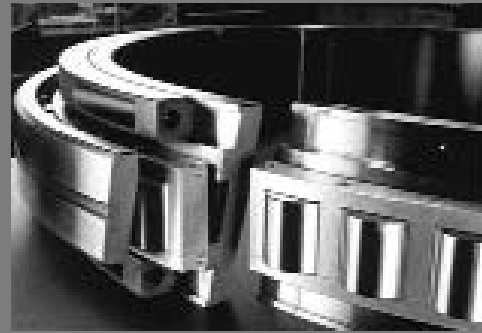


Growing Stronger

WAJAX LIMITED
ANNUAL REPORT 2004



OVERVIEW

Wajax operates three core businesses engaged in the sale and support of mobile equipment, industrial components and diesel engines. With a network of 110 branches across Canada and the western United States, Wajax's growing customer base spans the natural resources, construction, manufacturing, industrial processing and utilities industries.

In 2004, we produced a year of revenue growth and a significant increase in earnings. With all our businesses operating profitably, a strong balance sheet, and a positive outlook for the industries we serve, Wajax will grow stronger from solid and sustainable organic growth and enhanced profitability derived from margin improvements.

MOBILE EQUIPMENT

48% Total Revenue by core business.

Wajax's two mobile equipment operating units distribute, customize, and service product lines from leading manufacturers through a network of 31 sales and service branches employing 965 people.

Products: Container handlers, cranes, delimiters, excavators, forestry feller bunchers, forest harvesters, haul trucks, forwarders, lift trucks, loader backhoes, log loaders, mining products and shovels, skidders, skid steer loaders, utility equipment and wheel loaders.

Markets: Construction, forestry, intermodal, manufacturing, materials handling, mining, municipal, oil and gas, plant process equipment and utilities.

Operating Units:

Wajax Industries (Western Canada)
Wajax Industries (Eastern Canada)



INDUSTRIAL COMPONENTS

33% Total Revenue by core business.

Wajax's Industrial Components business distributes bearings, power transmission equipment, hydraulics and process and automation technologies across Canada and the western United States. It employs 824 people in a network of 64 distribution, repair and service branches.

Products: Bearings, cylinders, filters, hoists, hose and fittings, hydraulic components and systems, motors, power transmission products, process pumps and equipment.

Markets: Agriculture, aluminum, automotive, chemical, construction, food, forestry, industrial processing, marine, mining, oil and gas, petrochemical, pulp and paper, steel and transportation.

Operating Units:

Kinecor Inc. (Canada)
Spencer Industries, Inc. (Western United States)



DIESEL ENGINES

19% Total Revenue by core business.

Wajax's Diesel Engines business consists of two operating units which distribute and provide parts and service for Detroit Diesel engines, Allison transmissions, MTU/DDC power generators, G.E. Jenbacher co-generation systems and other complementary product lines. Our Eastern unit also distributes Kohler power generators and Volvo Penta and Kubota engines. Both operating units distribute and custom-assemble power generation sets. In the Maritimes, we also distribute and custom-assemble marine propulsion packages. These operating units have 15 branches and 549 employees.

Products: Diesel engines, natural gas engines, power generators, power take-offs and transmissions.

Markets: Agriculture, construction, forestry, industrial, marine, mining, oil and gas, power generation and transportation.

Operating Units:

Waterous Power Systems (Alberta, Northeastern British Columbia, Yukon, Northwest Territories)

Detroit Diesel-Allison Canada East (Quebec, Atlantic Canada, St. Pierre & Miquelon)



FINANCIAL HIGHLIGHTS

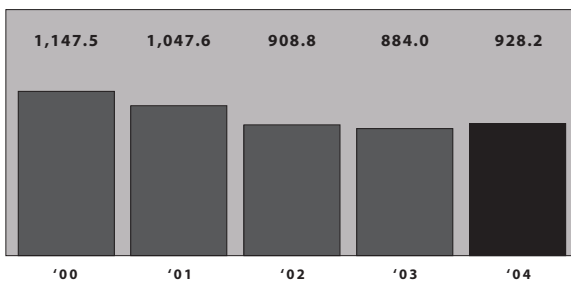
For the years ended December 31

(in thousands of dollars, except per share data)

	04	03	02
Revenue	928,180	883,967	908,789
Net earnings (loss)	18,338	9,569	(25,794)
Net earnings (loss) per share – Basic	1.17	0.61	(1.64)
Weighted average number of common shares outstanding	15,713,115	15,696,960	15,696,960
Total assets	439,842	409,740	442,038
Working capital, exclusive of funded debt and cash	122,683	115,950	171,055
Funded debt, net of cash	26,158	38,710	114,396
Shareholders' equity	194,985	178,674	169,970
Debt to equity ratio	0.13:1	0.22:1	0.67:1
Cash flow before financing	13,177	68,186	61,393

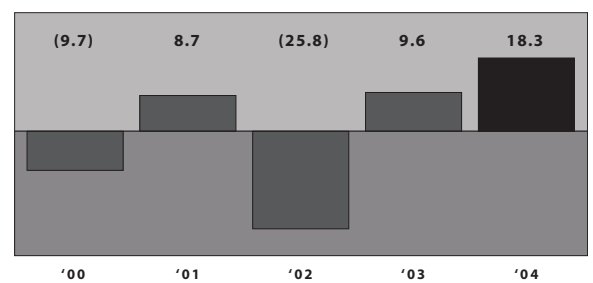
Revenue

(in millions of dollars)



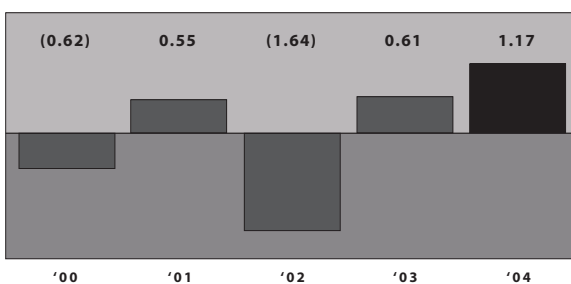
Net earnings (loss)

(in millions of dollars)



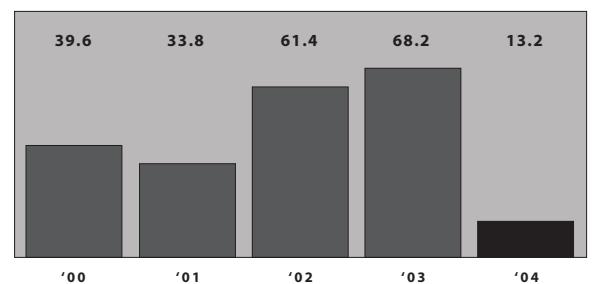
Net earnings (loss) per share – Basic

(in dollars)



Cash flow before financing

(in millions of dollars)



MESSAGE TO SHAREHOLDERS

“ We are entering 2005 in a strong capital position and with a renewed commitment to growing revenues and delivering sustainable earnings.”

2004's earnings performance was the best in seven years and reflects our continued adherence to the disciplines initiated in 2002 to return the company's profitability to an acceptable level. This focus on business fundamentals as well as the implementation of growth and profit improvement strategies in each core business contributed to these solid results.

The profit improvement performance in 2004 was attributable to the Industrial Components division in particular. Mobile Equipment also contributed improved earnings, while Diesel Engines delivered another dependable year of good returns. As well in 2004, we further strengthened our balance sheet by reducing funded debt, net of cash, by nearly \$13 million and achieving a debt to equity ratio of 0.13:1 at year-end. We are entering 2005 in a strong capital position and with a renewed commitment to growing revenues and delivering sustainable earnings.

2004 in Review

Net earnings rose 91% to \$18.3 million, or \$1.17 per share, on revenues of \$928.2 million, up 5% from the year before as the company benefited from its profit improvement initiatives and strong industry fundamentals in a number of sectors, particularly the oil and gas business in western Canada. This revenue increase was all the more impressive as the strengthening Canadian currency relative to the U.S. dollar had the effect of decreasing consolidated revenues by \$30 million in 2004.

Industrial Components

We are especially pleased with the turnaround in the Industrial Components division which, after posting a loss of \$9.1 million in 2002, recorded segment earnings of \$1.3 million in 2003 and \$8.7 million in 2004. For several years we



Neil D. Manning
President and
Chief Executive Officer



Paul D. Sobey
Chairman of the Board

have identified this business as presenting Wajax with its greatest opportunity for growth, while at the same time acknowledging it as our greatest challenge and overriding priority. Major strides have been made in restoring a solid operational foundation for the business and it continues to offer considerable potential for revenue and earnings growth. We will continue to exploit the division's extensive branch network to assist in securing and servicing national contracts. As well, we will expand the offerings of products and services currently provided in certain branches in order to build market share. In promising markets where we are under-represented, we will open new branches or take advantage of the fragmented nature of the market to supplement organic growth with selective smaller scale acquisitions. Vendor consolidation and better pricing disciplines should further contribute to margin improvements in this division.

Mobile Equipment

The Mobile Equipment division was the largest contributor to the company's earnings last year, with revenues increasing 2.3% and segment earnings up 23.5% to \$22.6 million. Forestry and construction equipment volumes were strong across the country and more than offset a decline in mining equipment sales. Mining sales fell year-over-year because of some very large deliveries in 2003 but our sales in this sector remain strong. We recently announced the receipt of product and support orders for Hitachi mining equipment from North American Construction Group and for LeTourneau mining equipment from Elk Valley Coal Corporation, having a combined estimated equipment and product support value of nearly \$157 million over the assumed eight-year life of the contracts, with the equipment value equal to approximately one-half of the total.

Our access to expanded product offerings from Hitachi and LeTourneau positions the company well for increased sales in the current and future years, assuming a continuation of the robust level of activity in the mining sector.

Last year we indicated that it would be important to expand our market share in the construction and material handling segments in order to achieve substantial growth in financial performance. During 2004 we secured expanded distribution rights for the JCB construction line in British Columbia, Saskatchewan, Manitoba and parts of northern Ontario, in addition to our existing territories in Quebec and the Maritimes. We also acquired a London-based JCB dealer to broaden our geographic reach to include parts of southwestern Ontario. The combination of the JCB construction and Hitachi excavator lines will allow the company to target a broader group of customers and to compete on a more even footing with full line distributors.

On the forestry side, our decision to phase out of the Timberjack product line was a difficult but correct decision due to the manufacturer's lack of endorsement for a long-term continuation of its dual branding strategy. Replacement products offered by Direct Technologies and Logset will enable the company to expand its geographic coverage of the Canadian forestry market and offer a wide range of quality products to begin to replace the revenue stream represented by Timberjack.

Looking ahead, we expect mobile equipment sales will continue to rise as our key markets are expected to remain strong for the foreseeable future.

Diesel Engines

Once again in 2004, our Diesel Engines business has performed well as sales rose nearly 3% primarily due to higher equipment and parts and service sales in the western Canadian oil and gas sector. However, as the sales increase was generated primarily by lower margin equipment sales, segment earnings declined slightly from \$15.7 million to \$15.2 million. We expect our diesel engine distributors in Alberta and Quebec and the Maritimes will produce another year of strong stable earnings and cash flow in 2005 as they take on niche products to supplement organic growth opportunities.

Growing Stronger

Each of our well-managed core businesses has unique opportunities and advantages which we will continue to develop through revenue growth and margin improvement initiatives. The positive momentum generated in the last several years has provided the company with the financial ability to be able to make smaller scale accretive acquisitions when appropriate to expand its market presence or introduce complementary new products or services for customers. We are optimistic about prospects for 2005 as fundamentals remain positive in the majority of industrial segments in which we operate.

Subsequent to year end, it was announced that a special meeting would be called at which shareholders would be asked to approve the conversion of the company to an income fund. We believe that implementation of the conversion will further enhance shareholder value. The income fund model is well suited to the company as it has low ongoing capital requirements relative to its ability to generate cash flow. The resulting structure will provide an efficient model for the support of operations and for the return of excess cash flow to unitholders. Moreover, it is anticipated fund units will be valued more favourably and will offer a more liquid investment opportunity than Wajax shares.

Acknowledgements

The company is fortunate to enjoy the support of an engaged and independent Board of Directors. We also wish to acknowledge the employees of Wajax for their considerable efforts and commitment over the past year and our shareholders for their ongoing support.



Paul D. Sobey
Chairman of the Board



Neil D. Manning
President and Chief Executive Officer

Mobile Equipment is more than big trucks.

Our Mobile Equipment business offers an extensive lineup of equipment from world class manufacturers including JCB, Hitachi, Hyster, LeTourneau, Palfinger and many others. We customize our products for specific industries and applications, and we service everything we sell 24-hours a day, seven days a week. In addition to large trucks designed for mining and other applications, we sell specialized equipment for the forestry, construction, utility and numerous other industries across Canada.

Organic growth will come from expanding our JCB distribution into western Canada and northern Ontario while leveraging the acquisition of our new distributor in southwestern Ontario. We will take on new and exclusive product lines targeted at specific niche markets in which we have a strong presence. For example, additions of a new, larger Hitachi mining truck and mining shovel position us for continued growth in western oil sands projects, while new LeTourneau products are proving very popular in a number of industries served by Wajax.

To expand our market share, we will build on the success generated by the Hitachi excavator and Hyster forklift lines, while leveraging the inroads made with our Hitachi products in western Canadian construction markets into other regions across the country. To increase profitability, we will continue our focus on after-sale parts and service while targeting sales of higher margin OEM equipment.

**It is a network of 31 sales and service
branches with 965 employees.**

We significantly expanded our relationship with JCB in 2004 and will be building on this progress by featuring a number of its high quality, unique products designed for specific industry applications. For example, this JCB Telehandler provides customers with many different options to meet their material handling requirements. Its extendible boom and wide range of front loading features provide flexibility in height and reach for a variety of functions.

Our new and expanded line of Hyster Fortis Series products presents a breakthrough in how lift trucks are designed, built and used. Hyster's commitment to quality and dependability incorporates proven processes and systems to ensure the toughest most durable designs. Lift trucks represent one of our largest revenue sources, and our strong relationship with one of the world's leading manufacturers ensures we have the right products for all applications.



Industrial Components is more than a distributor of parts.

With a network of 64 distribution, repair and service branches across Canada and the northwestern US, we are a valued supplier to businesses looking to keep their plants running efficiently and smoothly through the timely supply of bearings, power transmission products, hydraulic systems and components, and process pumps. More than just a distributor of parts, we work closely with our customers to ensure we keep their plants efficient by lowering downtime and overall operating costs.

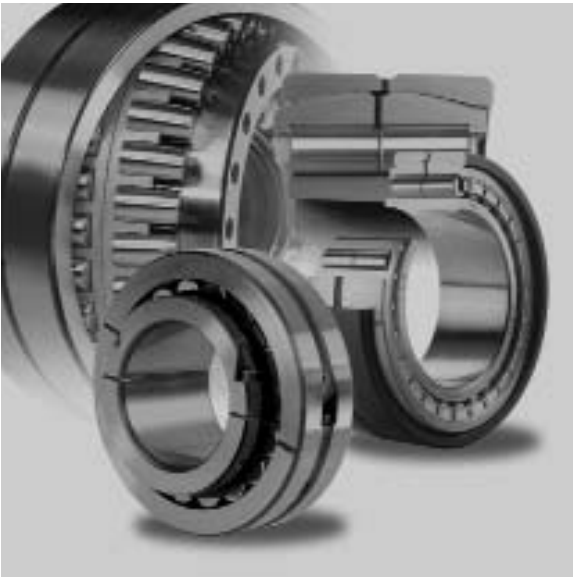
While the Kinacor unit of Industrial Components is the largest distributor of its kind in Canada, its estimated market share is only 10%. There are many opportunities for organic growth, particularly in bearings and power transmission products in southern Ontario and western Canada. Our strategy is to build market share through our new branch in Guelph and to expand our successful national accounts program.

This division has shown substantial improvement in profitability over the past two years, however there remains more upside potential in bottom line results. Our focus will be on margin improvement through better pricing and lower purchasing costs. We are looking to consolidate our vendors and to source more product from off-shore suppliers. We are also seeking to improve productivity by simplifying and re-engineering our business processes.

**It is a great opportunity for continued growth
in sales and market share.**

We provide a wide range of bearings for a multitude of applications. The split spherical bearing shown below, used primarily in paper mills and rolling mills, was designed to be installed at low cost and without any major equipment downtime. Where a bearing replacement may involve withdrawing gear wheels and couplings, dismantling drives and disassembling shafts, split bearings can be installed without this costly and time consuming work.

More than just a supplier of parts, we also leverage our expertise and experience to work closely with our customers to design and manufacture solutions that meet their specific needs. Pictured below is a custom-built hydraulic power unit, engineered and built in our Nisku, Alberta branch to meet our customer's challenging space constraints. The unit serves as the primary power source for the drawworks system on a drilling rig.



Diesel Engines are used in more than transportation.

Diesel engines are widely recognized for powering large transport trucks. They also power numerous other modes of transportation vehicles in a wide variety of industries including agriculture, construction, forestry, marine, military, mining and petroleum, as well as serving power generation markets. Combining decades of practical field experience, technical proficiency and innovative engineering, our products and our people power Canadian industry.

More than just diesel engines for transportation, we are also authorized distributors for Allison Transmission, the world's leading manufacturer of heavy duty automatic transmissions, and more recently we became the Canadian distributor for GE Energy – a world leader in natural gas engine technology.

Organic growth in our business continues to come from our many parts and service outlets located in western Canada, Quebec and the Maritimes. We have added new niche product lines across our entire branch network that complement our core offerings. We work closely with our manufacturers and will continue to leverage our strong partnerships going forward to meet customer and industry needs.

To enhance profitability, we will focus on growing our highly stable and sustainable parts and service business, capitalizing on the solid growth in equipment sales generated over the last several years.

**They produce power for a wide range
of industrial applications.**

Pictured below is a section of the MTU / Detroit Diesel Series 4000 engine, the largest power plant we offer. The cylinder heads shown are just four of the twenty that drive this 3,650 horsepower diesel engine which is used to power large haul trucks in such industries as mining and construction, as well as a number of power generating applications.

Our highly-skilled service and maintenance technicians provide 24-hour-a-day, seven-day-a-week availability to our customers. Performing everything from routine maintenance to sophisticated diagnostics and engine repairs, our people cover all of our geographic markets, ensuring our customers' equipment is performing at maximum efficiency.



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MANAGEMENT'S DISCUSSION AND ANALYSIS

The following discussion should be read in conjunction with the Company's Consolidated Financial Statements and accompanying Notes. Unless otherwise indicated, all financial information is in millions of dollars, except per share data.

RESULTS OF OPERATIONS

Consolidated results	04	03
Revenue	\$ 928.2	\$ 884.0
Net earnings	\$ 18.3	\$ 9.6

Basic and diluted earnings per share	04	03
Basic	\$ 1.17	\$ 0.61
Diluted	\$ 1.14	\$ 0.61

Revenue of \$928.2 million in 2004 increased 5%, or \$44.2 million, from \$884.0 million in 2003. The strengthening Canadian dollar relative to the U.S. dollar had the effect of decreasing 2004 consolidated revenues by \$30 million. Canadian operations realized lower sales dollars per unit on U.S. sourced products and Spencer's U.S. dollar revenues were translated to Canadian dollars at a lower exchange rate. Net earnings increased \$8.7 million to \$18.3 million, or \$1.17 per share, in 2004 compared to \$9.6 million, or \$0.61 per share, recorded the previous year.

REVENUE BY GEOGRAPHIC REGION

■ Eastern Canada	54%
■ Western Canada	40%
■ Western United States	6%



REVENUE BY SEGMENT

■ Mobile Equipment	48%
■ Industrial Components	33%
■ Diesel Engines	19%



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

- Mobile Equipment increased earnings by 23%, or \$4.3 million, compared to last year. A 17% increase in forestry and construction revenues was offset, in part, by revenue reductions in other sectors.
- Earnings in Industrial Components increased \$7.4 million in the year resulting from an 11% increase in revenues and higher margins offset, in part, by an increase in selling and administrative costs compared to last year.
- Revenues in Diesel Engines increased \$4.8 million year-over-year, however, earnings declined \$0.5 million as a result of higher selling and administrative costs.
- Consolidated selling and administrative expenses increased \$8.0 million due to increased volumes and a \$1.6 million increase in corporate costs due mainly to accruals for long-term incentive costs based on changes in the Company's share price.
- An increase in consolidated earnings and a \$4.3 million favourable translation adjustment of U.S. denominated debt resulted in funded debt, net of cash, declining by \$12.6 million to \$26.2 million compared to last year. As a result, the Company's year-end debt-to-equity ratio of 0.13:1 improved from last year's ratio of 0.22:1.

M A N A G E M E N T ' S D I S C U S S I O N A N D A N A L Y S I S

- Interest expense for the year ended December 31, 2004 was \$7.5 million compared to \$10.9 million the previous year. The \$3.4 million reduction was due mainly to the decline of almost \$41.9 million in the average amount of funded debt outstanding during the year and lower deferred financing cost amortization.
- The Company's effective income tax rate of 40.5% was greater than the Company's statutory income tax rate of 34.9% due to large corporations' tax and other expenses not deductible for tax purposes.

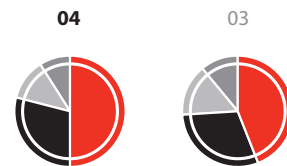
During 2004, dividends totaling \$0.16 per share were issued and paid. There were no dividends paid in 2003. The Company has declared a dividend of \$0.07 per share payable on March 31, 2005.

MOBILE EQUIPMENT

	04	03
Equipment sales	\$ 298.1	\$ 294.5
Parts and service	\$ 150.7	\$ 144.4
Gross revenue	\$ 448.8	\$ 438.9
Segment earnings	\$ 22.6	\$ 18.3

REVENUE BY MARKET 2004 VERSUS 2003

Market	04	03
■ Construction & Forestry	50%	44%
■ Material Handling	29%	30%
■ Mining/Oil & Gas	12%	15%
■ Crane & Utility	9%	11%



Revenue increased \$9.9 million to \$448.8 million in 2004 from \$438.9 million in 2003. The strengthening Canadian dollar relative to the U.S. dollar had the effect of decreasing Mobile Equipment revenues by \$16.1 million for the year. Segment earnings increased 23%, or \$4.3 million, from \$18.3 million to \$22.6 million in 2004. The following factors contributed to the results:

- Revenues in western Canada increased 9%, or \$16.9 million, over last year. Equipment revenues increased by \$11.4 million, or 9%, year-over-year. This increase was driven by a \$21.7 million, or 31% increase in forestry and construction equipment volumes mainly attributable to an \$18.4 million increase in Hitachi excavator sales, and a \$1.3 million increase in crane and utility revenue. These gains were offset, in part, by a \$9.1 million reduction in mining equipment sales due to a large mining package sold in 2003 and a \$2.5 million reduction in material handling revenue due to fewer truck deliveries in 2004. Parts and service revenues increased \$5.5 million, or 9%, due to targeted revenue initiatives and several major rebuilds of large mining machines during the year.
- Earnings in western Canada increased by \$3.1 million, compared to last year, as the impact of higher revenues coupled with higher margins were somewhat offset by a \$1.1 million, largely revenue related, increase in selling and administrative expenses.
- Revenues in eastern Canada decreased \$7.0 million, or 3%, compared to last year due to a \$7.8 million reduction in equipment volumes. A \$9.9 million increase in forestry and construction equipment sales, including a \$6.1 million increase in Hitachi excavator sales, was more than offset by a \$14.2 million decrease in crane and utility equipment sales resulting from fewer deliveries to provincial hydro utilities, a \$3.2 million reduction in mining equipment revenues

MANAGEMENT'S DISCUSSION AND ANALYSIS

due to the sale of a large LeTourneau loader in 2003, and a \$0.3 million decline in material handling revenues. Parts and service revenues increased \$0.8 million compared to last year.

- Earnings in eastern Canada increased \$1.2 million as higher margins more than offset the impact of reduced volumes and higher selling and administrative costs of \$0.6 million compared to last year. Higher margins resulted from the favourable impact of the stronger Canadian dollar on U.S. dollar parts purchases and a lower equipment obsolescence provision offset, in part, by higher rental fleet maintenance expenses.

As part of the segment's 2004 objective to supplement the Hitachi excavator line, effective May 1, 2004 the Company obtained distribution rights to the JCB equipment line in northern Ontario, Manitoba, Saskatchewan and most of British Columbia. Prior to this, the Company represented JCB in Quebec and in the Maritimes. Effective August 4, 2004 the distribution of the JCB line was expanded to include the Lower Mainland and Vancouver Island in British Columbia. In addition, on October 7, 2004 the Company purchased a JCB distributor in southwestern Ontario which is anticipated to increase revenues by more than \$4 million annually. JCB is one of the largest manufacturers of construction equipment in the world, doing business in 150 countries. It has a broad line of construction and utility products with 160 models in ten different product ranges including wheel loaders, backhoes, telehandlers and skid steers.

The Company has recently received two large mining equipment product and support orders. Wajax has received an order from North American Construction Group (NACG) for fifteen 330 ton Hitachi mining trucks and two 800 ton Hitachi hydraulic shovels over the next sixteen months for use in a major oil sands project in the Fort McMurray, Alberta area. The Company also expects to enter into a long-term parts support agreement with NACG for this equipment. The Company will also supply Elk Valley Coal Corporation four pieces of LeTourneau mining equipment over the next six months. In addition the equipment will be operated through an eight year product support program. Total sales value for the equipment and product support for both of these customers is estimated to be approximately \$157 million over the life of the agreements, with the equipment sales value equal to approximately one half of the total.

Effective March 1, 2005, the Company will phase out its distribution of Timberjack forestry products in northern Ontario, Manitoba and the Maritimes. To replace this line, the Company has secured distribution rights for the Direct Technologies line of tracked feller bunchers and harvesters, and the Logset forwarder and wheeled harvester line for most of Canada. As these two lines are relatively new to the Canadian market place, replacing the Timberjack revenues will not be immediate; however, they give the Company access to a much larger portion of the Canadian forestry market. Revenues from the Timberjack forestry line in 2004 were approximately \$35 million. The Company estimates that this change will reduce 2005 revenue and earnings by approximately \$15 million and \$1.5 million respectively.

In 2004 Mobile Equipment took a number of important steps intended to solidify its competitive position and lay the groundwork for future growth. Going forward, this segment expects growth in revenue and earnings to be principally driven by the following initiatives;

- In the forestry and construction sector, growing the JCB, Hitachi, Direct and Logset product lines. It is expected that the recent increase in the representation of the JCB construction equipment line in many parts of Canada will result in significant increases in sales of this product line which represented approximately \$13 million of revenue in 2004. The Company also has plans to increase its market share of Hitachi excavators in eastern Canada with particular emphasis on southern Ontario.

M A N A G E M E N T ' S D I S C U S S I O N A N D A N A L Y S I S

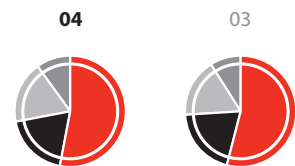
- It is expected that the recently expanded product offerings from Hitachi mining and LeTourneau will lead to increased sales in the already buoyant Canadian mining sector. In 2003, Hitachi introduced a 320 ton electric drive mine haul truck, its largest offering to-date. As well, its first 800 ton hydraulic shovel was placed into the Alberta oil sands on a trial basis in the fourth quarter of 2004. As evidenced by the recent sale to North American Construction Group, management believes these products strengthen the Company's competitive position in the Alberta oil sands sector. Also, the line of large Letourneau loaders has been recently expanded to include a smaller sized loader that is expected to broaden the applications of use for the LeTourneau mining equipment line. Apart from the oil sands, the Hitachi and LeTourneau mining lines have application to all other types of surface mining, including coal, gold, diamonds and iron ore.
- This segment expects to gain market share in the material handling sector through expanding its rental fleet in western Canada and by capitalizing on the recently redesigned forklift line from its supplier, Hyster.
- Management will continue to focus on growing the higher margin after-market parts and service side of the business in all sectors through the expansion of its dedicated after-market sales force.
- Management will continue to evaluate acquisition opportunities that will either broaden the geographic representation of certain product lines or add complementary lines to the existing business.

INDUSTRIAL COMPONENTS

	04	03
Canada – Kinecor	\$ 253.0	\$ 229.0
United States – Spencer	\$ 56.8	\$ 51.1
Gross revenue	\$ 309.8	\$ 280.1
Canada – Kinecor	\$ 7.6	\$ 4.2
United States – Spencer	\$ 1.1	\$ (2.9)
Segment earnings	\$ 8.7	\$ 1.3

REVENUE BY MARKET 2004 VERSUS 2003

Market	04	03
■ Industrial/Commercial	53%	54%
■ Forestry	19%	20%
■ Mining/Oil & Gas	18%	17%
■ Other	10%	9%



Revenue increased \$29.7 million, or 11%, to \$309.8 million from \$280.1 million in 2003. The strengthening Canadian dollar relative to the U.S. dollar had the effect of decreasing Industrial Components revenues by \$8.8 million for the year. Segment earnings increased by \$7.4 million to \$8.7 million in 2004 compared to \$1.3 million in 2003.

The year-over-year changes in revenues and earnings were a result of the following factors:

- Revenues in Kinecor increased \$24.0 million, or 10%, to \$253.0 million in 2004. Bearings and power transmission parts volumes increased \$13.2 million as a result of customers entering into new long-term supply contracts, opening of new branches in Rimouski, Quebec and Guelph, Ontario, additions to the sales force in western Canada, and increased activity in eastern Canada's steel and forestry sectors. Hydraulic parts and service revenues increased by \$10.8 million,

MANAGEMENT'S DISCUSSION AND ANALYSIS

or 15%, due to strong results in western Canada's oil and gas sector, the acquisition of PMDF in late 2003, and the opening of the Guelph branch.

- Kinector's earnings increased \$3.4 million to \$7.6 million in 2004 as improved hydraulic margins and higher sales volumes were offset by higher selling and administrative expenses. Selling and administrative expenses increased by \$4.8 million primarily as a result of additional personnel costs required to support the increased volumes, new branches opened, additional headcount associated with the PMDF acquisition in late 2003 and severance costs, offset in part by lower bad debt and telecommunication expenses compared to last year.
- Revenues in Spencer, a U.S. based hydraulics business, increased 11% (20% on a U.S. dollar basis) to \$56.8 million compared to \$51.1 million last year due mainly to higher parts sales to OEMs and increased mining parts and service revenues. Earnings improved by \$4.0 million to \$1.1 million from a loss of \$2.9 million in 2003 due to the positive volume variances, higher margins primarily as a result of increased growth related supplier rebates and inventory adjustments, and lower selling and administrative expenses compared to last year. The lower selling and administrative expenses resulted from lower computer system depreciation and other cost reductions.

Over the last couple of years management has taken considerable steps in an effort to restore an acceptable level of profitability in Industrial Components. Although a great deal of progress has been made, management is of the view that further potential exists to increase revenues and profitability in this segment. The Company's future revenue and earnings growth plans include the following initiatives:

- Increase market share of bearings and power transmission products. Management is of the view that Kinector is well positioned in the Quebec and northern Ontario markets of this sector, however, it is under-penetrated in southern Ontario and western Canada. The Company will focus on building market share by adding bearing sales specialists in these areas and in some cases by opening new branches. At the end of 2003, a new branch was opened in Guelph, Ontario as part of this strategy.
- In the Hydraulics segment, Kinector's business has been focused primarily on servicing customers in the maintenance, repair & operations (MRO) sector. The Company also believes there is an opportunity to expand its presence in the mobile sector. To this end, in 2003 Kinector purchased PMDF, a small Quebec based distributor which imports certain hydraulic components from China and Eastern Europe for distribution in the mobile sector in Canada. During 2004, PMDF was integrated into Kinector's operations and renamed Hy-Spec.
- A large portion of Kinector's revenues (approximately 30%) are derived from large customers under national contracts. The Company's vast branch network enables it to effectively service these customers with multiple locations. Management believes there is ample opportunity to build its business with these types of customers as existing contracts come up for renewal.
- Consolidating domestic vendors represents a product cost reduction opportunity that is in the early stages of implementation. This opportunity exists due to the previously decentralized purchasing function that Kinector had employed until recently. Coupled with this initiative is the accessibility the Hy-Spec division gives Kinector and Spencer to high quality, lower cost off-shore products. The Hy-Spec offering of mobile hydraulic products is planned to be expanded to include MRO hydraulic products as well as non-branded bearings and power transmission parts.

M A N A G E M E N T ' S D I S C U S S I O N A N D A N A L Y S I S

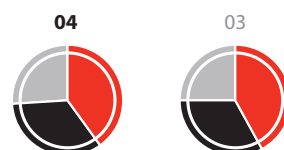
- Pricing decisions have been the responsibility of each local branch's inside and outside sales representatives. Management is currently introducing regional pricing matrices which are intended to improve margins through better controlled pricing decisions.
- Given the fragmented Canadian market, consolidation acquisition opportunities are believed to be considerable. Acquisition opportunities will be focused on under-represented markets and organizations having similar or complementary product lines.

DIESEL ENGINES

	04	03
Equipment sales	\$ 73.5	\$ 63.1
Parts and service	\$ 98.2	\$ 103.8
Gross revenue	\$ 171.7	\$ 166.9
Segment earnings	\$ 15.2	\$ 15.7

REVENUE BY MARKET 2004 VERSUS 2003

Market	04	03
■ On-highway transportation	40%	42%
■ Mining/Oil & Gas	34%	33%
■ Industrial/Commercial/Other	26%	25%



Revenues increased \$4.8 million to \$171.7 million from \$166.9 million in 2003. The strengthening Canadian dollar relative to the U.S. dollar had the effect of decreasing Diesel Engine revenues by \$5.1 million for the year. Earnings decreased \$0.5 million to \$15.2 million compared to \$15.7 million the previous year. The following events affected revenues and earnings:

- Revenues at the Waterous operation in Alberta increased \$9.0 million, or 10%, compared to 2003. Equipment sales improved \$8.8 million due mainly to increases in sales to the oil and gas sector. Parts and service revenues increased \$0.2 million as an increase in truck shop activity more than offset the impact of lower parts sales to Freightliner dealers and fewer engine rebuilds compared to last year.
- Revenues at the Company's Quebec and Maritimes operation, Detroit Diesel-Allison Canada East, decreased \$4.2 million or 5% compared to 2003. Lower parts sales to Freightliner dealers and a general softness in the economy, more than offset increases from the Moncton branch which opened in late 2003 and an increase in generator set sales compared to last year.
- Segment earnings decreased \$0.5 million as the positive impact of higher volumes was offset by higher selling and administrative expenses at Waterous which included higher personnel costs and other volume related expenses.

The Company's two Detroit Diesel distributorships have traditionally yielded strong and stable earnings and cash flows. Management believes organic revenue growth opportunities centre on adding niche products to complement their core offering of Detroit Diesel (DDC) engines, Allison transmissions and Kohler and DDC generators. These niche product opportunities include a biogas engine line and heating and cooling truck cab products. As well, over time, these organizations will continue to focus on the retail after-market and continue to add replacement facilities which should better position them to capture a greater share of the parts and service market in the on-highway market segment.

MANAGEMENT'S DISCUSSION AND ANALYSIS

QUARTERLY RESULTS OF OPERATIONS

	04				03*			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Revenue	\$210.9	\$238.1	\$230.0	\$249.2	\$ 218.3	\$ 227.0	\$ 207.8	\$ 230.9
Net earnings	\$ 2.5	\$ 4.6	\$ 5.2	\$ 6.0	\$ 1.1	\$ 2.5	\$ 2.6	\$ 3.4
Net earnings per share								
– Basic	\$ 0.16	\$ 0.29	\$ 0.33	\$ 0.38	\$ 0.07	\$ 0.16	\$ 0.17	\$ 0.22
– Diluted	\$ 0.16	\$ 0.28	\$ 0.33	\$ 0.37	\$ 0.07	\$ 0.16	\$ 0.16	\$ 0.22

* Restated. See Note 3 in the 2004 Consolidated Financial Statements.

A discussion of the Company's quarterly results can be found in the Company's quarterly Management's Discussion and Analysis reports available on SEDAR at www.sedar.com.

SELECTED ANNUAL INFORMATION

	04	03*	02
Revenues	\$ 928.2	\$ 884.0	\$ 908.8
Net earnings (loss)	18.3	9.6	(25.8)
Net earnings (loss) per share			
– Basic	1.17	0.61	(1.64)
– Diluted	1.14	0.61	(1.64)
Total assets	439.8	409.7	442.0
Long-term liabilities	76.5	84.6	101.1
Dividends per share	\$ 0.16	nil	nil

* Restated. See Note 3 in the 2004 Consolidated Financial Statements.

Revenues of \$884.0 million in 2003 decreased from \$908.8 million in 2002. Excluding revenues from Pacific North Equipment Co., the U.S. Mobile Equipment operation sold in October 2002, revenues increased \$39.4 million, or 4.7%, year-over-year. Increases in Canada's Mobile Equipment business of \$48.9 million, were driven by a \$43.9 million increase in equipment sales and a \$5.0 million increase in parts and service volumes. Offsetting these increases were reductions in Industrial Components revenues of \$12.9 million due mainly to lower bearings volumes in Kinacor and a \$5.4 million negative impact of converting Spencer's U.S dollar revenues at a lower exchange rate compared to the previous year. Diesel Engines revenues remained flat in 2003 compared to 2002.

Earnings increased \$35.4 million to \$9.6 million, or \$0.61 per share, in 2003 from a net loss of \$25.8 million, or \$1.64 per share, in 2002. The increase was driven by other items totaling \$17.4 million after tax in 2002, increased volumes in Mobile Equipment's Canadian operations and the positive impact of higher margins and lower selling and administrative expenses in Industrial Components. These factors were offset, in part, by lower earnings in Diesel Engines due principally to higher occupancy costs. The other items in 2002 included an after tax charge of \$15.7 million for the write-down of a computer system and a \$1.7 million after tax charge representing a net provision for restructuring costs.

Total assets of \$409.7 million at December 31, 2003 declined \$32.3 million from December 31, 2002 due mainly to lower inventory levels. Long-term liabilities declined \$24.6 million from December 31, 2002 to December 31, 2004 due primarily to an \$18.5 million reduction in the U.S. senior notes resulting from the translation into Canadian dollars at a lower exchange rate and principal debenture payments of \$9.0 million.

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOURTH QUARTER RESULTS

A discussion of the fourth quarter results can be found in the Company's Management's Discussion and Analysis for the fourth quarter ending December 31, 2004 on SEDAR at www.sedar.com.

LIQUIDITY AND CAPITAL RESOURCES

The Company generated \$13.2 million of cash flow before financing activities in 2004, compared to \$68.2 million in 2003. The \$55.0 million decrease in cash flows before financing activities was due to an increase in working capital and investing activities, offset in part by additional cash flows from earnings compared to last year.

Cash provided by operating activities was \$23.3 million. \$31.1 million of cash generated from operating earnings was offset, in part, by a \$7.8 million increase in non-cash working capital before the impact of changes in foreign currency translation rates. Significant components of the increase in non-cash working capital are as follows:

- Accounts receivable increased by \$9.5 million as a result of the higher sales volumes.
- Inventory increased by \$17.9 million in all segments. In particular, Mobile Equipment inventories increased primarily as a result of inventory purchased to support the additional JCB territory acquired in 2004, mining equipment that was to be delivered in early 2005 and higher sales volumes. In Industrial Components and the western Canada operations of Diesel Engines, inventories increased as a result of higher sales volumes.
- Accounts payable and accrued liabilities increased \$14.5 million during the year as a result of higher inventory levels.
- Income taxes payable increased \$6.6 million due to current taxes payable exceeding tax installments made in the year.

Working capital, exclusive of funded debt and cash, increased \$6.7 million to \$122.7 million at December 31, 2004 from \$116.0 million at December 31, 2003. The increase is due to the cash flow factors listed above and the decrease in the year-end foreign exchange rate compared to 2003.

The Company reinvested \$10.1 million of the cash provided by operating activities. The major investing activities were \$6.7 million for lift truck rental fleet additions in Mobile Equipment, \$3.8 million for other various capital asset additions, and the acquisitions of XR Equipment Ltd., a JCB distributor, and a small industrial components distributor in eastern Canada totaling \$1.1 million.

Total funded debt outstanding, net of cash, at the end of 2004, was \$26.2 million, a \$12.6 million reduction from the previous year. Of this reduction, \$4.3 million resulted from the translation of the U.S. senior notes into Canadian dollars at a lower exchange rate compared to last year. The Company's debt-to-equity ratio improved from 0.22:1 at December 31, 2003 to 0.13:1 at December 31, 2004.

As at December 31, 2004, the Company had the following secured credit facilities in place:

- A \$20 million 364-day revolving secured bank borrowing facility, which expires December 16, 2005. Borrowing capacity under the facility is dependent upon the level of the Company's inventories on hand and the outstanding trade accounts receivable. This facility bears floating interest rates at a margin over Canadian dollar and U.S. dollar bankers' acceptances.
- Senior notes totaling U.S. \$50 million, issued in 1997 having a fixed interest rate of 7.62% and a bullet maturity in 2007.

MANAGEMENT'S DISCUSSION AND ANALYSIS

- Series I and Series II mortgage-style debentures issued in 1994 and 1996 respectively. The Series I debentures, maturing in 2009, bear a fixed interest rate of 10.69% and had an outstanding principal balance of \$11.6 million at December 31, 2004. The Series II debentures, maturing in 2006, bear a fixed interest rate of 8.66% and had an outstanding principal balance of \$4.3 million at December 31, 2004.

At December 31, 2004 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 \$49.4 million at year-end along with the \$20 million bank facility and cash generated from earnings during 2005 will provide sufficient cash flow to meet the Company's short-term cash requirements and longer term growth initiatives.

Wajax Finance, a "private label" financing operation of CIT Equipment Financing Canada, is used primarily to provide customers of the Mobile Equipment segment with equipment financing. In addition, the Mobile Equipment segment leases its long-term lift truck rental fleet through Wajax Finance and will periodically finance inventory with Wajax Finance on a non-interest bearing basis. The Company's association with Wajax Finance is limited to a sharing of annual profits; any losses are financed by CIT and deducted from future profit distributions to the Company. In the event the Wajax Finance program is terminated, the Company's liability would be limited to amounts owing to Wajax Finance for the rental fleet, any inventory financed at the time of termination and any contingent contractual obligations (see the Contractual Obligations section below). In addition, the Company has in place a \$10 million demand facility with an equipment financing company to finance inventory in the Mobile Equipment segment.

The Mobile Equipment segment had possession of \$57.3 million of consigned inventory from a major manufacturer at December 31, 2004 compared to \$38.8 million the previous year. This inventory is not included in the Company's inventory as the manufacturer has title to the inventory.

During the year the Company paid dividends of \$0.16 per share. In the first quarter of 2005, the Company will pay a dividend of \$0.07 per share on March 31, 2005, to shareholders of record on March 15, 2005. No dividends on common shares were paid in 2003 or 2002.

FINANCIAL INSTRUMENTS

The Company's financial instruments are detailed in Note 10 to the Consolidated Financial Statements. The Company uses derivative financial instruments in the management of its foreign currency and interest rate exposures as described in Note 2 to the Consolidated Financial Statements. The Company's policy is not to utilize derivative financial instruments for trading or speculative purposes. Significant transactions during the year include the following:

- 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. On March 31, 2004 the Company entered into short-term foreign currency forward contracts to buy \$30 million U.S. dollars on March 31, 2005 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 fair value of the forward contracts at December 31, 2004 is estimated at \$3.7 million and is recorded as a liability in accounts payable and accrued liabilities.

M A N A G E M E N T ' S D I S C U S S I O N A N D A N A L Y S I S

CONTRACTUAL OBLIGATIONS

Contractual Obligation	Total	2005	2006	2007	2008	2009	After 2009
Long-term debt	\$ 75.6	\$ 4.7	\$ 3.6	\$ 62.0	\$ 2.5	\$ 2.8	\$ –
Operating leases	\$ 79.6	\$ 19.2	\$ 15.8	\$ 11.9	\$ 8.3	\$ 4.6	\$ 19.8
Total	\$ 155.2	\$ 23.9	\$ 19.4	\$ 73.9	\$ 10.8	\$ 7.4	\$ 19.8

The long-term debt obligation in 2007 relates primarily to the U.S. \$50 million bullet principal repayment of the U.S. senior notes and other annual long-term debt payments on account of the mortgage-style debentures. For more information on the Company's operating lease obligations, see the Off Balance Sheet Financing section below.

The Company also has contingent contractual obligations where the Company has guaranteed the resale value of equipment sold ("guaranteed residual value contracts"), has guaranteed a portion of customers' lease payments ("recourse contracts") or agreed to buy back equipment from customers at the option of the customer for a specified price at future dates ("buy-back contracts"). The Company has recorded a \$0.5 million provision in 2004 (2003 – \$0.9) as an estimate of the financial exposure likely to result from such commitments.

OFF BALANCE SHEET FINANCING

Off balance sheet financing arrangements are limited to operating lease contracts in relation to the Company's facilities, long-term lift truck rental fleet in Mobile Equipment, vehicles and other equipment. The total obligations for all operating leases are detailed in the Contractual Obligations section above. At December 31, 2004, the non-discounted operating lease commitments for facilities totaled \$51.2 million, rental fleet \$18.0 million, vehicles \$7.9 million and other equipment \$2.5 million.

Although the Company's consolidated contractual annual lease commitments decline year-by-year, it is anticipated that existing leases will either be renewed or replaced, resulting in lease commitments being sustained at current levels. In the alternative, the Company may incur capital expenditures to acquire equivalent capacity.

SHARE CAPITAL

The Company is authorized to issue an unlimited number of preferred shares without nominal or par value, issuable in series, and an unlimited number of common shares without nominal or par value.

Issued and fully paid common shares:	Number of Shares	Amount
December 31, 2004	15,739,460	\$ 102.4

The Company has a plan in place to grant options to employees and officers to purchase common shares of the Company. The aggregate number of common share options that may be issued by the Company is limited to 1,400,000. All options expire within ten years and, unless otherwise determined by the Board of Directors, 20% of the options issued prior to 2001 vest at the end of each of the first five years following the date on which the options were granted. In addition to time conditions, the vesting of all options issued in 2001 through December 31, 2004 has also been made contingent on the Company meeting performance targets specified by the Board of Directors.

M A N A G E M E N T ' S D I S C U S S I O N A N D A N A L Y S I S

The following table summarizes the status of the stock option plan:

Weighted Average	Number of Shares	Exercise Price
Outstanding as at December 31, 2004	843,070	\$ 6.30

CRITICAL ACCOUNTING ESTIMATES

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Note 2 to the Consolidated Financial Statements describes the significant accounting policies and methods used in preparation of the Consolidated Financial Statements. The Company bases its estimates on historical experience and various other assumptions that are believed to be reasonable in the circumstances. The more significant estimates include provisions for inventory obsolescence and doubtful accounts, warranty reserves and fair market values for goodwill impairment tests.

PROVISION FOR INVENTORY OBSOLESCENCE

The value of the Company's new and used equipment is evaluated by management throughout each year. When required, reserves are recorded to ensure that the book value of equipment is valued at the lower of cost or estimated net realizable value. The Company identifies slow moving or obsolete parts inventories and estimates appropriate obsolescence provisions related thereto. The Company takes advantage of supplier programs that allow for the return of eligible parts for credit within specified time periods.

PROVISION FOR DOUBTFUL ACCOUNTS

The Company is exposed to credit risk with respect to its accounts receivable. However, this is somewhat minimized by the Company's large customer base which covers most business sectors across Canada and the western United States. The Company follows a program of credit evaluations of customers and limits the amount of credit extended when deemed necessary. The Company maintains provisions for possible credit losses, and any such losses to date have been within management's expectations.

WARRANTY RESERVE

The Company provides for customer warranty claims that may not be covered by the manufacturers' standard warranty. In Mobile Equipment, the reserve is determined by applying a claim rate to the value of each machine sold. The rate is developed using management's best estimate of actual warranty expense, generally based on recent claims experience, and adjusted as required.

GOODWILL ACCOUNTING

During the year, the Company performed an impairment test of its unamortized goodwill asset and concluded that no impairment existed in the goodwill associated with any of the Company's segments. To test for impairment, the Company compares each reporting unit's book value to its fair value. Fair value is determined by a calculation of discounted cash flows and by reference to the market valuation, where available. While the Company uses available information to prepare its estimate of fair value, actual results could differ significantly from management's estimates which could result in future impairment and losses related to recorded goodwill balances.

M A N A G E M E N T ' S D I S C U S S I O N A N D A N A L Y S I S

CHANGES IN ACCOUNTING POLICY

HEDGING RELATIONSHIPS

Effective January 1, 2004, the Company adopted the Canadian Institute of Chartered Accountants ("CICA") Accounting Guideline AcG-13 "Hedging Relationships," which requires assessment of new and existing hedging relationships to determine whether they satisfy the conditions of hedge accounting. The Company is satisfied that all hedging relationships existing at January 1, 2004 and all new hedging relationships entered into during the year were documented and deemed effective at inception as well as effective on a prospective and retroactive basis at December 31, 2004. Hedge accounting has been applied for all hedging relationships.

REVENUE RECOGNITION

Effective January 1, 2004, the Company adopted CICA EIC-141 "Revenue Recognition." This abstract provides interpretive guidance on the application of existing standards on revenue recognition. There was no impact on the consolidated financial statements upon adoption of the abstract, as the Company had previously accounted for revenue recognition in the manner required by this guidance.

REVENUE ARRANGEMENTS WITH MULTIPLE DELIVERABLES

Effective January 1, 2004, the Company adopted CICA EIC-142 "Revenue Arrangements with Multiple Deliverables." This abstract addresses certain aspects of the accounting for arrangements under which a vendor will perform multiple revenue-generating activities. In particular, the abstract addresses how to determine whether an arrangement contains more than one unit of accounting and how to allocate the arrangement consideration among separate units of accounting. Management evaluates the application of this abstract to these types of transactions on an individual basis when they occur. There has not been a significant change in the way management accounts for these types of arrangements.

ACCOUNTING FOR SEPARATELY PRICED EXTENDED WARRANTY AND PRODUCT MAINTENANCE CONTRACTS

Effective January 1, 2004, the Company adopted CICA EIC-143 "Accounting for Separately Priced Extended Warranty and Product Maintenance Contracts." This abstract addresses how revenue and costs from separately priced extended warranty or product maintenance contracts are to be recognized and is effective prospectively for contracts entered into after December 17, 2003. Revenues should be deferred and recognized in income on a straight-line basis over the contract period except in those circumstances in which sufficient historical evidence indicates that the costs of performing services under the contract are incurred on other than a straight-line basis. In those circumstances, revenue should be recognized over the contract period in proportion to the costs expected to be incurred in performing the services under the contract. The Company is continuing to recognize revenue for separately priced extended warranty or product maintenance contracts over the contract period in proportion to the costs expected to be incurred in performing the services under the contract unless insufficient historical evidence exists to support an other than straight-line pattern.

ACCOUNTING BY A CUSTOMER (INCLUDING A RESELLER) FOR CERTAIN CONSIDERATION RECEIVED FROM A VENDOR

Effective September 30, 2004, the Company adopted CICA EIC-144 "Accounting by a Customer (Including a Reseller) For Certain Consideration Received From a Vendor". The abstract requires a customer to record cash consideration received from a vendor as a reduction in the price of the vendor's products and reflect it as a reduction to cost of goods sold and related inventory when recognized in the income statement and balance sheet. The abstract must be applied retroactively for annual and interim periods ending after August 15, 2004. For the full year ending December 31, 2004 the implementation of the new standard has resulted in a \$482 thousand reduction in opening retained

MANAGEMENT'S DISCUSSION AND ANALYSIS

earnings, a \$1.2 million reduction of inventory and a \$241 thousand reduction of net earnings with a corresponding \$0.02 reduction in earnings per share. The Company has restated its 2003 comparative results and balances in its financial statements. The implementation of the new standard has resulted in a reduction to opening retained earnings for the 12 months ending December 31, 2003 of \$491 thousand. The impact on balance sheet accounts as of December 31, 2003 was a decrease in inventory of \$777 thousand and an increase in future income taxes of \$295 thousand. The net earnings for the full year ending December 31, 2003 reflect a nominal increase in both earnings and earnings per share.

VARIABLE INTEREST ENTITIES

Effective October 1, 2004, the Company elected to early adopt AcG-15 "Consolidation of Variable Interest Entities" which is effective for periods beginning on or after November 1, 2004. Upon adoption of this guideline the Company has determined that it has a variable interest in Wajax Finance, a "private label" financing operation of CIT Equipment Financing Canada, which is used primarily to provide customers of the Mobile Equipment segment with equipment financing. In addition, the Mobile Equipment segment leases its long-term lift truck rental fleet through Wajax Finance and will periodically finance inventory with Wajax Finance on a non-interest bearing basis. The Company's association with Wajax Finance is limited to a sharing of annual profits; any losses are financed by CIT and deducted from future profit distributions to the Company. In the event the Wajax Finance program is terminated, the Company's liability would be limited to amounts owing to Wajax Finance for the rental fleet, any inventory financed at the time of termination and any contingent contractual obligations. As the Company is not the primary beneficiary of Wajax Finance, its financial position and results of operations have not been consolidated in these financial statements and the Company will continue to account for the residual returns of Wajax Finance as earned.

ASSET RETIREMENT OBLIGATIONS

Effective January 1, 2004, the Company adopted CICA Handbook section 3110 "Asset Retirement Obligations". This section requires a company to capitalize the fair market value of the costs to decommission an asset, with an offsetting liability. The implementation of the new standard has resulted in a reduction to opening retained earnings of \$450 thousand for the full year ending December 31, 2004. The impact on the Company's consolidated statements of earnings and earnings per share for the full year ending December 31, 2004 and comparative periods was negligible. The asset retirement obligations pertain to operating leases of branch facilities where certain clauses require premises to be returned to their original state at the end of the lease term. The total estimated undiscounted cash flows required to settle these obligations amount to \$1,025 thousand. The implementation of the new standard has resulted in a reduction to opening retained earnings for the 12 months ending December 31, 2003 of \$437 thousand. The impact on balance sheet accounts as of December 31, 2003 was an increase in fixed assets of \$13 thousand, an increase in accounts payable and accrued liabilities of \$740 thousand and an increase in future income taxes of \$277 thousand.

IMPAIRMENT OF LONG LIVED ASSETS

Effective January 1, 2004, the Company adopted CICA Handbook section 3063 "Impairment of Long-lived Assets". This section establishes standards for the recognition, measurement and disclosure of the impairment of long-lived assets held for use. Accounting for the potential impairment of long-lived assets held for use is a two-step process with the first step determining when impairment should be recognized, and the second step measuring the amount of the impairment. An impairment loss is recognized when the carrying amount of an asset held for use exceeds the sum of the undiscounted cash flows expected from its use and eventual disposition. The impairment loss is measured as the amount by which the asset's carrying amount exceeds its fair value. The effect of adopting the new recommendations did not have an impact on the consolidated financial statements.

M A N A G E M E N T ' S D I S C U S S I O N A N D A N A L Y S I S

RISKS AND UNCERTAINTIES

As with most businesses, Wajax is subject to a number of marketplace and industry related risks and uncertainties which could have a material impact on operating results. The Company attempts to minimize many of these risks through diversification of core businesses and through the geographic diversity of its operations. There are, however, a number of risks that deserve particular comment.

COMMODITY PRICES

The Company is dependent on businesses whose revenue base is largely derived from customers that are highly reliant on favourable prices for a particular commodity in the resource sector. Over the years the Company has attempted to lessen this dependence with its diverse operations across Canada and the western United States. Management is of the opinion that the Company is not significantly exposed to the cyclical effects of most individual commodities. However, one area that can have a significant effect on the Company's revenues and earnings is the petroleum sector of western Canada where all three of the Company's core businesses have operations. Barring a substantial decline in petroleum prices, it is anticipated that the current level of oil related activity in Alberta should continue to benefit the Company's operations in 2005.

The Company's revenue base is spread across many marketplaces, as shown in the Results of Operations section above. It should be noted that although the Company is not highly dependent on the price of any one commodity, except petroleum, earnings of the Company can be adversely affected by downturns in any one or more of these markets.

MANUFACTURER AND PRODUCT ACCESS

The Company seeks to position itself with leading product lines in each of its regional markets and its success is dependent upon continuing relations with the manufacturers it represents. In the Mobile Equipment, Diesel Engines and hydraulics and process pumps businesses, manufacturer relationships are generally governed through exclusive distribution agreements. Distribution agreements are for the most part open-ended, but are cancellable within a relatively short notification period specified in the agreement. As well, suppliers generally have the ability to unilaterally change the terms and conditions of conducting business with the Company. Supplier changes in this area can have a negative or positive effect on the Company's margins, and working capital balances, such as inventory and accounts payable. The Company enjoys good relationships with its major manufacturers and seeks to develop additional strong long-term partnerships.

There is a continual trend towards consolidation among industrial equipment and component manufacturers. Consolidation may impact the products distributed by the Company, in either a favourable or unfavourable manner. The Company endeavours to align itself in long-term relationships with manufacturers that are committed to achieving a competitive advantage and long-term market leadership in their targeted market segments.

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 the 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.

A Statement of Claim has been served naming the Company and its subsidiary Wajax Industries Limited as defendants in proceedings under the Class Proceedings Act of British Columbia. The action arises 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

MANAGEMENT'S DISCUSSION AND ANALYSIS

the payment of pension administration expenses from the pension fund. The Company had previously evaluated the claims it anticipated could be articulated and concluded such claims would be unlikely to succeed. Management has assessed the facts and arguments pleaded and continues to believe the claims would be unlikely to succeed.

FOREIGN EXCHANGE

The Company's operating results are reported in Canadian dollars. While the majority of the Company's sales are in Canadian dollars, significant portions of its purchases are in U.S. dollars. Changes in the U.S. dollar exchange rate can have a negative or positive affect on the Company's revenue, margins and working capital balances. The Company mitigates certain exchange rate risks by entering into short-term foreign currency forward contracts for known commitments, such as the liability associated with imported inventory. In addition, the Company will periodically institute price increases to offset the negative impact of foreign exchange rate increases on imported goods.

The Company also has one U.S. operating division. The exchange rate between the Canadian and U.S. dollar can vary significantly from year to year. There is a corresponding positive or negative impact on the Company's statement of earnings solely related to the translation impact year to year. In addition, there is a positive or negative exposure to the Company depending upon its net investment in this operation and the fluctuation of exchange rates. However, the balance sheet impact of exchange fluctuations has been offset by the Company's U.S. dollar borrowings and foreign currency forward contracts, which have been established as an effective hedge.

STRATEGIC DIRECTION AND OUTLOOK

In 2004 the Company surpassed its profitability objectives and recorded its best earnings performance in seven years. Management believes that each of its three core businesses has a strong management team and a sound plan for future growth. While many of the profit improvement initiatives outlined in previous years did result in greater profitability in 2004, the Company also enjoyed strong industry fundamentals in a number of sectors. The energy sector in western Canada, along with base metal mining throughout Canada, benefiting from increased world-wide demand and improved pricing, have increased their requirement for products supplied by all three of the Company's core businesses. As well, the booming Canadian housing market has continued to positively impact demand for products from the Mobile Equipment business.

Going into 2005, management expects these positive economic trends to continue. With the expectation of strong industry fundamentals and the execution of strategic initiatives outlined for each business, management expects to continue to grow revenue and improve profitability overall, with particular emphasis on continuing to build revenue and earnings in the Industrial Components segment.

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.

Additional information, including the Company's Annual Information Form, may be found on SEDAR at www.sedar.com.

**M A N A G E M E N T ' S R E S P O N S I B I L I T Y F O R
F I N A N C I A L R E P O R T I N G**

The consolidated financial statements of Wajax Limited are the responsibility of management and have been prepared in accordance with Canadian generally accepted accounting principles. Where appropriate, the information reflects management's judgement and estimates based on the available information. Management is also responsible for all other information in the Annual Report and for ensuring that this information is consistent with the consolidated financial statements.

The Company maintains a system of internal control designed to provide management with reasonable assurance as to the reliability of financial information and the safeguarding of the Company's assets. The Company also maintains an internal audit function, which reviews the system of internal control and its application.

The Audit Committee of the Board of Directors, consisting solely of outside directors, meets regularly during the year with management, internal auditors and the external auditors, to review their respective activities and the discharge of their responsibilities. Both the external and internal auditors have free and independent access to the Audit Committee to discuss the scope of their audits, the adequacy of the system of internal control and the adequacy of financial reporting. The Audit Committee reports its findings to the Board of Directors, which reviews and approves the consolidated financial statements.

The Company's external auditors, KPMG LLP, are responsible for auditing the consolidated financial statements and expressing an opinion thereon.



Paul D. Sobey
Chairman of the Board



John J. Hamilton
Senior Vice President and Chief Financial Officer

Mississauga, Canada
February 11, 2005

A U D I T O R S ' R E P O R T

We have audited the consolidated balance sheets of Wajax Limited as at December 31, 2004 and 2003 and the consolidated statements of earnings and retained earnings and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We have conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2004 and 2003 and the results of its operations and cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

A handwritten signature in black ink that reads "KPMG LLP". The signature is written in a cursive, slightly slanted style. Below the signature is a horizontal line that starts under the "K" and ends under the "P" of "LLP".

KPMG LLP
Chartered accountants

Toronto, Canada
February 11, 2005

CONSOLIDATED BALANCE SHEETS

As at December 31 (dollars in thousands)	04	03
ASSETS		(restated Note 3)
CURRENT		
Cash and cash equivalents	\$ 49,409	\$ 45,395
Accounts receivable	115,207	106,027
Inventories (Notes 3 and 4)	161,046	142,905
Future income taxes (Notes 3 and 8)	6,132	6,829
Prepaid expenses and other recoverable amounts	3,963	2,353
	335,757	303,509
NON-CURRENT		
Rental equipment (Note 5)	16,362	16,205
Capital assets (Notes 3 and 6)	30,251	31,868
Goodwill and other assets (Note 7)	54,621	55,386
Future income taxes (Note 8)	2,851	2,772
	104,085	106,231
	\$ 439,842	\$ 409,740
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT		
Accounts payable and accrued liabilities (Note 3)	\$ 155,730	\$ 140,816
Income taxes payable	7,935	1,348
Current portion of long-term debt (Note 9)	4,683	4,267
	168,348	146,431
NON-CURRENT		
Future income taxes (Note 8)	3,545	2,745
Long-term pension liability (Note 17)	2,080	2,052
Long-term debt (Note 9)	70,884	79,838
	76,509	84,635
SHAREHOLDERS' EQUITY		
Share capital (Note 11)	102,390	102,212
Contributed surplus (Note 12)	373	63
Retained earnings	92,222	76,399
	194,985	178,674
	\$ 439,842	\$ 409,740

On behalf of the Board:



Paul D. Sobey
Chairman



Robert P. Dexter
Director

**CONSOLIDATED STATEMENTS OF
EARNINGS AND RETAINED EARNINGS**

For the years ended December 31 (dollars in thousands, except per share data)	04	03
		(restated Note 3)
Revenue	\$ 928,180	\$ 883,967
Cost of sales	715,490	688,914
Gross profit	212,690	195,053
Selling and administrative expenses	174,389	166,368
Earnings before interest and income taxes	38,301	28,685
Interest expense (Note 9)	7,481	10,858
Earnings before income taxes	30,820	17,827
Income tax expense (Note 8)	12,482	8,258
Net earnings	18,338	9,569
Basic earnings per share (Note 13)	1.17	0.61
Diluted earnings per share (Note 13)	1.14	0.61
Retained earnings, beginning of year as previously reported	\$ 77,331	\$ 67,758
Impact of new accounting standards: (Note 3)		
Vendor rebates	(482)	(491)
Asset retirement obligations	(450)	(437)
Retained earnings, beginning of year, as restated	76,399	66,830
Dividends on common shares	(2,515)	–
Net earnings	18,338	9,569
Retained earnings, end of year	\$ 92,222	\$ 76,399

C O N S O L I D A T E D S T A T E M E N T S O F
C A S H F L O W S

For the years ended December 31 (dollars in thousands)	04	03
		(restated Note 3)
OPERATING ACTIVITIES		
Net earnings	\$ 18,338	\$ 9,569
Items not affecting cash flow:		
Amortization		
Rental equipment	4,385	4,268
Capital assets	5,194	6,553
Deferred financing costs and intangible assets	1,130	1,048
Stock compensation expense (Note 12)	310	63
Future income taxes	1,175	5,291
Pension expense net of payments	552	2,865
Cash flows before changes in non-cash working capital	31,084	29,657
Changes in non-cash working capital:		
Accounts receivable	(9,466)	7,238
Inventories	(17,850)	33,855
Prepaid expenses and other recoverable amounts	(1,613)	5,377
Accounts payable and accrued liabilities	14,539	(3,610)
Income taxes payable	6,592	4,693
	(7,798)	47,553
Cash flows provided by operating activities	23,286	77,210
INVESTING ACTIVITIES		
Rental equipment additions	(6,663)	(7,819)
Rental equipment disposals	1,293	1,187
Capital asset additions	(3,782)	(4,520)
Proceeds on disposal of capital assets	138	3,132
Acquisition of business (Note 14)	(1,095)	(1,004)
	(10,109)	(9,024)
Cash flows before financing activities	13,177	68,186
FINANCING ACTIVITIES		
Issuance of common shares on exercise of stock options	178	–
Decrease in long-term debt	–	(25,691)
Increase in deferred financing costs	(50)	(275)
Repayment of debentures	(4,267)	(3,888)
Repayment of debt upon acquisition of business	(326)	–
Hedging activities (Note 10)	(2,025)	(6,336)
Dividends paid	(2,515)	–
	(9,005)	(36,190)
Cash flows before effect of foreign exchange	4,172	31,996
Effect of foreign exchange on translation adjustment	(158)	(158)
Net change in cash and cash equivalents	4,014	31,838
Cash and cash equivalents – beginning of year	45,395	13,557
Cash and cash equivalents – end of year	\$ 49,409	\$ 45,395
Cash flows provided by operating activities include the following:		
Interest paid	\$ 7,096	\$ 9,582
Income taxes paid (received)	\$ 4,714	\$ (1,545)
Significant non-cash transaction:		
Rental equipment transferred to inventory	\$ 828	\$ 678

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2004 and 2003

(Tabular amounts in thousands of dollars, except per share data)

01

COMPANY PROFILE

The Company's core distribution businesses are engaged in the sale and after-sales parts and service support of mobile equipment, industrial components and diesel engines, through a network of branches in Canada and the western United States. The Company is a multi-line distributor and represents a number of leading worldwide manufacturers across its core businesses. Its customer base is diversified, spanning natural resources, construction, transportation, manufacturing, industrial processing and utilities.

02

SIGNIFICANT ACCOUNTING POLICIES

These Consolidated Financial Statements have been prepared in accordance with Canadian generally accepted accounting principles. The significant accounting policies used in these Consolidated Financial Statements are as follows:

PRINCIPLES OF CONSOLIDATION

These Consolidated Financial Statements include the accounts of Wajax Limited and its subsidiary companies, which are all wholly-owned. Intercompany balances and transactions are eliminated on consolidation.

MEASUREMENT UNCERTAINTY

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

REVENUE RECOGNITION

Revenue is recognized as it is earned in accordance with the following:

- Revenue from the sale of equipment and parts is recorded at the time goods are shipped to customers or when all contracted-upon conditions have been fulfilled.
- Revenue from equipment leases and rentals is recognized over the term of the lease or rental.
- Revenue from the sale or transfer of internally-manufactured or assembled products is recorded when goods are shipped.
- Revenue from the offering of engineering and technical services to customers is recognized upon performance of contracted-upon services with the customer.

Provision is made for expected returns, collection losses and warranty costs based on past performance, and for estimated costs to fulfill contractual obligations and other sales-related contingencies.

DERIVATIVE FINANCIAL INSTRUMENTS

The Company uses derivative financial instruments in the management of its foreign currency and interest rate exposures. The Company's policy is not to utilize derivative financial instruments for trading or speculative purposes.

The Company formally documents all relationships between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. This process includes linking all

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

derivatives to specific assets and liabilities on the balance sheet or to specific firm commitments or forecasted transactions. The Company also assesses, both at the hedge's inception and on an ongoing basis, whether the derivatives that are used in hedging transactions are effective in offsetting changes in fair values or cash flows of hedged items.

The Company enters into hedges of its foreign currency exposure on a portion of its foreign currency denominated long-term debt by entering into offsetting forward exchange contracts, when it is deemed appropriate. The Company also purchases foreign exchange forward contracts to fix the cost of inbound inventory and the related accounts payable and to hedge anticipated foreign currency denominated sales to customers and the related accounts receivable.

Foreign exchange translation gains and losses on foreign currency-denominated derivative financial instruments used to hedge foreign currency long-term debt are offset against the respective translation losses and gains recognized on the underlying foreign currency long-term debt with any difference expensed in the current period. The forward premium or discount on forward foreign exchange contracts used to hedge foreign currency long-term debt is amortized as an adjustment of interest expense over the term of the forward contract.

Realized and unrealized gains or losses associated with derivative instruments, which have been terminated or cease to be effective prior to maturity, are deferred under other current, or non-current, assets or liabilities on the balance sheet and recognized in income in the period in which the underlying hedged transaction is recognized. In the event a designated hedged item is sold, extinguished or matures prior to the termination of the related derivative instrument, any realized or unrealized gain or loss on such derivative instrument is recognized in income.

UNITED STATES OPERATIONS

The Company's U.S. subsidiaries are classified as self-sustaining foreign operations. Revenues and expenses are translated at average exchange rates prevailing during the year. The assets and liabilities of the U.S. operations are translated at the exchange rate in effect at the balance sheet date, and any translation gains or losses are deferred in shareholders' equity. The exchange gains or losses that arise on the translation of the portion of the U.S. dollar-denominated debt that hedges the Company's investment in U.S. operations are also deferred in shareholders' equity.

CASH AND CASH EQUIVALENTS

Cash and cash equivalents include highly liquid investments purchased three months or less from maturity and are stated at cost, which approximates market value.

FOREIGN CURRENCY TRANSACTIONS AND BALANCES

Foreign currency transactions are translated into domestic currency at exchange rates prevailing at the time the transactions occur. Monetary assets and liabilities denominated in foreign currencies, such as cash, accounts receivable and accounts payable, are translated into domestic currency at the rate of exchange in effect at the balance sheet date. Exchange gains and losses other than those arising from the self-sustaining foreign operations are included in the statement of earnings.

INVENTORIES

Inventories are valued at the lower of cost and estimated net realizable value.

RENTAL EQUIPMENT

Rental equipment assets are recorded at cost and amortized over their estimated useful lives, using the declining balance method at a rate of 20% per year.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

CAPITAL ASSETS AND AMORTIZATION

Capital assets are recorded at cost and amortized over their estimated useful lives based on the following methods and annual rates:

Asset	Method	Rate
Buildings	declining balance	4% – 10%
Equipment and vehicles	declining balance	20% – 30%
Information systems	straight-line	3 – 7 years
Furniture and fixtures	declining balance	20%
Leasehold improvements	straight-line over the expected terms of the leases	

GOODWILL AND OTHER ASSETS

Goodwill is tested at least annually for impairment, or more frequently if certain indicators arise. To test for impairment, the Company compares each reporting unit's book value to its fair value. Fair value is determined by a calculation of discounted future cash flows and by reference to market valuations, where available. Any goodwill impairment in the current year is recorded as a charge against current earnings (see Note 7).

Deferred financing costs are amortized over the terms of the respective issues.

EMPLOYEE STOCK OPTIONS AND STOCK-BASED COMPENSATION PLANS

The Company adopted the fair value based method of accounting for employee stock options in 2003 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.

The Company has three stock-based compensation plans as described in Note 12. Compensation expense is being recognized for the stock option plan as described above and in Note 12. Compensation expense is also recorded under the two share unit plans. Any consideration paid by employees, officers or directors on the exercise of stock options is credited to share capital. If stock or stock options are repurchased from employees, officers or directors, the excess of the consideration paid over the carrying amount of the stock or stock option cancelled is charged to retained earnings.

EARNINGS PER SHARE

The treasury stock method is used to calculate diluted earnings per share and assumes any share option proceeds would be used to purchase common shares at the average market price during the period.

PENSIONS

The Company has a defined contribution pension plan for most of its employees. The cost of the defined contribution plan is recognized based on the contributions required to be made each period.

The Company also has defined benefit plans covering some of its employees. The benefits are based on years of service and the employees' earnings. Defined benefit plan obligations are accrued as the employees render the services necessary to earn the pension benefits. The Company has adopted the following policies:

- The cost of pension benefits earned by employees is actuarially determined using the projected benefit method pro-rated on service for defined benefit plans with benefits based on final average earnings and the unit credit method

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

for other defined benefit plans and management's best estimate of expected plan investment performance, salary escalation, and retirement ages of employees.

- For purposes of calculating expected return on plan assets, those assets are valued at fair value.
- The excess of the net actuarial gain (loss) over 10% of the greater of the benefit obligation and the fair value of the plan assets is amortized over the average remaining service life of active employees.
- Unrecognized net transition assets and prior service costs are amortized over the expected average remaining service life of active employees.
- When the restructuring of a benefit plan gives rise to both a curtailment and a settlement of obligations, the curtailment is accounted for prior to the settlement.

The Company does not sponsor a post-employment benefit plan other than the pension plans.

INCOME TAXES

The Company uses the asset and liability method of accounting for the tax effect of temporary differences between the carrying amount and the tax basis of the Company's assets and liabilities. Temporary differences arise when the realization of an asset or the settlement of a liability would give rise to either an increase or decrease in the Company's income taxes payable for the year or a later period.

Future income taxes are recorded at the income tax rates which are expected to apply when the future tax liability is settled or the future income tax asset is realized. Valuation allowances are established when necessary to reduce future income tax assets to the amount expected to be realized. Income tax expense consists of the income taxes payable for the year and the change during the year in future income tax assets and liabilities.

COMPARATIVE FINANCIAL STATEMENTS

Certain comparative figures have been reclassified to conform to the 2004 presentation.

03

CHANGE IN ACCOUNTING POLICIES

HEDGING RELATIONSHIPS

Effective January 1, 2004, the Company adopted the Canadian Institute of Chartered Accountants ("CICA") Accounting Guideline AcG-13 "Hedging Relationships", which requires assessment of new and existing hedging relationships to determine whether they satisfy the conditions of hedge accounting. The Company is satisfied that all hedging relationships existing at January 1, 2004 and all new hedging relationships entered into during the year were documented and deemed effective at inception as well as effective on a prospective and retroactive basis at December 31, 2004. Hedge accounting has been applied for all hedging relationships.

REVENUE RECOGNITION

Effective January 1, 2004, the Company adopted CICA EIC-141 "Revenue Recognition". This abstract provides interpretive guidance on the application of existing standards on revenue recognition. There was no impact on the consolidated financial statements upon adoption of the abstract, as the Company had previously accounted for revenue recognition in the manner required by this guidance.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

MULTIPLE DELIVERABLES

Effective January 1, 2004, the Company adopted CICA EIC-142 "Revenue Arrangements with Multiple Deliverables". This abstract addresses certain aspects of the accounting for arrangements under which a vendor will perform multiple revenue-generating activities. In particular, the abstract addresses how to determine whether an arrangement contains more than one unit of accounting and how to allocate the arrangement consideration among separate units of accounting. Management evaluates the application of this abstract to these types of transactions on an individual basis when they occur. There has not been a significant change in the way management accounts for these types of arrangements.

SEPARATELY PRICED EXTENDED WARRANTY AND PRODUCT MAINTENANCE CONTRACT

Effective January 1, 2004, the Company adopted CICA EIC-143 "Accounting for Separately Priced Extended Warranty and Product Maintenance Contracts". This abstract addresses how revenue and costs from separately priced extended warranty or product maintenance contracts are to be recognized and is effective prospectively for contracts entered into after December 17, 2003. Revenues should be deferred and recognized in income on a straight-line basis over the contract period except in those circumstances in which sufficient historical evidence indicates that the costs of performing services under the contract are incurred on other than a straight-line basis. In those circumstances, revenue should be recognized over the contract period in proportion to the costs expected to be incurred in performing the services under the contract. The Company is continuing to recognize revenue for separately priced extended warranty or product maintenance contracts over the contract period in proportion to the costs expected to be incurred in performing the services under the contract unless insufficient historical evidence exists to support an other than straight-line pattern.

VENDOR REBATES

Effective September 30, 2004, the Company adopted CICA EIC-144 "Accounting by a Customer (Including a Reseller) For Certain Consideration Received From a Vendor". The abstract requires a customer to record cash consideration received from a vendor as a reduction in the price of the vendor's products and reflect it as a reduction to cost of goods sold and related inventory when recognized in the income statement and balance sheet. The abstract must be applied retroactively for annual and interim periods ending after August 15, 2004. For the full year ending December 31, 2004 the implementation of the new standard has resulted in a \$482 thousand reduction in opening retained earnings, a \$1.2 million reduction of inventory and a \$241 thousand reduction of net earnings with a corresponding \$0.02 reduction in earnings per share. The Company has restated its 2003 comparative results and balances in its financial statements. The implementation of the new standard has resulted in a reduction to opening retained earnings for the 12 months ending December 31, 2003 of \$491 thousand. The impact on balance sheet accounts as of December 31, 2003 was a decrease in inventory of \$777 thousand and an increase in future income taxes of \$295 thousand. The net earnings for the full year ending December 31, 2003 reflect a nominal increase in both earnings and earnings per share.

VARIABLE INTEREST ENTITIES

Effective October 1, 2004, the Company elected to early adopt AcG-15 "Consolidation of Variable Interest Entities" which is effective for periods beginning on or after November 1, 2004. Upon adoption of this guideline the Company has determined that it has a variable interest in Wajax Finance, a "private label" financing operation of CIT Equipment Financing Canada, which is used primarily to provide customers of the Mobile Equipment segment with equipment financing. In addition, the Mobile Equipment segment leases its long-term lift truck rental fleet through Wajax Finance and will periodically finance inventory with Wajax Finance on a non-interest bearing basis. The Company's association with Wajax Finance is limited to a sharing of annual profits; any losses are financed by CIT and deducted from future profit

N O T E S T O C O N S O L I D A T E D F I N A N C I A L S T A T E M E N T S

distributions to the Company. In the event the Wajax Finance program is terminated, the Company's liability would be limited to amounts owing to Wajax Finance for the rental fleet, any inventory financed at the time of termination and any contingent contractual obligations. As the Company is not the primary beneficiary of Wajax Finance, its financial position and results of operations have not been consolidated in these financial statements and the Company will continue to account for the residual returns of Wajax Finance as earned.

ASSET RETIREMENT OBLIGATIONS

Effective January 1, 2004, the Company adopted CICA Handbook section 3110 "Asset Retirement Obligations" This section requires a company to capitalize the fair market value of the costs to decommission an asset, with an offsetting liability. The implementation of the new standard has resulted in a reduction to opening retained earnings of \$450 thousand for the full year ending December 31, 2004. The impact on the Company's consolidated statements of earnings and earnings per share for the full year ending December 31, 2004 and comparative periods was negligible. The asset retirement obligations pertain to operating leases of branch facilities where certain clauses require premises to be returned to their original state at the end of the lease term. The total estimated undiscounted cash flows required to settle these obligations amount to \$1,025 thousand. The implementation of the new standard has resulted in a reduction to opening retained earnings for the 12 months ending December 31, 2003 of \$437 thousand. The impact on balance sheet accounts as of December 31, 2003 was an increase in fixed assets of \$13 thousand, an increase in accounts payable and accrued liabilities of \$740 thousand and an increase in future income taxes of \$277 thousand.

IMPAIRMENT OF LONG-LIVED ASSETS

Effective January 1, 2004, the Company adopted CICA Handbook section 3063 "Impairment of Long-lived Assets". This section establishes standards for the recognition, measurement and disclosure of the impairment of long-lived assets held for use. Accounting for the potential impairment of long-lived assets held for use is a two-step process with the first step determining when impairment should be recognized, and the second step measuring the amount of the impairment. An impairment loss is recognized when the carrying amount of an asset held for use exceeds the sum of the undiscounted cash flows expected from its use and eventual disposition. The impairment loss is measured as the amount by which the asset's carrying amount exceeds its fair value. The effect of adopting the new recommendations did not have an impact on the consolidated financial statements.

04

INVENTORIES

	04	03
		(restated Note 3)
Equipment	\$ 66,885	\$ 57,250
Parts	87,297	80,962
Work-in-process	6,864	4,693
Total inventories	\$ 161,046	\$ 142,905

All amounts shown are net of applicable reserves.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

05

RENTAL EQUIPMENT

	Cost	Accumulated Amortization	Net Book Value
December 31, 2004	\$ 26,960	\$ 10,598	\$ 16,362
December 31, 2003	\$ 26,437	\$ 10,232	\$ 16,205

06

CAPITAL ASSETS

	Cost	Accumulated Amortization	Net Book Value
Land and buildings	\$ 25,709	\$ 9,263	\$ 16,446
Leasehold improvements	8,877	6,609	2,268
Equipment and vehicles	29,224	22,227	6,997
Information systems	19,397	16,390	3,007
Furniture and fixtures	8,848	7,315	1,533
December 31, 2004	\$ 92,055	\$ 61,804	\$ 30,251
Land and buildings	\$ 25,142	\$ 8,593	\$ 16,549
Leasehold improvements	9,435	6,769	2,666
Equipment and vehicles	26,009	19,468	6,541
Information systems	18,162	14,833	3,329
Furniture and fixtures	11,354	8,571	2,783
December 31, 2003 (restated Note 3)	\$ 90,102	\$ 58,234	\$ 31,868

07

GOODWILL AND OTHER ASSETS

	04	03
Goodwill	\$ 51,345	\$ 51,345
Deferred financing costs, net of accumulated amortization of \$5,283 (2003 – \$4,366)	609	1,140
Deferred pension asset (See Note 17)	2,360	2,901
Intangible asset, net of accumulated amortization of \$44	307	–
Total goodwill and other assets	\$ 54,621	\$ 55,386

During the year, the Company performed an impairment test of its unamortized goodwill asset and concluded that no impairment existed in the goodwill associated with any of the Company's segments.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

08

INCOME TAXES

Future income taxes are comprised of the following amounts:

	04	03
		(restated Note 3)
Current future income tax assets	\$ 6,132	\$ 6,829
Non-current future income tax assets	2,851	2,772
Non-current future income tax liabilities	(3,545)	(2,745)
Net future income tax asset	\$ 5,438	\$ 6,856

The components of the net future income tax asset are as follows:

	04	03
		(restated Note 3)
Provisions not currently deductible	\$ 6,454	\$ 6,839
Capital assets	90	(21)
Deductible goodwill	(1,163)	(1,102)
Deductible deferred acquisition costs	(28)	(75)
Loss carry forwards	12,177	14,299
Total gross future tax assets	17,530	19,940
Less valuation allowance related to U.S. operations	(12,092)	(13,084)
Net future income tax asset	\$ 5,438	\$ 6,856

The components of the provision for income taxes are as follows:

	04	03
		(restated Note 3)
Current	\$ 11,307	\$ 2,560
Future	1,175	5,698
Income tax expense	\$ 12,482	\$ 8,258

The provision for income taxes on earnings is comprised as follows:

	04	03
		(restated Note 3)
Combined statutory income tax rate	34.5%	35.9%
Expected income tax expense	\$ 10,631	\$ 6,399
Valuation allowance related to U.S. operations	-	459
Non-deductible expenses	488	427
Tax on large corporations	395	565
Other	968	408
Income tax expense	\$ 12,482	\$ 8,258

At December 31, 2004, the Company had accumulated U.S. net operating losses carried forward for tax purposes of approximately \$36.2 million, which expire through 2023 (December 31, 2003 – \$41.0 million, which expire through 2023).

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

09

LONG-TERM DEBT

	04	03
U.S. \$50.0 million senior notes, 7.62%, maturing December 18, 2007	\$ 59,677	\$ 63,948
Debtentures		
10.69%, Series I, maturing August 24, 2009	11,557	13,229
8.66%, Series II, maturing June 13, 2006	4,333	6,928
Revolving term bank facility, repayable December 16, 2005		
Canadian dollar loan	-	-
	75,567	84,105
Less current portion	4,683	4,267
Long-term debt	\$ 70,884	\$ 79,838

The Company entered into a new \$20 million revolving term bank facility on December 17, 2004. The borrowings under this agreement are at floating rates of interest at a margin over Canadian dollar bankers' acceptance yields and U.S. dollar LIBOR rates and must be fully paid by December 16, 2005. It is the intention of the parties to renew this agreement annually. As of December 31, 2004 the Company had utilized \$4.0 million (represented entirely by letters of credit) of the facility.

The U.S. \$50.0 million senior notes, the Series I and Series II debtentures, and the revolving term bank facility are secured under a general security agreement. Interest on the U.S. \$50.0 million senior notes is payable semi-annually and the principal is repayable on maturity in 2007. Blended principal and interest payments on the Series I and Series II debtentures are payable semi-annually.

In accordance with the Company's policy on translation of U.S. operations, a portion of the U.S. \$50.0 million senior notes has been designated as a hedge of the investment in U.S. operations (Note 2).

Interest on long-term debt amounted to \$7.5 million (2003 - \$10.9 million).

Annual principal repayments for the next five years as at December 31, 2004 are:

2005	\$ 4,683
2006	3,567
2007	61,963
2008	2,537
2009	2,817

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FINANCIAL INSTRUMENTS

The Company's financial instruments consist of cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities, long-term debt and foreign currency forward contracts. The carrying values reported in the balance sheet for financial instruments are not significantly different from their fair values, except as noted below.

LONG-TERM DEBT

The fair value of the Company's long-term debt is estimated based on discounted cash flows using current interest rates for similar financial instruments subject to similar risks and maturities. As at December 31, 2004, the carrying value of

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

long-term debt is less than the estimated fair value by approximately \$2.7 million (2003 – the carrying value of long-term debt exceeded the fair market value by \$0.8 million). The fair value is not necessarily indicative of the amount that the Company might incur in an actual market transaction.

INTEREST RISK

The Company is exposed to interest rate risk arising from fluctuations in interest rates on its temporary investments.

The Company had previously entered into interest rate swap agreements to manage its interest rate exposure on floating rate debt. During 2003, the Company unwound \$25.0 million of fixed interest rate swaps at a cost of \$0.8 million. As of December 31, 2004 and December 31, 2003 there were no outstanding interest rate swaps.

FOREIGN CURRENCY FORWARD CONTRACTS

The Company enters into short-term foreign currency forward contracts to fix the cost of inbound inventory and to hedge foreign currency-denominated sales to customers as part of its normal course of business. As at December 31, 2004, the Company had contracts outstanding to buy \$3.6 million U.S. dollars and 0.4 million Euros (December 31, 2003 – to buy \$1.8 million U.S. dollars and 0.5 million Euros and to sell \$0.3 million U.S. dollars). There is no material difference between the face value of these foreign currency forward contracts and their fair value.

During the year the company had a \$2.0 million loss on hedging activities that was offset by a \$2.0 million gain on the U.S. dollar denominated senior notes. The Company has entered into short-term foreign currency forward contracts to buy \$30.0 million U.S. dollars (2003 – \$30.0 million U.S. dollars) to offset the effect of foreign exchange changes 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 U.S. operations. The fair value of the forward contracts at December 31, 2004 is estimated at \$3.7 million (2003 – \$2.7 million).

CREDIT RISK

The Company is exposed to credit risk with respect to its accounts receivable. However, this is minimized by the Company's large customer base which covers most business sectors across Canada and the western United States. The Company follows a program of credit evaluations of customers and limits the amount of credit extended when deemed necessary. The Company maintains provisions for possible credit losses, and any such losses to date have been within management's expectations.

11

SHARE CAPITAL

Issued and fully paid common shares:

	Number of Shares	Amount
Balance December 31, 2003	15,696,960	\$ 102,212
Issued during 2004	42,500	178
Balance December 31, 2004	15,739,460	\$ 102,390

The Company is authorized to issue an unlimited number of preferred shares without nominal or par value and issuable in series, and an unlimited number of common shares without nominal or par value.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

12

STOCK-BASED COMPENSATION PLANS

The Company has three stock-based compensation plans: a stock option plan and two phantom stock plans.

a) Stock Option Plan

The Company has a plan in place to grant options to employees and officers to purchase common shares of the Company. The aggregate number of common share options that may be issued by the Company is limited to 1,400,000. All options expire within 10 years and, unless otherwise determined by the Board of Directors, 20% of the options issued prior to 2001 vest at the end of each of the first five years following the date on which the options were granted. The vesting of all options issued in 2001 through 2004 is fully contingent on the Company meeting performance targets specified by the Board of Directors.

The following table summarizes the status of the stock option plan as at December 31, 2004 and 2003 and the changes during the years then ended:

	04		03	
	Number of Shares	Weighted Average Exercise Price	Number of Shares	Weighted Average Exercise Price
Outstanding at beginning of year	774,000	\$ 5.35	874,000	\$ 7.55
Granted	141,570	10.70	110,000	5.50
Exercised	(42,500)	4.19	–	–
Forfeited and expired	–	–	(240,000)	13.43
Outstanding at end of year	843,070	\$ 6.30	744,000	\$ 5.35

The following table summarizes information about stock options outstanding at December 31, 2004:

	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	503,000	4.57	\$ 4.11	224,000	\$ 4.13
\$7.34 to \$10.22	245,070	5.36	8.37	156,800	8.00
\$11.50 to \$13.34	95,000	6.25	12.57	40,000	11.50
Outstanding at end of year	843,070	4.99	\$ 6.30	420,800	\$ 6.27

The Company has recorded a compensation cost of \$310 thousand (2003 – \$63 thousand) in respect of employee stock options granted after December 31, 2002. The Company had accounted for employee stock options using the intrinsic value method prior to 2003 and accordingly has not recorded compensation costs for grants prior to this year. There would have been a reduction in earnings of \$110 thousand (2003 – \$253 thousand) and a nominal reduction in basic and diluted earnings per share (2003 – \$0.01 reduction in basic and diluted earnings per share) 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, adjusted for performance vesting criteria, using the following weighted average assumptions: risk free interest rate 3.76%, expected life of 7.35 years, expected volatility 32% and expected dividends 2%. The weighted average fair value of the options issued during the year at the grant date was \$3.71 (2003 – \$2.00).

N O T E S T O C O N S O L I D A T E D F I N A N C I A L S T A T E M E N T S

b) Deferred Share Unit Plan

Under this plan, non-employee directors of the Company receive a portion of their fees and annual retainers in the form of units of the plan, and the Company records a liability. The number of units issued is based upon the market value of the Company's common shares at each allocation date during the year. After retirement, qualifying directors receive a cash payment equal to the market value of their accumulated Deferred Share Units. Amounts included in the Consolidated Statements of Earnings for this plan were \$486 thousand (2003 – \$266 thousand) in the year ended December 31, 2004.

c) Performance Restricted Share Unit Plan

Under this plan, the Company's President is entitled to receive performance-based compensation in the form of units of the plan, and the Company records a liability. The number of units issued will be based on the performance of the Company's common share price through December 31, 2005, at which point any issued units will be redeemed by the Company for a cash payment equal to the market value of the issued units. Amounts included in the Consolidated Statements of Earnings for this plan were \$1,198 thousand (2003 – \$226 thousand) in the year ended December 31, 2004.

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EARNINGS PER SHARE

The following table sets forth the computation of basic and diluted earnings per share:

	04	03
Numerator for basic and diluted earnings per share – net income	\$ 18,338	\$ 9,569
Denominator for basic earnings per share – weighted average shares	15,713,115	15,696,960
Denominator for diluted earnings per share:		
– weighted average shares	15,713,115	15,696,960
– effect of dilutive employee stock options	356,357	108,610
Denominator for diluted earnings per share	16,069,472	15,805,570
Basic earnings per share	\$ 1.17	\$ 0.61
Diluted earnings per share	\$ 1.14	\$ 0.61

Excluded from the above calculations are 120,000 (2003 – 202,000) outstanding stock options with an exercise price range of \$10.22–\$13.34 (2003 – \$7.34–\$11.50) as they are currently anti-dilutive. These securities could potentially dilute earnings per share in future periods.

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ACQUISITION

During the year, the Company's Mobile Equipment segment acquired all of the outstanding shares of XR Equipment Ltd, a JCB distribution business in London, Ontario, for a total purchase price, including assumed debt of \$1.2 million. The effective date of acquisition was October 7, 2004. The results of operations from the acquisition have been included in the consolidated financial statements of the Company as of the effective date.

In the year the Company's Industrial Components segment purchased all the assets of an Eastern Canadian distributor for \$250 thousand.

In 2003 the company purchased all the assets of P.M.D.F. Hydraulique Inc. an industrial distribution business, for a total purchase price of \$1.0 million.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The following is a summary of the purchase price allocation:

	04	03
Working capital	\$ 1,028	\$ 927
Capital assets	42	77
Intangible assets	351	–
Assumed debt	(326)	–
Total cash paid	\$ 1,095	\$ 1,004

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SEGMENTED INFORMATION

The Company operates through a network of branches in Canada and the United States. The Company's three core businesses are: i) the distribution, modification and servicing of mobile equipment; ii) the distribution, servicing and assembly of industrial components; and iii) the distribution and servicing of diesel engines.

INDUSTRY SEGMENTS

04

	Mobile Equipment	Industrial Components		Diesel Engines	Segment Eliminations and Unallocated Amounts	Total
		Canada	United States			
Revenue	\$ 448,761	\$ 252,991	\$ 56,802	\$ 171,700	\$ (2,074)	\$ 928,180
Segment earnings before interest and income taxes	\$ 22,572	\$ 7,573	\$ 1,147	\$ 15,223	\$ –	\$ 46,515
Corporate costs					(8,214)	(8,214)
Earnings before interest and income taxes						\$ 38,301
Segment assets excluding goodwill	\$ 152,694	\$ 91,660	\$ 19,026	\$ 62,633	\$ –	\$ 326,013
Goodwill	21,233	28,486	–	1,409	217	51,345
Corporate and other assets					62,484	62,484
Total assets	\$ 173,927	\$ 120,146	\$ 19,026	\$ 64,042	\$ 62,701	\$ 439,842
Asset additions						
Rental equipment	\$ 6,619	\$ –	\$ –	\$ 44	\$ –	\$ 6,663
Capital assets	915	1,037	202	1,377	293	3,824
	\$ 7,534	\$ 1,037	\$ 202	\$ 1,421	\$ 293	\$ 10,487
Asset amortization						
Rental equipment	\$ 4,339	\$ –	\$ –	\$ 46	\$ –	\$ 4,385
Capital asset	1,042	2,021	467	1,272	392	5,194
Deferred financing	–	–	–	–	1,130	1,130
	\$ 5,381	\$ 2,021	\$ 467	\$ 1,318	\$ 1,522	\$ 10,709

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

03

(restated Note 3)	Mobile Equipment	Industrial Components		Diesel Engines	Segment Eliminations and Unallocated Amounts	Total
		Canada	United States			
Revenue	\$ 438,856	\$ 229,032	\$ 51,060	\$ 166,884	\$ (1,865)	\$ 883,967
Segment earnings (loss) before interest and income taxes	\$ 18,254	\$ 4,231	\$ (2,852)	\$ 15,676	\$ –	\$ 35,309
Corporate costs and eliminations					(6,624)	(6,624)
Earnings before interest and income taxes						\$ 28,685
Segment assets excluding goodwill	\$ 140,606	\$ 82,962	\$ 18,499	\$ 56,099	\$ –	\$ 298,166
Goodwill	21,233	28,486	–	1,409	217	51,345
Corporate and other assets					60,229	60,229
Total assets	\$ 161,839	\$ 111,448	\$ 18,499	\$ 57,508	60,446	\$ 409,740
Asset additions						
Rental equipment	\$ 7,808	\$ –	\$ –	\$ 11	\$ –	\$ 7,819
Capital assets	857	1,381	460	1,877	22	4,597
	\$ 8,665	\$ 1,381	\$ 460	\$ 1,888	\$ 22	\$ 12,416
Asset amortization						
Rental equipment	\$ 4,186	\$ –	\$ –	\$ 82	\$ –	\$ 4,268
Capital assets	1,412	1,877	1,310	1,192	762	6,553
Deferred financing	–	–	–	–	1,048	1,048
	\$ 5,598	\$ 1,877	\$ 1,310	\$ 1,274	\$ 1,810	\$ 11,869

Segment assets do not include assets associated with the corporate office, financing or income taxes. Additions to corporate assets, and amortization of these assets, are included in segment eliminations and unallocated amounts.

GEOGRAPHIC SEGMENTS

04	Canada	United States	Total
Revenue	\$ 871,378	\$ 56,802	\$ 928,180
Location of assets:			
Rental equipment	\$ 16,362	\$ –	\$ 16,362
Capital assets	28,804	1,447	30,251
Goodwill	51,345	–	51,345

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

03

(restated note 3)	Canada	United States	Total
Revenue	\$ 832,907	\$ 51,060	\$ 883,967
Location of assets:			
Rental equipment	\$ 16,205	\$ –	\$ 16,205
Capital assets	30,012	1,856	31,868
Goodwill	51,345	–	51,345

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COMMITMENTS AND CONTINGENCIES

OPERATING LEASES

Total long-term lease commitments amount to \$79.6 million (2003 – 83.0 million) over the remaining life of the leases. The annual payments required under the lease agreements over the next five years are as follows:

2005	\$ 19,191
2006	15,782
2007	11,851
2008	8,319
2009	4,582
Thereafter	19,908
	<u>\$ 79,633</u>

GUARANTEED RESIDUAL VALUE, RECOURSE AND BUY-BACK CONTRACTS

The Company has guaranteed the resale value of equipment sold (“guaranteed residual value contracts”), guaranteed a portion of a customers lease payments (“recourse contracts”) or agreed to buy back equipment from customers at the option of the customer for a specified price at future dates (“buy-back contracts”). These contracts are subject to certain conditions being met by the customer. As at December 31, 2004, the Company had guaranteed \$5.5 million (2003 – \$4.7 million) for guaranteed residual value and recourse contracts and provided the option to customers for buy-back contracts in the amount of \$0.9 million (2003 – \$1.1 million), with commitments arising between 2005 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 \$0.5 million provision in 2004 (2003 – \$0.9 million) as an estimate of the financial exposure likely to result from such commitments.

CONTINGENCIES

In the ordinary course of business, the Company may be contingently liable for litigation 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 noted a Statement of Claim has been served naming the Company and its subsidiary, Wajax Industries Limited, as defendants in proceedings under the Class Proceedings Act of British Columbia. The action arises 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 administration expenses from the pension

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

fund. The Company had previously evaluated the claims it anticipated could be articulated and concluded such claims would be unlikely to succeed. Management has assessed the facts and arguments pleaded and continues to believe the claims would be unlikely to succeed.

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EMPLOYEES' PENSION PLANS

The Company sponsors three pension plans: the Employees' Plan which, except for a small group of employees collecting long-term disability benefits and a small group of inactive members, has been converted to a defined contribution plan ("DC") and two defined benefit plans: the Executive Plan and the Supplemental Executive Retirement Plan. On June 30th, 2004 and June 28th, 2003 the Company converted certain unionized Employee Plan members to the DC portion of the plan and transferred funds representing members' accrued benefit obligation to the individual members' accounts. The curtailment impact of the conversions was recognized in net benefit plan income/expense. The curtailment impact of the 2004 conversion was recognized in 2003 and the curtailment impact of the 2003 conversion was recognized in 2002. The settlement impacts of these transactions were recognized in the years that the transfers occurred.

The Company uses actuarial reports prepared by independent actuaries for funding and accounting purposes and measures its accrued benefit obligations and the fair value of plan assets for accounting purposes as at January 1 of each year. The most recent actuarial valuations of the pension plans for funding purposes were as of January 1, 2003 and June 29, 2003, and the next required valuations will be as of January 1, 2006 and June 29, 2006. The following significant actuarial assumptions were employed to determine the periodic pension income and the accrued benefit obligations:

	04	03
Expected long-term rate of return on plan assets	7.0%	3.5% – 7.25%
Discount rate	5.75%	6.0%
Rate of compensation increase	5.0%	5.0%
Estimated average remaining service life	4.0 – 6.0 years	5.0 – 7.0 years

TOTAL CASH PAYMENTS

Total cash payments for employee future benefits for 2004, consisting of cash contributed by the Company to its funded pension plans, cash payments directly to beneficiaries for its unfunded pension plans, and cash contributed to its defined contribution plans was \$3,976 (2003 – \$465).

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The Company's net plan expense is as follows:

	04	03
Current service cost – defined benefit plans	\$ 388	\$ 363
Current service cost – defined contribution plans	3,796	3,038
Interest cost	497	492
Actual return on plan assets	(307)	(44)
Actuarial losses	210	2,161
Administration expenses	65	–
Difference between expected and actual return on plan assets	(159)	(346)
Difference between actuarial gain recognized for the year and actual actuarial gain	(86)	(2,670)
Amortization of transitional asset	(113)	361
DC conversion – curtailment impact	–	11
Transfer to members' accounts – settlement impact	237	(36)
Net plan expense	\$ 4,528	\$ 3,330

Information about the Company's defined benefit pension plans, in aggregate, is as follows:

	04	03
Accrued benefit obligation		
Accrued benefit obligation, beginning of year	\$ 8,933	\$ 6,607
Current service cost	388	363
Participant contributions	53	76
Interest cost	497	492
Actuarial loss	210	2,161
Transfer to plan members	(394)	–
Benefits paid	(644)	(766)
Accrued benefit obligation, end of year	\$ 9,043	\$ 8,933
Plan assets		
Fair value of plan assets, beginning of year	\$ 7,325	\$ 10,544
Actual return on plan assets	307	44
Participant contributions	53	76
Employer contributions	180	(2,573)
Benefits paid	(644)	(766)
Administration expenses	(65)	–
Transfer to plan members	(394)	–
Fair value of plan assets, end of year	\$ 6,762	\$ 7,325

Plan assets for defined benefit plans are 100% invested in a balanced mutual fund. Plan assets for the defined contribution plan are invested according to the directions of the plan members.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

	04	03
Plan assets, end of year	\$ 6,762	\$ 7,325
Accrued benefit obligation, end of year	(9,043)	(8,933)
Funded status – plan deficit	(2,281)	(1,608)
Unamortized net actuarial losses	2,361	3,170
Unamortized past service costs	583	10
Unamortized net transitional asset	(563)	(920)
Deferred pension asset	\$ 100	\$ 652

The deferred pension asset is included in the Company's balance sheet as follows:

	04	03
Goodwill and other assets	\$ 2,360	\$ 2,901
Accounts payable and accrued liabilities	(180)	(197)
Other long-term liabilities	\$ (2,080)	\$ (2,052)

Included in the aforementioned accrued benefit obligations and fair value of plan assets at year-end are the following amounts in respect of the Supplemental Executive Retirement Plan that is not funded:

	04	03
Accrued benefit obligation	\$ 2,020	\$ 1,724
Fair value of plan assets	–	–
Fund status – plan deficit	\$ 2,020	\$ 1,724

S U M M A R Y O F Q U A R T E R L Y D A T A - U N A U D I T E D

	04				03 (restated Note 3)			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
(Dollars in millions, except per share data)								
Revenue	\$210.9	\$238.1	\$230.0	\$249.2	\$ 218.3	\$ 227.0	\$ 207.8	\$ 230.9
Net earnings	2.5	4.6	5.2	6.0	1.1	2.5	2.6	3.4
Earnings per share								
– Basic	\$ 0.16	\$ 0.29	\$ 0.33	\$ 0.38	\$ 0.07	\$ 0.16	\$ 0.17	\$ 0.22
– Diluted	0.16	0.28	0.33	0.37	0.07	0.16	0.16	0.22

E L E V E N Y E A R S U M M A R Y - U N A U D I T E D

For the years ended December 31

	04	03	02	01	00	99	98	97	96	95	94
(Dollars in millions, except per share data)											
		(restated Note 3)									
OPERATING RESULTS											
Revenue	\$928.2	\$ 884.0	\$ 908.8	\$1,047.6	\$1,147.5	\$1,038.4	\$ 992.2	\$ 947.4	\$ 675.1	\$ 547.6	\$404.5
Net earnings (loss)	18.3	9.6	(25.8)	8.7	(9.7)	4.0	9.5	21.0	17.0	12.0	5.1
Interest expense	7.5	10.9	15.8	18.2	20.3	20.2	17.9	13.4	9.7	8.2	5.7
Cash flows before changes											
in non-cash working capital	31.1	29.7	9.5	26.2	28.2	28.3	20.2	32.5	27.6	21.8	14.0
Capital asset expenditures – net	3.6	1.4	7.4	16.9	16.3	12.7	10.7	4.8	4.4	1.2	1.3
Rental equipment expenditures											
– net	5.4	6.6	1.2	0.8	3.3	2.8	13.6	9.0	5.6	6.7	2.5
Amortization	10.7	11.9	12.3	15.2	16.2	21.0	16.9	13.3	10.0	8.6	5.3
PER COMMON SHARE											
Net earnings (loss) – Basic	\$ 1.17	\$ 0.61	\$ (1.64)	\$ 0.55	\$ (0.62)	\$ 0.25	\$ 0.60	\$ 1.39	\$ 1.22	\$ 1.02	\$ 0.46
Dividends paid	0.16	–	–	–	–	–	–	–	–	–	–
Equity	12.39	11.38	10.83	13.05	12.49	13.11	12.86	12.27	10.32	9.12	8.04
FINANCIAL POSITION											
Working capital	\$167.4	\$ 157.1	\$ 155.0	\$ 241.6	\$ 264.6	\$ 278.9	\$ 292.0	\$ 236.8	\$ 188.4	\$ 134.0	\$108.0
Rental equipment	16.4	16.2	14.5	11.3	14.5	28.2	33.7	23.5	19.3	14.1	9.8
Capital assets – net	30.3	31.9	37.4	64.2	55.1	46.5	42.7	34.1	31.6	27.8	24.9
Long-term debt excluding											
current portion	70.9	79.8	98.4	176.4	223.2	226.0	250.9	167.8	144.5	68.6	60.8
Shareholders' equity	195.0	178.7	170.0	204.8	196.1	205.8	201.8	191.7	145.1	124.3	90.8
Total assets	439.8	409.7	442.0	554.5	623.2	617.5	644.4	527.3	405.0	303.2	241.1
OTHER INFORMATION											
Number of employees	2,357	2,279	2,308	2,601	2,804	2,692	2,717	2,341	1,975	1,621	1,419
Common shares											
outstanding (000's)	15,739	15,697	15,697	15,697	15,697	15,697	15,697	15,632	14,061	13,631	11,287
Price range of common shares											
High	\$14.90	\$ 8.25	\$ 7.25	\$ 6.00	\$ 5.75	\$ 9.00	\$ 22.00	\$ 19.75	\$ 15.00	\$ 11.20	\$ 9.88
Low	7.70	3.10	3.76	4.00	3.25	4.60	7.65	13.50	10.63	7.88	7.75

C O R P O R A T E O F F I C E R S A N D B O A R D O F D I R E C T O R S

CORPORATE OFFICERS

Paul D. Sobey

Chairman

Neil D. Manning

President and Chief
Executive Officer

John J. Hamilton

Senior Vice President and
Chief Financial Officer

James M. Burns

Senior Vice President
Mobile Equipment

Gordon A. Duncan

Senior Vice President
Industrial Components

Linda J. Corbett

Treasurer

Christopher J. Desjardins

General Counsel and
Secretary

DIRECTORS

Paul D. Sobey³

Chairman
Wajax Limited
President and Chief
Executive Officer
Empire Company Limited

Mark L. Cullen^{1,2}

Chairman
Terasen Inc.

Robert P. Dexter, Q.C.¹

Chairman and
Chief Executive Officer
Maritime Travel Inc.

Ivan E. H. Duvar^{2,3}

Corporate Director

Paul E. Gagné^{2,3}

Corporate Director

Neil D. Manning²

President and
Chief Executive Officer
Wajax Limited

Valerie A.A. Nielsen¹

Corporate Director

Frank C. Sobey¹

Chairman
Crombie Properties
Limited

Donald J. Taylor^{1,3}

Chairman
Enbridge Inc.

HONOURARY DIRECTORS

H. Gordon MacNeill

Peter Paul Saunders

¹ Member of the Audit Committee

² Member of the Pension
Committee

³ Member of the Human
Resources and Corporate
Governance Committee

C O R P O R A T E I N F O R M A T I O N

OPERATING UNITS

Mobile Equipment

Wajax Industries
Western Canada
16745 – 111th Avenue
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Mark Whitman
Vice President

Wajax Industries
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Jack Doyon
Vice President

Industrial Components

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Gordon Duncan
President

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Barry Sutherby
Vice President,
Western Region

Kinecor – Central Region
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Richard Ayuen
Vice President,
Central Region

Kinecor – Eastern Region
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Francois Germain
Vice President,
Eastern Region

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Jerry Randecker
Vice President, U.S.

Diesel Engines
Waterous Power Systems
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Terry Keefe
President

Detroit Diesel-Allison
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Ste-Foy, Québec
G1X 3W1
Pierre Asselin
President

HEAD OFFICE

3280 Wharton Way
Mississauga, Ontario
L4X 2C5
Telephone: (905) 212-3300
Fax: (905) 212-3350

SHAREHOLDER INFORMATION

Transfer Agent and Registrar

For information relating to shareholdings, dividends, lost certificates, changes of address or estate transfers, please contact our transfer agent:

Computershare Trust
Company of Canada
100 University Avenue
9th Floor
Toronto, ON M5J 2Y1
Telephone: (514) 982-7555
or 1-800-564-6253
Fax: (514) 982-7635
E-mail: caregistryinfo@
computershare.com

Auditors

KPMG LLP

Stock Listing

The Toronto Stock
Exchange

Trading Symbol

WJX

Common Share Trading Information during 2004

Open	High	Low	Close	Volume of Shares Traded
\$8.06	\$14.90	\$7.70	\$14.20	2,964,429

Quarterly Earnings Reports

Quarterly earnings for the balance of 2005 are anticipated to be announced on May 6, August 9 and November 1.

2005 Dividend Dates *

Record Dates	Payment Dates
March 15	March 31
June 15	June 30
September 15	September 30
December 15	December 31

* Dividend amounts and dates are subject to approval by the Board of Directors.

Investor Information

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Senior Vice President and
Chief Financial Officer
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E-mail: ir@wajax.com

To obtain a delayed stock quote, read news releases, listen to the latest analysts' conference call, and stay abreast of other company news, visit our website at www.wajax.com.

Annual Meeting

Shareholders are invited to attend the Annual and Special Meeting of Wajax Limited, to be held in the Auditorium of the TSX Broadcast and Conference Centre, The Exchange Tower – Main Floor, 130 King Street West, Toronto, Ontario, Canada, on Monday, June 6, 2005, at 11:00 a.m.

Vous pouvez obtenir la version française de ce rapport en écrivant à la Secrétaire, Wajax Limitée, 3280 Wharton Way, Mississauga (Ontario) L4X 2C5

B R A N C H L I S T I N G S

**MOBILE
EQUIPMENT**

**WAJAX INDUSTRIES
LIMITED**

EASTERN CANADA

Wabush, NF
Dartmouth, NS
Moncton, NB
Fredericton, NB
Quebec City, QC
St-Felicien, QC
Lachine, QC
Grandy, QC
Ottawa, ON
Mississauga, ON
Milton, ON
London, ON (2)
Windsor, ON
Lively (Sudbury), ON
Timmins, ON
Thunder Bay, ON

**WAJAX INDUSTRIES
LIMITED**

WESTERN CANADA

Campbell River, BC
Nanaimo, BC
Prince George, BC
Kamloops, BC
Langley, BC
Sparwood, BC
Ford McMurray, AB
Grande Prairie, AB
Edmonton, AB (2)
Calgary, AB
Saskatoon, SK
Winnipeg, MB
Dryden, ON

**DIESEL
ENGINES**

**WATEROUS POWER
SYSTEMS**

Medicine Hat, AB
Calgary, AB (2)
Red Deer, AB
Edmonton, AB
Grand Prairie, AB
Fort McMurray, AB
Fort St. John, BC

**DETROIT DIESEL-ALLISON
CANADA EAST**

Val D'Or, QC
Saint Nicephore, QC
Dorval, QC
Ste-Foy, QC
Dartmouth, NS
Mount Pearl, NF
Moncton, NB

**INDUSTRIAL
COMPONENTS**

**KINECOR
WESTERN REGION**

Prince George, BC
Surrey, BC
Calgary, AB (2)
Nisku, AB
Edmonton, AB
Saskatoon, SK
Regina, SK
Winnipeg, MB
Flin Flon, MB
Thompson, MB
Yellowknife, NW

CENTRAL REGION

Concord, ON
Windsor, ON
Sudbury, ON
Sarnia, ON
Brampton, ON
Stoney Creek, ON
Guelph, ON
Thunder Bay, ON
Marathon, ON
Longlac, ON
Sault St. Marie, ON
Kapuskasing, ON
North Bay, ON
Timmins, ON
Espanola, ON
Hearst, ON
Temiscaming, QC

EASTERN REGION

Wabush, NF
Corner Brook, NF
Mt. Pearl, NF
Charlottetown, PE
Port Hawkesbury, NS
Dartmouth, NS
New Glasgow, NS
Bathurst, NB
St. Laurent, QC (2)
Sept Iles, QC
Sherbrooke, QC
Thetford Mines, QC
Valleyfield, QC
Drummondville, QC
Granby, QC
Chicoutimi, QC
Trois Rivières, QC
Tracy, QC
Longueuil, QC
Ville D'Anjou, QC
Quebec City, QC
Noranda, QC
Val D'Or, QC
Rimouski, QC
Ottawa, ON

**SPENCER
INDUSTRIES**

Kent, WA
Yakima, WA
Portland, OR
Ontario, CA
Modesto, CA
Salt Lake City, UT
Gillette, WY
Billings, MT
Boise, ID

