



THIRD QUARTER

REPORT TO SHAREHOLDERS
For the Nine Months Ended
September 30, 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 and second 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 September 30	2003	2002
Gross revenue	\$207.8	\$206.6
Net earnings (loss) before other item	\$2.6	(\$5.4)
Other item (after tax)	\$0.0	(\$12.4)
Net earnings (loss)	\$2.6	(\$17.8)
Earnings per share – Net earnings (loss) before other item	\$0.16	(\$0.34)
Other item (after tax)	\$0.00	(\$0.79)
Net earnings (loss)	\$0.16	(\$1.13)
for the nine months ended September 30	2003	2002
Gross revenue	\$653.1	\$685.6
Net earnings (loss) before other item	\$6.1	(\$5.4)
Other item (after tax)	\$0.0	(\$12.4)
Net earnings (loss)	\$6.1	(\$17.8)
Earnings per share – Net earnings (loss) before other item	\$0.39	(\$0.34)
Other item (after tax)	\$0.00	(\$0.79)
Net earnings (loss)	\$0.39	(\$1.13)

Revenues increased \$1.2 million to \$207.8 million in the third quarter of 2003 from \$206.6 million in the third quarter of 2002. Earnings before the other item increased \$8.0 million to \$2.6 million, or \$0.16 per share in the third quarter of 2003, compared to a net loss of \$5.4 million, or \$0.34 per share recorded the previous year. After the other item, third quarter earnings of \$2.6 million were recorded compared to a net loss of \$17.8 million, or \$1.13 per share in 2002. For the nine months ended September 30, 2003 revenue decreased \$32.5 million to \$653.1 million and net earnings increased to \$6.1 million from a net loss of \$17.8 million the previous year.

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

- Mobile Equipment revenues, after adjusting for the effects of the sale of Pacific North Equipment (“PNE”) in October 2002, increased in both western and eastern Canada. Earnings improved

compared to last year due primarily to the increased revenues in Canada. (The 2002 third quarter results included PNE revenues of \$16.7 million and a loss of \$0.3 million.)

- Although revenues declined in the Industrial Components segment, earnings improved \$3.3 million due to increased margins and reductions in selling and administrative expenses.
- Diesel Engines revenues increased slightly quarter-over-quarter, however earnings declined principally as a result of higher occupancy costs at the new facility in Calgary.
- Consolidated selling and administrative expenses declined \$4.5 million from the third quarter of 2002 due to the sale of PNE (\$3.6 million) and cost-cutting measures taken by the Company in late 2002 and early 2003.
- Last year's loss contained an other item charge of \$12.4 million (\$20.0 million pretax) for the write-down of a computer system.
- The Company's debt, net of cash, decreased \$11.1 million compared to June 30, 2003 and \$56.3 million compared to September 30, 2002. As a result, the Company's quarter-end debt to equity ratio of 0.47:1 was improved from last year's ratio of 0.78:1.
- Interest expense decreased \$1.1 million quarter-over-quarter as a result of a \$65.9 million reduction in the average amount of funded debt outstanding during the quarter compared to last year.

The Company's effective tax rate of 44.4% for the nine months ending September 30, 2003 is higher than the statutory tax rate of approximately 37.4% due principally to expenses not deductible for tax purposes and large corporations tax. (The tax recovery for the nine months ending September 30, 2002 is approximately \$4.5 million lower than expected due to the write off of a portion of future income tax balances pertaining to U.S. operations.)

Mobile Equipment

for the three months ended September 30	2003	2002
Gross revenue	\$100.6	\$100.1
Segment earnings	\$3.6	\$2.2

for the nine months ended September 30	2003	2002
Gross revenue	\$321.6	\$344.4
Segment earnings	\$11.0	\$6.8

Revenues increased \$0.5 million to \$100.6 million in the third quarter of 2003 from \$100.1 million in 2002. Excluding PNE, revenues increased \$17.2 million for the period. Segment earnings increased \$1.4 million to \$3.6 million in the third quarter of 2003 from \$2.2 million in the previous year. For the nine months ended September 30, 2003, revenues decreased \$22.8 million to \$321.6 million and segment earnings increased \$4.2 million to \$11.0 million compared to \$6.8 million last year. Excluding PNE, revenues for the nine months ended September 30, 2003 increased \$34.4 million. The following factors contributed to the third quarter results:

- The 2002 quarterly results included the PNE operation which recorded revenues of \$16.7 million and a loss of \$0.3 million, before allocation of head office costs.
- Revenues in western Canada increased \$6.6 million in the quarter due to an increase in Hitachi equipment sales and rentals in the Alberta construction and forestry and mining sectors, as well as

increases in mining parts and service revenues. Service revenues in the construction and forestry sector increased by more than 30% due to targeted revenue building initiatives. Earnings from this operation, before the allocation of head office costs, increased \$0.3 million quarter-over-quarter as the positive impact of higher volumes was offset in part by lower margins due to strong competition compared to last year.

- In eastern Canada, revenues increased \$10.6 million quarter-over-quarter. Increases in equipment, and parts and service volumes were achieved in the crane and utility, mining, and construction and forestry sectors. Revenues in the material handling market remained flat. Earnings, before the allocation of head office costs, increased \$1.1 million due to the increased revenues and higher parts and service margins resulting from the positive impact of the stronger Canadian dollar compared to last year. These positive variances were offset in part by a \$0.3 million increase in selling and administrative expenses that resulted from higher labour and warranty costs.
- During the quarter, additional head office costs of \$0.5 million were allocated to the Mobile Equipment segment.

Industrial Components

for the three months ended September 30	2003	2002
Canada - Kinacor	\$55.1	\$56.1
United States – Spencer	\$13.2	\$15.7
Gross revenue	\$68.3	\$71.8
Canada - Kinacor	\$0.3	(\$1.4)
United States – Spencer	\$0.1	(\$1.5)
Segment earnings (loss)	\$0.4	(\$2.9)
for the nine months ended September 30	2003	2002
Canada - Kinacor	\$171.5	\$179.9
United States – Spencer	\$41.2	\$47.3
Gross revenue	\$212.7	\$227.2
Canada - Kinacor	\$1.5	(\$2.1)
United States – Spencer	(\$2.5)	(\$4.6)
Segment (loss) earnings	(\$1.0)	(\$6.7)

Revenues decreased \$3.5 million in the third quarter to \$68.3 million from \$71.8 million. However, segment earnings increased \$3.3 million in the quarter to \$0.4 million from a loss of \$2.9 million in the previous year. For the nine months ended September 30, 2003, revenue decreased \$14.5 million to \$212.7 million and the segment loss decreased \$5.7 million to \$1.0 million compared to last year. The following factors contributed to the third quarter results:

- Revenues in Kinacor decreased \$1.0 million to \$55.1 million due to a \$2.0 million reduction in bearings revenue in eastern Canada as a result of the temporary shutdown of several saw mills and reduced activities in the steel, mining and industrial markets. This decline was offset in part by a

\$1.0 million increase in hydraulic parts and service revenues due to strong results in the western Canada oil and gas sector. During the quarter a branch in Guelph, Ontario was opened to increase Kinacor's market share of bearing revenues in southern Ontario.

- Kinacor's earnings increased \$1.7 million to \$0.3 million as improved margins and lower selling and administrative costs more than offset the negative impact of lower volumes. The margin increase of 1.7 percentage points was achieved through increased supplier rebates, lower freight costs and the positive impact of the stronger Canadian dollar. Selling and administrative expenses declined by \$0.7 million which included \$0.9 million associated with costs reductions made in late 2002 and \$0.7 million of one-time costs incurred in 2002 related to the ERP computer system implementation. These positive variances were offset in part by a \$0.4 million increase in the head office cost allocation and \$0.5 million of bad debt expense and other cost increases compared to last year.
- Revenues in Spencer, a hydraulics business, decreased \$2.5 million to \$13.2 million compared to \$15.7 million last year due to the decrease in the value of the U.S. dollar (\$1.9 million) and the closure of four branches in the first quarter of 2003. Earnings for the quarter increased \$1.6 million to \$0.1 million compared to a loss of \$1.5 million last year due principally to increased margins and decreased selling and administrative expenses resulting from an overall head count reduction and branch closures and one-time costs in 2002 related to the ERP computer system implementation.

Diesel Engines

for the three months ended September 30	2003	2002
Gross revenue	\$39.4	\$38.8
Segment earnings	\$3.1	\$3.5

for the nine months ended September 30	2003	2002
Gross revenue	\$121.2	\$121.2
Segment earnings	\$9.5	\$10.7

Revenue increased \$0.6 million to \$39.4 million in the third quarter of 2003 and earnings declined \$0.4 million to \$3.1 million. For the nine months ended September 30, 2003, revenues remained unchanged at \$121.2 million and earnings decreased \$1.2 million to \$9.5 million compared to last year. The following events affected quarterly revenue and earnings:

- Revenues at the Waterous operation in Alberta were \$2.2 million ahead of 2002 resulting from improved equipment sales in the oil and gas sector and an increase in large engine overhauls.
- Revenues from the Company's Quebec and Maritimes operation, Detroit Diesel-Allison Canada East, decreased \$1.7 million due principally to lower engine and generator set revenues.
- Segment earnings decreased \$0.4 million as a result of higher selling and administrative expenses which included \$0.3 million of increased occupancy costs for the new Calgary facility and higher head office costs allocated to the segment compared to last year.

Liquidity and Capital Resources

The Company generated \$10.9 million of cash before financing activities in the third quarter of 2003 compared to \$19.3 million in the third quarter of 2002. For the nine months ended September 30, 2003 cash flow before financing activities amounted to \$28.0 million compared to \$37.3 million in 2002.

Cash provided by operating activities amounted to \$12.1 million in the third quarter of 2003, with \$6.6 million of this amount coming from operating earnings. The remaining \$5.5 million was generated from reductions in non-cash working capital before the impact of changes in foreign currency translation rates. Significant components of the \$5.5 million decrease in working capital are described as follows:

- Accounts payable and accrued liabilities increased by \$2.9 million largely due to increases in supplier financing.
- Income taxes payable increased by \$2.3 million during the quarter due principally due to receipt of prior year tax refunds owing and an increase in the amount of the Company's current taxes payable.

For the nine months ended September 30, 2003 cash provided by operating activities amounted to \$32.6 million. This included cash from operating earnings of \$18.2 million and a decrease of \$14.4 million of working capital before the impact of changes in foreign currency translation.

Working capital, exclusive of funded debt and cash, decreased \$5.6 million to \$158.5 million at September 30, 2003 from \$164.1 million at June 30, 2003. The decrease is due to the cash flow factors listed above and the slight decrease in the quarter-end foreign exchange rate compared to the June 30, 2003 rate.

The Company invested a net amount of \$1.2 million of the cash provided by operating activities into operations during the third quarter of 2003. The most significant investing activity was \$0.9 million of lift truck rental fleet additions in Mobile Equipment.

Debt, net of cash, decreased \$56.3 million compared to September 30, 2002. Of this decrease, \$4.3 million resulted from the translation of the unhedged portion of the U.S. senior notes into Canadian dollars at a lower exchange rate compared to last year.

As at September 30, 2003 the Company's secured committed bank borrowing facility was reduced as scheduled to \$15 million from \$25 million as at June 30, 2003. The amount of the facility 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. At September 30, 2003 the Company had utilized \$4.0 million (related to letters of credit) of the \$15 million bank facility and had a cash position of \$7.0 million. It is expected that cash generated from earnings and working capital reductions during the remainder of 2003 will provide sufficient cash flow to meet the Company's short-term cash requirements. During the quarter, the Company put in place a \$10 million demand facility, with an equipment financing company, to finance inventory in the Mobile Equipment segment. In addition, management also expects to enter into a new bank credit facility before the end of 2003 allowing for future growth requirements.

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 U.S. self-sustaining operations. The differential the Company would have paid to hypothetically terminate the forward contract at September 30, 2003 is estimated at \$0.9 million.

No dividends on common shares were paid in the third quarter of 2003 or 2002. The Board of Directors reviews its position on this matter on a regular basis.

Changes in Accounting Policy

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 for the year ended December 31, 2002 disclose the existence of guarantees provided by the Company. As at September 30, 2003, the Company had guaranteed \$5.6 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 \$0.8 million (December 31, 2002 - \$0.6 million), with commitments arising between 2003 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. Management does not anticipate that any material financial exposure is likely to result from such commitments.

Risks and Uncertainties

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

Outlook

The Company's third quarter results met management's expectations. With the operating improvements made to date, management expects the positive performance trend in the first nine months of 2003 to extend into the fourth quarter and next year.

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)	September 30 2003	December 31 2002	September 30 2002
Current Assets			
Cash and cash equivalents	\$ 6,950	\$ 13,557	\$ 11,858
Accounts receivable	111,875	114,305	125,959
Inventories	167,132	184,050	202,130
Income taxes receivable	-	3,431	8,746
Future income taxes	7,824	7,845	6,464
Prepaid expenses and other recoverable amounts	2,414	7,797	5,525
	296,195	330,985	360,682
Non-Current Assets			
Rental equipment	11,357	9,581	9,062
Capital assets	32,357	37,355	45,337
Goodwill and other assets (Note 8)	53,748	56,555	56,744
Future income taxes	4,950	7,562	6,549
	102,412	111,053	117,692
	\$ 398,607	\$ 442,038	\$ 478,374
Current Liabilities			
Accounts payable and accrued liabilities	\$ 129,103	\$ 141,435	\$ 144,192
Income taxes payable	1,600	-	-
Current portion of long-term debt	4,158	29,580	4,480
	134,861	171,015	148,672
Non-Current Liabilities			
Future income taxes	2,680	2,680	5,842
Long-term debt	84,953	98,373	145,865
	87,633	101,053	151,707
Shareholders' Equity			
Share capital	102,212	102,212	102,212
Retained earnings (Note 8)	73,901	67,758	75,783
	176,113	169,970	177,995
	\$ 398,607	\$ 442,038	\$ 478,374

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

(in thousands of dollars, except per share data)	Three months ended September 30		Nine months ended September 30	
	2003	2002	2003	2002
Revenue	\$ 207,795	\$ 206,586	\$ 653,063	\$ 685,582
Cost of sales	159,892	158,321	507,141	530,947
Gross profit	47,903	48,265	145,922	154,635
Selling and administrative expenses	40,854	45,373	126,389	143,817
Earnings before other item, interest and income taxes	7,049	2,892	19,534	10,818
Other item	-	(20,000)	-	(20,000)
Earnings (loss) before interest and income taxes	7,049	(17,108)	19,534	(9,182)
Interest	2,598	3,680	8,490	11,612
Earnings (loss) before income taxes	4,451	(20,788)	11,043	(20,794)
Income tax expense (recovery) – current	1,387	(1,431)	2,730	(435)
– future	504	(1,590)	2,170	(2,590)
Net earnings (loss)	\$ 2,560	\$ (17,767)	\$ 6,143	\$ (17,769)
Retained earnings, beginning of period	71,341	93,550	67,758	102,614
Adjustment to opening retained earnings for goodwill impairment (Note 8)	-	-	-	(9,062)
Retained earnings, end of period	\$ 73,901	\$ 75,783	\$ 73,901	\$ 75,783
Earnings per share	\$ 0.16	\$ (1.13)	\$ 0.39	\$ (1.13)
Number of common shares outstanding	15,696,960	15,696,960	15,696,960	15,696,960
Number of common share stock options outstanding	894,000	778,000	894,000	778,000

WAJAX LIMITED
CONSOLIDATED STATEMENTS OF CASH FLOWS
(unaudited)

(in thousands of dollars)	Three months ended September 30	
	2003	2002
OPERATING ACTIVITIES		
Net earnings (loss)	\$ 2,560	\$ (17,767)
Items not affecting cash flows:		
Amortization		
- Rental equipment	833	611
- Capital assets	1,501	2,984
- Deferred expenses	262	238
Other item	-	20,000
Pension expense	772	445
Accrued interest	220	-
Future income taxes	504	(936)
Cash flows before changes in non-cash working capital	6,652	5,575
Changes in non-cash working capital:		
Accounts receivable	(579)	11,924
Inventories	450	4,661
Prepaid expenses and other recoverable amounts	439	45
Accounts payable and accrued liabilities	2,908	1,757
Income taxes payable	2,254	(2,114)
	5,472	16,273
Cash flows provided by operating activities	12,124	21,848
INVESTING ACTIVITIES		
Rental equipment additions	(931)	(231)
Rental equipment disposals	136	164
Capital asset additions	(432)	(2,604)
Proceeds on disposal of capital assets	13	168
	(1,214)	(2,503)
Cash flows before financing activities	10,910	19,345
FINANCING ACTIVITIES		
Decrease in long-term debt	(10,500)	(10,111)
Repayment of debentures	(773)	(697)
	(11,273)	(10,808)
Cash flows before effect of foreign exchange	(363)	8,537
Effect of foreign exchange on translation adjustment	138	34
Net change in cash and cash equivalents	\$ (225)	\$ 8,571
Cash and cash equivalents – beginning of period	\$ 7,175	\$ 3,287
Cash and cash equivalents – end of period	\$ 6,950	\$ 11,858
Cash flows provided by operating activities include the following:		
Interest paid	\$ 969	\$ 2,574
Income taxes (received) paid	\$ (843)	\$ (146)
Significant non-cash transaction:		
Rental equipment transferred to inventory	\$ 68	\$ 75

WAJAX LIMITED
CONSOLIDATED STATEMENTS OF CASH FLOWS
(unaudited)

(in thousands of dollars)	Nine months ended September 30	
	2003	2002
OPERATING ACTIVITIES		
Net earnings (loss)	\$ 6,143	\$ (17,769)
Items not affecting cash flows:		
Amortization		
- Rental equipment	1,800	1,738
- Capital assets	5,173	7,211
- Deferred expenses	777	624
Other item	-	20,000
Pension expense	2,469	1,802
Accrued interest	220	-
Future income taxes	1,630	(1,936)
Cash flows before changes in non-cash working capital	18,212	11,670
Changes in non-cash working capital:		
Accounts receivable	1,356	11,143
Inventories	15,037	43,119
Prepaid expenses and other recoverable amounts	5,311	(2,018)
Accounts payable and accrued liabilities	(12,312)	(14,438)
Income taxes payable	4,955	(3,373)
	14,347	34,433
Cash flows provided by operating activities	32,559	46,103
INVESTING ACTIVITIES		
Rental equipment additions	(4,647)	(1,170)
Rental equipment disposals	626	445
Capital asset additions	(2,688)	(9,472)
Proceeds on disposal of capital assets	2,168	1,382
	(4,541)	(8,815)
Cash flows before financing activities	28,018	37,288
FINANCING ACTIVITIES		
Decrease in long-term debt	(25,691)	(28,407)
Repayment of debentures	(2,672)	(2,428)
Hedging activities (Note 5)	(6,336)	-
	(34,699)	(30,835)
Cash flows before effect of foreign exchange	(6,681)	6,453
Effect of foreign exchange on translation adjustment	74	526
Net change in cash and cash equivalent	\$ (6,607)	\$ 6,979
Cash and cash equivalent – beginning of period	\$ 13,557	\$ 4,879
Cash and cash equivalent – end of period	\$ 6,950	\$ 11,858
Cash provided by operating activities included the following:		
Interest paid	\$ 6,662	\$ 10,718
Income taxes (received) paid	\$ (1,567)	\$ 2,058
Significant non-cash transaction:		
Rental equipment transferred to inventory	\$ 451	\$ 401

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. As at September 30, 2003, the Company had guaranteed \$5.6 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 \$0.8 million (December 31, 2002 - \$0.6 million), with commitments arising between 2003 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. Management does not anticipate that any material financial exposure is likely to result from such commitments.

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	\$	2,560	\$	(17,767)
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		149,200		-
Denominator for diluted earnings per share		15,846,160		15,696,960
Basic earnings per share	\$	0.16	\$	(1.13)
Diluted earnings per share	\$	0.16	\$	(1.13)

Of the 894,000 (2002 – 778,000) stock options outstanding at the end of the period, 352,000 (2002 – 778,000) options with an exercise price range of \$7.40-\$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.

Year-to-date	2003	2002
Numerator for basic and diluted earnings per share: – net income (loss)	\$ 6,143	\$ (17,769)
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	66,537	-
Denominator for diluted earnings per share	15,763,497	15,696,960
Basic earnings (loss) per share	\$ 0.39	\$ (1.13)
Diluted earnings (loss) per share	\$ 0.39	\$ (1.13)

Of the 894,000 (2002 – 778,000) stock options outstanding at the end of the period, 397,000 (2002 – 778,000) options with an exercise price range of \$5.10-\$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 first nine months, 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.

In addition, during the first nine months, the Company issued employee stock options to purchase 60,000 shares with a weighted-average exercise price of \$3.96 and weighted average remaining life of 5.00 years at issuance. The Company has not recorded any compensation cost on the grant of these or any other stock options. There would be a nominal change to net earnings and earnings per share information if the Company had accounted for employee stock options under the fair value method.

Note 5 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 - \$10.0 million) of fixed interest rate swaps at a cost of \$0.8 million (2002 - \$0.7 million). As of September 30, 2003 there were no outstanding interest rate swaps.

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 million U.S. dollars. The differential the Company would have paid to hypothetically terminate the forward contracts at September 30, 2003 is estimated at \$0.9 million.

Note 6 Segmented information:

	For the three months ended September 30	
	2003	2002
Revenue		
Mobile Equipment *	100,584	100,112
Industrial Components		
- Canada	55,092	56,125
- United States	13,249	15,666
Total Industrial Components	<u>68,341</u>	<u>71,791</u>
Diesel Engines	39,379	38,827
Segment Eliminations	<u>(510)</u>	<u>(4,144)</u>
Total Consolidated	<u><u>207,794</u></u>	<u><u>206,586</u></u>

Segment Earnings (Loss) before Other item, Interest and Income Taxes

Mobile Equipment *	3,628	2,244
Industrial Components		
- Canada	255	(1,354)
- United States	93	(1,541)
Total Industrial Components	<u>348</u>	<u>(2,895)</u>
Diesel Engines	3,073	3,543
Other item	<u>-</u>	<u>(20,000)</u>
Total Consolidated	<u><u>7,049</u></u>	<u><u>(17,108)</u></u>

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

* 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 September 30, 2002, the revenues of the PNE operations were \$16,695 and divisional earnings, before allocation of corporate expenses, were (\$254).

**For the nine months ended
September 30**

	2003	2002
Revenue		
Mobile Equipment *	321,623	344,366
Industrial Components		
- Canada	171,501	179,856
- United States	41,241	47,284
Total Industrial Components	<u>212,742</u>	<u>227,140</u>
Diesel Engines	121,231	121,182
Segment Eliminations	<u>(2,534)</u>	<u>(7,218)</u>
Total Consolidated	<u>653,062</u>	<u>685,582</u>
Segment Earnings (Loss) before other Item, Interest and Income Taxes		
Mobile Equipment *	11,017	6,839
Industrial Components		
- Canada	1,448	(2,139)
- United States	(2,477)	(4,567)
Total Industrial Components	<u>(1,029)</u>	<u>(6,706)</u>
Diesel Engines	9,546	10,685
Other item	<u>-</u>	<u>(20,000)</u>
Total Consolidated	<u>19,534</u>	<u>(9,182)</u>

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

* 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 nine months ended September 30, 2002, the revenues of the PNE operations were \$57,343 and divisional profit, before allocation of corporate expenses, was (\$200).

Note 7 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.

Note 8 Comparative information

Certain comparative numbers have been reclassified to conform with current presentation. In particular, the reported September 30, 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.



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