



FOURTH QUARTER
REPORT TO SHAREHOLDERS
For the Three Months Ended
December 31, 2003

WJAX 2003

**WJAX
LIMITED**



Management's Discussion and 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 and Analysis for the first, second and third quarters of 2003 and the year ended December 31, 2002. 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	2003	2002
Gross revenue	\$230.9	\$223.2
Net earnings (loss) before other items *	\$3.4	(\$2.9)
Other items (after tax)	-	(\$5.1)
Net earnings (loss)	\$3.4	(\$8.0)
Earnings per share – Net earnings (loss) before others items *	\$0.22	(\$0.18)
Other items (after tax)	-	(\$0.33)
Net earnings (loss)	\$0.22	(\$0.51)

for the twelve months ended December 31	2003	2002
Gross revenue	\$884.0	\$908.8
Net earnings (loss) before other items *	\$9.6	(\$8.4)
Other items (after tax)	-	(\$17.4)
Net earnings (loss)	\$9.6	(\$25.8)
Earnings per share – Net earnings (loss) before other items *	\$0.61	(\$0.53)
Other items (after tax)	-	(\$1.11)
Net earnings (loss)	\$0.61	(\$1.64)

* Non-GAAP measure, see the Non-GAAP Measures section.

Revenues increased \$7.7 million to \$230.9 million in the fourth quarter of 2003 from \$223.2 million in the fourth quarter of 2002. Excluding the revenues from Pacific North Equipment Co. ("PNE"), the U.S. mobile equipment operation sold in October 2002, revenues increased \$14.6 million. Earnings before the other items increased \$6.3 million to \$3.4 million, or \$0.22 per share in the fourth quarter of 2003, compared to a net loss of \$2.9 million, or \$0.18 per share recorded the previous year. After other items, fourth quarter earnings of \$3.4 million compared to a net loss of \$8.0 million, or \$0.51 per share in 2002. For the year ended December 31, 2003 revenue decreased \$24.8 million to \$884.0 million and net earnings increased to \$9.6 million from a net loss of \$25.8 million the previous year.

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

- Mobile Equipment revenues and earnings improved compared to last year due primarily to the increased revenues in Canada. (The 2002 fourth quarter results included PNE revenues of \$6.9 million and a loss of \$0.1 million.)
- Although revenues declined in the Industrial Components segment, earnings before other items improved \$4.3 million due to reductions in selling and administrative expenses and increased margins.
- Diesel Engines revenues remained flat quarter-over-quarter, however earnings declined principally as a result of lower margins and higher occupancy costs at the new facility in Calgary.
- Consolidated selling and administrative expenses declined \$7.6 million from the fourth quarter of 2002 due to cost reduction measures taken by the Company in late 2002 and early 2003, the sale of PNE (\$1.6 million) and lower corporate costs due mainly to lower fees associated with the unwinding of fixed interest rate swaps compared to last year. The fees associated with the unwinding of the fixed interest rate swaps were shown in other items in 2002 and reclassified to selling and administrative expenses in 2003.
- Interest expense decreased \$1.3 million quarter-over-quarter due mainly to a \$65.9 million reduction in the average amount of funded debt outstanding during the quarter compared to last year.
- The Company's debt, net of cash, decreased \$43.5 million compared to September 30, 2003 and \$75.7 million compared to December 31, 2002. As a result, the Company's year-end debt to equity ratio of 0.22:1 was improved from last year's ratio of 0.67:1.
- The Company's effective tax rate of 49.5% for the quarter ending December 31, 2003 was higher than the statutory tax rate of approximately 35.9% due principally to expenses not deductible for tax purposes and large corporations tax. (The tax recovery for the year ending December 31, 2002 was approximately \$0.7 million lower than expected due to the write off of a portion of future income tax balances pertaining to U.S. operations.)
- In the fourth quarter of 2002, other items totaling \$8.5 million of expense (\$5.1 million after tax or \$0.33 per share) were recorded including: a pre-tax charge of \$5.5 million (\$3.4 million after tax) for the writedown of a computer system and a \$3.0 million pre-tax charge (\$1.7 million after tax) representing a net provision for restructuring costs.

A quarterly dividend of \$0.04 per share will be paid in the first quarter of 2004 and quarterly thereafter when approved and declared by the Board of Directors. The Board of Directors may modify its dividend payment policy at any time.

Mobile Equipment

for the three months ended December 31	2003	2002
Gross revenue	\$117.2	\$109.7
Segment earnings	\$5.2	\$4.3
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for the twelve months ended December 31	2003	2002
Gross revenue	\$438.9	\$454.2
Segment earnings	\$18.3	\$13.5

Revenues increased \$7.5 million to \$117.2 million in the fourth quarter of 2003 from \$109.7 million in 2002. Excluding PNE, revenues increased \$14.4 million or 14.0% for the period. Segment earnings before other items increased \$0.9 million to \$5.2 million in the fourth quarter of 2003 from \$4.3 million in 2002. For the year ended December 31, 2003, revenues decreased \$15.3 million to \$438.9 million and segment earnings increased \$4.8 million to \$18.3 million compared to \$13.5 million last year. Excluding PNE, revenues for the year ended December 31, 2003 increased \$48.9 million or 12.5%.

The following factors contributed to the fourth quarter results:

- Revenues in western Canada decreased \$2.4 million in the quarter. Equipment volumes declined due primarily to a multi-unit forklift sale and a large mining package sale in 2002, offset in part by an increase in parts and service volumes compared to last year. Parts and service revenues increased 14.1% due to targeted revenue building initiatives which included the major rebuilds of large mining machines during the quarter. Earnings from this operation increased \$0.5 million quarter-over-quarter as higher margins resulting from the increased parts and service volumes and lower selling and administration costs more than offset the negative impact of lower equipment revenues.
- In eastern Canada, revenues increased \$16.8 million quarter-over-quarter. In particular, equipment revenues in the crane and utility sector increased \$10.2 million due mainly to the sale and rental of aerial equipment to provincial hydro utilities. The sale of a large Le Tourneau loader to a Quebec based mine contributed to a \$5.0 million increase in mining equipment revenues. Material handling equipment revenues increased \$3.0 million and construction and forestry equipment revenues remained flat quarter-over-quarter. Parts and service revenues decreased \$1.4 million compared to last year. Earnings increased \$0.3 million due to the additional volumes, offset in part by a margin decrease of 2.2 percentage points and an increase in selling and administrative expenses compared to last year. The lower margin resulted from a higher percentage of total revenues being derived from lower margin equipment sales and a \$1.0 million increase in the used equipment obsolescence provision.
- Results for the fourth quarter of 2002 included the PNE operation which recorded revenues of \$6.9 million and a loss of \$0.1 million.

Industrial Components

for the three months ended December 31	2003	2002
Canada - Kinacor	\$57.5	\$56.7
United States – Spencer	\$11.2	\$12.2
Gross revenue	\$68.7	\$68.9
Canada - Kinacor	\$1.1	(\$1.7)
United States – Spencer	(\$0.9)	(\$2.4)
Segment earnings (loss)	\$0.2	(\$4.1)

for the twelve months ended December 31	2003	2002
Canada - Kinecor	\$229.0	\$236.5
United States – Spencer	\$51.1	\$56.5
Gross revenue	\$280.1	\$293.0
Canada - Kinecor	\$4.2	(\$2.6)
United States – Spencer	(\$2.9)	(\$6.5)
Segment (loss) earnings	\$1.3	(\$9.1)

Revenues decreased \$0.2 million in the fourth quarter to \$68.7 million from \$68.9 million. However, segment earnings increased \$4.3 million in the quarter to \$0.2 million from a loss of \$4.1 million in 2002. For the year ended December 31, 2003, revenue decreased \$12.9 million to \$280.1 million and segment earnings increased \$10.4 million to \$1.3 million compared to last year.

The following factors contributed to the fourth quarter results:

- Revenues in Kinecor increased \$0.8 million to \$57.5 million. Hydraulic parts and service revenues increased \$1.4 million due to strong results in the western Canada oil and gas sector offset in part by lower volumes in eastern and central Canada as a result of reduced activities in the steel and forestry markets. Bearing and power transmission revenues declined \$0.4 million in western Canada compared to last year.
- Kinecor's earnings increased \$2.8 million to \$1.1 million due to increased volumes, improved margins and lower selling and administrative costs. The margin increase of 3.2 percentage points was achieved through increased supplier rebates compared to last year, the positive impact of the stronger Canadian dollar on U.S. dollar purchases and charges in 2002 related to the ERP computer system conversion. Selling and administrative expenses declined by \$0.6 million in 2003. This positive variance resulted from \$1.0 million of one-time costs incurred in 2002 related to the ERP computer system implementation that was subsequently abandoned in Kinecor and a \$0.4 million gain on the sale of surplus property in Alberta, offset in part by \$0.5 million of bad debt expense and other cost increases compared to last year.
- Revenues in Spencer, a U.S. based hydraulics business, decreased \$1.0 million to \$11.2 million compared to \$12.2 million in 2002 due to the decrease in the value of the U.S. dollar. On a U.S. dollar basis, revenues increased \$1.1 million compared to last year as increases in parts sales and mining service revenues more than offset the negative impact of closing four branches in the first quarter of 2003. The loss for the quarter decreased \$1.5 million to \$0.9 million compared to a loss of \$2.4 million last year due principally to increased margins and decreased selling and administrative expenses resulting from an overall head count reduction and branch closures.

During 2003 Kinecor acquired the assets of P.M.D.F. Hydraulique, a Quebec based hydraulic distributor with expertise in sourcing quality offshore products, for \$1.0 million. This acquisition is part of the segment's initiative to build its revenue through the marketing of high quality off-shore sourced products through the new Hy-Spec Hydraulik division of Kinecor.

Diesel Engines

for the three months ended December 31	2003	2002
Gross revenue	\$45.7	\$45.7
Segment earnings	\$5.1	\$5.4

for the twelve months ended December 31	2003	2002
Gross revenue	\$166.9	\$166.9
Segment earnings	\$15.7	\$16.9

Revenue for the quarter remained unchanged at \$45.7 million and earnings declined \$0.3 million to \$5.1 million. For the year ended December 31, 2003, revenues remained unchanged at \$166.9 million and earnings decreased \$1.2 million to \$15.7 million compared to last year. The following events affected quarterly revenue and earnings:

- Revenues at the Waterous operation in Alberta were \$3.0 million ahead of 2002 resulting from improved equipment sales which included a large offshore equipment sale.
- Revenues from the Company's Quebec and Maritimes operation, Detroit Diesel-Allison Canada East, decreased \$3.0 million due principally to lower parts volumes compared to last year.
- Segment earnings decreased \$0.3 million as a result of higher selling and administrative expenses relating to increased occupancy costs for the new Calgary facility compared to last year.

Non-GAAP Measures

To supplement the Consolidated Financial Statements, Wajax uses non-GAAP measures that do not have standardized meaning prescribed by Canadian GAAP and are therefore unlikely to be comparable to similar measures used by other companies. These non-GAAP measures are Net Earnings Before Other Items and Net Earnings Per Share Before Other Items. Management believes the non-GAAP financial measures are useful to investors because they include meaningful information used by management to assess the financial performance of the Company.

A reconciliation between reported Net Earnings and Net Earnings Before Other Items, and Net Earnings Per Share and Net Earnings Per Share Before Other Items, is detailed in the Results of Operations section above.

Liquidity and Capital Resources

The Company generated \$40.2 million of cash before financing activities in the fourth quarter of 2003 compared to \$24.1 million in the fourth quarter of 2002. For the year ended December 31, 2003 cash flow before financing activities amounted to \$68.2 million compared to \$61.4 million in 2002.

Cash provided by operating activities amounted to \$42.8 million in the fourth quarter of 2003, with \$10.5 million of this amount coming from operating earnings. The remaining \$32.3 million was generated from reductions in non-cash working capital before the impact of changes in foreign

currency translation rates. Significant components of the \$32.3 million decrease in working capital are described as follows:

- Accounts receivable decreased \$5.9 million due to improved collections.
- Inventory declined \$18.1 million compared to the last quarter. Reductions in the eastern Canada Mobile Equipment division resulted from the sale of used equipment and aerial equipment to provincial hydro utilities. In addition, inventory in Waterous declined due to a large offshore equipment sale during the quarter.
- Accounts payable and accrued liabilities increased by \$8.5 million due primarily to an amount due in early 2004 for a large piece of mining equipment sold during the quarter.

Working capital, exclusive of funded debt and cash, decreased \$35.8 million to \$117.1 million at December 31, 2003 from \$152.9 million at September 30, 2003. 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, 2003 rate.

For the year ended December 31, 2003 cash provided by operating activities amounted to \$77.2 million. This included cash from operating earnings of \$29.6 million and a decrease of \$47.6 million of working capital before the impact of changes in foreign currency translation.

The Company invested a net amount of \$2.6 million of the cash provided by operating activities into operations during the fourth quarter of 2003. The most significant investing activities were \$1.3 million of lift truck rental fleet additions in Mobile Equipment, \$1.8 million of capital additions and \$1.0 million for the acquisition of the assets of the Hy-Spec Hydraulik business by Industrial Components in December of 2003.

Debt, net of cash, decreased \$75.7 million compared to December 31, 2002. Of this decrease, \$14.3 million resulted from the translation of the U.S. senior notes into Canadian dollars at a lower exchange rate compared to last year.

During the quarter, the Company entered into a new \$20 million 364-day revolving secured committed bank borrowing facility, which expires December 18, 2004. 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, 2003 the Company had utilized \$4.0 million (represented entirely by letters of credit) of the \$20 million bank facility. It is expected that the cash on-hand of \$45.4 million at year-end along with the \$20 million bank facility and cash generated from earnings and working capital reductions during 2004 will provide sufficient cash flow to meet the Company's short-term cash requirements and long-term growth initiatives.

The Mobile Equipment segment had possession of \$38.8 million of consigned inventory from a major manufacturer at December 31, 2003 compared to \$31.6 million the previous year. This inventory is not included in the Company's inventory as the manufacturer has title to the inventory.

The Company enters into hedges of its foreign currency exposures on a portion of its U.S. dollar-denominated senior notes by entering into offsetting U.S. dollar forward contracts. On June 30, 2003

the Company entered into a short-term foreign currency forward contract to buy \$30 million U.S dollars on March 30, 2004 to offset the effect of foreign exchange gains or losses on the portion of its U.S dollar-denominated senior notes that does not form a part of the hedge against the Company's investment in its self-sustaining U.S. operations. The differential the Company would have paid to hypothetically terminate the forward contract at December 31, 2003 is estimated at \$2.7 million and is recorded as a liability in accounts payable and accrued liabilities.

In the first quarter of 2004, the Company will pay a dividend of \$0.04 per share and quarterly thereafter subject to the approval and declaration by the Board of Directors each quarter. The Board of Directors and management periodically review dividend policy taking into consideration the Company's earnings sustainability, future financial requirements and general economic conditions. No dividends on common shares were paid in 2003 or 2002.

Changes in Accounting Policy

Guarantees

Effective January 1, 2003, the Company adopted the Canadian Institute of Chartered Accountants ("CICA") new Accounting Guideline ACG-14, which requires certain disclosures of guarantees. The Company's annual consolidated financial statements for the year ended December 31, 2002 disclose the existence of guarantees provided by the Company. As at December 31, 2003, the Company had guaranteed \$4.7 million (December 31, 2002 - \$3.5 million) for guaranteed residual value contracts and provided the option to customers for buy-back contracts in the amount of \$1.1 million (December 31, 2002 - \$0.6 million), with commitments arising between 2004 and 2009. The commitments made by the Company in these contracts reflect the estimated future value of the equipment, based on the judgment and experience of management. The Company has recorded a provision of \$0.4 million (December 31, 2002 - nil) as an estimate of financial exposure likely to result from such commitments.

Employee Stock Options

Effective January 1, 2003, the Company has adopted the fair value based method of accounting for employee stock options on a prospective basis in accordance with CICA Handbook section 3870. Accordingly, the fair value of options at the date of grant is calculated and charged to operations, with an offsetting adjustment to contributed surplus on a straight-line basis over the vesting period. In 2002, the Company accounted for employee stock options using the intrinsic value method and accordingly did not record a compensation cost, but instead provided pro forma information, in accordance with the CICA recommendation.

Risks and Uncertainties

In the ordinary course of business, the Company may be exposed to contingent liabilities in varying amounts and for which provisions have been made in these Consolidated Financial Statements as appropriate. 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 Company, but management believes that any such amounts would not have a material impact on the business or financial position of the Company.

In making this assessment, the Company has been made aware of potential claims that may be advanced by a group of former and current employees arising 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 administrative expenses from the pension fund. No claim has been served on the Company. However, based on very limited communications with the group and its representative, the Company has evaluated the claims it anticipates could be articulated and believes such claims would be unlikely to succeed.

Refer to the Management's Discussion & Analysis for the year ended December 31, 2002 included in the Company's 2002 Annual Report for other risks and uncertainties.

Outlook

In 2003, the Company met its profitability and cash flow objectives. Going forward management expects to improve upon the Company's financial performance and has formulated specific initiatives in each core business supporting this goal.

Industrial Components is the segment that management believes has significant opportunity for growth over the next several years. Kinacor's strategic plan calls for an increase in revenues from capturing additional market share, building the mobile hydraulics business and targeting several new major contract customers. Of equal importance is to increase margins through price matrices, vendor consolidation and offshore procurement while at the same time maintaining a tight control over the segment's cost and asset base. We expect continued improvement in Spencer in 2004.

In Mobile Equipment, expanding market share in the construction and material handling sectors along with securing representation of quality products to complement the Hitachi excavator line are key initiatives to revenue growth for 2004. In addition, continued expansion of aftermarket capabilities, prudent asset management and expense control will continue to be priorities.

The Company's Diesel Engines business is expected to continue to deliver solid results in 2004, while capitalizing on its new facilities in Calgary and Moncton and the introduction of complementary product lines.

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 2003	December 31 2002
Current Assets		
Cash and cash equivalents	\$ 45,395	\$ 13,557
Accounts receivable	106,027	114,305
Inventories	143,682	179,112
Income taxes receivable	-	3,431
Future income taxes	6,257	7,845
Prepaid expenses and other recoverable amounts	2,353	7,797
	303,714	326,047
Non-Current Assets		
Rental equipment	16,205	14,519
Capital assets	31,855	37,355
Goodwill and other assets	53,137	56,555
Future income taxes	2,772	7,562
	103,969	115,991
	\$ 407,683	\$ 442,038
Current Liabilities		
Accounts payable and accrued liabilities	\$ 139,879	\$ 141,435
Income taxes payable	1,348	-
Current portion of long-term debt	4,267	29,580
	145,494	171,015
Non-Current Liabilities		
Future income taxes	2,745	2,680
Long term debt	79,838	98,373
	82,583	101,053
Shareholders' Equity		
Share capital	102,212	102,212
Contributed surplus	63	-
Retained earnings	77,331	67,758
	179,606	169,970
	\$ 407,683	\$ 442,038

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

(in thousands of dollars, except per share data)	Three months ended December 31		Year ended December 31	
	2003	2002	2003	2002
Revenue	\$ 230,905	\$ 223,208	\$ 883,967	\$ 908,789
Cost of sales	181,787	174,884	688,927	705,831
Gross profit	49,118	48,324	195,040	202,958
Selling and administrative expenses	39,959	47,566	166,348	190,887
Other items	-	(8,480)	-	(28,479)
Earnings (loss) before interest and income taxes	9,159	(7,722)	28,692	(16,408)
Interest	2,368	3,661	10,858	15,769
Earnings (loss) before income taxes	6,791	(11,383)	17,834	(32,177)
Income taxes – current	(171)	1,377	2,560	942
– future	3,532	(4,735)	5,701	(7,325)
Net earnings (loss)	\$ 3,430	\$ (8,025)	\$ 9,573	\$ (25,794)
Retained earnings, beginning of period	73,901	75,783	67,758	102,614
Adjustment for goodwill impairment write-down	-	-	-	(9,062)
Retained earnings, end of period	\$ 77,331	\$ 67,758	\$ 77,331	\$ 67,758
Basic earnings (loss) per share (Note 3)	0.22	(0.51)	0.61	(1.64)
Diluted earnings (loss) per share (Note 3)	\$ 0.22	\$ (0.51)	\$ 0.61	\$ (1.64)
Number of common shares outstanding	15,696,960	15,696,960	15,696,960	15,696,960
Number of common share stock options outstanding	744,000	874,000	744,000	874,000

WAJAX LIMITED
CONSOLIDATED STATEMENTS OF CASH FLOWS
(unaudited)

(in thousands of dollars)	Three months ended December 31	
	2003	2002
OPERATING ACTIVITIES		
Net earnings (loss)	\$ 3,430	\$ (8,025)
Amortization		
- Rental equipment	1,298	576
- Capital assets	1,372	1,788
- Deferred expenses	271	326
Stock compensation expense	63	-
Future income taxes	3,664	(5,583)
Pension expense	395	318
Other items	-	8,480
Cash flows before changes in non-cash working capital	10,493	(2,120)
Changes in non-cash working capital:		
Accounts receivable	5,882	11,466
Inventories	18,132	18,009
Prepaid expenses and other recoverable amounts	66	(2,282)
Accounts payable and accrued liabilities	8,469	(6,570)
Income taxes payable	(262)	5,313
	32,287	25,936
Cash flows provided by operating activities	42,780	23,816
INVESTING ACTIVITIES		
Rental equipment additions	(1,302)	(638)
Rental equipment disposals	561	188
Capital asset additions	(1,832)	492
Proceeds on disposal of capital assets	964	247
Acquisition of business (Note 4)	(1,004)	-
	(2,613)	289
Cash flows before financing activities	40,167	24,105
FINANCING ACTIVITIES		
Increase in current bank indebtedness	-	25,000
Decrease in long-term debt	-	(46,085)
Increase in deferred financing costs	(275)	-
Repayment of debentures	(1,216)	(1,116)
	(1,491)	(22,201)
Cash flows before effect of foreign exchange	38,676	1,904
Effect of foreign exchange on translation adjustment	(231)	(205)
Net change in cash and cash equivalent	\$ 38,445	\$ 1,699
Cash and cash equivalent – beginning of period	\$ 6,950	\$ 11,858
Cash and cash equivalent – end of period	\$ 45,395	\$ 13,557
Cash provided by operating activities included the following:		
Interest paid	\$ 2,940	\$ 4,415
Income taxes paid (received)	\$ 78	\$ (2,941)
Significant non-cash transaction:		
Rental equipment transferred to inventory	\$ 239	\$ 204

WAJAX LIMITED
CONSOLIDATED STATEMENTS OF CASH FLOWS
(unaudited)

(in thousands of dollars)	Year ended December 31	
	2003	2002
OPERATING ACTIVITIES		
Net earnings (loss)	\$ 9,573	\$ (25,794)
Amortization		
- Rental equipment	4,268	2,314
- Capital assets	6,545	8,999
- Deferred expenses	1,048	951
Stock compensation expense	63	-
Future income taxes	5,294	(7,519)
Pension expense	2,865	2,120
Other items	-	28,479
Cash flows before changes in non-cash working capital	29,656	9,550
Changes in non-cash working capital:		
Accounts receivable	7,238	22,609
Inventories	33,868	61,128
Prepaid expenses and other recoverable amounts	5,377	(4,300)
Accounts payable and accrued liabilities	(3,622)	(21,008)
Income taxes payable	4,693	1,940
	47,554	60,369
Cash flows provided by operating activities	77,210	69,919
INVESTING ACTIVITIES		
Rental equipment additions	(7,819)	(1,808)
Rental equipment disposals	1,187	633
Capital asset additions	(4,520)	(8,980)
Proceeds on disposal of capital assets	3,132	1,629
Acquisition of business (Note 4)	(1,004)	-
	(9,024)	(8,526)
Cash flows before financing activities	68,186	61,393
FINANCING ACTIVITIES		
Increase in current bank indebtedness	-	25,000
Decrease in long-term debt	(25,691)	(74,492)
Increase in deferred financing costs	(275)	-
Repayment of debentures	(3,888)	(3,544)
Hedging activities	(6,336)	-
	(36,190)	(53,036)
Cash flows before effect of foreign exchange	31,996	8,357
Effect of foreign exchange on translation adjustment	(158)	321
Net change in cash and cash equivalent	\$ 31,838	\$ 8,678
Cash and cash equivalent – beginning of period	\$ 13,557	\$ 4,879
Cash and cash equivalent – end of period	\$ 45,395	\$ 13,557
Cash provided by operating activities included the following:		
Interest paid	\$ 9,582	\$ 14,439
Income taxes received	\$ (1,545)	\$ (1,029)
Significant non-cash transaction:		
Rental equipment transferred to inventory	\$ 678	\$ 605

WAJAX LIMITED
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2003 and 2002
(Tabular amounts 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, 2002.

Note 2 Change in Accounting Policy

a. Guarantees

Effective January 1, 2003, the Company adopted the Canadian Institute of Chartered Accountants new Accounting Guideline ACG-14, which requires certain disclosures of guarantees. The Company's annual consolidated financial statements as at and for the year ended December 31, 2002 disclose the existence of guarantees provided by the Company. As at December 31, 2003, the Company had guaranteed \$4.7 million (December 31, 2002 - \$3.5 million) for guaranteed residual value contracts and provided the option to customers for buy-back contracts in the amount of \$1.1 million (December 31, 2002 - \$0.6 million), with commitments arising between 2004 and 2009. The commitments made by the Company in these contracts reflect the estimated future value of the equipment, based on judgment and experience of management. The Company has recorded a provision of \$0.4 million (December 31, 2002 - \$0) as an estimate of the financial exposure likely to result from such commitments.

b. Employee Stock Options

In 2003, the Company has adopted the fair value based method of accounting for employee stock options on a prospective basis. Accordingly, the fair value of options at the date of grant is calculated and charged to operations on a straight-line basis over the vesting period, with an offsetting adjustment to contributed surplus. In 2002, the Company accounted for employee stock options using the intrinsic value method and accordingly did not record a compensation cost, but instead provided pro forma information in accordance with the recommendation.

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	2003		2002	
Numerator for basic and diluted earnings per share – net (loss) income	\$	3,430	\$	(8,025)
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		214,943		-
Denominator for diluted earnings per share		15,911,903		15,696,960
Basic earnings (loss) per share	\$	0.22	\$	(0.51)
Diluted (loss) earnings per share	\$	0.22	\$	(0.51)
<hr/>				
Year	2003		2002	
Numerator for basic and diluted earnings per share – net (loss) income	\$	9,573	\$	(25,794)
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		108,610		-
Denominator for diluted earnings per share		15,805,570		15,696,960
Basic (loss) earnings per share	\$	0.61	\$	(1.64)
Diluted (loss) earnings per share	\$	0.61	\$	(1.64)

Excluded from the above calculations are 202,000 (2002 – 874,000) outstanding stock options with an exercise price range of \$7.34-\$11.50 (2002 - \$3.80-\$17.25) as they are currently anti-dilutive. These securities could potentially dilute earnings per share in future periods.

Note 4 Acquisition

During the year, the Company's Industrial Components segment acquired the assets of P.M.D.F. Hydraulique Inc., an industrial hydraulic distribution business, for a total purchase price of \$1.0 million. The effective date of acquisition was December 1, 2003. The results of operations from the acquisition have been included in the consolidated statements of the Company as of the effective date.

The following is a summary of the purchase price allocation:

Working capital	\$ 927
Capital assets	77
Total purchase price	\$ 1,004

Note 5 Stock-Based Compensation Plans

The following table summarizes the status of the stock option plan as at December 31, 2003 and 2002 and the changes during the years then ended:

	2003		2002	
	Number of Shares	Weighted Average Exercise Price	Number of Shares	Weighted Average Exercise Price
Outstanding at beginning of year	874,000	\$ 7.55	840,000	\$ 7.85
Granted	110,000	5.50	245,000	4.41
Exercised	-	-	-	-
Forfeited and expired	(240,000)	13.43	(211,000)	5.12
Outstanding at end of year	744,000	\$ 5.35	874,000	\$ 7.55

Of the options granted during the year, 40,000 were granted in the quarter with a weighted average exercise price of \$7.34 (2002 - 200,000 with a weighted average exercise price of \$4.25). Of the options forfeited and expired during the year, 200,000 expired during the quarter with a weighted average exercise price of \$15.06 (2002 - 104,000 with a weighted average exercise price of \$3.80).

The following table summarizes information about stock options outstanding at December 31, 2003:

Range of Exercise Prices	Options Outstanding			Options Exercisable	
	Number of Shares	Weighted Average Remaining Life (years)	Weighted Average Exercise Price	Number of Shares	Weighted Average Exercise Price
\$3.80 to \$5.10	542,000	5.67	4.09	10,000	3.80
\$7.34 to \$9.25	162,000	5.09	8.02	98,600	8.41
\$11.50	40,000	2.15	11.50	40,000	11.50
Outstanding at end of year	744,000	5.36	5.35	148,600	8.93

The Company recorded a compensation cost of \$51 thousand for the quarter and \$63 thousand for the year in respect of employee stock options granted in 2003. The Company had accounted for employee stock options using the intrinsic value method prior to 2003 and accordingly has not recorded compensation cost for grants prior to this year. There would have been a reduction in net earnings of \$44 thousand (2002 - \$39 thousand) for the quarter and \$253 thousand (2002 - \$56 thousand) for the year and a nominal reduction in earnings per share for the quarter and a \$0.01 reduction in earnings per share for the year if the Company had accounted for employee stock options issued in 2002 under the fair value method. The fair value of employee stock options is determined using the Black-Scholes option pricing model using the following weighted average assumptions:

Risk free interest rate	3.98% - 4.18%
Expected life	5 years
Expected volatility	39%
Expected dividends	2%

The weighted average fair value of the options issued during the year at the grant date was \$2.00 (2002 - \$1.90)

Note 6 Financial Instruments

The Company had previously entered into interest rate swap agreements to manage its interest rate exposure on floating rate debt. During the year the Company unwound \$25.0 million (2002 - \$40.5 million) of fixed interest rate swaps at a cost of \$0.8 million (2002 - \$4.2 million). As of December 31, 2003 there were no outstanding interest rate swaps (December 31, 2002 - \$25.0 million).

The Company hedges its foreign currency exposures on a portion of its U.S. dollar-denominated senior notes by entering into offsetting U.S. dollar forward contracts. At June 30, 2003 the Company had entered into a short-term foreign currency forward contract to buy \$30.0 million U.S. dollars. The differential the Company would have paid to hypothetically terminate the forward contracts at December 31, 2003 is estimated at \$2.7 million.

Note 7 Segmented Information:

	For the three months ended December 31	
	2003	2002
Revenue		
Mobile Equipment *	117,233	109,727
Industrial Components		
- Canada	57,531	56,663
- United States	11,158	12,228
Total Industrial Components	68,689	68,891
Diesel Engines	45,653	45,681
Segment Eliminations	(670)	(1,091)
Total Consolidated	<u>230,905</u>	<u>223,208</u>
Segment Earnings (Loss) before Interest and Income Taxes		
Mobile Equipment *	5,194	4,266
Industrial Components		
- Canada	1,068	(1,728)
- United States	(916)	(2,389)
Total Industrial Components	152	(4,117)
Diesel Engines	5,090	5,370
Segment eliminations	16	(7)
Corporate costs	(1,293)	(4,754)
Other items	-	(8,480)
Total Consolidated	<u>9,159</u>	<u>(7,722)</u>

* 2002 segment revenues and earnings for Mobile Equipment include the results of the PNE operations. These operations were sold on October 31, 2002. For the three months ended December 31, 2002, the revenues of the PNE operations were \$6,901 and divisional earnings, before allocation of corporate expenses, were (\$333).

	For the year ended December 31	
	2003	2002
Revenue		
Mobile Equipment *	438,856	454,204
Industrial Components		
- Canada	229,032	236,519
- United States	51,060	56,449
Total Industrial Components	<u>280,092</u>	<u>292,968</u>
Diesel Engines	166,884	166,863
Segment Eliminations	<u>(1,865)</u>	<u>(5,246)</u>
Total Consolidated	<u><u>883,967</u></u>	<u><u>908,789</u></u>

Segment Earnings (Loss) before Interest and Income Taxes

Mobile Equipment *	18,290	13,532
Industrial Components		
- Canada	4,182	(2,578)
- United States	(2,852)	(6,493)
Total Industrial Components	<u>1,330</u>	<u>(9,071)</u>
Diesel Engines	15,696	16,858
Segment eliminations	(8)	24
Corporate costs	(6,616)	(9,272)
Other items	<u>-</u>	<u>(28,479)</u>
Total Consolidated	<u><u>28,692</u></u>	<u><u>(16,408)</u></u>

* 2002 segment revenues and earnings for Mobile Equipment include the results of the PNE operations. These operations were sold on October 31, 2002. For the year ended December 31, 2002, the revenues of the PNE operations were \$64,244 and divisional profit, before allocation of corporate expenses, was (\$533).

Note 8 Contingencies

In the ordinary course of business, the Company may be exposed to contingent liabilities in varying amounts and for which provisions have been made in these Consolidated Financial Statements as appropriate. 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 Company, but management believes that any such amounts would not have a material impact on the business or financial position of the Company.

In making this assessment, the Company has been made aware of potential claims that may be advanced by a group of former and current employees arising 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 administrative expenses from the pension fund. No claim has been served on the Company. However, based on very limited communications with the group and its representative, the Company has evaluated the claims it anticipates could be articulated and believes such claims would be unlikely to succeed.

Note 9 Comparative Information

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



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