

## **Finning Delivers Record Earnings in Q2 2011**

### **Q2 2011 HIGHLIGHTS**

- Basic EPS was a record \$0.48 for the quarter, up almost 130% from \$0.21 in Q2 2010.
- Revenue climbed 39% to \$1.5 billion fueled by exceptionally strong new equipment sales and record product support revenues.
- EBIT almost doubled to \$120 million. The Company benefited from improved operating leverage, and achieved EBIT margin of 8.1% compared to 5.9% in Q2 2010.
- Backlog grew by 14% from March 2011 to \$1.7 billion reflecting continued strong order intake.

**Vancouver, B.C.** – Finning International Inc. (TSX: FTT) reported record quarterly basic earnings per share (EPS) of \$0.48, up 129% over Q2 2010. Finning achieved Q2 2011 revenues of \$1.5 billion, a 39% increase from Q2 2010. Earnings before interest and income taxes (EBIT) of \$120 million were up by 91% from Q2 2010 and EBIT margin of 8.1% was significantly higher than 5.9% in Q2 2010. Improved EBIT margin performance reflected higher profitability in Canada and the UK & Ireland, as well as a solid performance in South America.

“Our outstanding performance in the second quarter reflects continued strong demand for our products and services coupled with significant improvement in our operating leverage. I am particularly pleased that we were able to deliver record earnings while continuing to advance our strategic initiatives,” said Mike Waites, president and CEO of Finning International Inc. “As we progressed through the second quarter, we continued to focus on building our customer service capabilities and developing opportunities for growth. Importantly, we entered into preliminary negotiations with Caterpillar regarding the potential purchase of certain distribution rights related to their recently announced Bucyrus acquisition. Aligned with our focus on operational excellence, we introduced a new enterprise resource planning system in our Canadian operations. This represents an important first step in a phased company-wide launch that will significantly enhance our ability to provide superior customer service while supporting our growth objectives.”

“The record earnings attest to our consistent execution and the strength of our business. As we look ahead, we are monitoring the current volatility in capital markets closely and are well positioned to adjust as necessary. We see significant opportunities for Finning and remain confident in our ability to deliver long-term sustainable growth,” concluded Mike Waites.

Results for the first half of the year have exceeded the Company's expectations, driven by record product support revenues and exceptionally strong new equipment sales. The Company expects active market conditions to continue through the second half of the year. However, the Company anticipates that short-term challenges with its new enterprise resource planning (ERP) system, coupled with the five-week labour stoppage in B.C. will impact its Q3 2011 results in Canada.

The outlook for mining, construction and power systems markets for 2012 and 2013 remains strong. The Company is committed to driving ongoing profitability improvement and is making solid progress toward achieving its 10% EBIT margin target in 2013.

## Q2 2011 FINANCIAL SUMMARY (from continuing operations)

Beginning with Q1 2011, the Company's financial results are reported under IFRS (International Financial Reporting Standards)<sup>(1)</sup>.

C\$ millions, except per share amounts (unaudited)	Three months ended June 30		
	2011	2010	% change
Revenue	<b>1,481</b>	1,065	39
Earnings before interest and income taxes (EBIT) <sup>(2)</sup>	<b>120</b>	63	91
Net income	<b>82</b>	36	129
Basic EPS	<b>0.48</b>	0.21	129
Earnings before interest, income taxes, depreciation and amortization (EBITDA) <sup>(2)</sup>	<b>160</b>	98	64
Free cash flow <sup>(2)(3)</sup>	<b>(227)</b>	15	n/m

- Revenues of \$1.5 billion were up 39% from Q2 2010, reflecting higher new equipment sales and product support revenues in all operations. New equipment sales increased by 68% and product support revenues grew by 24% to a new record, driven by continued strength in market activity across all sectors. Used equipment sales declined by 14% due to lower sales in Canada, where quality used equipment remains in short supply. Rental revenues were 38% higher reflecting strong demand.
- Gross profit increased by 33% from Q2 2010. Gross profit margin declined to 29.7% from 31.0% as revenue mix shifted in favour of new equipment sales in all operations, with a pronounced shift in South America reflecting the deliveries of large mining equipment in the quarter. New equipment sales contributed 47% to the total revenue compared to 38% in Q2 2010, while product support comprised 43% of the total revenue compared to 48% in Q2 of last year.
- Selling, general and administrative (SG&A) expenses as a percentage of revenue decreased to 21.3% from 24.5% in Q2 2010 as a result of leveraging high sales volumes and an on-going focus on cost management and productivity and efficiency improvements. The Company remains committed to driving SG&A expenses as a percentage of revenue down to approximately 20% in the medium term.
- The Company continued to demonstrate significant improvement in its operating leverage in the quarter. EBIT increased by 91% to \$120 million and consolidated EBIT margin rose to 8.1% from 5.9% in Q2 2010, reflecting much higher profitability in Canada and the UK & Ireland, and solid EBIT performance in South America. The Company continues to drive sustainable EBIT margin improvement in all operations as it progresses towards achieving a 10% consolidated EBIT margin in the medium term.
- Net income increased by 129% to \$82 million, and basic EPS of \$0.48 set a quarterly earnings record. Foreign exchange had a negative impact of \$0.05 per share compared to Q2 2010.
- EBITDA, which is an indicator of a company's cash operating performance, was up by 64% to \$160 million. Quarterly free cash flow was a \$227 million use of cash, compared to \$15 million cash generation in Q2 2010. As expected, significantly stronger demand for equipment and parts drove higher working capital requirements, particularly inventory and receivables. The Company continues to manage its working capital aggressively and monitor its working capital metrics closely to ensure a strong balance sheet. The Company expects inventory requirements to moderate and projects a positive free cash flow for the second half of 2011. Despite this trend, free cash flow is expected to be negative for the full year and will be primarily driven by the level of working capital required.
- The net debt to total capital ratio was 45.6% compared to 40.3% at the end of March 2011, reflecting a decrease in cash levels to support growth in working capital. With positive cash generation expected in the second half of the year, the net debt to total capital ratio is expected to remain within the Company's target range by the end of 2011.
- Consolidated backlog increased by 14% from March 2011 to \$1.7 billion, as a result of higher order intake in all operations.

## Q2 2011 HIGHLIGHTS BY OPERATIONS

### **Canada**

- Second quarter revenues rose by 33% from Q2 2010, with new equipment sales and product support revenues up by 54% and 32% respectively. New equipment sales were particularly strong in mining and also continued to gain pace in heavy construction. Product support revenues set a new record in Q2 2011 due to increased demand for parts, component repairs and machine rebuilds. This strong demand is driven by change-out cycles for the large population of mining equipment as well as higher utilization of heavy construction fleets.
- SG&A costs as a percentage of revenue declined relative to Q2 2010 as a result of leverage to higher sales volumes, focused expense management and improved productivity and operational efficiencies.
- Second quarter EBIT of \$66 million was up by 91% from Q2 2010, reflecting significantly higher new equipment sales, record product support revenues with strong parts volume, improved gross profit margins and decreased SG&A as a percentage of revenue. Continued improvement in operating leverage generated a much higher quarterly EBIT margin of 9.0% compared to 6.2% in Q2 2010. Finning Canada continues to make solid progress towards driving sustainable improvement in profitability and achieving its medium-term EBIT margin target of 10%.
- Backlog increased further from Q1 2011 driven by robust order intake from mining and heavy construction.
- On July 4, the Company launched a new ERP system in Canada that will generate long-term operational benefits to Finning. The new system is operational and the Company is able to transact business across the enterprise. Typical start-up challenges did occur and they are being addressed. An issue arose impacting the efficiency of parts warehousing and distribution operations which have run at reduced capacity since go-live. Considerable progress has been made in implementing solutions to efficiently receive and ship parts, and the Company expects to be back to normal parts supply levels at its Canadian operations by the end of the third quarter.

### **South America**

- Second quarter revenues increased by 51% from Q2 2010 to a new record, driven by strong new equipment sales in mining and construction and solid growth in product support. In functional currency (USD), revenues were up 61% from Q2 2010. Quarterly new equipment sales in functional currency more than doubled driven by deliveries of large mining equipment in Chile and continued strong demand from the construction industry throughout our South American operations. Product support revenues continued to show excellent growth across all sectors and were up by 22% in functional currency.
- SG&A costs as a percentage of revenue improved compared to Q2 2010 and recent quarters. Managing cost pressures remains a key focus area, as the Company is experiencing strong business volumes and a tight and competitive labour market.
- EBIT of \$48 million was up by 46% compared to Q2 2010 (in functional currency, the increase was 56%). EBIT margin of 9.1% was only slightly below 9.4% in Q2 2010, despite a significant shift in revenue mix to new equipment sales which earn a lower gross profit margin. New equipment accounted for 53% of the total revenue with product support contributing 41%, the exact opposite of the revenue mix in Q2 2010.
- Order intake was strong in Q2 2011, reflecting very active mining, infrastructure and energy sectors, and driving a higher backlog compared to the end of March 2011.

### **United Kingdom and Ireland (continuing operations)**

- Quarterly revenues were up 34% from Q2 2010 driven by improved activity in the heavy construction and power systems sectors, as well as the incremental revenues from the Irish operations. In functional currency (GBP), quarterly revenues increased by 30%, with a 46% increase in new equipment sales and a 16% increase in product support revenues.
- EBIT improved to \$13 million from \$0.5 million in Q2 2010. EBIT margin improved significantly to 6.0% compared to 0.3% in Q2 2010 due to higher volumes and reduced SG&A costs as a percentage of revenue. Higher profitability was achieved despite a very competitive market environment affecting gross profit margins in product support, and a shift in revenue mix to a higher proportion of new equipment sales, from 53% of total revenue in Q2 2010 to 59% in Q2 2011. The Company expects to continue to make solid progress towards achieving a 7% to 8% EBIT margin in the UK and Ireland in the medium term.
- While the UK economic outlook remains uncertain, order intake for the construction and power systems segments remains active. In addition, the Company continues to execute well on its distribution strategy for smaller equipment.

## **CORPORATE AND BUSINESS DEVELOPMENTS**

### **Bucyrus Distribution Business**

Finning has entered into preliminary discussions with Caterpillar regarding the possible purchase of certain distribution assets owned by Caterpillar through its recently completed acquisition of Bucyrus, a leading manufacturer of high productivity mining equipment for the surface and underground mining industries. Due to the preliminary nature of these discussions, no assurance can be given that any transaction will occur or concerning the terms, conditions or timing of any such transaction. If those discussions are successful and a definitive agreement is entered into between Finning and Caterpillar, Finning will provide appropriate disclosure regarding the terms of the arrangement. Until such time, Finning does not intend to provide any further comments regarding the progress of negotiations or the terms of any potential agreement.

### **Dividend**

The Board of Directors approved a quarterly dividend of \$0.13 per share; payable on September 9, 2011, to shareholders of record on August 26, 2011. This dividend will be considered an eligible dividend for Canadian income tax purposes.

**SELECTED CONSOLIDATED FINANCIAL INFORMATION: Q2 2011**  
**(from continuing operations unless otherwise stated, C\$ millions, except per share amounts)**

	Three months ended June 30			Six months ended June 30		
	2011	2010	% change	2011	2010	% change
Revenue						
New equipment	689.2	409.3	68	1,238.0	753.2	64
Used equipment	71.0	82.7	(14)	122.6	145.3	(16)
Equipment rental	81.8	59.1	38	160.1	125.5	28
Product support	635.7	511.8	24	1,228.2	1,003.4	22
Other	2.9	2.1	38	6.3	4.5	40
<b>Total revenue</b>	<b>1,480.6</b>	<b>1,065.0</b>	<b>39</b>	<b>2,755.2</b>	<b>2,031.9</b>	<b>36</b>
Gross profit	440.0	330.1	33	837.3	621.6	35
<i>Gross profit margin<sup>(4)</sup></i>	<i>29.7%</i>	<i>31.0%</i>		<i>30.4%</i>	<i>30.6%</i>	
SG&A	(315.8)	(260.8)	(21)	(602.1)	(500.0)	(20)
<i>SG&amp;A as a percentage of revenue</i>	<i>(21.3)%</i>	<i>(24.5)%</i>		<i>(21.9)%</i>	<i>(24.6)%</i>	
Equity earnings	1.0	0.8		1.8	0.7	
Other expenses	(5.6)	(7.5)	25	(10.8)	(15.5)	30
<b>EBIT<sup>(2)</sup></b>	<b>119.6</b>	<b>62.6</b>	<b>91</b>	<b>226.2</b>	<b>106.8</b>	<b>112</b>
<i>EBIT margin<sup>(5)</sup></i>	<i>8.1%</i>	<i>5.9%</i>		<i>8.2%</i>	<i>5.3%</i>	
Income from continuing operations	81.9	35.7	129	153.4	62.2	147
Loss from discontinued operations, net of tax	-	(123.2)		-	(125.0)	
<b>Net income (loss)</b>	<b>81.9</b>	<b>(87.5)</b>		<b>153.4</b>	<b>(62.8)</b>	
Basic earnings (loss) per share (EPS)						
from continuing operations	0.48	0.21	129	0.89	0.36	147
from discontinued operations	-	(0.72)		-	(0.73)	
<b>Total basic earnings (loss) per share</b>	<b>0.48</b>	<b>(0.51)</b>		<b>0.89</b>	<b>(0.37)</b>	
<b>EBITDA<sup>(2)</sup></b>	<b>160.1</b>	<b>97.7</b>	<b>64</b>	<b>307.6</b>	<b>184.1</b>	<b>67</b>
<b>Free Cash Flow<sup>*(2)(3)</sup></b>	<b>(226.8)</b>	<b>14.6</b>	<b>n/m</b>	<b>(383.2)</b>	<b>116.5</b>	<b>n/m</b>
				<b>June 30, 11</b>	<b>Dec 31, 10</b>	
Total assets				3,645.0	3,429.7	
Total shareholders' equity				1,290.9	1,203.0	
Net debt to total capital <sup>(6)</sup>				45.6%	35.3%	

\* Free cash flow from Hewden has been included in the figures for periods prior to the sale.

## Q2 2011 RESULTS INVESTOR CALL

Management will hold an investor conference call on Friday, August 12 at 11:00 am Eastern Time. Dial-in numbers: 1-866-223-7781 (anywhere within Canada and the U.S.) or (416) 340-8018 (for participants dialing from Toronto and overseas).

The call will be webcast live and subsequently archived at [www.finning.com](http://www.finning.com). Playback recording will be available at 1-800-408-3053 from 1:00 pm Eastern Time on August 12 until August 19. The pass code to access the playback recording is 4463383 followed by the number sign.

## ABOUT FINNING

Finning International Inc. (TSX: FTT) is the world's largest Caterpillar equipment dealer delivering unrivalled service to customers since 1933. Finning sells, rents and services equipment and engines to help customers maximize productivity. Headquartered in Vancouver, B.C., the Company operates in western Canada, Chile, Argentina, Bolivia, Uruguay, as well as in the United Kingdom and Ireland.

## CONTACT INFORMATION

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## Footnotes

- (1) Beginning in 2011, our results are now being prepared in accordance with International Financial Reporting Standards ("IFRS"). Our accounting policies have changed and the presentation, financial statement captions and terminology used in this news release and the accompanying unaudited financial statements differ from that used in all previously issued financial statements and quarterly and annual reports. The new policies have been consistently applied to all of the years presented in this news release and all prior period information has been restated or reclassified for comparative purposes unless otherwise noted. Further details on the conversion to IFRS are provided in the management's discussion and analysis section of this news release and in the notes to our unaudited consolidated financial statements as at and for the quarter ended June 30, 2011.
- (2) These amounts do not have a standardized meaning under generally accepted accounting principles. For a reconciliation of these amounts to net income and cash flow from operating activities, see the heading "Description of Non-GAAP Measures" in the Company's management discussion and analysis that accompanies the second quarter consolidated financial statements.
- (3) Free cash flow is defined as cash flow provided by (used in) operating activities less net property, plant and equipment expenditures.
- (4) Gross profit margin is defined as gross profit as a percentage of total revenue.
- (5) EBIT margin is defined as earnings before interest and income taxes as a percentage of total revenue.
- (6) Net debt to total capital ratio is calculated as short-term debt and long-term debt, net of cash and cash equivalents (net debt) divided by total capitalization. Total capitalization is defined as the sum of net debt and all components of equity (share capital, contributed surplus, accumulated other comprehensive loss, and retained earnings).

## Forward-Looking Disclaimer

This report contains statements about the Company's business outlook, objectives, plans, strategic priorities and other statements that are not historical facts. A statement we make is forward-looking when it uses what we know and expect today to make a statement about the future. Forward-looking statements may include words such as aim, anticipate, assumption, believe, could, expect, goal, guidance, intend, may, objective, outlook, plan, project, seek, should, strategy, strive, target, and will. Forward-looking statements in this report include, but are not limited to, statements with respect to: expectations with respect to the economy and associated impact on the Company's financial results; expected revenue and SG&A levels and EBIT growth; anticipated generation of free cash flow (including projected net capital and rental expenditures), and its expected use; anticipated defined benefit plan contributions; the expected target range of Debt Ratio; the expected quantitative impact on the 2010 consolidated statements of financial position and statements of income and comprehensive income of the Company's transition to IFRS effective January 1, 2010; and the impact on new and revised IFRS that have been issued but are not yet effective. All such forward-looking statements are made pursuant to the 'safe harbour' provisions of applicable Canadian securities laws.

Unless otherwise indicated by us, forward-looking statements in this report describe our expectations at August 12, 2011. Except as may be required by Canadian securities laws, we do not undertake any obligation to update or revise any forward-looking statement, whether as a result of new information, future events, or otherwise.

Forward-looking statements, by their very nature, are subject to numerous risks and uncertainties and are based on several assumptions which give rise to the possibility that actual results could differ materially from our expectations expressed in or implied by such forward-looking statements and that our business outlook, objectives, plans, strategic priorities and other statements that are not historical facts may not be achieved. As a result, we cannot guarantee that any forward-looking statement will materialize. Factors that could cause actual results or events to differ materially from those expressed in or implied by our forward-looking statements include: general economic and market conditions; foreign exchange rates; commodity prices; the level of customer confidence and spending, and the demand for, and prices of, our products and services; our dependence on the continued market acceptance of Caterpillar's products and Caterpillar's timely supply of parts and equipment; our ability to continue to improve productivity and operational efficiencies while continuing to maintain customer service; our ability to manage cost pressures as growth in revenues occur; our ability to attract sufficient skilled labour resources to meet growing product support demand; our ability to negotiate and renew collective bargaining agreements with satisfactory terms for our employees and the Company; the intensity of competitive activity; our ability to raise the capital we need to implement our business plan; regulatory initiatives or proceedings, litigation and changes in laws or regulations; stock market volatility; changes in political and economic environments for operations; the integrity, reliability, and availability of technology and the data processed by that technology; new or amended IFRS or interpretations that become effective prior to the inclusion of the Company's financial statement of position in its first annual audited IFRS financial statements. Forward-looking statements are provided in this report for the purpose of giving information about management's current expectations and plans and allowing investors and others to get a better understanding of our operating environment. However, readers are cautioned that it may not be appropriate to use such forward-looking statements for any other purpose.

Forward-looking statements made in this report are based on a number of assumptions that we believed were reasonable on the day we made the forward-looking statements. Refer in particular to the Outlook section of the MD&A. Some of the assumptions, risks, and other factors which could cause results to differ materially from those expressed in the forward-looking statements contained in this report are discussed in the Company's current Annual Information Form (AIF) in Section 4.

We caution readers that the risks described in the AIF are not the only ones that could impact us. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial may also have a material adverse effect on our business, financial condition, or results of operations.

Except as otherwise indicated by us, forward-looking statements do not reflect the potential impact of any non-recurring or other unusual items or of any dispositions, mergers, acquisitions, other business combinations or other transactions that may be announced or that may occur after the date hereof. The financial impact of these transactions and non-recurring and other unusual items can be complex and depends on the facts particular to each of them. We therefore cannot describe the expected impact in a meaningful way or in the same way we present known risks affecting our business

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## MANAGEMENT'S DISCUSSION AND ANALYSIS

This discussion and analysis of the financial results of Finning International Inc. (Finning or the Company) should be read in conjunction with the interim consolidated financial statements and accompanying notes. The results reported herein have been prepared in accordance with International Financial Reporting Standards (IFRS) and are presented in Canadian dollars unless otherwise stated. Prior to January 1, 2011, Finning prepared its consolidated financial statements in accordance with Canadian generally accepted accounting principles. For more information about the Company's conversion to IFRS, please see the 'Explanation of Transition to IFRS' section of this Management's Discussion and Analysis (MD&A), Notes 1 and 9-17 of the Q1 2011 interim condensed consolidated financial statements, and Note 10 of the Q2 2011 interim condensed consolidated financial statements. Additional information relating to the Company, including its current Annual Information Form (AIF), can be found on the SEDAR (System for Electronic Document Analysis and Retrieval) website at [www.sedar.com](http://www.sedar.com).

### Results of Operations

The results from continuing operations described in this MD&A include those of acquired businesses from the date of their purchase and exclude results from operations that have been disposed or are classified as discontinued. Results of operations from businesses that qualified as discontinued operations have been reclassified to that category for all periods presented unless otherwise noted.

#### Second Quarter Overview

	Q2 2011	Q2 2010	Q2 2011	Q2 2010
	(\$ millions)		(% of revenue)	
Revenue	\$ 1,480.6	\$ 1,065.0		
Gross profit	440.0	330.1	29.7%	31.0%
Selling, general & administrative expenses	(315.8)	(260.8)	(21.3)%	(24.5)%
Equity earnings of joint venture and associate	1.0	0.8	0.1%	0.1%
Other expenses	(5.6)	(7.5)	(0.4)%	(0.7)%
Earnings from continuing operations before interest and income taxes (EBIT) <sup>(1)</sup>	119.6	62.6	8.1%	5.9%
Finance costs	(14.0)	(22.4)	(1.0)%	(2.1)%
Provision for income taxes	(23.7)	(4.5)	(1.6)%	(0.4)%
Income from continuing operations	\$ 81.9	\$ 35.7	5.5%	3.4%
Loss from discontinued operations, net of tax <sup>(3)</sup>	—	(123.2)	—	(11.6)%
Net income	\$ 81.9	\$ (87.5)	5.5%	(8.2)%
Basic earnings (loss) per share (EPS)				
from continuing operations	\$ 0.48	\$ 0.21		
from discontinued operations <sup>(3)</sup>	—	(0.72)		
Total basic earnings per share	\$ 0.48	\$ (0.51)		
Earnings from continuing operations before interest, taxes, depreciation, and amortization (EBITDA) <sup>(1)</sup>	\$ 160.1	\$ 97.7	10.8%	9.2%
Free Cash Flow <sup>(1) (2)</sup>	\$ (226.8)	\$ 14.6		

(1) These amounts do not have a standardized meaning under IFRS, which are also referred to as generally accepted accounting principles (GAAP). For a reconciliation of these amounts to net income and cash flow from operating activities, see the heading "Description of Non-GAAP Measures" below.

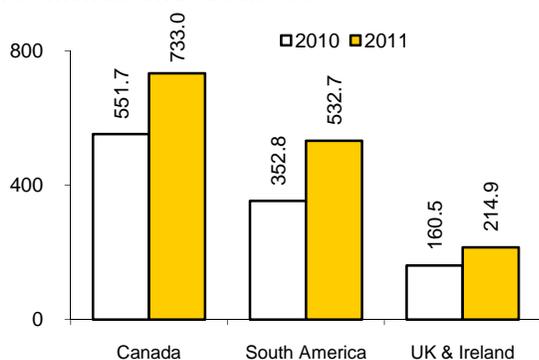
(2) Free Cash Flow is defined as cash flow provided by (used in) operating activities less net property, plant, and equipment expenditures.

(3) On May 5, 2010, the Company sold Hewden, its UK equipment rental business, for an after-tax loss of \$120.8 million. As a consequence, the results of operations of Hewden have been reclassified as discontinued operations for all periods presented.

## Revenue from Continuing Operations

(\$ millions)

Three months ended June 30



Second quarter consolidated revenues of \$1.5 billion were up 39.0% from the comparable quarter in 2010, with higher revenues contributed by all operations. The increase in revenues reflected the growing demand for new equipment in all the Company's regions. In addition, in all markets, increased machine utilization and equipment rebuild activity is driving high levels of product support.

Revenues from the Company's Canadian operations increased 32.8% in the second quarter of 2011 compared with the same period last year, largely due to significantly higher new equipment sales and record product support revenues. Product support revenues in the second quarter of 2011 set a new record. They surpassed the first quarter of 2011 and were 31.5% higher than the comparative quarter in 2010. This increase was primarily due to increased demand for parts, component repairs, and machine rebuilds, driven by change-out cycles for the large population of mining equipment as well as higher utilization of heavy construction fleets. New equipment sales, 54.0% higher than the second quarter of 2010, were particularly strong in mining and also continued to gain pace in heavy construction.

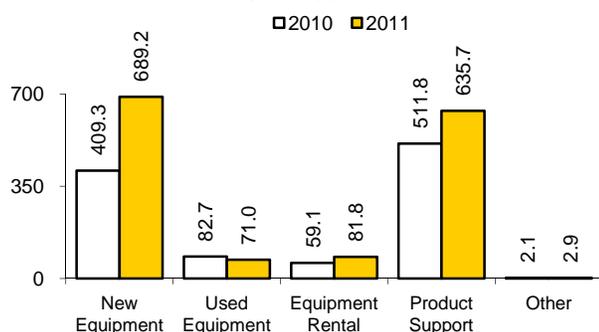
Second quarter revenues from the Company's operations in South America were at record levels, and increased 51.0% compared to the second quarter of 2010. Excluding the negative impact of translating the results of the South American operations with a stronger Canadian dollar, revenues for the second quarter of 2011 in functional currency (the U.S. dollar) increased by 60.5% over the second quarter of 2010. This was driven mainly by strong new equipment sales, which more than doubled (in functional currency) compared to the second quarter of 2010, with increased demand in construction and mining. Product support revenues continued to show solid growth in all sectors, and were 22.2% higher in functional currency than the second quarter of 2010.

Revenues from the U.K. and Ireland operations were up 33.9% over the second quarter of 2010, and were up 30.1% in functional currency (the U.K. pound sterling). This increase was largely due to higher new equipment sales (46.0% higher in functional currency), particularly in the coal and plant hire sectors, and higher product support revenues (up 15.8% in functional currency), as well as the incremental revenues from the Irish operations acquired in the third quarter of 2010.

## Revenue by Line of Business from Continuing Operations

(\$ millions)

Three months ended June 30



On a consolidated basis, new equipment sales were up 68.4% compared with the second quarter of 2010, up significantly in all operating units.

Product support revenues in the second quarter of 2011 were at record levels, up 24.2% overall compared with the same quarter last year. Increases were reported in all regions. Growth in product support revenues reflects strong commodity prices, a recovering economic climate in Canada, and increased demand in mining and heavy construction.

Used equipment revenues were 14.2% lower compared to the prior year's second quarter and were impacted by limited equipment supply.

Rental revenues were 38.3% higher than the second quarter of 2010 due to strong customer demand.

Finning's global order book or backlog (the retail value of new equipment units ordered by customers for future deliveries) was over \$1.7 billion at the end of the second quarter of 2011, up 13.6% from March 2011. The consolidated backlog has increased in each consecutive quarter since September 2009, driven primarily by the mining and construction sectors. The Company's new order intake in the second quarter of 2011 was the highest in over three years, and was up 16.2% from the first quarter of 2011.

All regions are affected by the pressure on the supply chain resulting from strengthened market conditions. The impact of longer lead times from Caterpillar Inc. (Caterpillar), our key supplier, is being partially mitigated by the Company's efforts to find solutions to meet customers' equipment needs. Such solutions include renting equipment, selling used equipment, repairing or rebuilding equipment, and utilizing the entire Caterpillar dealer network to source equipment. Finning continues to work closely with Caterpillar and customers to ensure that equipment demands can be met.

### **Earnings from Continuing Operations Before Interest and Taxes (EBIT)**

On a consolidated basis, EBIT was \$119.6 million in the second quarter of 2011, almost double the EBIT of \$62.6 million in the second quarter of 2010, primarily driven by robust revenue growth as well as operating efficiencies and productivity improvements.

Gross profit of \$440.0 million in the second quarter of 2011 was up 33.3% compared to the second quarter of 2010. Quarterly gross profit margin (gross profit as a percentage of revenue) of 29.7% was lower than the prior year's second quarter margin of 31.0%. This decline reflected the shift in revenue mix to a higher proportion of new equipment sales which are at lower margins than product support revenues, with a more pronounced shift in South America, reflecting the deliveries of large mining equipment in the quarter. New equipment sales made up 46.6% of total revenues in the second quarter of 2011, compared with 38.4% of total revenues in the same period last year. Comparatively, product support revenues comprised 42.9% of total revenues in the second quarter of 2011, compared with 48.1% in the same period last year.

Selling, general, and administrative (SG&A) costs were \$315.8 million or 21.1% higher than the second quarter of 2010, mostly reflecting increased volume-related costs to support higher revenues and the growing higher margin product support business. The Company continued to realize cost savings from productivity initiatives. Reflecting these cost reductions and efficiency improvements as well as operating leverage to higher sales volumes, SG&A costs in the second quarter of 2011 decreased as a percentage of revenue to 21.3% from 24.5% in the second quarter of 2010.

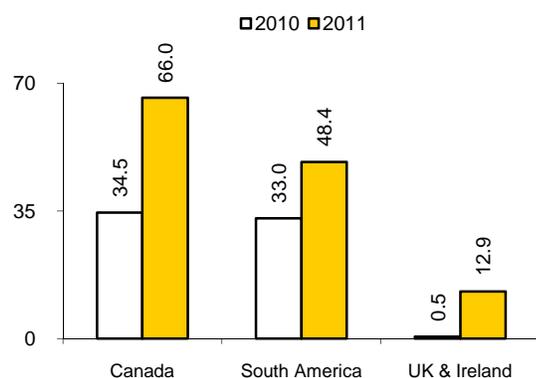
The new information technology (IT) system for the Company's global dealership operations was implemented in Finning (Canada) on July 4, 2011. Subsequent implementations will commence for the U.K. and then South America. EBIT in the second quarter of 2011 included \$5.6 million of costs (Q2 2010: \$7.1 million) related to this implementation. In addition, included in the results for the second quarter of 2010 were costs of \$0.4 million, primarily related to severance costs in the Company's Canadian operations which were incurred in response to market conditions.

The Company's EBIT margin (EBIT divided by revenues) of 8.1% in the second quarter of 2011 improved significantly from 5.9% in the second quarter of 2010. The improvement in EBIT margin was primarily driven by higher profitability in the Company's Canadian and UK and Ireland operations.

#### **EBIT from Continuing Operations <sup>(1)</sup>**

(\$ millions)

Three months ended June 30



(1) Excluding other operations – corporate head office

Major components of the EBIT variance were:  
(\$ millions)

<b>2010 Q2 EBIT</b>	<b>62.6</b>
Net change in operations	65.9
Foreign exchange impact	(10.8)
Lower IT system development and implementation costs in 2011	1.5
Restructuring costs in 2010	0.4
<b>2011 Q2 EBIT</b>	<b>119.6</b>

## **Earnings from Continuing Operations Before Interest, Taxes, Depreciation, and Amortization (EBITDA) and Free Cash Flow**

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EBITDA, which management views as an indicator of the Company's cash operating performance, was \$160.1 million in the second quarter of 2011 compared to \$97.7 million in the second quarter of 2010.

The Company's Free Cash Flow was \$226.8 million use of cash compared to \$14.6 million generation of cash in the comparative period of the prior year. With stronger customer demand for equipment and parts, the Company is experiencing increased requirements for working capital, in particular higher inventory and accounts receivable levels. The Company continues to manage its working capital aggressively and monitor its working capital metrics closely to ensure a strong balance sheet. The Company expects inventory requirements to moderate and projects a positive Free Cash Flow for the second half of 2011. Despite this trend, Free Cash Flow is expected to be negative for the full year and will primarily be driven by the level of working capital required. Free Cash Flow from Hewden has been included in the reported amounts for periods prior to the sale – see 'Description of Non-GAAP Measures'.

## **Finance Costs**

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Finance costs for the three months ended June 30, 2011 were \$14.0 million compared with \$22.4 million in the second quarter of 2010.

Following the sale of Hewden in 2010 that reduced the Company's U.K. pound sterling denominated assets, the Company used a portion of the sale proceeds to purchase and cancel £45 million of its £115 million outstanding Eurobond Notes in June 2010. As a result, the Company recorded charges of approximately \$6.4 million in the second quarter of 2010, reflecting the premium paid to purchase the Notes, costs associated with the recognition of deferred original financing costs, and related purchase costs.

## **Provision for Income Taxes**

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The effective income tax rate for the second quarter of 2011 was 22.5% compared to 11.4% in the comparable period of the prior year. The effective rate was lower in the second quarter of 2010 primarily due to a higher proportion of earnings from lower tax jurisdictions.

## **Income from Continuing Operations**

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Finning's income from continuing operations was \$81.9 million in the second quarter of 2011 compared with \$35.7 million in the same period last year.

Basic EPS from continuing operations was a record at \$0.48 compared with \$0.21 in the comparative period last year. The results for the second quarter 2011 reflected higher revenues in all operations and the benefits of cost control and process efficiencies. Second quarter 2011 results included \$0.02 per share of costs related to the global IT system implementation (Q2 2010: \$0.03 per share). In addition, the second quarter of 2010 included \$0.03 per share of finance costs incurred on the purchase and cancellation of a portion of the Company's Eurobond Notes. Foreign exchange had a negative impact of approximately \$0.05 per share in the second quarter of 2011 compared to the prior year's second quarter due to the stronger Canadian dollar relative to the U.S. dollar.

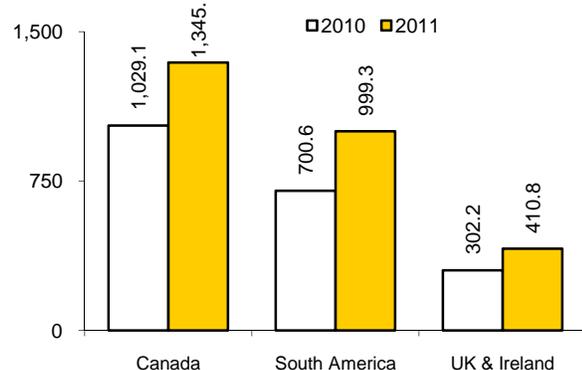
## Year-to-Date Overview

	YTD 2011	YTD 2010	YTD 2011	YTD 2010
	(\$ millions)		(% of revenue)	
Revenue	\$ 2,755.2	\$ 2,031.9		
Gross profit	837.3	621.6	30.4%	30.6%
Selling, general & administrative expenses	(602.1)	(500.0)	(21.9)%	(24.6)%
Equity earnings (loss) of joint venture and associate	1.8	0.7	0.1%	—
Other expenses	(10.8)	(15.5)	(0.4)%	(0.7)%
Earnings from continuing operations before interest and income taxes (EBIT)	226.2	106.8	8.2%	5.3%
Finance costs	(28.0)	(35.6)	(1.0)%	(1.8)%
Provision for income taxes	(44.8)	(9.0)	(1.6)%	(0.4)%
Income from continuing operations	\$ 153.4	\$ 62.2	5.6%	3.1%
Loss from discontinued operations, net of tax	—	(125.0)	—	(6.2)%
Net income (loss)	\$ 153.4	\$ (62.8)	5.6%	(3.1)%
Basic earnings (loss) per share (EPS)				
from continuing operations	\$ 0.89	\$ 0.36		
from discontinued operations	—	(0.73)		
Total basic earnings (loss) per share	\$ 0.89	\$ (0.37)		
Earnings from continuing operations before interest, taxes, depreciation, and amortization (EBITDA)	\$ 307.6	\$ 184.1	11.2%	9.1%
Free cash flow	\$ (383.2)	\$ 116.5		

## Revenue from Continuing Operations

(\$ millions)

Six months ended June 30

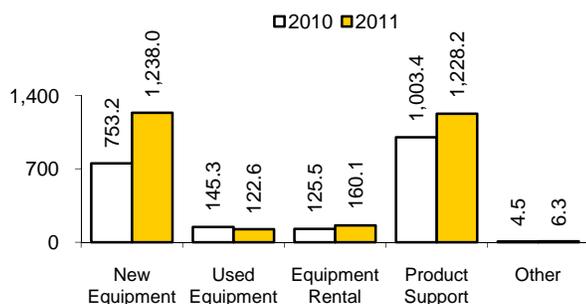


For the six months ended June 30, 2011, revenues of \$2.8 billion increased 35.6% over the same period last year, up in all operations. New equipment sales and product support revenues from the Company's Canadian operations were up 50.6% and 28.4% compared to the first half of the prior year. In functional currency, record revenues from the Company's South American operations (up 51.1%) reflected strong new equipment sales in mining and construction and solid growth in product support. Revenues from the UK and Ireland operations, in functional currency, were up 35.1% compared to the first six months of 2010, with improved activity in the heavy construction and power systems sectors.

### Revenue by Line of Business from Continuing Operations

(\$ millions)

Six months ended June 30



On a consolidated basis, new equipment sales were 64.4% higher than the first half of 2010, with higher volumes in all operations. Product support revenues were 22.4% higher than the first half of the prior year, and up in all operations. Used equipment sales decreased by 15.6% compared to the first half of 2010, primarily due to lower used equipment sales in Canada resulting from a limited supply of used equipment. Rental revenues increased by 27.6% compared to the first half of 2010 to meet strong customer demand.

### Earnings from Continuing Operations Before Interest and Taxes (EBIT)

On a consolidated basis, EBIT was \$226.2 million in the first half of 2011, more than double the EBIT of \$106.8 million in the comparable period of the prior year. The increase was primarily driven by very strong revenue growth and improved gross profits in all lines of business, as well as operating efficiencies and productivity improvements in all operations.

Gross profit of \$837.3 million in the first six months of the year increased 34.7% over the same period last year and gross profit as a percentage of revenue was 30.4%, down slightly compared with 30.6% in the first half of 2010. The slight decline was primarily due to the shift in revenue mix to lower margin new equipment sales in all operations, partially offset by higher margins realized in all lines of business. New equipment sales made up 44.9% of total revenues in the first half of 2011, compared with 37.1% of total revenues in the same period last year.

SG&A costs were \$602.1 million or 20.4% higher than the first six months of 2010, mostly reflecting increased volume-related costs to support higher revenues and the growing higher margin product support business.

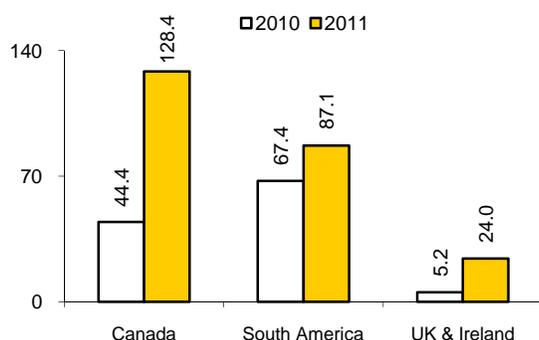
Results for the first half of 2011 included costs of \$10.8 million (2010: \$12.4 million) related to the ongoing development and implementation of a new information technology (IT) system for the Company's global operations. Results from the prior period also included restructuring and severance costs of \$3.1 million.

The Company's EBIT margin was 8.2% in the first half of 2011, up from 5.3% in the first six months of 2010 primarily due to the factors noted above.

### EBIT from Continuing Operations

(\$ millions)

Six months ended June 30



Major components of the EBIT variance were:  
(\$ millions)

<b>2010 Year-to-Date EBIT</b>	106.8
Net change in operations	134.1
Foreign exchange impact	(19.4)
Restructuring costs in 2010	3.1
Lower IT system development and implementation costs in 2011	1.6
<b>2011 Year-to-Date EBIT</b>	<b>226.2</b>

Excluding other operations – corporate head office

## **Earnings from Continuing Operations Before Interest, Taxes, Depreciation, and Amortization (EBITDA) and Free Cash Flow**

---

EBITDA, which management views as an indicator of a company's operating performance and generation of operating cash flow, was \$307.6 million in the six months of 2011 compared to \$184.1 million in the six months of 2010.

The Company's Free Cash Flow was \$383.2 million use of cash compared to \$116.5 million generation of cash in the comparative first half of the prior year. As noted in the second quarter overview, with stronger customer demand for equipment and parts, the Company is experiencing increased requirements for working capital. The Company continues to manage its working capital aggressively and monitor its working capital metrics closely to ensure a strong balance sheet. The Company expects inventory requirements to moderate and projects a positive Free Cash Flow for the second half of 2011. Despite this trend, Free Cash Flow is expected to be negative for the full year and will primarily be driven by the level of working capital required. Free Cash Flow from Hewden has been included in the reported amounts for periods prior to the sale – see 'Description of Non-GAAP Measures'.

## **Finance Costs**

---

Finance costs for the six months ended June 30, 2011 were \$28.0 million compared with \$35.6 million in the first half of 2010.

Following the sale of Hewden that reduced the Company's U.K. pound sterling denominated assets, the Company used a portion of the sale proceeds to purchase £45 million of its £115 million outstanding Eurobond Notes in June 2010. As a result, the Company recorded charges of approximately \$6.4 million in 2010, reflecting the premium paid to purchase the Notes, costs associated with the recognition of deferred original financing costs, and related purchase costs.

## **Provision for Income Taxes**

---

The effective income tax rate for the first half of 2011 was 22.6% compared to 12.7% in the comparable period of the prior year. The lower effective income tax rate in the prior period is primarily due to a higher proportion of earnings from lower tax jurisdictions.

## **Income from Continuing Operations**

---

Finning's income from continuing operations was \$153.4 million in the first six months of 2011, up significantly compared to \$62.2 million of income from continuing operations in the same period in 2010.

Basic EPS from continuing operations for the six months ended June 30, 2011 was \$0.89 per share compared with \$0.36 per share in the same period last year. The results for the first half of 2011 reflected higher revenues in all operations, improved margins in all lines of business, and the benefits of cost control and process efficiencies. Results for the first half of 2011 and 2010 included \$0.05 per share of costs related to the global IT system implementation. In addition, results for the first six months of 2010 included incremental finance costs (\$0.03 per share) incurred on the repurchase of a portion of the Company's Eurobond Notes, and \$0.01 per share of restructuring and severance costs. Foreign exchange had a negative impact of approximately \$0.09 per share in the first half of 2011 compared to the prior year's first half due to the stronger Canadian dollar relative to the U.S. dollar.

## **Foreign Exchange**

### Translation

The Company's reporting currency is the Canadian dollar. However, due to the geographical diversity of the Company's operations, a significant portion of revenue and operating expenses are in different currencies. The most significant currencies in which the Company transacts business are the U.S. dollar, the Canadian dollar, the U.K. pound sterling, and the Chilean peso. Changes in the Canadian dollar / U.S. dollar and Canadian dollar / U.K. pound sterling relationship affects reported results on the translation of the financial statements of the Company's South American and UK and Ireland operations as well as U.S. dollar based earnings of the Company's Canadian operations.

Foreign exchange had a negative impact on consolidated revenues in the second quarter of 2011 of \$47.8 million due to a 5.8% stronger Canadian dollar relative to the U.S. dollar, partly offset by a 3.0% weaker Canadian dollar relative to the U.K. pound sterling, all compared to the second quarter of 2010. As a result, EBIT was negatively impacted by \$10.8 million and earnings were negatively impacted by approximately \$0.05 per share in the second quarter of 2011 compared to the prior year's second quarter.

For the first half of 2011, foreign exchange had a negative impact on consolidated revenues of \$88.1 million due to a 5.5% stronger Canadian dollar relative to the U.S. dollar. As a result, EBIT was negatively impacted by \$19.4 million

and earnings were negatively impacted by approximately \$0.09 per share in the first half of 2011 compared to the first six months of 2010.

The Canadian dollar has historically correlated fairly well to commodity prices. If commodity prices strengthen, the Canadian dollar is likely to strengthen. In this scenario, the Company's resource industry customers may be able to increase production which can result in increased demand for equipment and services. However, the Company is negatively impacted when U.S. dollar based revenues and earnings are translated into lower Canadian dollar reported revenues and earnings due to the stronger Canadian dollar, although lags may occur.

The impact of foreign exchange due to the value of the Canadian dollar relative to the U.S. dollar and U.K. pound sterling is expected to continue to affect Finning's results. The sensitivity of the Company's net earnings to fluctuations in the average annual foreign exchange rates is summarized in the Risk Management section of this MD&A.

The following tables provide details of revenue and EBIT from continuing operations and the foreign exchange impact for the three and six months ended June 30, 2011.

<b>Three months ended June 30</b> (\$ millions)	<b>Canada</b>	<b>South America</b>	<b>UK &amp; Ireland</b>	<b>Consolidated</b>	
Revenues – Q2 2010	\$ 551.7	\$ 352.8	\$ 160.5	\$ 1,065.0	
Foreign exchange impact	(12.1)	(42.3)	6.6	(47.8)	
Operating revenue increase	193.4	222.2	47.8	463.4	
Revenues – Q2 2011	\$ 733.0	\$ 532.7	\$ 214.9	\$ 1,480.6	
Total revenue increase	\$ 181.3	\$ 179.9	\$ 54.4	\$ 415.6	
- percentage increase	32.8%	51.0%	33.9%	39.0%	
- percentage increase, excluding foreign exchange	35.1%	63.0%	29.8%	43.5%	
<b>Six months ended June 30</b> (\$ millions)	<b>Canada</b>	<b>South America</b>	<b>UK &amp; Ireland</b>	<b>Consolidated</b>	
Revenues – Q2 YTD 2010	\$ 1,029.1	\$ 700.6	\$ 302.2	\$ 2,031.9	
Foreign exchange impact	(31.5)	(59.1)	2.5	(88.1)	
Operating revenue increase	347.5	357.8	106.1	811.4	
Revenues – Q2 YTD 2011	\$ 1,345.1	\$ 999.3	\$ 410.8	\$ 2,755.2	
Total revenue increase	\$ 316.0	\$ 298.7	\$ 108.6	\$ 723.3	
- percentage increase	30.7%	42.6%	35.9%	35.6%	
- percentage increase, excluding foreign exchange	33.8%	51.1%	35.1%	39.9%	
<b>Three months ended June 30</b> (\$ millions)	<b>Canada</b>	<b>South America</b>	<b>UK &amp; Ireland</b>	<b>Other</b>	<b>Consolidated</b>
EBIT – Q2 2010	\$ 34.5	\$ 33.0	\$ 0.5	\$ (5.4)	\$ 62.6
Foreign exchange impact	(3.8)	(7.4)	0.4	—	(10.8)
Operating EBIT increase (decrease)	35.3	22.8	12.0	(2.3)	67.8
EBIT – Q2 2011	\$ 66.0	\$ 48.4	\$ 12.9	\$ (7.7)	\$ 119.6
Total EBIT increase (decrease)	\$ 31.5	\$ 15.4	\$ 12.4	\$ (2.3)	\$ 57.0
- percentage increase	91.3%	46.4%	n/m	n/m	91.0%
- percentage increase (decrease), excluding foreign exchange	102.3%	69.1%	n/m	n/m	108.3%
<b>Six months ended June 30</b> (\$ millions)	<b>Canada</b>	<b>South America</b>	<b>UK &amp; Ireland</b>	<b>Other</b>	<b>Consolidated</b>
EBIT – Q2 YTD 2010	\$ 44.4	\$ 67.4	\$ 5.2	\$ (10.2)	\$ 106.8
Foreign exchange impact	(8.3)	(11.2)	0.1	—	(19.4)
Operating EBIT increase (decrease)	92.3	30.9	18.7	(3.1)	138.8
EBIT – Q2 YTD 2011	\$ 128.4	\$ 87.1	\$ 24.0	\$ (13.3)	\$ 226.2
Total EBIT increase (decrease)	\$ 84.0	\$ 19.7	\$ 18.8	\$ (3.1)	\$ 119.4
- percentage increase	188.8%	29.2%	n/m	n/m	111.8%
- percentage increase (decrease), excluding foreign exchange	207.9%	45.8%	n/m	n/m	130.0%

n/m = not meaningful as percentage change is significantly large or not applicable

### Investment in Foreign Operations

Assets and liabilities of the Company's foreign operations which have functional currencies other than the Canadian dollar are translated into Canadian dollars using the exchange rates in effect at the statement of financial position dates. Any unrealized translation gains and losses are recorded as an item of other comprehensive income and accumulated other comprehensive income.

Currency translation adjustments arise as a result of fluctuations in foreign currency exchange rates at the period reporting date compared to the previous period reporting date. The unrealized currency translation loss of \$26.3 million recorded in the first six months of 2011 resulted primarily from the stronger spot Canadian dollar against the U.S. dollar of 3.0%, at June 30, 2011 compared to December 31, 2010. For more details, refer to the Interim Consolidated Statements of Comprehensive Income (Loss).

### **Results by Business Segment**

The Company and its subsidiaries operate primarily in one principal business, that being the selling, servicing, and renting of heavy equipment, engines, and related products in various markets worldwide as noted below. Finning's operating units are as follows:

- *Canadian operations:* British Columbia, Alberta, Yukon, Northwest Territories, and a portion of Nunavut.
- *South American operations:* Chile, Argentina, Uruguay, and Bolivia.
- *UK and Ireland operations:* England, Scotland, Wales, Northern Ireland, the Republic of Ireland, the Falkland Islands, and the Channel Islands.
- *Other:* corporate head office.

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

<b>Three months ended June 30, 2011</b>						<b>Revenue</b>
<b>(\$ millions)</b>	<b>Canada</b>	<b>South America</b>	<b>UK &amp; Ireland</b>	<b>Consolidated</b>	<b>percentage</b>	
New equipment	\$ 277.4	\$ 284.7	\$ 127.1	\$ 689.2	46.6%	
Used equipment	37.7	12.0	21.3	71.0	4.8%	
Equipment rental	57.9	17.7	6.2	81.8	5.5%	
Product support	357.8	217.6	60.3	635.7	42.9%	
Other	2.2	0.7	—	2.9	0.2%	
<b>Total</b>	<b>\$ 733.0</b>	<b>\$ 532.7</b>	<b>\$ 214.9</b>	<b>\$ 1,480.6</b>	<b>100.0%</b>	
Revenue percentage by operations	49.5%	36.0%	14.5%	100.0%		

<b>Three months ended June 30, 2010</b>						<b>Revenue</b>
<b>(\$ millions)</b>	<b>Canada</b>	<b>South America</b>	<b>UK</b>	<b>Consolidated</b>	<b>percentage</b>	
New equipment	\$ 180.2	\$ 144.6	\$ 84.5	\$ 409.3	38.4%	
Used equipment	58.2	5.8	18.7	82.7	7.8%	
Equipment rental	39.6	12.8	6.7	59.1	5.5%	
Product support	272.0	189.2	50.6	511.8	48.1%	
Other	1.7	0.4	—	2.1	0.2%	
<b>Total</b>	<b>\$ 551.7</b>	<b>\$ 352.8</b>	<b>\$ 160.5</b>	<b>\$ 1,065.0</b>	<b>100.0%</b>	
Revenue percentage by operations	51.8%	33.1%	15.1%	100.0%		

<b>Six months ended June 30, 2011</b>						<b>Revenue</b>
<b>(\$ millions)</b>	<b>Canada</b>	<b>South America</b>	<b>UK &amp; Ireland</b>	<b>Consolidated</b>	<b>percentage</b>	
New equipment	\$ 481.2	\$ 513.8	\$ 243.0	\$ 1,238.0	44.9%	
Used equipment	69.3	21.3	32.0	122.6	4.4%	
Equipment rental	113.2	34.2	12.7	160.1	5.8%	
Product support	677.1	428.0	123.1	1,228.2	44.6%	
Other	4.3	2.0	—	6.3	0.3%	
<b>Total</b>	<b>\$ 1,345.1</b>	<b>\$ 999.3</b>	<b>\$ 410.8</b>	<b>\$ 2,755.2</b>	<b>100.0%</b>	
Revenue percentage by operations	48.8%	36.3%	14.9%	100.0%		

<b>Six months ended June 30, 2010</b>						<b>Revenue</b>
<b>(\$ millions)</b>	<b>Canada</b>	<b>South America</b>	<b>UK</b>	<b>Consolidated</b>	<b>percentage</b>	
New equipment	\$ 319.5	\$ 280.5	\$ 153.2	\$ 753.2	37.1%	
Used equipment	91.8	19.5	34.0	145.3	7.1%	
Equipment rental	87.1	25.3	13.1	125.5	6.2%	
Product support	527.2	374.3	101.9	1,003.4	49.4%	
Other	3.5	1.0	—	4.5	0.2%	
<b>Total</b>	<b>\$ 1,029.1</b>	<b>\$ 700.6</b>	<b>\$ 302.2</b>	<b>\$ 2,031.9</b>	<b>100.0%</b>	
Revenue percentage by operations	50.6%	34.5%	14.9%	100.0%		

## Canadian Operations

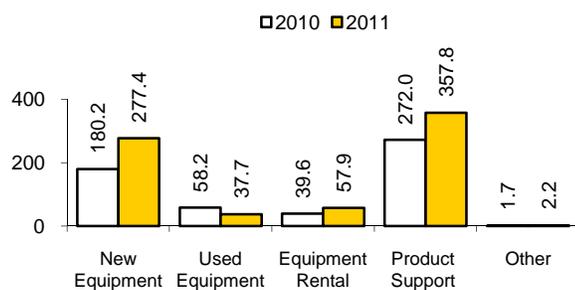
The Canadian operating segment includes Finning (Canada), the Company's interest in OEM Remanufacturing Company Inc. (OEM), and a 25% interest in PipeLine Machinery International (PLM). Finning (Canada) sells, services, and rents mainly Caterpillar mobile equipment and engines in British Columbia, Alberta, Yukon, Northwest Territories, and a portion of Nunavut. The Company's end markets comprise mining (including the oil sands), construction, conventional oil and gas, forestry, and power systems.

The table below provides details of the results from the Canadian operating segment:

(\$ millions)	Three months ended June 30		Six months ended June 30	
	2011	2010	2011	2010
Revenue from external sources	\$ 733.0	\$ 551.7	\$ 1,345.1	\$ 1,029.1
Operating costs	(639.5)	(492.4)	(1,161.2)	(927.9)
Depreciation and amortization	(25.6)	(21.2)	(51.4)	(49.6)
	67.9	38.1	132.5	51.6
Equity earnings of joint venture	1.9	0.8	3.2	2.0
Other expenses				
Information technology system implementation costs	(3.8)	(4.0)	(7.3)	(6.3)
Restructuring costs	—	(0.4)	—	(2.9)
Earnings before interest and taxes (EBIT)	\$ 66.0	\$ 34.5	\$ 128.4	\$ 44.4
EBIT				
- as a percentage of revenue	9.0%	6.2%	9.5%	4.3%
- as a percentage of consolidated EBIT	55.1%	55.1%	56.7%	41.6%
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	\$ 91.6	\$ 55.7	\$ 179.8	\$ 94.0

### Canada – Revenue by Line of Business

Three months ended June 30  
(\$ millions)



Second quarter revenues increased 32.8% over 2010 to \$733.0 million, largely due to significantly higher new equipment sales and record product support revenues.

Product support revenues in the second quarter of 2011 surpassed the first quarter of 2011, setting a new record, and were 31.5% higher than the comparative quarter in 2010. This increase was primarily due to increased demand for parts, component repairs, and machine rebuilds, driven by change-out cycles for the large population of mining equipment in Finning (Canada)'s territory as well as higher utilization of heavy construction fleets.

New equipment sales, 54.0% higher than the second quarter of 2010, were particularly strong in mining and continued to gain pace in heavy construction. New equipment orders in the second quarter of 2011 were the highest in over three years, and Finning (Canada)'s backlog is at its highest level since September 2008.

In Canada, gross profit in absolute terms and as a percentage of revenue were both higher than the second quarter of 2010, driven primarily by the record product support revenues. Gross profit margin in the second quarter of 2011 was second only to the first quarter 2011 record levels, with increased margins in most lines of business.

SG&A costs in the second quarter of 2011 were higher compared to the same period in 2010, primarily due to volume related costs to support increased revenues. However, SG&A as a percentage of revenue was lower than the second quarter of 2010, reflecting operating leverage to higher sales volumes and actions taken to reduce discretionary expenses and improve productivity and efficiencies.

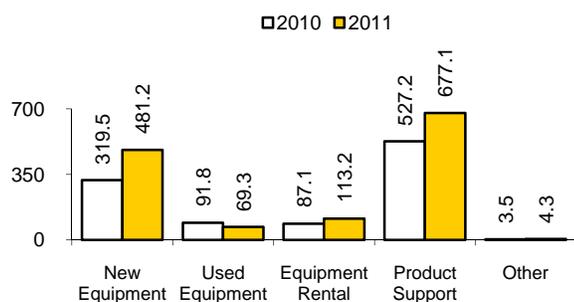
On July 4, the Company launched a new ERP system in Canada that will generate long-term operational benefits to Finning. The new system is operational and the Company is able to transact business across the enterprise. Typical start-up challenges did occur and they are being addressed. An issue arose impacting the efficiency of parts

warehousing and distribution operations which have run at reduced capacity since go-live. Considerable progress has been made in implementing solutions to efficiently receive and ship parts, and the Company expects to be back to normal parts supply levels at its Canadian operations by the end of the third quarter. Finning (Canada) incurred \$3.8 million of costs in the second quarter of 2011 (Q2 2010: \$4.0 million), representing its share of the costs related to this implementation. In response to market conditions, Finning (Canada) incurred some restructuring and severance costs in 2010.

EBIT totalled \$66.0 million in the second quarter of 2011 compared with \$34.5 million in the same period in 2010. EBIT margin was 9.0%, significantly higher than the EBIT margin of 6.2% achieved in the second quarter of 2010. The increase in EBIT was primarily due to higher new equipment and product support revenues. The increase in product support revenues and lower relative SG&A drove higher overall margins in the second quarter of 2011 compared to the same period in 2010.

### Canada – Revenue by Line of Business

Six months ended June 30  
(\$ millions)



Revenues for the six months ended June 30, 2011 increased 30.7% to \$1,345.1 million. Quarterly trends noted above also apply to the year-to-date results of the Company's Canadian operations. Product support revenues in the first six months of 2011 were up 28.4% compared with the same period in 2010, and new equipment revenues were 50.6% higher than the first half of 2010.

SG&A costs for the first half of 2011 were higher in absolute dollar terms but lower as a percentage of revenue compared to the first half of 2010, due to similar reasons noted for the second quarter. The Canadian operations contributed EBIT of \$128.4 million for the six months ended June 30, 2011, almost triple the EBIT of \$44.4 million for the same period in the prior year, with record product support revenues, strong new equipment sales, and higher margins in all lines of business.

### Other Developments

On July 29, 2011, Finning (Canada) and the International Association of Machinists and Aerospace Workers (IAM) – Local Lodge 692, representing approximately 700 employees in B.C. and Yukon, reached agreement on a four-year collective agreement which expires on April 14, 2015. This ended a strike that commenced June 22, 2011. The new agreement provides for a wage increase of 4% in year one, 3% in years two and three, and 4% in year four.

In early January 2011, the Company received a decision from the Alberta Labour Relations Board (ALRB) relating to the ongoing proceedings with the IAM – Local Lodge 99 relating to Finning (Canada)'s outsourcing of component repair and rebuilding services to OEM in 2005. The ALRB recognized the existing collective agreement with the Christian Labour Association of Canada (CLAC) and found that it should continue to apply to the OEM bargaining unit to the end of the current contract (December 31, 2011). A vote was ordered to be held by the OEM employees (some former Finning (Canada) Component Rebuild Centre (CRC) employees were also be eligible to vote) to determine whether the CLAC or IAM – Local Lodge 99 will represent them going forward. These OEM and CRC employees voted in early June 2011 for the CLAC to continue to represent them under the existing collective agreement.

## South American Operations

Finning's South American operation sells, services, and rents mainly Caterpillar mobile equipment and engines in Chile, Argentina, Uruguay, and Bolivia. The Company's end markets comprise mining, construction, and power systems.

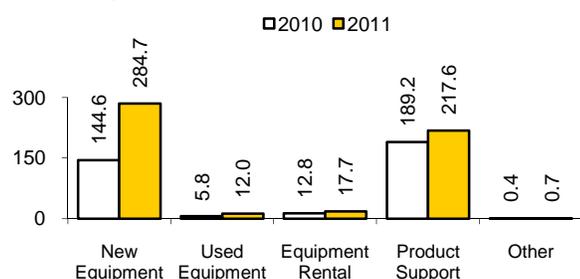
The table below provides details of the results from the South American operations:

(\$ millions)	Three months ended June 30		Six months ended June 30	
	2011	2010	2011	2010
Revenue from external sources	\$ 532.7	\$ 352.8	\$ 999.3	\$ 700.6
Operating costs	(473.2)	(308.6)	(889.7)	(611.4)
Depreciation and amortization	(9.7)	(9.0)	(19.5)	(17.8)
Other expenses	49.8	35.2	90.1	71.4
Information technology system implementation costs	(1.4)	(2.2)	(3.0)	(4.0)
Earnings before interest and taxes (EBIT)	\$ 48.4	\$ 33.0	\$ 87.1	\$ 67.4
EBIT				
- as a percentage of revenue	9.1%	9.4%	8.7%	9.6%
- as a percentage of consolidated EBIT	40.4%	52.7%	38.5%	63.1%
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	\$ 58.1	\$ 42.0	\$ 106.6	\$ 85.2

### South America – Revenue by Line of Business

Three months ended June 30

(\$ millions)



Finning South America's second quarter 2011 revenues were at record levels, and increased 51.0% over the comparable quarter of 2010 (up 60.5% in functional currency, the U.S. dollar). This increase reflected strong new equipment sales, more than double the sales generated in the second quarter of 2010 in functional currency, with increased demand in construction and mining.

New equipment backlog, in functional currency, was at its highest level since September 2008. New equipment orders in the second quarter of 2011 were the highest since September 2008.

Product support revenues continued to show excellent growth, and were 22.2% higher in functional currency than the second quarter of 2010, up in all sectors.

In functional currency, gross profit in the second quarter of 2011 was higher compared with the same period last year in absolute terms. However, gross profit as a percentage of revenue was lower than the second quarter of 2010 primarily due to a shift in revenue mix to a higher proportion of new equipment sales, which typically return lower margins than product support revenues. New equipment sales made up 53.4% of total revenues in the second quarter of 2011, compared with 40.9% of total revenues in the same period last year. Product support revenues comprised 40.9% of total revenues compared with 53.7% of total revenues in the second quarter of 2010.

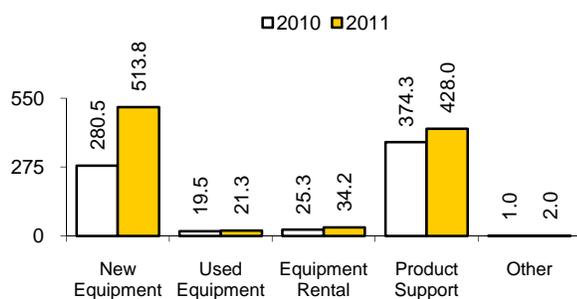
SG&A costs, in functional currency, increased in absolute dollars primarily due to volume-related costs and partly due to an increase in workforce costs to support higher revenues and the growing product support business. From June 30, 2010 to June 30, 2011, the number of employees in the Company's South American operations increased by 18% to approximately 6,300 to meet current and anticipated customer demand for product support. There is significant demand and competition for highly skilled workers, particularly in Chile, which the Company is actively managing. SG&A as a percentage of revenue was lower than the second quarter of 2010, primarily reflecting management's initiatives to reduce operating cost levels and improve operating efficiencies.

Included in other expenses was \$1.4 million (Q2 2010: \$2.2 million) of costs representing the South American operations' share of the costs related to the implementation of a new IT system for the Company's global dealership operations.

EBIT from the Company's South American operations of \$48.4 million in the second quarter of 2011 was 46.4% higher than the second quarter of 2010. In functional currency, EBIT increased 55.5% over the second quarter of the prior year largely due to significantly higher new equipment sales. EBIT as a percentage of revenue for Finning South America was 9.1%, compared with 9.4% achieved in the second quarter of 2010, reflecting the significant increase in lower margin new equipment sales compared with the second quarter of 2010.

### South America – Revenue by Line of Business

Six months ended June 30  
(\$ millions)



For the six months ended June 30, 2011, revenues increased 42.6% to \$999.3 million. In functional currency, revenues were up 51.1% compared with the first half of 2010, reflecting strong new equipment sales and product support revenues.

For the first half of 2011, EBIT of \$87.1 million was 29.2% higher compared to the same period last year, (up 37.0% in functional currency), reflecting the quarterly trends already noted. Similar to the quarter, SG&A costs were higher in the first half of 2011 compared with the same period of 2010 due to higher volumes, but lower as a percentage of revenue, reflecting operating efficiencies and productivity improvements. EBIT as a percentage of revenue for Finning South America was 8.7% for the first half of 2011, compared to the EBIT margin of 9.6% achieved in the same period in 2010, reflecting the significant increase in lower margin new equipment sales.

### United Kingdom (UK) and Ireland Operations

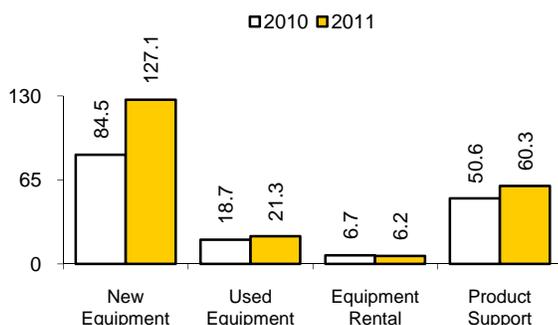
The Company's UK and Ireland operations sell, service, and rent mainly Caterpillar mobile equipment and engines in England, Scotland, Wales, Northern Ireland, the Republic of Ireland, the Falkland Islands, and the Channel Islands. The Company's markets comprise principally mining, quarrying, construction, power systems, and rental services. In August 2010, Finning was appointed the Caterpillar dealer for Northern Ireland and the Republic of Ireland. The results of these operations have been included in the consolidated financial statements since the acquisition date.

The table below provides details of the results of the continuing operations from the UK and Ireland:

(\$ millions)	Three months ended June 30		Six months ended June 30	
	2011	2010	2011	2010
Revenue from external sources	\$ 214.9	\$ 160.5	\$ 410.8	\$ 302.2
Operating costs	(196.5)	(154.4)	(375.8)	(285.4)
Depreciation and amortization	(5.1)	(4.8)	(10.3)	(9.8)
	13.3	1.3	24.7	7.0
Other expenses				
Information technology system implementation costs	(0.4)	(0.8)	(0.7)	(1.6)
Restructuring costs	—	—	—	(0.2)
Earnings before interest and taxes (EBIT)	\$ 12.9	\$ 0.5	\$ 24.0	\$ 5.2
EBIT				
- as a percentage of revenue	6.0%	0.3%	5.8%	1.7%
- as a percentage of consolidated EBIT	10.8%	0.8%	10.6%	4.9%
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	\$ 18.0	\$ 5.3	\$ 34.3	\$ 15.0

### UK & Ireland – Revenue by Line of Business from Continuing Operations

Three months ended June 30  
(\$ millions)



The UK and Ireland revenues for the second quarter of 2011 of \$214.9 million were up 33.9% from the same period last year, and were up 30.1% in functional currency (the U.K. pound sterling). The increase was largely due to higher new equipment sales in construction, particularly in the coal and plant hire sectors, and power systems, as well as the incremental revenues from the Irish operations.

Revenues, in functional currency, from all lines of business were higher compared to second quarter of 2010, with the exception of rental revenues. In functional currency, new equipment sales were up 46.0%, and revenues from product support were 15.8% higher in the second quarter of 2011 compared to second quarter of 2010.

Gross profit, in functional currency, in the second quarter of 2011 was higher compared with the same period last year in absolute terms. However, gross profit as a percentage of revenue was lower than the second quarter of 2010, reflecting a shift in revenue mix to a higher proportion of new equipment sales, which typically return lower margins than product support revenues. New equipment sales made up 59.1% of total revenues in the second quarter of 2011, compared with 52.6% of total revenues in the same period last year. In addition, the UK operations experienced slightly lower gross margins in product support compared with the same period of the prior year, resulting from a very competitive market environment, particularly in power systems.

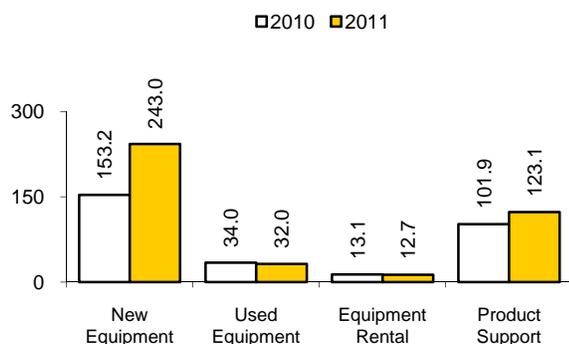
SG&A costs, in functional currency, were lower both in absolute terms and as a percentage of revenue in the second quarter of 2011 compared with the second quarter of 2010, primarily due to a non-recurring pension charge in the prior year's second quarter. This decrease was partly offset by increased volume-related costs to support higher revenues.

Other expenses in the second quarter of 2011 included costs of \$0.4 million representing the UK dealership's share of the costs related to the implementation of a new IT system for the Company's global dealership operations (Q2 2010: \$0.8 million).

In the second quarter of 2011, the UK and Ireland operations generated EBIT of \$12.9 million, compared with EBIT of \$0.5 million in the second quarter of 2010. The higher EBIT in the second quarter of 2011 was primarily the result of significantly higher new equipment revenues, as well as the non-recurring pension charge in the comparative prior period. The UK and Ireland's EBIT margin (EBIT as a percentage of revenue) in the second quarter of 2011 of 6.0% improved significantly compared to 0.3% in the second quarter of 2010 primarily due to higher volumes and reduced SG&A costs as a percentage of revenue.

### UK & Ireland – Revenue by Line of Business from Continuing Operations

Six months ended June 30  
(\$ millions)



For the six months ended June 30, 2011, revenues of \$410.8 million were 35.9% higher than the same period in the prior year. In functional currency, total revenues were 35.1% higher compared to that reported in the first six months of 2010. The higher results in the first six months of 2011 compared to the same period last year were primarily due to the same reasons as noted for the quarter.

#### Other Developments

In the first quarter of 2011, Finning UK and the Unite trade union successfully reached a new two-year collective agreement which will expire at the end of 2012.

## Corporate and Other Operations

(\$ millions)	Three months ended June 30		Six months ended June 30	
	2011	2010	2011	2010
Operating costs – corporate	\$ (4.7)	\$ (4.0)	\$ (10.3)	\$ (7.4)
Long-term incentive plan (LTIP)	(2.0)	(1.2)	(1.6)	(0.9)
Depreciation and amortization	(0.1)	(0.1)	(0.2)	(0.1)
	(6.8)	(5.3)	(12.1)	(8.4)
Equity loss of joint venture	(0.9)	—	(1.4)	(1.3)
Other expenses (income)				
Information technology system implementation costs	—	(0.1)	0.2	(0.5)
Earnings before interest and taxes	\$ (7.7)	\$ (5.4)	\$ (13.3)	\$ (10.2)

For the three months ended June 30, 2011, corporate operating costs of \$4.7 million were 17.5% higher compared with the same period in 2010. For the six months ended June 30, 2011, operating costs were \$10.3 million, compared with \$7.4 million for the same period in 2010.

The Company entered into a compensation hedge at the end of 2007 in order to offset the mark-to-market impact relating to certain stock-based compensation plans. The LTIP expense recorded at the corporate level is partially offset by the fair value change of the compensation hedge.

The equity loss of joint venture for the three and six months ended June 30, 2011 and 2010 relates to the Company's investment in Energyst B.V., reflecting reduced rental activity and tighter margins in power systems as a result of the continued weak economic conditions in Europe. The Company's equity investment in Energyst B.V. increased to 27.0% from 25.4% in the first quarter of 2011.

## Liquidity and Capital Resources

### Cash Flow from Operating Activities

For the three months ended June 30, 2011, cash flow used in continuing operations after working capital changes was \$129.8 million (year-to-date 2011: \$234.8 million), compared with cash generated of \$39.4 million during the same period in 2010 (year-to-date 2010: \$159.4 million).

The use of cash in the first half of 2011 reflected an increase in customer demand with a corresponding increase in working capital requirements, driven by higher inventory and accounts receivable levels. As a result, the Company's working capital investment in the second quarter of 2011 was \$217.4 million higher than in the comparable quarter of the prior year (year to date 2011: \$459.3 million higher than the first half of 2010). Throughout all operations, management continues to focus on improving cash cycle times and operating efficiencies while ensuring appropriate levels of working capital are in place to support activity levels.

In the second quarter of 2011, the Company invested \$79.1 million in rental assets for continuing operations, net of disposals (year-to-date 2011: \$112.8 million). In the comparable quarter in 2010, the Company invested \$15.2 million in rental assets, net of disposals (year-to-date 2010: \$15.8 million). Rental investment had moderated in 2010 as a result of lower demand and a focus on a more selective rental strategy. Rental demand has increased in 2011 in response to improved market conditions; however, the Company continues to closely monitor overall rental investment levels and returns.

As a result of these items, cash flow used in operating activities was \$208.9 million in the second quarter of 2011 (year-to-date 2011: \$346.4 million use of cash) compared to cash flow provided by operating activities of \$28.8 million in the comparative quarter of 2010 (year-to-date 2010: \$140.4 million generation of cash).

EBITDA was \$160.1 million in the second quarter of 2011 (year-to-date 2011: \$307.6 million) compared to \$97.7 million in the second quarter of 2010 (year-to-date 2010: \$184.1 million).

### Cash Used For Investing Activities

Net cash used in investing activities for the three months ended June 30, 2011 totalled \$11.5 million (year-to-date 2011: \$31.9 million) compared with net cash provided by investing activities of \$72.5 million in the second quarter of 2010 (year-to-date 2010: \$88.8 million). The primary source of cash in the second quarter of 2010 related to the sale of Hewden for net proceeds of \$117.8 million, net of transaction costs and cash sold. In the second quarter of 2011,

the Company received \$6.3 million as partial payment of the £20 million 5-year note receivable from the purchaser of Hewden.

Gross capital additions from continuing operations for the three months ended June 30, 2011 were \$18.9 million (year-to-date 2011: \$37.9 million) compared with the \$14.5 million invested in the second quarter of 2010 (year-to-date 2010: \$29.1 million). Capital additions in 2011 and 2010 generally reflected capital spending related to growing product support demand. In addition, capital additions in the second quarter of 2011 included capitalized costs of \$3.0 million (Q2 2010: \$4.4 million) related to the Company's new global IT system (year-to-date 2011: \$5.9 million; year-to-date 2010: \$8.2 million).

In the first quarter of 2011, the Company increased its investment in Energyst B.V. by \$1.4 million.

In the first quarter of 2010, the Company received proceeds of \$26.0 million on the settlement of a cross currency interest rate swap that was part of a hedge against foreign subsidiary investments.

### **Financing Activities**

As at June 30, 2011, the Company's short and long-term borrowings totalled approximately \$1.2 billion, up 17.4% from December 31, 2010. The increase reflected borrowings to support the Company's higher working capital requirements.

Finning has committed bank facilities totalling approximately \$925 million with various Canadian, U.S., and South American financial institutions. The largest of these facilities, an \$800 million global credit facility, matures in December 2011. As at June 30, 2011 over \$650 million was available under these committed facilities and no long-term debt matures until December 2011. The Company expects to negotiate a revised global credit facility prior to its maturity in December 2011. Based upon the availability of these facilities, the Company's business operating plans, and the discretionary nature of some of the outflows such as rental and capital expenditures, the Company believes it has sufficient liquidity to meet operational needs.

The Company's long-term and short-term debt ratings were reconfirmed at A (low) and R-1 (low), respectively, by Dominion Bond Rating Service on April 1, 2011.

Dividends paid to shareholders in the second quarter of 2011 were \$22.3 million, up almost 9% compared to the second quarter of 2010, reflecting the \$0.01 per common share increase to a quarterly dividend of \$0.13 per common share announced in May 2011. Dividends paid to shareholders for the first half of 2011 increased 9.1% to \$42.9 million.

The Company's Debt Ratio (net debt to total capitalization ratio) at June 30, 2011 was 45.6%, compared with 40.3% at March 31, 2011 and 35.3% at December 31, 2010. The increase in the Debt Ratio reflected cash used to fund working capital requirements. With positive cash generation expected in the second half of the year, the Debt Ratio is expected to remain within the Company's target range by the end of 2011.

### **Description of Non-GAAP Measures**

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EBIT is defined herein as earnings from continuing operations before interest expense, interest income, and income taxes. EBITDA is defined as earnings from continuing operations before interest, taxes, depreciation, and amortization. Free Cash Flow is defined as cash flow provided by (used in) operating activities less net capital expenditures. EBIT, EBITDA, and Free Cash Flow are measures of performance utilized by management to measure and evaluate the financial performance of its operating segments. EBITDA and Free Cash Flow are measures commonly reported and widely used by investors as an indicator of a company's cash operating performance and ability to raise and service debt. EBITDA is also commonly regarded as an indirect measure of operating cash flow, a significant indicator of success for many businesses and is a common valuation metric.

Management believes that these measures provide important information regarding the operational performance of the Company's business. By considering these measures in combination with the comparable IFRS (also referred to as generally accepted accounting principles, or GAAP) measures set out below, management believes that shareholders are provided a better overall understanding of the Company's business and its financial performance during the relevant period than if they simply considered the GAAP measures alone. EBIT, EBITDA, and Free Cash Flow do not have any standardized meaning prescribed by GAAP and are therefore unlikely to be comparable to similar measures presented by other issuers. Accordingly, these measures should not be considered as a substitute or alternative for net income or cash flow, in each case as determined in accordance with GAAP.

A reconciliation between EBITDA, EBIT, and net income from continuing operations is as follows:

(\$ millions)	Three months ended June 30		Six months ended June 30	
	2011	2010	2011	2010
Earnings from continuing operations before interest, taxes, depreciation, and amortization (EBITDA)	\$ 160.1	\$ 97.7	\$ 307.6	\$ 184.1
Depreciation and amortization	(40.5)	(35.1)	(81.4)	(77.3)
Earnings from continuing operations before interest and income taxes (EBIT)	119.6	62.6	226.2	106.8
Finance costs	(14.0)	(22.4)	(28.0)	(35.6)
Provision for income taxes	(23.7)	(4.5)	(44.8)	(9.0)
Net income from continuing operations	\$ 81.9	\$ 35.7	\$ 153.4	\$ 62.2

A reconciliation of Free Cash Flow is as follows:

(\$ millions)	Three months ended June 30		Six months ended June 30	
	2011	2010	2011	2010
Cash flow provided by (used in) operating activities	\$ (208.9)	\$ 28.8	\$ (346.4)	\$ 140.4
Additions to capital assets	(18.9)	(14.5)	(37.9)	(29.1)
Proceeds on disposal of capital assets	1.0	0.3	1.1	1.4
Net capital expenditures of discontinued operations	—	—	—	3.8
Free cash flow	\$ (226.8)	\$ 14.6	\$ (383.2)	\$ 116.5

Free Cash Flow from Hewden has been included in the figures for periods prior to sale in May 2010.

## Risk Management

Finning and its subsidiaries are exposed to market, financial, and other risks in the normal course of their business activities. The Company has adopted an Enterprise Risk Management (ERM) approach in identifying, prioritizing, and evaluating risks. This ERM framework assists the Company in managing business activities and risks across the organization in order to achieve the Company's strategic objectives. The Company assesses its ERM approach as part of its quarterly process to ensure it continues to operate in an effective and efficient manner.

The Company is dedicated to a strong risk management culture to protect and enhance shareholder value. The processes within Finning's risk management function are designed to ensure that risks are properly identified, managed, and reported. The Company discloses all of its key risks in its most recent AIF with key financial risks also included in the Company's Annual MD&A. On a quarterly basis, the Company assesses all of its key risks and any changes to key financial or business risks are disclosed in the Company's quarterly MD&A. Also on a quarterly basis, the Audit Committee reviews the Company's process with respect to risk assessment and management of key risks, including the Company's major financial risks and exposures and the steps taken to monitor and control such exposures. Changes to the key risks are also reviewed by the Audit Committee. For further details on the management of liquidity and capital resources, financial derivatives, and financial risks and uncertainties, please refer to the Company's AIF and MD&A for the year ended December 31, 2010.

There have been no significant changes to existing risk factors and no new key risks identified from the key risks disclosed in the Company's current AIF for the year ended December 31, 2010, which can be found at [www.sedar.com](http://www.sedar.com) and [www.finning.com](http://www.finning.com).

### Sensitivity to variances in foreign exchange rates

The Company is geographically diversified, with significant investments in several different countries. The Company transacts business in multiple currencies, the most significant of which are the U.S. dollar (USD), the Canadian dollar (CAD), the U.K. pound sterling (GBP), and the Chilean peso (CLP). As a result, the Company has foreign currency exposure with respect to items denominated in foreign currencies. The two main types of foreign exchange risk of the Company are translation exposure and transaction exposure. These are explained further in the Foreign Exchange Risk section in the 2010 annual MD&A.

The sensitivity of the Company's net earnings to fluctuations in average annual foreign exchange rates is summarized in the table below. A 5% strengthening of the Canadian dollar against the following currencies for a full year relative to the June 30, 2011 month end rates would increase / (decrease) annual net income by the amounts shown below. This analysis assumes that all other variables, in particular volumes, relative pricing, interest rates, and hedging activities are unchanged.

Currency	June 30, 2011 month end rates	Net income \$ millions
USD	0.9643	\$ (30)
GBP	1.5493	\$ (2)
CLP	0.0020	\$ 1

The sensitivities noted above ignore the impact of exchange rate movements on other macroeconomic variables, including overall levels of demand and relative competitive advantages. If it were possible to quantify these impacts, the results would likely be different from the sensitivities shown above. The sensitivity to variances in foreign exchange rates as noted above is an annual view which factors in annual forecast volumes and average hedging activities which, in management's opinion, may not be representative of the inherent foreign exchange risk exposure for a quarter.

## **Controls and Procedures Certification**

### **Disclosure Controls and Procedures**

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

The CEO and the CFO, together with other members of management, have designed the Company's disclosure controls and procedures in order to provide reasonable assurance that material information relating to the Company and its consolidated subsidiaries would have been known to them, and by others, within those entities.

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

- The Disclosure Policy sets out accountabilities, authorized spokespersons, and Finning's approach to the determination, preparation, and dissemination of material information. The policy also defines restrictions on insider trading and the handling of confidential information.
- A Disclosure Committee, consisting of senior management and external legal counsel, review all financial information prepared for communication to the public to ensure it meets all regulatory requirements and is responsible for raising all outstanding issues it believes require the attention of the Audit Committee prior to recommending disclosure for that Committee's approval.

### **Internal Control over Financial Reporting**

Management is responsible for establishing and maintaining adequate internal control over financial reporting. Management has designed internal control over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements in accordance with IFRS. There has been no change in the design of the Company's internal control over financial reporting during the quarter ended June 30, 2011, that would materially affect, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

Regular involvement of the Company's internal audit function and quarterly reporting to the Audit Committee and the Company's external auditors assist in providing reasonable assurance that the objectives of the control system are met. While the officers of the Company have designed the Company's disclosure controls and procedures and internal control over financial reporting, they are aware that these controls and procedures may not prevent all errors and fraud. A control system, no matter how well conceived or operated, can only provide reasonable, not absolute, assurance that the objectives of the control system are met.

## Selected Quarterly Information

\$ millions (except for share and option data)	2011		2010				2009		
	IFRS		IFRS				Canadian GAAP		
	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2
Revenue from continuing operations <sup>(1) (2)</sup>									
Canada	\$ 733.0	\$ 612.1	\$ 652.0	\$ 586.6	\$ 551.7	\$ 477.4	\$ 601.8	\$ 489.9	\$ 582.0
South America	532.7	466.6	505.7	462.2	352.8	347.8	337.0	376.9	363.0
UK & Ireland	214.9	195.9	188.8	157.4	160.5	141.7	142.0	145.5	152.4
<b>Total revenue</b>	<b>\$1,480.6</b>	<b>\$1,274.6</b>	<b>\$1,346.5</b>	<b>\$1,206.2</b>	<b>\$1,065.0</b>	<b>\$ 966.9</b>	<b>\$1,080.8</b>	<b>\$1,012.3</b>	<b>\$1,097.4</b>
Net income (loss) <sup>(1) (2)</sup>									
from continuing operations	\$ 81.9	\$ 71.5	\$ 55.5	\$ 63.4	\$ 35.7	\$ 26.5	\$ 21.7	\$ 25.6	\$ 56.5
from discontinued operations	—	—	—	—	(123.2)	(1.8)	(5.4)	(3.9)	(8.7)
<b>Total net income</b>	<b>\$ 81.9</b>	<b>\$ 71.5</b>	<b>\$ 55.5</b>	<b>\$ 63.4</b>	<b>\$ (87.5)</b>	<b>\$ 24.7</b>	<b>\$ 16.3</b>	<b>\$ 21.7</b>	<b>\$ 47.8</b>
Basic Earnings (Loss) Per Share <sup>(1) (2)</sup>									
from continuing operations	\$ 0.48	\$ 0.42	\$ 0.32	\$ 0.37	\$ 0.21	\$ 0.16	\$ 0.13	\$ 0.15	\$ 0.33
from discontinued operations	—	—	—	—	(0.72)	(0.01)	(0.03)	(0.02)	(0.05)
<b>Total basic EPS</b>	<b>\$ 0.48</b>	<b>\$ 0.42</b>	<b>\$ 0.32</b>	<b>\$ 0.37</b>	<b>\$ (0.51)</b>	<b>\$ 0.15</b>	<b>\$ 0.10</b>	<b>\$ 0.13</b>	<b>\$ 0.28</b>
Diluted Earnings (Loss) Per Share <sup>(1) (2)</sup>									
from continuing operations	\$ 0.47	\$ 0.41	\$ 0.32	\$ 0.37	\$ 0.21	\$ 0.15	\$ 0.13	\$ 0.15	\$ 0.33
from discontinued operations	—	—	—	—	(0.72)	(0.01)	(0.03)	(0.02)	(0.05)
<b>Total diluted EPS</b>	<b>\$ 0.47</b>	<b>\$ 0.41</b>	<b>\$ 0.32</b>	<b>\$ 0.37</b>	<b>\$ (0.51)</b>	<b>\$ 0.14</b>	<b>\$ 0.10</b>	<b>\$ 0.13</b>	<b>\$ 0.28</b>
<b>Total assets <sup>(1) (2)</sup></b>	<b>\$3,645.0</b>	<b>\$3,511.0</b>	<b>\$3,429.7</b>	<b>\$3,356.0</b>	<b>\$3,231.5</b>	<b>\$3,273.0</b>	<b>\$3,671.4</b>	<b>\$3,892.4</b>	<b>\$4,357.3</b>
Long-term debt									
Current	\$ 263.2	\$ 209.0	\$ 203.1	\$ 37.9	\$ 32.4	\$ 23.7	\$ 24.2	\$ 23.9	\$ 2.6
Non-current	710.9	711.7	711.1	861.4	867.4	940.5	991.7	1,013.8	1,206.4
<b>Total long-term debt <sup>(3)</sup></b>	<b>\$ 974.1</b>	<b>\$ 920.7</b>	<b>\$ 914.2</b>	<b>\$ 899.3</b>	<b>\$ 899.8</b>	<b>\$ 964.2</b>	<b>\$1,015.9</b>	<b>\$1,037.7</b>	<b>\$1,209.0</b>
Cash dividends paid per common share	\$ 0.13	\$ 0.12	\$ 0.12	\$ 0.12	\$ 0.12	\$ 0.11	\$ 0.11	\$ 0.11	\$ 0.11
Common shares outstanding (000's)	171,570	171,528	171,431	171,177	171,009	170,907	170,747	170,661	170,631
Options outstanding (000's)	5,462	5,371	5,603	6,095	6,455	6,058	6,299	6,537	6,606

- 1) In August 2010, the Company was appointed the Caterpillar dealer for Northern Ireland and the Republic of Ireland. The results of operations and financial position of these dealers have been included in the figures above since the date of acquisition.
- 2) On May 5, 2010, the Company sold Hewden, its UK equipment rental business. Results from Hewden are presented as discontinued operations and have been reclassified to that category for all periods presented. Included in the loss from discontinued operations in the second quarter of 2010 is the after-tax loss on the disposition of Hewden of \$120.8 million. Revenues from Hewden have been excluded from the revenue figures above. Assets from Hewden have been included in the total assets figures for periods prior to the sale.
- 3) In the second quarter of 2010, the Company utilized funds from the sale of Hewden to redeem £45 million of its £115 million Eurobond Notes.

The Company's \$800 million global credit facility matures in December 2011; therefore drawings on the credit facility since December 31, 2010 were classified as current. The Company expects to negotiate a revised global credit facility prior to December 2011. The Company's \$150 million Medium Term Note matures in December 2011 and has been classified as current since December 2010.

## **New Accounting Pronouncements**

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### **Changes in Accounting Policy in 2011**

#### **EXPLANATION OF TRANSITION TO IFRS**

The Q1 2011 interim condensed consolidated financial statements were the Company's first interim consolidated financial statements to be presented in accordance with IFRS. As such, the Company's transition activities with respect to IFRS technical analysis, preparation of IFRS compliant comparatives for 2010, transition training, and systems and controls reviews are now complete. The Company wishes to emphasize that the transition to IFRS does not impact its underlying business activities or strategy; the changes arising from the adoption of IFRS relate to accounting differences only.

#### **Transition adjustments**

The Company's transitional elections, accounting policy choices, and their impact on the financial statements are described in Note 10 to these interim condensed consolidated financial statements. Reconciliations of the statement of financial position at June 30, 2010 and statements of income and comprehensive income for the three and six months ended June 30, 2010 are also provided in Note 10. Reconciliations of shareholders' equity at the transition date (January 1, 2010) and at December 31, 2010, and of total comprehensive income for the year ended December 31, 2010 are provided in Note 9 of the Q1 2011 interim condensed consolidated financial statements. Where an accounting policy choice or transitional election was available, the Company considered, amongst other factors, expected developments in International Accounting Standards Board (IASB) standard setting, practice amongst existing IFRS reporters, and the implementation effort required in making the policy choice or election.

#### **Key performance indicators**

The impact of IFRS on the Company's key performance indicators has been assessed as follows:

##### *Net debt to total capitalization*

As a result of the reduction to equity arising in the Company's opening statement of financial position (primarily due to the transitional election taken to write off previously unrecognized actuarial losses to retained earnings), the net debt to total capitalization ratio at December 31, 2010 increased from 33.0% (Canadian GAAP) to 35.3% (IFRS). The Company expects increased variability in this metric under IFRS, as the immediate recognition of actuarial gains and losses in other comprehensive income will increase volatility in shareholders' equity. The Company's underlying financing strategy is not impacted by this accounting change.

##### *Free cash flow*

The revised presentation of the Company's joint venture using the equity method had an insignificant impact on comparative free cash flow, which increased to \$116.5 million (IFRS) from \$115.5 million (Canadian GAAP) for the six months ended June 30, 2010. Cash and cash equivalents of the Company's joint venture are now disclosed in the 'Investment in joint venture and associate' line on the statement of financial position and are consequently not included in the calculation of free cash flow.

##### *EBIT margin (EBIT as a percentage of revenue)*

The decrease in comparative period EBIT margin from 6.2% (Canadian GAAP) to 5.9% (IFRS) for the three months ended June 30, 2010 was primarily attributable to an amendment to Finning UK's defined benefit plan which reversed a previous decision to move to a Career Average Re-valued Earnings (CARE) basis of benefit accrual. As a result, past service costs of \$7.8 million were recognized during Q2 2010 under IFRS; these costs had previously been deferred under Canadian GAAP. For the six months ended June 30, 2010, EBIT margin increased to 5.3% (IFRS) from 5.2% (Canadian GAAP); this improvement was driven by higher EBIT relative to revenue from the revised presentation of the Company's joint venture, combined with an overall reduction in SG&A expenses (primarily due to reduced share based payment expense in all operations and reduced pension expense in Canada) partially offset by the additional UK pension costs described above.

##### *Earnings per share*

Earnings per share from continuing operations were unchanged at \$0.21 for the three months ended June 30, 2010. Improvements to net income under IFRS were offset by the immediate recognition of past service costs in the UK operations as described above. The increase in net income was primarily driven by lower defined benefit pension expense under IFRS in the Canadian and UK operations due to the fact that actuarial losses have been recognized in equity and are therefore no longer amortized through SG&A. In addition, the improvement reflected reduced share based payment expense arising from the change to a fair value measurement for cash settled share based payment plans (in all operations) and a reduction in tax expense due to differences in the computation of deferred tax balances (primarily in the Company's South American operations).

Earnings per share from continuing operations for the six months ended June 30, 2010 increased from \$0.35 (Canadian GAAP) to \$0.36 (IFRS), for the same reasons noted above.

### **Control activities**

The Company has assessed the impact of IFRS on internal control over financial reporting. Changes to the Company's control processes were minimal, mainly related to some additional processes to identify the actuarial gains and losses relating to the defined benefit pension plans on a quarterly basis. While IFRS requires substantial additional disclosures in the financial statements, the Company assessed its existing disclosure control framework to be adequate to support these new disclosure requirements.

### **Systems implications**

The Company's existing systems infrastructure did not require significant adaptation to record the comparative IFRS data. Going forward, the Company's new global IT system will continue to be able to support IFRS reporting, and there has been frequent liaison between the IT system and IFRS project teams to ensure alignment of the system design and IFRS reporting requirements.

### **Post implementation plan**

Going forward, the Company will continue to monitor IASB standard setting developments. Current IASB projects relating to employee future benefits, joint ventures, financial instruments, revenue, and leases are especially relevant to the Company. Ongoing technical training will be provided to relevant personnel where required as these new and revised standards are issued.

### **Future Accounting Pronouncements**

The Company has not applied the following revised IFRS that has been issued but not yet effective at June 30, 2011:

- Amendments to IFRS 7, *Financial Instruments: Disclosures* were effective July 1, 2011 and introduce enhanced disclosure around transfer of financial assets and associated risks. These amendments are not anticipated to impact the disclosures made by the Company.

The Company has not applied the following new and revised IFRS that have been issued but are not yet effective at August 11, 2011:

- Amendments to IAS 1, *Presentation of Financial Statements* (effective for annual periods beginning on or after July 1, 2012) require that elements of other comprehensive income that may subsequently be reclassified through profit and loss be differentiated from those items that will not be reclassified.
- IFRS 9, *Financial Instruments* (effective January 1, 2013, with a proposal to defer the effective date to January 1, 2015) introduces new requirements for the classification and measurement of financial assets.
- IFRS 10 *Consolidated Financial Statements*, IFRS 11 *Joint Arrangements*, IFRS 12 *Disclosure of Interests in Other Entities*, and consequential revisions to IAS 27 *Separate Financial Statements* and IAS 28 *Investments in Associates and Joint Ventures* (all effective January 1, 2013) provide revised guidance on the accounting treatment and associated disclosure requirements for joint arrangements and associates, and a revised definition of 'control' for identifying entities which are to be consolidated.
- IFRS 13 *Fair Value Measurement* (effective January 1, 2013) provides new guidance on fair value measurement and disclosure requirements.

These accounting standards are not expected to have a significant effect on the Company's accounting policies or financial statements.

- Amendments to IAS 19, *Employee Benefits* (effective January 1, 2013) provide new requirements for the accounting for defined benefit pension plans. Most notably, the amendments mandate the immediate recognition of actuarial gains and losses, and require companies to use the same discount rate for both the defined benefit obligation and the expected asset return when calculating the interest component of pension expense. The Company already recognizes all actuarial gains and losses immediately through other comprehensive income, consequently this element of the amendments will not impact the Company. The Company is currently evaluating the impact of other amendments to IAS 19.

### **Outstanding Share Data**

#### **As at August 4, 2011**

Common shares outstanding	<b>171,571,248</b>
Options outstanding	<b>5,458,667</b>

## Outlook

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Consolidated backlog continued to increase for the seventh consecutive quarter demonstrating strong demand for new equipment and robust quotation activity in all the Company's regions. Low-hour used equipment remains in short supply, and rental equipment is in high demand. The Company is experiencing high levels of product support activity in all markets because of solid demand for parts and service. In addition, demand for equipment rebuild work for mining and construction customers remains robust.

As a result of strong market conditions, all regions are experiencing increased lead times from Caterpillar for new equipment. The Company has significantly increased inventory levels in response and is also utilizing the entire Caterpillar dealer network to source new and used equipment, working closely with its customers to find solutions for their equipment needs. Such solutions include renting, repairing or rebuilding equipment.

In Canada, the Company is experiencing significantly increased demand for new, used and rental equipment in all sectors. In mining, including the oil sands, new machine sales and quoting activity for projects remains strong. The heavy construction and conventional oil sectors are very active, driving increased demand for equipment. In power systems, the Company benefits from robust compression and drilling activity. Product support business is strong in all sectors and large equipment overhaul and component remanufacturing activity has increased.

In South America, new order intake in all sectors is robust. Demand for mining equipment is very strong and expected to remain so for the foreseeable future. The Company is receiving new orders from mining customers and is actively quoting on new equipment. In Chile and Argentina, construction and power systems activity is projected to remain solid, as a result of significant investment in infrastructure and energy. The growing installed base of equipment in mining, construction, and power systems is expected to continue to drive ongoing product support growth in South America.

In the UK, quoting and order intake remain active despite the general economic outlook remaining uncertain. Sales opportunities to coal mining, quarrying, and waste customers remain positive. The Company also continues to execute well on its distribution strategy for smaller new equipment. Product support activities, including equipment rebuild work, are expected to remain at healthy levels. In power systems, order intake for equipment and projects has strengthened significantly in the pleasure craft, industrial, oil and gas, and power and energy sectors. The outlook for the business in Ireland looks positive, mainly due to power systems business.

The Company maintains its focus on cost containment and continues to implement efficiency and productivity initiatives to further improve operating leverage and drive higher profitability. SG&A as a percentage of revenue is projected to decline to approximately 20% in the medium term.

Results for the first half of the year have exceeded the Company's expectations, driven by record product support revenues and exceptionally strong new equipment sales. The Company expects active market conditions to continue through the second half of the year. However, the Company anticipates that short-term challenges with its new enterprise resource planning (ERP) system, coupled with the five-week labour stoppage in B.C. will impact its third quarter 2011 results in Canada.

The outlook for mining, construction and power systems markets for 2012 and 2013 remains strong. The Company is committed to driving ongoing profitability improvement and is making solid progress toward achieving its 10% EBIT margin target in 2013.

Finning has entered into preliminary discussions with Caterpillar regarding the possible purchase of certain distribution assets owned by Caterpillar through its recently completed acquisition of Bucyrus. Due to the preliminary nature of these discussions, no assurance can be given that any transaction will occur or concerning the terms, conditions or timing of any such transaction. If those discussions are successful and a definitive agreement is entered into between Finning and Caterpillar, Finning will provide appropriate disclosure regarding the terms of the arrangement. Until such time, Finning does not intend to provide any further comments regarding the progress of negotiations or the terms of any potential agreement.

August 11, 2011

## Forward-Looking Disclaimer

This report contains statements about the Company's business outlook, objectives, plans, strategic priorities and other statements that are not historical facts. A statement we make is forward-looking when it uses what we know and expect today to make a statement about the future. Forward-looking statements may include words such as aim, anticipate, assumption, believe, could, expect, goal, guidance, intend, may, objective, outlook, plan, project, seek, should, strategy, strive, target, and will. Forward-looking statements in this report include, but are not limited to, statements with respect to: expectations with respect to the economy and associated impact on the Company's financial results; expected revenue and SG&A levels and EBIT growth; anticipated generation of free cash flow (including projected net capital and rental expenditures), and its expected use; anticipated defined benefit plan contributions; the expected target range of Debt Ratio; the expected quantitative impact on the 2010 consolidated statements of financial position and statements of income and comprehensive income of the Company's transition to IFRS effective January 1, 2010; and the impact on new and revised IFRS that have been issued but are not yet effective. All such forward-looking statements are made pursuant to the 'safe harbour' provisions of applicable Canadian securities laws.

Unless otherwise indicated by us, forward-looking statements in this report describe our expectations at August 11, 2011. Except as may be required by Canadian securities laws, we do not undertake any obligation to update or revise any forward-looking statement, whether as a result of new information, future events, or otherwise.

Forward-looking statements, by their very nature, are subject to numerous risks and uncertainties and are based on several assumptions which give rise to the possibility that actual results could differ materially from our expectations expressed in or implied by such forward-looking statements and that our business outlook, objectives, plans, strategic priorities and other statements that are not historical facts may not be achieved. As a result, we cannot guarantee that any forward-looking statement will materialize. Factors that could cause actual results or events to differ materially from those expressed in or implied by our forward-looking statements include: general economic and market conditions; foreign exchange rates; commodity prices; the level of customer confidence and spending, and the demand for, and prices of, our products and services; our dependence on the continued market acceptance of Caterpillar's products and Caterpillar's timely supply of parts and equipment; our ability to continue to improve productivity and operational efficiencies while continuing to maintain customer service; our ability to manage cost pressures as growth in revenues occur; our ability to attract sufficient skilled labour resources to meet growing product support demand; our ability to negotiate and renew collective bargaining agreements with satisfactory terms for our employees and the Company; the intensity of competitive activity; our ability to raise the capital we need to implement our business plan; regulatory initiatives or proceedings, litigation and changes in laws or regulations; stock market volatility; changes in political and economic environments for operations; the integrity, reliability, and availability of technology and the data processed by that technology; new or amended IFRS or interpretations that become effective prior to the inclusion of the Company's financial statement of position in its first annual audited IFRS financial statements. Forward-looking statements are provided in this report for the purpose of giving information about management's current expectations and plans and allowing investors and others to get a better understanding of our operating environment. However, readers are cautioned that it may not be appropriate to use such forward-looking statements for any other purpose.

Forward-looking statements made in this report are based on a number of assumptions that we believed were reasonable on the day we made the forward-looking statements. Refer in particular to the Outlook section of the MD&A. Some of the assumptions, risks, and other factors which could cause results to differ materially from those expressed in the forward-looking statements contained in this report are discussed in the Company's current Annual Information Form (AIF) in Section 4.

We caution readers that the risks described in the AIF are not the only ones that could impact us. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial may also have a material adverse effect on our business, financial condition, or results of operations.

Except as otherwise indicated by us, forward-looking statements do not reflect the potential impact of any non-recurring or other unusual items or of any dispositions, mergers, acquisitions, other business combinations or other transactions that may be announced or that may occur after the date hereof. The financial impact of these transactions and non-recurring and other unusual items can be complex and depends on the facts particular to each of them. We therefore cannot describe the expected impact in a meaningful way or in the same way we present known risks affecting our business.

**UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**

<b>(Canadian \$ thousands)</b>	<b>June 30, 2011</b>	<b>December 31, 2010</b>
<b>ASSETS</b>		
Current assets		
Cash and cash equivalents	\$ 96,598	\$ 346,387
Accounts receivable	816,055	663,920
Service work in progress	62,657	73,602
Inventories	1,325,465	1,075,824
Income taxes recoverable	16,541	24,444
Derivative assets	3,403	7,420
Other assets	143,246	114,096
<b>Total current assets</b>	<b>2,463,965</b>	<b>2,305,693</b>
Rental equipment	411,953	366,628
Property, plant, and equipment	449,075	440,363
Intangible assets	50,367	45,285
Goodwill	90,182	91,114
Investment in and advances to joint venture and associate	55,803	53,008
Finance assets	27,067	30,158
Deferred tax assets	64,890	59,542
Other assets	31,740	37,907
	<b>\$ 3,645,042</b>	<b>\$ 3,429,698</b>
<b>LIABILITIES</b>		
Current liabilities		
Short-term debt	\$ 204,926	\$ 89,965
Accounts payable and accruals	602,327	611,051
Income tax payable	19,618	8,225
Provisions	64,717	57,365
Deferred revenue	284,155	318,657
Derivative liabilities	801	4,421
Current portion of long-term debt	263,154	203,087
<b>Total current liabilities</b>	<b>1,439,698</b>	<b>1,292,771</b>
Long-term debt	710,955	711,067
Long-term obligations	162,108	180,725
Derivative liabilities	6,602	8,672
Provisions	2,992	1,078
Deferred revenue	18,373	18,876
Deferred tax liabilities	13,420	13,524
<b>Total liabilities</b>	<b>2,354,148</b>	<b>2,226,713</b>
<b>SHAREHOLDERS' EQUITY</b>		
Share capital	566,359	564,973
Contributed surplus	34,175	33,128
Accumulated other comprehensive loss	(78,867)	(53,385)
Retained earnings	769,227	658,269
<b>Total shareholders' equity</b>	<b>1,290,894</b>	<b>1,202,985</b>
	<b>\$ 3,645,042</b>	<b>\$ 3,429,698</b>

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

## UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENTS OF INCOME

(Canadian \$ thousands, except share and per share amounts)	Three months ended June 30		Six months ended June 30	
	2011	2010	2011	2010
Revenue				
New equipment	\$ 689,205	\$ 409,260	\$ 1,237,968	\$ 753,170
Used equipment	70,911	82,661	122,554	145,273
Equipment rental	81,810	59,135	160,103	125,483
Product support	635,731	511,774	1,228,249	1,003,420
Other	2,877	2,117	6,296	4,516
Total revenue	<b>1,480,534</b>	1,064,947	<b>2,755,170</b>	2,031,862
Cost of sales	<b>(1,040,596)</b>	(734,867)	<b>(1,917,889)</b>	(1,410,262)
Gross profit	<b>439,938</b>	330,080	<b>837,281</b>	621,600
Selling, general, and administrative expenses	<b>(315,762)</b>	(260,812)	<b>(602,031)</b>	(500,022)
Equity earnings of joint venture and associate	1,053	855	1,827	762
Other expenses (Note 2)	<b>(5,622)</b>	(7,503)	<b>(10,846)</b>	(15,519)
Earnings from continuing operations before interest and income taxes	<b>119,607</b>	62,620	<b>226,231</b>	106,821
Finance costs (Note 3)	<b>(13,989)</b>	(22,367)	<b>(28,000)</b>	(35,600)
Income from continuing operations before provision for income taxes	<b>105,618</b>	40,253	<b>198,231</b>	71,221
Provision for income taxes	<b>(23,790)</b>	(4,578)	<b>(44,864)</b>	(9,042)
Income from continuing operations	<b>81,828</b>	35,675	<b>153,367</b>	62,179
Loss from discontinued operations, net of tax	—	(123,241)	—	(125,023)
Net income (loss)	<b>\$ 81,828</b>	\$ (87,566)	<b>\$ 153,367</b>	\$ (62,844)
Earnings (loss) per share - basic				
From continuing operations (Note 5)	<b>\$ 0.48</b>	\$ 0.21	<b>\$ 0.89</b>	\$ 0.36
From discontinued operations	—	(0.72)	—	(0.73)
	<b>\$ 0.48</b>	\$ (0.51)	<b>\$ 0.89</b>	\$ (0.37)
Earnings (loss) per share - diluted				
From continuing operations (Note 5)	<b>\$ 0.47</b>	\$ 0.21	<b>\$ 0.89</b>	\$ 0.36
From discontinued operations	—	(0.72)	—	(0.73)
	<b>\$ 0.47</b>	\$ (0.51)	<b>\$ 0.89</b>	\$ (0.37)
Weighted average number of shares outstanding				
Basic	<b>171,542,122</b>	170,828,096	<b>171,520,139</b>	170,903,520
Diluted	<b>172,499,489</b>	171,274,683	<b>172,496,548</b>	171,351,048

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

### UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

(Canadian \$ thousands)	Three months ended June 30		Six months ended June 30	
	2011	2010	2011	2010
Net income (loss)	\$ 81,828	\$ (87,566)	\$ 153,367	\$ (62,844)
Other comprehensive income (loss), net of income tax				
Currency translation adjustments	(7,803)	42,035	(26,279)	(29,277)
Unrealized gain (loss) on net investment hedges	1,726	(4,133)	1,560	14,375
Realized loss on foreign currency translation, net of realized gain on net investment hedges, reclassified to earnings on disposal of discontinued operations	—	19,142	—	19,142
Tax recovery (expense) on net investment hedges	(365)	1,627	(397)	(1,166)
Foreign currency translation and gain (loss) on net investment hedges, net of income tax	(6,442)	58,671	(25,116)	3,074
Unrealized gain (loss) on cash flow hedges	283	(3,336)	49	(4,452)
Realized loss (gain) on cash flow hedges, reclassified to earnings	505	2,756	(426)	3,778
Tax recovery (expense) on cash flow hedges	417	(73)	11	(137)
Gain (loss) on cash flow hedges, net of income tax	1,205	(653)	(366)	(811)
Actuarial gain (loss) (Note 8)	(11,640)	(33,988)	1,045	(60,763)
Tax recovery (expense) on actuarial gain (loss)	2,934	9,091	(570)	15,938
Actuarial gain (loss), net of income tax	(8,706)	(24,897)	475	(44,825)
Comprehensive income (loss)	\$ 67,885	\$ (54,445)	\$ 128,360	\$ (105,406)

### UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

(\$ Canadian thousands, except share amounts)	Share Capital			Accumulated Other Comprehensive Income (Loss)				Total
	Shares	Amount	Contributed Surplus	Foreign Currency Translation and Gain / (Loss) on Net Investment Hedges	Gain / (Loss) on Cash Flow Hedges	Retained Earnings		
Balance, January 1, 2010	170,746,800	\$ 557,052	\$ 32,069	\$ —	\$ (4,846)	\$ 704,792	\$ 1,289,067	
Net loss	—	—	—	—	—	(62,844)	(62,844)	
Other comprehensive income (loss)	—	—	—	3,074	(811)	(44,825)	(42,562)	
Total comprehensive income (loss)	—	—	—	3,074	(811)	(107,669)	(105,406)	
Issued on exercise of share options	261,969	2,314	(172)	—	—	—	2,142	
Stock option expense	—	—	2,367	—	—	—	2,367	
Dividends on common shares	—	—	—	—	—	(39,315)	(39,315)	
Balance, June 30, 2010	171,008,769	\$ 559,366	\$ 34,264	\$ 3,074	\$ (5,657)	\$ 557,808	\$ 1,148,855	
Balance, January 1, 2011	171,431,349	\$ 564,973	\$ 33,128	\$ (52,316)	\$ (1,069)	\$ 658,269	\$ 1,202,985	
Net income	—	—	—	—	—	153,367	153,367	
Other comprehensive income (loss)	—	—	—	(25,116)	(366)	475	(25,007)	
Total comprehensive income (loss)	—	—	—	(25,116)	(366)	153,842	128,360	
Issued on exercise of share options	138,255	1,386	(686)	—	—	—	700	
Stock option expense	—	—	1,733	—	—	—	1,733	
Dividends on common shares	—	—	—	—	—	(42,884)	(42,884)	
Balance, June 30, 2011	171,569,604	\$ 566,359	\$ 34,175	\$ (77,432)	\$ (1,435)	\$ 769,227	\$ 1,290,894	

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

## UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOW

(Canadian \$ thousands)	Three months ended June 30		Six months ended June 30	
	2011	2010	2011	2010
<b>OPERATING ACTIVITIES</b>				
Net income	\$ 81,828	\$ (87,566)	\$ 153,367	\$ (62,844)
Add items not affecting cash				
Depreciation and amortization	40,988	37,212	82,406	80,148
Deferred taxes	(9,591)	(6,992)	(7,080)	(7,708)
Share-based payments	4,677	1,777	6,317	2,589
Loss from discontinued operations	—	123,241	—	125,023
Other	218	3,544	1,312	4,100
	<b>118,120</b>	71,216	<b>236,322</b>	141,308
Changes in working capital items (Note 7)	<b>(210,323)</b>	7,123	<b>(417,328)</b>	41,958
Interest paid	<b>(21,262)</b>	(26,807)	<b>(26,699)</b>	(31,055)
Income tax received (paid)	<b>(16,302)</b>	(12,121)	<b>(27,134)</b>	7,214
Cash provided (used) after changes in working capital items	<b>(129,767)</b>	39,411	<b>(234,839)</b>	159,425
Additions to rental equipment	<b>(108,738)</b>	(28,292)	<b>(164,886)</b>	(54,090)
Proceeds on disposal of rental equipment	29,622	13,089	52,069	38,303
Equipment leased to customers, net of disposals	—	(481)	1,275	(1,545)
Cash provided by (used in) continuing operations	<b>(208,883)</b>	23,727	<b>(346,381)</b>	142,093
Cash used in discontinued operations	—	5,069	—	(1,647)
Cash flow provided by (used in) operating activities	<b>(208,883)</b>	28,796	<b>(346,381)</b>	140,446
<b>INVESTING ACTIVITIES</b>				
Additions to property, plant and equipment	<b>(18,912)</b>	(14,462)	<b>(37,956)</b>	(29,099)
Proceeds on disposal of property, plant and equipment	1,036	327	1,135	1,434
Net proceeds from sale of discontinued operations	6,332	117,829	6,332	117,829
Investment in equity investment	—	—	<b>(1,375)</b>	—
Proceeds on settlement of derivatives	—	—	—	25,983
Cash provided by (used in) continuing operations	<b>(11,544)</b>	103,694	<b>(31,864)</b>	116,147
Cash used in discontinued operations	—	(31,159)	—	(27,361)
Cash provided by (used in) investing activities	<b>(11,544)</b>	72,535	<b>(31,864)</b>	88,786
<b>FINANCING ACTIVITIES</b>				
Increase (decrease) in short-term debt	121,655	7,899	118,009	(100,705)
Increase (decrease) in long-term debt	51,746	(118)	58,391	(952)
Purchase of Eurobond Notes and premium paid (Note 3)	—	(73,156)	—	(73,156)
Issue of common shares on exercise of stock options	—	1,123	700	2,142
Dividends paid	<b>(22,302)</b>	(20,516)	<b>(42,884)</b>	(39,315)
Cash provided by (used in) continuing operations	<b>151,099</b>	(84,768)	<b>134,216</b>	(211,986)
Cash used in discontinued operations	—	—	—	—
Cash provided by (used in) financing activities	<b>151,099</b>	(84,768)	<b>134,216</b>	(211,986)
Effect of currency translation on cash balances	<b>(1,088)</b>	2,636	<b>(5,760)</b>	(6,510)
Increase (decrease) in cash and cash equivalents	<b>(70,416)</b>	19,199	<b>(249,789)</b>	10,736
Cash and cash equivalents, beginning of period	<b>167,014</b>	186,447	<b>346,387</b>	194,910
Cash and cash equivalents, end of period (Note 7)	<b>\$ 96,598</b>	\$ 205,646	<b>\$ 96,598</b>	\$ 205,646

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

## 1. SIGNIFICANT ACCOUNTING POLICIES

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These unaudited interim condensed consolidated financial statements (Interim Statements) of the Company and its subsidiaries were prepared in accordance with IAS 34, *Interim Financial Reporting* as issued by the International Accounting Standard Board (IASB). Accordingly, certain information and footnote disclosure normally included in annual financial statements prepared in accordance with International Financial Reporting Standards (IFRS), as issued by the IASB, have been omitted or condensed. These Interim Statements have been prepared in accordance with the accounting policies presented in Note 1 of the Q1 2011 Interim Statements and are based on the IFRS and International Financial Reporting Interpretations Committee (IFRIC) interpretations issued and effective as of August 11, 2011. Any subsequent changes to IFRS that are given effect in the Company's annual consolidated financial statements for the year ending December 31, 2011 could result in restatement of these Interim Statements, including the transition adjustments recognized on transition to IFRS. The accounting policies set out in Note 1 of the Company's Q1 2011 Interim Statements were consistently applied to all the periods presented unless otherwise noted.

These Interim Statements were approved for issue on August 11, 2011.

Prior to January 1, 2011, the Company's consolidated financial statements were prepared in accordance with Canadian generally accepted accounting principles (Canadian GAAP), which differs in some areas from IFRS. In preparing these Interim Statements, management has amended certain accounting methods previously applied in the Canadian GAAP consolidated financial statements to comply with IFRS. The comparative figures for 2010 were restated to reflect these amendments. Reconciliations of the statement of financial position at June 30, 2010 and statements of income and comprehensive income for the three and six months ended June 30, 2010 are provided in Note 10. Reconciliations of shareholders' equity at the transition date (January 1, 2010) and at December 31, 2010, and of total comprehensive income for the year ended December 31, 2010 are provided in Note 9 of the Q1 2011 Interim Statements. In addition, Notes 10-17 of the Q1 2011 Interim Statements provide certain information and disclosures normally only included in annual financial statements in relation to balances that have changed materially under IFRS as compared to Canadian GAAP for the year ended December 31, 2010.

### (a) Adoption of new and revised IFRS and IFRS not yet effective

The Company has not applied the following revised IFRS that has been issued but not yet effective at June 30, 2011:

- Amendments to IFRS 7, *Financial Instruments: Disclosures* were effective July 1, 2011 and introduce enhanced disclosure around transfer of financial assets and associated risks. These amendments are not anticipated to impact the disclosures made by the Company.

The Company has not applied the following new and revised IFRS that have been issued but are not yet effective at August 11, 2011:

- Amendments to IAS 1, *Presentation of Financial Statements* (effective for annual periods beginning on or after July 1, 2012) require that elements of other comprehensive income that may subsequently be reclassified through profit and loss be differentiated from those items that will not be reclassified.
- IFRS 9, *Financial Instruments* (effective January 1, 2013, with a proposal to defer the effective date to January 1, 2015) introduces new requirements for the classification and measurement of financial assets.
- IFRS 10 *Consolidated Financial Statements*, IFRS 11 *Joint Arrangements*, IFRS 12 *Disclosure of Interests in Other Entities*, and consequential revisions to IAS 27 *Separate Financial Statements* and IAS 28 *Investments in Associates and Joint Ventures* (all effective January 1, 2013) provide revised guidance on the accounting treatment and associated disclosure requirements for joint arrangements and associates, and a revised definition of 'control' for identifying entities which are to be consolidated.
- IFRS 13 *Fair Value Measurement* (effective January 1, 2013) provides new guidance on fair value measurement and disclosure requirements.

These accounting standards are not expected to have a significant effect on the Company's accounting policies or financial statements.

- Amendments to IAS 19, *Employee Benefits* (effective January 1, 2013) provide new requirements for the accounting for defined benefit pension plans. Most notably, the amendments mandate the immediate recognition of actuarial gains and losses, and require companies to use the same discount rate for both the defined benefit obligation and the expected asset return when calculating the interest component of pension

expense. The Company already recognizes all actuarial gains and losses immediately through other comprehensive income, consequently this element of the amendments will not impact the Company. The Company is currently evaluating the impact of other amendments to IAS 19.

## (b) Comparative Figures

Certain comparative figures have been reclassified to conform to the 2011 presentation.

## 2. OTHER EXPENSES

Other expenses (income) include the following items:

(\$ thousands)	Three months ended June 30		Six months ended June 30	
	2011	2010	2011	2010
Project costs (a)	\$ 5,622	\$ 7,070	\$ 10,846	\$ 12,355
Restructuring (b)	—	459	—	3,216
Gain on sale of other surplus properties	—	(26)	—	(52)
	<b>\$ 5,622</b>	<b>\$ 7,503</b>	<b>\$ 10,846</b>	<b>\$ 15,519</b>

- (a) Project costs incurred during the three and six months ended June 30, 2011 and 2010 relate to the implementation of a new information technology system for the Company's global operations.
- (b) During the three and six months ended June 30, 2010, the Company incurred restructuring and severance costs that were in response to market conditions, primarily in the Company's Canadian operations.

## 3. FINANCE COSTS

Finance costs as shown on the interim consolidated statements of income comprise the following elements:

(\$ thousands)	Three months ended June 30		Six months ended June 30	
	2011	2010	2011	2010
Interest on debt securities:				
Short-term debt	\$ 397	\$ 449	\$ 517	\$ 869
Long-term debt	11,913	12,756	23,631	25,550
	<b>12,310</b>	<b>13,205</b>	<b>24,148</b>	<b>26,419</b>
Loss on interest rate derivatives	370	456	736	915
Costs associated with debt purchase (a)	—	6,441	—	6,441
Other finance related expenses	1,582	2,894	3,711	4,074
	<b>14,262</b>	<b>22,996</b>	<b>28,595</b>	<b>37,849</b>
Less:				
Borrowing costs capitalized to property, plant, and equipment	(273)	(103)	(595)	(140)
Interest expense related to discontinued operations	—	(526)	—	(2,109)
Finance costs of continuing operations	<b>\$ 13,989</b>	<b>\$ 22,367</b>	<b>\$ 28,000</b>	<b>\$ 35,600</b>

- a) Following the sale of Hewden, the Company's UK equipment rental business, the Company used a portion of the proceeds to purchase £45 million of its £115 million 5.625% Eurobond Notes due 2013. The Company recorded charges of approximately \$6.4 million, reflecting the premium paid to purchase, the early recognition of deferred financing costs, and other costs associated with this purchase.

#### 4. SHARE-BASED PAYMENTS

The Company has a number of share-based compensation plans in the form of share options and other share-based compensation plans noted below.

##### Share Options

Details of the share option plans are as follows:

	Six months ended June 30, 2011		Twelve months ended December 31, 2010	
	Options	Weighted Average Exercise Price	Options	Weighted Average Exercise Price
Options outstanding, beginning of period	5,602,612	\$ 24.16	6,299,454	\$ 22.94
Granted	479,540	\$ 28.28	548,990	\$ 17.43
Exercised	(218,991)	\$ 13.52	(1,086,873)	\$ 13.42
Cancelled	(401,077)	\$ 30.68	(158,959)	\$ 26.06
Options outstanding, end of period	5,462,084	\$ 24.47	5,602,612	\$ 24.16
Exercisable at period end	4,325,673	\$ 25.31	3,934,913	\$ 25.85

(1) Stock options exercised in 2011 comprised both cash and cashless exercises, based on the terms of the particular stock option plan. There were 78,568 options exercised under the pre-2005 Stock Option Plan and utilized a cash method of exercise resulting in the same number (78,568) of common shares issued. Under the 2005 Stock Option Plan, exercises generally utilize the cashless method, whereby the actual number of shares issued is represented by the premium between the fair market value at exercise time and the grant value, and the equivalent value of the number of options up to the grant value is withheld. An additional 140,423 options were exercised in 2011 under the 2005 Stock Option Plan resulting in 59,687 common shares issued and 80,736 options were withheld and returned to the option pool for future issues/grants.

In 2011 and 2010, long-term incentives for executives and senior management were a combination of both share options and performance share units. In the second quarter of 2011, the Company granted 479,540 common share options to senior executives and management of the Company (Q2 2010: 548,990 common share options). The Company's practice is to grant and price share options only when it is felt that all material information has been disclosed to the market.

The Company uses an option-pricing model to determine the fair value of share options granted which is amortized over the vesting period. The fair value of the options granted in 2011 has been estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted-average assumptions:

Dividend yield	1.88%
Expected volatility	33.81%
Risk-free interest rate	2.65%
Expected life	5.86 years

The weighted average grant date fair value of options granted during the year was \$8.44 (2010: \$5.20).

##### Other Share-Based Compensation Plans

The Company has other share-based compensation plans in the form of deferred share units, performance share units, and share appreciation rights that use notional common share units. Details of the plans with significant changes subsequent to December 31, 2010 are as follows:

##### Directors

##### Directors' Deferred Share Unit Plan A (DDSU)

Under the Deferred Share Unit Plan (DDSU) for members of the Board of Directors, non-employee Directors of the Company were allocated a total of 21,386 share units in May 2011 (2010: 34,430 share units), which were granted to the Directors and will be expensed over the calendar year as the units are issued.

## **Executive**

### **Performance Share Unit Plan (PSU)**

Executives of the Company were allocated a total of 210,000 performance share units in 2011, based on 100% vesting (Q2 2010: 236,390 performance share units).

The specified levels and respective vesting percentages for the 2011 grant are as follows:

<b>Performance Level</b>	<b>Average Return on Equity (over three-year period)</b>	<b>Proportion of PSUs Vesting</b>
Below Threshold	< 15%	Nil
Threshold	15%	50%
Target	18%	100%
Maximum	22%	200%

## **5. EARNINGS PER SHARE**

Basic earnings per share (EPS) is calculated by dividing net income available to common shareholders by the weighted average number of common shares outstanding during the period. Diluted EPS is determined by dividing net income available to common shareholders by the weighted average number of common shares outstanding, adjusted for the effects of all dilutive potential common shares, which comprise share options granted to employees.

Net income used in determining EPS from continuing operations are presented below. Net income used in determining EPS from discontinued operations is the net income from discontinued operations as reported in the consolidated statements of income.

(\$ thousands, except share and per share amounts) 2011	Three months ended June 30			Six months ended June 30		
	Income	Shares	Per Share	Income	Shares	Per Share
<b>Basic EPS from continuing operations:</b>						
Net income from continuing operations	\$ 81,828	171,542,122	\$ 0.48	\$153,367	171,520,139	\$ 0.89
Effect of dilutive securities: stock options	—	957,367	(0.01)	—	976,409	—
<b>Diluted EPS from continuing operations:</b>						
Net income from continuing operations and assumed conversions	\$ 81,828	172,499,489	\$ 0.47	\$153,367	172,496,548	\$ 0.89
<b>2010</b>						
<b>Basic EPS from continuing operations:</b>						
Net income from continuing operations	\$ 35,675	170,828,096	\$ 0.21	\$ 62,179	170,903,520	\$ 0.36
Effect of dilutive securities: stock options	—	446,587	—	—	447,528	—
<b>Diluted EPS from continuing operations:</b>						
Net income from continuing operations and assumed conversions	\$ 35,675	171,274,683	\$ 0.21	\$ 62,179	171,351,048	\$ 0.36

## 6. CURRENCY RATES

The Company's principal subsidiaries operate in three functional currencies: Canadian dollars, U.S. dollars, and the U.K. pound sterling. The exchange rates of the Canadian dollar against the following foreign currencies were as follows:

Exchange rate at	June 30, 2011	December 31, 2010	June 30, 2010
U.S. dollar	0.9643	0.9946	1.0606
U.K. pound sterling	1.5493	1.5513	1.5852

Three months ended June 30	2011	2010
Average exchange rates		
U.S. dollar	0.9679	1.0276
U.K. pound sterling	1.5786	1.5331

Six months ended June 30	2011	2010
Average exchange rates		
U.S. dollar	0.9767	1.0338
U.K. pound sterling	1.5794	1.5773

## 7. SUPPLEMENTAL CASH FLOW INFORMATION

### Non cash working capital changes

(\$ thousands)	Three months ended June 30		Six months ended June 30	
	2011	2010	2011	2010
Accounts receivable	\$ (97,132)	\$ (35,952)	\$ (184,312)	\$ (87,386)
Service work in progress	29,399	(5,935)	10,365	(17,266)
Inventories – on-hand equipment	(127,544)	(71,843)	(234,462)	(20,469)
Inventories – parts and supplies	7,636	(35,886)	(26,425)	(47,507)
Accounts payable and accruals	(49,250)	137,178	(24,302)	199,615
Income taxes	25,846	13,835	46,151	7,429
Other	722	5,726	(4,343)	7,542
Changes in working capital items	\$ (210,323)	\$ 7,123	\$ (417,328)	\$ 41,958

### Components of cash and cash equivalents

June 30	2011	2010
(\$ thousands)		
Cash	\$ 52,465	\$ 87,424
Short-term investments	44,133	118,222
Cash and cash equivalents	\$ 96,598	\$ 205,646

## 8. EMPLOYEE FUTURE BENEFITS

The significant actuarial assumptions used in the valuations of the Company's defined benefit pension plans are as follows:

	June 30, 2011		December 31, 2010		June 30, 2010	
	Canada	UK	Canada	UK	Canada	UK
Discount rate – obligation	5.00%	5.50%	5.10%	5.30%	5.25%	5.40%
Discount rate – expense <sup>(1)</sup>	5.10%	5.30%	5.70%	5.70%	5.70%	5.70%
Expected long-term rate of return on plan assets <sup>(1)</sup>	6.75%	6.75%	7.00%	7.00%	7.00%	7.00%
Rate of compensation increase	3.50%	4.00%	3.50%	4.00%	3.50%	4.00%

<sup>(1)</sup> Used to determine the expense for the six months ended June 30, 2011 and June 30, 2010, and the year ended December 31, 2010.

Additional detail regarding amounts recognized in the consolidated statement of financial position in respect of the Company's defined benefit plans, primarily for pension benefits, is as follows:

(\$ thousands)	Six months ended June 30, 2011	Year ended December 31, 2010
Included within the statement of financial position:		
Deficit at the start of the period	\$ (105,515)	\$ (102,947) <sup>(1)</sup>
Deficit at the end of the period	\$ (86,106)	\$ (105,515)

<sup>(1)</sup>The opening balance excludes the pension liability of the discontinued operations of \$29,413.

The amounts recognized in the consolidated statement of income and in other comprehensive income during the reporting period for the Company's defined contribution and defined benefit plans for continuing operations are as follows:

For three months ended June 30 (\$ thousands)	2011			2010		
	Canada	UK & Ireland	Total	Canada	UK	Total
Amounts recognized in the statement of income:						
Defined contribution plans	\$ 7,148	\$ 530	\$ 7,678	\$ 5,385	\$ 414	\$ 5,799
Defined benefit plans	1,554	167	1,721	1,569	8,336 <sup>(1)</sup>	9,905
Total expense recognized in the statement of income	8,702	697	9,399	6,954	8,750	15,704
Gain (loss) recognized in other comprehensive income:						
Actuarial gain (loss) relating to pension liabilities	(13,657)	2,628	(11,029)	(6,014)	6,745	731
Actuarial gain (loss) relating to pension assets	(622)	11	(611)	(11,416)	(23,303)	(34,719)
Total actuarial gain (loss) recognized in other comprehensive income	\$ (14,279)	\$ 2,639	\$ (11,640)	\$ (17,430)	\$ (16,558)	\$ (33,988)

**8. EMPLOYEE FUTURE BENEFITS (CONTINUED)**

For six months ended June 30 (\$ thousands)	2011			2010		
	Canada	UK & Ireland	Total	Canada	UK	Total
Amounts recognized in the statement of income:						
Defined contribution plans	\$ 13,539	\$ 1,039	\$ 14,578	\$ 10,379	\$ 845	\$ 11,224
Defined benefit plans	3,107	167	3,274	3,138	8,904 <sup>(1)</sup>	12,042
Total expense recognized in the statement of income	<b>16,646</b>	<b>1,206</b>	<b>17,852</b>	13,517	9,749	23,266
Gain (loss) recognized in other comprehensive income:						
Actuarial gain (loss) relating to pension liabilities	(5,607)	11,187	5,580	(31,927)	(7,362)	(39,289)
Actuarial gain (loss) relating to pension assets	(2,542)	(1,993)	(4,535)	(11,973)	(8,872)	(20,845)
Total actuarial gain (loss) recognized in other comprehensive income	<b>\$ (8,149)</b>	<b>\$ 9,194</b>	<b>\$ 1,045</b>	\$ (43,900)	\$ (16,234)	\$(60,134) <sup>(2)</sup>

<sup>(1)</sup>In April 2010, the Finning UK defined benefit plan was amended to reverse a previous decision to move to a Career Average Re-valued Earnings (CARE) basis of benefit accrual. As a result, past service costs of \$7.8 million were recognized during Q2, 2010.

<sup>(2)</sup>Included in the comparative consolidated statement of other comprehensive income are actuarial losses of discontinued operations of \$629.

## 9. SEGMENTED INFORMATION

The Company and its subsidiaries have operated primarily in one industry during the year, that being the selling, servicing, and renting of heavy equipment, engines, and related products. The reportable operating segments are:

For three months ended June 30, 2011 (\$ thousands)	Canada	South America	UK & Ireland	Other	Consolidated
Revenue from external sources	\$ 732,968	\$ 532,676	\$ 214,890	\$ —	\$ 1,480,534
Operating costs	(639,544)	(473,123)	(196,448)	(6,792)	(1,315,907)
Depreciation and amortization	(25,547)	(9,774)	(5,099)	(31)	(40,451)
	67,877	49,779	13,343	(6,823)	124,176
Equity earnings (loss)	1,877	—	—	(824)	1,053
Other income (expenses)					
IT system implementation costs	(3,804)	(1,444)	(433)	59	(5,622)
Earnings (loss) before interest and taxes	\$ 65,950	\$ 48,335	\$ 12,910	\$ (7,588)	\$ 119,607
Finance costs					(13,989)
Provision for income taxes					(23,790)
Net income					\$ 81,828
Identifiable assets	\$ 1,748,751	\$ 1,336,378	\$ 478,045	\$ 81,868	\$ 3,645,042
Property, plant, and equipment and intangible assets	\$ 316,026	\$ 140,067	\$ 42,868	\$ 481	\$ 499,442
Gross capital expenditures <sup>(1)</sup>	\$ 12,431	\$ 6,019	\$ 711	\$ 21	\$ 19,182
Gross rental asset expenditures	\$ 79,687	\$ 26,629	\$ 2,422	\$ —	\$ 108,738
For three months ended June 30, 2010 (\$ thousands)	Canada	South America	UK	Other	Consolidated
Revenue from external sources	\$ 551,745	\$ 352,740	\$ 160,462	\$ —	\$ 1,064,947
Operating costs	(492,506)	(308,502)	(154,315)	(5,286)	(960,609)
Depreciation and amortization	(21,213)	(9,027)	(4,789)	(41)	(35,070)
	38,026	35,211	1,358	(5,327)	69,268
Equity earnings	854	—	—	1	855
Other expenses					
IT system implementation costs	(4,002)	(2,197)	(808)	(63)	(7,070)
Other	(403)	—	(30)	—	(433)
Earnings (loss) from continuing operations before interest and taxes	\$ 34,475	\$ 33,014	\$ 520	\$ (5,389)	\$ 62,620
Finance costs					(22,367)
Provision for income taxes					(4,578)
Income from continuing operations					35,675
Loss from discontinued operations, net of tax					(123,241)
Net loss					\$ (87,566)
Identifiable assets	\$ 1,450,221	\$ 1,232,246	\$ 423,363	\$ 125,637	\$ 3,231,467
Property, plant, and equipment and intangible assets	\$ 307,248	\$ 135,192	\$ 38,997	\$ 459	\$ 481,896
Gross capital expenditures <sup>(1)</sup>	\$ 6,719	\$ 6,294	\$ 1,656	\$ —	\$ 14,669
Gross rental asset expenditures	\$ 20,286	\$ 7,738	\$ 268	\$ —	\$ 28,292

<sup>(1)</sup> includes finance leases and borrowing costs capitalized

## 9. SEGMENTED INFORMATION (CONTINUED)

For six months ended June 30, 2011 (\$ thousands)	Canada	South America	UK & Ireland	Other	Consolidated
Revenue from external sources	\$ 1,345,083	\$ 999,290	\$ 410,797	\$ —	\$ 2,755,170
Operating costs	(1,161,202)	(889,687)	(375,739)	(11,952)	(2,438,580)
Depreciation and amortization	(51,368)	(19,498)	(10,324)	(150)	(81,340)
	132,513	90,105	24,734	(12,102)	235,250
Equity earnings (loss)	3,197	—	—	(1,370)	1,827
Other income (expenses)					
IT system implementation costs	(7,338)	(3,010)	(743)	245	(10,846)
Earnings (loss) before interest and taxes	\$ 128,372	\$ 87,095	\$ 23,991	\$ (13,227)	\$ 226,231
Finance costs					(28,000)
Provision for income taxes					(44,864)
Net income					\$ 153,367
Identifiable assets	\$ 1,748,751	\$ 1,336,378	\$ 478,045	\$ 81,868	\$ 3,645,042
Property, plant, and equipment and intangible assets	\$ 316,026	\$ 140,067	\$ 42,868	\$ 481	\$ 499,442
Gross capital expenditures <sup>(1)</sup>	\$ 18,188	\$ 18,056	\$ 2,275	\$ 32	\$ 38,551
Gross rental asset expenditures	\$ 128,974	\$ 32,711	\$ 3,201	\$ —	\$ 164,886
For six months ended June 30, 2010 (\$ thousands)	Canada	South America	UK	Other	Consolidated
Revenue from external sources	\$ 1,029,111	\$ 700,546	\$ 302,205	\$ —	\$ 2,031,862
Operating costs	(927,991)	(611,263)	(285,386)	(8,354)	(1,832,994)
Depreciation and amortization	(49,576)	(17,849)	(9,783)	(82)	(77,290)
	51,544	71,434	7,036	(8,436)	121,578
Equity earnings (loss)	2,078	—	—	(1,316)	762
Other expenses					
IT system implementation costs	(6,285)	(4,049)	(1,562)	(459)	(12,355)
Other	(2,886)	—	(278)	—	(3,164)
Earnings (loss) from continuing operations before interest and taxes	\$ 44,451	\$ 67,385	\$ 5,196	\$ (10,211)	\$ 106,821
Finance costs					(35,600)
Provision for income taxes					(9,042)
Income from continuing operations					62,179
Loss from discontinued operations, net of tax					(125,023)
Net income (loss)					\$ (62,844)
Identifiable assets	\$ 1,450,221	\$ 1,232,246	\$ 423,363	\$ 125,637	\$ 3,231,467
Property, plant, and equipment and intangible assets	\$ 307,248	\$ 135,192	\$ 38,997	\$ 459	\$ 481,896
Gross capital expenditures <sup>(1)</sup>	\$ 13,568	\$ 13,206	\$ 2,623	\$ —	\$ 29,397
Gross rental asset expenditures	\$ 34,787	\$ 17,024	\$ 2,279	\$ —	\$ 54,090

<sup>(1)</sup> includes finance leases and borrowing costs capitalized

## 10. EXPLANATION OF TRANSITION TO IFRS

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The Company's consolidated financial statements for the year ending December 31, 2011 will be the first annual financial statements that comply with IFRS. IFRS 1, *First-Time Adoption of IFRS*, requires that comparative financial information be provided with the Company's first IFRS annual consolidated financial statements. As a result, the first date at which the Company will apply IFRS is January 1, 2010 (the "Transition Date"). IFRS 1 requires first-time adopters to retrospectively apply all effective IFRS as of the reporting date, which for the Company is December 31, 2011. However, it also provides for certain optional exemptions and certain mandatory exceptions for first time IFRS adopters.

Described below are the IFRS 1 applicable exemptions and exceptions applied by the Company in the conversion from Canadian GAAP to IFRS. These may vary from those ultimately determined to be applicable when the first complete set of financial statements in accordance with IAS 1, *Presentation of Financial Statements*, and IFRS 1 is prepared for the year ended December 31, 2011.

### IFRS Exemption Options

*i. Employee benefits*

Any unamortized defined benefit pension plan actuarial gains and losses accumulated at January 1, 2010 were recognized in retained earnings in accordance with the IFRS 1 transitional exemption. Not taking this exemption would have required retrospective application of IAS 19, *Employee Benefits*, from the inception of all defined benefit plans.

*ii. Share-based payments*

IFRS 1 does not require first-time adopters to apply the requirements of IFRS 2, *Share-based Payment*, to equity instruments that were granted on or prior to November 7, 2002 or to equity instruments that were granted after November 7, 2002 and vested before the date of transition to IFRS. The Company has not applied IFRS 2 to share options issued on or prior to November 7, 2002, nor share options that were fully vested prior to the transition to IFRS.

*iii. Property, plant, and equipment (PP&E)*

No transitional elections were taken. The Company retained assets at historical cost upon transition rather than taking the allowed election to recognize assets at fair value.

*iv. Borrowing costs*

Borrowing costs were not capitalized retrospectively. The Company only capitalizes borrowing costs for those qualifying assets that commenced construction after the Transition Date.

*v. Business combinations*

The Company did not retrospectively restate any business combinations; IFRS 3, *Business Combinations*, is applied prospectively to acquisitions after January 1, 2010.

*vi. Cumulative translation adjustments*

All cumulative translation adjustments and associated cumulative hedging gains and losses were transferred to retained earnings from accumulated other comprehensive income upon transition. Not taking this election would have required retrospective application of IAS 21, *The Effect of Changes in Foreign Exchange Rates*, from the date the foreign operations were formed or acquired.

## **10. EXPLANATION OF TRANSITION TO IFRS (CONTINUED)**

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### **IFRS Mandatory Exceptions**

The mandatory IFRS 1 exceptions applied in the conversion from Canadian GAAP to IFRS are noted below.

*i. Hedge accounting*

Hedge accounting can only be applied prospectively from the Transition Date to transactions that satisfy the hedge accounting criteria in IAS 39, *Financial Instruments: Recognition and Measurement*, at that date. Hedging relationships cannot be designated retrospectively and the supporting documentation cannot be created retrospectively. All of the Company's hedging relationships satisfied IFRS hedging criteria at the Transition Date, and as such these are reflected as hedges in the Company's results under IFRS, and do not result in any adjustment from the Canadian GAAP financial position.

*ii. Estimates*

Hindsight is not used to create or revise estimates. The estimates previously made by the Company under Canadian GAAP were not revised for application of IFRS except where necessary to reflect any difference in accounting policies.

### **Reconciliations of Canadian GAAP to IFRS**

IFRS 1 requires an entity to reconcile equity and comprehensive income for periods prior to January 1, 2011. The following represents the reconciliations from Canadian GAAP to IFRS for the statement of financial position as at June 30, 2010, and consolidated statements of income and comprehensive income for the three and six months ended June 30, 2010. Reconciliations of total operating, investing, and financing cash flows for the three and six months ended June 30, 2010 are not provided as the changes to these cash flows are not material. Reconciliations from Canadian GAAP to IFRS for the statement of financial position at the Transition Date and at December 31, 2010, and consolidated statements of income and comprehensive income for the year ended December 31, 2010 are provided in Note 9 of the Q1 2011 Interim Statements.

**RECONCILIATION OF THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION PREPARED ACCORDING TO INTERNATIONAL FINANCIAL REPORTING STANDARDS**

June 30, 2010 (Canadian \$ thousands)	Canadian GAAP	Employee Benefits (1)	Share Based Payment (2)	Leases (3)	Income Taxes (4)	Other (5)	Depreciation (6)	IFRS Reclassifications (8)	IFRS
<b>Current assets</b>									
Cash and cash equivalents	\$ 209,023	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (3,377)	\$ 205,646
Accounts receivable	644,588	-	-	-	-	-	-	(7,758)	636,830
Service work in progress	79,386	-	-	-	-	-	-	-	79,386
Inventories	1,048,157	-	-	-	-	-	(436)	(14,380)	1,033,341
Income taxes recoverable	-	-	-	-	-	-	-	13,543	13,543
Derivative assets	-	-	-	-	-	-	-	3,935	3,935
Other assets	203,912	-	-	-	-	-	-	(64,608)	139,304
<b>Total current assets</b>	<b>2,185,066</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(436)</b>	<b>(72,645)</b>	<b>2,111,985</b>
Rental equipment	406,652	-	-	-	-	-	1,373	(64,917)	343,108
Property, plant, and equipment	441,201	-	-	3,974	-	69	(1,712)	(373)	443,159
Intangible assets	39,213	-	-	-	-	71	(539)	(8)	38,737
Goodwill	93,478	-	-	-	-	-	-	-	93,478
Investment in and advances to joint venture and associate	-	-	-	-	-	-	-	57,610	57,610
Finance assets	31,012	-	-	-	-	-	-	-	31,012
Deferred tax assets	-	54,285	(493)	(658)	2,692	32	414	18,304	74,576
Other assets	204,899	(142,318)	-	-	-	(537)	-	(24,242)	37,802
	<b>\$ 3,401,521</b>	<b>\$ (88,033)</b>	<b>\$ (493)</b>	<b>\$ 3,316</b>	<b>\$ 2,692</b>	<b>\$ (365)</b>	<b>\$ (900)</b>	<b>\$ (86,271)</b>	<b>\$ 3,231,467</b>
<b>Current liabilities</b>									
Short-term debt	\$ 62,586	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (2,200)	\$ 60,386
Accounts payable and accruals	870,276	-	-	719	-	-	-	(262,638)	608,357
Income tax payable	3,117	-	-	116	-	(25)	-	92	3,300
Provisions	-	-	-	-	-	-	-	53,181	53,181
Deferred revenue	-	-	-	-	-	-	-	186,962	186,962
Derivative liabilities	-	-	-	-	-	-	-	114	114
Current portion of long-term debt	32,418	-	-	-	-	-	-	-	32,418
<b>Total current liabilities</b>	<b>968,397</b>	<b>-</b>	<b>-</b>	<b>835</b>	<b>-</b>	<b>(25)</b>	<b>-</b>	<b>(24,489)</b>	<b>944,718</b>
Long-term debt	899,884	-	-	-	-	-	-	(32,533)	867,351
Long-term obligations	102,728	158,950	(165)	(2,366)	-	(207)	-	(45,406)	213,534
Derivative liabilities	-	-	-	-	-	-	-	24,858	24,858
Provisions	-	-	-	-	-	-	-	944	944
Deferred revenue	-	-	-	-	-	-	-	19,604	19,604
Deferred tax liabilities	66,924	(26,152)	-	-	-	-	80	(29,249)	11,603
<b>TOTAL LIABILITIES</b>	<b>2,037,933</b>	<b>132,798</b>	<b>(165)</b>	<b>(1,531)</b>	<b>-</b>	<b>(232)</b>	<b>80</b>	<b>(86,271)</b>	<b>2,082,612</b>
<b>SHAREHOLDERS' EQUITY</b>									
Share capital	559,366	-	-	-	-	-	-	-	559,366
Contributed surplus	36,471	-	(2,207)	-	-	-	-	-	34,264
Accumulated other comprehensive loss	(221,955)	5,599	-	(28)	408	117	2	213,274	(2,583)
Retained earnings	989,706	(226,430)	1,879	4,875	2,284	(250)	(982)	(213,274)	557,808
<b>Total shareholders' equity</b>	<b>1,363,588</b>	<b>(220,831)</b>	<b>(328)</b>	<b>4,847</b>	<b>2,692</b>	<b>(133)</b>	<b>(980)</b>	<b>-</b>	<b>1,148,855</b>
	<b>\$ 3,401,521</b>	<b>\$ (88,033)</b>	<b>\$ (493)</b>	<b>\$ 3,316</b>	<b>\$ 2,692</b>	<b>\$ (365)</b>	<b>\$ (900)</b>	<b>\$ (86,271)</b>	<b>\$ 3,231,467</b>

**RECONCILIATION OF THE CONSOLIDATED STATEMENT OF INCOME PREPARED ACCORDING TO INTERNATIONAL FINANCIAL REPORTING STANDARDS**

For three months ended June 30, 2010 (Canadian \$ thousands)	Canadian GAAP	Employee Benefits (1)	Share Based Payment (2)	Leases (3)	Income Taxes (4)	Other (5)	Depreciation (6)	Hewden loss on disposal (7)	IFRS Reclassifications (8)	IFRS
<b>Revenue</b>										
New equipment	\$ 411,304	\$ -	\$ -	\$ (210)	\$ -	\$ -	\$ -	\$ -	\$ (1,834)	\$ 409,260
Used equipment	86,084	-	-	-	-	-	-	-	(3,423)	82,661
Equipment rental	63,922	-	-	-	-	-	-	-	(4,787)	59,135
Product support	511,774	-	-	-	-	-	-	-	-	511,774
Other	2,152	-	-	-	-	-	-	-	(35)	2,117
<b>Total revenue</b>	<b>1,075,236</b>	<b>-</b>	<b>-</b>	<b>(210)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(10,079)</b>	<b>1,064,947</b>
Cost of sales	(744,123)	-	-	176	-	-	912	-	8,168	(734,867)
Gross profit	331,113	-	-	(34)	-	-	912	-	(1,911)	330,080
Selling, general, and, administrative expenses	(257,102)	(4,128)	569	(71)	-	10	(946)	-	856	(260,812)
Equity earnings of joint venture and associate	-	-	-	-	-	-	-	-	855	855
Other expenses	(7,503)	-	-	-	-	-	-	-	-	(7,503)
<b>Earnings from continuing operations before interest and income taxes</b>	<b>66,508</b>	<b>(4,128)</b>	<b>569</b>	<b>(105)</b>	<b>-</b>	<b>10</b>	<b>(34)</b>	<b>-</b>	<b>(200)</b>	<b>62,620</b>
Finance costs	(22,611)	-	-	(53)	-	103	-	-	194	(22,367)
Income from continuing operations before provision for income taxes	43,897	(4,128)	569	(158)	-	113	(34)	-	(6)	40,253
Provision for income taxes	(7,873)	1,213	(33)	31	2,089	(29)	18	-	6	(4,578)
Income from continuing operations	36,024	(2,915)	536	(127)	2,089	84	(16)	-	-	35,675
Loss from discontinued operations, net of tax	(246,062)	(540)	-	(19)	98	21	-	123,261	-	(123,241)
<b>Net loss</b>	<b>\$ (210,038)</b>	<b>\$ (3,455)</b>	<b>\$ 536</b>	<b>\$ (146)</b>	<b>\$ 2,187</b>	<b>\$ 105</b>	<b>\$ (16)</b>	<b>\$ 123,261</b>	<b>\$ -</b>	<b>\$ (87,566)</b>
<b>Earnings (loss) per share - basic</b>										
From continuing operations	\$ 0.21									\$ 0.21
From discontinued operations	(1.44)									(0.72)
	\$ (1.23)									\$ (0.51)

**RECONCILIATION OF THE CONSOLIDATED STATEMENT OF INCOME PREPARED ACCORDING TO INTERNATIONAL FINANCIAL REPORTING STANDARDS**

For six months ended June 30, 2010 (Canadian \$ thousands)	Canadian GAAP	Employee Benefits (1)	Share Based Payment (2)	Leases (3)	Income Taxes (4)	Other (5)	Depreciation (6)	Hewden loss on disposal (7)	IFRS Reclassifications (8)	IFRS
<b>Revenue</b>										
New equipment	\$ 756,966	\$ -	\$ -	\$ (432)	\$ -	\$ -	\$ -	\$ -	\$ (3,364)	\$ 753,170
Used equipment	155,552	-	-	-	-	-	-	-	(10,279)	145,273
Equipment rental	133,928	-	-	-	-	-	-	-	(8,445)	125,483
Product support	1,003,420	-	-	-	-	-	-	-	-	1,003,420
Other	5,082	-	-	-	-	-	-	-	(566)	4,516
<b>Total revenue</b>	<b>2,054,948</b>	<b>-</b>	<b>-</b>	<b>(432)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(22,654)</b>	<b>2,031,862</b>
Cost of sales	(1,430,308)	-	-	365	-	-	1,249	-	18,432	(1,410,262)
Gross profit	624,640	-	-	(67)	-	-	1,249	-	(4,222)	621,600
Selling, general, and, administrative expenses	(501,331)	(874)	1,476	(137)	-	(12)	(2,251)	-	3,107	(500,022)
Equity earnings of joint venture and associate	-	-	-	-	-	-	-	-	762	762
Other expenses	(15,519)	-	-	-	-	-	-	-	-	(15,519)
<b>Earnings from continuing operations before interest and income taxes</b>	<b>107,790</b>	<b>(874)</b>	<b>1,476</b>	<b>(204)</b>	<b>-</b>	<b>(12)</b>	<b>(1,002)</b>	<b>-</b>	<b>(353)</b>	<b>106,821</b>
Finance costs	(35,962)	-	-	(101)	-	140	-	-	323	(35,600)
Income from continuing operations before provision for income taxes	71,828	(874)	1,476	(305)	-	128	(1,002)	-	(30)	71,221
Provision for income taxes	(12,712)	349	(68)	63	3,077	(61)	280	-	30	(9,042)
Income from continuing operations	59,116	(525)	1,408	(242)	3,077	67	(722)	-	-	62,179
Loss from discontinued operations, net of tax	(249,089)	490	-	(157)	296	176	-	123,261	-	(125,023)
<b>Net loss</b>	<b>\$ (189,973)</b>	<b>\$ (35)</b>	<b>\$ 1,408</b>	<b>\$ (399)</b>	<b>\$ 3,373</b>	<b>\$ 243</b>	<b>\$ (722)</b>	<b>\$ 123,261</b>	<b>\$ -</b>	<b>\$ (62,844)</b>
<b>Earnings (loss) per share - basic</b>										
From continuing operations	\$ 0.35									\$ 0.36
From discontinued operations	(1.46)									(0.73)
	\$ (1.11)									\$ (0.37)

**RECONCILIATION OF THE CONSOLIDATED STATEMENT OF COMPREHENSIVE LOSS PREPARED ACCORDING TO INTERNATIONAL FINANCIAL REPORTING STANDARDS**

For three months ended June 30, 2010 (Canadian \$ thousands)	Canadian GAAP	Employee Benefits (1)	Share Based Payment (2)	Leases (3)	Income Taxes (4)	Other (5)	Depreciation (6)	Hewden loss on disposal (7)	IFRS
<b>Net loss</b>	\$ (210,038)	\$ (3,455)	\$ 536	\$ (146)	\$ 2,187	\$ 105	\$ (16)	\$ 123,261	\$ (87,566)
Other comprehensive income (loss), net of income tax									
Currency translation adjustments	45,148	(6,834)	-	13	(268)	(48)	(2)	4,026	<b>42,035</b>
Unrealized gain (loss) on net investment hedges	(4,133)	-	-	-	-	-	-	-	<b>(4,133)</b>
Realized loss on foreign currency translation, net of realized gain on net investment hedges, reclassified to earnings on disposal of discontinued operations	82,833	-	-	-	-	-	-	(63,691)	<b>19,142</b>
Tax recovery (expense) on net investment hedges	17,711	-	-	-	-	-	-	(16,084)	<b>1,627</b>
Foreign currency translation and gain (loss) on net investment hedges, net of income tax	141,559	(6,834)	-	13	(268)	(48)	(2)	(75,749)	<b>58,671</b>
Unrealized loss on cash flow hedges	(3,336)	-	-	-	-	-	-	-	<b>(3,336)</b>
Realized loss on cash flow hedges, reclassified to earnings	2,756	-	-	-	-	-	-	-	<b>2,756</b>
Tax expense on cash flow hedges	(73)	-	-	-	-	-	-	-	<b>(73)</b>
Loss on cash flow hedges, net of income tax	(653)	-	-	-	-	-	-	-	<b>(653)</b>
Actuarial loss	-	(33,988)	-	-	-	-	-	-	<b>(33,988)</b>
Tax recovery on actuarial loss from continuing operations	-	9,091	-	-	-	-	-	-	<b>9,091</b>
Actuarial loss, net of income tax	-	(24,897)	-	-	-	-	-	-	<b>(24,897)</b>
<b>Comprehensive loss</b>	\$ (69,132)	\$ (35,186)	\$ 536	\$ (133)	\$ 1,919	\$ 57	\$ (18)	\$ 47,512	\$ (54,445)

**RECONCILIATION OF THE CONSOLIDATED STATEMENT OF COMPREHENSIVE LOSS PREPARED ACCORDING TO INTERNATIONAL FINANCIAL REPORTING STANDARDS**

For six months ended June 30, 2010 (Canadian \$ thousands)	Canadian GAAP	Employee Benefits (1)	Share Based Payment (2)	Leases (3)	Income Taxes (4)	Other (5)	Depreciation (6)	Hewden loss on disposal (7)	IFRS
<b>Net loss</b>	\$ (189,973)	\$ (35)	\$ 1,408	\$ (399)	\$ 3,373	\$ 243	\$ (722)	\$ 123,261	\$ (62,844)
Other comprehensive income (loss), net of income tax									
Currency translation adjustments	(39,303)	5,599	-	(28)	408	19	2	4,026	(29,277)
Unrealized gain on net investment hedges	14,279	-	-	-	-	96	-	-	14,375
Realized loss on foreign currency translation, net of realized gain on net investment hedges, reclassified to earnings on disposal of discontinued operations	82,833	-	-	-	-	-	-	(63,691)	19,142
Tax recovery (expense) on net investment hedges	14,916	-	-	-	-	2	-	(16,084)	(1,166)
Foreign currency translation and gain (loss) on net investment hedges, net of income tax	72,725	5,599	-	(28)	408	117	2	(75,749)	3,074
Unrealized loss on cash flow hedges	(4,452)	-	-	-	-	-	-	-	(4,452)
Realized loss on cash flow hedges, reclassified to earnings	3,778	-	-	-	-	-	-	-	3,778
Tax expense on cash flow hedges	(137)	-	-	-	-	-	-	-	(137)
Gain on cash flow hedges, net of income tax	(811)	-	-	-	-	-	-	-	(811)
Actuarial loss	-	(60,134)	-	-	-	-	-	(629)	(60,763)
Tax recovery on actuarial loss from continuing operations	-	15,761	-	-	-	-	-	177	15,938
Actuarial loss, net of income tax	-	(44,373)	-	-	-	-	-	(452)	(44,825)
<b>Comprehensive loss</b>	\$ (118,059)	\$ (38,809)	\$ 1,408	\$ (427)	\$ 3,781	\$ 360	\$ (720)	\$ 47,060	\$ (105,406)

## 10. EXPLANATION OF TRANSITION TO IFRS (CONTINUED)

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### Transitional adjustments and accounting policy changes arising from the transition to IFRS

The following notes explain each adjustment arising from the Company's transition to IFRS as referenced on the reconciliations on the previous pages:

#### 1. *Employee benefits*

Under Canadian GAAP, actuarial gains and losses were deferred and amortized in accordance with the "corridor" method. The excess of the net accumulated actuarial gains or losses over 10% of the greater of the accrued benefit obligation and the fair value of the plan assets was amortized on a straight-line basis over the expected average remaining service life of the active employees covered by the plans.

As described above in 'IFRS exemption options', the Company elected to recognize all unamortized cumulative actuarial gains and losses that existed at the Transition Date in opening retained earnings for all employee benefit plans. Any unrecognized fully vested past service costs were also recognized in full in retained earnings.

In addition, IFRS requires that the Company measure the assets and liabilities of the defined benefit plan at the end of the reporting period, whereas Canadian GAAP allows the measurement to occur up to 3 months prior to the reporting date. The Company's measurement date prior to adopting IFRS was November 30<sup>th</sup>. Plans that were previously measured on November 30, 2009 and 2010 were re-measured as at December 31, 2009 and 2010.

Under IFRS, the Company has elected to record any actuarial gains and losses arising from its defined benefit pension plans in other comprehensive income. Actuarial gains and losses are separately identified in the consolidated statement of comprehensive income.

Fully vested past service costs arose in the Company's UK defined benefit pension plans, relating to the reversal of the decision to move to a Career Average Re-valued Earnings basis of benefit accrual during Q2 2010. These past service costs were being deferred and amortized over time for Canadian GAAP purposes, but are required to be recognized immediately under IFRS, as they are fully vested. The IFRS pension expense has therefore been adjusted to reflect these past service costs in full in the second quarter of 2010.

#### 2. *Share-based payments*

##### a. *Cash settled plans*

Under Canadian GAAP, cash settled share-based payments are measured at intrinsic value, with changes in intrinsic value taken to the consolidated statement of income immediately. IFRS requires such cash settled plans to be valued at fair value and valuation movements continue to be taken to the consolidated statement of income. The additional liability arising from the fair valuation of the Company's cash settled plans at the Transition Date is therefore recognized in the opening statement of financial position as at January 1, 2010, and the subsequent share based payment expense is adjusted to reflect the difference in valuation methodology.

##### b. *Equity settled plans*

Under Canadian GAAP, the Company previously measured share options that vest in tranches at fair value as a single grant. IFRS requires that each share option tranche be valued as a separate grant with a separate vesting date. In addition, under IFRS, the initial valuation is based upon the amount of awards estimated to vest, whereas under Canadian GAAP the Company only recognized forfeitures of awards as and when they arose. The Company therefore adjusted contributed surplus and retained earnings at January 1, 2010 for unvested share options to reflect these changes in the valuation process. Subsequent grants of share options are also valued using this methodology.

#### 3. *Leases*

##### a. *Accelerated recognition of sale and leaseback gains*

Under Canadian GAAP, operating sale and leaseback gains were deferred and amortized over the term of the operating lease. Under IFRS, such gains are recognized upfront if the sale and leaseback results in an operating lease, and is undertaken at fair value. As certain sale and leaseback transactions met these criteria, the unamortized portion of the gain on sale is recognized in retained earnings and the deferred gain derecognized in the opening IFRS statement of financial position. The amortization of the deferred gain for these transactions was then reversed in the IFRS comparative consolidated statement of income.

*b. Reclassification of certain leases from operating to finance lease*

While the concepts of operating and finance leases are very similar under Canadian GAAP and IFRS, IFRS provides more qualitative indicators to apply in the classification of the lease, and does not specify quantitative thresholds to be applied in the lease classification test. Certain leases which were classified as operating under Canadian GAAP are now classified as financing under IFRS. The leased asset is now capitalized on the opening statement of financial position, with the corresponding payable recognized as a liability. Depreciation and interest expense, rather than operating lease costs, are recognized in the consolidated statement of income.

*4. Income taxes*

IAS 12, *Income Taxes*, requires that deferred tax be recognized on foreign exchange differences where the currency of the tax basis of non monetary assets is different to the functional currency for accounting purposes, whereas no such deferred taxation was recognized under Canadian GAAP. In addition, under IFRS deferred taxes are recognized on temporary differences arising from intra-company transfers, whereas this is not required under Canadian GAAP.

IFRS specifically addresses the accounting for current and deferred taxes arising from share-based payment transactions whereas Canadian GAAP did not. Adjustments have been recorded to conform the Company's accounting treatment to IAS 12.

There are also differences between IFRS and Canadian GAAP with respect to the calculation of the tax basis of certain assets in the UK and Chile. In Chile, inflation adjustments on assets that are subject to income tax are now included in the tax basis of the asset for deferred tax computation purposes. In the UK, the determination of the tax basis for certain buildings is impacted by the different approaches of Canadian GAAP and IFRS with respect to circumstances where the tax deductible amount of a building differs dependent on whether it is used or sold. Under Canadian GAAP the tax basis for certain buildings was determined to be the higher of the tax basis if the building was sold and the tax basis if the building was used, whereas IFRS requires the tax basis to be based on the expected manner of recovery.

Movements in these revised deferred taxation balances are reflected as adjustments to tax expense throughout the 2010 comparative IFRS statement of income. The tax expense adjustment is impacted by exchange rate movements, the timing of asset acquisitions and the volume of non-monetary assets transferred within the consolidated group.

*5. Other miscellaneous adjustments*

Borrowing costs for all qualifying assets (defined as assets constructed by the Company that necessarily take a substantial period of time to be ready for use) that commenced construction after January 1, 2010 are capitalized. This reduces finance costs and increases PP&E and intangible asset balances and associated depreciation for those assets constructed after January 1, 2010.

This section also includes other immaterial adjustments including differences in the accounting treatment of decommissioning liabilities and a financial instrument that did not meet the retrospective quantitative hedge effectiveness test under IFRS.

*6. Depreciation*

IFRS requires that uniform accounting policies be used throughout the Company, while Canadian GAAP has no such explicit requirement. The depreciation methods used for certain assets are therefore aligned throughout the Company for IFRS purposes, and the difference in the Canadian GAAP depreciation charge and the IFRS straight line depreciation charge is adjusted in the 2010 comparative IFRS consolidated statement of income.

*7. Hewden loss on disposal*

The loss on disposal of the Company's discontinued operation, Hewden Stuart Limited, has been adjusted to reflect the impact of IFRS adjustments on the disposal calculation. The adjustments to the loss on disposal were primarily caused by the election to reclassify the cumulative translation adjustment and associated net investment hedge gains and losses to retained earnings upon transition to IFRS, and changes to the accounting for defined benefit pension plans. Further details of the disposal of the discontinued operation are provided in Note 17 of the Q1 2011 Interim Statements.

## 10. EXPLANATION OF TRANSITION TO IFRS (CONTINUED)

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### 8. *Presentation reclassifications*

The following notes explain financial statement reclassifications arising from the Company's transition to IFRS:

#### Joint Venture Accounting

Canadian GAAP prescribed the use of the proportionate consolidation method for joint ventures. Under IFRS, the Company may use either proportionate consolidation or equity method accounting for jointly controlled entities. In anticipation of the new requirements of IFRS 11, *Joint Arrangements*, the Company has elected to adopt the available option in IAS 31, *Joint Ventures*, to use equity accounting for its existing joint venture. This has no overall impact on net assets or net income, but alters the presentation of the Company's joint venture; the joint venture is now presented as a separate line item, 'Investment in and advances to joint venture and associate' on the consolidated statement of financial position, and 'Equity earnings of joint venture and associate' on the consolidated statement of income. The Company's investment in an associate, which was always accounted for using the equity method, was re-classified from 'Other assets' to 'Investment in and advances to joint venture and associate' on the consolidated statement of financial position, and from selling, general, and administrative expenses to 'Equity earnings of joint venture and associate' on the consolidated statement of income.

#### Cumulative translation adjustment

As described above in 'IFRS exemption options', the Company elected to reclassify all cumulative translation gains and losses, previously recorded in Accumulated Other Comprehensive Income (AOCI), to retained earnings in the opening statement of financial position.

#### Income taxes

Canadian GAAP requires deferred tax balances to be split between current and non-current assets and liabilities. In contrast, IAS 12 requires that all deferred tax balances be presented as non-current. Current deferred tax balances were therefore re-classified to non-current assets and liabilities.

#### Provisions

IAS 1 prescribes that provisions must be presented separately on the face of the statement of financial position. Liabilities meeting the definition of a provision are therefore re-classified from accounts payable and accruals and long term obligations. The estimation process used for measurement of provisions in the Company's Canadian GAAP consolidated financial statements is compliant with IFRS measurement requirements, consequently no adjustment to these liabilities has been applied in the opening statement of financial position.

#### Deferred revenue; Derivative financial assets and liabilities

While there is no specific requirement to present deferred revenue or derivative financial instruments separately on the face of the statement of financial position, the Company has decided that separate presentation of these amounts provides users of the financial statements with useful information. These amounts have therefore been re-classified.