

**SECOND QUARTER  
REPORT TO SHAREHOLDERS**  
FOR THE SIX MONTHS ENDED  
JUNE 30, 2004





**WAJAX LIMITED**  
**News Release**

**TSE Symbol: WJX**

**WAJAX ANNOUNCES SIGNIFICANTLY IMPROVED  
SECOND QUARTER 2004 EARNINGS**

(Dollars in millions, except per share data)	<u>Three Months</u> <u>Ended June 30</u>		<u>Six Months</u> <u>Ended June 30</u>	
	2004	2003	2004	2003
Revenue	\$238.1	\$227.0	\$449.0	\$445.3
Net earnings	\$4.6	\$2.5	\$7.1	\$3.6
Earnings per share - basic	\$0.29	\$0.16	\$0.45	\$0.23

**Toronto, Ontario – August 10, 2004** – Wajax Limited today announced significantly improved second quarter 2004 earnings of \$4.6 million, or \$0.29 per share, compared to \$2.5 million, or \$0.16 per share, for the corresponding period in 2003. For the first six months of 2004, the Company recorded earnings of \$7.1 million, or \$0.45 per share, compared to \$3.6 million, or \$0.23 per share in the prior year. Commenting on the quarter, first six months earnings and outlook for the rest of the year, Neil Manning, President and CEO, stated “After the first six months of the year our earnings are slightly ahead of our expectations. We continue to enjoy a strong economy in many sectors and particularly the resource sector in western Canada. We remain confident that we will continue to deliver improved earnings for the balance of the year.”

**Second Quarter Highlights**

- Second quarter revenues were up \$11.1 million, or almost 5% (6.8% after adjusting for the 3% decrease in the value of the U.S. dollar). Revenues in Industrial Components increased 10.8% (11.5% after adjusting for the change in the value of the U.S. dollar).
- Earnings increased in all three segments. A 14% increase in Mobile Equipment earnings was led by a strong performance in western Canada’s forestry and construction sector where equipment sales were up 51%. Increased revenues in the Canadian Industrial Components operation resulted in higher earnings and in the United States, Spencer continued to show marked improvement with another profitable quarter. A 14% increase in

revenues at Waterous, the Company's Alberta based Diesel Engine business, drove this segment's earnings 11% higher in the quarter.

- Interest expense decreased \$0.9 million quarter-over-quarter as a result of a \$34.8 million reduction in debt, net of cash since last year.
- Effective August 4, 2004, the Company expanded its JCB construction equipment distribution presence in B.C., having been awarded the areas of the lower mainland and Vancouver Island.
- The Company declared a quarterly dividend of \$0.04 per share payable on September 30, 2004, to shareholders of record on September 13, 2004.

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Wajax is a diversified company that has three core distribution businesses engaged in the sale and after-sales parts and service support of mobile equipment, diesel engines and industrial components, through a network of over 100 branches across Canada and the western United States. Its customer base spans natural resources, construction, transportation, manufacturing, industrial processing and utilities.

Financial statements, management's discussion and analysis and company news releases can be accessed at [www.wajax.com](http://www.wajax.com).

This news release contains forward-looking information. Actual future results may differ from expected results.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

The following discussion should be read in conjunction with the Company's Quarterly Consolidated Financial Statements and accompanying Notes and the Company's Management's Discussion and Analysis for the first quarter of 2004 and the year ended December 31, 2003. Unless otherwise indicated, all financial information is in millions of dollars, except per share data.

### QUARTERLY RESULTS OF OPERATIONS

#### Consolidated Results

for the three months ended June 30	2004	2003
Gross revenue	\$238.1	\$227.0
Net earnings	\$4.6	\$2.5
Earnings per share – basis	\$0.29	\$0.16
– diluted	\$0.28	\$0.16

for the six months ended June 30	2004	2003
Gross revenue	\$449.0	\$445.3
Net earnings	\$7.1	\$3.6
Earnings per share – basic	\$0.45	\$0.23
– diluted	\$0.44	\$0.23

Revenues increased \$11.1 million to \$238.1 million in the second quarter of 2004 from \$227.0 million in the second quarter of 2003. Net quarterly earnings of \$4.6 million, or \$0.29 per share, increased \$2.1 million compared to the \$2.5 million, or \$0.16 per share recorded the previous year. For the six months ended June 30, 2004 revenue increased \$3.7 million to \$449.0 million and net earnings almost doubled to \$7.1 million, or \$0.45 per share, from \$3.6 million, or \$0.23 per share, the previous year.

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

- Mobile Equipment revenues and earnings increased compared to last year due primarily to an increase in parts and service volumes. Significant increases in western Canada construction and forestry equipment sales were offset by a large mining package sale in 2003.
- In Industrial Components, revenues increased \$7.8 million or 10.8% and earnings increased \$1.2 million. In particular, Spencer's earnings improved \$0.9 million to \$0.2 million from a loss of \$0.7 million the previous year.
- An increase in Diesel Engines revenues and earnings was driven by a 13.8% increase in revenues from its Alberta based operation, offset in part by a 4.0% reduction in sales from its operation in Quebec and the Maritimes.
- Consolidated revenues declined \$4.4 million compared to last year as a result of the increased value of the Canadian dollar compared to the U.S. dollar. The 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.

- The Company's debt, net of cash, increased \$0.7 million compared to March 31, 2004 but was \$34.8 million lower compared to June 30, 2003. As a result, the Company's quarter-end debt to equity ratio of 0.31:1 was improved from last year's ratio of 0.54:1.
- Interest expense decreased \$0.9 million quarter-over-quarter as a result of a \$41.2 million reduction in the average amount of funded debt outstanding during the quarter compared to last year.

During the quarter the Company paid a dividend of \$0.04 per share and has declared a dividend of \$0.04 per share payable in the third quarter.

## Mobile Equipment

for the three months ended June 30	2004	2003
Gross revenue	<b>\$115.5</b>	\$114.1
Segment earnings	<b>\$5.8</b>	\$5.0

  

for the six months ended June 30	2004	2003
Gross revenue	<b>\$213.5</b>	\$221.0
Segment earnings	<b>\$9.5</b>	\$8.8

Revenues increased \$1.4 million to \$115.5 million in the second quarter of 2004 from \$114.1 million in 2003. Segment earnings increased \$0.8 million to \$5.8 million in the second quarter of 2004 from \$5.0 million in the previous year. For the six months ended June 30, 2004, revenues decreased \$7.5 million to \$213.5 million and segment earnings of \$9.5 million increased \$0.7 million compared to last year. The following factors contributed to the second quarter results:

- Revenues in western Canada increased \$0.5 million in the quarter. Equipment revenues increased \$0.1 million quarter-over-quarter. A 51% increase in construction and forestry equipment sales, driven by a \$7.9 million increase in Hitachi excavator sales, and a modest increase in crane and utility volumes was offset in part by a \$9.0 million decrease in mining revenues due to a large mining package sale in 2003 and a \$1.5 million decrease due to the impact of the stronger Canadian dollar. Parts revenues increased 5.5% a result of targeted revenue building initiatives in all sectors. Service revenues declined \$0.3 million due to lower rebuilds in the construction and forestry sector. Earnings increased \$0.4 million due to the higher volumes and increased parts and service margins compared to last year.
- In eastern Canada revenues increased \$0.9 million quarter-over-quarter due to a 9.4% increase in service revenues and a \$0.4 million increase in parts volumes. Equipment revenues remained unchanged quarter-over-quarter as increases in material handling were offset by lower mining and crane and utility volumes and a \$1.2 million negative impact from the stronger Canadian dollar on U.S. sourced products. Earnings increased by \$0.4 million as the positive impact of increased volumes and a slight margin improvement more than offset a \$0.2 million increase in selling and administrative expenses.

Effective May 1, 2004, the Mobile Equipment segment expanded its distribution of the JCB construction equipment line in Quebec and the Maritimes to include Northern Ontario, Manitoba, Saskatchewan and most of British Columbia. Effective August 4, 2004 the territory

in British Columbia will be expanded further to include the lower mainland and Vancouver Island. The JCB line supplements the segment's Canada-wide distribution of the Hitachi construction excavator line. In addition, the Company continues to evaluate alternatives to its regional presence in the forestry sector.

## Industrial Components

for the three months ended June 30	2004	2003
Canada - Kinecor	<b>\$64.1</b>	\$59.0
United States – Spencer	<b>\$16.0</b>	\$13.3
Gross revenue	<b>\$80.1</b>	\$72.3
Canada - Kinecor	<b>\$1.4</b>	\$1.1
United States – Spencer	<b>\$0.2</b>	(\$0.7)
Segment earnings (loss)	<b>\$1.6</b>	\$0.4
for the six months ended June 30	2004	2003
Canada – Kinecor	<b>\$124.2</b>	\$116.4
United States – Spencer	<b>\$29.3</b>	\$26.8
Gross revenue	<b>\$153.5</b>	\$143.2
Canada – Kinecor	<b>\$2.0</b>	\$2.3
United States – Spencer	<b>\$0.3</b>	(\$2.2)
Segment earnings (loss)	<b>\$2.3</b>	\$0.1

Revenues increased 10.8% to \$80.1 million in the second quarter of 2004 from \$72.3 million and earnings of \$1.6 million compared to \$0.4 million the previous year. For the six months ended June 30, 2004, revenue increased 7.2% to \$153.5 million and segment earnings increased \$2.2 million to \$2.3 million. The following factors contributed to the quarterly results:

- Revenues in Kinecor increased 8.6% to \$64.1 million in 2004. Bearings and power transmission parts volumes increased \$3.8 million due primarily to additional volumes with forestry customers under long term contracts in eastern Canada, a focus on increasing the segment's market share in southern Ontario, a rebound in eastern Canada's steel industry and an increase in mining activity. Hydraulics parts and service revenues increased by \$1.3 million as strong results in the western Canada oil and gas and mining sectors exceeded revenue declines in eastern and central Canada. Earnings increased \$0.3 million to \$1.4 million as improved volumes more than offset the negative impact of higher selling and administrative expenses. Margins remained unchanged compared to last year as an increase in margins on hydraulics parts sourced from offshore, offset a decrease in margins due to lower accruals of supplier rebates and foreign exchange gains compared to last year. Selling and administrative expenses increased by \$0.8 million as a result of higher personnel costs including additional staff in western Canada to support increased volumes, additional headcount from the PMDF acquisition (a Quebec based hydraulics distributor with expertise in sourcing offshore products) made in late 2003 and one-time severance costs offset, in part, by a lower bad debt expense compared to last year.

- Revenues in Spencer, a hydraulics business, increased 20.3% to \$16.0 million compared to \$13.3 million last year due to higher parts sales to OEMs and increased and mining parts and service revenues. Earnings for the quarter increased \$0.9 million to \$0.2 million compared to a loss of \$0.7 million last year. This positive earnings variance was due primarily to increased revenues and decreased selling and administrative expenses, offset in part by lower margins due to a \$0.3 million increase in the inventory obsolescence provision. The lower selling and administrative expenses resulted from lower computer system depreciation and other cost reductions.

## Diesel Engines

for the three months ended June 30	2004	2003
Gross revenue	\$43.1	\$41.0
Segment earnings	\$3.9	\$3.5

for the six months ended June 30	2004	2003
Gross revenue	\$83.0	\$81.9
Segment earnings	\$7.2	\$7.2

Revenues increased \$2.1 million, or 5.1%, to \$43.1 million in the second quarter of 2004 and earnings increased \$0.4 million to \$3.9 million. For the six months ended June 30, 2004, revenues increased \$1.1 million to \$83.0 million and earnings remained flat at \$7.2 million compared to last year. The following events affected quarterly revenues and earnings:

- Revenues at the Waterous operation in Alberta were 13.8% or \$2.9 million ahead of 2003 resulting from improved equipment sales in the oil and gas sector and higher parts and service volumes generated mainly from the new Calgary facility opened in March of 2003.
- Revenues from the Company's Quebec and Maritimes operation, Detroit Diesel-Allison Canada East, decreased \$0.8 million compared to last year. Lower parts sales to Freightliner truck dealers were offset in part by delivery of a large custom generator set during the quarter and service revenues generated from the new Moncton facility opened in late 2003.
- Segment earnings increased \$0.4 million compared to last year as a result of higher volumes at a slightly higher margin, offset in part by increased selling and administrative expenses.

## LIQUIDITY AND CAPITAL RESOURCES

The Company generated \$1.1 million of cash before financing activities in the second quarter of 2004 compared to \$2.7 million in the second quarter of 2003. For the six months ended June 30, 2004 the Company used \$14.6 million of cash flow before financing activities compared to \$17.1 million of cash generated in the previous year.

Cash provided by operating activities amounted to \$2.5 million in the second quarter of 2004, with \$6.8 million of this amount generated from operating earnings. The difference of \$4.3

million was utilized in changes in non-cash working capital before the impact of changes in foreign currency translation rates. Significant components are as follows:

- Accounts receivable increased by \$4.7 million due principally to increased sales activities.
- Accounts payable and accrued liabilities decreased by \$2.3 million as a result of a reduction in Mobile Equipment supplier financing and accrued interest.
- Income taxes payable increased \$2.7 million due to current taxes payable exceeding tax installments made in the quarter.

For the six months ended June 30, 2004 cash used in operating activities amounted to \$9.9 million and included \$22.7 million of increases in non-cash working capital, net of \$12.8 million of cash from operating earnings and before the impact of changes in foreign currency translation.

Working capital, exclusive of funded debt and cash, increased \$5.6 million to \$143.7 million at June 30, 2004 from \$138.1 million at March 31, 2004. The increase was due to the cash flow factors listed above and the increase in the quarter-end U.S. dollar exchange rate compared to the March 31, 2004 rate.

The Company invested a net amount of \$1.5 million of the cash provided by operating activities into operations during the second quarter of 2004. The most significant investing activities were \$1.2 million of lift truck rental fleet additions in Mobile Equipment and \$0.7 million of other capital asset additions.

Debt, net of cash, increased \$0.7 million compared to March 31, 2004. Of this increase, \$1.5 million resulted from the translation of the U.S. senior notes into Canadian dollars at a higher exchange rate compared to the last quarter. The Company's debt to equity ratio decreased slightly to 0.31:1 at June 30, 2004 compared to 0.32:1 at March 31, 2004.

At June 30, 2004 the Company had utilized \$4.0 million (represented entirely by letters of credit) of its \$20.0 million 364-day revolving secured bank borrowing facility, which expires December 18, 2004. It is expected that the cash on-hand of \$26.1 million at June 30, 2004 along with the \$20.0 million bank facility and cash generated from earnings during the remainder of 2004 will provide sufficient cash flow to meet the Company's short-term cash requirements and long-term growth initiatives. Management also expects to be able to extend the existing credit facility by the end of 2004 allowing for future growth requirements.

The Mobile Equipment segment had possession of \$48.3 million of consigned inventory from a major manufacturer at June 30, 2004 compared to \$41.4 million the previous year. This inventory is not included in the Company's inventory as the manufacturer has title to the inventory.

The Company enters into hedges of its foreign currency exposures on a portion of its U.S. dollar-denominated senior notes by entering into offsetting U.S. dollar forward contracts. On March 31, 2004 the Company entered into two short-term foreign currency forward contracts to buy a total of \$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 U.S. self-sustaining operations. The foreign currency forward contracts, valued using prevailing currency exchange rates, have been recognized on the balance sheet.

During the quarter the Company paid a dividend of \$0.04 per share and will pay a dividend of \$0.04 per share in the third quarter of 2004. No dividends on common shares were paid in 2003.

## SHARE CAPITAL

During the quarter, employees of the Company exercised 22,000 stock options with a weighted-average exercise price of \$3.80 per share. The following is a summary of the changes in share capital and options.

Issued and fully paid common shares:	Number of Shares	Amount
March 31, 2004	15,696,960	\$102.2
Issued	22,000	\$ 0.1
June 30, 2004	15,718,960	\$102.3

During the quarter, the Company issued employee stock options to purchase 25,000 shares with a weighted-average exercise price of \$10.22 and weighted average life of 10 years as of the date of issuance. Year to date, the Company has issued employee stock options to purchase 86,570 shares with a weighted-average exercise price of \$9.03 and weighted average life of 8.6 years as of the date of issuance. No options have expired during the year. The following table summarizes the status of the stock option plan:

	Number of Shares	Weighted Average Exercise Price
Outstanding as at June 30, 2004	808,570	\$5.78

## 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 quarter and year were documented and deemed effective at inception as well as effective on a prospective and retroactive basis at June 30, 2004. Hedge accounting has been applied for all hedging relationships.

### Multiple Deliverables

Effective January 1, 2004, the Company adopted the 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 Contracts**

Effective January 1, 2004, the Company adopted the 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. 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.

### **RISKS AND UNCERTAINTIES**

Refer to the Management's Discussion & Analysis for the year ended December 31, 2003 included in the Company's 2003 Annual Report.

### **OUTLOOK**

The Company's earnings for the first half of 2004 came in slightly ahead of expectation. Management expects to deliver improved earnings for the balance of 2004 assuming no deterioration of the current economic environment where the Company is benefiting from a strong economy in many sectors, in particular the resource sector in western Canada.

### **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 Report and Annual Information Form, may be found on SEDAR at [www.sedar.com](http://www.sedar.com).



# WAJAX LIMITED

Unaudited Consolidated Financial Statements

For the six months ended June 30, 2004

Notice required under National Instrument 51-102, "Continuous Disclosure Obligations" Part 4.3(3) (a).

The attached consolidated financial statements have been prepared by Management of Wajax Limited and have not been reviewed by the auditors of Wajax Limited.

**WAJAX LIMITED**  
**CONSOLIDATED BALANCE SHEETS**  
(unaudited)

(in thousands of dollars)	June 30 2004	December 31 2003	June 30 2003
<b>Current Assets</b>			
Cash and cash equivalents	\$ 26,054	\$ 45,395	\$ 7,175
Accounts receivable	110,271	106,027	111,311
Inventories	149,770	143,682	161,637
Income taxes receivable	-	-	655
Future income taxes	6,253	6,257	7,845
Prepaid expenses and other recoverable amounts	2,738	2,353	2,850
	<b>295,086</b>	<b>303,714</b>	<b>291,473</b>
<b>Non-Current Assets</b>			
Rental equipment	16,619	16,205	17,386
Capital assets	30,815	31,855	33,449
Goodwill and other assets	52,578	53,137	55,002
Future income taxes	2,901	2,772	5,454
	<b>102,913</b>	<b>103,969</b>	<b>111,291</b>
	<b>\$ 397,999</b>	<b>\$ 407,683</b>	<b>\$ 402,764</b>
<b>Current Liabilities</b>			
Accounts payable and accrued liabilities	\$ 121,470	\$ 139,879	\$ 126,091
Income taxes payable	3,881	1,348	-
Current portion of long-term debt	4,470	4,267	14,573
	<b>129,821</b>	<b>145,494</b>	<b>140,664</b>
<b>Non-Current Liabilities</b>			
Future income taxes	2,516	2,745	2,680
Long-term debt	80,035	79,838	85,867
	<b>82,551</b>	<b>82,583</b>	<b>88,547</b>
<b>Shareholders' Equity</b>			
Share capital	102,296	102,212	102,212
Contributed surplus	187	63	-
Retained earnings	83,144	77,331	71,341
	<b>185,627</b>	<b>179,606</b>	<b>173,553</b>
	<b>\$ 397,999</b>	<b>\$ 407,683</b>	<b>\$ 402,764</b>

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

(in thousands of dollars, except per share data)	Three months ended June 30		Six months ended June 30	
	<b>2004</b>	2003	<b>2004</b>	2003
Revenue	\$ 238,128	\$ 226,989	\$ 449,019	\$ 445,267
Cost of sales	<b>184,989</b>	176,991	<b>346,614</b>	347,248
Gross profit	<b>53,139</b>	49,998	<b>102,405</b>	98,019
Selling and administrative expenses	<b>43,585</b>	42,787	<b>86,594</b>	85,534
Earnings before interest and income taxes	<b>9,554</b>	7,211	<b>15,811</b>	12,485
Interest expense	<b>1,892</b>	2,787	<b>3,930</b>	5,893
Earnings before income taxes	<b>7,662</b>	4,424	<b>11,881</b>	6,592
Income tax expense (recovery) – current	<b>3,538</b>	1,140	<b>5,035</b>	1,343
– future	<b>(435)</b>	791	<b>(223)</b>	1,666
Net earnings	<b>\$ 4,559</b>	\$ 2,493	<b>\$ 7,069</b>	\$ 3,583
Retained earnings, beginning of period	<b>79,213</b>	68,848	<b>77,331</b>	67,758
Dividends on common shares	<b>(628)</b>	-	<b>(1,256)</b>	-
Retained earnings, end of period	<b>\$ 83,144</b>	\$ 71,341	<b>\$ 83,144</b>	\$ 71,341
Earnings per share (Note 3) – basic	<b>\$ 0.29</b>	\$ 0.16	<b>\$ 0.45</b>	\$ 0.23
– diluted	<b>0.28</b>	0.16	<b>0.44</b>	0.23
Number of common shares outstanding	15,718,960	15,696,960	15,718,960	15,696,960
Number of common share stock options outstanding	808,507	894,000	808,507	894,000

**WAJAX LIMITED**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
(unaudited)

(in thousands of dollars)	Three months ended June 30	
	2004	2003
<b>OPERATING ACTIVITIES</b>		
Net earnings	\$ 4,559	\$ 2,493
Items not affecting cash flows:		
Amortization		
- Rental equipment	844	493
- Capital assets	1,329	1,772
- Deferred expenses	253	259
Pension expense	190	800
Stock compensation expense (Note 4)	68	-
Future income taxes	(436)	251
<b>Cash flows before changes in non-cash working capital</b>	<b>6,807</b>	<b>6,068</b>
<b>Changes in non-cash working capital:</b>		
Accounts receivable	(4,727)	3,937
Inventories	521	764
Prepaid expenses and other recoverable amounts	(462)	(474)
Accounts payable and accrued liabilities	(2,341)	(5,835)
Income taxes payable	2,742	1,664
	(4,267)	56
<b>Cash flows provided by operating activities</b>	<b>2,540</b>	<b>6,124</b>
<b>INVESTING ACTIVITIES</b>		
Rental equipment additions	(1,216)	(2,454)
Rental equipment disposals	376	388
Capital asset additions	(658)	(1,415)
Proceeds on disposal of capital assets	12	53
	(1,486)	(3,428)
<b>Cash flows before financing activities</b>	<b>1,054</b>	<b>2,696</b>
<b>FINANCING ACTIVITIES</b>		
Issuance of common shares on exercise of stock options (Note 4)	84	-
Repayment of debentures	(1,269)	(1,165)
Hedging activities (Note 5)	-	(3,624)
Dividends paid	(628)	-
	(1,813)	(4,789)
<b>Cash flows before effect of foreign exchange</b>	<b>(759)</b>	<b>(2,093)</b>
Effect of foreign exchange on translation adjustment	285	154
<b>Net change in cash and cash equivalents</b>	<b>\$ (474)</b>	<b>\$ (1,939)</b>
<b>Cash and cash equivalents – beginning of period</b>	<b>\$ 26,528</b>	<b>\$ 9,114</b>
<b>Cash and cash equivalents – end of period</b>	<b>\$ 26,054</b>	<b>\$ 7,175</b>
<b>Cash flows provided by operating activities include the following:</b>		
Interest paid	\$ 2,798	\$ 3,661
Income taxes paid	\$ 832	\$ 111
<b>Significant non-cash transaction:</b>		
Rental equipment transferred to inventory	\$ 221	\$ 218

**WAJAX LIMITED**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
(unaudited)

(in thousands of dollars)	Six months ended June 30	
	2004	2003
<b>OPERATING ACTIVITIES</b>		
Net earnings	\$ 7,069	\$ 3,583
Items not affecting cash flows:		
Amortization		
- Rental equipment	2,144	967
- Capital assets	2,664	3,672
- Deferred expenses	639	515
Pension expense	347	1,697
Stock compensation expense (Note 4)	124	-
Future income taxes	(224)	1,126
<b>Cash flows before changes in non-cash working capital</b>	<b>12,763</b>	<b>11,560</b>
<b>Changes in non-cash working capital:</b>		
Accounts receivable	(4,016)	1,935
Inventories	(5,103)	14,587
Prepaid expenses and other recoverable amounts	(365)	4,872
Accounts payable and accrued liabilities	(15,705)	(15,220)
Income taxes payable	2,530	2,701
	<b>(22,659)</b>	<b>8,875</b>
<b>Cash flows (used) provided by operating activities</b>	<b>(9,896)</b>	<b>20,435</b>
<b>INVESTING ACTIVITIES</b>		
Rental equipment additions	(3,911)	(3,716)
Rental equipment disposals	811	490
Capital asset additions	(1,641)	(2,256)
Proceeds on disposal of capital assets	82	2,155
	<b>(4,659)</b>	<b>(3,327)</b>
<b>Cash flows before financing activities</b>	<b>(14,555)</b>	<b>17,108</b>
<b>FINANCING ACTIVITIES</b>		
Issuance of common shares on exercise of stock options (Note 4)	84	-
Decrease in long-term debt	-	(15,191)
Repayment of debentures	(2,084)	(1,899)
Hedging activities (Note 5)	(2,025)	(6,336)
Dividends paid	(1,256)	-
	<b>(5,281)</b>	<b>(23,426)</b>
<b>Cash flows before effect of foreign exchange</b>	<b>(19,836)</b>	<b>(6,318)</b>
Effect of foreign exchange on translation adjustment	495	(64)
<b>Net change in cash and cash equivalent</b>	<b>\$ (19,341)</b>	<b>\$ (6,382)</b>
<b>Cash and cash equivalent – beginning of period</b>	<b>\$ 45,395</b>	<b>\$ 13,557</b>
<b>Cash and cash equivalent – end of period</b>	<b>\$ 26,054</b>	<b>\$ 7,175</b>
<b>Cash provided by operating activities included the following:</b>		
Interest paid	\$ 4,027	\$ 5,693
Income taxes paid (received)	\$ 2,540	\$ (724)
<b>Significant non-cash transaction:</b>		
Rental equipment transferred to inventory	\$ 541	\$ 383

**WAJAX LIMITED**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
(Tabulated in thousands of dollars)  
(unaudited)

**Note 1 Significant accounting policies**

The accounting policies used in the preparation of these unaudited interim consolidated financial statements conform with those used in the Company's annual consolidated financial statements except for the changes noted below (See Note 2).

These interim consolidated financial statements do not include all of the disclosures included in the Company's annual consolidated financial statements. Accordingly, these unaudited interim financial statements should be read in conjunction with the Company's annual consolidated financial statements as at and for the year ended December 31, 2003.

**Note 2 Change in accounting policies**

***a. 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 quarter and year were documented and deemed effective at inception as well as effective on a prospective and retroactive basis at June 30, 2004. Hedge accounting has been applied for all hedging relationships.

***b. Multiple Deliverables***

Effective January 1, 2004, the Company adopted the 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.

***c. Separately Priced Extended Warranty and Product Maintenance Contracts***

Effective January 1, 2004, the Company adopted the 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. 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.

### Note 3 Earnings per share

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

Quarter	2004	2003
Numerator for basic and diluted earnings per share: – net income	\$ 4,559	\$ 2,493
Denominator for basic earnings per share : – weighted average shares	15,698,877	15,696,960
Denominator for diluted earnings per share:		
– weighted average shares	15,698,877	15,696,960
– effect of dilutive employee stock options	329,238	50,567
Denominator for diluted earnings per share	16,028,115	15,747,527
Basic earnings per share	\$ 0.29	\$ 0.16
Diluted earnings per share	\$ 0.28	\$ 0.16

Of the 808,570 (2003 – 894,000) stock options outstanding at the end of the period, 65,000 (2003 – 397,000) options with an exercise price range of \$10.22-\$11.50 (2003 - \$5.10-\$17.25) are excluded from the above calculations as they are currently anti-dilutive. These securities could potentially dilute earnings per share in future periods.

Year-to-date	2004	2003
Numerator for basic and diluted earnings per share: – net income	\$ 7,069	\$ 3,583
Denominator for basic earnings per share : – weighted average shares	15,697,913	15,696,960
Denominator for diluted earnings per share:		
– weighted average shares	15,697,913	15,696,960
– effect of dilutive employee stock options	314,015	21,081
Denominator for diluted earnings per share	16,011,928	15,718,041
Basic earnings per share	\$ 0.45	\$ 0.23
Diluted earnings per share	\$ 0.44	\$ 0.23

Of the 808,570 (2003 – 894,000) stock options outstanding at the end of the period, 65,000 (2003 – 597,000) options with an exercise price range of \$10.22-\$11.50 (2003 - \$4.25-\$17.25) are excluded from the above calculations as they are currently anti-dilutive. These securities could potentially dilute earnings per share in future periods.

#### **Note 4 Stock-based compensation plans**

During the quarter, the Company issued employee stock options to purchase 25,000 shares with a weighted-average exercise price of \$10.22 and weighted average life of 10 years as of the date of issuance. Employees of the Company exercised 22,000 stock options with a weighted-average exercise price of \$3.80. No options expired during the quarter.

Year to date, the Company issued employee stock options to purchase 86,570 shares with a weighted-average exercise price of \$9.03 and weighted average life of 8.6 years as of the date of issuance. Employees of the Company exercised 22,000 stock options with a weighted-average exercise price of \$3.80. No options expired during the year.

The Company recorded a compensation cost of \$68 thousand for the quarter and \$124 thousand year to date 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 cost for grants prior to this year. There would have been a reduction in net earnings of \$31 thousand (2003 - \$70 thousand) for the quarter and \$62 thousand (2003 - \$140 thousand) year to date and a nominal reduction in 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 using the following weighted average assumptions:

Risk free interest rate	4.6% - 3.5%
Expected life	8.6 years
Expected volatility	32%
Expected dividends	2%

The weighted average fair value of the options issued during the year at the grant date was \$3.23 (2003 – \$1.42)

#### **Note 5 Financial Instruments**

The Company hedges its foreign currency exposures on a portion of its U.S. dollar-denominated senior notes by entering into offsetting U.S. dollar forward contracts. During the year, the Company had a \$2.0 million loss on these hedging activities that was offset by a \$2.0 million foreign currency gain on the U.S. dollar-denominated senior notes. At June 30, 2004 the Company has two short-term foreign currency forward contracts outstanding to buy a total of \$30 million U.S. dollars on March 31, 2005. The foreign currency forward contracts, valued using prevailing currency exchange rates, have been recognized on the balance sheet.

## Note 6 Employees' pension plans

Net pension plan expenses are as follows:

<b>Quarter</b>	<b>2004</b>		<b>2003</b>	
Net pension plan expense – defined benefit plans	\$	<b>235</b>	\$	50
Net pension plan expense – defined contribution plans		<b>986</b>		898
	\$	<b>1,221</b>	\$	948

  

<b>Year-to-date</b>	<b>2004</b>		<b>2003</b>	
Net pension plan expense – defined benefit plans	\$	<b>437</b>	\$	123
Net pension plan expense – defined contribution plans		<b>1,960</b>		1,519
	\$	<b>2,397</b>	\$	1,642

## Note 7 Segmented information

<b>Quarter</b>	<b>2004</b>		<b>2003</b>	
<b>Revenue</b>				
Mobile Equipment	\$	<b>115,498</b>	\$	114,149
Industrial Components				
- Canada		<b>64,087</b>		59,030
- United States		<b>16,019</b>		13,257
Total Industrial Components		<b>80,106</b>		72,287
Diesel Engines		<b>43,061</b>		40,967
Segment eliminations		<b>(537)</b>		(414)
Total consolidated	\$	<b>238,128</b>	\$	226,989

  

<b>Segment Earnings (Loss)</b>				
Mobile Equipment	\$	<b>5,751</b>	\$	5,047
Industrial Components				
- Canada		<b>1,434</b>		1,099
- United States		<b>183</b>		(657)
Total Industrial Components		<b>1,617</b>		442
Diesel Engines		<b>3,888</b>		3,508
Corporate costs		<b>(1,702)</b>		(1,786)
Total consolidated	\$	<b>9,554</b>	\$	7,211

Interest expense, income taxes and all other corporate costs are not allocated to business segments.

<b>Year-to-date</b>	<b>2004</b>	<b>2003</b>
<b>Revenue</b>		
Mobile Equipment	\$ 213,542	\$ 221,039
Industrial Components		
- Canada	124,166	116,409
- United States	29,333	26,751
Total Industrial Components	153,499	143,160
Diesel Engines	83,006	81,851
Segment Eliminations	(1,028)	(783)
Total consolidated	\$ 449,019	\$ 445,267
<b>Segment Earnings (Loss)</b>		
Mobile Equipment	\$ 9,516	\$ 8,769
Industrial Components		
- Canada	2,002	2,294
- United States	329	(2,207)
Total Industrial Components	2,331	87
Diesel Engines	7,201	7,160
Corporate costs	(3,237)	(3,531)
Total consolidated	\$ 15,811	\$ 12,485

Interest expense, income taxes and all other corporate costs are not allocated to business segments.

### **Note 8 Comparative information**

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



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