



**WAJAX INCOME FUND**  
**News Release**

TSX Symbol: WJX.UN

**WAJAX ANNOUNCES SECOND QUARTER 2006 RESULTS  
AND ITS FIFTH INCREASE IN DISTRIBUTIONS**

(Dollars in millions, except per unit data)	<u>Three Months</u> <u>Ended June 30</u>		<u>Six Months</u> <u>Ended June 30</u>	
	2006	2005	2006	2005
Revenue	\$314.1	\$275.4	\$617.3	\$514.6
Net earnings	\$18.5	\$3.0	\$35.4	\$8.0
Distributable Cash <sup>(1)</sup>	\$17.5	\$3.8	\$36.0	\$3.8
Basic earnings per unit	\$1.11	\$0.19	\$2.13	\$0.50
Basic distributable cash per unit <sup>(1)</sup>	\$1.05	\$0.23	\$2.17	\$0.23
Cash distributions declared per unit	\$0.79	N/A	\$1.50	N/A

<sup>(1)</sup> Denotes non-GAAP measure. See Non-GAAP Measures section in the attached Management's Discussion and Analysis (MD&A). 2005 amounts are for the June 15<sup>th</sup> to June 30<sup>th</sup> period since conversion.

**Toronto, Ontario – August 9, 2006** – Wajax Income Fund today announced second quarter 2006 results.

**Second Quarter Highlights**

- Revenues increased \$38.7 million, or 14% (18% after adjusting for the decline in the value of the U.S. dollar) compared to last year. Mobile Equipment revenues increased 14%, Industrial Components 12% and Power Systems were up 16% primarily as a result of continuing strength in the Alberta energy sector.
- Net earnings for the quarter of \$18.5 million, or \$1.11 per unit, compared to \$3.0 million, or \$0.19 per unit recorded in 2005. Stronger sales and certain cost reduction and recovery and margin improvement initiatives led to significantly improved earnings in all three segments. Compared to the previous year, Mobile Equipment earnings were up 42% to \$11.4 million, Industrial Components increased 85% to \$6.0 million and Power Systems improved by 16% to \$5.5 million. In addition, last year's earnings included costs associated with the income fund conversion effective June 15, 2005, as well as a higher interest expense and tax rate for the time prior to conversion.

- Basic distributable cash (See Non-GAAP Measures section in MD&A) amounted to \$1.05 per unit for the quarter compared to cash distributions declared of \$0.79 per unit. Basic distributable cash for the previous year of \$0.23 per unit was for the June 15, 2005 to June 30, 2005 period since conversion.
- Basic distributable cash (see Non-GAAP Measures section in MD&A) for the twelve-months ended June 30, 2006 was \$3.96 per unit, up from an estimated pro-forma basic distributable cash of \$3.78 per unit for the twelve months ended March 31, 2006.
- The Fund announced a fifth increase in monthly distributions since conversion of \$0.03 per unit to \$0.30 per unit (\$3.60 per unit annualized) for August, payable on September 20, 2006, to unitholders of record on August 31, 2006.

Commenting on the second quarter results and the outlook for the rest of the year, Neil Manning, President and CEO, stated “The continuation of our strong operating performance relates not only to the robust economy in western Canada, but also to numerous cost reduction and recovery programs implemented across the organization and our margin improvement initiatives in Industrial Components. As such, assuming no significant change in the economic climate, we remain confident that the factors driving our revenues and earnings in the first six months of 2006 will continue to positively impact our results for the balance of the year.”

Wajax Income Fund is a leading Canadian distributor and service support provider of mobile equipment, industrial components and power systems. Reflecting a diversified exposure to the Canadian economy, its three distinct core businesses operate through a network of over 100 branches across Canada. Its customer base spans natural resources, construction, transportation, manufacturing, industrial processing and utilities.

Wajax will Webcast its Second Quarter Financial Results Conference Call. You are invited to listen to the live Webcast on Wednesday, August 9, 2006 at 2:00 p.m. ET. To access the Webcast, enter [www.wajax.com](http://www.wajax.com) and click on the link for the Webcast on the Investor Relations page. The archived Webcast will be available at the above mentioned website within 24 hours after the conference call.

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

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# WAJAX INCOME FUND

Unaudited Consolidated Financial Statements

For the six months ended June 30, 2006

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 auditors of Wajax Income Fund.

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

(in thousands of dollars)	June 30 2006 unaudited	December 31 2005 audited	June 30 2005 unaudited
<b>Current Assets</b>			
Cash and cash equivalents	\$ -	\$ 4,840	\$ 3,178
Accounts receivable	136,605	130,008	119,639
Inventories	223,004	188,570	173,646
Future income taxes	4,661	6,380	7,004
Prepaid expenses and other recoverable amounts	5,269	3,839	3,609
Discontinued operations (note 5)	595	667	22,372
	<b>370,134</b>	<b>334,304</b>	<b>329,448</b>
<b>Non-Current Assets</b>			
Rental equipment	19,857	17,249	17,072
Property, plant and equipment	31,632	28,983	28,615
Goodwill and other assets	60,692	59,232	55,711
Future income taxes	710	920	2,593
Discontinued operations (note 5)	-	-	1,398
	<b>112,891</b>	<b>106,384</b>	<b>105,389</b>
	<b>\$ 483,025</b>	<b>\$ 440,688</b>	<b>\$ 434,837</b>
<b>Current Liabilities</b>			
Bank indebtedness	\$ 483	\$ -	\$ -
Accounts payable and accrued liabilities	200,276	179,615	161,417
Distributions payable to unit holders	4,478	14,261	-
Income taxes payable	1,008	1,510	2,802
Equipment notes payable	1,648	5,719	-
Discontinued operations (note 5)	2,032	2,469	4,438
	<b>209,925</b>	<b>203,574</b>	<b>168,657</b>
<b>Non-Current Liabilities</b>			
Future income taxes	2,075	2,358	2,783
Other liabilities	120	-	-
Long-term pension liability	2,976	2,695	2,217
Long-term debt	60,000	35,000	58,000
	<b>65,171</b>	<b>40,053</b>	<b>63,000</b>
<b>Unitholders' Equity</b>			
Trust units (note 1)	104,871	104,818	104,818
Contributed surplus	1,069	764	577
Accumulated earnings	101,989	91,479	97,785
	<b>207,929</b>	<b>197,061</b>	<b>203,180</b>
	<b>\$ 483,025</b>	<b>\$ 440,688</b>	<b>\$ 434,837</b>

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

(in thousands of dollars, except per unit data)	Three months ended June 30 unaudited		Six months ended June 30 unaudited	
	2006	2005	2006	2005
Revenue	\$ 314,082	\$ 275,434	\$ 617,330	\$ 514,600
Cost of sales	246,318	216,922	483,160	401,188
Gross profit	67,764	58,512	134,170	113,412
Selling and administrative expenses	47,196	44,007	94,779	89,835
Income fund conversion-related costs	-	2,606	-	2,606
Earnings from continuing operations before interest and income taxes	20,568	11,899	39,391	20,971
Interest expense	1,071	1,348	1,913	2,876
Early extinguishment of long-term debt	-	7,592	-	7,592
Earnings from continuing operations before income taxes	19,497	2,959	37,478	10,503
Income tax expense (recovery) - current	212	3,669	445	6,479
- future	823	(3,262)	1,646	(3,102)
Net earnings from continuing operations	\$ 18,462	\$ 2,552	\$ 35,387	\$ 7,126
Earnings from discontinued operations (note 10)	-	418	-	862
Net earnings	18,462	2,970	35,387	7,988
Accumulated earnings, beginning of period, as reported	96,629	96,139	91,479	92,222
Adjustment to future income tax in consequence of the income fund conversion	-	(216)	-	(216)
Distributions	(13,102)	-	(24,877)	-
Dividends on common shares	-	(1,108)	-	(2,209)
Accumulated earnings, end of period	\$ 101,989	\$ 97,785	\$ 101,989	\$ 97,785
Earnings per unit from continuing operations (note 7) – basic	\$ 1.11	\$ 0.16	\$ 2.13	\$ 0.45
– diluted	1.11	0.16	2.12	0.45
Earnings per unit (note 7) – basic	1.11	0.19	2.13	0.50
– diluted	1.11	0.19	2.12	0.50
Number of trust units outstanding	16,585,206	16,582,530	16,584,314	16,582,530
Number of Trustees' Deferred Unit Plan and Wajax Unit Ownership Plan rights outstanding	94,865	-	94,865	-

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

Three months ended June 30

(in thousands of dollars)

	2006 unaudited	2005 unaudited
<b>OPERATING ACTIVITIES</b>		
Net earnings from continuing operations	\$ 18,462	\$ 2,552
Items not affecting cash flows:		
Amortization		
- Rental equipment	1,073	984
- Property, plant and equipment	1,099	1,265
- Deferred expenses and intangible assets	234	157
Write off deferred charges	-	867
Non-cash pension expense	180	157
Non-cash rental expense	31	33
Unit compensation expense (note 3)	181	941
Future income taxes	823	(3,248)
<b>Cash flows from continuing operations before changes in non-cash working capital</b>	<b>22,083</b>	<b>3,708</b>
<b>Changes in non-cash working capital</b>		
Accounts receivable	2,025	4,182
Inventories	(5,460)	(7,292)
Prepaid expenses	(1,911)	14
Accounts payable and accrued liabilities	(4,392)	368
Income taxes payable	87	1,174
	<b>(9,651)</b>	<b>(1,554)</b>
<b>Cash flows from operating activities from continuing operations</b>	<b>12,432</b>	<b>2,154</b>
<b>INVESTING ACTIVITIES</b>		
Rental equipment additions	(4,664)	(2,305)
Proceeds on disposal of rental equipment	151	899
Property, plant and equipment additions	(3,617)	(1,232)
Proceeds on disposal of property, plant and equipment	82	8
Acquisition of business (note 9)	(1,600)	-
	<b>(9,648)</b>	<b>(2,630)</b>
<b>Cash flows from (used in) continuing operations before financing activities</b>	<b>2,784</b>	<b>(476)</b>
<b>FINANCING ACTIVITIES</b>		
Issuance of common shares on exercise of stock options	-	5,295
Repayment of long-term debt	-	(77,573)
Income fund conversion costs charged to trust units	-	(3,678)
Increase in long-term bank debt	10,000	58,000
Deferred financing costs	-	(1,762)
Hedging activities	-	1,150
Decrease in equipment notes payable	(2,740)	-
Distributions paid	(12,770)	-
Dividends paid	-	(1,108)
	<b>(5,510)</b>	<b>(19,676)</b>
<b>Net change in cash and cash equivalents before discontinued operations</b>	<b>\$ (2,726)</b>	<b>\$ (20,152)</b>
<b>Cash and cash equivalents used in discontinued operations (note 5)</b>	<b>(408)</b>	<b>(904)</b>
<b>Cash and cash equivalents – beginning of period</b>	<b>\$ 2,651</b>	<b>\$ 24,234</b>
<b>(Bank indebtedness)/Cash and cash equivalents – end of period</b>	<b>\$ (483)</b>	<b>\$ 3,178</b>

Cash flows from operating activities from continuing operations include the following:

Interest paid	\$ 942	\$ 3,076
Income taxes paid	\$ 125	\$ 2,517

**Significant non-cash transactions:**

Rental equipment transferred to inventory	\$ 974	\$ 503
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**WAJAX INCOME FUND**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**

Six months ended June 30

(in thousands of dollars)	2006 unaudited	2005 unaudited
<b>OPERATING ACTIVITIES</b>		
Net earnings from continuing operations	\$ 35,387	\$ 7,126
Items not affecting cash flows:		
Amortization		
- Rental equipment	2,037	1,945
- Property, plant and equipment	2,372	2,392
- Deferred expenses and intangible assets	452	388
Write off deferred charges	-	867
Non-cash pension expense	364	327
Non-cash rental expense	61	226
Unit compensation expense (note 3)	358	996
Future income taxes	1,646	(3,088)
<b>Cash flows from continuing operations before changes in non-cash working capital</b>	<b>42,677</b>	<b>11,179</b>
<b>Changes in non-cash working capital</b>		
Accounts receivable	(4,184)	(11,011)
Inventories	(27,107)	(22,666)
Prepaid expenses	(1,413)	131
Accounts payable and accrued liabilities	18,179	12,417
Income taxes payable	(515)	(5,128)
	<b>(15,040)</b>	<b>(26,257)</b>
<b>Cash flows from (used in) operating activities from continuing operations</b>	<b>27,637</b>	<b>(15,078)</b>
<b>INVESTING ACTIVITIES</b>		
Rental equipment additions	(6,822)	(4,656)
Proceeds on disposal of rental equipment	873	1,269
Property, plant and equipment additions	(4,551)	(2,221)
Proceeds on disposal of property, plant and equipment	154	20
Acquisition of business (note 9)	(8,192)	-
	<b>(18,538)</b>	<b>(5,588)</b>
<b>Cash flows from (used in) continuing operations before financing activities</b>	<b>9,099</b>	<b>(20,666)</b>
<b>FINANCING ACTIVITIES</b>		
Issuance of common shares on exercise of stock options	-	5,314
Repayment of long-term debt	-	(78,477)
Income fund conversion costs charged to trust units	-	(3,678)
Repayment of debt upon acquisition of business (note 9)	(446)	-
Increase in long-term bank debt	25,000	58,000
Deferred financing costs	-	(1,762)
Hedging activities	-	(2,327)
Decrease in equipment notes payable	(4,071)	-
Increase in other liabilities	120	-
Distributions paid	(34,660)	-
Dividends paid	-	(2,210)
	<b>(14,057)</b>	<b>(25,140)</b>
<b>Net change in cash and cash equivalents before discontinued operations</b>	<b>\$ (4,958)</b>	<b>\$ (45,806)</b>
<b>Cash and cash equivalents used in discontinued operations (note 5)</b>	<b>(365)</b>	<b>(425)</b>
<b>Cash and cash equivalents – beginning of period</b>	<b>\$ 4,840</b>	<b>\$ 49,409</b>
<b>(Bank indebtedness)/Cash and cash equivalents – end of period</b>	<b>\$ (483)</b>	<b>\$ 3,178</b>

**Cash flows from operating activities from continuing operations include the following:**

Interest paid	\$ 1,585	\$ 3,876
Income taxes paid	\$ 928	\$ 11,609

**Significant non-cash transactions:**

Rental equipment transferred to inventory	\$ 1,305	\$ 731
Note receivable transferred from inventory	\$ -	\$ 377

**WAJAX INCOME FUND**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
(tabulated in thousands of dollars)  
(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 governed by the laws of Ontario pursuant to the declaration of trust dated April 27, 2005. The Fund was created to indirectly acquire all the outstanding shares of Wajax Limited ("Wajax") and exchange those on an equal basis for Wajax Trust Units ("Units") in the Fund pursuant to a Plan of Arrangement (the "Arrangement") effective June 15, 2005. The Fund is authorized to issue an unlimited number of units and each Unitholder participates pro rata in any distribution from the Fund.

The Fund is considered to be a continuation of Wajax following the continuity of interest method of accounting, which recognizes the Fund as the successor entity to Wajax. Accordingly, these interim consolidated financial statements reflect the financial position, results of operations and cash flows as if the Fund had always carried on the business formerly carried on by Wajax with all assets and liabilities recorded at the carrying values of Wajax.

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, 2005. 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 Earnings per unit**

The following table sets forth the computation of basic and diluted earnings per unit (in thousands, except unit and per unit information):

<b>Three months ended June 30</b>	<b>2006</b>	<b>2005</b>
Numerator for basic and diluted earnings per unit:		
– net earnings from continuing operations	\$ 18,462	\$ 2,552
– net earnings	18,462	2,970
<hr/>		
Denominator for basic earnings per unit :		
– weighted average units	16,585,206	15,990,853
<hr/>		
Denominator for diluted earnings per unit:		
– weighted average units	16,585,206	15,990,853
– effect of dilutive unit rights	92,718	7,354

<b>Three months ended June 30</b>	<b>2006</b>		2005
Denominator for diluted earnings per unit	<b>16,677,924</b>		15,998,207
Basic earnings per unit from continuing operations	<b>\$ 1.11</b>	\$	0.16
Diluted earnings per unit from continuing operations	<b>\$ 1.11</b>	\$	0.16
Basic earnings per unit	<b>\$ 1.11</b>	\$	0.19
Diluted earnings per unit	<b>\$ 1.11</b>	\$	0.19

<b>Six months ended June 30</b>	<b>2006</b>		2005
Numerator for basic and diluted earnings per unit:			
– net earnings from continuing operations	<b>\$ 35,387</b>	\$	7,126
– net earnings	<b>35,387</b>		7,988
Denominator for basic earnings per unit : – weighted average units	<b>16,584,314</b>		15,865,212
Denominator for diluted earnings per unit:			
– weighted average units	<b>16,584,314</b>		15,865,212
– effect of dilutive unit rights	<b>92,040</b>		3,677
Denominator for diluted earnings per unit	<b>16,676,354</b>		15,868,889
Basic earnings per unit from continuing operations	<b>\$ 2.13</b>	\$	0.45
Diluted earnings per unit from continuing operations	<b>\$ 2.12</b>	\$	0.45
Basic earnings per unit	<b>\$ 2.13</b>	\$	0.50
Diluted earnings per unit	<b>\$ 2.12</b>	\$	0.50

At the end of the quarter 66,867 rights were outstanding under the Wajax Unit Ownership Plan (2005 – nil) and 27,998 rights were outstanding under the Trustees' Deferred Unit Plan (2005 – nil). No stock options were outstanding at the end of the quarter (2005 – 838,070). No options or unit rights were excluded from the above calculations as none were anti-dilutive.

### **Note 3 Unit-based compensation plans**

During the quarter 1,229 rights were granted under the Wajax Unit Ownership Plan and 1,691 rights were granted under the Trustees' Deferred Unit Plan. In the 2005 quarter, 838,070 stock options were exercised with a weighted average exercise price of \$6.32 per share.

Year to date, 3,827 rights were granted under the Wajax Unit Ownership Plan and 3,735 rights were granted under the Trustees' Deferred Unit Plan. Also during the year 2,676 rights were exercised under the Trustees' Deferred Unit Plan which were settled by issuing Wajax

Income Fund Units. In 2005, 843,070 stock options were exercised with a weighted average exercise price of \$6.30.

During the year the Fund made its annual grant under the Mid-Term Incentive Plan for Senior Executives (“MTIP”). This grant vests over three years and is based upon performance vesting criteria. A portion of this grant is determined by the price of Fund units. Compensation expense varies with the price of Fund units and is recognized over the 3 year vesting period.

The Fund recorded compensation cost of \$181 for the quarter (2005 - \$364) and \$358 for the year to date (2005 - \$419) in respect of unit rights plans and \$75 for the quarter (2005 – nil) and \$100 for the year to date in respect of the unit based MTIP. Wajax had accounted for employee stock options using the intrinsic value method prior to 2003 and accordingly has not recorded compensation cost for grants prior to that year. There would have been a nominal reduction in both net earnings and earnings per share in 2005 if Wajax had accounted for employee stock options issued in 2002 under the fair value method.

#### **Note 4 Financial instruments**

The Fund has entered into interest-rate swap contracts with two of its lenders, such that in total the interest rate on \$30 million of its non-revolving term facility is effectively fixed at 3.47% plus applicable margins until expiry of the facility on June 7, 2008. The differential the Fund would receive to hypothetically terminate or exchange the swap agreement in the prevailing market conditions is estimated at \$0.7 million.

The Fund enters into short-term foreign currency contracts to fix the cost of certain inbound inventory and to hedge certain foreign currency-denominated sales to customers as part of its normal course of business. As at June 30, 2006, the Fund had contracts outstanding to buy \$8.1 million U.S. dollars and 0.8 million Euros (June 30, 2005 – to buy \$13.8 million U.S. dollars and 0.9 million Euros). The differential the Fund would pay to hypothetically terminate or exchange the currency forward contracts in the prevailing market conditions is estimated to be \$0.1 million.

#### **Note 5 Discontinued operations**

On September 30, 2005 the assets of Spencer Industries Inc. (“Spencer”), the U.S. based operation of Industrial Components, were sold for cash proceeds of \$19.2 million. The results of operations, cash flows, and financial position of Spencer have been reported as discontinued operations in the consolidated financial statements since the Fund will not have a continuing involvement in the ongoing operations of the Spencer.

<b>Three months ended June 30</b>		<b>2006</b>		<b>2005</b>
Sales	\$	-	\$	16,430
Earnings, net of future taxes of 2006 - \$Nil; 2005 - \$225		-		418
Earnings from discontinued operations	\$	-	\$	418

<b>Six months ended June 30</b>	<b>2006</b>		<b>2005</b>	
Sales	\$	-	\$	31,363
Earnings, net of future taxes of 2006 - \$Nil; 2005 - \$464		-		862
Earnings from discontinued operations	\$	-	\$	862

The assets and liabilities of the discontinued operations are as follows:

	<b>June 2006</b>		<b>June 2005</b>	
Current assets	\$	595	\$	22,372
Non-current assets		-		1,398
Total assets		595		23,770
Current liabilities	\$	2,032	\$	4,438

Cash flows from discontinued operations consist of cash and cash equivalents used in:

<b>Three months ended June 30</b>	<b>2006</b>		<b>2005</b>	
Operating activities	\$	-	\$	(2,560)
Investing activities		(389)		(64)
Financing activities		-		-
Effect of foreign exchange on translation adjustment		(19)		1,720
Cash and cash equivalents used in discontinued operations	\$	(408)	\$	(904)

<b>Six months ended June 30</b>	<b>2006</b>		<b>2005</b>	
Operating activities	\$	-	\$	(2,052)
Investing activities		(346)		(99)
Financing activities		-		-
Effect of foreign exchange on translation adjustment		(19)		1726
Cash and cash equivalents used in discontinued operations	\$	(365)	\$	(425)

## **Note 6 Employees' pension plans**

Net pension plan expenses are as follows:

<b>For the three months ended June 30</b>	<b>2006</b>		<b>2005</b>	
Net pension plan expense – defined benefit plans	\$	273	\$	215
Net pension plan expense – defined contribution plans		982		848
	\$	1,255	\$	1,063

<b>For the six months ended June 30</b>	<b>2006</b>		<b>2005</b>	
Net pension plan expense – defined benefit plans	\$	542	\$	429
Net pension plan expense – defined contribution plans		2,183		1,906
	\$	2,725	\$	2,335

## Note 7 Segmented information

<b>For the three months ended June 30</b>	<b>2006</b>	<b>2005</b>
<b>Revenue</b>		
Mobile Equipment	\$ 168,409	\$ 147,562
Industrial Components	83,502	74,477
Power Systems	62,932	54,053
Segment eliminations	(761)	(658)
Revenue from continuing operations	<b>314,082</b>	275,434
<b>Segment Earnings</b>		
Mobile Equipment	\$ 11,361	\$ 8,006
Industrial Components	5,995	3,233
Power Systems	5,542	4,774
Corporate costs and eliminations	(2,330)	(1,508)
Income fund conversion-related costs	-	(2,606)
Earnings from continuing operations	<b>20,568</b>	11,899

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

<b>For the six months ended June 30</b>	<b>2006</b>	<b>2005</b>
<b>Revenue</b>		
Mobile Equipment	\$ 328,246	\$ 272,460
Industrial Components	160,884	143,358
Power Systems	129,557	100,091
Segment eliminations	(1,357)	(1,309)
Revenue from continuing operations	<b>617,330</b>	514,600
<b>Segment Earnings</b>		
Mobile Equipment	\$ 21,344	\$ 13,763
Industrial Components	10,697	5,639
Power Systems	12,282	8,772
Corporate costs and eliminations	(4,932)	(4,597)
Income fund conversion-related costs	-	(2,606)
Earnings from continuing operations	<b>39,391</b>	20,971

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

## Note 8 Contingencies

In August 2004, a statement of claim was served naming the Fund's subsidiary, Wajax Limited, and a subsidiary, since amalgamated into Wajax Limited, as defendants in proceedings under the Class Proceedings Act of British Columbia. The action arises out of the conversion on January 1, 2001 of the Employee Pension Plan from defined benefit to defined contribution, the taking of contribution holidays and the payment of pension administration expenses from the pension fund. Management has assessed the facts and arguments pleaded and believes the claims are unlikely to succeed. A statement of defence has been filed.

## Note 9 Acquisitions

On March 17, 2006, the Fund's Mobile Equipment segment acquired the assets of Conley Equipment Limited ("Conley"), the JCB dealer for most of the Greater Toronto Area and eastern Ontario, including Ottawa, for approximately \$6.2 million, which is subject to post closing adjustments.

On March 22, 2006 the Fund's Industrial Components segment acquired the shares of Baytec Fluid Power Limited ("Baytec") for approximately \$1.7 million, which is subject to post closing adjustments. Pursuant to the Agreement of Purchase and sale, depending on Baytec's earnings before interest and taxes during the 24 month period following the transaction, the purchase price may be increased by up to \$0.6 million with the additional amount being paid to goodwill.

On April 28, 2006, the Fund's Industrial Components segment acquired the shares of Intek Automation Inc. ("Intek"), a power transmission product distribution business located in Mississauga, Ontario for approximately \$1.9 million.

The results of operations from the acquisitions have been included in the consolidated financial statements of the Fund as of their effective dates.

The following is a summary of the purchase price allocation:

	Conley	Baytec	Intek	Total
Working capital	\$ 5,883	\$ 638	\$ 592	\$ 7,113
Property, plant and equipment	128	456	41	624
Goodwill and intangibles	200	645	1,267	2,112
Purchase price	6,211	1,739	1,900	9,849
Assumed Debt	-	(446)	-	(446)
Total consideration given	6,211	1,293	1,900	9,403
Less: Holdbacks	(529)	(383)	(300)	(1,211)
Total cash paid	5,682	910	1,600	8,192

## Note 10 Comparative information

Certain comparative numbers have been reclassified to conform with the current year presentation.

# **Management's Discussion and Analysis – Q2 2006**

The following management discussion and analysis ("MD&A") provides a review of the consolidated financial condition and results of operations of Wajax Income Fund (the "Fund" or "Wajax") for the quarter ended June 30, 2006. The following discussion should be read in conjunction with the information contained in the accompanying financial statements and notes thereto for the quarter ended June 30, 2006. For additional information and details, readers are referred to the Fund's financial statements and MD&A for the first quarter of 2006 and for the year ended December 31, 2005, as well as the Fund's Annual Information Form, all of which are published separately and are available on SEDAR at [www.sedar.com](http://www.sedar.com). Information contained in this MD&A is based on information available to management as of August 9, 2006.

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

## **Wajax Income Fund Overview**

Wajax Income 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 "Company").

The Fund is considered to be a continuation of Wajax Limited following the continuity of interest method of accounting, which recognizes the Fund as the successor entity to Wajax Limited. Accordingly, these interim consolidated financial statements reflect the financial position, results of operations and cash flows as if the Fund has always carried on the business formerly carried on by Wajax Limited with all assets and liabilities recorded at the carrying values of 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 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.

Wajax has three core distribution businesses engaged in the sale and after-sales parts and service support of mobile equipment, power systems and industrial components, through a network of over 100 branches across Canada. Its customer base spans natural resources, construction, transportation, manufacturing, industrial processing and utilities.

## **Forward-Looking Statements**

This MD&A contains forward-looking statements. These statements relate to future events or future performance and reflect management's current expectations and assumptions. Such

forward-looking statements reflect management's current beliefs and are based on information currently available to management of the Fund. A number of factors could cause actual events, performance or results to differ materially from the events, performance and results discussed in the forward-looking statements. These factors include and are not restricted to the risks identified in the MD&A section of the 2005 Annual Report which can be found on SEDAR at [www.sedar.com](http://www.sedar.com). In addition these factors should be considered carefully and readers should not place undue reliance on the forward-looking statements. These forward-looking statements are made as of the date hereof and the Fund does not assume any obligation to update or revise them to reflect new events or circumstances.

## Consolidated Results

<b>for the three months ended June 30</b>	<b>2006</b>	<b>2005</b>
Revenue	<b>\$314.1</b>	\$275.4
Gross profit	<b>\$67.8</b>	\$58.5
Selling and administrative expenses	<b>\$47.2</b>	\$44.0
Income fund conversion-related costs (1)	-	\$2.6
Earnings from continuing operations before interest and income taxes	<b>\$20.6</b>	\$11.9
Interest expense	<b>\$1.1</b>	\$1.3
Income tax expense	<b>\$1.0</b>	\$0.4
Early extinguishment of debt (2)	-	\$7.6
Net earnings from continuing operations	<b>\$18.5</b>	\$2.6
Earnings from discontinued operations	-	\$0.4
<b>Net earnings</b>	<b>\$18.5</b>	\$3.0
<b>Distributable cash (3)</b>	<b>\$17.5</b>	\$3.8
<b>Cash distributions declared (4)</b>	<b>\$13.1</b>	-
<b>Distributions paid (4)</b>	<b>\$12.8</b>	-
<b>Dividends paid (4)(5)</b>	-	\$1.1
<b>Net earnings per unit - Basic</b>	<b>\$1.11</b>	\$0.19
<b>- Diluted</b>	<b>\$1.11</b>	\$0.19
<b>Distributable cash per unit (3) - Basic</b>	<b>\$1.05</b>	\$0.23
<b>Cash distributions declared per unit (4)</b>	<b>\$0.79</b>	-
<b>Distributions paid per unit (4)</b>	<b>\$0.77</b>	-
<b>Dividends paid per share (5)</b>	-	\$0.07

(1) Income fund conversion-related costs of \$2.6 million include certain accelerated executive and director long-term incentive payments including stock based compensation.

(2) Charges associated with the early extinguishment of long-term debt.

(3) Non-GAAP measure, see the Non-GAAP Measures section. 2005 distributable cash, for the 15 days ended June 30, 2005, is based on pro-rata results for the month of June 2005.

(4) Based on actual number of units/shares outstanding on record date.

(5) Dividends paid prior to conversion of Wajax Limited into Wajax Income Fund.

<b>for the six months ended June 30</b>	<b>2006</b>	<b>2005</b>
Revenue	<b>\$617.3</b>	\$514.6
Gross profit	<b>\$134.2</b>	\$113.4
Selling and administrative expenses	<b>\$94.8</b>	\$89.8
Income fund conversion-related costs (1)	-	\$2.6
Earnings from continuing operations before interest and income taxes	<b>\$39.4</b>	\$21.0
Interest expense	<b>\$1.9</b>	\$2.9
Income tax expense	<b>\$2.1</b>	\$3.4
Early extinguishment of debt (2)	-	\$7.6
Net earnings from continuing operations	<b>\$35.4</b>	\$7.1
Earnings from discontinued operations	-	\$0.9
<b>Net earnings</b>	<b>\$35.4</b>	\$8.0
<b>Distributable cash (3)</b>	<b>\$36.0</b>	\$3.8
<b>Cash distributions declared (4)</b>	<b>\$24.9</b>	-
<b>Distributions paid (4)</b>	<b>\$34.7</b>	-
<b>Dividends paid (4)(5)</b>	-	\$2.2
<b>Net earnings per unit - Basic</b>	<b>\$2.13</b>	\$0.50
<b>- Diluted</b>	<b>\$2.12</b>	\$0.50
<b>Distributable cash per unit (3) - Basic</b>	<b>\$2.17</b>	\$0.23
<b>Cash distributions declared per unit (4)</b>	<b>\$1.50</b>	-
<b>Distributions paid per unit (4)</b>	<b>\$2.09</b>	-
<b>Dividends paid per share (5)</b>	-	\$0.14

(1) Income fund conversion-related costs of \$2.6 million include certain accelerated executive and director long-term incentive payments including stock based compensation.

(2) Charges associated with the early extinguishment of long-term debt.

(3) Non-GAAP measure, see the Non-GAAP Measures section. 2005 distributable cash, for the 15 days ended June 30, 2005, is based on pro-rata results for the month of June 2005.

(4) Based on actual number of units/shares outstanding on record date.

(5) Dividends paid prior to conversion of Wajax Limited into Wajax Income Fund.

## Revenue

Revenue in the second quarter of 2006 increased \$38.7 million, or 14%, to \$314.1 million from \$275.4 million in 2005. The strengthening Canadian dollar relative to the U.S. dollar had the effect of decreasing 2006 consolidated quarterly revenue by approximately \$10.9 million, or 4%, as the Fund realized lower sales dollars per unit on U.S. sourced products. Segment revenue increased 14% in Mobile Equipment, 12% in Industrial Components and 16% in Power Systems. For the six months ended June 30, 2006, revenue increased \$102.7 million, or 20%.

## Gross profit

Gross profit in the second quarter of 2006 increased \$9.3 million, or 16%, due mainly to higher sales volumes. The gross profit percentage for the quarter increased marginally to 21.6% in 2006 from 21.2% in 2005 due principally to higher parts and service margins compared to last year. For the six months ended June 30, 2006, gross profit increased \$20.8 million while margins declined slightly to 21.7% from 22.0% for the same period last year.

## Selling and administrative expenses

Selling and administrative expenses increased \$3.2 million in the quarter as a result of increased costs related to the higher sales activity and higher corporate costs mainly due to increased professional fees and higher accruals for executive incentives compared to last year. Selling and administrative expenses as a percentage of revenue declined to 15.0% from 16.0%. For the six months ended June 30, 2006 selling and administrative expenses

increased \$5.0 million compared to 2005 but decreased as a percentage of sales to 15.4% from 17.5%.

### **Interest expense**

Quarterly interest expense of \$1.1 million decreased \$0.2 million from the previous year. The lower interest expense was a result of the Fund's lower cost of borrowing, under the new financing arrangements entered into on June 8, 2005, offset in part by higher average debt outstanding, net of cash, and higher deferred expenses related to the new financing arrangements. For the six months ended June 30, 2006, interest expense decreased \$1.0 million compared to last year due for the same reasons noted above.

### **Income tax expense**

The effective income tax rate of 5.3% for the quarter, and 5.6% year-to-date, was lower than the Fund's statutory income tax rate of 34.2% as the majority of the Fund's income is not subject to tax in the Fund.

### **Net earnings**

Quarterly net earnings of \$18.5 million, or \$1.11 per unit, increased \$15.5 million compared to \$3.0 million, or \$0.19 per unit, in 2005. Included in the 2005 second quarter earnings are income fund conversion-related items totaling \$10.2 million (\$6.7 million after tax or \$0.42 per unit) which include conversion-related costs of \$2.6 million (\$1.7 million after tax or \$0.11 per unit) and charges associated with the early extinguishment of long-term debt of \$7.6 million (\$5.0 million after tax or \$0.31 per unit). Excluding these income fund conversion-related items, net earnings for the second quarter of 2006 increased \$8.8 million. For the six months ended June 30, 2006, net earnings of \$35.4 million, or \$2.13 per unit, increased \$27.4 million from \$8.0 million, or \$0.50 per unit in 2005. Excluding the income fund conversion-related items, net earnings for the six months ended June 30, 2006 increased \$20.7 million.

### **Funded debt**

Funded debt, net of cash, of \$62.1 million increased \$10.4 million compared to March 31, 2006 as cash flow from earnings of \$22.1 million was more than offset by \$12.8 million of cash distributions, a \$9.7 million increase in working capital and \$9.6 million of capital spending. Capital spending included the \$1.6 million Industrial Components' acquisition of Intek Automation Inc. ("Intek") and the \$2.3 million purchase of land in Edmonton by the Power Systems segment. Compared to June 30, 2005, funded debt, net of cash increased \$7.3 million. As a result, the Fund's quarter-end debt-to-equity ratio of 0.30:1 at June 30, 2006 increased from last quarter's ratio of 0.26:1 and from last years ratio of 0.27:1.

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

For the quarter ending June 30, 2006 distributable cash was \$17.5 million, or \$1.05 per unit, and cash distributions declared were \$13.1 million, or \$0.79 per unit. For the six months ended June 30, 2006, distributable cash was \$36.0 million, or \$2.17 per unit, and cash distributions declared were \$1.50 per unit.

Distributable cash in excess of cash distributions declared for the six months ended June 30, 2006 of \$11.1 million, or \$0.67 per unit, provides the Fund an additional reserve for fluctuations in working capital requirements, growth capital expenditure requirements or future distributions.

## Quarterly Results of Operations

### Mobile Equipment

for the three months ended June 30	2006	2005
Equipment	\$126.1	\$106.3
Parts and service	\$42.3	\$41.3
Gross revenue	\$168.4	\$147.6
Segment earnings	\$11.4	\$8.0
Segment earnings margin	6.8%	5.4%

  

for the six months ended June 30	2006	2005
Equipment	\$243.1	\$188.6
Parts and service	\$85.1	\$83.9
Gross revenue	\$328.2	\$272.5
Segment earnings	\$21.3	\$13.8
Segment earnings margin	6.5%	5.1%

Revenue in the second quarter of 2006 increased 14%, or \$20.8 million, to \$168.4 million from \$147.6 million in 2005. The strengthening Canadian dollar relative to the U.S. dollar had the effect of decreasing 2006 quarterly revenues by approximately \$7.6 million compared to last year. Segment earnings increased \$3.4 million to \$11.4 million compared to the previous year. For the six months ended June 30, 2006, revenue increased 20% to \$328.2 million, while segment earnings increased \$7.5 million to \$21.3 million. The following factors contributed to the Mobile Equipment segment's second quarter results:

- Revenue in western Canada and Ontario increased 14%, or \$15.6 million as equipment sales increased \$14.1 million and parts and service sales increased \$1.5 million. Forestry and construction equipment revenues increased \$7.2 million including a \$9.0 million increase in new Hitachi excavator sales and a \$3.4 million increase in JCB equipment sales which were partially offset by a \$2.5 million reduction in forestry equipment sales as a result of the transition from the Timberjack product line to the Direct Technologies and Logset product lines. In addition, material handling equipment sales increased \$5.4 million due to stronger demand, crane and utility equipment sales increased \$1.0 million and mining equipment revenues increased \$0.5 million. Parts and service revenue increased \$1.5 million as increases in the mining and construction and forestry sectors were offset, in part, by declines in the crane and utility and material handling sectors. Earnings increased \$2.7 million compared to last year as higher volumes and lower selling and administrative expenses were offset by a slightly lower gross margin percentage. Selling and administrative expenses declined \$1.0 million as the benefit of personnel cost reduction and recovery initiatives implemented in 2005 more than offset volume related cost increases.
- In eastern Canada revenue increased 15%, or \$5.2 million, compared to last year as a \$5.7 million increase in equipment revenue offset a \$0.5 million decrease in parts and service revenue. Mining equipment sales increased \$5.2 million largely from the delivery of a LeTourneau loader, construction equipment sales increased \$3.1 million due to increased market share in Hitachi excavators and JCB equipment and crane and utility equipment revenue increased by \$0.5 million compared to last year. These increases

were partially offset by a \$2.0 million reduction in forestry equipment sales, resulting from a decline in market demand and the transition from Timberjack to the Direct Technologies and Logset product lines, and a \$1.1 million decline in material handling equipment revenue. The \$0.5 million decline in parts and service revenue was attributable to a slow-down in the construction and forestry and material handling sectors, mitigated somewhat by increased mining sector sales. Earnings increased \$0.7 million as higher volumes and lower selling and administrative expenses, as a result of cost reduction and recovery initiatives, more than compensated for reduced margins compared to last year. The gross margin percentage for the quarter decreased 1.8 percentage points compared to 2005 as the negative impact of the increase in lower margin equipment sales was only partially offset by higher parts and service margins.

As previously reported, the Mobile Equipment segment received an order from North American Construction Group for sixteen 320 ton Hitachi mining trucks and two 800 ton Hitachi hydraulic shovels, with deliveries commencing in 2005 and extending into 2008. During the second quarter of 2006, one truck and one shovel were delivered, bringing the total number deliveries as of June 30, 2006 to six trucks and one shovel. It is expected that the majority of the remaining deliveries will occur in 2007 and 2008.

### Industrial Components – Kinecor

for the three months ended June 30	2006	2005
Gross revenue	<b>\$83.5</b>	\$74.5
Segment earnings	<b>\$6.0</b>	\$3.2
Segment earnings margin	<b>7.2%</b>	4.3%

  

for the six months ended June 30	2006	2005
Gross revenue	<b>\$160.9</b>	\$143.4
Segment earnings	<b>\$10.7</b>	\$5.6
Segment earnings margin	<b>6.6%</b>	3.9%

Revenue at Kinecor in the second quarter of 2006 increased 12%, or \$9.0 million, to \$83.5 million from \$74.5 million in 2005. Segment earnings increased \$2.8 million to \$6.0 million compared to \$3.2 million the previous year. The strengthening Canadian dollar relative to the U.S. dollar had the effect of decreasing 2006 quarterly revenue by approximately \$2.3 million. For the six months ended June 30, 2006, revenue increased 12%, or \$17.5 million and segment earnings increased \$5.1 million to \$10.7 million compared to the same period last year. The following factors contributed to the segment's quarterly results:

- Bearings and power transmission sales increased 4%, or \$1.9 million, compared to last year as a result of stronger sales in all regions due to improvements in the mining and steel sectors, strength in western Canada's oil and gas sector and the acquisition of Intek Automation Inc. ("Intek") in April 2006. These improvements more than offset declines experienced in the forestry sector and the Ontario and eastern Canada industrial sectors compared to last year.
- Fluid power parts and service revenue increased 28%, or \$7.1 million primarily due to significant increases in western Canada as a result of the continued strength in the oil and gas, mining and industrial markets, and higher sales of imported hydraulic parts. In addition, sales in eastern Canada increased as a result of higher industrial and forestry

volumes, and sales in Ontario increased from the acquisition of Baytec Fluid Power (“Baytec”) in March 2006.

- Segment earnings increased \$2.8 million to \$6.0 million as improved volumes and higher margins in all regions more than offset a \$1.5 million increase in selling and administrative expenses due to costs related to the higher sales activity and the acquisitions of Baytec and Intek. Gross margins for the quarter increased 2.6 percentage points compared to 2005 due to a higher proportion of higher margin fluid power sales compared to last year and the positive impact of margin improvement initiatives introduced in previous years including the use of regional price matrices, sourcing of products offshore and freight cost reduction initiatives.

On April 28, 2006 the Fund completed the \$1.9 million acquisition of Intek, a Mississauga based power transmission products distributor with annual sales of approximately \$6.0 million.

## Power Systems

for the three months ended June 30	2006	2005
Equipment	\$31.2	\$27.9
Parts and service	\$31.7	\$26.2
Gross revenue	\$62.9	\$54.1
Segment earnings	\$5.5	\$4.8
Segment earnings margin	8.7%	8.9%

for the six months ended June 30	2006	2005
Equipment	\$64.1	\$49.1
Parts and service	\$65.5	\$51.0
Gross revenue	\$129.6	\$100.1
Segment earnings	\$12.3	\$8.8
Segment earnings margin	9.5%	8.8%

Revenue in the second quarter increased 16%, or \$8.8 million, to \$62.9 million compared to \$54.1 million in 2005. Segment earnings increased \$0.7 million in the quarter to \$5.5 million from \$4.8 million the previous year. The strengthening Canadian dollar relative to the U.S. dollar had the effect of decreasing 2006 quarterly revenue by approximately \$1.0 million. For the six months ended June 30, 2006, revenue increased 29% to \$129.6 million, and earnings increased \$3.5 million to \$12.3 million. The following factors impacted quarterly revenues and earnings:

- Revenue at Waterous Power Systems (“Waterous”) in western Canada was 32%, or \$11.0 million, higher during the second quarter of 2006 compared to last year as equipment sales increased \$5.1 million and parts and service revenues increased \$5.9 million. Equipment revenues improved as Waterous continued to benefit from the strong Alberta oil and gas sector and the acquisition of Midwest Detroit Diesel-Allison (“Midwest”) which generated \$1.3 million of equipment revenue during the quarter. Parts and service revenue increased compared to last year as a result of \$4.3 million of Midwest volumes, an increase in large engine repairs and additional service trucks in the field.
- Revenue at the Quebec and Maritimes operation, Detroit Diesel-Allison Canada East, decreased \$2.2 million, or 11%, primarily as a result of lower economic activity compared to last year. Equipment revenue declined \$1.9 million due to lower marine sales, a decline

in industrial sales to OEM's and lower generator set deliveries. Parts and service revenue decreased by \$0.3 million compared to last year.

- Segment earnings increased \$0.7 million due mainly to the positive impact of higher overall volumes offset, in part, by increased selling and administrative expenses at Waterous related to the increased sales activity and costs associated with the Midwest operation compared to last year.

## Discontinued Operations

On September 30, 2005, the assets of Spencer Industries Inc., the U.S. based operation of Industrial Components, were sold for cash proceeds of \$19.2 million. As a result, the revenues and the results of Spencer have been reported as discontinued activities in the consolidated statement of operations for 2005 comparatives.

## Selected Quarterly Information

	2006			2005		2004		
	Q2	Q1	Q4	Q3	Q2 <sup>(2)</sup>	Q1	Q4	Q3
Revenue	<b>\$314.1</b>	\$303.2	\$276.8	\$258.0	\$275.4	\$239.2	\$236.7	\$215.0
Net earnings from continuing operations	<b>\$18.5</b>	\$16.9	\$15.8	\$12.7	\$2.6	\$4.6	\$5.8	\$4.9
Net earnings from continuing operations per unit - Basic	<b>\$1.11</b>	\$1.02	\$0.95	\$0.77	\$0.16	\$0.29	\$0.37	\$0.31
- Diluted	<b>\$1.11</b>	\$1.02	\$0.94	\$0.76	\$0.16	\$0.28	\$0.36	\$0.31
Net earnings	<b>\$18.5</b>	\$16.9	\$15.8	\$9.4	\$3.0	\$5.0	\$6.0	\$5.2
Earnings per unit - Basic	<b>\$1.11</b>	\$1.02	\$0.95	\$0.56	\$0.19	\$0.32	\$0.38	\$0.33
- Diluted	<b>\$1.11</b>	\$1.02	\$0.94	\$0.56	\$0.19	\$0.31	\$0.37	\$0.33
Distributable cash <sup>(1)</sup>	<b>\$17.5</b>	\$18.5	\$15.5	\$14.2	\$3.8	-	-	-
Distributable cash per unit <sup>(1)</sup> - Basic	<b>\$1.05</b>	\$1.11	\$0.94	\$0.85	\$0.23	-	-	-

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

(2) Q2 2005 net earnings from operations includes income fund conversion-related items totaling \$10.2 million (\$6.7 million after tax or \$0.42 per unit)

Revenues and earnings continue to increase steadily quarter-over-quarter as the Fund continues to benefit from the strong Canadian economy, particularly in western Canada.

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 \$2.8 million of cash from continuing operations before financing activities in the second quarter of 2006 compared to utilizing cash of \$0.5 million in the second quarter

of 2005. The \$3.3 million increase in cash flows from continuing operations before financing activities was primarily due to higher earnings which were offset by increases in non-cash working capital and investing activities.

Cash generated by continuing operating activities amounted to \$12.4 million in the second quarter of 2006, with \$22.1 million of cash generated from operating earnings offset, in part, by \$9.7 million of cash used for non-cash working capital. A significant component of the increase in non-cash working capital included the following:

- Accounts receivable decreased by \$2.0 million due mainly to lower volumes at the end of the quarter and higher cash sales in Waterous compared to last quarter.
- Inventory increased by \$5.5 million due to higher inventory levels in all segments.
- Accounts payable and accrued liabilities decreased \$4.4 million reflecting a \$21.4 million payment for mining equipment sold in the first quarter of 2006, offset by increases in interest-free supplier financing and payables related to higher inventory levels, \$6.1 million of payables for equipment sold in the quarter and higher accruals.
- Prepaid expenses increased \$1.9 million primarily as a result of higher deposits with suppliers in the Power Systems segment.

During the quarter the Fund invested a net amount of \$9.6 million of the cash provided from operating activities. The investing activities included \$4.5 million of lift truck and JCB equipment rental fleet additions, net of disposals, \$3.5 million of other various capital asset additions, net of disposals, and \$1.6 million for the acquisition of Intek. Included in the other capital asset additions was a \$2.3 million purchase of land in Edmonton. This land is intended to be sold to a third party and leased back by Waterous in a design build transaction.

Funded debt, net of cash, of \$62.1 million, increased \$10.4 million compared to March 31, 2006 as cash flow from continuing operating activities before changes in non-cash working capital of \$22.1 million was more than offset by distributions paid of \$12.8 million, the increases in non-cash working capital and investing activities described above and a \$0.4 million cash outflow related to discontinued operations. As a result, the Fund's debt-to-equity ratio increased to 0.30:1 at June 30, 2006 compared to 0.26:1 at March 31, 2006 and 0.27:1 at June 30, 2005.

At June 30, 2006 the Fund had utilized \$60.4 million, including letters of credit, of its \$130 million bank credit facility and \$1.6 million of its \$15 million equipment financing facility.

The Fund's \$130 million bank credit facility along with its \$15 million equipment financing demand facility should be sufficient to meet the Fund's short-term working capital and maintenance 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 expenditure requirements.

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 transactions during the quarter are as follows:

- The Fund has entered into interest-rate swap contracts with two of its lenders, such that in total the interest rate on the \$30 million non-revolving term portion of the bank credit facility is effectively fixed at 3.47% plus applicable margins until expiry of the facility on June 7, 2008. The differential the Fund would receive to hypothetically terminate or

exchange the swap agreement in the prevailing market conditions is estimated at \$0.7 million.

- The Fund enters into short-term currency forward contracts to fix the cost of certain inbound inventory and to hedge certain foreign currency-denominated sales/receivables to/from customers as part of its normal course of business. As at June 30, 2006, the Fund had contracts outstanding to buy \$8.1 million U.S. dollars and 0.8 million Euros (June 30, 2005 – to buy \$13.8 million U.S. dollars and 0.9 million Euros). The differential the Fund would pay to hypothetically terminate or exchange the currency forward contracts in the prevailing market conditions is estimated to be \$0.1 million.

The Mobile Equipment segment had \$66.8 million of consigned inventory on-hand from a major manufacturer at June 30, 2006 compared to \$67.5 million the previous year. This inventory is not included in the Fund's inventory as the manufacturer has title to the inventory.

The Fund's off balance sheet financing arrangements with Wajax Finance (a "private label" financing operation of CIT Financial Ltd.) include operating lease contracts in relation to the Fund's long-term lift truck rental fleet in the Mobile Equipment segment. At June 30, 2006, the non-discounted operating lease commitment for the rental fleet was \$22.5 million (June 30, 2005 - \$26.1 million).

## **Non-GAAP Measures**

To supplement the consolidated financial statements, the Fund uses non-GAAP financial measures that do not have standardized meaning 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 from continuing operations adjusted for changes in non-cash working capital, less maintenance capital expenditures and amortization of deferred financing costs. 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 acquisitions and land and building additions as they are considered to be expenditures that are not required to maintain normal operations. See the Distributable Cash and Estimated Distributable Cash sections below for the method of calculating "Maintenance capital expenditures".

## 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 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 to unitholders were declared as follows:

<b>Record Date</b>	<b>Payment Date</b>	<b>Per Unit</b>	<b>Amount</b>
April 28, 2006	May 23, 2006	\$0.25	\$ 4.1
May 31, 2006	June 20, 2006	0.27	4.5
June 30, 2006	July 20, 2006	0.27	4.5
<b>Three months ended June 30, 2006</b>		<b>\$0.79</b>	<b>\$13.1</b>
January 1, 2006 to March 31, 2006		0.71	11.8
<b>Six months ended June 30, 2006</b>		<b>\$1.50</b>	<b>\$24.9</b>

Distributions paid by the Fund during the quarter were funded from cash generated by the Fund's operations.

During the quarter, the Fund increased its regular monthly distribution from \$0.25 per unit to \$0.27 per unit (\$3.24 per unit annualized) effective May 2006 to reflect the growth in the Fund's distributable cash. On August 9, 2006, the Fund announced a further increase in its monthly distribution to \$0.30 per unit (\$3.60 per unit annualized) for August 2006, payable on September 20, 2006, to unitholders of record on August 31, 2006.

Management expects that substantially all of the distributions paid by the Fund will be taxable to unitholders.

During the second quarter of 2005, Wajax Limited paid a dividend on common shares of \$0.07 per share. For the 6 months ended June 30, 2005, Wajax Limited paid dividends on common shares of \$0.14 per share.

## Distributable Cash<sup>(3)</sup>

Distributable cash for the period <sup>(3)</sup>	For the quarter ending June 30, 2006	For the last six months ending June 30, 2006	For the last twelve months ending June 30, 2006
<b>Cash flows from operating activities from continuing operations</b>	<b>\$12.4</b>	\$27.6	\$56.5
Changes in non-cash working capital	9.7	15.1	21.0
Cash flows from continuing operations before changes in non-cash working capital	<b>\$22.1</b>	\$42.7	\$77.5
Maintenance capital expenditures <sup>(1)(3)</sup>	(4.4)	(6.4)	(11.1)
Amortization of deferred financing costs <sup>(2)</sup>	(0.2)	(0.3)	(0.7)
<b>Distributable cash <sup>(3)</sup></b>	<b>\$17.5</b>	\$36.0	\$65.7
<b>Distributable cash per unit <sup>(3)</sup> - Basic</b>	<b>\$1.05</b>	\$2.17	\$3.96
<b>- Diluted</b>	<b>\$1.05</b>	\$2.16	\$3.94
<b>Distributions declared per unit - Cash</b>	<b>\$0.79</b>	\$1.50	\$2.74
<b>- Special cash</b>	-	-	\$0.65
<b>- Non-cash</b>	-	-	\$0.14
<b>- Total</b>	<b>\$0.79</b>	\$1.50	\$3.53

(1) Includes plant, equipment and rental equipment additions, net of disposals and rental equipment transfers to inventory. Maintenance capital expenditures exclude acquisitions and land and building additions.

(2) Adjustment required to reflect financing costs, included in interest expense, over the term of the bank credit facility.

(3) See Non-GAAP Measures section above.

For the quarter ending June 30, 2006 distributable cash was \$17.5 million or \$1.05 per unit and cash distributions declared were \$13.1 million, or \$0.79 per unit. For the six months ended June 30, 2006, distributable cash was \$36.0 million, or \$2.17 per unit and cash distributions declared were \$1.50 per unit.

Distributable cash in excess of cash distributions declared for the six months ended June 30, 2006 of \$11.1 million, or \$0.67 per unit, provides the Fund an additional reserve for fluctuations in working capital requirements, growth capital expenditure requirements or future distributions.

## Unit Capital

Wajax converted from a share corporation to an income fund trust on June 15, 2005. Under the Arrangement, the former shareholders of Wajax indirectly received trust units of the Fund. The trust units of the Fund issued are included in unitholders' equity on the balance sheet as follows.

Issued and fully paid Trust Units as at June 30, 2006	Number	Amount
Balance at the beginning of quarter	16,585,206	\$104.9
Rights exercised	-	-
Balance at end of quarter	<b>16,585,206</b>	<b>\$104.9</b>

Effective June 2005, the Fund replaced the former stock option plan with two new unit-based compensation plans: the Wajax Unit Ownership Plan in which certain members of management participate and the Trustees' Deferred Unit Plan. Both plans issue rights to the participants which are settled by issuing Wajax Income Fund units. Compensation expense is

determined based upon the fair value of the rights when issued and recognized over the vesting period. The Fund recorded compensation cost of \$181 thousand for the quarter (2005 - \$364 thousand) and \$358 thousand for the year to date (2005 - \$419 thousand) in respect of these plans.

## **Critical Accounting Estimates**

Critical accounting estimates used by the Fund's management are discussed in detail in the MD&A section of the 2005 Annual Report which can be found on SEDAR at [www.sedar.com](http://www.sedar.com).

## **Changes in Accounting Policy**

The Fund is not aware of any accounting pronouncements that would have an impact on the Fund's consolidated financial statements in 2006.

## **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 section of the 2005 Annual Report which can be found on SEDAR at [www.sedar.com](http://www.sedar.com). For the period January 1, 2006 to August 9, 2006 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 section of the 2005 Annual Report.

## **Outlook**

The continuation of the Fund's strong operating performance relates not only to the robust economy in western Canada, but also to numerous cost reduction and recovery programs implemented across the organization and margin improvement initiatives in Industrial Components. As such, assuming no significant change in the economic climate, management remains confident that the factors driving our revenues and earnings in the first six months of 2006 will continue to positively impact our results for the balance of the year.

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