



FOURTH QUARTER

REPORT TO SHAREHOLDERS

For the Three Months Ended

December 31, 2002

WJAX 2002

**WJAX
LIMITED**

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Management's Discussion & Analysis

The following discussion should be read in conjunction with the Company's Quarterly Consolidated Financial Statements and accompanying Notes and the Company's Management's Discussion & Analysis for the first, second and third quarters of 2002 and the year ended December 31, 2001. Unless otherwise indicated, all financial information is in millions of dollars, except per share data.

Quarterly Results of Operations

Consolidated Results

for the three months ended December 31		2002		2001
Revenue	\$	223.2	\$	248.6
Net (loss) earnings before other items	\$	(0.8)	\$	0.7
Other items (after tax)	\$	(7.2)	\$	2.1
Net (loss) earnings	\$	(8.0)	\$	2.8
Earnings per share – Net (loss) earnings before other items	\$	(0.05)	\$	0.04
Other items (after tax)	\$	(0.46)	\$	0.13
Net (loss) earnings	\$	(0.51)	\$	0.17

for the year ended December 31		2002		2001
Revenue	\$	908.8	\$	1,047.6
Net (loss) earnings before other items	\$	(5.8)	\$	6.6
Other items (after tax)	\$	(20.0)	\$	2.1
Net (loss) earnings	\$	(25.8)	\$	8.7
Earnings per share – Net (loss) earnings before other items	\$	(0.37)	\$	0.42
Other items (after tax)	\$	(1.27)	\$	0.13
Net (loss) earnings	\$	(1.64)	\$	0.55

Revenue decreased \$25.4 million to \$223.2 million in the fourth quarter of 2002 from \$248.6 million in the fourth quarter of 2001. A net loss before other items of \$0.8 million, or \$0.05 per share in the fourth quarter of 2002, compared to net earnings before other items of \$0.7 million, or \$0.04 per share recorded the previous year. After other items, a net loss of \$8.0 million, or \$0.51 per share, was recorded in the fourth quarter of 2002 compared to net earnings of \$2.8 million, or \$0.17 per share in 2001.

The following factors contributed to the change in year-over-year quarterly results from operations before other items:

- Revenues decreased in Industrial Components and Diesel Engines mainly as a result of reduced economic activity in the oil and gas, forestry and industrial sectors throughout Canada and the western United States.
- Reductions in earnings were mostly attributable to the revenue shortfalls and reduced margins in Industrial Components as a result of strong price competition. Mobile Equipment earnings increased compared to 2001 on stable revenues after allowing for the effect of the sale of Pacific North Equipment Co. (“PNE”), the Company’s U.S. based Mobile Equipment business.
- The Company continued to strengthen its balance sheet as funded debt, net of cash, was reduced by \$24.1 million compared to September 30, 2002 and by \$61.4 million compared to last year. This resulted in a debt-to-equity ratio of 0.67:1 at December 31, 2002.
- The Company adopted the new Canadian Institute of Chartered Accountants (“CICA”) accounting standards for goodwill and other intangibles effective January 1, 2002.
 - Under the new standards the Company no longer amortizes goodwill. Goodwill amortization for the fourth quarter of 2001 was approximately \$0.8 million or \$0.05 per share (\$3.2 million or \$0.21 per share year to date).
 - During the quarter the Company completed the transitional impairment test as required under the new standards and concluded that impairment existed in the goodwill associated with Spencer Industries Inc. (“Spencer”), the U.S. based operations of the Industrial Components segment. As a result, the Company recorded a \$9.1 million charge directly to retained earnings, effective January 1, 2002, to reflect the impairment.

Other items totaling \$12.0 million of expense (\$7.2 million after tax or \$0.46 per share) were recorded in the fourth quarter of 2002 compared to \$3.7 million of income (\$2.1 million after tax or \$0.13 per share) recorded in the fourth quarter of 2001. The other items include the following:

- During the quarter the Company decided to abandon implementation of the enterprise resource planning (“ERP”) computer system in the Industrial Components segment. As a result, a pre-tax charge of \$5.5 million (\$3.4 million after tax) was taken in the quarter. This is in addition to \$20.0 million pre-tax (\$12.4 million after tax) recorded in the third quarter of 2002, when the decision was made to cancel implementation of the ERP computer system in the Company’s Mobile Equipment and Diesel Engines segments. As a result, the carrying value of the ERP system is \$2.9 million at December 31, 2002. Of the remaining costs, \$0.7 million relate to operations that will continue to use the system and will be amortized over the estimated period of use, ending in 2003.
- A \$3.0 million pre-tax charge (\$1.7 million after tax) recorded in the fourth quarter of 2002 represents a net provision for restructuring costs. This provision includes costs for streamlining the operations of the Industrial Components and Mobile Equipment segments, as well as other severance costs. These charges were offset by a \$0.5 million recovery of provisions on the sale of PNE on October 31, 2002. In 2001, the Company recorded a \$2.4 million pre-tax charge (\$1.4 million after tax) representing a provision for restructuring of the Industrial Components segment and information technology function related to the corporate office and Industrial Components.
- The Company incurred costs of \$3.5 million (\$2.1 million after tax) associated with the unwinding of \$30.5 million of fixed interest rate swaps in the fourth quarter. The fixed interest rate swaps were no longer required as a result of a reduction in the amount of the Company’s floating interest rate debt.

- In the fourth quarter of 2001, a \$6.1 million pre-tax pension income amount (\$3.5 million after tax) was recorded to reflect the expected positive settlement impact from revising the benefits payable under the Company-sponsored pension plan from a defined benefit basis to a defined contribution basis.

Interest expense in the fourth quarter was \$3.4 million compared to \$4.2 million the previous year. The \$0.8 million reduction was due to a decline of almost \$65.0 million in the average amount of funded debt outstanding during the quarter.

Income tax recoveries for the fourth quarter were approximately \$0.7 million lower than expected due to tax recoveries related to current year U.S. losses not recognized.

For the year ended December 31, 2002 revenues decreased to \$908.8 million from \$1,047.6 million in 2001 and a net loss before other items of \$5.8 million, or \$0.37 per share in 2002, compared to net earnings before other items of \$6.6 million, or \$0.42 per share recorded the previous year. After other items, a net loss of \$25.8 million, or \$1.64 per share, was recorded in 2002 compared to net earnings of \$8.7 million, or \$0.55 per share in 2001.

Mobile Equipment

for the three months ended December 31	2002		2001	
Gross revenue	\$	109.7	\$	121.2
Segment earnings before other items	\$	3.5	\$	2.1
Segment earnings	\$	3.3	\$	5.3
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for the year ended December 31	2002		2001	
Gross revenue	\$	454.2	\$	513.8
Segment earnings before other items	\$	10.7	\$	14.1
Segment earnings	\$	10.5	\$	17.2

Revenues decreased \$11.5 million (\$0.4 million excluding PNE) to \$109.7 million in the fourth quarter of 2002 from \$121.2 million in 2001. Segment earnings before other items increased \$1.4 million to \$3.5 million quarter-over-quarter. The 2002 other items relate to the \$0.7 million restructuring charge offset in part by the \$0.5 million PNE provision recovery, while the 2001 amount is \$3.1 million of the \$6.1 million pension income amount. After other items, earnings in the fourth quarter were \$3.3 million in 2002 compared to \$5.3 million in 2001.

The following factors contributed to the quarterly results before other items:

- Revenues in western Canada increased \$3.0 million through higher equipment sales in the material handling, construction and forestry markets, offset in part by declines in the aftermarket parts and service business due primarily to strong price competition compared to last year. Earnings, before allocation of head office costs, declined \$0.1 million quarter-over-quarter due to a higher proportion of lower margin equipment revenues compared to last year.

- In eastern Canada, revenues decreased \$3.4 million due primarily to the negative volume impact as a result of a slowdown and ensuing strong competition experienced in the forestry sector, and lower crane and utility volumes compared to last year. These revenue decreases were offset in part by higher parts sales and material handling rental fleet utilization. Earnings, before allocation of head office costs, increased \$0.5 million as the positive impact of a larger proportion of higher margin parts sales and lower selling and administrative expenses offset the negative impact of reduced equipment volumes. The \$0.8 million reduction in selling and administrative expenses included the elimination of \$0.3 million of goodwill amortization compared to last year.
- On October 31, 2002, the Company completed the sale of the PNE business to Modern Machinery Co., Inc., for net cash proceeds of approximately \$17.0 million. PNE's revenues declined \$11.1 million in the quarter to \$6.9 million from \$18.0 million in 2001. PNE's loss for the quarter, before allocation of head office costs, was \$0.1 million compared to \$0.4 million the previous year.
- In addition, segment earnings increased by \$0.8 million due to a reduction in the corporate head office cost allocation to this segment compared to last year.

For the year ended December 31, 2002, revenues decreased \$59.6 million to \$454.2 million and segment earnings declined \$6.7 million to \$10.5 million compared to \$17.2 million last year.

In the fourth quarter of 2002 the Company took steps to increase the profitability of the eastern Canada based Mobile Equipment operation. Workforce reductions and two branch closures will result in annual cost savings of approximately \$1.8 million in 2003. A \$0.7 million restructuring provision was taken in the quarter to effect the cost reductions.

Industrial Components

for the three months ended December 31	2002		2001	
Gross revenue	\$	68.7	\$	78.1
Segment (loss) before other items	\$	(4.7)	\$	(1.2)
Segment (loss) earnings	\$	(11.5)	\$	(1.6)

for the year ended December 31	2002		2001	
Gross revenue	\$	293.0	\$	340.3
Segment (loss) earnings before other items	\$	(11.1)	\$	0.1
Segment (loss) earnings	\$	(18.0)	\$	(0.3)

Revenues decreased \$9.4 million quarter-over-quarter to \$68.7 million from \$78.1 million. The segment loss before other items increased \$3.5 million in the quarter to \$4.7 million from \$1.2 million in the previous year. The 2002 other items includes the \$5.5 million ERP computer system write-off and a \$1.4 million restructuring provision, while the 2001 amount includes \$2.0 million of the \$6.1 million pension income amount offset by a restructuring provision of \$2.4 million. After other items, the segment loss increased to \$11.5 million from \$1.6 million.

The following factors contributed to the quarterly results before other items:

- Revenues declined \$2.3 million in the bearings business and \$7.1 million in the fluid power business due to a general economic downturn in the industrial and forestry sectors. In western Canada, service revenues were also negatively impacted by a slowdown in oil and gas exploration in Alberta.
- Earnings before other items decreased \$3.5 million quarter-over-quarter due to reduced volumes, lower margins in most regions as a result of strong price competition and lower volume rebates from manufacturers. These negative factors were offset in part by a \$0.7 million reduction in selling and administrative expenses that reflected headcount reductions and branch closures and a \$0.5 million reduction in goodwill amortization. Selling and administrative expenses also included \$0.4 million of one-time ERP related consulting costs and a \$0.8 million increase in the corporate head office cost allocation to this segment compared to last year.
- Revenues for the quarter from the Spencer operation, a U.S. based fluid power business, declined \$3.2 million to \$12.2 million in 2002 from \$15.4 million in 2001. Spencer's loss for the quarter, before allocation of head office costs, was \$2.5 million compared to \$2.0 million the previous year. (Revenues for the year declined \$17.3 million to \$56.5 million in 2002 from \$73.8 million in 2001. Spencer's loss for the year, before allocation of head office costs, was \$6.6 million compared to \$4.2 million the previous year.)

For the year ended December 31, 2002, revenue decreased \$47.3 million to \$293.0 million and the segment loss increased to a loss of \$18.0 million from \$0.3 million last year.

During the quarter the Company took steps to return the Industrial Components segment to profitability. Management reduced the workforce by approximately 10% during the fourth quarter of 2002. This workforce reduction of primarily administrative staff, along with cost savings from streamlining the operations, will yield annual cost savings of approximately \$6.0 million. A \$1.4 million restructuring provision was taken in the quarter to effect these cost reductions. In addition, given the significant loss in Spencer during the year, management is currently reviewing other restructuring options to further reduce its cost structure.

In early February 2003, the 10 Canadian Kinecor branches operating on the ERP computer system at year-end were successfully transitioned to the system currently installed in the bearings operation of Kinecor. The introduction of a common computing platform in Kinecor is expected to facilitate more efficient operations and result in improved customer service.

Diesel Engines

for the three months ended December 31	2002		2001	
Gross revenue	\$	45.7	\$	50.4
Segment earnings before other items	\$	5.1	\$	5.6
Segment earnings	\$	5.1	\$	6.5

for the year ended December 31	2002		2001	
Gross revenue	\$	166.9	\$	197.6
Segment earnings before other items	\$	15.9	\$	18.8
Segment earnings	\$	15.9	\$	19.7

Revenue decreased \$4.7 million to \$45.7 million in the fourth quarter of 2002 compared to \$50.4 million in 2001. Earnings before other items decreased to \$5.1 million in 2002 from \$5.6 million in 2001. The 2001 other items include \$0.9 million of the \$6.1 million pension income amount. After other items, earnings decreased to \$5.1 million from \$6.5 million.

The following events affected quarterly revenues and earnings:

- The Company's Waterous operation in Alberta continued to track lower than last year's record pace. Revenues declined \$5.8 million as a result of decreased equipment spending in the oil and gas sector compared to last year.
- Revenues at the Company's diesel engine business in Quebec and the Maritimes, Detroit Diesel Allison Canada East ("DD-ACE"), increased \$1.1 million quarter-over-quarter. Increases in parts sales with transit authorities were offset in part by declines in the Maritime marine equipment market compared to 2001.
- Segment earnings before other items declined \$0.5 million quarter-over-quarter due to the reduced volumes in the Waterous operation.

Waterous will be relocating its Calgary facility to a new 86,000 square foot building in March 2003. This new custom-built facility with additional service bays will allow Waterous to expand its service offering.

For the year ended December 31, 2002, revenues decreased \$30.7 million to \$166.9 million and earnings decreased \$3.8 million to \$15.9 million compared to last year.

Liquidity and Capital Resources

The Company generated \$24.1 million of cash before financing activities in the fourth quarter of 2002 compared to \$23.2 million in the fourth quarter of 2001.

Cash provided by operating activities amounted to \$23.8 million in the fourth quarter of 2002, net of \$2.1 million of cash used in operations. \$25.9 million was generated from reductions in non-cash

working capital before the impact of other items and changes in foreign currency translation rates. Significant components of the \$25.9 million decrease in working capital are as follows:

- Accounts receivable decreased by \$11.5 million due to decreased sales activity, improved collections and the sale of the PNE business (\$4.6 million).
- Inventory decreased by \$18.0 million due primarily to the sale of the PNE business (\$21.8 million), offset in part by mining equipment received before year-end in the western Canada based Mobile Equipment operation for a specific customer delivery in early 2003.
- Accounts payable and accrued liabilities increased by \$6.6 million due mainly to the year-end shipment of mining equipment referred to above, offset by a reduction due to the sale of the PNE business (\$6.0 million) during the quarter.
- Income taxes receivable decreased \$5.3 million partly due to income tax refunds received during the quarter.

The Company divested a net amount of capital assets of \$0.3 million during the fourth quarter of 2002. The most significant divestment was the sale of PNE's capital assets (\$0.7 million), offset in part by the investment of \$0.6 million in rental equipment additions.

For the year ended December 31, 2002 cash provided by operating activities amounted to \$69.9 million. This included cash from operating earnings of \$9.6 million and a decrease of \$60.4 million of working capital before the impact of other items and changes in foreign currency translation.

Working capital, exclusive of funded debt and cash, decreased \$28.6 million to \$176.0 million at December 31, 2002 from \$204.6 million at September 30, 2002. The decrease is due to the cash flow factors listed above and the decrease in the quarter-end foreign exchange rate compared to the September 30, 2002 rate.

The Company's debt to equity ratio decreased to 0.67:1 at December 31, 2002 compared to 0.74:1 at September 30, 2002 and 0.86:1 at December 31, 2001. This reflects a \$24.1 million reduction in funded debt, net of cash, during the quarter and a \$61.4 million reduction during the year.

The Company has recently amended the terms of its secured committed bank borrowing facility, which expires December 31, 2003. The \$50 million commitment level, which was reduced from \$180 million at December 31, 2001, is scheduled to decline to \$40 million at March 31, 2003, to \$25 million at June 30, 2003, to \$15 million at September 30, 2003 and must be fully repaid by December 31, 2003. In addition, borrowing capacity under the facility is dependent upon the level of the Company's inventories on hand and the outstanding trade accounts receivable. The bank facility bears floating interest rates at a margin over Canadian dollar and U.S. dollar bankers' acceptances. At December 31, 2002 the Company had utilized \$29.0 million, including \$4.0 million of letters of credit, of the \$50 million bank facility. It is expected that cash generated from operating activities during 2003 will provide sufficient cash flow to meet the Company's debt repayments and other short-term cash requirements. Management also expects to be able to enter into a new credit facility by the end of 2003 allowing for future growth requirements.

Net cash proceeds from the sale of PNE of approximately \$17.0 million were used to reduce funded debt.

No dividends on common shares were paid in the fourth quarter of 2002 or 2001. The Board of Directors periodically reviews its position on this matter.

Changes in Accounting Policy

Goodwill and intangible assets

Effective January 1, 2002, the Company adopted the CICA recommendations related to goodwill and other intangible assets and, accordingly, discontinued amortization of all existing goodwill on a prospective basis. Under the new recommendations, goodwill is tested at least annually for impairment, or more frequently if certain indicators arise. The impairment test is based on the Company's evaluation of each reporting unit's book value compared to its fair value, including a valuation based on discounted future cash flows and market valuations of similar businesses. The recommendations require that any goodwill impairment at January 1, 2002 be recorded as a charge against opening retained earnings.

With the adoption of this statement, the Company ceased amortization of goodwill as of January 1, 2002. Goodwill amortization for the quarter ended December 31, 2001 was \$0.8 million or \$0.05 per share (\$3.2 million or \$0.21 per share for the year ended December 31, 2001).

The Company has completed the transitional impairment test of its unamortized goodwill asset and concluded that impairment existed in the goodwill associated with the Industrial Components segment. As a result, a goodwill write-down of \$9.1 million was recorded directly to retained earnings, effective January 1st, 2002. This amount represents the total goodwill associated with Spencer, the Industrial Component segment's United States-based operations. The impairment test was based on the Company's evaluation of the operation's fair value, including a valuation of its discounted future cash flows and market valuations of similar businesses.

Stock-based compensation

Effective January 1, 2002, the Company adopted the new CICA recommendations related to stock-based compensation and other stock-based payments. This section establishes standards for the recognition, measurement and disclosure of stock-based compensation and other stock-based payments made in exchange of goods and services provided by employees and non-employees. The standard requires that a fair value based method of accounting be applied to all stock-based payments to non-employees and to employee awards that are direct awards of stock, that call for settlement in cash or other assets or are stock appreciation rights that call for settlement by the issuance of equity instruments. However, the new standard permits the Company to continue its existing policy of recording no compensation cost on the grant of stock options to employees with the addition of pro forma information.

During the quarter the Company issued 200,000 stock options (245,000 for the year). The company has not recorded any compensation cost on the grant of these stock options. There would be a reduction of net earnings by \$39 thousand for the quarter (\$43 thousand for the year) and a nominal reduction in earnings per share information had the Company accounted for employee stock options under the fair value method.

Risks and Uncertainties

Refer to the Management's Discussion and Analysis for the year ended December 31, 2001 included in the Company's 2001 Annual Report.

Outlook

In 2003, management will be committed to return Wajax to profitability and further strengthen its balance sheet. At the same time, the Company intends to move forward with the strategic priorities introduced in 2000: growing aftermarket sales and service capabilities, strengthening product offerings and improving its distribution network.

Management expects to strengthen the financial performance of Industrial Components through cost reductions, and improved margins and volumes. In addition, the introduction of a common computing platform will facilitate more efficient operations and an improved level of customer service. The division also intends to reduce working capital through better inventory control and tighter management of outstanding receivables.

Prudent asset management, expense control and expansion of aftermarket capabilities will continue to be priorities for Mobile Equipment in 2003. Mobile Equipment also intends to grow market share and opportunistically expand its quality product lines in the construction, material handling, forestry and mining sectors.

The company's Diesel Engines business is expected to continue to deliver solid results in 2003, while moving into its new state-of-the-art Calgary facility and expanding its product offering with the introduction of the Mercedes-Benz medium duty engine line.

While 2002 proved to be a very challenging year, management is confident that with the progress made to date, specifically in addressing the cost and asset base issues in Industrial Components and Mobile Equipment, 2003 will see a return to profitability. Other specific initiatives for 2003 to enhance margins and volumes and further reduce assets and debt are not dependent on substantial improvements in the economy. As a result, the anticipated earnings improvement for 2003 should provide a solid base for growth in subsequent years, particularly if economic activity gains momentum.

Forward-Looking Statements

This Management's Discussion and Analysis contains forward-looking information that involves assumptions and estimates that may not be realized and other risks and uncertainties. The inclusion of this information herein should not be regarded as a representation by the Company or any other person that the anticipated results will be achieved and investors are cautioned not to place undue reliance on such information.

WAJAX LIMITED
CONSOLIDATED BALANCE SHEETS
(unaudited)

(in thousands of dollars)	December 31 2002	December 31 2001
Current Assets		
Cash and cash equivalents	\$ 13,557	\$ 4,879
Accounts receivable	114,305	137,134
Inventories	184,050	245,253
Income taxes receivable	3,431	5,399
Future income taxes	7,845	9,569
Prepaid expenses and other recoverable amounts	7,797	3,575
	330,985	405,809
Non-Current Assets		
Rental equipment	9,581	11,325
Capital assets	37,355	64,226
Goodwill and other assets	56,555	67,939
Future income taxes	7,562	5,206
	111,053	148,696
	\$ 442,038	\$ 554,505
Current Liabilities		
Accounts payable and accrued liabilities	\$ 141,435	\$ 159,623
Current portion of long-term debt	29,580	4,235
	171,015	163,858
Non-Current Liabilities		
Future income taxes	2,680	9,373
Long term debt	98,373	176,448
	101,053	185,821
Shareholders' Equity		
Share capital	102,212	102,212
Retained earnings	67,758	102,614
	169,970	204,826
	\$ 442,038	\$ 554,505

WAJAX LIMITED
CONSOLIDATED STATEMENTS OF EARNINGS
AND RETAINED EARNINGS
(unaudited)

(in thousands of dollars, except per share data)	Three months ended December 31		Twelve months ended December 31	
	2002	2001	2002	2001
Revenue	\$ 223,208	\$ 248,589	\$ 908,789	\$ 1,047,564
Cost of sales	174,884	192,382	705,831	812,442
Gross profit	48,324	56,207	202,958	235,122
Selling and administrative expenses	44,336	49,750	187,460	202,190
Earnings before other items, interest & income taxes	3,988	6,457	15,498	32,932
Other items (Note 6)	(11,993)	3,743	(32,686)	3,743
(Loss) earnings before interest and income taxes	(8,005)	10,200	(17,188)	36,675
Interest	3,378	4,195	14,989	18,160
(Loss) earnings before income taxes	(11,383)	6,005	(32,177)	18,515
Income taxes – current	1,377	7,898	942	6,148
– future	(4,735)	(4,662)	(7,325)	3,665
Net (loss) earnings	\$ (8,025)	\$ 2,769	\$ (25,794)	\$ 8,702
Adjustment for goodwill impairment write-down	(9,062)	-	(9,062)	-
Retained earnings, end of period	\$ 67,758	\$ 102,614	\$ 67,758	\$ 102,614
Basic and diluted (loss) earnings per share (Note 3)	\$ (0.51)	\$ 0.17	\$ (1.64)	\$ 0.55
Number of common shares outstanding	15,696,960	15,696,960	15,696,960	15,696,960
Number of common share stock options outstanding	874,000	840,000	874,000	840,000

WAJAX LIMITED
CONSOLIDATED STATEMENTS OF CASH FLOWS
(unaudited)

(in thousands of dollars)	Three months ended December 31	
	2002	2001
OPERATING ACTIVITIES		
Net earnings	\$ (8,025)	\$ 2,769
Amortization		
- Rental equipment	576	670
- Capital assets	1,788	1,962
- Goodwill and deferred expenses	326	1,114
Future income taxes	(5,583)	4,657
Pension Expense	318	812
Other items	8,480	(3,743)
Cash flows before changes in non-cash working capital	(2,120)	8,241
Changes in non-cash working capital:		
Accounts receivable	11,466	8,957
Inventories	18,009	4,365
Prepaid expenses and other recoverable amounts	(2,282)	(226)
Accounts payable and accrued liabilities	(6,570)	7,243
Income taxes receivable	5,313	(1,301)
	25,936	19,038
Cash flows provided by operating activities	23,816	27,279
INVESTING ACTIVITIES		
Rental equipment additions	(638)	(300)
Rental equipment disposals	188	194
Capital asset additions	492	(4,713)
Proceeds on disposal of capital assets	247	727
	289	(4,092)
Cash flows before financing activities	24,105	23,187
FINANCING ACTIVITIES		
Increase in current bank indebtedness	25,000	-
Decrease in long-term debt	(46,085)	(18,569)
Repayment of debentures	(1,116)	(1,024)
	(22,201)	(19,593)
Cash flows before effect of foreign exchange	1,904	3,594
Effect of foreign exchange on translation adjustment	(205)	(223)
Net change in cash and cash equivalent	\$ 1,699	\$ 3,371
Cash and cash equivalent – beginning of period	\$ 11,858	\$ 1,508
Cash and cash equivalent – end of period	\$ 13,557	\$ 4,879
Cash provided by operating activities included the following:		
Interest paid	\$ 4,415	\$ 5,888
Income taxes received	\$ 2,941	\$ 614
Significant non-cash transaction:		
Rental equipment transferred to inventory	\$ 204	\$ 79

WAJAX LIMITED
CONSOLIDATED STATEMENTS OF CASH FLOWS
(unaudited)

(in thousands of dollars)	Year ended December 31	
	2002	2001
OPERATING ACTIVITIES		
Net earnings	\$ (25,794)	\$ 8,702
Amortization		
- Rental equipment	2,315	3,039
- Capital assets	8,999	8,116
- Goodwill and deferred expenses	950	4,036
Future income taxes	(7,519)	3,857
Pension expense	2,120	2,178
Other items	28,479	(3,743)
Cash flows before changes in non-cash working capital	9,550	26,185
Changes in non-cash working capital:		
Accounts receivable	22,609	29,667
Inventories	61,128	43,221
Prepaid expenses and other recoverable amounts	(4,300)	785
Accounts payable and accrued liabilities	(21,008)	(40,410)
Income taxes receivable	1,940	(7,989)
	60,369	25,274
Cash flows provided by operating activities	69,919	51,459
INVESTING ACTIVITIES		
Rental equipment additions	(1,808)	(3,927)
Rental equipment disposals	633	3,166
Capital asset additions	(8,980)	(18,137)
Proceeds on disposal of capital assets	1,629	1,279
	(8,526)	(17,619)
Cash flows before financing activities	61,393	33,840
FINANCING ACTIVITIES		
Increase in current bank indebtedness	25,000	-
Decrease in long-term debt	(74,492)	(47,955)
Repayment of debentures	(3,544)	(3,229)
	(53,036)	(51,184)
Cash flows before effect of foreign exchange	8,357	(17,344)
Effect of foreign exchange on translation adjustment	321	(356)
Net change in cash and cash equivalent	\$ 8,678	\$ (17,700)
Cash and cash equivalent – beginning of period	\$ 4,879	\$ 22,579
Cash and cash equivalent – end of period	\$ 13,557	\$ 4,879
Cash provided by operating activities included the following:		
Interest paid	\$ 14,439	\$ 16,222
Income taxes (received) paid	\$ (1,026)	\$ 13,790
Significant non-cash transaction:		
Rental equipment transferred to inventory	\$ 605	\$ 2,362

WAJAX LIMITED
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2002 and 2001
(Tabulated in thousands of dollars)
(unaudited)

Note 1 Significant Accounting Policies

The accounting policies used in the preparation of these unaudited interim consolidated financial statements conform with those used in the Company's annual consolidated financial statements, except for the changes noted below (see Note 2).

These interim consolidated financial statements do not include all of the disclosures included in the Company's annual consolidated financial statements. Accordingly, these unaudited interim financial statements should be read in conjunction with the Company's annual consolidated financial statements as at and for the year ended December 31, 2001.

Note 2 Change in accounting policy

a. Goodwill

Effective January 1, 2002, the Company adopted the Canadian Institute of Chartered Accountants (CICA) recommendations related to goodwill and other intangible assets and, accordingly, discontinued amortization of all existing goodwill on a prospective basis. Under the new recommendations, goodwill is tested at least annually for impairment, or more frequently if certain indicators arise. The impairment test is based on the Company's evaluation of each reporting unit's book value compared to its fair value, including a valuation based on discounted future cash flows and market valuations of similar businesses. The recommendations require that any goodwill impairment at January 1, 2002 be recorded as a charge against opening retained earnings.

With the adoption of this recommendation, the Company ceased amortization of goodwill as of January 1, 2002. The following tables present the effect on fiscal 2001 had the Company retroactively adopted the change in accounting policy of not amortizing goodwill:

	For the quarter ended	
	December 31 2002	2001
Reported net (loss) income	\$ (8,025)	\$ 2,769
Add back: Goodwill amortization	-	802
Adjusted net (loss) income	\$ (8,025)	\$ 3,571
Basic earnings per share		
Reported net (loss) income	\$ (0.51)	\$ 0.17
Add back: Goodwill amortization	-	0.05
Adjusted net (loss) income	\$ (0.51)	\$ 0.22
Diluted earnings per share		
Reported net (loss) income	\$ (0.51)	\$ 0.17
Add back: Goodwill amortization	-	0.05
Adjusted net (loss) income	\$ (0.51)	\$ 0.22

	For the year ended	
	December 31	
	2002	2001
Reported net (loss) income	\$ (25,794)	\$ 8,702
Add back: Goodwill amortization	-	3,182
Adjusted net (loss) income	\$ (25,794)	\$ 11,884
 Basic earnings per share		
Reported net (loss) income	\$ (1.64)	\$ 0.55
Add back: Goodwill amortization	-	0.21
Adjusted net (loss) income	\$ (1.64)	\$ 0.76
 Diluted earnings per share		
Reported net (loss) income	\$ (1.64)	\$ 0.55
Add back: Goodwill amortization	-	0.21
Adjusted net (loss) income	\$ (1.64)	\$ 0.76

The Company has completed the transitional impairment test of its unamortized goodwill asset and concluded that impairment existed in the goodwill associated with the Industrial Components segment. As a result, a goodwill write-down of \$9.1 million was recorded directly to retained earnings, effective January 1st, 2002. This amount represents the total goodwill associated with the Industrial Component segment's United States-based operations (Spencer Industries, Inc.). The impairment test was based on the Company's evaluation of the operation's fair value, including a valuation of its discounted future cash flows and market valuations of similar businesses.

b. Stock-based Compensation

Effective January 1, 2002, the Company adopted the new CICA recommendations related to stock-based compensation and other stock-based payments. This section establishes standards for the recognition, measurement and disclosure of stock-based compensation and other stock-based payments made in exchange of goods and services provided by employees and non-employees. The standard requires that a fair value-based method of accounting be applied to all stock-based payments to non-employees and to employee awards that are direct awards of stock, that call for settlement in cash or other assets or are stock appreciation rights that call for settlement by the issuance of equity instruments. However, the new standard permits the Company to continue its existing policy of recording no compensation cost on the grant of stock options to employees with the addition of pro forma information.

The Company issued 200,000 stock options during the quarter (245,000 options during the year). The Company has not recorded any compensation cost on the grant of these stock options. There would be a reduction of net earnings of \$39 thousand for the quarter (\$43 thousand for the year) and a nominal reduction in earnings per share if the Company had accounted for employee stock options under the fair value method.

Note 3 Earnings per Share

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

Quarter	2002		2001	
Numerator for basic and diluted earnings per share – net (loss) income	\$	(8,025)	\$	2,769
Denominator for basic earnings per share – weighted average shares		15,696,960		15,696,960
Denominator for diluted earnings per share:				
– weighted average shares		15,696,960		15,696,960
– effect of dilutive employee stock options		-		75,325
Denominator for diluted earnings per share		15,696,960		15,772,285
Basic (loss) earnings per share	\$	(0.51)	\$	0.17
Diluted (loss) earnings per share	\$	(0.51)	\$	0.17

Year	2002		2001	
Numerator for basic and diluted earnings per share – net (loss) income	\$	(25,794)	\$	8,702
Denominator for basic earnings per share – weighted average shares		15,696,960		15,696,960
Denominator for diluted earnings per share:				
– weighted average shares		15,696,960		15,696,960
– effect of dilutive employee stock options		-		101,445
Denominator for diluted earnings per share		15,696,960		15,798,405
Basic (loss) earnings per share	\$	(1.64)	\$	0.55
Diluted (loss) earnings per share	\$	(1.64)	\$	0.55

Excluded from the above calculations are 874,000 (2001 – 424,400) outstanding stock options with an exercise price range of \$3.80-\$17.25 (2001 - \$6.70-\$17.25) as they are currently anti-dilutive. These securities could potentially dilute earnings per share in future periods.

Note 4 Common Share Options

During the year, the Company cancelled employee stock options to purchase 211,000 shares with a weighted-average exercise price of \$5.12 and weighted average remaining life of 7.09 years as of December 31, 2001. Of this amount, 32,000 options were exercisable as of December 31, 2001 with a weighted-average exercise price of \$9.68. In addition, during the year, 245,000 options were issued with a weighted-average exercise price of \$4.41 and a weighted average life of 5.92 years at issuance.

Note 5 Segmented Information

(in thousands of dollars)

Industry Segments

For the quarter ended December 31

2002	Mobile Equipment	Industrial Components	Diesel Engines	Segment Eliminations and Unallocated Amounts	Total
Revenue	\$ 109,726	\$ 68,682	\$ 45,681	\$ (881)	\$ 223,208
Segment earnings (loss) before other items, interest and taxes	\$ 3,516	\$ (4,673)	\$ 5,145	\$ -	\$ 3,988
Other items (See Note 6)	(185)	(6,873)	-	(4,935)	(11,993)
Segment earnings (loss) before interest and taxes	\$ 3,331	\$ (11,546)	\$ 5,145	\$ (4,935)	\$ (8,005)
2001	Mobile Equipment	Industrial Components	Diesel Engines	Segment Eliminations and Unallocated Amounts	Total
Revenue	\$ 121,214	\$ 78,059	\$ 50,427	\$ (1,111)	\$ 248,589
Segment earnings (loss) before other items, interest and taxes	2,089	\$ (1,201)	\$ 5,569	\$ -	\$ 6,457
Other items (See Note 6)	3,162	(359)	940	-	3,743
Segment earnings (loss) before interest and taxes	\$ 5,251	\$ (1,560)	\$ 6,509	\$ -	\$ 10,200

For the year ended December 31

2002	Mobile Equipment	Industrial Components	Diesel Engines	Segment Eliminations and Unallocated Amounts	Total
Revenue	\$ 454,204	\$ 292,969	\$ 166,863	\$ (5,246)	\$ 908,789
Segment earnings (loss) before other items, interest and taxes	\$ 10,691	\$ (11,138)	\$ 15,946	\$ (1)	\$ 15,498
Other items (See Note 6)	(185)	(6,873)	-	(25,628)	(32,686)
Segment earnings (loss) before interest and taxes	\$ 10,506	\$ (18,011)	\$ 15,946	\$ (25,629)	\$ (17,188)
 2001	 Mobile Equipment	 Industrial Components	 Diesel Engines	 Segment Eliminations and Unallocated Amounts	 Total
Revenue	\$ 513,778	\$ 340,284	\$ 197,598	\$ (4,096)	\$ 1,047,564
Segment earnings before other items, interest and taxes	\$ 14,076	\$ 103	\$ 18,753	\$ -	\$ 32,932
Other items (See Note 6)	3,162	(359)	940	-	3,743
Segment earnings (loss) before interest and taxes	\$ 17,238	\$ (256)	\$ 19,693	\$ -	\$ 36,675

Interest expense and income taxes are not allocated to business segments. All other corporate expenses are allocated based on net working capital.

Note 6 Other Items

During the quarter the Company decided to abandon the implementation of the enterprise resource planning (“ERP”) computer system. As a result, a \$5.5 million charge was recorded in the fourth quarter. This is in addition to a charge recorded in the third quarter of 2002 relating to the decision not to deploy the ERP computer system into the Company’s Mobile Equipment and Diesel Engine segments. As a result, the carrying value of the ERP computer system is \$2.9 million at December 31, 2002. Of the remaining costs, \$0.7 million relate to operations that will continue to use the system and will be amortized over the estimated period of use, ending in 2003.

The Company also recorded a charge in the fourth quarter, representing a provision for restructuring costs. This provision includes costs for streamlining the operations of the Industrial Components and Mobile Equipment segments, as well as other severance costs. These charges were offset by a small recovery of the provision taken in 2000 for the disposal of the Company’s Pacific North Equipment operations, which closed on October 31, 2002.

The Company made make-whole payments to unwind \$40.5 million of interest rate swaps throughout fiscal 2002. Since these swaps were terminated with the underlying debt being extinguished, the make-whole payments were charged to income.

In 2001, the Company recorded pension income which reflected the positive settlement impact from revising the benefits payable under the Company-sponsored pension plan from a defined benefit basis to a defined contribution basis. In addition, the Company recorded a charge in the fourth quarter of 2001 representing a provision for restructuring of the Industrial Components segment and the information technology (“IT”) function related to the corporate office and Industrial Components. This provision included costs for severances as a result of streamlining the management structure, closing a number of under-performing branches and integrating the IT functions of the corporate office with the operating units.

For the quarter ended December 31

2002		Pre-tax	Tax	After Tax
ERP computer system	\$	5,437	\$(2,077)	\$ 3,360
Net restructuring costs		3,043	(1,389)	1,654
Swap unwind costs		3,513	(1,360)	2,153
Total Other Items	\$	11,993	\$(4,826)	\$ 7,167

For the year ended December 31

2002		Pre-tax	Tax	After Tax
ERP computer system	\$	25,436	\$(9,717)	\$ 15,719
Net restructuring costs		3,043	(1,389)	1,654
Swap unwind costs		4,207	(1,628)	2,579
Total Other Items	\$	32,686	\$(12,734)	\$ 19,952

For the quarter & year ended December 31

2001		Pre-tax	Tax	After Tax
Pension income	\$	(6,053)	\$ 2,550	\$ (3,503)
Net restructuring costs		2,310	(934)	1,376
Total Other Items	\$	(3,743)	\$ 1,616	\$ (2,127)

Note 7 Comparative information

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



Wajax Limited
Head Office
3280 Wharton Way
Mississauga, Ontario
Canada L4X 2C5

Web Site: www.wajax.com

Tel #: (905) 212-3300
Fax #: (905) 212-3350