

# **SECOND QUARTER REPORT TO UNITHOLDERS**

FOR THE SIX MONTHS ENDED  
JUNE 30, 2010

W A J A X   I N C O M E   F U N D   2 0 1 0

**WAJAX**

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# WJAX INCOME FUND

## News Release

TSX Symbol: WJX.UN

### WJAX ANNOUNCES A 24% INCREASE IN SECOND QUARTER 2010 EARNINGS AND DECLARES SPECIAL DISTRIBUTIONS

(Dollars in millions, except per unit data)

	Three Months Ended June 30		Six Months Ended June 30	
	2010	2009	2010	2009
<b>CONSOLIDATED RESULTS</b>				
Revenue	\$272.3	\$248.7	\$500.7	\$513.5
Net earnings	\$12.2	\$9.8	\$20.6	\$19.1
Basic earnings per unit	\$0.74	\$0.59	\$1.24	\$1.15
Distributable cash <sup>(1)</sup>	\$13.3	\$11.3	\$22.3	\$22.7
Basic distributable cash per unit <sup>(1)</sup>	\$0.80	\$0.68	\$1.34	\$1.37
<b>SEGMENTS</b>				
Revenue - Mobile Equipment	\$142.5	\$127.1	\$251.2	\$256.7
- Industrial Components	\$75.8	\$71.8	\$149.0	\$146.9
- Power Systems	\$55.1	\$50.7	\$102.6	\$111.6
Earnings - Mobile Equipment	\$10.3	\$8.5	\$17.7	\$16.3
% margin	7.2%	6.7%	7.0%	6.4%
- Industrial Components	\$2.0	\$1.2	\$5.2	\$1.8
% margin	2.7%	1.6%	3.5%	1.2%
- Power Systems	\$3.7	\$2.4	\$4.4	\$5.9
% margin	6.7%	4.7%	4.3%	5.3%

<sup>(1)</sup> Denotes non-GAAP measure. See Non-GAAP Measures section in the attached Management's Discussion and Analysis (MD&A).

**Toronto, Ontario – August 6, 2010** – Wajax Income Fund today announced a 24% increase in second quarter 2010 net earnings and declared special distributions for August, September and October to be paid in addition to regular monthly distributions for these months.

#### Second Quarter Highlights

- Consolidated revenue increased 10% compared to last year. Mobile Equipment's revenues increased 12% on higher equipment and parts and service volumes in almost all product categories. Industrial Components' segment revenue increased 6% year-over-year on improved demand from oil and gas and metal processing customers and Power Systems' sales rose 9% on higher equipment and parts and service sales primarily in western Canada.
- Consolidated net earnings in the quarter of \$12.2 million, or \$0.74 per unit, increased 24% from the \$9.8 million, or \$0.59 per unit, recorded last year. The increase in earnings is attributable to higher revenues and margins in all three businesses.

- Basic distributable cash (see Non-GAAP Measures section in the MD&A) of \$0.80 per unit increased from the \$0.68 per unit recorded the previous year mainly as a result of the increased earnings.
- Funded debt, net of cash, was reduced by \$13.0 million in the quarter to \$69.8 million at June 30, 2010 as a result of cash flow from earnings exceeding distributions and a \$6.6 million reduction in non-cash working capital.
- On February 26, 2010 the Fund announced as part of its plan to convert to a corporation effective January 1, 2011 that its objective was to maintain monthly distributions at \$0.15 per unit throughout 2010 and into 2011 after conversion. In order to achieve this objective, anticipated increases in earnings would be utilized to absorb, to the extent possible, the impact of the corporate tax burden Wajax will be subject to in 2011. Consistent with this objective, the Fund announced its regular monthly distributions for August, September and October will be maintained at \$0.15 per unit (\$1.80 annualized). In addition, unlike previous years when the Fund declared a special distribution at year-end equal to the excess of the Fund's taxable income over aggregate monthly distributions, the Fund will begin to declare monthly special distributions for excess taxable income it expects to generate in 2010. As a result, the Fund has also declared special monthly cash distributions of \$0.20 per unit for each of August, September and October.

The \$0.15 per unit regular monthly distribution and the \$0.20 per unit special monthly distribution will be paid on September 20, October 20 and November 22 to unitholders of record on August 31, September 30 and October 29 respectively.

There can be no assurance, however, that the Fund's objective to maintain distributions throughout 2010 and/or dividends into 2011 will be achieved or that distributions or dividends will be paid in such amounts or at all. The boards of the Fund, and of Wajax Corporation after conversion, will have the discretion to modify their distribution and dividend policies at any time. The ability to pay cash distributions or dividends and the actual amount of such distributions or dividends will be dependent upon, among other things, the financial performance of Wajax, fluctuations in working capital, the sustainability of margins, capital expenditures, any contractual restrictions on distributions or dividends, including any agreements with lenders to Wajax, and the satisfaction of solvency tests imposed by the CBCA for the declaration of dividends.

Commenting on the second quarter results and the outlook for the year, Neil Manning, President and CEO, stated "Second quarter consolidated earnings were better than expected. Stronger market demand for our products and services that began in March carried on throughout the second quarter.

In the Mobile Equipment business, demand for equipment in almost all product categories was stronger than last year and parts and service volumes continued to trend upward. Daily sales and backlog in Industrial Components improved again in the second quarter as demand across a number of sectors continued to show positive signs. Power Systems is experiencing an increase in demand for power generation packages, as well as parts and service, particularly in western Canada.

We expect demand for construction, forestry and power generation equipment, as well as Industrial Components products will continue to exceed the levels experienced last year. It is also anticipated that activity in mining, the oil sands and the government and utilities sector will remain strong. Overall, our expectations are to achieve positive revenue and earnings growth in the second half of this year compared to the second half of 2009."

Wajax is a diversified income fund that has three core distribution businesses engaged in the sale and after-sales parts and service support of mobile equipment, industrial components and power systems, through a network of over 110 branches across Canada. Its customer base spans natural resources, construction, transportation, manufacturing, industrial processing and utilities.

This news release contains forward-looking information. Please refer to the "Forward-Looking Statements" section in the accompanying Management Discussion and Analysis.

## **Management's Discussion and Analysis – Q2 2010**

The following management's discussion and analysis ("MD&A") discusses the consolidated financial condition and results of operations of Wajax Income Fund (the "Fund" or "Wajax") for the quarter ended June 30, 2010. This MD&A should be read in conjunction with the information contained in the interim Unaudited Consolidated Financial Statements and accompanying notes for the quarter ended June 30, 2010, the annual Audited Consolidated Financial Statements and accompanying notes of the Fund for the year ended December 31, 2009 and the associated MD&A. Information contained in this MD&A is based on information available to management as of August 6, 2010.

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

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

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

Management is responsible for the information disclosed in this MD&A and the 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. The Fund's Board of Trustees has approved this MD&A and the interim Unaudited Consolidated Financial Statements and accompanying notes. In addition, the Fund's Audit Committee, on behalf of the Board of Trustees, provides an oversight role with respect to all public financial disclosures made by the Fund, and has reviewed this MD&A and the interim Unaudited Consolidated Financial Statements and accompanying notes.

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

The Fund has designed disclosure controls and procedures ("DC&P") to provide reasonable assurance that material information relating to the Fund 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. The Fund 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 Canadian Generally Accepted Accounting Principles.

### **Wajax Income Fund Overview**

The Fund is an unincorporated open-ended limited purpose trust established under the laws of the Province of Ontario pursuant to a declaration of trust dated April 27, 2005. The Fund was created to indirectly invest, on June 15, 2005, in substantially all of the assets and business formerly conducted by Wajax Limited.

The Fund intends to make monthly cash distributions, generally payable to unitholders of record on the last business day of each calendar month and to be paid on or about the 20<sup>th</sup> day of the following month. The Fund may make special cash and/or special non-cash distributions during or at the end of the year to ensure, as provided in the Fund's Declaration of Trust, that the Fund's total distributions for the year are equal to its taxable income for the year. Cash distributions are dependent on, among other things, the cash flow of the Fund. See also the Conversion to corporate structure section.

The Fund's core distribution businesses are engaged in the sale and after-sales parts and service support of mobile equipment, industrial components and power systems, through a network of over 110 branches across Canada. The Fund 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.

The Fund's strategy is to grow earnings in all segments through continuous improvement of operating margins and revenue growth while maintaining the Fund's strong balance sheet. Revenue growth will be achieved through market share gains, expansion into new geographic territories and the addition of new complementary product lines 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. In particular, but without limitation, this MD&A contains forward-looking statements relating to: the conversion of the Fund to a corporation, the timing of the effective date of the conversion, the potential for the continued payment of distributions by the Fund until the effective date of the conversion, and the potential for payment of dividends by Wajax Corporation following completion of the conversion. Such forward-looking statements reflect management's current beliefs and are based on information currently available to management of the Fund. In particular, forward-looking statements relating to the potential for the continued payment of distributions by the Fund until the effective date of the conversion and the potential payment of dividends by Wajax Corporation following completion of the conversion are based on: the financial and operating attributes of the Fund as at the date hereof, the anticipated operating and financial results of the Fund from the date hereof to the effective date, the anticipated operating and financial results of Wajax Corporation after the effective date, the views of management and the board of trustees of the Fund respecting the benefits associated with the conversion, and the views of management and the board of trustees of the Fund regarding current and anticipated market conditions. 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 the Fund and its business operations, changes in taxation of the Fund, general business conditions and economic conditions in the markets in which the Fund and its customers compete, fluctuations in commodity prices, the Fund's relationship with its suppliers and manufacturers and its access to quality products, the ability of the Fund to maintain and expand its customer base, failure of the parties to the proposed conversion of the Fund to a corporation by way of plan of arrangement to satisfy the conditions thereof, inability to obtain required consents, permits or approvals, actual future market conditions being different than anticipated by management and the board of trustees of the Fund, and actual future operating and financial results of the Fund and/or Wajax Corporation being different than anticipated by management and the board of trustees of the Fund. You are cautioned that the foregoing list is not exhaustive. You are further cautioned that the preparation of financial statements in accordance with GAAP 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 the Fund with Canadian securities regulators and available at [www.sedar.com](http://www.sedar.com). See also the full details of the conversion included in the Management Proxy Circular for the Fund's unitholder meeting held on May 7, 2010 and which is 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 neither the Fund nor Wajax Corporation undertakes any obligation to publicly update such forward-looking statements to reflect new information, subsequent events or otherwise unless so required by applicable securities laws.

## Consolidated Results

	Three months ended June 30		Six months ended June 30	
	2010	2009 <sup>(3)</sup>	2010	2009 <sup>(3)</sup>
Revenue	\$272.3	\$248.7	\$500.7	\$513.5
Gross profit	\$59.7	\$51.6	\$110.9	\$106.3
Selling and administrative expenses	\$46.8	\$41.3	\$89.2	\$86.0
Earnings before interest and income taxes	\$12.9	\$10.2	\$21.8	\$20.3
Interest expense	\$1.0	\$1.2	\$2.1	\$2.3
Income tax recovery	(\$0.3)	(\$0.8)	(\$0.9)	(\$1.2)
<b>Net earnings</b>	<b>\$12.2</b>	<b>\$9.8</b>	<b>\$20.6</b>	<b>\$19.1</b>
<b>Distributable cash<sup>(1)</sup></b>	<b>\$13.3</b>	<b>\$11.3</b>	<b>\$22.3</b>	<b>\$22.7</b>
<b>Cash distributions declared</b>	<b>\$7.5</b>	<b>\$10.0</b>	<b>\$14.9</b>	<b>\$25.2</b>
<b>Distributions paid</b>				
- Monthly	\$7.5	\$10.0	\$14.9	\$27.9
<b>Earnings per unit</b>				
- Basic	\$0.74	\$0.59	\$1.24	\$1.15
- Diluted	\$0.72	\$0.59	\$1.22	\$1.14
<b>Distributable cash per unit <sup>(1)</sup></b>				
- Basic <sup>(2)</sup>	\$0.80	\$0.68	\$1.34	\$1.37
- Diluted	\$0.79	\$0.68	\$1.32	\$1.35
<b>Cash distributions declared per unit <sup>(2)</sup></b>	<b>\$0.45</b>	<b>\$0.60</b>	<b>\$0.90</b>	<b>\$1.52</b>
<b>Distributions paid per unit <sup>(2)</sup></b>				
- Monthly	\$0.45	\$0.60	\$0.90	\$1.68

(1) Non-GAAP measure, see the Non-GAAP Measures and Distributable Cash sections.

(2) Based on actual number of units outstanding on the relevant record date.

(3) Certain 2009 comparative amounts have been reclassified to conform with the current period presentation. In particular, amounts recovered from customers or manufacturers in an amount of \$9.0 million for the quarter and \$18.1 million year to date have been reclassified out of selling and administrative expenses into revenue. In addition, service department overhead amounts of \$16.9 million for the quarter and \$34.6 million year to date have been reclassified out of selling and administrative expenses into cost of sales. The above reclassifications do not affect net earnings or cashflows.

### Revenue

Revenue in the second quarter of 2010 increased 10% or \$23.6 million to \$272.3 million, from \$248.7 million in 2009. Segment revenue increased 12% in Mobile Equipment, 6% in Industrial Components and 9% in Power Systems compared to last year. For the six months ended June 30, 2010, revenue decreased 3% or \$12.8 million.

### Gross profit

Gross profit in the second quarter of 2010 increased \$8.1 million due to the positive impact of higher revenue and gross profit margins compared to last year. The gross profit margin percentage for the quarter increased to 21.9% in 2010 from 20.7% in 2009 due to improved margins in all segments compared to last year.

For the six months ended June 30, 2010, gross profit increased \$4.6 million compared to last year as the negative impact of lower revenue was more than offset by higher gross profit margins. The gross profit margin percentage increased to 22.2% in 2010 from 20.7% in 2009.

**Selling and administrative expenses**

Selling and administrative expenses increased \$5.4 million in the quarter compared to last year due mainly to higher annual and long-term incentive accruals of \$3.2 million, increased bad debt costs of \$1.2 million in Mobile Equipment largely to provide for a customer accounts receivable and other sales related expenses. Selling and administrative expenses as a percentage of revenue increased to 17.2% in 2010 from 16.6% in 2009.

For the six months ended June 30, 2010, selling and administrative expenses increased \$3.2 million compared to last year. Increases in annual and long-term incentive accruals of \$5.2 million and higher bad debt costs in Mobile Equipment were offset partially by reductions in personnel costs compared to last year. Selling and administrative expenses as a percentage of revenue increased to 17.8% in 2010 from 16.7% in 2009.

**Interest expense**

Quarterly interest expense of \$1.0 million decreased \$0.2 million compared to last year due mainly to lower funded debt net of cash ("funded net debt") outstanding in 2010.

For the six months ended June 30, 2010, interest expense decreased \$0.2 million compared to 2009 for the same reasons noted above.

**Income tax expense**

The effective income tax rate of negative 2.7% for the quarter decreased from negative 8.9% the previous year. Included in the quarter was a \$0.3 million future tax recovery adjustment (2009 - \$0.2 million). This reflects an adjustment to the amount of the Fund's taxable temporary differences that are estimated to reverse after 2010, tax effected at rates that will apply in the year the differences are expected to reverse. Last year, a \$0.6 million recovery of current income tax expense resulted from a tax loss in the Fund's subsidiary, Wajax Limited.

For the six months ended June 30, 2010, the effective income tax rate of negative 4.5% decreased from negative 6.5% the previous year and included a \$0.9 million future tax recovery adjustment (2009 - \$0.1 million). Last year, a \$1.0 million recovery of current tax expense resulted from a tax loss in the Fund's subsidiary Wajax Limited compared to last year.

The Fund's effective income tax rate was lower than the Fund's statutory income tax rate of 29.4% as the majority of the Fund's income is not currently subject to tax in the Fund.

The Fund is a "mutual fund trust" as defined under the Income Tax Act (Canada) and is not currently taxable on its income to the extent that it is distributed to its unitholders. Pursuant to the terms of the Declaration of Trust, all taxable income earned by the Fund is distributed to its unitholders. Accordingly, no provision for income taxes is required on income earned by the Fund that is distributed to its unitholders. The Fund's corporate subsidiaries are subject to tax on their taxable income.

Under legislation enacted on June 22, 2007, the Fund as a publicly traded income trust will pay tax on its income distributed commencing in 2011 at a rate that is substantially equivalent to the general corporate income tax rate. The Fund may become taxable on its distributions prior to 2011 if its equity capital grows beyond certain dollar limits measured by reference to the Fund's market capitalization on October 31, 2006. The Fund has not exceeded its growth limits at June 30, 2010.

On March 12, 2009 legislation was enacted to permit income funds to "convert" into public corporations without triggering adverse tax consequences to the income fund and its unitholders. See the Conversion to corporate structure section.

**Net earnings**

Quarterly net earnings of \$12.2 million, or \$0.74 per unit, increased \$2.4 million from \$9.8 million, or \$0.59 per unit, in 2009. The positive impact of higher volumes and gross profit margins and lower interest expense more than offset the negative impact of higher selling and administrative expenses and reduced income tax recoveries compared to last year.

For the six months ended June 30, 2010, net earnings increased \$1.5 million to \$20.6 million, or \$1.24 per unit, from \$19.1 million, or \$1.15 per unit, in 2009. The positive impact of higher gross profit margins and lower interest expense more than offset the negative impact of lower volumes, higher selling and administrative expenses and reduced income tax recoveries compared to last year.

**Comprehensive income**

Comprehensive income for the quarter of \$13.7 million increased from \$9.5 million the previous year due to the \$2.4 million increase in net earnings and a \$1.9 million increase in other comprehensive income compared to last year. The increase in other comprehensive income resulted from losses on derivative contracts designated as cash flow hedges in prior periods transferred to cost of inventory and an increase in gains on derivative contracts designated as cash flow hedges outstanding at the end of the quarter.

For the six months ended June 30, 2010, comprehensive income of \$21.5 million increased \$2.6 million from \$18.9 million the previous year due to the \$1.5 million increase in net earnings and a \$1.2 million increase in other comprehensive income compared to last year. The increase in other comprehensive income resulted from losses on derivative contracts designated as cash flow hedges in prior periods transferred to cost of inventory, partially offset by a decrease in gains on derivative contracts designated as cash flow hedges outstanding at the end of the period.

**Funded net debt**

Funded net debt of \$69.8 million decreased \$13.0 million compared to March 31, 2010. Second quarter cash flows from operating activities before changes in non-cash working capital of \$14.9 million and a decrease in non-cash working capital of \$6.6 million were partially offset by cash distributions of \$7.5 million and capital spending of \$0.9 million. Compared to June 30, 2009 funded net debt decreased \$38.9 million. The Fund's quarter-end debt-to-equity ratio of 0.34:1 at June 30, 2010 decreased from last quarter's ratio of 0.41:1 and last year's ratio of 0.54:1.

**Distributable cash (see Non-GAAP Measures section) and distributions**

For the quarter ended June 30, 2010 distributable cash was \$13.3 million, or \$0.80 per unit, compared to \$11.3 million, or \$0.68 per unit, the previous year. The increase was due to higher cash flows from operations before changes in non-cash working capital and lower maintenance capital expenditures, offset partially by a higher accrual for mid-term incentive compensation compared to last year.

For the six months ended June 30, 2010 distributable cash of \$22.3 million, or \$1.34 per unit, compared to \$22.7 million, or \$1.37 per unit, the previous year. Higher cash flows from operations before changes in non-cash working capital and lower maintenance capital expenditures were offset by a higher accrual for mid-term incentive compensation compared to last year.

For the quarter ended June 30, 2010 monthly cash distributions declared totaled \$0.45 per unit (2009 - \$0.60 per unit) and included \$0.15 per unit for the months of April, May and June.

For the six months ended June 30, 2010 monthly cash distributions declared totaled \$0.90 per unit (2009 - \$1.52 per unit). Distributable cash in excess of cash distributions declared for the six months ended June 30, 2010 of \$7.4 million, or \$0.44 per unit, provides the Fund an amount for future capital requirements or distributions.

On May 7, 2010 the Fund announced a monthly distribution of \$0.15 per unit (\$1.80 annualized), for the month of July payable on August 20, 2010 to unitholders of record on July 30, 2010.

On August 6, 2010 the Fund announced a monthly distribution of \$0.15 per unit (\$1.80 annualized) and a special distribution of \$0.20 per unit, for a total distribution of \$0.35 per unit for each of the months of August, September and October payable on September 20, 2010, October 20, 2010 and November 22, 2010 to unitholders of record on August 31, 2010, September 30, 2010 and October 29, 2010 respectively. See Conversion to corporate structure section.

Unitholder tax information relating to distributions is available on the Fund's website at [www.wajax.com](http://www.wajax.com).

**Backlog**

Consolidated backlog at June 30, 2010 of \$186.0 million increased slightly during the quarter from \$185.4 million at the end of the first quarter. Increases in order intake in the Industrial Components and Power Systems segments were offset by a decline in the Mobile Equipment segment due to several mining deliveries during the quarter.

**Conversion to corporate structure**

On May 7, 2010, unitholders approved the conversion of the Fund to a corporation pursuant to a plan of arrangement under the Canada Business Corporations Act (the "CBCA") effective on or about January 1, 2011. The arrangement will result in the reorganization of the Fund into a corporate structure and Unitholders will



receive one common share of a new corporation to be called Wajax Corporation for each Unit of the Fund held. Wajax Corporation will continue to be managed by the existing management team.

Subsequent to conversion, it is anticipated that Wajax Corporation will declare and pay a high proportion of net earnings in the form of monthly dividends. In particular, the Fund's objective is to maintain monthly distributions at \$0.15 per unit throughout 2010 and into 2011 after conversion. In order to achieve this objective, anticipated increases in earnings would be utilized to absorb, to the extent possible, the impact of the corporate tax burden Wajax will be subject to in 2011. Consistent with this objective, the Fund announced on August 6, 2010 its regular monthly distributions for August, September and October will be maintained at \$0.15 per unit (\$1.80 annualized).

In addition, unlike previous years when the Fund declared a special distribution at year-end equal to the excess of the Fund's taxable income over aggregate monthly distributions, the Fund will begin to declare monthly special distributions for the excess taxable income it expects to generate in 2010. As a result, on August 6, 2010 the Fund also announced the declaration of special monthly cash distributions of \$0.20 per unit for each of the months of August, September and October. See Distributions section.

There can be no assurance, however, that the Fund's objective to maintain distributions throughout 2010 and/or dividends into 2011 will be achieved or that distributions or dividends will be paid in such amounts or at all. The boards of the Fund, and of Wajax Corporation after conversion, will have the discretion to modify their distribution and dividend policies at any time. The ability to pay cash distributions or dividends and the actual amount of such distributions or dividends will be dependent upon, among other things, the financial performance of Wajax, fluctuations in working capital, the sustainability of margins, capital expenditures, any contractual restrictions on distributions or dividends, including any agreements with lenders to Wajax, and the satisfaction of solvency tests imposed by the CBCA for the declaration of dividends. See the Forward-Looking Information and Risks and Uncertainties sections.

## Quarterly Results of Operations

### Mobile Equipment

	Three months ended June 30		Six months ended June 30	
	2010	2009	2010	2009
Equipment	\$82.5	\$71.1	\$139.7	\$146.7
Parts and service	\$60.0	\$56.0	\$111.5	\$110.0
Segment revenue	\$142.5	\$127.1	\$251.2	\$256.7
Segment earnings	\$10.3	\$8.5	\$17.7	\$16.3
Segment earnings margin	7.2%	6.7%	7.0%	6.4%

Revenue in the second quarter of 2010 increased \$15.4 million, or 12%, to \$142.5 million from \$127.1 million in the second quarter of 2009. Segment earnings for the quarter increased \$1.8 million to \$10.3 million compared to the second quarter of 2009. The following factors contributed to the Mobile Equipment segment's second quarter results:

- Equipment revenue increased \$11.3 million compared to last year. Specific quarter-over-quarter variances included the following:
  - Forestry equipment revenue increased \$6.1 million attributable to higher market demand for Tigercat products in all regions and increased sales of forestry related Hitachi equipment in western Canada.
  - Construction equipment revenue increased \$3.8 million. Increases in new Hitachi excavator sales in Ontario and western Canada outweighed a decline in JCB equipment sales in eastern Canada.
  - Crane and utility equipment revenue increased \$1.4 million due primarily to higher new equipment sales in western Canada.
  - Material handling equipment revenue increased \$0.4 million on higher volumes in western Canada.
  - Mining equipment revenue decreased \$0.4 million.

- Parts and service volumes increased \$4.1 million compared to last year due to higher mining sector sales in western Canada and an increase in forestry sector activity across Canada.
- Earnings increased \$1.8 million to \$10.3 million compared to last year as the positive impact of higher volumes and gross margins outweighed a \$1.9 million increase in selling and administrative expenses. Higher gross profit margins resulted mainly from increased mining and crane & utilities sector margins. Selling and administrative expenses increased compared to last year as a result of higher bad debt expense, largely to provide for a customer accounts receivable, occupancy and foreign exchange expenses compared to last year.

Backlog of \$84.0 million at June 30, 2010 decreased \$8.4 million compared to the first quarter of 2010 as mining equipment deliveries in western Canada in the quarter outpaced new orders received.

## Industrial Components

	Three months ended June 30		Six months ended June 30	
	2010	2009	2010	2009
Segment revenue	\$75.8	\$71.8	\$149.0	\$146.9
Segment earnings	\$2.0	\$1.2	\$5.2	\$1.8
Segment earnings margin	2.7%	1.6%	3.5%	1.2%

Revenue of \$75.8 million increased \$4.0 million from \$71.8 million in the second quarter of 2009. Segment earnings increased \$0.8 million to \$2.0 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 \$2.5 million compared to last year due to increased sales to metal processing customers in eastern Canada and Ontario and higher volumes in the mining and oil and gas sectors. These increases were partially offset by lower agriculture and construction sector volumes.
- Fluid power and process equipment products and service revenue increased \$1.5 million as increased natural gas drilling activity in western Canada and increased sales to metal processing customers across Canada, more than offset reduced sales to industrial and agriculture sectors.
- Segment earnings increased \$0.8 million compared to last year. The positive impact of higher volumes and gross margins outweighed a \$1.6 million increase in selling and administrative expenses. Margins were higher on both bearings and power transmission parts, and fluid power and process equipment products compared to last year. Selling and administrative expenses increased due primarily to annual and long-term incentive accruals and other sales related expenses.

Backlog of \$30.5 million as of June 30, 2010 increased \$4.7 million compared to the first quarter of 2010 due to increases in order intake.

Adrian Trotman was appointed Senior Vice-President, Industrial Components effective May 24, 2010. Mr. Trotman is a professional engineer and has an MBA degree. He has twenty years of experience in industrial distribution in Canada with a major U.S. multinational.

## Power Systems

	Three months ended		Six months ended	
	June 30		June 30	
	2010	2009	2010	2009
Equipment	\$18.4	\$16.7	\$32.0	\$41.4
Parts and service	\$36.7	\$34.0	\$70.6	\$70.2
Segment revenue	\$55.1	\$50.7	\$102.6	\$111.6
Segment earnings	\$3.7	\$2.4	\$4.4	\$5.9
Segment earnings margin	6.7%	4.7%	4.3%	5.3%

Revenue in the second quarter increased \$4.4 million to \$55.1 million compared to \$50.7 million in 2009. Segment earnings increased \$1.3 million to \$3.7 million in the quarter compared to the previous year. The following factors impacted quarterly revenue and earnings:

- Revenue at Waterous Power Systems ("Waterous") in western Canada increased \$3.8 million compared to last year. Equipment sales increased \$1.2 million due mainly to an increase in power generation sales. Parts and service revenue increased \$2.6 million due primarily to higher sales to off-highway customers, including those in the mining and oil and gas sectors.
- Revenue at the eastern Canada operation, DDACE Power Systems ("DDACE") increased by \$0.6 million compared to 2009. Equipment sales increased \$0.5 million on higher generator set volumes and parts and service revenue increased \$0.1 million compared to last year.
- Segment earnings increased \$1.3 million as the positive impact of higher volumes and gross margins in Waterous more than offset the \$0.6 million increase in selling and administrative expenses. Selling and administrative expenses increased due to higher personnel costs, including annual and long-term incentive accruals, and other sales related expenses compared to last year.

Backlog of \$71.5 million as of June 30, 2010 increased \$4.3 million compared to the first quarter of 2010 due to increases in order intake.

## Selected Quarterly Information

	2010			2009			2008	
	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3
Revenue	\$272.3	\$227.7	\$259.1	\$234.6	\$248.7	\$264.9	\$317.3	\$299.2
Net earnings	\$12.2	\$8.4	\$8.3	\$6.8	\$9.8	\$9.3	\$19.4	\$18.4
Net earnings per unit								
- Basic	\$0.74	\$0.50	\$0.50	\$0.41	\$0.59	\$0.56	\$1.17	\$1.11
- Diluted	\$0.72	\$0.50	\$0.50	\$0.40	\$0.59	\$0.55	\$1.15	\$1.10
Distributable cash <sup>(1)</sup>	\$13.3	\$9.0	\$10.0	\$9.6	\$11.3	\$11.4	\$20.4	\$19.4
Distributable cash per unit <sup>(1)</sup>								
- Basic	\$0.80	\$0.54	\$0.60	\$0.58	\$0.68	\$0.69	\$1.23	\$1.17

(1) Non-GAAP measure, see the Non-GAAP Measures section.

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

## Liquidity and Capital Resources

The Fund generated \$20.6 million of cash before financing activities in the second quarter of 2010 compared to \$41.2 million in the second quarter of 2009. The \$20.6 million decrease in cash flows generated before financing activities was due to lower non-cash working capital reductions, offset partially by an increase in cash flows from operations before changes in non-cash working capital and lower investing activities.

For the six months ended June 30, 2010 the Fund generated \$15.5 million of cash before financing activities compared to \$39.8 million in 2009. The \$24.3 million decrease in cash flows generated before financing activities was due to an increase in non-cash working capital, offset partially by an increase in cash flows from operations before changes in non-cash working capital and lower investing activities.

Cash flows from operating activities amounted to \$21.4 million in the second quarter of 2010, with \$14.9 million of cash generated from operating activities before changes in non-cash working capital and a \$6.6 million decrease in non-cash working capital.

For the six months ended June 30, 2010, cash flows from operating activities amounted to \$17.9 million, with \$25.4 million of cash generated from operating activities before changes in non-cash working capital offset by a \$7.5 million increase in non-cash working capital.

Changes in non-cash working capital include the following components:

	Three months ended June 30		Six months ended June 30	
Increase (decrease) in non-cash working capital	2010	2009	2010	2009
Accounts receivable	\$15.2	(\$21.1)	\$23.7	(\$32.2)
Inventories	(\$4.7)	(\$12.8)	\$1.0	(\$11.8)
Prepaid expenses and other recoverable amounts	\$3.7	\$0.7	\$4.7	(\$0.1)
Accounts payable and accrued liabilities	(\$20.9)	\$1.7	(\$21.9)	\$22.7
Income taxes payable	\$0.1	\$0.8	-	\$2.4
Total	(\$6.6)	(\$30.7)	\$7.5	(\$19.0)

Significant components of the changes in non-cash working capital for the quarter ended June 30, 2010 are as follows:

- Accounts receivable increased \$15.2 million due to higher second quarter revenues.
- Inventory decreased \$4.7 million due primarily to reductions in the Mobile Equipment segment.
- Prepaid expenses increased \$3.7 million due mainly to higher deposits with suppliers in Power Systems.

- Accounts payable and accrued liabilities increased \$20.9 million reflecting higher trade payables in all segments and an increase in deferred income in Power Systems.

During the quarter the Fund invested a net amount of \$0.9 million compared to \$2.1 million the previous year. During the quarter, investing activities included \$0.2 million of lift truck rental fleet additions net of disposals and \$0.7 million of other various capital asset additions net of disposals.

Working capital, exclusive of cash and bank indebtedness, decreased \$6.0 million to \$159.8 million at June 30, 2010 from \$165.8 million at March 31, 2010. The decrease was due to the cash flow factors listed above.

Funded net debt of \$69.8 million decreased \$13.0 million compared to March 31, 2010. Second quarter cash flows from operating activities before changes in non-cash working capital of \$14.9 million and a decrease in non-cash working capital of \$6.6 million were partially offset by cash distributions of \$7.5 million and capital spending of \$0.9 million. Compared to June 30, 2009 funded net debt decreased \$38.9 million and \$0.5 million compared to December 31, 2009. The Fund's quarter-end debt-to-equity ratio of 0.34:1 at June 30, 2010 decreased from last quarter's ratio of 0.41:1 and from last year's ratio of 0.54:1.

At June 30, 2010 the Fund had borrowed \$80.0 million and issued \$6.5 million of letters of credit for a total utilization of \$86.5 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 the Fund's inventories on-hand and outstanding trade accounts receivables. At June 30, 2010 borrowing capacity under the bank credit facility was equal to \$175 million.

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

On May 7, 2010, unitholders approved the conversion of the Fund to a corporation pursuant to a plan of arrangement under the Canada Business Corporations Act effective January 1, 2011. The arrangement will result in the reorganization of the Fund into a corporate structure and Unitholders will receive one common share of a new corporation to be called Wajax Corporation for each Unit of the Fund held. Lenders providing the Fund's \$175 million bank credit facility have agreed to the conversion of Wajax to a corporation provided the Fund is otherwise in compliance with the terms of its credit facility.

In February 2008, The Canadian Accounting Standards Board confirmed that the use of International Financial Reporting Standards (IFRS) will be required in Canada for publicly accountable profit oriented enterprises for fiscal years beginning on or after January 1, 2011. The Fund will be required to report using IFRS beginning January 1, 2011. The Fund is currently in the process of evaluating the impact of the change to IFRS. As a result of adopting IFRS, the Fund anticipates that the reported values of its net assets, equity and earnings will change. These changes could impact the calculation of covenants under the current bank credit facility, potentially resulting in an event of default. The Fund's management has discussed these possibilities with its bankers who have amended the definitive agreement allowing for modification of debt covenants to reflect changes in financial statement balances as a result of adopting IFRS.

## Financial Instruments

The Fund uses derivative financial instruments in the management of its foreign currency and interest rate exposures. The Fund'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:

- The Fund has entered into the following interest rate swaps that have effectively fixed the interest rate on \$80 million of the Fund'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 the Fund 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 the delayed interest rate swap the Fund 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 the Fund's Leverage Ratio and range between 0.75% and 2.5%.
- The Fund 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, 2010, the Fund had contracts outstanding to buy U.S.\$41.8 million and €0.2 million and to sell U.S.\$7.6 million (June 30, 2009 – to buy U.S.\$18.9 million, December 31, 2009 – to buy U.S.\$20.5 million and to sell U.S.\$0.03 million). The U.S. dollar contracts expire between July 2010 and December 2012, with a weighted average U.S. dollar rate of 1.0486 and a weighted average Euro dollar rate of 1.4004.

The Fund 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.

## **Currency Risk**

There have been no material changes to currency risk since December 31, 2009.

## **Contractual Obligations**

There have been no material changes to contractual obligations since December 31, 2009.

## **Off Balance Sheet Financing**

The Mobile Equipment segment had \$22.6 million of consigned inventory on-hand from a major manufacturer as at June 30, 2010. 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 the Fund's inventory as the manufacturer retains title to the goods.

The Fund's off balance sheet financing arrangements, with non-bank lenders, include operating lease contracts in relation to the Fund's long-term lift truck rental fleet in the Mobile Equipment segment. At June 30, 2010, the non-discounted operating lease commitment for the rental fleet was \$8.3 million (December 31, 2009 - \$11.5 million).

In the event the inventory consignment program was terminated, the Fund would utilize interest free financing, if any, made available by the manufacturer and/or utilize capacity under its bank credit facility. In the event the rental fleet program was terminated, the Fund would source alternative lenders to replicate the off balance sheet rental fleet program and/or utilize capacity under its credit facility to finance future additions to the rental fleet. Although management currently believes the Fund has adequate debt capacity, the Fund would have to access the equity or debt markets, or temporarily reduce distributions to accommodate any shortfalls in the Fund's credit facility. See the Liquidity and Capital Resources section.

## **Non-GAAP Measures**

To supplement the consolidated financial statements, the Fund uses non-GAAP financial measures that do not have standardized meanings prescribed by Canadian GAAP and are therefore unlikely to be comparable to similar measures used by other entities.

"Distributable cash" and "Distributable cash per unit" are not recognized measures under GAAP, and the method of calculation adopted by the Fund may differ from methods used by other entities. Accordingly, "Distributable

cash" and "Distributable cash per unit" as presented may not be comparable to similar measures presented by other entities. The Fund believes that "Distributable cash" and "Distributable cash per unit" are useful financial metrics as they represent the key determination of cash flow available for distribution to unitholders.

"Distributable cash" and "Distributable cash per unit" should not be construed as an alternative to net earnings as determined by GAAP. Distributable cash is calculated as cash flows from operating activities adjusted for changes in non-cash working capital, less maintenance capital expenditures and amortization of deferred financing costs. Changes in non-cash working capital are excluded from distributable cash as the Fund currently has a \$175 million bank credit facility which is available for use to fund general corporate requirements including working capital requirements, subject to borrowing capacity restrictions dependent on the level of the Fund's inventories on-hand and outstanding trade accounts receivable, and a \$15 million demand inventory equipment financing facility with a non-bank lender. In addition, the Fund will periodically finance equipment inventory on a non-interest bearing basis through an equipment finance company. See the Distributable Cash section below for the method of calculating the Fund's "Distributable cash".

"Maintenance capital expenditures" is not a recognized measure under GAAP, and the method of calculation adopted by the Fund may differ from methods used by other entities. The Fund believes that "Maintenance capital expenditures" represents cash expenditures required to maintain normal operations. "Maintenance capital expenditures" exclude business acquisitions and land and building additions as they are not considered to be expenditures to maintain normal operations. See the Distributable Cash and Estimated Distributable Cash sections below for the method of calculating "Maintenance capital expenditures".

"Standardized distributable cash" and "Standardized distributable cash per unit" are not recognized measures under GAAP. However, "Standardized distributable cash" has been calculated following the guidance provided in the CICA publication: *Standardized Distributable Cash in Income Trusts and Other Flow-Through Entities: Guidance on Preparation and Disclosure*. While the Fund has followed the principles of this guidance, the Fund has made assumptions and judgments in determining how such guidance is to be applied. In this respect, the Fund's calculation may differ from similar calculations done by other entities. See the Standardized Distributable Cash and Reconciliation to Distributable Cash section for the method of calculating the Fund's "Standardized distributable cash".

## Distributions

The Fund intends to make monthly cash distributions, generally payable to unitholders of record on the last business day of each calendar month and to be paid on or about the 20th day of the following month. The Fund may make special cash and/or special non-cash distributions to ensure, as provided in the Fund's Declaration of Trust, that the Fund's total distributions for the year are equal to its taxable income for the year.

Distributions are based on distributable cash (see Non-GAAP Measures and Distributable Cash sections) and depend on, among other things, the cash flow generated from operations before changes in non-cash working capital and after providing for maintenance capital expenditures (see Non-GAAP Measures section) and any amount that the Trustees may reasonably consider to be necessary to provide for the payment of costs or other obligations that have been or are reasonably expected to be incurred by the Fund. See also the Conversion to corporate structure, Liquidity and Capital Resources, and Distributable Cash sections.

Cash distributions to unitholders were declared as follows:

Record Date	Payment Date	Per Unit	Amount
April 30, 2010	May 20, 2010	\$0.15	\$2.5
May 31, 2010	June 21, 2010	0.15	2.5
June 30, 2010	July 20, 2010	0.15	2.5
<b>Three months ended June 30, 2010</b>		<b>\$0.45</b>	<b>\$7.5</b>

(1) See Distributable Cash section below

Cash distributions paid by the Fund during the quarter were funded from cash generated by the Fund's operations before changes in non-cash working capital.

For the six months ended June 30, 2010 monthly cash distributions declared totaled \$0.90 per unit (2009 - \$1.52 per unit). Distributable cash in excess of cash distributions declared for the six months ended June 30, 2010 of \$7.4 million, or \$0.44 per unit, provides the Fund an amount for future capital requirements or distributions.

On May 7, 2010 the Fund announced a monthly distribution of \$0.15 per unit (\$1.80 annualized), for the month of July payable on August 20, 2010 to unitholders of record on July 30, 2010.

On August 6, 2010 the Fund announced a monthly distribution of \$0.15 per unit (\$1.80 annualized) and a special distribution of \$0.20 per unit, for a total distribution of \$0.35 per unit for each of the months of August, September and October payable on September 20, 2010, October 20, 2010 and November 22, 2010 to unitholders of record on August 31, 2010, September 30, 2010 and October 29, 2010 respectively. See Conversion to corporation section.

Unitholder tax information relating to distributions is available on the Fund's website at [www.wajax.com](http://www.wajax.com).

## Distributable Cash<sup>(1)</sup>

The Fund believes that distributable cash is a useful metric in determining distributions to unitholders. The following is a reconciliation of cash flows from operating activities before changes in non-cash working capital (a GAAP measure) to distributable cash (a non-GAAP measure).

	For the quarter ended		For the six months ended		Last 12 months ended	
	June 30, 2010	June 30, 2009	June 30, 2010	June 30, 2009	June 30, 2010	June 30, 2009
<b>Cash flows from operating activities</b>	<b>\$21.4</b>	\$43.3	<b>\$17.9</b>	\$43.2	<b>\$77.0</b>	\$78.8
Changes in non-cash working capital <sup>(2)</sup>	(6.6)	(30.7)	7.5	(19.0)	(30.9)	(10.0)
<b>Cash flows from operating activities before changes in non-cash working capital</b>	<b>14.9</b>	12.6	<b>25.4</b>	24.2	<b>46.2</b>	68.8
Entity specific adjustments <sup>(3)</sup> :						
Maintenance capital expenditures <sup>(1) (3a)</sup>	(0.7)	(1.1)	(1.7)	(2.0)	(2.1)	(6.2)
Accrual for mid-term incentives <sup>(3b)</sup>	(0.8)	(0.1)	(1.3)	0.6	(1.9)	0.2
Amortization of deferred financing charges <sup>(3c)</sup>	(0.1)	(0.1)	(0.2)	(0.1)	(0.3)	(0.3)
<b>Distributable Cash<sup>(1)</sup> - \$</b>	<b>13.3</b>	11.3	<b>22.3</b>	22.7	<b>41.8</b>	62.5
- per unit basic	\$0.80	\$0.68	\$1.34	\$1.37	\$2.52	\$3.77
- per unit fully diluted	\$0.79	\$0.68	\$1.32	\$1.35	\$2.49	\$3.73
<b>Distributions Declared - \$</b>						
- Cash	7.5	10.0	14.9	25.2	30.7	60.5
- Non-cash <sup>(4)</sup>	-	-	-	-	-	7.8
<b>Distributions Declared – per unit</b>						
- Cash	\$0.45	\$0.60	\$0.90	\$1.52	\$1.85	\$3.65
- Non-cash <sup>(4)</sup>	-	-	-	-	-	\$0.47
<b>Payout Ratio <sup>(5)</sup></b>	<b>56.3%</b>	87.9%	<b>67.1%</b>	111.1%	<b>73.4%</b>	96.9%

(1) Non-GAAP measure, see Non-GAAP Measures section

(2) Changes in Non-cash Working Capital are excluded from the calculation of distributable cash as the Fund currently has a \$175 million bank credit facility which is available for use to fund general corporate requirements including working capital requirements (subject to borrowing capacity restrictions dependent on the level of the Fund's inventories on-



hand and outstanding trade accounts receivable) and a \$15 million demand inventory equipment financing facility with a non-bank lender. In addition, the Fund will periodically finance equipment inventory on a non-interest bearing basis through an equipment finance company. See "Financing Strategies" section for discussion of bank credit facility financial covenants.

(3) Other Entity Specific Adjustments made in calculating distributable cash include the following:

- a. Maintenance Capital Expenditures represent capital expenditures, net of disposals and rental fleet transfers to inventory, required to maintain normal operations. "Maintenance capital expenditures" exclude business acquisitions and land and building additions as they are considered to be expenditures that are not required to maintain normal operations.
- b. Accruals for Mid-Term Incentives: Changes in accruals for mid-term incentives are added back in determining cash flows from operating activities as they were treated as long-term liabilities effective January 1, 2007. These accruals are deducted in calculating distributable cash as the Fund believes it provides unitholders with a better indication of annual compensation costs and provides consistency with prior years.
- c. Amortization of Deferred Financing Costs is a deduction in calculating distributable cash based on the amount included in the operating activities section of the statement of cash flow (in the years following the financing transaction) allocated over the term of the financing. The Fund believes this treatment provides a better indication of annual financing costs.

(4) See Distributions section.

(5) Payout Ratio is equal to cash distributions declared as a percentage of distributable cash.

For the quarter ended June 30, 2010 distributable cash was \$13.3 million, or \$0.80 per unit, compared to \$11.3 million, or \$0.68 per unit, the previous year. The increase was due to higher cash flows from operations before changes in non-cash working capital and lower maintenance capital expenditures, offset partially by a higher accrual for mid-term incentive compensation compared to last year. For the quarter ended June 30, 2010 monthly cash distributions declared totaled \$0.45 per unit (2009 - \$0.60 per unit).

For the six months ended June 30, 2010 distributable cash of \$22.3 million, or \$1.34 per unit, compared to \$22.7 million, or \$1.37 per unit, the previous year. Higher cash flows from operations before changes in non-cash working capital and lower maintenance capital expenditure were offset by a higher accrual for mid-term incentive compensation compared to last year. For the six months ended June 30, 2010 monthly cash distributions declared totaled \$0.90 per unit (2009 - \$1.52 per unit). Distributable cash in excess of cash distributions declared for the six months ended June 30, 2010 of \$7.4 million, or \$0.44 per unit, provides the Fund an additional amount for future capital requirements or distributions.

For the twelve months ended June 30, 2010 distributable cash was \$41.8 million, or \$2.52 per unit, compared to \$62.5 million, or \$3.77 per unit, the previous year. The decrease was due mostly to lower cash flows from operations before changes in non-cash working capital and a higher accrual for mid-term incentive compensation, offset partially by lower maintenance capital expenditures compared to last year. For the twelve months ended June 30, 2010 monthly cash distributions declared totaled \$1.85 per unit (2009 - \$3.65 per unit). In 2008, a \$0.47 per unit special non-cash distribution was paid to ensure the Fund's total distributions for the year equaled its taxable income. Distributable cash in excess of cash distributions declared for the twelve months ended June 30, 2010 of \$11.1 million, or \$0.67 per unit, provides the Fund an amount for future capital requirements or distributions.

For the three months ended June 30, 2010, the payout ratio of cash distributions based on distributable cash was 56%, compared to 88% the previous year.

For the six months ended June 30, 2010, the payout ratio of cash distributions based on distributable cash was 67%, compared to 111% the previous year.

For the twelve months ended June 30, 2010, the payout ratio of cash distributions based on distributable cash was 73%, compared to 97% the previous year.

The following shows the relationship between distributions and cash flows from operating activities, net income and distributable cash:

	For the quarter ended June 30, 2010	For the six months ended June 30, 2010	For the year ended December 31, 2009	For the year ended December 31, 2008
A. Cash flows from operating activities	\$21.4	\$17.9	\$102.4	\$58.7
B. Net earnings	12.2	20.6	34.2	75.8
C. Distributable cash <sup>(1)</sup>	13.3	22.3	42.3	77.0
D. Cash distributions declared	7.5	14.9	41.0	68.5
E. Excess (shortfall) of cash flows from operating activities over cash distributions declared (A – D)	13.9	3.0	61.4	(9.8)
F. Excess (shortfall) of net earnings over cash distributions declared (B – D)	4.7	5.7	(6.8)	7.3
G. Excess of distributable cash over cash distributions declared (C – D)	5.8	7.4	1.3	8.5

(1) Non-GAAP measure, see Non-GAAP Measures section

Significant variances between cash distributions declared by the Fund and cash flows from operating activities, net earnings and distributable cash include the following:

For the quarter ended June 30, 2010, the \$13.9 million excess of cash flows from operating activities over cash distributions declared is comprised of a decrease in non-cash working capital of \$6.6 million, other entity specific adjustments totaling \$0.9 million, maintenance capital expenditures, net of disposals, of \$0.7 million, and \$5.8 million available for future capital requirements or distributions.

For the six months ended June 30, 2010, the \$3.0 million excess of cash flows from operating activities over cash distributions declared is comprised primarily of other entity specific adjustments totaling \$1.5 million and maintenance capital expenditures, net of disposals, of \$1.7 million. Distributable cash in excess of cash distributions declared of \$7.4 million provides an amount available for future capital requirements or distributions.

For the twelve months ended December 31, 2009, the \$61.4 million excess of cash flows from operating activities over cash distributions declared is comprised of a decrease in non-cash working capital of \$57.3 million, maintenance capital expenditures, net of disposals, of \$2.5 million, other entity specific adjustments totaling \$0.3 million and \$1.3 million available for future capital requirements or distributions. Cash distributions declared exceeded net earnings by \$6.8 million, due mainly to amortization deducted in calculating net earnings exceeding maintenance capital expenditures and other non-cash items deducted in calculating distributable cash by \$8.1 million, less the \$1.3 million excess of distributable cash over cash distributions declared. The \$1.3 million excess of distributable cash over cash distributions declared provided an amount for future working capital requirements or distributions.

For the year ended December 31, 2008, the \$9.8 million shortfall of cash flows from operating activities over cash distributions declared is due primarily to an increase in non-cash working capital of \$28.8 million and other entity specific adjustments totaling \$0.6 million, less maintenance capital expenditures, net of disposals, of \$11.1 million and \$8.5 million available for future capital requirements or distributions. The \$8.5 million excess of distributable cash over cash distributions, which included the \$7.3 million excess of net earnings over cash distributions declared, provided an amount for future capital requirements or distributions.

The following is a reconciliation of net earnings to distributable cash.

	For the quarter ended		For the six months ended		Last 12 months ended	
	June 30, 2010	June 30, 2009	June 30, 2010	June 30, 2009	June 30, 2010	June 30, 2009
<b>Net earnings</b>	<b>\$12.2</b>	<b>\$9.8</b>	<b>\$20.6</b>	<b>\$19.1</b>	<b>\$35.7</b>	<b>\$56.9</b>
Add (deduct)						
Amortization <sup>(1)</sup>	<b>2.1</b>	2.4	<b>4.2</b>	4.7	<b>8.9</b>	9.6
Maintenance capital expenditures <sup>(2) (3)</sup>	<b>(0.7)</b>	(1.1)	<b>(1.7)</b>	(2.0)	<b>(2.1)</b>	(6.1)
Non-cash items:						
- Pension expense, net of payments	<b>(0.3)</b>	0.1	<b>(0.5)</b>	0.2	<b>(0.9)</b>	0.3
- Non-cash rental expense	<b>(0.1)</b>	-	-	0.1	-	0.3
- Unit-based compensation expense	<b>0.3</b>	0.3	<b>0.6</b>	0.7	<b>1.3</b>	1.5
- Future income taxes	<b>(0.3)</b>	(0.2)	<b>(0.9)</b>	(0.1)	<b>(1.0)</b>	0.1
<b>Distributable cash<sup>(2)</sup> - \$</b>	<b>13.3</b>	11.3	<b>22.3</b>	22.7	<b>41.8</b>	62.5

(1) Includes amortization of rental equipment; property, plant and equipment; and intangible assets.

(2) Non-GAAP measure, see Non-GAAP Measures section

(3) Maintenance capital expenditures represent capital expenditures, net of disposals and rental fleet transfers to inventory, required to maintain normal operations. Maintenance capital expenditures exclude acquisitions and land and building additions as they are considered to be expenditures that are not required to maintain normal operations.

## Standardized Distributable Cash<sup>(1)</sup> and Reconciliation to Distributable Cash<sup>(2)</sup>

The following is a calculation of standardized distributable cash calculated following the guidance provided in the CICA publication: *Standardized Distributable Cash in Income Trusts and Other Flow-Through Entities: Guidance on Preparation and Disclosure*. In addition, the table provides a reconciliation of standardized distributable cash to distributable cash (see Distributable Cash section).

	For the quarter ended		For the six months ended		Last 12 months ended	
	June 30, 2010	June 30, 2009	June 30, 2010	June 30, 2009	June 30, 2010	June 30, 2009
<b>Cash flows from operating activities</b>	<b>\$21.4</b>	<b>\$43.3</b>	<b>\$17.9</b>	<b>\$43.2</b>	<b>\$77.1</b>	<b>\$78.8</b>
A. Capital expenditure outlays <sup>(3)</sup> :	(1.2)	(3.0)	(3.2)	(4.7)	(8.4)	(12.6)
B. Restriction on distributions <sup>(4)</sup>	-	-	-	-	-	-
<b>Standardized Distributable Cash<sup>(1)(2)</sup> - \$</b>	<b>20.2</b>	<b>40.3</b>	<b>14.7</b>	<b>38.5</b>	<b>68.7</b>	<b>66.2</b>
- per unit basic	\$1.22	\$2.43	\$0.88	\$2.32	\$4.14	\$3.99
- per unit fully diluted	\$1.20	\$2.40	\$0.87	\$2.29	\$4.08	\$3.95
i. Capital adjustments made to reflect maintenance capital expenditures <sup>(5)</sup> :						
- Proceeds from disposals of capital expenditures	0.3	0.9	0.8	1.3	2.0	2.2
- Growth capital expenditures	-	0.6	0.2	0.7	2.9	2.0
- Rental fleet transferred to inventory	0.2	0.4	0.5	0.7	1.4	2.3
ii. Other entity specific adjustments <sup>(6)</sup> :						
- Changes in non-cash working capital <sup>(6a)</sup>	(6.6)	(30.7)	7.5	(19.0)	(30.9)	(10.0)
- Accrual for mid-term incentives <sup>(6c)</sup>	(0.8)	(0.1)	(1.3)	0.6	(1.9)	0.2
- Amortization of deferred financing charges <sup>(6d)</sup>	(0.1)	(0.1)	(0.2)	(0.1)	(0.3)	(0.3)
<b>Distributable Cash<sup>(2)</sup> - \$</b>	<b>13.3</b>	<b>11.3</b>	<b>22.3</b>	<b>22.7</b>	<b>41.8</b>	<b>62.5</b>
- per unit basic	\$0.80	\$0.68	\$1.34	\$1.37	\$2.52	\$3.77
- per unit fully diluted	\$0.79	\$0.68	\$1.32	\$1.35	\$2.49	\$3.73
<b>Distributions Declared - \$</b>						
- Cash	7.5	10.0	14.9	25.2	30.7	60.5
- Non-cash <sup>(7)</sup>	-	-	-	-	-	7.8
<b>Distributions Declared - per unit</b>						
- Cash	\$0.45	\$0.60	\$0.90	\$1.52	\$1.85	\$3.65
- Non-cash <sup>(7)</sup>	-	-	-	-	-	\$0.47
<b>Payout ratio<sup>(8)</sup></b>						
- based on standardized distributable cash	37.0%	24.7%	101.9%	65.5%	44.7%	91.4%
- based on distributable cash	56.3%	87.9%	67.1%	111.1%	73.4%	96.9%

(1) Standardized distributable cash is a non-GAAP measure calculated following the guidance provided in the CICA publication: *Standardized Distributable Cash in Income Trusts and Other Flow-Through Entities: Guidance on Preparation and Disclosure*.

(2) Non-GAAP measure, see Non-GAAP Measures section.

(3) Capital expenditure outlays include both maintenance capital expenditure outlays and growth capital expenditure outlays deducted in calculating standardized distributable cash. See Productivity Capacity and Productivity Capacity Management section.

(4) There are currently no restrictions on distributions arising from compliance with financial covenants. See Financing Strategies section.

- (5) Capital adjustments are made to adjust capital expenditure outlays (deducted in computing standardized distributable cash) to reflect maintenance capital expenditures, net of disposals, as a deduction in computing distributable cash. These adjustments include: the exclusion of growth capital, the inclusion of proceeds from the disposal of capital expenditures and rental fleet transferred to inventory. See Non-GAAP Measures and Productivity Capacity and Productivity Capacity Management sections for calculation of maintenance capital expenditures.
- (6) Other Entity Specific Adjustments made in calculating distributable cash include the following:
  - a. Changes in Non-cash Working Capital see Distributable Cash section.
  - b. Accruals for Mid-Term Incentives see Distributable Cash section.
  - c. Amortization of Deferred Financing Costs see Distributable Cash section.
- (7) See Distributions section.
- (8) Payout ratio is equal to cash distributions declared as a percentage of distributable cash.

For the quarter ended June 30, 2010 standardized distributable cash was \$20.2 million, or \$1.22 per unit, compared to \$40.3 million, or \$2.43 per unit, the previous year. The \$20.1 million decrease was due to \$21.9 million decrease in cash flows from operating activities, offset partially by lower capital expenditures of \$1.8 million.

For the six months ended June 30, 2010 standardized distributable cash was \$14.7 million, or \$0.88 per unit, compared to \$38.5 million, or \$2.32 per unit, the previous year. The \$23.8 million decrease was due to \$25.3 million decrease in cash flows from operating activities, offset partially by lower capital expenditures of \$1.5 million.

For the twelve months ended June 30, 2010 standardized distributable cash was \$68.7 million, or \$4.14 per unit, compared to \$66.2 million, or \$3.99 per unit, the previous year. The \$2.5 million increase was due to a \$4.2 million reduction in capital expenditures, offset partially by a decrease in cash flows from operating activities of \$1.7 million. See the Liquidity and Capital Resources section.

Since the conversion of Wajax Limited to Wajax Income Fund on June 15, 2005, the payout ratio of cash distributions based on standardized distributable cash and distributable cash is 101.3% and 93.3%, respectively. The difference is due primarily to capital adjustments, changes in non-cash working capital and other entity specific adjustments since conversion that have been funded through the Fund's bank credit facility. See Financing Strategies section.

## **Productive Capacity and Productive Capacity Management**

There have been no material changes to the Fund's productive capacity and productive capacity management since December 31, 2009.

## **Financing Strategies**

The Fund's \$175 million bank credit facility along with the \$15 million demand inventory equipment financing should be sufficient to meet the Fund's short-term normal course working capital, maintenance capital and growth capital requirements.

The Fund's short-term normal course working capital requirements can swing widely quarter-to-quarter due to 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. This can result in standardized distributable cash increasing in years of declining activity and decreasing in years of growth. Fluctuations in working capital are generally funded by, or used to repay, the bank credit facilities. Therefore, for the reasons noted the Fund adjusts for changes in non-cash working capital in calculating distributable cash in periods where the Fund has capacity under its credit facility to fund the changes in non-cash working capital.

In the long-term the Fund may also be required to access the equity or debt markets or reduce distributions 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 the Fund's inventories on-hand and outstanding trade accounts receivables. At June 30, 2010 borrowing capacity under the bank credit facility was equal to \$175 million.

The bank credit facility contains covenants that could restrict the ability of the Fund to make cash distributions, if (i) an event of default exists or would exist as a result of a cash distribution, 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 cash distributions by the borrowers in each fiscal quarter may not exceed 115% of distributable cash for the trailing four fiscal quarters. Notwithstanding the restrictions relating to the leverage ratio, a special cash distribution in the first quarter of each fiscal year is permitted in an amount not to exceed the amount by which distributable cash for the preceding fiscal year exceeds declared cash distributions for the preceding fiscal year plus any excess cumulative distributable cash over cash distributions of prior years. In addition, borrowing capacity under the bank credit facility is dependent on the level of the Fund's inventories on-hand and outstanding trade accounts receivables. For further detail, the Fund's bank credit facility is available on SEDAR at [www.sedar.com](http://www.sedar.com).

During the quarter, the Fund received consent from its lenders to declare a \$0.20 per unit special cash distributions for each of the months of August, September and October of 2010 provided the conditions noted in (i) and (ii) above are met. See Distributions section.

## Unit Capital

The trust units of the Fund issued are included in unitholders' equity on the balance sheet as follows:

<b>Issued and fully paid Trust Units as at June 30, 2010</b>	<b>Number</b>	<b>Amount</b>
Balance at the beginning of quarter	16,603,423	\$105.3
Rights exercised	-	-
Balance at end of quarter	<b>16,603,423</b>	<b>\$105.3</b>

The Fund has four unit-based compensation plans: the Wajax Unit Ownership Plan ("UOP"), the Deferred Unit Program ("DUP"), the Trustees' Deferred Unit Plan ("TDUP") and the Mid-Term Incentive Plan ("MTIP"). UOP, DUP and TDUP rights are issued to the participants and are settled by issuing Wajax Income Fund units, while the MTIP consists of an annual grant that vests over three years and is subject to time and performance vesting criteria. Compensation expense for the UOP, DUP and TDUP 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 unitholders' equity. Compensation expense for the MTIP varies with the price of Fund units and is recognized over the three year vesting period with an offsetting adjustment to accrued liabilities. The Fund recorded compensation cost of \$300 thousand for the quarter (2009 - \$329 thousand) and \$592 thousand for the year to date (2009 - \$749 thousand) in respect of these plans.

## 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. The Fund has taken into account the current economic environment when determining the provision for inventory obsolescence, provision for doubtful accounts and any impairment of goodwill and other assets. The Fund makes a provision for doubtful accounts when there is evidence that a specific account may become uncollectible. The Fund does not provide a general reserve for bad debts. During the quarter the Fund increased its provision for doubtful accounts largely to provide for a customer accounts receivable in the Mobile Equipment segment. As conditions change, actual results could differ from those estimates. Critical accounting estimates used by the Fund's management are discussed in detail in the MD&A for the year ended December 31, 2009 which can be found on SEDAR at [www.sedar.com](http://www.sedar.com).

## Accounting Changes

The following is a summary of the new standards which will impact the Fund:

In February 2008, The Canadian Accounting Standards Board confirmed that the use of International Financial Reporting Standards ("IFRS") will be required in Canada for publicly accountable profit oriented enterprises for fiscal years beginning on or after January 1, 2011. The Fund will be required to report using IFRS beginning January 1, 2011. IFRS uses a conceptual framework similar to current Canadian GAAP, but there are significant differences in recognition, measurement and disclosures.

The Fund's management has prepared a comprehensive IFRS conversion plan that addresses the changes in accounting policy, restatement of comparative periods, internal control over financial reporting, disclosure controls and procedures, modification of existing systems, staff training as well as other related business matters. The project consists of four phases: awareness, assessment, design and implementation. The awareness, assessment and design phases have substantially been completed and general IFRS and specific issues training has been conducted for the Fund's finance staff, board of trustees and audit committee. The Fund continues to monitor development of new standards within IFRS as they are released. To date, the Fund has not identified any significant changes that will be required to its information systems, internal controls over financial reporting or disclosure controls and procedures.

While significant progress on the implementation phase has been made, the Fund is not yet in a position to definitively quantify the impact of adopting IFRS on its financial statements. However, the areas identified with the most potential to have significant effects upon adoption of IFRS include employee benefits, leases, inventories, and classification of trust units. As well, extensive additional disclosures will be required under IFRS. Based on the work that has been completed to date, the Fund has identified the following potential adjustments to be made on January 1, 2010 to convert its Canadian GAAP balance sheet to its opening IFRS statement of financial position and estimated their potential impacts to be as follows:

### *Employee Benefits*

Upon adopting IFRS, companies may elect to recognize unamortized gains and losses directly to retained earnings. In addition there are various options for recognizing actuarial gains and losses going forward. The Fund anticipates electing to recognize in retained earnings all cumulative actuarial gains and losses relating to employee pension plans at the date of transition resulting in a decrease to equity of \$2,500. Under IFRS the Fund plans to recognize actuarial gains and losses in full in the consolidated statement of comprehensive income in the period in which they occur. The Fund is not expecting a material change to earnings as a result of this change.

### *Leases*

Under IFRS the classification of leases as operating or financing type leases is more qualitative and less prescriptive than the standards under Canadian GAAP. As a result, on transition to IFRS certain leases which are currently classified as operating leases under Canadian GAAP are expected to be classified as financing leases under IFRS. This will result in the recognition of fixed assets of \$9,700 and associated lease obligation liabilities of \$10,300 with a decrease to equity of \$600 on the statement of financial position. Thereafter, earnings will be affected by increased amortization and interest expense and decreased lease costs. The Fund is not expecting a material change to earnings as a result of this change.

There is uncertainty regarding the classification of certain lease transactions whereby the Fund leases lift trucks for rental to customers. The Fund has tentatively classified these agreements as operating leases under IFRS but has not yet made a final determination. Should these leases be treated as financing type leases, the Fund's assets and liabilities could be increased by an additional \$10,000 to \$15,000.

### *Inventory*

The Fund currently does not allocate overhead to work in process inventory related to customer work orders. Under IFRS the Fund expects that it will allocate overhead to work in process inventory related to customer work orders resulting in an increase to inventory and opening retained earnings of \$500. The Fund is not expecting a material change to earnings as a result of this change.

## *Income Fund Trust Units*

The Fund is currently assessing the classification of its trust units under IFRS. One interpretation of IAS 32 would result in the Fund's trust units being classified as debt and its distributions being classified as interest expense rather than the current Canadian GAAP equity classification. Debt classification would arise in situations where the Fund's trustees have a legal obligation to distribute cash to the unitholders as distributions. If the Fund's trust units are classified as debt and its distributions classified as interest expense there would be a material impact to earnings and to the measurement of debt and equity on the statement of financial position. However the measurement of the potential liability and interest expense has not yet been determined, pending a decision on the trust unit classification. As the Fund expects to convert to a corporation effective January 1, 2011, the potential reclassification of the Fund's trust units as debt would only impact the opening IFRS statement of financial position and the 2010 comparative balances in the 2011 financial statements.

Reclassification of amounts under IFRS may impact the calculation of covenants under the Fund's current bank credit facility, potentially resulting in an event of default. The Fund's management has discussed these potential IFRS changes with its bankers who have amended the definitive agreement to allow for modification of debt covenants to reflect changes in financial statement balances as a result of adopting IFRS.

The Fund is working to implement the revised accounting policies based on the choices made, clarify the classification issues discussed above and execute communications programs as required. Performance targets for years after 2010 for the Mid Term Incentive Plan will need to be recalibrated to reflect the impact of IFRS. While the Fund will not actually be reporting under IFRS until the first quarter of 2011, it will prepare its opening IFRS statement of financial position and restate its Canadian GAAP financial statements to IFRS for internal purposes, subject to evolving IFRS standards and the remaining outstanding policy decisions, for each quarter of 2010.

## **Risks and Uncertainties**

As with most businesses, the Fund is subject to a number of marketplace and industry related risks and uncertainties which could have a material impact on operating results. The Fund 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, 2009 which can be found on SEDAR at [www.sedar.com](http://www.sedar.com). For the period January 1, 2010 to August 6, 2010 there have been no material changes to the business of the Fund that require an update to the discussion of the applicable risks discussed in the MD&A for the year ended December 31, 2009.

## **Outlook**

Second quarter consolidated earnings were better than expected. Stronger market demand for products and services that began in March carried on throughout the second quarter.

In the Mobile Equipment business, demand for equipment in almost all product categories was stronger than last year and parts and service volumes continued to trend upward. Daily sales and backlog in Industrial Components improved again in the second quarter as demand across a number of sectors continued to show positive signs. Power Systems is experiencing an increase in demand for power generation packages, as well as parts and service, particularly in western Canada.

Management expects demand for construction, forestry and power generation equipment, as well as Industrial Components products will continue to exceed the levels experienced last year. It is also anticipated that activity in mining, the oil sands and the government and utilities sector will remain strong. Overall, the Fund's expectations are to achieve positive revenue and earnings growth in the second half of this year compared to the second half of 2009.

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



# WAJAX INCOME FUND

Unaudited Consolidated Financial Statements

For the three and six months ended June 30, 2010

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

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

**WAJAX INCOME FUND**  
**CONSOLIDATED BALANCE SHEETS**

(unaudited, in thousands of dollars)	June 30 2010	December 31 2009	June 30 2009
<b>ASSETS</b>			
Current			
Cash	\$ 9,715	\$ 9,207	\$ -
Accounts receivable	147,039	123,537	130,537
Inventories (note 3)	177,780	176,230	215,837
Income taxes receivable	204	190	-
Future income taxes	4,053	3,191	2,915
Prepaid expenses and other recoverable amounts	12,459	7,800	4,843
	351,250	320,155	354,132
Non-current			
Rental equipment	15,202	16,370	19,222
Property, plant and equipment	35,279	36,164	34,541
Goodwill	66,335	66,335	66,300
Intangible assets	6,875	7,170	7,521
Deferred pension asset	2,459	2,013	2,043
	126,150	128,052	129,627
	\$ 477,400	\$ 448,207	\$ 483,759
<b>LIABILITIES AND UNITHOLDERS' EQUITY</b>			
Current			
Bank indebtedness	\$ -	\$ -	\$ 3,481
Accounts payable and accrued liabilities	179,252	157,532	163,688
Distributions payable to unitholders	2,491	2,491	3,321
Income taxes payable	-	-	265
Equipment notes payable	-	-	8,896
	181,743	160,023	179,651
Non-Current			
Future income taxes	2,011	1,883	1,670
Other liabilities	2,108	841	196
Long-term pension liability	2,956	2,995	2,845
Derivative instrument liability	1,518	2,643	2,989
Long-term debt	79,519	79,461	96,325
	88,112	87,823	104,025
Unitholders' equity			
Trust units (note 5)	105,307	105,307	105,307
Unit-based compensation (note 6)	6,237	5,645	4,979
Accumulated earnings	97,266	91,642	92,315
Accumulated other comprehensive loss (note 4)	(1,265)	(2,233)	(2,518)
	96,001	89,409	89,797
Total unitholders' equity	207,545	200,361	200,083
	\$ 477,400	\$ 448,207	\$ 483,759

**WAJAX INCOME FUND**  
**CONSOLIDATED STATEMENTS OF EARNINGS**  
**AND ACCUMULATED EARNINGS**

(unaudited, in thousands of dollars, except per unit data)	Three months ended June 30		Six months ended June 30	
	2010	2009	2010	2009
Revenue	\$ 272,298	\$ 248,668	\$ 500,656	\$ 513,540
Cost of sales	212,590	197,115	389,719	407,251
Gross profit	59,708	51,553	110,937	106,289
Selling and administrative expenses	46,774	41,347	89,175	85,970
Earnings before interest and income taxes	12,934	10,206	21,762	20,319
Interest expense	1,045	1,183	2,076	2,339
Earnings before income taxes	11,889	9,023	19,686	17,980
Income tax (recovery) expense – current	5	(634)	10	(1,025)
- future	(322)	(171)	(892)	(135)
Net earnings	\$ 12,206	\$ 9,828	\$ 20,568	\$ 19,140
Basic earnings per unit (note 7)	\$ 0.74	\$ 0.59	\$ 1.24	\$ 1.15
Diluted earnings per unit (note 7)	0.72	0.59	1.22	1.14
Accumulated earnings, beginning of period	\$ 92,532	\$ 92,444	\$ 91,642	\$ 98,407
Distributions	(7,472)	(9,957)	(14,944)	(25,232)
Net earnings	12,206	9,828	20,568	19,140
Accumulated earnings, end of period	\$ 97,266	\$ 92,315	\$ 97,266	\$ 92,315

**WAJAX INCOME FUND**  
**CONSOLIDATED STATEMENTS OF**  
**COMPREHENSIVE INCOME**

(unaudited, in thousands of dollars)	Three months ended June 30		Six months ended June 30	
	2010	2009	2010	2009
Net earnings	\$ 12,206	\$ 9,828	\$ 20,568	\$ 19,140
Losses (gains) on derivative instruments designated as cash flow hedges in prior periods transferred to cost of inventory in the current period, net of tax (note 4)	320	(1,113)	459	(1,305)
Gains on derivative instruments designated as cash flow hedges, net of tax (note 4)	1,215	765	509	1,038
Other comprehensive income (loss)	1,535	(348)	968	(267)
Comprehensive income	\$ 13,741	\$ 9,480	\$ 21,536	\$ 18,873

**WAJAX INCOME FUND**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**

(unaudited, in thousands of dollars)	Three months ended June 30		Six months ended June 30	
	2010	2009	2010	2009
<b>OPERATING ACTIVITIES</b>				
Net earnings	\$ 12,206	\$ 9,828	\$ 20,568	\$ 19,140
Items not affecting cash flows:				
Amortization				
- Rental equipment	888	1,082	1,736	2,204
- Property, plant and equipment	1,102	1,098	2,159	2,127
- Intangible assets	119	176	295	368
- Deferred financing costs	80	59	150	128
Pension expense, net of payments	(305)	124	(485)	216
Long-term portion of mid-term incentive plan expense	844	101	1,268	(622)
Non-cash rental expense	(54)	7	(27)	71
Unit-based compensation expense (note 6)	300	329	592	749
Future income taxes	(322)	(171)	(892)	(135)
<b>Cash flows from operating activities before changes in non-cash working capital</b>	<b>14,858</b>	<b>12,633</b>	<b>25,364</b>	<b>24,246</b>
<b>Changes in non-cash working capital</b>				
Accounts receivable	(15,193)	21,117	(23,502)	32,159
Inventories	4,688	12,754	(1,035)	11,811
Prepaid expenses and other recoverable amounts	(3,748)	(682)	(4,659)	123
Accounts payable and accrued liabilities	20,916	(1,746)	21,747	(22,690)
Income taxes payable	(80)	(790)	(14)	(2,432)
	<b>6,583</b>	<b>30,653</b>	<b>(7,463)</b>	<b>18,971</b>
<b>Cash flows from operating activities</b>	<b>21,441</b>	<b>43,286</b>	<b>17,901</b>	<b>43,217</b>
<b>INVESTING ACTIVITIES</b>				
Rental equipment additions	(582)	(785)	(1,861)	(1,507)
Proceeds on disposal of rental equipment	343	760	778	1,216
Property, plant and equipment additions	(658)	(2,200)	(1,367)	(3,210)
Proceeds on disposal of property, plant and equipment	6	106	93	110
<b>Cash flows used in investing activities</b>	<b>(891)</b>	<b>(2,119)</b>	<b>(2,357)</b>	<b>(3,391)</b>
<b>Cash flows before financing activities</b>	<b>20,550</b>	<b>41,167</b>	<b>15,544</b>	<b>39,826</b>
<b>FINANCING ACTIVITIES</b>				
Increase in long-term bank debt	-	(29,000)	-	(20,000)
Increase in equipment notes payable	-	-	-	8,896
Increase in deferred financing costs	(9)	-	(92)	-
Distributions paid	(7,472)	(9,954)	(14,944)	(27,883)
<b>Cash flows used in financing activities</b>	<b>(7,481)</b>	<b>(38,954)</b>	<b>(15,036)</b>	<b>(38,987)</b>
<b>Net change in cash and cash equivalents</b>	<b>13,069</b>	<b>2,213</b>	<b>508</b>	<b>839</b>
<b>Cash (bank indebtedness) - beginning of period</b>	<b>(3,354)</b>	<b>(5,694)</b>	<b>9,207</b>	<b>(4,320)</b>
<b>Cash (bank indebtedness) - end of period</b>	<b>9,715</b>	<b>(3,481)</b>	<b>\$ 9,715</b>	<b>\$ (3,481)</b>

Cash flows used in operating activities include the following:

Interest paid	\$ 1,045	\$ 927	\$ 2,009	\$ 1,999
Income tax paid (recovered)	\$ -	\$ 10	\$ (61)	\$ 1,259

Significant non-cash transactions:

Rental equipment transferred to inventory	\$ 235	\$ 390	\$ 515	\$ 677
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**WAJAX INCOME FUND**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
(Amounts in thousands of dollars, except unit and per unit data)  
(unaudited)

**Note 1 Structure of the trust and basis of presentation**

Wajax Income Fund (the "Fund") is an unincorporated, open-ended, limited purpose investment trust established under the laws of Ontario pursuant to the declaration of trust dated April 27, 2005. The Fund was created to indirectly invest, on June 15, 2005, in substantially all of the assets and business formerly conducted by Wajax Limited.

These unaudited interim consolidated financial statements do not include all of the disclosures included in the audited annual consolidated financial statements. Accordingly, these unaudited interim financial statements should be read in conjunction with the annual consolidated financial statements of the Fund for the year ended December 31, 2009. The significant accounting policies follow those disclosed in the most recently reported annual financial statements.

Additional information, including the Fund's Annual Report and Annual Information Form, may be found on SEDAR at [www.sedar.com](http://www.sedar.com).

**Note 2 New standards issued but not yet effective**

In February 2008, The Canadian Accounting Standards Board confirmed that the use of International Financial Reporting Standards (IFRS) will be required in Canada for publicly accountable profit oriented enterprises for fiscal years beginning on or after January 1, 2011. The Fund will be required to report using IFRS beginning January 1, 2011. The Fund is currently in the process of evaluating the impact of the change to IFRS.

As a result of adopting IFRS, the Fund anticipates that the reported values of its net assets, equity and earnings will change. These changes could impact the calculation of covenants under the current bank credit facility, potentially resulting in an event of default. The Fund's management has discussed these possibilities with its bankers who have amended the definitive agreement allowing for modification of debt covenants to reflect changes in financial statement balances as a result of adopting IFRS.

**Note 3 Inventories**

	Cost Formula	June 30 2010	December 31 2009	June 30 2009
Equipment	Specific item	\$ 79,162	\$ 74,623	\$ 102,294
Parts	Weighted average	81,499	88,150	102,368
Work in process	Specific item	17,119	13,457	11,175
Total inventories		\$ 177,780	\$ 176,230	\$ 215,837

All amounts shown are net of applicable reserves.

The Fund recognized \$202,687 of inventory as an expense which is included in cost of sales during the quarter (2009 - \$174,838) and \$358,274 year to date (2009 - \$363,476). During the quarter \$759 was recorded in cost of sales for the write-down of inventory to estimated net realizable value (2009 - \$420). Year to date, the write-down of inventory was \$2,295 (2009 - \$1,255).

All of the Fund's inventory is pledged as security under the bank credit facility and other equipment financing facilities.

**Note 4 Accumulated other comprehensive loss**

	Three months ended June 30		Six months ended June 30	
	2010	2009	2010	2009
Balance beginning of period	(2,800)	(2,170)	\$ (2,233)	\$ (2,251)
Losses (gains) on derivative instruments designated as cash flow hedges in prior periods transferred to cost of inventory in the current period, net of tax	320	(1,113)	459	(1,305)
Gains on derivative instruments designated as cash flow hedges, net of tax	1,215	765	509	1,038
Accumulated other comprehensive loss	(1,265)	(2,518)	\$ (1,265)	\$ (2,518)

During the quarter ending June 30, 2010, \$354 (\$320 – net of tax) of losses on derivative contracts designated as cash flow hedges in prior periods, 2009 – gain of \$1,231 (\$1,113 net of tax), were reclassified out of comprehensive income into cost of inventory, while the change in the fair value of the outstanding contracts at June 30, 2010 resulted in a gain of \$1,330 (\$1,215 – net of tax) being recorded in other comprehensive income, 2009 – gain of \$928 (\$765 – net of tax). In 2009, there was an ineffective portion of the outstanding contracts recognized in earnings of \$290.

Year to date, \$508 (\$459 – net of tax), 2009 – gain of \$1,442 (\$1,305 – net of tax) of losses on derivative contracts designated as cash flow hedges in prior periods were reclassified out of comprehensive income into cost of inventory, while the change in the fair value of the outstanding contracts at June 30, 2010 resulted in a gain of \$617 (\$509 – net of tax), 2009 – gain of \$1,223 (\$1,038 – net of tax) being recorded in other comprehensive income. In 2009, there was an ineffective portion of the outstanding contracts recognized in earnings of \$290.

As at June 30, 2010, the fair value of the interest rate swap agreements is estimated to be negative \$1,883 (2009 – negative \$2,799), and the currency forward contracts, positive \$365 (2009 – negative \$190).

**Note 5 Trust units**

At the end of the quarter the number of trust units outstanding was 16,603,423 (December 2009 – 16,603,423, June 2009 – 16,603,423). There were 130,865 rights outstanding under the Wajax Unit Ownership Plan ("UOP") (December 2009 – 126,125, June 2009 – 115,712), 22,770 rights outstanding under the Deferred Unit Program ("DUP") (December 2009 – 21,944, June 2009 – 20,769) and 131,454 rights outstanding under the Trustees' Deferred Unit Plan ("TDUP") (December 2009 – 117,518, June 2009 – 97,640). No options or unit rights were excluded from the earnings per unit calculations as none were anti-dilutive.

	Three months ended June 30		Six months ended June 30	
	2010	2009	2010	2009
Balance beginning of period	\$ 105,307	\$ 104,995	\$ 105,307	\$ 104,871
Unit rights plans exercised	-	312	-	436
Balance end of period	\$ 105,307	\$ 105,307	\$ 105,307	\$ 105,307

## Note 6 Unit-based compensation plans

The Fund has four unit-based compensation plans: the UOP, the DUP, the TDUP and the Mid-Term Incentive Plan ("MTIP"). UOP, DUP and TDUP rights are issued to the participants and are settled by issuing Wajax Income Fund units. The UOP and DUP are subject to certain time and performance vesting criteria. The MTIP consists of an annual grant that is settled in cash, vests over three years and is based upon performance vesting criteria, a portion of which is determined by the price of Fund units. Compensation expense for the UOP, the DUP and the TDUP 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 unitholders' equity. Compensation expense for the MTIP varies with the price of Fund units and is recognized over the 3 year vesting period.

During the quarter 2,337 rights (2009 – 4,542) were granted under the UOP, 407 rights (2009 – 815) were granted under the DUP and 7,130 rights (2009 – 11,338) were granted and no rights (2009 – 12,866) were exercised under the TDUP.

Year to date 4,740 rights (2009 – 11,504) were granted and no rights (2009 – 5,351) were exercised under the UOP, 826 rights (2009 – 2,047) were granted under the DUP and 13,936 rights (2009 – 26,726) were granted and no rights (2009 – 12,866) were exercised under the TDUP.

The Fund recorded compensation costs of \$300 for the quarter (2009 – \$329) and \$592 for the year to date (2009 – \$749) in respect of unit rights plans and \$869 for the quarter (2009 – \$100) and \$1,336 for the year to date (2009 – recovery of \$265) in respect of the unit based MTIP.

## Note 7 Earnings per unit

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

	Three months ended June 30		Six months ended June 30	
	2010	2009	2010	2009
Numerator for basic and diluted earnings per unit:				
– net earnings	\$ 12,206	\$ 9,828	\$ 20,568	\$ 19,140
Denominator for basic earnings per unit:				
– weighted average units	16,603,423	16,591,264	16,603,423	16,590,173
Denominator for diluted earnings per unit:				
– weighted average units	16,603,423	16,591,264	16,603,423	16,590,173
– effect of dilutive unit rights	261,201	199,555	256,465	191,127
Denominator for diluted earnings per unit	16,864,624	16,790,819	16,859,888	16,781,300
Basic earnings per unit	\$ 0.74	\$ 0.59	\$ 1.24	\$ 1.15
Diluted earnings per unit	\$ 0.72	\$ 0.59	\$ 1.22	\$ 1.14



## Note 8 Financial instruments and capital management

There has been no significant change to the financial instruments and related risks or the Fund's capital management since December 31, 2009. During the quarter the allowance for credit losses increased by \$1,200 largely to provide for a customer accounts receivable in the Mobile Equipment segment.

## Note 9 Employees' pension plans

Net pension plan expenses are as follows:

	Three months ended June 30		Six months ended June 30	
	2010	2009	2010	2009
Net pension plan expense – defined benefit plans	\$ 147	\$ 270	\$ 321	\$ 482
Net pension plan expense – defined contribution plans	1,117	1,177	2,382	2,473
	\$ 1,264	\$ 1,447	\$ 2,703	\$ 2,955

## Note 10 Segmented information

	Three months ended June 30		Six months ended June 30	
	2010	2009	2010	2009
<b>Revenue</b>				
Mobile Equipment	\$ 142,545	\$ 127,133	\$ 251,229	\$ 256,677
Industrial Components	75,818	71,847	149,020	146,872
Power Systems	55,113	50,732	102,554	111,565
Segment eliminations	(1,178)	(1,044)	(2,147)	(1,574)
	\$ 272,298	\$ 248,668	\$ 500,656	\$ 513,540
<b>Segment Earnings</b>				
Mobile Equipment	\$ 10,274	\$ 8,510	\$ 17,667	\$ 16,307
Industrial Components	2,036	1,155	5,178	1,762
Power Systems	3,682	2,383	4,445	5,891
Corporate costs and eliminations	(3,058)	(1,842)	(5,528)	(3,641)
	12,934	10,206	21,762	20,319
Interest expense	1,045	1,183	2,076	2,339
Income tax recovery	(317)	(805)	(882)	(1,160)
Net earnings	\$ 12,206	\$ 9,828	\$ 20,568	\$ 19,140

Interest expense, income taxes and corporate costs are not allocated to business segments.

## Note 11 Comparative information

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

In particular, amounts recovered from customers or manufacturers in an amount of \$9,043 for the quarter and \$18,073 year to date have been reclassified out of selling and administrative expenses into revenue. In addition, service department overhead amounts of \$16,924 for the quarter and \$34,573 year to date have been reclassified out of selling and administrative expenses into cost of sales. The above reclassifications have no impact on net earnings.