Wajax Income Fund

STRENGTH. DIVERSITY. GROWTH.

2007 ANNUAL REPORT

WAJAX INCOME FUND

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, WAJAX HAS THREE DISTINCT BUSINESS DIVISIONS, WHICH OPERATE THROUGH A NETWORK OF 103 BRANCHES ACROSS CANADA. THE ORGANIZATION'S CUSTOMER BASE COVERS CORE SECTORS OF THE CANADIAN ECONOMY – MINING, OIL AND GAS, FORESTRY, CONSTRUCTION, MANUFACTURING, INDUSTRIAL PROCESSING, TRANSPORTATION AND UTILITIES. TRACING ITS ROOTS TO 1858, WAJAX CELEBRATES ITS 150TH YEAR IN BUSINESS IN 2008 AND IS ONE OF CANADA'S OLDEST BUSINESS ORGANIZATIONS.

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RESULTS AND RETURNS

From continuing operations

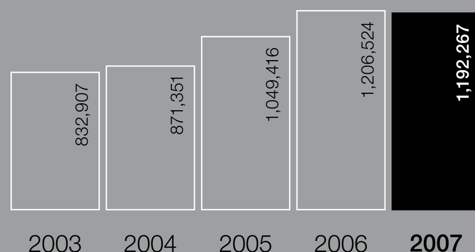
FINANCIAL HIGHLIGHTS

For the years ended December 31 (in thousands of dollars, except per unit data)	**2007**	2006	2005
Revenue	**1,192,267**	1,206,524	1,049,416
Net earnings	**71,970**	71,457	35,578
Cash flows from operating activities before changes in non-cash working capital	**85,061**	85,103	46,034
Working capital, exclusive of funded debt and cash	**153,456**	156,234	130,718
Funded debt, net of cash	**60,779**	67,425	34,232
Unitholders' equity	**198,103**	197,195	197,061
Net earnings per unit – basic	**4.34**	4.31	2.19
Distributable cash per unit – basic*	**4.47**	4.46	2.02
Cash distributions declared	**4.36**	4.43	1.89
Debt to equity	**0.31:1**	0.34:1	0.17:1
Weighted average number of units outstanding	**16,585,206**	16,584,766	16,227,812

* 2005 amount is for the June 15 to December 31 period since conversion.

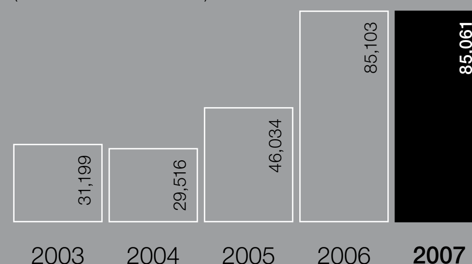
REVENUE

(in thousands of dollars)



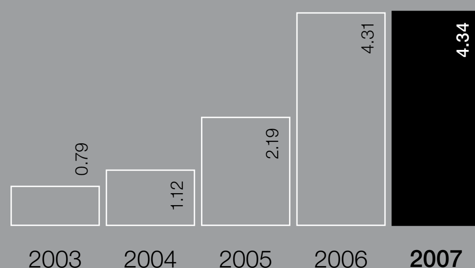
CASH FLOWS FROM OPERATING ACTIVITIES BEFORE CHANGES IN NON-CASH WORKING CAPITAL

(in thousands of dollars)



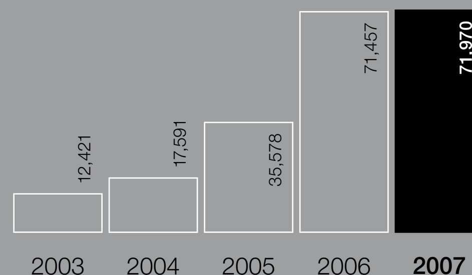
NET EARNINGS PER UNIT – BASIC

(in dollars)



NET EARNINGS

(in thousands of dollars)

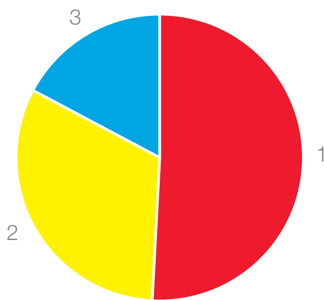


OVERVIEW

2007

GROWTH THROUGH DIVERSITY

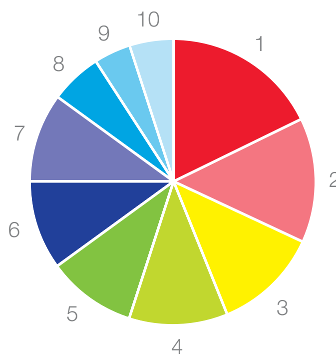
- Our diversified exposure to the Canadian economy provides an opportunity for Wajax to share in the growth potential of the country's better performing regions and industries.
- Pro-active development of new markets and global sourcing of products offer new opportunities to increase revenues and grow earnings.
- Facility enhancements, investment in productivity improvements, diligent cost management and a commitment to developing our people ensure that Wajax can better service and support our customers and capitalize on growth opportunities as they arise.



SALES BY REGION

1 Western Canada 51%
2 Eastern Canada 32%
3 Ontario 17%

- Mobile Equipment will continue to benefit from growth in the economy of western Canada, government investment in infrastructure across the country and its nation-wide focus on after-market sales.
- Industrial Components will strengthen its growth opportunities in all regions through the targeting of specific national accounts and enhancing its product offering through strategic acquisitions and sourcing of imports.
- Power Systems will see a growing share of its business come from industrial primary power and standby power generation applications in eastern Canada.
- Mobile Equipment 2007 sales by region: 57% western Canada, 22% central Canada, 21% eastern Canada
- Industrial Components 2007 sales by region: 47% western Canada, 22% central Canada, 31% eastern Canada
- Power Systems 2007 sales by region: 60% western Canada, 40% eastern Canada



SALES BY INDUSTRY

1 Industrial/Commercial 18%
2 Construction 14%
3 Conventional Oil & Gas 12%
4 Mining 11%
5 Forestry 10%
6 Transportation 10%
7 Oil Sands 10%
8 Metal Processing 6%
9 Government & Utilities 4%
10 Other 5%

- The acquisition of the distributions rights for the Tigercat line of forestry equipment by our Mobile Equipment business will strengthen our already solid position within Canada's sizeable forestry sector.
- Mobile Equipment repositioned its Hyster rental fleet of material handling equipment to capitalize on the growing trend within the material handling sector to outsource ownership and maintenance of equipment.
- Industrial Components is targeting the expanding markets of food and beverage processing and industrial processing for new growth opportunities.
- Interest in green energy production and incentives for demand response by governments are expected to fuel continued high demand for our Power Systems' product line of GE Energy Systems, Kohler and MTU-DDC prime and standby generators.

MOBILE EQUIPMENT

The largest, multi-line distributor of mobile equipment in Canada.

- 30 branches
- 1,065 employees
- 53% of total revenue

BUSINESS

Distribute, customize and service mobile equipment from leading manufacturers.

PRODUCTS

Container handlers
Cranes
Excavators
Forest harvesting equipment
Lift trucks
Loader backhoes
Mining trucks & shovels
Skid steer loaders
Utility equipment
Wheel loaders

MARKETS

Construction
Forestry
Government
Intermodal
Manufacturing
Materials handling
Mining
Oil & Gas
Utilities

OPERATING UNIT

Wajax Industries

53%

INDUSTRIAL COMPONENTS

The leading distributor in Canada for the products Kinecor sells.

- 54 branches
- 733 employees
- 26% of total revenue

BUSINESS

Distribute and provide service and repairs for bearings, power transmission parts, hydraulics, process equipment and automation technologies.

PRODUCTS

Bearings
Cylinders
Filters
Hoists
Hoses & fittings
Hydraulic components & systems
Motors
Power transmission parts
Process pumps & equipment

MARKETS

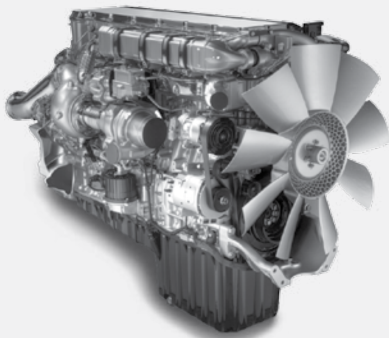
Agriculture
Construction
Food processing
Forestry
Industrial/Commercial
Metal processing
Mining
Oil & Gas
Resellers/Distributors
Transportation

OPERATING UNIT

Kinecor

26%

POWER SYSTEMS



One of the largest distributors of diesel engines and transmissions in Canada.

- 19 branches
- 732 employees
- 21% of total revenue

BUSINESS

Through two operating units, distribute and provide parts and service for MTU and Detroit Diesel engines, Allison transmissions, Electro-Motive Diesel engines, and GE Energy co-generation systems and complementary products, and distribute and custom assemble power generation sets. The Eastern unit also distributes Kohler power generators and Kubota engines, and custom assembled marine propulsion units.

PRODUCTS:

Diesel engines
Natural gas engines
Power generators
Power take-offs
Transmissions

MARKETS:

Agriculture
Construction
Forestry
Industrial/Commercial
Marine
Military
Mining
Oil & Gas
Transportation
Utilities

OPERATING UNITS

Waterous Power Systems
DD-ACE Power Systems

21%

TO CONTINUE TO DRIVE REVENUES, EARNINGS AND DISTRIBUTABLE CASH, WE ARE LOOKING AT NEW LONG-TERM GROWTH OPPORTUNITIES TO BUILD ON 2007'S RECORD RESULTS.

2007 WAS ANOTHER EXCELLENT YEAR AS THE FUND REPORTED RECORD EARNINGS FROM CONTINUING OPERATIONS OF $72.0 MILLION OR $4.34 PER UNIT AND DISTRIBUTABLE CASH OF $74.1 MILLION OR $4.47 PER UNIT.

MESSAGE
TO UNITHOLDERS

BEST YEAR ON RECORD

2007 was another excellent year as the Fund reported record earnings from continuing operations of $72.0 million or $4.34 per unit and distributable cash of $74.1 million or $4.47 per unit.

The past year was notable for large currency fluctuations, volatility in commodity prices and mixed performances in the market segments we serve. The achievement of strong results in the face of these headwinds confirmed the Fund's operating and financial strengths. Last year we said that we expected to realize operational improvements in each of our three business units and to capitalize on strength in the mining and oil sands sectors, as well as on demand for the GE Energy line of Jenbacher gas-fueled engines. The year's results were generally driven by success in these areas.

Substantial growth in Mobile Equipment earnings more than offset a decline in the Power Systems group and essentially flat earnings in Industrial Components, which had a record performance last year. The ability to produce stable, consolidated year over year earnings in these circumstances underscores the value of our diversity – by business unit, geography and industrial sector.

With regard to the Fund's overall revenues, strength in the mining sector and power generation sales more than compensated for reduced sales in weaker sectors such as forestry and natural gas drilling. The reduced value of the U.S. dollar is estimated to have impacted revenues by approximately $24 million, with the result that 2007 revenues of $1.19 billion missed surpassing 2006 record revenues of $1.21 billion. The Industrial Components and Power Systems groups were particularly impacted by reduced natural gas drilling activities in western Canada and the strong Canadian dollar. The negative currency impact was more than offset in Mobile Equipment by higher whole goods demand within the mining sector and increases in parts and service sales.

We concluded the year with a strong balance sheet with ample unused financing capacity to take advantage of growth opportunities. At year-end, funded debt, net of cash, was $60.8 million and our debt to equity ratio stood at 0.31:1. The maintenance of a sound capital structure is a particular competitive advantage in this volatile economic time as it provides flexibility to invest in organic growth initiatives and to act on strategic acquisition opportunities.

DELIVERING TO INVESTORS NOW AND IN THE FUTURE

As a result of the Fund's ability to capitalize on growth sectors of the economy and grow earnings and distributable cash, we increased the payout to unitholders during 2007 for the eighth time since our 2005 conversion to an income fund. The annualized rate is now $3.96 per unit, an increase of 80% since conversion. For the 2007 year, $4.36 per unit in total cash distributions were declared.

To continue to drive revenues, earnings and distributable cash, we are looking at new long-term growth opportunities to build on 2007's record results. We remain optimistic about the Fund's long-term prospects. Our primary focus is on organic initiatives – growing market share and broadening territorial coverages, drawing new revenue streams from current customers and existing businesses, and introducing new product lines in all three business units. We will also continue to pursue opportunistic acquisitions.

MESSAGE TO UNITHOLDERS

Mobile Equipment

New equipment product line offerings and the territorial expansion of current distribution rights are expected to generate additional value for unitholders. In late 2007, this business unit acquired distribution rights for the Tigercat line of forestry equipment for Ontario, Quebec, Alberta and a portion of the Maritimes. Since year-end, our Tigercat territorial rights have been expanded to include all provinces except British Columbia and Saskatchewan. Tigercat is a Canadian-based global manufacturer whose products, well known for high quality and performance, have established it as a market leader. Our affiliation with Tigercat and its existing customer base presents an opportunity for us to significantly strengthen and grow our presence in the sector. We also expect to expand the range of our crane and utility products in eastern Canada later this year. In the construction equipment sector, we expect to close the purchase of an existing JCB dealer later this spring that will expand our JCB area of responsibility in southern Ontario.

We have adopted a more sophisticated and customized approach to the materials handling lift-truck fleet to capitalize on a growing outsourcing trend among distribution, warehousing and logistics customers. We expect our increased investment in this business and tailored approach to rentals and sales of new and used lift trucks will lead to increases in market share and rentals, as well as reduced maintenance costs.

We have also now completed a full year with the Ontario, western and eastern Canadian operations of the Mobile Equipment unit under a common management group. We have been pleased with the benefits of this consolidation to date and expect improved customer capabilities and additional operating efficiencies to be realized.

Industrial Components

Kinecor is the business name of our Industrial Components business unit. It is the largest supplier of industrial components in Canada and operates in a highly fragmented industry in which exclusive distributorship agreements are the exception. These circumstances present Kinecor with opportunities to make acquisitions and, with its extensive branch network, to generate volume increases by targeting large national accounts and to diversify into new products and sectors. The division will place particular emphasis on growing market share with contract customers in the food and beverage, aggregates and transportation sectors. The division also continues to grow its global sourcing initiative and its private label brands – HY-SPEC for mobile hydraulic products, and the more recently introduced NATIONAL bearings line. These brands will continue to allow us to expand product offerings for sale to existing and new customers.

Power Systems

The strategic growth initiatives in Power Systems focus on industrial primary power and standby generation systems. We will also pursue opportunities to add to our geographic footprint and stable of products through strategic acquisitions.

Sales of environmentally friendly GE Energy Jenbacher engines that provide primary power fuelled by biogas or natural gas have grown significantly since we acquired Canadian rights to the line in 2005 and prospects for additional orders remain strong. We also see increasing demand for Kohler and MTU- DDC standby generators for numerous industrial applications.

PAUL E. GAGNÉ
Chairman of the Board

NEIL D. MANNING
President and Chief Executive Officer

INVESTING IN OUR PEOPLE

To ensure our future success, we need to be able to attract and retain a skilled and dedicated workforce, supported by well-trained and strong management. We continue to refine our results driven pay-for-performance compensation model and remain committed to implementing comprehensive management development programs in 2008. We are also committed to reinforcing a culture that values, promotes and actively supports safety in the workplace. In 2007, we formed a dedicated employee health and safety organization to promote a zero accident culture and to report directly to the Fund's senior management on progress and initiatives to improve health and safety performance.

LOOKING AHEAD TO 2008

Although 2008 consensus expectations are for a moderation in growth in Canada, there will be pockets of solid growth in the domestic economy. We anticipate the mining, oil sands, infrastructure, power generation and non-residential construction markets will be strong performers while natural gas exploration, forestry and manufacturing will remain challenging markets. Overall we expect the Fund will enjoy another solid performance in 2008.

OUTSTANDING CONTRIBUTIONS

In 2008 Wajax will celebrate its 150th year in business. The business has changed dramatically over many years but one constant throughout has been a commitment to building success for the long-term. This commitment is evident in the guidance provided by our board of trustees with its continuing focus on growth and sustainable operating and financial performance. The record results of 2007 also would not have been possible without the outstanding contribution of our employees and the support of our customers, suppliers and unitholders. We thank all of you and express our firm commitment to continuing to earn your trust and confidence.

PAUL E. GAGNÉ
Chairman of the Board
February 29, 2008

NEIL D. MANNING
President and Chief Executive Officer

MOBILE EQUIPMENT

MOBILE EQUIPMENT EMPLOYS A TWO-PRONGED STRATEGY FOR GROWTH: STRENGTHENING OUR OFFERING OF INDUSTRY-LEADING PRODUCTS TO GROW MARKET SHARE; AND WITH OUR NATIONWIDE NETWORK OF PARTS AND SERVICE LOCATIONS AND FOCUS ON EXCELLENCE IN AFTER-SALES SUPPORT, WE AIM TO CAPTURE A GREATER SHARE OF AFTER-MARKET BUSINESS.

CAPITALIZING ON OUR STRENGTHS

Our recent success securing distribution rights for the Tigercat line of forestry equipment in Alberta, Manitoba, Ontario, Quebec, the Maritimes and Newfoundland was an important and strategic development for the future growth prospects of Mobile Equipment. Important because forestry remains a sizeable industry in Canada and strategic because this highly-regarded, Canadian-based global supplier of purpose-built forestry machines reinforces our already solid reputation in this industry.

The Tigercat line will benefit from our continued nationwide focus on after-market sales, which currently accounts for 28% of Mobile Equipment's total revenue. We have 30 strategically located branches across the country in close proximity to the industries we serve and over the past 24 months have increased our number of professional parts technicians by 10%. With our investment in an extensive parts inventory, factory-trained parts technicians and guaranteed maintenance programs, we have around-the-clock service capabilities for all of the markets we serve.

We have repositioned our Hyster material handling rental fleet to meet the changing needs of distribution, logistics and warehousing customers. By shifting to meet market demand for short to medium term rental needs, we are capitalizing on a growing trend in the material handling segment to outsource the ownership and maintenance of products sold. With our lineup of industry leading products and extensive service capabilities, this is a natural expansion of our material handling business.

Our recent acquisition of the distribution rights for Tigercat forestry equipment further strengthens our product line.

To service our products in the field, we have more than 500 mobile service technicians and one of the most extensive parts inventories in the industry.

We repositioned our Hyster material handling product line to meet the growing demand for all-inclusive rental agreements, covering parts and maintenance.

INDUSTRIAL COMPONENTS

OPERATING IN A MATURE, FRAGMENTED MARKET, KINECOR, OUR INDUSTRIAL COMPONENTS DIVISION, IS THE LARGEST NATIONWIDE SUPPLIER OF INDUSTRIAL COMPONENTS AND HAS SUBSTANTIAL OPPORTUNITY FOR GROWTH THROUGH EXPANDING MARKET SHARE AND STRATEGIC ACQUISITIONS.

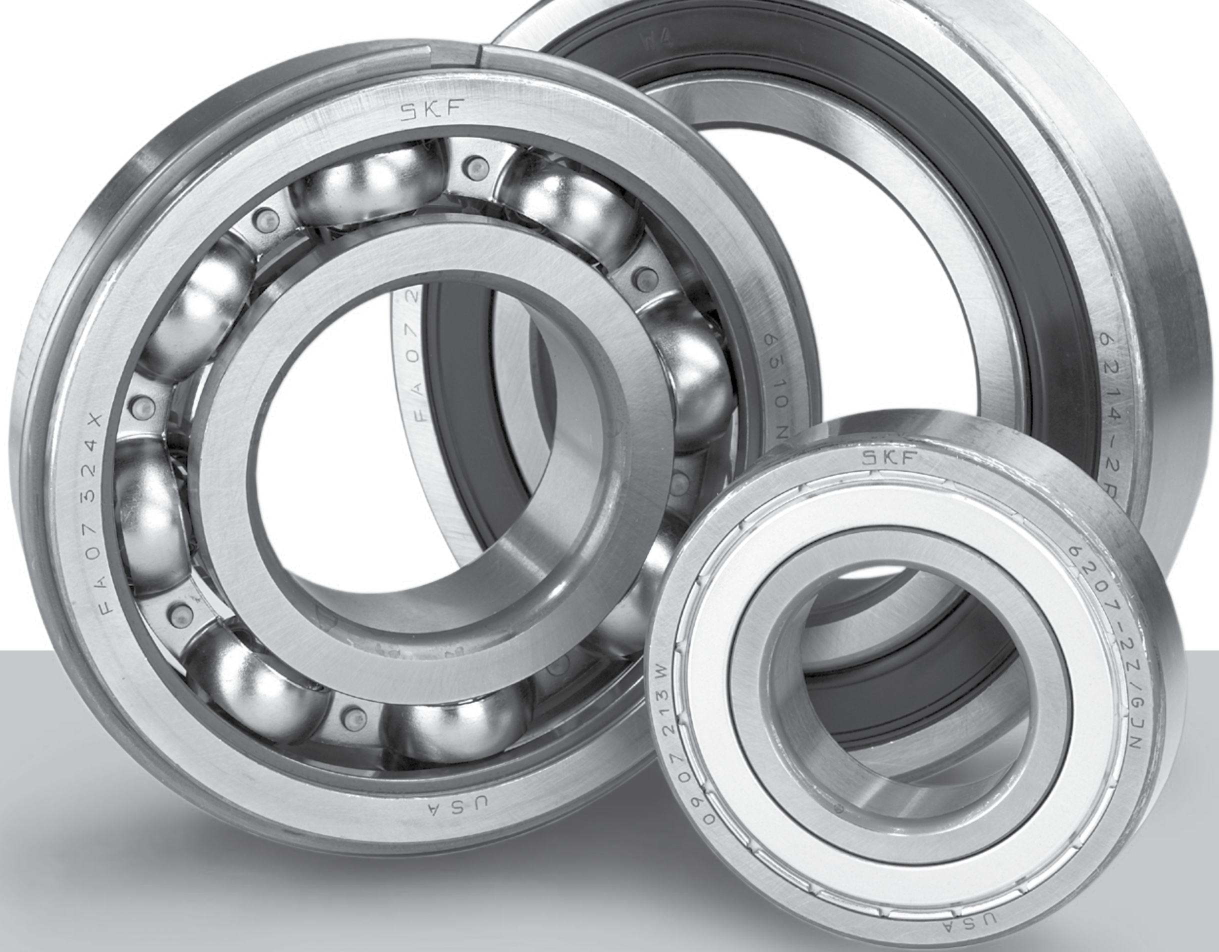
EXPANDING INTO NEW MARKETS

Our Industrial Components business is renowned for its wide range of nationally recognized branded parts and has established, through selectively sourced imports, a focused and growing line of private label branded products. We intend to continue to expand our product lineup, through selective acquisitions and an increased emphasis on global sourcing.

With the goal of increasing our presence in markets where we are currently under-represented, we are focusing on the identified growth markets of food and beverage processing and industrial processing. By promoting our selection of products suitable for these industries, ability to reduce costs, customization and installation services, and ongoing maintenance, we are making inroads into these market segments. As well, we see opportunities to add complementary lines such as safety and security equipment and mill supply to round out offerings to our customer base.

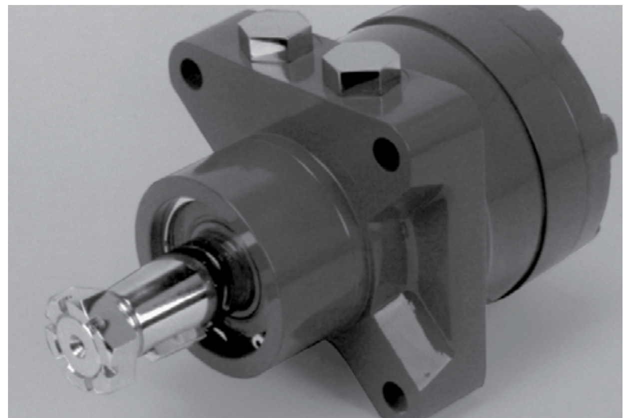
We have identified a number of major accounts, representing significant revenue potential, which can benefit from our industry leading products and service, and we will be aggressively pursuing these customers for supplier agreements. In addition, the competitive pricing of our expanding lineup of private label products is expected to open the door to new business with smaller original equipment manufacturers.

We are also targeting strategic acquisitions of product distributors in 2008 to expand our current product offering and/or present an entry point for new markets.

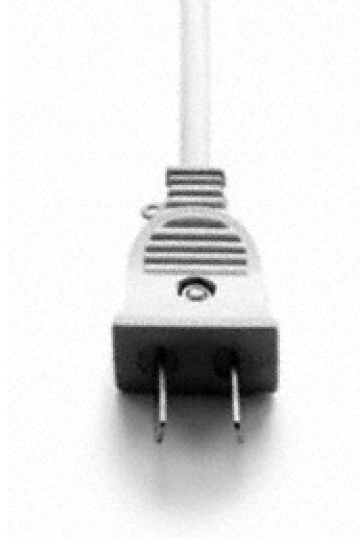


Supplying a wide range of markets across the country, Kinecor is the largest distributor of bearings in Canada.

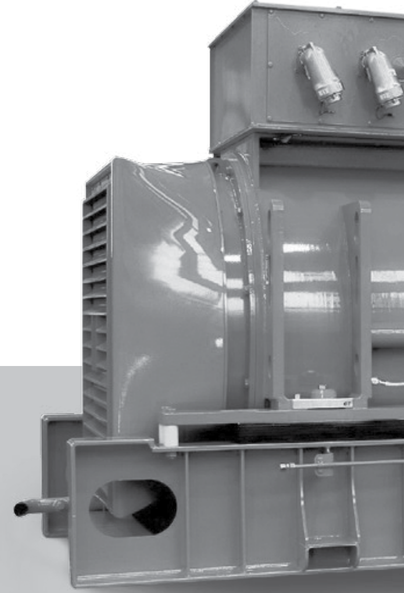
Kinecor distributes a complete line of planetary gears which reduce friction and lower energy costs in power transmission applications.



In a variety of construction and industrial applications, our hydraulic motors are the power behind boom and scissor lifts.



POWER SYSTEMS



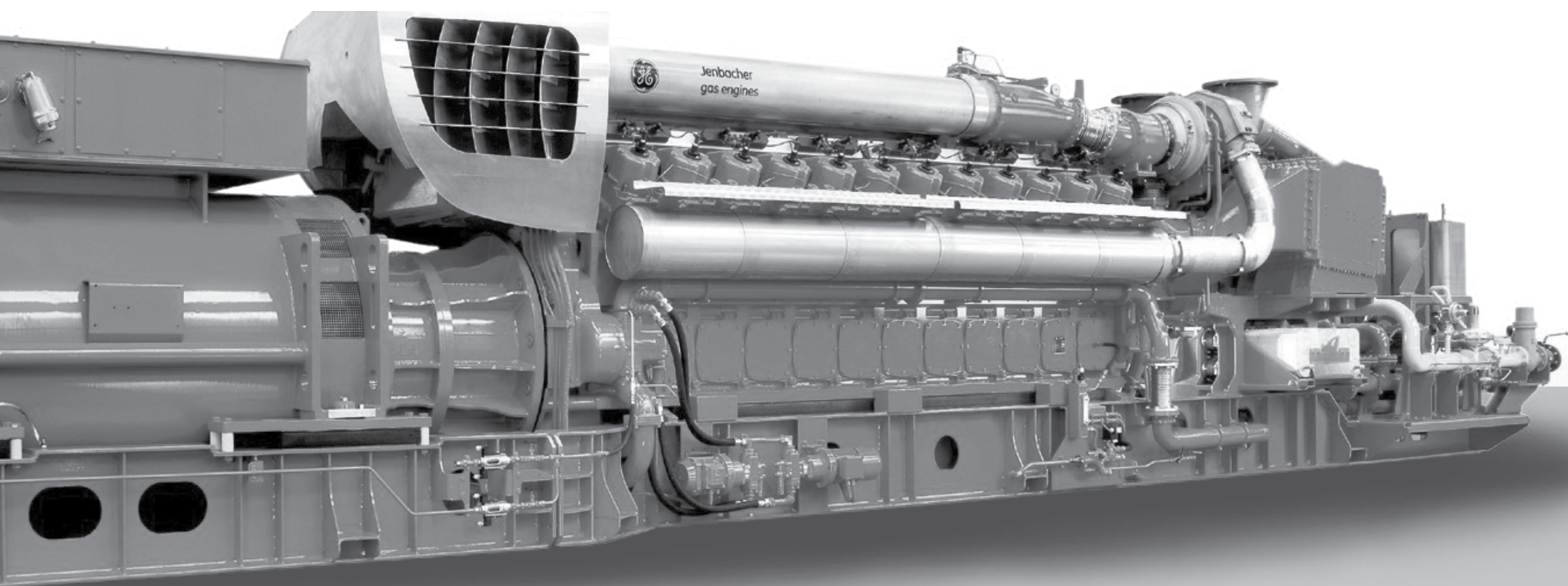
OUR POWER SYSTEMS BUSINESS IS CONTINUING TO TAKE STEPS TO GROW THE PRIME AND STANDBY GENERATION SYSTEMS BUSINESS AND IS WELL POSITIONED TO CAPITALIZE ON THE GROWING TREND TOWARDS ALTERNATIVE AND GREEN ENERGY SOLUTIONS.

GROWING ON GREEN POWER

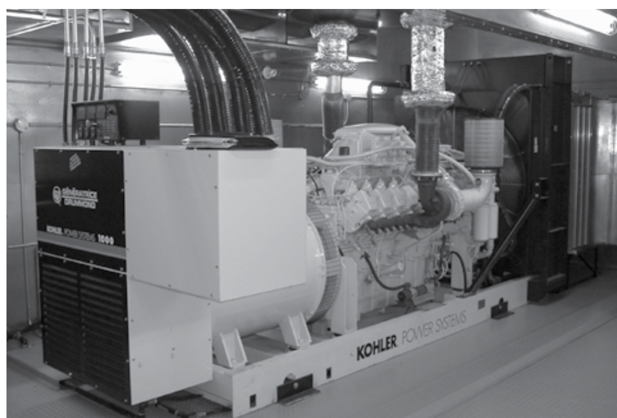
As a result of the higher price of electricity and the Ontario Power Authority's demand response program, we see the growth opportunities for our prime and standby power generation systems continuing to increase, and not just in Ontario but in other areas of the country as well. Our product line of GE Energy Systems, Kohler and MTU-DDC prime and standby generators has all significant markets covered.

Since we introduced the line of GE Energy Systems, sales have climbed from $2 million to $31 million. These engines, which can be fueled by biogas, synthetic or natural gas, are being used to convert waste gas into useable electricity. For example, we installed and operate two GE Jenbacher biofuel engines and auxiliary systems at a landfill in Halton Regional Municipality, which produces 2 MW of electricity on an ongoing basis. And we have recently supplied five GE Jenbacher Systems to Plasco Energy in Ottawa, which is developing a kit for waste incineration that could be exported around the world. In southern Ontario, GE Jenbacher natural gas engines will deliver heat and CO2 to run greenhouses, and produce surplus electricity that will be sold back to the grid.

Construction of new buildings and incentives for older buildings to upgrade equipment are driving demand for our standby generator sets from Kohler and MTU-DDC. This business has grown substantially in the last few years, a trend that we expect to continue as building operators are being encouraged with incentives to use their standby generators during periods of peak energy demand for energy cost savings.



A green energy solution, our GE Jenbacher biofuel engines are being used to transform waste gas from landfills into useable electricity.



On standby in a hospital, this Kohler generator set ensures reliable access to cost-effective emergency power.

Our innovative in-house designed generator enclosure reduces noise levels and has given us a distinct competitive advantage.

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MANAGEMENT'S DISCUSSION AND ANALYSIS

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 year ended December 31, 2007. The following discussion should be read in conjunction with the Fund's Audited Consolidated Financial Statements and accompanying notes. Information contained in this MD&A is based on information available to management as of February 29, 2008.

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

Additional information, including the Fund's Annual Report and Annual Information Form, are available on SEDAR at www.sedar.com.

RESPONSIBILITY OF MANAGEMENT AND THE BOARD OF TRUSTEES

Management is responsible for the information disclosed in this MD&A and the Consolidated Financial Statements and accompanying notes, and has in place appropriate information systems, procedures and controls to ensure that information used internally by management and disclosed externally is materially complete and reliable. The Fund's Board of Trustees has approved this MD&A and the annual 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 annual Consolidated Financial Statements and accompanying notes.

DISCLOSURE CONTROLS AND PROCEDURES AND INTERNAL CONTROL OVER FINANCIAL REPORTING

Disclosure controls and procedures

Disclosure controls and procedures are designed to provide reasonable assurance that information required to be disclosed by the Fund in annual filings, interim filings or other reports filed or submitted under securities legislation is recorded, processed, summarized and reported within the time periods specified in the securities legislation and include controls and procedures designed to ensure that information required to be disclosed by the Fund in annual filings, interim filings or other reports filed or submitted under securities legislation is accumulated and communicated to the Fund's management, including its Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO"), as appropriate to allow timely decisions regarding required disclosure. Due to the inherent limitations in all control systems, an evaluation of the disclosure controls and procedures can only provide reasonable assurance over the effectiveness of the controls. As a result, disclosure controls and procedures are not expected to prevent and detect all misstatements due to error or fraud. During the year the Fund's management, under the supervision of and with the participation of the Fund's CEO and CFO, has designed and evaluated the effectiveness and operation of its disclosure controls and procedures. Based on the evaluation of disclosure controls and procedures, the CEO and CFO, have concluded that the Fund's disclosure controls and procedures are effective as at December 31, 2007.

Internal control over financial reporting

Internal control over financial reporting is designed 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. During the year the Fund's management, under the supervision of and with the participation of its CEO and CFO, has completed an assessment of the design of internal control over financial reporting. In making this assessment, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO") in Internal Control – Integrated Framework. With regard to general controls over information technologies, management also used the set of practices of Control Objectives for Information and related Technology (COBIT) created by the IT Governance Institute. This assessment includes a risk evaluation and documentation of key processes. Due to the inherent limitations in all control systems, an evaluation of internal control over financial reporting can only provide reasonable assurance over the effectiveness of the controls. As a result, the system of internal control over financial reporting is not expected to prevent and detect all misstatements due to error or fraud. Based on the assessment of internal control over financial reporting, the CEO and CFO have concluded that the Fund's internal control over financial reporting is designed 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 as at December 31, 2007.

MANAGEMENT'S DISCUSSION AND ANALYSIS

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 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 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.

The Fund's strategy is to grow earnings in all segments through continuous improvement of operating margins and revenue growth while maintaining the Fund's strong balance sheet. Revenue growth will be achieved through market share gains, new geographic territories and the addition of new complementary product lines either organically or through acquisitions. Specific initiatives are discussed in each of the segment analyses.

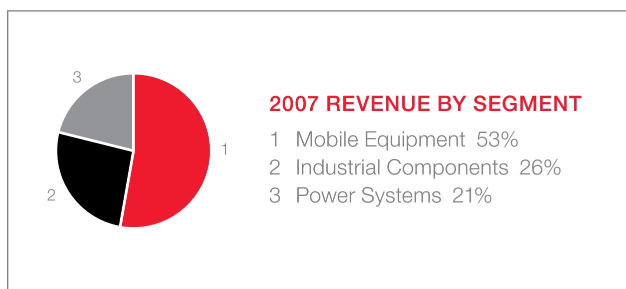
FORWARD-LOOKING INFORMATION

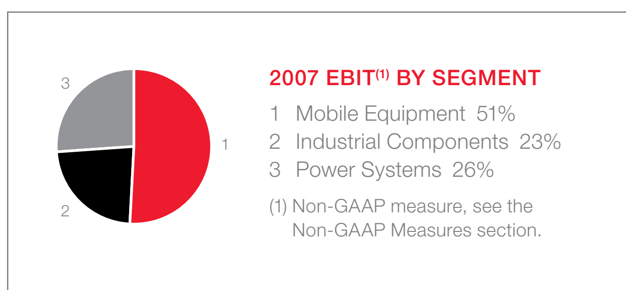
This MD&A contains forward-looking statements. These statements relate to future events or future performance and reflect management's current expectations and assumptions. Such forward-looking statements reflect management's current beliefs and are based on information currently available to management 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, except as required by law.

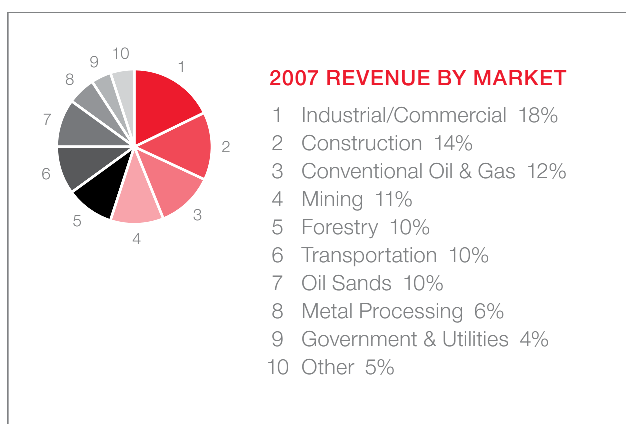
CONSOLIDATED RESULTS

Year ended December 31		2007		2006
Revenue	$	1,192.3	$	1,206.5
Gross profit	$	264.1	$	266.2
Selling and administrative expenses	$	187.8	$	186.9
Gain on sale of property, plant and equipment	$	(2.4)	$	–
Earnings from continuing operations before interest and income taxes	$	78.8	$	79.3
Interest expense	$	4.9	$	4.5
Income tax expense	$	1.9	$	3.4
Net earnings from continuing operations	$	72.0	$	71.5
Gain from discontinued operations	$	–	$	1.3
Net earnings	$	72.0	$	72.8
Distributable cash (1)	$	74.1	$	74.0
Distributions declared				
– Cash	$	72.3	$	73.5
– Non-cash (3)	$	0.9	$	–
Distributions paid	$	82.9	$	63.8
Earnings from continuing operations				
– Basic	$	4.34	$	4.31
– Diluted	$	4.31	$	4.28
Earnings per unit				
– Basic	$	4.34	$	4.39
– Diluted	$	4.31	$	4.36
Distributable cash per unit (1)(2)				
– Basic	$	4.47	$	4.46
– Diluted	$	4.44	$	4.44
Distributions declared per unit (2)				
– Cash	$	4.36	$	4.43
– Non-cash (3)	$	0.05	$	–
Distributions paid per unit (2)	$	5.00	$	3.85

(1) Non-GAAP measure, see the Non-GAAP Measures and Distributable Cash sections.
(2) Based on actual number of units outstanding on the relevant record date.
(3) See Distributions section.







Revenue

Revenues from continuing operations decreased 1%, or $14.2 million, in 2007 to $1,192.3 million from $1,206.5 million in 2006. The strengthening Canadian dollar relative to the U.S. dollar had the effect of decreasing 2007 consolidated annual revenue by approximately $24.0 million, or 2%, as the Fund realized lower sales dollars per unit on U.S. sourced products. Mobile Equipment's revenues increased 1% or $8.4 million, largely from higher parts and service volumes in western Canada. Kinecor's revenues decreased 4%, or $12.9 million, mostly attributable to lower fluid power parts and service revenues in western Canada's oil and gas sector. Power Systems revenues decreased 3%, or $9.3 million, resulting from a shortfall in revenues in western Canada's oil and gas sector in excess of increases in generator set sales in eastern Canada.

Gross profit

Gross profit decreased $2.1 million, or 1%, in 2007 due to decline in volumes, offset partially by an increase in the gross profit percentage to 22.2% from 22.1% last year. Mobile Equipment's gross profit percentage was negatively impacted by a $2.4 million inventory write-down of forestry equipment in the Mobile Equipment segment due to the discontinuance of the Direct Technologies Inc. ("Direct") product line. Excluding the forestry equipment inventory write-down, the gross profit percentage increased to 22.4% in 2007 compared to 22.1% in 2006.

Selling and administrative expenses

Selling and administrative expenses increased $0.9 million in the year due primarily to increased costs in both Mobile Equipment and Power Systems, offset partially by reductions in Industrial Components. Selling and administrative expenses as a percentage of revenue increased to 15.8% from 15.5%.

Gain on sale of property, plant and equipment

During the third quarter, the Fund recognized a $2.4 million, or $0.14 per unit after tax, gain on sale of land previously held for development in Power Systems.

Interest expense

Interest expense increased $0.4 million to $4.9 million in 2007 from $4.5 million in 2006 due primarily to higher funded debt net of cash ("funded net debt") outstanding in 2007, offset in part by lower deferred financing costs compared to last year.

Income tax expense

The effective income tax rate of 2.6% for the year decreased from 4.5% the previous year as an increase in the amount of subordinated indebtedness provided by the Fund to its subsidiary Wajax Limited resulted in additional interest expense in Wajax Limited. This was partially offset by a $1.2 million future tax expense adjustment made to reflect the Fund's taxable temporary differences that are estimated to reverse after 2010, tax effected at rates that will apply in the year the differences are expected to reverse.

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 is not currently taxable on its income to the extent that it is distributed to its unitholders. Pursuant to the terms of the Declaration of Trust, all taxable income earned by the Fund is distributed to its unitholders. Accordingly, no provision for income taxes is required on taxable income earned by the Fund that is distributed to its unitholders. The Fund's corporate subsidiaries are subject to tax on their taxable income.

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

Net earnings from continuing operations

Net earnings from continuing operations for the year ended December 31, 2007 increased $0.5 million to $72.0 million, or $4.34 per unit, from $71.5 million, or $4.31 per unit, in 2006. The positive impact of the $2.4 million gain on the sale of land, higher margins and reduced income tax expenses, were partially offset by the negative impact of lower volumes, a $2.4 million write-down of forestry equipment inventory, higher selling and administrative and interest expenses, compared to last year.

Discontinued operations

The $1.3 million gain from discontinued operations reported in 2006 resulted from the reversal of certain reserves taken for estimated liabilities retained subsequent to the divestiture of Spencer Industries, Inc. in 2005 that are no longer required.

Net earnings

Net earnings for the year ended December 31, 2007, decreased $0.8 million to $72.0 million, or $4.34 per unit, from $72.8 million, or $4.39 per unit in the previous year.

Funded net debt

Funded net debt of $60.8 million decreased $6.6 million in 2007 compared to last year as cash flows from continuing operations of $85.1 million combined with a reduction in working capital of $12.2 million were offset by: $82.9 million of cash distributions, $7.3 million of capital spending (including $0.3 million for acquisition of businesses) and $0.5 million of financing costs. As a result, the Fund's year-end debt-to-equity ratio of 0.31:1 improved from last year's ratio of 0.34:1.

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

For the twelve months ended December 31, 2007, distributable cash was $74.1 million, or $4.47 per unit, compared to $74.0 million, or $4.46 per unit, the previous year.

For the same period, cash distributions declared were $4.36 per unit (2006 – $4.43 per unit) and included monthly cash distributions totaling $3.89 per unit (2006 – $3.31 per unit) plus a special cash distribution of $0.47 per unit (2006 – $1.12 per unit). In addition, a special non-cash distribution was declared equal to $0.05 per unit (2006 – $nil per unit) in order to distribute the Fund's non-taxable portion of its capital gains for the year.

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

Distributable cash in excess of cash distributions declared for the twelve months ended December 31, 2007 of $1.8 million, or $0.11 per unit, provides the Fund an additional reserve for fluctuations in working capital requirements, growth capital expenditure requirements or future distributions.

Unitholder tax information relating to 2007 distributions is available on the Fund's website at www.wajax.com.

MANAGEMENT'S DISCUSSION AND ANALYSIS

RESULTS OF OPERATIONS

Mobile Equipment

For the year ended December 31	2007	2006
Equipment	$ 450.8	$ 453.1
Parts and service	$ 176.8	$ 166.1
Gross revenue	$ 627.6	$ 619.2
Segment earnings	$ 45.1	$ 41.4
Segment earnings margin	7.2%	6.7%

Revenue by Product Type 2007 versus 2006

Market	2007	2006
Construction & Forestry	48%	52%
Material Handling	22%	22%
Mining/Oil & Gas	21%	16%
Crane & Utility	9%	10%

Revenues increased 1%, or $8.4 million, to $627.6 million in 2007 from $619.2 million in 2006. The strengthening Canadian dollar relative to the U.S. dollar had the effect of decreasing 2007 annual revenues by approximately $16.2 million, or 3%, compared to last year. Segment earnings increased $3.7 million to $45.1 million in 2007 compared to $41.4 million in 2006. The following factors contributed to the results:

- Equipment revenues decreased by $2.3 million compared to last year and included the following year-over-year variances:
  - Forestry and construction equipment revenues decreased $27.2 million. Hitachi construction equipment revenues declined primarily due to lower activity in western Canada's oil and gas sector and the sale of six smaller class trucks in 2006 not repeated in 2007. However, JCB construction equipment revenues increased in all regions. Forestry equipment sales declined in western Canada and Ontario due to weaker demand and the transition from the Direct product line to the broader Tigercat line introduced in December 2007.
  - Mining equipment revenues increased $26.2 million due mostly to additional deliveries of Hitachi and LeTourneau products across Canada.
  - Crane and utility equipment revenues decreased $2.5 million as a decline in new crane equipment sales in western Canada and lower volumes in Ontario, more than offset improved sales to utility customers in eastern Canada.
  - Material handling equipment revenues increased $1.2 million as higher rental volumes in western Canada and equipment sales in eastern Canada more than offset a decline in sales into Ontario's manufacturing sector.
- Parts and service volumes increased $10.7 million compared to last year primarily from increases in the western Canada mining sector, including parts sales generated from long-term product support programs, and increased volume in the construction and material handling sectors. These increases were partly offset by lower revenues in eastern Canada's forestry sector due to weaker demand and the transition from the Direct product line to the broader Tigercat line introduced in December 2007.
- Earnings increased $3.7 million as a result of higher volumes and margins offset somewhat by an increase in selling and administrative expenses compared to last year.
  - Increased margins were generally attributable to a larger proportion of higher margin parts and service volumes compared to last year offset by the negative impact of the $2.4 million write-down of forestry equipment inventory due to the discontinuance of the Direct product line.
  - Selling and administrative expenses increased $1.4 million due mostly to an increase in service related personnel costs in western Canada, partially offset by higher expense recoveries in all regions compared to last year.

Effective December 1, 2007, the Mobile Equipment operation secured the distribution rights to the Tigercat line of forestry equipment for Alberta, Ontario, Quebec, New Brunswick and Nova Scotia. Tigercat manufactures a full line of high quality purpose built forestry equipment and is recognized as a market leader in the industry. Subsequent to year-end, the Fund obtained the additional distribution territories of Manitoba, Newfoundland and Prince Edward Island effective by the end of March 2008.

As previously reported, the Mobile Equipment segment received an order from North American Construction Group ("NACG") for sixteen 320 ton Hitachi mining trucks and two 800 ton Hitachi hydraulic shovels. During 2007 one truck was delivered. As of December 31, 2007 a total of seven trucks and two shovels have been delivered. Subsequent to year-end, NACG decided not to proceed with the purchase of the remaining nine trucks representing a sales value of approximately $27 million.

On February 29, 2008 the Fund announced that it agreed to acquire the assets of Dan Greer Enterprises Ltd. ("Greer"), the JCB dealer located in Stoney Creek, Ontario for approximately $2.2 million. This acquisition will provide the Fund with expanded territorial rights in the Ontario area from Mississauga to Niagara Falls, including Hamilton. Greer has sales of approximately $7 million annually and it is expected that the transaction will close by the end of March 2008.

The segment's focus going forward will include the following initiatives to grow revenue and earnings:

- Revenue growth in the construction and forestry sector will be enhanced by the introduction of the new Tigercat line of forestry equipment in late 2007. Tigercat's existing product population base presents Mobile Equipment with immediate parts and service volumes and a significant opportunity to strengthen and grow its presence in the forestry sector in all provinces, except British Columbia and Saskatchewan. In the construction sector, we will expand our JCB territory through the acquisition of Greer, an existing JCB dealer in the Ontario area from Mississauga to Niagara Falls, including Hamilton, in the spring of 2008.

- The Fund will continue to capitalize on the continuing demand for mining equipment, including loading equipment, with the segment's representation of Hitachi shovels and LeTourneau loaders, primarily in the oil sands and in base metal, coal and diamond mines. The segment is considering expanding its Fort McMurray branch in order to provide additional service shop capacity to meet demand for component repair and the servicing of medium-sized equipment.

- The focus in the crane and utility sector will be to increase revenue by expanding the range of products offered in eastern Canada, and by establishing a presence in central Alberta through the opening of a new crane and utility assembly centre in Red Deer in early 2009.

- In the materials handling business, a more sophisticated and customized approach to the management of the materials handling lift-truck fleet has been adopted in order to capitalize on a growing outsourcing trend among distribution, warehousing and logistics customers. Management expects an increased investment in the lift-truck fleet, combined with a tailored approach to rentals and sales of new and used lift-trucks, will lead to increases in rental utilization, market share, as well as reduced maintenance costs.

- In addition, the segment will continue to focus on maximizing parts and service volumes. The growth in Hitachi mining equipment plus Hitachi and JCB construction equipment sold over the past three years represents a significant after-market opportunity. Parts and service revenues increased over 6% in 2007 compared to 2006.

Industrial Components – Kinecor

For the year ended December 31		2007		2006
Gross revenue	$	**309.5**	$	322.4
Segment earnings	$	**20.0**	$	20.7
Segment earnings margin		**6.5%**		6.4%

Revenue by Market 2007 versus 2006

Market	2007	2006
Forestry	20%	19%
Industrial/Manufacturing	16%	15%
Metal Processing	13%	12%
Conventional Oil & Gas	12%	16%
Mining	12%	10%
Construction	6%	6%
Transportation	6%	6%
Food & Beverage	4%	4%
Other	11%	12%

Revenues decreased $12.9 million, or 4%, to $309.5 million from $322.4 million in 2006 as reduced activity in western Canada's oil and gas sector offset gains in eastern Canada. Segment earnings decreased $0.7 million to $20.0 million compared to $20.7 million in the previous year. The year-over-year changes in revenues and earnings were a result of the following factors:

- Bearings and power transmission parts sales increased $1.4 million compared to last year due to increased sales to mining customers, particularly in eastern and western Canada. As well, sales into the manufacturing, construction and food and beverage industries also contributed to the increase. Offsetting these revenue gains were declines in the forestry sector and the Ontario mining sector, due to a one-time special order in 2006, compared to last year.
- Fluid power parts and service revenues decreased $14.3 million primarily as a result of the decreased natural gas drilling activity in western Canada. The decline in revenues was offset somewhat by improved sales in the industrial sector, including sales of imported product, and in the mining and forestry sectors across all regions.
- Segment earnings of $20.0 million for 2007 decreased $0.7 million compared to last year as the negative impact of lower volumes more than offset the positive impact of higher margins and a $1.6 million reduction in selling and administrative expenses. Higher margins were mostly comprised of increased sales of commodity type imported products and higher volume rebates compared to last year. Selling and administrative expenses decreased primarily as a result of lower personnel costs in western Canada.

Kinecor's future revenue, earnings and cash flow growth plans include the following initiatives:

- Growing market share through the addition of new product lines and service offerings, in order to gain access to new markets, and expansion of its branch network. New products will include mill supply and safety products and expanded material handling and fluid transfer product offerings. In addition, Kinecor will place particular emphasis on growing market share with contract customers in the food and beverage, aggregates processing and transportation sectors.
- Growing the sales of globally sourced commodity type products, including the segment's private label brands, HY-SPEC for hydraulic products and NATIONAL for bearing products, by expanding product offerings into both new and existing markets.
- Margin improvement initiatives include revised pricing strategies focusing on low volume accounts, freight cost reductions and global sourcing of additional commodity type products.
- Inventory reduction initiatives will focus on improving inventory turns including the redeployment of slow moving inventory and purchasing controls.

A new computer system will be implemented in Kinecor and will be phased in across Canada in four stages during 2008 and early 2009. The new system will provide additional functionality and capacity which will accommodate the segment's future growth.

Power Systems

For the year ended December 31		2007		2006
Equipment	$	**127.3**	$	139.4
Parts and service	$	**131.1**	$	128.3
Gross revenue	$	**258.4**	$	267.7
Segment earnings	$	**22.7**	$	26.8
Segment earnings margin		**8.8%**		10.0%

Revenue by Market 2007 versus 2006

Market	2007	2006
Industrial/Commercial	29%	18%
Conventional Oil & Gas	27%	42%
On-highway transportation	27%	26%
Oil Sands	6%	6%
Mining	3%	2%
Other	8%	6%

Revenues decreased $9.3 million, or 3%, to $258.4 million in 2007 from $267.7 million in 2006. The strengthening Canadian dollar relative to the U.S. dollar had the effect of decreasing 2007 annual revenues by approximately $7.7 million, or 3%, compared to the previous year. Segment earnings decreased $4.1 million to $22.7 million in 2007 from $26.8 million in 2006. The following factors impacted year-over-year revenues and earnings:

- Revenues at Waterous Power Systems ("Waterous") in western Canada decreased $38.3 million in 2007 compared to 2006. Equipment revenue decreased $41.0 million while parts and service revenues increased $2.7 million compared to last year. The decline in equipment revenue was due to the slowdown in natural gas drilling activity resulting in a reduction in sales to drilling and service rig manufacturers. However, parts and service revenues increased in the oil and gas and on-highway transportation sectors as a result of service rate increases and capacity provided through additional service mechanics and extended operating hours.
- Revenues at the Fund's eastern Canada operation, DD-ACE Power Systems ("DD-ACE"), increased $29.0 million in 2007 compared to 2006. Equipment sales increased $28.9 million compared to last year as higher GE Energy natural gas and biogas engine sales, to industrial and commercial customers, more than offset a slight decline in new diesel engine sales. Parts and service revenues increased slightly by $0.1 million compared to last year.
- Earnings decreased $4.1 million compared to last year as the negative impact of lower volumes and margins combined with a $1.4 million increase in selling and administrative expenses, more than offset a $2.4 million gain on sale of land held for development in Edmonton. Margins decreased mainly as a result of lower margins realized on equipment sales. Increased selling and administrative expenses were attributable to higher GE Energy engine sales related costs at DD-ACE and slightly higher personnel and occupancy costs at Waterous.

On September 14, 2007 the Fund sold land, which was previously held for development in Edmonton, for proceeds of $5.5 million resulting in a gain of $2.4 million. Productivity gains combined with expansion of other facilities will allow Waterous to continue to operate out of its current Edmonton location.

Going forward, management will focus on the following growth and profit improvement initiatives:

- The Fund has the Canada-wide distribution rights for the GE Energy product line of natural gas and biogas engines for primary power and co-generation applications. Since the distribution rights were acquired in 2005, revenues have grown significantly to over $30 million in 2007. Prospects for future orders remain strong, particularly in Ontario where the government has introduced several subsidy programs to develop new power generation capacity.
- Management will also focus on revenue growth of primary and standby power generation systems in the industrial sector through the segment's Kohler and MTU branded generator products. MTU broadened its range of standby power generation products through the acquisition of Katolight in early 2007.
- Margin initiatives include maximizing cost recoveries by increasing service technician utilization rates, and implementation of better cost controls through centralized purchasing and more efficient purchasing procedures.

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOURTH QUARTER CONSOLIDATED RESULTS

Three months ended December 31		2007		2006
Revenue	$	281.5	$	294.5
Gross profit	$	64.5	$	67.1
Selling and administrative expenses	$	45.1	$	47.0
Earnings from continuing operations before interest and income taxes	$	19.4	$	20.1
Interest expense	$	1.0	$	1.3
Income tax (recovery) expense	$	(0.2)	$	0.8
Net earnings from continuing operations	$	18.6	$	18.1
Gain from discontinued operations	$	–	$	1.3
Net earnings	$	18.6	$	19.4
Distributable cash (1)	$	19.3	$	18.6
Distributions declared				
– Cash	$	24.2	$	34.2
– Non-cash (3)	$	0.9	$	–
Distributions paid	$	16.4	$	15.3
Earnings from continuing operations				
– Basic	$	1.12	$	1.09
– Diluted	$	1.11	$	1.08
Earnings per unit				
– Basic	$	1.12	$	1.17
– Diluted	$	1.11	$	1.16
Distributable cash per unit (1)(2)				
– Basic	$	1.16	$	1.12
– Diluted	$	1.15	$	1.11
Distributions declared per unit (2)				
– Cash	$	1.46	$	2.06
– Non-cash (3)	$	0.05	$	–
Distributions paid per unit (2)	$	0.99	$	0.92

(1) Non-GAAP measure, see the Non-GAAP Measures and Distributable Cash sections.
(2) Based on actual number of units outstanding on the relevant record date.
(3) See Distributions section.

Revenue

Revenue in the fourth quarter of 2007 decreased $13.0 million to $281.5 million from $294.5 million in 2006. The strengthening Canadian dollar relative to the U.S. dollar had the effect of decreasing 2007 consolidated quarterly revenue by approximately $16.0 million, or 5%, as the Fund realized lower sales dollars per unit on U.S. sourced products. Segment revenue increased 7% in Mobile Equipment while revenue fell 10% and 21% in Industrial Components and Power Systems, respectively.

Gross profit

Gross profit in the fourth quarter of 2007 decreased $2.6 million due mainly to the impact of lower volumes. The gross profit margin percentage for the quarter increased to 22.9% in 2007 from 22.8% in 2006 due principally to higher parts and service margins compared to last year.

Selling and administrative expenses

Selling and administrative expenses decreased $1.9 million in the quarter mainly due to lower personnel costs in Power Systems and Industrial Components plus the benefit of cost recoveries which more than offset higher sales related expenses in Mobile Equipment. However, selling and administrative expenses as a percentage of revenue remained the same at 16.0% compared to last year.

Interest expense

Fourth quarter interest expense of $1.0 million decreased $0.3 million due to the Fund's lower cost of borrowing, lower deferred financing costs and lower funded net debt outstanding in 2007 compared to last year.

Income tax expense

The effective income tax rate of negative 1.0% for the quarter decreased from 4.3% the previous year due to an increase in the amount of subordinated indebtedness provided by the Fund to its subsidiary Wajax Limited that resulted in additional interest expense in Wajax Limited compared to last year. In addition, a $0.3 million future tax recovery adjustment was made to reflect an adjustment to the Fund's taxable temporary differences that are estimated to reverse after 2010, tax effected at rates that will apply in the year the differences are expected to reverse.

Net earnings

Quarterly net earnings of $18.6 million or $1.12 per unit, decreased $0.8 million from $19.4 million, or $1.17 per unit, in 2006 due to the $1.3 million gain from discontinued operations reported in 2006 resulting from the reversal of certain reserves taken for estimated liabilities retained subsequent to the divestiture of Spencer Industries, Inc. in 2005 that are no longer required.

Comprehensive income

Comprehensive income for the quarter of $18.4 million decreased $1.0 million from $19.4 million the previous year due to a $0.8 million decrease in net earnings and an other comprehensive loss of $0.2 million for the quarter.

Funded net debt

Funded net debt of $60.8 million decreased $16.2 million compared to September 30, 2007 as fourth quarter cash flows from continuing operating activities of $35.1 million exceeded $16.4 million of cash distributions and $2.4 million of capital spending. The Fund's quarter-end debt-to-equity ratio of 0.31:1 at December 31, 2007 improved from last quarter's ratio of 0.38:1.

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

For the quarter ended December 31, 2007 distributable cash was $19.3 million, or $1.16 per unit, compared to $18.6 million, or $1.12 per unit, the previous year. The $0.7 million increase in distributable cash is due primarily to higher earnings and lower maintenance capital expenditures compared to last year. For the same period cash distributions declared were $1.46 per unit (2006 – $2.06 per unit) and included monthly cash distributions of $0.99 per unit (2006 – $0.94 per unit) plus a special cash distribution of $0.47 per unit (2006 – $1.12 per unit). In addition, a special non-cash distribution was declared during the quarter equal to $0.05 per unit (2006 – $nil per unit).

A discussion of the Fund's fourth quarter results can be found in the Fund's quarterly MD&A reports available on SEDAR at www.sedar.com.

SELECTED QUARTERLY INFORMATION

	2007 Q4	Q3	Q2	Q1	2006 Q4	Q3	Q2	Q1
Revenue	**$ 281.5**	$ 289.4	$ 319.1	$ 302.3	$ 294.5	$ 294.7	$ 314.1	$ 303.2
Net earnings from continuing operations	**$ 18.6**	$ 19.6	$ 15.0	$ 18.7	$ 18.1	$ 18.0	$ 18.5	$ 16.9
Net earnings from continuing operations per unit								
– Basic	**$ 1.12**	$ 1.18	$ 0.91	$ 1.13	$ 1.09	$ 1.09	$ 1.11	$ 1.02
– Diluted	**$ 1.11**	$ 1.17	$ 0.90	$ 1.12	$ 1.08	$ 1.08	$ 1.11	$ 1.02
Net earnings	**$ 18.6**	$ 19.6	$ 15.0	$ 18.7	$ 19.4	$ 18.0	$ 18.5	$ 16.9
Earnings per unit								
– Basic	**$ 1.12**	$ 1.18	$ 0.91	$ 1.13	$ 1.17	$ 1.09	$ 1.11	$ 1.02
– Diluted	**$ 1.11**	$ 1.17	$ 0.90	$ 1.12	$ 1.16	$ 1.08	$ 1.11	$ 1.02
Distributable cash [(1)]	**$ 19.3**	$ 19.6	$ 15.9	$ 19.4	$ 18.6	$ 19.4	$ 17.5	$ 18.5
Distributable cash per unit [(1)] – Basic	**$ 1.16**	$ 1.18	$ 0.96	$ 1.17	$ 1.12	$ 1.17	$ 1.05	$ 1.11

(1) 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 over the last two-plus 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.

SELECTED ANNUAL INFORMATION

	2007	2006	2005
Revenues from continuing operations	**$ 1,192.3**	$ 1,206.5	$ 1,049.4
Net earnings from continuing operations	**$ 72.0**	$ 71.5	$ 35.6
Net earnings from continuing operations per unit			
– Basic	**$ 4.34**	$ 4.31	$ 2.19
– Diluted	**$ 4.31**	$ 4.28	$ 2.19
Net earnings	**$ 72.0**	$ 72.8	$ 33.1
Net earnings per unit			
– Basic	**$ 4.34**	$ 4.39	$ 2.04
– Diluted	**$ 4.31**	$ 4.36	$ 2.03
Total assets – continuing operations	**$ 467.3**	$ 500.6	$ 437.9
Total assets	**$ 467.3**	$ 500.8	$ 438.6
Long-term liabilities	**$ 58.7**	$ 61.9	$ 36.3
Distributions declared per unit			
– Cash	**$ 4.36**	$ 4.43	$ 1.89
– Non-cash [(1)]	**$ 0.05**	$ –	$ 0.14
Dividends paid per share	**$ –**	$ –	$ 0.14

(1) See Distributions section.

Revenues from continuing operations increased $142.9 million from $1,049.4 million in 2005 to $1,192.3 million in 2007. This growth occurred despite the strengthening Canadian dollar relative to the U.S. dollar which had the effect of decreasing consolidated annual revenue by approximately $55 million as the Fund realized lower sales dollars per unit on U.S. sourced products. Mobile Equipment's revenues increased 13% or $70.7 million, largely from higher mining sector volumes in western Canada. Kinecor's revenues increased 8%, or $24.2 million with gains experienced in all regions, in both bearing and power transmission parts and fluid power parts and service revenues. Power Systems revenues increased 23%, or $48.7 million as higher generator set sales (primarily GE Energy engines) in DD-ACE and increased parts and service volumes, offset a decline in equipment revenues due to a slowdown in western Canada's natural gas drilling activity.

Earnings from continuing operations increased $36.4 million from 2005 to 2007. The improvement over 2005 was attributable to the increases in revenue noted above, $10.2 million ($0.42 per unit after tax) of income fund conversion related-items expensed in 2005, and lower income tax expense subsequent to the conversion of Wajax into an income fund effective June 15, 2005.

The $1.3 million gain from discontinued operations reported in 2006 resulted from the reversal of certain reserves taken for estimated liabilities retained subsequent to the divestiture of Spencer Industries, Inc. in 2005 that are no longer required.

Total assets of continuing operations increased $29.4 million between December 31, 2005 and December 31, 2007. The overall increase in total assets from continuing operations is substantially attributable to higher accounts receivable and inventory levels, reflecting the Fund's increase in revenues over the same period.

Long-term liabilities at December 31, 2007 of $58.7 million represented an increase of $22.4 million compared to December 31, 2005 as additional long-term debt was obtained to fund higher working capital requirements to support the increased volumes and acquisitions.

LIQUIDITY AND CAPITAL RESOURCES

The Fund generated $90.0 million of cash flows from continuing operations before financing activities in 2007 compared to $31.8 million in 2006. The $58.2 million increase in cash flows from continuing operations before financing activities was due to lower non-cash working capital requirements and a decrease in other investing activities, compared to last year.

Cash provided by continuing operating activities amounted to $97.3 million in 2007, with $85.1 million of cash generated from operating earnings and a $12.2 million decrease in non-cash working capital. Significant components of the decrease in non-cash working capital are as follows:

- Inventory decreased $26.2 million largely as a result of lower sales activity in the Industrial Components and Power Systems segments and lower inventory levels at Mobile Equipment.
- Accounts payable and accrued liabilities decreased $17.6 million reflecting reduced inventory levels and lower bonus and warranty accruals.
- Prepaid expenses decreased $2.7 million which were mainly caused by lower deposits with suppliers.
- Accounts receivable decreased by $1.9 million primarily as a result of the decreased sales volumes.

The Fund reinvested $7.3 million of cash provided by continuing operating activities. Significant investing activities included $8.6 million of lift truck and JCB rental fleet additions (net of disposals) in Mobile Equipment, and $3.9 million of other capital asset additions (net of disposals), less $5.5 million of proceeds on sale of land previously held for development.

Working capital from continuing operations, exclusive of funded debt and cash, decreased $2.6 million to $153.6 million at December 31, 2007 from $156.2 million at December 31, 2006. The decrease was due to the cash flow factors listed above reduced by the $10.6 million decrease in the distributions payable.

Funded debt, net of cash, of $60.8 million at December 31, 2007 decreased $6.6 million compared to last year. Cash flows from continuing operations of $85.1 million and reduction in working capital of $12.2 million was reduced by: $82.9 million of cash distributions and $7.3 million of capital and acquisition spending. As a result, the Fund's year-end debt-to-equity ratio of 0.31:1 decreased from last year's ratio of 0.34:1.

At December 31, 2007, the terms of the Fund's $175 million bank credit facility included the following:

- A fully secured facility, expiring December 31, 2011, made up of a $30 million non-revolving term portion and a $145 million revolving term portion.
- Borrowing capacity is dependent upon the level of the Fund's inventories on-hand and the outstanding trade accounts receivable.

- The facility contains customary restrictive covenants including restrictions on the payment of cash distributions and the maintenance of certain financial ratios all of which were met as at December 31, 2007. The Fund will be restricted from the payment of monthly cash distributions in the event the Fund's ratio of debt to earnings before interest, taxes, depreciation and amortization (the "Leverage Ratio") exceeds three times. In addition, monthly cash distributions in each fiscal quarter may not exceed 115% of the distributable cash flow (as defined in the credit facility) for the trailing four fiscal quarters.

- Borrowings bear floating rates of interest at margins over Canadian dollar bankers' acceptance yields, U.S. dollar LIBOR rates or prime. 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 June 7, 2008. On May 9, 2007 the Fund entered into a delayed start interest rate swap 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 4.6% plus applicable margins. The delayed interest rate swap commences on June 7, 2008 until expiry of the facility on December 31, 2011. Margins depend on the Fund's Leverage Ratio at the time of borrowing and range between 0.75% and 2.50% for Canadian dollars bankers' acceptances and U.S. dollar LIBOR borrowings, and nil% and 1.5% for prime rate borrowings. (See the Financial Instruments section below.)

At December 31, 2007, the Fund had borrowed $55 million and issued $3.8 million of letters of credit for a total utilization of $58.8 million of its $175 million bank credit facility.

The Fund has a $15 million demand inventory equipment financing facility with a non-bank lender. The equipment notes payable under the facility bear floating rates of interest at margins over Canadian dollar bankers' acceptance yields. Principal repayments commence between 6 and 12 months from the date of financing and the notes are due in full when the equipment is sold. At December 31, 2007 the Fund had utilized $0.1 million of the $15 million equipment financing facility.

The $175 million bank credit facility along with the $15 million equipment financing 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 expenditures.

Wajax Finance, a "private label" financing operation of CIT Financial Ltd. ("CIT"), is used primarily to provide customers of the Mobile Equipment segment with equipment financing. In addition, the Mobile Equipment segment leases its long-term lift truck rental fleet through Wajax Finance and will periodically finance inventory with Wajax Finance on a non-interest bearing basis and lease other equipment. In the event the Wajax Finance program is terminated, the Fund's liability would be limited to amounts owing to Wajax Finance for the rental fleet, any inventory financed at the time of termination and any contingent contractual obligations. The total amount outstanding with Wajax Finance cannot exceed $90 million at any time. At December 31, 2007 $40.0 million was outstanding ($19.2 million of inventory financed on a non-interest bearing basis, $13.1 million of off balance sheet long-term lift truck rental fleet leases and $7.7 million of contingent contractual obligations). See the Contractual Obligations and Off Balance Sheet Financing sections below.

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 year 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. Margins depend on the Fund's Leverage Ratio and range between 0.75% and 2.50%.

- On May 9, 2007 the Fund entered into a delayed start interest rate swap 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 4.6% plus applicable margins. Margins depend on the Fund's Leverage Ratio and range between 0.75% and 2.50%. The delayed interest rate swap commences on June 7, 2008 until expiry of the facility on December 31, 2011.

- 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 December 31, 2007, the Fund had contracts outstanding to buy US$10.7 million and €1.2 million (December 31, 2006 – to buy US$9.5 million and €0.3 million).

CONTRACTUAL OBLIGATIONS

	Total	2008	2009	2010	2011	2012	After 2012
Long-term debt	$ **55.0**	$ –	$ –	$ –	$ 55.0	$ –	$ –
Equipment notes payable	$ **0.1**	$ 0.1	$ –	$ –	$ –	$ –	$ –
Operating leases	$ **74.5**	$ 17.1	$ 12.7	$ 9.8	$ 7.7	$ 5.9	$ 21.3
Total	$ **129.6**	$ 17.2	$ 12.7	$ 9.8	$ 62.7	$ 5.9	$ 21.3

The $55 million long-term debt obligation in 2011 relates to the bank term credit facility and the equipment notes payable relates to the equipment financing demand facility. For more information on the Fund's operating lease obligations, see the Off Balance Sheet Financing section below.

The Fund also has contingent contractual obligations where the Fund has guaranteed the resale value of equipment sold ("guaranteed residual value contracts"), has guaranteed a portion of customer lease payments ("recourse contracts"). These contracts are subject to certain conditions being met by the customer. As at December 31, 2007, the Fund had guaranteed $7.6 million (2006 – $9.1 million) for contracts, with commitments arising between 2008 and 2012. The commitments made by the Fund for the guaranteed residual value and buy-back contracts reflect the estimated future value of the equipment, based on the judgment and experience of management. The Fund has recorded a $0.2 million provision in 2007 (2006 – $0.5 million) as an estimate of the financial exposure likely to result from such commitments.

OFF BALANCE SHEET FINANCING

Off balance sheet financing arrangements include operating lease contracts entered into by Mobile Equipment for the long-term lift truck rental fleet in Mobile Equipment with Wajax Finance, vehicles and other equipment. The total obligations for all operating leases are detailed in the Contractual Obligations section above. At December 31, 2007, the non-discounted operating lease commitments for facilities totaled $59.2 million, rental fleet $13.1 million, vehicles $0.6 million and other equipment $1.6 million.

In addition, the Mobile Equipment segment had $52.1 million of consigned inventory on-hand from a major manufacturer at December 31, 2007 compared to $67.7 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.

In the event the inventory consignment program was terminated, the Fund would utilize any interest free financing, if made available, by the manufacturer and/or utilize capacity under its credit facilities. In the event the rental fleet program with Wajax Finance was terminated, the Fund would source alternative lenders to replicate the off balance sheet rental fleet program and/or utilize capacity under its credit facilities to finance future additions to the rental fleet.

Although the Fund's consolidated contractual annual lease commitments decline year-by-year, it is anticipated that existing leases will either be renewed or replaced, resulting in lease commitments being sustained at current levels. In the alternative, the Fund may incur capital expenditures to acquire equivalent capacity.

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. 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".

"Standardized distributable cash" and "Standardized distributable cash per unit" are not recognized measures under GAAP. However, "Standardized distributable cash" has been calculated in accordance with the recommendations provided in the CICA publication: *Standardized Distributable Cash in Income Trusts and Other Flow-Through Entities: Guidance on Preparation and Disclosure*. See the Standardized Distributable Cash and Reconciliation to Distributable Cash section for the method of calculating the Fund's "Standardized distributable cash".

"EBIT" is not a recognized measure under GAAP, and has been calculated as earnings before, interest and taxes and may differ from methods used by other entities.

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 section) and any amount that the Trustees may reasonably consider to be necessary to provide for the payment of costs or other obligations that have been or are reasonably expected to be incurred by the Fund. See Distributable Cash section below.

Cash distributions to unitholders for the periods January 1, 2007 to December 31, 2007 and January 1, 2006 to December 31, 2006 were declared as follows:

	2007		2006	
Month (1)	Per Unit	Amount	Per Unit	Amount
January	$ 0.32	$ 5.3	$ 0.23	$ 3.8
February	0.32	5.3	0.23	3.8
March	0.32	5.3	0.25	4.1
April	0.32	5.3	0.25	4.1
May	0.32	5.3	0.27	4.5
June	0.32	5.3	0.27	4.5
July	0.32	5.3	0.27	4.5
August	0.33	5.5	0.30	5.0
September	0.33	5.5	0.30	5.0
October	0.33	5.5	0.30	5.0
November	0.33	5.5	0.32	5.3
December	0.33	5.5	0.32	5.3
Total monthly cash distributions	3.89	64.5	3.31	54.9
December – Special cash	0.47	7.8	1.12	18.6
Total cash distributions for the period ended December 31	**$ 4.36**	**$ 72.3**	**$4.43**	**$ 73.5**

(1) The Fund's monthly cash distributions are generally payable to unitholders of record on the last business day of each calendar month and are paid on or about the 20th day of the following month.

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

During the year the total of the Fund's regular monthly cash distributions to unitholders of $3.89 per unit increased by $0.58 per unit, or 18%, reflecting growth in distributable cash generated by the Fund during 2006 and early 2007. On December 14, 2007 the Fund announced a special cash distribution of $0.47 per unit to ensure, as provided by the Fund's Declaration of Trust, the Fund's total distributions for the year equal its taxable income.

On December 31, 2007 a special non-cash distribution of $0.05 per unit, or $0.9 million, was paid by way of additional Fund units in order to distribute the Fund's non-taxable portion of its capital gains for the year. Immediately after the issuance of the additional units, the outstanding Fund units were consolidated such that the number of Fund units was unchanged from the number held immediately prior to the special non-cash distribution.

Treatment of the Fund's distributions for Canadian income tax purposes for 2006 and 2007 is as follows:

Taxation Year	Other Income	Capital Gain	Total
2007	97.7324%	2.2676%	100%
2006	100%	–	100%

Unitholder tax information relating to 2007 distributions is available on the Fund's website at www.wajax.com.

DISTRIBUTABLE CASH[1]

The Fund believes that distributable cash is a useful metric in determining distributions to unitholders. The following is a reconciliation of cash flow realized from operating activities from continuing operations (a GAAP measure) to distributable cash (a non-GAAP measure).

For the year ended December 31		2007		2006
Cash flows from operating activities from continuing operations	$	97.3	$	56.2
Changes in non-cash working capital [2]		(12.2)		28.9
Cash flows from continuing operations before changes in non-cash working capital		85.1		85.1
Entity specific adjustments [3]:				
Maintenance capital expenditures [1] [3a]		(11.4)		(10.4)
Gain on sale of land [3b]		2.4		–
Accrual for mid-term incentives [3c]		(1.6)		–
Amortization of deferred financing costs [3d]		(0.4)		(0.7)
Distributable cash [1] – $		74.1		74.0
– per unit basic	$	4.47	$	4.46
– per unit fully diluted	$	4.44	$	4.44
Distributions declared – $				
– Cash		72.3		73.5
– Non-cash [4]		0.9		–
Distributions declared – per unit				
– Cash	$	4.36	$	4.43
– Non-cash [4]	$	0.05	$	–
Payout ratio [5]		97.6%		99.3%

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

(2) **Changes in non-cash working capital** are excluded from the calculation of distributable cash as the Fund currently has a $175 million bank credit facility which is available for use to fund general corporate requirements including working capital requirements (subject to borrowing capacity restrictions dependent on the level of the Fund's inventories on-hand and outstanding trade accounts receivable) and a $15 million demand inventory equipment financing facility with a non-bank lender. In addition, the Fund will periodically finance equipment inventory on a non-interest bearing basis through Wajax Finance, a "private label" financing operation of CIT Financial Ltd. See "Financing Strategies" section for further bank credit facility financial covenants.

(3) **Other entity specific adjustments** made in calculating distributable cash include the following:

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

b. **Gain on sale of land:** during the third quarter, the Fund excluded proceeds from the sale of land previously held for development, up to the cost amount, of $3.1 million as the cost was excluded from the distributable cash when it was originally acquired.

c. **Accruals for mid-term incentives** are added back in determining cash flows from operating activities as they were treated as long-term liabilities effective January 1, 2007. These accruals are deducted in calculating distributable cash as the Fund believes it provides unitholders with a better indication of annual compensation costs and provides consistency with prior years.

d. **Amortization of deferred financing costs** is a deduction in calculating distributable cash based on the amount included in the financing activities section of the statement of cash flow (in the year of the financing transaction) allocated over the term of the financing. The Fund believes this treatment provides a better indication of annual financing costs.

(4) See Distributions section.

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

For the twelve months ended December 31, 2007, distributable cash was $74.1 million, or $4.47 per unit. For the same period, distributions declared were $4.36 per unit and included monthly cash distributions totaling $3.89 per unit and a special cash distribution of $0.47 per unit. In addition, a special non-cash distribution was declared equal to $0.05 per unit (2006 – $nil) in order to distribute the Fund's non-taxable portion of its capital gains for the year.

For the twelve months ended December 31, 2006, distributions declared were $4.43 per unit and included monthly cash distributions totaling $3.31 per unit, and a special cash distribution of $1.12 per unit.

The special cash distributions were declared to ensure, as provided by the Fund's Declaration of Trust, the Fund's total distributions for the year equal its taxable income.

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). 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.

For the twelve months ended December 31, 2007, the payout ratio of distributions based on distributable cash was 97.6%. Distributions included a $0.47 per unit special cash distribution declared in December 2007 relating to excess distributable cash over taxable income for the entire 2007 year. Excluding the special cash distribution of $0.47 per unit, the payout ratio was 87%.

Distributable cash in excess of cash distributions declared for the twelve months ended December 31, 2007 of $1.8 million, or $0.11 per unit, provides the Fund an additional reserve for fluctuations in working capital requirements, growth capital expenditure requirements or future distributions.

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

For the year ended December 31		2007		2006
A. Cash flows from operating activities (1)	$	**97.3**	$	56.2
B. Net earnings (1)		**72.0**		71.5
C. Distributable cash (2)		**74.1**		74.0
D. Cash distributions declared		**72.3**		73.5
E. Excess (shortfall) of cash flows from operating activities over cash distributions declared (A – D)		**25.0**		(17.3)
F. Shortfall of net earnings over cash distributions declared (B – D)		**(0.3)**		(2.0)
G. Excess of distributable cash over cash distributions declared (C – D)		**1.8**		0.5

(1) Based on continuing operations.
(2) Non-GAAP measure, see Non-GAAP Measures section.

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

For the twelve months ended December 31, 2007, the $25.0 million excess of cash flows from operating activities over cash distributions declared is comprised of a reduction in non-cash working capital of $12.2 million and maintenance capital expenditures, net of disposals, of $11.3 million, less the $2.4 million gain on sale of land, plus a $3.9 million reserve. The $3.9 million provides the Fund an additional reserve for fluctuations in working capital requirements, growth capital expenditure requirements or future distributions.

For the year ended December 31, 2006 the $17.3 million excess of cash distributions declared over cash flows from operating activities was due to a $28.9 million increase non-cash working capital less capital expenditures, net of disposals, of $10.4 million. The shortfall was funded through the Fund's bank credit facilities.

STANDARDIZED DISTRIBUTABLE CASH[1] AND RECONCILIATION TO DISTRIBUTABLE CASH[2]

The following is a calculation of standardized distributable cash calculated in accordance with the recommendations provided in the CICA publication: *Standardized Distributable Cash in Income Trusts and Other Flow-Through Entities: Guidance on Preparation and Disclosure.*

In addition, the table provides a reconciliation of standardized distributable cash to distributable cash (see Distributable Cash section).

For the year ended December 31		2007		2006
Cash flows from operating activities				
– Continuing	$	97.3	$	56.2
– Discontinued		(0.1)		(0.1)
A. Capital expenditure outlays (3):		(13.4)		(18.7)
B. Restriction on distributions (4)		–		–
Standardized distributable cash (1)(2) – $		83.8		37.4
– per unit basic	$	5.05	$	2.25
– per unit fully diluted	$	5.02	$	2.24
i. Capital adjustments made to reflect maintenance capital expenditures (5):				
– Proceeds from disposals of capital expenditures		1.0		1.5
– Growth capital expenditures		–		4.9
– Rental fleet transferred to inventory		1.1		1.9
ii. Non-recurring adjustments (6):				
– Cash flow from discontinued operations		0.1		0.1
iii. Other entity specific adjustments (7):				
– Changes in non-cash working capital (7a)		(12.2)		28.9
– Gain on sale of land (7b)		2.4		–
– Accrual for mid-term incentives (7c)		(1.6)		–
– Amortization of deferred financing costs (7d)		(0.4)		(0.7)
Distributable cash (2) – $		74.1		74.0
– per unit basic	$	4.47	$	4.46
– per unit fully diluted	$	4.44	$	4.44
Distributions declared – $				
– Cash		72.3		73.5
– Non-cash (8)		0.9		–
Distributions declared – per unit				
– Cash	$	4.36	$	4.43
– Non-cash (8)	$	0.05		–
Payout ratio (9)				
– based on standardized distributable cash		86.3%		196.5%
– based on distributable cash		97.6%		99.3%

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

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

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

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

(5) **Capital adjustments** are made to adjust capital expenditure outlays (deducted in computing standardized distributable cash) to reflect maintenance capital expenditures, net of disposals, as a deduction in computing distributable cash. These adjustments include: the exclusion of growth capital, the inclusion of proceeds from the disposal of capital expenditures and rental fleet transferred to inventory. See Non-GAAP Measures and Productivity Capacity and Productivity Capacity Management sections for calculation of maintenance capital expenditures.

(6) **Non-recurring adjustments** include the exclusion of cash flows (used in) from discontinued operations in calculating distributable cash as they are not a reflection of the Fund's expected future cash flows.

(7) **Other entity specific adjustments** made in calculating distributable cash include the following:

a. **Changes in non-cash working capital** see Distributable Cash section.
b. **Gain on sale of land** see Distributable Cash section.
c. **Accruals for mid-term incentives** see Distributable Cash section.
d. **Amortization of deferred financing costs** see Distributable Cash section.

(8) See Distributions section.

(9) Payout ratio is equal to distributions declared as a percentage of distributable cash.

For the twelve months ended December 31, 2007, standardized distributable cash was $83.8 million, or $5.05 per unit, compared to $37.4 million, or $2.25 per unit, the previous year. The $46.4 million increase was primarily attributable to the $41.1 million decline in non-cash working capital usage and a $5.2 million reduction in capital expenditures compared to last year.

Since the conversion of Wajax Limited to Wajax Income Fund on June 15, 2005, the payout ratio of distributions based on standardized distributable cash and distributable cash is 119.9% and 97.6%, respectively. The difference is comprised of changes in non-cash working capital of $22.7 million, capital adjustments and other entity specific adjustments since conversion that have been funded through the Fund's bank credit facility. See Financing Strategies section.

PRODUCTIVE CAPACITY AND PRODUCTIVE CAPACITY MANAGEMENT

Wajax is a distributor and service support provider. As such, the Fund's productive capacity is determined primarily by its branch infrastructure across Canada, manufacturer relationships and other maintenance and growth capital employed.

Wajax operates from 103 facilities throughout Canada, of which 72 are leased. Wajax's principal properties are primarily sales and service outlets. (At December 31, 2007, the non-discounted operating lease commitments for facilities totaled $59.2 million.)

The Fund seeks to distribute leading product lines in each of its regional markets and its success is dependent upon continuing relations with the manufacturers it represents. The Fund endeavours to align itself in long-term relationships with manufacturers that are committed to achieving a competitive advantage and long-term market leadership in their targeted market segments. In the mobile equipment, power systems, and hydraulics and process pumps businesses, manufacturer relationships are generally governed through effectively exclusive distribution agreements. Distribution agreements are for the most part open-ended, but are cancellable within a relatively short notification period specified in the agreement.

Maintenance capital employed includes rental fleet in the Mobile Equipment segment, which will vary with market demand, and other capital which is employed primarily to support and maintain the branch network operations.

In addition, the Fund enters into off-balance sheet financing arrangements including operating lease contracts entered into for the long-term lift truck rental fleet in Mobile Equipment with Wajax Finance, vehicles and other equipment. (At December 31, 2007, the non-discounted operating lease commitments for rental fleet totaled $13.1 million, vehicles $0.6 million and other equipment $1.6 million.)

Growth capital expenditures include acquisitions and land and building that are not required to maintain normal operations.

For the seven year period from 2000 to 2007, average annual maintenance capital expenditures, net of proceeds from disposals, (including rental fleet but excluding discontinued operations and an ERP computer system abandoned in 2002), were $8.9 million. The annual maintenance capital expenditures varied between $3.4 million and $12.0 million during the period. Management's expectation for future annual maintenance capital expenditures is between $8 million and $14 million.

FINANCING STRATEGIES

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

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

The Fund's short-term working capital requirements can swing widely quarter-to-quarter due to timing of large inventory purchases and/or sales and changes in market activity. In general, as Wajax experiences growth, there is a need for additional working capital as was the case in 2006. Conversely, as Wajax experiences economic slowdowns working capital reduces reflecting the lower activity levels. This can result in standardized distributable cash increasing in years of declining activity and decreasing in years of growth. Fluctuations in working capital are generally funded by, or used to repay, the bank credit facilities. Therefore, for the reasons noted the Fund adjusts for changes in non-cash working capital in calculating distributable cash in periods where the Fund has capacity under its credit facility to fund the changes in non-cash working capital.

The bank credit facility contains covenants that could restrict the ability of the Fund to make cash distributions, if (i) an event of default exists or would exist as a result of a cash distribution, and (ii) the leverage ratio (Debt to EBITDA) is greater than 3.0. If the leverage ratio is less than or equal to 3.0, then the aggregate cash distributions by the borrowers in each fiscal quarter may not exceed 115% of distributable cash for the trailing four fiscal quarters. Notwithstanding the restrictions relating to the leverage ratio, a special cash distribution in the first quarter of each fiscal year is permitted in an amount not to exceed the amount by which distributable cash for the preceding fiscal year exceeds declared cash distributions for the preceding fiscal year plus any excess cumulative distributable cash over cash distributions of prior years. In addition, borrowing capacity under the bank credit facility is dependent on the level of the Fund's inventories on-hand and outstanding trade accounts receivables. For further detail, the Fund's bank credit facility is available on SEDAR at www.sedar.com.

UNIT CAPITAL

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 December 31, 2007	Number		Amount
Balance at the beginning of the year	16,585,206	$	104.9
Rights exercised	–		–
Balance at the end of the year	**16,585,206**	**$**	**104.9**

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 TDUP rights are issued to the participants and are settled by issuing Wajax Income Fund units, while the MTIP consists of an annual grant that vests over three years and is based upon performance vesting criteria, a portion of which 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. The Fund recorded compensation cost of $1,342 thousand for the year (2006 – $854 thousand) in respect of these plans.

At December 31, 2007, 83,229 (2006 – 70,217) rights were outstanding under the UOP and 53,068 (2006 – 34,986) rights were outstanding under the TDUP.

CRITICAL ACCOUNTING ESTIMATES

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Note 2 to the Consolidated Financial Statements describes the significant accounting policies and methods used in preparation of the Consolidated Financial Statements. The Fund bases its estimates on historical experience and various other assumptions that are believed to be reasonable in the circumstances. The more significant estimates include provisions for inventory obsolescence and doubtful accounts, warranty reserves and fair market values for goodwill impairment tests.

Provision for inventory obsolescence

The value of the Fund's new and used equipment is evaluated by management throughout each year. When required, reserves are recorded to ensure that the book value of equipment is valued at the lower of cost or estimated net realizable value. The Fund identifies slow moving or obsolete parts inventories and estimates appropriate obsolescence provisions related thereto. The Fund takes advantage of supplier programs that allow for the return of eligible parts for credit within specified time periods.

Provision for doubtful accounts

The Fund is exposed to credit risk with respect to its accounts receivable. However, this is somewhat minimized by the Fund's large customer base which covers most business sectors across Canada. The Fund follows a program of credit evaluations of customers and limits the amount of credit extended when deemed necessary. The Fund maintains provisions for possible credit losses, and any such losses to date have been within management's expectations.

Warranty reserve

The Fund provides for customer warranty claims that may not be covered by the manufacturers' standard warranty. In Mobile Equipment, the reserve is determined by applying a claim rate to the value of each machine sold. The rate is developed using management's best estimate of actual warranty expense, generally based on recent claims experience, and adjusted as required.

Goodwill and other assets

During the year, the Fund performed an impairment test of its unamortized goodwill and concluded that no impairment existed in the goodwill associated with any of the Fund's reporting units. To test for impairment, the Fund compares each reporting unit's book value to its fair value. Fair value is determined by a calculation of discounted future cash flows and by reference to market valuations, where available.

Indefinite life intangible assets are not amortized but are tested annually for impairment, or more frequently if certain indicators arise that indicate that the intangible asset might be impaired. To test from impairment, the Fund compares the fair value of the intangible asset with its book value. Fair value is determined by a calculation of discounted future cash flows and by reference to market valuations, where available. Any impairment in the current year is recorded as a charge against current earnings.

Finite life intangible assets are amortized over their useful life and are tested for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable. The Fund concluded that no impairment of the carrying value of the finite life intangible assets existed.

While the Fund uses available information to prepare its estimate of fair value, actual results could differ significantly from management's estimates which could result in future impairment and losses related to recorded goodwill and other asset balances.

Financing costs

Transaction costs related to the acquisition or amendment of long-term debt are deferred and amortized to interest expense using an effective yield method. Deferred financing costs are included in the carrying amount of the related debt.

CHANGES IN ACCOUNTING POLICY

The following is a summary of the relevant Canadian Institute of Chartered Accountants ("CICA") Handbook revisions that were released, revised or became effective since the Fund's financial statements for the period ended December 31, 2006 were issued.

Comprehensive Income

CICA Handbook Section 1530, Comprehensive Income, establishes standards for reporting and 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). Other comprehensive income refers to items recognized in comprehensive income that are excluded from net earnings.

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.

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 disclosures about financial instruments and non-financial derivatives.

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 bank indebtedness 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. 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 and reclassified to earnings when the hedged items affect income. If the hedged item is a purchase of inventory, the associated gains or losses that were recognized in comprehensive income are included in the initial cost of the inventory. 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 thousand which resulted in a derivative instrument asset of $626 thousand representing the cumulative gain since inception. $14 thousand of this gain was recorded in opening retained earnings for the portion of the gain considered to be ineffective and the effective portion of $612 thousand ($553 thousand – net of taxes) was recorded in accumulated other comprehensive income. These standards are applied retrospectively without restatement of prior years.

Year to date, $169 thousand ($152 thousand – net of tax) of losses on derivative contracts designated as cash flow hedges in prior periods were reclassified out of comprehensive income into earnings, while the change in the fair value of the outstanding contracts at December 31, 2007 resulted in a net loss of $970 thousand. The ineffective portion of the outstanding contracts was recognized as a $14 thousand loss in selling and administrative expenses and the remaining effective portion, a loss of $956 thousand ($812 thousand – net of tax) was reported in other comprehensive income.

As at December 31, 2007 the cash flow hedge derivative contracts had a fair value of $(175) thousand and are recorded as a derivative instrument liability on the consolidated balance sheets.

Accounting Changes

As at April 1, 2007, the Fund adopted Handbook Section 1506 "Accounting changes". The new standard allows for voluntary changes in accounting policy only when they result in the financial statements providing reliable and more relevant information, requires changes in accounting policy to be applied retroactively unless doing so is impractical, requires prior period errors to be corrected retroactively and calls for enhanced disclosures about the effects of changes in accounting policies, estimates and errors on the financial statements. The new standard also requires that the Fund disclose new primary sources of GAAP that have been issued, but are not yet effective and have not been adopted by the Fund.

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

Financial Instruments – Disclosures (Handbook Section 3862) and Financial Instruments – Presentation (Handbook Section 3863)

As of January 1, 2008, the Fund will be required to adopt two new CICA standards, Handbook Section 3862 "Financial Instruments – Disclosures" and Section 3863 "Financial Instruments – Presentation," which will replace Handbook Section 3861 "Financial Instruments – Disclosure and Presentation" The new disclosure standards increase the emphasis on the risks associated with both recognized and unrecognized financial instruments and how those risks are managed. The new presentation standards carry forward the former presentation requirements and are effective for fiscal years beginning on or after October 1, 2007. The Fund is currently assessing the impact on its consolidated financial statements.

Capital Disclosures – (Handbook Section 1535)

As of January 1, 2008, the Fund will be required to adopt Handbook Section 1535 "Capital Disclosures", which will require companies to disclose their objectives, policies and processes for managing capital. In addition, disclosures are to include whether companies have complied with externally imposed capital requirements. The new standard is effective for fiscal years beginning on or after October 1, 2007. The Fund is currently assessing the impact on its consolidated financial statements.

Inventories – (Handbook Section 3031)

As of January 1, 2008, the Fund will be required to adopt Handbook Section 3031 "Inventories", which supersedes existing guidance on inventories in Handbook Section 3030, "Inventories". The new standard introduces significant changes to the measurement and disclosure of inventories. The measurement changes include the elimination of the last in first out method, the requirement to measure inventories at the lower of cost and net realizable value, the allocation of overhead based on normal capacity, the use of the specific cost method for inventories that are not ordinarily interchangeable or goods and services produced for specific purposes, the requirement for an entity to use a consistent cost formula for inventory of a similar nature and use, and the reversal of previous write-downs to net realizable value when there is a subsequent increase in the value of inventories. Disclosures of inventories have also been enhanced. Inventory policies, carrying amounts, amounts recognized as an expense, write-downs and the reversals of write-downs are required to be disclosed. The new standard is effective for fiscal years beginning on or after January 1, 2008. The Fund is currently assessing the impact on its consolidated financial statements.

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 and the Fund's ability to pay cash distributions to unitholders. 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.

Government regulation

The Fund's business is subject to evolving laws and government regulations, particularly in the areas of income trust taxation, the environment, and health and safety. Changes to such laws and regulations may impose additional costs on the Fund and may adversely affect its business in other ways, including requiring additional compliance measures by the Fund. Please refer to the "Tax Related Risk" section below for additional detail.

Tax related risk

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

The Fund monitors the possible impact of these rules on the Fund. These rules may adversely affect the marketability of the Fund's units and the ability of the Fund to undertake financings and acquisitions, and, at such times as the rules apply to the Fund, the distributable cash of the Fund may be significantly reduced.

Economic conditions/Business cyclicality

The Fund's customer base consists of businesses operating in the natural resources, construction, transportation, manufacturing, industrial processing and utilities industries. These industries are capital intensive and cyclical in nature, and as a result, customer demand for the Fund's products and services may be affected by economic conditions at both a global or local level. Changes in interest rates, consumer and business confidence, corporate profits, credit conditions, foreign exchange, commodity prices and the level of government infrastructure spending may influence the Fund's customers' operating, maintenance and capital spending, and therefore the Fund's sales and results of operations. Although the Fund has attempted to address its exposure to business and industry cyclicality by diversifying its operations by geography, product offerings and customer base, there can be no assurance that the Fund's results of operations or cash flows will not be adversely affected by changes in economic conditions.

Commodity prices

Many of the Fund's customers are directly and indirectly affected by fluctuations in commodity prices in the forestry, metals and minerals and petroleum and natural gas industries, and as a result the Fund is also indirectly affected by fluctuations in these prices. In particular, each of the Fund's businesses is exposed to fluctuations in the price of oil and natural gas. A downward change in these commodity prices, and particularly in the price of oil and natural gas, could therefore adversely affect the Fund's results of operations or cash flows.

Manufacturer relationships and product access
The Fund seeks to distribute leading product lines in each of its regional markets and its success is dependent upon continuing relations with the manufacturers it represents. The Fund endeavours to align itself in long-term relationships with manufacturers that are committed to achieving a competitive advantage and long-term market leadership in their targeted market segments. In the mobile equipment, power systems, and hydraulics and process pumps businesses, manufacturer relationships are generally governed through effectively exclusive distribution agreements. Distribution agreements are for the most part open-ended, but are cancellable within a relatively short notification period specified in the agreement. Although the Fund enjoys good relationships with its major manufacturers and seeks to develop additional strong long-term partnerships, a loss of a major product line without a comparable replacement would have a significantly adverse affect on the Fund's results of operations or cash flow.

There is a continuing consolidation trend among industrial equipment and component manufacturers. Consolidation may impact on the products distributed by the Fund, in either a favourable or unfavourable manner. Consolidation of manufacturers may have a negative impact on the results of operations or cash flow if product lines Wajax distributes become unavailable as a result of the consolidation.

Suppliers generally have the ability to unilaterally change distribution terms and conditions or limit supply of product in times of intense market demand. Supplier changes in the area of product pricing and availability can have a negative or positive effect on the Fund's revenues and margins. As well, from time to time suppliers make changes to payment terms for distributors. This may affect the Fund's interest-free payment period or consignment terms, which may have a materially negative or positive impact on working capital balances such as cash, inventory, accounts payable and bank indebtedness.

The ability of the Fund to realize its intention to focus its Industrial Components' business on, among other things, the importation of high quality, lower cost hydraulic components from China and eastern Europe is dependent on the continued economic and political stability of these regions. There is no assurance that the Fund will be able to import such components at a low cost and/or on a consistent basis.

Tires
In the mining industry a surge in demand, over the last several years, has caused shortages of tires for large mining equipment. This may cause customers to delay purchases of equipment and take existing equipment out of service which may negatively impact the Fund's equipment and parts and service revenues and as a result could adversely affect the Fund's results of operations or cash flow.

Quality of products distributed
The ability of the Fund to maintain and expand its customer base is dependent upon the ability of the manufacturers represented by the Fund to improve and sustain the quality of their products. The quality and reputation of such products are not within the Fund's control, and there can be no assurance that manufacturers will be successful in meeting these goals. The failure of these manufacturers to maintain a market presence could adversely affect the Fund's results of operations or cash flow.

Foreign exchange exposure
The Fund's operating results are reported in Canadian dollars. While the majority of the Fund's sales are in Canadian dollars, significant portions of its purchases are in U.S. dollars. Changes in the U.S. dollar exchange rate can have a negative or positive impact on the Fund's revenues, margins and working capital balances. The Fund mitigates certain exchange rate risks by entering into short-term foreign currency forward contracts to fix the cost of certain inbound inventory and to hedge certain foreign-currency denominated sales to customers. In addition, the Fund will periodically institute price increases to offset the negative impact of foreign exchange rate increases on imported goods. The inability of the Fund to mitigate exchange rate risks or increase prices to offset foreign exchange rate increases may have a material adverse effect on the results of operations or financial condition of the Fund.

A declining U.S. dollar relative to the Canadian dollar can have a negative effect on the Fund's revenues and cash flows as a result of certain products being imported from the U.S. In some cases market conditions require the Fund to lower its selling prices as the U.S. dollar declines. As well, many of the Fund's customers export products to the U.S., and a strengthening Canadian dollar can negatively impact their overall competitiveness and demand for their products, which in turn may reduce product purchases from the Fund.

Competition

The mobile equipment, industrial components and power systems distribution industries in which the Fund competes are highly competitive. In the Mobile Equipment segment, the Fund primarily competes against regional equipment distributors that tend to handle a dedicated product line, such as those offered by John Deere, Komatsu and Caterpillar. There can be no assurance that the Fund will be able to continue to compete on the basis of product quality and price of product lines, distribution and servicing capabilities as well as proximity of its distribution sites to customers.

In terms of the industrial components sector, the hydraulics branches compete with other distributors of hydraulics components on the basis of quality and price of the product lines, the capacity to provide custom-engineered solutions and high service standards. The bearings and power transmission product branches compete with a number of distributors representing the same or competing product lines and rely primarily on high service standards, price and value added services to gain market advantage.

The Power Systems business competes with other major diesel engine distributors representing such products as Cummins and Caterpillar. Competition is based primarily on product quality and pricing.

There can be no assurance that the Fund will be able to continue to effectively compete. Increased competitive pressures or the inability of the Fund to maintain the factors which have enhanced its competitive position could adversely affect its results of operations or cash flow.

Key personnel

The success of the Fund is largely dependent on the abilities and experience of its senior management team and other key personnel. Its future performance will also depend on its ability to attract, develop and retain highly qualified employees in all areas of its business. Competition for skilled management, sales and technical personnel is intense, particularly in certain markets where the Fund competes. In particular, this has become increasingly apparent in western Canada with continuing high demand for technicians and skilled management. The Fund continuously reviews and makes adjustments to its hiring, training and compensation practices in an effort to attract and retain a highly competent workforce. However, there can be no assurance that the Fund will be successful in its efforts and a loss of key employees, or failure to attract and retain new talent as needed, may have an adverse impact on the Fund's current operations or future prospects.

Litigation and product liability claims

In the ordinary course of its business, the Fund may be party to various legal actions, the outcome of which cannot be predicted with certainty. One category of potential legal actions is product liability claims. The Fund carries product liability insurance, and management believes that this insurance is adequate to protect against potential product liability claims. Not all risks, however, are covered by insurance, and no assurance can be given that insurance will be consistently available or will be consistently available on an economically feasible basis or that the amounts of insurance will at all times be sufficient to cover each and every loss or claim that may occur involving the Fund's assets or operations.

A Statement of Claim was served on August 23, 2004 naming the Funds' 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 believe the claims are unlikely to succeed. A statement of defence has been filed. Should the Fund be unsuccessful in defending these claims, its results of operations or cash flow could be materially adversely affected.

Inventory obsolescence

The Fund maintains substantial amounts of inventories in all three core businesses. While the Fund believes it has appropriate inventory management systems in place, variations in market demand for the products it sells can result in certain items of inventory becoming obsolete. This could result in a requirement for the Fund to take a material write down of its inventory balance resulting in the Fund not being able to realize expected revenues and cash flows from this inventory, which would negatively affect results from operations or cash flow.

Leverage, credit availability and restrictive covenants

The Fund has a $175 million bank credit facility (see Liquidity and Capital Resources section above). While management believes this facility will be adequate to fund working capital requirements, there can be no assurance that additional credit will become available if required, or that an appropriate amount of credit with comparable terms and conditions will be available when the facility matures.

The facility contains restrictive covenants which place restrictions on, among other things, the ability of the Fund to encumber or dispose of its assets, the amount of interest cost incurred and distributions made relative to earnings and certain reporting obligations. A failure to comply with the obligations of the facility could result in an event of default which, if not cured or waived, could require an accelerated repayment of the facilities. There can be no assurance that the Fund's assets would be sufficient to repay the facility in full.

The amount of debt service obligations under the credit facility will be dependant on the level of borrowings and fluctuations in interest rates to the extent the rate is unhedged. As a result, fluctuations in debt servicing costs may have a detrimental effect on future earnings or cash flow.

The Fund also has credit lines available with other financial institutions for purposes of financing inventory and off balance sheet financing of long-term rental fleet. These facilities are not committed lines and their future availability cannot be assured, which may have a negative impact on cash available for distributions and future growth opportunities.

Credit risk

The Fund extends credit to its customers, generally on an unsecured basis. Although the Fund is not substantially dependant on any one customer and it has a system of credit management in place, the loss of a large receivable would have an adverse effect on the Fund's profitability.

Guaranteed residual value, recourse and buy-back contracts

In some circumstances the Fund makes certain guarantees to finance providers on behalf of its customers. These guarantees can take the form of assuring the resale value of equipment, guaranteeing a portion of customer lease payments, or agreeing to buy back the equipment at a specified price. These contracts are subject to certain conditions being met by the customer, such as maintaining the equipment in good working condition. Historically, the Fund has not incurred substantial losses on these types of contracts, however, there can be no assurance that losses will not be incurred in the future.

Future warranty claims

The Fund provides manufacturers' and/or dealer warranties for most of the equipment it sells. In some cases, the warranty claim risk is shared jointly with the equipment manufacturer. Accordingly, the Fund has some liability for warranty claims. There is a risk that a possible product quality erosion or a lack of a skilled workforce could increase warranty claims in the future, or may be greater than management anticipates. If the Funds' liability in respect of such claims is greater than anticipated, it may have a material adverse impact on the Fund's business, results of operations or financial condition.

Maintenance and repair contracts

The Fund frequently enters into long-term maintenance and repair contracts with its customers, whereby the Fund is obligated to maintain certain fleets of equipment at various negotiated performance levels. The length of these contracts varies significantly, often ranging up to five or more years. The contracts are generally fixed price, although many contracts have additional provisions for inflationary adjustments. Due to the long-term nature of these contracts, there is a risk that significant cost overruns may be incurred. If the Fund has miscalculated the extent of maintenance work required, or if actual parts and service costs increase beyond the contracted inflationary adjustments, the contract profitability will be adversely affected. In order to mitigate this risk, the Fund closely monitors the contracts for early warning signs of cost overruns. In addition, the manufacturer may, in certain circumstances, share in the cost overruns if profitability falls below a certain threshold. Any failure by the Fund to effectively price and manage these contracts could have a material adverse impact on the Fund's business, results of operations or financial condition.

Insurance

The Fund maintains a program of insurance coverage that is ordinarily maintained by similar businesses, including property insurance and general liability insurance. Although the limits and deductibles of such insurance have been established through risk analysis and the recommendation of professional advisors, there can be no assurance that such insurance will remain available to the Fund at commercially reasonable rates or that the amount of such coverage will be adequate to cover all liability incurred by the Fund. If the Fund is held liable for amounts exceeding the limits of its insurance coverage or for claims outside the scope of that coverage, its business, results of operations or financial condition could be adversely affected.

Information systems and technology

Information systems are an integral part of the Fund's business processes, including marketing of equipment and support services, inventory and logistics, and finance. Some of these systems are integrated with certain suppliers' core processes and systems. Any disruptions to these systems due, for example, to the upgrade or conversion thereof, or the failure of these systems to operate as expected could, depending on the magnitude of the problem, adversely affect the Fund's operating results by limiting the ability to effectively monitor and control the Fund's operations.

Labour relations

The Fund is a party to twelve collective agreements covering a total of approximately 400 employees. Of these, one agreement covering seven employees in Thunder Bay that expired October 20, 2006 is expected to go to conciliation. Of the remaining eleven, five expire in 2008, five expire in 2009 and one expires in 2010. Overall, the Fund believes its labour relations to be satisfactory and does not anticipate any difficulties in respect of renewing collective agreements. If the Fund is unable to renew its collective agreements as they become subject to renegotiation/arbitration from time to time, it could result in work stoppages and other labour disturbances. The failure to renew collective agreements upon satisfactory terms could have a material adverse impact on the Fund's businesses, results of operations or financial condition.

Growth initiatives, integration of acquisitions and project execution

As part of its long-term strategy, the Fund intends to continue growing its business through a combination of organic growth and strategic acquisitions. The Fund's ability to successfully grow its business will be dependent on a number of factors including: identification of accretive new business or acquisition opportunities; negotiation of purchase agreements on satisfactory terms and prices; prior approval of acquisitions by third parties, including regulatory authorities; securing attractive financing arrangements; and integration of newly acquired operations into the existing business. All of these activities may be more difficult to implement or may take longer to execute than management anticipates. Further, any significant expansion of the business may increase the operating complexity of the Fund, and divert management away from regular business activities. Any failure of the Fund to manage its acquisition strategy successfully could have a material adverse impact on the Fund's business, results of operations or financial condition.

STRATEGIC DIRECTION AND OUTLOOK

In 2007 Wajax achieved strong results in the face of significant currency and commodity price fluctuations and a mixed economic performance in a number of markets served. Particular strength in demand for our products and services in the mining, power generation and infrastructure sectors compensated for weaker activity in forestry and natural gas drilling. As well, the Fund continues to maintain a strong balance sheet. At year-end, funded net debt was $60.8 million, resulting in a conservative debt-to-equity ratio of 0.31:1. Unused debt capacity of more than $100 million affords the Fund ample future growth capital. Management believes there are good long-term prospects to grow earnings both organically and through acquisition in all three business units.

Looking forward to 2008, consensus expectations are for a moderation in growth for the Canadian economy as a whole. However, we anticipate a continuation of mixed performances from a number of sectors which directly affect Wajax's operations. We expect mining, including the oil sands, to continue to be strong, as well as spending on power generation, infrastructure and non-residential construction. The strong Canadian dollar will continue to present challenges for the forestry and manufacturing sectors. While we believe the fundamentals of the natural gas industry in Canada are positive for the long-term, to date, there has been no meaningful up-tick in drilling activity. Taking into account the preceding assumptions, we expect the Fund will enjoy another solid performance in 2008.

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The consolidated financial statements of Wajax Income Fund are the responsibility of management and have been prepared in accordance with Canadian generally accepted accounting principles. Where appropriate, the information reflects management's judgement and estimates based on the available information. Management is also responsible for all other information in the Annual Report and for ensuring that this information is consistent with the consolidated financial statements.

The Fund maintains a system of internal control designed to provide management with reasonable assurance as to the reliability of financial information and the safeguarding of the Fund's assets. The Fund also maintains an internal audit function, which reviews the system of internal control and its application.

The Audit Committee of the Board of Trustees, consisting solely of outside trustees, meets regularly during the year with management, internal auditors and the external auditors, to review their respective activities and the discharge of their responsibilities. Both the external and internal auditors have free and independent access to the Audit Committee to discuss the scope of their audits, the adequacy of the system of internal control and the adequacy of financial reporting. The Audit Committee reports its findings to the Board of Trustees, which reviews and approves the consolidated financial statements.

The Fund's external auditors, KPMG LLP, are responsible for auditing the consolidated financial statements and expressing an opinion thereon.

NEIL D. MANNING
President and
Chief Executive Officer
Mississauga, Canada
February 28, 2008

JOHN J. HAMILTON
Senior Vice President
and Chief Financial Officer

AUDITORS' REPORT

To the Unitholders of Wajax Income Fund

We have audited the consolidated balance sheets of Wajax Income Fund as at December 31, 2007 and 2006 and the consolidated statements of earnings, accumulated earnings, comprehensive income and cash flows for the years then ended. These financial statements are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Fund as at December 31, 2007 and 2006 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

KPMG LLP
Chartered Accountants,
Licensed Public Accountants
Toronto, Canada
February 28, 2008

CONSOLIDATED BALANCE SHEETS

As at December 31 (Dollars in thousands)	2007	2006
ASSETS		
CURRENT		
Accounts receivable	$ 143,669	$ 145,583
Inventories (Note 5)	207,212	232,318
Future income taxes (Note 9)	1,064	3,571
Prepaid expenses	4,799	7,451
Discontinued operations (Note 13)	–	178
	356,744	389,101
NON-CURRENT		
Rental equipment (Note 6)	21,700	18,893
Property, plant and equipment (Note 7)	29,491	33,280
Goodwill and other assets (Note 8)	59,108	59,059
Future income taxes (Note 9)	269	473
	110,568	111,705
	$ 467,312	$ 500,806
LIABILITIES AND UNITHOLDERS' EQUITY		
CURRENT		
Bank indebtedness	$ 6,830	$ 5,668
Accounts payable and accrued liabilities	188,388	206,096
Distributions payable to unitholders	13,268	23,883
Income taxes payable	1,457	2,710
Equipment notes payable (Note 10)	70	2,734
Derivative instrument liability (Note 3 & 12)	175	–
Discontinued operations (Note 13)	347	600
	210,535	241,691
NON-CURRENT		
Other liabilities	1,716	120
Long-term pension liability (Note 19)	3,079	2,777
Long-term debt (Note 11)	53,879	59,023
	58,674	61,920
UNITHOLDERS' EQUITY		
Trust units (Note 15)	104,871	104,871
Unit-based compensation (Note 16)	2,907	1,565
Accumulated earnings	90,432	90,759
Accumulated other comprehensive loss (Note 4)	(107)	–
	90,325	90,759
	198,103	197,195
	$ 467,312	$ 500,806

On behalf of the Board:

PAUL E. GAGNÉ
Chairman

ROBERT P. DEXTER
Trustee

CONSOLIDATED STATEMENTS OF EARNINGS AND ACCUMULATED EARNINGS

For the years ended December 31 (Dollars in thousands, except per unit data)	2007	2006
Revenue	$ 1,192,267	$ 1,206,524
Cost of sales	928,126	940,348
Gross profit	264,141	266,176
Selling and administrative expenses	187,756	186,874
Gain on sale of property, plant and equipment (Note 20)	(2,384)	–
Earnings from continuing operations before interest and income taxes	78,769	79,302
Interest expense (Note 11)	4,870	4,453
Earnings from continuing operations before income taxes	73,899	74,849
Income tax expense (Note 9)	1,929	3,392
Net earnings from continuing operations	71,970	71,457
Gain from discontinued operations (Note 13)	–	1,294
Net earnings	$ 71,970	$ 72,751
Basic earnings per unit from continuing operations (Note 17)	$ 4.34	$ 4.31
Diluted earnings per unit from continuing operations (Note 17)	$ 4.31	$ 4.28
Basic earnings per unit (Note 17)	$ 4.34	$ 4.39
Diluted earnings per unit (Note 17)	$ 4.31	$ 4.36
Accumulated earnings, beginning of year, as reported	$ 90,759	$ 91,479
Transitional adjustment (Note 3)	14	–
Distributions	(72,311)	(73,471)
Net earnings	71,970	72,751
Accumulated earnings, end of year	$ 90,432	$ 90,759

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

For the years ended December 31 (Dollars in thousands)	2007	2006
Net earnings	$ 71,970	$ 72,751
Losses on derivative instruments designated as cash flow hedges in prior years reclassified to net income in the current year, net of tax of $17 (Note 4)	152	–
Losses on derivative instruments designated as cash flow hedges, net of tax of $144 (Note 4)	(812)	–
Other comprehensive loss	(660)	–
Comprehensive income	$ 71,310	$ 72,751

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the years ended December 31 (Dollars in thousands)	2007	2006
OPERATING ACTIVITIES		
Net earnings from continuing operations	$ 71,970	$ 71,457
Items not affecting cash flow:		
Amortization		
Rental equipment	4,663	4,278
Property, plant and equipment	4,542	4,674
Intangible assets	287	337
Deferred financing costs	391	705
Unit compensation expense (Note 16)	1,342	854
Gain on sale of property, plant and equipment (Note 20)	(2,384)	–
Long-term portion of mid-term incentive plan expense	1,596	–
Non-cash rental expense	67	122
Future income taxes (Note 9)	2,416	2,573
Pension expense, net of payments	148	103
Other	23	–
Cash flows from operating activities from continuing operations before changes in non-cash working capital	85,061	85,103
Changes in non-cash working capital:		
Accounts receivable	1,914	(13,026)
Inventories	26,206	(35,765)
Prepaid expenses	2,652	(3,595)
Accounts payable and accrued liabilities	(17,592)	23,963
Income taxes payable	(942)	(488)
	12,238	(28,911)
Cash flows from operating activities from continuing operations	97,299	56,192
INVESTING ACTIVITIES		
Rental equipment additions	(9,447)	(9,006)
Proceeds on disposal of rental equipment	877	1,123
Property, plant and equipment additions	(3,997)	(8,683)
Proceeds on disposal of property, plant and equipment	5,628	339
Acquisition of businesses (Note 18)	(322)	(8,192)
	(7,261)	(24,419)
Cash flows from continuing operations before financing activities	90,038	31,773
FINANCING ACTIVITIES		
Increase in deferred financing costs	(535)	(35)
(Decrease) increase in long-term bank debt	(5,000)	25,000
Repayment of debt upon acquisition of business (Note 18)	–	(446)
Decrease in equipment notes payable (Note 10)	(2,664)	(2,985)
Increase in other liabilities	–	120
Distributions paid (Note 14)	(82,926)	(63,849)
	(91,125)	(42,195)
Net change in cash and cash equivalents used in continuing operations	(1,087)	(10,422)
Cash and cash equivalents used in discontinued operations (Note 13)	(75)	(86)
(Bank Indebtedness) cash and cash equivalents – beginning of year	(5,668)	4,840
Bank Indebtedness – end of year	$ (6,830)	$ (5,668)
Cash flows provided by operating activities includes the following:		
Interest paid	$ 4,026	$ 3,831
Income taxes paid	$ 401	$ 1,283
Significant non-cash transactions:		
Rental equipment transferred to inventory	$ 1,100	$ 1,961

1. STRUCTURE OF THE TRUST AND FUND PROFILE

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 and exchange those on an equal basis for Wajax Trust Units ("Units") in the Fund pursuant to a Plan of 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's core distribution businesses are engaged in the sale and after-sales parts and service support of mobile equipment, industrial components and power systems, through a network of 103 branches across Canada. The Fund is a multi-line distributor and represents a number of leading worldwide manufacturers across its core businesses. Its customer base is diversified, spanning natural resources, construction, transportation, manufacturing, industrial processing and utilities.

2. SIGNIFICANT ACCOUNTING POLICIES

These Consolidated Financial Statements have been prepared in accordance with Canadian generally accepted accounting principles. The significant accounting policies used in these Consolidated Financial Statements are as follows:

Principles of consolidation

These Consolidated Financial Statements include the accounts of Wajax Income Fund and its subsidiary entities, which are all wholly-owned. Intercompany balances and transactions are eliminated on consolidation.

Measurement uncertainty

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Revenue recognition

Revenue is recognized as it is earned in accordance with the following:

- Revenue from the sale of equipment and parts is recorded at the time goods are shipped to customers or when all contracted-upon conditions have been fulfilled.
- Revenue from equipment leases and rentals is recognized over the term of the lease or rental.
- Revenue from the sale or transfer of internally-manufactured or assembled products is recorded when goods are shipped to customers or when all contracted-upon conditions have been fulfilled.
- Revenue from the offering of engineering and technical services to customers is recognized upon performance of contracted–upon services with the customer.
- Revenue for separately priced extended warranty or product maintenance contracts is recognized over the contract period in proportion to the costs expected to be incurred in performing the services under the contract. If insufficient historical evidence exists to support this pattern, then revenue is recognized on a straight-line basis over the term of the contract.

Provision is made for expected returns, collection losses and warranty costs based on past performance, and for estimated costs to fulfill contractual obligations and other sales-related contingencies.

Derivative 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.

The Fund formally documents all relationships between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. This process includes linking all derivatives to specific assets and liabilities on the balance sheet or to specific firm commitments or forecasted transactions. The Fund also assesses, both at the hedge's inception and on an ongoing basis, whether the derivatives that are used in hedging transactions are effective in offsetting changes in fair values or cash flows of hedged items.

The Fund purchases foreign exchange forward contracts to fix the cost of certain inbound inventory and the related accounts payable and to hedge certain anticipated foreign currency denominated sales to customers and the related accounts receivable.

In the event a designated hedged item is sold, extinguished, matures prior to the termination of the related derivative instrument or ceases to be effective prior to maturity, any realized or unrealized gain or loss on such a derivative instrument is recognized in net earnings.

All hedging relationships entered into during the year are documented and effectiveness is tested at inception as well as at year end on a prospective and retroactive basis. Hedge accounting has been applied for all hedging relationships.

Cash and cash equivalents

Cash and cash equivalents include highly liquid investments purchased three months or less from maturity and are stated at cost, which approximates market value.

Foreign currency transactions and balances

Foreign currency transactions are translated into domestic currency at exchange rates prevailing at the time the transactions occur. Monetary assets and liabilities denominated in foreign currencies, such as cash, accounts receivable and accounts payable, are translated into domestic currency at the rate of exchange in effect at the balance sheet date. Exchange gains and losses are included in the statement of earnings.

Inventories

Inventories are valued at the lower of cost and estimated net realizable value.

Rental equipment

Rental equipment assets are recorded at cost and amortized over their estimated useful lives, using the declining balance method at a rate of 20% per year.

Property, plant and equipment

Property, plant and equipment are recorded at cost and amortized over their estimated useful lives based on the following methods and annual rates:

Asset	Method	Rate
Buildings	declining balance	4% – 5%
Equipment and vehicles	declining balance	20% – 30%
Information systems	straight-line	3 – 7 years
Furniture and fixtures	declining balance	20%
Leasehold improvements	straight-line over the terms of the leases	
Construction in progress	no amortization taken	

Impairment of long lived assets

Property, plant and equipment and rental equipment are tested for impairment when events or changes in circumstances indicate that the carrying amount of the asset may not be recoverable. An impairment loss is recognized when the carrying amount of an asset held for use exceeds the sum of the undiscounted future cash flows expected from its use and eventual disposition. The impairment loss is measured as the amount by which the asset's carrying amount exceeds its fair value.

Goodwill and other assets

Goodwill is tested at least annually for impairment, or more frequently if certain indicators arise. To test for impairment, the Fund compares each reporting unit's book value to its fair value. Fair value is determined by a calculation of discounted future cash flows and by reference to market valuations, where available. Any goodwill impairment in the current year is recorded as a charge against current earnings (Note 8).

Indefinite life intangible assets are not amortized but are tested annually for impairment, or more frequently if certain indicators arise that indicate that the intangible asset might be impaired. To test for impairment, the Fund compares the fair value of the intangible asset with its book value. Fair value is determined by a calculation of discounted future cash flows and by reference to market valuations, where available. Any impairment in the current year is recorded as a charge against current earnings (Note 8).

Finite life intangible assets are amortized on a straight line basis over their useful lives. Finite life intangible assets are tested for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable. Impairment of an intangible asset is recognized in an amount equal to the difference between the carrying value and the fair value of the related intangible asset.

Financing costs

Transaction costs related to the acquisition or amendment of long-term debt are deferred and amortized to interest expense using an effective yield method. Deferred financing costs are included in the carrying amount of the related debt.

Unit-based compensation plans and employee stock options

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 for Senior Executives ("MTIP").

Under the UOP and the TDUP, rights are issued to the participants which, upon satisfaction of certain vesting conditions, are settled by issuing Wajax Income Fund units. The rights are settled when the participant is no longer employed by Wajax or no longer sits on its board. Compensation expense is determined based upon the fair value of the rights at date of grant and charged to operations on a straight line basis over the vesting period, with an offsetting adjustment to unitholders' equity.

The MTIP, which is settled in cash, consists of an annual grant that vests over three years and is subject to time and performance vesting criteria. A portion of the compensation expense for the MTIP varies with the price of Fund units and is recognized over the vesting period with an offsetting adjustment to accrued liabilities.

Earnings per unit

The treasury stock method is used to calculate diluted earnings per unit.

Employees' pension plans

The Fund has defined contribution pension plans for most of its employees. The cost of the defined contribution plans are recognized based on the contributions required to be made each period.

The Fund also has defined benefit plans covering some of its employees. The benefits are based on years of service and the employees' earnings. Defined benefit plan obligations are accrued as the employees render the services necessary to earn the pension benefits. The Fund has adopted the following policies:

- The cost of pension benefits earned by employees is actuarially determined using the projected benefit method pro-rated on service for defined benefit plans with benefits based on final average earnings and the unit credit method for other defined benefit plans and management's best estimate of expected plan investment performance, salary escalation, and retirement ages of employees.
- For purposes of calculating expected return on plan assets, those assets are valued at fair value.
- The excess of the net actuarial gain (loss) over 10% of the greater of the benefit obligation and the fair value of the plan assets is amortized over the average remaining service life of active employees.
- Unrecognized net transition assets and prior service costs are amortized over the expected average remaining service life of active employees.
- When the restructuring of a benefit plan gives rise to both a curtailment and a settlement of obligations, the curtailment is accounted for prior to the settlement.

Income taxes

Income taxes are accounted for using the liability method, whereby future income tax assets and liabilities are determined based on differences between the carrying amount of the balance sheet items and their corresponding tax values. Future income taxes are computed using substantively enacted income tax rates for the years in which tax and accounting basis differences are expected to reverse. The effect on future income tax assets and liabilities of a change in tax rate is recognized in the period during which the change is considered substantively enacted. Valuation allowances are established when necessary to reduce future income tax assets to the amounts more likely than not to be realized.

Comparative financial statements
Certain comparative figures have been reclassified to conform to the 2007 presentation.

3. CHANGES IN ACCOUNTING POLICIES

Financial Instruments
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, establishes standards for reporting and 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). Other comprehensive income refers to items recognized in comprehensive income that are excluded from net earnings.

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.

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 disclosures about financial instruments and non-financial derivatives.

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.

Upon adoption of these new standards, the Fund designated its bank indebtedness 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. Accounts payable and accrued liabilities, long-term debt, equipment notes payable, distributions payable to unitholders 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 is recognized in other comprehensive income and reclassified to earnings when the hedged items affect income. If the hedged item is a purchase of inventory, the associated gains or losses that were recognized in comprehensive income are included in the initial cost of the inventory. 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 representing the cumulative gain since inception. $14 of this gain was recorded in opening retained earnings for the portion of the gain considered to be ineffective and the effective portion of $612 ($553 – net of taxes) was recorded in accumulated other comprehensive income. These standards are applied retrospectively without restatement of prior years.

Accounting Changes
As at April 1, 2007, the Fund adopted Handbook Section 1506 "Accounting Changes". The new standard allows for voluntary changes in accounting policy only when they result in the financial statements providing reliable and more relevant information, requires changes in accounting policy to be applied retrospectively unless doing so is impractical, requires prior period errors to be corrected retrospectively and calls for enhanced disclosures about the effects of changes in accounting policies, estimates and errors on the financial statements. The new standard also requires that the Fund disclose new primary sources of GAAP that have been issued, but are not yet effective and have not been adopted by the Fund.

New Standards Issued but not yet Effective
The Fund is currently assessing and has not yet determined the impact of the following new standards on its consolidated financial statements:

(i) Financial Instruments – Disclosures (Handbook Section 3862) and Financial Instruments – Presentation (Handbook Section 3863)
As of January 1, 2008, the Fund will be required to adopt two new CICA standards, Handbook Section 3862 "Financial Instruments – Disclosures" and Section 3863 "Financial Instruments – Presentation," which will replace Handbook Section 3861 "Financial Instruments – Disclosure and Presentation" The new disclosure standards increase the emphasis on the risks associated with both recognized and unrecognized financial instruments and how those risks are managed. The new presentation standards carry forward the former presentation requirements and are effective for fiscal years beginning on or after October 1, 2007.

(ii) Capital Disclosures – (Handbook Section 1535)
As of January 1, 2008, the Fund will be required to adopt Handbook Section 1535 "Capital Disclosures", which will require companies to disclose their objectives, policies and processes for managing capital. In addition, disclosures are to include whether companies have complied with externally imposed capital requirements. The new standard is effective for fiscal years beginning on or after October 1, 2007.

(iii) Inventories – (Handbook Section 3031)
As of January 1, 2008, the Fund will be required to adopt Handbook Section 3031 "Inventories", which supersedes existing guidance on inventories in Handbook Section 3030, "Inventories". The new standard introduces significant changes to the measurement and disclosure of inventories. The measurement changes include the elimination of the last in first out method, the requirement to measure inventories at the lower of cost and net realizable value, the allocation of overhead based on normal capacity, the use of the specific cost method for inventories that are not ordinarily interchangeable or goods and services produced for specific purposes, the requirement for an entity to use a consistent cost formula for inventory of a similar nature and use, and the reversal of previous write-downs to net realizable value when there is a subsequent increase in the value of inventories. Disclosures of inventories have also been enhanced. Inventory policies, carrying amounts, amounts recognized as an expense, write-downs and the reversals of write-downs are required to be disclosed. The new standard is effective for fiscal years beginning on or after January 1, 2008.

4. ACCUMULATED OTHER COMPREHENSIVE INCOME

During 2007, $169 ($152 – net of tax) of losses on derivative contracts designated as cash flow hedges in prior periods were reclassified out of comprehensive income into earnings, while the change in the fair value of the outstanding contracts at December 31, 2007 resulted in a net loss of $970. The ineffective portion of the outstanding contracts was recognized as a $14 loss in selling and administrative expenses and the remaining effective portion, a loss of $956 ($812 – net of tax) was recorded in other comprehensive income.

		2007
Balance beginning of year	$	–
Transitional amount for new accounting guidelines on January 1, 2007 (Note 3), net of tax of $59		553
Losses on derivatives designated as cash flow hedges in prior year reclassified to net earnings in the current year, net of tax of $17		152
Losses on derivatives designated as cash flow hedges, net of tax of $144		(812)
Accumulated other comprehensive loss	$	(107)

5. INVENTORIES

		2007		2006
Equipment	$	102,245	$	122,541
Parts		89,893		96,560
Work-in-process		15,074		13,217
Total inventories	$	207,212	$	232,318

All amounts shown are net of applicable reserves.

6. RENTAL EQUIPMENT

	Cost	Accumulated Amortization	Net Book Value
December 31, 2007	$ 35,325	$ 13,625	$ 21,700
December 31, 2006	$ 30,565	$ 11,672	$ 18,893

7. PROPERTY, PLANT AND EQUIPMENT

	Cost	Accumulated Amortization	Net Book Value
Land and buildings	$ 27,786	$ 11,289	$ 16,497
Equipment and vehicles	30,243	22,036	8,207
Information systems	18,254	17,398	856
Furniture and fixtures	8,034	6,457	1,577
Leasehold improvements	8,664	6,310	2,354
Construction in progress	–	–	–
December 31, 2007	$ 92,981	$ 63,490	$ 29,491
Land and buildings	$ 29,934	$ 10,668	$ 19,266
Equipment and vehicles	27,927	20,504	7,423
Information systems	17,768	16,354	1,414
Furniture and fixtures	7,930	6,098	1,832
Leasehold improvements	8,288	5,709	2,579
Construction in progress	766	–	766
December 31, 2006	$ 92,613	$ 59,333	$ 33,280

8. GOODWILL AND OTHER ASSETS

		2007		2006
Goodwill	$	**55,030**	$	54,708
Deferred pension asset (Note 19)		**1,870**		1,856
Intangible assets – indefinite life				
Product distribution rights		**1,500**		1,500
Intangible assets – finite life				
Customer lists and non-competition agreements, net of accumulated amortization of $843 (2006 – $556)		**708**		995
Total goodwill and other assets	$	**59,108**	$	59,059

During the year the Fund's Industrial Components segment paid contingent consideration in respect of a prior acquisition resulting in an increase of goodwill of $322 (2006 – $895).

During the year, the Fund performed an impairment test of its unamortized goodwill and intangible assets with an indefinite life and concluded that no impairment existed in either the goodwill associated with any of the Fund's reporting units or the fair value of the intangible assets with an indefinite life.

9. INCOME TAXES

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

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

The Fund has recognized future income tax liability for the temporary differences between the carrying amount and tax values of assets and liabilities in respect of the proportion of Fund income taxed directly to the unitholders that is expected to reverse in or after 2011. No future tax asset or liability has been recorded for such temporary differences that are expected to reverse before 2011. The tax basis of the assets and liabilities of the Fund related to such temporary differences expected to reverse before 2011 exceed the financial statement carrying amounts by approximately $14,108 (2006 – $9,309), reflecting future tax deductions in excess of future taxable amounts.

Future income taxes are comprised of the following amounts:

		2007		2006
Current future income tax assets	$	**1,064**	$	3,571
Non-current future income tax assets		**269**		473
Net future income tax asset	$	**1,333**	$	4,044

The future income tax asset relates to book and tax basis differences for assets and liabilities of the Fund and consists of the following:

		2007		2006
Accrued liabilities not currently deductible	$	**2,927**	$	3,286
Property, plant and equipment		**(147)**		(40)
Deductible goodwill and other assets		**(1,749)**		(389)
Deductible deferred financing costs		**94**		168
Debt prepayment penalty not currently deductible		**208**		1,019
Total future tax assets	$	**1,333**	$	4,044

The components of the provision for income taxes relating to continuing operations are as follows:

		2007		2006
Current	$	(487)	$	819
Future		2,416		2,573
Income tax expense	$	1,929	$	3,392

The provision for income taxes on earnings from continuing operations is comprised as follows:

		2007		2006
Combined statutory income tax rate		33.6%		34.4%
Expected income tax expense at statutory rates	$	24,834	$	25,723
Income of the Fund taxed directly to unitholders		(24,282)		(22,664)
Non-deductible expenses		354		335
Future tax related to changes in tax law and rates		1,246		–
Other		(223)		(2)
Income tax expense	$	1,929	$	3,392

10. EQUIPMENT NOTES PAYABLE

The Fund has a $15 million demand wholesale financing facility. The notes payable bear floating rates of interest at margins over Canadian dollar bankers' acceptance yields, are secured by the applicable equipment and are due in full when the applicable equipment is sold.

Interest on the equipment notes payable amounted to $106 (2006 – $178).

11. LONG-TERM DEBT

On March 30, 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 now consists of a $30 million non-revolving term portion and a $145 million revolving term portion. In addition, the maturity date was extended from June 7, 2008 to December 31, 2011 and the $0.5 million cost to amend the facility is amortized over the term of the facility. Borrowing capacity under the new bank credit facility is dependent upon the level of the Fund's inventories on hand and the outstanding trade accounts receivable. In addition, the bank credit facility contains restrictive covenants including restrictions on the payment of cash distributions and the maintenance of certain financial ratios, all of which were met as at December 31, 2007. The Fund will be restricted from the payment of monthly cash distributions in the event the Fund's ratio of debt to earnings before interest, taxes, depreciation and amortization (the "Leverage Ratio") exceeds three times. In addition, monthly cash distributions in each fiscal quarter may not exceed 115% of the distributable cash flow (as defined in the credit facility) for the trailing four fiscal quarters. Borrowings under the facility bear floating rates of interest at applicable margins over Canadian dollars bankers' acceptance yields, US dollar LIBOR rates or prime rates. The Fund entered into interest-rate swap hedge contracts with two of its lenders, such that in total the interest rate on the $30 million non-revolving term portion of the credit facility is fixed at effectively 3.47% plus applicable margins until expiry of the facility on June 7, 2008 and 4.6% plus applicable margins from June 7, 2008 to December 31, 2011. Margins depend on the Fund's Leverage Ratio at the time of borrowing and range between 0.75% and 2.50% for Canadian dollars bankers' acceptances and US dollar LIBOR borrowings, and nil% and 1.5% for prime rate borrowings. (See Note 12)

		2007		2006
Bank credit facility, repayable December 31, 2011				
Non-revolving term portion	$	30,000	$	30,000
Revolving term portion		25,000		30,000
		55,000		60,000
Deferred financing costs, net of accumulated amortization of $1,446 (2006 – $1,055)		(1,121)		(977)
Total long-term debt	$	53,879	$	59,023

The Fund had $3.8 million (2006 – $0.4 million) letters of credit outstanding at the end of the year.

Interest on long-term debt amounted to $4.9 million in 2007 (2006 – $4.5 million).

12. FINANCIAL INSTRUMENTS

The Fund's financial instruments consist of cash and cash equivalents and bank indebtedness, accounts receivable, accounts payable and accrued liabilities, equipment notes payable, long-term debt, interest rate swaps and foreign currency forward contracts. The carrying values reported in the balance sheet for financial instruments are not significantly different from their fair values.

Interest risk

The Fund is exposed to interest rate risk arising from fluctuations in interest rates.

The Fund has entered into interest-rate swap hedge contracts with two of its lenders such that, in total the interest rate on the $30 million non-revolving term portion of the facility is effectively fixed at 3.47% plus applicable margins until expiry of the facility on June 7, 2008. Margins depend on the Fund's Leverage Ratio and range between 0.75% and 2.50%. The differential the Fund would receive to hypothetically terminate or exchange the swap agreement in the prevailing market conditions is estimated to be $0.2 million (2006 – pay $0.3 million).

On May 9, 2007, the Fund entered into a delayed start interest rate swap 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 4.60% plus applicable margins. Margins depend on the Fund's Leverage Ratio and range between 0.75% and 2.50%. The delayed interest rate swap commences on June 7, 2008 until expiry of the facility on December 31, 2011. The differential the Fund would pay to hypothetically terminate or exchange the swap agreement in the prevailing market conditions is estimated to be $0.3 million.

Foreign currency forward contracts

The Fund enters into short-term foreign currency forward 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. These include contracts expiring between January 2008 and August 2008, with rates from US$0.9657 to US$1.116 and €1.3500 to €1.4970. As at December 31, 2007, the Fund had contracts outstanding to buy US$10.7 million and €1.2 million Euros (December 31, 2006 – to buy US$9.5 million and €0.3 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 (2006 – pay $0.3 million).

Credit risk

The Fund is exposed to credit risk with respect to its accounts receivable. However, this is somewhat minimized by the Fund's large customer base which covers many business sectors across Canada. The Fund follows a program of credit evaluations of customers and limits the amount of credit extended when deemed necessary. The Fund maintains provisions for possible credit losses, and any such losses to date have been within management's expectations.

13. DISCONTINUED OPERATIONS

On September 30, 2005, the assets of Spencer Industries ("Spencer"), the U.S. based operation of Industrial Components, were sold for cash proceeds of $19.2 million. For 2006, the gain from discontinued operations resulted from the reversal of certain reserves taken for estimated liabilities relating to the sale of Spencer. In particular, claims for health benefits related to terminated employees were lower than expected. 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 does not have a continuing involvement in the ongoing operations of Spencer.

14. DISTRIBUTIONS PAID

The Fund makes monthly cash distributions and 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.

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.

On December 31, 2007 a special non-cash distribution of $0.05 per unit, or $0.9 million, was paid by way of additional Fund units in order to distribute the Fund's non-taxable portion of its capital gains for the year. Immediately after the issuance of the additional units, the outstanding Fund units were consolidated such that the number of Fund units was unchanged from the number held immediately prior to the special non-cash distribution.

15. TRUST UNITS

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

	Number of Units	Amount
Balance December 31, 2005	16,582,530	$ 104,818
Plan rights exercised	2,676	53
Balance December 31, 2006	16,585,206	$ 104,871
Plan rights exercised	–	–
Balance December 31, 2007	**16,585,206**	**$ 104,871**

16. 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 for Senior Executives ("MTIP").

a) Unit Rights Plans

Under the UOP and the TDUP, rights are issued to the participants which, upon satisfaction of certain time vesting conditions, are settled by issuing Wajax Income Fund units. The rights are settled when the participant is no longer employed by Wajax or no longer sits on its board. The aggregate number of units issuable to satisfy entitlements under these plans may not exceed 1,000,000 units. Compensation expense is determined based upon the fair value of the rights at date of grant and charged to operations on a straight – line basis over the vesting period, with an offsetting adjustment to unitholders' equity. The Fund recorded compensation cost of $1,342 (2006 – $854) for the year in respect of these plans. At December 31, 2007, 83,229 (2006 – 70,217) rights were outstanding under the UOP and 53,068 (2006 – 34,986) rights were outstanding under the TDUP.

Unit Ownership Plan	2007 Number of Units	2006 Number of Units
Outstanding at beginning of year	**70,217**	63,040
Granted	**13,012**	7,177
Outstanding at end of year	**83,229**	70,217

Trustees' Deferred Unit Plan	2007 Number of Units	2006 Number of Units
Outstanding at beginning of year	**34,986**	26,939
Granted	**18,082**	10,723
Exercised	**–**	(2,676)
Outstanding at end of year	**53,068**	34,986

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

The MTIP, which is settled in cash, consists of an annual grant that vests over three years and is based upon time and performance vesting criteria, a portion of which is determined by the price of 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 $354 (2006 – $403) for the year in respect of the unit-based portion of the MTIP.

17. EARNINGS PER UNIT

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

	2007	2006
Numerator for basic and diluted earnings per unit:		
– net earnings from continuing operations	$ 71,970	$ 71,457
– net earnings	$ 71,970	$ 72,751
Denominator for basic earnings per unit – weighted average units	16,585,206	16,584,766
Denominator for diluted earnings per unit:		
– weighted average units	16,585,206	16,584,766
– effect of dilutive unit rights	120,359	95,162
Denominator for diluted earnings per unit	16,705,565	16,679,928
Basic earnings per unit from continuing operations	$ 4.34	$ 4.31
Diluted earnings per unit from continuing operations	$ 4.31	$ 4.28
Basic earnings per unit	$ 4.34	$ 4.39
Diluted earnings per unit	$ 4.31	$ 4.36

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

18. 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.

On March 22, 2006, the Fund's Industrial Components segment acquired all 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 recorded as goodwill. During the year, conditions were met such that $0.3 million dollars was paid out as per the Agreement of Purchase and Sale. In 2008, the Fund may have to pay up to a further $0.3 million to complete the transaction.

On April 28, 2006, the Fund's Industrial Components segment acquired all 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 the effective date.

The following is a summary of the purchase price allocations:

	2007	2006
Working capital	$ –	$ 7,118
Property, plant and equipment	–	627
Goodwill	322	895
Other intangible assets	–	1,200
Purchase price	322	9,840
Assumed debt	–	(446)
Total consideration given	322	9,394
Less: Holdbacks	–	(1,202)
Total cash paid	$ 322	$ 8,192

19. EMPLOYEES' PENSION PLANS

The Fund sponsors five pension plans: the Wajax Limited Pension Plan and the Wajax Pension Plan for Salaried Midwest Employees which, except for a small group of employees collecting long-term disability benefits and a small group of inactive members, have been converted to defined contribution plans ("DC"), the Wajax Pension Plan for Hourly Midwest Employees which is also a DC plan, and two defined benefit plans: the Pension Plan for Executive Employees of Wajax Limited and the Wajax Limited Supplementary Executive Retirement Plan.

The Fund uses actuarial reports prepared by independent actuaries for funding and accounting purposes and measures its accrued benefit obligations and the fair value of plan assets for accounting purposes as at December 31 of each year.

The most recent actuarial valuations of the pension plans for funding purposes were as of January 1, 2006, June 1, 2006, and January 1, 2007 and the next required valuations will be as of January 1, 2009, June 1, 2009 and January 1, 2010. The following significant actuarial assumptions were employed to determine the periodic pension income and the accrued benefit obligations:

	2007	2006
Expected long-term rate of return on plan assets	**7.0%**	6.0% – 7.0%
Discount rate – at beginning of year (to determine plan expenses)	**5.0%**	5.25%
Discount rate – at end of year (to determine accrued benefit obligation)	**5.25%**	5.0%
Rate of compensation increase	**3.0% – 3.5%**	3.0% – 5.0%
Estimated average remaining service life	**5 – 17 years**	4 – 14 years

Total cash payments

Total cash payments for employee future benefits for 2007, consisting of cash contributed by the Fund to its funded pension plans, cash payments directly to beneficiaries for its unfunded pension plans, and cash contributed to its defined contribution plans was $5,274 (2006 – $5,293).

The Fund's net plan expense is as follows:

	2007	2006
Defined contribution plans		
Current service cost	**$ 4,630**	$ 4,243
Defined benefit plans		
Current service cost	**454**	509
Interest cost	**767**	713
Actual return on plan assets	**(70)**	(1,072)
Actuarial (gain) loss	**(607)**	1,376
Difference between expected and actual return on plan assets	**(693)**	405
Difference between actuarial loss recognized for the year and actual actuarial loss (gain)	**987**	(829)
Amortization of transitional asset	**(111)**	(111)
Administration expenses	**65**	65
Net plan expense	**$ 5,422**	$ 5,299

Information about the Fund's defined benefit pension plans, in aggregate, is as follows:

Accrued benefit obligation	2007	2006
Accrued benefit obligation, beginning of year	**$ 15,642**	$ 13,944
Current service cost	**454**	509
Participant contributions	**52**	110
Interest cost	**767**	713
Actuarial (gain) loss	**(607)**	1,376
Benefits paid	**(1,200)**	(1,010)
Accrued benefit obligation, end of year	**$ 15,108**	$ 15,642

Plan assets	2007	2006
Fair value of plan assets, beginning of year	**$ 11,205**	$ 10,048
Actual return on plan assets	**70**	1,072
Participant contributions	**52**	110
Employer contributions	**644**	1,050
Benefits paid	**(1,200)**	(1,010)
Administration expenses	**(65)**	(65)
Fair value of plan assets, end of year	**$ 10,706**	$ 11,205

Plan assets for defined benefit plans are 100% invested in balanced pooled funds. Plan assets for the defined contribution plan are invested according to the directions of the plan members.

	2007	2006
Plan assets, end of year	**$ 10,706**	$ 11,205
Accrued benefit obligation, end of year	**(15,108)**	(15,642)
Funded status – plan deficit	**$ (4,402)**	$ (4,437)
Unamortized net actuarial losses	**3,493**	3,769
Unamortized past service costs	**2**	4
Unamortized net transitional asset	**(395)**	(506)
Accrued benefit liability	**$ (1,302)**	$ (1,170)

Total cash payments (continued)

The accrued benefit liability is included in the Fund's balance sheet as follows:

	2007	2006
Goodwill and other assets	$ 1,870	$ 1,856
Accounts payable and accrued liabilities	(93)	(249)
Long – term pension liability	(3,079)	(2,777)
Accrued benefit liability	$ (1,302)	$ (1,170)

Included in the aforementioned accrued benefit obligation and fair value of plan assets are the following amounts in respect of the benefit plans that are not fully funded:

	2007	2006
Accrued benefit obligation	$ (11,714)	$ (11,899)
Fair value of plan assets	7,087	7,261
Fund status – plan deficit	$ (4,627)	$ (4,638)

Accrued benefit obligation includes a benefit obligation of $3,164 (2006- $3,185) related to the Wajax Limited Supplemental Executive Retirement Plan that is not funded. This obligation is secured by a letter of credit of $3.4 million (2006 – Nil)

20. GAIN ON SALE OF PROPERTY, PLANT AND EQUIPMENT

On September 14, 2007, the Fund's Power Systems segment sold land, located in Edmonton, which was previously held for development, for proceeds of $5.5 million resulting in a gain of $2.4 million.

21. COMMITMENTS AND CONTINGENCIES

Operating leases

Undiscounted long-term lease commitments amount to $74.5 million (2006 – $89.3 million) over the remaining lease terms. The annual payments required under the lease agreements over the next five years and thereafter are as follows:

2008	$ 17,062
2009	12,692
2010	9,850
2011	7,695
2012	5,890
Thereafter	21,295
	$ 74,484

Guaranteed residual value and recourse contracts

The Fund has guaranteed the resale value of equipment sold ("guaranteed residual value contracts") and guaranteed a portion of a customer's lease payments ("recourse contracts"). These contracts are subject to certain conditions being met by the customer. As at December 31, 2007, the Fund had guaranteed $7.6 million (2006 – $9.1 million) of contracts, with commitments arising between 2008 and 2012. The commitments made by the Fund in these contracts reflect the estimated future value of the equipment, based on the judgment and experience of management. The Fund has recorded a $0.2 million provision in 2007 (2006 – $0.5 million) as an estimate of the financial exposure likely to result from such commitments.

Contingencies

In the ordinary course of business, the Fund is contingently liable for litigation in varying amounts and for which provisions have been made in these consolidated financial statements when the liability is determined to be likely and the amount can be reasonably estimated. These liabilities could arise from litigation, environmental matters or other sources. It is not possible to determine the amounts that may ultimately be assessed against the Fund, but management believes that any such amounts would not have a material impact on the business or financial position of the Fund.

In making this assessment, the Fund noted a Statement of Claim has been 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 would be unlikely to succeed. A statement of defense has been filed.

22. SEGMENTED INFORMATION

The Fund operates through a network of 103 branches in Canada. The Fund's three core businesses are: i) the distribution, modification and servicing of mobile equipment; ii) the distribution, servicing and assembly of industrial components; and iii) the distribution and servicing of power systems.

2007	Mobile Equipment	Industrial Components	Power Systems	Segment Eliminations and Unallocated Amounts	Total
Revenue from continuing operations	$ 627,570	$ 309,474	$ 258,386	$ (3,163)	$1,192,267
Segment earnings before interest and income taxes	$ 45,069	$ 20,003	$ 22,727	$ –	$ 87,799
Corporate costs and eliminations				(9,030)	(9,030)
Earnings from continuing operations before interest and income taxes					$ 78,769
Segment assets excluding goodwill and other intangible assets	$ 214,745	$ 97,290	$ 94,446	$ –	$ 406,481
Goodwill and other intangible assets	21,424	30,369	5,445	–	57,238
Corporate and other assets				3,324	3,324
Total assets	$ 236,169	$ 127,659	$ 99,891	$ 3,324	$ 467,043
Asset additions					
Rental equipment	$ 8,678	$ –	$ 769	$ –	$ 9,447
Property, plant and equipment	1,086	831	2,008	72	3,997
Goodwill and other intangible assets	–	322	–	–	322
	$ 9,764	$ 1,153	$ 2,777	$ 72	$ 13,766
Asset amortization					
Rental equipment	$ 4,390	$ –	$ 273	$ –	$ 4,663
Property, plant and equipment	1,375	1,513	1,494	160	4,542
Deferred financing and intangible assets	67	220	–	391	678
	$ 5,832	$ 1,733	$ 1,767	$ 551	$ 9,883

2006	Mobile Equipment	Industrial Components	Power Systems	Segment Eliminations and Unallocated Amounts	Total
Revenue from continuing operations	$ 619,214	$ 322,449	$ 267,711	$ (2,850)	$1,206,524
Segment earnings before interest and income taxes	$ 41,422	$ 20,677	$ 26,794	$ –	$ 88,893
Corporate costs and eliminations				(9,591)	(9,591)
Earnings from continuing operations before interest and income taxes					$ 79,302
Segment assets excluding goodwill and other intangible assets	$ 214,384	$ 106,782	$ 115,242	$ –	$ 436,408
Goodwill and other intangible assets	21,491	30,267	5,445	–	57,203
Corporate and other assets				6,722	6,722
Total assets	$ 235,875	$ 137,049	$ 120,687	$ 6,722	$ 500,333
Asset additions					
Rental equipment	$ 8,550	$ –	$ 456	$ –	$ 9,006
Property, plant and equipment	1,710	2,003	4,896	74	8,683
Goodwill and other intangible assets	200	1,895	–	–	2,095
	$ 10,460	$ 3,898	$ 5,352	$ 74	$ 19,784
Asset amortization					
Rental equipment	$ 4,123	$ –	$ 155	$ –	$ 4,278
Property, plant and equipment	1,223	1,775	1,391	285	4,674
Deferred financing and intangible assets	182	155	–	705	1,042
	$ 5,528	$ 1,930	$ 1,546	$ 990	$ 9,994

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

23. SUBSEQUENT EVENTS

On February 28, 2008 the Fund agreed to acquire the assets of Dan Greer Enterprises Limited (“Greer”), the JCB dealer in the Ontario area from Mississauga to Niagara Falls, including Hamilton, for approximately $2.2 million, subject to standard closing conditions. Greer has annual sales of approximately $7.0 million.

SUMMARY OF QUARTERLY DATA – UNAUDITED

(Dollars in millions, except per unit data)	Q1	Q2	Q3	2007 Q4	Q1	Q2	Q3	2006 Q4
Revenue from continuing operations	**$ 302.3**	**$ 319.1**	**$ 289.4**	**$ 281.5**	$ 303.2	$ 314.1	$ 294.7	$ 294.5
Net earnings from continuing operations	**18.7**	**15.0**	**19.6**	**18.6**	16.9	18.5	18.0	18.0
Earnings per unit from continuing operations – Basic	**$ 1.13**	**$ 0.91**	**$ 1.18**	**$ 1.12**	$ 1.02	$ 1.11	$ 1.09	$ 1.09
Earnings per unit from continuing operations – Diluted	**1.12**	**0.90**	**1.17**	**1.11**	1.02	1.11	1.08	1.08

ELEVEN YEAR SUMMARY – UNAUDITED

FOR THE YEARS ENDED DECEMBER 31 (Dollars in millions, except per unit data)

	2007	2006	2005	2004	2003	2002	2001	2000	1999	1998	1997
OPERATING RESULTS											
Revenue*	**$ 1,192.3**	$ 1,206.5	$ 1,049.4	$ 871.4	$ 884.0	$ 908.8	$ 1,047.6	$ 1,147.5	$ 1,038.4	$ 992.2	$ 947.4
Net earnings (loss)*	**72.0**	71.5	35.6	17.6	9.6	(25.8)	8.7	(9.7)	4.0	9.5	21.0
Interest expense	**4.9**	4.5	4.6	7.5	10.9	15.8	18.2	20.3	20.2	17.9	13.4
Cash flows before changes in non-cash working capital*	**85.1**	85.1	46.0	29.5	29.7	9.5	26.2	28.2	28.3	20.2	32.5
Property, plant and equipment – net	**4.0**	8.3	4.7	3.5	1.4	7.4	16.9	16.3	12.7	10.7	4.8
Rental equipment expenditures – net	**8.6**	7.9	6.2	5.4	6.6	1.2	0.8	3.3	2.8	13.6	9.0
Amortization	**9.9**	10.0	10.0	10.3	11.9	12.3	15.2	16.2	21.0	16.9	13.3
PER UNIT											
Net earnings (loss) – Basic*	**$ 4.34**	$ 4.31	$ 2.19	$ 1.12	$ 0.61	$ (1.64)	$ 0.55	$ (0.62)	$ 0.25	$ 0.60	$ 1.39
Dividends paid	**–**	–	0.14	0.16	–	–	–	–	–	–	–
Distributions paid	**4.36**	4.43	1.89	–	–	–	–	–	–	–	–
Equity	**11.94**	11.89	11.88	12.39	11.38	10.83	13.05	12.49	13.11	12.86	12.27
FINANCIAL POSITION											
Working capital*	**$ 146.2**	$ 147.8	$ 129.8	$ 153.0	$ 157.1	$ 155.0	$ 241.6	$ 264.6	$ 278.9	$ 292.0	$ 236.8
Rental equipment	**21.7**	18.9	17.2	16.4	16.2	14.5	11.3	14.5	28.2	33.7	23.5
Property, plant and equipment – net	**29.5**	33.3	29.0	28.8	31.9	37.4	64.2	55.1	46.5	42.7	34.1
Long-term debt excluding current portion	**53.9**	59.0	33.4	70.9	79.8	98.4	176.4	223.2	226.0	250.9	167.8
Unitholders' equity	**198.1**	197.2	197.1	195.0	178.7	170.0	204.8	196.1	205.8	201.8	191.7
Total assets*	**467.3**	500.6	437.9	418.1	409.7	442.0	554.5	623.2	617.5	644.4	527.3
OTHER INFORMATION											
Number of employees	**2,551**	2,566	2,387	2,357	2,279	2,308	2,601	2,804	2,692	2,717	2,341
Trust units outstanding (000's)	**16,585**	16,585	16,582	15,739	15,697	15,697	15,697	15,697	15,697	15,697	15,632
Price range of trust units											
High	**$ 37.95**	$ 47.00	$ 32.45	$ 14.90	$ 8.25	$ 7.25	$ 6.00	$ 5.75	$ 9.00	$ 22.00	$ 19.75
Low	**24.80**	24.60	13.00	7.70	3.10	3.76	4.00	3.25	4.60	7.65	13.50

* 2006, 2005 and 2004 exclude discontinued operations

CORPORATE INFORMATION

TRUSTEES AND DIRECTORS *

Paul E. Gagné
Chairman, Wajax Income Fund
Corporate Director

Edward M. Barrett [1,2]
Chairman and Co-Chief Executive Officer, Barrett Corporation

Ian A. Bourne [1]
Chairman, Ballard Power Systems, Inc.

Robert P. Dexter, Q.C. [2,3]
Chairman and Chief Executive Officer, Maritime Travel Inc.

Ivan E. H. Duvar [2]
Corporate Director

John C. Eby [1,3]
Corporate Director

JD Hole [2,3]
Chairman, Lockerbie & Hole Inc.

Neil D. Manning
President and Chief Executive Officer, Wajax Income Fund

Valerie A. A. Nielsen [1,3]
Corporate Director

Frank C. Sobey [3]
Chairman, Crombie Real Estate Investment Trust

Donald J. Taylor [1,2]
Corporate Director

1 Member of the Audit Committee of the Fund
2 Member of the Human Resources and Compensation Committee of Wajax Limited
3 Member of the Governance Committee of the Fund

(Committee memberships are shown as of March 1, 2008)

* The Boards of Wajax Income Fund and Wajax Limited consist of the same individuals except for Neil D. Manning who is not a Trustee of the Fund.

HONOURARY DIRECTOR

H. Gordon MacNeill

OFFICERS (WAJAX LIMITED)

Paul E. Gagné
Chairman

Neil D. Manning
President and Chief Executive Officer

John J. Hamilton
Senior Vice President and Chief Financial Officer

Gordon A. Duncan
Senior Vice President, Industrial Components

P. Mark Whitman
Senior Vice President, Mobile Equipment

Linda Corbett
Treasurer

Christopher J. Desjardins
General Counsel and Secretary

HEAD OFFICE

3280 Wharton Way
Mississauga, Ontario L4X 2C5
Telephone: (905) 212-3300
Fax: (905) 212-3350

UNITHOLDER INFORMATION

Transfer Agent and Registrar

For information relating to unitholdings, distributions, lost certificates, changes of address or estate transfers, please contact our transfer agent:

Computershare Trust Company of Canada
100 University Ave., 9th Floor
Toronto, ON M5J 2Y1
Telephone: (514) 982-7555 or 1-800-564-6253
Fax: (514) 982-7635 or 1-888-453-0330
E-mail: caregistryinfo@computershare.com

Auditors

KPMG LLP

Exchange Listing

Toronto Stock Exchange

Unit Symbol: WJX.UN

Wajax Income Fund Unit Trading Information

(January 1 – December 31, 2007)

Open	High	Low	Close	Volume of Units Traded
$33.51	$37.95	$24.80	$32.06	9,570,495

Quarterly Earnings Reports

Quarterly earnings for the balance of 2008 are anticipated to be announced on May 7, August 6 and November 7.

2008 Distribution Dates

Monthly distributions are payable to unitholders of record on the last business day of each month and are generally paid on the 20th day of the following month or the next following business day.

Investor Information

John Hamilton
Senior Vice President and Chief Financial Officer
Telephone: (905) 212-3300
Fax: (905) 624-6020
E-mail: ir@wajax.com

To obtain a delayed unit quote, read news releases, listen to the latest analysts' conference call, and stay abreast of other Fund news, visit our website at www.wajax.com.

Annual Meeting

Unitholders are invited to attend the Annual Meeting of Wajax Income Fund, to be held in the Port Credit North Room of The Waterside Inn, 15 Stavebank Road South, Mississauga, Ontario, Canada, on Wednesday, May 7, 2008, at 11:00 a.m.

Vous pouvez obtenir la version française de ce rapport en écrivant à la Secrétaire, Fonds de revenu Wajax, 3280 Wharton way, Mississauga, Ontario L4X 2C5

OPERATING UNITS AND BRANCH LISTINGS

OPERATING UNITS

Mobile Equipment

Wajax Industries
16745 – 111th Avenue
Edmonton, Alberta T5M 2S4
Mark Whitman,
Senior Vice President,
Mobile Equipment

Wajax Industries West
16745 – 111th Avenue
Edmonton, Alberta T5M 2S4
Brian Dyck, General Manager,
General Equipment, West
John Fitzpatrick,
General Manager,
Mining Division, West

Wajax Industries Ontario
811 Steeles Avenue
Milton, Ontario L9T 5H3
Roman Pankiw,
General Manager, Ontario

Wajax Industries East
1100 Norman Street
Lachine, Québec H8S 1A6
Sylvain Belisle,
General Manager, East

Power Systems

Waterous Power Systems
10025 – 51st Avenue
Edmonton, Alberta T6E 0A8
Terry Keefe, President

DD-ACE Power Systems
2997 rue Watt
Ste-Foy, Québec G1X 3W1
Gilbert Dumas, President

Industrial Components

Kinecor
2200 52nd Avenue
Lachine, Québec H8T 2Y3
Gordon Duncan, President

Kinecor West
1403 5th Street
Nisku, Alberta T9E 8C7
Barry Sutherby,
Vice President,
Western Region

Kinecor Central
1 Moyal Court
Concord, Ontario L4K 4R8
Richard Ayuen,
Vice President,
Central Region

Kinecor East
2200 52nd Avenue
Lachine, Québec H8T 2Y3
Francois Germain,
Vice President,
Eastern Region

BRANCH LISTINGS

Mobile Equipment

Wajax Industries West
Campbell River, BC
Kamloops, BC
Langley, BC
Nanaimo, BC
Prince George, BC
Sparwood, BC
Calgary, AB
Clairmont, AB
Edmonton, AB (2)
Fort McMurray, AB
Saskatoon, SK
Winnipeg, MB

Wajax Industries Ontario
Dryden, ON
London, ON
Milton, ON
Mississauga, ON (2)
Ottawa, ON
Sudbury, ON
Thunder Bay, ON
Timmins, ON
Windsor, ON

Wajax Industries East
Granby, QC
Lachine, QC
Quebec City, QC
St-Felicien, QC
Moncton, NB
Dartmouth, NS
Wabush, NF

Power Systems

Waterous Power Systems
Fort St. John, BC
Calgary, AB
Edmonton, AB
Fort McMurray, AB
Grande Prairie, AB
Red Deer, AB
Redcliff, AB
Regina, SK
Saskatoon, SK
Winnipeg, MB
Thunder Bay, ON

DD-ACE Power Systems
Dorval, QC
Saint Nicephore, QC
Ste-Foy, QC
Val d'Or, QC
Moncton, NB
Dartmouth, NS
Grand Falls, NF
Mount Pearl, NF

Industrial Components

Kinecor West
Prince George, BC
Surrey, BC
Calgary, AB (2)
Edmonton, AB
Nisku, AB
Regina, SK
Saskatoon, SK
Flin Flon, MB
Thompson, MB
Winnipeg, MB
Yellowknife, NW

Kinecor Central
Concord, ON
Espanola, ON
Guelph, ON
Hearst, ON
Kapuskasing, ON
London, ON
Marathon, ON
Mississauga, ON
North Bay, ON
Sarnia, ON
Sault Ste. Marie, ON
Stoney Creek, ON
Sudbury, ON
Thunder Bay, ON (2)
Timmins, ON
Windsor, ON
Temiscaming, QC

Kinecor East
Ottawa, ON
Chicoutimi, QC
Drummondville, QC
Granby, QC
Lachine, QC
Longueuil, QC
Noranda, QC
Quebec City, QC
Rimouski, QC
Sept Iles, QC
Sherbrooke, QC
Thetford Mines, QC
Tracy, QC
Trois Rivières, QC
Val d'Or, QC
Valleyfield, QC
Ville d'Anjou, QC
Bathurst, NB
Charlottetown, PEI
Dartmouth, NS
New Glasgow, NS
Port Hawkesbury, NS
Mount Pearl, NF
Wabush, NF

Wajax Income Fund

www.wajax.com