

# **SECOND QUARTER REPORT TO SHAREHOLDERS**

FOR THE SIX MONTHS ENDED  
JUNE 30, 2011

W A J A X   C O R P O R A T I O N   2 0 1 1





**WAJAX CORPORATION**  
**News Release**

**TSX Symbol: WJX**

**WAJAX ANNOUNCES HIGHER SECOND QUARTER 2011 EARNINGS  
AND RAISES DIVIDEND**

(Dollars in millions, except per share data)

	Three Months Ended June 30		Six Months Ended June 30	
	2011	2010	2011	2010
<b><u>CONSOLIDATED RESULTS</u></b>				
Revenue	\$334.1	\$272.0	\$638.0	\$500.2
Earnings before tax	\$22.4	\$11.8	\$40.4	\$20.3
Net earnings	\$16.5	\$12.2	\$29.4	\$21.0
Basic earnings per share	\$0.99	\$0.73	\$1.77	\$1.27
<b><u>SEGMENTS</u></b>				
Revenue – Equipment	\$164.2	\$142.8	\$315.6	\$251.2
- Industrial Components	\$89.9	\$75.9	\$170.6	\$148.5
- Power Systems	\$81.0	\$55.1	\$154.0	\$102.6
Earnings – Equipment	\$12.0	\$10.3	\$23.1	\$18.2
% margin	7.3%	7.2%	7.3%	7.2%
- Industrial Components	\$6.5	\$2.0	\$11.0	\$5.2
% margin	7.3%	2.7%	6.4%	3.5%
- Power Systems	\$8.3	\$3.7	\$15.3	\$4.6
% margin	10.2%	6.6%	9.9%	4.5%

**Toronto, Ontario – August 3, 2011** – Wajax Corporation today announced a significant increase in 2011 second quarter earnings and raised its monthly dividend to \$0.20 per share.

**Second Quarter Highlights**

- Consolidated second quarter revenue of \$334.1 million increased \$62.1 million, or 23%, compared to last year with gains in western Canada accounting for the majority of the increases in all three businesses. Power Systems revenue increased 47% on significantly higher equipment sales in western Canada and as a result of the May 2, 2011 acquisition of Ontario based Harper Power Products (“Harper”). Industrial Components revenue increased 18% on stronger demand for all major product categories and Equipment sales rose 15% on higher revenue from the construction, forestry and material handling sectors.
- Net earnings for the quarter were \$16.5 million, or \$0.99 per share, compared to \$12.2 million, or \$0.73 per share recorded in 2010. This represents an increase of 35% even though the Corporation is now subject to income tax since its conversion from an income fund as of January 1, 2011. Earnings before tax of \$22.4 million were almost double last year’s level as a result of the higher volumes while maintaining disciplined control over selling, general and administrative costs in all three segments.

- Consolidated backlog of \$281.7 million at June 30, 2011 increased \$66.0 million, or 31%, from \$215.7 million at March 31, 2011 mainly as a result of higher mining and construction equipment orders in the Equipment segment.

The Equipment segment recently closed an equipment supply agreement with Shell Canada Energy for a total of seven Hitachi mining shovels and construction excavators, adding to the already existing fleet of Hitachi equipment at Shell Albian Sands, Shell's oil sands operation in the province of Alberta. In support of Shell Albian Sands' fleet of Hitachi equipment, Wajax has also renewed and extended the existing commercial arrangement with Shell Canada Energy for the supply of parts, components and services until the end of April 2014. Both companies enjoy an excellent business relationship and intend to further strengthen their cooperation going forward.

Effective June 22, 2011, Rowan Companies, Inc. of Houston, Texas completed the sale of its 100% ownership interest in LeTourneau Technologies, Inc. ("LeTourneau"), a mining wheel loader manufacturer to Milwaukee-based Joy Global Inc. ("Joy"). Wajax is the exclusive distributor of LeTourneau products in Canada. Joy has indicated that it intends to look for ways to integrate the LeTourneau distribution activities with its P&H mining equipment operations which will likely impact Wajax's current distribution arrangements with LeTourneau. The sale and service of LeTourneau products in 2010 generated approximately \$40 million of revenue for Wajax and contributed approximately \$10 million to earnings before interest and taxes.

The Corporation announced a \$0.02 per share increase in its monthly dividend. Dividends of \$0.20 per share (\$2.40 annualized) were declared for the months of August, September and October.

Commenting on the second quarter results and the outlook for the remainder of 2011, Neil Manning, President and CEO, stated:

"We continue to be very pleased with our 2011 results. The second quarter improvement was driven by the robust energy, mining, forestry and construction markets particularly in western Canada. However, we were also encouraged by stronger results in the Equipment segment's Ontario operation and the eastern Canada business of Industrial Components. Results from the Harper acquisition for the two months since the transaction closed have met our expectations.

We have been able to minimize the effects of the supply disruption to our Hitachi product line caused by the earthquake and resulting tsunami in Japan. As we expected, the most significant issue relates to delays in obtaining mining equipment, which will have some impact on our 2011 revenue. In addition, we continue to experience some product shipment delays for a number of other products from several suppliers, mainly as a result of increased global demand and component shortages.

For the remainder of the year, we expect economic activity in the broader Canadian economy will continue at a level similar to that experienced in the first six months. Notwithstanding negative impacts from the Hitachi equipment and other product supply disruptions, we also expect pre-tax earnings to continue to be ahead of last year for the balance of 2011, but at a lower rate of increase. Our decision to increase the monthly dividend takes into account the strength of expected future earnings including the potential downside effects on our LeTourneau products distribution arrangement."

Wajax Corporation is a leading Canadian distributor and service support provider of equipment, industrial components and power systems. Reflecting a diversified exposure to the Canadian economy, its three distinct core businesses operate through a network of 118 branches across Canada. Its customer base spans natural resources, construction, transportation, manufacturing, industrial processing and utilities.

## **Forward-Looking Statements**

This news release contains forward-looking statements. These statements relate to future events or future performance and reflect management's current expectations and assumptions.

Although we believe that the expectations represented in such forward-looking statements are reasonable, there is no assurance that such expectations will prove to be correct. Undue reliance should not be placed on forward-looking statements, as a number of factors could cause the actual results to differ materially from the expectations expressed in the forward-looking statements. Information on risk factors is included in the Management's Discussion and Analysis for the year ended December 31, 2010 under the heading "Risk and Uncertainties", and in other reports filed by Wajax Income Fund and the Corporation with Canadian securities regulators and available at [www.sedar.com](http://www.sedar.com).

# **Management's Discussion and Analysis – Q2 2011**

The following management's discussion and analysis ("MD&A") discusses the consolidated financial condition and results of operations of Wajax Corporation ("Wajax" or "Corporation") for the quarter ended June 30, 2011. On January 1, 2011, Wajax adopted International Financial Reporting Standards ("IFRS"). The term "Canadian GAAP" refers to Canadian GAAP before the adoption of IFRS. This MD&A should be read in conjunction with the information contained in the unaudited Condensed Consolidated Financial Statements and accompanying notes for the quarter ended June 30, 2011, which have been prepared using IFRS, the annual Audited Consolidated Financial Statements and accompanying notes of Wajax Income Fund for the year ended December 31, 2010 which were prepared using Canadian GAAP, and the associated MD&A. Information contained in this MD&A is based on information available to management as of August 3, 2011.

Unless otherwise indicated, all financial information within this MD&A is in millions of Canadian dollars, except share and per share data.

Additional information, including Wajax's Annual Report and Annual Information Form, are available at [www.sedar.com](http://www.sedar.com).

## **Responsibility of Management and the Board of Directors**

Management is responsible for the information disclosed in this MD&A and the unaudited Condensed Consolidated Financial Statements and accompanying notes, and has in place appropriate information systems, procedures and controls to ensure that information used internally by management and disclosed externally is materially complete and reliable. Wajax's Board of Directors has approved this MD&A and the unaudited Condensed Consolidated Financial Statements and accompanying notes. In addition, Wajax's Audit Committee, on behalf of the Board of Directors, provides an oversight role with respect to all public financial disclosures made by Wajax, and has reviewed this MD&A and the unaudited Condensed Consolidated Financial Statements and accompanying notes.

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

Wajax has designed disclosure controls and procedures ("DC&P") to provide reasonable assurance that material information relating to Wajax is made known to the Chief Executive Officer and the Chief Financial Officer, particularly during the period in which the interim filings are being prepared. Wajax has designed internal controls over financial reporting ("ICFR") to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS.

Wajax has not completed the design of DC&P and ICFR related to the May 2, 2011 acquisition of the assets of Harper Power Products ("Harper"). The Harper operation had revenue of approximately \$9.1 million since acquisition. Wajax anticipates that the design of DC&P and ICFR related to Harper will be completed prior to June of 2012 at which time it will be integrated with the existing Power Systems control environment.

There were no changes in internal control over financial reporting that occurred during Wajax's most recent interim period that have materially affected, or are reasonably likely to materially affect, the Corporation's ICFR.

## **Wajax Corporation Overview**

Effective January 1, 2011 Wajax Income Fund converted into a corporation, pursuant to a plan of arrangement under the Canada Business Corporations Act ("CBCA") and the shares of Wajax Corporation began trading on the Toronto Stock Exchange on January 4, 2011 under the symbol WJX.

Wajax's core distribution businesses are engaged in the sale and after-sale parts and service support of equipment, industrial components and power systems, through a network of 118 branches across Canada. Wajax is a multi-line distributor and represents a number of leading worldwide manufacturers in its core businesses. Its customer base is diversified, spanning natural resources, construction, transportation, manufacturing, industrial processing and utilities.

Wajax's strategy is to continue to grow earnings in all segments through continuous improvement of operating margins and revenue growth while maintaining a strong balance sheet. Revenue growth will be achieved through market share gains, the addition of new or complementary product lines and expansion into new geographic territories either organically or through acquisitions.

## **Forward-Looking Information**

This MD&A contains forward-looking statements. These statements relate to future events or future performance and reflect management's current expectations and assumptions. The words "anticipate", "expect", "believe", "may", "should", "estimate", "project", "outlook", "forecast" or similar words are used to identify such forward-looking information. Such forward-looking statements reflect management's current beliefs and are based on information currently available to management of Wajax. Although we believe that the expectations represented in such forward-looking statements are reasonable, there is no assurance that such expectations will prove to be correct. By their very nature, forward-looking statements involve inherent risks and uncertainties (both general and specific) and the risk that the expectations represented in such forward-looking statements will not be achieved. Undue reliance should not be placed on forward-looking statements, as a number of important factors could cause the actual events, performance or results to differ materially from the events, performance and results discussed in the forward-looking statements. These factors include, among other things: changes in laws and regulations affecting Wajax and its business operations, changes in taxation of Wajax, general business conditions and economic conditions in the markets in which Wajax and its customers compete, fluctuations in commodity prices, Wajax's relationship with its suppliers and manufacturers and its access to quality products, the ability of Wajax to maintain and expand its customer base, actual future market conditions being different than anticipated by management and the Board of Directors of Wajax, and actual future operating and financial results of Wajax being different than anticipated by management and the Board of Directors of Wajax. You are cautioned that the foregoing list is not exhaustive. You are further cautioned that the preparation of financial statements in accordance with IFRS requires management to make certain judgments and estimates that affect the reported amounts of assets, liabilities, revenues and expenses. These estimates may change, having either a negative or positive effect on net earnings as further information becomes available, and as the economic environment changes. Additional information on these and other factors is included in this MD&A under the heading "Risk and Uncertainties" and in other reports filed by Wajax with Canadian securities regulators and available at [www.sedar.com](http://www.sedar.com). The forward-looking statements contained in this MD&A are expressly qualified in their entirety by this cautionary statement. The forward-looking statements contained herein are made as of the date of this MD&A and Wajax does not undertake any obligation to publicly update such forward-looking statements to reflect new information, subsequent events or otherwise unless so required by applicable securities laws.

## **International Financial Reporting Standards**

In February 2008, The Accounting Standards Board of the Canadian Institute of Chartered Accountants confirmed that the use of IFRS is required in Canada for publicly accountable profit oriented enterprises for fiscal years beginning on or after January 1, 2011. The Corporation's first annual IFRS financial statements will be for the year ending December 31, 2011 and will include the comparative period of 2010. Accordingly, the Corporation has adopted IFRS effective January 1, 2010 (the IFRS transition date) and has prepared its unaudited Condensed Consolidated Financial Statements in accordance with International Accounting Standard 34 *Interim Financial Reporting*. Prior to the adoption of IFRS, the financial statements of the Corporation were prepared in accordance with Canadian generally accepted accounting principles ("Canadian GAAP").

The most significant impacts on the Corporation's unaudited Condensed Consolidated Financial Statements resulting from the adoption of IFRS are discussed within the applicable sections of this MD&A and Note 13 of the unaudited Condensed Consolidated Financial Statements.

All comparative figures have been restated in accordance with IFRS, unless otherwise indicated.

## Consolidated Results

	Three months ended June 30		Six months ended June 30	
	2011	2010	2011	2010
Revenue	\$334.1	\$272.0	\$638.0	\$500.2
Gross profit	\$72.5	\$59.5	\$138.4	\$111.2
Selling and administrative expenses	\$49.0	\$46.6	\$95.9	\$88.7
Earnings before finance costs and income taxes	\$23.5	\$12.9	\$42.5	\$22.5
Finance costs	\$1.1	\$1.1	\$2.1	\$2.1
Income tax expense (recovery)	\$5.8	(\$0.3)	\$11.1	(\$0.7)
<b>Net earnings</b>	<b>\$16.5</b>	<b>\$12.2</b>	<b>\$29.4</b>	<b>\$21.0</b>
<b>Earnings per share</b>				
- Basic	\$0.99	\$0.73	\$1.77	\$1.27
- Diluted	\$0.98	\$0.72	\$1.74	\$1.25

### Revenue

Revenue in the second quarter of 2011 increased 23% or \$62.1 million to \$334.1 million, from \$272.0 million in 2010 and included \$9.1 million of revenue from the acquisition of the assets of Harper by the Power Systems segment effective May 2, 2011 for consideration of \$23.2 million. Segment revenue increased 15% in Equipment (formerly Mobile Equipment), 18% in Industrial Components and 47% in Power Systems compared to last year. For the six months ended June 30, 2011, revenue increased 28% or \$137.8 million.

### Gross profit

Gross profit in the second quarter of 2011 increased \$13.0 million due to higher volumes compared to last year. The gross profit margin percentage for the quarter of 21.7% decreased slightly from 21.9% in 2010 due primarily to a sales mix variance resulting from a higher proportion of equipment sales in both the Equipment and Power Systems segments compared to last year.

For the six months ended June 30, 2011, gross profit increased \$27.2 million due to higher volumes compared to last year. The gross profit margin percentage decreased to 21.7% in 2011 from 22.2% in 2010 due primarily to a sales mix variance resulting from a higher proportion of equipment sales in both the Equipment and Power Systems segments compared to last year.

### Selling and administrative expenses

Selling and administrative expenses increased \$2.4 million in the quarter compared to last year due mainly to the acquisition of Harper, higher sales related personnel costs in the Equipment and Power Systems segments, additional occupancy costs and other sales related expenses. The increase was offset partially by lower bad debt expense in the Equipment segment compared to last year. Selling and administrative expenses as a percentage of revenue decreased to 14.7% in 2011 from 17.1% in 2010.

For the six months ended June 30, 2011, selling and administrative expenses increased \$7.2 million compared to last year due to higher sales related personnel costs in the Equipment and Power Systems segments, a \$2.0 million increase in annual and mid-term incentive accruals, the acquisition of Harper, additional occupancy costs and higher other sales related expenses. The increase was offset partially by

lower bad debt expense in the Equipment segment compared to last year. Selling and administrative expenses as a percentage of revenue decreased to 15.0% in 2011 from 17.7% in 2010.

### **Finance costs**

Quarterly finance costs of \$1.1 million remained the same compared to last year. The impact of higher funded debt net of cash including obligations under finance leases ("funded net debt") as a result of the acquisition of Harper on May 2, 2011, was offset by the positive impact of lower interest rates compared to last year.

For the six months ended June 30, 2011, finance costs of \$2.1 million remained the same compared to 2010.

### **Income tax expense**

Effective January 1, 2011, Wajax converted from an income fund to a corporation. As a result, Wajax and its subsidiaries are subject to tax on all of their taxable income from that date forward.

For the three months ended June 30, 2011, the effective income tax rate of 26.1% was less than the Corporation's statutory income tax rate of 27.7% due mainly to partnership income generated in 2011 which will be subject to tax in 2012 at a lower rate.

For the six months ended June 30, 2011, the effective income tax rate of 27.4% was less than the Corporation's statutory income tax rate of 27.7% due mainly to partnership income generated in 2011 which will be subject to tax in 2012 at a lower rate.

### **Net earnings**

Quarterly net earnings of \$16.5 million, or \$0.99 per share, increased \$4.3 million from \$12.2 million, or \$0.73 per share, in 2010. The positive impact of higher volumes more than offset the negative impact of increased selling and administrative and income tax expenses compared to last year.

For the six months ended June 30, 2011, net earnings increased \$8.4 million to \$29.4 million, or \$1.77 per share, from \$21.0 million, or \$1.27 per share, in 2010. The positive impact of higher volumes more than offset the negative impact of increased selling and administrative and income tax expenses compared to last year.

### **Comprehensive income**

Comprehensive income for the quarter of \$17.0 million increased \$3.3 million from \$13.7 million the previous year due to the \$4.3 million increase in net earnings, offset by a \$1.0 million decrease in other comprehensive income compared to last year. The reduction in other comprehensive income resulted from a decrease in gains on derivative instruments designated as cash flow hedges outstanding at the end of the quarter, offset partially by an increase in losses on derivative instruments designated as cash flow hedges in prior periods reclassified to cost of inventory or finance costs in the current period.

For the six months ended June 30, 2011, comprehensive income of \$30.1 million increased \$8.1 million from \$22.0 million the previous year due to the \$8.4 million increase in net earnings, offset by a \$0.2 million decrease in other comprehensive income compared to last year. The reduction in other comprehensive income resulted from losses on derivative instruments designated as cash flow hedges outstanding at the end of the period, offset mostly by an increase in losses on derivative instruments designated as cash flow hedges in prior periods reclassified to cost of inventory or finance costs in the current period.

### **Funded net debt**

Funded net debt of \$111.1 million as at June 30, 2011 increased \$65.5 million compared to December 31, 2010. The increase resulted mainly from cash used for additional non-cash working capital of \$48.0 million, dividends paid of \$25.4 million, \$21.6 million paid on closing for the acquisition of Harper, \$13.9 million disbursed for rental fleet and other capital additions and interest payments of \$1.8 million. The increases were offset by year to date cash flows from operating activities before changes in non-cash working capital of \$47.4 million.



Wajax's \$175 million bank credit facility expires December 31, 2011. Management is currently in discussions with lenders regarding its refinancing and expects to be able to enter into a new credit facility before the end of 2011.

### Dividends

For the quarter ended June 30, 2011 monthly dividends declared totaled \$0.51 per share and included \$0.15 per share for the month of April and \$0.18 per share for the months of May and June. For the quarter ended June 30, 2010 monthly cash distributions declared were \$0.45 per unit.

For the six months ended June 30, 2011 monthly dividends declared totaled \$0.96 per share. For the six months ended June 30, 2010 monthly cash distributions declared were \$0.90 per unit.

On May 10, 2011 Wajax announced a monthly dividend of \$0.18 per share (\$2.16 annualized) for the month of July payable on August 22, 2011 to shareholders of record on July 29, 2011.

On August 3, 2011 Wajax announced monthly dividends of \$0.20 per share (\$2.40 annualized) for each of the months of August, September and October payable on September 20, 2011, October 20, 2011 and November 21, 2011 to shareholders of record on August 31, 2011, September 30, 2011 and October 31, 2011 respectively.

Tax information relating to 2011 dividends and prior year distributions is available on Wajax's website at [www.wajax.com](http://www.wajax.com).

### Backlog

Consolidated backlog at June 30, 2011 of \$281.7 million increased \$66.0 million, or 31%, from \$215.7 million at March 31, 2011 due mainly to increases in order intake in the Equipment segment and the acquisition of Harper.

## Quarterly Results of Operations

### Equipment

	Three months ended June 30		Six months ended June 30	
	2011	2010	2011	2010
Equipment*	<b>\$98.5</b>	\$82.5	<b>\$186.0</b>	\$139.7
Parts and service	<b>\$65.7</b>	\$60.3	<b>\$129.6</b>	\$111.5
Segment revenue	<b>\$164.2</b>	\$142.8	<b>\$315.6</b>	\$251.2
Segment earnings	<b>\$12.0</b>	\$10.3	<b>\$23.1</b>	\$18.2
Segment earnings margin	<b>7.3%</b>	7.2%	<b>7.3%</b>	7.2%

\* Includes rental revenue.

Revenue in the second quarter of 2011 increased \$21.4 million, or 15%, to \$164.2 million from \$142.8 million in the second quarter of 2010. Segment earnings for the quarter increased \$1.7 million to \$12.0 million compared to the second quarter of 2010. The following factors contributed to the Equipment segment's second quarter results:

- Equipment revenue increased \$16.0 million compared to last year. Specific quarter-over-quarter variances included the following:
  - Construction equipment revenue increased \$11.6 million due to increases in new Hitachi excavator sales, primarily in western Canada, and JCB equipment sales across Canada.
  - Forestry equipment sales increased \$8.7 million attributable to higher market demand in all regions for Tigercat and forestry related Hitachi products.

- Material handling equipment revenue increased \$3.3 million on higher volumes in all regions.
  - Mining equipment sales decreased \$5.8 million on fewer deliveries of LeTourneau mining equipment in western Canada.
  - Crane and utility equipment revenue decreased \$1.8 million due mainly to lower sales to utility customers in Ontario and eastern Canada.
- Parts and service volumes increased \$5.4 million compared to last year due principally to higher construction sector sales in western Canada and mining sector sales in both eastern and western Canada.
  - Segment earnings increased \$1.7 million to \$12.0 million compared to last year as the positive impact of higher volumes outweighed the negative impact of slightly lower parts and service margins and a \$0.5 million increase in selling and administrative expenses. Selling and administrative expenses increased compared to last year due to higher sales related expenses and offset partially by lower bad debt expense.

Backlog of \$151.0 million at June 30, 2011 increased \$53.7 million compared to March 31, 2011 due primarily to an increase in mining and construction equipment orders in western Canada.

The Equipment segment recently closed an equipment supply agreement with Shell Canada Energy for a total of seven Hitachi mining shovels and construction excavators, adding to the already existing fleet of Hitachi equipment at Shell Albion Sands, Shell's oil sands operation in the province of Alberta. In support of Shell Albion Sands' fleet of Hitachi equipment, Wajax has also renewed and extended the existing commercial arrangement with Shell Canada Energy for the supply of parts, components and services until the end of April 2014.

Effective June 22, 2011 Rowan Companies, Inc. of Houston, Texas completed the sale of its 100% ownership interest in LeTourneau Technologies, Inc. ("LeTourneau"), a mining wheel loader manufacturer, to Milwaukee-based Joy Global Inc. ("Joy"). Wajax is the exclusive distributor of LeTourneau products in Canada. Joy has indicated that it intends to look for ways to integrate the LeTourneau distribution activities with its P&H mining equipment operations which will likely impact Wajax's current distribution arrangement with LeTourneau. The sale and service of LeTourneau products in 2010 generated approximately \$40 million of revenue for Wajax and contributed approximately \$10 million to earnings before interest and taxes.

The segment continues to monitor developments in Japan related to the effects of the March 11, 2011 earthquake and tsunami on the Hitachi Japan supply chain. The Equipment segment is the distributor of Hitachi construction and forestry excavators and mining equipment in Canada. Hitachi equipment and parts distributed by Wajax are manufactured and sourced from various locations in Japan and the United States. The expected impact on the Equipment segment in 2011 is as follows:

- Supply disruptions related to parts sourced from Japan have not had, and are not anticipated to have, a significant effect on 2011 parts revenue.
- With respect to mining equipment, the segment's continued working assumption is that there will be a delay in deliveries from Japan of up to six months. The effect on the segment's 2011 revenue is estimated to be a reduction of approximately \$40 million.

## Industrial Components

	Three months ended June 30		Six months ended June 30	
	2011	2010	2011	2010
Segment revenue	<b>\$89.9</b>	\$75.9	<b>\$170.6</b>	\$148.5
Segment earnings	<b>\$6.5</b>	\$2.0	<b>\$11.0</b>	\$5.2
Segment earnings margin	<b>7.3%</b>	2.7%	<b>6.4%</b>	3.5%

Revenue of \$89.9 million increased \$14.0 million, or 18%, from \$75.9 million in the second quarter of 2010. Segment earnings increased \$4.5 million to \$6.5 million in the quarter compared to the previous year. The following factors contributed to the segment's second quarter results:

- Bearings and power transmission parts sales increased \$4.9 million compared to last year due mainly to higher mining sector volumes across all regions and increased sales in the forestry, industrial and transportation sectors, primarily in eastern Canada and Ontario.
- Fluid power and process equipment products and service revenue increased \$9.1 million on improved oil and gas drilling activity in western Canada and increased sales to agriculture, metal processing and transportation customers.
- Segment earnings increased \$4.5 million compared to last year due to the positive impact of higher volumes and a \$0.4 million decrease in selling and administrative expenses. The decrease in selling and administrative expenses resulted mainly from lower personnel related costs.

Backlog of \$47.0 million as of June 30, 2011 increased \$1.5 million compared to March 31, 2011.

## Power Systems

	Three months ended June 30		Six months ended June 30	
	2011	2010	2011	2010
Equipment	<b>\$36.1</b>	\$18.4	<b>\$71.6</b>	\$32.0
Parts and service	<b>\$44.9</b>	\$36.7	<b>\$82.4</b>	\$70.6
Segment revenue	<b>\$81.0</b>	\$55.1	<b>\$154.0</b>	\$102.6
Segment earnings	<b>\$8.3</b>	\$3.7	<b>\$15.3</b>	\$4.6
Segment earnings margin	<b>10.2%</b>	6.6%	<b>9.9%</b>	4.5%

Revenue in the second quarter increased \$25.9 million, or 47%, to \$81.0 million compared to \$55.1 million in 2010 and included \$9.1 million of revenue from the Harper acquisition effective May 2, 2011. Segment earnings increased \$4.6 million to \$8.3 million in the quarter compared to the previous year. The following factors impacted quarterly revenue and earnings:

- Revenue in western Canada increased \$18.2 million compared to last year. Equipment sales improved \$15.1 million on higher sales to oil and gas customers and increased power generation equipment sales. Parts and service revenue increased \$3.1 million mainly as a result of higher sales to off-highway customers, including those in the mining and oil and gas sectors.
- Revenue in central Canada of \$9.1 million from the acquisition of Harper effective May 2, 2011 resulted primarily from sales to on-highway customers.

- Revenue in eastern Canada decreased by \$1.4 million compared to 2010. Equipment sales increased \$0.6 million while parts and service revenue decreased \$2.0 million due to a decline in military and marine sector activity.
- Segment earnings increased \$4.6 million compared to last year as the positive impact of higher volumes more than offset a \$2.1 million increase in selling and administrative expenses. Selling and administrative expenses increased largely as a result of the Harper acquisition, higher annual and long term incentive accruals and commissions, offset partially by savings in other sales related expenses.

Backlog of \$83.7 million as of June 30, 2011 increased \$10.8 million compared to March 31, 2011 due mainly to the acquisition of Harper.

Effective May 2, 2011, Wajax purchased the assets of Harper the authorized Ontario distributor for Detroit Diesel, Mercedes-Benz, MTU and Deutz engines, MTU Onsite Energy generator sets and Allison transmissions with adjusted 2010 annual revenue of approximately \$71 million. With the exception of Deutz engines, Wajax Power Systems is presently the authorized distributor of these lines in the rest of Canada except for portions of British Columbia. The consideration for the assets was \$23.2 million, subject to further post-closing adjustments.

Wajax Power Systems has assumed the operation of Harper's 10 branches in Ontario located in Toronto, Ottawa, Hamilton, London, Sudbury, Timmins, Kingston, Cornwall, Niagara Falls and Pembroke.

With Harper's business well established in the on-highway sector of the market, Wajax intends to further expand its presence in the off-highway and power generation sectors in Ontario. This acquisition also represents a major step towards the strategic objective of becoming a national total power systems solution provider.

## Selected Quarterly Information

	2011 <sup>(1)</sup>		2010 <sup>(1)</sup>			2009 <sup>(2)</sup>		
	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3
Revenue	<b>\$334.1</b>	\$303.9	\$317.1	\$294.4	\$272.0	\$227.4	\$259.1	\$234.6
Net earnings	<b>\$16.5</b>	\$12.8	\$15.0	\$19.6	\$12.2	\$8.9	\$8.3	\$6.8
Net earnings per share								
- Basic	<b>\$0.99</b>	\$0.77	\$0.90	\$1.18	\$0.73	\$0.53	\$0.50	\$0.41
- Diluted	<b>\$0.98</b>	\$0.76	\$0.89	\$1.16	\$0.72	\$0.53	\$0.50	\$0.40

(1) 2011 and 2010 financials are prepared in accordance with IFRS. In addition, certain 2010 comparative amounts have been reclassified to conform with the current period presentation. In particular, cash discounts provided to customers have been reclassified out of selling and administrative into revenue. In addition, cash discounts received from vendors have been reclassified out of selling and administrative expenses into cost of sales. The above reclassification do not affect net earnings or cashflows.

(2) 2009 financials are prepared in accordance with Canadian GAAP. In addition, certain 2009 comparative amounts have been reclassified to conform with the current period presentation. In particular, amounts recovered from customers or manufacturers have been reclassified out of selling and administrative expenses into revenue. In addition, service department overhead amounts have been reclassified out of selling and administrative expenses into cost of sales. The above reclassifications do not affect net earnings or cashflows.

A discussion of Wajax's previous quarterly results can be found in Wajax's quarterly MD&A reports available on SEDAR at [www.sedar.com](http://www.sedar.com).

## Cash Flow, Liquidity and Capital Resources

### Net Cash Flows used in Operating Activities

While the IFRS adjustments do not impact the Corporation's total cash flows, cash flows from operating activities and cash flows used in investing activities have each been adjusted, by equal and offsetting amounts to reflect the reclassification of rental equipment additions as operating activities.

For the six months ended June 30, 2011, net cash flows used in operating activities amounted to \$14.1 million, compared to \$18.5 million generated from operating activities the previous year. The \$32.6 million decrease was due primarily to a \$40.2 million increased use of non-cash working capital and \$9.8 million higher lift truck rental fleet additions in the Equipment segment, offset by higher cash flows from operations before changes in non-cash working capital of \$17.2 million.

Changes in non-cash working capital for the first six months of 2011 compared to 2010 include the following components:

Increase (decrease) in non-cash working capital	Six months ended June 30	
	2011	2010
Trade and other receivables	\$38.4	\$23.5
Inventories	\$12.1	\$0.4
Prepaid expenses	(\$0.1)	\$4.7
Trade and other payables	\$0.6	(\$11.7)
Accrued Liabilities	(\$2.6)	(\$9.7)
Provisions	(\$0.4)	\$0.6
Total	\$48.0	\$7.8

Significant components of the changes in non-cash working capital for the six months ended June 30, 2011 are as follows:

- Trade and other receivables increased \$38.4 million due to the impact of higher sales activity in all segments and the recent postal strike.
- Inventories increased \$12.1 million largely in the Power Systems and Industrial Components segments as a result of a continued growth in sales activity.

At June 30, 2011 Wajax had employed \$188.8 million in working capital, exclusive of funded net debt, compared to \$118.3 million at December 31, 2010. The \$70.5 million increase was due primarily to the cash flow factors listed above, the Harper acquisition and a \$9.5 million decrease in dividends payable related to the payment in January 2011 of distributions declared in December 2010 prior to converting from an income fund to a corporation.

### Investing Activities

For the six months ended June 30, 2011, Wajax paid \$21.6 million of cash on closing for the acquisition of Harper on May 2, 2011 and a net amount of \$2.2 million on capital asset additions net of disposals compared to \$1.3 million the previous year.

### Financing Activities

For the six months ended June 30, 2011, Wajax used \$13.0 million of cash in financing activities compared to \$16.7 million in 2010. Distributions and dividends paid to shareholders totaling \$25.4 million, or \$1.53 per share, exceeded increases in long-term debt of \$14.0 million in the period.

Funded net debt of \$111.1 million at June 30, 2011 increased \$65.5 million compared to December 31, 2010. The increase resulted mainly from cash used for additional non-cash working capital of \$48.0 million, distributions and dividends paid of \$25.4 million, \$21.6 million paid on closing for the acquisition of Harper, \$13.9 million disbursed for rental fleet and other capital additions and interest payments of \$1.8 million. The increases were offset by cash flows from operating activities before changes in non-cash working capital of \$47.4 million. Wajax's period-end funded net debt-to-equity ratio of 0.52:1 at June 30, 2011 increased from the ratio of 0.23:1 at December 31, 2010.

## Liquidity and Capital Resources

At June 30, 2011 Wajax had borrowed \$94.0 million and issued \$5.5 million of letters of credit for a total utilization of \$99.5 million of its \$175 million bank credit facility and had no utilization of its \$15 million equipment financing facility. Borrowing capacity under the bank credit facility is dependent on the level of inventories on-hand and outstanding trade accounts receivables. At June 30, 2011 borrowing capacity under the bank credit facility was equal to \$175 million.

Wajax's \$175 million bank credit facility along with an additional \$15 million of capacity permitted under the credit facility, should be sufficient to meet Wajax's short-term normal course working capital, maintenance capital and growth capital requirements. In the long-term Wajax may be required to access the equity or debt markets in order to fund significant acquisitions and growth related working capital and capital expenditures.

The \$175 million bank credit facility expires December 31, 2011. Management is currently in discussions with lenders regarding its refinancing and expects to be able to enter into a new credit facility before the end of 2011.

## Financial Instruments

Wajax uses derivative financial instruments in the management of its foreign currency and interest rate exposures. Wajax's policy is not to utilize derivative financial instruments for trading or speculative purposes. Significant derivative financial instrument transactions and those outstanding at the end of the quarter were as follows:

- Wajax has entered into the following interest rate swaps that have effectively fixed the interest rate on \$80 million of Wajax's debt at the combined rate of 2.925%, plus applicable margins, until December 31, 2011:
  - On June 7, 2008 the delayed interest rate swap Wajax entered into on May 9, 2007 with two of its lenders became effective. As a result, the interest rate on the \$30 million non-revolving term portion of the bank credit facility was effectively fixed at 4.60% plus applicable margins until expiry of the facility on December 31, 2011.
  - On January 23, 2009 a delayed interest rate swap Wajax entered into on December 18, 2008 with two of its lenders became effective. As a result, the interest rate on the \$50 million revolving term portion of the bank credit facility was effectively fixed at 1.92% plus applicable margins until expiry of the facility on December 31, 2011.
  - Margins on the debt associated with the interest rate swaps depend on Wajax's Leverage Ratio and range between 0.75% and 2.5%.
- Wajax enters into short-term currency forward contracts to fix the exchange rate on the cost of certain inbound inventory and to hedge certain foreign currency-denominated sales to (receivables from) customers as part of its normal course of business. As at June 30, 2011, Wajax had contracts outstanding to buy U.S.\$29.3 million and to sell U.S.\$4.4 million and €0.006 million (December 31, 2010 – to buy U.S.\$34.1 million and to sell U.S.\$0.3 million, June 30, 2010 – to buy U.S.\$41.8 million and €0.2 million and to sell U.S.\$0.03 million). The U.S. dollar contracts expire between July 2011 and December 2012, with a weighted average U.S./Canadian dollar rate of 0.9898 and weighted average Euro / Canadian dollar rate of 1.3964.

Wajax measures financial instruments held for trading and not accounted for as hedging items, at fair value with subsequent changes in fair value being charged to earnings. Derivatives designated as

effective hedges are measured at fair value with subsequent changes in fair value being charged to other comprehensive income. The fair value of derivative instruments is estimated based upon market conditions using appropriate valuation models. The carrying values reported in the balance sheet for financial instruments are not significantly different from their fair values.

The transition to IFRS did not have a material effect on the Corporation's accounting for financial instruments.

## Currency Risk

There have been no material changes to currency risk since December 31, 2010.

## Contractual Obligations

There have been no material changes to contractual obligations since December 31, 2010.

## Off Balance Sheet Financing

The Equipment segment had \$27.9 million (2010 - \$22.6 million) of consigned inventory on-hand from a major manufacturer as at June 30, 2011. In the normal course of business, Wajax receives inventory on consignment from this manufacturer which is generally sold to customers or purchased by Wajax. This consigned inventory is not included in Wajax's inventory as the manufacturer retains title to the goods.

Wajax's off balance sheet financing arrangements, with non-bank lenders, include operating lease contracts in relation to Wajax's long-term lift truck rental fleet in the Equipment segment. At June 30, 2011, the non-discounted operating lease commitment for the rental fleet was \$5.0 million (December 31, 2010 - \$6.0 million).

In the event the inventory consignment program was terminated, Wajax would utilize interest free financing, if any, made available by the manufacturer and/or utilize capacity under its bank credit facility. Although management currently believes Wajax has adequate debt capacity, Wajax would have to access the equity or debt markets, or temporarily reduce dividends to accommodate any shortfalls in Wajax's credit facility. See the Liquidity and Capital Resources section.

Under IFRS, vehicle leases that were previously classified as operating leases under Canadian GAAP are assessed as financing leases. Assets under finance lease are capitalized at the commencement of the lease at the fair value of the leased asset or, if lower, at the present value of the minimum lease payments. The liability is recorded in the statement of financial position and classified between current and non-current amounts. Lease payments are apportioned between finance charges and a reduction of the lease liability so as to achieve a constant rate of return of interest on the remaining balance of the liability.

## Dividends

Dividends to shareholders were declared as follows:

Record Date	Payment Date	Per Share	Amount
April 29, 2011	May 20, 2011	\$0.15	\$2.5
May 31, 2011	June 20, 2011	0.18	3.0
June 30, 2011	July 20, 2011	0.18	3.0
<b>Three months ended June 30, 2011</b>		<b>\$0.51</b>	<b>\$8.5</b>

On May 10, 2011 Wajax announced a monthly dividend of \$0.18 per share (\$2.16 annualized) for the month of July payable on August 22, 2011 to shareholders of record on July 29, 2011.

On August 3, 2011 Wajax announced monthly dividends of \$0.20 per share (\$2.40 annualized) for each of the months of August, September and October payable on September 20, 2011, October 20, 2011 and November 21, 2011 to shareholders of record on August 31, 2011, September 30, 2011 and October 31, 2011 respectively.

Tax information relating to 2011 dividends and prior year distributions is available on Wajax's website at [www.wajax.com](http://www.wajax.com).

## Productive Capacity and Productive Capacity Management

During the quarter, Wajax increased its productive capacity through the acquisition of Harper which increased the Power Systems' Ontario infrastructure by an additional ten branches. There have been no other material changes to the Corporation's productive capacity and productive capacity management since December 31, 2010.

## Financing Strategies

Wajax's \$175 million bank credit facility along with the \$15 million demand inventory equipment financing facility should be sufficient to meet Wajax's short-term normal course working capital, maintenance capital and growth capital requirements. The \$175 million bank credit facility expires December 31, 2011. Management is currently in discussions with lenders regarding its refinancing and expects to be able to enter into a new credit facility before the end of 2011.

Wajax's short-term normal course working capital requirements can swing widely quarter-to-quarter due to the timing of large inventory purchases and/or sales and changes in market activity. In general, as Wajax experiences growth, there is a need for additional working capital as was the case in 2006 and 2008. Conversely, as Wajax experiences economic slowdowns working capital reduces reflecting the lower activity levels as was the case in 2009. Fluctuations in working capital are generally funded by, or used to repay, the bank credit facilities.

In the long-term Wajax may also be required to access the equity or debt markets or reduce dividends in order to fund significant acquisitions and growth related working capital and capital expenditures.

Borrowing capacity under the bank credit facility is dependent on the level of Wajax's inventories on-hand and outstanding trade accounts receivables. At June 30, 2011 borrowing capacity under the bank credit facility was equal to \$175 million.

The bank credit facility contains covenants that could restrict the ability of Wajax to make dividend payments, if (i) an event of default exists or would exist as a result of a dividend payment, and (ii) the leverage ratio (Debt to EBITDA) is greater than 3.0. If the leverage ratio is less than or equal to 3.0, then the aggregate dividend payments by the borrowers in each fiscal quarter may not exceed 115% of distributable cash for the trailing four fiscal quarters. Borrowing capacity under the bank credit facility is dependent on the level of inventories on-hand and outstanding trade accounts receivables. For further detail, the bank credit facility is available on SEDAR at [www.sedar.com](http://www.sedar.com).

## Share Capital

The shares of Wajax issued are included in shareholders' equity on the balance sheet as follows:

<b>Issued and fully paid shares as at June 30, 2011</b>	<b>Number</b>	<b>Amount</b>
Balance at the beginning of the year	16,629,444	\$105.9
Rights exercised	-	-
Balance at end of quarter	<b>16,629,444</b>	<b>\$105.9</b>



Wajax has five share-based compensation plans; the Wajax Share Ownership Plan ("SOP"), the Deferred Share Program ("DSP"), the Directors' Deferred Share Unit Plan ("DDSUP"), the Mid-Term Incentive Plan for Senior Executives ("MTIP") and the Deferred Share Unit Plan ("DSUP"). SOP, DSP and DDSUP rights are issued to the participants and are settled by issuing Wajax Corporation shares. The cash-settled MTIP and DSUP consist of annual grants that vest over three years and are subject to time and performance vesting criteria. A portion of the MTIP and the full amount of the DSUP grants are determined by the price of the Corporation's shares. Compensation expense for the SOP, DSP and DDSUP is determined based upon the fair value of the rights at the date of grant and charged to earnings on a straight line basis over the vesting period, with an offsetting adjustment to contributed surplus. Compensation expense for the DSUP and the share-based portion of the MTIP varies with the price of the Corporation's shares and is recognized over the vesting period. Wajax recorded compensation cost of \$1.1 million for the quarter (2010 - \$1.2 million) and \$2.5 million for the six months ended (2010 - \$1.9 million) in respect of these plans.

Effective January 1, 2011 the SOP, DSP, DDSUP and MTIP plans have been amended to reflect the conversion to a corporation.

## Critical Accounting Estimates

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Significant accounting estimates include the provision for inventory obsolescence, provision for doubtful accounts and any impairment of goodwill and other assets, classification of leases, warranty reserve and measurement of employee benefit obligations. Wajax makes a provision for doubtful accounts when there is evidence that a specific account may become uncollectible. Wajax does not provide a general reserve for bad debts. As conditions change, actual results could differ from those estimates. Critical accounting estimates used by Wajax's management are discussed in detail in the MD&A for the year ended December 31, 2010 which can be found on SEDAR at [www.sedar.com](http://www.sedar.com)

## Accounting Changes

### Transition to International Financial Reporting Standards

The Corporation has adopted IFRS on January 1, 2011 as required by the Accounting Standards Board of the Canadian Institute of Chartered Accountants. The Corporation provided information on its transition to IFRS in its MD&A for the quarter ended March 31, 2011. This information has not changed materially from what was provided.

Note 13 of the condensed consolidated financial statements provides an explanation of the transition to IFRS. In addition, Note 13 provides detailed reconciliations between Canadian GAAP and IFRS of the consolidated income statement and consolidated statement of comprehensive income for the three months and six months ended June 30, 2010 and of the consolidated statement of financial position as at June 30, 2010. These reconciliations provide explanations of each major difference.

### New standards and interpretations not yet adopted

As of January 1, 2013, the Corporation will be required to adopt IFRS 9 *Financial Instruments*, which is the result of the first phase of the IASB's project to replace IAS 39 *Financial Instruments: Recognition and Measurement*. The new standard replaces the current multiple classification and measurement models for financial assets and liabilities with a single model that has only two classification categories: amortized cost and fair value. The Corporation is currently assessing the impact of this standard on its consolidated financial statements.

As of January 1, 2013, the Corporation will be required to adopt IFRS 10 *Consolidated Financial Statements*, which establishes principles for the preparation and presentation of consolidated financial statements when an entity controls one or more other entities. The Corporation does not expect IFRS 10 to have a material impact on its consolidated financial statements.

As of January 1, 2013, the Corporation will be required to adopt IFRS 13 *Fair Value Measurement*, which defines fair value and sets out a framework for measuring fair value when fair value measurements are required or permitted by other IFRSs. The Corporation is currently assessing the impact of this standard on its consolidated financial statements.

As of January 1, 2013, the Corporation will be required to adopt amendments to IAS 1 *Presentation of Financial Statements*, which require that an entity present separately the items of OCI that may be reclassified to profit or loss in the future from those that would never be reclassified to profit or loss. The Corporation intends to adopt the amendments in its financial statements for the annual period beginning on January 1, 2013. As the amendments only require changes in the presentation of items in other comprehensive income, the Corporation does not expect the amendments to IAS 1 to have a material impact on the financial statements.

As of January 1, 2013, the Corporation will be required to adopt amendments to IAS 19 *Employee Benefits*, which requires recognition of actuarial gains and losses immediately in other comprehensive income, the full recognition of past service costs immediately in profit or loss, recognition of the expected return on plan assets in profit or loss to be calculated based on the rate used to discount the defined benefit obligation, and certain additional disclosures. The Corporation is currently assessing the impact of this standard on its consolidated financial statements.

## **Risks and Uncertainties**

As with most businesses, Wajax is subject to a number of marketplace and industry related risks and uncertainties which could have a material impact on operating results. Wajax attempts to minimize many of these risks through diversification of core businesses and through the geographic diversity of its operations. There are however, a number of risks that deserve particular comment which are discussed in detail in the MD&A for the year ended December 31, 2010 which can be found on SEDAR at [www.sedar.com](http://www.sedar.com). For the period July 1, 2011 to August 3, 2011 there have been no material changes to the business of Wajax that require an update to the discussion of the applicable risks discussed in the MD&A for the year ended December 31, 2010.

## **Outlook**

Improvements in the second quarter were driven by the robust energy, mining, forestry and construction markets particularly in western Canada. However, management was also encouraged by stronger results in the Equipment segment's Ontario operation and the eastern Canada business of Industrial Components. Results from the Harper acquisition for the two months since the transaction closed have met our expectations.

The Equipment segment has been able to minimize the effects of the supply disruption to its Hitachi product line caused by the earthquake and resulting tsunami in Japan. As expected, the most significant issue relates to delays in obtaining mining equipment, which will have some impact on 2011 revenue. In addition, the segment continues to experience some product shipment delays for a number of other products from several suppliers, mainly as a result of increased global demand and component shortages.

For the remainder of the year, management expects economic activity in the broader Canadian economy will continue at a level similar to that experienced in the first six months. Notwithstanding negative impacts from the Hitachi equipment and other product supply disruptions, management also expects pre-tax earnings to continue to be ahead of last year for the balance of 2011, but at a lower rate of increase.

Wajax's decision to increase the monthly dividend takes into account the strength of expected future earnings including the potential downside effects on its LeTourneau products distribution arrangement.

Additional information, including Wajax's Annual Report and Annual Information Form, are available on SEDAR at [www.sedar.com](http://www.sedar.com).

# WAJAX CORPORATION

Unaudited Condensed Consolidated Financial Statements

For the three and six months ended June 30, 2011

Notice required under National Instrument 51-102, "Continuous Disclosure Obligations" Part 4.3(3) (a):

The attached condensed consolidated financial statements have been prepared by Management of Wajax Corporation and have not been reviewed by the Corporation's auditors.

**W A J A X   C O R P O R A T I O N**  
**C O N D E N S E D   C O N S O L I D A T E D   S T A T E M E N T S   O F**  
**F I N A N C I A L   P O S I T I O N**

As at (unaudited, in thousands of Canadian dollars)		<b>June 30, 2011</b>	December 31, 2010
<b>ASSETS</b>			
<b>CURRENT</b>			
Cash		\$ -	\$ 42,954
Trade and other receivables		<b>184,447</b>	135,517
Inventories		<b>218,910</b>	196,460
Prepaid expenses		<b>7,421</b>	7,244
		<b>410,778</b>	382,175
<b>NON-CURRENT</b>			
Rental equipment	Note 4	<b>23,371</b>	15,794
Property, plant and equipment	Note 5	<b>48,350</b>	46,090
Intangible assets	Note 6	<b>81,929</b>	72,972
Deferred tax assets	Note 9	-	5,277
Pension asset		<b>395</b>	240
		<b>154,045</b>	140,373
		<b>\$ 564,823</b>	\$ 522,548
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>			
<b>CURRENT</b>			
Bank indebtedness		\$ 7,970	\$ -
Trade and other payables		<b>141,258</b>	134,832
Accrued liabilities		<b>68,510</b>	64,229
Provisions		<b>5,286</b>	4,892
Dividends payable		<b>2,993</b>	12,472
Income taxes payable		<b>2,540</b>	2,072
Obligations under finance leases		<b>3,689</b>	3,677
Derivative instrument liability		<b>1,356</b>	2,452
Bank debt		<b>93,839</b>	79,680
		<b>327,441</b>	304,306
<b>NON-CURRENT</b>			
Provisions		<b>4,375</b>	4,338
Deferred tax liabilities	Note 9	<b>5,590</b>	-
Employee benefits		<b>4,033</b>	4,132
Other liabilities		<b>3,372</b>	5,221
Obligations under finance leases		<b>5,595</b>	5,227
		<b>22,965</b>	18,918
<b>SHAREHOLDERS' EQUITY</b>			
Share capital		<b>105,892</b>	-
Trust units		-	105,892
Contributed surplus	Note 8	<b>7,338</b>	6,426
Retained earnings		<b>102,801</b>	89,411
Accumulated other comprehensive loss		<b>(1,614)</b>	(2,405)
		<b>101,187</b>	87,006
Total shareholders' equity		<b>214,417</b>	199,324
		<b>\$ 564,823</b>	\$ 522,548

These condensed consolidated financial statements were approved by the Board of Directors on August 3, 2011.

**W A J A X   C O R P O R A T I O N**  
**C O N D E N S E D   C O N S O L I D A T E D   I N C O M E   S T A T E M E N T S**

(unaudited, in thousands of Canadian dollars, except per share data)	Three months ended June 30		Six months ended June 30	
	2011	2010	2011	2010
Revenue	\$ 334,069	\$ 272,042	\$ 637,998	\$ 500,163
Cost of sales	261,539	212,575	499,605	388,995
Gross profit	72,530	59,467	138,393	111,168
Selling and administrative expenses	49,044	46,558	95,887	88,685
Earnings before finance costs and income taxes	23,486	12,909	42,506	22,483
Finance costs	1,109	1,082	2,085	2,149
Earnings before income taxes	22,377	11,827	40,421	20,334
Income tax expense (recovery) Note 9	5,839	(337)	11,067	(707)
Net earnings	\$ 16,538	\$ 12,164	\$ 29,354	\$ 21,041
Basic earnings per share Note 10	\$ 0.99	\$ 0.73	\$ 1.77	\$ 1.27
Diluted earnings per share Note 10	\$ 0.98	\$ 0.72	\$ 1.74	\$ 1.25

**W A J A X   C O R P O R A T I O N**  
**C O N D E N S E D   C O N S O L I D A T E D   S T A T E M E N T S   O F**  
**C O M P R E H E N S I V E   I N C O M E**

(unaudited, in thousands of Canadian dollars)	Three months ended June 30		Six months ended June 30	
	2011	2010	2011	2010
Net earnings	\$ 16,538	\$ 12,164	\$ 29,354	\$ 21,041
Losses on derivative instruments designated as cash flow hedges in prior periods reclassified to cost of inventory or finance costs during the period, net of tax of \$160 (2010 - \$34) and year to date, net of tax of \$390 (2010 - \$49)	422	320	1,029	459
Gains (losses) on derivative instruments designated as cash flow hedges during the period, net of tax of \$16 (2010 - \$108) and year to date, net of tax of \$87 (2010 - \$115)	34	1,215	(238)	509
Other comprehensive income, net of tax	456	1,535	791	968
Total comprehensive income	\$ 16,994	\$ 13,699	\$ 30,145	\$ 22,009

**W A J A X   C O R P O R A T I O N**  
**C O N D E N S E D   C O N S O L I D A T E D   S T A T E M E N T S   O F**  
**C H A N G E S   I N   S H A R E H O L D E R S '   E Q U I T Y**

For the six months ended June 30, 2011 (unaudited, in thousands of Canadian dollars)	Accumulated other comprehensive income (loss) ("AOCL")						Total
	Share capital	Trust units	Contributed surplus (Note 8)	Retained earnings	Actuarial Gains and Losses	Gains and Losses on Cash Flow Hedges	
January 1, 2011	\$ -	105,892	6,426	89,411	(628)	(1,777)	\$ 199,324
Conversion to corporation	105,892	(105,892)	-	-	-	-	-
Net earnings	-	-	-	29,354	-	-	29,354
<b>Other comprehensive income</b>							
Losses on derivative instruments designated as cash flow hedges in prior periods reclassified to cost of inventory or finance costs during the period, net of tax	-	-	-	-	-	1,029	1,029
Losses on derivative instruments designated as cash flow hedges during the period, net of tax	-	-	-	-	-	(238)	(238)
Total other comprehensive income	-	-	-	-	-	791	791
Total comprehensive income for the period	-	-	-	29,354	-	791	30,145
Dividends	Note 7	-	-	(15,964)	-	-	(15,964)
Share-based compensation expense	Note 8	-	-	912	-	-	912
<b>June 30, 2011</b>	<b>\$ 105,892</b>	<b>-</b>	<b>7,338</b>	<b>102,801</b>	<b>(628)</b>	<b>(986)</b>	<b>\$ 214,417</b>

**W A J A X   C O R P O R A T I O N**  
**C O N D E N S E D   C O N S O L I D A T E D   S T A T E M E N T S   O F**  
**C H A N G E S   I N   S H A R E H O L D E R S '   E Q U I T Y**

For the six months ended June 30, 2010 (unaudited, in thousands of Canadian dollars)							AOCL	
		Share capital	Trust units	Contributed surplus (Note 8)	Retained earnings	Gains and Losses on Cash Flow Hedges		Total
January 1, 2010		\$ -	105,307	5,645	90,258	(2,233)	\$	198,977
Net earnings		-	-	-	21,041	-		21,041
<b>Other comprehensive loss</b>								
Losses on derivative instruments designated as cash flow hedges in prior periods reclassified to cost of inventory or finance costs during the period, net of tax		-	-	-	-	459		459
Gains on derivative instruments designated as cash flow hedges during the period, net of tax		-	-	-	-	509		509
Total other comprehensive loss		-	-	-		968		968
Total comprehensive income for the period		-	-	-	21,041	968		22,009
Dividends	Note 7	-	-	-	(14,944)	-		(14,944)
Share-based compensation expense	Note 8	-	-	592	-	-		592
<b>June 30, 2010</b>		<b>\$ -</b>	<b>105,307</b>	<b>6,237</b>	<b>96,355</b>	<b>(1,265)</b>	<b>\$</b>	<b>206,634</b>



**W A J A X   C O R P O R A T I O N**  
**C O N D E N S E D   C O N S O L I D A T E D   S T A T E M E N T S   O F**  
**C A S H   F L O W S**

(unaudited, in thousands of Canadian dollars)		Six months ended June 30	
		2011	2010
<b>OPERATING ACTIVITIES</b>			
Net earnings	\$	29,354	\$ 21,041
Items not affecting cash flow:			
Depreciation and amortization			
Rental equipment		2,066	1,736
Property, plant and equipment		2,364	2,160
Assets under finance lease		1,446	1,249
Intangible assets		252	295
Share-based compensation expense	Note 8	912	592
Other liabilities		(1,849)	1,268
Non-cash rental expense		(49)	(27)
Pension expense, net of payments		(254)	(123)
Finance costs		2,085	2,149
Income tax expense (recovery)		11,067	(707)
Cash flows from operating activities before changes in non-cash working capital		47,394	29,633
Changes in non-cash working capital:			
Trade and other receivables		(38,376)	(23,502)
Inventories		(12,107)	(410)
Prepaid expenses		101	(4,659)
Trade and other payables		(601)	12,664
Accrued liabilities		2,611	9,319
Provisions		394	(648)
		(47,978)	(7,236)
Cash flows (used in) generated from operating activities		(584)	22,397
Rental equipment additions		(11,709)	(1,861)
Provisions		37	(19)
Interest paid		(1,826)	(2,083)
Income taxes received (paid)		(37)	61
Net cash flows (used in) generated from operating activities		(14,119)	18,495
<b>INVESTING ACTIVITIES</b>			
Property, plant and equipment additions		(2,207)	(1,367)
Proceeds on disposal of property, plant and equipment		41	93
Acquisition of business	Note 11	(21,603)	-
Net cash flows used in investing activities		(23,769)	(1,274)
		(37,888)	17,221
<b>FINANCING ACTIVITIES</b>			
Increase in bank debt		14,000	-
Increase in transaction costs		-	(92)
Payments under finance leases		(1,593)	(1,677)
Dividends paid	Note 7	(25,443)	(14,944)
Net cash flows used in financing activities		(13,036)	(16,713)
<b>Net change in cash and cash equivalents</b>		<b>(50,924)</b>	<b>508</b>
Cash - beginning of period		42,954	9,207
(Bank indebtedness) cash - end of period	\$	(7,970)	\$ 9,715

**W A J A X   C O R P O R A T I O N**  
**N O T E S   T O   C O N D E N S E D   C O N S O L I D A T E D**  
**F I N A N C I A L   S T A T E M E N T S**

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JUNE 30, 2011

(unaudited, amounts in thousands of Canadian dollars, except share and per share data)

**1. COMPANY PROFILE**

Wajax Corporation (“the Corporation”) is incorporated in Canada. The address of the Corporation’s registered office is 3280 Wharton Way, Mississauga, Ontario, Canada. The Corporation’s core distribution businesses are engaged in the sale and after-sale parts and service support of equipment, industrial components and power systems, through a network of 118 branches across Canada. The Corporation is a multi-line distributor and represents a number of leading worldwide manufacturers across its core businesses. Its customer base is diversified, spanning natural resources, construction, transportation, manufacturing, industrial processing and utilities.

In 2010 the Corporation was structured as an unincorporated, open-ended, limited purpose investment trust called Wajax Income Fund (“the Fund”). On January 1, 2011, the Fund converted into a corporation pursuant to a Plan of Arrangement under the Canada Business Corporations Act. Unitholders of the Fund automatically received one common share of the Corporation in exchange for each unit of the Fund. The conversion was accounted for as a continuity of interests. The business continues to be carried on by the same management team that was in place prior to the completion of the conversion.

**2. BASIS OF PREPARATION**

**Statement of compliance**

These condensed consolidated financial statements have been prepared in accordance with International Accounting Standard 34 *Interim Financial Reporting*. These are the Corporation’s interim International Financial Reporting Standards (“IFRS”) condensed consolidated financial statements for part of the period covered by the first IFRS annual financial statements, and IFRS 1 *First-time Adoption of International Financial Reporting Standards* has been applied. The condensed consolidated financial statements do not include all of the disclosures required for full annual consolidated financial statements. Accordingly, these condensed consolidated financial statements should be read in conjunction with the annual consolidated financial statements of Wajax Income Fund for the year ended December 31, 2010 reported under previous Canadian generally accepted accounting principles (“Canadian GAAP”) and the condensed consolidated financial statements of the Corporation for the three months ended March 31, 2011, which were the first financial statements presented under IFRS.

An explanation of how the transition to IFRS has affected the reported financial position, financial performance and cash flows of the Corporation is provided in Note 13. This note includes reconciliations of equity and total comprehensive income for comparative periods and of equity at the date of transition reported under previous Canadian GAAP to those reported for those periods and at the date of transition under IFRS. The Corporation’s date of transition to IFRS was January 1, 2010.

### **Basis of measurement**

The condensed consolidated financial statements have been prepared under the historical cost basis, except for derivative financial instruments and held for trading financial instruments that have been measured at fair value.

### **Functional and presentation currency**

These condensed consolidated financial statements are presented in Canadian dollars, which is the Corporation's functional currency. All financial information presented in Canadian dollars has been rounded to the nearest thousand, unless otherwise stated and except share and per share data.

### **Judgements and estimation uncertainty**

The preparation of the condensed consolidated financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities and revenues and expenses. Actual results could differ from those estimates. The Corporation bases its estimates on historical experience and various other assumptions that are believed to be reasonable in the circumstances.

In preparing these condensed consolidated financial statements, the significant judgments made by management in applying the Corporation's accounting policies and the key sources of estimation uncertainty are expected to be the same as those to be applied in the first annual IFRS financial statements. The more significant judgements and assumptions that have an effect on the amounts recognized in the condensed consolidated financial statements are provision for doubtful accounts, inventory obsolescence, asset impairment, classification of leases, impairment of intangible assets, warranty reserve and measurement of employee benefit obligations.

### **3. NEW STANDARDS AND INTERPRETATIONS NOT YET ADOPTED**

These condensed consolidated financial statements have been prepared using IFRS currently issued and expected to be effective at the end of the Corporation's first annual IFRS reporting period, December 31, 2011. Accounting policies currently adopted under IFRS are subject to change as a result of either a new standard being issued or as a result of a voluntary change in accounting policy made by the Corporation during 2011. A change in an accounting policy used may result in material changes to the Corporation's reported financial position, results of operations and cash flows.

As of January 1, 2013, the Corporation will be required to adopt IFRS 9 *Financial Instruments*, which is the result of the first phase of the IASB's project to replace IAS 39 *Financial Instruments: Recognition and Measurement*. The new standard replaces the current multiple classification and measurement models for financial assets and liabilities with a single model that has only two classification categories: amortized cost and fair value. The Corporation is currently assessing the impact of this standard on its consolidated financial statements.

As of January 1, 2013, the Corporation will be required to adopt IFRS 10 *Consolidated Financial Statements*, which establishes principles for the preparation and presentation of consolidated financial statements when an entity controls one or more other entities. The Corporation does not expect IFRS 10 to have a material impact on its consolidated financial statements.

As of January 1, 2013, the Corporation will be required to adopt IFRS 13 *Fair Value Measurement*, which defines fair value and sets out a framework for measuring fair value when fair value measurements are required or permitted by other standards. The Corporation is currently assessing the impact of this standard on its consolidated financial statements.

As of January 1, 2013, the Corporation will be required to adopt amendments to IAS 1 *Presentation of Financial Statements*, which require that an entity present separately the items of OCI that may be reclassified to profit or loss in the future from those that would never be reclassified to profit or loss. The Corporation intends to adopt the amendments in its financial statements for the annual period beginning on January 1, 2013. As the amendments only require changes in the presentation of items in other comprehensive income, the Corporation does not expect the amendments to IAS 1 to have a material impact on the financial statements.

As of January 1, 2013, the Corporation will be required to adopt IAS 19 *Employee Benefits*, which requires recognition of actuarial gains and losses immediately in other comprehensive income, the full recognition of past service costs immediately in profit or loss, recognition of the expected return on plan assets in profit or loss to be calculated based on the rate used to discount the defined benefit obligation, and certain additional disclosures. The Corporation is currently assessing the impact of this standard on its consolidated financial statements.

#### **4. RENTAL EQUIPMENT**

The Corporation acquired rental equipment with a cost of \$6,027 during the quarter (2010 - \$582) and \$11,709 year to date (2010 - \$1,861). Rental equipment with a carrying amount of \$922 during the quarter (2010 - \$579) and \$2,066 year to date (2010 - \$1,293) ceased to be rented and was classified as held for sale in the normal course of business and transferred to inventory.

#### **5. PROPERTY, PLANT AND EQUIPMENT**

The Corporation acquired property, plant and equipment with a cost of \$2,531 during the quarter (2010 - \$861) and \$4,182 year to date (2010 - \$1,962). Assets with a carrying amount of \$310 during the quarter (2010 - \$6) and \$368 year to date (2010 - \$93) were disposed of, resulting in gains on disposal of nil during the quarter (2010 - \$18) and \$16 year to date (2010 - \$191).

Included in the above are vehicles held under finance leases:

	<b>June 30, 2011</b>	December 31, 2010
Cost	<b>\$ 22,129</b>	\$ 22,006
Accumulated depreciation	<b>12,279</b>	12,542
Carrying amount	<b>\$ 9,850</b>	\$ 9,464

All property, plant and equipment except vehicles held under finance leases have been pledged as security for bank debt.

## 6. INTANGIBLE ASSETS

		Goodwill	Product distribution rights	Customer lists/Non- competition agreements	Total
<b>Cost</b>					
January 1, 2010	\$	66,335	4,900	4,302	\$ 75,537
June 30, 2010		66,335	4,900	4,302	75,537
January 1, 2011	\$	66,335	4,900	4,302	\$ 75,537
Acquisition of business		4,309	3,900	1,000	9,209
June 30, 2011		70,644	8,800	5,302	84,746
<b>Accumulated amortization</b>					
January 1, 2010	\$	-	-	2,032	\$ 2,032
Amortization for the period		-	-	295	295
June 30, 2010		-	-	2,327	2,327
January 1, 2011	\$	-	-	2,565	\$ 2,565
Amortization for the period		-	-	252	252
June 30, 2011		-	-	2,817	2,817
<b>Net book value</b>					
January 1, 2010	\$	66,335	4,900	2,270	\$ 73,505
June 30, 2010	\$	66,335	4,900	1,975	\$ 73,210
January 1, 2011	\$	66,335	4,900	1,737	\$ 72,972
June 30, 2011	\$	70,644	8,800	2,485	\$ 81,929

## 7. DIVIDENDS DECLARED

During the three months ended June 30, 2011 the Corporation declared cash dividends of \$0.51 per share, or \$8,481 (June 30, 2010, distributions of \$0.45 per unit or \$7,472).

Year to date, the Corporation declared cash dividends of \$0.96 per share, or \$15,964 (June 30, 2010, distributions of \$0.90 per unit or \$14,944).

## 8. SHARE-BASED COMPENSATION PLANS

The Corporation has five share-based compensation plans: the Wajax Share Ownership Plan ("SOP"), the Deferred Share Program ("DSP"), the Directors' Deferred Share Unit Plan ("DDSUP"), the Mid-Term Incentive Plan for Senior Executives ("MTIP") and the Deferred Share Unit Plan ("DSUP").

### a) Share Rights Plans

Under the SOP, DSP and the DDSUP, rights are issued to the participants which, upon satisfaction of certain time and performance vesting conditions, are settled by issuing Wajax Corporation shares for no cash consideration. The rights are settled when the participant is no longer employed by the Corporation or one of its subsidiary entities or no longer sits on its board. The aggregate number of shares issuable to satisfy entitlements under these plans may not exceed 1,050,000 shares. Compensation expense is based upon the fair value of the rights at the date of grant and is charged

to earnings on a straight-line basis over the vesting period, with an offsetting adjustment to contributed surplus. Forfeitures are recognized as they occur. The Corporation recorded compensation cost of \$367 for the quarter (2010 - \$300) and \$912 for the year to date (2010 - \$592) in respect of these plans.

<b>Share Ownership Plan</b>	<b>June 30, 2011</b>		<b>June 30, 2010</b>	
	Number of Rights	Fair value at time of grant	Number of Rights	Fair value at time of grant
Outstanding at beginning of year	<b>101,999</b>	<b>\$ 2,326</b>	126,125	\$ 2,764
Granted in the period	<b>4,285</b>	<b>158</b>	4,740	115
Outstanding at end of period	<b>106,284</b>	<b>\$ 2,484</b>	130,865	\$ 2,879

At June 30, 2011 97,524 SOP rights were vested.

<b>Deferred Share Program</b>	<b>June 30, 2011</b>		<b>June 30, 2010</b>	
	Number of Rights	Fair value at time of grant	Number of Rights	Fair value at time of grant
Outstanding at beginning of year	<b>24,164</b>	<b>\$ 738</b>	21,944	\$ 673
Granted in the period	<b>5,087</b>	<b>191</b>	826	20
Outstanding at end of period	<b>29,251</b>	<b>\$ 929</b>	22,770	\$ 693

No DSP rights have vested at June 30, 2011.

<b>Directors' Deferred Share Unit Plan</b>	<b>June 30, 2011</b>		<b>June 30, 2010</b>	
	Number of Rights	Fair value at time of grant	Number of Rights	Fair value at time of grant
Outstanding at beginning of year	<b>147,797</b>	<b>\$ 3,641</b>	117,518	\$ 2,768
Granted in the period	<b>13,269</b>	<b>495</b>	13,936	348
Outstanding at end of period	<b>161,066</b>	<b>\$ 4,136</b>	131,454	\$ 3,116

DDSUP rights vest immediately upon grant.

#### **b) Mid-Term Incentive Plan for Senior Executives ("MTIP")**

The MTIP, which is settled in cash, consists of an annual grant that vests over three years and is based upon time and performance vesting criteria, a portion of which is determined by the price of the Corporation's shares. Compensation expense varies with the price of the Corporation's shares and is recognized over the 3 year vesting period. The Corporation recorded compensation cost of \$771 for the quarter (2010 - \$869) and \$1,559 for the year to date (2010 - \$1,336) in respect of the share-based portion of the MTIP. At June 30, 2011 the carrying amount of the share-based portion of the MTIP liability was \$5,411 (2010 - \$2,144).

#### **c) Deferred Share Unit Plan ("DSUP")**

The DSUP, which is settled in cash, consists of an annual grant that vests over three years and is based upon time and performance vesting criteria. Compensation expense for DSUP rights varies with the price of the Corporation's shares and is recognized immediately in earnings. The rights are settled when the participant is no longer employed by the Corporation or one of its subsidiary entities. The Corporation has not yet recorded any compensation cost in respect of the share-based portion of the DSUP.

## 9. INCOME TAXES

On January 1, 2011, a plan of arrangement was completed and Wajax Income Fund was converted to Wajax Corporation. The arrangement resulted in the reorganization of the Fund into a corporate structure which is subject to income tax on all of its taxable income at combined federal and provincial rates.

Prior to conversion, the Fund was a “mutual fund trust” as defined under the Income Tax Act (Canada) and was not taxable on its income to the extent that it was distributed to its unitholders. Pursuant to the terms of the Declaration of Trust, all taxable income earned by the Fund was distributed to its unitholders. Accordingly, no provision for income taxes was required on taxable income earned by the Fund that was distributed to its unitholders. For 2010, only the Fund’s corporate subsidiaries were subject to tax on their taxable income.

Income tax expense comprises current and deferred tax as follows:

For the six months ended June 30	2011	2010
Current	\$ 506	\$ 53
Deferred – Origination and reversal of temporary difference	11,057	132
– Change in tax law and rate	(496)	(892)
Income tax expense (recovery)	\$ 11,067	\$ (707)

The calculation of current tax is based on a combined federal and provincial statutory income tax rate of 27.7% (2010 – 29.4%). The tax rate for the current year is 1.7% lower than 2010 due to the effect of the reduced statutory tax rates. Deferred tax assets and liabilities are measured at tax rates that are expected to apply to the period when the asset is realized or the liability is settled. Deferred tax assets and liabilities have been measured using an expected average combined statutory income tax rate of 25.9% based on the tax rates in years when the temporary differences are expected to reverse.

The reconciliation of effective income tax is as follows:

For the six months ended June 30	2011	2010
Combined statutory income tax rate	27.7%	29.4%
Expected income tax expense at statutory rates	\$ 11,196	\$ 5,976
Income of the Fund taxed directly to unitholders	-	(6,500)
Non-deductible expenses	418	257
Deferred tax related to changes in tax law and rates	(496)	(892)
Other	(51)	452
Income tax expense (recovery)	\$ 11,067	\$ (707)

Deferred income tax relates to book and tax basis differences for assets and liabilities and is attributable to the following:

	<b>June 30, 2011</b>	<b>December 31, 2010</b>
Accrued liabilities and provisions not currently deductible	\$ <b>8,608</b>	\$ 8,258
Partnership income not currently taxable	<b>(10,720)</b>	-
Property, plant and equipment	<b>(1,649)</b>	(1,418)
Vehicles under finance lease	<b>(177)</b>	(146)
Deductible goodwill and other assets	<b>(2,168)</b>	(2,052)
Deductible future financing costs	<b>(16)</b>	(38)
Derivative instrument liability not currently deductible	<b>370</b>	673
Income tax losses available for carry forward	<b>162</b>	-
Net deferred income tax (liabilities) assets	\$ <b>(5,590)</b>	\$ 5,277

## **10. EARNINGS PER SHARE**

The following table sets forth the computation of basic and diluted earnings per share:

	Three months ended June 30		Six months ended June 30	
	<b>2011</b>	2010	<b>2011</b>	2010
Numerator for basic and diluted earnings per unit:				
– net earnings	\$ <b>16,538</b>	\$ 12,164	\$ <b>29,354</b>	\$ 21,041
Denominator for basic earnings per unit:				
– weighted average units	<b>16,629,444</b>	16,603,423	<b>16,629,444</b>	16,603,423
Denominator for diluted earnings per unit:				
– weighted average units	<b>16,629,444</b>	16,603,423	<b>16,629,444</b>	16,603,423
– effect of dilutive unit rights	<b>284,656</b>	261,201	<b>280,641</b>	256,465
Denominator for diluted earnings per unit	<b>16,914,100</b>	16,864,624	<b>16,910,085</b>	16,859,888
Basic earnings per unit	\$ <b>0.99</b>	\$ 0.73	\$ <b>1.77</b>	\$ 1.27
Diluted earnings per unit	\$ <b>0.98</b>	\$ 0.72	\$ <b>1.74</b>	\$ 1.25

No share rights were excluded from the above calculations as none were anti-dilutive.

## **11. ACQUISITION OF BUSINESS**

On May 2, 2011, the Corporation's Power Systems segment acquired certain assets of Harper Power Products Inc. ("Harper") for consideration of \$23,172, subject to post-closing adjustments. The acquisition price was funded through the Corporation's existing bank credit facility. The acquisition secures the Ontario distribution rights for certain product lines and complements the segment's existing product distribution rights in the rest of Canada, except for portions of British Columbia.



For the two months since the acquisition, Harper contributed revenue of \$9,147 and net earnings of \$456 to the quarter's results. Had the acquisition occurred on January 1, 2011 the Corporation estimates that it would have reported revenue of \$656,290 and net earnings of \$30,396 on its condensed consolidated income statement for the six months ended June 30, 2011. In determining these amounts, management has assumed that the level of business activity experienced by Harper after May 2, 2011 is representative of the level of business activity that it would have experienced prior to the acquisition.

Recognized amounts of identifiable assets acquired and liabilities assumed are as follows:

Trade and other receivables	\$	10,554
Inventories		8,277
Prepaid expenses		281
Property, plant and equipment		1,930
<u>Trade and other payables</u>		<u>(7,079)</u>
Tangible net assets acquired		13,963
<u>Goodwill and other intangible assets (note 6)</u>		<u>9,209</u>
	\$	<u>23,172</u>

An amount of \$21,603 was paid on closing based upon a preliminary estimate of tangible net assets acquired. The final values of tangible net assets acquired are still being determined. The total purchase price will be adjusted for any change in the value of tangible net assets acquired once finally determined. An estimate of the purchase price adjustment has been accrued in trade and other payables. The amount of any trade and other receivables which prove to be uncollectable will be deducted from the purchase price.

The goodwill is mainly attributable to the skills and technical talent of Harper's workforce and its existing branch network, synergies expected to be achieved from integrating the business into the existing Power Systems segment and the value expected to be generated from its operation over time, for example, through growing the power generation business in Ontario. It is anticipated that amounts attributed to goodwill and other intangible assets will be 75% deductible for income tax purposes.

The Corporation incurred acquisition-related costs of \$385 relating to external legal fees and due diligence costs. These costs have been included in selling and administrative expenses on the condensed consolidated income statement.

## **12. SEGMENTED INFORMATION**

The Corporation operates through a network of 118 branches in Canada in three core businesses which reflect the internal organization and management structure according to the nature of the products and services provided. The Corporation's three core businesses are: i) the distribution, modification and servicing of equipment; ii) the distribution, servicing and assembly of industrial components; and iii) the distribution and servicing of power systems.

**For the three months ended  
June 30, 2011**

					Segment Eliminations and Unallocated Amounts	Total
	Equipment	Industrial Components	Power Systems			
Equipment	\$ 91,086	\$	\$ 36,104	\$	\$	127,190
Parts	43,954	89,895	29,368			163,217
Service	21,730		15,560			37,290
Rental and other	7,411				(1,039)	6,372
<b>Revenue</b>	<b>\$ 164,181</b>	<b>\$ 89,895</b>	<b>\$ 81,032</b>	<b>\$</b>	<b>(1,039)</b>	<b>\$ 334,069</b>
Segment earnings before finance costs and income taxes	\$ 11,951	\$ 6,544	\$ 8,271	\$	\$	26,766
Corporate costs and eliminations					(3,280)	(3,280)
Earnings before finance costs and income taxes	11,951	6,544	8,271		(3,280)	23,486
Finance costs					1,109	1,109
Income tax expense					5,839	5,839
Net earnings	\$ 11,951	\$ 6,544	\$ 8,271	\$	(10,228)	\$ 16,538

**For the six months ended  
June 30, 2011**

					Segment Eliminations and Unallocated Amounts	Total
	Equipment	Industrial Components	Power Systems			
Equipment	\$ 171,586	\$	\$ 71,551	\$	\$	243,137
Parts	88,777	170,619	53,449			312,845
Service	40,816		28,963			69,779
Rental and other	14,445				(2,208)	12,237
<b>Revenue</b>	<b>\$ 315,624</b>	<b>\$ 170,619</b>	<b>\$ 153,963</b>	<b>\$</b>	<b>(2,208)</b>	<b>\$ 637,998</b>
Segment earnings before finance costs and income taxes	\$ 23,142	\$ 10,989	\$ 15,285	\$	\$	49,416
Corporate costs and eliminations					(6,910)	(6,910)
Earnings before finance costs and income taxes	23,142	10,989	15,285		(6,910)	42,506
Finance costs					2,085	2,085
Income tax expense					11,067	11,067
Net earnings	\$ 23,142	\$ 10,989	\$ 15,285	\$	(20,062)	\$ 29,354

**Segment assets excluding  
intangible assets**

	\$ 239,096	\$ 120,019	\$ 123,405	\$	\$	482,520
Intangible assets	21,541	45,768	14,620			81,929
Corporate and other assets					374	374
<b>Total assets</b>	<b>\$ 260,637</b>	<b>\$ 165,787</b>	<b>\$ 138,025</b>	<b>\$</b>	<b>374</b>	<b>\$ 564,823</b>

<b>For the three months ended June 30, 2010</b>						<b>Segment Eliminations and Unallocated Amounts</b>	<b>Total</b>
	<b>Equipment</b>	<b>Industrial Components</b>	<b>Power Systems</b>				
Equipment	\$ 74,471	\$	\$ 18,404	\$	\$	\$	92,875
Parts	42,334	75,944	23,458				141,736
Service	18,057		13,250				31,307
Rental and other	7,982				(1,858)		6,124
<b>Revenue</b>	<b>\$ 142,844</b>	<b>\$ 75,944</b>	<b>\$ 55,112</b>	<b>\$</b>	<b>(1,858)</b>	<b>\$</b>	<b>272,042</b>
Segment earnings before finance costs and income taxes	\$ 10,251	2,049	3,656	\$	\$	\$	15,956
Corporate costs and eliminations					(3,047)		(3,047)
Earnings before finance costs and income taxes	10,251	2,049	3,656		(3,047)		12,909
Finance costs					1,082		1,082
Income tax recovery					(337)		(337)
Net earnings	\$ 10,251	\$ 2,049	\$ 3,656	\$	(3,792)	\$	12,164

<b>For the six months ended June 30, 2010</b>						<b>Segment Eliminations and Unallocated Amounts</b>	<b>Total</b>
	<b>Equipment</b>	<b>Industrial Components</b>	<b>Power Systems</b>				
Equipment	\$ 124,216	\$	\$ 32,013	\$	\$	\$	156,229
Parts	78,207	148,528	44,721				271,456
Service	33,285		25,819				59,104
Rental and other	15,521				(2,147)		13,374
<b>Revenue</b>	<b>\$ 251,229</b>	<b>\$ 148,528</b>	<b>\$ 102,553</b>	<b>\$</b>	<b>(2,147)</b>	<b>\$</b>	<b>500,163</b>
Segment earnings before finance costs and income taxes	\$ 18,170	\$ 5,196	\$ 4,600	\$	\$	\$	27,966
Corporate costs and eliminations					(5,483)		(5,483)
Earnings before finance costs and income taxes	18,170	5,196	4,600		(5,483)		22,483
Finance costs					2,149		2,149
Income tax recovery					(707)		(707)
Net earnings	\$ 18,170	\$ 5,196	\$ 4,600	\$	(6,925)	\$	21,041

<b>Segment assets excluding intangible assets</b>	\$ 198,958	\$ 100,719	\$ 98,806	\$	\$	\$	398,483
Intangible assets	21,541	46,225	5,444				73,210
Cash					9,715		9,715
Corporate and other assets					3,246		3,246
<b>Total assets</b>	<b>\$ 220,499</b>	<b>\$ 146,944</b>	<b>\$ 104,250</b>	<b>\$</b>	<b>12,961</b>	<b>\$</b>	<b>484,654</b>

Segment assets do not include assets associated with the corporate office, financing or income taxes. Additions to corporate assets, and depreciation of these assets, are included in segment eliminations and unallocated amounts.

### **13. EXPLANATION OF TRANSITION TO IFRS**

This is the first year that the Corporation has presented its condensed consolidated financial statements in accordance with IFRS. In the year ended December 31, 2010, the Corporation reported under previous Canadian GAAP.

The accounting policies set out in Note 3 of the condensed consolidated financial statements of the Corporation for the three months ended March 31, 2011 have been applied in preparing the condensed consolidated financial statements for the three and six months ended June 30, 2011.

In preparing its opening IFRS statement of financial position, the Corporation has adjusted amounts reported previously in financial statements prepared in accordance with previous Canadian GAAP. An explanation of how the transition from previous Canadian GAAP to IFRS has affected the Corporation's reported financial position, financial performance and cash flows is set out in the tables below and the notes that accompany the tables.

IFRS 1 *First-time Adoption of International Financial Reporting Standards* sets forth guidance for the initial adoption of IFRS. Under IFRS 1, the standards are applied retrospectively at the transitional statement of financial position date and, in general, all adjustments to assets and liabilities are taken to retained earnings, unless certain exemptions are elected and certain mandatory exceptions are applied. In preparing its opening IFRS statement of financial position, the Corporation has elected the following exemptions:

#### ***Business combinations before January 1, 2010 (IFRS 3 "Business Combinations")***

The Corporation has elected not to apply IFRS 3 retrospectively to business combinations that took place before January 1, 2010. In addition, and as a condition under IFRS 1 for applying this exemption, goodwill relating to business combinations that occurred prior to January 1, 2010 was tested for impairment even though no impairment indicators were identified. No impairment existed at the date of transition.

#### ***Employee Benefits – actuarial gains and losses (IAS 19 "Employee Benefits")***

Under IFRS, the Corporation's accounting policy is to recognize all actuarial gains and losses immediately in other comprehensive income. At the date of transition, the Corporation has elected to recognize all cumulative actuarial gains and losses in retained earnings.

#### ***Employee Benefits – pension costs (IAS 19 "Employee Benefits")***

The Corporation has elected to disclose the present value of the defined benefit obligation, fair value of the plan assets, surplus or deficit in the plan, and the experience adjustments arising on the plan assets or liabilities, for each accounting period prospectively from the date of transition to IFRS.

## Reconciliation of Consolidated Income Statement

For the three months ended June 30, 2010	Canadian GAAP	Employee Benefits IAS 19	Leases IAS 17	Inventory IAS 2	IFRS
(In thousands of Canadian dollars)					
Revenue	\$ 272,042				\$ 272,042
Cost of sales	212,296			279	212,575
Gross profit	59,746			(279)	59,467
Selling and administrative expenses	46,812	(35)	(219)		46,558
Earnings before finance costs and income taxes	12,934	35	219	(279)	12,909
Finance costs	1,045		37		1,082
Earnings before income taxes	11,889	35	182	(279)	11,827
Income tax expense (recovery)	(317)	9	49	(78)	(337)
Net earnings	\$ 12,206	26	133	(201)	\$ 12,164

## Reconciliation of Consolidated Statement of Comprehensive Income

For the three months ended June 30, 2010	Canadian GAAP	Employee Benefits IAS 19	Leases IAS 17	Inventory IAS 2	IFRS
(In thousands of Canadian dollars)					
Net earnings	\$ 12,206	26	133	(201)	\$ 12,164
Losses on derivative instruments designated as cash flow hedges in prior periods reclassified to cost of inventory or finance costs during the period, net of tax	320				320
Gains on derivative instruments designated as cash flow hedges during the period, net of tax	1,215				1,215
Other comprehensive income, net of tax	1,535				1,535
Total comprehensive income	\$ 13,741	26	133	(201)	\$ 13,699

## Reconciliation of Consolidated Income Statement

For the six months ended June 30, 2010	Canadian GAAP	Employee Benefits IAS 19	Leases IAS 17	Inventory IAS 2	IFRS
(In thousands of Canadian dollars)					
Revenue	\$ 500,163				\$ 500,163
Cost of sales	389,148			(153)	388,995
Gross profit	111,015			153	111,168
Selling and administrative expenses	89,253	(70)	(498)		88,685
Earnings before finance costs and income taxes	21,762	70	498	153	22,483
Finance costs	2,076		73		2,149
Earnings before income taxes	19,686	70	425	153	20,334
Income tax expense (recovery)	(882)	18	114	43	(707)
Net earnings	\$ 20,568	52	311	110	\$ 21,041

## Reconciliation of Consolidated Statement of Comprehensive Income

For the six months ended June 30, 2010	Canadian GAAP	Employee Benefits IAS 19	Leases IAS 17	Inventory IAS 2	IFRS
(In thousands of Canadian dollars)					
Net earnings	\$ 20,568	52	311	110	\$ 21,041
Losses on derivative instruments designated as cash flow hedges in prior periods reclassified to cost of inventory or finance costs during the period, net of tax	459				459
Gains on derivative instruments designated as cash flow hedges during the period, net of tax	509				509
Other comprehensive income, net of tax	968				968
Total comprehensive income	\$ 21,536	52	311	110	\$ 22,009

## Reconciliation of Consolidated Statement of Financial Position

As at June 30, 2010	Canadian GAAP	Employee Benefits IAS 19	Leases IAS 17	Inventory IAS 2	Income Tax IAS 12	IFRS
(In thousands of Canadian dollars)						
<b>ASSETS</b>						
<b>CURRENT</b>						
Cash	\$ 9,715					\$ 9,715
Trade and other receivables	147,039					147,039
Inventories	177,780			1,832		179,612
Prepaid expenses	12,459					12,459
Income taxes receivable	204				(204)	-
Deferred tax assets	4,053				(4,053)	-
	351,250			1,832	(4,257)	348,825
<b>NON-CURRENT</b>						
Rental equipment	15,202					15,202
Property, plant and equipment	35,279		9,187			44,466
Intangible assets	73,210					73,210
Deferred tax assets	-	865	(76)		2,042	2,831
Pension asset	2,459	(2,339)				120
	126,150	(1,474)	9,111		2,042	135,829
	\$ 477,400	(1,474)	9,111	1,832	(2,215)	\$ 484,654
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>						
<b>CURRENT</b>						
Trade and other payables	\$ 96,161	(5)				\$ 96,156
Accrued liabilities	75,381					75,381
Provisions	4,211					4,211
Distributions payable	2,491					2,491
Income taxes payable	-			507	(204)	303
Obligations under finance leases	-		3,684			3,684
	178,244	(5)	3,684	507	(204)	182,226
<b>NON-CURRENT</b>						
Provisions	3,499					3,499
Deferred income taxes	2,011				(2,011)	-
Employee benefits	2,956	970				3,926
Derivative instrument liability	1,518					1,518
Bank debt	79,519					79,519
Other liabilities	2,108					2,108
Obligations under finance leases	-		5,224			5,224
	91,611	970	5,224		(2,011)	95,794
<b>SHAREHOLDERS' EQUITY</b>						
Trust units	105,307					105,307
Contributed surplus	6,237					6,237
Retained earnings	97,266	(2,439)	203	1,325		96,355
Accumulated other comprehensive loss	(1,265)					(1,265)
	96,001	(2,439)	203	1,325		95,090
Total shareholders' equity	207,545	(2,439)	203	1,325		206,634
	\$ 477,400	(1,474)	9,111	1,832	(2,215)	\$ 484,654

## **Material adjustments to the statement of cash flows for 2010**

Consistent with the Corporation's accounting policy choice under IAS 7 *Statement of Cash Flows*, interest paid and income taxes paid have moved into the body of the Statement of Cash Flows, whereas they were previously disclosed as supplementary information. There are no other material differences between the statement of cash flows presented under IFRS and the statement of cash flows presented under previous Canadian GAAP.

## **Notes to the reconciliations**

### **(a) Employee Benefits (IAS 19)**

Under Canadian GAAP, the Corporation accounted for post-employment benefits under CICA Handbook Section 3461, *Employee Future Benefits*, whereby defined benefit pension plan net actuarial gains or losses over 10% of the greater of the benefit obligation and the fair value of the plan assets were amortized to income over the average remaining service life of active employees. Under IAS 19, *Employee Benefits*, the Corporation has adopted the policy of recognizing actuarial gains and losses in full in other comprehensive income in the period in which they occur.

### **(b) Leases (IAS 17)**

Under Canadian GAAP, the Corporation assessed vehicle leases under CICA Handbook Section 3065, *Leases*, as operating leases. Under IAS 17, *Leases*, the Corporation has assessed the vehicle leases as financing leases. Under finance leases the asset is recorded at the lower of its fair value and the present value of the minimum lease payments at the inception of the lease. The liability is included in the statement of financial position and classified between current and non-current amounts. The interest component of the lease payments is charged to earnings over the period of the lease so as to achieve a constant rate of interest on the remaining balance of the liability.

### **(c) Inventory (IAS 2)**

Under Canadian GAAP, the Corporation did not allocate overhead to work in process inventory relating to customer repair orders. Under IFRS the Corporation allocates overhead to work in process inventory relating to customer repair orders resulting in an adjustment to inventory and opening retained earnings.

### **(d) Income Taxes (IAS 12)**

The effect of applying IAS 12, *Income Taxes*, is that all deferred tax balances are now classified as non-current. No other changes arise from this section. Applicable income tax rates have been applied to all IFRS adjustments.

### **(e) Comparative Information**

Certain comparative amounts have been reclassified to conform with the current period presentation.

In particular, cash discounts provided to customers in an amount of \$256 for the quarter and \$493 year to date have been reclassified out of selling and administrative expenses into revenue.

In addition, cash discounts received from vendors in an amount of \$294 for the quarter and \$571 year to date have been reclassified out of selling and administrative expenses into cost of sales.