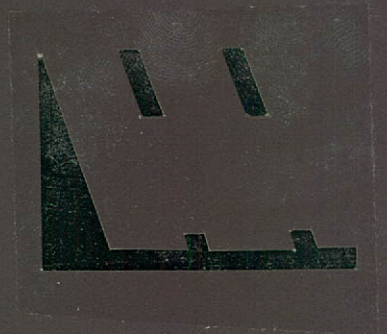
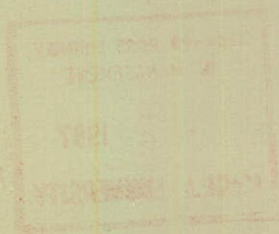
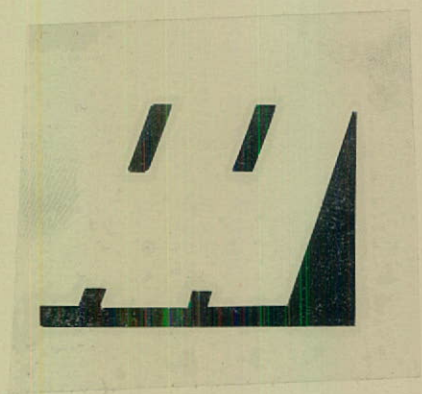


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WAJAX
LIMITED
ANNUAL
REPORT
1986





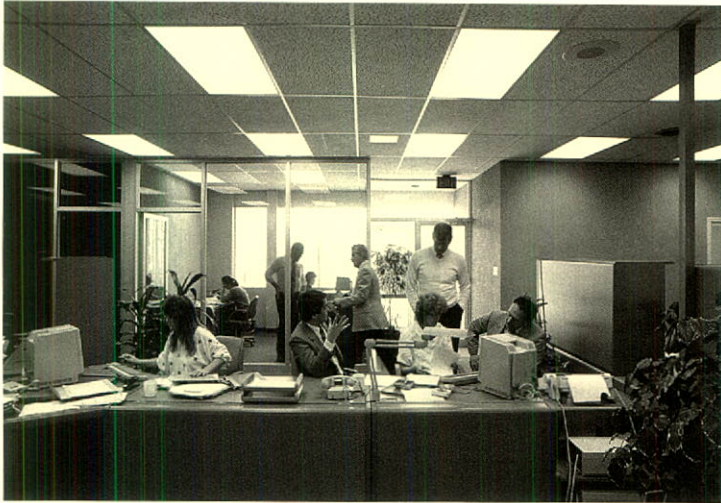
WAJAX LIMITED

Wajax Limited is a diversified Canadian Corporation serving the mining, forestry, petroleum, public utilities, transportation, manufacturing and construction industries through a coast-to-coast network of sales and service branches.

About 30.2% of the Company's 1986 gross revenue of \$278 million was related to product lines of its own manufacture.

The Company is incorporated under the Canada Business Corporations Act and enjoys better than 99% Canadian ownership. The Shares of Wajax Limited are traded publicly and are listed on the Toronto and Montreal Stock Exchanges under the symbols WJX.A (Class A Common) and WJX.B (Class B Common).





Wajax companies are organized into autonomous profit centres. Each manager is responsible for bottom-line results.

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ANNUAL MEETING OF SHAREHOLDERS

The Annual General Meeting will be held at l'Hotel, Toronto, Ontario on Thursday, April 23, 1987 at 11:00 am. A buffet luncheon will be served following the meeting.

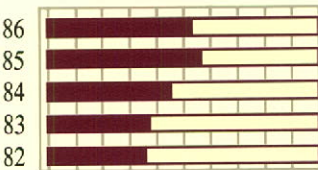
VALUATION DAY

The value for capital gains tax attributed to Wajax Limited common stock on Valuation Day (December 22, 1971) was \$13.63, which by virtue of 2-for-1 stock splits in 1972, 1977 and 1981 is now equivalent to \$1.70375 per Class A share.

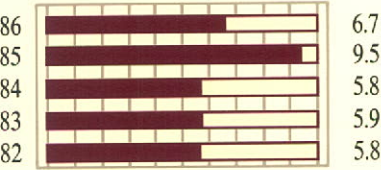
FINANCIAL HIGHLIGHTS

	% Change	1986	1985
Operations (thousands of dollars)			
Gross Revenue	(4.1)	\$ 278,182	\$ 289,944
Net Earnings	(30.0)	6,673	9,538
Financial Position (thousands of dollars)			
Working Capital	23.4	\$ 91,120	\$ 73,866
Long-term Debt	60.6	41,550	25,875
Shareholders' Equity	2.8	76,671	74,581
Per Common Share			
Basic Earnings	(32.8)	\$ 0.78	\$ 1.16
Dividends	16.7	0.56	0.48
Equity	9.4	8.97	8.20

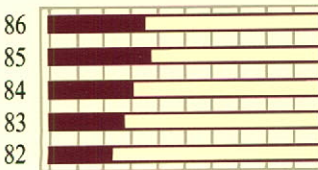
Gross Revenue (Millions of Dollars)



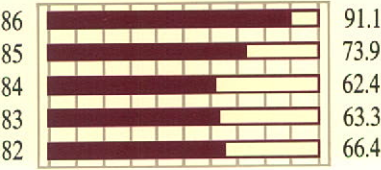
Net Earnings (Millions of Dollars)



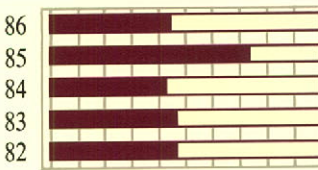
Total Assets (Millions of Dollars)



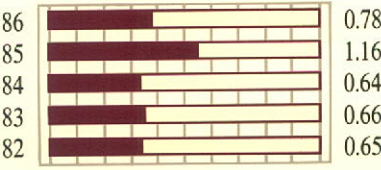
Working Capital (Millions of Dollars)



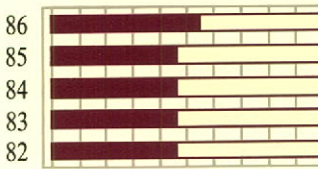
Return on Common Share Equity (Per Cent)



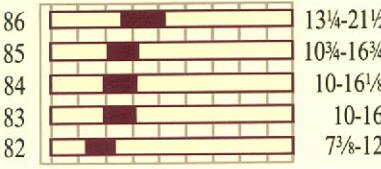
Basic Earnings Per Common Share (Dollars)



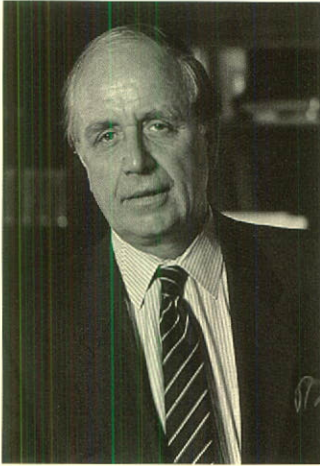
Dividends Paid Per Common Share (Cents)



Price Range Per Common Share (Dollars)



REPORT TO THE SHAREHOLDERS



R.W. Chorlton

Although a great deal of progress was made in 1986 towards our goal of long term growth and profitability, our earnings were not as good as anticipated at the year's beginning. An unexpectedly sharp decline in the world price of oil had a negative effect on the performance of our Alberta-based distribution units and this development, coupled with a sharp increase in corporate income taxes, resulted in lower earnings.

Net earnings for the year were \$6,673,000, a decrease of thirty per cent from \$9,538,000 earned in the same period last year. Earnings per share were 78 cents compared with \$1.16. Gross revenues at \$278,182,000 were four per cent lower than last year.

The removal of the three per cent inventory allowance in the February 1986 Federal budget, together with the additional corporate income surtax, is responsible for 14 cents per share decline on an after-tax basis.

A significant positive development for the year was the substantial strengthening of the Company's financial position, with working capital at year end standing at \$91,120,000, compared with \$73,866,000 the previous year. Key to this development was the issuance of 10¼ per cent Series D Sinking Fund Debentures in the amount of \$17,000,000 maturing in the year 2006.

Not only was the Company's capitalization enhanced by the additional debenture issue, but also by the successful conversion into Common shares of the Convertible Preferred shares. Over 99.5 per cent of the Preferred shares were converted, resulting in only a nominal number being redeemed.

Dividends were increased to 56 cents per Class A share from 48 cents paid the previous year. Equivalent stock dividends on Class B shares totalled .0333 shares per Class B share held. Due to the conversion of the Preferred shares, the Common share dividend at the higher level was funded without any material increase in the indicated total annual dividend pay-out.

The consolidated business plan for 1986 contemplated earnings of the same order as 1985, with some reduction in the distribution yield being made up from improved manufacturing results. As it turned out, the manufacturing operations turned in results much in line with the budget, but this was not enough to offset the substantial drop in earnings from both of our Alberta-based operations.

Although remaining profitable, both of the Alberta distribution units had difficulty adjusting to the adverse economic trend triggered by the sharp and sudden decline in world oil prices that started at the beginning of the year. Our important Waterous Power Products Group was particularly hard hit as a substantial portion of their business is oil patch related. The Wajax Industries' operations were sharply off as well, as the fabric of the Alberta economy in general was affected.

On balance, although not able to make up for the decrease in the Alberta contribution, the other distribution profit centres throughout Canada performed satisfactorily.

In British Columbia, while results were depressed by reason of contraction of coal mining activity, the woodlands sector was surprisingly strong given the double negative of protracted labour strikes and general apprehension about the U.S. government threat to apply countervailing duties on Canadian lumber.

In Manitoba and Ontario distribution results showed continued improvement as buoyant conditions, particularly in Southern Ontario, created a strong demand for all products, especially materials handling equipment. It is interesting to note that while profit margins continue under pressure because of Japanese competition, deliveries of fork lift trucks were at the highest level since 1979.

In Quebec the new Wajax Industries operation, formed by the merger of Mussels Equipment Ltd. into Wajax Industries, completed its first year with results considered satisfactory in light of the magnitude of the effort required in melding the two units together. Quebec represents a very important market for all of the products distributed by Wajax and the Mussels acquisition is viewed as key in our plans to provide a national distribution network second to none.

The distribution operations in the Atlantic provinces performed satisfactorily with very good results being obtained for underground mining equipment and utility equipment.

Turning to the Manufacturing Group, it is noteworthy that not only did the Group generate a solid profit contribution, but did so while continuing the drive for new product development and improved market share both domestically and abroad.

Pitman, the largest of the manufacturing units, had a particularly busy year during which it:

- continued to improve its manufacturing capability by addition of new capital equipment and further expansion of its CAD/CAM capacity.
- expanded its dealer network in the United States, particularly in the important utility equipment segment.
- carried out an ambitious product development programme centred around the important product line of digger derricks.

The principal focus of the other four units of the Manufacturing Group — Wajax Manufacturing Limited, Niedner Limited, Wajax Pacific Fire Equipment Inc., and GAAM Pumps Pty. Ltd. — is in the production and supply of forest fire control equipment, a specialty market niche in which Wajax has long enjoyed a worldwide reputation. All units performed well, despite the absence of significant emergency requirements occasioned by serious forest fires.

As we move into 1987 we are confronted with a wide range of economic variables that require reflection by management as we develop our plans for future growth. Chief among these at the present time are:

- World currency adjustments. While the downward trend of North American currencies will represent a hurdle so far as the cost of our European-sourced products are concerned, we should see some margin improvement against our Japanese competitors. More importantly, the cheaper dollar should sustain the export competitiveness of our own products and those of a wide range of our customers. A currency accord designed to limit currency fluctuations from the current level is desirable for long term planning purposes.
- World oil prices. As we have seen, the sharp decline in oil prices has had a serious effect on our Alberta business, and so long term price stability at \$18 or more per barrel would be greatly helpful to our fortunes. At this price level, tar sand development — in the past very important for Wajax — will be encouraged and oil patch activity generally will be more buoyant.
- Canadian tax reform. This complicated matter is high on the Federal Government's agenda and it is possible that by the end of this year a new tax regimen will have been presented. Wajax has been hard hit by the increased taxes it has to bear as a result of the 1986 budget and has never benefitted significantly from any of the tax deferral

measures over the years. Accordingly, the prospect of less tax incentives to allow for lower corporate tax rates, as has been the case in the United States tax reform, would be a welcomed change.

- Free Trade discussions. These constitute another item high on the Canadian national agenda having great significance for Wajax. Although our manufacturing enterprises will have to become more efficient to counter the strong U.S. competition if a free trade pact is forged, so long as the pact ensures less concern about countervailing duties and other protectionist measures, on balance it should be good for Wajax as it will improve the opportunities for growth of our principal customers.

During the year the following executive appointments were made:

G.A. Cunningham, Executive Vice President, Wajax Industries Limited, Central Division.

W. Hirsch, Senior Vice President, Pitman Manufacturing Co. Inc.

P.R.W. Wiens, Vice President, Wajax Industries Limited.

Wajax's superior performance has always been attributable to the hard work and dedication of many people: our Directors who supplied invaluable counsel and support; our employees, both long term and new; our customers, and our shareholders. We thank them for their confidence, encouragement and commitment during the year.

As we move into 1987 we do so with guarded optimism that our earnings will show an improvement over 1986. Such optimism is based on our view that Canada in the overall will enjoy satisfactory economic growth and our confidence, not only in the soundness of our market choices, but in the structure developed to serve those diverse markets across the length and breadth of the country, and beyond.

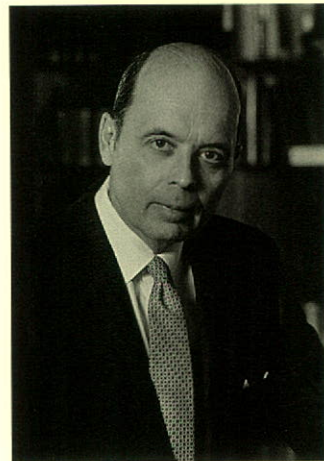
On behalf of the Board,



R.W. Chorlton
Chairman and Chief Executive Officer.



Ian B. Campbell
President and Chief Operating Officer.



I.B. Campbell



Profit centre performance is constantly scrutinized. Wajax managers control every aspect of their own operations from sourcing to selling to servicing.

Consolidated gross revenues were down 4.1% for the year to \$278.2 million as compared with the record established in 1985 of \$289.9 million. The sharp deterioration in world oil prices early in 1986 caused sales in the Province of Alberta to drop by approximately \$20 million as is illustrated in the geographical sales comparison chart on page 23. The parts and service element grew in proportion to the Company's overall business once again this year and now stands at 54.1%, having grown every year since 1980 when it represented 43.3%.

The slightly lower activity in 1986 is also reflected in the balance sheet with total assets down by \$4 million to \$179.1 million. Inventories, however, were up by 5% over the preceding year, partly due to the improved order book that existed through the year-end.

The Company's total capitalization increased by \$17.8 million during the year primarily due to the placement of 10.25% Series D Sinking Fund Debentures in the amount of \$17 million maturing in the year 2006. Proceeds from this issue were applied to reduce current bank indebtedness, which is down by \$16.5 million, and largely accounts for the \$17.2 million

working capital increase from \$73.9 million in 1985 to \$91.1 million at the year-end. On a per share basis, working capital increased from \$8.69 to \$10.66 year over year.

The shareholders' equity per common share rose from \$8.20 last year to \$8.97 which to a large extent was due to the conversion of the preferred shares. The shareholders' equity now amounts to approximately 43% of total assets. With these overall improvements in capitalization, the Company enters 1987 in a very strong financial position.

Funds generated from operations amounted to \$9.7 million, which after paying dividends of \$4.9 million, left a balance more than sufficient to cover the fixed asset purchases of \$3.4 million and the debenture sinking fund repayments of \$1.3 million. Of the \$3.4 million spent on fixed assets, \$0.6 million related to land and buildings, primarily premises acquired in Grande Prairie, Alberta. Significant steps were also taken in the area of computerization, particularly in the Manufacturing Group, to bring about operating efficiencies and cost reductions. Other capital expenditures were essentially for replacement and modernization of equipment and service vehicles.

Selling and administrative expenses and interest expense have been kept under tight control. The slight increase is more than accounted for by the expansion of the Quebec based operations through the acquisition of Mussens Equipment Ltd., effective July 1, 1985.

The Company is financially and operationally well positioned to take advantage of the future opportunities for growth and expansion which are expected in the coming years.

Consolidated Statement of Earnings

For the year ended December 31, 1986
(Dollars in thousands)

	1986	1985
Gross revenue	\$ 278,182	\$ 289,944
Cost of sales	224,643	233,487
Gross profit	53,539	56,457
Selling and administrative expenses	34,512	33,841
Interest expense	6,525	6,415
	41,037	40,256
Earnings before income taxes	12,502	16,201
Income taxes — Note 2	5,829	6,663
Net earnings	\$ 6,673	\$ 9,538
Net earnings attributed to:		
Preferred shares	\$ 309	\$ 1,254
Common shares	6,364	8,284
Net earnings	\$ 6,673	\$ 9,538
Basic earnings per common share — Note 3	\$ 0.78	\$ 1.16

Consolidated Statement of Retained Earnings

For the year ended December 31, 1986
(Dollars in thousands)

	1986	1985
Retained earnings, beginning of year	\$ 45,910	\$ 41,061
Net earnings	6,673	9,538
	52,583	50,599
Dividends — Note 4	4,902	4,689
Retained earnings, end of year	\$ 47,681	\$ 45,910

WAJAX LIMITED

(Incorporated under the Canada Business Corporations Act)

Consolidated Balance Sheet

As at December 31, 1986

(Dollars in thousands)

	1986	1985
Assets		
Current		
Accounts receivable	\$ 44,392	\$ 51,760
Inventories	105,792	100,715
Prepaid expenses	946	1,188
Deferred income taxes	904	2,856
	152,034	156,519
Fixed — Note 5		
Fixed assets	40,660	38,310
Less accumulated depreciation	16,508	14,505
	24,152	23,805
Other		
Investment	662	662
Unamortized debenture issue expenses	405	221
Goodwill	1,882	1,902
	2,949	2,785
	\$ 179,135	\$ 183,109

On behalf of the Board:



Director



Director

	1986	1985
Liabilities		
Current		
Bank indebtedness	\$ 19,548	\$ 36,069
Accounts payable and accrued liabilities	37,991	43,479
Income and other taxes payable	3,375	3,105
	60,914	82,653
Long-term debt — Note 6	41,550	25,875

Shareholders' Equity

Capital stock — Note 7	28,990	28,671
Retained earnings	47,681	45,910
	76,671	74,581
	\$ 179,135	\$ 183,109

Auditors' Report

The Shareholders
Wajax Limited

We have examined the consolidated balance sheet of Wajax Limited as at December 31, 1986 and the consolidated statements of earnings, retained earnings and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the Company as at December 31, 1986 and the

results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Donche Ross & Co.

Chartered Accountants
Ottawa, Ontario
February 20, 1987.

Consolidated Statement of Changes in Financial Position

For the year ended December 31, 1986
(Dollars in thousands)

	1986	1985
Change in working capital		
Funds generated from operations		
Net earnings	\$ 6,673	\$ 9,538
Items not requiring an outlay of funds		
Depreciation	3,010	2,755
Amortization of other assets	45	44
	9,728	12,337
Dividends	(4,902)	(4,689)
	4,826	7,648
Funds provided by financing activities		
Issue of common shares	380	419
Redemption of preferred shares	(61)	—
Issue of debentures, net of issue costs	16,791	—
Repayment of debentures	(1,325)	(1,325)
Term bank loan	—	10,000
	15,785	9,094
Net funds from operating and financing activities	20,611	16,742
Funds invested in future operations		
Purchase of fixed assets	3,357	4,069
Acquisition of subsidiary, net of working capital	—	1,216
	3,357	5,285
Increase in working capital	\$ 17,254	\$ 11,457
Working capital at end of year	\$ 91,120	\$ 73,866

Change in current bank indebtedness		
Cash provided by increase in working capital	\$ 17,254	\$ 11,457
Assumption of bank indebtedness of subsidiary at date of acquisition	—	(5,956)
Cash used to finance current operating assets and liabilities	(733)	(2,793)
Decrease in current bank indebtedness	\$ 16,521	\$ 2,708

Notes to Consolidated Financial Statements

December 31, 1986

1. Accounting Policies

Principle of consolidation

These consolidated financial statements include the accounts of Wajax Limited and all its subsidiary companies.

Foreign currency translation

Assets and liabilities in foreign currencies are translated into Canadian dollars at the rates prevailing at the balance sheet date. Exchange gains and losses on completed transactions are taken into income in the year they occur.

Inventories

Inventories, including used equipment and rental units, are valued at the lower of cost and net realizable value.

Fixed assets and depreciation

Fixed assets are recorded at cost. Depreciation is provided on the diminishing balance basis, except on leasehold improvements, at the following rates:

Buildings — either 5% or 10%

Equipment — 20%

Automotive and computer equipment — 30%

Leasehold improvements

— straight-line over the expected term of lease

Other assets

The investment is recorded at cost and income is recognized as dividends are received.

Debenture issue expenses are being amortized over the terms of the issues.

The Company believes that goodwill represents continuing value and accordingly goodwill arising from acquisitions prior to the end of 1973 is recorded as an asset without amortization. Goodwill arising from acquisitions subsequent to 1973 is being amortized over the expected period of benefit, not to exceed forty years.

Class of business

In accordance with Section 47 of the Regulations to the Canada Business Corporations Act, the Board of Directors has determined the business of the Company to be of one class, namely, the manufacture and distribution of mechanical equipment.

2. Income Taxes

1986

1985

The consolidated effective income tax rate is 46.6% (41.1% — 1985) and is made up as follows:

Combined statutory income tax rate	50.3%	49.3%
Inventory allowance	(1.5)	(7.1)
Other	(2.2)	(1.1)
	46.6%	41.1%

3. Earnings per common share

Basic earnings per common share are calculated by dividing net earnings attributed to common shares by the weighted average number of shares

outstanding during the year of 8,203,678 (7,155,549 — 1985).

4. Dividends (Dollars in thousands)

Dividends paid during the year were as follows:

	1986	1985
Preferred shares	\$ 309	\$ 1,254
Common shares	4,593	3,435
	\$ 4,902	\$ 4,689

5. Fixed assets (Dollars in thousands)

	1986	1985
Land and buildings	\$ 17,445	\$ 17,038
Less accumulated depreciation	2,863	2,428
	14,582	14,610
Equipment and leasehold improvements	23,215	21,272
Less accumulated depreciation	13,645	12,077
	9,570	9,195
	\$ 24,152	\$ 23,805

6. Long-term debt (Dollars in thousands)

	1986	1985
Sinking fund debentures		
8.75%, Series A, maturing March 1, 1993	\$ 2,500	\$ 2,750
11.75%, Series B, maturing October 15, 1995	2,000	2,200
11.25%, Series C, maturing October 1, 1999	11,375	12,250
10.25%, Series D, maturing June 19, 2006	17,000	—
	32,875	17,200
Term bank loan		
11.24%, Unsecured, maturing October 23, 1990	10,000	10,000
	42,875	27,200
Less current portion included in accounts payable and accrued liabilities	1,325	1,325
	\$ 41,550	\$ 25,875

The debentures are secured by a floating charge on certain assets of the Company. Annual sinking fund requirements are \$1,325,000 and will increase to \$2,387,000 in 1991 when sink-

ing fund payments of \$1,062,000 for Series D debentures commence.

Interest on long-term debt amounted to \$3,877,000 (\$2,182,000 — 1985).

7. Capital Stock

	Number of Shares		Amount (Dollars in thousands)	
	1986	1985	1986	1985
Issued and fully paid:				
\$1.86 Cumulative redeemable convertible preferred shares, Series A	—	669,941	\$ —	\$ 15,718
Common shares	8,550,536	7,179,593	28,990	12,953
			\$ 28,990	\$ 28,671

The \$1.86 cumulative redeemable convertible preferred shares, Series A, outstanding were called for redemption on April 7, 1986 resulting in the conversion of all of these shares into common shares on a one-for-two basis with the exception of 2,600 preferred shares which were redeemed for cash.

As at December 31, 1986 there were outstanding 8,550,536 common shares without nominal or

par value divided into Classes A and B, which rank equally for all purposes, except that the Company has the power to declare stock dividends on the Class B shares. The Class A and Class B shares are fully convertible from either class to the other on a share-for-share basis.

Changes in capital stock during the year were as follows:

	Preferred	Common	
		Class A	Class B
Shares outstanding at beginning of year	669,941	7,046,282	133,311
Conversion of preferred shares to common shares	(667,341)	1,311,016	23,666
Redemption of preferred shares	(2,600)	—	—
Options exercised	—	33,000	—
Stock dividends on Class B common shares	—	—	3,261
Net conversion of common shares between classes	—	89,714	(89,714)
Shares outstanding at end of year	—	8,480,012	70,524

Options, to officers of the Company and its subsidiaries, which expire five years after date of grant, are outstanding to purchase 254,000 unissued common shares of the Company as follows:

Options granted November 10, 1982 at \$9.80 per share	24,000
Options granted November 5, 1986 at \$14.75 per share	230,000
	254,000

8. Commitments

Long-term lease commitments amount to \$12,291,000 in total.

The lease requirements for the next five years are:

1987	\$ 1,672,000
1988	1,507,000
1989	1,317,000
1990	1,162,000
1991	933,000

9. Employees' pension plans

The latest actuarial review of the employees' pension plans as at December 31, 1984, showed that the funds had a surplus. Amendments were made in 1985 to improve the plans, utilizing a portion of this surplus.

Eleven Year Summary

Years ended December 31

(Dollars in millions except per share data)

	1986	1985	1984	1983
Operating results				
Gross revenue	\$ 278.2	\$ 289.9	\$ 231.0	\$ 198.0
Pre-tax earnings	\$ 12.5	16.2	9.5	9.4
After tax earnings	\$ 6.7	9.5	5.8	5.9
Interest expense	\$ 6.5	6.4	5.5	3.1
Funds generated from operations	\$ 9.7	12.3	8.5	8.1
Dividends declared				
— Preferred	\$.3	1.3	1.3	1.3
— Common	\$ 4.6	3.4	3.4	3.4
Capital expenditures	\$ 3.4	4.1	3.8	5.0
Depreciation	\$ 3.0	2.8	2.6	2.1
Per common share — Note 1				
Basic earnings	\$.78	1.16	0.64	0.66
Dividends paid — Note 2	\$.56	0.48	0.48	0.48
Equity	\$ 8.97	8.20	7.50	7.30
Financial position				
Working capital	\$ 91.1	73.9	62.4	63.3
Fixed assets — net	\$ 24.2	23.8	21.3	20.1
Long-term debt	\$ 41.6	25.9	17.2	18.5
Shareholders' equity	\$ 76.7	74.6	69.3	67.7
Total assets	\$ 179.1	183.1	159.1	141.2
Rates of return				
Pre-tax earnings as a % of:				
Gross revenue	% 4.5	5.6	4.1	4.8
Total assets (average)	% 6.9	9.5	6.3	7.1
After tax earnings attributable to common shares as a % of average common share equity	% 8.9	14.8	8.7	9.2
Other information				
Number of employees	1,622	1,556	1,388	1,362
Shares outstanding — Note 1				
Preferred (000's)	—	670	676	690
Common (000's)	8,551	7,180	7,130	7,066
Price range of shares — Note 1				
Preferred — high	\$ 34.25	\$ 33.50	\$ 33.00	\$ 33.50
— low	\$ 31.75	23.88	21.50	24.50
Common — high	\$ 21.50	16.75	16.13	16.00
— low	\$ 13.25	10.75	10.00	10.00

Notes

1. All data relating to common shares have been adjusted to reflect two-for-one stock splits in 1977 and 1981. All per share items have been rounded to the nearest cent.
2. As a result of the alignment of dividend payment dates with the calendar quarters, five dividends of 7¢ per share (adjusted) were paid in 1978. On a regular quarterly dividend basis, however, the indicated annual rate for that year was 28¢ per share.

1982	1981	1980	1979	1978	1977	1976
\$ 195.7	\$ 245.4	\$ 236.6	\$ 193.9	\$ 137.2	\$ 107.1	\$ 96.6
9.1	19.6	16.6	12.5	9.0	8.3	7.7
5.8	11.1	9.2	7.0	5.2	4.7	4.1
4.3	5.3	5.8	3.7	2.1	1.5	1.3
7.5	12.7	10.8	8.5	6.0	5.4	4.6
1.3	1.3	0.3	—	—	—	—
3.4	3.3	2.7	2.2	1.8	1.8	1.6
3.7	5.3	4.7	5.0	2.3	1.2	0.6
1.7	1.6	1.5	1.2	0.7	0.6	0.5
0.65	1.42	1.32	1.05	0.80	0.73	0.63
0.48	0.48	0.40	0.33	0.35	0.26	0.25
7.10	6.90	5.94	5.01	4.26	3.72	3.27
66.4	67.2	62.7	42.9	27.8	26.9	24.6
17.2	15.2	13.0	9.8	6.0	4.0	3.4
19.9	20.3	20.8	21.2	7.7	8.1	8.3
66.1	64.4	57.2	33.9	28.4	24.2	21.1
123.8	134.4	133.6	112.8	79.9	58.1	49.2
4.6	8.0	7.0	6.5	6.6	7.8	8.0
7.0	14.6	13.4	13.0	13.1	15.5	16.3
9.2	22.1	24.0	22.6	19.9	20.9	20.5
1,156	1,601	1,748	1,742	1,407	1,146	1,105
690	699	700	—	—	—	—
7,025	6,947	6,876	6,763	6,664	6,494	6,438
\$ 25.00	\$ 29.00	\$ 28.00	\$ —	\$ —	\$ —	\$ —
16.50	20.00	24.00	—	—	—	—
12.00	14.00	12.50	9.13	6.25	5.13	3.75
7.38	9.50	8.25	5.75	4.63	3.13	3.00

ORGANIZATION

Wajax Limited comprises a family of subsidiary companies engaged in the manufacture, distribution and servicing of industrial equipment and heavy machinery. These products are sold and serviced in the forestry, mining, steel, construction, oil and gas, utility and municipal sectors.

Each subsidiary operates as an autonomous profit centre with its own management structure, subject only to the overall policy and financial guidelines established by the Corporation's head office.

Manufacturing operations are carried out by the companies within the Pitman Manufacturing and Fire Control Groups. These independent subsidiaries manufacture a growing range of specialized products. Manufactured products include Pitman cranes and power line service vehicles, Wajax fire pumps and firefighting equipment and Niedner hose. In Melbourne, Australia, another Fire Control Group member, GAAM Pumps Pty Limited assembles and distributes fire pumps, hose and other firefighting equipment.

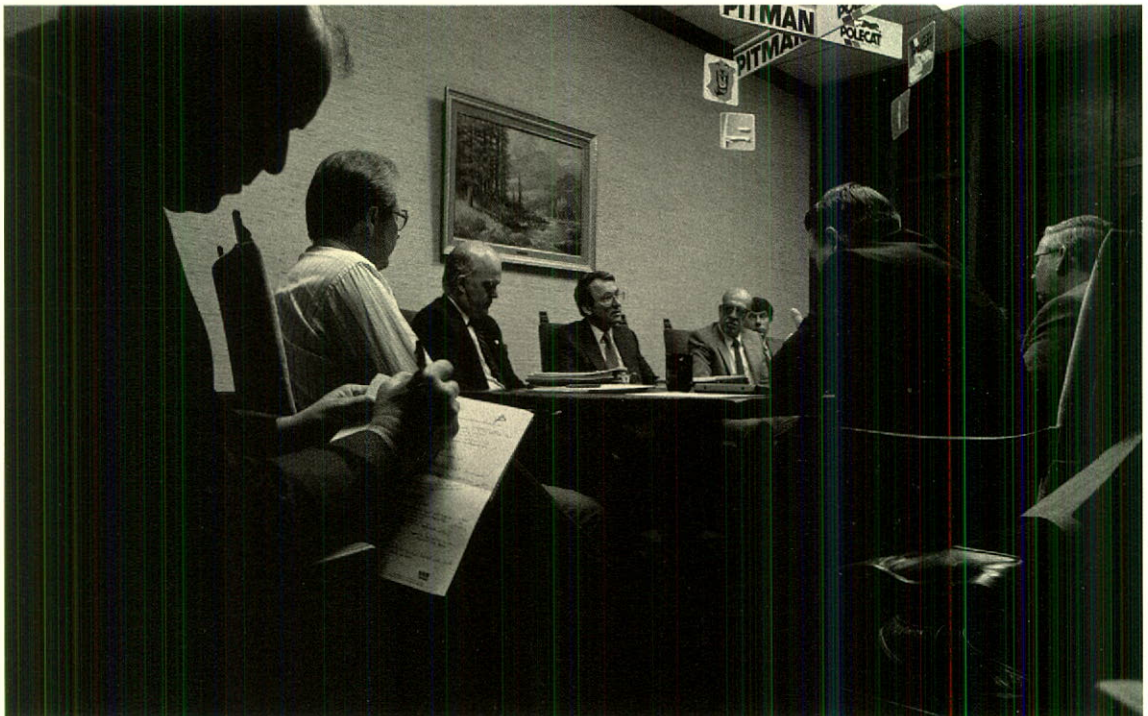
The principal distribution arm of the Corporation is Wajax Industries Limited, which is divided into the Western, Central and Eastern Regions. Wajax Industries Limited sells and services both imported and Wajax manufactured products.

In the Yukon, Elvins Equipment Sales Limited is principally engaged in the sales and servicing of diesel engines and highway trucks to the Territorial Government and the mining industry.

Waterous Power Products Group, which comprises Waterous GM Diesel Limited in Edmonton and Waterous Power Products Limited in Calgary, holds the Detroit Diesel Allison franchise for Alberta, Yukon, northeastern British Columbia and part of the Northwest Territories, and operates through branches in all these areas.

National Bearings Limited is a specialized retail distributor of bearings, seals and power transmission products with outlets throughout Quebec and eastern Ontario.

The regular cross-pollination of ideas from different corporate groups serves to clarify objectives. Here, Pitman Group executives from both sides of the border discuss plans for the future.



Wajax's consistent profitability has been achieved through the leadership and drive of its management and the dedication of its employees.

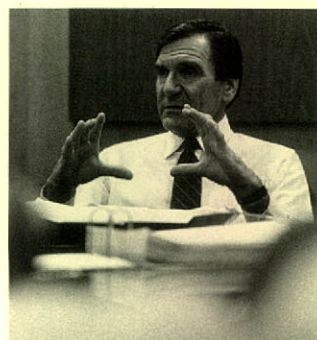
The organization of the Corporation is based on the concept of profit centres, starting in the main operating subsidiaries and carrying through to the smallest operating units in the individual branches. This concept allows the development of innovative people with management and business skills, who together form the core of the entire organization. Thus a structure of motivated managers and employees has been developed which will provide stability and a base for growth in the future.

The innovative aspect of Wajax management in its own manufacturing operations is ensuring that the range of Pitman cranes and aerial devices and Wajax firefighting equipment continues to expand to meet world demand. New production techniques such as CAD/CAM and just-in-time inventory control are furthering quality control, innovative design and engineering, and more effective cost control.

The strength of the Corporation's management lends continuity and consistency to its diverse business endeavours. It is this strength, coupled with the energy and expertise of Wajax employees at every level of the organization, that allows Wajax to look with confidence to the future and the new challenges of the marketplace.

In the marketing area, Wajax operations are expanding the use of computerized data bases to improve coverage of present and potential customers. Positive results have been attained through telemarketing campaigns which have led to more effective field sales calls, and a marked increase in signed-up service contracts. To date the use of these new marketing tools has been concentrated in the Materials Handling sector but plans are in place to expand them into all sales groups.

Leadership and innovation in manufacturing, distribution and servicing are principal factors in the performance of Wajax profit centres.



Customers and employees alike have responded enthusiastically to Wajax's new telemarketing campaigns.

DISTRIBUTING

WAJAX INDUSTRIES LIMITED
WATEROUS POWER PRODUCTS GROUP
ELVINS EQUIPMENT SALES LIMITED
NATIONAL BEARINGS LIMITED



Growth depends on marketing. Wajax has adopted new telemarketing techniques to improve coverage of existing and potential customers.

During the year under review, distribution operations were consolidated and emphasis was placed on building up marketing and service capabilities. The Corporation is now positioned to take advantage of a strengthening demand for equipment and machinery in the coming year.

Economic conditions varied widely across the country. While the low Canadian dollar helped export-related business, most mineral prices remained depressed and the demand for new mining equipment was sluggish. In southern Ontario, buoyant conditions in building construction and a healthy level of automotive manufacturing helped to produce excellent results from Wajax Industries Limited operations in that area. On the other hand, the precipitous fall in oil prices early in the year dramatically affected business in Alberta. Although Expo 86 provided a stimulant to business in British Columbia, this was to some extent offset by labour disputes in the forestry and mining sectors.

In the Quebec-Labrador iron range, Wajax Industries Limited distribution operations were consolidated at the former Mussens facility in Wabush, and the Sept Iles branch was closed. This move resulted in reduced operating costs while improving service to customers in the area.

Results from the Wabush branch were further enhanced by the acquisition, early in 1986, of the distributorship for the Marathon Letourneau Titan off-highway truck line. A substantial fleet of these heavy haulers is operating at the iron ore mines in the area. The addition of distribution rights for eastern Canada now gives Wajax the Titan distributorship across the country.

A notable success in the Maritimes was the securing of an order from the Cape Breton Development Corporation covering Dowty powered supports and Dowty face conveyors, for two complete longwall coal faces at the Phalen Mine. A significant portion of this \$11.5 million system is being built in Cape Breton.

The hydraulic face supports for the system will be controlled by advanced microprocessor-based electronics. Dowty's high technology experience in this area was an important factor in Wajax winning this contract.

Further sizeable orders for Dowty Meco conveyor components were received from Devco coal mines and New Brunswick potash operations.

Pitman sales saw an upturn in the Atlantic Provinces. Two major orders, won by the Dartmouth branch, were received from a Maritimes utilities company.

Material handling business in Quebec was buoyant, particularly in the Montreal area, where, among many smaller sales a rental house placed an order for 60 Hyster units. Also in this area a growing level of interest is being shown in the Hyster Automated Guided Vehicle Systems and prospects for this product are encouraging. In the area of container handling, Canadian National ordered two large Marathon Letourneau straddle hoists for delivery to their Montreal railyards in 1987. Three similar units were commissioned on the Montreal docks in 1986.

Other notable orders generated in Quebec included three Barber Greene paving finishers and three Ingersoll-Rand road planers.

Sales of Pitman cranes and utility service vehicles showed solid advances. A notable order from Hydro Quebec was for sixteen 42 foot Hotstiks developed specifically for this market.

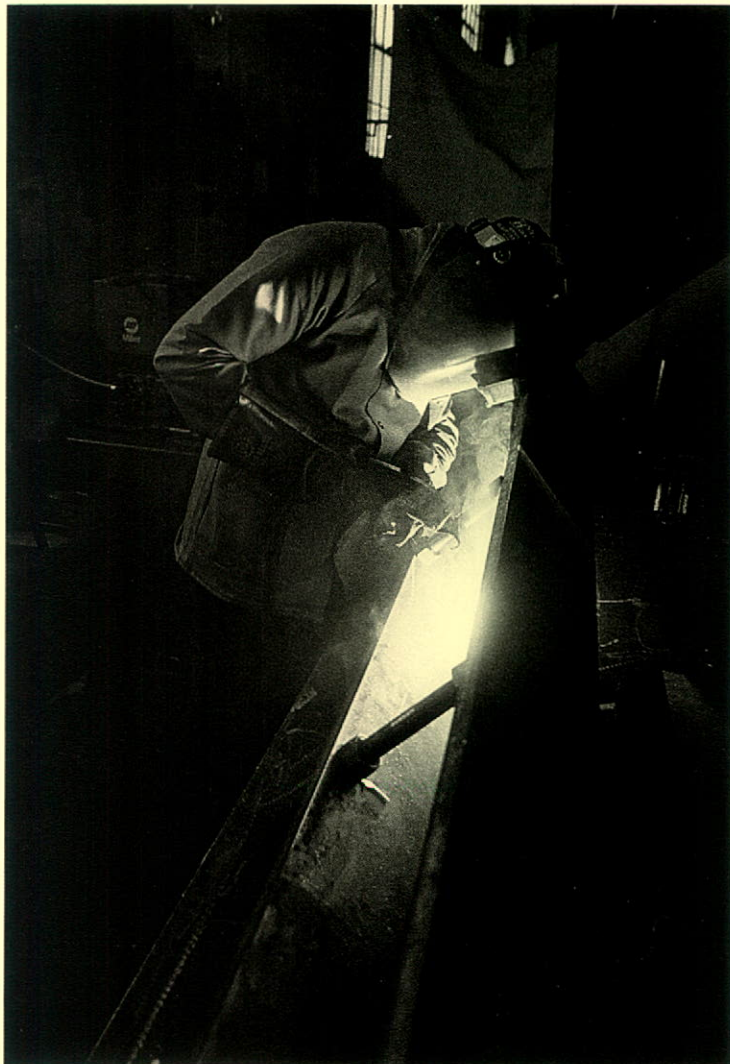
One of the outcomes of the 1985 merger with Mussens has been the strengthening of Wajax's parts and service capabilities in Montreal and Quebec City. The larger facilities have increased the scope of shop service work including component and complete machine rebuild programmes, while at the same time introducing additional Quebec content.

Heightened construction and automobile manufacturing activity in Ontario dramatically increased the volume of Pitman crane, Ditch Witch trencher and Hyster lift truck business.

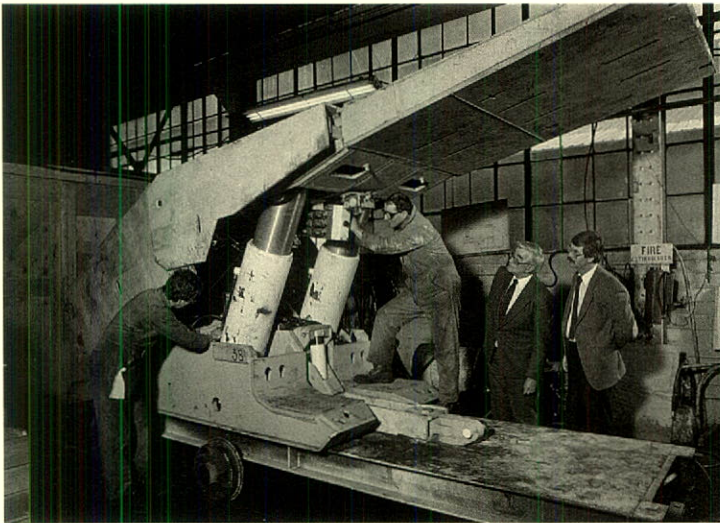
Hyster business was at its highest level since 1979 with sales increasing 27% over last year. Management efforts focussed on improving the range of service programmes offered to customers, increasing the efficiency of Hyster rental operations and reorganizing the central parts distribution centre in Mississauga. All these moves showed positive returns by year-end and this trend is expected to continue through 1987.

The Milling Division has made substantial strides in the sale of rubber and urethane screen cloth, trommel screens, classifier shoes and chute linings to the mining and aggregates industry in Canada and the United States. The outlook for this division in 1987 is positive.

Winning competitive bids to supply major equipment orders can spread benefits like increased employment throughout Canada. Here, a welder works on a Dowty powered face support supplied by Wajax to the Cape Breton Development Corporation.



Marathon Letourneau sales were also strong in this region, with the delivery of a container handling straddle crane in the Canadian National Concord Yard. In addition, an order was received from Dofasco for a straddle crane to handle up to 90 tonne loads in their ingot yard in Hamilton. The unit will be commissioned in 1987.



Wajax can supply mining companies with heavy machinery equipped with the latest in advanced technology. These new systems lower costs for producers by making extraction operations more efficient.

Northern Ontario operating results were considerably improved by the addition of the Ingersoll-Rand line of down-the-hole underground drill rigs. There is already an established population of these units operating in the area, and Wajax branches in Sudbury and Timmins are well placed to service them.

Despite the down-turn in the Alberta economy, cost cutting and consolidation during the previous recession left Wajax operations strongly placed to maintain their profitability in the market place.

Major capital expenditures were deferred in tar sands operations in 1986. However, slowly improving oil prices led to some projects

being reinstated late in the year and resulted in Wajax obtaining a substantial order for ASH Slurry pumps at a Ft. McMurray tar sand operation.

Also in Alberta, Wajax enjoyed the best year since 1981 for Ditch Witch trenching equipment, with sales up 30% over 1985.

At year end the Waterous Power Products Group was working with a Calgary manufacturer on a bid for the sale of oilfield fracturing equipment to the U.S.S.R. This has since resulted in a \$1.6 million order for six large Detroit Diesel engines together with Allison transmissions.

In the coming year, the 1988 Winter Olympics is expected to create a demand for diesel engines and Niedner snow-making hose. Also in the coming year, improved oil prices should initiate resumption of those projects shelved in 1986, providing opportunities for heavy equipment sales.

British Columbia operations saw total sales and earnings in 1986 increase in all of the divisions other than mining. In the forestry sector sales were particularly buoyant despite a six month strike against major forest operations in the Province. This improved performance, however, was not enough to offset the effects of strikes, lower coal prices, and contract cut-backs in the coal mining sector.

In the Yukon, the resumption of operations at Curragh Resources Corp. lead/zinc mine had a positive effect on the results of Elvins Equipment Sales Limited, which secured an ongoing contract to overhaul diesel engines on the open pit mining equipment at the property.

FIRE CONTROL GROUP

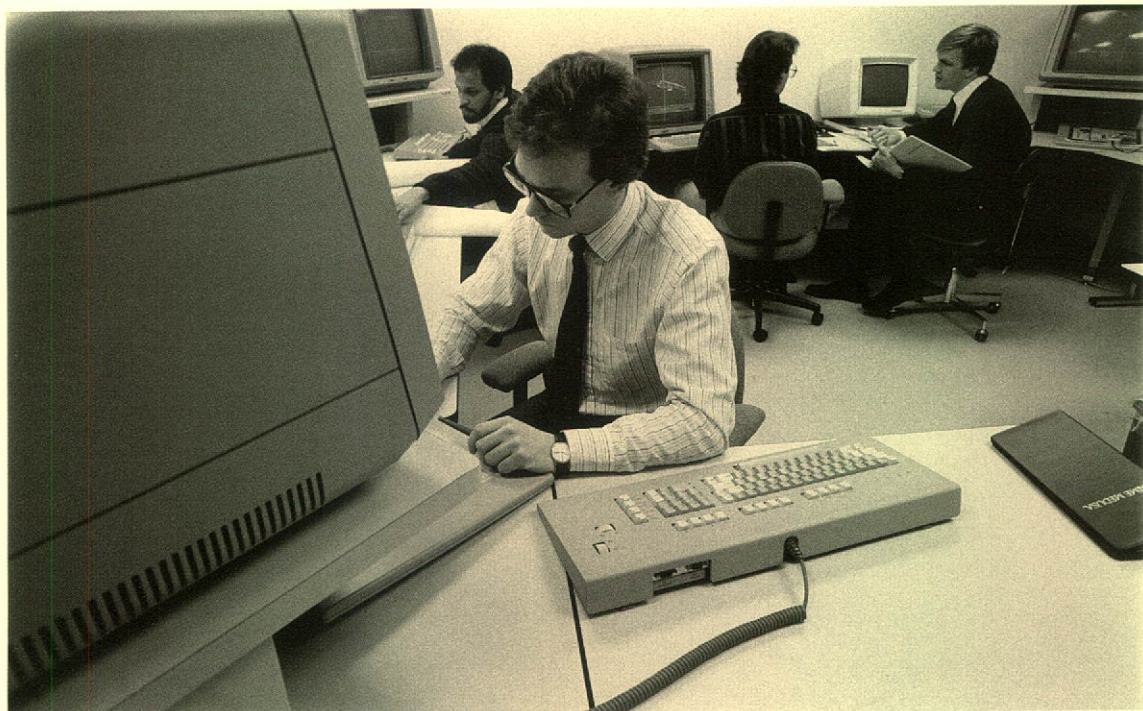
Wajax Manufacturing Limited

Wajax Manufacturing enjoyed strong, consistent sales throughout North America in 1986. Export business increased with the shipment of substantial orders to Senegal, Argentina and Australia. Strenuous marketing efforts were

Niedner Limited

Investments in state-of-the-art technology paid off with record profits in 1986, nearly doubling those of the previous year. Strong management and aggressive sales approaches consolidated Niedner's position as the largest fire hose manufacturer in Canada.

The Corporation's commitment to high technology embraces all spheres of operations. Here, skilled personnel at Pitman use CAD/CAM to develop the advanced designs for aerial devices and other state-of-the-art products.



rewarded by a large fire equipment order from Chile, won in the face of stiff international competition. Export sales are viewed as a major potential market for the balance of the 1980's, and efforts have increased substantially in this area. In 1987, it is expected that nearly half of this Company's sales will be outside North America.

Research and development investment is being increased to ensure that Wajax Manufacturing retains its position as the "world standard" producer of forest fire protection products.

Determined sales efforts captured a greater share of the enormous United States fire hose market, and both the Canadian Department of National Defence and the U.S. Defense Department placed large orders with the Company.

In Canada, Niedner regained its traditional position as the principal supplier of firefighting hose to the major municipal fire departments.

Forestry fire hose sales remained healthy with orders delivered to forest protection agencies throughout North America, while international sales were highlighted by a large order for delivery to Chile in 1987.



Wajax produces a whole range of hose line accessories. These corrosion-resistant wye connectors can withstand 600 psi of pressure. Internal ball-bearing assemblies minimize cross threads and guarantee ease of use.



Close consultation between the executive and engineering design teams ensures a common understanding of corporate goals. Wajax's commitment to greater efficiency through high technology is reflected in the N.C. machining centre installed recently at Pitman.

Wajax Pacific Fire Equipment Inc.

Diversifying from a strong base in forestry has been the key to success for this well managed and motivated company.

Results in 1986 were again good, reflecting strong sales in a fairly slow year for forest fires. Wajax Pacific strengthened its position as the premiere supplier of forest fire protection products to all U.S. forest fire agencies. Major contracts were received from the U.S. government for pumps, hose and accessories. Sales offices were established in Redding, California and Atlanta, Georgia to promote Wajax proprietary products in these areas. The Company has had excellent success in tapping the lucrative municipal and industrial fire equipment market in the United States.

Wajax Pacific continues to be the prime sales and distribution centre in the U.S. for products manufactured by Wajax Manufacturing and Niedner.

GAAM Pumps Pty. Limited

GAAM, like Wajax Pacific, is a distributor of products manufactured by Wajax Manufacturing and Niedner. GAAM also manufactures a unique line of fire pumps designed specifically for the Australian fire market.

A good profit year attests to the strong management and sales skills of this growth oriented company. Sales to the Australian military, and forest services in New Zealand,

added to GAAM's already solid position in the Australasian market.

A move to diversify into the Australian industrial pump market was undertaken in 1986. Positive results are anticipated for 1987. Aggressive marketing in conjunction with Niedner has created a rising level of interest in our fire hose at several state fire agencies and sales are expected in the coming year.

Pitman Manufacturing Group

Pitman is following an ambitious programme of new product development which is expected to be reflected in increased market share during the coming year.

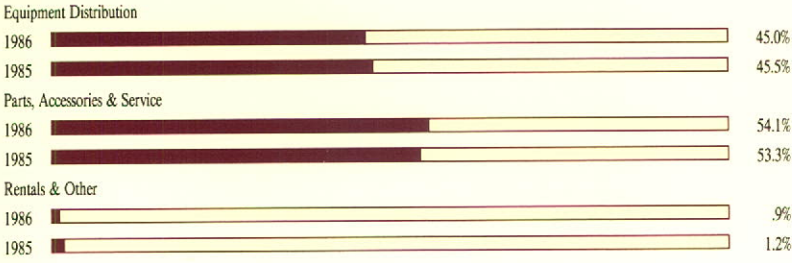
In late 1986 the Company's new P-Series digger derrick was introduced to the utilities market. These state-of-the-art units, fitted with fully proportional electronic controls, are being well received by U.S. dealers and their customers.

On the production side, the upward trend in performance continued in 1986.

Major investments in the plant included additional N.C. machining centres, the installation of a component handling system in the paint shop and acquisition of a much larger capacity computer system using a Prime Medusa programme. This new computer system will greatly expand the present CAD/CAM capacity, speeding up the design and engineering of new products and at the same time improving efficiency and lowering costs in the manufacturing process.

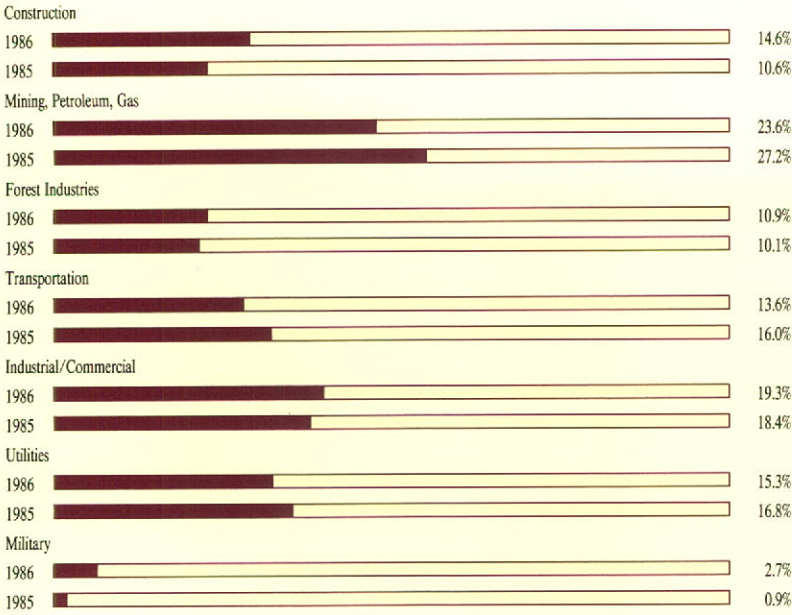
The greater part of the U.S. Marine Corps contract was completed during the year, and a variety of significant crane sales were made in the United States, including one for twenty PK12000 units to a major electrical contractor based in Atlanta, Georgia.

Gross Revenue by Sales Category.

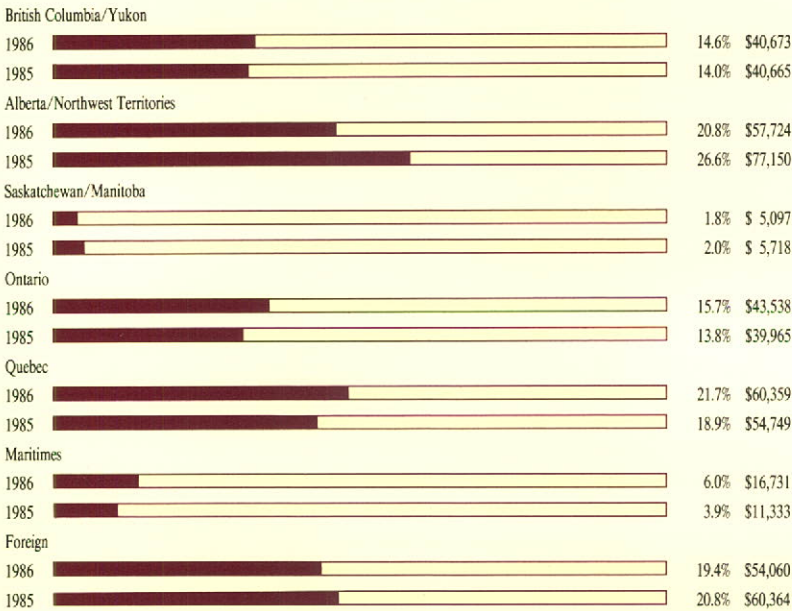


NOTE: Approximately 29.7% of total gross revenue in 1985, and 30.2% in 1986, was related to product lines manufactured or assembled in-house.

Approximate Breakdown of Gross Sales by End Use Market.



Gross Sales by Geographical Destination (*Dollars in thousands*)



CORPORATE INFORMATION

* Member of the Audit Committee

† Member of the Compensation Committee

DIRECTORS

R.W. CHORLTON *
Chairman of the Board and
Chief Executive Officer,
Wajax Limited

IAN B. CAMPBELL *
President and Chief Operating
Officer, Wajax Limited

ROBERT DESPRÉS, O.C.
Counsel,
Raymond, Chabot, Martin, Paré,
Chartered Accountants &
Management Consultants

GOWAN T. GUEST, Q.C.
Chairman,
Cundill Value Fund Ltd.

DEREK A. HANSON, Q.C. †
Partner, Clarkson, Tétrault,
Barristers & Solicitors

F.G. HARVEY
Vice President & Secretary,
Wajax Limited

THOMAS LOHNER,
Dipl. Ing.
President, Trenaco AG

H.W. MACDONELL, Q.C.
Partner, McCarthy & McCarthy,
Barristers & Solicitors

PETER PAUL SAUNDERS *†
Chairman and President,
Versatile Corporation

D.R. SOBEY *
Chairman, Empire Company
Limited

D.C.H. STANLEY *
Corporate Director

D.L. TORREY *†
Vice Chairman,
Dominion Securities Inc.

CORPORATE OFFICERS

R.W. CHORLTON
Chairman of the Board and
Chief Executive Officer,

IAN B. CAMPBELL
President and Chief
Operating Officer

F.G. HARVEY
Vice President & Secretary

P.G. SIMS
Vice President, Treasurer
and Chief Financial Officer

G.R. DONALDSON
Vice President — Western
Distribution (Resident:
Vancouver)

R.H. GODFREY
Vice President — Marketing

B.W. SCOBIE
Vice President — President
Manufacturing Group
(Resident: Toronto)

Y.L. THIBEAULT
Vice President — Eastern
Distribution and Power
Products Group

HEAD OFFICE:

350 Sparks Street
Ottawa, Ontario
K1R 7S8

BANKERS:

Bank of Montreal
Toronto Dominion Bank
Royal Bank of Canada
Seattle-First National Bank

REGISTRARS:

National Trust Company
Limited

TRANSFER AGENT

Royal Trust

LEGAL COUNSEL:

Clarkson, Tétrault

AUDITORS:

Touche Ross & Co.

STOCK LISTINGS:

Montreal Stock Exchange
Toronto Stock Exchange

OPERATING SUBSIDIARIES

Distribution Activities:

Wajax Industries Limited
Waterous GM Diesel Limited
Waterous Power Products
Limited
Elvins Equipment Sales
Limited
National Bearings Limited

Manufacturing Activities:

Pitman Manufacturing Co. Inc.
Wajax Manufacturing Limited
Niedner Limited
Pitman Manufacturing
Company Inc. — U.S.A.
Wajax Pacific Fire Equipment
Inc. — U.S.A.
GAAM Pumps Pty. Limited
— Australia

