



FIRST QUARTER

REPORT TO SHAREHOLDERS

For the Three Months Ended

March 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 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 March 31	2002	2001
Revenue	\$214.2	\$271.4
Net (loss) earnings	(\$1.0)	\$1.3
(Loss) earnings per share	(\$0.07)	\$0.08

Revenues decreased \$57.2 million to \$214.2 million in the first quarter of 2002 from \$271.4 million in the first quarter of 2001. A net loss of \$1.0 million, or \$0.07 per share, was recorded in the first quarter of 2002 compared to net earnings of \$1.3 million, or \$0.08 per share recorded the previous year.

The following factors contributed to the year-over-year quarterly results from operations:

- In western Canada, the Diesel Engines and Industrial Component's businesses experienced the negative effects of the recent slowdown in Alberta oil exploration activity. In addition, Mobile Equipment revenues were impacted by the relinquishment of a major construction product line.
- The eastern Canada and United States based businesses continued to experience the effect of the economic downturn in the industrial, forestry and mining sectors.
- The Company continued to focus on working capital management during the quarter. Funded debt, net of cash, decreased \$14.9 million compared to December 31, 2001 and \$59.2 million compared to March 31, 2001. As a result, the Company's quarter-end debt to equity ratio of 0.79:1 was improved from last year's ratio of 1.11:1.
- Commencing in the first quarter of 2002 the Company adopted the new accounting standard for goodwill and other intangibles. Under the new standard the Company no longer amortizes goodwill. Goodwill amortization in the first quarter of 2001 was approximately \$0.8 million or \$0.05 per share.
- Cost cutting measures taken by the Company in late 2001 and early 2002 resulted in a \$2.2 million reduction in selling and administrative expenses, net of goodwill amortization.

Interest expense decreased \$0.8 million quarter-over-quarter. This resulted from a \$47.9 million reduction in the average amount of funded debt outstanding during the quarter compared to last year.

Income tax expense for the quarter ending March 31, 2002 was \$0.9 million. The effective income tax rate decreased to 46% in the first quarter of 2002 compared to 50% in 2001. The decrease is due primarily due to the elimination of goodwill amortization, the majority of which was not deductible for tax purposes, and the 1% Canadian federal income tax rate reduction.

Mobile Equipment

for the three months ended March 31	2002	2001
Gross revenue	\$95.4	\$137.0
Segment (loss) earnings	(\$0.6)	\$3.0

Revenues decreased \$41.6 million to \$95.4 million in the first quarter of 2002 from \$137.0 million in 2001. Segment earnings decreased \$3.6 million to a \$0.6 million loss in the first quarter of 2002 from earnings of \$3.0 million in the previous year. The following events contributed to these results:

- Revenues in western Canada decreased \$23.3 million compared to last year. This is due primarily to a significant mining equipment package sale to a large Alberta-based customer last year, relinquishment of a major construction product line and a decline in the forestry market due to the United States imposition of softwood lumber duties. These decreases were offset in part by increased mining parts and service revenues.
- Revenues in eastern Canada decreased \$15.4 million compared to last year. This was due to lower crane and utility equipment sales, reduced materials handling equipment sales as a result of a slowdown in the automotive industry and lower parts sales due to mine shutdowns. In addition, the Company continued to experience a decline in forestry equipment sales as warmer winter weather and the uncertainty surrounding the softwood lumber dispute with the United States resulted in a significant market decline. These revenue decreases were offset in part by increased service volumes in both materials handling and crane and utility.
- Earnings in Canada decreased primarily as a result of the negative volume variances described above and reduced margins on new equipment sales due to the competitive marketplace. These decreases were offset in part by a \$1.0 million reduction in selling and administration expenses. These reductions reflect a lower headcount and elimination of \$0.3 million of goodwill amortization compared to last year.
- Revenues from the Pacific North Equipment (“PNE”) operation declined to \$13.4 million in the first quarter of 2002 from \$16.4 million in 2001 due to the continued slowdown in the Pacific Northwest marketplace. However, the PNE operating loss for the quarter, before allocation of head office costs, decreased to \$1.3 million from \$1.7 million due to improved margins, closure of the Medford, Oregon branch in mid 2001 and other cost reductions. The Company continues to pursue the disposition of PNE.

Industrial Components

for the three months ended March 31	2002	2001
Gross revenue	\$78.8	\$88.2
Segment (loss) earnings	(\$0.9)	\$0.5

Revenue decreased \$9.4 million to \$78.8 million in the first quarter of 2002 from \$88.8 million in 2001. Segment earnings decreased to a loss of \$0.9 million compared to earnings of \$0.5 million the previous year. The following factors contributed to the quarterly results:

- Revenues in the bearings business decreased due to a reduction in forestry related business, a slowdown in eastern Canada mining activity and the closure of several unprofitable branches.
- Revenue in the hydraulics and process pump business in Canada decreased due to the effect of the softwood lumber dispute with the United States, the continued slowdown in the manufacturing sector and the recent decline in oil exploration activity in Alberta. These revenue declines were offset in part by increases in service revenues in western Canada.

- Revenue decreases in the United States as a result of weakness in all sectors, were offset in part by increases in the U.S. dollar compared to last year.
- Earnings decreased \$1.4 million quarter over quarter. A volume related earnings decline was somewhat mitigated by decreased selling and administrative expenses resulting from overall headcount reductions and branch closures and elimination of \$0.5 million of goodwill amortization.

The second installation of the J.D. Edwards enterprise resource planning (“ERP”) computer system is planned for the second quarter of 2002.

During the quarter, Kinacor secured eastern Canada distribution rights of the full Eaton-Vickers product line in addition to the existing distribution rights held by Spencer Industries in the United States. This is part of Kinacor’s strategy to provide a broader product line to existing customers through its extensive branch network.

Diesel Engines

for the three months ended March 31	2002	2001
Gross revenue	\$41.3	\$46.9
Segment earnings	\$3.5	\$3.8

Revenue decreased \$5.6 million to \$41.3 million in the first quarter of 2002 compared to \$46.9 million in 2001. Earnings declined slightly to \$3.5 million from \$3.8 million in 2001. The following events affected revenues and earnings:

- Revenues and earnings at the Company’s Waterous operation in Alberta were negatively affected by the recent decline in oil exploration activity. New equipment sales declined over 40% but were offset in part by positive gains in parts and service revenues.
- Revenues from the Company’s Quebec and Maritimes operation were slightly ahead of 2001. Reductions in new engine sales, as a result of the slowdown in economic activity, were more than offset by a 13.2% increase in parts and service revenues.
- Segment earnings decreased due to lower volumes offset in part by the increase in higher margin parts and service volumes in the quarter compared to last year.

Liquidity and Capital Resources

The Company generated \$14.9 million of cash before financing activities in the first quarter of 2002. Cash flows from earnings and reductions in working capital more than offset net capital asset additions and net rental equipment additions.

Cash provided by operating activities amounted to \$17.4 million in the first quarter of 2002 with \$2.2 million of this amount coming from operating earnings. The remaining \$15.2 million was generated from changes in non-cash working capital, before changes in foreign currency translation rates.

Significant components are as follows:

- Accounts receivable decreased by \$3.3 million due to decreased revenues.
- Inventory decreased by \$10.0 million due to reductions in all segments as the businesses continue to reduce their working capital requirements.
- Prepaid expenses increased by \$2.0 million due primarily to advance payments to suppliers related to PNE’s operations in Magadan, Russia.

- Accounts payable and accrued liabilities increased by \$6.1 million due to an increase in customer deposits.
- Income taxes receivable increased by \$2.1 million due to 2002 tax installments exceeding the current quarters taxes payable.

The Company invested \$2.5 million of the cash provided by operating activities into operations. The most significant investing activity was \$3.2 million in capital asset additions, including \$2.1 million for ERP implementation costs. In addition, proceeds on disposal of assets of \$1.0 million in the quarter is mostly accounted for by the sale of land and building of PNE's Fairbanks, Alaska branch which was closed in 2001.

Working capital, exclusive of funded debt and cash, decreased \$14.9 million to \$226.4 million at March 31, 2002 from \$241.3 million at December 31, 2001. The decrease is due to the positive cash flow factors listed above.

The Company's debt-to-equity ratio decreased to 0.79:1 at March 31, 2002 compared to 0.86:1 at December 31, 2001. Compared to March 31, 2001, the debt-to-equity ratio decreased from 1.11:1 to 0.79:1 which reflects a \$59.2 million reduction in funded debt, net of cash.

As at March 31, 2002 the Company had no changes in its unsecured credit facilities in place since December 31, 2001.

At March 31, 2002 the Company had adequate unused committed borrowing facilities available, which management believes will meet any near-term borrowing needs.

No dividends on common shares were paid in the first quarter of 2002 or 2001. The Board of Directors reviews its position on this matter on a quarterly basis.

Changes in Accounting Policy

Goodwill and intangible assets

Effective January 1, 2002, the Company adopted the Canadian Institute of Chartered Accountants ("CICA") recommendations related to goodwill and intangible assets. Under the new recommendations, goodwill is no longer amortized, but reviewed for impairment annually, or more frequently if certain indicators arise. The Company is required to complete the initial step of a transitional impairment test within six months of adoption of the recommendation, and to complete the final step of the impairment test by the end of the fiscal year. Any impairment loss resulting from the transitional impairment test will be recorded as a cumulative effect of a change in accounting policy and charge directly to retained earnings effective January 1, 2002.

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

The Company is currently in the process of completing the first step of the two-step process prescribed by the CICA. The Company plans to complete the transitional goodwill evaluation in the second quarter of 2002.

Stock-based compensation

Effective January 1, 2002, the Company adopted the new CICA handbook section 3870 related to stock-based compensation and other share-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. The new standard permits the Company to continue to follow its existing policy of recording no compensation cost on the grant of stock options to employees.

No share options have been granted subsequent to December 31, 2001, and, as such, no pro-forma disclosure of the effect of accounting for these awards under the fair value based method is provided.

Risks and Uncertainties

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

Outlook

While year-to-date revenues and earnings have been disappointing, the Company is confident that recent signs of increased economic activity in certain of its markets will lead to improved sales and a return to profitability for the balance of the fiscal year. The Company continues to make meaningful progress in reducing its overall indebtedness and the cost reduction programs outlined last year are on target. As a result of this revenue softness and uncertainty over the strength of the anticipated economic recovery, the Company no longer believes that full year earnings for 2002 will exceed 2001 earnings before other items.

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)	March 31 2002	December 31 2001	March 31 2001
Current Assets			
Cash	\$ 11,633	\$ 4,879	\$ 3,872
Accounts receivable	133,835	137,134	172,757
Inventories	235,565	245,253	289,279
Prepaid expenses	5,605	3,575	3,924
Income taxes receivable	7,533	5,399	4,963
Future income taxes	9,569	9,569	9,250
	403,740	405,809	484,045
Non-Current Assets			
Rental equipment	10,737	11,325	14,676
Capital assets	64,705	64,226	56,775
Goodwill and other assets	67,028	67,939	65,319
Future income taxes	5,206	5,206	2,809
	147,676	148,696	139,579
	\$ 551,416	\$ 554,505	\$ 623,624
Current Liabilities			
Accounts payable and accrued liabilities	\$ 165,748	\$ 159,623	\$ 199,398
Current portion of long-term debt	4,307	4,235	3,294
	170,055	163,858	202,692
Non-Current Liabilities			
Future income taxes	9,373	9,373	2,880
Long-term debt	168,209	176,448	220,635
	177,582	185,821	223,515
Shareholders' Equity			
Share capital	102,212	102,212	102,212
Retained earnings	101,567	102,614	95,205
	203,779	204,826	197,417
	\$ 551,416	\$ 554,505	\$ 623,624

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

(in thousands of dollars, except per share data)	Three months ended March 31	
	2002	2001
Revenue	\$ 214,225	\$ 271,386
Cost of sales	163,911	212,779
Gross profit	50,314	58,607
Selling and administrative expenses	48,296	51,314
Earnings before interest and income tax	2,018	7,293
Interest expense	3,956	4,707
(Loss) earnings before income taxes	(1,938)	2,586
Income taxes - current	(891)	1,293
Net (loss) earnings	(1,047)	1,293
Retained earnings, beginning of period	102,614	93,912
Retained earnings, end of period	\$ 101,567	\$ 95,205
Basic (loss) earnings per share	\$ (0.07)	\$ 0.08
Diluted (loss) earnings per share	\$ (0.07)	\$ 0.08
Number of common shares outstanding	15,696,960	15,696,960
Number of common share options outstanding	733,000	990,400

WAJAX LIMITED
CONSOLIDATED STATEMENTS OF CASH FLOWS
(unaudited)

(in thousands of dollars)	Three months ended March 31	
	2002	2001
OPERATING ACTIVITIES		
Net (loss) earnings	\$ (1,047)	\$ 1,293
Items not affecting cash flows:		
Amortization		
- Rental equipment	563	928
- Capital assets	1,687	1,955
- Deferred expenses	191	173
- Goodwill	-	793
Pension expense	788	682
Cash flows before changes in non-cash working capital	2,182	5,824
Changes in non-cash working capital:		
Accounts receivable	3,306	(6,033)
Inventories	9,973	(3,222)
Prepaid expenses	(2,030)	418
Accounts payable and accrued liabilities	6,134	3,992
Income taxes receivable	(2,135)	(7,559)
	15,248	(12,404)
Cash flows provided by (used in) operating activities	17,430	(6,580)
INVESTING ACTIVITIES		
Rental equipment additions	(383)	(1,374)
Rental equipment disposals	157	210
Capital asset additions	(3,225)	(3,490)
Proceeds on disposal of capital assets	922	175
	(2,529)	(4,479)
Cash flows before financing activities	14,901	(11,059)
FINANCING ACTIVITIES		
Decrease in long-term debt	(7,605)	(8,404)
Repayment of debentures	(662)	(596)
	(8,267)	(9,000)
Cash flows before effect of foreign exchange	6,634	(20,059)
Effect of foreign exchange on translation adjustment	120	1,352
Net change in cash and cash equivalents	\$ 6,754	\$ (18,707)
Cash and cash equivalents – beginning of period	\$ 4,879	\$ 22,579
Cash and cash equivalents – end of period	\$ 11,633	\$ 3,872
Cash flows provided by operating activities include the following:		
Interest paid	\$ 2,261	\$ 3,109
Income taxes paid	\$ 1,579	\$ 8,751
Significant non-cash transaction:		
Rental equipment transferred to inventory	\$ 251	\$ 187

Certain 2001 figures have been reclassified to conform to the presentation adopted in 2002.

WAJAX LIMITED
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(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 intangible assets. Under the new recommendations, goodwill is no longer amortized, but reviewed for impairment annually, or more frequently if certain indicators arise. The Company is required to complete the initial step of a transitional impairment test within six months of adoption of the recommendation, and to complete the final step of the impairment test by the end of the fiscal year. Any impairment loss resulting from the transitional impairment test will be recorded as a cumulative effect of a change in accounting policy and charged directly to retained earnings effective January 1, 2002.

With the adoption of this statement, the Company ceased amortization of goodwill as of January 1, 2002. The following table presents the quarterly results of the Company on a comparable basis:

	For the three months ended March 31	
	2002	2001
Reported net (loss) income	\$ (1,047)	\$ 1,293
Add back: Goodwill amortization	-	752
Adjusted net (loss) income	(1,047)	2,045
Basic earnings per share		
Reported net (loss) income	\$ (0.07)	\$ 0.08
Add back: Goodwill amortization	-	0.05
Adjusted net (loss) income	(0.07)	0.13
Diluted earnings per share		
Reported net (loss) income	\$ (0.07)	\$ 0.08
Add back: Goodwill amortization	-	0.05
Adjusted net (loss) income	(0.07)	0.13

The Company is currently in the process of completing the first step of the two-step process prescribed by the CICA. The Company plans to complete the transitional goodwill evaluation in the second quarter of 2002.

b. Stock-based Compensation

Effective January 1, 2002, the Company adopted the new CICA handbook section 3870 related to stock-based compensation and other share-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. The new standard permits the Company to continue to follow its existing policy of recording no compensation cost on the grant of stock options to employees.

No share options have been granted subsequent to December 31, 2001, and, as such, no pro-forma disclosure of the effect of accounting for these awards under the fair value based method is provided.

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):

	2002	2001
Numerator for basic and diluted earnings per share – net (loss) income	\$ (1,047)	\$ 1,293
Denominator for basic earnings per share – weighted average shares	15,697	15,697
Denominator for diluted earnings per share:		
– weighted average shares	15,697	15,697
– effect of dilutive employee stock options	113	71
Denominator for diluted earnings per share	15,810	15,768
Basic (loss) earnings per share	\$ (0.07)	\$ 0.08
Diluted (loss) earnings per share	\$ (0.07)	\$ 0.08

Note 4 Common Share Options

During the quarter, the Company cancelled employee stock options to purchase 107,000 shares with a weighted-average exercise price of \$6.41 and weighted average remaining life of 7.59 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. No stock options were issued during the quarter.

Note 5 Segmented Information

(in thousands of dollars)

For the three months ended March 31

2002	Mobile Equipment	Industrial Components	Diesel Engines	Segment Eliminations	Total
Revenue	\$ 95,381	\$ 78,771	\$ 41,289	\$ (1,216)	\$ 214,225
Segment earnings	\$ (591)	\$ (902)	\$ 3,511	\$ -	\$ 2,018
Earnings before interest and income taxes				\$	\$ 2,018

2001	Mobile Equipment	Industrial Components	Diesel Engines	Segment Eliminations	Total
Revenue	\$ 137,008	\$ 88,210	\$ 46,908	\$ (740)	\$ 271,386
Segment earnings	\$ 3,015	\$ 530	\$ 3,748	\$ -	\$ 7,293
Earnings before interest and income taxes				\$	\$ 7,293

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



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