



FIRST QUARTER

REPORT TO SHAREHOLDERS

For the Three Months Ended

March 31, 2003

WJAX 2003

**WJAX
LIMITED**



WAJAX LIMITED
CONSOLIDATED BALANCE SHEETS
(unaudited)

| (in thousands of dollars) | March 31 2003 | December 31 2002 | March 31 2002 |
|--|-------------------|---------------------|-------------------|
| Current Assets | | | |
| Cash and cash equivalents | \$ 9,114 | \$ 13,557 | \$ 11,633 |
| Accounts receivable | 115,807 | 114,305 | 133,835 |
| Inventories | 169,242 | 184,050 | 235,565 |
| Income taxes receivable | 2,357 | 3,431 | 7,533 |
| Future income taxes | 7,845 | 7,845 | 9,569 |
| Prepaid expenses and other recoverable amounts | 2,422 | 7,797 | 5,605 |
| | 306,787 | 330,985 | 403,740 |
| Non-Current Assets | | | |
| Rental equipment | 10,101 | 9,581 | 10,737 |
| Capital assets | 34,001 | 37,355 | 64,705 |
| Goodwill and other assets (Note 7) | 55,402 | 56,555 | 57,966 |
| Future income taxes | 6,204 | 7,562 | 5,206 |
| | 105,708 | 111,053 | 138,614 |
| | \$ 412,495 | \$ 442,038 | \$ 542,354 |
| Current Liabilities | | | |
| Accounts payable and accrued liabilities | \$ 131,948 | \$ 141,435 | \$ 165,748 |
| Current portion of long-term debt | 14,469 | 29,580 | 4,307 |
| | 146,417 | 171,015 | 170,055 |
| Non-Current Liabilities | | | |
| Future income taxes | 2,680 | 2,680 | 9,373 |
| Long-term debt | 92,338 | 98,373 | 168,209 |
| | 95,018 | 101,053 | 177,582 |
| Shareholders' Equity | | | |
| Share capital | 102,212 | 102,212 | 102,212 |
| Retained earnings (Note 7) | 68,848 | 67,758 | 92,505 |
| | 171,060 | 169,970 | 194,717 |
| | \$ 412,495 | \$ 442,038 | \$ 542,354 |

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

| (in thousands of dollars, except per share data) | Three months ended March 31 | |
|--|--------------------------------|------------|
| | 2003 | 2002 |
| Revenue | \$ 218,279 | \$ 214,225 |
| Cost of sales | 170,257 | 163,911 |
| Gross profit | 48,022 | 50,314 |
| Selling and administrative expenses | 42,748 | 48,296 |
| Earnings before interest and income tax | 5,274 | 2,018 |
| Interest expense | 3,106 | 3,956 |
| Earnings (loss) before income taxes | 2,168 | (1,938) |
| Income taxes - current | 203 | (891) |
| - future | 875 | - |
| Net earnings (loss) | 1,090 | (1,047) |
| Retained earnings, beginning of period | 67,758 | 102,614 |
| Adjustment to opening retained earnings for goodwill impairment (Note 7) | - | (9,062) |
| Retained earnings, end of period | \$ 68,848 | \$ 92,505 |
| Basic and diluted earnings (loss) per share (Note 3) | \$ 0.07 | \$ (0.07) |
| Number of common shares outstanding | 15,696,960 | 15,696,960 |
| Number of common share options outstanding | 834,000 | 733,000 |

WAJAX LIMITED
CONSOLIDATED STATEMENTS OF CASH FLOWS
(unaudited)

| (in thousands of dollars) | Three months ended March 31 | |
|---|-----------------------------|------------------|
| | 2003 | 2002 |
| OPERATING ACTIVITIES | | |
| Net earnings (loss) | \$ 1,090 | \$ (1,047) |
| Items not affecting cash flows: | | |
| Amortization | | |
| - Rental equipment | 474 | 563 |
| - Capital assets | 1,900 | 1,687 |
| - Deferred expenses | 256 | 191 |
| Pension expense | 897 | 788 |
| Future income taxes | 875 | - |
| Cash flows before changes in non-cash working capital | 5,492 | 2,182 |
| Changes in non-cash working capital: | | |
| Accounts receivable | (2,002) | 3,306 |
| Inventories | 13,823 | 9,973 |
| Prepaid expenses and other recoverable amounts | 5,346 | (2,030) |
| Accounts payable and accrued liabilities | (9,385) | 6,134 |
| Income taxes receivable | 1,037 | (2,135) |
| | 8,819 | 15,248 |
| Cash flows provided by operating activities | 14,311 | 17,430 |
| INVESTING ACTIVITIES | | |
| Rental equipment additions | (1,262) | (383) |
| Rental equipment disposals | 102 | 157 |
| Capital asset additions | (841) | (3,225) |
| Proceeds on disposal of capital assets | 2,102 | 922 |
| | 101 | (2,529) |
| Cash flows before financing activities | 14,412 | 14,901 |
| FINANCING ACTIVITIES | | |
| Decrease in long-term debt | (15,191) | (7,605) |
| Repayment of debentures | (734) | (662) |
| Hedging activities (Note 5) | (2,712) | - |
| | (18,637) | (8,267) |
| Cash flows before effect of foreign exchange | (4,225) | 6,634 |
| Effect of foreign exchange on translation adjustment | (218) | 120 |
| Net change in cash and cash equivalents | \$ (4,443) | \$ 6,754 |
| Cash and cash equivalents – beginning of period | \$ 13,557 | \$ 4,879 |
| Cash and cash equivalents – end of period | \$ 9,114 | \$ 11,633 |
| Cash flows provided by operating activities include the following: | | |
| Interest paid | \$ 1,771 | \$ 2,261 |
| Income taxes (received) paid | \$ (835) | \$ 1,579 |
| Significant non-cash transaction: | | |
| Rental equipment transferred to inventory | \$ 165 | \$ 251 |

WAJAX LIMITED
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(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, 2002.

Note 2 Change in accounting policies

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 and that no material financial impact is likely to result from such commitments. There have been no material changes to the amounts or nature of the guarantees as disclosed in note 14 of those statements.

Note 3 Earnings per share

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

| Quarter | 2003 | | 2002 | |
|---|-------------|------------|-------------|------------|
| Numerator for basic and diluted earnings per share: | | | | |
| – net income (loss) | \$ | 1,090 | \$ | (1,047) |
| 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 | | 880 | | - |
| Denominator for diluted earnings per share | | 15,697,840 | | 15,696,960 |
| Basic earnings (loss) per share | \$ | 0.07 | \$ | (0.07) |
| Diluted earnings (loss) per share | \$ | 0.07 | \$ | (0.07) |

Of the 834,000 (2002 – 733,000) stock options outstanding, 597,000 (2002 – 733,000) options with an exercise price range of \$3.80-\$17.25 (2002 - \$3.80-\$17.25) are excluded from the above calculations as they are currently anti-dilutive. These securities could potentially dilute earnings per share in future periods.

Note 4 Stock-based compensation plans

During the quarter, the Company cancelled employee stock options to purchase 40,000 shares with a weighted-average exercise price of \$5.25 and weighted average remaining life of 7.08 years as of December 31, 2002. Of this amount, 12,000 options were exercisable as of December 31, 2002 with a weighted-average exercise price of \$6.70. No options were issued during the current quarter.

Note 5 Financial Instruments

The Company has entered into interest rate swap agreements to manage its interest rate exposure on floating rate debt. During the quarter the Company unwound \$15.0 million of fixed interest rate swaps at a cost of \$0.5 million. At March 31, 2003 the Company had \$10.0 million of floating rate swaps outstanding. The differential the Company would pay to hypothetically terminate or exchange the swap agreement in the prevailing market conditions is estimated at \$0.3 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. During the quarter, the Company had a \$2.7 million loss on these hedging activities that was offset by a \$2.7 million unrealized foreign currency gain on the U.S. dollar-denominated senior notes. At March 31, 2003 the Company had entered into a short-term foreign currency forward contract to buy \$30 million U.S. dollars. There is no material difference between the face value of the foreign currency forward contract and its value as calculated by prevailing currency exchange rates.

Note 6 Segmented information:

| | For the three months ended March 31 | |
|--------------------------------|--|----------------|
| | 2003 | 2002 |
| Revenue | | |
| Mobile Equipment | 106,890 | 95,381 |
| Industrial Components | | |
| - Canada | 57,380 | 62,179 |
| - United States | 14,333 | 16,592 |
| Total Industrial Components | <u>71,713</u> | <u>78,771</u> |
| Diesel Engines | 40,884 | 41,289 |
| Segment Eliminations | <u>(1,208)</u> | <u>(1,216)</u> |
| Total Consolidated | <u>218,279</u> | <u>214,225</u> |
| Segment Earnings (Loss) | | |
| Mobile Equipment | 3,035 | (591) |
| Industrial Components | | |
| - Canada | 649 | 190 |
| - United States | (1,737) | (1,092) |
| Total Industrial Components | <u>(1,088)</u> | <u>(902)</u> |
| Diesel Engines | 3,327 | 3,511 |
| Segment Eliminations | <u>-</u> | <u>-</u> |
| Total Consolidated | <u>5,274</u> | <u>2,018</u> |

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

Note 7 Comparative information

Certain comparative numbers have been reclassified to conform with current presentation. In particular, the reported March 31, 2002 balance sheet amounts for retained earnings and goodwill and other assets have been restated from their previously disclosed amounts to reflect the write-down of goodwill recorded effective January 1, 2002.



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