## Finning reports best-ever first quarter results setting stage for strong year

### Q1 2011 HIGHLIGHTS

- Basic EPS of $0.42 was up over 160% from Q1 2010 setting a Q1 record.
- Revenue climbed by 32% to $1.3 billion driven by strong new equipment sales in all operations and record product support revenue.
- EBIT increased by over 140% to $107 million as earnings continued to outpace revenue growth. EBIT margin of 8.4% was significantly stronger than 4.6% in Q1 2010.
- Backlog grew by 20% from December 31, 2010, topping $1.5 billion, the sixth consecutive increase in quarterly backlog.
- The Company raised its quarterly dividend by 8% to $0.13 per share, reflecting its expectation for strong growth and increased confidence in the outlook.

**Vancouver, B.C.** – Finning International Inc. (TSX: FTT) reported record Q1 2011 results. Finning achieved Q1 2011 revenues of $1.3 billion, a 32% increase from Q1 2010. Earnings before interest and income taxes (EBIT) of $107 million were up 141% from Q1 2010 and EBIT margin of 8.4% was significantly higher than 4.6% in Q1 2010. Strong EBIT margin performance was driven by higher gross profit margins in all lines of business combined with substantially improved profitability in Canada. Basic earnings per share (EPS) grew by 163% to $0.42.

"Finning has made a tremendous start to the year with each of our operations firing on all cylinders. The market activity in the quarter increased faster than anticipated and the quarter exceeded our expectations all around," said Mike Waites, Finning International Inc. president and CEO. "We continued to build on our product support momentum following a record year in 2010 with pent-up service requirements and increasing machine utilization driving demand."

"This quarter, once again, underscores the focused execution of our strategic priorities, including our ability to generate operating leverage. We have been diligent in improving our efficiencies and preparing to meet growing demand. As a result, we are well-positioned to meet our customers' needs and capture our substantial growth opportunities," continued Waites. "I am also pleased to announce that we are raising our quarterly dividend based on our strong financial results and our confidence in a bright future ahead. Fueled by our strategy, our partnership with Caterpillar, and our people, we are delivering on our commitment to sustainable and profitable growth."

The Company expects revenues to grow, on average, at 10% per annum over the next three years. Consolidated earnings growth is forecast to outpace revenue growth as the Company is making solid progress towards achieving a 10% EBIT margin in the medium term.

## Q1 2011 FINANCIAL SUMMARY (from continuing operations)

Beginning with Q1 2011, the Company's financial results are reported under IFRS (International Financial Reporting Standards) [(1)].

| C$ millions, except per share amounts (unaudited) | Three months ended Mar 31 | | |
|---|---|---|---|
| | **2011** | 2010 | % change |
| Revenue | **1,275** | 967 | 32 |
| Earnings before interest and income taxes (EBIT) [(2)] | **107** | 44 | 141 |
| Net income | **72** | 27 | 170 |
| Basic EPS | **0.42** | 0.16 | 163 |
| Earnings before interest, income taxes, depreciation and amortization (EBITDA) [(2)] | **148** | 86 | 71 |
| Free cash flow [(2)(3)] | **(156)** | 102 | (253) |

- Revenues of $1.3 billion were up 32% from Q1 2010, reflecting higher revenues in all operations. New equipment sales increased by 60% and showed very solid growth across all regions. Product support revenues grew by 21% on a consolidated basis and were particularly strong in Canada. Used equipment sales were lower in all operations, down by 18% on a consolidated basis. Rental revenues were 18% higher. Foreign exchange had a negative impact on quarterly revenues of approximately $40 million, as the Canadian dollar was 5.2% stronger relative to the U.S. dollar and 2.5% stronger relative to the U.K. pound sterling for Q1 2011 compared to Q1 2010.
- Gross profit increased by 36% from Q1 2010, and gross profit margin improved to 31.2% from 30.1% reflecting higher margins in all lines of business. New equipment sales contributed 43% to the total revenue in Q1 2011 compared to 36% in Q1 2010, while product support comprised 47% of the total revenue compared to 51% in Q1 2010.
- Selling, general and administrative (SG&A) expenses as a percentage of revenue decreased to 22.5% from 24.7% in Q1 2010 as a result of a lower cost structure, on-going cost containment and continued productivity 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 achieved significant improvement in its operating leverage, which resulted in EBIT margin expansion in the quarter. EBIT increased by 141% to $107 million. Driven by continued improvement in profitability in Canada and the UK, consolidated EBIT margin rose to 8.4% from 4.6% in Q1 2010 and 6.2% in Q4 2010. Generating sustainable improvement in EBIT margin performance in all operations remains at the top of the Company's priorities as it progresses towards achieving a 10% consolidated EBIT margin in the medium term.
- Net income increased by 170% to $72 million. Basic EPS of $0.42 was up 163% compared to $0.16 in Q1 2010, setting a new earnings record for the first quarter and matching our all-time record for reported EPS. Foreign exchange had a negative impact of $0.04 per share compared to Q1 2010.
- EBITDA, which is an indicator of a company's cash operating performance, was up by 71% to $148 million. Quarterly free cash flow was $156 million use of cash, compared to $102 million cash generation in Q1 2010. Significant increase in sales and product support demand resulted in higher working capital requirements, primarily in South America. The increase in working capital requirements is expected to continue through the second quarter. The Company remains focused on effectively managing working capital and expects to generate a modest but positive free cash flow in 2011.
- The net debt to total capital ratio was 40.3% compared to 35.3% at the end of December 2010 reflecting a decrease in cash levels due to growth in working capital, particularly inventories.
- Consolidated backlog of $1.5 billion was 20% higher than at December 2010, representing the sixth consecutive quarter of growth in backlog.

## Q1 2011 HIGHLIGHTS BY OPERATIONS

### *Canada*

- First quarter revenues rose by 28% from Q1 2010 due to strong growth in new equipment sales and product support, which were up by 46% and 25% respectively. Product support revenues broke a new record in Q1 2011. In mining, including the oils sands, parts and service revenue growth is driven by the maintenance cycle for large mining equipment and growing demand for rebuilds. In other sectors, particularly heavy construction, product support revenues grew substantially as customers increased fleet utilization.
- SG&A costs as a percentage of revenue declined from Q1 2010 reflecting continued focus on expense management and solid progress in improving productivity and operational efficiencies.
- EBIT was $62 million in the quarter compared to $10 million in Q1 2010 due to higher new equipment and product support revenues, increased gross profit margins and lower SG&A as a percentage of revenue. EBIT margin of 10.2% was significantly above 2.1% in Q1 2010 and 7.3% in Q4 2010, resulting from improved operating leverage noted above. Finning Canada expects to see fluctuations in quarterly EBIT margin while making solid progress to achieving sustainable improvement in EBIT margin performance by driving operational excellence.
- Canada saw significant growth in new order intake in Q1 2011 from all sectors, particularly mining and heavy construction. This contributed to a higher backlog, compared to December 2010.

### *South America*

- First quarter revenues increased by 34% from Q1 2010, driven by continued strength in new equipment sales and growing product support revenues. In functional currency (USD), quarterly revenues were up 42% from Q1 2010. New equipment sales rose by 78% due to deliveries of large mining equipment and continued strong demand from the construction and power systems sectors in Chile and Argentina. Product support revenues also showed solid growth across all sectors and were up by 20% in functional currency.
- SG&A costs as a percentage of revenue were slightly lower compared to Q1 2010; however, costs continue to be a key area of concern. The Company is focused on managing the cost pressures associated with higher business volumes, foreign exchange and employee recruitment and training.
- EBIT of $39 million was 13% higher than in Q1 2010, up 19% in functional currency. EBIT margin was 8.3% compared to 9.9% in Q1 2010, primarily due to a significant shift in revenue mix to lower margin new equipment sales, which accounted for 49% of the total revenue compared to 39% in Q1 2010. EBIT margin improved from 7.9% in Q4 2010 and is expected to gradually return to normal levels in 2011.
- Order intake remained strong in Q1 2011, driving higher backlog compared to the end of December 2010. Large investments in mining projects, infrastructure and energy point to a strong outlook for South American operations.

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

- Quarterly revenues were up 38% from Q1 2010. In functional currency (GBP), quarterly revenues increased by 41%, with a 72% increase in new equipment sales and a 25% increase in product support revenues. Higher revenues in the quarter were driven by continued strong demand from coal mining and plant hire, improved activity in the heavy construction and power systems sectors, and additional revenues from the Irish operations.
- EBIT grew by 137% to $11 million and EBIT margin improved to 5.7% from 3.3% in Q1 2010 as a result of higher revenues and lower SG&A as a percentage of revenue. Higher profitability in the quarter was achieved while the revenue mix shifted to lower margin new equipment sales. New equipment contributed 59% of total revenue compared to 49% in Q1 2010. 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.
- Order intake was solid in the first quarter, supporting a positive outlook for the coal mining, quarrying, waste management and plant hire sectors. The impact of the Government proposed spending cuts on other sectors remains uncertain.

## CORPORATE AND BUSINESS DEVELOPMENTS

**Dividend**

The Board of Directors raised the quarterly dividend to $0.13 per share from $0.12 per share, payable on June 10, 2011, to shareholders of record on May 27, 2011. The increase in dividend reflects the Company's confidence in the outlook and expectation for strong revenue and earnings growth. The Company remains committed to enhancing the dividend component of the total shareholder return going forward. This dividend will be considered an eligible dividend for Canadian income tax purposes.

**SELECTED CONSOLIDATED FINANCIAL INFORMATION: Q1 2011**
**(from continuing operations unless otherwise stated, C$ millions, except per share amounts)**

| | Three months ended Mar 31 | | |
|---|---|---|---|
| Revenue | **2011** | 2010 | % change |
| New equipment | **548.8** | 343.9 | 60 |
| Used equipment | **51.6** | 62.6 | (18) |
| Equipment rental | **78.3** | 66.4 | 18 |
| Product support | **592.5** | 491.6 | 21 |
| Other | **3.4** | 2.4 | 43 |
| **Total revenue** | **1,274.6** | 966.9 | 32 |
| Gross profit | **397.3** | 291.5 | 36 |
| *Gross profit margin*(4) | ***31.2%*** | *30.1%* | |
| SG&A | **(286.3)** | (239.2) | (20) |
| *SG&A as a percentage of revenue* | ***(22.5)%*** | *(24.7)%* | |
| Equity earnings (loss) | **0.8** | (0.1) | |
| Other expenses | **(5.2)** | (8.0) | 35 |
| **EBIT**(2) | **106.6** | 44.2 | 141 |
| *EBIT margin*(5) | ***8.4%*** | *4.6%* | |
| Income from continuing operations | **71.5** | 26.5 | 170 |
| Loss from discontinued operations, net of tax | **-** | (1.8) | |
| **Net income** | **71.5** | 24.7 | |
| Basic earnings (loss) per share (EPS) | | | |
| from continuing operations | **0.42** | 0.16 | 163 |
| from discontinued operations | **-** | (0.01) | |
| **Total basic earnings per share** | **0.42** | 0.15 | |
| **EBITDA**(2) | **147.5** | 86.4 | 71 |
| **Free Cash Flow***(2) (3) | **(156.4)** | 101.9 | (253) |
| | **Mar 31, 11** | Dec 31, 10 | |
| Total assets* | **3,511.0** | 3,429.7 | |
| Total shareholders' equity* | **1,244.4** | 1,203.0 | |
| Net debt to total capital(6) * | **40.3%** | 35.3% | |

* Free cash flow and assets from Hewden have been included in the figures for periods prior to the sale.

**Q1 2011 RESULTS INVESTOR CALL**
Management will hold an investor conference call on Thursday, May 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. Playback recording will be available at 1-800-408-3053 from 1:00 pm Eastern Time on May 12 until May 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) 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 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 March 31, 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 first quarter consolidated financial statements.

(3) Free cash flow is defined as cash flow provided by (used in) operating activities less net capital 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; and expected target range of Debt Ratio; and the expected quantitative impact on the consolidated statement of financial position of the Company's transition to IFRS at January 1, 2010 and December 31, 2010. 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 May 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; 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; 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. Finning previously prepared its consolidated financial statements in accordance with Canadian generally accepted accounting principles (GAAP). 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) and Notes 1 and 9 of the Q1 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.

## 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.

### First Quarter Overview

| | **Q1 2011** | Q1 2010 | **Q1 2011** | Q1 2010 |
|---|---|---|---|---|
| | ($ millions) | | (% of revenue) | |
| Revenue | **$ 1,274.6** | $ 966.9 | | |
| Gross profit | **397.3** | 291.5 | **31.2%** | 30.1% |
| Selling, general & administrative expenses | **(286.3)** | (239.2) | **(22.5)%** | (24.7)% |
| Equity earnings (loss) of joint venture and associate | **0.8** | (0.1) | **0.1%** | — |
| Other expenses | **(5.2)** | (8.0) | **(0.4)%** | (0.8)% |
| Earnings from continuing operations before interest and income taxes (EBIT) (1) | **106.6** | 44.2 | **8.4%** | 4.6% |
| Finance costs | **(14.0)** | (13.2) | **(1.1)%** | (1.4)% |
| Provision for income taxes | **(21.1)** | (4.5) | **(1.7)%** | (0.5)% |
| Income from continuing operations | **$ 71.5** | $ 26.5 | **5.6%** | 2.7% |
| Loss from discontinued operations, net of tax(3) | **—** | (1.8) | **—** | (0.2)% |
| Net income | **$ 71.5** | $ 24.7 | **5.6%** | 2.5% |
| Basic earnings (loss) per share (EPS) | | | | |
| from continuing operations | **$ 0.42** | $ 0.16 | | |
| from discontinued operations(3) | **$ —** | $ (0.01) | | |
| Total basic earnings per share | **$ 0.42** | $ 0.15 | | |
| Earnings from continuing operations before interest, taxes, depreciation, and amortization (EBITDA) (1) | **$ 147.5** | $ 86.4 | **11.6%** | 8.9% |
| Free Cash Flow (1) (2) | **$ (156.4)** | $ 101.9 | | |

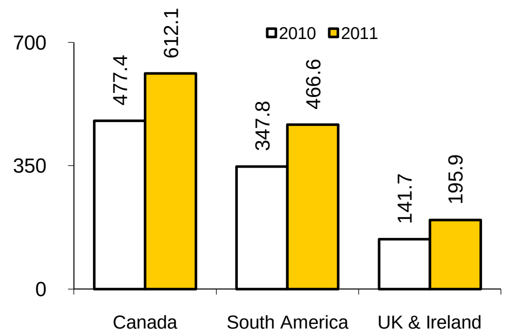
(1) These amounts do not have a standardized meaning under generally accepted accounting principles. For a reconciliation of these amounts to net income and cash flow from operating activities, see the heading "Description of Non-GAAP Measures" below.

(2) Free Cash Flow is defined as cash provided by (used in) operating activities less net capital expenditures.

(3) On May 5, 2010, the Company sold Hewden, its UK equipment rental business. As a consequence, the results of operations of Hewden have been reclassified as discontinued operations for all periods presented.

Following an extensive strategic review, on May 5, 2010 the Company sold Hewden Stuart (Hewden), its UK equipment rental business, for an after-tax loss of $120.8 million. The loss on disposal under IFRS differs from that reported under Canadian GAAP, primarily due to the reclassification prior to the sale of the cumulative translation adjustment and associated net investment hedging gains and losses related to the Company's investment in Hewden from accumulated other comprehensive income to retained earnings, and the recognition of unamortized actuarial losses on Hewden's defined benefit pension plan in retained earnings in the IFRS opening consolidated statement of financial position. The results of operations of Hewden for the periods up to May 5, 2010 have been reclassified as discontinued operations in the consolidated statements of income and cash flow. The assets and liabilities of Hewden are included in the statement of financial position for periods prior to the date of disposition.

**Revenue from Continuing Operations**
($ millions)
Three months ended March 31



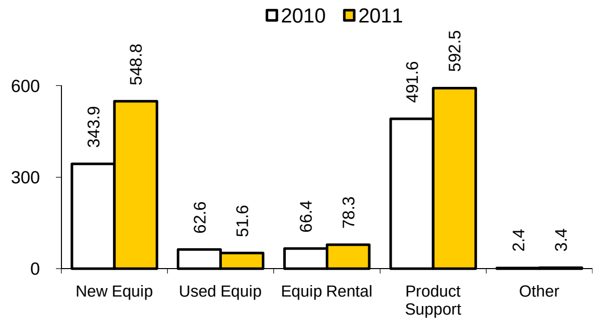

First quarter consolidated revenues of $1.3 billion were up 31.8% from the comparable quarter in 2010, with higher revenues contributed by all operations. The increase in revenues reflected the growing demand for new equipment in all the Company's regions. In all markets, increased machine utilization is driving substantial demand for parts and service and high levels of product support activity.

Revenues from the Company's Canadian operations increased 28.2% in the first quarter of 2011 compared with the same period last year, largely due to higher product support revenues and new equipment sales. Product support revenues in the first quarter of 2011 were at record levels, 25.1% higher than the comparative quarter in 2010, driven by strong commodity prices, a recovering economic climate, and increased demand in mining and heavy construction. New equipment sales were 46.4% higher than the first quarter of 2010.

Revenues from the Company's operations in South America increased 34.2% compared to the first quarter of 2010. Excluding the negative impact of translating the results of the South American operations with a stronger Canadian dollar, revenues for the first quarter of 2011 in functional currency (the U.S. dollar) increased by 41.5% over the first quarter of 2010, reaching a record level for a first quarter. This was driven mainly by strong new equipment sales, up 77.6% in functional currency compared to the first quarter of 2010, with increased demand in construction and mining. Product support revenues continued to show solid growth, and were 19.9% higher in functional currency than the first quarter of 2010, up in all sectors.

Revenues from the U.K. and Ireland operations were up 38.2% over the first quarter of 2010, and were up 41.1% in local currency. This increase was largely due to higher new equipment sales (71.7% higher in local currency), up in all sectors but particularly in the coal and plant hire sectors, and higher product support revenues (up 25.2% in local currency).

**Revenue by Line of Business from Continuing Operations**
($ millions)
Three months ended March 31




Overall, new equipment sales were up 59.6% compared with the first quarter of 2010, up significantly in all operating units.

Product support revenues in the first quarter of 2011 were at record levels, up 20.5% overall compared with the same quarter last year, with increases reported in all regions. Growth in product support revenues was driven primarily by the Canadian and South American operations and reflects strong commodity prices, a recovering economic climate in Canada, and increased demand in mining and heavy construction.

Used equipment revenues were 17.5% lower compared to the prior year's first quarter, down in all regions. Tight availability of used equipment impacted revenues.

Rental revenues were 18.0% higher than the first quarter of 2010 and were higher in all regions.

Finning's global order book or backlog (the retail value of new equipment units ordered by customers for future deliveries) was $1.5 billion at the end of the first quarter of 2011 and was at the highest level since September 2008. The consolidated backlog has increased in each consecutive quarter since September 2009, driven primarily by mining and higher new orders from the construction sector. The Company's new order intake in the first quarter of 2011 was the highest in over three years, and was up 10.5% from the fourth quarter of 2010.

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 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 from the Company's customers can be met.

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

On a consolidated basis, EBIT was $106.6 million in the first quarter of 2011, more than double the EBIT of $44.2 million in the first quarter of 2010, primarily driven by robust revenue growth, improved gross profit margins in all lines of business, and lower selling, general, and administrative (SG&A) costs as a percentage of revenue in all operations.

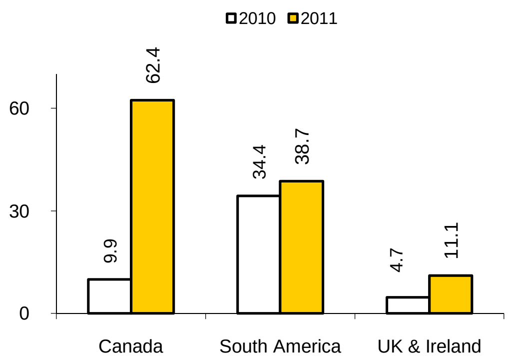
Gross profit of $397.3 million in the first quarter of 2011 was up 36.3% compared to the first quarter of 2010. Quarterly gross profit margin (gross profit as a percentage of revenue) of 31.2% was also higher than the prior year's first quarter margin of 30.1%. The Company realized higher margins in all lines of business, which more than offset the shift in revenue mix to a higher proportion of new equipment sales which are at lower margins than product support revenues. New equipment sales made up 43.1% of total revenues in the first quarter of 2011, compared with 35.6% of total revenues in the same period last year. Comparatively, product support revenues made up 46.5% of total revenues in the first quarter of 2011, compared with 50.8% in the same period last year.

SG&A costs were $286.3 million or 19.7% higher than the first quarter of 2010, partly 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, SG&A costs in the first quarter of 2011 decreased as a percentage of revenue to 22.5% from 24.7% in the first quarter of 2010.

EBIT in the first quarter of 2011 included $5.2 million of costs (Q1 2010: $5.3 million) related to the implementation of a new information technology (IT) system for the Company's global operations. In addition, included in the results for the first quarter of 2010 were costs of $2.7 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 8.4% in the first quarter of 2011 improved significantly from 4.6% in the first quarter of 2010. The improvement in EBIT margin was primarily driven by the Company's Canadian and UK operations.

**EBIT from Continuing Operations** (1)
($ millions)
Three months ended March 31




(1) Excluding other operations – corporate head office

Major components of the EBIT variance were:

| | ($ millions) |
|---|---|
| **2010 Q1 EBIT** | 44.2 |
| Net change in operations | 68.2 |
| Foreign exchange impact | (8.6) |
| Restructuring costs in 2010 | 2.8 |
| **2011 Q1 EBIT** | **106.6** |

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

EBITDA, which management views as an indicator of the Company's cash operating performance, was $147.5 million in the first quarter of 2011 compared to $86.4 million in the first quarter of 2010.

The Company's Free Cash Flow was $156.4 million use of cash compared to $101.9 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 which is expected to continue through the second quarter of 2011. The Company remains focused on effectively managing working capital and expects to generate a modest but positive Free Cash Flow in 2011. 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 three months ended March 31, 2011 were $14.0 million compared with $13.2 million in the first quarter of 2010, with higher other finance related expenses.

## Provision for Income Taxes

The effective income tax rate for the first quarter of 2011 was 22.8% compared to 14.4% in the comparable period of the prior year. The effective rate was lower in the first quarter of 2010 primarily due to a higher proportion of earnings from lower tax jurisdictions.

## Income from Continuing Operations

Finning's income from continuing operations was $71.5 million in the first quarter of 2011 compared with $26.5 million in the same period last year.

Basic EPS from continuing operations was a record for a first quarter at $0.42 compared with $0.16 in the comparative period last year. The results for the first quarter 2011 reflected higher revenues in all operations, improved margins in all lines of business, and the benefits of cost control and process efficiencies. First quarter 2011 and 2010 results included $0.02 per share of costs related to the global IT system implementation. In addition, the first quarter of 2010 included $0.01 per share of restructuring and severance costs. Foreign exchange had a negative impact of approximately $0.04 per share in the first quarter of 2011 compared to the prior year's first quarter due to the stronger Canadian dollar relative to the U.S. dollar and the U.K. pound sterling.

## 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 first quarter of 2011 of $40.3 million due to a 5.2% stronger Canadian dollar relative to the U.S. dollar, and a 2.5% stronger Canadian dollar relative to the U.K. pound sterling, all compared to the first quarter of 2010. As a result, EBIT was negatively impacted by $8.6 million and net income was negatively impacted by approximately $0.04 per share in the first quarter of 2011 compared to the prior year's first quarter.

The Canadian dollar has historically correlated 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 months ended March 31, 2011.

| **Three months ended March 31** ($ millions) | **Canada** | **South America** | **UK & Ireland** | **Consolidated** |
|---|---|---|---|---|
| Revenues – Q1 2010 | $ 477.4 | $ 347.8 | $ 141.7 | $ 966.9 |
| Foreign exchange impact | (19.4) | (16.8) | (4.1) | (40.3) |
| Operating revenue increase | 154.1 | 135.6 | 58.3 | 348.0 |
| Revenues – Q1 2011 | $ 612.1 | $ 466.6 | $ 195.9 | $ 1,274.6 |
| Total revenue increase | $ 134.7 | $ 118.8 | $ 54.2 | $ 307.7 |
| - percentage increase | 28.2% | 34.2% | 38.2% | 31.8% |
| - percentage increase, excluding foreign exchange | 32.3% | 39.0% | 41.1% | 36.0% |

| **Three months ended March 31** ($ millions) | **Canada** | **South America** | **UK** | **Other** | **Consolidated** |
|---|---|---|---|---|---|
| EBIT – Q1 2010 | $ 9.9 | $ 34.4 | $ 4.7 | $ (4.8) | $ 44.2 |
| Foreign exchange impact | (4.5) | (3.8) | (0.3) | — | (8.6) |
| Operating EBIT increase (decrease) | 57.0 | 8.1 | 6.7 | (0.8) | 71.0 |
| EBIT – Q1 2011 | $ 62.4 | $ 38.7 | $ 11.1 | $ (5.6) | $ 106.6 |
| Total EBIT increase (decrease) | $ 52.5 | $ 4.3 | $ 6.4 | $ (0.8) | $ 62.4 |
| - percentage increase | n/m | 12.8% | 137.0% | n/m | 141.2% |
| - percentage increase, excluding foreign exchange | n/m | 23.5% | 142.6% | n/m | 160.6% |

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 $18.5 million recorded in the first quarter of 2011 resulted primarily from the stronger spot Canadian dollar against the U.S. dollar of 2.3% at March 31, 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.

| **Three months ended March 31, 2011** ($ millions) | **Canada** | **South America** | **UK & Ireland** | **Consolidated** | **Revenue percentage** |
|---|---|---|---|---|---|
| New equipment | $ **203.8** | $ **229.1** | $ **115.9** | $ **548.8** | **43.1%** |
| Used equipment | **31.6** | **9.3** | **10.7** | **51.6** | **4.0%** |
| Equipment rental | **55.3** | **16.5** | **6.5** | **78.3** | **6.1%** |
| Product support | **319.3** | **210.4** | **62.8** | **592.5** | **46.5%** |
| Other | **2.1** | **1.3** | **—** | **3.4** | **0.3%** |
| Total | $ **612.1** | $ **466.6** | $ **195.9** | $ **1,274.6** | **100.0%** |
| Revenue percentage by operations | **48.0%** | **36.6%** | **15.4%** | **100.0%** | |

| Three months ended March 31, 2010 ($ millions) | Canada | South America | UK | Consolidated | Revenue percentage |
|---|---|---|---|---|---|
| New equipment | $ 139.3 | $ 135.9 | $ 68.7 | $ 343.9 | 35.6% |
| Used equipment | 33.6 | 13.7 | 15.3 | 62.6 | 6.5% |
| Equipment rental | 47.5 | 12.5 | 6.4 | 66.4 | 6.9% |
| Product support | 255.2 | 185.1 | 51.3 | 491.6 | 50.8% |
| Other | 1.8 | 0.6 | — | 2.4 | 0.2% |
| Total | $ 477.4 | $ 347.8 | $ 141.7 | $ 966.9 | 100.0% |
| Revenue percentage by operations | 49.4% | 36.0% | 14.6% | 100.0% | |

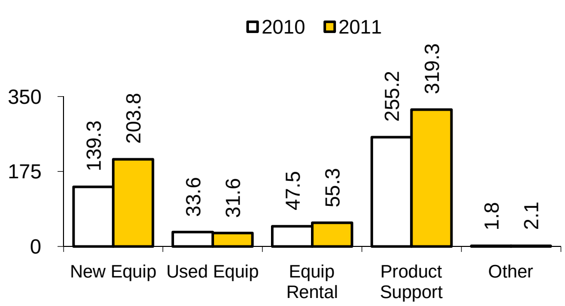
## Canadian Operations

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:

| **Three months ended March 31**<br>**($ millions)** | | **2011** | | 2010 |
|---|---|---|---|---|
| Revenue from external sources | **$** | **612.1** | $ | 477.4 |
| Operating costs | | **(521.7)** | | (435.5) |
| Depreciation and amortization | | **(25.8)** | | (28.4) |
| | | **64.6** | | 13.5 |
| Equity earnings of joint venture | | **1.3** | | 1.2 |
| Other expenses | | | | |
| Information technology system implementation costs | | **(3.5)** | | (2.3) |
| Restructuring costs | | **—** | | (2.5) |
| Earnings before interest and taxes (EBIT) | **$** | **62.4** | $ | 9.9 |
| EBIT | | | | |
| - as a percentage of revenue | | **10.2%** | | 2.1% |
| - as a percentage of consolidated EBIT | | **58.5%** | | 22.6% |
| Earnings before interest, taxes, depreciation, and amortization (EBITDA) | **$** | **88.2** | $ | 38.3 |

**Canada – Revenue by Line of Business**
($ millions)
Three months ended March 31




First quarter 2011 revenues increased 28.2% compared with the first quarter of 2010 to $612.1 million, due to higher product support revenues and new equipment sales.

Product support revenues in the first quarter of 2011 were at record levels, 25.1% higher than the comparative quarter in 2010. This increase was primarily driven by higher parts revenues as customers are increasing utilization of their fleets, reflecting increased demand in mining and heavy construction.

New equipment sales were 46.4% higher than the first quarter of 2010. New equipment orders in the first quarter of 2011 were the highest in over three years, and Finning Canada's backlog is at its highest level since September 2008 which reflects the continued economic recovery.

In Canada, gross profit in the first quarter of 2011 was at record levels, driven primarily by the record product support revenues. Gross profit as a percentage of revenue was also higher than the first quarter of 2010, with higher margins in all lines of business.

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

Finning (Canada) incurred $3.5 million of costs in the first quarter of 2011 (Q1 2010: $2.3 million) representing its share of the costs related to the implementation of a new information technology (IT) system for the Company's global dealership operations. Also included in other expenses in the first quarter of 2010 were restructuring costs of $2.5 million, primarily related to severance costs incurred in response to market conditions.

EBIT totalled $62.4 million in the first quarter of 2011 compared with $9.9 million in the same period in 2010. EBIT margin was 10.2%, significantly higher than the EBIT margin of 2.1% achieved in the first quarter of 2010. The increase in EBIT was primarily due to higher new equipment and product support revenues and higher margins in all lines of business.

Other Developments

On March 31, 2011, the Company announced that Finning (Canada) had been selected as a mining equipment supplier by Thompson Creek Metals Company Inc. for their Mt. Milligan project. As part of this agreement, Finning will supply mining trucks, support equipment, parts, and specialized maintenance labour to the Mt. Milligan mine located northwest of Prince George, British Columbia. The 42 machines include Caterpillar 793F mining trucks and support equipment, which will be delivered to Thompson Creek's Mt. Milligan copper-gold mine throughout 2012.

Finning (Canada)'s collective bargaining agreement with the British Columbia division of the International Association of Machinists and Aerospace Workers (IAM) – Local Lodge 692 (BC Union) expired in April 2011. Negotiations with the BC Union are underway. The Company is committed to the collective bargaining process and to concluding a fair contract for its employees and for Finning.

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 has been ordered to be held by the OEM employees (some former Finning (Canada) Component Rebuild Centre employees will also be eligible to vote) to determine whether CLAC or IAM – Local Lodge 99 will represent them going forward. The vote will be held in early June 2011.

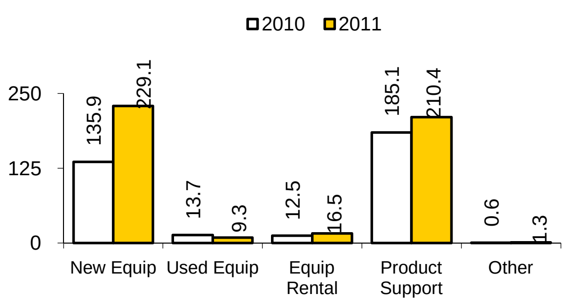
## South America

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:

| Three months ended March 31<br>($ millions) | | 2011 | | 2010 |
|---|---|---|---|---|
| Revenue from external sources | $ | 466.6 | $ | 347.8 |
| Operating costs | | (416.5) | | (302.8) |
| Depreciation and amortization | | (9.8) | | (8.8) |
| | | 40.3 | | 36.2 |
| Other expenses | | | | |
| Information technology system implementation costs | | (1.6) | | (1.8) |
| Earnings before interest and taxes (EBIT) | $ | 38.7 | $ | 34.4 |
| EBIT | | | | |
| - as a percentage of revenue | | 8.3% | | 9.9% |
| - as a percentage of consolidated EBIT | | 36.4% | | 77.7% |
| Earnings before interest, taxes, depreciation, and amortization (EBITDA) | $ | 48.5 | $ | 43.2 |

**South America – Revenue by Line of Business** ($ millions)
Three months ended March 31




Finning South America's revenues increased 34.2% over the first quarter of 2010, and increased 41.5% in functional currency (the U.S. dollar), reaching a record for a first quarter.

First quarter 2011 revenues, in functional currency, reflected strong new equipment sales, up 77.6% compared to the first quarter of 2010, with increased demand in construction and mining. New equipment backlog, in functional currency, was at its highest level since September 2008. The existing backlog reflects future deliveries largely to mining customers scheduled to be made in 2011. Product support revenues continued to show excellent growth, and were 19.9% higher in functional currency than the first quarter of 2010, up in all sectors.

In functional currency, gross profit in the first 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 first 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 49.1% of total revenues in the first quarter of 2011, compared with 39.1% of total revenues in the same period last year. Comparatively, product support revenues made up 45.0% of total revenues compared with 53.2% of total revenues in the first quarter of 2010.

SG&A costs, in functional currency, have increased in absolute dollars due to volume-related costs and partly due to an increase in the workforce costs to support higher revenues and the growing product support business. From March 31, 2010 to March 31, 2011, the number of employees in the Company's South American operations increased by 23% to approximately 6,100 to meet current and anticipated customer demand for product support. There is significant demand and competition for highly skilled workers which the Company is actively managing. SG&A as a percentage of revenue was slightly lower than the first quarter of 2010, primarily reflecting management's initiatives to reduce operating cost levels and improve operating efficiencies.

Included in other expenses was $1.6 million (Q1 2010: $1.8 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 $38.7 million for the first three months of 2011 was 12.8% higher than the first quarter of 2010. In functional currency, EBIT increased 19.0% over the first quarter of the prior year largely due to significantly higher new equipment sales. EBIT as a percentage of revenue for Finning South America was 8.3%, compared with 9.9% achieved in the first quarter of 2010, reflecting the significant increase in lower margin new equipment sales compared with the first quarter of 2010.

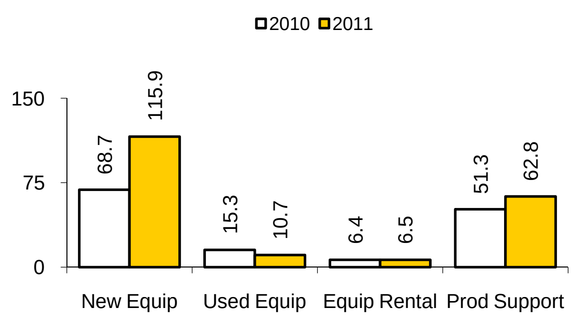
## United Kingdom (UK) and Ireland Operations

The Company's UK and Ireland operations sell, service, and rent mainly Caterpillar mobile equipment and engines in England, Scotland, Wales, Northern Ireland, the Falkland Islands, the Channel Islands, and the Republic of Ireland. 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:

| **Three months ended March 31 ($ millions)** | **2011** | 2010 |
|---|---|---|
| Revenue from external sources | **$ 195.9** | $ 141.7 |
| Operating costs | **(179.3)** | (131.0) |
| Depreciation and amortization | **(5.2)** | (5.0) |
| | **11.4** | 5.7 |
| Other expenses | | |
| Information technology system implementation costs | **(0.3)** | (0.8) |
| Restructuring costs | **—** | (0.2) |
| Earnings before interest and taxes (EBIT) | **$ 11.1** | $ 4.7 |
| EBIT | | |
| - as a percentage of revenue | **5.7%** | 3.3% |
| - as a percentage of consolidated EBIT | **10.4%** | 10.6% |
| Earnings before interest, taxes, depreciation, and amortization (EBITDA) | **$ 16.3** | $ 9.7 |

**UK and Ireland – Revenue by Line of Business from Continuing Operations**
Three months ended March 31 ($ millions)




The UK and Ireland revenues for the first quarter of 2011 of $195.9 million were up 38.2% from the same period last year, and were up 41.1% in local currency, largely due to higher new equipment sales, particularly in the coal and plant hire sectors.

Revenues, in local currency, from all lines of business were higher compared to first quarter of 2010, with the exception of used equipment. In local currency, new equipment sales were up 71.7%, and revenues from product support were 25.2% higher in the first quarter of 2011 compared to first quarter of 2010.

Gross profit, in local currency, in the first quarter of 2011 was higher compared with the same period last year in absolute terms. However, gross profit as a percentage of revenue was slightly lower than the first 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. 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 local currency, were higher in the first quarter of 2011 compared with the first quarter of 2010, partly due to increased volume-related costs to support higher revenues, However, SG&A as a percentage of revenue was lower than the first quarter of 2010, reflecting the benefit of management's initiatives to reduce operating cost levels and improve operating efficiencies.

Other expenses in the first quarter of 2011 included costs of $0.3 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 (Q1 2010: $0.8 million).

In the first quarter of 2011, the UK and Ireland operations generated EBIT of $11.1 million, compared with EBIT of $4.7 million in the first quarter of 2010. The higher EBIT in the first quarter of 2011 was primarily the result of significantly higher new equipment revenues. The UK's EBIT margin (EBIT as a percentage of revenue) in the first quarter of 2011 was 5.7% compared with 3.3% in the first quarter of 2010.

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

| **Three months ended March 31<br>($ millions)** | **2011** | 2010 |
|---|---|---|
| Operating costs – corporate | **$ (6.1)** | $ (4.3) |
| Long-term incentive plan (LTIP) | **0.9** | 1.2 |
| Depreciation and amortization | **(0.1)** | — |
| | **(5.3)** | (3.1) |
| Equity loss of joint venture | **(0.5)** | (1.3) |
| Other expenses (income) | | |
| Information technology system implementation recovery (costs) | **0.2** | (0.4) |
| Earnings (loss) before interest and taxes | **$ (5.6)** | $ (4.8) |

For the three months ended March 31, 2011, operating costs of $6.1 million were $1.8 million higher than the same period last year.

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 long-term incentive plan (LTIP) income recorded at the corporate level primarily reflects the fair value change of the compensation hedge.

The equity loss of joint venture for the three months ended March 31, 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 March 31, 2011, cash flow used in continuing operations after working capital changes was $105.1 million, compared with cash generated of $120.3 million during the same period in 2010. The use of cash reflected an increase in customer demand with a corresponding increase in working capital requirements, driven by higher inventory and accounts receivable levels in the first quarter of 2011. As a result, the Company's working capital investment in the first quarter of 2011 is $245.8 million higher than the first three months of the prior year. Throughout all operations, management continues to focus on improving cash cycle times and operating efficiencies while ensuring appropriate levels of working capital to support activity levels.

In the first quarter of 2011, reflecting improved market conditions, the Company invested $33.7 million in rental assets for continuing operations, net of disposals, compared with $0.9 million in the comparable quarter in 2010. Rental investment had moderated in 2010 as a result of lower demand and a focus on a more selective rental strategy.

As a result of these items, cash flow used in operating activities was $137.5 million in the first quarter of 2011, compared to cash flow provided by operating activities of $111.6 million in the comparative period of 2010.

EBITDA was $147.5 million in the first quarter of 2011 compared to $86.4 million in the first quarter of 2010.

### Cash Used For Investing Activities

Net cash used in investing activities for the three months ended March 31, 2011 totalled $20.3 million compared with cash provided by investing activities of $16.3 million in the first quarter of 2010.

Gross capital additions from continuing operations for the three months ended March 31, 2011 were $19.0 million, which is higher compared with the $14.6 million invested in the comparable period in 2010. Capital additions in the first quarters of 2011 and 2010 generally reflected capital spending related to growing product support demand. In addition, capital additions in the first quarter of 2011 included capitalized costs of $2.9 million (Q1 2010: $3.7 million) related to the Company's new global IT system. All capital spending is being monitored closely by management.

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 March 31, 2011, the Company's short and long-term borrowings totalled approximately $1.0 billion, comparable with December 31, 2010 levels.

Finning has committed bank facilities totalling approximately $935 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 March 31, 2011 over $750 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 were $20.6 million, up 9.5% compared to the first quarter of 2010. With business conditions strengthening, and considering the Company's positive outlook, significant liquidity, and strong statement of financial position, the Board of Directors increased the Company's quarterly dividend by 8.3% to $0.13 per common share.

The Company's Debt Ratio (net debt to total capitalization ratio) at March 31, 2011 was 40.3%, compared with 35.3% at December 31, 2010. The increase in the Debt Ratio reflected cash used to fund working capital requirements.

## Description of Non-GAAP Measures

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:

| **For three months ended March 31 ($ millions)** | **2011** | 2010 |
|---|---|---|
| Earnings from continuing operations before interest, taxes, depreciation, and amortization (EBITDA) | **$ 147.5** | $ 86.4 |
| Depreciation and amortization | **(40.9)** | (42.2) |
| Earnings from continuing operations before interest and income taxes (EBIT) | **106.6** | 44.2 |
| Finance costs | **(14.0)** | (13.2) |
| Provision for income taxes | **(21.1)** | (4.5) |
| Income from continuing operations | **$ 71.5** | $ 26.5 |

A reconciliation of Free Cash Flow is as follows:

| **For three months ended March 31 ($ millions)** | **2011** | 2010 |
|---|---|---|
| Cash flow provided by (used in) operating activities | **$ (137.5)** | $ 111.6 |
| Additions to capital assets | **(19.0)** | (14.6) |
| Proceeds on disposal of capital assets | **0.1** | 1.1 |
| Net proceeds on disposal of capital assets of discontinued operations | **—** | 3.8 |
| Free cash flow | **$ (156.4)** | $ 101.9 |

Free Cash Flow from Hewden has been included in the figures for periods prior to sale – see Note 17 to the Interim Condensed Consolidated Financial Statements.

## 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 is dedicated to a strong risk management culture to protect and enhance shareholder value. The processes within Finning's risk management function are designed to ensure that risks are properly identified, managed, and reported. The Company discloses all of its key risks in its most recent Annual Information Form (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 and 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 March 31, 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 | March 31, 2011 month end rates | | Net Income $ millions |
|---|---|---|---|
| USD | **0.9718** | **$** | **(26)** |
| GBP | **1.5595** | **$** | **(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 March 31, 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

| | 2011 | 2010 | | | | 2009 | | | |
|---|---|---|---|---|---|---|---|---|---|
| $ millions | IFRS | IFRS | | | | Canadian GAAP | | | |
| (except for share and option data) | Q1 | Q4 | Q3 | Q2 | Q1 | Q4 | Q3 | Q2 | Q1 |
| Revenue from continuing operations [(1) (2)] | | | | | | | | | |
| Canada | **$ 612.1** | $ 652.0 | $ 586.6 | $ 551.8 | $ 477.4 | $ 601.8 | $ 489.9 | $ 582.0 | $ 712.9 |
| South America | **466.6** | 505.7 | 462.2 | 352.7 | 347.8 | 337.0 | 376.9 | 363.0 | 412.7 |
| UK & Ireland | **195.9** | 188.8 | 157.4 | 160.5 | 141.7 | 142.0 | 145.5 | 152.4 | 163.8 |
| Total revenue | **$1,274.6** | $1,346.5 | $1,206.2 | $1,065.0 | $ 966.9 | $1,080.8 | $1,012.3 | $1,097.4 | $1,289.4 |
| Net income (loss) [(1) (2)] | | | | | | | | | |
| from continuing operations | **$ 71.5** | $ 55.5 | $ 63.4 | $ 35.7 | $ 26.5 | $ 21.7 | $ 25.6 | $ 56.5 | $ 52.9 |
| from discontinued operations | **—** | — | — | (123.2) | (1.8) | (5.4) | (3.9) | (8.7) | (7.9) |
| Total net income | **$ 71.5** | $ 55.5 | $ 63.4 | $ (87.5) | $ 24.7 | $ 16.3 | $ 21.7 | $ 47.8 | $ 45.0 |
| Basic Earnings (Loss) Per Share [(1) (2)] | | | | | | | | | |
| from continuing operations | **$ 0.42** | $ 0.32 | $ 0.37 | $ 0.21 | $ 0.16 | $ 0.13 | $ 0.15 | $ 0.33 | $ 0.31 |
| from discontinued operations | **—** | — | — | (0.72) | (0.01) | (0.03) | (0.02) | (0.05) | (0.05) |
| Total basic EPS | **$ 0.42** | $ 0.32 | $ 0.37 | $ (0.51) | $ 0.15 | $ 0.10 | $ 0.13 | $ 0.28 | $ 0.26 |
| Diluted Earnings (Loss) Per Share [(1) (2)] | | | | | | | | | |
| from continuing operations | **$ 0.41** | $ 0.32 | $ 0.37 | $ 0.21 | $ 0.15 | $ 0.13 | $ 0.15 | $ 0.33 | $ 0.31 |
| from discontinued operations | **—** | — | — | (0.72) | (0.01) | (0.03) | (0.02) | (0.05) | (0.05) |
| Total diluted EPS | **$ 0.41** | $ 0.32 | $ 0.37 | $ (0.51) | $ 0.14 | $ 0.10 | $ 0.13 | $ 0.28 | $ 0.26 |
| Total assets [(1) (2)] | **$3,511.0** | $3,429.7 | $3,356.0 | $3,231.5 | $3,273.0 | $3,671.4 | $3,892.4 | $4,357.3 | $4,639.6 |
| Long-term debt | | | | | | | | | |
| Current | **$ 209.0** | $ 203.1 | $ 37.9 | $ 32.4 | $ 23.7 | $ 24.2 | $ 23.9 | $ 2.6 | $ 2.6 |
| Non-current | **711.7** | 711.1 | 861.4 | 867.4 | 940.5 | 991.7 | 1,013.8 | 1,206.4 | 1,437.3 |
| Total long-term debt [(3)] | **$ 920.7** | $ 914.2 | $ 899.3 | $ 899.8 | $ 964.2 | $1,015.9 | $1,037.7 | $1,209.0 | $1,439.9 |
| Cash dividends paid per common share | **$ 0.12** | $ 0.12 | $ 0.12 | $ 0.12 | $ 0.11 | $ 0.11 | $ 0.11 | $ 0.11 | $ 0.11 |
| Common shares outstanding (000's) | **171,528** | 171,431 | 171,177 | 171,009 | 170,907 | 170,747 | 170,661 | 170,631 | 170,545 |
| Options outstanding (000's) | **5,371** | 5,603 | 6,095 | 6,455 | 6,058 | 6,299 | 6,537 | 6,606 | 5,807 |

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 at December 31, 2010 were classified as current. The Company expects to negotiate a revised global credit facility prior to December 2011.

## New Accounting Pronouncements

### Changes in Accounting Policy in 2011

### EXPLANATION OF TRANSITION TO IFRS

The Q1 2011 interim condensed consolidated financial statements are 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 full in Note 9 to the 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 metric remains within management's target range (35%-45%) and is compliant with the Company's debt covenants for all periods presented. 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 $101.9 million (IFRS) from $99.3 million (Canadian GAAP) for the first quarter of 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 improvement in comparative period EBIT margin from 4.2% (Canadian GAAP) to 4.6% (IFRS) for the three months ended March 31, 2010 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 pension and share based payment expense).

*Earnings per share*

Improvement in earnings per share from continuing operations from $0.14 (Canadian GAAP) to $0.16 (IFRS) for the comparative period was primarily driven by lower defined benefit pension expense under IFRS in the Canadian and UK operations as 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 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).

**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 continued 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 will be 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 new and revised IFRS that have been issued but are not yet effective at May 11, 2011:

Amendments to IFRS 7, *Financial Instruments: Disclosure* (effective July 1, 2011) introduces enhanced disclosure around transfer of financial assets and associated risks. IFRS 9, *Financial Instruments* (effective January 1, 2013) introduces new requirements for the classification and measurement of financial assets.

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

## Outstanding Share Data

| As at May 6, 2011 | |
|---|---|
| Common shares outstanding | **171,527,536** |
| Options outstanding | **5,097,805** |

## Outlook

Consolidated backlog continued to increase for the sixth consecutive quarter and is indicative of the growing demand for new equipment and robust quotation activity in all the Company's regions. Customer demand for rental equipment is very strong and low-hour used equipment is in short supply. In all markets, increased machine utilization is driving substantial demand for parts and service and high levels of product support activity. The Company is also seeing solid growth in equipment rebuild work for mining and construction customers.

All regions are affected by the pressure on the supply chain resulting from strengthened market conditions. The impact of longer lead times from Caterpillar, our key supplier, is being 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.

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 remain strong. In heavy construction, forestry, and conventional oil, demand for equipment has improved. The product support business is growing substantially in all sectors, and large equipment overhaul and component remanufacturing activity remains solid.

In South America, new order intake in all sectors is robust. At current copper and gold prices, investments in mining projects are at record levels and are forecast to remain very strong. The Company continues to receive new orders from mining customers and is actively quoting on new equipment. In Chile and Argentina, construction and power systems sales activity is projected to remain strong as a result of significant investment in public and private infrastructure and energy. The growing installed base of equipment is expected to continue to contribute to ongoing product support growth in South America.

In the UK, the Company is seizing opportunities with coal mining, quarrying, waste, and plant hire customers for new equipment sales. Product support activities, including significant equipment rebuild work, are expected to remain at healthy levels. In power systems, order intake for equipment and projects continues to improve as marine, oil and gas, and power and energy sectors are strengthening. The implications of recent announcements by the government to cut public spending remain uncertain. In Ireland, demand for power systems is strong in the industrial and electric power generation sectors, while the construction sector remains weak.

During the first quarter of 2011, strong demand for equipment and parts placed pressure on working capital for inventory and accounts receivable and drove negative cash flow. The Company expects working capital requirements to increase through the second quarter. Working capital indicators such as inventory turnover, cash to cash cycle and rental fleet utilization are trending positive. The Company remains focused on effectively managing working capital and expects free cash flow to be modest but positive for the full year.

The Company will maintain an ongoing focus on cost containment and continue 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 in the medium term to approximately 20%.

The Company expects revenues to grow, on average, at 10% per annum over the next three years. The Company anticipates some variability in quarterly EBIT margin performance, reflecting the shifts in revenue mix between new equipment sales and product support, timing of large mining deliveries, and related price realizations. Overall, consolidated earnings growth is forecast to outpace revenue growth as the Company is making solid progress towards achieving a 10% consolidated EBIT margin in the medium term.

May 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; and the expected quantitative impact on the consolidated statement of financial position of the Company's transition to IFRS at January 1, 2010 and December 31, 2010. 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 May 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; 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; 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

| (Canadian $ thousands) | March 31, 2011 | December 31, 2010 | January 1, 2010 |
|---|---|---|---|
| **ASSETS** | | | |
| Current assets | | | |
| Cash and cash equivalents | **$ 167,014** | $ 346,387 | $ 194,910 |
| Accounts receivable | **727,262** | 663,920 | 620,151 |
| Service work in progress | **92,275** | 73,602 | 62,563 |
| Inventories | **1,206,006** | 1,075,824 | 968,538 |
| Income taxes recoverable | **17,344** | 24,444 | 35,826 |
| Derivative assets | **3,934** | 7,420 | 3,420 |
| Other assets (Note 10) | **138,455** | 114,096 | 118,120 |
| Total current assets | **2,352,290** | 2,305,693 | 2,003,528 |
| Rental equipment | **369,194** | 366,628 | 633,600 |
| Property, plant, and equipment | **444,120** | 440,363 | 487,105 |
| Intangible assets | **47,566** | 45,285 | 41,457 |
| Goodwill | **90,522** | 91,114 | 94,254 |
| Investment in joint venture and associate (Note 11) | **54,622** | 53,008 | 60,355 |
| Finance assets | **28,652** | 30,158 | 32,604 |
| Derivative assets | **—** | — | 26,079 |
| Deferred tax assets (Note 12) | **87,561** | 59,542 | 33,535 |
| Other assets (Note 10) | **36,482** | 37,907 | 13,735 |
| | **$ 3,511,009** | $ 3,429,698 | $ 3,426,252 |
| **LIABILITIES** | | | |
| Current liabilities | | | |
| Short-term debt | **$ 84,594** | $ 89,965 | $ 162,238 |
| Accounts payable and accruals | **665,266** | 611,051 | 486,495 |
| Income tax payable | **6,986** | 8,225 | 9,274 |
| Provisions (Note 13) | **59,249** | 57,365 | 63,667 |
| Deferred revenue | **292,004** | 318,657 | 170,034 |
| Derivative liabilities | **4,235** | 4,421 | 5,669 |
| Current portion of long-term debt | **209,042** | 203,087 | 24,179 |
| Total current liabilities | **1,321,376** | 1,292,771 | 921,556 |
| Long-term debt | **711,680** | 711,067 | 959,157 |
| Long-term obligations (Note 14) | **157,123** | 180,725 | 189,692 |
| Derivative liabilities | **6,074** | 8,672 | 26,144 |
| Provisions (Note 13) | **2,904** | 1,078 | 4,949 |
| Deferred revenue | **18,989** | 18,876 | 20,500 |
| Deferred tax liabilities (Note 12) | **48,446** | 13,524 | 15,187 |
| Total liabilities | **2,266,592** | 2,226,713 | 2,137,185 |
| **SHAREHOLDERS' EQUITY** | | | |
| Share capital | **565,964** | 564,973 | 557,052 |
| Contributed surplus | **33,676** | 33,128 | 32,069 |
| Accumulated other comprehensive loss | **(73,630)** | (53,385) | (4,846) |
| Retained earnings | **718,407** | 658,269 | 704,792 |
| Total shareholders' equity | **1,244,417** | 1,202,985 | 1,289,067 |
| | **$ 3,511,009** | $ 3,429,698 | $ 3,426,252 |

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

## UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENTS OF INCOME

| **For three months ended March 31<br>(Canadian $ thousands, except share and per share amounts)** | **2011** | 2010 |
|---|---|---|
| Revenue | | |
| New equipment | **$ 548,763** | $ 343,910 |
| Used equipment | **51,643** | 62,612 |
| Equipment rental | **78,293** | 66,348 |
| Product support | **592,518** | 491,646 |
| Other | **3,419** | 2,399 |
| Total revenue | **1,274,636** | 966,915 |
| Cost of sales | **(877,293)** | (675,395) |
| Gross profit | **397,343** | 291,520 |
| Selling, general, and administrative expenses | **(286,269)** | (239,210) |
| Equity earnings (loss) of joint venture and associate | **774** | (93) |
| Other expenses (Note 2) | **(5,224)** | (8,016) |
| Earnings from continuing operations before interest and income taxes | **106,624** | 44,201 |
| Finance costs (Note 3) | **(14,011)** | (13,233) |
| Income from continuing operations before provision for income taxes | **92,613** | 30,968 |
| Provision for income taxes | **(21,074)** | (4,464) |
| Income from continuing operations | **71,539** | 26,504 |
| Loss from discontinued operations, net of tax | **—** | (1,782) |
| Net income | **$ 71,539** | $ 24,722 |
| | | |
| Earnings per share - basic | | |
| From continuing operations (Note 4) | **$ 0.42** | $ 0.16 |
| From discontinued operations | **—** | (0.01) |
| | **$ 0.42** | $ 0.15 |
| Earnings per share - diluted | | |
| From continuing operations (Note 4) | **$ 0.41** | $ 0.15 |
| From discontinued operations | **—** | (0.01) |
| | **$ 0.41** | $ 0.14 |
| | | |
| Weighted average number of shares outstanding | | |
| Basic | **171,497,912** | 170,842,495 |
| Diluted | **172,493,312** | 171,299,271 |

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)

| For three months ended March 31 (Canadian $ thousands) | 2011 | 2010 |
|---|---|---|
| Net income | $ 71,539 | $ 24,722 |
| Other comprehensive income (loss), net of income tax | | |
| Currency translation adjustments | (18,476) | (71,312) |
| Unrealized gain (loss) on net investment hedges | (166) | (2,371) |
| Realized gain on net investment hedges | — | 20,879 |
| Tax recovery (expense) on net investment hedges | (32) | (2,793) |
| Foreign currency translation and gain (loss) on net investment hedges, net of income tax | (18,674) | (55,597) |
| Unrealized gain (loss) on cash flow hedges | (234) | (1,116) |
| Realized loss (gain) on cash flow hedges, reclassified to earnings | (931) | 1,022 |
| Tax expense on cash flow hedges | (406) | (64) |
| Gain (loss) on cash flow hedges, net of income tax | (1,571) | (158) |
| Actuarial gain (loss) (Note 7) | 12,685 | (26,775) |
| Tax recovery (expense) on actuarial gain (loss) | (3,504) | 6,847 |
| Actuarial gain (loss), net of income tax | 9,181 | (19,928) |
| Comprehensive income (loss) | $ 60,475 | $ (50,961) |

## UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

| | Share Capital | | | Accumulated Other Comprehensive Income (Loss) | | | |
|---|---|---|---|---|---|---|---|
| ($ Canadian thousands, except share amounts) | Shares | Amount | Contributed Surplus | Foreign Currency Translation and Gain / (Loss) on Net Investment Hedges | Gain / (Loss) on Cash Flow Hedges | Retained Earnings | Total |
| Balance, January 1, 2010 | 170,746,800 | $ 557,052 | $ 32,069 | $ — | $ (4,846) | $ 704,792 | $ 1,289,067 |
| Net income | — | — | — | — | — | 24,722 | 24,722 |
| Other comprehensive income | — | — | — | (55,597) | (158) | (19,928) | (75,683) |
| Total comprehensive income (loss) | — | — | — | (55,597) | (158) | 4,794 | (50,961) |
| Issued on exercise of share options | 160,658 | 1,019 | — | — | — | — | 1,019 |
| Stock option expense | — | — | 1,177 | — | — | — | 1,177 |
| Dividends on common shares | — | — | — | — | — | (18,799) | (18,799) |
| Balance, March 31, 2010 | 170,907,458 | $ 558,071 | $ 33,246 | $ (55,597) | $ (5,004) | $ 690,787 | $ 1,221,503 |
| | | | | | | | |
| Balance, January 1, 2011 | 171,431,349 | $ 564,973 | $ 33,128 | $ (52,316) | $ (1,069) | $ 658,269 | $ 1,202,985 |
| Net income | — | — | — | — | — | 71,539 | 71,539 |
| Other comprehensive income | — | — | — | (18,674) | (1,571) | 9,181 | (11,064) |
| Total comprehensive income (loss) | — | — | — | (18,674) | (1,571) | 80,720 | 60,475 |
| Issued on exercise of share options | 96,187 | 991 | (291) | — | — | — | 700 |
| Stock option expense | — | — | 839 | — | — | — | 839 |
| Dividends on common shares | — | — | — | — | — | (20,582) | (20,582) |
| Balance, March 31, 2011 | 171,527,536 | $ 565,964 | $ 33,676 | $ (70,990) | $ (2,640) | $ 718,407 | $ 1,244,417 |

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

| For three months ended March 31 (Canadian $ thousands) | 2011 | 2010 |
|---|---|---|
| **OPERATING ACTIVITIES** | | |
| Net income | $ **71,539** | $ 24,722 |
| Add items not affecting cash | | |
| Depreciation and amortization | **41,418** | 42,936 |
| Deferred taxes | **2,511** | (716) |
| Share-based payments | **1,640** | 598 |
| Loss from discontinued operations (Note 17) | — | 1,782 |
| Other | **1,094** | 556 |
| | **118,202** | 69,878 |
| Changes in working capital items (Note 6) | **(207,005)** | 38,818 |
| Interest paid | **(5,437)** | (7,733) |
| Income tax received (paid) | **(10,832)** | 19,335 |
| Cash provided after changes in working capital items | **(105,072)** | 120,298 |
| Additions to rental equipment | **(56,148)** | (25,798) |
| Proceeds on disposal of rental equipment | **22,447** | 24,930 |
| Equipment leased to customers, net of disposals | **1,275** | (1,064) |
| Cash provided by (used in) continuing operations | **(137,498)** | 118,366 |
| Cash used in discontinued operations | — | (6,716) |
| Cash flow provided by (used in) operating activities | **(137,498)** | 111,650 |
| **INVESTING ACTIVITIES** | | |
| Additions to property, plant and equipment | **(19,044)** | (14,637) |
| Proceeds on disposal of property, plant and equipment | **99** | 1,107 |
| Investment in equity investment | **(1,375)** | — |
| Proceeds on settlement of derivatives | — | 25,983 |
| Cash provided by (used in) continuing operations | **(20,320)** | 12,453 |
| Cash provided by discontinued operations | — | 3,798 |
| Cash provided by (used in) investing activities | **(20,320)** | 16,251 |
| **FINANCING ACTIVITIES** | | |
| Decrease in short-term debt | **(3,646)** | (108,604) |
| Increase (decrease) in long-term debt | **6,645** | (834) |
| Issue of common shares on exercise of stock options | **700** | 1,019 |
| Dividends paid | **(20,582)** | (18,799) |
| Cash used in continuing operations | **(16,883)** | (127,218) |
| Cash used in discontinued operations | — | — |
| Cash used in financing activities | **(16,883)** | (127,218) |
| Effect of currency translation on cash balances | **(4,672)** | (9,146) |
| Decrease in cash and cash equivalents | **(179,373)** | (8,463) |
| Cash and cash equivalents, beginning of period | **346,387** | 194,910 |
| Cash and cash equivalents, end of period (Note 6) | $ **167,014** | $ 186,447 |

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

## 1. SIGNIFICANT ACCOUNTING POLICIES

These unaudited interim condensed consolidated financial statements (Interim Statements) of the Company and its subsidiaries were prepared in accordance with International Financial Reporting Standards (IFRS), as issued by the International Accounting Standard Board (IASB). As these Interim Statements represent the Company's initial presentation of its results and financial position under IFRS, they were prepared in accordance with IAS 34, *Interim Financial Reporting* and IFRS 1, *First-time Adoption of IFRS*. These Interim Statements have been prepared in accordance with the accounting policies presented below and are based on the IFRS and International Financial Reporting Interpretations Committee (IFRIC) interpretations issued and effective as of May 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 policies set out below were consistently applied to all the periods presented unless otherwise noted.

The Company's consolidated financial statements were previously prepared in accordance with Canadian generally accepted accounting principles (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. Certain information and disclosures which are considered material to the understanding of the Company's amended Interim Statements and which are normally included in annual financial statements prepared in accordance with IFRS are provided in Notes 10-17. Reconciliations and descriptions of the effect of the transition from Canadian GAAP to IFRS on equity, earnings, and comprehensive income are provided in Note 9.

These Interim Statements were prepared under the historical cost basis except for derivative financial instruments and liabilities for share-based payment arrangements, which have been measured at fair value. The preparation of financial statements in accordance with IAS 34 requires the use of certain accounting estimates and requires management to exercise judgment in applying the Company's accounting policies. The areas where assumptions, estimates and judgments are significant to the interim condensed consolidated financial statements are disclosed below.

The significant accounting policies used in these Interim Statements are as follows:

### (a) Principles of Consolidation

The Interim Statements include the accounts of Finning International Inc. ("Finning" or "Company"), which includes the Finning (Canada) division and Finning's wholly owned subsidiaries. Subsidiaries are those entities over which the Company has the power to govern the financial and operating policies so as to obtain benefits from the investee's activities, generally accompanying a shareholding that confers more than half of the voting rights. Principal operating subsidiaries include Finning (UK) Ltd., Finning Chile S.A., Finning Argentina S.A., Finning Soluciones Mineras S.A., Finning Uruguay S.A., Finning Bolivia S.A., and OEM Remanufacturing Company (OEM). The Company has a 25% interest in PipeLine Machinery International (PLM), its principal joint venture, and a 27% interest in an associate, Energyst B.V. (Energyst). PLM and Energyst are accounted for using the equity method. For interests acquired or disposed of during the year, the results of operations are included in the condensed consolidated statements of income from, or up to, the date of the transaction, respectively.

Joint Ventures and Associates

A joint venture is a contractual arrangement whereby the Company and other parties undertake an economic activity that is subject to joint control (i.e. when the strategic, financial and operating policy decisions relating to the activities of the joint venture require the unanimous consent of the parties sharing control). An associate is an entity over which the Company has significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

The Company accounts for joint ventures and associates in which the Company has an interest using the equity method. The joint ventures and associates follow accounting policies that are materially consistent with the Company's accounting policies. Where the Company transacts with a jointly controlled entity or associate, unrealized profits and losses are eliminated to the extent of the Company's interest in the jointly controlled entity or associate.

### (b) Key Assumptions and Significant Judgments

The preparation of financial statements in conformity with IFRS requires management to make judgments, estimates, and assumptions in respect of the application of accounting policies and the reported amounts of assets, liabilities, income, and expenses. Actual results may differ from those judgments, estimates, and assumptions.

**Areas of Assumptions and Uncertainty**

Information about areas of estimation uncertainty in applying accounting policies that have the most significant effect on the amounts recognized in the condensed consolidated statements are as follows:

Asset Lives and Residual Values

Rental fleet is depreciated to its estimated residual value over its estimated useful life. Depreciation expense is sensitive to the estimated service lives determined for each type of rental asset. Actual lives and residual values may vary depending on a number of factors including technological innovation, product life cycles and physical condition of the asset, prospective use, and maintenance programs.

Goodwill and Intangible Assets

Goodwill and intangible assets with indefinite lives are tested for impairment at least annually. The impairment calculations require the use of estimates related to the future operating results, viability, and cash generating ability of the assets. Judgment is also used in identifying an appropriate discount rate for these calculations.

Revenue Recognition – Long Term Contracts

Where the outcome of a long term contract (primarily power systems and maintenance and repair contracts) can be estimated reliably, revenue and costs are recognized by reference to the stage of completion of the contract activity at the statement of financial position date, measured primarily based on the proportion of contract costs incurred for work performed to date relative to the estimated total contract costs. Variations in contract work, claims and incentive payments are included to the extent that they have been agreed with the customer. Where the outcome of a long term contract cannot be estimated reliably, contract revenue is recognized to the extent of contract costs incurred that it is probable will be recoverable. Contract costs are recognized as expenses in the period in which they are incurred. When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognized as an expense immediately.

Revenue Recognition – Repurchase Guarantees

Guaranteed residual values are periodically given on repurchase commitments with customers. The likelihood of the repurchase commitments being exercised is assessed at the inception of the contract to determine whether significant risks and rewards have been transferred to the customer and if revenue should be recognized. The likelihood of the repurchase guarantees being exercised, and quantification of the possible loss, if any, on resale of the equipment is assessed at the inception of the contract and at each reporting period thereafter. Significant assumptions are made in estimating residual values. These are assessed based on past experience and take into account expected future market conditions and projected disposal values.

Allowance for Doubtful Accounts

The Company and its subsidiaries make estimates for allowances that represent its estimate of potential losses in respect of trade and other receivables. The main components of this allowance are a specific loss component that relates to individually significant exposures, and a collective loss component established for groups of similar assets in respect of losses that may have been incurred but not yet specifically identified. The collective loss allowance is estimated based on historical data of payment statistics for similar financial assets, adjusted for current economic conditions.

Provision for Inventory Obsolescence

The Company makes estimates of the provision required to reflect obsolescence of inventory. These provisions are determined on a specific item basis for equipment, and on the basis of age, redundancy, and stock levels for parts and supplies.

Current and Deferred Taxation

Estimations of the tax asset or liability require assessments to be made based on the potential tax treatment of certain items that will only be resolved once finally agreed with the relevant tax authorities.

Due to the number of variables associated with the differing tax laws and regulations across the multiple jurisdictions, the precision and reliability of the resulting estimates are subject to uncertainties and may change as additional information becomes known.

Assumptions underlying the composition of deferred tax assets and liabilities include estimates of future results of operations and the timing of reversal of temporary differences as well as the tax rates and laws in each respective jurisdiction at the time of the expected reversal.

**Areas of Significant Judgment**

The significant judgments that management has made in the process of applying the Company's accounting policies are as follows:

<u>Defined Benefit Pension Plans</u>

The Company and its subsidiaries have defined benefit pension plans that provide pension and other benefits to its employees. Actuarial valuations are based on assumptions which include employee turnover, salary escalation rates, mortality rates, discount rates, and expected rate of return on retirement plan assets. Judgment is exercised in setting these assumptions. These assumptions impact the measurement of the defined benefit obligation, the pension expense and the actuarial gains and losses recognized in other comprehensive income.

<u>Warranty Claims</u>

Warranties are provided on certain equipment, spare parts, and service supplied to customers. Management exercises judgment in establishing provisions required on the basis of past experience.

<u>Rental Purchase Options</u>

Rental purchase options (RPOs) are rental agreements with customers which include an option to purchase the equipment at the end of the rental term. The Company periodically sells portfolios of RPOs to financial institutions, and is required to make judgments as to whether the risks and rewards of ownership of the underlying assets have been transferred to the financial institution in such circumstances. The level of residual value risk retained by the Company, the continuing managerial involvement of the Company in the assets, and the transfer of title to the assets are all considered when assessing whether the risks and rewards of ownership have been transferred to the purchaser and hence whether revenue should be recognized on the sale of the assets and associated rental contracts.

**(c) Foreign Currency Translation**

These Interim Statements are presented in Canadian dollars, which is the functional currency of the parent company. Transactions undertaken in foreign currencies are translated into Canadian dollars at exchange rates prevailing at the time the transactions occurred. Account balances denominated in foreign currencies are translated into Canadian dollars as follows:

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

Financial statements of foreign operations are translated from the functional currency of the foreign operation into Canadian dollars as follows:

- Assets and liabilities are translated using the exchange rates in effect at the statement of financial position dates;
- Revenue and expense items are translated at average exchange rates prevailing during the period that the transactions occurred; and
- Unrealized translation gains and losses are recorded in foreign currency translation and gain / (loss) on net investment hedges within other comprehensive income. Cumulative currency translation adjustments are recognized in net income upon the disposal of a foreign operation (i.e. a disposal of the Company's entire interest in a foreign operation, or a disposal that involves loss of control of a subsidiary that includes a foreign operation, loss of joint control over a jointly controlled entity that includes a foreign operation, or loss of significant influence over an associate that includes a foreign operation).

The Company has hedged some of its investments in foreign subsidiaries using derivatives and foreign currency denominated borrowings. Foreign exchange gains or losses arising from the translation of these hedging instruments are accounted for as items of other comprehensive income and presented on the condensed consolidated statement of financial position. Foreign exchange gains or losses arising from net investment hedging instruments are recognized in net income upon the disposal of a foreign operation (i.e. a disposal of the Company's entire interest in a foreign operation, or a disposal that involves loss of control of a subsidiary that includes a foreign operation, loss of joint control over a jointly controlled entity that includes a foreign operation, or loss of significant influence over an associate that includes a foreign operation). See Note 1 (u) for further details on the Company's hedge accounting policy.

**(d) Cash and Cash Equivalents**

Cash and cash equivalents comprise cash on hand together with short-term investments, consisting of highly rated and liquid money market instruments with original maturities of three months or less, and are recorded at fair value, which approximates cost.

**(e) Inventories**

Inventories are assets held for sale in the ordinary course of business, in the process of production for sale, or in the form of materials or supplies to be consumed in the production process or in the rendering of services. Inventories are stated at the lower of cost and net realizable value. Cost is determined on a specific item basis for on-hand equipment, and on a weighted average cost basis for parts and supplies. The cost of inventories includes all costs of purchase, conversion costs, and other costs incurred in bringing inventories to their existing location and condition. In the case of internal service work in progress on equipment, cost includes an appropriate share of overhead costs based on normal operating capacity.

**(f) Investment in Associate**

Investments in which the Company exercises significant influence, but not control or joint control, are accounted for using the equity method. If there is an indicator that the investment may be impaired, the carrying amount of the associate is tested for impairment as a single asset by comparing its recoverable amount with its carrying amount.

**(g) Income Taxes**

The balance sheet method of tax allocation is used in accounting for income taxes. Under this method, the carry forward of unused tax losses and unused tax credits and the temporary differences arising from the difference between the tax basis of an asset and a liability and its carrying amount on the statement of financial position are used to calculate deferred tax assets or liabilities. Deferred tax liabilities are recognized for all taxable temporary differences and deferred tax assets are recognized to the extent that it is probable that taxable profits will be available against which the carry forward of unused tax losses, unused tax credits, and the deductible temporary differences can be utilized. Such deferred tax assets and liabilities are not recognized if the temporary difference arises from the initial recognition of goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither taxable profit nor the accounting profit. Deferred tax liabilities are recognized for taxable temporary differences associated with investments in subsidiaries and associates, and interests in joint ventures, except where the Company is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets or liabilities are calculated using tax rates anticipated to be in effect in the periods that the asset is realized or the liability is settled based on the laws that have been enacted or substantively enacted by the reporting date. The effect of a change in income tax rates on deferred tax assets and liabilities is recognized in income and/or equity in the period that the change becomes substantively enacted.

Current and deferred tax are recognized in profit or loss, except when they relate to items that are recognized in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognized in other comprehensive income or directly in equity, respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

The charge for current tax is based on the results for the year as adjusted for items which are non-assessable or disallowed using tax rates enacted or substantively enacted by the statement of financial position date.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Company intends to settle its tax assets and liabilities on a net basis.

**(h) Instalment Notes Receivable**

Finance assets on the consolidated statement of financial position include instalment notes receivable, which represent amounts due from customers relating to financing of equipment sold and parts and service sales. These receivables are recorded net of unearned finance charges and include initial direct costs.

**(i) Rental Equipment and Equipment Leased to Customers**

Rental equipment is available for short and medium term rentals and is recorded at cost, net of accumulated depreciation and impairment losses. Cost is determined on a specific item basis. Rental equipment is depreciated to its estimated residual value over its estimated useful life on a straight-line basis over 2-5 years. Rental assets that become available for sale after being removed from rental fleets are transferred to inventory.

Finance assets on the consolidated statement of financial position include equipment leased to customers on long-term financing leases. Depreciation of equipment leased to customers is provided in equal monthly amounts over the terms of the individual leases after recognizing the estimated residual value of each unit at the end of each lease.

Depreciation for rental equipment and equipment leased to customers is recorded in cost of sales in the condensed consolidated statement of income.

**(j) Property, Plant and Equipment**

Property, plant, and equipment are recorded at cost, net of accumulated depreciation and accumulated impairment losses. Depreciation of property, plant and equipment is recorded in selling, general, and administrative expenses in the consolidated statement of income. Depreciation commences when the asset becomes available for use, and ceases when the asset is derecognized or classified as held for sale. Where significant components of an asset have different useful lives, depreciation is calculated on each separate part.

All classes of property, plant, and equipment are depreciated over their estimated useful lives to their estimated residual value on a straight-line basis using the following annual rates:

| | |
|---|---|
| Buildings (including investment property) | 2% - 5% |
| Equipment | 10% - 30% |
| Tools, fixtures, and fittings | 10% - 33% |
| Automotive equipment | 20% - 33% |

Property, plant, and equipment held under finance lease are depreciated over the term of the relevant lease.

**(k) Investment Property**

Investment properties are defined as land or buildings held to earn rentals or for capital appreciation or both. While investment in property is not a core part of the Company's activities, properties held by the Company for which the future use is undetermined, or which are rented to third parties pending determination of future use, are classified as investment property and are included within property, plant, and equipment on the consolidated statement of financial position. Such properties are carried at cost less accumulated depreciation and accumulated impairment losses.

**(l) Intangible Assets**

Intangible assets with indefinite lives are not amortized. Intangible assets with finite lives are amortized on a straight-line basis over their estimated useful lives. Intangible assets, such as software, customer lists, and similar assets, are amortized over the periods during which they are expected to generate benefits, which do not exceed ten years. Amortization is recorded in selling, general, and administrative expenses in the consolidated statement of income.

**(m) Borrowing cost capitalization**

Borrowing costs are capitalized in relation to the construction of qualifying property, plant, and equipment and intangible assets. As the Company manages the financing of all operations centrally, and the construction of qualifying assets is financed through general borrowings, a weighted average borrowing rate is used in calculating interest to be capitalized on eligible construction assets.

**(n) Goodwill**

Goodwill represents the excess of the acquisition date fair value of consideration transferred over the fair value of the identifiable net assets acquired. Goodwill is not amortized but is reviewed for impairment at least annually.

This is applicable to business combinations completed on or after January 1, 2010.

**(o) Asset Impairment**

Goodwill and intangible assets with indefinite lives or those which are not yet available for use are subject to an annual assessment for impairment unless events or changes in circumstances indicate that their value may not be fully recoverable, in which case the assessment is done at that time. Tangible assets and intangible assets with finite lives are subject to assessment for impairment whenever there is an indicator that they may be impaired. For the purpose of impairment testing, goodwill is allocated to each of the Company's cash generating units expected to benefit from the acquisition. The level at which goodwill is allocated represents the lowest level at which goodwill is monitored for internal management purposes and is not higher than an operating segment. If the recoverable amount of the cash generating unit is less than the carrying amount of the unit, then the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit. Any impairment is recognized immediately in the consolidated statement of income. Impairment reversals are recognized immediately in net income when the recoverable amount of an asset increases above the impaired net book value, not to exceed the carrying amount that would have been determined (net of depreciation) had no impairment loss been recognized for the asset in prior years. Impairment losses recognized for goodwill are never reversed.

**(p) Leases**

Leases are classified as either finance or operating leases. Leases where substantially all of the benefits and risks of ownership of property rest with the lessee are accounted for as finance leases; all other leases are classified as operating leases.

*The Company as lessor*

Amounts due from lessees under finance leases are recorded as receivables at the amount of the Company's net investment in the leases. Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on the Company's net investment outstanding in respect of the leases.

Rental income from operating leases is recognized on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognized on a straight-line basis over the lease term.

*The Company as lessee*

Assets held under finance leases are initially recognized as assets of the Company at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation. Finance lease equipment is depreciated over the term of the relevant lease. Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly to profit or loss unless they are directly attributable to qualifying assets, in which case they are capitalized in accordance with the Company's general policy on borrowing costs. Contingent rental payments are recognized as expenses in the periods in which they are triggered.

Operating lease payments are recognized as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. In the event that lease incentives are received to enter into operating leases, such incentives are recognized as a liability. The aggregate benefit of incentives is recognized as a reduction of rental expense on a straight-line basis over the term of the lease, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

*Sale and leaseback transactions*

Sale and leaseback transactions are assessed to determine whether they are finance or operating leases.

*Sale and leaseback resulting in a finance lease*

If a sale and leaseback transaction results in a finance lease, any excess of sale proceeds over the carrying amount is deferred and amortized over the lease term.

*Sale and leaseback resulting in an operating lease*

If a sale and leaseback transaction results in an operating lease, and it is clear that the transaction is established at fair value, any profit or loss is recognized immediately. If the sale price is below fair value, any profit or loss is recognized immediately except that, if the loss is compensated for by future lease payments at below market price, it is deferred and amortized in proportion to the lease payments over the period for which the asset is expected to be used. If the sale price is above fair value, the excess over fair value is deferred and amortized over the period for which the leased asset is expected to be used.

### (q) Decommissioning, Restoration and Similar Liabilities

The Company recognizes its legal and constructive obligation for the decommissioning of certain tangible long-lived assets. The provision is measured based on the net present value of management's best estimate of the expenditures that will be made. The discount rate used to discount the decommissioning liability is determined with reference to the specific risks associated with the underlying assets. The associated decommissioning costs are capitalized as part of the carrying amount of the long-lived asset and then amortized over the estimated useful life. The increase in the net present value of the provision for the expected decommissioning cost is included in finance costs. Subsequent changes in the estimate of costs relating to the decommissioning of long lived assets are capitalized as part of the cost of the item and depreciated prospectively over the remaining life of the item to which the costs relate. A gain or loss may be incurred upon settlement of the liability.

### (r) Revenue Recognition

Revenue recognition occurs when there is an arrangement, primarily in the form of a contract or purchase order, with the customer, a fixed or determinable sales price is established with the customer, performance requirements are achieved, and it is probable that economic benefits associated with the transaction will flow to the Company. Revenue is measured at fair value of the consideration received or receivable exclusive of any discounts offered. Revenue is recognized as performance requirements are achieved in accordance with the following:

- Revenue from sales of equipment is recognized at the time title to the equipment and significant risks and rewards of ownership passes to the customer, which is generally at the time of shipment of the product to the customer;
- Revenue from sales of equipment includes construction contracts with customers that involve the design, installation, and assembly of power and energy equipment systems. Revenue is recognized on a percentage of completion basis proportionate to the work that has been completed which is based on associated costs incurred, except where this would not be representative of the stage of completion (when revenue is recognized in accordance with the specific acts outlined in the contract);
- Revenue from equipment rentals and operating leases is recognized in accordance with the terms of the relevant agreement with the customer, either evenly over the term of that agreement or on a usage basis such as the number of hours that the equipment is used; and
- Revenue from product support includes sales of parts and servicing of equipment. For sales of parts, revenue is recognized when the part is shipped to the customer or when the part is installed in the customer's equipment. For servicing of equipment, revenue is recognized as the service work is performed. Product support is also offered to customers in the form of long-term maintenance and repair contracts. For these contracts, revenue is recognized on a basis proportionate to the service work that has been performed based on the parts and labour service provided. Parts revenue is recognized based on parts list price and service revenue is recognized based on standard billing labour rates. Any losses estimated during the term of the contract are recognized when identified.
- Periodically, amounts are received from customers under long term contracts in advance of the associated contract work being performed. These amounts are recorded on the consolidated statement of financial position as deferred revenue.

### (s) Share-based Payments

The Company has share option plans and other share-based compensation plans for directors and certain eligible employees. Share-based awards are measured at fair value. Fair value is measured by using the Black-Scholes model.

For equity settled share-based payments, fair value is determined on the grant date of the share option and recorded over the vesting period, based on the Company's estimate of options that will vest, with a corresponding increase to contributed surplus. When share options are exercised, the proceeds received by the Company, together with any related amount recorded in contributed surplus, are credited to share capital. Contributed surplus is made up of the fair value of share options.

Cash settled share-based compensation plans are recognized as a liability. Compensation expense which arises from fluctuations in the fair value of the Company's cash settled share-based compensation plans (net of hedging instruments) is recognized in selling, general, and administrative expense in the consolidated statement of income with the corresponding liability recorded on the consolidated statement of financial position in long-term obligations.

**(t) Employee Future Benefits**

The Company and its subsidiaries offer a number of benefit plans that provide pension and other benefits to many of its employees in Canada and the U.K. These plans include defined benefit and defined contribution plans.

The Company's South American employees do not participate in employer pension plans but are covered by country specific legislation with respect to post employment benefit plans. The Company accrues its obligations to employees under these arrangements based on the actuarial valuation of anticipated payments to employees.

*Defined benefit plans*: The cost of pensions and other retirement benefits is determined by independent actuaries using the projected unit credit method prorated on service and management's best estimates of assumptions including the expected return on plan assets and salary escalation rate, along with the use of a discount rate based on high quality corporate bond yields. For the purpose of calculating the expected return on plan assets, those assets are valued at fair value.

Past service costs from plan amendments are amortized on a straight-line basis over the expected average period until the amended benefits become vested. Past service costs are recognized immediately to the extent that the benefits are already vested.

Actuarial gains and losses arise from differences between actual experience and that expected as a result of economic, demographic, and other assumptions made. These include the difference between the actual and expected rate of return on plan assets for a period, and differences from changes in actuarial assumptions used to determine the accrued benefit obligation. Actuarial gains and losses are recognized in full directly in other comprehensive income in the period in which they occur.

The amount recognized in the consolidated statement of financial position represents the present value of the defined benefit obligation as adjusted for unrecognized past service costs and reduced by the fair value of plan assets. Any asset is limited to the unrecognized past service costs, plus the present value of available refunds and reductions in future contributions to the plan.

*Defined contribution plans:* The cost of pension benefits includes the current service cost, which comprise the actual contributions made by the Company during the year. These contributions are based on a fixed percentage of member earnings for the year and are charged to the consolidated statement of income as they become due.

**(u) Comprehensive Income, Financial Instruments, and Hedges**

***Comprehensive Income***

Comprehensive income comprises the Company's net income and other comprehensive income and represents changes in shareholders' equity during a period arising from non-owner sources. Other comprehensive income includes currency translation adjustments on the Company's net investment in foreign operations and related hedging gains and losses, unrealized gains and losses on available-for-sale securities, actuarial gains and losses relating to the Company's defined benefit pension plans, and hedging gains and losses on cash flow hedges.

***Financial Assets and Financial Liabilities***

<u>Classification</u>

The Company has made the following classification of its financial assets and financial liabilities:

Cash equivalents are classified as Fair Value Through Profit or Loss (FVTPL).

Accounts receivable, instalment and other notes receivable, and supplier claims receivable are classified as Loans and Receivables. They are measured at amortized cost using the effective interest method. Short-term and long-term debt and accounts payable are classified as "Other Financial Liabilities". They are measured at amortized cost using the effective interest method. Transaction costs directly attributable to the acquisition or issue of a financial asset or financial liability (except those classified as FVTPL) are included in the carrying amount of the financial asset or financial liability, and are amortized to income using the effective interest method.

Financial assets that are measured at amortized cost are assessed for impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial assets, the estimated future cash flows of the asset have been affected. For certain categories of financial assets, such as trade receivables, assets that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Company's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period, as well as observable changes in national or local economic conditions that correlate with default on receivables. The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. When a trade receivable is considered uncollectible, it is written off against the allowance account. Changes in the carrying amount of the allowance account are recognized in profit or loss.

Derivatives

All derivative instruments are recorded on the condensed consolidated statement of financial position at fair value.

Embedded Derivatives

Derivatives may be embedded in other financial instruments (host instruments). Embedded derivatives are treated as separate derivatives when their economic characteristics and risks are not closely related to those of the host instrument, the terms of the embedded derivative are the same as those of a stand-alone derivative, and the combined contract is not classified as FVTPL. These embedded derivatives are measured at fair value with subsequent changes in fair value recognized in income. The Company has not identified any embedded derivatives that are required to be accounted for separately from the host contract.

***Hedges***

The Company utilizes derivative financial instruments and foreign currency debt in order to manage its foreign currency and interest rate exposures, and share-based compensation expenses. The Company uses derivative financial instruments only in connection with managing related risk positions and does not use them for trading or speculative purposes.

The Company determines whether or not to formally designate, for accounting purposes, eligible hedging relationships between hedging instruments and hedged items. This process includes linking derivatives to specific risks from assets or liabilities on the statement of financial position or specific firm commitments or forecasted transactions. For hedges designated as such for accounting purposes, the Company documents and formally assesses, both at inception and on an ongoing basis, whether the hedging instrument is highly effective in offsetting changes in fair value or cash flows associated with the identified hedged items. When derivative instruments have been designated as a hedge and are highly effective in offsetting the identified hedged risk, hedge accounting is applied to the derivative instruments. The ineffective portion of hedging gains and losses of highly effective hedges is reported in income. The accounting treatment for the types of hedges used by the Company is described below.

Cash Flow Hedges

The Company uses foreign exchange forward contracts and, at times, options to hedge the currency risk associated with certain foreign currency purchase commitments, payroll, and associated accounts payable and accounts receivable for periods up to two years in advance. The effective portion of hedging gains and losses associated with these cash flow hedges is recorded, net of tax, in other comprehensive income and is released from accumulated other comprehensive income and recorded in the same statement of income caption as the underlying item when the hedged item affects income. The gain or loss relating to any ineffective portion is recognized immediately in the consolidated statement of income.

When a hedging instrument expires or is sold, or when a hedge is discontinued or no longer meets the criteria for hedge accounting, any accumulated gain or loss recorded in other comprehensive income at that time remains in accumulated other comprehensive income until the originally hedged transaction affects income. When a forecasted transaction is no longer expected to occur, the accumulated gain or loss that was reported in other comprehensive income is immediately recorded in the consolidated statement of income.

Gains and losses relating to forward foreign exchange contracts that are not designated as hedges for accounting purposes are recorded in selling, general, and administrative expenses.

From time to time, the Company uses derivative financial instruments to hedge interest rate risk associated with future proceeds of debt.

Fair Value Hedges

Changes in the fair value of derivatives designated and qualifying as fair value hedging instruments are recorded in income immediately along with changes in the fair value of the hedged item attributable to the hedged risk.

If a hedging relationship no longer meets the criteria for hedge accounting, the cumulative adjustment to the carrying amount of the hedged item is amortized to income based on a recalculated effective interest rate over the remaining expected life of the hedged item, unless the hedged item has been derecognized in which case the cumulative adjustment is recorded immediately in the consolidated statement of income.

Net Investment Hedges

The Company typically uses foreign currency debt, and at times, foreign exchange forward contracts to hedge foreign currency gains and losses on its long-term net investments in foreign operations. The effective portion of the gain or loss of such instruments associated with the hedged risk is recorded in other comprehensive income each period. These gains or losses are recognized in net income upon the disposal of a foreign operation (i.e. a disposal of the Company's entire interest in a foreign operation, or a disposal that involves loss of control of a subsidiary that includes a foreign operation, loss of joint control over a jointly controlled entity that includes a foreign operation, or loss of significant influence over an associate that includes a foreign operation).

**(v) Adoption of new and revised IFRS and IFRS not yet effective**

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

Amendments to IFRS 7, *Financial Instruments: Disclosure* (effective July 1, 2011) introduces enhanced disclosure around transfer of financial assets and associated risks. IFRS 9, *Financial Instruments* (effective January 1, 2013) introduces new requirements for the classification and measurement of financial assets.

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

## 2. OTHER EXPENSES

Other expenses (income) include the following items:

| For three months ended March 31<br>($ thousands) | 2011 | 2010 |
|---|---|---|
| Project costs (a) | **$ 5,224** | $ 5,285 |
| Restructuring (b) | **—** | 2,757 |
| Gain on sale of other surplus properties | **—** | (26) |
| | **$ 5,224** | $ 8,016 |

(a) Project costs incurred during the three months ended March 31, 2011 and 2010 relate to the implementation of a new information technology system for the Company's global operations.

(b) During the three months ended March 31, 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:

| For three months ended March 31<br>($ thousands) | | 2011 | | 2010 |
|---|---|---|---|---|
| Interest on debt securities: | | | | |
| Short-term debt | $ | 120 | $ | 420 |
| Long-term debt | | 11,718 | | 12,794 |
| | | 11,838 | | 13,214 |
| Loss on interest rate derivatives | | 366 | | 459 |
| Other finance related expenses | | 2,129 | | 1,180 |
| | | 14,333 | | 14,853 |
| Less: | | | | |
| Borrowing costs capitalized to property, plant, and equipment | | (322) | | (37) |
| Interest expense related to discontinued operations | | — | | (1,583) |
| Finance costs of continuing operations | $ | 14,011 | $ | 13,233 |

## 4. 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.

| For three months ended March 31<br>($ thousands, except share and per share amounts)<br>2011 | | Income | Shares | | Per Share |
|---|---|---|---|---|---|
| **Basic EPS from continuing operations:** | | | | | |
| Net income from continuing operations | $ | 71,539 | 171,497,912 | $ | 0.42 |
| Effect of dilutive securities: stock options | | — | 995,400 | | (0.01) |
| **Diluted EPS from continuing operations:** | | | | | |
| Net income from continuing operations and assumed conversions | $ | 71,539 | 172,493,312 | $ | 0.41 |
| 2010 | | | | | |
| **Basic EPS from continuing operations:** | | | | | |
| Net income from continuing operations | $ | 26,504 | 170,842,495 | $ | 0.16 |
| Effect of dilutive securities: stock options | | — | 456,776 | | (0.01) |
| **Diluted EPS from continuing operations:** | | | | | |
| Net income from continuing operations and assumed conversions | $ | 26,504 | 171,299,271 | $ | 0.15 |

## 5. 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** | **March 31, 2011** | December 31, 2010 | March 31, 2010 | January 1, 2010 |
|---|---|---|---|---|
| U.S. dollar | **0.9718** | 0.9946 | 1.0156 | 1.0466 |
| U.K. pound sterling | **1.5595** | 1.5513 | 1.5422 | 1.6918 |

| **Average exchange rates** | **Three months ended March 31, 2011** | Twelve months ended December 31, 2010 | Three months ended March 31, 2010 |
|---|---|---|---|
| U.S. dollar | **0.9855** | 1.0299 | 1.0401 |
| U.K. pound sterling | **1.5803** | 1.5918 | 1.6215 |

## 6. Supplemental Cash Flow Information

**Non cash working capital changes**

| **For three months ended March 31 ($ thousands)** | **2011** | 2010 |
|---|---|---|
| Accounts receivable | **$ (87,180)** | $ (51,434) |
| Service work in progress | **(19,034)** | (11,331) |
| Inventories – on-hand equipment | **(106,918)** | 51,657 |
| Inventories – parts and supplies | **(34,061)** | (11,621) |
| Accounts payable and accruals | **24,948** | 66,137 |
| Income taxes | **20,305** | (6,406) |
| Other | **(5,065)** | 1,816 |
| Changes in working capital items | **$ (207,005)** | $ 38,818 |

**Components of cash and cash equivalents**

| **March 31 ($ thousands)** | **2011** | 2010 |
|---|---|---|
| Cash | **$ 88,429** | $ 117,917 |
| Short-term investments | **78,585** | 68,530 |
| Cash and cash equivalents | **$ 167,014** | $ 186,447 |
| Comprised: | | |
| Cash and cash equivalents of continuing operations | **$ 167,014** | $ 151,980 |
| Cash and cash equivalents of discontinued operations | **—** | 34,467 |
| | **$ 167,014** | $ 186,447 |

## 7. Employee Future Benefits

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

| | **March 31, 2011** | | December 31, 2010 | | March 31, 2010 | |
|---|---|---|---|---|---|---|
| | **Canada** | **UK** | Canada | UK | Canada | UK |
| Discount rate – obligation | **5.25%** | **5.40%** | 5.1% | 5.3% | 5.4% | 5.6% |
| Discount rate – expense [1] | **5.10%** | **5.30%** | 5.7% | 5.7% | 5.7% | 5.7% |
| Expected long-term rate of return on plan assets [1] | **6.75%** | **6.75%** | 7.0% | 7.0% | 7.0% | 7.0% |
| Rate of compensation increase | **3.50%** | **4.00%** | 3.5% | 4.0% | 3.5% | 4.0% |

[1] Used to determine the expense for the three months ended March 31, 2011 and March 31, 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)** | **Three months ended March 31, 2011** | Year ended December 31, 2010 |
|---|---|---|
| Included within the statement of financial position: | | |
| Deficit at the start of the period | **$ (105,515)** | $ (102,947)[1] |
| Deficit at the end of the period | **$ (84,080)** | $ (105,515) |

[1]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 March 31 ($ thousands)** | **2011** | | | 2010 | | |
|---|---|---|---|---|---|---|
| | **Canada** | **UK & Ireland** | **Total** | Canada | UK | Total |
| Amounts recognized in the statement of income: | | | | | | |
| Defined contribution plans | **$ 6,391** | **$ 509** | **$ 6,900** | $ 4,994 | $ 431 | $ 5,425 |
| Defined benefit plans | **1,553** | **—** | **1,553** | 1,569 | 568 | 2,137 |
| Total expense recognized in the statement of income | **7,944** | **509** | **8,453** | 6,563 | 999 | 7,562 |
| Gain (loss) recognized in other comprehensive income: | | | | | | |
| Actuarial gain (loss) relating to pension liabilities (gross of taxation) | **8,050** | **8,559** | **16,609** | (25,913) | (14,107) | (40,020) |
| Actuarial gain (loss) relating to pension assets (gross of taxation) | **(1,920)** | **(2,004)** | **(3,924)** | (557) | 14,431 | 13,874 |
| Total actuarial gain (loss) recognized in other comprehensive income | **$ 6,130** | **$ 6,555** | **$ 12,685** | $ (26,470) | $ 324 | $ (26,146)[1] |

[1]Included in the comparative consolidated statement of other comprehensive income are actuarial losses of discontinued operations of $629.

## 8. 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 March 31, 2011 ($ thousands)** | **Canada** | **South America** | **UK & Ireland** | **Other** | **Consolidated** |
|---|---|---|---|---|---|
| Revenue from external sources | **$ 612,115** | **$ 466,614** | **$ 195,907** | **$ —** | **$ 1,274,636** |
| Operating costs | **(521,658)** | **(416,564)** | **(179,291)** | **(5,160)** | **(1,122,673)** |
| Depreciation and amortization | **(25,821)** | **(9,724)** | **(5,225)** | **(119)** | **(40,889)** |
| | **64,636** | **40,326** | **11,391** | **(5,279)** | **111,074** |
| Equity earnings (loss) | **1,320** | **—** | **—** | **(546)** | **774** |
| Other income (expenses) | | | | | |
| IT system implementation costs | **(3,534)** | **(1,566)** | **(310)** | **186** | **(5,224)** |
| Earnings (loss) before interest and taxes | **$ 62,422** | **$ 38,760** | **$ 11,081** | **$ (5,639)** | **$ 106,624** |
| Finance costs | | | | | **(14,011)** |
| Provision for income taxes | | | | | **(21,074)** |
| Net income | | | | | **$ 71,539** |
| Identifiable assets | **$ 1,679,427** | **$ 1,258,637** | **$ 460,671** | **$ 112,274** | **$ 3,511,009** |
| Property, plant, and equipment and intangible assets | **$ 308,681** | **$ 138,922** | **$ 43,591** | **$ 492** | **$ 491,686** |
| Gross capital expenditures (1) | **$ 5,757** | **$ 12,037** | **$ 1,564** | **$ 11** | **$ 19,369** |
| Gross rental asset expenditures | **$ 49,287** | **$ 6,082** | **$ 779** | **$ —** | **$ 56,148** |

| For three months ended March 31, 2010 ($ thousands) | Canada | South America | UK | Other | Consolidated |
|---|---|---|---|---|---|
| Revenue from external sources | $ 477,366 | $ 347,806 | $ 141,743 | $ — | $ 966,915 |
| Operating costs | (435,485) | (302,761) | (131,071) | (3,068) | (872,385) |
| Depreciation and amortization | (28,363) | (8,822) | (4,994) | (41) | (42,220) |
| | 13,518 | 36,223 | 5,678 | (3,109) | 52,310 |
| Equity earnings (loss) | 1,224 | — | — | (1,317) | (93) |
| Other expenses | | | | | |
| IT system implementation costs | (2,283) | (1,852) | (754) | (396) | (5,285) |
| Other | (2,483) | — | (248) | — | (2,731) |
| Earnings (loss) from continuing operations before interest and taxes | $ 9,976 | $ 34,371 | $ 4,676 | $ (4,822) | $ 44,201 |
| Finance costs | | | | | (13,233) |
| Provision for income taxes | | | | | (4,464) |
| Net income from continuing operations | | | | | 26,504 |
| Loss from discontinued operations | | | | | (1,782) |
| Net income | | | | | $ 24,722 |
| Identifiable assets from continuing operations | $ 1,411,390 | $ 1,083,210 | $ 395,587 | $ 34,293 | $ 2,924,480 |
| Property, plant, and equipment and intangible assets from continuing operations | $ 307,631 | $ 126,638 | $ 37,209 | $ 419 | $ 471,897 |
| Gross capital expenditures (1) | $ 6,849 | $ 6,912 | $ 967 | $ — | $ 14,728 |
| Gross rental asset expenditures | $ 14,501 | $ 9,286 | $ 2,011 | $ — | $ 25,798 |

(1) includes finance leases and borrowing costs capitalized

## 9. EXPLANATION OF TRANSITION TO IFRS

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. The consolidated statement of financial position as at January 1, 2010 was prepared as described in note 1, including the application of IFRS 1. IFRS 1 requires an entity to adopt IFRS in its first annual financial statements prepared under IFRS by making an explicit and unreserved statement in those financial statements of compliance with IFRS.

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 stock options issued on or prior to November 7, 2002, nor stock 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 date of transition (January 1, 2010).

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.

### 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 January 1, 2010, March 31, 2010, and December 31, 2010, and consolidated statements of income and comprehensive income for the three months ended March 31, 2010 and year ended December 31, 2010. Reconciliations of total operating, investing, and financing cash flows are not provided as the changes to these cash flows are not material.

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

| January 1, 2010 (Canadian $ thousands) | Canadian GAAP | Employee Benefits (1) | Share Based Payment (2) | Leases (3) | Income Taxes (4) | Other (5) | IFRS Reclassifications (8) | IFRS |
|---|---|---|---|---|---|---|---|---|
| **Current assets** | | | | | | | | |
| Cash and cash equivalents | $ 197,904 | $ - | $ - | $ - | $ - | $ - | $ (2,994) | **$ 194,910** |
| Accounts receivable | 622,641 | - | - | - | - | - | (2,490) | **620,151** |
| Service work in progress | 62,563 | - | - | - | - | - | - | **62,563** |
| Inventories | 993,523 | - | - | - | - | - | (24,985) | **968,538** |
| Income taxes recoverable | - | - | - | - | - | - | 35,826 | **35,826** |
| Derivative assets | - | - | - | - | - | - | 3,420 | **3,420** |
| Other assets | 207,030 | - | - | - | - | - | (88,910) | **118,120** |
| **Total current assets** | 2,083,661 | - | - | - | - | - | (80,133) | **2,003,528** |
| Rental equipment | 691,120 | - | - | - | - | (313) | (57,207) | **633,600** |
| Property, plant, and equipment | 482,777 | - | - | 4,860 | - | - | (532) | **487,105** |
| Intangible assets | 41,469 | - | - | - | - | - | (12) | **41,457** |
| Goodwill | 94,254 | - | - | - | - | - | - | **94,254** |
| Investment in joint venture and associate | - | - | - | - | - | - | 60,355 | **60,355** |
| Finance assets | 32,604 | - | - | - | - | - | - | **32,604** |
| Derivative assets | - | - | - | - | - | - | 26,079 | **26,079** |
| Deferred tax assets | - | 21,481 | (376) | (690) | (793) | 244 | 13,669 | **33,535** |
| Other assets | 245,550 | (174,554) | - | - | - | (1,738) | (55,523) | **13,735** |
| | $ 3,671,435 | $ (153,073) | $ (376) | $ 4,170 | $ (793) | $ (1,807) | $ (93,304) | **$ 3,426,252** |
| **Current liabilities** | | | | | | | | |
| Short-term debt | $ 162,238 | $ - | $ - | $ - | $ - | $ - | $ - | **$ 162,238** |
| Accounts payable and accruals | 749,941 | - | - | 676 | - | - | (264,122) | **486,495** |
| Income tax payable | 8,624 | - | - | 160 | - | 32 | 458 | **9,274** |
| Provisions | - | - | - | - | - | - | 63,667 | **63,667** |
| Deferred revenue | - | - | - | - | - | - | 170,034 | **170,034** |
| Derivative liabilities | - | - | - | - | - | - | 5,669 | **5,669** |
| Current portion of long-term debt | 24,179 | - | - | - | - | - | - | **24,179** |
| **Total current liabilities** | 944,982 | - | - | 836 | - | 32 | (24,294) | **921,556** |
| Long-term debt | 991,732 | - | - | - | - | - | (32,575) | **959,157** |
| Long-term obligations | 110,147 | 133,137 | 544 | (2,019) | - | (524) | (51,593) | **189,692** |
| Derivative liabilities | - | - | - | - | - | - | 26,144 | **26,144** |
| Provisions | - | - | - | - | - | - | 4,949 | **4,949** |
| Deferred revenue | - | - | - | - | - | - | 20,500 | **20,500** |
| Deferred tax liabilities | 108,888 | (61,730) | 49 | 66 | 4,530 | (181) | (36,435) | **15,187** |
| **TOTAL LIABILITIES** | 2,155,749 | 71,407 | 593 | (1,117) | 4,530 | (673) | (93,304) | **2,137,185** |
| **SHAREHOLDERS' EQUITY** | | | | | | | | |
| Share capital | 557,052 | - | - | - | - | - | - | **557,052** |
| Contributed surplus | 33,509 | - | (1,440) | - | - | - | - | **32,069** |
| Accumulated other comprehensive loss | (293,869) | - | - | - | - | - | 289,023 | **(4,846)** |
| Retained earnings | 1,218,994 | (224,480) | 471 | 5,287 | (5,323) | (1,134) | (289,023) | **704,792** |
| **Total shareholders' equity** | 1,515,686 | (224,480) | (969) | 5,287 | (5,323) | (1,134) | - | **1,289,067** |
| | $ 3,671,435 | $ (153,073) | $ (376) | $ 4,170 | $ (793) | $ (1,807) | $ (93,304) | **$ 3,426,252** |

**Reconciliation of the Consolidated Statement of Financial Position Prepared According to International Financial Reporting Standards**

| March 31, 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 |
|---|---|---|---|---|---|---|---|---|---|
| **Current assets** | | | | | | | | | |
| Cash and cash equivalents | $ 188,893 | $ - | $ - | $ - | $ - | $ - | $ - | $ (2,446) | **$ 186,447** |
| Accounts receivable | 617,847 | - | - | - | - | - | - | (7,570) | **610,277** |
| Service work in progress | 72,436 | - | - | - | - | - | - | - | **72,436** |
| Inventories | 930,479 | - | - | - | - | - | (97) | (24,966) | **905,416** |
| Income taxes recoverable | - | - | - | - | - | - | - | 9,478 | **9,478** |
| Derivative assets | - | - | - | - | - | - | - | 1,671 | **1,671** |
| Other assets | 223,718 | - | - | - | - | - | - | (59,062) | **164,656** |
| **Total current assets** | 2,033,373 | - | - | - | - | - | (97) | (82,895) | **1,950,381** |
| Rental equipment | 614,799 | - | - | | | - | 125 | (53,472) | **561,452** |
| Property, plant, and equipment | 471,087 | - | - | 4,326 | - | 21 | (986) | (573) | **473,875** |
| Intangible assets | 42,451 | - | - | - | - | 16 | (319) | (10) | **42,138** |
| Goodwill | 91,643 | - | - | - | - | - | - | - | **91,643** |
| Investment in joint venture and associate | - | - | - | - | - | - | - | 57,276 | **57,276** |
| Finance assets | 32,033 | - | - | - | - | - | - | - | **32,033** |
| Deferred tax assets | - | 35,397 | (429) | (673) | 471 | 169 | 350 | 16,272 | **51,557** |
| Other assets | 206,822 | (167,040) | - | - | - | (1,483) | - | (25,668) | **12,631** |
| | $ 3,492,208 | $ (131,643) | $ (429) | $ 3,653 | $ 471 | $ (1,277) | $ (927) | $ (89,070) | **$ 3,272,986** |
| **Current liabilities** | | | | | | | | | |
| Short-term debt | $ 50,780 | $ - | $ - | $ - | $ - | $ - | $ - | $ - | **$ 50,780** |
| Accounts payable and accruals | 783,168 | - | - | 811 | - | - | - | (272,859) | **511,120** |
| Income tax payable | 5,777 | - | - | 124 | - | 57 | - | 447 | **6,405** |
| Provisions | - | - | - | - | - | - | - | 55,594 | **55,594** |
| Deferred revenue | - | - | - | - | - | - | - | 185,537 | **185,537** |
| Derivative liabilities | - | - | - | - | - | - | - | 7,534 | **7,534** |
| Current portion of long-term debt | 23,664 | - | - | - | - | - | - | - | **23,664** |
| **Total current liabilities** | 863,389 | - | - | 935 | - | 57 | - | (23,747) | **840,634** |
| Long-term debt | 973,732 | - | - | - | - | - | - | (33,185) | **940,547** |
| Long-term obligations | 104,946 | 145,483 | 63 | (2,290) | - | (652) | - | (48,493) | **199,057** |
| Derivative liabilities | - | - | - | - | - | - | - | 23,928 | **23,928** |
| Provisions | - | - | - | - | - | - | - | 4,836 | **4,836** |
| Deferred revenue | - | - | - | - | - | - | - | 19,729 | **19,729** |
| Deferred tax liabilities | 99,559 | (48,571) | 31 | 15 | 3,932 | (111) | 35 | (32,138) | **22,752** |
| **TOTAL LIABILITIES** | 2,041,626 | 96,912 | 94 | (1,340) | 3,932 | (706) | 35 | (89,070) | **2,051,483** |
| **SHAREHOLDERS' EQUITY** | | | | | | | | | |
| Share capital | 558,071 | - | - | - | - | - | - | - | **558,071** |
| Contributed surplus | 35,112 | - | (1,866) | - | - | - | - | - | **33,246** |
| Accumulated other comprehensive loss | (362,861) | 12,433 | - | (41) | 676 | 165 | 4 | 289,023 | **(60,601)** |
| Retained earnings | 1,220,260 | (240,988) | 1,343 | 5,034 | (4,137) | (736) | (966) | (289,023) | **690,787** |
| **Total shareholders' equity** | 1,450,582 | (228,555) | (523) | 4,993 | (3,461) | (571) | (962) | - | **1,221,503** |
| | $ 3,492,208 | $ (131,643) | $ (429) | $ 3,653 | $ 471 | $ (1,277) | $ (927) | $ (89,070) | **$ 3,272,986** |

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

| December 31, 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 |
|---|---|---|---|---|---|---|---|---|---|
| **Current assets** | | | | | | | | | |
| Cash and cash equivalents | $ 349,857 | $ - | $ - | $ - | $ - | $ - | $ - | $ (3,470) | **$ 346,387** |
| Accounts receivable | 669,192 | - | - | - | - | - | - | (5,272) | **663,920** |
| Service work in progress | 73,602 | - | - | - | - | - | - | - | **73,602** |
| Inventories | 1,086,924 | - | - | - | - | - | 22 | (11,122) | **1,075,824** |
| Income taxes recoverable | - | - | - | - | - | - | - | 24,444 | **24,444** |
| Derivative assets | - | - | - | - | - | - | - | 7,420 | **7,420** |
| Other assets | 198,941 | - | - | - | - | - | - | (84,845) | **114,096** |
| **Total current assets** | 2,378,516 | - | - | - | - | - | 22 | (72,845) | **2,305,693** |
| Rental equipment | 417,140 | - | - | - | - | - | 4,255 | (54,767) | **366,628** |
| Property, plant, and equipment | 440,864 | - | - | 3,473 | - | 177 | (2,974) | (1,177) | **440,363** |
| Intangible assets | 45,752 | - | - | - | - | 489 | (951) | (5) | **45,285** |
| Goodwill | 91,114 | - | - | - | - | - | - | - | **91,114** |
| Investment in joint venture and associate | - | - | - | - | - | - | - | 53,008 | **53,008** |
| Finance assets | 30,158 | - | - | - | - | - | - | - | **30,158** |
| Deferred tax assets | - | 36,762 | (753) | (604) | 2,543 | (80) | 68 | 21,606 | **59,542** |
| Other assets | 210,097 | (151,912) | - | - | - | (542) | - | (19,736) | **37,907** |
| | $ 3,613,641 | $ (115,150) | $ (753) | $ 2,869 | $ 2,543 | $ 44 | $ 420 | $ (73,916) | **$ 3,429,698** |
| **Current liabilities** | | | | | | | | | |
| Short-term debt | $ 92,739 | $ - | $ - | $ - | $ - | $ - | $ - | $ (2,774) | **$ 89,965** |
| Accounts payable and accruals | 1,004,148 | - | - | 935 | - | - | - | (394,032) | **611,051** |
| Income tax payable | 8,127 | - | - | 111 | - | (13) | - | - | **8,225** |
| Provisions | - | - | - | - | - | - | - | 57,365 | **57,365** |
| Deferred revenue | - | - | - | - | - | - | - | 318,657 | **318,657** |
| Derivative liabilities | - | - | - | - | - | - | - | 4,421 | **4,421** |
| Current portion of long-term debt | 203,087 | - | - | - | - | - | - | - | **203,087** |
| **Total current liabilities** | 1,308,101 | - | - | 1,046 | - | (13) | - | (16,363) | **1,292,771** |
| Long-term debt | 736,056 | - | - | - | - | - | - | (24,989) | **711,067** |
| Long-term obligations | 106,477 | 107,857 | (2,071) | (2,726) | - | (186) | - | (28,626) | **180,725** |
| Derivative liabilities | - | - | - | - | - | - | - | 8,672 | **8,672** |
| Provisions | - | - | - | - | - | - | - | 1,078 | **1,078** |
| Deferred revenue | - | - | - | - | - | - | - | 18,876 | **18,876** |
| Deferred tax liabilities | 76,420 | (30,467) | - | - | - | - | 135 | (32,564) | **13,524** |
| **TOTAL LIABILITIES** | 2,227,054 | 77,390 | (2,071) | (1,680) | - | (199) | 135 | (73,916) | **2,226,713** |
| **SHAREHOLDERS' EQUITY** | | | | | | | | | |
| Share capital | 564,973 | - | - | - | - | - | - | - | **564,973** |
| Contributed surplus | 35,735 | - | (2,607) | - | - | - | - | - | **33,128** |
| Accumulated other comprehensive loss | (274,346) | 7,484 | - | (27) | 119 | 118 | (7) | 213,274 | **(53,385)** |
| Retained earnings | 1,060,225 | (200,024) | 3,925 | 4,576 | 2,424 | 125 | 292 | (213,274) | **658,269** |
| **Total shareholders' equity** | 1,386,587 | (192,540) | 1,318 | 4,549 | 2,543 | 243 | 285 | - | **1,202,985** |
| | $ 3,613,641 | $ (115,150) | $ (753) | $ 2,869 | $ 2,543 | $ 44 | $ 420 | $ (73,916) | **$ 3,429,698** |

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

| For three months ended March 31, 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 |
|---|---|---|---|---|---|---|---|---|---|
| **Revenue** | | | | | | | | | |
| New equipment | $ 345,662 | $ - | $ - | $ (222) | $ - | $ - | $ - | $ (1,530) | **$ 343,910** |
| Used equipment | 69,468 | - | - | - | - | - | - | (6,856) | **62,612** |
| Equipment rental | 70,006 | - | - | - | - | - | - | (3,658) | **66,348** |
| Product support | 491,646 | - | - | - | - | - | - | - | **491,646** |
| Other | 2,930 | - | - | - | - | - | - | (531) | **2,399** |
| **Total revenue** | 979,712 | - | - | (222) | - | - | - | (12,575) | **966,915** |
| Cost of sales | (686,185) | - | - | 189 | - | - | 337 | 10,264 | **(675,395)** |
| Gross profit | 293,527 | - | - | (33) | - | - | 337 | (2,311) | **291,520** |
| Selling, general, and, administrative expenses | (244,229) | 3,254 | 907 | (66) | - | (22) | (1,305) | 2,251 | **(239,210)** |
| Equity loss of joint venture and associate | - | - | - | - | - | - | - | (93) | **(93)** |
| Other expenses | (8,016) | - | - | - | - | - | - | - | **(8,016)** |
| **Earnings from continuing operations before interest and income taxes** | 41,282 | 3,254 | 907 | (99) | - | (22) | (968) | (153) | **44,201** |
| Finance costs | (13,351) | - | - | (48) | - | 37 | - | 129 | **(13,233)** |
| Income from continuing operations before provision for income taxes | 27,931 | 3,254 | 907 | (147) | - | 15 | (968) | (24) | **30,968** |
| Provision for income taxes | (4,839) | (864) | (35) | 32 | 988 | (32) | 262 | 24 | **(4,464)** |
| Income from continuing operations | 23,092 | 2,390 | 872 | (115) | 988 | (17) | (706) | - | **26,504** |
| Loss from discontinued operations, net of tax | (3,027) | 1,030 | - | (138) | 198 | 155 | - | - | **(1,782)** |
| **Net income** | $ 20,065 | $ 3,420 | $ 872 | $ (253) | $ 1,186 | $ 138 | $ (706) | $ - | **$ 24,722** |
| | | | | | | | | | |
| **Earnings per share - basic** | | | | | | | | | |
| From continuing operations | **$ 0.14** | | | | | | | | **$ 0.16** |
| From discontinued operations | **(0.02)** | | | | | | | | **(0.01)** |
| | **$ 0.12** | | | | | | | | **$ 0.15** |

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

| For year ended December 31, 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 |
|---|---|---|---|---|---|---|---|---|---|---|
| **Revenue** | | | | | | | | | | |
| New equipment | $ 1,940,648 | $ - | $ - | $ (872) | $ - | $ - | $ - | $ - | $ (11,134) | **$ 1,928,642** |
| Used equipment | 272,388 | - | - | - | - | - | - | - | (18,835) | **253,553** |
| Equipment rental | 299,911 | - | - | - | - | - | - | - | (25,223) | **274,688** |
| Product support | 2,117,663 | - | - | - | - | - | - | - | - | **2,117,663** |
| Other | 10,692 | - | - | - | - | - | - | - | (633) | **10,059** |
| **Total revenue** | 4,641,302 | - | - | (872) | - | - | - | - | (55,825) | **4,584,605** |
| Cost of sales | (3,256,098) | - | - | 739 | - | - | 4,598 | - | 43,965 | **(3,206,796)** |
| Gross profit | 1,385,204 | - | - | (133) | - | - | 4,598 | - | (11,860) | **1,377,809** |
| Selling, general, and, administrative expenses | (1,069,593) | 7,200 | 3,782 | (395) | - | (46) | (3,925) | - | 5,480 | **(1,057,497)** |
| Equity earnings of joint venture and associate | - | - | - | - | - | - | - | - | 5,590 | **5,590** |
| Other expenses | (40,648) | - | - | - | - | - | - | - | - | **(40,648)** |
| **Earnings from continuing operations before interest and income taxes** | 274,963 | 7,200 | 3,782 | (528) | - | (46) | 673 | - | (790) | **285,254** |
| Finance costs | (58,701) | - | - | (134) | - | 672 | - | - | 547 | **(57,616)** |
| Income from continuing operations before provision for income taxes | 216,262 | 7,200 | 3,782 | (662) | - | 626 | 673 | - | (243) | **227,638** |
| Provision for income taxes | (45,546) | (3,954) | (328) | 121 | 3,216 | (186) | (121) | - | 243 | **(46,555)** |
| Income from continuing operations | 170,716 | 3,246 | 3,454 | (541) | 3,216 | 440 | 552 | - | - | **181,083** |
| Loss from discontinued operations, net of tax | (249,089) | 490 | - | (157) | 296 | 176 | - | 123,261 | - | **(125,023)** |
| **Net income** | $ (78,373) | $ 3,736 | $ 3,454 | $ (698) | $ 3,512 | $ 616 | $ 552 | $ 123,261 | $ - | **$ 56,060** |
| **Earnings per share - basic** | | | | | | | | | | |
| From continuing operations | **$ 1.00** | | | | | | | | | **$ 1.06** |
| From discontinued operations | **(1.46)** | | | | | | | | | **(0.73)** |
| | **$ (0.46)** | | | | | | | | | **$ 0.33** |

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

| For three months ended March 31, 2010 (Canadian $ thousands) | Canadian GAAP | Employee Benefits (1) | Share Based Payment (2) | Leases (3) | Income Taxes (4) | Other (5) | Depreciation (6) | IFRS |
|---|---|---|---|---|---|---|---|---|
| **Net income** | $ 20,065 | $ 3,420 | $ 872 | $ (253) | $ 1,186 | $ 138 | $ (706) | **$ 24,722** |
| Other comprehensive income (loss), net of income tax | | | | | | | | |
| Currency translation adjustments | (84,451) | 12,433 | - | (41) | 676 | 67 | 4 | **(71,312)** |
| Unrealized gain (loss) on net investment hedges | (2,467) | - | - | - | - | 96 | - | **(2,371)** |
| Realized gain on net investment hedges | 20,879 | - | - | - | - | - | - | **20,879** |
| Tax recovery (expense) on net investment hedges | (2,795) | - | - | - | - | 2 | - | **(2,793)** |
| Foreign currency translation and gain (loss) on net investment hedges, net of income tax | (68,834) | 12,433 | - | (41) | 676 | 165 | 4 | **(55,597)** |
| Unrealized loss on cash flow hedges | (1,116) | **-** | **-** | **-** | **-** | **-** | - | **(1,116)** |
| Realized loss on cash flow hedges, reclassified to earnings | 1,022 | - | - | - | - | - | - | **1,022** |
| Tax expense on cash flow hedges | (64) | - | - | - | - | - | - | **(64)** |
| Loss on cash flow hedges, net of income tax | (158) | - | - | - | - | - | - | **(158)** |
| Actuarial loss | - | (26,775) | - | - | - | - | - | **(26,775)** |
| Tax recovery on actuarial loss | - | 6,847 | - | - | - | - | - | **6,847** |
| Actuarial loss, net of income tax | - | (19,928) | - | - | - | - | - | **(19,928)** |
| **Comprehensive income (loss)** | $ (48,927) | $ (4,075) | $ 872 | $ (294) | $ 1,862 | $ 303 | $ (702) | **$ (50,961)** |

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

| For year ended December 31, 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 |
|---|---|---|---|---|---|---|---|---|---|
| **Net income (loss)** | $ (78,373) | $ 3,736 | $ 3,454 | $ (698) | $ 3,512 | $ 616 | $ 552 | $ 123,261 | **$ 56,060** |
| Other comprehensive income (loss), net of income tax | | | | | | | | | |
| Currency translation adjustments | (98,793) | 7,484 | - | (27) | 119 | 20 | (7) | 4,026 | **(87,178)** |
| Unrealized gain on net investment hedges | 16,768 | - | - | - | - | 96 | - | - | **16,864** |
| 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 on net investment hedges | 14,938 | - | - | - | - | 2 | - | (16,084) | **(1,144)** |
| Foreign currency translation and gain (loss) on net investment hedges, net of income tax | 15,746 | 7,484 | - | (27) | 119 | 118 | (7) | (75,749) | **(52,316)** |
| Unrealized gain on cash flow hedges | 3,817 | - | - | - | - | - | - | - | **3,817** |
| Realized loss on cash flow hedges, reclassified to earnings | 1,127 | - | - | - | - | - | - | - | **1,127** |
| Tax expense on cash flow hedges | (1,167) | - | - | - | - | - | - | - | **(1,167)** |
| Gain on cash flow hedges, net of income tax | 3,777 | - | - | - | - | - | - | - | **3,777** |
| Actuarial loss | - | (29,236) | - | - | - | - | - | (629) | **(29,865)** |
| Tax recovery on actuarial loss | - | 7,501 | - | - | - | - | - | 177 | **7,678** |
| Actuarial loss, net of income tax | - | (21,735) | - | - | - | - | - | (452) | **(22,187)** |
| **Comprehensive income (loss)** | $ (58,850) | $ (10,515) | $ 3,454 | $ (725) | $ 3,631 | $ 734 | $ 545 | $ 47,060 | **$ (14,666)** |

**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$^{th}$. 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.

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 are 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.

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 proposed amendments to IAS 31, *Joint Ventures*, the Company has elected to adopt the IFRS option 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 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 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.

**Additional Annual Disclosures under IFRS**

Where the adjustments described above represent a material change to the amounts reported in the Company's Canadian GAAP consolidated financial statements for the year ended December 31, 2010, certain information and footnote disclosures normally only included in annual financial statements are provided in Notes 10-17 below.

## 10. Other Assets

| **December 31, 2010 ($ thousands)** | | |
|---|---|---|
| **Other assets – current:** | | |
| Supplier claims receivable | $ | 50,093 |
| Prepaid expenses | | 25,358 |
| Current portion of finance assets | | 19,444 |
| Value Added Tax receivable | | 7,821 |
| Other | | 11,380 |
| | $ | 114,096 |
| **Other assets – long-term:** | | |
| Note receivable (Note 17) | $ | 28,078 |
| Other | | 9,829 |
| | $ | 37,907 |

## 11. Joint Venture and Associate

The Company accounts for its investment in joint ventures and associates using the equity method of accounting. The Company's share of net income and net assets in its joint ventures and associates is as follows:

| **For year ended December 31, 2010 ($ thousands)** | | | | | | |
|---|---|---|---|---|---|---|
| **Name of Venture** | **Type of Venture** | **Proportion of Ownership Interest Held** | | **Company's Share of Net Assets** | | **Company's Share of Net Income** |
| PipeLine Machinery | Jointly Controlled Entity | 25.0% | $ | 34,995 | $ | 7,014 |
| Energyst B.V. | Associate | 25.4% | | 18,013 | | (1,424) |
| | | | $ | 53,008 | $ | 5,590 |

The Company's equity interest in Energyst B.V. increased to 27.0% from 25.4% in the first quarter of 2011.

## 12. Income Taxes

### Provision for Income Taxes

As the Company operates in several tax jurisdictions, its income is subject to various rates of taxation. The components of the Company's income tax provision from continuing operations are as follows:

| **For year ended December 31, 2010 ($ thousands)** | | **Canada** | | **International** | | **Total** |
|---|---|---|---|---|---|---|
| Provision for income taxes | | | | | | |
| Current | $ | 18,709 | $ | 31,093 | $ | 49,802 |
| Adjustment for prior periods recognized in the current year | | (3,017) | | 2,734 | | (283) |
| | | 15,692 | | 33,827 | | 49,519 |
| Deferred | | | | | | |
| Origination and reversal of timing differences | | 4,736 | | (6,685) | | (1,949) |
| Adjustment for prior periods recognized in the current year | | 3,760 | | (3,053) | | 707 |
| Increase (decrease) due to tax rate changes | | 835 | | (2,557) | | (1,722) |
| | | 9,331 | | (12,295) | | (2,964) |
| Provision for income taxes | $ | 25,023 | $ | 21,532 | $ | 46,555 |

The provision for income taxes differs from the amount that would have resulted from applying the Canadian statutory income tax rates to income from continuing operations before income taxes as follows:

| **For year ended December 31, 2010 ($ thousands)** | | | |
|---|---|---|---|
| Combined Canadian federal and provincial income taxes at the statutory tax rate | $ | 64,194 | 28.20% |
| Increase / (decrease) resulting from: | | | |
| Lower statutory rates on the earnings of foreign subsidiaries | | (11,812) | (5.19)% |
| Income not subject to tax | | (6,770) | (2.97)% |
| Non-taxable capital gain | | (312) | (0.14)% |
| Non-deductible stock-based payments | | 239 | 0.10% |
| Other | | 1,016 | 0.45% |
| Provision for income taxes | $ | 46,555 | 20.45% |

**Deferred Tax Asset and Liability**

Temporary differences and tax loss carry-forwards that give rise to deferred tax assets and liabilities are as follows:

| December 31, 2010 ($ thousands) | | |
|---|---|---|
| **Deferred tax assets:** | | |
| Accounting provisions not currently deductible for tax purposes | $ | 53,254 |
| Employee benefits | | 28,841 |
| Share-based payments | | 6,979 |
| Loss carry-forwards | | 3,442 |
| Derivative financial instruments | | 1,639 |
| | | 94,155 |
| **Deferred tax liabilities:** | | |
| Fixed, rental, and leased assets | | (39,290) |
| Other | | (8,847) |
| | | (48,137) |
| Net deferred tax asset | $ | 46,018 |

Deferred taxes are not recognized on retained profits of approximately $685 million of foreign subsidiaries, as it is the Company's intention to invest these profits to maintain and expand the business of the relevant companies.

## 13. PROVISIONS

| ($ thousands) | | Warranty Claims | | Other | | Total |
|---|---|---|---|---|---|---|
| **January 1, 2010** | $ | 50,329 | $ | 9,963 | $ | 60,292 |
| New provisions | | 43,286 | | 4,609 | | 47,895 |
| Charges/credits against provisions | | (42,979) | | (4,871) | | (47,850) |
| Foreign exchange translation adjustment | | (1,396) | | (498) | | (1,894) |
| **December 31, 2010** | $ | 49,240 | $ | 9,203 | $ | 58,443 |
| Current portion | $ | 49,240 | $ | 8,125 | $ | 57,365 |
| Long-term portion | $ | — | $ | 1,078 | $ | 1,078 |

**Warranty claims**

The provisions relate principally to warranty claims on equipment, spare parts, and service. The estimate is based on claims notified and past experience.

**Other**

Other provisions include provisions for losses on long-term contracts, decommissioning liabilities, and lawsuits. To determine the recorded liability for decommissioning liabilities, the future estimated cash flows have been discounted using a rate of 3.4%. The total undiscounted amount of estimated cash flows of decommissioning liabilities is $0.4 million.

## 14. LONG-TERM OBLIGATIONS

| **December 31, 2010 ($ thousands)** | | |
|---|---|---|
| Share-based payments (Note 15) | $ | 25,626 |
| Finance leasing obligations | | 13,188 |
| Employee future benefit obligations (Note 16) | | 139,266 |
| Other | | 2,645 |
| | $ | 180,725 |

## 15. SHARE-BASED PAYMENTS

The fair value of the options granted has been estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted-average assumptions:

| | **2010 Grant** | 2009 Grant |
|---|---|---|
| Dividend yield | **1.75%** | 1.69% |
| Expected volatility | **33.42%** | 36.01% |
| Risk-free interest rate | **2.65%** | 1.71% |
| Expected life | **5.8 years** | 3.7 years |

The weighted average grant date fair value of options granted during the year was $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 stock appreciation rights that use notional common share units. These notional units are fair valued using a Black-Scholes model each quarter.

Details of the deferred share unit and performance share unit plans, which reflect the valuation changes, excluding the impact of the Variable Rate Share Forward (VRSF) hedge, are as follows:

| **For year ended December 31, 2010 Units** | **DSU-A** | **DSU-B** | **DDSU** | **PSU** | **Total** |
|---|---|---|---|---|---|
| Outstanding, beginning of year | 17,433 | 570,490 | 307,506 | — | 895,429 |
| Additions | 78 | 10,776 | 53,908 | 510,303 | 575,065 |
| Exercised | (17,511) | (208,014) | — | — | (225,525) |
| Cancelled | — | — | — | (12,065) | (12,065) |
| Outstanding, end of year | **—** | **373,252** | **361,414** | **498,238** | **1,232,904** |
| Liability ($ thousands) | | | | | |
| Balance, beginning of year | $ 262 | $ 8,582 | $ 4,880 | $ — | $ 13,724 |
| Expense | 189 | 4,681 | 4,070 | 4,943 | 13,883 |
| Exercised | (451) | (4,336) | — | — | (4,787) |
| Cancelled | — | — | — | (6) | (6) |
| Balance, end of year | **$ —** | **$ 8,927** | **$ 8,950** | **$ 4,937** | **$ 22,814** |

As at December 31, 2010, all outstanding deferred share units (DSU-B, DDSU) have vested. As at December 31, 2010, none of the performance share units (PSU) were vested.

The fair value of the DSU-B, DDSU, PSU, and SARs units granted has been estimated using the Black-Scholes option-pricing model with the following weighted-average assumptions at December 31, 2010:

| | DSU-B | DDSU | PSU | SAR |
|---|---|---|---|---|
| Dividend yield | 1.74% | 2.04% | 1.72% | 2.01% |
| Expected volatility | 31.63% | 36.61% | 40.66% | 35.04% |
| Risk-free interest rate | 2.70% | 2.24% | 1.86% | 2.29% |
| Expected life | 7.16 years | 4.40 years | 3.00 years | 4.54 years |
| Share price at balance sheet date | $27.09 | $27.09 | $27.09 | $27.09 |
| Estimated fair value per unit at year-end | $23.92 | $24.76 | $25.73 | $12.54 |

The return on equity performance levels for PSU was originally set with reference to Canadian GAAP financial information. These performance levels have subsequently been reviewed for IFRS impacts; for years where Canadian GAAP financial information is not available, the actual performance will be decreased by approximately 3% to reflect the impact of the transition to IFRS.

Details of the Share Appreciation Rights (SAR) plans (which are all fully vested), excluding the impact of the VRSF hedge, are as follows:

| **For year ended December 31, 2010**<br>**Units** | | |
|---|---|---|
| Outstanding and vested, beginning of year | | 474,664 |
| Exercised | | (225,224) |
| Cancelled | | (7,000) |
| Outstanding and vested, end of year | | **242,440** |
| **Liability** ($ thousands) | | |
| Balance, beginning of year | $ | 2,474 |
| Expense | | 1,682 |
| Exercised | | (1,344) |
| Balance, end of year | **$** | **2,812** |
| Strike price ranges: | $ | 13.03-$16.22 |

**Summary – Impact of Share-Based Compensation Plans**

| **For year ended December 31, 2010**<br>**($ thousands)** | | |
|---|---|---|
| **Consolidated statement of income** | | |
| Compensation expense arising from equity-settled share option incentive plan | $ | 4,142 |
| Compensation expense arising from cash-settled share based payments | | 15,559 |
| Impact of variable rate share forward | | (16,422) |
| | $ | 3,279 |
| **Consolidated statement of financial position** | | |
| Non-current liability for cash-settled share based payments (to be incurred within 1-5 years) | $ | 25,626 |

## 16. EMPLOYEE FUTURE BENEFITS

The Company and its subsidiaries in Canada and the U.K. have defined benefit pension plans and defined contribution pension plans providing retirement benefits for most of their permanent employees. The defined benefit plans have been closed to new entrants for several years. The Company's Irish subsidiary has a defined contribution plan.

The defined benefit pension plans, include both registered and non-registered pension plans that provide a pension based on the members' final average earnings and years of service while participating in the pension plan. For measurement purposes, assets and liabilities of the plans are valued at December 31.

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

| For year ended December 31, 2010 ($ thousands) | Canada | UK & Ireland | Total |
|---|---|---|---|
| **Defined contribution plans** | | | |
| Net benefit cost | $ 21,684 | $ 1,796 | $ 23,480 |
| **Defined benefit plans** | | | |
| Current service cost, net of employee contributions | $ 5,847 | $ 3,980 | $ 9,827 |
| Interest cost | 19,072 | 22,126 | 41,198 |
| Expected return on plan assets | (18,642) | (22,763) | (41,405) |
| Past service cost | — | 7,800 | 7,800 |
| Net benefit cost | 6,277 | 11,143 | 17,420 |
| Net benefit cost recognized in net income | **$ 27,961** | **$ 12,939** | **$ 40,900** |
| | | | |
| Actuarial gain on plan assets | (8,590) | (15,112) | (23,702) |
| Actuarial loss on plan liabilities | 42,439 | 10,499 | 52,938 |
| Total actuarial (gain) / loss recognized in other comprehensive income | **$ 33,849** | **$ (4,613)** | **$ 29,236** |

Further information about the financial position of the Company's defined benefit plans for continuing operations is as follows:

| For year ended December 31, 2010 ($ thousands) | Canada | UK | Total |
|---|---|---|---|
| **Accrued benefit obligation** | | | |
| Balance at beginning of year | $ 336,337 | $ 412,799 | $ 749,136 |
| Current service cost | 7,050 | 4,139 | 11,189 |
| Interest cost | 19,072 | 22,126 | 41,198 |
| Benefits paid | (20,935) | (14,008) | (34,943) |
| Actuarial loss | 42,439 | 10,499 | 52,938 |
| Past service cost | — | 7,800 | 7,800 |
| Foreign exchange rate changes | — | (35,668) | (35,668) |
| Balance at end of year | $ 383,963 | $ 407,687 | $ 791,650 |
| **Plan assets** | | | |
| Fair value at beginning of year | $ 283,636 | $ 362,553 | $ 646,189 |
| Expected return on plan assets | 18,642 | 22,763 | 41,405 |
| Actuarial gain on plan assets | 8,590 | 15,112 | 23,702 |
| Employer contributions | 22,687 | 18,306 | 40,993 |
| Employees' contributions | 1,203 | 159 | 1,362 |
| Benefits paid | (20,935) | (14,008) | (34,943) |
| Foreign exchange rate changes | — | (32,573) | (32,573) |
| Fair value at end of year | $ 313,823 | $ 372,312 | $ 686,135 |
| Funded status – plan deficit [(a)] | **$ (70,140)** | **$ (35,375)** | **$ (105,515)** |

(a) The accrued benefit liability is classified in long-term obligations

The Company's South American employees do not participate in employer pension plans but are covered by country specific legislation with respect to indemnity plans. At December 31, 2010, the Company had recorded a liability of $33.8 million to employees based on an actuarial valuation of anticipated payments to employees.

Plan assets are principally invested in the following securities at December 31, 2010:

| | Canada | UK & Ireland |
|---|---|---|
| Equity | 59.1% | 41.2% |
| Fixed-income | 34.5% | 50.0% |
| Real estate | 6.4% | 8.8% |

Key assumptions used in determining the financial position and net benefit costs for 2010 are as follows:

| | Canada | UK & Ireland |
|---|---|---|
| Discount rate – December 31, 2010 | 5.1% | 5.3% |
| Discount rate – 2010 net benefit cost | 5.7% | 5.7% |
| Expected long-term rate of return on plan assets – 2010 net benefit cost | 7.0% | 7.0% |
| Rate of compensation increase | 3.5% | 4.0% |
| Estimated remaining service life (years) | 9-11 | 14 |

## 17. Disposition of Discontinued Operation

Following an extensive strategic review, on May 5, 2010, the Company sold its U.K. equipment rental subsidiary, Hewden Stuart Limited (Hewden). The Company determined that a large, short-term rental business operating separately from its UK dealership was not aligned with the Company's strategic objectives. Gross proceeds on the sale of Hewden of $171.1 million (£110.2 million) comprised cash of £90.2 million and a £20.0 million interest bearing 5-year note receivable with a fair value of £16.9 million. Transaction costs of $7.2 million were incurred and paid on the transaction.

The loss on sale was $120.8 million, which included the realization of $21.2 million of foreign exchange losses related to the Company's investment in Hewden which was previously recorded in accumulated other comprehensive loss. The loss on disposal differs from that reported under Canadian GAAP, primarily due to the reclassification of the cumulative translation adjustment and associated net investment hedging gains and losses from accumulated other comprehensive income to retained earnings, and the recognition of unamortized actuarial losses on Hewden's defined benefit pension plan in retained earnings in the IFRS opening consolidated statement of financial position.The results of operations of Hewden for the periods up to May 5, 2010 have been reclassified as discontinued operations in the consolidated statements of income and cash flow. The results of Hewden had previously been reported in the Finning UK Group segment.

Loss from discontinued operations to the date of disposition is summarized as follows:

| ($ thousands) | Three months ended March 31, 2010 | January 1- May 5, 2010 |
|---|---|---|
| Revenue | $ 48,429 | $ 65,259 |
| Loss before provision for income taxes | (4,139) | (6,891) |
| Loss on sale of discontinued operation, pre tax | — | (130,836) |
| Provision for income taxes: | | |
| Tax recovery on operating loss | 2,357 | 2,702 |
| Tax recovery on loss on sale of discontinued operations | — | 10,002 |
| Loss from discontinued operations | $ (1,782) | $ (125,023) |

The carrying amounts of assets and liabilities related to discontinued operations as at the date of disposition are as follows:

| ($ thousands) | May 5, 2010 (date of disposition) |
|---|---|
| **ASSETS** | |
| **Current assets** | |
| Cash | $ 15,403 |
| Accounts receivable | 41,584 |
| Inventories | 1,385 |
| Other assets | 13,023 |
| **Total current assets** | 71,395 |
| Rental equipment | 214,645 |
| Land, building and equipment | 36,490 |
| Intangible assets | 7,174 |
| Other assets | 33,017 |
| Investment in joint venture | 428 |
| **Total assets** | $ 363,149 |
| **LIABILITIES** | |
| **Current liabilities** | |
| Accounts payable and accruals | $ 41,973 |
| Provisions | 5,450 |
| Income tax payable | 160 |
| **Total current liabilities** | 47,583 |
| Long-term obligations | 28,602 |
| Long-term provisions | 1,715 |
| Deferred taxes | 12,645 |
| **Total liabilities** | $ 90,545 |