-recurring gain of $10.0 million in 1997, net income in Finning (Canada) was $42.9 million, down 17% from the prior year. The U.K. operations had a loss of $32.2 million compared with income of $20.1 million last year. Excluding a non-recurring charge of $6.4 million in 1998 and a non-recurring gain of $3.2 million in 1997, the net loss in Finning (UK) was $25.8 million compared with net income of $16.9 million in the prior year. Net income from Chilean operations was $3.4 million in 1998 compared with $19.5 million in 1997. Net income in 1998 included $0.9 million in severance costs provided for in the third quarter.

Selling, general and administrative expenses increased to $498 million, 27% higher than 1997. Excluding the non-recurring items noted above that were included in selling, general and administrative expenses, costs increased $70.7 million or 17% from the prior year. The majority of the cost increase was in the U.K. and reflected the full effect of the integration of Finning (UK) and H. Leverton.

Finance costs and interest on other indebtedness increased to $75.2 million, up 12% from the prior year. The majority of the increase was in Canadian operations, due to higher average inventory levels and interest rates compared with 1997 levels.

For 1999, the Company is expecting market conditions to be even tougher than in 1998 as many commodity prices are hitting 10 to 15 year lows and the U.K. economy is unlikely to turn around quickly during the next year. Finning expects activity levels in Western Canada to decline in 1999, primarily as the result of a slowdown in the Alberta economy. In Chile, without large deliveries of equipment to new projects or mine expansions, it is anticipated activity levels in that market will be down year-over-year. Despite these conditions, the Company's cost reduction and asset management programs are expected to improve its returns in 1999.

CANADIAN OPERATIONS

HIGHLIGHTS In Finning (Canada), 1998 was a year of consolidation. After achieving record levels for both revenue and units sold in 1997, overall revenues in 1998 declined by 1%. New equipment unit deliveries declined by 12% as the company noted a significant shift in the mix and size of units from smaller forestry and oilfield units to larger mining and construction units.

During 1998, Finning (Canada) implemented significant changes in its Western Canadian operations. Senior management and head office staff were relocated to Edmonton from the Company's location on Great Northern Way in Vancouver. In British Columbia, reduced activity levels in the forest and mining industries led to the closure of five Finning branches and the downsizing of five others in the fourth quarter of 1998. During the year, however, Finning (Canada) opened a new branch facility in Surrey, B.C. and expanded its Parts Distribution Centre in Edmonton. At December 31, 1998, the Finning (Canada) operation had 30 branches and 10 depots, and the number of employees was 2,494 compared with 2,496 at the end of 1997. Further employment reductions are expected in the first quarter of 1999 following a process of early retirements and severances.

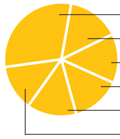
FINANCIAL REVIEW

REVENUE BY PROVINCE Revenue in British Columbia and Yukon declined by 17% in 1998, down in all categories except used equipment sales, which were up 28%. The decline in revenue was directly attributable to the depressed forest and mining industries in British Columbia. Revenue in Alberta and the Northwest Territories, however, increased by 13% due to large unit deliveries to companies operating in the oil sands and to the Ekati diamond mine in the Northwest Territories. New equipment sales and equipment rentals were up significantly while used equipment sales declined slightly. Customer service revenues were up moderately as the overall increase in oil sands and diamond mining were partially offset by lower oil and gas drilling activity.

CANADA REVENUE/NET INCOME/EARNINGS PER SHARE

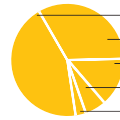
($ THOUSANDS)	1998		1997	
Revenue	$1,136,917		$1,146,406	
Net income	$ 34,747	$ 0.44	$ 61,668	$ 0.78
Non-recurring items	8,191	0.10	(10,007)	(0.13)
Adjusted net income	$ 42,938	$ 0.54	$ 51,661	$ 0.65

CANADIAN EQUIPMENT DELIVERIES BY MARKET
(CONVERTED TO SALES DOLLARS) (%)



Mining	30
Power systems	15
Construction	14
Petroleum	14
Forestry	14
Other	13

CANADIAN REVENUE
(BY ACTIVITY) (%)



New equipment	44
Customer service	33
Used equipment	14
Equipment rental	6
Finance	3

EQUIPMENT REVENUE Equipment revenue was $724 million in 1998, an increase of 3% over prior year levels. New equipment revenues remained flat at 1997 levels while unit deliveries declined by 12%, most notably in the forestry and petroleum sectors. New equipment includes an average price increase of 2% for the year, thus revenue declined in real terms. Used equipment sales in the domestic market increased 11% to $161 million, due in part to a controlled sale of aged machines. With the exception of the petroleum industry, demand for used equipment remained steady throughout the year.

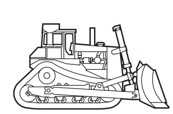
Equipment rental revenue was up 13%, due mainly to a 42% increase in the number of units available for rent. Other contributing factors were the opening of a new rental fleet in Grande Prairie and higher valued units in the fleet. Utilization of the rental fleet returned to normal volumes from the unusually high levels experienced in 1997. The year-over-year decline in the utilization rate was due primarily to lower petroleum activity. The Company expects increased demand for its rental fleet in 1999 due to the significant planned pipeline expansions in Alberta and northern B.C.

CUSTOMER SUPPORT SERVICES Parts and customer service revenue decreased by 7% to $376 million. Parts revenue decreased by 5% during the year to $311 million as increased overall activity in Alberta was more than offset by lower parts sales in B.C. Customer service revenue decreased 17% to $65 million, with service activity levels increasing in Alberta and declining in B.C. Increased activity in oil sands mining, pipeline construction and diamond mining in the Northwest Territories will provide Finning (Canada) with the opportunity to increase its parts and customer service support in these sectors.

The significant fluctuations and overall devaluation of the Canadian dollar relative to its U.S. counterpart raised the selling price of Caterpillar equipment and parts in 1998. The foreign exchange movement in 1998 increased equipment and parts revenue by 5% from the prior year.

FINANCE REVENUE Finance revenue remained flat in 1998 as revenues from large fleet leases and higher interest rates were offset by the sale of a portion of the finance portfolio. In June 1998 Finning sold a portfolio of notes and rental purchase contracts to Caterpillar Financial Services Ltd. for gross proceeds of $130 million. Total finance assets declined 18% from the prior year, representing a 50% decline in the note portfolio and a 2% decline in the lease portfolio.

CAT TRACK-TYPE TRACTOR



NET INCOME Net income from Canadian operations in 1998 was $34.7 million compared with $61.7 million in 1997. Included in net income for 1998 was a net non-recurring charge of $8.2 million (a $9.6 million charge for restructuring, severance and relocation costs offset by a $1.4 million gain on the sale of property). Included in net income for 1997 was a non-recurring gain of $10.0 million related to insurance proceeds and the sale of property. Excluding these non-recurring items, net income was $42.9 million compared with $51.7 million last year, a decline of 17%. Net income also included a $3.4 million after-tax operating charge on aged inventory provided for in the first quarter of 1998.

Overall gross profit margins, excluding finance revenue, were down by 0.7% as a greater proportion of Finning (Canada)'s revenue shifted from higher margin customer service to equipment sales. New equipment margins declined by 0.3% from 1997 levels, reflecting the increased volume of higher-dollar, lower-margin mining unit sales. Used equipment margins were lower by 2% as older equipment was auctioned off near the end of the year. Margins for customer support services were maintained at 1997 levels.

Selling, general and administrative expenses, excluding the non-recurring items noted above, increased by 2% for the year. The restructuring actions taken by Finning (Canada) in 1998 are expected to reduce its operating costs for 1999 in anticipation of lower activity levels in Western Canada.

Interest expense increased by 20% from the prior year as a result of higher average inventory levels and higher borrowing costs during 1998. At the end of 1998, total debt increased by 5% from the prior year's level and inventory increased by 19%, the latter primarily a reflection of the larger rental equipment fleet in Canada.

INDUSTRY REVIEW

MINING In 1998, deliveries of new mining units by Finning (Canada) increased by 11% and the value of those units rose 35% compared with the prior year. The value of these deliveries to the mining industry accounted for 30% of total new equipment deliveries, making it the largest end market for Finning (Canada).

A large package of tractors, trucks, and shovels was delivered to BHP Diamond's Ekati mine in the Northwest Territories in 1998. Finning (Canada) continued to make inroads into the coal mining industry, selling eleven 240-ton trucks to coal mining properties in B.C. and Alberta. In 1998, the major producer groups operating in the Athabasca oil sands announced that significant capital investments would be made over the next decade. In the fourth quarter, Syncrude approved the expansion of its oil sands operation to its Aurora Mine property, located north of its Mildred Lake upgrading complex. In addition, Suncor Energy is proceeding with approvals for its expansion across the Athabasca River to its Steepbank property, which is part of its Millennium expansion project. Both Shell and Mobil are undertaking feasibility plans for start-up operations near the Syncrude and Suncor properties. With the producers utilizing truck and shovel methodology for the mining of this resource, the Athabasca oil sands continue to provide substantial expansion opportunities for Finning (Canada).

CONSTRUCTION Deliveries of new construction units by Finning (Canada) increased by 3% for the year while the value of those units was up 17% compared with 1997. Residential construction and highway construction and paving in Alberta were the primary drivers for revenue growth. Governmental demand remained constant throughout the year before declining sharply in the fourth quarter.

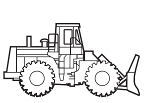
PETROLEUM Finning (Canada)'s petroleum activity is focused on the oil and gas industry as well as pipeline construction. Drilling activity in Western Canada was down by approximately 40% in 1998 as oil prices continued to decline throughout the year.

However, the construction of oil and gas pipelines provided opportunities in 1998 as pipeline contractors faced increasing fleet requirements. Enbridge's new Athabasca heavy oil pipeline and its Terrace expansion began construction in 1998. As well, both the Maritimes and Northeast Pipeline project and the Alliance natural gas pipeline received the necessary U.S. and Canadian regulatory approvals in 1998 and substantial construction activity is planned for 1999.

New units delivered to the petroleum sector by Finning (Canada) decreased by 25% in 1998 and the value of those units declined by 22% compared with 1997. Most of the decline occurred in the second half of the year with deliveries down more than 60% from 1997 levels.

FORESTRY The forest industry in British Columbia faced a significant slowdown in 1998 as prices declined, the demand for lumber in Asian markets weakened and a number of plants closed temporarily during the year. While unit sales and revenues were down, Finning (Canada) achieved an increase in market share due to higher sales of feller bunchers, delimber processors and skidders. Deliveries of new forestry machines declined by 24% for the year and the value of those units was down 23% compared with 1997.

POWER SYSTEMS Revenue declined by 5% in 1998 due to the sale of a large power package to the Ekati diamond mine in late 1997. Excluding this transaction in the prior year, revenues were up 10% in 1998, reflecting increased demand for natural gas compressor packages.



CAT LANDFILL COMPACTOR

UNITED KINGDOM OPERATIONS

HIGHLIGHTS In 1998, Finning (UK) completed the steps necessary to integrate the operations of H. Leverton, acquired October 1, 1997. Finning (UK) is now the sole Caterpillar dealer for all of England, Scotland and Wales. The integration of the two operations required a two-stage downsizing to form an efficient national dealership: one stage occurred in the first quarter of 1998 and the next in the fourth quarter of the year. As a result, both the Wigan branch and the Birmingham depot were closed during the year and three more depots are planned for closure in 1999. A number of operations and functions were relocated in 1998 and approximately 10% of the employee workforce was terminated. At the end of 1998, Finning (UK) had 14 branches and 12 depots, and had 1,348 employees compared with 1,720 at the end of 1997.

Finning (UK) was faced with a difficult operating environment in 1998 that was exacerbated by the strength of the British pound relative to other major currencies. The high value of the British currency resulted in an influx of imported new and nearly new equipment into the U.K. market that adversely affected the sale of new and used domestic equipment. The strength of the British pound also prevented the sale of used equipment overseas. In addition, interest rates in the U.K. remained relatively high in the first half of 1998 while economic activity slowed considerably in all regions.

FINANCIAL REVIEW

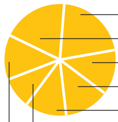
REVENUE Total revenue for Finning (UK) increased 40% to $793 million in 1998. These results included 12 months contribution from the former H. Leverton operation, compared with only three months contribution from H. Leverton in 1997. The 1998 results were also affected by an 8.4% appreciation of the British pound against the Canadian dollar, contributing $47 million or 21% of the total revenue increase.

EQUIPMENT REVENUE Equipment revenue was $598 million in 1998, up 50% over the prior year. The increase in equipment revenue was the result of increased new equipment sales which grew 35% to $432 million following the consolidation of the two dealerships. Total unit deliveries of new equipment also increased 27% for the same reasons. Excluding any increases attributable to the acquisition of H. Leverton, in real terms revenue and unit deliveries decreased. The decline reflected fierce competition in the marketplace, particularly from Japanese, Korean and Swedish manufacturers. Low levels of infrastructure spending by the government adversely affected quarrying, and coal mining was affected by uncertainty through the government's review of energy policy. Slow activity levels due to delays and postponements in motorway and rail expansions

UNITED KINGDOM REVENUE/NET INCOME/EARNINGS PER SHARE

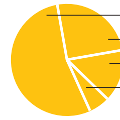
($ THOUSANDS)	1998		1997	
Revenue	$ 793,020		$ 566,376	
Net income (loss)	$ (32,211)	$ (0.41)	$ 20,110	$ 0.26
Non-recurring items	6,408	0.08	(3,183)	(0.04)
Adjusted net income (loss)	$ (25,803)	$ (0.33)	$ 16,927	$ 0.22

U.K. EQUIPMENT DELIVERIES BY MARKET
(CONVERTED TO SALES DOLLARS) (%)



Plant hire	21
Power systems	19
Construction	13
Materials handling	13
Quarrying	12
Mining	9
Other	13

U.K. REVENUE
(BY ACTIVITY) (%)



New equipment	54
Customer service	25
Used equipment	15
Equipment rental	6

resulted in lower demand from the plant hire industry. Major gas projects have remained on hold pending the government's Non-Fossil Fuel Obligation announcements that were made in October 1998.

Used equipment revenue was $120 million, an increase of 115% from the prior year following the consolidation of the two dealerships. This revenue included a $15 million package negotiated in the first quarter of 1998 for 151 machines and refinancing packages of $13 million and $10 million in the second and fourth quarters, respectively. Unit deliveries of used equipment improved by 33%. Excluding any increases attributable to the acquisition of H. Leverton and the aforementioned special deals, in real terms both the domestic and international markets have slowed significantly.

Equipment rental revenue increased by over 100% including the contribution from H. Leverton, with a number of machines being utilized on the M74 motorway construction in Scotland. Assets in the rental fleet increased to $44 million, up 17% from the prior year.

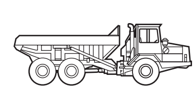
CUSTOMER SUPPORT SERVICES Parts and customer service revenue increased 29% to $195 million in 1998. The increase related to the additional contribution of H. Leverton for 12 months of operations, which in real terms means customer service revenue declined. Genuine Caterpillar parts were sourced by some U.K. customers from overseas locations in 1998 and service revenue has been adversely affected by competition from low-cost companies in Britain.

NET INCOME Finning (UK) reported a loss of $32.2 million in 1998 compared with a $20.1 million profit in 1997. Excluding a non-recurring charge for the expected sale of BCP Plant Hire, an equipment rental business included in the acquisition of H. Leverton, the operating loss in 1998 was $25.8 million. In addition, net income included an after-tax operating charge of $17.1 million in the year to recognize anticipated losses on used equipment due to the continued strength of the British pound and depressed local markets.

Overall gross profit margins, excluding finance revenue, declined by 6% from the prior year. New equipment margins declined by 3% in 1998 as a result of strong competition from domestic and imported products. Used equipment margins were significantly lower due to the excess supply of used construction equipment in the marketplace. This, combined with a strong British pound, prevented its sale overseas. Customer support services margins were maintained at 1997 levels.

Selling, general and administrative expenses, excluding the non-recurring items, increased 60% from the prior year. Activity levels did not increase sufficiently to support the increased cost structure of the merged operation. Action was taken in 1998 to reduce the cost base in the U.K. operation as noted earlier. Additional cost savings are expected in 1999 following the closure of additional depots, further restructuring of the organization and an ongoing review of costs.

CAT ARTICULATED DUMP TRUCK



Interest expense for Finning (UK) declined by 20% during the year. Total debt levels declined by 29% year-over-year. This decline was principally due to a focused asset management program in Finning (UK), reducing inventory and receivable levels by 11% year-over-year. In addition, the Company increased its equity in the U.K. by £25 million in 1998, the proceeds of which were used to reduce local borrowings in the U.K.

INDUSTRY REVIEW

CONSTRUCTION AND PLANT HIRE Government approval and spending on infrastructure projects continued to be constrained under the Labour government in 1998. There was a delay in approval for the Birmingham Northern Relief Road, which is now anticipated to commence no earlier than 2001.

In the U.K., there was an overall market decline of 10% (in British pounds) in the sale of equipment to the plant hire and construction industries. The reduction was less dramatic in demand for machines under 100-horsepower. The high value of the British pound reduced the competitiveness of used equipment being sold into overseas markets. The economic crisis in Asia, coupled with the strong British pound, resulted in a high level of cheap imports, particularly hydraulic excavators. European manufacturers, particularly the U.K.-based manufacturers forced to sell in Britain rather than in their export markets, responded with lower pricing. The market was, as a consequence, very price sensitive.

In 1998, a number of infrastructure jobs were completed while the number of new projects declined. The first contracts on the delayed Channel Tunnel Rail Link (CTRL) were awarded and preparatory work will commence in the first quarter of 1999. The CTRL will link London with the Channel Tunnel by high-speed train.

The acquisition of Verachtert by Caterpillar further expands the range of attachments Finning (UK) offers. Verachtert designs and manufactures a wide range of attachments for use on hydraulic excavators and wheel loaders.

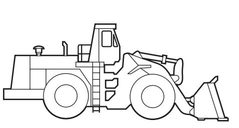
QUARRYING Volumes were stable in the aggregates industry at approximately 200 million tonnes and are forecast to remain at the same level in 1999. The major companies within the industry continued to consolidate. The government's policy is focused on road maintenance rather than road building and many of the traditional quarrying companies have moved into road reclamation and surfacing through acquisition of specialist businesses. The consolidation of the industry saw the adoption of centralized equipment purchasing and national customer service agreements. In 1998, Finning (UK)'s new equipment sales to this industry declined 3% (in British pounds), however, unit deliveries improved 11%.

WASTE This industry has shown growth in 1998. Consolidation has taken place and three major players are emerging. An increase in landfill tax has encouraged recycling, and equipment sales to the sector have increased. Segmentation of this market between landfill and transfer stations has shown transfer stations as the emerging market following the focus on recycling and environmental issues. This has been encouraged by the increase in landfill tax.

OPENCAST COAL In 1998, Finning (UK)'s new equipment sales to the opencast coal industry declined 31% (in British pounds) with unit deliveries also declining by 13%. A government review of energy policy in 1998 resulted in an official moratorium on all gas-fired power stations in the planning or pre-construction stage. The review confirmed that coal as an energy source still has an important role to play in the generation of the country's electricity. Deep mine coal production still continues to decline while open pit coal mines maintained output levels of approximately 15 million tonnes. The government did announce a 10-point plan which continues to have an impact on planning approvals of new opencast projects in England with somewhat less restrictive constraints in Scotland and Wales. Scottish open pit mining continued to provide new equipment opportunities, including large rigid dump truck fleets. Other open pit contractors continue to purchase equipment in replacement programs.

POWER SYSTEMS Power systems unit deliveries were down by 3%, however, sales were up almost 40% (in British pounds). Sales to Industrial/OEM users were down as the export of compressors and crushing equipment slowed due to the strength of the pound. The pleasure craft sector of the industry remained buoyant and unit deliveries increased 10% over the previous year. Commercial marine activity has slowed because of the increase in the number of vessels being built overseas for British owner/operators.

MATERIALS HANDLING The Finning (UK) market share for new equipment is broadly in line with 1997. The marketplace is relatively static with the majority of deals being for between five and 10 trucks with some major fleet deals (primarily the replacement of existing contracts). The casual rental fleet has grown by 10%, reflecting customers' requirements to retain full flexibility in the management of their fleet. Approximately two-thirds of unit deliveries are on contract rental agreements, generally for a period of between four and five years.



CAT WHEEL LOADER

CHILEAN OPERATIONS

HIGHLIGHTS The Chilean economy was active in the first half of 1998 but slowed in the latter part of the year. Lower copper prices, which fell below US$0.70 per pound in the fourth quarter of 1998, have resulted in a curtailment of new mine expansions and new projects. In addition, the construction industry slowed as the increase in Chilean interest rates in the third quarter caused a marked reduction in smaller industrial projects and residential construction in the fourth quarter. Finning Chile's new equipment unit deliveries declined by 3% from the prior year, reflecting this slowdown.

In the third quarter of 1998, the company terminated 110 employees, reducing the total workforce by 8% at that time. Throughout this reorganization, however, the company has continued to hire talented, experienced people to improve the delivery of services to its customers. The total number of employees at the end of the year was 1,354 compared with 1,329 at June 30, 1998.

FINANCIAL REVIEW

REVENUE Total revenue was $504 million compared with $514 million last year, a decrease of 2%. An increase in customer support services revenue was offset by a decline in equipment revenue. The 1998 results were also affected by a 7.1% appreciation of the U.S. dollar against the Canadian dollar that contributed $37 million in increased revenue.

EQUIPMENT REVENUE Equipment revenue was $301 million in 1998, a decrease of 9% from the prior year. New equipment sales were down 12% to $254 million, primarily due to lower sales to the mining industry. The Chilean mining industry was affected by low global commodity prices for both copper and gold. Used equipment sales were up 52% to $25 million, reflecting the Company's focus on reducing aged inventories.

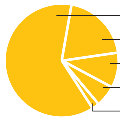
Equipment rental revenue declined 8% to $23 million. Due to the economic downturn, several equipment owners that have idle machines are competing in the rental fleet market. These and other new competitors have put pressure on sales in this sector. In 1998, Finning Chile's rental fleet served primarily larger projects, such as the natural gas pipeline projects in northern Chile as well as small equipment rental requirements in the Santiago area.

CUSTOMER SUPPORT SERVICES Parts and customer service revenue increased to $201 million, up 11% from 1997. Due to the large number of machines delivered to the mining industry over the past five years, there has been an increasing demand for customer support services. There were over 300 large Caterpillar trucks operating in Chile at the end of 1998. Service revenue was also affected in part by adjustments taken on maturing maintenance and repair contracts.

CHILE REVENUE/NET INCOME/EARNINGS PER SHARE

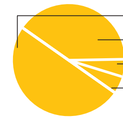
($ THOUSANDS)	1998		1997	
Revenue	$ 503,505		$ 514,068	
Net income	$ 3,424	$ 0.04	$ 19,535	$ 0.25
Non-recurring items	862	0.01	—	—
Adjusted net income	$ 4,286	$ 0.05	$ 19,535	$ 0.25

CHILEAN EQUIPMENT DELIVERIES BY MARKET
(CONVERTED TO SALES DOLLARS) (%)



Mining	62
Construction	20
Kenworth	10
Power systems	6
Forestry	2

CHILEAN REVENUE
(BY ACTIVITY) (%)



New equipment	50
Customer support services	40
Used equipment	5
Equipment rental	5

NET INCOME Net income decreased to $3.4 million compared with $19.5 million in 1997. The decline in net income was principally due to lower equipment sales, lower gross margins and further provisions taken on service maintenance contracts. Net income also included a non-recurring charge of $0.9 million in severance costs provided for in the third quarter of 1998. In addition, net income included a $3.3 million operating charge on aged inventory provided for in the first quarter of 1998.

Overall gross profit margins, excluding finance revenue, were down by 1%. New equipment margins declined by 0.2% from 1997 levels. Used equipment margins were significantly lower, reflecting sales of aged equipment during the year. Parts margins were up by 6% and customer service margins were down in the year due to losses on service maintenance contracts, reflecting higher than anticipated maintenance costs.

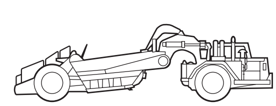
Selling, general and administrative expenses increased 5% over the prior year's level but were up marginally as a percentage of revenue. Interest expense was up 15% from the prior year due to higher interest rates and average borrowing levels during 1998. However, at the end of the year, total debt declined 13% from the prior year, a reflection of a 14% decline in inventory levels year-over-year.

In 1998, the U.S. dollar strengthened against the Chilean peso by 7.6% from the prior year. The majority of Finning Chile's revenue is U.S. dollar-based while its costs are in pesos. Therefore, the change resulted in decreased local costs in relation to Finning Chile's U.S. dollar-based revenues. This is opposite the trend experienced in the past three years which saw the Chilean peso strengthening against the U.S. dollar. The Chilean inflation rate declined to 4.5% in 1998 compared with 6.1% in 1997.

INDUSTRY REVIEW

MINING The development of new copper and gold mining projects in Chile slowed down in 1998 due to a decline in both the global base and precious metal prices. However, production from existing copper mines in Chile increased 8% from the prior year. Deliveries of new mining units by Finning Chile decreased 28% and revenue decreased 15% over the prior year. The value of mining deliveries accounted for 62% of total new equipment deliveries in Finning Chile in 1998, the same level as 1997. Large earthmoving packages sold to leading mining companies in Chile included the delivery of 38 pieces of equipment for $25 million to the Los Pelambres mine project and the delivery of seven off-highway trucks and three pieces of mining support equipment for $23 million to Radomiro Tomic.

CAT WHEEL TRACTOR SCRAPER



CONSTRUCTION In 1998, construction of infrastructure, highway and residential housing projects slowed during the year. An increase in Chilean interest rates in the third quarter resulted in a reduction in smaller industrial projects and residential construction in the fourth quarter. Consequently, unit deliveries to the construction industry declined in the third quarter and decreased more significantly in the fourth quarter. For the year, deliveries of new construction units by Finning Chile decreased 16% and total revenue decreased 18% over the prior year. However, large concession infrastructure projects under construction – such as the north and south expansions of the Pan American highway and large pipeline projects – are proceeding. In addition, the Chilean government is continuing its strategy to privatize and modernize seaports, airports, irrigation and hydroelectric dams in Chile.

KENWORTH Kenworth truck sales decreased by 9% to $25 million in 1998 while the number of units delivered almost matched that of 1997. Given the general slowdown in the Chilean economy, the Class 7 and 8 truck population in the country declined by 18% in 1998. The trend is expected to continue into 1999 as an additional 10% reduction in demand is expected. Finning's ability to penetrate new segments in the construction and retail distribution markets was successful in 1998 due to sales of T-300 trucks to both Coca-Cola and the Ejército de Chile (Chilean Army). Despite current market conditions, Finning Chile and Kenworth are bidding on several large truck orders in 1999 for customers in the food distribution industry.

POWER SYSTEMS In 1998, power systems revenue declined by 38% from the prior year. Unit deliveries, however, improved 135% compared with 1997, a reflection of the smaller units sold in 1998. The marine engine market was dramatically lower due to unfavourable fishing conditions brought on by the El Niño current, and commercial fishing restrictions imposed by government authorities. In 1999, the ships being constructed in Chilean shipyards for the export markets should increase demand for marine engines. Also, Finning Chile is reintroducing the Olympia line of Caterpillar generators in 1999. New market strategies are being developed for industries located in Santiago, a market that was not previously served by Finning Chile.

FORESTRY Activity in the forest industry declined due to low international pulp prices, which were down approximately 20% in 1998 (US$403 per ton in the second half of 1998 compared with US$506 per ton in the second half of 1997). New equipment sales to this industry decreased 14% from 1997 levels, representing only 2% of total new equipment sales in 1998.

INTERNATIONAL OPERATIONS

HIGHLIGHTS International operations is comprised of Universal Machinery Services (UMS), a division of Finning International Inc., and the expenses associated with the corporate head office of Finning International Inc. UMS was established in 1992 and focuses on the growing international used equipment business. UMS has sales operations in Western Canada, the United Kingdom and the southeastern United States. Through these locations, UMS covers the international used equipment market. This division sells both used equipment and used parts, primarily Caterpillar, around the world.

FINANCIAL REVIEW

UMS revenue for 1998 totalled $152 million, an increase of 50% compared with $101 million the prior year. Equipment revenue was $140 million, an increase of 48% over 1997. In the U.K., sales increased by $27 million, primarily as a result of the acquisition of H. Leverton in late 1997. In the U.S., UMS sold a large fleet of pipelayers in June 1998 that were previously held in joint venture with a U.S.-based Caterpillar dealer. Total unit deliveries in 1998 improved 83% from last year, partly due to the H. Leverton acquisition and the pipelayer fleet sale. Parts revenue continued to increase to $11 million, a 67% increase year-over-year, reflecting additional resources and internet trading of used parts.

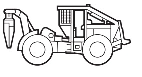
The profit generated by UMS was more than offset by the expenses associated with the corporate head office and showed a loss of $2.8 million in 1998 compared with net income of $2.4 million in the prior year. Net income in 1998 included a $3.2 million after-tax operating charge on aged inventory provided for in the first quarter of 1998.

The majority of UMS' sales in 1998 were to customers in the United States, Europe, Mexico and South America. UMS continues to lead the used equipment business in sales of large crawler tractors, wheel loaders and off-highway trucks. Large construction and mining packages were sourced from Southeast Asia in 1998. In particular, there was an increase in the supply of low-hour used construction equipment from Southeast Asia into the global marketplace as that region of the world suffered a rapid slowdown in activity in 1998.

UMS added two more Caterpillar dealers to its agency and dealer arrangements during 1998. Currently, 50% of UMS inventory is held jointly with other dealers through these commercial marketing agreements. Although a flat market trend is forecast for 1999, higher revenue and profitability is expected from UMS as the operation expands its sales force in 1999.

INTERNATIONAL REVENUE/NET INCOME/EARNINGS PER SHARE

($ THOUSANDS)	1998		1997	
Revenue	$ 151,979		$ 101,214	
Net income (loss)	$ (2,775)	$ (0.03)	$ 2,382	$ 0.03
Non-recurring items	—	—	—	—
Adjusted net income (loss)	$ (2,775)	$ (0.03)	$ 2,382	$ 0.03



CAT GRAPPLE SKIDDER

LIQUIDITY AND CAPITAL RESOURCES

Finning management assesses liquidity in terms of its ability to generate sufficient cash flow to fund its operations. Net cash flow is affected by: (1) operating activities, including the level of accounts receivable, inventories, accounts payable and financing provided to customers; (2) investing activities, including acquisitions of complementary businesses, capital expenditure and dividend levels; and (3) external financing, including bank credit lines, commercial paper and other capital market activities, providing both short and long-term financing.

Cash flow from operations, before changes in operating assets and liabilities, was $226 million in 1998 compared with $317 million in 1997. The decrease from 1997 was primarily a result of weaker earnings in all operations.

Cash generated from operating activities was positive $71 million compared with negative $47 million in 1997. Cash flow from operations was offset by increased inventories to meet delivery and customer rental requirements, a lower level of accounts payable and income taxes payable, and cash used to expand lease and rental-purchase financing activities in Finning (Canada).

Cash used in investing activities totalled $34 million, representing net capital expenditures of $34 million compared with $36 million in 1997.

In Canada, total capital expenditures were $29 million. The new branch facility in Surrey, B.C., the Edmonton head office building renovations and the Edmonton parts distribution centre expansion accounted for over 50% of 1998 capital expenditures, with the balance being spent on vehicles, shop tools and equipment. The gross expenditures were offset by proceeds on disposal of $7.8 million, which represents the sale of two major properties in Langley and Vancouver, as the Company continues to manage its property usage.

In the U.K., total capital expenditures were $6.8 million and included the acquisition of the Glasgow branch premises, replacing the property sold in 1996. During 1998, there was a restriction on capital expenditures due to the adverse trading conditions. The gross expenditures were offset by proceeds on disposal of $1.3 million related to the sale of fixed assets from the Company's Polish operations, which were sold in February of 1998.

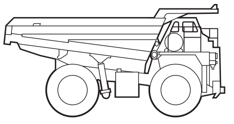
In Chile, total capital expenditures were $8.1 million and included the acquisition of land for the future component rebuild centre in Antofagasta scheduled for construction in 1999. Offsetting the expenditures were proceeds on disposal of $1.7 million as Finning Chile sold its vehicle fleet in late 1998 and will begin leasing vehicles in 1999.

After providing for these changes in cash flow, short-term debt decreased by $9 million in 1998 to $609 million.

Finning accesses the term debt and short-term debt markets to meet its liquidity and financing needs. At December 31, 1998, consolidated term debt was $523 million compared with $521 million at the end of 1997, which included both fixed and floating rate debt. Total fixed-rate term debt at December 31, 1998 was comprised of: a £25.0 million loan ($64 million) at 7.675%, maturing on May 8, 2002; Series A Senior Debentures of $75 million at 8.35%, maturing on March 22, 2004; and Series B Senior Debentures of $75 million at 6.6%, maturing on December 8, 2006. Term debt, which provides funding stability, accounted for 46.2% of total debt outstanding at the end of 1998 compared with 45.8% at the end of 1997.

Canadian Bond Rating Service (CBRS) and Dominion Bond Rating Service (DBRS) both rate the Company's term debt A (low); the Company's commercial paper is rated A-1 and R-1 (low), respectively. The term debt ratings were reaffirmed in the past year with the filing of a shelf prospectus for a $300 million Medium Term Note Program in 1998. The short-term ratings were also reaffirmed in 1998 with the increase of Finning's commercial paper program from $150 million to $300 million in August 1998. On February 15, 1999, DBRS placed its rating of Finning "under review" with negative implications.

Finning also has committed and uncommitted bank facilities available to meet liquidity requirements. Management believes that the sources of funds available to Finning are adequate to meet the operating requirements of the Company.



CAT OFF-HIGHWAY TRUCK

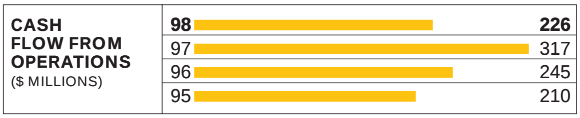
BALANCE SHEET LEVERAGE

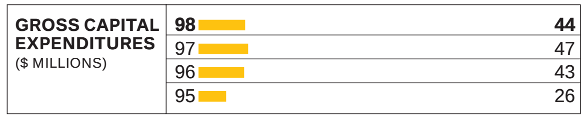
Finning's balance sheet is comprised of three major components, namely its operating, finance and rental activities. Each of these major business segments has a different risk profile. Accordingly, Finning applies a different capital structure and leverage to each business segment.

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

The following table provides Finning's capital structure on a segregated basis.

($ THOUSANDS)	OPERATIONS	RENTAL	FINANCE	CONSOLIDATED
1998				
Assets	$1,543,948	$ 268,033	$ 417,620	$2,229,601
LIABILITIES & SHAREHOLDERS' EQUITY				
Short-term debt and term debt	$ 563,579	$ 212,781	$ 355,775	$1,132,135
Deferred income taxes	(12,168)	12,696	11,020	11,548
Other liabilities	409,003	—	—	409,003
	960,414	225,477	366,795	1,552,686
Shareholders' equity	583,534	42,556	50,825	676,915
	$1,543,948	$ 268,033	$ 417,620	$2,229,601
Debt to equity ratio	0.97:1	5.0:1	7.0:1	1.67:1
1997				
Assets	$1,613,775	$ 222,848	$ 515,254	$2,351,877
LIABILITIES & SHAREHOLDERS' EQUITY				
Short-term debt and term debt	$ 530,114	$ 175,842	$ 433,265	$1,139,221
Deferred income taxes	3,670	11,838	20,094	35,602
Other liabilities	489,875	—	—	489,875
	1,023,659	187,680	453,359	1,664,698
Shareholders' equity	590,116	35,168	61,895	687,179
	$1,613,775	$ 222,848	$ 515,254	$2,351,877
Debt to equity ratio	0.90:1	5.0:1	7.0:1	1.66:1





OPERATING ACTIVITIES

Finning's debt to equity ratio for its operating activities (excluding finance and rental activities) increased to 0.97:1 from 0.90:1. The increase in the debt to equity ratio was primarily due to an increase in short-term debt related to higher inventory levels and to a lower level of equity. Finning's objective is to maintain a leverage ratio for its operating activities below 1:1.

Finning manages its leverage through balance sheet management rather than equity issuance. The debt to equity ratio of operations is managed through receivables collection, inventory turnover and strong earnings and efficiencies throughout the Company.

FINANCE ACTIVITIES

At December 31, 1998 the portfolio of finance assets totalled $418 million compared with $515 million at December 31, 1997. During 1998, Finning (Canada) sold $122 million of its finance assets to Caterpillar Finance as part of the strategy to manage leverage through balance sheet management.

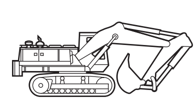
Finning (Canada) was the only operation with significant financing activity in 1998. Finning (Canada) offers fixed and floating rate financing to its customers. At December 31, 1998, approximately 29% of the finance portfolio was at fixed rates compared with approximately 27% at the end of 1997.

Finning has a policy of arranging its financing so that the fixed rate financing offered to its customers is matched by fixed rate borrowings. As well, the portfolio is matched on currency and term. Finning enters into swap agreements, which fix the effective interest rate and currency of the borrowing. This is an effective and flexible method of matching fixed rate terms provided to customers with fixed rate debt obligations.

At December 31, 1998, Finning had interest rate swap agreements which fixed the semi-annual interest rate on $73 million compared with $89 million of borrowings at the end of 1997, at a weighted average rate of 5.60% compared with 6.06% at the end of 1997. There were swap agreements outstanding at December 31, 1998 for $44 million, down from $51 million at the end of 1997. These agreements extend beyond one year for varying periods up to January 2002, at an average interest rate of 5.47% compared with 5.92% at the end of 1997.

RENTAL ACTIVITIES

At December 31, 1998, Finning had rental assets of $268 million compared with $223 million at the end of 1997. The rental business provides customers with the freedom to utilize reliable equipment on a "needs-only basis" to maximize return without the risks inherent in longer-term capital investment. The majority of the increase in rental assets during the year was in Finning (Canada) which increased its new Caterpillar, materials handling and power systems fleets.



CAT HYDRAULIC EXCAVATOR

SHARE CAPITAL

The Company's share capital is comprised of both preferred and common shares. The preferred shares outstanding at December 31, 1998 amounted to $1.0 million compared with $1.2 million at the end of 1997 and are convertible into common shares at a conversion rate of $6.3675 per common share.

During 1998, a total of 310,656 common shares were issued on the exercise of stock options and 26,611 common shares were issued on the conversion of 16,950 preferred shares. The number of stock options outstanding at December 31, 1998 totalled 5,141,673 at exercise prices from $5.49 to $17.00.

Finning has an employee common share purchase plan for its Canadian employees. Under the terms of this plan, eligible employees may purchase common shares of the Company in the open market at market value. Finning pays a portion of the purchase price to a maximum of 2% of employee earnings. The plan may be cancelled by Finning at any time. At December 31, 1998, 59% of employees were participating in this plan compared with 63% at the end of 1997.

FINANCIAL DERIVATIVES

Finning uses various financial instruments such as interest rate swaps as hedges against actual assets or liabilities. For example, Finning hedges the finance portfolio with funding of similar rates and terms. Derivative financial instruments are always associated with a related risk position. Finning continually evaluates and manages risks associated with financial derivatives. This includes counterparty credit exposure. Finning manages its credit exposure by ensuring there is no substantial concentration of credit risk with a single counterparty, and by dealing only with Canadian and international institutions with high credit ratings.

FINANCIAL RISKS AND UNCERTAINTIES

Finning's financial performance is subject to two direct sources of currency exchange risk. The first source of currency exchange risk relates to fluctuations in the purchase price of inventory. Canada and Chile source the majority of their product from the United States and, as a consequence, exchange rate movements affect the transaction price for most equipment and parts. Finning is generally able to manage this risk through adjustments in the pricing of its product sales.

The second source of exchange risk relates to the fact that Finning's U.K. and Chilean operations are recorded in the Company's financial statements in Canadian dollars, while those operations conduct business primarily in British pounds in the U.K., and Chilean pesos and U.S. dollars in Chile. Changes in the British pound, Chilean peso and U.S. dollar to Canadian dollar exchange rate directly affect the financial performance in Canadian dollars of Finning's U.K. and Chilean operations.

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

YEAR 2000 ISSUE

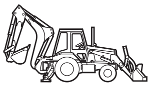
The "Year 2000 Issue" is a general term used to refer to certain business implications of the arrival of the new millennium. In simple terms, these implications arise largely because it has been normal practice for computer hardware and software to use only two digits rather than four to record the year in date fields. On January 1, 2000, when the year is designated as "00", many computer systems could either fail completely or create erroneous data as a result of misinterpretation of the year.

Finning has been planning for the year 2000 since the mid-to-late eighties when it changed all its databases and converted its mainframe systems in Canada and the U.K. to allow for the year 2000. The core systems in all three dealerships have now been replaced by Caterpillar's Dealer Business System version 2.0, which is year 2000 compliant. Third party software components of our core systems, such as the payroll and general ledger packages, are all year 2000 compliant. All future software developed in-house and acquired externally will be year 2000 compliant. Finning is constantly verifying that information technology hardware purchased, such as network servers, is year 2000 compliant. The information systems department has acquired specific software that scans all applications running on PC's in use at Finning in order to verify the year 2000 compliance of the software. Finning has also entered into a PC leasing agreement that will see all older, potentially non-compliant hardware replaced well before the end of the year.

Finning's core systems and its information systems strategy are closely linked with those of Caterpillar, which is taking the actions necessary to ensure its products and services will continue to operate on and after January 1, 2000. Caterpillar's deadline to have all products and services ready for the year 2000 is March 31, 1999. Finning has undertaken a program to address the Year 2000 Issue beyond its information technology department. The program involves all key service providers.

In 1998, Finning engaged Arthur Andersen LLP to conduct a full review of the year 2000 project status. The project's scope covered Canada, the U.K. and Chile. The review began in February 1998 and was completed by mid-year. Finning has already acted on the recommendations of this review. A simulation test of the year 2000 was performed on the AS/400-based systems in 1998. The test was successful and Finning intends to test all systems again before the end of 1999. A special year 2000 committee has been assigned the responsibility of assessing contingency needs in the first half of 1999. Contingency preparations resulting from the committee's recommendations will occur in the second half of 1999.

The financial impact of making further system changes is not expected to be material to Finning's financial position or results of operations.



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 29, 1999.

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

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

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

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

R.T. Mahler
EXECUTIVE VICE PRESIDENT AND CHIEF FINANCIAL OFFICER
JANUARY 29, 1999, VANCOUVER, BC, CANADA

AUDITORS' REPORT

To the Shareholders of Finning International Inc.:

We have audited the consolidated balance sheets of Finning International Inc. (a Canadian corporation) as at December 31, 1998 and 1997 and the consolidated statements of income and retained earnings and cash flow for the years then ended. These Consolidated Financial Statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these Consolidated Financial Statements based on our audits.

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

In our opinion, these Consolidated Financial Statements present fairly, in all material respects, the financial position of the Company as at December 31, 1998 and 1997 and the results of its operations and changes in its financial position for the years then ended in accordance with generally accepted accounting principles.

Arthur Andersen & Co.

Arthur Andersen LLP
CHARTERED ACCOUNTANTS
JANUARY 29, 1999, VANCOUVER, BC, CANADA

CONSOLIDATED
BALANCE SHEETS **(NOTE 1)**

AS AT DECEMBER 31 ($ THOUSANDS)	1998	1997
ASSETS		
Accounts receivable	$ 400,208	$ 478,588
INVENTORIES		
On-hand equipment	554,704	553,179
Rental equipment **(NOTE 2)**	268,033	222,848
Parts and supplies	276,407	283,734
	1,099,144	1,059,761
FINANCE ASSETS		
Instalment notes receivable **(NOTES 3 AND 9)**	99,930	201,721
Equipment leased to customers **(NOTE 4)**	317,690	313,533
	417,620	515,254
Land, buildings and equipment **(NOTE 5)**	236,066	219,507
Goodwill **(NOTE 6)**	76,563	78,767
	$2,229,601	$2,351,877
LIABILITIES AND SHAREHOLDERS' EQUITY		
Short-term debt **(NOTES 7 AND 9)**	$ 608,974	$ 618,018
Accounts payable and accruals	421,326	460,099
Income taxes payable	(12,323)	29,776
Term debt **(NOTES 8 AND 9)**	523,161	521,203
Deferred income taxes	11,548	35,602
Total liabilities	1,552,686	1,664,698
SHAREHOLDERS' EQUITY		
Share capital **(NOTE 10)**	208,579	205,591
Retained earnings	458,366	471,116
Cumulative currency translation adjustments **(NOTE 11)**	9,970	10,472
Total shareholders' equity	676,915	687,179
	$2,229,601	$2,351,877

Approved by the Directors:

J.F. Shepard
DIRECTOR

W.R. Wyman
DIRECTOR

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

CONSOLIDATED STATEMENTS OF INCOME AND RETAINED EARNINGS

FOR THE YEARS ENDED DECEMBER 31 ($ THOUSANDS EXCEPT PER SHARE AMOUNTS)	1998	1997
REVENUE		
New equipment	$ 1,186,744	$ 1,115,203
Used equipment	442,473	309,014
Equipment rental	133,667	104,347
Customer support services	783,445	743,749
Finance and other	39,092	54,751
Total revenue	2,585,421	2,327,064
Cost of sales	2,004,358	1,718,229
Gross profit	581,063	608,835
Selling, general and administrative	498,334	392,210
Earnings before interest and taxes	82,729	216,625
Finance cost and interest on other indebtedness **(NOTES 7 AND 8)**	75,179	67,274
Income before provision for income taxes	7,550	149,351
Provision for income taxes **(NOTE 13)**	4,365	45,656
Net income	3,185	103,695
Dividends on preferred shares	67	50
Earnings attributable to common shares	3,118	103,645
Retained earnings, beginning of year	471,116	383,232
	474,234	486,877
Dividends on common shares	15,868	15,761
Retained earnings, end of year	$ 458,366	$ 471,116
EARNINGS PER SHARE (NOTE 14)		
Basic	$ 0.04	$ 1.32
Fully diluted	$ 0.04	$ 1.27
Average number of common shares outstanding **(NOTE 14)**	79,328,826	78,809,441

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

CONSOLIDATED STATEMENTS OF CASH FLOW

FOR THE YEARS ENDED DECEMBER 31 ($ THOUSANDS)	1998	1997
OPERATING ACTIVITIES		
Net income	$ 3,185	$ 103,695
Add (deduct) items not affecting cash:		
Depreciation	189,627	197,533
Amortization of goodwill	2,204	1,586
Deferred income taxes	(13,163)	(7,357)
Equipment/parts provisions	33,756	14,838
Restructuring charges	13,436	—
Warranty reserves	(3,615)	9,911
Other items	738	(3,475)
	226,168	316,731
CHANGES IN OPERATING ASSETS AND LIABILITIES		
Accounts receivable	86,469	(107,564)
Inventories:		
On-hand equipment	(5,659)	(114,137)
Rental equipment	(113,039)	(142,716)
Parts and supplies	194	(84,756)
Finance assets:		
Instalment notes receivable	101,348	58,751
Equipment leased to customers, net of disposals	(95,349)	(104,240)
Accounts payable and accruals	(74,567)	109,982
Income taxes payable	(54,277)	21,390
Cash provided by (used for) operating activities	71,288	(46,559)
INVESTING ACTIVITIES		
Acquisition of subsidiary companies **(NOTE 15)**	—	(51,481)
Add: short-term debt assumed, net of cash acquired	—	(85,726)
Cash invested in land, buildings and equipment, net of disposals	(33,868)	(35,615)
Cash used for investing activities	(33,868)	(172,822)
FINANCING ACTIVITIES		
Proceeds from increase in term debt	58,172	47,010
Payments on term debt	(68,158)	(1,415)
Conversion and redemption of preferred shares	(170)	(315)
Issue of common shares on conversion of preferred shares and exercise of stock options	3,158	4,335
Dividends paid	(15,935)	(15,811)
Currency translation adjustments	(5,443)	(12,479)
Cash provided by (used for) financing activities	(28,376)	21,325
Decrease (increase) in short-term debt	9,044	(198,056)
Short-term debt at beginning of year	618,018	419,962
Short-term debt at end of year	$ 608,974	$ 618,018
CASH PAID DURING THE YEAR FOR		
Interest	$ 70,027	$ 58,933

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 1998 AND 1997 ($ THOUSANDS, EXCEPT THE NUMBER OF SHARES AND PER SHARE AMOUNTS)

[1] SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

PRINCIPLES OF CONSOLIDATION The Consolidated Financial Statements include the accounts of the Company and its wholly owned subsidiaries. Principal operating subsidiaries include Finning (UK) Ltd. and Finning Chile S.A.

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

Account balances denominated in foreign currencies are translated into Canadian dollars as follows: (1) Monetary assets and liabilities at exchange rates in effect at the balance sheet dates; non-monetary items at historical exchange rates; (2) Exchange gains and losses are included in income except where monetary liabilities are considered to be hedges, in which case they are deferred and accounted for in conjunction with the hedged asset.

Financial statements of self-sustaining foreign operations are translated into Canadian dollars as follows: (1) Assets and liabilities using the exchange rates in effect at the balance sheet dates; (2) Revenue and expense items at approximate exchange rates prevailing at the time the transactions occurred; (3) Unrealized translation gains and losses are deferred and included as a separate component of shareholders' equity. These cumulative currency translation adjustments are recognized in income when there has been a reduction in the net investment in the self-sustaining foreign operation; (4) The Company has hedged its operations in its foreign subsidiaries by borrowing funds in foreign currency. Exchange gains or losses are accounted for in the cumulative currency translation adjustments.

INVENTORIES Inventories are stated at the lower of cost and net realizable value. Cost is determined on a specific item, actual cost basis for both on-hand and rental equipment. For parts and supplies, approximately 59% is recorded on a first-in, first-out basis and the remainder on an average cost basis. Rental equipment inventories are depreciated to the estimated residual value of each unit based on usage.

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.

LAND, BUILDINGS AND EQUIPMENT Land, buildings and equipment are recorded at cost, net of accumulated depreciation. Buildings and equipment are depreciated over their estimated useful lives on a declining balance basis using the following annual rates:

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

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

PENSION COSTS The Company and its subsidiaries have defined benefit and defined contribution pension plans. For defined benefit pension plans, the cost of pension benefits is based on reports prepared by independent actuaries every two years in the U.K. and three years in Canada, using management's best estimate assumptions and a projected benefit method prorated on services. Adjustments arising from plan amendments, changes in assumptions and experience gains or losses are amortized on a straight line basis over the expected average remaining service life of the employee groups covered by the plans. For defined contribution plans, the cost of pension benefits is a fixed percentage of member earnings for the year.

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

INCOME TAXES The Company follows the deferral method of applying the tax allocation basis of accounting for income taxes.

PRIOR YEAR COMPARATIVES Certain prior year amounts have been reclassified to conform with the 1998 presentation.

[2] RENTAL EQUIPMENT

	1998	1997
Rental equipment	$ 387,723	$ 337,016
Less accumulated depreciation	(119,690)	(114,168)
	$ 268,033	$ 222,848

Depreciation of rental equipment for the year ended December 31, 1998 was $70,659 (1997: $60,750).

[3] INSTALMENT NOTES RECEIVABLE

Instalment notes receivable are recorded net of unearned finance charges and include $47,505 due after one year (1997: $87,031).

[4] EQUIPMENT LEASED TO CUSTOMERS

	1998	1997
Cost	$ 442,620	$ 434,045
Less accumulated depreciation	(124,930)	(120,512)
	$ 317,690	$ 313,533

Depreciation of equipment leased to customers for the year ended December 31, 1998 was $91,177 (1997: $113,338).

[5] LAND, BUILDINGS AND EQUIPMENT

	1998	1997
Land	$ 54,090	$ 51,124
Buildings and equipment	368,266	337,106
Less accumulated depreciation	(186,290)	(168,723)
	181,976	168,383
	$ 236,066	$ 219,507

Depreciation of buildings and equipment for the year ended December 31, 1998 was $27,791 (1997: $23,445).

[6] GOODWILL

	1998	1997
Purchased goodwill	$ 88,619	$ 54,628
PURCHASED DURING THE YEAR:		
H. Leverton Limited	—	33,428
Interior Lift Truck	—	563
	—	33,991
	88,619	88,619
Accumulated amortization	(12,056)	(9,852)
	$ 76,563	$ 78,767

[7] SHORT-TERM DEBT

	1998	1997
Loans	$ 214,008	$ 278,389
Commercial paper and bankers' acceptances	394,966	339,629
	$ 608,974	$ 618,018

The Company has entered into interest rate swap agreements which fix the semi-annual interest rate on $73,213 (1997: $89,070) of debt at a weighted average interest rate of 5.60% (1997: 6.06%). Agreements for $44,360 (1997: $50,463) extend beyond one year for varying periods up to January 2002 at an average interest rate of 5.47% (1997: 5.92%).

[8] TERM DEBT

	1998	1997
Fixed rate loan at 7.675%, maturing May 8, 2002, of £25,000 (unsecured)	$ 63,620	$ 58,680
Floating rate loan bearing a semi-annual interest rate of 7.63% at December 31, 1998 (1997: 8.52%), maturing June 22, 2000, of £25,000 (unsecured)	63,620	58,680
Floating rate loan bearing a quarterly interest rate of 7.305% at December 31, 1998, maturing May 25, 2003, of £15,000 (unsecured)	38,172	—
Series A Senior Debentures at 8.35% with interest payable semi-annually, maturing March 22, 2004 (unsecured)	75,000	75,000
Series B Senior Debentures at 6.60% with interest payable semi-annually, maturing December 8, 2006 (unsecured)	75,000	75,000
Term bank loans bearing interest at floating rates which at December 31, 1998 averaged 5.48% (1997: 4.65%). These loans are repayable May 31, 2001 and December 31, 2002 (unsecured)	134,649	179,859
Other loans denominated in U.S. dollars and Chilean pesos, maturing between 1999 and 2004 (unsecured)	73,100	73,984
	$ 523,161	$ 521,203
Term loans due within one year	$ 1,071	$ 6,362

Interest expense in 1998, on indebtedness incurred for a period greater than one year, was $38,795 (1997: $28,845).

Estimated principal repayments for the next five years are:

1999	$ 1,071
2000	113,185
2001	71,476
2002	142,331
2003	41,883

[9] FINANCIAL INSTRUMENTS

The following table reflects the carrying value and estimated fair value of the Company's financial instruments:

	1998		1997	
	BOOK VALUE	MARKET VALUE	BOOK VALUE	MARKET VALUE
FINANCIAL INSTRUMENTS:				
Notes receivable	$ 99,930	$ 99,983	$ 201,721	$ 202,958
Short-term debt and term debt	$1,132,135	$1,142,856	$1,139,221	$1,153,390

	1998		1997	
	NOTIONAL VALUE	MARKET VALUE	NOTIONAL VALUE	MARKET VALUE
OFF BALANCE SHEET HEDGES:				
Interest rate swaps	$ 73,213	$ 73,770	$ 89,070	$ 90,269
Forward exchange contracts	$ 22,655	$ 22,527	$ 20,767	$ 20,435

Financial instruments that subject the Company to credit risk are notes receivable, short-term and term debt, and hedges such as interest rate swaps and forward exchange contracts. At the balance sheet dates there were no significant concentrations of credit risk from exposure to single debtors. The Company's hedges are contracted with high quality financial institutions as counter-parties and, as a result, concentration of risk exposure is limited.

[10] SHARE CAPITAL

AUTHORIZED

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

		1998	1997
ISSUED AND OUTSTANDING			
99,600	Preferred shares, Series E (1997: 116,550)	$ 996	$ 1,166
79,427,879	Common shares (1997: 79,090,612)	207,583	204,425
		$ 208,579	$ 205,591

CHANGES DURING 1997 At the Company's annual meeting in April 1997, the shareholders approved the subdivision of the Company's common shares on a two-for-one basis.

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

The plan provides that one share purchase right has been issued for each common share and will trade with the common shares until such time as any person or group, other than a permitted bidder, bids to acquire or acquires 20% or more of the Company's common shares. The rights will then separate and will ultimately entitle each holder of common shares (other than the bidder) to purchase common shares of the Company at a 50% discount to the then market price. The rights may also be triggered by a third party proposal for merger, amalgamation or a similar transaction. The rights will expire on September 13, 1999 unless redeemed earlier by the Board of Directors.

The plan will not be triggered if a bid meets certain criteria (a permitted bidder). These criteria include that: (1) the offer is made for all outstanding voting shares of the Company; (2) more than 50% of the voting shares have been tendered by independent shareholders pursuant to the Takeover Bid (voting shares tendered may be withdrawn until taken up and paid for); and (3) the Takeover Bid expires not less than 75 days after the date of the bid circular.

A summary of the changes in common shares are as follows:

	1998		1997	
	SHARES	AMOUNT	SHARES	AMOUNT
Balance, beginning of year	79,090,612	$ 204,425	78,546,950	$ 200,090
Conversion of 16,950 Series E (1997: 31,450) preferred shares	26,611	170	49,370	315
Exercise of stock options	310,656	2,988	494,292	4,020
Balance, end of year	79,427,879	$ 207,583	79,090,612	$ 204,425

During 1997, the Company acquired 82,828 common shares in the open market for cash consideration of $1,325 that were subsequently cancelled. The Company reissued 82,828 common shares valued at $1,325 for the acquisition of the Interior Lift Truck group of companies (Note 15).

PREFERRED SHARES

SERIES E PREFERRED SHARES These preferred shares were issued under terms of an employee and director share purchase plan and are redeemable by the Company at its option or retractable at the option of the holder at the issue price.

The cumulative preferential cash dividends on the preferred shares are payable quarterly based on the prime interest rate of a specified Canadian chartered bank. The applicable rate for the preferred shares, and price at which the preferred shares are convertible into common shares, is as follows:

	DIVIDEND RATE AS A % OF THE PRIME INTEREST RATE	CONVERSION PRICE
Series E	80% of prime	$ 6.3675

In 1999, the conversion rights of the preferred shares will expire.

STOCK OPTIONS

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

	SHARES	OPTION PRICE
1998		
Options outstanding, beginning of year	4,124,890	$ 5.49 to $15.17
Issued	1,327,439	$17.00
Exercised	(310,656)	$ 6.63 to $15.17
Options outstanding, end of year	5,141,673	$ 5.49 to $17.00

A total of 2,943,211 options were exercisable at December 31, 1998 with the remaining options outstanding exercisable at various times to February 2, 2008.

[11] CUMULATIVE CURRENCY TRANSLATION ADJUSTMENTS

	1998	1997
Balance, beginning of year	$ 10,472	$ 11,277
Gain realized during the year	(2,701)	(1,888)
Translation adjustments for the year	2,199	1,083
Balance, end of year	$ 9,970	$ 10,472

Translation gains or losses on the consolidation of foreign subsidiaries financial statements are accumulated in this account. Translation adjustments arise as a result of fluctuations in foreign currency exchange rates. At December 31, 1998, 1997 and 1996, the Canadian dollar exchange rates against the British pound were 2.5448, 2.3472 and 2.3454, respectively, and the Chilean peso exchange rates against the Canadian dollar were 308, 299 and 310, respectively.

During 1998, a dividend of £10,000 (1997: £10,000) was paid from Finning Holdings Limited (U.K.) to the Company which generated a foreign exchange gain of $2,701 (1997: $1,888).

[12] PENSION PLANS

The Company's obligations for pension benefits, under its defined benefit plans at December 31, 1998, were estimated by the plans' actuaries to be $329,299 (1997: $299,875). Pension plan assets at December 31, 1998, on an adjusted market value basis, were $369,118 (1997: $335,919).

[13] PROVISION FOR INCOME TAXES

	1998	1997
Current	$ 17,528	$ 53,013
Deferred	(13,163)	(7,357)
Provision for income taxes	$ 4,365	$ 45,656

The Company's provision for income taxes is determined as follows:

	1998	1997
Combined federal and provincial income tax rates	43.73%	43.59%
Provision for income taxes based on the combined federal and provincial rates	$ 3,302	$ 65,102
Increase (decrease) in provision for income taxes resulting from:		
Lower effective rates on the losses (earnings) of foreign subsidiaries	3,321	(12,210)
Benefit of unrecognized tax loss carryforward of foreign subsidiary	(514)	(2,930)
Amortization of goodwill and increase in assigned asset value	760	755
Large corporation tax	1,530	1,108
Income not subject to tax	(1,421)	(3,237)
Other items	(2,613)	(2,932)
Provision for income taxes	$ 4,365	$ 45,656

The Company's subsidiary, Finning Chile S.A., has a tax loss carryforward of $103,000 (1997: $111,000), denominated in local currency, available to offset future taxable income. This loss was acquired on acquisition of the company in August 1993. These losses are indexed to Chile's inflation rate which was 4.5% in 1998 and have no expiry date.

[14] EARNINGS PER SHARE

Earnings per share has been calculated using the weighted average number of common shares outstanding during each year. Fully diluted earnings per share has been calculated on the assumption that all the outstanding preferred shares were converted and all outstanding stock options were exercised at the beginning of the year.

[15] ACQUISITIONS

During 1997, the Company made the following acquisitions:

(1) Effective October 1, 1997, the Company acquired 100% of the outstanding share capital of H. Leverton Limited, the Caterpillar dealer for the north, east and southeast regions of England. The purchase makes the Company the sole dealer for Caterpillar equipment in Britain. The purchase price was comprised of cash consideration of $26,807 (£12,029) in respect of common shares, the assumption of short-term debt of $86,292 (£38,722), and $22,555 (£10,120) in planned restructuring and acquisition costs.

(2) Effective May 12, 1997, the Company acquired 100% of the outstanding share capital of Interior Lift Truck Services Inc., Interior Lift Truck Services (Vernon) Inc. and Interior Lift Truck Services (Penticton) Inc. The Interior Lift Truck group sells, rents and services materials handling and high-reach equipment, primarily in the Interior of British Columbia. Total consideration was $2,119, comprised of 82,828 shares of the Company valued at $1,325 and cash consideration and acquisition costs totalling $794.

The acquisitions have been accounted for using the purchase method and, accordingly, the purchase price was allocated to the assets and liabilities based on their estimated fair values as of the acquisition date. The excess of the purchase price over the fair value of the net assets acquired has been recorded as goodwill and is being amortized on a straight-line basis over 40 years. The results of operations related to the acquisitions have been included in these Consolidated Financial Statements from the effective date of acquisition.

[15] ACQUISITIONS (CONTINUED)

Net assets acquired at assigned values:

	H. LEVERTON LIMITED	INTERIOR LIFT TRUCK	TOTAL
Accounts receivable	$ 68,907	$ 478	$ 69,385
Inventories	80,641	1,399	82,040
Other assets	865	9	874
Land, buildings and equipment	18,648	337	18,985
	169,061	2,223	171,284
Short-term debt	(86,292)	(299)	(86,591)
Accounts and income taxes payable and accruals	(65,685)	(312)	(65,997)
Deferred income taxes	(1,150)	(2)	(1,152)
Term debt	—	(54)	(54)
	(153,127)	(667)	(153,794)
Net assets acquired at estimated fair value	15,934	1,556	17,490
Goodwill	33,428	563	33,991
Consideration	$ 49,362	$ 2,119	$ 51,481

[16] ECONOMIC RELATIONSHIPS

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

[17] SEGMENTED INFORMATION

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

Operating units serve the following geographic areas: (1) Canadian operations: British Columbia, Alberta, the western part of the Northwest Territories and Yukon; (2) U.K. operations: England, Scotland, Wales and the Channel Islands; (3) Chilean operations: throughout the country; and (4) International operations: this segment represents the sale of used equipment and used parts worldwide and the expenses associated with the corporate head office.

The reportable geographic segments are:

SEGMENT	CANADA	U.K.	CHILE	INTERNATIONAL	SEGMENT ELIMINATIONS	CONSOLIDATED
1998						
Revenue from external sources	$1,136,917	$ 794,356	$ 503,505	$ 151,979	$ (1,336)	$2,585,421
Earnings (loss) before interest and taxes	85,434	(30,429)	25,415	2,309	—	82,729
Finance costs and interest on other indebtedness	35,194	12,613	21,991	5,381	—	75,179
Provision for (recovery of) income taxes	15,493	(10,831)	—	(297)	—	4,365
Net income (loss)	$ 34,747	$ (32,211)	$ 3,424	$ (2,775)	$ —	$ 3,185
Identifiable assets	$1,303,092	$ 464,770	$ 354,029	$ 378,661	$ (270,951)	$2,229,601
Capital expenditures	$ 29,332	$ 6,778	$ 8,066	$ —	$ —	$ 44,176
Depreciation and amortization of capital assets and goodwill	$ 147,548	$ 19,471	$ 23,315	$ 1,497	$ —	$ 191,831
1997						
Revenue from external sources	$1,146,406	$ 567,365	$ 514,068	$ 102,942	$ (3,717)	$2,327,064
Earnings before interest and taxes	124,035	47,049	38,695	6,846	—	216,625
Finance costs and interest on other indebtedness	29,317	15,771	19,160	3,026	—	67,274
Provision for income taxes	33,050	11,168	—	1,438	—	45,656
Net income	$ 61,668	$ 20,110	$ 19,535	$ 2,382	$ —	$ 103,695
Identifiable assets	$1,337,637	$ 510,100	$ 386,621	$ 322,844	$ (205,325)	$2,351,877
Capital expenditures	$ 15,250	$ 9,135	$ 22,763	$ —	$ —	$ 47,148
Depreciation and amortization of capital assets and goodwill	$ 153,186	$ 25,257	$ 19,578	$ 1,098	$ —	$ 199,119

[18] YEAR 2000 ISSUE

The "Year 2000 Issue" is a general term used to refer to certain business implications of the arrival of the new millennium. In simple terms, these implications arise largely because it has been normal practice for computer hardware and software to use only two digits rather than four to record the year in date fields. On January 1, 2000, when the year is designated as "00", many computer systems could either fail completely or create erroneous data as a result of misinterpretation of the year.

Finning has been planning for the year 2000 since the mid-to-late eighties. The core systems in all three dealerships have now been replaced by Caterpillar's Dealer Business System version 2.0, which is year 2000 compliant. All future software developed in-house and acquired externally will be year 2000 compliant. A simulation test of the year 2000 was performed on the Company's systems in 1998. The test was successful and Finning intends to re-test all systems before the end of 1999.

While it is not possible to test every aspect of the Year 2000 Issue affecting the Company, such as supplier systems, the Company does not expect this issue to be material to Finning's financial position or results of operations.

TWO YEAR SUMMARY BY QUARTER

FISCAL PERIOD	REVENUE ($ THOUSANDS)	EARNINGS PER COMMON SHARE NET INCOME[1] ($ THOUSANDS)	BASIC ($)	FULLY DILUTED ($)	DIVIDEND ($)	CLOSING STOCK PRICE ($)
1998						
1st quarter	689,156	(7,843)	(0.10)	(0.10)	0.05	15.75
2nd quarter	748,680	20,229	0.25	0.25	0.05	13.40
3rd quarter	582,267	3,659	0.05	0.05	0.05	11.80
4th quarter	565,318	(12,860)	(0.16)	(0.16)	0.05	10.95
	2,585,421	3,185	0.04	0.04	0.20	
1997						
1st quarter	504,355	22,502	0.29	0.28	0.05	15.33
2nd quarter	561,229	23,013	0.29	0.27	0.05	16.30
3rd quarter	554,609	32,701	0.42	0.40	0.05	19.15
4th quarter	706,871	25,479	0.32	0.31	0.05	18.00
	2,327,604	103,695	1.32	1.27	0.20	

[1] In 1997, $13.2 million in non-recurring gains were realized during the year. In 1998, $15.5 million in non-recurring charges were taken during the year.

SEGMENTED INFORMATION

TWELVE MONTHS ENDED DECEMBER 31 ($ THOUSANDS)	1998	1997	1996	1995
REVENUE				
Canadian operations	$ 1,136,917	$ 1,146,406	$ 926,653	$ 923,275
U.K. operations	793,020	565,376	437,949	416,034
Chilean operations	503,505	514,068	408,616	350,650
International operations	151,979	101,214	101,491	62,032
Consolidated	$ 2,585,421	$ 2,327,064	$ 1,874,709	$ 1,751,991
NET INCOME				
Canadian operations	$ 34,747	$ 61,668	$ 40,776	$ 42,509
U.K. operations	(32,211)	20,110	26,308	20,800
Chilean operations	3,424	19,535	17,746	12,849
International operations	(2,775)	2,382	3,354	1,335
Consolidated	$ 3,185	$ 103,695	$ 88,184	$ 77,493

TEN YEAR FINANCIAL SUMMARY

YEARS ENDED DECEMBER 31 ($ THOUSANDS EXCEPT PER SHARE DATA)	1998	1997	1996
REVENUE			
Revenue from Canadian operations	$1,136,917	$1,146,406	$ 926,653
Revenue from U.K. operations	793,020	565,376	437,949
Revenue from Chilean operations	503,505	514,068	408,616
Revenue from International operations	151,979	101,214	101,491
	$2,585,421	$2,327,064	$1,874,709
INCOME BEFORE PROVISION FOR INCOME TAXES	$ 7,550	$ 149,351	$ 128,503
As a percent of revenue	0.3%	6.4%	6.9%
NET INCOME	$ 3,185	$ 103,695	$ 88,184
As a percent of revenue	0.1%	4.5%	4.7%
EARNINGS PER COMMON SHARE			
Basic	$ 0.04	$ 1.32	$ 1.13
Fully diluted	$ 0.04	$ 1.27	$ 1.09
DIVIDENDS			
Total common share	$ 15,868	$ 15,761	$ 15,600
Per common share	$ 0.20	$ 0.20	$ 0.20
COMMON SHARES OUTSTANDING (THOUSANDS)	79,426	79,091	78,547
REVENUE PER EMPLOYEE	$ 492,367	$ 475,570	$ 441,940
NET INCOME PER EMPLOYEE	$ 606	$ 22,119	$ 20,788
RETURN ON AVERAGE SHAREHOLDERS' EQUITY	0.5%	16.2%	16.0%
GROSS CAPITAL EXPENDITURES	$ 44,176	$ 47,148	$ 43,132
CASH FLOW	$ 226,168	$ 316,731	$ 244,909
Cash flow per share	$ 2.85	$ 4.00	$ 3.12
RATIOS			
Asset turnover ratio	1.13	0.99	1.04
Debt to equity	1.67:1	1.66:1	1.50:1
Liabilities to equity	2.29:1	2.37:1	1.97:1
Debt to equity (excluding finance operation)[1]	0.97:1	0.90:1	0.59:1
BOOK VALUE PER COMMON SHARE	$ 8.52	$ 8.69	$ 7.59
COMMON SHARE PRICE			
High	$ 18.50	$ 20.50	$ 14.58
Low	$ 10.25	$ 14.43	$ 9.75
NUMBER OF EMPLOYEES			
Canada	2,494	2,496	2,269
U.K.	1,348	1,720	925
Chile	1,354	1,228	1,008
International	55	50	40
Total	5,251	5,494	4,242

Financial data has been restated to incorporate common share subdivisions occurring during the ten year period and to reflect a retroactive change in accounting for revenue recognition for exchange components implemented in 1992.

[1] Assumes a debt to equity ratio of 7:1 in the finance operation and 5:1 in the rental operation. The debt to equity ratio has been restated to reflect a retroactive change in presenting customer rental-purchase contracts as finance assets implemented in 1996.

1995	1994	1993	1992	1991	1990	1989
$ 923,275	$ 838,680	$ 675,490	$ 553,316	$ 583,542	$ 727,321	$ 542,083
416,034	338,499	258,235	251,909	267,828	319,727	335,371
350,650	241,221	74,464	—	—	—	—
62,032	39,138	34,768	27,512	—	—	—
$1,751,991	$1,457,538	$1,042,957	$ 832,737	$ 851,370	$1,047,048	$ 877,454
$ 119,392	$ 95,488	$ 35,895	$ 1,728	$ 3,139	$ 43,889	$ 67,885
6.8%	6.6%	3.4%	0.2%	0.4%	4.2%	7.7%
$ 77,493	$ 61,421	$ 22,271	$ 2,878	$ 4,612	$ 30,283	$ 42,197
4.4%	4.2%	2.1%	0.3%	0.5%	2.9%	4.8%
$ 1.00	$ 0.80	$ 0.30	$ 0.03	$ 0.05	$ 0.44	$ 0.70
$ 0.98	$ 0.78	$ 0.30	$ 0.03	$ 0.05	$ 0.43	$ 0.68
$ 15,451	$ 9,985	$ 6,592	$ 5,042	$ 6,844	$ 15,286	$ 11,826
$ 0.20	$ 0.13	$ 0.09	$ 0.08	$ 0.10	$ 0.23	$ 0.20
77,442	77,026	76,266	67,370	67,056	66,640	66,196
$ 428,674	$ 374,978	$ 283,875	$ 281,425	$ 260,757	$ 289,480	$ 240,267
$ 18,961	$ 15,802	$ 6,062	$ 973	$ 1,413	$ 8,372	$ 11,554
16.2%	14.8%	6.5%	0.9%	1.4%	9.8%	17.1%
$ 25,812	$ 16,641	$ 13,752	$ 7,025	$ 11,643	$ 26,116	$ 24,516
$ 209,827	$ 176,764	$ 116,371	$ 94,546	$ 102,180	$ 114,467	$ 112,542
$ 2.71	$ 2.30	$ 1.53	$ 1.40	$ 1.52	$ 1.72	$ 1.70
1.09	1.06	0.95	0.86	0.92	1.07	1.19
1.55:1	1.35:1	1.23:1	1.59:1	1.46:1	1.63:1	1.41:1
2.11:1	1.99:1	1.80:1	2.03:1	1.95:1	2.09:1	1.98:1
0.61:1	0.43:1	0.39:1	0.66:1	0.56:1	0.87:1	0.71:1
$ 6.55	$ 5.83	$ 5.00	$ 4.58	$ 4.79	$ 4.79	$ 4.50
$ 11.63	$ 12.06	$ 10.88	$ 7.25	$ 7.82	$ 8.50	$ 7.88
$ 8.63	$ 9.19	$ 5.88	$ 5.25	$ 5.88	$ 5.13	$ 5.00
2,228	2,124	2,025	2,004	2,142	2,531	2,563
884	873	863	930	1,123	1,086	1,089
941	861	759	—	—	—	—
34	29	27	25	—	—	—
4,087	3,887	3,674	2,959	3,265	3,617	3,652

FINANCIAL
PERFORMANCE

EARNINGS PER SHARE ($)	
98	**0.04**
97	1.27
96	1.09
95	0.98

Earnings per share on a fully diluted basis is calculated by dividing net income by the weighted average number of common shares outstanding during the year (assuming that all outstanding preferred shares were converted and all outstanding stock options were exercised at the beginning of the year).

CASH FLOW PER SHARE ($)	
98	**2.85**
97	4.00
96	3.12
95	2.71

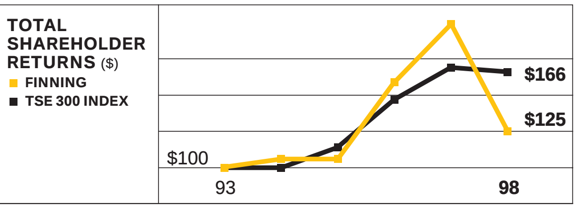
Cash flow per share is calculated by dividing cash generated from operations (excluding changes in operating assets and liabilities) by the total number of shares outstanding at the end of the year. In 1998, cash flow per share decreased by 29% compared with the previous year.

DIVIDENDS PER SHARE ($)	
98	**0.20**
97	0.20
96	0.20
95	0.20

In setting the dividend payment per common share, the Board of Directors considers the Company's recent and projected earnings and capital investment requirements and its total return to shareholders. In 1998, the common dividend was maintained at $0.20 per share for a total annual payout of $16 million.

RETURN ON SHAREHOLDERS' EQUITY ($)	
98	**0.5**
97	16.2
96	16.0
95	16.2

The return on shareholders' equity is calculated by dividing net income by the average shareholders' equity during the year (including share capital, retained earnings and cumulative currency translation adjustments).



The graph above compares the yearly percentage change in the Company's cumulative total return on its common shares (annual stock price change plus dividends) with the cumulative total return of the TSE 300 index. Based on $100 invested in 1993, Finning's cumulative total return over the five-year period was $125 compared with $166 for the TSE 300 index.

SHAREHOLDER INFORMATION

STOCK EXCHANGES

The common shares of Finning International Inc. are listed on both the Toronto and Montreal stock exchanges. (Symbol: FTT)

AUDITORS

Arthur Andersen LLP
Chartered Accountants, Vancouver, BC, Canada

SOLICITORS

Ladner Downs
Barristers and Solicitors, Vancouver, BC, Canada

REGISTRAR AND TRANSFER AGENT

Montreal Trust Company of Canada
510 Burrard Street
Vancouver, BC V6C 3B9
Tel (604) 661-9400

ANNUAL MEETING

The Annual Meeting of the shareholders will be held at 11:00 a.m., April 23, 1999 at The King Edward Hotel in Toronto, Ontario, Canada.

CORPORATE INFORMATION

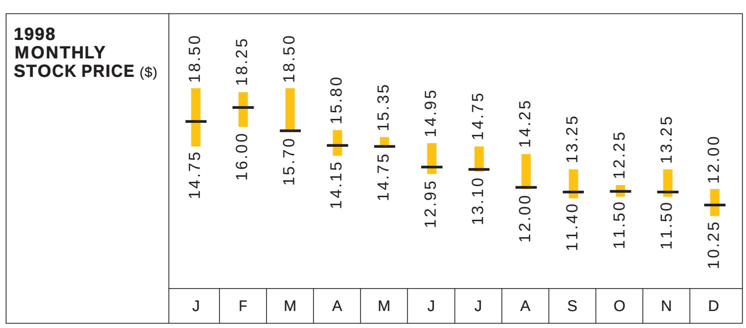
The Company's head office is located at 555 Great Northern Way, Vancouver, BC, Canada, V5T 1E2. The Company prepares an Annual Information Form (AIF) which is filed with the securities commissions or similar bodies in all of the provinces of Canada. Copies of the AIF and Annual and Quarterly Reports are available to shareholders and other interested parties on request or can be accessed directly from Finning's home page on the Internet at: http://www.finning.ca.

INVESTOR RELATIONS

Inquiries relating to shares or dividends should be directed to the Company's Registrar and Transfer Agent. Inquiries relating to the Company's operating activities and financial information should be addressed to:
David Climie
Director, Investor and Corporate Relations
Tel (604) 331-4885, Fax (604) 331-4899
E-mail dclimie@finning.ca

STOCK PERFORMANCE ($)

This graph indicates the high and low closing stock prices for each month in 1998. The black lines indicate the closing price at the end of each month.



DIRECTORS, OFFICERS AND COMMITTEES

BOARD OF DIRECTORS

M.N. Anderson
PRESIDENT
ANDERSON & ASSOCIATES
VANCOUVER, BC

R. Bacarreza
PRESIDENT
PROINVEST S.A.
SANTIAGO, CHILE

J.F. Dinning
EXECUTIVE VICE PRESIDENT
ENERGY MARKETING
TRANSALTA ENERGY CORP.
CALGARY, ALBERTA

R.B. Hougen
PRESIDENT
HOUGEN'S GROUP OF COMPANIES
WHITEHORSE, YUKON

T.S. Howden
COMPANY DIRECTOR
MARLOW, ENGLAND

M.M. Koerner
PRESIDENT
CANADA OVERSEAS
INVESTMENTS LIMITED
TORONTO, ONTARIO

N.B. Lloyd
MANAGING DIRECTOR
FINNING (UK) LTD.
BEDNALL, ENGLAND

D.S. O'Sullivan
PRESIDENT
O'SULLIVAN RESOURCES LTD.
EDMONTON, ALBERTA

C.A. Pinette
PRESIDENT AND
CHIEF OPERATING OFFICER
LIGNUM LIMITED
VANCOUVER, BC

J.F. Shepard
CHAIRMAN AND
CHIEF EXECUTIVE OFFICER
FINNING INTERNATIONAL INC.
VANCOUVER, BC

A.H. Simon
COMPANY DIRECTOR
LONDON, ENGLAND

W.R. Wyman
CHAIRMAN
SUNCOR ENERGY INC.
WEST VANCOUVER, BC

OFFICERS

J.F. Shepard
CHAIRMAN AND
CHIEF EXECUTIVE OFFICER
FINNING INTERNATIONAL INC.

C.A. Cederberg
PRESIDENT AND
CHIEF EXECUTIVE OFFICER
FINNING CHILE S.A.

D.F. Edwards
EXECUTIVE VICE PRESIDENT
STRATEGIC DEVELOPMENT
FINNING INTERNATIONAL INC.

A.R. Guglielmin
CORPORATE TREASURER
FINNING INTERNATIONAL INC.

H.M. Ho
EXECUTIVE VICE PRESIDENT
HUMAN RESOURCES
FINNING INTERNATIONAL INC.

N.B. Lloyd
MANAGING DIRECTOR
FINNING (UK) LTD.

R.T. Mahler
EXECUTIVE VICE PRESIDENT
AND CHIEF FINANCIAL OFFICER
FINNING INTERNATIONAL INC.

I.M. Reid
PRESIDENT AND
CHIEF OPERATING OFFICER
FINNING (CANADA)

J.T. Struthers
CORPORATE SECRETARY
FINNING INTERNATIONAL INC.

D.W.G. Whitehead
PRESIDENT AND
CHIEF OPERATING OFFICER
FINNING INTERNATIONAL INC.

AUDIT COMMITTEE

M.M. Koerner
CHAIRMAN

J.F. Dinning

R.B. Hougen

T.S. Howden

C.A. Pinette

W.R. Wyman

ENVIRONMENTAL, HEALTH AND SAFETY COMMITTEE

D.S. O'Sullivan
CHAIRMAN

T.S. Howden

C.A. Pinette

J.F. Shepard

PENSION COMMITTEE

H.M. Ho
CHAIRMAN

A.R. Guglielmin

R.T. Mahler

GOVERNANCE COMMITTEE

C.A. Pinette
CHAIRMAN

M.N. Anderson

M.M. Koerner

D.S. O'Sullivan

HUMAN RESOURCES AND COMPENSATION COMMITTEE

M.N. Anderson
CHAIRMAN

D.S. O'Sullivan

J.F. Shepard

W.R. Wyman

DESIGN: SAMATAMASON **PHOTOGRAPHY:** JAMES LABOUNTY **PRINTING:** H MACDONALD PRINTING

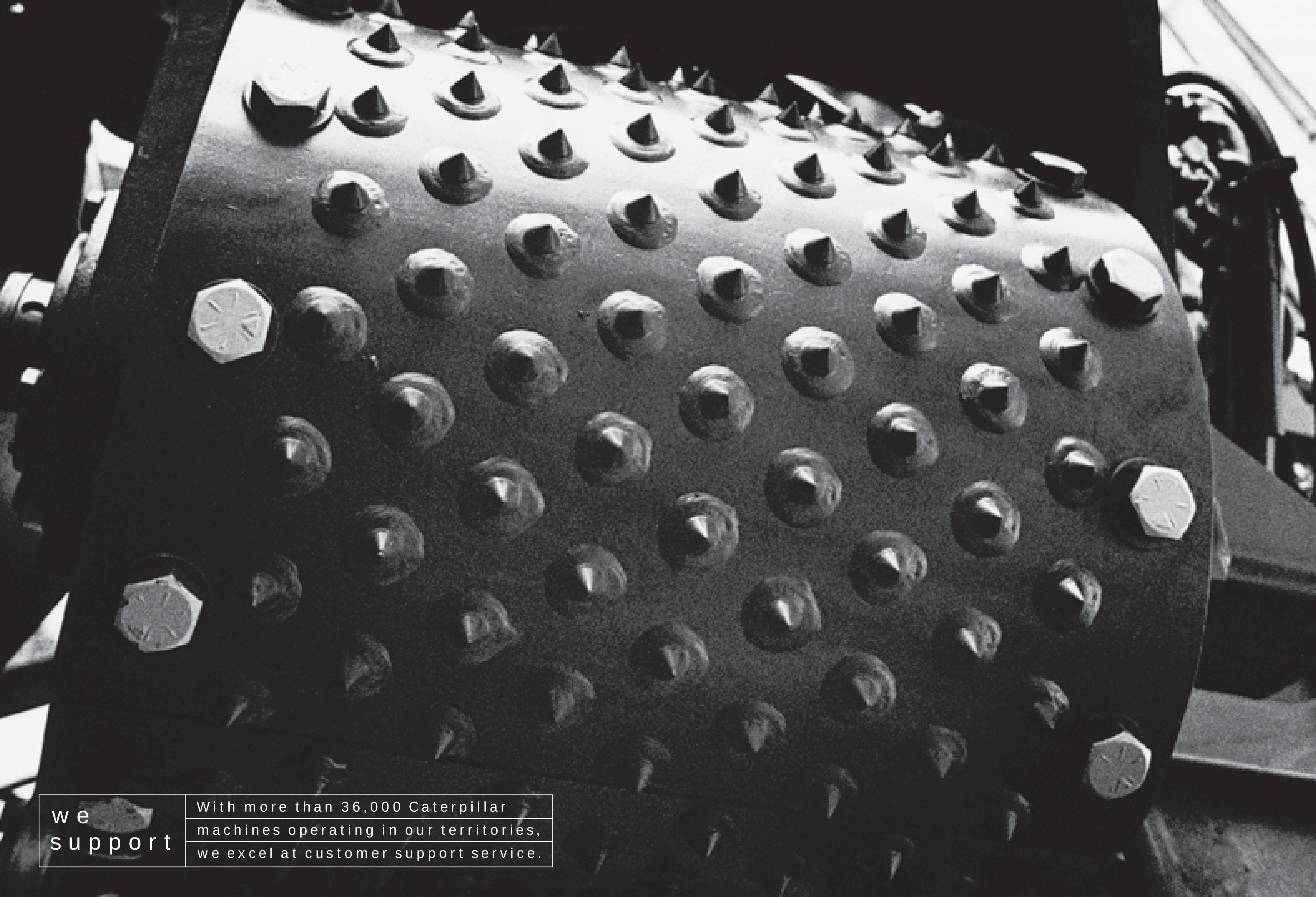
work in
progress

Finning
International Inc.

1998 Annual Report

we
listen

Our people have the competence
and freedom to deliver the best
solutions to our customers.


we
support
With more than 36,000 Caterpillar
machines operating in our territories,
we excel at customer support service.

we train

Training our workforce is a constant process and one that occurs daily – in the shop, in the classroom and on the job.


Panasonic


we
upgrade
Information technology allows us to share more
information with our customers, faster and
more conveniently, and to be more responsive.


CAT
CAT

we pursue new markets

We are pursuing new markets by offering total equipment solutions for customers seeking to outsource their non-core requirements.

FINNING INTERNATIONAL INC.

At Finning International Inc., we are committed to making both our customers and our Company successful.