FINNING

***First Quarter 2010 Results*** ***May 13, 2010***

## Finning reports first quarter results; increases quarterly dividend to $0.12 per share

- Diluted earnings of $0.12 per share were on plan, compared to $0.26 in the first quarter of 2009 and $0.10 in the fourth quarter of 2009. Strong results from South America were offset by weak results from Canada and the U.K due to ongoing difficult market conditions.
- Market activity continued to increase across all sectors and in all operations in the first quarter. Consolidated order backlog increased by 60% from the fourth quarter of 2009 to $0.9 billion as order intake improved from the prior quarter, primarily driven by mining equipment orders.
- Selling, general and administrative expenses decreased by $38 million from the first quarter of 2009, and the Company remains on track to achieve its cost reduction initiatives.
- Free cash flow was $99 million in the first quarter. The Company expects free cash flow to moderate for the next two quarters, and is on track to generate approximately $200 million in free cash flow for the full year.
- Subsequent to the quarter end, the Company sold Hewden, its UK equipment rental business, for gross proceeds of GBP 110 million (C$ 171 million). The sale resulted in a non-cash loss estimated at $247 million or $1.44 per share in the second quarter. This transaction completes the strategic realignment of our UK operations. Combined sale proceeds from this divestiture, Hewden Tools in 2007, and the dealership's Materials Handling division in 2006 total almost $600 million. Finning remains fully committed to the UK Caterpillar dealership.

**Vancouver, Canada** – Finning International Inc. (TSX:FTT) today reported first quarter 2010 revenues of $1.0 billion, earnings before interest and income taxes (EBIT) of $37 million and diluted earnings per share (EPS) of $0.12. The first quarter 2010 results included net non-operational charges of $0.02 per share ($0.04 per share in Q1 2009).

The Company raised its quarterly dividend to $0.12 per share from $0.11 per share, reflecting strengthening business conditions, an improving outlook, significant liquidity and a strong balance sheet.

"First quarter results came in as expected and free cash flow remained very strong," said Mike Waites, president and chief executive officer of Finning International Inc. "Our business is improving, particularly in South America. The consolidated order intake was the highest since the third quarter of 2008, and we are seeing an increase in product support activity in all our operations. Importantly, the mining sector is posting a strong recovery, which will support earnings growth for us going forward."

"Last week, we announced the sale of our UK Hewden division for gross proceeds of GBP 110 million (C$171 million). We now have the correct strategic footprint in the U.K. and, near term, sale proceeds will be used to reduce debt and further strengthen our balance sheet."

## FINANCIAL HIGHLIGHTS

| C$ millions, except per share amounts (unaudited) | **Three months ended March 31** | | |
|---|---|---|---|
| | **2010** | 2009 | % Change |
| **Revenue** | **1,028** | 1,364 | (25) |
| **Earnings before interest and income taxes (EBIT)** [(1)] | **37** | 76 | (51) |
| **Net income** | **20** | 45 | (55) |
| **Diluted EPS** | **0.12** | 0.26 | (54) |
| **Earnings before interest, income taxes, depreciation and amortization (EBITDA)** [(1)] | **95** | 150 | (37) |
| **Free cash flow** [(1)(2)] | **99** | (2) | |

- Quarterly revenues decreased by 25% from the first quarter of 2009 to $1.0 billion primarily due to the decline in new equipment sales in all operations. Product support revenues were supported by the mining sectors and were comparable to the first quarter of 2009. In local currency, product support revenues increased in all operations compared to the first quarter of 2009. New equipment sales were down 45% as a result of soft market conditions outside of mining. Used equipment sales and rental revenues decreased by 23% and 19% respectively. The stronger Canadian dollar also negatively impacted results compared to the first quarter of 2009.

- Gross profit decreased by $78 million or 20% from the prior year’s quarter. Gross profit margin of 29.7% was higher than 28.1% in the first quarter of 2009, primarily due to the revenue mix shift to higher margin product support revenue. Product support accounted for 48% of the total revenues compared to 36% in the first quarter of last year.

- Selling, general and administrative (SG&A) expenses decreased by $38 million or 13% from the first quarter of 2009 as a result of targeted cost savings, productivity improvement initiatives and lower sales volumes. The Company had targeted SG&A expense reductions of $200 million compared to 2008 levels. Excluding Hewden, the adjusted annual target for cost savings is $170 million, and the Company is on track to meet this goal.

- EBIT of $37 million was 51% below the first quarter 2009. Consolidated EBIT margin was 3.6% compared to 5.5% in the first quarter of 2009, mainly due to lower results from Canada. EBIT margin in the first quarter improved from 2.6% in the fourth quarter of 2009. EBIT margin in South America was lower compared to the first quarter of 2009, and UK Group’s EBIT margin improved year over year.

- Net income decreased by 55% to $20 million. Diluted EPS was $0.12 per share compared to $0.26 in the first quarter of 2009 and $0.10 in the fourth quarter of 2009. Foreign exchange had a negative impact of $0.08 per share compared to the first quarter of 2009.

- EBITDA, which is an indicator of a company’s cash operating performance and generation of operating cash flow, was $95 million compared to $150 million in the first quarter of 2009.

- Free cash flow was $99 million, compared to $2 million use of cash in the first quarter of 2009. Free cash flow is expected to moderate in the second and third quarters due to higher inventory purchases to meet anticipated growth in customer demand. The Company expects to generate approximately $200 million of free cash flow in 2010.

- Net debt to capital declined to 37% from 39% at December 31, 2009. By year end, the company’s net debt to capital ratio is expected to be in the mid 30% range.

- New order intake increased from the fourth quarter of 2009, primarily driven by large mining equipment orders, and was the highest since the third quarter of 2008. Consolidated backlog was $0.9 billion at March 31, 2010, up from $0.6 billion at December 31, 2009, the second consecutive quarterly increase in backlog. The initial Kearl order is included in the first quarter backlog.

## HIGHLIGHTS BY OPERATIONS

### *Canada*

- First quarter revenues were down 31% from the first quarter of 2009. Revenues were impacted primarily by a 59% decline in new equipment sales, reflecting lower demand in 2010 compared to 2009. Used equipment sales and rental revenues were down 25% and 23% respectively. Product support revenues were 2% higher than in the first quarter of 2009 driven by mining customers, including the oil sands. Mining product support revenues increased 15% from the first quarter of 2009.

- SG&A costs were lower than in the first quarter of 2009 as a result of cost reduction and productivity improvement initiatives. EBIT was $9 million compared to $46 million in the first quarter of 2009. The Canadian operations incurred restructuring and IT system implementation costs of $5 million in the first quarter of 2010 ($2 million in the first quarter of 2009).

- Order intake continued to improve in the first quarter as a result of increasing activity in the mining sector, including the oil sands. The backlog increased from the fourth quarter of 2009 and was at the highest level since the fourth quarter of 2008. The first quarter backlog includes the initial order for Kearl.

### *South America*

- First quarter revenues decreased by 16%; however, in functional currency (USD), revenues were up 1% from the first quarter of 2009. New equipment sales declined 32% (down 18% in functional currency). Lower new equipment sales in mining were partly offset by higher deliveries to the construction sector. Product support revenues remained strong in mining and improved in construction. In functional currency, product support revenues grew by 17% from the first quarter of 2009 (in Canadian dollars, product support revenues were down 2%). Mining product support revenues increased 18% in functional currency from the first quarter of 2009.

- EBIT of $34 million was down 27% from the first quarter of 2009 due to increased headcount to support a growing product support business as well as the costs incurred in connection with the earthquake and the new IT system. In functional currency, EBIT declined by 13%. EBIT margin was 9.8% compared to 11.3% in the first quarter of 2009. First quarter results included new IT system implementation costs of $2 million.

- First quarter SG&A expenses included approximately $1 million of costs incurred in connection with the earthquake that struck Chile in February 2010. Fortunately, the earthquake had minimal impact on the South American operations and its customers, and the Company’s information systems were not disrupted.

- Order intake was down from the very strong fourth quarter, but increased considerably compared to the first quarter of 2009. Demand from the construction sector improved in the first quarter of 2010, and strong mining activity continued as well. Market conditions are expected to continue to improve in South America throughout 2010 driven by solid growth in mining and moderate growth in the construction and power systems sectors. Product support business is expected to remain strong, driven primarily by mining contracts.

***United Kingdom***

- The UK Group's revenues declined 20% from the first quarter of last year, largely due to weaker new equipment sales and lower revenues from Hewden. In functional currency (GBP), quarterly revenues were down 12%, with new and used equipment sales declining 16% and 34% respectively, and rental revenues down 7%. Product support revenues were down 8%, but were 2% higher in functional currency. SG&A costs decreased in functional currency from the first quarter of 2009.

- The UK Group incurred an EBIT loss of $1 million compared to $5 million EBIT loss in the first quarter of 2009. The dealership's positive EBIT of $3 million in the first quarter ($7 million in the first quarter of 2009) was offset by a $4 million EBIT loss at Hewden (EBIT loss of $12 million in the first quarter of 2009).

- Market conditions in the U.K. remained soft in the first quarter. However, there are signs of noticeable improvement in heavy construction and power system sectors, including coal mining, infrastructure construction, waste management and utilities. Order intake continued to improve in the first quarter resulting in the highest order backlog since the first quarter of 2009.

## CORPORATE AND BUSINESS DEVELOPMENTS

***Hewden***

Following an extensive strategic review, on May 5, 2010 the Company sold Hewden, its UK equipment rental business, for gross proceeds of GBP 110 million or approximately C$171 million to an affiliate of Sun European Partners, LLP. The consideration comprises cash of GBP 90 million, an interest bearing 5-year loan note receivable of GBP 20 million and a 5% equity warrant subject to certain conditions being met. Finning will use the proceeds primarily to reduce debt.

The impact of the transaction will be accretive to shareholder return on equity, but will result in an estimated second quarter accounting loss of $247 million or $1.44 per share. The $247 million loss includes the realization of $101 million of foreign exchange losses relating to the investment in Hewden which was previously recorded in Accumulated Other Comprehensive Income, and a $68 million charge relating to the recognition of the unfunded pension liability which the buyer has assumed. After taking this into account, the balance of $78 million or $0.45 per share is the loss on Finning's net carrying value of Hewden, net of tax. Hewden will be reported as a discontinued operation in the second quarter of 2010.

***Dividend***

The Board of Directors approved an increase in the Company's quarterly dividend to $0.12 per common share, payable on June 11, 2010, to shareholders of record on May 28, 2010. The increase in dividend reflects strengthening business conditions, an improving outlook, significant liquidity and a strong balance sheet. This dividend will be considered an eligible dividend for Canadian income tax purposes.

**SELECTED CONSOLIDATED FINANCIAL INFORMATION: FIRST QUARTER 2010, UNAUDITED**
**(C$ millions, except per share amounts)**

| | Three months ended March 31 | | |
|---|---|---|---|
| Revenue | **2010** | 2009 | % Change |
| New equipment | **345.7** | 632.3 | (45) |
| Used equipment | **71.7** | 92.5 | (22) |
| Equipment rental | **113.9** | 140.2 | (19) |
| Product support | **493.9** | 496.3 | 0 |
| Other | **2.9** | 3.0 | (3) |
| **Total revenue** | **1,028.1** | 1,364.3 | (25) |
| Gross profit | **305.3** | 383.6 | (20) |
| *Gross profit margin*(3) | ***29.7%*** | *28.1%* | |
| SG&A | **(261.7)** | (299.6) | 13 |
| Other expenses | **(6.4)** | (8.4) | 24 |
| **EBIT** | **37.2** | 75.6 | (51) |
| *EBIT margin*(4) | ***3.6%*** | *5.5%* | |
| Net income | **20.1** | 45.0 | (55) |
| **Diluted EPS** | **0.12** | 0.26 | (54) |
| **EBITDA** | **94.6** | 150.1 | (37) |
| **Free cash flow** | **99.3** | (1.8) | |
| | **Mar 31, 2010** | Dec 31, 2009 | |
| Total assets | **3,492.2** | 3,671.4 | |
| Total shareholders' equity | **1,450.6** | 1,515.7 | |
| Net debt to total capital(5) | **37%** | 39% | |

**FIRST QUARTER 2010 RESULTS INVESTOR CALL**
Management will hold an investor conference call on Friday, May 14 at 11:00 am Eastern Time. Dial-in numbers: 1-866-223-7781 (anywhere within Canada and the U.S.)
(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 14 until May 22. The pass code to access the playback recording is 8088574 followed by the number sign.

**NEXT QUARTERLY RESULTS – AUGUST 11, 2010**
Finning International's second quarter 2010 results will be released on August 11, 2010 after market close. An investor conference call will be held on August 12, 2010.

**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, and the United Kingdom.

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**Footnotes**

(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" in the Company's management discussion and analysis that accompanies the first quarter consolidated financial statements.

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

(3) Gross profit margin is defined as gross profit as a percentage of total revenue.

(4) EBIT margin is defined as earnings before interest and income taxes as a percentage of total revenue.

(5) 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; the estimated annualized cost savings and anticipated restructuring charges related to actions taken by the Company in response to the economic downturn; expected revenue levels and EBIT growth; anticipated effective tax rate; 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. 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 13, 2010. 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 credit 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 implement our cost reduction initiatives while continuing to maintain customer service; 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 outside Canada. 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 Market 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.

- end -

# 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 Canadian generally accepted accounting principles (GAAP) and are presented in Canadian dollars unless otherwise stated. Additional information relating to the Company, including the 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

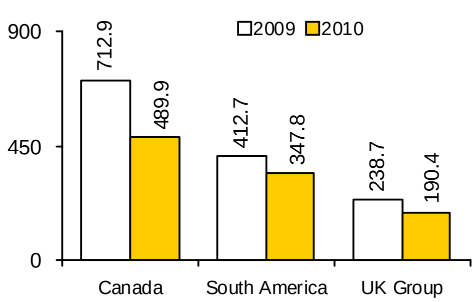
### First Quarter Overview

| | **Q1 2010** | Q1 2009 | **Q1 2010** | Q1 2009 |
|---|---|---|---|---|
| | ($ millions) | | (% of revenue) | |
| Revenue | **$ 1,028.1** | $ 1,364.3 | | |
| Gross profit | **305.3** | 383.6 | **29.7%** | 28.1% |
| Selling, general & administrative expenses | **(261.7)** | (299.6) | **(25.5)%** | (22.0)% |
| Other income (expenses) | **(6.4)** | (8.4) | **(0.6)%** | (0.6)% |
| Earnings before interest and income taxes (EBIT) [(1)] | **37.2** | 75.6 | **3.6%** | 5.5% |
| Finance costs | **(14.9)** | (17.9) | **(1.4)%** | (1.3)% |
| Provision for income taxes | **(2.2)** | (12.7) | **(0.2)%** | (0.9)% |
| Net income | **$ 20.1** | $ 45.0 | **2.0%** | 3.3% |
| Basic earnings per share (EPS) | **$ 0.12** | $ 0.26 | | |
| Earnings before interest, taxes, depreciation, and amortization (EBITDA) [(1)] | **$ 94.6** | $ 150.1 | **9.2%** | 11.0% |
| Free Cash Flow [(1)] [(2)] | **$ 99.3** | $ (1.8) | | |

[(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.

**Revenue by Operation**
($ millions)
Three months ended March 31




First quarter consolidated revenues of just over $1 billion decreased 24.6% over the comparable quarter in 2009, with lower revenues in most operating segments with the greatest decline from the Company's Canadian operations.

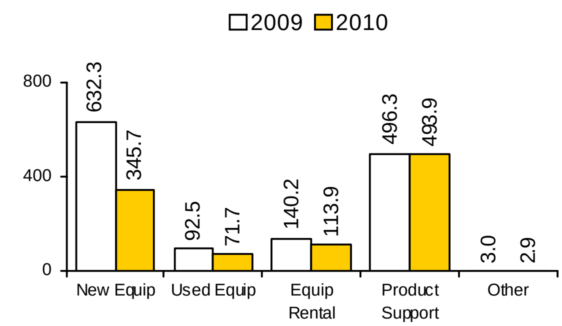
Revenues from the Company's Canadian operations decreased 31.3% in the first quarter of 2010 compared with the same period last year, primarily due to lower new equipment sales. The Canadian operations' new equipment sales were 58.7% lower than the first quarter of 2009 which benefited from a significantly higher opening backlog level. Despite new equipment revenue declines, product support revenues were 2.4% higher than the comparative period of 2009.

Revenues from the Company's operations in South America decreased 15.7% compared to the first quarter of 2009. However, excluding the negative impact of foreign exchange when translating results with a stronger Canadian dollar, revenues for the first quarter of 2010 in functional currency increased by 1.3% in the Company's South American operations over the first quarter of 2009. This was driven mainly by higher product support revenues in all sectors but most notably in the mining sector.

In the U.K., revenues were down 20.2% over the first quarter of 2009 as a result of challenging economic conditions and the impact of poor winter weather conditions which negatively impacted the construction and equipment rental industries in the first two months of the year. In local currency, revenues were 11.7% lower when compared to last year's first quarter.

Foreign exchange had a negative impact on revenues of approximately $130 million (or 13%) due to the 16.5% stronger Canadian dollar relative to the U.S. dollar and the 9.2% stronger Canadian dollar relative to the U.K. pound sterling for the first three months of 2010 compared to the same period last year.

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




Overall, new equipment sales were down 45.3% compared with the first quarter of 2009, with lower volumes in all operations.

Product support revenues in the first quarter of 2010 were comparable with the same quarter last year. Excluding foreign exchange, product support revenues were up in all operations. Growth in product support revenues was driven primarily by the mining sectors in Canada and South America.

Used equipment revenues were down 22.5% compared to the prior year's first quarter. Apart from the impact of the economic downturn, used equipment sales typically vary depending on product availability, customer buying preferences, and exchange rate considerations.

Rental revenues were 18.8% lower, down from the first quarter of 2009 in Canada and the UK rental business, Hewden. Activity in the construction market in the U.K. remained depressed and, as a result, rental revenues were lower.

Finning's global order book or backlog (the retail value of new equipment units ordered by customers for future deliveries) was $900 million at the end of the first quarter of 2010, up 58% from the December 2009 level of $600 million and comparable to the March 2009 level of $900 million. New order intake almost tripled compared to the first quarter of 2009, and was up 38% from the fourth quarter of 2009, driven by large equipment orders from the mining sector in Canada and South America. New equipment orders in the first quarter of 2010 were the highest for the Company since the third quarter of 2008. The initial Kearl order is included in the first quarter 2010 backlog.

The Company is dependent on Caterpillar Inc. (Caterpillar) for the timely supply of equipment to fulfill its deliveries. With global demand increasing, Caterpillar is challenged to meet all equipment demand in 2010. Caterpillar is taking steps to increase production capacity. Finning continues to work closely with Caterpillar and customers to ensure that demand for equipment can be met.

## Earnings Before Interest and Taxes (EBIT)

On a consolidated basis, EBIT in the first three months of 2010 of $37.2 million decreased 50.8% compared with the same period of 2009 primarily due to lower revenues and lower gross margins earned on new equipment and product support services.

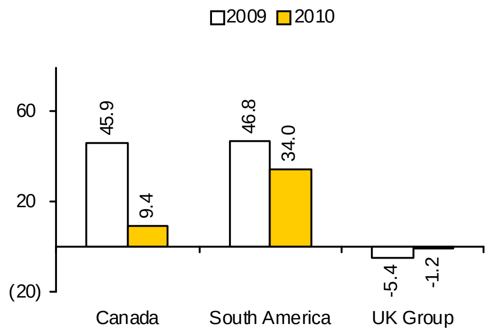
Gross profit decreased 20.4% to $305.3 million in the first quarter of 2010 compared with the first quarter of 2009, a result of 24.6% lower revenues. However, quarterly gross profit margin (gross profit as a percentage of revenue) of 29.7% was up from the prior year's first quarter (28.1%) as the Company experienced a shift in revenue mix to higher margin product support business in all operations. Product support revenues made up 48.0% of total revenues in the first quarter of 2010, compared with 36.4% of total revenues in the same period last year.

Selling, general, and administrative (SG&A) costs were down $37.9 million or 12.7% in the first quarter of 2010 compared to the same quarter last year, reflecting lower sales volumes, the implementation of cost reductions, and productivity improvement measures. Management has taken actions to reduce the Company's costs in response to the economic downturn and continues to review its cost structure to ensure it is aligned with the level of business activity.

First quarter 2010 results include restructuring and severance costs of $3.5 million (Q1 2009: $5.8 million) and costs of $5.3 million (Q1 2009: $4.7 million) related to the implementation of a new information technology (IT) system for the Company's global operations. Also included in the results for the first quarter of 2010 was a $2.4 million pre-tax gain on the sale of certain properties by Hewden (Q1 2009: pre-tax gain of $2.1 million).

The Company's EBIT margin (EBIT divided by revenues) was 3.6% in the first quarter of 2010, down from 5.5% in the first quarter of 2009, primarily due to lower revenues and margins in certain lines of business. SG&A costs declined significantly in the first quarter of 2010 compared with the same quarter last year, but the reduction was not as much as the decline in gross profit due to the fixed nature of certain costs.

**EBIT by Operation** [1]
($ millions)
Three months ended March 31




(1) Excluding other operations – corporate head office

Major components of the EBIT variance were:

| | ($ millions) |
|---|---|
| **2009 Q1 EBIT** | 75.6 |
| Net change in operations | (20.2) |
| Foreign exchange impact | (20.2) |
| Lower restructuring costs in 2010 | 2.3 |
| Higher gains on sale of certain properties in 2010 | 0.3 |
| Higher IT system implementation costs in 2010 | (0.6) |
| **2010 Q1 EBIT** | **37.2** |

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

EBITDA, which management views as an indicator of a company's operating performance and generation of operating cash flow, was $94.6 million in the first quarter of 2010 compared to $150.1 million in the first quarter of 2009.

The Company's Free Cash Flow generated in the first quarter of 2010 was $99.3 million compared to use of cash of $1.8 million in the comparative period of the prior year. All of Finning's operations have seen significant improvements in the generation of Free Cash Flow in 2009 and in the first quarter of 2010.

## Finance Costs

Finance costs for the three months ended March 31, 2010 of $14.9 million were 16.8% lower than the comparable period last year primarily due to lower short-term and long-term debt levels.

## Provision for Income Taxes

The effective income tax rate for the first quarter of 2010 was 10.2% compared to 22.0% in the comparable period of the prior year. The effective rate was lower in the first quarter of 2010 primarily due to losses incurred in higher tax jurisdictions and a higher proportion of earnings from lower tax jurisdictions.

## Net Income

Finning's net income was $20.1 million in the first quarter of 2010 compared with $45.0 million in the same period last year.

Basic EPS was $0.12 in the first quarter of 2010 compared with $0.26 in the comparative period last year. Lower revenues in all lines of business and lower gross margins earned on new equipment and product support services contributed to the decline, partially offset by lower SG&A costs. Foreign exchange had a negative impact of approximately $0.08 per share in the first quarter of 2010 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.

## Significant Developments Subsequent to Quarter End

As announced on May 5 2010, following an extensive strategic review, the Company sold Hewden, its UK equipment rental business, for gross proceeds of $170.6 million (£110.2 million). Gross proceeds comprise cash of £90.2 million and a £20.0 million interest bearing 5-year note receivable with a fair value of £16.9 million.

The estimated loss on sale is approximately $246.6 million or $1.44 per share, which includes the realization of $100.9 million of foreign exchange losses related to the Company's investment in Hewden which was previously recorded in Accumulated Other Comprehensive Income, and a $67.8 million charge related to the recognition of Hewden's unfunded pension liability, which the buyer has assumed. After taking this into account, the balance of $77.9 million or $0.45 per share is the loss on the Company's net carrying value of Hewden, net of tax. The loss on sale will be recorded in the second quarter of 2010. The Company intends to use the proceeds primarily to reduce debt levels.

As the Company had not committed to a plan to sell at March 31, 2010, Hewden continued to be classified as held and used as part of continuing operations for the three months ended March 31, 2010. Subsequent to the end of the first quarter of 2010, Finning's Board of Directors approved the sale of Hewden; accordingly the results of operations of Hewden will be presented as discontinued operations in the second quarter of 2010 and all prior period results will be adjusted accordingly.

The table below provides pro forma details of the consolidated results of operations for the Company had Hewden been presented as discontinued operations in the first quarter of 2010:

| Three months ended March 31, 2010<br>($ millions) | | |
|---|---|---|
| Revenue from external sources | $ | 979.7 |
| Operating costs | | (887.3) |
| Depreciation and amortization | | (43.1) |
| | | 49.3 |
| Other income (expenses) | | |
| Information technology system implementation costs | | (5.3) |
| Restructuring costs | | (2.7) |
| Earnings before interest and taxes (EBIT) | $ | 41.3 |
| Finance costs | | (14.1) |
| Provision for income taxes | | (4.7) |
| Net income from continuing operations | | 22.5 |
| Loss from discontinued operations, net of tax | | (2.4) |
| Net income | $ | 20.1 |
| | | |
| Earnings (loss) per share – basic | | |
| From continuing operations | $ | 0.13 |
| From discontinued operations | | (0.01) |
| | $ | 0.12 |
| | | |
| Earnings (loss) per share –diluted | | |
| From continuing operations | $ | 0.13 |
| From discontinued operations | | (0.01) |
| | $ | 0.12 |

## Foreign Exchange

Translation

The Company's reporting currency is the Canadian dollar. However, due to the geographic 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, and the U.K. pound sterling. 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 Group operations as well as U.S. dollar based earnings of the Company's Canadian operations.

Compared to the first quarter of 2009, foreign exchange had a negative impact on consolidated revenues in the first quarter of 2010 of approximately $130 million due to a 16.5% stronger Canadian dollar relative to the U.S. dollar, and a 9.2% stronger Canadian dollar relative to the U.K. pound sterling, all compared to the first quarter of 2009. As a result, EBIT was negatively impacted by approximately $20 million and net income was negatively impacted by approximately $0.08 per share in the first quarter of 2010 compared to the prior year's first quarter.

The Canadian dollar has been correlated to commodity prices. If commodity prices strengthen, the Canadian dollar is likely to strengthen. In this scenario, the Company's mining and oil sands customers increase production and demand; 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 movement of the Canadian dollar relative to the U.S. dollar and U.K. pound sterling is expected to continue to affect Finning's financial results. The sensitivity of the Company's net income to fluctuations in the average annual foreign exchange rates is summarized in the Risk Management Section of this Management's Discussion & Analysis (MD&A).

The following tables provide details of revenue and EBIT contribution by operation and the foreign exchange impact for the three months ended March 31, 2010.

| **Three months ended March 31** ($ millions) | **Canada** | **South America** | **UK Group** | **Consolidated** |
|---|---|---|---|---|
| Revenues – Q1 2009 | $ 712.9 | $ 412.7 | $ 238.7 | $ 1,364.3 |
| Foreign exchange impact | (48.6) | (60.5) | (20.4) | (129.5) |
| Operating revenue increase (decrease) | (174.4) | (4.4) | (27.9) | (206.7) |
| Revenues – Q1 2010 | $ 489.9 | $ 347.8 | $ 190.4 | $ 1,028.1 |
| Total revenue increase (decrease) | $ (223.0) | $ (64.9) | $ (48.3) | $ (336.2) |
| - percentage increase (decrease) | (31.3)% | (15.7)% | (20.2)% | (24.6)% |
| - percentage increase (decrease), excluding foreign exchange | (24.5)% | (1.1)% | (11.7)% | (15.2)% |

| **Three months ended March 31** ($ millions) | **Canada** | **South America** | **UK Group** | **Other** | **Consolidated** |
|---|---|---|---|---|---|
| EBIT – Q1 2009 | $ 45.9 | $ 46.8 | $ (5.4) | $ (11.7) | $ 75.6 |
| Foreign exchange impact | (14.7) | (5.7) | 0.2 | — | (20.2) |
| Operating EBIT increase (decrease) | (21.8) | (7.1) | 4.0 | 6.7 | (18.2) |
| EBIT – Q1 2010 | $ 9.4 | $ 34.0 | $ (1.2) | $ (5.0) | $ 37.2 |
| Total EBIT increase (decrease) | $ (36.5) | $ (12.8) | $ 4.2 | $ 6.7 | $ (38.4) |
| - percentage increase (decrease) | (79.5)% | (27.4)% | 77.8% | — | (50.8)% |
| - percentage increase (decrease), excluding foreign exchange | (47.5)% | (15.2)% | 74.1% | — | (24.1)% |

Investment in Foreign Operations

Assets and liabilities of the Company's self-sustaining foreign operations are translated into Canadian dollars using the exchange rates in effect at the balance sheet 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 end. The unrealized currency translation loss of $84.5 million recorded in the first quarter of 2010 resulted from the stronger spot Canadian dollar against the U.S. dollar and the U.K. pound sterling of 3.0% and 8.8%, respectively, at March 31, 2010 compared to December 31, 2009. This was partially offset by $15.6 million (after tax) of unrealized foreign exchange gains on net investment hedges. 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, the Yukon Territory, the Northwest Territories, and a portion of Nunavut.
- *South American operations*: Chile, Argentina, Uruguay, and Bolivia.
- *UK Group operations*: England, Scotland, Wales, Falkland Islands, and the Channel Islands.
- *Other*: corporate head office.

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

| **Three months ended March 31, 2010** ($ millions) | **Canada** | **South America** | **UK Group** | **Consolidated** | **Revenue percentage** |
|---|---|---|---|---|---|
| New equipment | **$ 140.8** | **$ 135.9** | **$ 69.0** | **$ 345.7** | **33.6%** |
| Used equipment | **40.5** | **13.7** | **17.5** | **71.7** | **7.0%** |
| Equipment rental | **51.1** | **12.5** | **50.3** | **113.9** | **11.1%** |
| Product support | **255.2** | **185.1** | **53.6** | **493.9** | **48.0%** |
| Other | **2.3** | **0.6** | **—** | **2.9** | **0.3%** |
| Total | **$ 489.9** | **$ 347.8** | **$ 190.4** | **$ 1,028.1** | **100.0%** |
| Revenue percentage by operations | **47.7%** | **33.8%** | **18.5%** | **100.0%** | |

| Three months ended March 31, 2009 ($ millions) | Canada | South America | UK Group | Consolidated | Revenue percentage |
|---|---|---|---|---|---|
| New equipment | $ 340.9 | $ 199.9 | $ 91.5 | $ 632.3 | 46.3% |
| Used equipment | 53.8 | 9.5 | 29.2 | 92.5 | 6.8% |
| Equipment rental | 66.7 | 13.5 | 60.0 | 140.2 | 10.3% |
| Product support | 249.3 | 189.0 | 58.0 | 496.3 | 36.4% |
| Other | 2.2 | 0.8 | — | 3.0 | 0.2% |
| Total | $ 712.9 | $ 412.7 | $ 238.7 | $ 1,364.3 | 100.0% |
| Revenue percentage by operations | 52.3% | 30.2% | 17.5% | 100.0% | |

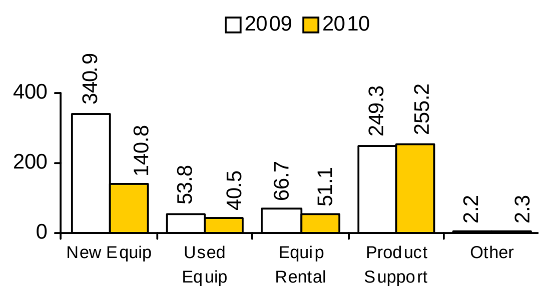
## Canadian Operations

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, the Yukon Territory, the 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** **($ millions)** | | **2010** | | 2009 |
|---|---|---|---|---|
| Revenue from external sources | **$** | **489.9** | $ | 712.9 |
| Operating costs | | **(446.3)** | | (627.3) |
| Depreciation and amortization | | **(29.4)** | | (37.7) |
| | | **14.2** | | 47.9 |
| Other expenses | | | | |
| Information technology system implementation costs | | **(2.3)** | | (1.4) |
| Restructuring costs | | **(2.5)** | | (0.6) |
| Earnings before interest and taxes (EBIT) | **$** | **9.4** | $ | 45.9 |
| EBIT | | | | |
| - as a percentage of revenue | | **1.9%** | | 6.4% |
| - as a percentage of consolidated EBIT | | **25.3%** | | 60.7% |
| Earnings before interest, taxes, depreciation, and amortization (EBITDA) | **$** | **38.8** | $ | 83.6 |

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




First quarter revenues decreased 31.3% over the 2009 levels to $489.9 million, primarily due to lower new equipment sales. New equipment sales were 58.7% lower than the first quarter of 2009 which benefited from a significantly higher opening backlog level. However, new equipment orders in the first quarter of 2010 were the highest in over two years, and Finning Canada's backlog is at its highest level since December 2008 which reflects improving market conditions. The existing backlog reflects future deliveries largely to mining customers scheduled to be made later in 2010, 2011, and 2012, and includes the initial order for Kearl. Demand for construction and conventional oil & gas sectors remains soft.

Despite equipment revenue declines, product support revenues were 2.4% higher than the comparative period of 2009, and up 13.7% when adjusted for the impact of foreign exchange. Product support revenues from the mining sector continued to be strong and increased 15.2% over the same period of last year.

Foreign exchange had a negative impact on revenues of approximately $50 million in the first quarter of 2010 due to a 16.5% stronger Canadian dollar relative to the U.S. dollar compared to the same period last year.

In Canada, gross profit as a percentage of revenue was higher than the first quarter of 2009 primarily due to the shift in revenue mix to a higher proportion of product support revenues which typically return higher margins than new equipment sales. Product support revenues made up 52.1% of total revenues in the first quarter of 2010, compared with 35.0% in the same period last year. This improvement in gross profit margin was partially offset by lower gross profit margins in new and rental equipment revenues that primarily resulted from very competitive market conditions.

SG&A costs in the first quarter of 2010 were lower compared to the same period in 2009, reflecting lower salary and wages as a result of reduced headcount as well as other actions taken to reduce discretionary expenses and improve efficiencies. Although SG&A costs were down in absolute terms, they were higher as a percentage of revenue compared to the first quarter of 2009, resulting from the fixed nature of certain costs that could not be reduced at the same rate as the new equipment revenue decline in the first quarter of 2010.

Included in other expenses in the first quarter of 2010 were restructuring costs of $2.5 million (Q1 2009: $0.6 million). Finning (Canada)'s headcount was approximately 700 lower than March 2009, primarily due to downsizing its workforce in response to the downturn in the economy and aligning its costs with revenue levels. In the fourth quarter of 2009, a plan was implemented which included a consolidation of branches into 5 regions resulting in a further rationalization of facilities and allocation of resources across these new regions. This plan, together with other productivity improvements, will be fully implemented over the next few quarters.

Finning (Canada) incurred $2.3 million of costs in the first quarter of 2010 (Q1 2009: $1.4 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.

EBIT totalled $9.4 million in the first quarter of 2010 compared with $45.9 million in the same period in 2009. EBIT margin was 1.9%, significantly lower than the EBIT margin of 6.4% achieved in the first quarter of 2009, but comparable to the EBIT margins experienced in the third and fourth quarters of 2009. The reduction in EBIT was primarily due to lower new equipment sales, lower new equipment and rental margins, and higher restructuring and IT implementation costs. This reduction was partially offset by lower SG&A costs from actions taken by the Canadian operations. Foreign exchange also negatively impacted EBIT by $14.7 million for the first quarter of 2010.

Other Developments

Finning (Canada)'s collective bargaining agreement with the Alberta division of the International Association of Machinists and Aerospace Workers (IAM) – Local Lodge 99 (Alberta Union) expired at the end of April 2010. Negotiations with the Alberta Union are underway. The Company is committed to the collective bargaining process and to concluding a fair contract for its employees and for Finning.

The Company continues to be involved in Alberta Labour Relations Board proceedings with the IAM – Local Lodge 99 relating to Finning (Canada)'s outsourcing of component repair and rebuilding services to OEM in 2005. Decisions from the Alberta Labour Relations Board are expected some time in 2010.

In March 2010, Finning (Canada) was awarded a renewal of its current lease agreement with Teck Coal Limited. Under the current lease agreement with Finning, Teck operates approximately 50 large dozers which are employed at six mines in B.C. and Alberta. As part of the lease renewal, Finning expects to replace 30 of the 50 machines that are currently operating. Approximately, 18 large dozers will be new and 12 will be rebuilt units.

In addition, in March 2010, Finning (Canada) secured an extension of its exclusive supplier agreement with Coal Valley Resources Inc. and Prairie Mines & Royalty Ltd. to 2015. Under the original 5-year contract, Finning (Canada) was the exclusive supplier of mine support equipment and associated parts, accessories, attachments and services, including equipment technology for Coal Valley Resources Inc. and Prairie Mines & Royalty Ltd.'s surface coal mining operations in Alberta. The contract renewal extends this agreement from 2010 to 2015.

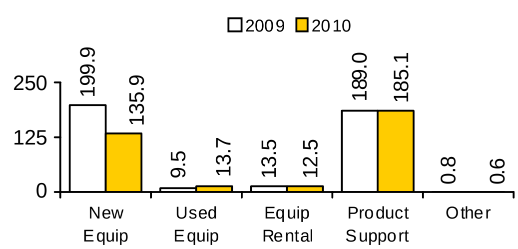
## South America

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 ($ millions) | | 2010 | | 2009 |
|---|---|---|---|---|
| Revenue from external sources | **$** | **347.8** | $ | 412.7 |
| Operating costs | | **(303.3)** | | (355.0) |
| Depreciation and amortization | | **(8.7)** | | (10.4) |
| | | **35.8** | | 47.3 |
| Other expenses | | | | |
| Information technology system implementation costs | | **(1.8)** | | (0.3) |
| Restructuring costs | | **—** | | (0.2) |
| Earnings before interest and taxes (EBIT) | **$** | **34.0** | $ | 46.8 |
| EBIT | | | | |
| - as a percentage of revenue | | **9.8%** | | 11.3% |
| - as a percentage of consolidated EBIT | | **91.4%** | | 61.9% |
| Earnings before interest, taxes, depreciation, and amortization (EBITDA) | **$** | **42.7** | $ | 57.2 |

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




Finning South America's revenues decreased 15.7% over the first quarter of 2009, but increased 1.3% in functional currency (the U.S. dollar). Revenues in functional currency were at record levels for a first quarter for Finning's South American operations. Compared to the first quarter of 2009, foreign exchange had an approximately $60 million negative impact on the translation of revenues, due to the 16.5% strengthening of the Canadian dollar relative to the U.S. dollar.

First quarter 2010 revenues, in functional currency, reflected strong product support revenues in all sectors but most significantly in mining. Product support revenues from the mining sector were up 17.5% in functional currency. The solid growth in product support activity was partially offset by softer new equipment sales, which were down 18.0% (in functional currency) compared to the first quarter of 2009 which benefited from a significantly higher opening backlog level. New equipment backlog, in functional currency, is slightly higher compared to the December 2009 level.

In functional currency, gross profit increased in the first quarter of 2010 in absolute terms and as a percentage of revenue. This occurred primarily due to a shift in revenues to higher margin product support revenues, partly offset by lower margins on mining new equipment sales. Product support revenues made up 53.2% of total revenues in the first quarter of 2010, compared with 45.9% of total revenues in the same period last year.

SG&A costs, in functional currency, have increased both in absolute dollars and as a percentage of revenue, partly due to increased headcount to support the growing product support business. SG&A costs included approximately $1 million of costs attributable to the earthquake that struck Chile in February 2010. The earthquake had minimal impact on the Company's South American operations. Employees, branches, and customers in the northern part of Chile, including the Antofagasta mining region, continued to operate as usual. Operations at mines closer to the epicentre were temporarily halted, but resumed operations shortly thereafter. The Company's information systems were unaffected by the earthquake and the shared service center in Uruguay assisted in maintaining the continuity of operations.

Included in other expenses was $1.8 million (Q1 2009: $0.3 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 $34.0 million for the first three months of 2010 was 27.4% lower than the first quarter of 2009. In functional currency, EBIT decreased 12.9% over the first quarter of the prior year largely due to higher SG&A (earthquake related) and IT implementation costs. EBIT as a percentage of revenue for Finning South America was 9.8%, compared with 11.3% achieved in the first quarter of 2009.

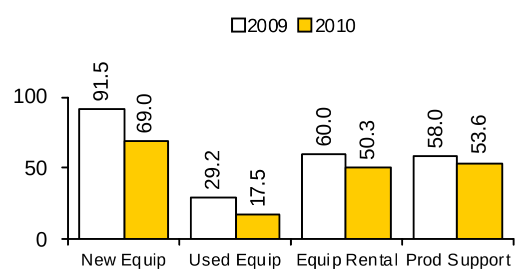
## United Kingdom ("UK") Group

The Company's UK Group sells, services, and rents mainly Caterpillar mobile equipment and engines in England, Scotland, Wales, Falkland Islands, and the Channel Islands. The Company's markets comprise mining, quarrying, construction, power systems, and rental services.

The table below provides details of the results of operations from the UK Group:

| **Three months ended March 31**<br>**($ millions)** | | **2010** | | 2009 |
|---|---|---|---|---|
| Revenue from external sources | **$** | **190.4** | $ | 238.7 |
| Operating costs | | **(172.9)** | | (214.8) |
| Depreciation and amortization | | **(19.3)** | | (26.4) |
| | | **(1.8)** | | (2.5) |
| Other income (expenses) | | | | |
| Information technology system implementation costs | | **(0.8)** | | — |
| Gain on sale of properties | | **2.4** | | 2.1 |
| Restructuring costs | | **(1.0)** | | (5.0) |
| Earnings before interest and taxes (EBIT) | **$** | **(1.2)** | $ | (5.4) |
| EBIT | | | | |
| - as a percentage of revenue | | **(0.6)%** | | (2.3)% |
| - as a percentage of consolidated EBIT | | **(3.2)%** | | (7.1)% |
| Earnings before interest, taxes, depreciation, and amortization (EBITDA) | **$** | **18.1** | $ | 21.0 |

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




The UK Group's revenues for the first three months of 2010 were $190.4 million, down 20.2% from the same period last year. This was partially due to translating the UK Group's pound sterling results into Canadian dollars with a 9.2% stronger Canadian dollar in the first quarter of 2010. In local currency, revenues were down 11.7% compared with the first quarter of 2009, largely due to challenging economic conditions in the U.K. and the impact of poor winter weather conditions which negatively impacted the construction and equipment rental industries in the first 2 months of the year.

Revenues, in local currency, from most lines of business were lower compared with the first quarter of 2009, with the exception of product support which was up 1.9%. In local currency, revenues from new and used equipment were 16.2% and 33.5% lower, respectively, in the first quarter of 2010 compared with the first quarter of 2009. This reflected a continued weakness in the underlying U.K. economy. In addition, results from the first quarter of 2009 included significant ex-rental fleet disposals as the UK's rental services operations, Hewden, downsized its rental fleet.

Rental revenues were down 7.3% in local currency compared with the first quarter of 2009. In response to Hewden's weak operating results and the ongoing weak economic conditions in the U.K., a significant reorganization of Hewden occurred in the first half of 2009. Further streamlining of the Hewden depot network continued in the second half of 2009. As a result, Hewden's overall cost structure has decreased and the rental fleet has been downsized. Asset utilization has started to recover and Hewden's operating performance has improved.

Gross profit, in local currency, for the first three months of 2010 was lower compared with the same period last year in absolute terms, which was generally in line with the revenue decline. However, gross profit as a percentage of revenue was slightly higher than the first quarter of 2009. The rental services business experienced higher margins in the first quarter of 2010 compared to the same period last year, reflecting the benefit of cost saving initiatives and efficiencies undertaken in 2009. Margins in all other lines of business were down due to the weaker market conditions.

SG&A costs were lower in the first quarter of 2010 compared with the first quarter of 2009 in absolute terms, but comparable as a percentage of revenue. Management implemented a number of initiatives to reduce operating cost levels, dispose of surplus rental fleet in line with market conditions, and improve the performance of other assets.

Other income in the first quarter of 2010 included a pre-tax gain of $2.4 million (Q1 2009: $2.1 million) on the sale of certain properties at Hewden. Other expenses in 2010 included restructuring costs related to depot restructuring at Hewden as well as costs related to the Hewden strategic review discussed in more detail below. In the first quarter of 2010, the UK Group also incurred restructuring and other costs of $1.0 million to integrate support services and provide an effective service offering to customers (Q1 2009: $5.0 million).

Also included in other expenses was $0.8 million (Q1 2009: $nil) of costs 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.

In the first quarter of 2010, the UK Group incurred a loss before interest and taxes of $1.2 million, compared with a loss before interest and taxes of $5.4 million in the first quarter of 2009. EBIT losses of $4.0 million were incurred in the first quarter of 2010 by the UK Group's rental business, Hewden (Q1 2009: EBIT losses of $11.7 million), partially offset by a positive EBIT of $2.8 million at the UK dealership (Q1 2009: $6.3 million).

Following an extensive strategic review, the Company announced on May 5, 2010 that it had sold Hewden, its UK equipment rental business, for gross proceeds of $170.6 million (£110.2 million). The Company's UK Caterpillar dealership will continue to work closely with plant hire customers to place Caterpillar equipment into the UK equipment rental market. The Company expects to maintain a commercial relationship with Hewden. A further discussion regarding the divestiture of Hewden can be found in the Significant Developments Subsequent to Quarter End section of this MD&A, and Note 10 to the Interim Consolidated Financial Statements.

## Corporate and Other Operations

| **Three months ended March 31 ($ millions)** | | **2010** | | 2009 |
|---|---|---|---|---|
| Operating costs – corporate | **$** | **(4.7)** | $ | (5.7) |
| Loss from equity investment | | **(1.3)** | | (0.5) |
| LTIP mark-to-market | | **1.4** | | (2.5) |
| | | **(4.6)** | | (8.7) |
| Other expenses (income) | | | | |
| Information technology system implementation costs | | **(0.4)** | | (3.0) |
| Earnings before interest and taxes | **$** | **(5.0)** | $ | (11.7) |

For the three months ended March 31, 2010, operating costs at Corporate of $4.7 million were $1.0 million lower than the same period last year reflecting management focus on cost efficiencies.

Loss from equity investment for the three months ended March 31, 2010 relates to the Company's investment in Energyst B.V., reflecting reduced activity levels as a result of the weak economic conditions in Europe.

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) expense or income recorded at the corporate level primarily reflects the fair value change of the compensation hedge in total. This amount primarily offsets the LTIP mark-to-market gains or losses recorded by the operating companies.

Costs included in other expenses in the first quarter of 2010 relate to Corporate's share of costs related to the implementation of a new information technology system for the Company's global operations. In 2009, all of the costs related to the IT system implementation were recorded at the corporate level, and proportionately allocated to the operations based on relative revenues in the fourth quarter of 2009. In 2010, the IT system implementation costs are allocated to the operations on a quarterly basis.

## Liquidity and Capital Resources

### Cash Flow from Operating Activities

For the three months ended March 31, 2010, cash flow generated after working capital changes was $110.8 million, compared with $15.6 million during the same period in 2009. Throughout all operations, management has focused on improving cash cycle times and operating efficiencies while ensuring appropriate levels of working capital exist to support current business activity levels. As a result, the Company's working capital investment in the first quarter of 2010 is $137.9 million lower than the first three months of the prior year.

The Company made a net investment in rental assets of $0.6 million in the first quarter of 2010. In the comparable quarter in 2009, the Company generated proceeds on the disposal of rental assets in excess of additions in the amount of $5.1 million. As a result of lower demand and close monitoring of expenditures, rental investment moderated in 2009 and for the first three months of 2010 compared to prior periods, and underutilized rental assets have been sold.

As a result of these items, cash flow provided by operating activities was $109.2 million in the first quarter of 2010, an improvement when compared to cash flow provided by operating activities of $20.5 million in the comparative period of 2009.

EBITDA was $94.6 million in the first quarter of 2010 compared to $150.1 million in the first quarter of 2009.

### Cash Used For Investing Activities

Net cash provided by investing activities for the three months ended March 31, 2010 totalled $16.1 million compared with cash used by investing activities of $38.9 million in the first quarter of 2009.

Gross capital additions for the three months ended March 31, 2010 were $14.9 million, almost half the spend of $28.1 million invested in the three months ended March 31, 2009. Capital additions in the first quarter of 2010 and 2009 reflected general capital spending to support operations. In addition, capital additions in the first quarter of 2010 included capitalized costs of $3.7 million related to the Company's new global IT system (Q1 2009: $0.4 million). All capital spending is being monitored closely by management.

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. In the first quarter of 2009, the Company paid approximately $16.6 million on the settlement of foreign currency swaps that were also part of a hedge against foreign subsidiary investments.

### Financing Activities

As at March 31, 2010, the Company's short and long-term borrowings totalled $1.0 billion, a decrease of 11.0% from December 31, 2009.

Finning has committed bank facilities totalling approximately $950 million with various Canadian, U.S., U.K., and South American financial institutions. The largest of these facilities, an $800 million global credit facility, matures in December 2011. As at March 31, 2010 over $825 million was available under these committed facilities and no long-term debt matures until December 2011. Based upon the availability of these facilities, the Company's business operating plans, and the discretionary nature of some of the outflows like 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, 2010.

Dividends paid to shareholders were $18.8 million, comparable to the first quarter of 2009. With business conditions strengthening, and considering the Company's improving outlook, cash flow levels, significant liquidity, and strong balance sheet, the Board of Directors approved the Company's quarterly dividend at $0.12 per common share, an increase of $0.01 per common share.

The Company's Debt Ratio at March 31, 2010 was 37.2%, comparable to 39.3% at December 31, 2009.

## Description of Non-GAAP Measures

EBIT is defined herein as earnings before interest expense, interest income, and income taxes. EBITDA is defined as earnings 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 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 is as follows:

| **For three months ended March 31**<br>**($ millions)** | | **2010** | | 2009 |
|---|---|---|---|---|
| Earnings before interest, taxes, depreciation, and amortization (EBITDA) | **$** | **94.6** | $ | 150.1 |
| Depreciation and amortization | | **(57.4)** | | (74.5) |
| Earnings before interest and income taxes (EBIT) | | **37.2** | | 75.6 |
| Finance costs | | **(14.9)** | | (17.9) |
| Provision for income taxes | | **(2.2)** | | (12.7) |
| Net income | **$** | **20.1** | $ | 45.0 |

A reconciliation of Free Cash Flow is as follows:

| **For three months ended March 31**<br>**($ millions)** | | **2010** | | 2009 |
|---|---|---|---|---|
| Cash flow provided by (used in) operating activities | **$** | **109.2** | $ | 20.5 |
| Additions to capital assets | | **(14.9)** | | (28.1) |
| Proceeds on disposal of capital assets | | **5.0** | | 5.8 |
| Free cash flow | **$** | **99.3** | $ | (1.8) |

## 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, 2009.

There have been no significant changes to existing risk factors or new key risks identified from the key risks as disclosed in the Company's AIF for the year ended December 31, 2009, 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 2009 annual MD&A.

The sensitivity of the Company's net income 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, 2010 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.

| ($ millions) | March 31, 2010 month end rates | | Net Income |
|---|---|---|---|
| USD | **1.0156** | **$** | **(18)** |
| GBP | **1.5422** | **$** | **1** |
| CLP | **0.0019** | **$** | **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 Canadian GAAP. There has been no change in the design of the Company's internal control over financial reporting during the quarter ended March 31, 2010, 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, these controls and procedures may not prevent all errors and fraud. A control system, no matter how well conceived or operated, can only provide reasonable, not absolute, assurance that the objectives of the control system are met.

## Selected Quarterly Information

| $ millions, except for share and option data | 2010 Q1 | 2009 Q4 | 2009 Q3 | 2009 Q2 | 2009 Q1 | 2008 Q4 | 2008 Q3 | 2008 Q2 | 2008 Q1 |
|---|---|---|---|---|---|---|---|---|---|
| Revenue [1] | | | | | | | | | |
| Canada | **$ 489.9** | $ 601.8 | $ 489.9 | $ 582.0 | $ 712.9 | $ 826.0 | $ 748.9 | $ 849.1 | $ 792.9 |
| South America | **347.8** | 337.0 | 376.9 | 363.0 | 412.7 | 464.3 | 389.7 | 340.7 | 306.9 |
| UK Group | **190.4** | 196.3 | 206.4 | 219.9 | 238.7 | 276.4 | 324.6 | 341.5 | 330.4 |
| Total revenue | **$1,028.1** | $1,135.1 | $1,073.2 | $1,164.9 | $1,364.3 | $1,566.7 | $1,463.2 | $1,531.3 | $1,430.2 |
| Net income (loss) [1] [2] | **$ 20.1** | $ 16.3 | $ 21.7 | $ 47.8 | $ 45.0 | $ (106.8) | $ 64.8 | $ 67.2 | $ 70.8 |
| Basic Earnings (Loss) Per Share [1] [2] [3] | **$ 0.12** | $ 0.10 | $ 0.13 | $ 0.28 | $ 0.26 | $ (0.63) | $ 0.38 | $ 0.39 | $ 0.41 |
| Diluted Earnings (Loss) Per Share [1] [2] [3] | **$ 0.12** | $ 0.10 | $ 0.13 | $ 0.28 | $ 0.26 | $ (0.62) | $ 0.37 | $ 0.39 | $ 0.40 |
| Total assets [1] | **$3,492.2** | $3,671.4 | $3,892.4 | $4,357.3 | $4,639.6 | $4,720.4 | $4,604.4 | $4,603.8 | $4,527.8 |
| Long-term debt | | | | | | | | | |
| Current | **$ 23.7** | $ 24.2 | $ 23.9 | $ 2.6 | $ 2.6 | $ 2.6 | $ 2.5 | $ 100.5 | $ 215.9 |
| Non-current | **973.7** | 991.7 | 1,013.8 | 1,206.4 | 1,437.3 | 1,410.7 | 1,313.1 | 1,121.8 | 605.7 |
| Total long-term debt [4] | **$ 997.4** | $1,015.9 | $1,037.7 | $1,209.0 | $1,439.9 | $1,413.3 | $1,315.6 | $1,222.3 | $ 821.6 |
| Cash dividends paid per common share | **$ 0.11** | $ 0.11 | $ 0.11 | $ 0.11 | $ 0.11 | $ 0.11 | $ 0.11 | $ 0.11 | $ 0.10 |
| Common shares outstanding (000's) [3] | **170,907** | 170,747 | 170,661 | 170,631 | 170,545 | 170,445 | 171,356 | 172,692 | 172,623 |
| Options outstanding (000's) | **6,058** | 6,299 | 6,537 | 6,606 | 5,807 | 6,037 | 6,200 | 6,343 | 4,576 |

1) On January 15, 2008 the Company's Canadian operations purchased Collicutt Energy Services Ltd. The results of operations and financial position of Collicutt have been included in the figures above since the date of acquisition.

2) During 2009, the Company performed its annual goodwill impairment tests and determined that goodwill was not impaired at December 31, 2009. In 2008, the Company determined that the fair value of Hewden was less than its book value, which included goodwill on acquisition. As a result, the Company recorded a full goodwill impairment of $151.4 million for Hewden in the fourth quarter of 2008. The negative impact on basic earnings per share (EPS) for the fourth quarter of 2008 was $0.89 per share (diluted EPS: $0.88 per share). The goodwill impairment charge was non-cash in nature and did not affect the Company's liquidity, cash flows from operating activities, or debt covenants and is not expected to have any adverse impact on future operations. The Company did not expect an income tax deduction from this charge.

3) During 2008, the Company repurchased 5,901,842 common shares at an average price of $24.99 as part of a normal course issuer bid.

   Earnings per share (EPS) for each quarter has been computed based on the weighted average number of shares issued and outstanding during the respective quarter; therefore, quarterly amounts may not add to the annual or year-to-date total.

4) In the second quarter of 2008, the Company issued two unsecured Medium Term Notes (MTN); a five year $250 million MTN and a 10 year $350 million MTN. Proceeds from these issuances were used for debt repayment, including the repayment of a $200 million MTN which expired in June 2008 as well as outstanding commercial paper borrowings.

## New Accounting Pronouncements

### Changes in Accounting Policy in 2010

#### Business Combinations

In January 2009, the CICA issued Section 1582, *Business Combinations*, Section 1601, *Consolidations*, and Section 1602, *Non-controlling Interests*. These new standards are harmonized with International Financial Reporting Standards (IFRS). Section 1582 specifies a number of changes, including: an expanded definition of a business, a requirement to measure all business acquisitions at fair value, a change in the basis of measurement of non-controlling interests, and a requirement to recognize acquisition-related costs as expenses. Section 1601 establishes the standards for preparing consolidated financial statements. Section 1602 specifies that non-controlling interests be treated as a separate component of equity, not as a liability or other item outside of equity. The new standards will become effective in 2011.

Effective January 1, 2010, the Company early adopted Sections 1582, 1601, and 1602 in accordance with the transitional provisions. The adoption of Sections 1601 and 1602 did not have a material impact on the Company's consolidated financial statements. Whether the Company will be materially affected by the new recommendations of Section 1582 will depend upon the specific facts of business combinations, if any, occurring subsequent to January 1, 2010.

### Future Accounting Pronouncements

#### Convergence with International Financial Reporting Standards

In February 2008, Canada's Accounting Standards Board confirmed that Canadian GAAP, as used by public companies, will be converged with International Financial Reporting Standards (IFRS) effective January 1, 2011. The transition from Canadian GAAP to IFRS will be applicable for the Company for the first quarter of 2011 when the Company will prepare both the current and comparative financial information using IFRS.

#### Project management

While IFRS uses a conceptual framework similar to Canadian GAAP, there are significant differences on recognition, measurement, and disclosures. The Company commenced its IFRS conversion project in late 2007. The project consists of four phases: raise awareness; assessment; design; and implementation. The Company is currently in the implementation phase. While a number of differences were identified, the areas of highest potential impact included property, plant and equipment, income taxes, employee future benefits, stock-based compensation, presentation, and disclosure, as well as the initial selection of applicable transitional exemptions under the provisions of IFRS 1 First Time Adoption. The Company has not identified any further areas subject to significant change during subsequent phases of the transition project.

The Company's IFRS transition project is on schedule. The following table indicates key milestones in the project. It is based on management's current expectations and is hence subject to change as a result of new IFRS projects and standards, and management's experiences as the project progresses:

| Activity | Milestone | Status |
|---|---|---|
| **Technical analysis** | | |
| Initial scoping and risk assessment | High level review, using external expert advisor, to determine most significant GAAP differences applicable to the Company. | Completed 2008. |
| Technical review of each standard | Analysis of IFRS standards, identifying specific changes to the Company's accounting processes and policies. | Completed 2009. |
| Transitional election choice and approval | Identification, analysis, and selection of appropriate IFRS 1 transitional provisions to be used by the Company.<br>Presentation of transitional choices to Audit Committee. | Transitional choices presented to Audit Committee in December 2009 and approved February 2010. |
| Go-forward accounting policy choices | Identification, analysis, and selection of accounting policy choices available under IFRS. | Initial accounting policy selections approved by Audit Committee in February and May 2010, additional policy choices will be refined as required during comparative financial statement preparation phase during 2010. |
| **Financial statement preparation** | | |
| Preparation of Opening Balance Sheet | Preparation of opening balance sheet and associated reconciliation from Canadian GAAP to IFRS. | In progress. Completion expected Q2 2010. |
| Quarterly comparatives preparation | Preparation of quarterly comparative financials, including reconciliation from Canadian GAAP to IFRS balances. | Detailed timeline in place for Q1 comparative preparation process with completion expected Q2 2010<br>Subsequent quarterly comparative preparation will follow Canadian quarterly close process in 2010. |
| Financial statement template | Completion of IFRS-compliant financial statement template and associated note disclosures. | Completed in Q1 2010. Template will be refreshed as additional disclosure requirements are released through 2010. |
| **Training** | | |
| Design and implementation of IFRS training plan | Design training plan.<br>Provide overview training. | IFRS 'overview' training provided to finance personnel in all geographic regions in 2009.<br>Comprehensive training session provided to Board of Directors in December 2009.<br>Detailed topic-specific training sessions and communication activities ongoing through 2010. |
| **Communication** | | |
| Design and implementation of communication plan | Design communication plan for internal and external stakeholders.<br>Implement awareness-building and communication activities. | Communication provided through internal newsletters, forums, and intranet-based media.<br>Involvement of investor relations team will commence during 2010. |
| **Systems** | | |
| Dual reporting and additional data gathering | Ensure readiness of system to manage dual reporting requirements during 2010.<br>Ensure existing data gathering process can provide data for additional IFRS disclosures. | Dual reporting capability of existing reporting system identified and testing will be completed Q2 2010.<br>Data gathering testing for full year disclosures ongoing. |
| **Controls** | | |
| Internal control over financial reporting | Perform review of controls to ensure adequacy of existing controls, or implementation of new controls where required. | Relevant controls are being assessed as each work stream progresses.<br>Regional compliance managers have been briefed on IFRS impacts to enable timely assessment of controls throughout 2010. |

### Transitional impacts

The following summary of opening balance sheet transitional provisions to be adopted on January 1, 2010 and their likely impacts indicates the progress in each topic area identified as having a potential high impact. It is not an exhaustive list; if further transitional elections are found to be beneficial to the transition process as the opening balance sheet preparation progresses, then such exemptions may be taken.

- Property, plant, and equipment (PP&E): No transitional elections will be taken. The Company will retain assets at historical cost upon transition rather than taking the allowed election to recognize assets at fair value.
- Employee future benefits: Any unamortized defined benefit pension plan actuarial gains and losses accumulated at January 1, 2010 will be recognized in retained earnings in accordance with the IFRS 1 transitional exemption.

  The Company's future accounting policy choice under IFRS with respect to defined benefit pension plans is not yet confirmed, as this is an area subject to ongoing standard-setting activity by the IASB.
- Stock based compensation: IFRS 2, Share Based Payments, encourages application of its provisions to equity instruments granted on or before November 7, 2002, if fair value information about these instruments had previously been publicly disclosed. As the fair value of the Company's instruments had not been historically disclosed, the Company will not restate share based payment balances in relation to fully vested awards of share based payments. An immaterial opening balance sheet adjustment will be made to account for unvested share based payment plans upon transition.

In addition to the key areas outlined above, the use of the following additional transitional exemptions, available under IFRS 1, has also been agreed by management and the Audit Committee:

- Borrowing costs: Borrowing costs will not be capitalized retrospectively and the Company will only capitalize borrowing costs for those assets whose capitalization commencement date is after the date of transition (January 1, 2010).
- Business combinations: The Company will not retrospectively restate any business combinations; IFRS 3 will be applied prospectively to acquisitions after January 1, 2010. This date is consistent with the Company's adoption of the CICA's revised sections for business combinations, consolidations, and non controlling interests.
- Cumulative translation adjustments: All cumulative translation adjustments and associated cumulative hedging gains and losses will be transferred to retained earnings from Accumulated Other Comprehensive Income upon transition.

### Accounting policy changes

In addition to the one time transitional impacts described above, there are several accounting policy differences which will impact the company on a go-forward basis. This is not an exhaustive list, but it provides an indication of the main accounting policy changes which will apply to the Company under IFRS effective January 1, 2011 with comparatives presented for 2010:

- PP&E: Under IFRS, property, plant, and equipment may be accounted for using either a cost or revaluation model. The Company has elected to use the cost model for all classes of property, plant, and equipment. This is consistent with the Company's current accounting policy and hence will not impact the Company's PP&E balances.
- Investment property: IFRS provides separate guidance on the accounting for properties held primarily for rental or resale. The Company has certain land and buildings which meet the IFRS definition of investment property, and intends to account for these using the cost model; this is consistent with the current accounting for these assets and hence will not impact the Company's PP&E balances.
- Impairment: IFRS requires property, plant, equipment, intangibles and goodwill to be assessed for impairment at the 'cash generating unit' level, rather than the reporting unit level considered by Canadian GAAP. The Company has identified more cash generating units than the reporting units currently used to assess for impairment under Canadian GAAP. Whether the Company will be materially impacted by this change will depend upon the facts at the time of each impairment test.
- Borrowing costs: Borrowing costs for all qualifying assets for which construction commences after January 1, 2010 will be capitalized. This will reduce finance costs and increase PP&E balances and associated

depreciation for those assets constructed after January 1, 2010; the impact of this policy change will be dependent on the magnitude of capital spend on qualifying assets in the future.

- Income taxes: Although the basis of computation of future income taxes is largely consistent between Canadian GAAP and IFRS, there are some specific differences relating to the recognition of future income taxes in relation to intra-group transfers, stock based compensation (in jurisdictions where such compensation is tax deductible) and foreign exchange differences on non monetary assets. In addition, all deferred taxes are classified as long term for IFRS purposes.

- Stock based compensation: All stock based compensation will be valued at fair value using a Black Scholes model under IFRS. This represents an accounting policy difference for the company's cash settled plans, as these are currently valued at intrinsic value. In addition, the valuation of stock options under IFRS requires individual 'tranche based' valuations for those option plans with graded vesting, whilst Canadian GAAP allows a single valuation for all tranches. The impact of these changes is not anticipated to be significant.

- Leases: Under IFRS, the gains from operating sale and leaseback transactions meeting certain criteria are recognized in full at the time of sale. The Company has identified certain sale and leaseback transactions of buildings and vehicles for which the gains on sale were deferred and amortized for Canadian GAAP; these gains will be recognized as a retained earnings adjustment upon transition to IFRS.

- Joint ventures: Under IFRS, reporters may currently choose between proportionate consolidation and equity accounting for jointly controlled entities. Under the proposals for the revised joint venture standard, due to be issued June 2010, the proportionate consolidation option would be eliminated. In anticipation of this change to IFRS, the Company intends to adopt the equity accounting method for its joint ventures, which are currently proportionately consolidated under Canadian GAAP. This has no overall impact on net income or net assets of the Company, but alters the presentation of the joint venture entities in the financial statements.

Management continues to monitor standards to be issued by the International Accounting Standards Board (IASB), but it remains difficult to predict the IFRS that will be effective at the end of the Company's first IFRS reporting period, as the IASB work plan anticipates the completion of several projects in calendar years 2010 and 2011. Their projects on employee benefits, leases, and financial instruments are especially relevant to the Company as it plans to adopt IFRS on January 1, 2011, and management will be monitoring any changes to these standards closely.

## Earnings Coverage Ratio

The following earnings coverage ratio is calculated for the twelve months ended March 31, 2010 and constitutes an update to the earnings coverage ratio described in the Company's short form base shelf prospectus dated May 5, 2008.

| **Twelve months ended March 31, 2010** | |
|---|---|
| Earnings coverage ratio (1) | 2.6 |

(1) The earnings coverage ratio is calculated by dividing: (a) the Company's earnings from continuing operations before interest and taxes for the period stated; by (b) finance costs incurred over the period stated.

## Outstanding Share Data

| **As at May 7, 2010** | |
|---|---|
| Common shares outstanding | **170,967,563** |
| Options outstanding | **5,950,504** |

## Outlook

Consolidated new equipment backlog order intake in the first quarter was the highest since the third quarter of 2008. The resulting growth in backlog is mainly driven by the mining sector. The Company expects more mining orders in 2010, as quotation activity continues to be strong.

Product support revenues are expected to grow in the mining sector in all operations as the equipment sold in recent years remains highly utilized. In all regions, there is an increase in equipment rebuild work and quoting activity for large mining equipment. In non-mining sectors, there is a modest increase in product support activity, as some customers are returning to work or cannot defer maintenance any longer. Increased economic activity is expected to result in further product support growth.

In Canada, the Company is experiencing increased demand for equipment and product support from oil sands, coal, and copper producers and contractors. In non-mining sectors, particularly construction and oil & gas, demand for equipment is expected to remain soft until at least the second half of the year. Product support revenues continue to grow in the mining industry. Incremental business from government-funded infrastructure initiatives is expected to positively impact the construction sector towards the end of 2010 and into 2011.

In South America, the Company is actively quoting to mining customers and receiving new orders for large mining equipment. At current copper and gold prices, the mining industry is expected to remain very strong. Mining contracts are expected to continue to drive product support growth throughout 2010. Construction and power systems activity is forecast to improve in 2010. In Chile, the need for reconstruction of buildings and infrastructure in the aftermath of the earthquake will continue to generate incremental opportunities. Non-mining equipment remains well-utilized and will continue to contribute to ongoing product support growth in South America.

In the UK, the market outlook is improving modestly. The Company sees opportunities with coal mines, quarries, and large infrastructure customers for new equipment sales and product support. Opportunities in power systems are also promising. The Company continues to experience strong quoting activity for projects in the energy, marine, and oil & gas sectors.

As announced on May 5, 2010, the Company sold its UK equipment rental business, Hewden. The Company's UK Caterpillar dealership will continue to work closely with plant hire customers to place Caterpillar equipment into the UK equipment rental market. The Company expects to maintain a commercial relationship with Hewden.

Excluding Hewden, 2010 revenues from continuing operations are expected to be slightly lower than 2009, with lower new equipment sales partly offset by slightly higher product support revenues. SG&A expenses will continue to decrease, albeit at a slower pace than in 2009. The Company expects EBIT from continuing operations in 2010 to be comparable to 2009 levels although revenues are expected to be lower. As a result, EBIT margin is expected to modestly improve in 2010.

The Company had targeted SG&A expense reductions of approximately $200 million compared to 2008 expense levels. Excluding Hewden, the adjusted annual target cost reduction from initiatives is $170 million and the Company is on track to meet this goal.

Free Cash Flow in 2010 is expected to be approximately $200 million, which is lower than in 2009 as the Company anticipates purchasing equipment to meet customer demand and selective replenishment of its rental fleet. As a result, management expects Free Cash Flow to moderate for the next two quarters. The net debt to capital ratio is expected to be in the mid-30% range by the end of 2010.

May 13, 2010

**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; the estimated annualized cost savings and anticipated restructuring charges related to actions taken by the Company in response to the economic downturn; expected revenue and EBIT growth; anticipated effective tax rate; 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. 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 13, 2010. 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 credit 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 implement our cost reduction initiatives while continuing to maintain customer service; 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 outside Canada. 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 Market 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.

## INTERIM CONSOLIDATED STATEMENTS OF INCOME

| **For three months ended March 31**<br>**($ thousands, except share and per share amounts)** | **2010**<br>**unaudited** | 2009<br>unaudited |
|---|---|---|
| Revenue | | |
| New equipment | **$ 345,711** | $ 632,244 |
| Used equipment | **71,658** | 92,492 |
| Equipment rental | **113,937** | 140,185 |
| Product support | **493,905** | 496,313 |
| Other | **2,930** | 3,032 |
| Total revenue | **1,028,141** | 1,364,266 |
| Cost of sales | **722,865** | 980,674 |
| Gross profit | **305,276** | 383,592 |
| Selling, general, and administrative expenses | **261,678** | 299,603 |
| Other expenses (Note 2) | **6,370** | 8,435 |
| Earnings before interest and income taxes | **37,228** | 75,554 |
| Finance costs (Note 3) | **14,891** | 17,892 |
| Income before provision for income taxes | **22,337** | 57,662 |
| Provision for income taxes | **2,272** | 12,636 |
| Net income | **$ 20,065** | $ 45,026 |
| | | |
| Earnings per share (Note 4) | | |
| Basic | **$ 0.12** | $ 0.26 |
| Diluted | **$ 0.12** | $ 0.26 |
| | | |
| Weighted average number of shares outstanding | | |
| Basic | **170,842,495** | 170,516,267 |
| Diluted | **171,299,271** | 170,860,908 |

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

## INTERIM CONSOLIDATED BALANCE SHEETS

| ($ thousands) | March 31, 2010 unaudited | December 31, 2009 audited |
|---|---|---|
| **ASSETS** | | |
| Current assets | | |
| Cash and cash equivalents | **$ 188,893** | $ 197,904 |
| Accounts receivable | **617,847** | 622,641 |
| Service work in progress | **72,436** | 62,563 |
| Inventories (Note 5) | **930,479** | 993,523 |
| Other assets | **223,718** | 207,030 |
| Total current assets | **2,033,373** | 2,083,661 |
| Finance assets | **32,033** | 32,604 |
| Rental equipment | **614,799** | 691,120 |
| Land, buildings, and equipment | **471,087** | 482,777 |
| Intangible assets | **42,451** | 41,469 |
| Goodwill | **91,643** | 94,254 |
| Other assets | **206,822** | 245,550 |
| | **$ 3,492,208** | $ 3,671,435 |
| **LIABILITIES** | | |
| Current liabilities | | |
| Short-term debt | **$ 50,780** | $ 162,238 |
| Accounts payable and accruals | **783,168** | 749,941 |
| Income tax payable | **5,777** | 8,624 |
| Current portion of long-term debt | **23,664** | 24,179 |
| Total current liabilities | **863,389** | 944,982 |
| Long-term debt | **973,732** | 991,732 |
| Long-term obligations | **104,946** | 110,147 |
| Future income taxes | **99,559** | 108,888 |
| Total liabilities | **2,041,626** | 2,155,749 |
| **SHAREHOLDERS' EQUITY** | | |
| Share capital | **558,071** | 557,052 |
| Contributed surplus | **35,112** | 33,509 |
| Accumulated other comprehensive loss | **(362,861)** | (293,869) |
| Retained earnings | **1,220,260** | 1,218,994 |
| Total shareholders' equity | **1,450,582** | 1,515,686 |
| | **$ 3,492,208** | $ 3,671,435 |

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

## INTERIM CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

| For three months ended March 31 ($ thousands) | 2010 unaudited | 2009 unaudited |
|---|---|---|
| Net income | **$ 20,065** | $ 45,026 |
| Other comprehensive income (loss), net of income tax | | |
| Currency translation adjustments | **(84,451)** | 26,976 |
| Unrealized gain (loss) on net investment hedges | **(2,467)** | (32,339) |
| Realized gain on net investment hedges | **20,879** | — |
| Tax recovery (expense) on net investment hedges | **(2,795)** | 6,906 |
| Foreign currency translation and gain (loss) on net investment hedges | **(68,834)** | 1,543 |
| Unrealized gain (loss) on cash flow hedges | **(1,116)** | 4,113 |
| Realized loss on cash flow hedges, reclassified to earnings | **1,022** | 2,752 |
| Tax expense on cash flow hedges | **(64)** | (1,214) |
| Gain (loss) on cash flow hedges | **(158)** | 5,651 |
| Comprehensive income (loss) | **$ (48,927)** | $ 52,220 |

## INTERIM CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

| | Share Capital | | | Accumulated Other Comprehensive Income (Loss) | | | |
|---|---|---|---|---|---|---|---|
| ($ thousands, except share amounts) | Shares | Amount | Contributed Surplus | Foreign Currency Translation and Gain / (Loss) on Net Investment Hedges | Gains / (Losses) on Cash Flow Hedges | Retained Earnings | Total |
| Balance, January 1, 2009 | 170,445,067 | $ 554,966 | $ 25,441 | $ (160,971) | $ (15,473) | $ 1,163,141 | $ 1,567,104 |
| Comprehensive income | — | — | — | 1,543 | 5,651 | 45,026 | 52,220 |
| Issued on exercise of stock options | 100,000 | 452 | — | — | — | — | 452 |
| Stock option expense | — | — | 2,561 | — | — | — | 2,561 |
| Dividends on common shares | — | — | — | — | — | (18,760) | (18,760) |
| Balance, March 31, 2009 | 170,545,067 | $ 555,418 | $ 28,002 | $ (159,428) | $ (9,822) | $ 1,189,407 | $ 1,603,577 |
| | | | | | | | |
| **Balance, January 1, 2010** | **170,746,800** | **$ 557,052** | **$ 33,509** | **$ (289,023)** | **$ (4,846)** | **$ 1,218,994** | **$ 1,515,686** |
| Comprehensive income (loss) | **—** | **—** | **—** | **(68,834)** | **(158)** | **20,065** | **(48,927)** |
| Issued on exercise of stock options | **160,658** | **1,019** | **—** | **—** | **—** | **—** | **1,019** |
| Stock option expense | **—** | **—** | **1,603** | **—** | **—** | **—** | **1,603** |
| Dividends on common shares | **—** | **—** | **—** | **—** | **—** | **(18,799)** | **(18,799)** |
| **Balance, March 31, 2010** | **170,907,458** | **$ 558,071** | **$ 35,112** | **$ (357,857)** | **$ (5,004)** | **$ 1,220,260** | **$ 1,450,582** |

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

## INTERIM CONSOLIDATED STATEMENTS OF CASH FLOW

| For three months ended March 31<br>($ thousands) | 2010<br>unaudited | 2009<br>unaudited |
|---|---|---|
| **OPERATING ACTIVITIES** | | |
| Net income | **$ 20,065** | $ 45,026 |
| Add items not affecting cash | | |
| Depreciation and amortization | **58,099** | 75,256 |
| Future income taxes | **(401)** | (2,058) |
| Stock-based compensation | **1,745** | 4,155 |
| Gain on disposal of capital assets | **(2,426)** | (2,083) |
| Other | **1,239** | 757 |
| | **78,321** | 121,053 |
| Changes in working capital items (Note 7) | **32,479** | (105,464) |
| Cash provided after changes in working capital items | **110,800** | 15,589 |
| Rental equipment, net of disposals | **(630)** | 5,123 |
| Equipment leased to customers, net of disposals | **(1,020)** | (173) |
| Cash flow provided by operating activities | **109,150** | 20,539 |
| **INVESTING ACTIVITIES** | | |
| Additions to capital assets | **(14,895)** | (28,089) |
| Proceeds on disposal of capital assets | **5,047** | 5,783 |
| Proceeds (payments) on settlement of derivatives | **25,983** | (16,634) |
| Cash provided by (used in) investing activities | **16,135** | (38,940) |
| **FINANCING ACTIVITIES** | | |
| Increase (decrease) in short-term debt | **(108,604)** | 11,885 |
| Increase in long-term debt | **1,035** | 16,418 |
| Issue of common shares on exercise of stock options | **1,019** | 452 |
| Dividends paid | **(18,799)** | (18,760) |
| Cash provided by (used in) financing activities | **(125,349)** | 9,995 |
| Effect of currency translation on cash balances | **(8,947)** | 3,384 |
| Decrease in cash and cash equivalents | **(9,011)** | (5,022) |
| Cash and cash equivalents, beginning of period | **197,904** | 109,772 |
| Cash and cash equivalents, end of period | **$ 188,893** | $ 104,750 |

See supplemental cash flow information, Note 7

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

## 1. SIGNIFICANT ACCOUNTING POLICIES

The accompanying unaudited Interim Consolidated Financial Statements (Interim Statements) have been prepared in accordance with Canadian generally accepted accounting principles (GAAP) on a basis consistent with those disclosed in the most recent audited annual financial statements. These Interim Statements do not include all the information and note disclosures required by GAAP for annual financial statements and therefore should be read in conjunction with the December 31, 2009 audited annual consolidated financial statements and the notes below.

The Interim Statements follow the same accounting policies and methods of computation as the most recent annual consolidated financial statements, except for the impact of the change in accounting policy disclosed below:

### (a) Change in Accounting Policy

**Business Combinations**

In January 2009, the CICA issued Section 1582, *Business Combinations*, Section 1601, *Consolidations*, and Section 1602, *Non-controlling Interests*. These new standards are harmonized with International Financial Reporting Standards (IFRS). Section 1582 specifies a number of changes, including: an expanded definition of a business, a requirement to measure all business acquisitions at fair value, a change in the basis of measurement of non-controlling interests, and a requirement to recognize acquisition-related costs as expenses. Section 1601 establishes the standards for preparing consolidated financial statements. Section 1602 specifies that non-controlling interests be treated as a separate component of equity, not as a liability or other item outside of equity. The new standards will become effective in 2011.

Effective January 1, 2010, the Company early adopted Sections 1582, 1601, and 1602 in accordance with the transitional provisions. The adoption of Sections 1601 and 1602 did not have a material impact on the Company's consolidated financial statements. Whether the Company will be materially affected by the new recommendations of Section 1582 will depend upon the specific facts of business combinations, if any, occurring subsequent to January 1, 2010.

### (b) Future Accounting Pronouncements

**(ii) Convergence with International Financial Reporting Standards**
In February 2008, Canada's Accounting Standards Board confirmed that Canadian GAAP, as used by public companies, will be converged with IFRS effective January 1, 2011. The transition from Canadian GAAP to IFRS will be applicable for the Company for the first quarter of 2011 when the Company will prepare both the current and comparative financial information using IFRS.

### (c) Comparative Figures

Certain comparative figures have been reclassified to conform to the 2010 presentation.

## 2. Other Expenses (Income)

Other expenses (income) include the following items:

| For three months ended March 31 ($ thousands) | | 2010 | | 2009 |
|---|---|---|---|---|
| Gain on sale of properties in Hewden (a) | **$** | **(2,400)** | $ | (2,056) |
| Restructuring (b) | | **3,511** | | 5,829 |
| Project costs (c) | | **5,285** | | 4,689 |
| Gain on sale of other surplus properties | | **(26)** | | (27) |
| | **$** | **6,370** | $ | 8,435 |

The tax recovery on other expenses for the three months ended March 31, 2010 was $2.0 million (2009: $2.6 million).

(a) In the first quarter of 2010, the Company's UK subsidiary, Hewden, sold certain properties for cash proceeds of approximately $3.7 million (2009: $3.0 million), resulting in a pre-tax gain of $2.4 million (2009: $2.1 million).

(b) During the three months ended March 31, 2010, the Company incurred restructuring and severance costs of $3.5 million. These costs related to severance incurred in response to market conditions, primarily in the Company's Canadian operations, and costs related to the restructuring of Hewden's nationwide depot network and the strategic review of Hewden.

During the three months ended March 31, 2009, the Company incurred restructuring and severance costs of $5.8 million. These costs related to severance incurred in response to market conditions, primarily in the Company's UK operations, and costs to integrate support services and provide an effective service offering to customers in the U.K.

(c) Project costs incurred during the three months ended March 31, 2010 and 2009 relate to the implementation of a new information technology system for the Company's global 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 ($ thousands) | | 2010 | | 2009 |
|---|---|---|---|---|
| Interest on debt securities: | | | | |
| Short-term debt | **$** | **420** | $ | 1,433 |
| Long-term debt | | **12,794** | | 14,517 |
| | | **13,214** | | 15,950 |
| Loss on interest rate derivatives | | **459** | | 479 |
| Other finance related expenses, net of sundry interest earned | | **1,218** | | 1,463 |
| Finance costs | **$** | **14,891** | $ | 17,892 |

## 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 earnings per share is calculated to reflect the dilutive effect of exercising outstanding stock options by applying the treasury stock method.

| For three months ended March 31<br>($ thousands, except share and per share amounts)<br>2010 | | Income | Shares | | Per Share |
|---|---|---|---|---|---|
| Basic earnings per share: net income | **$** | **20,065** | **170,842,495** | **$** | **0.12** |
| Effect of dilutive securities: stock options | | **—** | **456,776** | | **—** |
| Diluted earnings per share: net income and assumed conversions | **$** | **20,065** | **171,299,271** | **$** | **0.12** |
| 2009 | | | | | |
| Basic earnings per share: net income | $ | 45,026 | 170,516,267 | $ | 0.26 |
| Effect of dilutive securities: stock options | | — | 344,641 | | — |
| Diluted earnings per share: net income and assumed conversions | $ | 45,026 | 170,860,908 | $ | 0.26 |

## 5. Inventories

| ($ thousands) | | March 31, 2010 | | December 31, 2009 |
|---|---|---|---|---|
| On-hand equipment | **$** | **523,211** | $ | 589,983 |
| Parts and supplies | | **326,487** | | 326,481 |
| Internal service work in progress | | **80,781** | | 77,059 |
| Inventories | **$** | **930,479** | $ | 993,523 |

For the three months ended March 31, 2010, on-hand equipment, parts, supplies, and internal service work in progress recognized as an expense amounted to $620.6 million (2009: $870.8 million). For the three months ended March 31, 2010, the write-down of inventories to net realizable value, included in cost of sales, amounted to $13.6 million (2009: $14.4 million).

## 6. Currency Rates

The Company's 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 | March 31, 2010 | December 31, 2009 | March 31, 2009 |
|---|---|---|---|
| U.S. dollar | **1.0156** | 1.0466 | 1.2602 |
| U.K. pound sterling | **1.5422** | 1.6918 | 1.8022 |

| For three months ended March 31<br>Average exchange rates | 2010 | 2009 |
|---|---|---|
| U.S. dollar | **1.0401** | 1.2456 |
| U.K. pound sterling | **1.6215** | 1.7860 |

## 7. Supplemental Cash Flow Information

### Non cash working capital changes

| For three months ended March 31 ($ thousands) | 2010 | 2009 |
|---|---|---|
| Accounts receivable and other | **$ (65,638)** | $ 117,406 |
| Inventories – on-hand equipment | **50,822** | (65,545) |
| Inventories – parts and supplies | **(22,943)** | (14,963) |
| Accounts payable and accruals | **52,790** | (166,436) |
| Income taxes | **17,448** | 24,074 |
| Changes in working capital items | **$ 32,479** | $ (105,464) |

### Components of cash and cash equivalents

| March 31 ($ thousands) | 2010 | 2009 |
|---|---|---|
| Cash | **$ 120,363** | $ 101,818 |
| Short-term investments | **68,530** | 2,932 |
| Cash and cash equivalents | **$ 188,893** | $ 104,750 |

### Interest and tax payments

| For three months ended March 31 ($ thousands) | 2010 | 2009 |
|---|---|---|
| Interest paid | **$ (7,824)** | $ (8,493) |
| Income taxes received | **$ 19,335** | $ 13,190 |

## 8. Employee Future Benefits

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

| For three months ended March 31 | 2010 | | | | 2009 | | | |
|---|---|---|---|---|---|---|---|---|
| ($ thousands) | **Canada** | **UK** | **Hewden** | **Total** | Canada | UK | Hewden | Total |
| Defined contribution plans | **$ 4,994** | **$ 431** | **$ 23** | **$ 5,448** | $ 5,239 | $ 300 | $ 27 | $ 5,566 |
| Defined benefit plans | **3,138** | **2,539** | **1,289** | **6,966** | 2,894 | 582 | 997 | 4,473 |
| Total benefit plan expense | **$ 8,132** | **$ 2,970** | **$ 1,312** | **$12,414** | $ 8,133 | $ 882 | $ 1,024 | $10,039 |

## 9. Segmented Information

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

The reportable operating segments are:

| **For three months ended March 31, 2010 ($ thousands)** | **Canada** | **South America** | **UK Group** | **Other** | **Consolidated** |
|---|---|---|---|---|---|
| Revenue from external sources | **$ 489,940** | **$ 347,806** | **$ 190,395** | **$ —** | **$ 1,028,141** |
| Operating costs | **(446,345)** | **(303,343)** | **(172,885)** | **(4,587)** | **(927,160)** |
| Depreciation and amortization | **(29,382)** | **(8,642)** | **(19,318)** | **(41)** | **(57,383)** |
| | **14,213** | **35,821** | **(1,808)** | **(4,628)** | **43,598** |
| Other income (expenses) | | | | | |
| IT system implementation costs | **(2,283)** | **(1,852)** | **(754)** | **(396)** | **(5,285)** |
| Other | **(2,483)** | **—** | **1,398** | **—** | **(1,085)** |
| Earnings(loss) before interest and taxes | **$ 9,447** | **$ 33,969** | **$ (1,164)** | **$ (5,024)** | **$ 37,228** |
| Finance costs | | | | | **(14,891)** |
| Provision for income taxes | | | | | **(2,272)** |
| Net income | | | | | **$ 20,065** |
| Identifiable assets | **$ 1,528,855** | **$ 1,085,138** | **$ 845,236** | **$ 32,979** | **$ 3,492,208** |
| Capital assets | **$ 309,266** | **$ 123,801** | **$ 80,046** | **$ 425** | **$ 513,538** |
| Gross capital expenditures (1) | **$ 6,800** | **$ 6,867** | **$ 1,228** | **$ —** | **$ 14,895** |
| Gross rental asset expenditures | **$ 15,378** | **$ 9,286** | **$ 3,924** | **$ —** | **$ 28,588** |

| For three months ended March 31, 2009 ($ thousands) | Canada | South America | UK Group | Other | Consolidated |
|---|---|---|---|---|---|
| Revenue from external sources | $ 712,870 | $ 412,734 | $ 238,662 | $ — | $ 1,364,266 |
| Operating costs | (627,333) | (354,984) | (214,793) | (8,661) | (1,205,771) |
| Depreciation and amortization | (37,728) | (10,392) | (26,340) | (46) | (74,506) |
| | 47,809 | 47,358 | (2,471) | (8,707) | 83,989 |
| Other expenses | | | | | |
| IT system implementation costs | (1,390) | (255) | (49) | (2,995) | (4,689) |
| Other | (566) | (276) | (2,904) | — | (3,746) |
| Earnings (loss) before interest and taxes | $ 45,853 | $ 46,827 | $ (5,424) | $ (11,702) | $ 75,554 |
| Finance costs | | | | | (17,892) |
| Provision for income taxes | | | | | (12,636) |
| Net income | | | | | $ 45,026 |
| Identifiable assets | $ 2,103,765 | $ 1,359,413 | $ 1,068,796 | $ 107,576 | $ 4,639,550 |
| Capital assets | $ 286,771 | $ 127,321 | $ 113,146 | $ 2,832 | $ 530,070 |
| Gross capital expenditures (1) | $ 11,781 | $ 12,197 | $ 4,111 | $ — | $ 28,089 |
| Gross rental asset expenditures | $ 68,808 | $ 10,073 | $ 7,039 | $ — | $ 85,920 |

(1) includes capital leases

## 10. Subsequent Event

Following an extensive strategic review, in May 2010 the Company sold its U.K. subsidiary, Hewden Stuart Limited, its UK equipment rental business, for gross proceeds of $170.6 million (£110.2 million). Gross proceeds comprise cash of £90.2 million and a £20.0 million interest bearing 5-year note receivable with a fair value of £16.9 million.

The estimated loss on sale is approximately $246.6 million or $1.44 per share, which includes the realization of $100.9 million of foreign exchange losses related to the Company's investment in Hewden which was previously recorded in Accumulated Other Comprehensive Income, and a $67.8 million charge related to the recognition of Hewden's unfunded pension liability, which the buyer has assumed. After taking this into account, the balance of $77.9 million or $0.45 per share is the loss on the Company's net carrying value of Hewden, net of tax. The loss on sale will be recorded in the second quarter of 2010.

As the Company had not committed to a plan to sell at March 31, 2010, Hewden continued to be classified as held and used as part of continuing operations for the three months ended March 31, 2010. Subsequent to the end of the first quarter of 2010, Finning's Board of Directors approved the sale of Hewden; accordingly the results of operations of Hewden will be presented as discontinued operations in the second quarter of 2010 and all prior period results will be adjusted accordingly.

The carrying amounts of assets and liabilities related to Hewden as at March 31, 2010 are as follows:

| ($ millions) | March 31, 2010 |
|---|---|
| **ASSETS** | |
| Current assets | |
| Cash | $ 34.8 |
| Accounts receivable | 73.5 |
| Inventories | 1.3 |
| Other assets | 11.6 |
| Total current assets | 121.2 |
| Rental equipment | 216.5 |
| Land, building and equipment | 36.7 |
| Intangible assets | 7.4 |
| Other assets | 30.8 |
| Total assets | $ 412.6 |
| **LIABILITIES** | |
| Current liabilities | |
| Accounts payable and accruals | $ 43.6 |
| Income tax payable | 0.1 |
| Total current liabilities | 43.7 |
| Long-term obligations | 3.8 |
| Future income taxes | 23.9 |
| Total liabilities | $ 71.4 |