*Second Quarter 2007 Results* *August 7, 2007*

# Finning Announces Record Second Quarter Results

**Highlights from Continuing Operations**

- Record quarterly revenues, up 26% from second quarter of 2006
- Record quarterly diluted earnings per share, up over 35% from 2006
- Sale of the UK Tool Hire Division, classified as discontinued operations
- Approaching $500 million of capital returned from our UK investments
- Strong new equipment order backlog of $1.8 billion

| | Three months ended June 30 | | | Six months ended June 30 | | |
|---|---|---|---|---|---|---|
| $ millions, except per share data | **2007** | 2006 | Change | **2007** | 2006 | Change |
| **Revenue** | **1,497.6** | 1,191.7 | **25.7%** | **2,873.6** | 2,320.4 | **23.8%** |
| **Earnings from continuing operations before interest and income taxes** [(1)] | **123.1** | 88.2 | **39.6%** | **233.7** | 175.1 | **33.5%** |
| **Net income (loss)** | | | | | | |
| from continuing operations | **75.3** | 56.0 | **34.5%** | **146.0** | 111.3 | **31.2%** |
| from discontinued operations [(2)] | **(1.2)** | 0.6 | | **(2.0)** | 2.2 | |
| **Total net income** | **74.1** | 56.6 | **30.9%** | **144.0** | 113.5 | **26.9%** |
| **Diluted Earnings (Loss) Per Share** | | | | | | |
| from continuing operations | **$ 0.42** | $ 0.31 | **35.5%** | **$ 0.81** | $ 0.62 | **30.6%** |
| from discontinued operations [(2)] | **(0.01)** | — | | **(0.01)** | 0.01 | |
| **Total diluted earnings per share** | **$ 0.41** | $ 0.31 | **32.3%** | **$ 0.80** | $ 0.63 | **27.0%** |
| **Cash flow after working capital changes** | **4.7** | 189.6 | **(97.5)%** | **67.8** | 325.6 | **(79.2)%** |

[(1)] This amount does not have a standardized meaning under generally accepted accounting principles. For a reconciliation of this amount to net income from continuing operations, see the heading "Description of Non-GAAP Measure" in the Company's management discussion and analysis which accompanies the second quarter consolidated financial statements.

[(2)] On July 31, 2007, the Company's U.K. subsidiary, Hewden Stuart Plc, sold its Tool Hire Division. In the third quarter of 2006, the Company's U.K. subsidiary, Finning (UK) Ltd., sold its Materials Handling Division. As a consequence, the results of operations of the Tool Hire and Materials Handling divisions have been reclassified as discontinued operations for all periods presented.

**Vancouver, Canada** - Finning International Inc. (Finning) today reported record quarterly revenue of $1.5 billion for the second quarter of 2007, an increase of 25.7% over the second quarter of 2006. Earnings from continuing operations before interest and income taxes (EBIT) were $123.1 million in the second quarter of 2007, an increase of 39.6% compared with the same period last year. Second quarter net income from continuing operations was $75.3 million or $0.42 diluted earnings per share, an increase of 35.5% compared with the second quarter of 2006 and the best ever quarterly results achieved by the Company.

"It was another quarter of record revenues and earnings", said Doug Whitehead, President and CEO of Finning International Inc. "Continued high levels of new equipment sales and growing customer support revenues in all of our markets drove our strong performance. We have also achieved a major strategic goal in the sale of our UK based Tool Rental business. With a gross sale price of $245 million, this transaction will free up a significant amount of capital in the third quarter that we plan to redeploy elsewhere to achieve higher returns. The outlook for our business continues to be very good and we anticipate a strong second half of the year. As well, with our order backlog at near record levels, the outlook for 2008 looks good as well".

"I'm very pleased to note that we continue to improve our EBIT margin", said Mike Waites, Executive Vice President and CFO of Finning International Inc. "We are experiencing exceptionally strong growth in our business in western Canada and in South America. This requires increased working capital which has reduced cash flow. Our strong balance sheet has allowed us to absorb this requirement for additional working capital through short term borrowings. In the second half of this year, we anticipate significant deliveries of new equipment currently held in inventory, resulting in good cash generation through the remainder of the year. For the full year and excluding the proceeds of the tool rental business, we are now expecting free cash flow to be breakeven to modestly negative. We are expecting good business conditions to continue for the remainder of 2007 and are comfortable with our earnings per share guidance range for 2007 in the $1.48 - $1.60 per share range."

**Second Quarter Results**

Finning's revenues from continuing operations in the second quarter were $1.5 billion, up 25.7% from the second quarter of 2006 driven by continued strong equipment sales and demand for customer support services. Strong commodity prices continue to drive demand in Canada and South America, and good overall economic conditions are supporting these businesses. Management believes these conditions are likely to continue throughout 2007. In the U.K., strong activity experienced at the Company's UK dealership in addition to higher rental revenues contributed to improved revenues from the UK Group.

Finning's global order book (the retail value of new equipment units ordered by customers for future deliveries) of approximately $1.8 billion at the end of the second quarter of 2007 ($1.9 billion at March 2007) continues to be at very strong levels. Order intake for the first six months of 2007 exceeded that of the comparable period last year.

EBIT for the quarter was $123.1 million, compared with $88.2 million in the second quarter of 2006, an increase of 39.6%.

- EBIT from Finning's Canadian reporting segment of $85.1 million in the second quarter of 2007 was 47.5% higher than the second quarter 2006, the result of exceptionally strong volumes in all lines of business and, in particular, new equipment sales.
- EBIT for Finning's South American operations in the second quarter of 2007 of $32.7 million was 38.0% higher than the 2006 second quarter, driven by higher revenues from new equipment sales and customer support services.
- In both the Canadian and South American operations, although customer support services revenues were higher in 2007, new equipment sales grew at a higher rate so that these operations experienced a shift in revenue mix to a higher proportion of new equipment sales.
- For the UK Group, EBIT increased in the second quarter of 2007 to $18.2 million compared to $11.8 million in the second quarter of 2006, due to higher margins from all lines of business (except for rentals), continued management of operating costs and increased new equipment deliveries.

Finning's net income from continuing operations for the quarter was $75.3 million compared with $56.0 million in 2006. Diluted Earnings Per Share (EPS) from continuing operations for the quarter was $0.42,

and improved over the 2006 comparable diluted EPS of $0.31 reflecting the EBIT improvements noted above.

Cash flow after working capital changes was $4.7 million for the second quarter of 2007, compared with $189.6 million for the same period last year. This reduction was primarily due to the funding of working capital requirements to meet strong customer demand and deliveries planned throughout 2007.

**Year-to-Date Results**

Revenue from continuing operations for the six months ended June 30, 2007, was $2.9 billion, up 23.8% from the prior year. EBIT of $233.7 million for the first six months of 2007 was up 33.5% and year-to-date trends are similar to the second quarter trends noted above.

- For the six months ending June 30, 2007, revenue was up 20.7% at the Company's Canadian operations, reflecting growth in all lines of business, particularly equipment sales. Adjusting for non-recurring pre-tax gains of $10.4 million recorded in the first quarter of 2006, EBIT from Finning's Canadian reporting segment would have been $104.0 million for the six months ended June 30, 2006. EBIT from the Canadian reporting segment in the first six months of 2007 of $149.7 million was 43.9% higher than the 2006 adjusted EBIT noted above. The increase was a result of exceptionally strong volumes in all lines of business.
- For the first half of 2007, revenues from the Company's South American operations increased 47.4% with strong new equipment sales and continued growth in customer support service revenues. EBIT for the first six months of 2007 of $71.3 million was 43.8% higher compared to the same period last year.
- Revenue from the UK Group increased 12.8% in the first six months of 2007 compared with the same period last year, and increased 2.9% in local currency. EBIT increased 50.0% (37.9% in local currency), a significant improvement over the prior year with higher margins achieved in most lines of business and continued management of operating costs.

Finning's net income from continuing operations for the six months ended June 30, 2007, was $146.0 million compared with $111.3 million in 2006. Diluted EPS from continuing operations for the first six months of 2007 was $0.81, and improved over the 2006 comparable diluted EPS of $0.62 reflecting the EBIT improvements noted above. The 2006 results included $0.05 of gains on the sale of surplus properties and businesses in Canada.

**Important New Contracts**

During and subsequent to the second quarter of 2007, Finning entered into the following noteworthy new contracts:

- Finning South America has secured a major mining equipment sale, valued at over $140 million to Antofagasta Minerals S.A. for the Esperanza mine project. A six-year product support agreement for this equipment is currently under negotiation. The equipment package comprises 20 new and 11 used Cat 797 mining trucks, 2 O&K RH-340 hydraulic shovels and 26 pieces of support machinery including large bulldozers, motor graders and other support equipment. The production fleet will total 31 Cat 797 trucks by the third year of mine operations. Equipment deliveries will begin in January 2008 and over 60% of the fleet will be delivered during that year, with the balance delivered during 2009 and 2010. The Esperanza project is an open pit copper and gold mining operation located in Northern Chile with a 15-year mine life at planned production levels. Construction activity will begin in the first quarter of 2008 and production is expected to commence in late 2010.
- Finning South America sold 5 Caterpillar underground haulers to Codelco's Andina Division in Chile. The machines are expected to be operational by August 2007. The sale is linked to a fleet renewal process in the mine and is the first time that Codelco will work with Caterpillar underground haulers.

## Other Developments

- In June 2007, following an extensive strategic review, Finning's Board of Directors approved the sale of the business and assets, excluding real estate, of the Tool Hire Division of the Company's UK subsidiary, Hewden Stuart Plc. Subsequent to the end of the second quarter, on July 31, 2007, the Company sold its Tool Hire Division for cash proceeds of approximately $238 million (approximately £112 million), net of costs. The gross sale price, net of taxes and transaction costs, is approximately equal to the net book value of the net tangible assets and goodwill associated with the tools rental business. The sale of this business will result in a one-time after-tax loss of approximately $3.4 million (approximately £1.6 million), which includes restructuring and other costs associated with the disposition of this business.
- Finning (Canada) and the International Association of Machinists and Aerospace Workers – Local Lodge 99, representing Finning (Canada) employees in Alberta and the Northwest Territories, reached agreement on a 2 year contract extension with an enhanced wage proposal. This extends the contract to April 2010. All other terms and conditions of the existing collective agreement remain in force and effect.
- Finning (Canada) and Shell Canada signed a transition agreement in the second quarter of 2007, terminating their alliance agreement relating to the distribution of Shell's lubricant and light oil products. The transition will be completed before the end of 2007 with minimal business impacts.
- Like a number of Cat dealers throughout the world, Finning South America has obtained the distribution rights for O&K Shovels and related parts and service, for its market territories (Chile, Argentina, Bolivia, and Uruguay). These hydraulic shovels, which are used in smaller and medium sized mining applications, are complementary to Caterpillar's mining equipment and do not compete directly with Caterpillar products, and Caterpillar Inc. has been supportive of its dealers adding this product line. While the market in the Company's South American territory for this type and size of shovel is modest, it provides a parts and service opportunity for Finning and gives customers the opportunity to obtain a full spectrum of mining equipment (with the exception of very large shovels) as well as service for that equipment from one distributor. Finning (Canada) and the Finning dealership in the UK have not entered into similar distribution agreements with O&K.
- On May 11, 2007, the Company's shareholders approved a two-for-one split of the Company's outstanding common shares. Each shareholder of record at the close of business on May 30, 2007, received one additional share for every outstanding share held. All equity-based benefit plans, share, and per-share financial reporting data have been adjusted to reflect the stock split.

## Common Share Dividend

The Board of Directors approved a quarterly dividend of $0.09 per common share, payable on September 6, 2007, to shareholders of record on August 21, 2007.

<u>For more information</u>

Please call Tom Merinsky, Vice President, Investor Relations
Phone: (604) 331-4950
Email: investor_relations@finning.ca

**Second Quarter Conference Call**

Management will hold an investor conference call on Tuesday, August 7, 2007 at 3:30 pm Eastern Time. Dial-in numbers:

**1-877-888-3490** (anywhere within Canada and the U.S.)
**(416) 695-9757** (for participants dialing from Toronto and overseas)

The call will be webcast live at http://www.finning.com/investors/investors.aspx and subsequently archived on the Finning website. Playback recording will be available at **1-888-509-0081** from 7:00 pm Eastern Time on August 7, 2007, until the end of business day on August 14, 2007. The passcode to access the playback recording is 646744 followed by the number sign.

**About Finning International Inc.**

Finning International Inc. sells, rents and provides customer support services for Caterpillar equipment and engines, and complementary equipment, in Western Canada (Alberta, British Columbia, the Northwest Territories and the Yukon Territory and a portion of Nunavut), the U.K. and South America (Argentina, Bolivia, Chile and Uruguay). Headquartered in Vancouver, B.C., Canada, Finning International Inc. (www.finning.com) is a widely held, publicly traded corporation, listed on the Toronto Stock Exchange (symbol FTT). Complete financial statements and Management's Discussion and Analysis can be accessed at www.finning.com.

**Forward-Looking Disclaimer**

This report (including the attached Management's Discussion and Analysis) contains forward-looking statements and information, which reflect the current view of Finning International Inc. with respect to future events and financial performance. Any such forward-looking statements are subject to risks and uncertainties and Finning's actual results of operations could differ materially from historical results or current expectations. Finning assumes no obligation to publicly update or revise its forward-looking statements even if experience or future changes make it clear that any projected results expressed or implied therein do not materialize.

Refer to Finning's annual report, management information circular, annual information form, and other filings with Canadian securities regulators, which can be found at www.sedar.com, for further information on risks and uncertainties that could cause actual results to differ materially from forward-looking statements contained in this report.

**Next Quarterly Results November 13, 2007**

Finning International's third quarter results for 2007 will be released and an investor conference call will be held on November 13, 2007.

# MANAGEMENT'S DISCUSSION AND ANALYSIS

This discussion and analysis 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. For additional information, please refer to Finning's audited financial statements and accompanying notes and the management's discussion and analysis included in the Company's 2006 annual report.

## Results of Operations

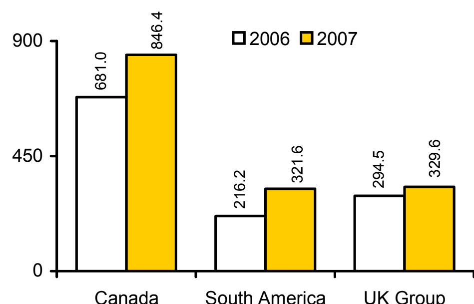
The results from continuing operations include the performance of acquired businesses from the date of their purchase and exclude results from operations that have been disposed or are classified as discontinued. Results from operations that qualify as discontinued operations have been reclassified to that category for all periods presented unless otherwise noted. Please see the section entitled "Discontinued Operations" for a discussion of these operations.

### Second Quarter Overview

| ($ millions) | **Q2 2007** | Q2 2006 | **Q2 2007** (% of revenue) | Q2 2006 (% of revenue) |
|---|---|---|---|---|
| Revenue | **$ 1,497.6** | $ 1,191.7 | | |
| Gross profit | **413.9** | 340.1 | **27.6%** | 28.5% |
| Selling, general & administrative expenses | **(290.6)** | (247.7) | **(19.4)%** | (20.7)% |
| Other income (expenses) | **(0.2)** | (4.2) | **—** | (0.4)% |
| Earnings from continuing operations before interest and income taxes [(1)] | **123.1** | 88.2 | **8.2%** | 7.4% |
| Finance costs | **(18.5)** | (14.7) | **(1.2)%** | (1.2)% |
| Provision for income taxes | **(29.3)** | (17.5) | **(2.0)%** | (1.5)% |
| Net income from continuing operations | **75.3** | 56.0 | **5.0%** | 4.7% |
| Income (loss) from discontinued operations, net of tax | **(1.2)** | 0.6 | **(0.1)%** | — |
| Net income | **$ 74.1** | $ 56.6 | **4.9%** | 4.7% |

[(1)] This amount does not have a standardized meaning under generally accepted accounting principles. For a reconciliation of this amount to net income from continuing operations, see the heading "Description of Non-GAAP Measure" in the Company's management discussion and analysis which accompanies the second quarter consolidated financial statements.

**Revenue by Operation**
($ millions)
Three months ended June 30



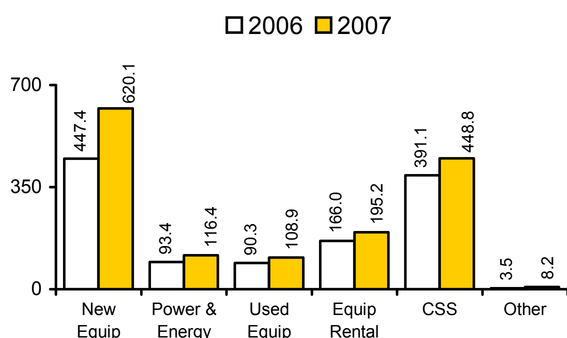

Second quarter consolidated revenues from continuing operations of $1.5 billion increased 25.7% from the second quarter of 2006 and were the highest quarterly revenues ever recorded by Finning, exceeding the record quarterly revenues previously set in the first quarter of 2007. The increase in revenues continues to be driven by continued strong equipment sales and demand for customer support services in all Finning territories. Strong demand from resource-based industries and the construction sector continue to drive demand in Canada and South America.

Revenue was 24.3% higher in the second quarter of 2007 compared with the same period last year in the Company's Canadian operations as a result of robust activity driven by strong market demand and high commodity prices. Revenue from the Company's operations in South America increased 48.7% in Canadian dollars compared with the second quarter of 2006 with strong new equipment sales combined with an increase in customer support services. The Company's operations in the U.K. also experienced a 12.0% increase in revenue in Canadian dollars, year over year.

Finning's business is geographically diversified and the Company conducts business in multiple currencies, the most significant of which are the Canadian dollar, the U.S. dollar, and the U.K. pound sterling. The most significant foreign exchange impact on the Company's net income is the translation of foreign currency based earnings into Canadian dollars. Foreign exchange had a negative impact on consolidated revenues in the second quarter of 2007 compared to the prior year of approximately $9 million due to a 2.1% stronger Canadian dollar in the quarter relative to the U.S. dollar partially offset by a 6.3% weaker Canadian dollar in the quarter relative to the U.K. pound sterling. This resulted in a net negative impact on earnings of approximately $0.01 per share. Translation gains or losses on the consolidation of the financial statements of self-sustaining foreign operations are accumulated in the Accumulated Other Comprehensive Income/Loss account on the Consolidated Balance Sheet. Currency translation adjustments arise as a result of fluctuations in foreign currency exchange rates at the period end. The unrealized currency translation loss of $94.5 million for the three months ended June 30, 2007, mainly resulted from the 6.0% weakening of the U.K. pound sterling and the 7.8% weakening of the U.S. dollar against the Canadian dollar, respectively, at June 30, 2007, compared to March 31, 2007. This was partially offset by $27.6 million of unrealized foreign exchange gains on net investment hedges.

Excluding the impact of foreign exchange when translating results, revenues for the second quarter of 2007 in local currency increased by 51.8% in the Company's South American operations and increased by 5.4% in the UK Group when compared to last year's second quarter.

**Revenue by Line of Business**
($ millions)
Three months ended June 30



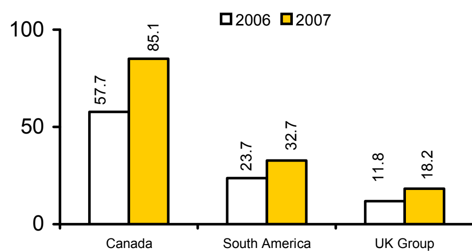

From a line of business perspective, strong demand continued in the second quarter of 2007 for both new equipment sales and customer support services. On a consolidated basis, all lines of business increased over second quarter 2006 levels, with a shift in the revenue mix from higher margin customer support services to new equipment sales as a result of extremely strong demand for equipment. Revenues from the Canadian operations continue to grow, most notably in new equipment and customer support services. The South American operations recorded a 93.4% increase in new equipment and power systems revenues as demand in mining continued to be strong. The UK Group experienced stronger revenues from new equipment and power and energy solutions as well as customer support services in the second quarter of 2007 compared to the prior year, with higher unit deliveries.

Finning's global order book or backlog (the retail value of new equipment units ordered by customers for future deliveries) continues to be very strong at $1.8 billion at the end of the second quarter of 2007, compared to $1.9 billion at March 2007 and $1.1 billion at June 2006.

The Company is dependent on Caterpillar for the timely supply of parts and equipment to fulfill its deliveries and meet the requirements of the Company's service maintenance contracts. Although availability of most models has improved, there continues to be certain equipment models, large engines, and some parts under managed distribution. Finning continues to work closely with Caterpillar and customers to ensure that demand for parts and equipment can be met.

Gross profit of $413.9 million in the second quarter increased 21.7% over the same period last year. Gross profit as a percentage of revenue for the quarter was 27.6%, slightly lower when compared with the same period last year. The lower margins achieved by the Canadian and South American operations were primarily due to a revenue mix shift from customer support services to lower margined new equipment sales. The gross profit margin for the UK Group was comparable to the prior year's quarter.

**EBIT by Operation – continuing operations**
($ millions)
Three months ended June 30




Excluding other operations – corporate head office

Earnings from continuing operations before interest and income taxes (EBIT) of $123.1 million increased 39.6% year over year, due to the strong performance from all of the Company's operating units. EBIT in the second quarter of 2007 included higher variable operating costs to support the increased level of sales activity, higher employee costs, and higher long-term incentive plan (LTIP) charges. The LTIP charges in the second quarter of 2007 were higher by $14.7 million compared with the same period in 2006, primarily due to the mark-to-market impact on the valuation of certain stock-based compensation plans as a result of the appreciation of the Company's share price in the quarter, as well as more stock options outstanding.

Consolidated net income from continuing operations of $75.3 million improved 34.5% in the second quarter of 2007 reflecting the solid second quarter activity noted above.

Basic Earnings Per Share (EPS) from continuing operations for the quarter was $0.42 compared with $0.31 in the same period last year, an increase of 35.5%.

Cash flow after changes in working capital for the second quarter was $4.7 million, compared with cash flow of $189.6 million generated in the same period last year. The Company's operations experienced a significant increase in working capital as a result of strong demand and timing of equipment deliveries to meet customer delivery requirements in 2007. Throughout all operations, management continues to focus on improving cash cycle times and operating efficiencies.

The Company made a net investment in rental assets of $165.3 million in the second quarter, which was $66.4 million higher than the same period in 2006. Demand for rental assets was up in all operations but particularly Hewden and Finning (Canada) which experienced higher demand for all rental lines of business.

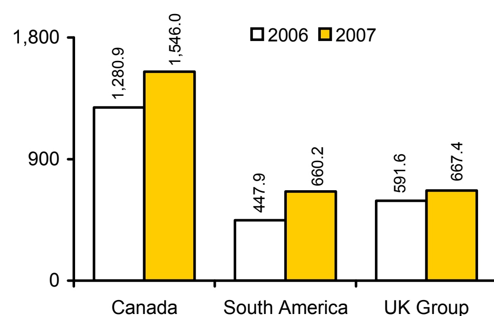
As a result of these items, cash flow used by operating activities was $145.5 million in the second quarter of 2007 compared to cash flow provided by operating activities of $81.3 million in the comparative period in 2006. Cash flow in the second quarter of 2007 reflected growth in working capital needs to manage customer demand. Strong equipment deliveries and resulting cash generation is anticipated for the remainder of the year.

## Year-to-Date Overview

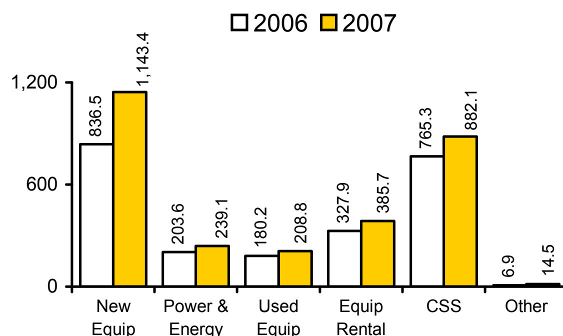
| | June 30 | | June 30 | |
|---|---|---|---|---|
| | **YTD 2007** | YTD 2006 | **YTD 2007** | YTD 2006 |
| **($ millions)** | | | (% of revenue) | |
| Revenue | **$ 2,873.6** | $ 2,320.4 | | |
| Gross profit | **799.5** | 654.5 | **27.8%** | 28.2% |
| Selling, general & administrative expenses | **(565.4)** | (485.1) | **(19.7)%** | (20.9)% |
| Other income (expenses) | **(0.4)** | 5.7 | **—** | 0.2% |
| Earnings from continuing operations before interest and income taxes [(1)] | **233.7** | 175.1 | **8.1%** | 7.5% |
| Finance costs | **(34.6)** | (28.1) | **(1.2)%** | (1.2)% |
| Provision for income taxes | **(53.1)** | (35.7) | **(1.8)%** | (1.5)% |
| Net income from continuing operations | **146.0** | 111.3 | **5.1%** | 4.8% |
| Income (loss) from discontinued operations, net of tax | **(2.0)** | 2.2 | **(0.1)%** | 0.1% |
| Net income | **$ 144.0** | $ 113.5 | **5.0%** | 4.9% |

[(1)] This amount does not have a standardized meaning under generally accepted accounting principles. For a reconciliation of this amount to net income from continuing operations, see the heading "Description of Non-GAAP Measure" in the Company's management discussion and analysis which accompanies the second quarter consolidated financial statements.

**Revenue by Operation**
($ millions)
Six months ended June 30




**Revenue by Line of Business**
($ millions)
Six months ended June 30



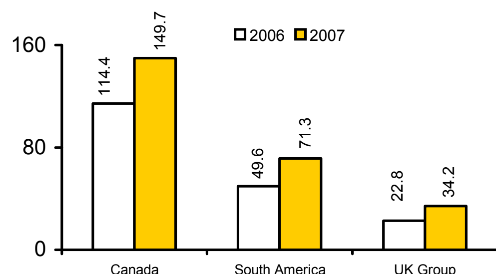

For the six month period ending June 30, 2007, revenues from continuing operations of $2.9 billion increased 23.8%, year over year, as strong demand from resource-based industries and the construction sector continue to drive demand in Canada and South America.

Foreign exchange translation had a positive impact of approximately $31 million on revenues due to the weaker Canadian dollar in the first six months of 2007 relative to the U.K. pound sterling (7.0% weakening). The Canadian dollar relative to the U.S. dollar in the first half of 2007 was comparable to the same period last year.

On a consolidated basis, all lines of business increased in the first half of 2007 over the same period last year, with a shift in the revenue mix from higher margined customer support services to new equipment sales as a result of extremely strong demand for equipment.

Gross profit of $799.5 million in the first six months of the year increased 22.2% over the same period last year, while gross profit as a percentage of revenue of 27.8% was slightly lower. The gross profit margin in the Canadian and UK operations were comparable to the first half of the prior year with a lower gross profit margin contributed by South America, primarily due to a revenue mix shift from customer support services to lower margined new equipment sales.

**EBIT by Operation – continuing operations**
($ millions)
Six months ended June 30




Excluding other operations – corporate head office

EBIT of $233.7 million increased 33.5% year over year, primarily due to the strong performance of the Company's Canadian and South American operations and a continued improvement in the UK Group. EBIT in the first half of 2007 included higher variable operating costs to support the increased level of activity, higher employee costs, and higher LTIP charges. The LTIP charges in the first six months of 2007 are higher by $20.5 million compared with the same period in 2006, primarily due to the mark-to-market impact on the valuation of certain stock-based compensation plans resulting from the appreciation of the Company's share price in the quarter, as well as more stock options outstanding.

The first half of 2006 results also included non-recurring pre-tax gains of $10.4 million ($0.05 per common share) from the disposal of surplus properties in Canada and the sale of OEM Remanufacturing's railroad and non-Caterpillar engine component remanufacturing business to Caterpillar.

Net income from continuing operations of $146.0 million improved 31.2% in the first six months of 2007 reflecting the solid activity noted above.

EPS from continuing operations for the six months ended June 30, 2007, was $0.81 compared with $0.62 in the same period last year. 2006 results included $0.05 per share of non-recurring gains on disposals of surplus properties and a portion of the OEM remanufacturing business. Excluding these gains, basic EPS from continuing operations would have been $0.57 for the six months ended June 30, 2006, compared to $0.81 in the first half of 2007.

Cash flow after changes in working capital for the six months ended June 30, 2007, was $67.8 million, compared with cash flow of $325.6 million generated in the same period last year. The Company's operations experienced a significant increase in working capital as a result of strong demand for product and timing of deliveries in order to meet customer demand requirements in 2007. Throughout all operations, management continues to focus on improving cash cycle times and operating efficiencies.

The Company made a net investment in rental assets of $321.5 million in the first half of 2007, which was $142.0 million higher than the same period in 2006, up in all operations to support increased demand for all rental lines in all of the Company's operating units, but particularly Finning (Canada) and Hewden.

As a result of these items, cash flow used by operating activities was $241.5 million in the first six months of 2007 compared to cash flow provided by operating activities of $133.1 million in the comparative period in 2006. Cash flow in the first half of 2007 reflects the growth in assets to meet customer demand with strong deliveries and cash generation anticipated for the remainder of the year.

## Discontinued Operations – Tool Hire and Materials Handling divisions

Following an extensive strategic review of the Company's U.K. based businesses, the Finning Board of Directors determined that the Tool Hire Division of Hewden and the Materials Handling Division of Finning (UK) were no longer core businesses for Finning. Subsequent to the end of the second quarter, on July 31, 2007, the Company sold its Tool Hire Division. On September 29, 2006, the Materials Handling Division was sold. These divisions are classified as discontinued operations within the consolidated income statements for all periods presented prior to the disposition.

Net income after discontinued operations for the first six months of 2007 was $144.0 million compared with net income of $113.5 million for the same period in 2006. Basic EPS after discontinued operations was $0.80 in the first half of 2007 compared with $0.63 in the first six months of 2006 ($0.58 adjusting for non-recurring gains noted previously).

## 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 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 for continuing operations. Comparative periods have been reclassified to conform to the 2007 presentation.

| **Three months ended June 30, 2007 ($ millions)** | **Canada** | **South America** | **UK Group** | **Consolidated** | **Revenue percentage** |
|---|---|---|---|---|---|
| New mobile equipment | **$ 397.5** | **$ 138.7** | **$ 83.9** | **$ 620.1** | **41.4%** |
| New power & energy systems | **50.8** | **21.9** | **43.7** | **116.4** | **7.8%** |
| Used equipment | **79.8** | **7.6** | **21.5** | **108.9** | **7.3%** |
| Equipment rental | **68.6** | **13.0** | **113.6** | **195.2** | **13.0%** |
| Customer support services | **242.2** | **139.7** | **66.9** | **448.8** | **30.0%** |
| Other | **7.5** | **0.7** | **—** | **8.2** | **0.5%** |
| Total | **$ 846.4** | **$ 321.6** | **$ 329.6** | **$ 1,497.6** | **100.0%** |
| Revenue percentage by operations | **56.5%** | **21.5%** | **22.0%** | **100.0%** | |

| Three months ended June 30, 2006 ($ millions) | Canada | South America | UK Group | Consolidated | Revenue percentage |
|---|---|---|---|---|---|
| New mobile equipment | $ 294.2 | $ 70.5 | $ 82.7 | $ 447.4 | 37.6% |
| New power & energy systems | 47.8 | 12.6 | 33.0 | 93.4 | 7.8% |
| Used equipment | 61.2 | 7.6 | 21.5 | 90.3 | 7.6% |
| Equipment rental | 55.5 | 9.4 | 101.1 | 166.0 | 13.9% |
| Customer support services | 219.3 | 115.6 | 56.2 | 391.1 | 32.8% |
| Other | 3.0 | 0.5 | — | 3.5 | 0.3% |
| Total | $ 681.0 | $ 216.2 | $ 294.5 | $ 1,191.7 | 100.0% |
| Revenue percentage by operations | 57.2% | 18.1% | 24.7% | 100.0% | |

| **Six months ended June 30, 2007 ($ millions)** | **Canada** | **South America** | **UK Group** | **Consolidated** | **Revenue percentage** |
|---|---|---|---|---|---|
| New mobile equipment | **$ 674.2** | **$ 290.6** | **$ 178.6** | **$ 1,143.4** | **39.8%** |
| New power & energy systems | **106.6** | **43.7** | **88.8** | **239.1** | **8.3%** |
| Used equipment | **142.9** | **23.1** | **42.8** | **208.8** | **7.3%** |
| Equipment rental | **134.1** | **24.5** | **227.1** | **385.7** | **13.4%** |
| Customer support services | **475.0** | **277.0** | **130.1** | **882.1** | **30.7%** |
| Other | **13.2** | **1.3** | **—** | **14.5** | **0.5%** |
| Total | **$ 1,546.0** | **$ 660.2** | **$ 667.4** | **$ 2,873.6** | **100.0%** |
| Revenue percentage by operations | **53.8%** | **23.0%** | **23.2%** | **100.0%** | |

| Six months ended June 30, 2006 ($ millions) | Canada | South America | UK Group | Consolidated | Revenue percentage |
|---|---|---|---|---|---|
| New mobile equipment | $ 522.7 | $ 157.7 | $ 156.1 | $ 836.5 | 36.0% |
| New power & energy systems | 101.0 | 27.1 | 75.5 | 203.6 | 8.8% |
| Used equipment | 110.1 | 23.5 | 46.6 | 180.2 | 7.8% |
| Equipment rental | 109.7 | 18.7 | 199.5 | 327.9 | 14.1% |
| Customer support services | 431.5 | 219.9 | 113.9 | 765.3 | 33.0% |
| Other | 5.9 | 1.0 | — | 6.9 | 0.3% |
| Total | $ 1,280.9 | $ 447.9 | $ 591.6 | $ 2,320.4 | 100.0% |
| Revenue percentage by operations | 55.2% | 19.3% | 25.5% | 100.0% | |

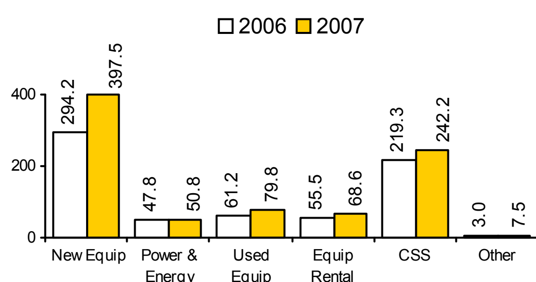
## Canadian Operations

The Canadian operating segment primarily reflects the results of the Company's operating division, Finning (Canada). This reporting segment also includes the Company's interest in OEM Remanufacturing Company Inc. (OEM), which is separately managed from Finning (Canada). OEM is a component remanufacturing business based in Edmonton, Alberta.

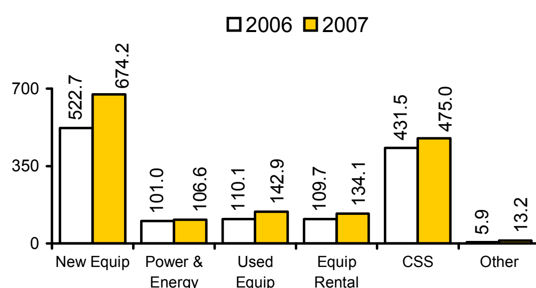
The table below provides details of the results from the Canadian operating segment:

| | Three months ended June 30 | | Six months ended June 30 | |
|---|---|---|---|---|
| **($ millions)** | **2007** | 2006 | **2007** | 2006 |
| Revenue from external sources | **$ 846.4** | $ 681.0 | **$ 1,546.0** | $ 1,280.9 |
| Operating costs | **(721.6)** | (589.1) | **(1,317.0)** | (1,109.7) |
| Depreciation and amortization | **(39.6)** | (34.2) | **(78.9)** | (66.8) |
| Other income (expenses) | **(0.1)** | — | **(0.4)** | 10.0 |
| Earnings before interest and taxes | **$ 85.1** | $ 57.7 | **$ 149.7** | $ 114.4 |
| Earnings before interest and taxes | | | | |
| - as a percentage of revenue | **10.1%** | 8.5% | **9.7%** | 8.9% |
| - as a percentage of consolidated earnings before interest and taxes | **69.1%** | 65.4% | **64.1%** | 65.3% |

**Canada – Revenue by Line of Business**
($ millions)
Three months ended June 30




**Canada – Revenue by Line of Business**
($ millions)
Six months ended June 30




The results from the Company's Canadian operations continue to be strong. Second quarter revenues increased 24.3% over the 2006 levels to $846.4 million, the highest quarterly revenues ever recorded by these operations. Revenues from all lines of business in Canada increased over 2006 levels, most notably in new equipment and customer support services, continuing the trend experienced in 2006.

The increase in new equipment revenues was attributable to strong market demand and continued significant growth in the mining, construction, and governmental sectors driven by strong commodity and energy prices, with an increase of over 145 new units delivered in the second quarter of 2007 compared with the same period in 2006.

Higher revenues from customer support services were a result of servicing the steadily increasing population of Caterpillar units and fleet in the Canadian dealership territory and the accompanying demand for Caterpillar parts. Rental revenues in the second quarter of 2007 increased 23.6% over 2006 as a result of strong customer demand in this sector and a corresponding increase in the rental fleet. All rental categories continue to generate strong returns. An additional 2 Cat Rental Stores were opened during the second quarter of 2007, with another recently opened in August 2007, increasing the number of Cat Rental Stores in operation in western Canada to 33.

In Canada, overall gross profit as a percentage of revenue in the second quarter of 2007 was slightly lower than last year, reflecting a revenue mix shift towards lower margined equipment sales.

Selling, general, and administrative (SG&A) costs increased in the second quarter of 2007 largely due to costs associated with meeting customer demands. In order to support the strong demand in western Canada, headcount for Finning (Canada) increased by approximately 615 or 18% compared to June 2006. As a result, higher salaries, benefit, pension, recruitment, relocation, and training costs were incurred in the second quarter of 2007. In addition, standard variable selling costs such as warranty and freight have increased. SG&A costs in the second quarter of 2007 also include higher LTIP costs due to the appreciation of the Company's share price.

Although SG&A costs have grown in absolute dollars to support the strong revenue growth and to meet customer demand, SG&A expenses expressed as a percentage of revenue are lower in the second quarter of 2007 compared with the same quarter last year. The Company's Canadian operations experienced foreign exchange gains on the settlement of U.S. denominated payables and realized cost efficiencies.

Strong revenues due to market activity and demand in the Canadian operations, as well as the ability to meet this demand without proportionally increasing its SG&A cost base, translated into a significant contribution by the Company's Canadian operating segment in the quarter. EBIT of $85.1 million in the second quarter of 2007 was 47.5% higher than the $57.7 million earned in the same period in 2006. The Canadian operating segment experienced a significant increase in EBIT margin (EBIT divided by revenues) to 10.1% in the second quarter of 2007, up from 8.5% last year.

Revenues for the six months ended June 30, 2007, increased 20.7% to $1,546.0 million. Quarterly trends noted above also hold for the year-to-date results of the Company's Canadian operations. Strong returns from the Canadian operations resulted in an EBIT of $149.7 million for the six months ended June 30, 2007, compared with $114.4 million for the same period in the prior year, an increase of 30.9%. The six month results for 2006 included a $5.1 million pre-tax gain on the sale of surplus properties at Finning (Canada) and a $5.3 million pre-tax gain recorded on the sale of a portion of OEM's remanufacturing business. OEM sold its railroad and non-Caterpillar engine component remanufacturing business to Caterpillar, and Caterpillar and OEM have signed an initial two-year agreement under which OEM will provide remanufacturing services to Caterpillar for these lines of business.

Excluding the gains on the 2006 property sale and the OEM sale, the 2006 EBIT margin would have been 8.1% versus 9.7% achieved in the first half of 2007, a significant improvement.

In an effort to meet employee recruitment and retention goals, Finning (Canada) and the International Association of Machinists and Aerospace Workers – Local Lodge 99 (the Union), representing Finning (Canada) hourly employees in Alberta and the Northwest Territories, agreed to a two year extension on the existing collective agreement with an enhanced wage proposal. This extends the agreement to April 2010. All other terms and conditions of the existing collective agreement continue in effect. With the booming economy across Alberta and the demand for skilled employees, especially in the Alberta oil sands, the contract enhancement and extension will assist Finning (Canada) in attracting and retaining the employees that are needed to achieve our 2010 strategic objectives.

A transition agreement was signed in the second quarter of 2007 by Finning (Canada) and Shell Canada terminating their alliance agreement relating to the distribution of Shell's lubricant and light oil products. The transition will be completed before the end of this year with minimal business impacts.

In 2005, the Union legally challenged Finning (Canada)'s outsourcing transaction involving OEM. The outsourcing involves the contracting out of Finning (Canada)'s component repair and rebuilding services to the OEM joint venture. These proceedings have been ongoing before the Alberta Labour Relations Board (ALRB). To date, the ALRB has ruled in favour of Finning (Canada) and OEM, subject to a decision by the Court of Appeal which is expected by the end of this year.

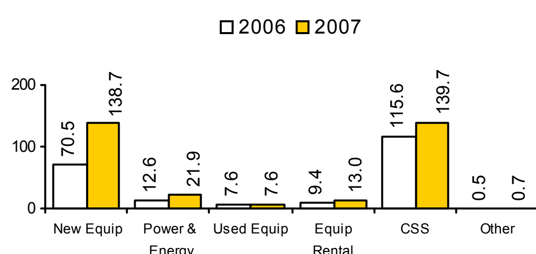
## South America

The Company's South American operations include the results of its Caterpillar dealerships in Chile, Argentina, Uruguay, and Bolivia.

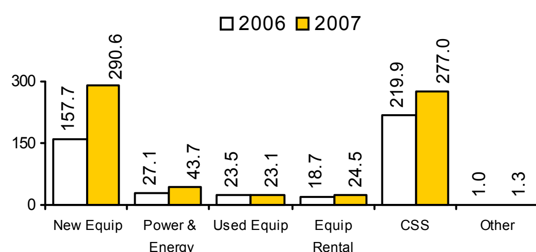
The table below provides details of the results from the South American operations:

| ($ millions) | Three months ended June 30 2007 | Three months ended June 30 2006 | Six months ended June 30 2007 | Six months ended June 30 2006 |
|---|---|---|---|---|
| Revenue from external sources | **$ 321.6** | $ 216.2 | **$ 660.2** | $ 447.9 |
| Operating costs | **(281.9)** | (186.5) | **(575.5)** | (385.9) |
| Depreciation and amortization | **(7.0)** | (6.0) | **(13.4)** | (12.4) |
| Earnings before interest and taxes | **$ 32.7** | $ 23.7 | **$ 71.3** | $ 49.6 |
| Earnings before interest and taxes | | | | |
| - as a percentage of revenue | **10.2%** | 11.0% | **10.8%** | 11.1% |
| - as a percentage of consolidated earnings before interest and taxes | **26.6%** | 26.9% | **30.5%** | 28.3% |

**South America – Revenue by Line of Business**
($ millions)
Three months ended June 30




**South America – Revenue by Line of Business**
($ millions)
Six months ended June 30




Revenues for the second quarter of 2007 of $321.6 million exceeded the second quarter 2006 level by 48.7%, reflecting higher revenues from new equipment sales and customer support services. The strong commodity cycle and high metal prices continue to fuel the increased demand for equipment in the countries in which Finning South America operates.

Although revenues for customer support services were higher in 2007, new equipment sales grew at a faster rate so that the Company's South American operations experienced a shift in revenue mix to a higher proportion of equipment sales from customer support services in the second quarter of 2007. The significant growth in new equipment revenues is attributable to strength in mining and construction. Growth in customer support services is driven by the higher number of Caterpillar units operating in the field and reflects the increasing number of mining maintenance and repair contracts entered into over the past couple of years.

For the six months ended June 30, 2007, revenue increased 47.4% to $660.2 million.

Gross profit increased in the second quarter of 2007 compared with the same period in 2006 in absolute terms, but decreased as a percentage of revenue due to the shift in revenue mix towards new equipment sales which return lower margins than customer support services and rental revenues. Stronger margins were achieved in most lines of business partially through price realization in a robust market. However, margins from customer support services have decreased slightly from 2006 levels due to higher customer

support costs. In order to meet strong customer service demand arising from the higher number of service maintenance contracts, over 850 additional revenue-generating employees and support staff have been hired, representing a 20% increase over June 2006 levels.

As a result of an increased headcount for support staff, SG&A expenses included higher salaries and benefit costs in the second quarter of 2007 compared with the same period in 2006 together with higher recruitment and training costs. Parts availability constraints also increased costs to expedite delivery of parts to customers. Other operating costs reflect the upward pressure of inflationary increases, especially from Argentina which continues to have a comparatively high rate of inflation. In spite of the increase in SG&A costs, which were mostly volume driven, SG&A as a percentage of revenue decreased in the second quarter of 2007 as a result of the strong equipment revenue growth. Management continues to undertake cost saving initiatives to drive efficiencies in work flow processes wherever possible but continues to be constrained by product availability issues and supply of a skilled workforce to fulfill current demand levels.

EBIT of the Company's South American operations of $32.7 million for the three months ended June 30, 2007, was 38.0% higher than the second quarter of 2006. As a result of the revenue mix shift to lower margin equipment sales as well as higher costs to meet demand, EBIT as a percentage of revenue for Finning South America declined slightly to 10.2%, down from 11.0% in the second quarter of 2006.

For the first half of 2007, EBIT of $71.3 million was 43.8% higher compared to the same period last year, reflecting the quarterly trends noted above.

## United Kingdom ("UK") Group

During the fourth quarter of 2006, the UK Group business model was reorganized to combine the operations of Finning (UK) and Hewden into one organization creating four distinct lines of business to more effectively service customers, improve alignment with Caterpillar and to generate additional operating efficiencies. At the same time a new management team was appointed. These four business units will, over time, be supported by an integrated back office operation that will provide common head office services, generating additional synergies among the business units. As a result of this reorganization, the Finning UK Group is being reported as one operating segment in 2007, with the four lines of business being: Heavy Construction, General Construction, Power Systems, and Hewden.

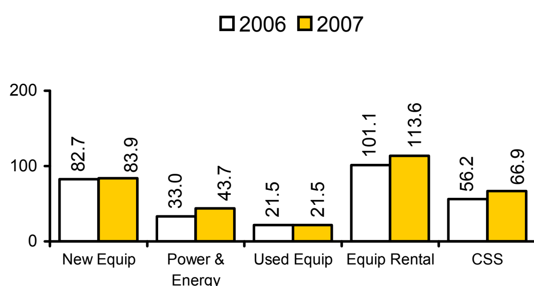
Prior to 2007, results from the UK Group were reported as two separate operating segments: Finning UK Operations, reflecting the results of Finning (UK), the UK Caterpillar dealership operation and Diperk UK, which distributes and services Perkins engines in the U.K; and Hewden Operations, an equipment rental and associated services operation in the U.K.

On July 31, 2007, Hewden sold its Tool Hire Division. In September 2006, Finning (UK) sold its Materials Handling Division. The results from the Tool Hire and Materials Handling divisions are recorded as discontinued operations with prior period results restated accordingly.

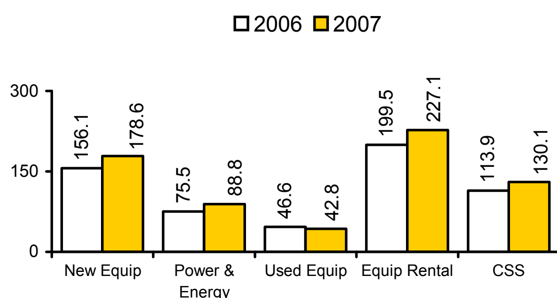
The table below provides details of the results of the continuing operations from the UK Group:

| | **Three months ended June 30** | | **Six months ended June 30** | |
|---|---|---|---|---|
| **($ millions)** | **2007** | 2006 | **2007** | 2006 |
| Revenue from external sources | **$ 329.6** | $ 294.5 | **$ 667.4** | $ 591.6 |
| Operating costs | **(277.3)** | (250.2) | **(566.5)** | (508.9) |
| Depreciation and amortization | **(34.0)** | (28.3) | **(66.7)** | (55.6) |
| Other income (expenses) | **(0.1)** | (4.2) | **—** | (4.3) |
| Earnings before interest and taxes | **$ 18.2** | $ 11.8 | **$ 34.2** | $ 22.8 |
| Earnings before interest and taxes | | | | |
| - as a percentage of revenue | **5.5%** | 4.0% | **5.1%** | 3.9% |
| - as a percentage of consolidated earnings before interest and taxes | **14.8%** | 13.4% | **14.6%** | 13.0% |

**UK Group – Revenue by Line of Business**
($ millions)
Three months ended June 30




**UK Group – Revenue by Line of Business**
($ millions)
Six months ended June 30




The UK Group's revenues for the second quarter of 2007 of $329.6 million were up 12.0% from the same period last year, partially due to translating the UK Group's foreign sourced earnings to Canadian dollars with a 6.3% weaker Canadian dollar relative to the U.K. pound sterling. In local currency, revenues were 5.4% higher compared with the second quarter of 2006.

Revenues, in local currency, from customer support services were 12.0% higher in the second quarter of 2007 compared with the same period last year, and new equipment and power and energy solutions were 4.1% higher in the second quarter of 2007 compared to the prior year, with higher unit deliveries in the construction sector. Rental revenue was 5.6% higher in the second quarter of 2007 compared with the second quarter of 2006, although the UK Group continues to be impacted by lower rental utilization rates and Hewden's inability to achieve price realization targets. This is due to a competitive market in the U.K. as well as management being deployed in various initiatives to generate future benefits.

For the six months ending June 30, 2007, revenues increased 12.8% to $667.4 million and in local currency, total revenue was 2.9% higher compared to that reported in the first six months of 2006.

Gross profit, in local currency, for the second quarter of 2007 was 5.4% higher in absolute terms compared with the same period last year and the UK Group's gross profit margin as a percentage of revenue was comparable with the second quarter of 2006. Higher margins were achieved in all lines of business, with the exception of rental revenues which were adversely affected by lower utilization rates and the inability to achieve price realization targets.

SG&A costs were slightly higher in the second quarter of 2007 compared with 2006, in local currency, but were lower as a percentage of revenue. The improvement is a result of various initiatives and management's focus on realizing cost efficiencies, offset by higher LTIP costs due to the appreciation of the Company's share price.

In the second quarter of 2007, the UK Group contributed $18.2 million of EBIT, a 54.2% increase compared with that achieved in the second quarter of 2006. In local currency, EBIT for the three months ended June 30, 2007, was 47.1% higher than the same period in 2006 primarily due to higher margins from all lines of business (except for rentals), continued management of operating costs and increased new equipment deliveries, partially offset by higher LTIP costs.

EBIT as a percentage of revenue for the UK Group of 5.5% in the second quarter of 2007 is a significant improvement compared with 4.0% in the same period last year.

For the six months ended June 30, 2007, the UK Group contributed $34.2 million of EBIT, 50.0% higher than the EBIT contributed during the first six months of 2006. Other expenses incurred in the first half of 2007 and 2006 are primarily project costs at Hewden relating to various initiatives underway to assess products, distribution network, and structure as well as efficiencies to ensure Hewden continues to meet its customers' needs. On July 2, 2007, a new information technology system was successfully implemented for Hewden's continuing operations. This new system is expected to support simplification and standardization of business processes and also provide enhanced management and customer information to improve performance. Management continues to examine and assess our business model in the U.K. as we pursue our goal to build market share, grow the customer service business, improve returns on invested capital, and improve financial results.

**Discontinued Operations – Tool Hire and Materials Handling divisions**

Following an extensive strategic review of the Company's U.K. based businesses, the Board of Directors determined that the Tool Hire Division of Hewden and the Materials Handling Division of Finning (UK) were no longer core businesses for Finning. Subsequent to the end of the second quarter, on July 31, 2007, the Company sold its Tool Hire Division. On September 29, 2006, the Materials Handling Division was sold. These divisions are classified as discontinued operations within the consolidated income statements for all periods presented prior to the disposition.

The table below provides details of the discontinued operations of the Tool Hire and Materials Handling divisions:

| **Three months ended June 30** | **Tool Hire Division** | | **Materials Handling Division** | |
|---|---|---|---|---|
| ($ thousands) | **2007** | 2006 | **2007** | 2006 |
| Revenue from external sources | **$ 46.7** | $ 48.2 | **$ —** | $ 59.8 |
| Operating costs | **(32.5)** | (34.7) | — | (47.6) |
| Depreciation and amortization | **(9.7)** | (9.0) | — | (10.2) |
| Other income (expenses) | **(6.6)** | (0.6) | — | — |
| Earnings before interest and taxes | **$ (2.1)** | $ 3.9 | **$ —** | $ 2.0 |

| **Six months ended June 30** | **Tool Hire Division** | | **Materials Handling Division** | |
|---|---|---|---|---|
| ($ thousands) | **2007** | 2006 | **2007** | 2006 |
| Revenue from external sources | **$ 97.1** | $ 96.8 | **$ —** | $ 126.7 |
| Operating costs | **(68.9)** | (68.3) | — | (101.3) |
| Depreciation and amortization | **(20.1)** | (18.8) | — | (20.8) |
| Other income (expenses) | **(8.9)** | (1.1) | — | — |
| Earnings before interest and taxes | **$ (0.8)** | $ 8.6 | **$ —** | $ 4.6 |

## Corporate and Other Operations

| ($ millions) | Three months ended June 30 2007 | Three months ended June 30 2006 | Six months ended June 30 2007 | Six months ended June 30 2006 |
|---|---|---|---|---|
| Operating costs | **$ (12.9)** | $ (5.0) | **$ (21.5)** | $ (11.7) |
| Earnings before interest and taxes | **$ (12.9)** | $ (5.0) | **$ (21.5)** | $ (11.7) |

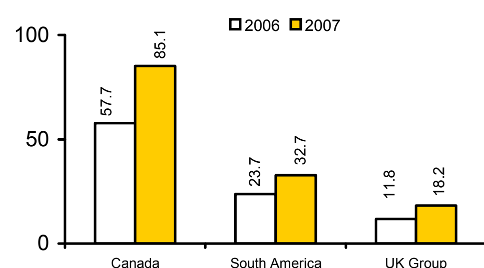
For the three months ended June 30, 2007, operating costs increased to $12.9 million, compared with $5.0 million for the same period in 2006. This increase was substantially as a result of the appreciation of the Company's share price and $6.9 million higher LTIP costs incurred at the Corporate level in the second quarter of 2007, compared to the same period in 2006.

For the six months ended June 30, 2007, operating costs increased to $21.5 million, compared with $11.7 million for the same period in 2006 for similar reasons as discussed for the quarterly results above. LTIP costs incurred in the first half of 2007 were $9.1 million higher than the first six months of 2006.

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

On a consolidated basis, EBIT in the second quarter of 2007 increased by 39.6% over the same period in 2006 to $123.1 million, primarily due to the strong demand and activity at the Company's Canadian and South American operations as well as improved results in the UK. Gross profit increased $73.8 million to $413.9 million in the second quarter of 2007 compared with the second quarter of 2006. Although SG&A costs were higher in the second quarter of 2007 compared with 2006, reflecting higher costs incurred to meet customer demand and also higher LTIP charges, overall SG&A costs as a percentage of revenue were lower in the second quarter of 2007 as a result of global cost saving initiatives. EBIT was also negatively impacted in 2007 due to the stronger Canadian dollar relative to the U.S. dollar, partially offset by the Canadian dollar's weaker performance against the U.K. pound sterling. Consolidated EBIT margin (EBIT as a percentage of revenue) in the second quarter of 2007 of 8.2% compared favourably to the second quarter 2006 EBIT margin of 7.4%.

**EBIT by operation**
($ millions)
Three months ended June 30



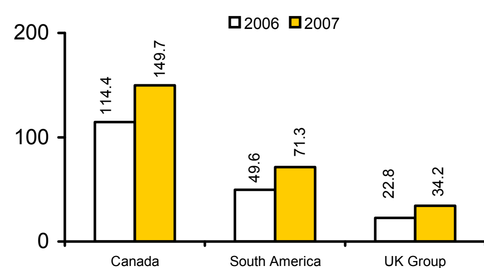

Excluding other operations – corporate head office

Major components of the annual EBIT variance were:

| | ($ millions) |
|---|---|
| **2006 Q2 EBIT** | 88.2 |
| Net growth in operations | 47.1 |
| Foreign exchange impact | (1.5) |
| Higher LTIP costs | (14.7) |
| Other net expenses *(see Note 2 to the Consolidated Financial Statements)* | 4.0 |
| **2007 Q2 EBIT** | 123.1 |

For the six months ended June 30, 2007, EBIT increased by 33.5% over the same period in 2006 to $233.7 million. EBIT in the first half of the prior year reflects gains realized in the first quarter of 2006 on the disposal of surplus properties in Canada and a portion of OEM Remanufacturing's business. Excluding these gains, EBIT as a percentage of revenue would have been 7.1%, comparing to the consolidated EBIT margin of 8.1% in the first half of 2007. The year to date growth reflects similar variances as the quarterly impacts above.

**EBIT by operation**
($ millions)
Six months ended June 30




Excluding other operations – corporate head office

Major components of the annual EBIT variance were:

| | ($ millions) |
|---|---|
| **2006 Year-to-Date EBIT** | 175.1 |
| Net growth in operations | 82.4 |
| Foreign exchange impact | 2.8 |
| Gain on sale of OEM's railroad and non-Cat remanufacturing business in 2006 | (5.3) |
| Gain on sale of surplus properties in Canada in 2006 | (5.1) |
| Higher LTIP costs | (20.5) |
| Other net expenses *(see Note 2 to the Consolidated Financial Statements)* | 4.3 |
| **2007 Year-to-Date EBIT** | 233.7 |

## Finance Costs

Finance costs for the three months ended June 30, 2007, of $18.5 million were 25.9% higher than the comparable period last year primarily due to the following:

- Higher short-term interest rates;
- Higher average short-term debt levels at each of the Company's operations to support working capital requirements, partially offset by a lower long-term debt balance after repayment of a $75 million debenture late in 2006; and
- Unfavourable foreign exchange impact of translating U.K. pound sterling denominated finance costs in 2007 with a weaker Canadian dollar.

Similarly, for the six months ended June 30, 2007, finance costs increased by 23.1% to $34.6 million.

## Provision for Income Taxes

The effective income tax rate for the second quarter of 2007 was 28.0% compared to 23.8% in the comparable period of the prior year, reflecting the change in the earnings mix with more income earned in the higher tax jurisdictions of the Canadian and UK operations. The income tax provision was also lower in the second quarter of 2006 due to a favourable tax assessment received which did not recur in 2007.

The year-to-date income tax expense was $53.1 million (26.7% effective tax rate) compared with $35.7 million (24.3% effective tax rate) for the same period last year. The slightly higher effective tax rate reflects the higher earnings from the Canadian and UK operations and lower tax in 2006 as a result of a lower capital tax rate on property sales in Canada in 2006.

## Net Income

Finning's net income from continuing operations increased 34.5% to $75.3 million in the second quarter of 2007 compared with $56.0 million in the comparative period in 2006 reflecting strong contributions from all operations, particularly from the Company's operations in Canada and South America. This was partially offset by higher costs to meet customer demand, higher LTIP costs, and the unfavourable impact of foreign exchange translation.

Basic EPS increased 35.5% to $0.42 in the second quarter of 2007 compared with $0.31 in the comparative period last year.

For the six months ended June 30, 2007, net income from continuing operations increased by 31.2% to $146.0 million, reflecting the strength in the Company's Canadian and South American operations. Finning's 2006 earnings included after-tax gains of $8.7 million on the sale of properties in Canada and a portion of the OEM remanufacturing business.

Basic EPS in the first six months of 2007 increased 30.6% to $0.81 compared with $0.62 in the first six months of 2006. Excluding the gains noted above, basic EPS would have been $0.57 in the first half of 2006, 42.1% lower than the first six months of 2007.

# Liquidity and Capital Resources

### Cash Flow from Operating Activities

For the three months ended June 30, 2007, cash flow generated after working capital changes was $4.7 million, a decrease from cash flow of $189.6 million generated during the same period in 2006. While cash flow strengthened from the higher operating results in the quarter, working capital requirements were higher in 2007 primarily due to strong demand for equipment, parts, and services at the Company's operations.

For the six months ended June 30, 2007, cash flow after working capital changes was $67.8 million, compared with $325.6 million in the first half of 2006, the variance similar to that of the quarterly results above.

The Company made a net investment in rental assets of $165.3 million during the second quarter of 2007 (2006: $98.9 million), and a net investment in the first six months of 2007 of $321.5 million (2006: $179.5 million). Rental expenditures increased as the Company experienced higher demand for these assets in all rental lines of business. Rental assets continued to be replenished where they have been utilized to help support customer demand and offset product availability issues.

Overall, cash flow used by operating activities was $145.5 million in the second quarter of 2007 (year-to-date: $ 241.5 million) compared to cash flow provided by operating activities of $81.3 million in the second quarter of 2006 (year-to-date: $133.1 million). Strong growth in the Company's business required an increase in working capital. The Company anticipates significant deliveries of new equipment currently held in inventory, resulting in good cash generation through the remainder of the year.

### Cash Used For Investing Activities

Net cash used in investing activities in the three months ended June 30, 2007, totalled $17.0 million (year-to-date 2007: $35.1 million) compared with cash used in investing activities of $38.6 million in the second quarter of 2006 (year-to-date 2006: $30.5 million).

Gross capital additions for the three months ended June 30, 2007, including capital leases, were $21.3 million (year-to-date 2007: $39.4 million) which is slightly higher than the $18.6 million invested in the three months ended June 30, 2006 (year-to-date 2006: $37.6 million). The capital additions in 2007 and 2006 reflect general capital spending to support operations and also included the capitalization of certain costs related to the development of Hewden's new information system.

In the first quarter of 2007, the Company's Canadian operations acquired its 30th Cat Rental Store for $2.7 million.

In 2006, proceeds of approximately $13.7 million were received on the settlement of foreign currency forwards that hedged foreign subsidiary investments, and proceeds of $5.3 million were received on the divestiture of a portion of the OEM Remanufacturing business. Investing activities in 2006 also reflected the payment of a $22.4 million (U.S. $20 million) purchase price adjustment as a result of achieving performance criteria by the Argentina Caterpillar dealership acquired in 2003.

**Financing Activities**

As at June 30, 2007, the Company's short and long-term borrowings totalled $1,385.8 million, an increase of $222.2 million or 19.1% since December 31, 2006, primarily to support the Company's higher working capital requirements to meet customer demand.

In the second quarter of 2007, an additional pension payment of $17.1 million was made to fund the UK pension plans as agreed at the time of the sale of the Materials Handling Division.

Dividends paid to shareholders were $16.1 million, $4.5 million higher than the second quarter of 2006 due to the increase in the quarterly dividend rate from $0.065 to $0.09 per share. Similarly, dividends paid to shareholders for the six months ended June 30, 2007, increased 31.3% to $30.5 million.

## Description of Non-GAAP Measure

EBIT is defined herein as earnings from continuing operations before interest expense, interest income, and income taxes and is a measure of performance utilized by management to measure and evaluate the financial performance of its operating segments. It is also a measure that is commonly reported and widely used in the industry to assist in understanding and comparing operating results. EBIT does not have any standardized meaning prescribed by generally accepted accounting principles (GAAP) and is therefore unlikely to be comparable to similar measures presented by other issuers. Accordingly, this measure should not be considered as a substitute or alternative for net income or cash flow, in each case as determined in accordance with GAAP.

Reconciliation between EBIT and net income from continuing operations:

| | **Three months ended June 30** | | **Six months ended June 30** | |
|---|---|---|---|---|
| **($ millions)** | **2007** | 2006 | **2007** | 2006 |
| Earnings from continuing operations before interest and income taxes (EBIT) | **$ 123.1** | $ 88.2 | **$ 233.7** | $ 175.1 |
| Finance costs | **(18.5)** | (14.7) | **(34.6)** | (28.1) |
| Provision for income taxes | **(29.3)** | (17.5) | **(53.1)** | (35.7) |
| Net income from continuing operations | **$ 75.3** | $ 56.0 | **$ 146.0** | $ 111.3 |

## 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 to assist the Company in achieving its 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 Management's Discussion and Analysis (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. 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, 2006.

There have been no significant changes or new key risks identified from the key risks as disclosed in the Company's AIF for the year ended December 31, 2006, 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 Canadian dollar, the U.S. dollar, the U.K. pound sterling, and the Chilean peso. As a result, the Company has a certain degree of foreign currency exposure with respect to items denominated in foreign currencies. The three main types of foreign exchange risk of the Company are investment in foreign operations, transaction exposure and translation exposure. These are explained further in the 2006 annual MD&A.

The sensitivity of the Company's net earnings to fluctuations in average annual foreign exchange rates is summarized in the table below. The table assumes that the Canadian dollar strengthens 5% against the currency noted, for a full year relative to the June 2007 month end rates, without any change in local currency volumes or hedging activities.

| Currency | June 30, 2007 month end rates | Increase (decrease) in annual net income $ millions |
|---|---|---|
| USD | 1.0634 | (17) |
| GBP | 2.1333 | (2) |
| CHP | 0.0020 | 4 |

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.

## Controls and Procedures Certification

### Disclosure Controls and Procedures and Internal Control over Financial Reporting

The Chief Executive Officer and the Chief Financial Officer, 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.

Management have also 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 generally accepted accounting principles. There has been no change in the design of the Company's internal control over financial reporting during the quarter ended June 30, 2007, that would materially affect, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

Subsequent to the quarter ended June 30, 2007, the Company's subsidiary, Hewden Stuart Plc, implemented a new, integrated Enterprise Resource Planning (ERP) computer system which provides a new and improved software-based framework for working across many areas of Hewden's business. The system simplifies and standardizes business processes and provides improved management and customer information to improve performance. Management will assess any impact this may have on the design of internal control over financial reporting in the third quarter of 2007.

# Selected Quarterly Information

| $ millions, except for share and option data | 2007 | | 2006 | | | | 2005 | | |
|---|---|---|---|---|---|---|---|---|---|
| | **Q2** | Q1 | Q4 | Q3 | Q2 | Q1 | Q4 | Q3 | Q2 |
| Revenue (1) | | | | | | | | | |
| Canada | **$ 846.4** | $ 699.6 | $ 737.0 | $ 594.7 | $ 681.0 | $ 599.9 | $ 521.5 | $ 531.1 | $ 509.5 |
| South America | **321.6** | 338.6 | 301.0 | 261.0 | 216.2 | 231.7 | 246.9 | 258.9 | 274.3 |
| UK Group | **329.6** | 337.8 | 327.1 | 312.0 | 294.5 | 297.1 | 299.7 | 315.5 | 348.8 |
| Total revenue | **$1,497.6** | $1,376.0 | $1,365.1 | $1,167.7 | $1,191.7 | $1,128.7 | $1,068.1 | $1,105.5 | $1,132.6 |
| Net income (loss) | | | | | | | | | |
| from continuing operations | **$ 75.3** | $ 70.7 | $ 53.1 | $ 71.8 | $ 56.0 | $ 55.3 | $ 39.0 | $ 42.8 | $ 42.9 |
| from discontinued operations | **(1.2)** | (0.8) | (0.4) | (33.9) | 0.6 | 1.6 | (2.8) | 2.0 | 2.7 |
| Total net income | **$ 74.1** | $ 69.9 | $ 52.7 | $ 37.9 | $ 56.6 | $ 56.9 | $ 36.2 | $ 44.8 | $ 45.6 |
| Basic Earnings (Loss) Per Share (2) | | | | | | | | | |
| from continuing operations | **$ 0.42** | $ 0.39 | $ 0.30 | $ 0.40 | $ 0.31 | $ 0.31 | $ 0.22 | $ 0.24 | $ 0.24 |
| from discontinued operations | **(0.01)** | — | — | (0.19) | — | 0.01 | (0.02) | 0.01 | 0.02 |
| Total basic EPS | **$ 0.41** | $ 0.39 | $ 0.30 | $ 0.21 | $ 0.31 | $ 0.32 | $ 0.20 | $ 0.25 | $ 0.26 |
| Diluted Earnings (Loss) Per Share (2) | | | | | | | | | |
| from continuing operations | **$ 0.42** | $ 0.39 | $ 0.29 | $ 0.40 | $ 0.31 | $ 0.31 | $ 0.22 | $ 0.24 | $ 0.24 |
| from discontinued operations | **(0.01)** | — | — | (0.19) | — | 0.01 | (0.02) | 0.01 | 0.02 |
| Total diluted EPS | **$ 0.41** | $ 0.39 | $ 0.29 | $ 0.21 | $ 0.31 | $ 0.32 | $ 0.20 | $ 0.25 | $ 0.26 |
| Total assets (1) | **$4,434.4** | $4,386.2 | $4,200.8 | $3,786.4 | $3,900.2 | $3,868.0 | $3,736.4 | $3,754.3 | $3,916.8 |
| Long-term debt | | | | | | | | | |
| Current | **$ 204.1** | $ 2.2 | $ 2.2 | $ 79.3 | $ 79.1 | $ 80.3 | $ 80.3 | $ 6.3 | $ 4.1 |
| Non-current | **600.6** | 753.8 | 735.9 | 710.7 | 851.5 | 848.9 | 844.6 | 843.0 | 866.6 |
| Total long-term debt (3) | **$ 804.7** | $ 756.0 | $ 738.1 | $ 790.0 | $ 930.6 | $ 929.2 | $ 924.9 | $ 849.3 | $ 870.7 |
| Cash dividends paid per common share (2) | **$ 0.09** | $ 0.08 | $ 0.08 | $ 0.065 | $ 0.065 | $ 0.065 | $ 0.055 | $ 0.055 | $ 0.055 |
| Common shares outstanding (000's) (2) | **179,601** | 179,272 | 179,090 | 178,808 | 178,778 | 178,742 | 178,404 | 178,276 | 177,812 |
| Options outstanding (000's) (2) | **4,934** | 3,606 | 3,904 | 4,302 | 4,330 | 2,610 | 2,948 | 3,090 | 3,620 |

(1) On July 31, 2007, the Company's U.K. subsidiary, Hewden Stuart Plc, sold its Tool Hire Division. On September 29, 2006, the Company's U.K. subsidiary, Finning (UK), sold its Materials Handling Division.

Results from the Tool Hire and Materials Handling divisions qualify as discontinued operations and have been reclassified to that category for all periods presented. Included in the loss from discontinued operations in the third quarter of 2006 is the after-tax loss on the sale of the Materials Handling Division of $32.7 million or $0.18 per share. For the Tool Hire Division, the gross sale price, net of taxes and transaction costs, is approximately equal to the net book value of the net tangible assets and goodwill associated with the tools rental business. Revenues from the UK Tool Hire and Materials Handling divisions have been excluded from the revenue figures above. Assets from the Tool Hire and Materials Handling divisions have been included in the total assets figures for periods prior to its sale – see Note 7 to the Interim Consolidated Financial Statements.

(2) On May 11, 2007, the Company's shareholders approved a split of the Company's outstanding common shares on a two-for-one basis. Each shareholder of record at the close of business on May 30, 2007, received one additional share for every outstanding share held on the record date. All share and per-share data have been adjusted to reflect the stock split.

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 total.

(3) In the third quarter of 2006, the Company utilized funds from the sale of the UK Materials Handling Division to redeem £75 million of its £200 million Eurobond notes.

## Outstanding Share Data

| As at August 3, 2007 | |
|---|---|
| Common shares outstanding | **179,605,900** |
| Options outstanding | **4,929,476** |

## New Accounting Pronouncements

### Change in Accounting Policies in 2007

#### Financial Instruments and Comprehensive Income

On January 1, 2007, the Company adopted the following new accounting standards issued by the Canadian Institute of Chartered Accountants (CICA): Handbook Section 3855 *Financial Instruments – Recognition and Measurement*, Section 3865 *Hedges*, Section 1530 *Comprehensive Income*, Section 3251 *Equity*, and Section 3861 *Financial Instruments – Disclosure and Presentation.* These new standards require all derivatives to be recorded on the balance sheet at fair value and establish new accounting requirements for hedges. In addition, these standards provide guidance for reporting items in other comprehensive income, which is included on the Consolidated Balance Sheets as a separate component of shareholders' equity.

If a derivative qualifies as a hedge, depending on the nature of the hedge, the effective portion of changes in the fair value of the derivative will either be offset against the change in fair value of the hedged assets, liabilities, or firm commitments through earnings or recognized in other comprehensive income until the hedged item is recognized in earnings. Any ineffective portion of designated hedges will be recognized immediately in income.

As at January 1, 2007, the impact on the consolidated balance sheet as a result of the adoption of these standards was a decrease in other long-term assets of $8.4 million; an increase in future income tax assets of $5.9 million; a decrease in accounts payable of $4.5 million; a decrease in long-term obligations of $13.1 million; a decrease of $0.8 million in long-term debt; an increase of $5.7 million in accumulated other comprehensive income; and an increase in retained earnings of $10.2 million.

The effect of these changes in accounting policies on net income for the first six months of 2007 is not material.

Details of the specific impact of these standards on the Company are disclosed in Note 1 to the Company's Consolidated Interim Financial Statements.

### Change in Accounting Policies in 2008

#### Financial Instrument Disclosures and Capital Disclosures

The CICA has issued Section 3862 Financial *Instruments – Disclosures* and Section 3863 *Financial Instruments – Presentation*, which together comprise a complete set of disclosure and presentation requirements that revise and enhance current disclosure requirements. Section 1535 *Capital Disclosures* requires disclosure of information about an entity's objectives, policies, and processes for managing capital. These sections are effective in the first quarter of 2008, and Finning is currently evaluating the impact on the Company's disclosure and presentation.

#### Inventories

The CICA has issued Section 3031 *Inventories* which provides more guidance on the measurement and disclosure requirements for inventories. Specifically the new pronouncement requires inventories to be measured at the lower of cost and net realizable value, and provides guidance on the determination of cost and its subsequent recognition as an expense, including any write-down to net realizable value. The new pronouncement is effective in the first quarter of 2008, and Finning is currently evaluating the impact, if any, on the Company's accounting and disclosure for inventories.

## Market Outlook

The general outlook for Finning's business continues to be very good. The Company's order backlog remains at very high levels and the outlook for commodity prices continues to be positive. The combination of attractive commodity prices and good economic growth in the Company's market areas underpins solid demand for equipment and related parts and service.

The forestry and natural gas compression market sectors in western Canada are experiencing challenging market conditions and as a result, are ordering less equipment. The forestry market has become a relatively small proportion of Finning (Canada)'s business and the slow down in equipment spending is not impacting overall results to a significant degree. The slow down in natural gas compression related business in 2007 was anticipated and the expected impact was factored into Finning's 2007 business plan. Overall, Finning (Canada) continues to experience very strong business conditions and financial results notwithstanding the weak conditions in these two market sectors.

As the sale of the Hewden tools rental business is now complete, Hewden is implementing a revised business plan that focuses on rental of equipment without the small tools component. Hewden expects that this revised strategy will have success in the market; however the success of the revised strategy will depend on the level of customer acceptance of a narrower product offering by Hewden.

Weak housing markets and soft economic conditions in the United States currently have a much smaller impact on Finning's results of operations than in the past. Business conditions in the Company's Canadian and South American operations are impacted more by global commodity prices that increasingly are determined by economic growth in a broader group of countries including China and India among others, as well as the United States.

Additional human resources are required to meet the projected growth in business in western Canada and South America. To date, Finning has been successful in attracting sufficient numbers of appropriate new employees and believes it will continue to be successful in attracting human resources as required to meet future growth.

Constrained supply from Caterpillar for certain types of large equipment, large engines, and some parts continues. The Company is working with Caterpillar to manage these supply constraints as effectively as possible to meet the needs of its customers. The supply of parts has been improving and is expected to continue to improve over the next 12 months.

The Company's outlook remains very positive for the medium and longer term.

August 7, 2007

## INTERIM CONSOLIDATED STATEMENTS OF INCOME

| | Three months ended June 30 | | Six months ended June 30 | |
|---|---|---|---|---|
| **($ thousands, except share and per share amounts)** | **2007 unaudited** | **2006 unaudited** | **2007 unaudited** | 2006 unaudited |
| Revenue | | | | |
| New mobile equipment | **$ 620,143** | $ 447,368 | **$ 1,143,370** | $ 836,570 |
| New power and energy systems | **116,408** | 93,328 | **239,147** | 203,549 |
| Used equipment | **108,930** | 90,346 | **208,822** | 180,202 |
| Equipment rental | **195,157** | 165,968 | **385,698** | 327,870 |
| Customer support services | **448,816** | 391,126 | **882,126** | 765,286 |
| Other | **8,172** | 3,566 | **14,459** | 6,907 |
| Total revenue | **1,497,626** | 1,191,702 | **2,873,622** | 2,320,384 |
| Cost of sales | **1,083,751** | 851,593 | **2,074,092** | 1,665,911 |
| Gross profit | **413,875** | 340,109 | **799,530** | 654,473 |
| Selling, general, and administrative expenses | **290,560** | 247,744 | **565,373** | 485,126 |
| Other expenses (income) (Note 2) | **177** | 4,171 | **401** | (5,738) |
| Earnings from continuing operations before interest and income taxes | **123,138** | 88,194 | **233,756** | 175,085 |
| Finance costs (Note 3) | **18,501** | 14,702 | **34,648** | 28,082 |
| Income from continuing operations before provision for income taxes | **104,637** | 73,492 | **199,108** | 147,003 |
| Provision for income taxes | **29,372** | 17,458 | **53,127** | 35,675 |
| Net income from continuing operations | **75,265** | 56,034 | **145,981** | 111,328 |
| Income (loss) from discontinued operations, net of tax (Note 7) | **(1,208)** | 553 | **(2,034)** | 2,194 |
| Net income | **$ 74,057** | $ 56,587 | **$ 143,947** | $ 113,522 |
| | | | | |
| Earnings (loss) per share – basic | | | | |
| From continuing operations | **$ 0.42** | $ 0.31 | **$ 0.81** | $ 0.62 |
| From discontinued operations | **(0.01)** | — | **(0.01)** | 0.01 |
| | **$ 0.41** | $ 0.31 | **$ 0.80** | $ 0.63 |
| | | | | |
| Earnings (loss) per share – diluted | | | | |
| From continuing operations | **$ 0.42** | $ 0.31 | **$ 0.81** | $ 0.62 |
| From discontinued operations | **(0.01)** | — | **(0.01)** | 0.01 |
| | **$ 0.41** | $ 0.31 | **$ 0.80** | $ 0.63 |
| | | | | |
| Weighted average number of shares outstanding | | | | |
| Basic | **179,407,385** | 178,768,138 | **179,311,542** | 178,622,524 |
| Diluted | **181,123,577** | 180,036,978 | **180,957,974** | 179,883,360 |

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

## INTERIM CONSOLIDATED BALANCE SHEETS

| ($ thousands) | June 30 2007 unaudited | December 31 2006 audited |
|---|---|---|
| **ASSETS** | | |
| Current assets | | |
| Cash and cash equivalents | **$ 22,345** | $ 78,485 |
| Accounts receivable | **733,826** | 666,602 |
| Inventories | | |
| On-hand equipment | **873,613** | 839,819 |
| Parts and supplies | **520,409** | 450,612 |
| Other assets | **192,803** | 196,509 |
| Total current assets | **2,342,996** | 2,232,027 |
| Finance assets | **17,332** | 34,046 |
| Rental equipment | **1,156,818** | 1,038,640 |
| Land, building and equipment | **357,814** | 365,656 |
| Intangible assets | **31,118** | 24,931 |
| Goodwill | **359,096** | 381,870 |
| Other assets | **169,177** | 123,583 |
| | **$ 4,434,351** | $ 4,200,753 |
| **LIABILITIES** | | |
| Current liabilities | | |
| Short-term debt | **$ 581,116** | $ 425,423 |
| Accounts payable and accruals | **1,128,328** | 1,176,531 |
| Income tax payable | **28,820** | 33,554 |
| Current portion of long-term debt | **204,063** | 2,224 |
| Total current liabilities | **1,942,327** | 1,637,732 |
| Long-term debt | **600,613** | 735,926 |
| Long-term obligations | **126,573** | 131,294 |
| Future income taxes | **72,000** | 71,395 |
| Total liabilities | **2,741,513** | 2,576,347 |
| **SHAREHOLDERS' EQUITY** | | |
| Share capital | **580,841** | 573,482 |
| Contributed surplus | **11,283** | 7,791 |
| Accumulated other comprehensive loss | **(153,158)** | (87,038) |
| Retained earnings | **1,253,872** | 1,130,171 |
| Total shareholders' equity | **1,692,838** | 1,624,406 |
| | **$ 4,434,351** | $ 4,200,753 |

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

## INTERIM CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

| ($ thousands) | Three months ended June 30 2007 unaudited | Three months ended June 30 2006 unaudited | Six months ended June 30 2007 unaudited | Six months ended June 30 2006 unaudited |
|---|---|---|---|---|
| Net income | **$ 74,057** | $ 56,587 | **$ 143,947** | $ 113,522 |
| Other comprehensive income (loss), net of income tax | | | | |
| Currency translation adjustments | **(94,539)** | (8,699) | **(104,700)** | (2,543) |
| Unrealized gains on net investment hedges, net of tax of $10.6 million and $12.2 million, respectively | **27,563** | — | **33,373** | — |
| Unrealized gains on cash flow hedges, net of tax of $0.1 million and $0.1 million, respectively | **200** | — | **278** | — |
| Realized losses on cash flow hedges, reclassified to earnings, net of tax of $0.3 million and $0.5 million, respectively | **(488)** | — | **(760)** | — |
| Comprehensive income | **$ 6,793** | $ 47,888 | **$ 72,138** | $ 110,979 |

## INTERIM CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

| ($ thousands, except share amounts) | Share Capital: Shares | Share Capital: Amount | Contributed Surplus | Accumulated Other Comprehensive Income: Foreign Currency Translation and Gains / (Losses) on Net Investment Hedges | Accumulated Other Comprehensive Income: Gains / (Losses) on Cash Flow Hedges | Retained Earnings | Total |
|---|---|---|---|---|---|---|---|
| Balance, December 31, 2005 | 178,403,328 | $ 568,121 | $ 2,739 | $ (133,136) | $ — | $ 975,254 | $ 1,412,978 |
| Other comprehensive income | — | — | — | (2,543) | — | 113,522 | 110,979 |
| Issued on exercise of stock options | 375,096 | 2,909 | (98) | — | — | — | 2,811 |
| Stock option expense recognized | — | — | 1,652 | — | — | — | 1,652 |
| Dividends on common shares | — | — | — | — | — | (23,220) | (23,220) |
| Balance, June 30, 2006 | 178,778,424 | $ 571,030 | $ 4,293 | $ (135,679) | $ — | $ 1,065,556 | $ 1,505,200 |
| | | | | | | | |
| Balance, December 31, 2006 | **179,090,738** | **$ 573,482** | **$ 7,791** | **$ (87,038)** | **$ —** | **$ 1,130,171** | **$ 1,624,406** |
| Transition adjustment (Note 1) | — | — | — | **9,992** | **(4,303)** | **10,244** | **15,933** |
| Balance, January 1, 2007 | **179,090,738** | **573,482** | **7,791** | **(77,046)** | **(4,303)** | **1,140,415** | **1,640,339** |
| Other comprehensive income | — | — | — | **(71,327)** | **(482)** | **143,947** | **72,138** |
| Issued on exercise of stock options | **510,162** | **7,359** | **(1,398)** | — | — | — | **5,961** |
| Stock option expense recognized | — | — | **4,890** | — | — | — | **4,890** |
| Dividends on common shares | — | — | — | — | — | **(30,490)** | **(30,490)** |
| Balance, June 30, 2007 | **179,600,900** | **$ 580,841** | **$ 11,283** | **$ (148,373)** | **$ (4,785)** | **$ 1,253,872** | **$ 1,692,838** |

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

## INTERIM CONSOLIDATED STATEMENTS OF CASH FLOW

| ($ thousands) | Three months ended June 30 | | Six months ended June 30 | |
|---|---|---|---|---|
| | **2007 unaudited** | 2006 unaudited | **2007 unaudited** | 2006 unaudited |
| **OPERATING ACTIVITIES** | | | | |
| Net income | **$ 74,057** | $ 56,587 | **$ 143,947** | $ 113,522 |
| Add items not affecting cash | | | | |
| Depreciation and amortization | **90,261** | 87,808 | **179,037** | 174,519 |
| Future income taxes | **(5,878)** | 2,093 | **(10,556)** | 268 |
| Stock-based compensation | **14,575** | (152) | **23,537** | 3,036 |
| Gain on disposal of capital assets | **(536)** | (176) | **(1,446)** | (11,882) |
| Other | **(681)** | 151 | **(1,154)** | (1,046) |
| | **171,798** | 146,311 | **333,365** | 278,417 |
| Changes in working capital items (Note 9) | **(167,095)** | 43,331 | **(265,534)** | 47,216 |
| Cash provided after changes in working capital items | **4,703** | 189,642 | **67,831** | 325,633 |
| Rental equipment, net of disposals | **(165,268)** | (98,890) | **(321,506)** | (179,522) |
| Equipment leased to customers, net of disposals | **15,123** | (9,470) | **12,218** | (13,021) |
| Cash flow provided by (used in) operating activities | **(145,442)** | 81,282 | **(241,457)** | 133,090 |
| **INVESTING ACTIVITIES** | | | | |
| Additions to capital assets | **(21,310)** | (18,615) | **(39,423)** | (37,584) |
| Proceeds on disposal of capital assets | **4,624** | 2,398 | **7,275** | 10,352 |
| Acquisition of business | **—** | — | **(2,670)** | — |
| Proceeds on sale of business | **—** | — | **—** | 5,331 |
| Payment of contingent consideration | **(267)** | (22,350) | **(267)** | (22,350) |
| Proceeds on settlement of foreign currency forwards | **—** | — | **—** | 13,723 |
| Cash used in investing activities | **(16,953)** | (38,567) | **(35,085)** | (30,528) |
| **FINANCING ACTIVITIES** | | | | |
| Increase (decrease) in short-term debt | **87,284** | (40,945) | **170,637** | (39,337) |
| Increase (repayment) of long-term debt | **72,794** | (896) | **94,019** | (2,011) |
| Defined benefit pension plan funding | **(17,066)** | — | **(17,066)** | — |
| Issue of common shares on exercise of stock options | **4,426** | 299 | **5,961** | 2,811 |
| Dividends paid | **(16,149)** | (11,621) | **(30,490)** | (23,220) |
| Cash provided by (used in) financing activities | **131,289** | (53,163) | **223,061** | (61,757) |
| Effect of currency translation on cash balances | **(1,801)** | 1,120 | **(2,659)** | 298 |
| Increase (decrease) in cash and cash equivalents | **(32,907)** | (9,328) | **(56,140)** | 41,103 |
| Cash and cash equivalents, beginning of period | **55,252** | 78,114 | **78,485** | 27,683 |
| Cash and cash equivalents, end of period | **$ 22,345** | $ 68,786 | **$ 22,345** | $ 68,786 |

See supplemental cash flow information, Note 9

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 have been prepared in accordance with Canadian generally accepted accounting principles on a basis consistent with those disclosed in the most recent audited annual financial statements. These unaudited Interim Consolidated Financial Statements do not include all the information and note disclosures required by generally accepted accounting principles for annual financial statements and therefore should be read in conjunction with the December 31, 2006 audited annual consolidated financial statements and the notes below.

The unaudited Interim Consolidated Financial 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 policies disclosed below:

**Change in Accounting Policies**

On January 1, 2007, the Company adopted the following new accounting standards issued by the Canadian Institute of Chartered Accountants (CICA): Handbook Section 1530, *Comprehensive Income,* Section 3855, *Financial Instruments – Recognition and Measurement,* Section 3865, *Hedges*, Section 3251, *Equity*, and Section 3861, *Financial Instruments – Disclosure and Presentation* (the New Standards). The principal changes related to these standards are described below.

**(a) Comprehensive Income**

Comprehensive income comprises the Company's net income and other comprehensive income. Other comprehensive income represents changes in shareholders' equity during a period arising from non-owner sources and, for the Company, includes currency translation adjustments on its net investment in self-sustaining foreign operations and related hedging gains and losses, unrealized gains and losses on available-for-sale securities, and hedging gains and losses on cash flow hedges. The Company's comprehensive income, components of other comprehensive income, and accumulated other comprehensive income are presented in the Statements of Comprehensive Income and the Statements of Shareholders' Equity. Prior financial statements retroactively reflect the classification of the currency translation adjustments on the Company's net investment in self-sustaining operations and related hedging gains and losses as components of other comprehensive income.

**(b) Financial Assets and Financial Liabilities**

Classification

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

- Accounts and notes receivable are classified as "Loans and Receivables". After their initial fair value assessment, they are measured at amortized cost using the effective interest rate method. At January 1 and June 30, 2007, the measured amount approximates cost.
- Short-term and long-term debt, accounts payable, and obligations under capital leases are classified as "Other Financial Liabilities". After their initial fair value assessment, they are measured at amortized cost using the effective interest rate method. At January 1 and June 30, 2007, the measured amount approximates cost, with the exception of long-term debt. The estimated fair value of the Company's long-term debt as at June 30, 2007, is $796.2 million (December 31, 2006: $745.7 million).

Transaction costs directly attributable to the acquisition or issue of a financial asset or financial liability will be added to the carrying amount of the financial asset or financial liability, and will be amortized to income using the effective interest rate method. Upon transition, previously deferred debt issue costs and discounts of $3.5 million were reclassified from other long-term assets, resulting in a reduction of long-term debt of $3.5 million.

Derivatives

Upon adoption of the new standards, all derivative instruments were recorded on the balance sheet at fair value.

Embedded Derivatives

Derivatives may be embedded in other financial instruments (host instruments). Prior to the adoption of the New Standards, such embedded derivatives were not accounted for separately from their host instruments. Under the New Standards, embedded derivatives are treated as separate derivatives when their economic characteristics and risks are not closely related to those of the host instrument, the terms of the embedded derivative are the same as those of a stand-alone derivative, and the combined contract is not classified as held for trading. These embedded derivatives are measured at fair value on the balance sheet with subsequent changes in fair value recognized in income. Upon transition and for the six month period ended June 30, 2007, the Company did not identify any embedded derivatives that are required to be accounted for separately from the host contract.

**(c) Hedges**

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

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

Cash Flow Hedges

The Company uses foreign exchange forward contracts to hedge the currency risk associated with certain foreign currency purchase commitments, payroll and associated accounts payable and accounts receivable. The effective portion of hedging gains and losses associated with these cash flow hedges is recorded in other comprehensive income and is released from accumulated other comprehensive income and recorded in income when the hedged item affects income.

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

The Company discontinued hedge accounting for existing hedges of foreign currency purchase commitments at the time of adoption of the new standards. As such, upon adoption, the carrying value of the forward foreign exchange contracts was adjusted to fair value and the previously unrecognized after-tax gain of $2.5 million was recorded as an increase to accumulated other comprehensive income, with a corresponding decrease in accounts payable of $3.3 million, an increase in future income tax liability of $1.0 million and a decrease in retained earnings of $0.2 million. These gains will be recognized in cost of sales at the time the hedged inventory is sold. Gains and losses of forward foreign exchange contracts that

are not designated as hedges for accounting purposes are recorded in selling, general, and administrative expenses.

From time to time, the Company has also used derivative financial instruments to hedge interest rate risk associated with future proceeds of debt. In accordance with the Company's policy, previously deferred losses of $6.8 million associated with prior cash flow hedges of debt proceeds recorded in other long-term assets were reclassified as a reduction to accumulated other comprehensive income.

As at June 30, 2007, approximately $0.4 million of deferred net gains (net of tax) included in accumulated other comprehensive income are expected to be reclassified to current earnings over the next twelve months when earnings are affected by the hedged transactions.

Fair Value Hedges

The Company uses interest rate swaps as fair value hedges of long-term debt. Changes in the fair value of derivatives designated and qualifying as fair value hedging instruments are recorded in income along with changes in the fair value of the hedged item attributable to the hedged risk.

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

Upon transition, the Company had no interest rate swaps, but reclassified a $2.7 million deferred gain from a previous fair value hedge recorded in other long-term assets as an adjustment to the carrying value of the hedged debt.

Net Investment Hedges

The Company uses forward contracts, cross-currency interest rate swaps, and foreign currency debt to hedge foreign currency gains and losses on its long-term net investments in self-sustaining foreign operations. The effective portion of the gain or loss of such instruments associated with the hedged risk is recorded in other comprehensive income each period. These gains or losses will be recorded in income in the same period during which corresponding exchange gains or losses arising from the translation of the financial statements of self-sustaining foreign operations are recognized in net income.

Prior to adoption of the new accounting standards, the Company valued its derivative instruments hedging net investments in self-sustaining foreign operations using spot exchange rates. Upon transition, the carrying value of the hedging derivative instruments was adjusted to their fair value and the effective portion of the gains and losses, net of associated income taxes, including amounts previously reported in cumulative currency translation adjustments, were recorded in accumulated other comprehensive income based on the previously designated hedged risk. As a result, accounts payable decreased by $1.2 million, long-term other assets decreased by $0.8 million, long-term obligations decreased by $13.1 million, future income tax assets increased by $6.9 million, accumulated other comprehensive income increased by $10.0 million, and retained earnings increased by $10.4 million. Upon adoption, the Company adopted the forward rate method on a prospective basis for net investment hedges where derivative financial instruments are used. The Company continues to use the spot method, as required, when the Company uses debt to hedge foreign currency net investments.

**Comparative Figures**

Certain comparative figures have been reclassified to conform to the 2007 presentation. The consolidated income statement has been restated for discontinued operations (see Note 7).

## 2. Other Expenses (Income)

Other expenses (income) include the following items:

| ($ thousands) | Three months ended June 30 2007 | Three months ended June 30 2006 | Six months ended June 30 2007 | Six months ended June 30 2006 |
|---|---|---|---|---|
| Gain on sale of properties in Canada (a) | **$ —** | $ — | **$ —** | $ (5,088) |
| Gain on sale of railroad and non-Cat remanufacturing business in Canada (a) | **—** | — | **—** | (5,331) |
| Restructuring and project costs | **713** | 4,347 | **1,847** | 6,144 |
| Gain on sale of other surplus properties | **(536)** | (176) | **(1,446)** | (1,463) |
| | **$ 177** | $ 4,171 | **$ 401** | $ (5,738) |

The tax recovery on other expenses for the three months ended June 30, 2007 was $0.1 million (2006: $1.3 million) and during the six-month period ended June 30, 2007 was $0.2 million (2006: expense of $0.3 on other income).

Restructuring and project costs for the three months ended June 30, 2007 of $6.6 million (2006: $0.6 million) and during the six-month period ended June 30, 2007 of $8.9 million (2006: $1.1 million) have been presented as discontinued operations.

(a) In the first quarter of 2006, the Company sold certain surplus properties at Finning (Canada) for cash proceeds of $6.3 million, resulting in a pre-tax gain of $5.1 million. The Company also sold its railroad and non-Cat engine component remanufacturing business for cash proceeds of $5.3 million, resulting in a pre-tax gain of approximately $5.3 million.

## 3. Short-Term and Long-Term Debt

Finance costs as shown on the consolidated statement of income is comprised of the following elements:

| ($ thousands) | Three months ended June 30 2007 | Three months ended June 30 2006 | Six months ended June 30 2007 | Six months ended June 30 2006 |
|---|---|---|---|---|
| Interest on debt securities: | | | | |
| Short-term debt | **$ 7,630** | $ 2,763 | **$ 13,732** | $ 7,193 |
| Long-term debt | **10,879** | 14,389 | **21,712** | 27,854 |
| | **18,509** | 17,152 | **35,444** | 35,047 |
| Interest on swap contracts | **(206)** | (78) | **(411)** | (398) |
| Other finance related expenses and sundry interest earned | **1,847** | 2,636 | **2,798** | 3,375 |
| | **20,150** | 19,710 | **37,831** | 38,024 |
| Less: interest expense related to discontinued operations | **(1,649)** | (5,008) | **(3,183)** | (9,942) |
| Finance costs from continuing operations | **$ 18,501** | $ 14,702 | **$ 34,648** | $ 28,082 |

## 4. SHARE CAPITAL

On May 11, 2007, the Company's shareholders approved a split of the Company's outstanding common shares on a two-for-one basis. Each shareholder of record at the close of business on May 30, 2007, received one additional share for every outstanding share held on the record date.

All equity-based benefit plans, share, and per-share data have been adjusted to reflect the stock split.

## 5. STOCK-BASED COMPENSATION PLANS

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

**Stock Options**

Details of the stock option plans, adjusted to reflect the impact of the May 2007 stock split, are as follows:

| | **Six months ended June 30 2007** | | | Twelve months ended December 31 2006 | | |
|---|---|---|---|---|---|---|
| | **Options** | | **Weighted Average Exercise Price** | Options | | Weighted Average Exercise Price |
| Options outstanding, beginning of period | **3,903,526** | **$** | **14.44** | 2,948,586 | $ | 9.77 |
| Issued | **1,721,000** | **$** | **31.59** | 1,769,400 | $ | 19.75 |
| Exercised / cancelled | **(690,050)** | **$** | **13.47** | (814,460) | $ | 9.08 |
| Options outstanding, end of period | **4,934,476** | **$** | **20.56** | 3,903,526 | $ | 14.44 |
| Exercisable at period end | **1,969,220** | **$** | **11.70** | 1,691,974 | $ | 8.59 |

In the second quarter of 2007, the Company issued 1,721,000 common share options to senior executives and management of the Company (Q2 2006: 1,769,400 common share options). In 2007 and 2006, long term incentives for executives and senior management were all made in the form of stock options. It is the Company's practice to grant and price stock options only when it is felt that all material information has been disclosed to the market.

The Company determines the cost of all stock options granted since January 1, 2002 using the fair value-based method of accounting for stock options. This method of accounting uses an option-pricing model to determine the fair value of stock options granted which is amortized over the vesting period. The fair value of the options granted in 2007 has been estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted-average assumptions:

| | |
|---|---|
| Dividend yield | 1.21% |
| Expected volatility | 21.57% |
| Risk-free interest rate | 4.09% |
| Expected life | 5.5 years |

The weighted average grant-date fair value of options granted during the year was $13.6 million (2006: $8.8 million). Total stock option expense in the second quarter was $4.0 million (2006: $1.1 million) and for the six-month period was $4.9 million ($1.7 million).

**Other Stock-Based Compensation Plans**

The Company has other stock-based compensation plans in the form of deferred share units and stock appreciation rights plans that use notional common share units. Details of the plans with significant changes subsequent to December 31, 2006 are as follows:

## Directors

Directors' Deferred Share Unit Plan A (DDSU)

Under the Deferred Share Unit Plan (DDSU) for members of the Board of Directors, non-employee Directors of the Company were allocated a total of 13,859 share units in May 2007 (May 2006: 22,952 share units), to be issued to the Directors and expensed equally over the 2007 calendar year.

Details of the deferred share unit plans, which reflect the vestings in the period as well as mark-to-market adjustments, are as follows:

| **Six months ended June 30** | **2007** | | | | 2006 | | | |
|---|---|---|---|---|---|---|---|---|
| **Units** | **DSU-A** | **DSU-B** | **DDSU** | **Total** | DSU-A | DSU-B | DDSU | Total |
| Outstanding, beginning of period | **104,964** | **1,353,496** | **358,280** | **1,816,740** | 103,566 | 1,510,172 | 316,958 | 1,930,696 |
| Additions | **438** | **7,512** | **13,459** | **21,409** | 692 | 8,090 | 19,068 | 27,850 |
| Exercised/cancelled | **(32,318)** | **(112,648)** | **—** | **(144,966)** | — | (142,174) | — | (142,174) |
| Outstanding, end of period | **73,084** | **1,248,360** | **371,739** | **1,693,183** | 104,258 | 1,376,088 | 336,026 | 1,816,372 |
| Vested, beginning of period | **104,964** | **1,353,496** | **358,280** | **1,816,740** | 103,566 | 1,337,522 | 316,958 | 1,758,046 |
| Vested | **438** | **7,512** | **13,459** | **21,409** | 692 | 8,090 | 19,068 | 27,850 |
| Exercised/cancelled | **(32,318)** | **(112,648)** | **—** | **(144,966)** | — | (126,174) | — | (126,174) |
| Vested, end of period | **73,084** | **1,248,360** | **371,739** | **1,693,183** | 104,258 | 1,219,438 | 336,026 | 1,659,722 |
| **Liability** ($ thousands) | | | | | | | | |
| Balance, beginning of period | **$ 2,508** | **$ 32,342** | **$ 8,561** | **$ 43,411** | $ 1,923 | $ 24,838 | $ 5,886 | $ 32,647 |
| Expensed | **478** | **8,180** | **2,695** | **11,353** | 16 | 317 | 364 | 697 |
| Exercised/cancelled | **(773)** | **(2,721)** | **—** | **(3,494)** | — | (2,473) | — | (2,473) |
| Balance, end of period | **$ 2,213** | **$ 37,801** | **$11,256** | **$ 51,270** | $ 1,939 | $ 22,682 | $ 6,250 | $ 30,871 |

## Management Share Appreciation Rights Plan (SAR)

In 2007 and 2006, there were no SAR units issued to management. Details of the SAR plans are as follows:

| **Six months ended June 30**<br>**Units** | **2007** | 2006 |
|---|---|---|
| Outstanding, beginning of period | **1,162,132** | 1,430,000 |
| Exercised/cancelled | **(180,692)** | (135,782) |
| Outstanding, end of period | **981,440** | 1,294,218 |
| Vested, beginning of period | **762,722** | 573,400 |
| Vested | **265,937** | 413,388 |
| Exercised/cancelled | **(172,992)** | (127,948) |
| Vested, end of period | **855,667** | 858,840 |
| **Liability** ($ thousands) | **June 30, 2007** | June 30, 2006 |
| Balance, beginning of period | **$ 9,965** | $ 4,655 |
| Expensed | **7,295** | 688 |
| Exercised/cancelled | **(2,504)** | (802) |
| Balance, end of period | **$ 14,756** | $ 4,541 |
| Strike price ranges: | **$13.03 - $16.22** | |

### Summary – Impact of Stock Based Compensation Plans

Changes in the value of all deferred share units and share appreciation rights as a result of fluctuations in the Company's common share price and the impact of new issues, including stock options, was an expense of $14.6 million in the second quarter of 2007 (2006: income of $0.1 million) and during the six-month period was an expense of $23.5 million (2006: 3.0 million).

## 6. 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.

Earnings used in determining earnings per share from continuing operations are presented below. Earnings used in determining earnings per share from discontinued operations are the earnings from discontinued operations as reported within the consolidated statements of income and retained earnings.

| ($ thousands, except share and per share amounts) | Three months ended June 30 | | | Six months ended June 30 | | |
|---|---|---|---|---|---|---|
| **2007** | **Income** | **Shares** | **Per Share** | **Income** | **Shares** | **Per Share** |
| **Basic EPS from continuing operations:** | | | | | | |
| Net income from continuing operations | **$ 75,265** | **179,407,385** | **$ 0.42** | **$ 145,981** | **179,311,542** | **$ 0.81** |
| Effect of dilutive securities: stock options | **—** | **1,716,192** | **—** | **—** | **1,646,432** | **—** |
| **Diluted EPS from continuing operations:** | | | | | | |
| Net income from continuing operations and assumed conversions | **$ 75,265** | **181,123,577** | **$ 0.42** | **$ 145,981** | **180,957,974** | **$ 0.81** |
| 2006 | | | | | | |
| **Basic EPS from continuing operations:** | | | | | | |
| Net income from continuing operations | $ 56,034 | 178,768,138 | $ 0.31 | $ 111,328 | 178,622,524 | $ 0.62 |
| Effect of dilutive securities: stock options | — | 1,268,840 | — | — | 1,260,836 | — |
| **Diluted EPS from continuing operations:** | | | | | | |
| Net income from continuing operations and assumed conversions | $ 56,034 | 180,036,978 | $ 0.31 | $ 111,328 | 179,883,360 | $ 0.62 |

## 7. Disposition of Discontinued Operation

Finning UK Group – Tools Hire Division

In June 2007, Finning's Board of Directors approved the sale of the business and assets, excluding real estate, of the Tool Hire Division of the Company's UK subsidiary, Hewden Stuart Plc following an extensive strategic review of the Company's U.K. based businesses and determining that this division no longer represents a core business for Finning. Subsequent to the end of the second quarter, on July 31, 2007, the Company sold its Tool Hire Division for cash proceeds of approximately $238 million (approximately £112 million), net of costs, and subject to customary closing adjustments.

The gross sale price, net of taxes and transaction costs, is approximately equal to the net book value of the net tangible assets and goodwill associated with the tools rental business. The sale of this business will result in a one-time after-tax loss of approximately $3.4 million (approximately £1.6 million), which includes restructuring and other costs associated with the disposition of this business. In the second quarter of 2007, an after-tax provision of $0.9 million was recorded to reflect the carrying value of the discontinued operations at fair value less costs to sell. Restructuring charges of $1.9 million after tax incurred during the second quarter of 2007 were also recorded in the second quarter of 2007.

Finning UK Group – Materials Handling Division

On September 29, 2006, the Company sold its Materials Handling Division for cash proceeds of $170.6 million (£81.7 million), net of costs. The sale of this business resulted in a one-time after-tax loss of $32.7 million (£15.5 million) in the third quarter of 2006, which included the write-off of the goodwill and intangible assets associated with this business.

The results of operations of the Tool Hire and the Materials Handling divisions have been included in the consolidated statements of cash flow up to the date of disposition and as discontinued operations in the consolidated statements of income up to the date of disposition. The results of the Tool Hire and the Materials Handling divisions had previously been reported in the Finning UK Group segment.

Income from discontinued operations (to the date of disposition, if applicable) is summarized as follows:

| **Three months ended June 30** | **Tool Hire Division** | | **Materials Handling Division** | |
|---|---|---|---|---|
| ($ thousands) | **2007** | 2006 | **2007** | 2006 |
| Revenue | **$ 46,643** | $ 48,242 | **$ —** | $ 59,725 |
| Income (loss) before provision for income taxes | **(2,825)** | 2,440 | **—** | (1,565) |
| Provision for write-down to fair market value less cost to sell | **(908)** | — | **—** | — |
| Provision for income taxes (expense) recovery | **2,525** | (789) | **—** | 467 |
| Income (loss) from discontinued operations | **$ (1,208)** | $ 1,651 | **$ —** | $ (1,098) |

| **Six months ended June 30** | **Tool Hire Division** | | **Materials Handling Division** | |
|---|---|---|---|---|
| ($ thousands) | **2007** | 2006 | **2007** | 2006 |
| Revenue | **$ 97,078** | $ 96,843 | **$ —** | $ 126,658 |
| Income (loss) before provision for income taxes | **(3,094)** | 5,769 | **—** | (2,470) |
| Provision for write-down to fair market value less cost to sell | **(908)** | — | **—** | — |
| Provision for income taxes (expense) recovery | **1,968** | (1,845) | **—** | 740 |
| Income (loss) from discontinued operations | **$ (2,034)** | $ 3,924 | **$ —** | $ (1,730) |

The assets and liabilities of the Materials Handling Division were removed from the Consolidated Balance Sheet upon disposition and are not presented on the Consolidated Balance Sheet at June 30, 2007 or December 31, 2006. The carrying amounts of assets and liabilities related to the Tool Hire Division as at June 30, 2007 included on the Consolidated Balance Sheet, and for the comparative period presented, are as follows:

| ($ thousands) | **June 30 2007** | December 31 2006 |
|---|---|---|
| **ASSETS** | | |
| Current assets | | |
| Accounts receivable | **$ 35,675** | $ 38,284 |
| Inventories | **4,152** | 5,169 |
| Other assets | **4,627** | 3,130 |
| Total current assets | **44,454** | 46,583 |
| Rental equipment | **74,895** | 81,775 |
| Land, building and equipment | **13,027** | 16,526 |
| Goodwill | **89,599** | 95,861 |
| Other assets | **6,797** | 7,529 |
| | **$ 228,772** | $ 248,274 |
| **LIABILITIES** | | |
| Current liabilities | | |
| Accounts payable and accruals | **$ 30,744** | $ 32,726 |
| Income tax payable | **—** | 1,011 |
| Total current liabilities | **30,744** | 33,737 |
| Long-term obligations | **2,780** | 2,915 |
| | **$ 33,524** | $ 36,652 |

The significant net cash flows from discontinued operations are as follows:

| **Three months ended June 30** | **Tool Hire Division** | | **Materials Handling Division** | |
|---|---|---|---|---|
| ($ thousands) | **2007** | 2006 | **2007** | 2006 |
| Cash flows provided by operating activities | **$ 2,051** | **$ 13,920** | **$ —** | $ 4,627 |
| Cash used in investing activities | **$ (2,404)** | **$ (630)** | **$ —** | $ — |

| **Six months ended June 30** | **Tool Hire Division** | | **Materials Handling Division** | |
|---|---|---|---|---|
| ($ thousands) | **2007** | 2006 | **2007** | 2006 |
| Cash flows provided by operating activities | **$ 2,682** | $ 21,363 | **$ —** | $ 19,906 |
| Cash provided by (used in) investing activities | **$ (2,091)** | $ 1,746 | **$ —** | $ — |

## 8. CURRENCY RATES

The Company operates in three functional currencies: Canadian dollars, U.S. dollars, and U.K. pound sterling.

The exchange rates of the Canadian dollar against the following foreign currencies were as follows:

| **Exchange rate** | **June 30 2007** | December 31 2006 | June 30 2006 |
|---|---|---|---|
| U.S. dollar | **1.0634** | 1.1653 | 1.1150 |
| U.K. pound sterling | **2.1333** | 2.2824 | 2.0614 |
| **Three months ended June 30 Average exchange rates** | **2007** | | 2006 |
| U.S. dollar | **1.0975** | | 1.1213 |
| U.K. pound sterling | **2.1803** | | 2.0505 |
| **Six months ended June 30 Average exchange rates** | **2007** | | 2006 |
| U.S. dollar | **1.1349** | | 1.1382 |
| U.K. pound sterling | **2.2357** | | 2.0374 |

## 9. Supplemental Cash Flow Information

### Changes in working capital

| ($ thousands) | Three months ended June 30 | | Six months ended June 30 | |
|---|---|---|---|---|
| | **2007** | 2006 | **2007** | 2006 |
| Accounts receivable and other | **$ (95,489)** | $ (7,538) | **$ (127,541)** | $ (46,513) |
| Inventories – on-hand equipment | **(6,074)** | 30,894 | **(69,743)** | 29,178 |
| Inventories – parts and supplies | **(45,701)** | (16,985) | **(90,268)** | (36,221) |
| Accounts payable and accruals | **(28,254)** | 33,061 | **19,532** | 120,173 |
| Income taxes | **8,423** | 3,899 | **2,486** | (19,401) |
| Changes in working capital items | **$ (167,095)** | $ 43,331 | **$ (265,534)** | $ 47,216 |

### Components of cash and cash equivalents

| June 30 ($ thousands) | **2007** | 2006 |
|---|---|---|
| Cash | **$ 21,252** | $ 38,086 |
| Short-term investments | **1,093** | 30,700 |
| Cash and cash equivalents | **$ 22,345** | $ 68,786 |

### Interest and tax payments

| ($ thousands) | Three months ended June 30 | | Six months ended June 30 | |
|---|---|---|---|---|
| | **2007** | 2006 | **2007** | 2006 |
| Interest paid | **$ (38,886)** | $ (44,440) | **$ (46,034)** | $ (50,058) |
| Income taxes paid | **$ (33,153)** | $ (12,561) | **$ (57,354)** | $ (53,236) |

## 10. Employee Future Benefits

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

| Three months ended June 30 ($ thousands) | **2007** | | | 2006 | | |
|---|---|---|---|---|---|---|
| | **Canada** | **UK Group** | **Total** | Canada | UK Group | Total |
| Defined contribution plans | **$ 4,100** | **$ 257** | **$ 4,357** | $ 3,129 | $ 311 | $ 3,440 |
| Defined benefit plans | **2,195** | **2,924** | **5,119** | 3,315 | 4,984 | 8,299 |
| Total benefit plan expense | **$ 6,295** | **$ 3,181** | **$ 9,476** | $ 6,444 | $ 5,295 | $ 11,739 |

| Six months ended June 30 ($ thousands) | **2007** | | | 2006 | | |
|---|---|---|---|---|---|---|
| | **Canada** | **UK Group** | **Total** | Canada | UK Group | Total |
| Defined contribution plans | **$ 7,952** | **$ 518** | **$ 8,470** | $ 6,144 | $ 617 | $ 6,761 |
| Defined benefit plans | **4,569** | **6,012** | **10,581** | 6,486 | 9,885 | 16,371 |
| Total benefit plan expense | **$ 12,521** | **$ 6,530** | **$ 19,051** | $ 12,630 | $ 10,502 | $ 23,132 |

## 11. 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 and related products.

During the fourth quarter of 2006, the UK Group business model was reorganized to combine the operations of Finning (UK) and Hewden into one organization creating four distinct lines of business to more effectively service customers, improve alignment with Caterpillar and to generate additional

operating efficiencies. At the same time a new management team was appointed. These four business units will, over time, be supported by an integrated back office operation that will provide common head office services, generating additional synergies among the business units. As a result of this reorganization, the Finning UK Group will be reported as one operating segment beginning in 2007, with the four lines of business being: Heavy Construction, General Construction, Power Systems, and Hewden.

Prior to 2007, results from the UK Group were reported as two separate operating segments: Finning UK Operations, reflecting the results of Finning (UK), the UK Caterpillar dealership operation and Diperk UK, which distributes and services Perkins engines in the U.K; and Hewden Operations, an equipment rental and associated services operation in the U.K.

The reportable operating segments are:

| **Three months ended June 30, 2007 ($ thousands)** | **Canada** | **South America** | **UK Group** | **Other** | **Consolidated** |
|---|---|---|---|---|---|
| Revenue from external sources | **$ 846,364** | **$ 321,556** | **$ 329,704** | **$ 2** | **$ 1,497,626** |
| Operating costs | **(721,570)** | **(281,947)** | **(277,322)** | **(12,877)** | **(1,293,716)** |
| Depreciation and amortization | **(39,594)** | **(6,947)** | **(34,054)** | **—** | **(80,595)** |
| Other income (expenses) | **(64)** | **—** | **(113)** | **—** | **(177)** |
| Earnings from continuing operations before interest and taxes | **$ 85,136** | **$ 32,662** | **$ 18,215** | **$ (12,875)** | **$ 123,138** |
| Finance costs | | | | | **(18,501)** |
| Provision for income taxes | | | | | **(29,372)** |
| Net income from continuing operations | | | | | **75,265** |
| Loss from discontinued operations, net of tax | | | | | **(1,208)** |
| Net income | | | | | **$ 74,057** |
| Identifiable assets | **$ 1,760,725** | **$ 863,740** | **$ 1,754,104** | **$ 55,782** | **$ 4,434,351** |
| Gross capital expenditures | **$ 3,935** | **$ 8,079** | **$ 9,296** | **$ —** | **$ 21,310** |
| Gross rental asset expenditures | **$ 101,903** | **$ 16,538** | **$ 88,769** | **$ —** | **$ 207,210** |

| **Three months ended June 30, 2006 ($ thousands)** | **Canada** | **South America** | **UK Group** | **Other** | **Consolidated** |
|---|---|---|---|---|---|
| Revenue from external sources | $ 680,909 | $ 216,256 | $ 294,536 | $ 1 | $ 1,191,702 |
| Operating costs | (589,074) | (186,497) | (250,214) | (4,988) | (1,030,773) |
| Depreciation and amortization | (34,174) | (6,044) | (28,346) | — | (68,564) |
| Other income (expenses) | 4 | — | (4,175) | — | (4,171) |
| Earnings from continuing operations before interest and taxes | $ 57,665 | $ 23,715 | $ 11,801 | $ (4,987) | $ 88,194 |
| Finance costs | | | | | (14,702) |
| Provision for income taxes | | | | | (17,458) |
| Net income from continuing operations | | | | | 56,034 |
| Income from discontinued operations, net of tax | | | | | 553 |
| Net income | | | | | $ 56,587 |
| Identifiable assets | $ 1,436,371 | $ 637,954 | $ 1,763,033 | $ 62,875 | $ 3,900,233 |
| Gross capital expenditures | $ 7,032 | $ 3,369 | $ 8,214 | $ — | $ 18,615 |
| Gross rental asset expenditures | $ 83,650 | $ 5,768 | $ 50,656 | $ — | $ 140,074 |

| **Six months ended June 30, 2007 ($ thousands)** | **Canada** | **South America** | **UK Group** | **Other** | **Consolidated** |
|---|---|---|---|---|---|
| Revenue from external sources | **$ 1,546,011** | **$ 660,158** | **$ 667,450** | **$ 3** | **$ 2,873,622** |
| Operating costs | **(1,317,012)** | **(575,505)** | **(566,521)** | **(21,522)** | **(2,480,560)** |
| Depreciation and amortization | **(78,877)** | **(13,357)** | **(66,671)** | **—** | **(158,905)** |
| Other income (expenses) | **(349)** | **—** | **(52)** | **—** | **(401)** |
| Earnings from continuing operations before interest and taxes | **$ 149,773** | **$ 71,296** | **$ 34,206** | **$ (21,519)** | **$ 233,756** |
| Finance costs | | | | | **(34,648)** |
| Provision for income taxes | | | | | **(53,127)** |
| Net income from continuing operations | | | | | **145,981** |
| Loss from discontinued operations, net of tax | | | | | **(2,034)** |
| Net income | | | | | **$ 143,947** |
| Identifiable assets | **$ 1,760,725** | **$ 863,740** | **$ 1,754,104** | **$ 55,782** | **$ 4,434,351** |
| Gross capital expenditures | **$ 9,858** | **$ 11,205** | **$ 19,381** | **$ —** | **$ 40,444** |
| Gross rental asset expenditures | **$ 190,826** | **$ 30,698** | **$ 157,663** | **$ —** | **$ 379,187** |

| **Six months ended June 30, 2006 ($ thousands)** | **Canada** | **South America** | **UK Group** | **Other** | **Consolidated** |
|---|---|---|---|---|---|
| Revenue from external sources | $ 1,280,835 | $ 447,923 | $ 591,624 | $ 2 | $ 2,320,384 |
| Operating costs | (1,109,629) | (385,887) | (508,883) | (11,759) | (2,016,158) |
| Depreciation and amortization | (66,817) | (12,408) | (55,654) | — | (134,879) |
| Other income (expenses) | 10,023 | — | (4,285) | — | 5,738 |
| Earnings from continuing operations before interest and taxes | $ 114,412 | $ 49,628 | $ 22,802 | $ (11,757) | $ 175,085 |
| Finance costs | | | | | (28,082) |
| Provision for income taxes | | | | | (35,675) |
| Net income from continuing operations | | | | | 111,328 |
| Income from discontinued operations, net of tax | | | | | 2,194 |
| Net income | | | | | $ 113,522 |
| Identifiable assets | $ 1,436,371 | $ 637,954 | $ 1,763,033 | $ 62,875 | $ 3,900,233 |
| Gross capital expenditures | $ 13,162 | $ 8,304 | $ 16,118 | $ — | $ 37,584 |
| Gross rental asset expenditures | $ 149,998 | $ 15,455 | $ 93,343 | $ — | $ 258,796 |