

**FIRST QUARTER REPORT TO UNITHOLDERS**  
FOR THE THREE MONTHS ENDED  
MARCH 31, 2007

W A J A X I N C O M E F U N D 2 0 0 7







TSX Symbol: WJX.UN

**WAJAX ANNOUNCES AN 11% INCREASE IN FIRST QUARTER EARNINGS**

(Dollars in millions, except per unit data)	Three Months Ended March 31	
	2007	2006
Revenue	\$302.3	\$303.2
Net earnings	\$18.7	\$16.9
Distributable cash <sup>(1)</sup>	\$19.4	\$18.5
Basic earnings per unit	\$1.13	\$1.02
Basic distributable cash per unit <sup>(1)</sup>	\$1.17	\$1.11
Cash distributions declared per unit	\$0.96	\$0.71

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

**Toronto, Ontario – May 4, 2007** – Wajax Income Fund today announced an 11% increase in first quarter 2007 earnings.

**First Quarter Highlights**

- Revenues were almost unchanged from the previous year. Power Systems' sales were up 7% on the strength of increased GE Energy engine deliveries and Industrial Components posted a 3% revenue increase. Mobile Equipment's revenues decreased 5% as a result of lower construction and mining equipment sales in western Canada.
- Net earnings for the quarter were \$18.7 million, or \$1.13 per unit, compared to \$16.9 million, or \$1.02 per unit, recorded in 2006. Higher segment earnings in Mobile Equipment, as a result of increased margins, and Industrial Components on stronger revenues drove the increase in net earnings.
- Basic distributable cash (See Non-GAAP Measures section in MD&A) increased to \$1.17 per unit for the quarter compared to \$1.11 the previous year as a result of the increase in earnings.

- On April 5, 2007, the Fund amended its bank credit facility by increasing the amount of the facility by \$45 million to \$175 million and extending the term to December 31, 2011 from June 8, 2008. This increased facility allows more debt capacity to fund working capital growth and acquisitions.
- The Fund announced a \$0.32 per unit distribution for the month of May (\$3.84 per unit annualized), payable on June 20, 2007, to unitholders of record on May 31, 2007.

Commenting on the first quarter results and the outlook for 2007, Neil Manning, President and CEO, stated "Our first quarter results benefited from higher gross margins in Mobile Equipment. Areas of strength and weakness in the Canadian economy were generally consistent with our view at year end. Natural gas drilling and forestry were slow, while mining continued to be strong, and natural and biogas engine deliveries in the Ontario market began to contribute to our results. As a result, we maintain our belief that 2007 will be another good year for the Fund despite the current weakness in certain sectors of the economy."

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 First Quarter Financial Results Conference Call. You are invited to listen to the live Webcast on Friday, May 4, 2007 at 3:00 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 Discussion and Analysis.

For further information, please contact:

Neil Manning, President and Chief Executive Officer  
Email: [nmanning@wajax.com](mailto:nmanning@wajax.com)

John Hamilton, Chief Financial Officer  
Email: [jhamilton@wajax.com](mailto:jhamilton@wajax.com)

Telephone #: (905) 212-3300

## **Management's Discussion and Analysis – Q1 2007**

The following management's 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 March 31, 2007. The following discussion should be read in conjunction with the information contained in the Fund's Unaudited Consolidated Financial Statements and accompanying notes for the quarter-ended March 31, 2007 and the Fund's Audited Consolidated Financial Statements and accompanying notes for the year ended December 31, 2006. Information contained in this MD&A is based on information available to management as of May 4, 2007.

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 on SEDAR 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 quarterly Unaudited 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 quarterly 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 quarterly 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 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 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. There has been no change in the Fund's internal control over financial reporting that occurred during the first quarter of fiscal 2007 that has materially affected, or is reasonably likely to materially affect, the Fund's internal control over financial reporting.

## **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 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 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 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. 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 this MD&A. In addition these factors should be considered carefully and readers should not place undue reliance on the forward-looking statements. These forward-looking statements reflect management's expectations 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 March 31</b>	<b>2007</b>	<b>2006</b>
Revenue	<b>\$302.3</b>	\$303.2
Gross profit	<b>\$69.5</b>	\$66.4
Selling and administrative expenses	<b>\$49.1</b>	\$47.6
Earnings before interest and income taxes	<b>\$20.4</b>	\$18.8
Interest expense	<b>\$1.3</b>	\$0.8
Income tax expense	<b>\$0.3</b>	\$1.1
<b>Net earnings</b>	<b>\$18.7</b>	\$16.9
<b>Distributable cash (1)</b>	<b>\$19.4</b>	\$18.5
<b>Cash distributions declared – Cash</b>	<b>\$15.9</b>	\$11.8
<b>Distributions paid</b>	<b>\$34.5</b>	\$21.9
<b>Earnings per unit</b>		
- Basic	<b>\$1.13</b>	\$1.02
- Diluted	<b>\$1.12</b>	\$1.02
<b>Distributable cash per unit (1)</b>		
- Basic	<b>\$1.17</b>	\$1.11
- Diluted	<b>\$1.16</b>	\$1.11
<b>Distributions declared per unit (2)</b>	<b>\$0.96</b>	\$0.71
<b>Distributions paid per unit (2)</b>	<b>\$2.08</b>	\$1.32

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

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

### Revenue

Revenue in the first quarter of 2007 decreased \$0.9 million to \$302.3 million from \$303.2 million in 2006. Segment revenue increased 7% in Power Systems and 3% in Industrial Components, while revenue in Mobile Equipment decreased 5%.

### Gross profit

Gross profit in the first quarter of 2007 increased \$3.1 million, or 5%, due to higher gross profit margins. The gross profit margin percentage for the quarter increased to 23.0% in 2007 from 21.9% in 2006 due principally to higher new equipment and service margins compared to last year.

### Selling and administrative expenses

Selling and administrative expenses increased \$1.5 million in the quarter as a result of increased costs related to higher personnel and occupancy costs in Power Systems compared to last year. As a result, selling and administrative expenses as a percentage of revenue increased to 16.2% from 15.7%.

**Interest expense**

Quarterly interest expense of \$1.3 million increased \$0.5 million from the previous year. The higher interest expense was a result of higher funded debt net of cash (“funded net debt”) outstanding and higher interest rates compared to last year.

**Income tax expense**

The effective income tax rate of 1.7% for the quarter decreased from 5.9% the previous year due to an increase in the amount of subordinated indebtedness provided by the Fund to its subsidiary Wajax Limited resulting in additional interest expense in Wajax Limited compared to last year. The Fund’s effective income tax rate was lower than the Fund’s statutory income tax rate of 33.6% as the majority of the Fund’s income is not subject to tax in the Fund.

The Fund is a “mutual fund trust” as defined under the Income Tax Act (Canada) and accordingly is not taxable on its income to the extent that it is distributed to its unitholders. The Fund’s subsidiaries are, however, subject to income taxation and provide for income tax obligations based on statutory corporate tax rates.

**Net earnings**

Quarterly net earnings of \$18.7 million or \$1.13 per unit, increased \$1.8 million from \$16.9 million, or \$1.02 per unit, in 2006 as the positive impact of higher margins and the lower tax rate more than offset the increased selling and administrative expenses and higher interest expense compared to last year.

**Comprehensive income**

Comprehensive income for the quarter of \$18.5 million increased \$1.6 million from \$16.9 million the previous year and included net earnings of \$18.7 million and an other comprehensive loss of \$0.2 million for the quarter. There was no other comprehensive income recorded last year. See the Changes in Accounting Policy section below.

**Funded net debt**

Funded net debt of \$97.4 million increased \$29.0 million compared to December 31, 2006 as first quarter cash flows from operating activities of \$8.3 million were offset by \$34.5 million of cash distributions, \$2.7 million of capital spending and \$0.1 million of cash used in discontinued operations. Compared to March 31, 2006 funded net debt increased \$45.7 million. The Fund’s quarter-end debt-to-equity ratio of 0.49:1 at March 31, 2007 increased from last quarter’s ratio of 0.35:1 and from last year’s ratio of 0.26:1.

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

For the quarter ending March 31, 2007 distributable cash was \$19.4 million, or \$1.17 per unit, compared to \$18.5 million, or \$1.11 per unit, the previous year. For the same period distributions declared were \$0.96 per unit compared to \$0.71 per unit in 2006

Unitholder tax information relating to 2007 distributions is available on the Fund’s website at [www.wajax.com](http://www.wajax.com).

Distributable cash in excess of cash distributions declared for the three months ended March 31, 2007 of \$3.5 million, or \$0.21 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 March 31	2007	2006
Equipment	<b>\$108.9</b>	\$117.0
Parts and service	<b>\$42.7</b>	\$42.8
Gross revenue	<b>\$151.6</b>	\$159.8
Segment earnings	<b>\$11.2</b>	\$10.0
Segment earnings margin	<b>7.4%</b>	6.3%

Revenue in the first quarter of 2007 decreased 5%, or \$8.2 million, to \$151.6 million compared to \$159.8 million in the first quarter of 2006. Despite the lower revenues, segment earnings for the quarter increased \$1.2 million to \$11.2 million compared to the first quarter of 2006. The following factors contributed to the Mobile Equipment segment's first quarter results:

- Equipment revenues declined \$8.1 million compared to last year and included the following quarter-over-quarter variances:
  - ⇒ Material handling equipment revenues increased \$3.1 million primarily due to increased market penetration in western Canada and an increase in the dollar value of units delivered in eastern Canada (Quebec and the Maritimes).
  - ⇒ Crane and utility equipment revenues increased \$2.0 million due to increased market share in western Canada and Ontario.
  - ⇒ Mining equipment revenues declined \$5.5 million due mainly to the lower dollar value of deliveries in western Canada compared to last year (which included the delivery of an 800 ton Hitachi hydraulic shovel in the first quarter of 2006) and the delivery of a LeTourneau mining loader in eastern Canada in the first quarter of 2006 not repeated in 2007.
  - ⇒ Forestry and construction equipment revenues decreased \$7.7 million. Hitachi excavator sales declined in western Canada due primarily to competitive pricing pressures and forestry equipment sales declined in western Canada and Ontario due to weaker demand. Partially offsetting these revenue declines was an increase in new JCB equipment sales attributable to the acquisition of an Ontario based JCB distributor in March 2006 and gains in other areas of Canada.
- Parts and service volumes decreased \$0.1 million compared to last year. Parts and service revenues increased in western Canada due to stronger demand in the construction and mining sectors. These increases were offset by lower revenues in eastern Canada and Ontario due to weaker demand in a number of sectors, including forestry and mining, and competitive pricing pressures in material handling.
- Earnings increased \$1.2 million as the negative impact of lower volumes was more

than offset by higher margins and lower selling and administrative expenses. Margins increased as a result of higher western Canada equipment margins and increased parts and service margins compared to last year. Selling and administrative expenses declined \$0.3 million as increased expense recoveries negated higher personnel costs in western Canada.

Effective December 31, 2006, the operations of western Canada, Ontario and eastern Canada were merged under a common management group to enhance operating efficiencies in the Mobile Equipment segment. The resulting benefits should include reduced administrative costs, enhanced cost recovery programs and asset reductions through the central management of parts and wholegoods inventory.

## Industrial Components – Kinecor

for the three months ended March 31	2007	2006
Gross revenue	<b>\$80.1</b>	\$77.4
Segment earnings	<b>\$5.2</b>	\$4.7
Segment earnings margin	<b>6.4%</b>	6.1%

Revenue in the first quarter of 2007 increased 3%, or \$2.7 million, to \$80.1 million compared to \$77.4 million in the first quarter of 2006 as all regions reported revenue improvements. Segment earnings increased \$0.5 million to \$5.2 million, compared to \$4.7 million the previous year. The following factors contributed to the segment's quarterly results:

- Bearings and power transmission parts sales increased 1%, or \$0.7 million, compared to last year largely due to increased sales to mining customers in eastern and western Canada, revenues from the acquisition of Ontario-based Intek Automation Inc. in April 2006 and increased sales to construction based customers in Ontario and western Canada. Offsetting these revenue gains were lower sales to forestry, oil and gas, transportation and steel processing customers compared to last year.
- Fluid power parts and service revenue increased 7%, or \$2.0 million, due to contributions from western Canada's oil and gas sector as a result of a strong backlog going into the quarter. In addition, revenues from the acquisition of Ontario-based Baytec Fluid Power in March 2006, a one-time sale to a diamond mining customer in the Northwest Territories, improved industrial market sales across all regions and growth in sales of imported hydraulic products contributed to the revenue increase.
- Segment earnings increased \$0.5 million as improved volumes more than offset lower margins. Gross margins decreased slightly due to lower margins in fluid power resulting from several large sales below normal margins and competitive pricing pressures. Selling and administrative expenses remained flat compared to last year.

## Power Systems

for the three months ended March 31	2007	2006
Equipment	<b>\$36.5</b>	\$33.0
Parts and service	<b>\$34.9</b>	\$33.6
Gross revenue	<b>\$71.4</b>	\$66.6
Segment earnings	<b>\$6.8</b>	\$6.7
Segment earnings margin	<b>9.5%</b>	10.1%

Revenue in the first quarter of 2007 increased \$4.8 million, or 7%, to \$71.4 million compared to \$66.6 million in the first quarter of 2006. Segment earnings increased \$0.1 million in the quarter to \$6.8 million from \$6.7 million the previous year. The following factors impacted quarterly revenues and earnings:

- Revenue at Waterous Power Systems in western Canada was \$0.8 million, or 2%, higher compared to last year as a decline in equipment sales of \$0.5 million was more than offset by a \$1.3 million increase in parts and service revenues. The decline in equipment revenues was due primarily to a slowdown in sales to OEM customers in the oil and gas sector. However, parts and service revenue increased in the oil and gas and on-highway transportation sectors as a result of labour rate increases due to inflation and capacity provided through additional service mechanics and extended operating hours.
- Revenue at the eastern Canada operation, Detroit Diesel-Allison Canada East increased \$4.0 million, or 22%. Equipment revenue increased \$4.0 million due principally to higher GE Energy gas engine sales, which more than offset a decline in diesel engine sales due to weaker demand in the marine and industrial sectors. Parts and service revenues were unchanged compared to last year.
- Segment earnings increased \$0.1 million as the positive impact of higher volumes and service margins more than offset a \$1.8 million increase in selling and administrative expenses. Selling and administrative expenses increased primarily as a result of increased personnel and higher occupancy costs.

## Selected Quarterly Information

	2007	2006				2005		
	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2 <sup>(2)</sup>
Revenue (1)	<b>\$302.3</b>	\$294.5	\$294.7	\$314.1	\$303.2	\$276.8	\$258.0	\$275.4
Net earnings from continuing operations	<b>\$18.7</b>	\$18.1	\$18.0	\$18.5	\$16.9	\$15.8	\$12.7	\$2.6
Net earnings from continuing operations per unit								
- Basic	<b>\$1.13</b>	\$1.09	\$1.09	\$1.11	\$1.02	\$0.95	\$0.77	\$0.16
- Diluted	<b>\$1.12</b>	\$1.08	\$1.08	\$1.11	\$1.02	\$0.94	\$0.76	\$0.16
Net earnings	<b>\$18.7</b>	\$19.4	\$18.0	\$18.5	\$16.9	\$15.8	\$9.4	\$3.0
Earnings per unit								
- Basic	<b>\$1.13</b>	\$1.17	\$1.09	\$1.11	\$1.02	\$0.95	\$0.56	\$0.19
- Diluted	<b>\$1.12</b>	\$1.16	\$1.08	\$1.11	\$1.02	\$0.94	\$0.56	\$0.19
Distributable cash (3)	<b>\$19.4</b>	\$18.6	\$19.4	\$17.5	\$18.5	\$15.5	\$14.2	\$3.8
Distributable cash per unit (3)								
- Basic	<b>\$1.17</b>	\$1.12	\$1.17	\$1.05	\$1.11	\$0.94	\$0.85	\$0.23

(1) On September 30, 2005, the assets of Spencer Industries Inc. ("Spencer"), the U.S. based operation of Industrial Components, were sold. As a result, the revenues and the results of Spencer have been reported as discontinued operations.

(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).

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

Historically the first quarter results reflect some seasonality and are typically the weakest due to decreased activity in many of the sectors serviced by the Fund. However, this trend has not been as evident in the last two years due to the recent strength of the Canadian economy.

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 \$5.5 million of cash from operations before financing activities in the first quarter of 2007 compared to \$6.3 million in the first quarter of 2006. The \$0.8 million decrease in cash flows from operations before financing activities was due to an increase in non-cash working capital, offset by higher earnings and lower investing activities compared to the same period last year.

Cash generated by operating activities amounted to \$8.3 million in the first quarter of 2007, with \$22.7 million of cash generated from earnings reduced by \$14.4 million used in non-cash working capital. Significant components of the change in non-cash working capital included the following:

- Accounts payable and accrued liabilities decreased \$24.6 million due to reduced equipment levels in Mobile Equipment and Industrial Components and the payment of prior year accrued employee incentives.
- Inventory decreased \$11.4 million primarily as a result of equipment ordered in late 2006 and delivered during the first quarter of 2007 in Mobile Equipment and Power Systems.
- Prepaid expenses increased \$2.3 million as a result of an increase in the amount of deposits with suppliers.

During the quarter the Fund invested a net amount of \$2.7 million of the cash provided from operating activities. The investing activities included \$2.1 million of lift truck and JCB equipment rental fleet additions, net of disposals, and \$0.6 million of other various capital asset additions, net of disposals.

Funded net debt of \$97.4 million, increased \$29.0 million compared to December 31, 2006 as cash flows from operating activities of \$8.3 million was more than offset by distributions paid of \$34.5 million, the \$2.7 million of investing activities described above and \$0.1 million of cash used in discontinued operations. The Fund's quarter-end debt-to-equity ratio of 0.49:1 at March 31, 2007 increased from last quarter's ratio of 0.35:1 and from last years ratio of 0.26:1.

At March 31, 2007 the Fund had borrowed \$94.0 million and issued \$0.4 million of letters of credit for a total utilization of \$94.4 million of its \$130 million bank credit facility and had utilized \$4.7 million of its \$15 million equipment financing facility.

On April 5, 2007, the Fund amended its bank credit facility. The revolving term portion of the facility was increased \$45 million to \$145 million. The \$175 million fully secured bank credit facility is now made up of a \$30 million non-revolving term portion and a \$145 million revolving term portion. In addition, the maturity date was extended from June 8, 2008 to December 31, 2011 and the \$0.5 million cost to amend the facility will be amortized over the expected life of the facility. The amended facility contains customary restrictive covenants including restrictions on the payment of cash distributions and the maintenance of certain financial ratios.

The Fund's amended \$175 million bank credit facility, effective April 5, 2007, 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.

## **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 instruments outstanding at the end of the quarter were as follows:

- The Fund entered into interest-rate swap contracts with two of its lenders in June 2005, 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 Fund enters into short-term currency forward contracts to fix 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 March 31, 2007, the Fund had contracts outstanding to buy \$7.3 million U.S. dollars and €3.4 million Euros (March 31, 2006 – to buy \$19.9 million U.S. dollars and €0.8 million Euros, to sell \$5.5 million U.S. dollars).

## **Off-Balance Sheet Arrangements**

The Mobile Equipment segment had \$63.2 million of consigned inventory on-hand from a major manufacturer as at March 31, 2007 compared to \$50.2 million the previous year. 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 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 March 31, 2007, the non-discounted operating lease commitment for the rental fleet was \$15.9 million (March 31, 2006 - \$15.5 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, amortization of deferred financing costs, accruals for management incentives treated as long-term liabilities 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.

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 accounts trade 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 Wajax Finance, a "private label" financing operation of CIT Financial Ltd. 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.

Distributions are based on distributable cash (see Non-GAAP Measures section) and dependent 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) 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 Distributable Cash section below.

Cash distributions to unitholders were declared as follows:

<b>Record Date</b>	<b>Payment Date</b>	<b>Per Unit</b>	<b>Amount</b>
January 31, 2007	February 20, 2007	\$0.32	\$5.3
February 28, 2007	March 20, 2007	0.32	5.3
March 30, 2007	April 20, 2007	0.32	5.3
<b>Three months ended March 31, 2007</b>		<b>\$0.96</b>	<b>\$15.9</b>

(1) See Distributable Cash section below

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 and the Fund's bank credit facilities. The Fund's \$14.4 million increase in working capital was funded through the Fund's cash flow from operations before changes in non-cash working capital and the Fund's bank credit facilities.

Unitholder tax information relating to 2007 distributions is available on the Fund's website at [www.wajax.com](http://www.wajax.com).

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

	For the quarter ending March 31		For the last 12 months ended March 31
	2007	2006	2007
<b>Distributable cash for the period<sup>(3)</sup></b>			
<b>Cash flows from operating activities from continuing operations</b>	<b>\$8.3</b>	\$15.2	<b>\$49.3</b>
Changes in non-cash working capital	<b>14.4</b>	5.4	<b>37.9</b>
Cash flows from continuing operations before changes in non-cash working capital	<b>\$22.7</b>	\$20.6	<b>\$87.2</b>
Maintenance capital expenditures (1)(4)	<b>(2.2)</b>	(1.9)	<b>(10.7)</b>
Amortization of deferred financing costs (2)	<b>(0.2)</b>	(0.2)	<b>(0.7)</b>
Accrued long-term incentives (3)	<b>(0.9)</b>	-	<b>(0.9)</b>
<b>Distributable cash (4)</b>	<b>\$19.4</b>	\$18.5	<b>\$74.9</b>
<b>Distributable cash per unit (4)</b>			
- Basic	<b>\$1.17</b>	\$1.11	<b>\$4.52</b>
- Diluted	<b>\$1.16</b>	\$1.11	<b>\$4.49</b>
<b>Distributions declared per unit</b>			
- Cash	<b>\$0.96</b>	\$0.71	<b>\$3.52</b>
- Special cash	-	-	<b>\$1.12</b>
- Total	<b>\$0.96</b>	\$0.71	<b>\$4.64</b>

(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) Adjustment required to reflect the accrual of management incentives recorded as long-term liabilities.

(4) See Non-GAAP Measures section above.

For the quarter ending March 31, 2007 distributable cash was \$19.4 million, or \$1.17 per unit, compared to \$18.5 million, or \$1.11 per unit, the previous year. For the same period distributions declared were \$0.96 per unit (2006 - \$0.71 per unit).

For the twelve months ended March 31, 2007, distributable cash was \$74.9 million, or \$4.52 per unit. For the same period, distributions declared were \$4.64 per unit and included monthly cash distributions totaling \$3.52 per unit and a special cash distribution of \$1.12 per unit.

Special distributions are declared to ensure, as provided by the Fund's Declaration of Trust, the Fund's total distributions for any fiscal year equal its taxable income for such year.

Distributable cash (see Non-GAAP Measures section) is dependent 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) 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 reasonable expected to be incurred by the Fund.

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 accounts trade receivable, and a \$15 million demand inventory equipment financing facility with a non-bank lender. Maintenance capital expenditures represents cash expenditures required to maintain normal operations and exclude acquisitions and land and building additions as they are considered to be expenditures that are not required to maintain normal operations.

Distributable cash in excess of cash distributions declared for the three months ended March 31, 2007 of \$3.5 million, or \$0.21 per unit, provides the Fund an additional reserve for fluctuations in working capital requirements, growth capital expenditure requirements or future distributions.

## 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 March 31, 2007</b>	<b>Number</b>	<b>Amount</b>
Balance at the beginning of quarter	16,585,206	\$104.9
Rights exercised	-	-
<b>Balance at end of quarter</b>	<b>16,585,206</b>	<b>\$104.9</b>

The Fund has two unit rights plans that issue rights to the participants which are settled by issuing Wajax Income Fund units: the Wajax Unit Ownership Plan in which certain

members of management participate and the Trustees' Deferred Unit Plan. 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 \$318 thousand for the quarter (2006 - \$177 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 for the year ended December 31, 2006 which can be found on SEDAR at [www.sedar.com](http://www.sedar.com).

## **Changes in Accounting Policy**

The following is a summary of the relevant Canadian Institute of Chartered Accountants ("CICA") Handbook revisions that were adopted by the Fund on January 1, 2007. Prior periods will not be restated in accordance with the prospective application required by these standards.

### **Comprehensive Income**

CICA Handbook Section 1530, Comprehensive Income, requires presenting comprehensive income and its components (defined as the change in equity during a period from transactions and other events and circumstances from non-owner sources) in financial statements as well as in net income.

### **Equity**

CICA Handbook Section 3251, Equity, establishes standards for the presentation of equity and changes in equity during the period. It provides standards for an enterprise to present separately each of the changes in equity during the period, including accumulated other comprehensive income, as well as components of equity at the end of the period. Accordingly, the Fund now reports a consolidated statement of comprehensive income and includes the account "accumulated other comprehensive income" in the unitholders' equity section of the consolidated balance sheets.

### **Financial Instruments**

CICA Handbook Section 3855, Financial Instruments – Recognition and Measurement, establishes standards for recognizing and measuring financial assets, financial liabilities and non-financial derivatives. It provides standards for the classification of financial instruments, related interest, dividends, losses and gains, the circumstances in which financial assets and financial liabilities are offset, and disclosures about financial instruments and non-financial derivatives.

CICA Handbook Section 3861, Financial Instruments – Disclosure and Presentation, replaces Handbook Section 3860, Financial Instruments – Disclosure and Presentation, and establishes standards for presentation of financial instruments and non-financial derivatives, and identifies information that should be disclosed.

## **Hedges**

CICA Handbook Section 3865, Hedges, replaces and expands on Accounting Guideline AcG-13, Hedging Relationships, and the hedging guidance in Section 1650, Foreign Currency Translation, by specifying how hedge accounting is applied and what disclosures are necessary when it is applied.

Under adoption of these new standards, the Fund designated its cash and cash equivalents as held-for-trading, which is measured at fair value, with subsequent changes in fair value being charged to earnings. Accounts receivable are classified as loans and receivables, which are measured at amortized cost. Bank indebtedness, accounts payable and accrued liabilities, long-term debt, equipment notes payable, distributions payable and other liabilities are classified as other financial liabilities, which are measured at amortized cost.

All derivative instruments, including embedded derivatives, are recorded in the consolidated balance sheets at fair value unless exempted from derivative treatment as a normal purchase and sale. All changes in their fair value are recorded in earnings unless cash flow hedge accounting is used, in which case changes in fair value are recorded in other comprehensive income with any ineffectiveness charged to earnings. The Fund elected to apply this accounting treatment for all embedded derivatives in host contracts entered into on or after January 1, 2003. The change in accounting policy related to embedded derivatives had no impact on the consolidated financial statements.

Upon adoption of the new standards on January 1, 2007, the Fund measured its cash flow hedge derivative contracts at the fair value of \$626 thousand which resulted in a derivative instrument asset of \$626 thousand and a gain of \$626 thousand. \$14 thousand of this gain was recorded in opening retained earnings for the ineffective portion of the contracts and the remaining effective portion, \$612 thousand (\$553 thousand - net of taxes) was recorded in accumulated other comprehensive income.

During the quarter ending March 31, 2007, \$144 thousand (\$130 thousand – net of tax) of gains on derivative contracts designated as cash flow hedges in prior periods were transferred out of comprehensive income into net income, while the change in the fair value of the outstanding contracts at March 31, 2007 resulted in a net loss of \$121 thousand. The ineffective portion of the outstanding contracts was recognized as a \$10 thousand gain in selling and administrative expenses and the remaining effective portion, a loss of \$131 thousand (\$119 thousand – net of tax), was reported in other comprehensive income. Accordingly, as at March 31, 2007 the cash flow hedge derivative contracts have a fair value of \$361 thousand and are recorded as a derivative instrument asset on the consolidated balance sheets.

The Fund is not aware of any other accounting pronouncements that would have an impact on the Fund's consolidated financial statements in 2007.

## **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, 2006 which can be found on SEDAR at [www.sedar.com](http://www.sedar.com). For the period January 1, 2007 to May 4, 2007 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, 2006.

## **Outlook**

First quarter results of the Fund benefited from higher gross margins in Mobile Equipment. Areas of strength and weakness in the Canadian economy were generally consistent with management's view at year end. Natural gas drilling and forestry were slow while mining continued to be strong and natural and biogas engine deliveries in the Ontario market began to contribute to the Fund's results. As a result management believes that 2007 will be another good year for the Fund despite the current weakness in certain sectors of the economy.

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 months ended March 31, 2007

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)	March 31 2007 unaudited	December 31 2006 audited	March 31 2006 unaudited
<b>Current Assets</b>			
Cash and cash equivalents	\$ 1,247	\$ -	\$ 2,651
Accounts receivable	144,067	145,583	137,728
Inventories	221,424	232,318	216,328
Future income taxes	3,353	3,571	4,452
Prepaid expenses and other recoverable amounts	9,716	7,451	3,354
Derivative instrument asset (note 2)	361	-	-
Discontinued operations	176	178	633
	<b>380,344</b>	<b>389,101</b>	<b>365,146</b>
<b>Non-Current Assets</b>			
Rental equipment	19,429	18,893	17,390
Property, plant and equipment	32,804	33,280	29,174
Goodwill and other assets	59,548	60,036	59,760
Future income taxes	338	473	1,342
	<b>112,119</b>	<b>112,682</b>	<b>107,666</b>
	<b>\$ 492,463</b>	<b>\$ 501,783</b>	<b>\$ 472,812</b>
<b>Current Liabilities</b>			
Bank indebtedness	\$ -	\$ 5,668	\$ -
Accounts payable and accrued liabilities	181,405	206,096	203,800
Distributions payable to unit holders	5,307	23,883	4,146
Income taxes payable	2,170	2,710	2,596
Equipment notes payable	4,672	2,734	4,388
Discontinued operations	527	600	2,478
	<b>194,081</b>	<b>241,691</b>	<b>217,408</b>
<b>Non-Current Liabilities</b>			
Other liabilities	1,087	120	120
Long-term pension liability	2,673	2,777	2,896
Long-term debt	94,000	60,000	50,000
	<b>97,760</b>	<b>62,897</b>	<b>53,016</b>
<b>Unitholders' Equity</b>			
Trust units (note 1)	104,871	104,871	104,871
Contributed surplus	1,883	1,565	888
Accumulated earnings	93,564	90,759	96,629
Accumulated other comprehensive income (note 2,3)	304	-	-
	<b>93,868</b>	<b>90,759</b>	<b>96,629</b>
Total Unitholders' Equity	<b>200,622</b>	<b>197,195</b>	<b>202,388</b>
	<b>\$ 492,463</b>	<b>\$ 501,783</b>	<b>\$ 472,812</b>

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

(in thousands of dollars, except per unit data)	Three months ended March 31	
	2007 unaudited	2006 unaudited
Revenue	\$ 302,312	\$ 303,248
Cost of sales	232,821	236,842
Gross profit	69,491	66,406
Selling and administrative expenses	49,111	47,583
Earnings before interest and income taxes	20,380	18,823
Interest expense	1,346	842
Earnings before income taxes	19,034	17,981
Income tax expense - current	-	233
- future	321	823
Net earnings	\$ 18,713	\$ 16,925
Accumulated earnings, beginning of period	90,759	91,479
Transitional adjustment (note 2)	14	-
Distributions	(15,922)	(11,775)
Accumulated earnings, end of period	\$ 93,564	\$ 96,629
Earnings per unit (note 4) – basic	\$ 1.13	\$ 1.02
– diluted	1.12	1.02
Number of trust units outstanding	16,585,206	16,585,206
Number of Trustees' Deferred Unit Plan and Management Unit Plan rights outstanding	114,660	91,945

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

(in thousands of dollars)	Three months ended March 31	
	<b>2007</b> <b>unaudited</b>	2006 unaudited
Net earnings	\$ 18,713	\$ 16,925
Gains on derivatives designated as cash flow hedges in prior periods transferred to net income in the current period, net of tax of 2007 - \$14; 2006 - Nil	(130)	-
Loss on derivative instruments designated as cash flow hedges, net of tax of 2007 - \$12; 2006 - Nil	(119)	-
<b>Comprehensive income</b>	<b>\$ 18,464</b>	<b>\$ 16,925</b>

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

(in thousands of dollars)	Three months ended March 31	
	2007	2006
	unaudited	unaudited
<b>OPERATING ACTIVITIES</b>		
Net earnings from continuing operations	\$ 18,713	\$ 16,925
Items not affecting cash flows:		
Amortization		
- Rental equipment	1,023	964
- Property, plant and equipment	1,116	1,273
- Deferred expenses and intangible assets	252	218
Employees' pension plans, net of contributions made	(19)	184
Mid-term incentive plan expense	967	-
Non-cash rental expense	31	30
Unit compensation expense (note 5)	318	177
Future income taxes	321	823
Other	(11)	-
<b>Cash flows from continuing operations before changes in non-cash working capital</b>	<b>22,711</b>	<b>20,594</b>
<b>Changes in non-cash working capital</b>		
Accounts receivable	1,516	(6,209)
Inventories	11,435	(21,647)
Prepaid expenses	(2,265)	498
Accounts payable and accrued liabilities	(24,571)	22,571
Income taxes payable	(540)	(602)
	<b>(14,425)</b>	<b>(5,389)</b>
<b>Cash flows from operating activities from continuing operations</b>	<b>8,286</b>	<b>15,205</b>
<b>INVESTING ACTIVITIES</b>		
Rental equipment additions	(2,338)	(2,158)
Proceeds on disposal of rental equipment	238	722
Property, plant and equipment additions	(650)	(934)
Proceeds on disposal of property, plant and equipment	10	72
Acquisition of businesses	-	(6,592)
	<b>(2,740)</b>	<b>(8,890)</b>
<b>Cash flows from continuing operations before financing activities</b>	<b>5,546</b>	<b>6,315</b>
<b>FINANCING ACTIVITIES</b>		
Increase in long-term bank debt	34,000	15,000
Increase in other liabilities	-	120
Repayment of debt upon acquisition of business	-	(446)
Increase (decrease) in equipment notes payable	1,938	(1,331)
Distributions paid (note 9)	(34,498)	(21,890)
	<b>1,440</b>	<b>(8,547)</b>
<b>Net change in cash and cash equivalents before discontinued operations</b>	<b>\$ 6,986</b>	<b>\$ (2,232)</b>
<b>Cash and cash equivalents (used in) from discontinued operations</b>	<b>(71)</b>	<b>43</b>
<b>(Bank indebtedness) cash and cash equivalents – beginning of period</b>	<b>(5,668)</b>	<b>4,840</b>
<b>Cash and cash equivalents – end of period</b>	<b>\$ 1,247</b>	<b>\$ 2,651</b>

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

Interest paid	\$ 1,228	\$ 643
Income taxes paid	\$ 517	\$ 803

**Significant non-cash transactions:**

Rental equipment transferred to inventory	\$ 541	\$ 331
---	--------	--------

**WAJAX INCOME FUND**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

(Amounts in thousands of dollars, except unit and per unit data or where otherwise noted)  
(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.

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, 2006. The significant accounting policies follow those disclosed in the most recently reported annual financial statements, except as described in note 2.

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 Changes in accounting policy**

On January 1, 2007, the Fund adopted CICA Handbook Section 1530, “Comprehensive Income”, Section 3251 “Equity”, Section 3855, “Financial Instruments – Recognition and Measurement”, Section 3861, “Financial Instruments – Disclosure and Presentation” and Section 3865, “Hedges”.

Handbook Section 1530, Comprehensive Income, requires presenting comprehensive income and its components (defined as the change in equity during a period from transactions and other events and circumstances from non-owner sources) in financial statements as well as in net income.

Handbook Section 3251, Equity, establishes standards for the presentation of equity and changes in equity during the period. It provides standards for an enterprise to present separately each of the changes in equity during the period, including accumulated other comprehensive income, as well as components of equity at the end of the period. Accordingly, the Fund now reports a consolidated statement of comprehensive income and includes the account “accumulated other comprehensive income” in the unitholders’ equity section of the consolidated balance sheets.

Handbook Section 3855, Financial Instruments – Recognition and Measurement, establishes standards for recognizing and measuring financial assets, financial liabilities and non-financial derivatives. It provides standards for the classification of financial instruments, related interest, dividends, losses and gains, the circumstances in which financial assets and

financial liabilities are offset, and disclosures about financial instruments and non-financial derivatives.

Handbook Section 3861, Financial Instruments – Disclosure and Presentation, replaces Handbook Section 3860, Financial Instruments – Disclosure and Presentation, and establishes standards for presentation of financial instruments and non-financial derivatives, and identifies information that should be disclosed.

Handbook Section 3865, Hedges, replaces and expands on Accounting Guideline AcG-13, “Hedging Relationships”, and the hedging guidance in Section 1650, “Foreign Currency Translation”, by specifying how hedge accounting is applied and what disclosures are necessary when it is applied.

Under adoption of these new standards, the Fund designated its cash and cash equivalents as held-for-trading, which is measured at fair value, with subsequent changes in fair value being charged to earnings. Accounts receivable are classified as loans and receivables, which are measured at amortized cost. Bank indebtedness, accounts payable and accrued liabilities, long-term debt, equipment notes payable, distributions payable and other liabilities are classified as other financial liabilities, which are measured at amortized cost.

All derivative instruments, including embedded derivatives, are recorded in the consolidated balance sheets at fair value unless exempted from derivative treatment as a normal purchase and sale. All changes in their fair value are recorded in earnings unless cash flow hedge accounting is used, in which case changes in fair value are recorded in other comprehensive income with any ineffectiveness charged to earnings. The Fund elected to apply this accounting treatment for all embedded derivatives in host contracts entered into on or after January 1, 2003. The change in accounting policy related to embedded derivatives had no impact on the consolidated financial statements.

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. The Fund also enters into interest-rate swap contracts with two of its lenders to effectively fix the interest rate until expiry of the facility. The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are recognized in other comprehensive income. Any gain or loss in fair value relating to the ineffective portion is recognized immediately in the consolidated statement of earnings in selling and administrative expenses.

Upon adoption of the new standards on January 1, 2007, the Fund measured its cash flow hedge derivative contracts at the fair value of \$626 which resulted in a derivative instrument asset of \$626 and a gain of \$626. \$14 of this gain was recorded in opening retained earnings for the ineffective portion of the contracts and the remaining effective portion, \$612 (\$553 - net of taxes) was recorded in accumulated other comprehensive income.

During the quarter ending March 31, 2007, \$144 (\$130 –net of tax) of gains on derivative contracts designated as cash flow hedges in prior periods were transferred out of comprehensive income into net income, while the change in the fair value of the outstanding contracts at March 31, 2007 resulted in a net loss of \$121. The ineffective portion of the outstanding contracts was recognized as a \$10 gain in selling and administrative expenses and the remaining effective portion, a loss of \$131 (\$119 – net of tax) was reported in other

comprehensive income. Accordingly, as at March 31, 2007 the cash flow hedge derivative contracts had a fair value of \$361 and are recorded as a derivative instrument asset on the consolidated balance sheets.

### Note 3 Accumulated other comprehensive income

Three months ended March 31	2007	2006
Balance beginning of period	\$ -	\$ -
Transitional amount for new accounting guidelines January 1, 2007 (note 2), net of tax of 2007 - \$59; 2006 - Nil	553	-
Gains on derivatives designated as cash flow hedges in prior periods transferred to net income in the current period, net of tax of 2007 - \$14; 2006 - Nil	(130)	-
Loss on derivatives designated as cash flow hedges, net of tax of 2007 - \$12; 2006 - Nil	(119)	-
<b>Accumulated other comprehensive income</b>	<b>\$ 304</b>	<b>\$ -</b>

### Note 4 Earnings per unit

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

Three months ended March 31	2007	2006
Numerator for basic and diluted earnings per unit:		
- net earnings	\$ 18,713	\$ 16,925
Denominator for basic earnings per unit :		
- weighted average units	16,585,206	16,583,402
Denominator for diluted earnings per unit:		
- weighted average units	16,585,206	16,583,402
- effect of dilutive unit rights	109,305	91,380
Denominator for diluted earnings per unit	16,694,511	16,674,782
Basic earnings per unit	\$ 1.13	\$ 1.02
Diluted earnings per unit	\$ 1.12	\$ 1.02

At the end of the quarter 74,608 rights were outstanding under the Wajax Unit Ownership Plan (2006 – 65,638) and 40,052 rights were outstanding under the Trustees' Deferred Unit

Plan (2006 – 26,307). No options or unit rights were excluded from the above calculations as none were anti-dilutive.

### **Note 5 Unit-based compensation plans**

The Fund has three unit-based compensation plans: the Wajax Unit Ownership Plan (“UOP”), the Trustees’ Deferred Unit Plan (“TDUP”) and the Mid-Term Incentive Plan (“MTIP”). UOP and the TDUP rights are issued to the participants which are settled by issuing Wajax Income Fund units, while the MTIP consists of an annual grant that 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 and the TDUP is determined based upon the fair value of the rights at the date of grant and charged to operations 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 4,391 rights (2006 – 2,598) were granted under the UOP and 5,066 rights (2006 – 2,044) were granted under the TDUP. Also during the first quarter of 2006 2,676 rights were exercised under the TDUP which were settled by issuing Wajax Income Fund units.

The Fund recorded compensation cost of \$318 for the quarter (2006 – \$177) in respect of unit rights plans and \$183 for the quarter (2006 – \$25) in respect of the unit based MTIP.

### **Note 6 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 8, 2008.

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 March 31, 2007, the Fund had contracts outstanding to buy \$7.3 million U.S. dollars and €3.4 million Euros (March 31, 2006 – to buy \$19.9 million U.S. dollars and €0.8 million Euros, and to sell \$5.5 million U.S. dollars).

### **Note 7 Employees’ pension plans**

Net pension plan expenses are as follows:

<b>For the three months ended March 31</b>	<b>2007</b>		<b>2006</b>	
Net pension plan expense – defined benefit plans	\$	182	\$	269
Net pension plan expense – defined contribution plans		1,358		1,201
	\$	1,540	\$	1,470

## Note 8 Segmented information

For the three months ended March 31	2007	2006
<b>Revenue</b>		
Mobile Equipment	\$ 151,572	\$ 159,837
Industrial Components	80,069	77,382
Power Systems	71,402	66,625
Segment eliminations	(731)	(596)
Revenue	\$ 302,312	\$ 303,248
<b>Segment Earnings</b>		
Mobile Equipment	\$ 11,159	\$ 9,983
Industrial Components	5,163	4,701
Power Systems	6,770	6,739
Corporate costs and eliminations	(2,712)	(2,600)
Earnings	\$ 20,380	\$ 18,823

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

## Note 9 Distributions paid

The Fund makes monthly cash distributions and may make special cash/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.

Although the Fund intends to make distributions of its available cash, such distributions are affected by numerous factors, including the Fund's financial performance, debt covenants and obligations, working capital requirements and future capital requirements.

## Note 10 Subsequent event

On April 5, 2007, the Fund amended its bank credit facility. The revolving term portion of the facility was increased \$45 million to \$145 million. The fully secured bank credit facility is now made up of a \$30 million non-revolving term portion and a \$145 million revolving term portion. In addition, the maturity date was extended from June 8, 2008 to December 31, 2011 and the \$0.5 million cost to amend the facility will be amortized over the expected life of the facility. The amended facility contains customary restrictive covenants including restrictions on the payment of cash distributions and the maintenance of certain financial ratios.

## Note 11 Comparative information

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