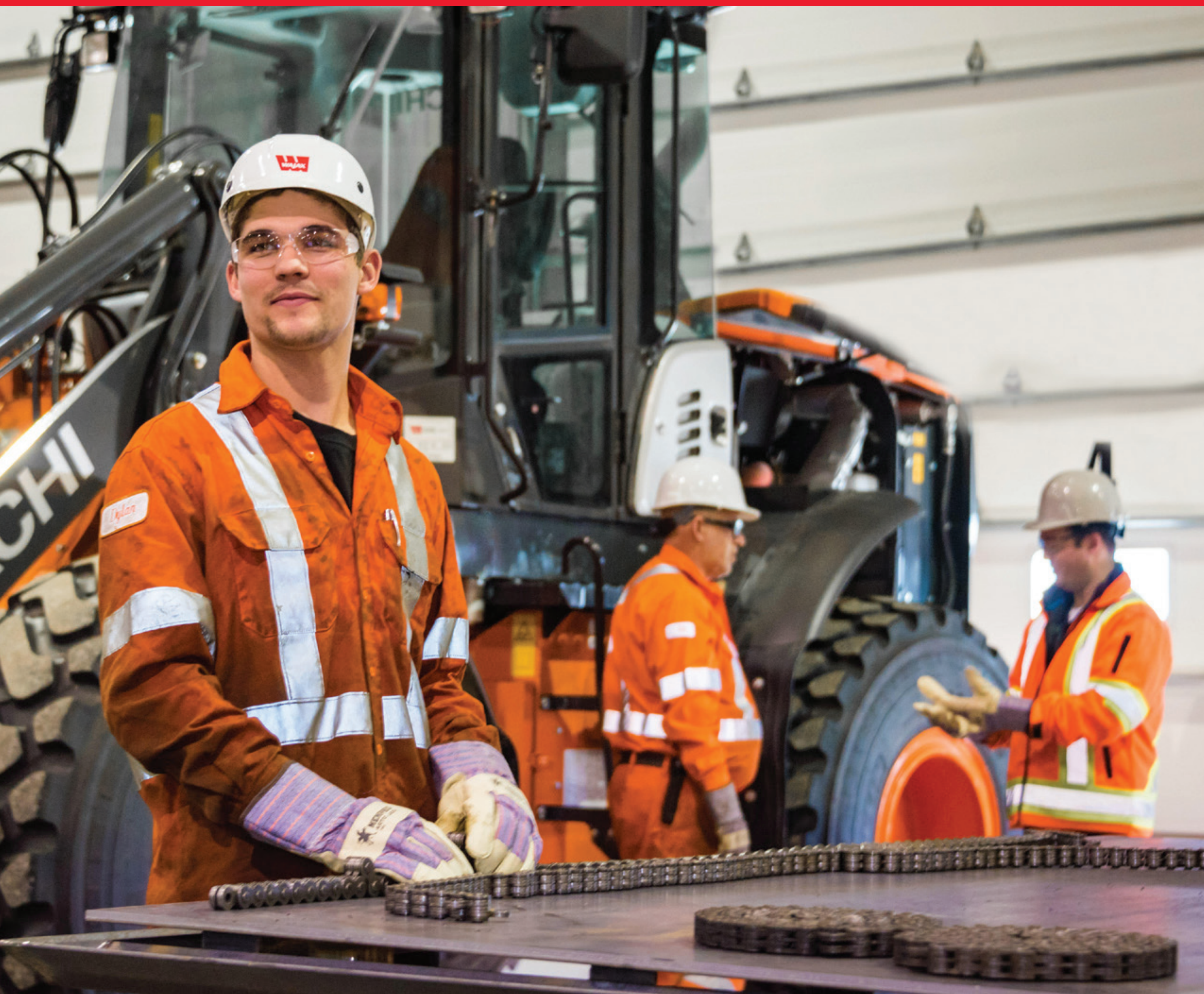
Wajax
2018 Annual Report

\\ **Together We Get More Done.™**

With 160 years of experience offering world-class brands, unwavering customer support and technical expertise for multiple industries, Wajax is able to provide solutions that help our customers get more done – efficiently and effectively.

\\ Together We Get More Done.™



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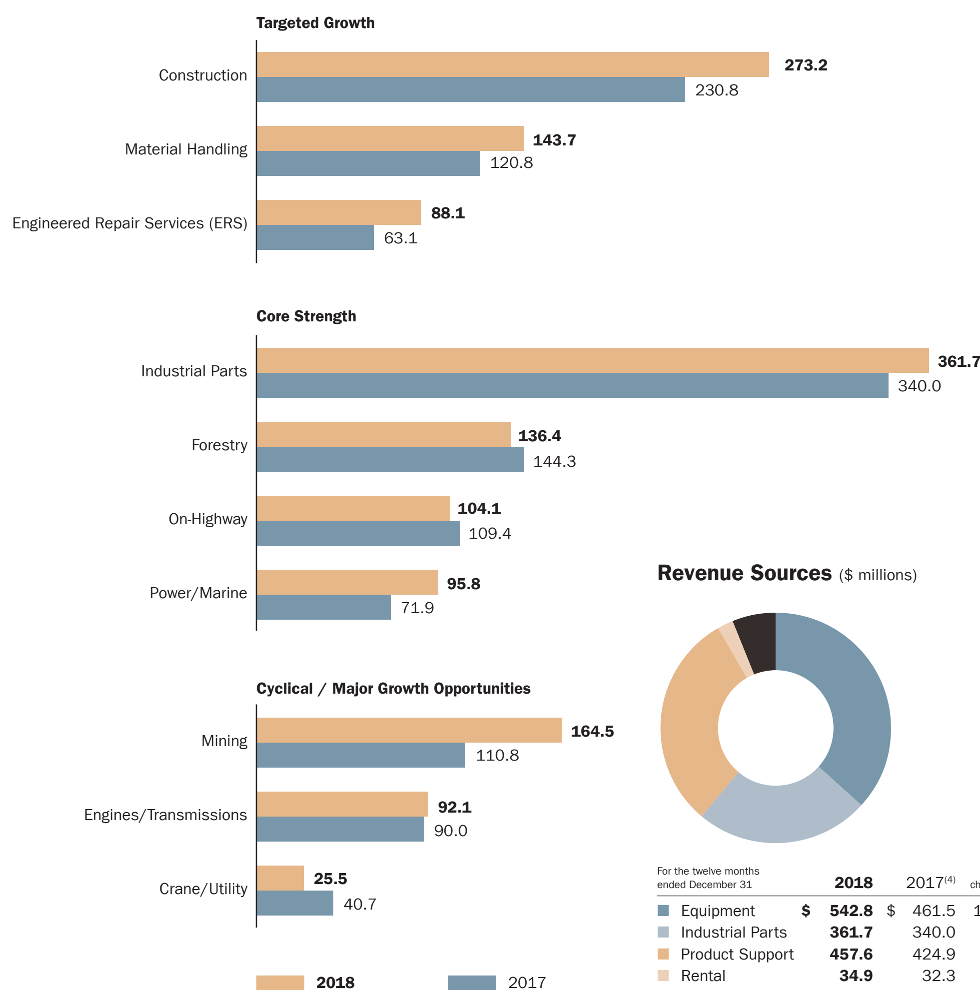
Wajax at a Glance

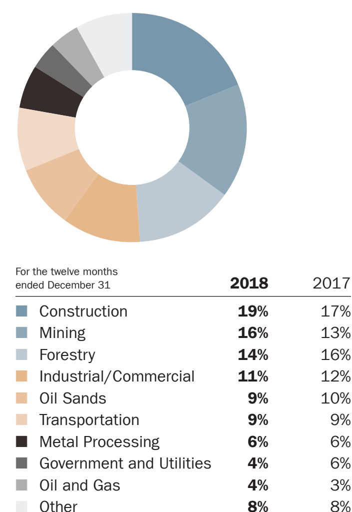
Financial Highlights (in millions of Canadian dollars, except leverage ratio, share and per share data)

For the years ended December 31	**2018**	2017[4]
Revenue	**$ 1,481.6**	$ 1,318.7
Net earnings	**35.9**	27.4
Adjusted net earnings[1]	**39.9**	30.1
Funded net debt[1]	**235.8**	154.9
Shareholders' equity	**297.0**	274.7
Basic earnings per share	**1.82**	1.40
Adjusted basic earnings per share[1]	**2.02**	1.54
Cash dividends declared per share	**1.00**	1.00
Leverage ratio[1]	**2.48**	2.17
Weighted average number of shares outstanding[5]	**19,686,075**	19,605,884

Year-Over-Year Revenue by Category[2][4] ($ millions)

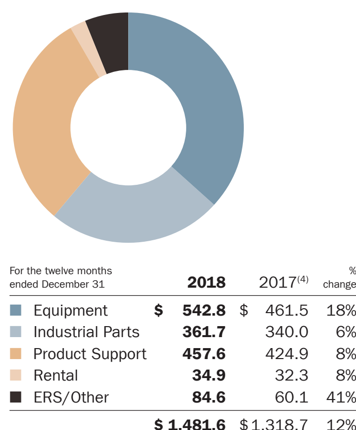


Revenue by End Market[3]



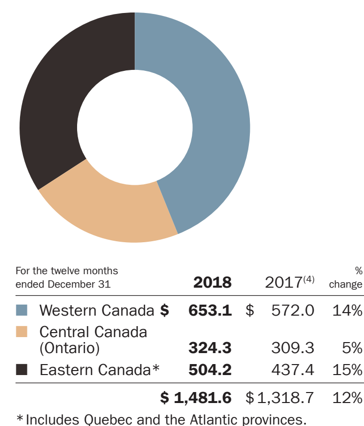
For the twelve months ended December 31	**2018**	2017
Construction	**19%**	17%
Mining	**16%**	13%
Forestry	**14%**	16%
Industrial/Commercial	**11%**	12%
Oil Sands	**9%**	10%
Transportation	**9%**	9%
Metal Processing	**6%**	6%
Government and Utilities	**4%**	6%
Oil and Gas	**4%**	3%
Other	**8%**	8%

Revenue Sources ($ millions)



For the twelve months ended December 31	**2018**	2017[4]	% change
Equipment	**$ 542.8**	$ 461.5	18%
Industrial Parts	**361.7**	340.0	6%
Product Support	**457.6**	424.9	8%
Rental	**34.9**	32.3	8%
ERS/Other	**84.6**	60.1	41%
	$ 1,481.6	$ 1,318.7	12%

Revenue by Region ($ millions)



For the twelve months ended December 31	**2018**	2017[4]	% change
Western Canada	**$ 653.1**	$ 572.0	14%
Central Canada (Ontario)	**324.3**	309.3	5%
Eastern Canada*	**504.2**	437.4	15%
	$ 1,481.6	$ 1,318.7	12%

*Includes Quebec and the Atlantic provinces.

Forward-Looking Statements and Information

This Annual Report, including the accompanying Management's Discussion and Analysis, includes forward-looking statements and information that is based on Wajax's current beliefs, expectations, estimates and assumptions in light of information currently available. Actual results, performance and achievements may differ materially from those anticipated or implied in such forward-looking statements or information. Please see page 39 for a discussion of the risks and uncertainties related to such statements and information.

(1) These measures do not have standardized meaning prescribed by GAAP. See Management's Discussion and Analysis, page 37.

(2) Category revenue includes all applicable equipment, parts, service and rentals. Consolidated categories may not match total revenue due to rounding.

(3) End markets are based on the North American Industry Classification System (NAICS).

(4) The Corporation has adjusted its comparative 2017 earnings and financial position as a result of the adoption on January 1, 2018 of IFRS 15 *Revenue from Contracts with Customers* and its comparative 2017 earnings and financial position as a result of the adjustments to prior period financial statements identified as part of the Finance Reorganization Plan. See the Adjustments to Prior Period Financial Statements section of the Consolidated Financial Statements.

(5) Weighted average number of shares outstanding is net of shares held in trust.

Message to Shareholders

2018 was a very rewarding year for our company. Wajax delivered stronger financial results, introduced a renewed growth strategy and made major progress on internal infrastructure projects that are important contributors to our future. In addition, we are very proud to report that 2018 was our safest year on record.

We are highly committed to our strategy – it creates a stronger company that has clear growth priorities, a strengthened infrastructure and a culture centred on our customers and employees.

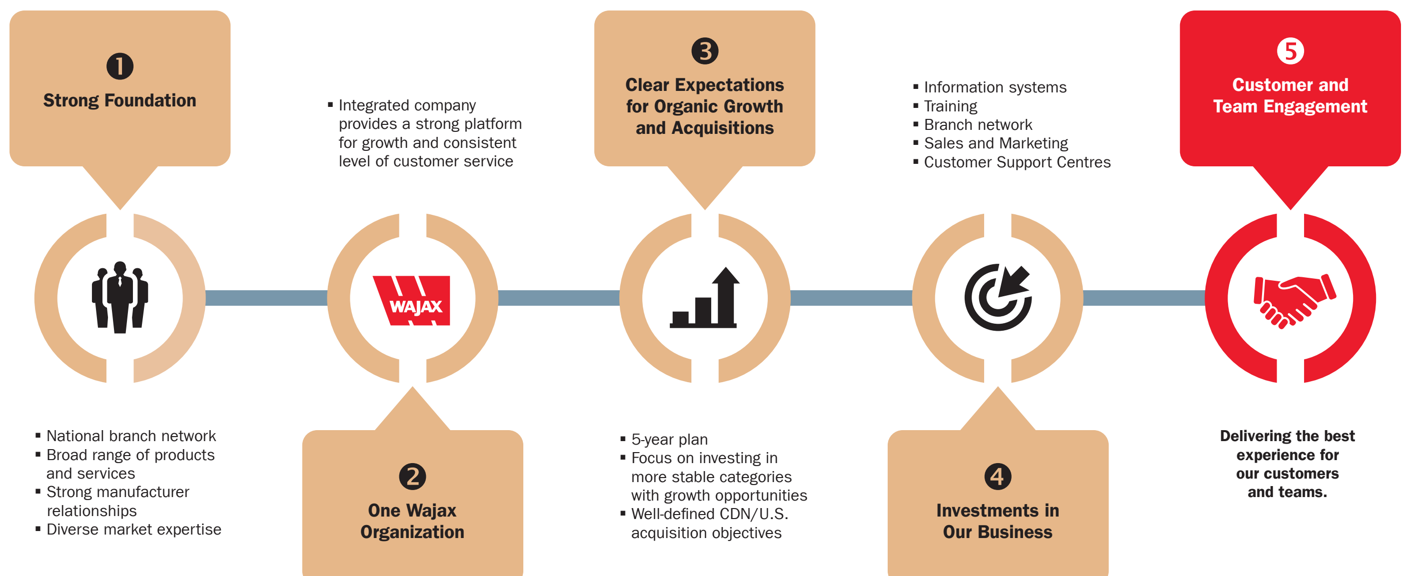
The company's ability to execute in the present while building a stronger future is a testament to the hard work of the Wajax team – a group dedicated to the principle that "Together, We Get More Done". Our strategy is based on the One Wajax model, which has combined our legacy product divisions into one organization whose national reach, deep market knowledge and breadth of industrial products and services is uniquely positioned to provide value to our 32,000 customers. We are highly committed to our strategy – it creates a stronger company that has clear growth priorities, a strengthened infrastructure and a culture centred on our customers and employees. The components of our strategy are further described in the following pages of this Annual Report.

2018

Revenue of $1.48 billion grew 12.4% ($163 million) compared to 2017 driven by strong execution of sales programs and improved market conditions. Regionally, sales in western and eastern Canada were strong, growing 14.2% and 15.3%, respectively. Sales in central Canada, which grew 4.8%, continue to represent an important area of opportunity. Consistent with our strategy, the majority of our growth was driven by our "Targeted Growth" categories of Construction, Material Handling and Engineered Repair Services, which collectively contributed 55% ($90 million) of the total growth in revenue. Mining also contributed meaningfully to 2018's results, increasing 49% ($54 million) due primarily to strength in western Canada. In addition, we saw strong growth in Power and Marine (up 33% or $24 million) and Industrial Parts (up 6% or $22 million).

Adjusted net earnings of $39.9 million grew 32.6% compared to 2017 due to higher revenue. A gross margin decline (18.4% in 2018 compared to 19.0% in 2017) was partially offset by improved cost productivity (14.1% of sales in 2018 compared to 14.9% in 2017). The gross margin decline relates primarily to sales programs designed to improve market share in key categories. Our growth strategy is expected to result in competitive margin

Wajax Strategic Overview



pressure in the short to medium term. In order to mitigate this margin pressure, we continue to focus on tactical programs that are accretive to gross margin and to structural cost productivity improvements delivered through our infrastructure projects.

In October, we announced the acquisition of Groupe Delom, a leading industrial services company whose revenue, capabilities and infrastructure will contribute greatly to our Engineered Repair Services category. At the time of acquisition, Delom had sales of $69.4 million and is expected to contribute $0.10 – $0.15 to EPS in 2019.[(1)] Importantly, Delom brings a technical, sales and support workforce of over 350 employees whose skills and experience will contribute greatly to Wajax.

Year end leverage of 2.48X increased 0.31X compared to 2017. Higher net debt resulted from increases in working capital driven primarily by equipment inventory necessary to support sales and due to the $52.1 million acquisition of Delom.[(2)] Leverage remains within acceptable boundaries and the company maintains sufficient financial flexibility to execute its 2019 business plan.

As disclosed on February 26th, 2019 and subsequently as part of the release of our year end results, we reported on non-cash accounting errors affecting 2018 and prior periods. The requirement for these adjustments was determined as financial statements for 2018 were being prepared and is due to enhanced and standardized financial policies, procedures and controls retrospectively applied to the three former operating divisions. These standards improve financial processes and are in preparation for the implementation of a new ERP system. In addition to the established controls regime, management believes that the standardization of these processes, combined with new technology, will assist us in avoiding such adjustments in future.

2019

Our plans are based on the expectation of generally stable market conditions in eastern and central Canada. Market conditions in western Canada are uncertain at present, where activity remains stable to positive in important end markets such as the oil sands, mining and forestry, but is expected to slow temporarily in areas such as conventional oil and gas, construction and related markets. In our view, the current conditions in western Canada are more favourable to Wajax than those that prevailed when energy prices were weak in 2015 and 2016.

While recognizing the possible effect of these market conditions, we have not changed our internal financial targets or operational plans which remain consistent with the original goals of our strategic plan. As such, we expect full year adjusted net earnings to increase over 2018 based on consolidated revenue improvements and the full year effect of the acquisition of Delom. 2019 is an important year for major projects such as our new ERP and Customer Support Centres, both of which are scheduled to begin implementation in the first half of 2019. Our current view of the timing of revenue and operational expenditures suggests that the expected earnings improvements will be weighted to the second half of the year.

Thank You

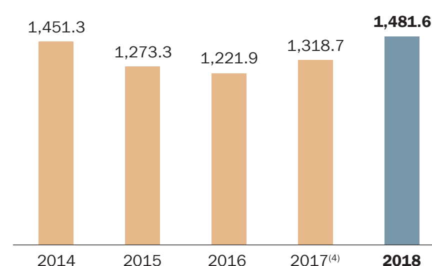
On behalf of the leadership team, I would like to thank our customers, manufacturing partners and most importantly, our employees. It is a real privilege to work with such a dedicated group who contribute every day to the success of our company. Amidst everything that Wajax employees delivered, we reiterate how proud we are of the fact that 2018 was another record year for our safety program. A 26% reduction in recordable incidents resulted in a TRIF rate of 1.02.[(3)] Members of the Wajax team know that the company's most important priority is that everyone goes home safe at the end of every shift. Our constant attention to workplace safety continues to bring us closer to that goal.

Mark Foote
Chief Executive Officer

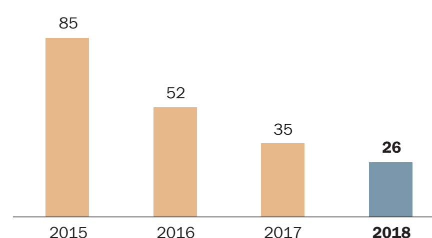
33%

increase in adjusted net earnings[(4)]

Revenue ($ millions)



Recordable Incidents



(1) Sales for the 12 months ended September 30, 2018.
(2) $2 million of the $52.1 million remains subject to achievement of certain performance targets post-closing.
(3) Total Recordable Incident Frequency (TRIF) = Total Recordable Injuries X 200,000 / Number of Hours Worked.
(4) The Corporation has adjusted its comparative 2017 earnings and financial position as a result of the adoption on January 1, 2018 of IFRS 15 *Revenue from Contracts with Customers* and its comparative 2017 earnings and financial position as a result of the adjustments to prior period financial statements identified as part of the Finance Reorganization Plan. See the Adjustments to Prior Period Financial Statements section of the Consolidated Financial Statements.

Our Strategy

The focus of the One Wajax strategy is to provide customers with access to our full range of products and services while delivering a consistently excellent level of customer service.

2,800
total team members

32,000
customers

55%
of our revenue growth was driven by "Targeted Growth" categories in 2018

The focus of the One Wajax strategy is to provide customers with access to our full range of products and services while delivering a consistently excellent level of customer service. The strategy builds on our strengths of a well-trained and dedicated team of professionals, a broad range of products and services, deep experience in a wide range of markets, strong relationships with leading manufacturers and a national branch network. We are focused on delivering a strong experience for our team, our customers and our investors by executing clear plans in six important areas:

- **Investing in our team** – The safety, well-being and engagement of our team of 2,800 technicians, sales professionals, support staff and leaders is the foundation of our company. We are very proud of the Wajax team's accomplishments in workplace safety, our progress on personal wellness programs and enhanced training and professional development.
- **Investing in our customers** – We have the privilege of supporting 32,000 individual customers across Canada ranging from small local contractors to the country's largest industrial and resource organizations. We continue to expand our "Voice of the Customer" (VoC) program which evaluates our detailed customer service levels for each location and shares customer feedback openly with all parts of the company. For an increasing number of large customers, our VoC program also uses analytical systems and dedicated teams to explore opportunities to increase our share-of-wallet with individual customers.
- **Executing a clear organic growth strategy** – We have classified our ten current product and service categories based on a category's contribution to sustainable growth. While we are competitive in all of the categories we participate in, our classifications ensure we allocate resources (such as inventory, personnel and marketing) appropriately. Our classifications are "Targeted Growth" (which includes the Construction, Material Handling and Engineered Repair Services categories), "Core Strength" (which includes the Industrial Parts, Forestry, On-Highway and Power and Marine categories) and "Cyclical and Major Projects" (which includes the Mining, Engines and Transmissions and Crane/ Utility categories). The majority of our strategic plan's organic growth is expected to result from "Targeted Growth" categories due to the relatively high opportunity for market share increases, resilient aftermarkets, the strength of our product and service range and related manufacturer relationships. In 2018, 55% of our revenue growth was driven by "Targeted Growth" categories.
- **Accretive acquisitions strategy** – Wajax has developed clear acquisition criteria for the Canadian and U.S. markets. In Canada, the focus is primarily on acquisitions that add to our scale in the Engineered Repair Services (ERS) business and secondarily to extensions to our existing distribution businesses. In the U.S. market, the focus is on reviewing growth opportunities related to distribution businesses that provide a long term growth platform for the One Wajax multi-category model. Acquisitions are considered when they can be achieved within acceptable leverage parameters, are consistent with our product and service strategy, accretive to EBITDA margin, provide scale and have effective management teams.
- **Investing in our infrastructure** – We are making major changes to our infrastructure to improve the consistency of customer service, lower fixed costs and add new sales channels in an increasingly technology-enabled industry. Our current infrastructure programs include the ongoing consolidation of our branch network to improve customer service and to lower the cost of our physical footprint. In addition, we are investing in new information systems and capabilities that replace the company's aged legacy systems and provide a platform for new customer-facing capabilities. In 2018, we completed the majority of the configuration and testing of our new ERP system, which we expect to begin implementing in the first half of 2019.
- **Ongoing refinements to our One Wajax organizational model** – In 2016, Wajax made major changes to how our team is organized in order to improve growth, drive consistency and to lower fixed costs. The changes reduced costs by approximately $20 million at the time of the change, primarily through the reduction of administrative personnel costs. As the business has grown, we have reinvested those savings, primarily in revenue generating roles, such as sales professionals, branch management and technicians. We continue to refine our organizational model and expect additional improvements in cost productivity, due primarily to technology investments.

Groupe Delom

The Canadian Engineered Repair Services (ERS) market is estimated to be $5 billion annually for commercial and resource customers.[1]

ERS is a major growth opportunity for Wajax. We provide shop and field maintenance and repair, engineering, reliability and asset management services for plant applications such as bearings and power transmission, hydraulics, process control and electromechanical equipment. Our ERS teams provide an increasingly broad range of services, from emergency equipment repair to complex engineering studies to improve the efficiency of continuous plant processes. ERS is an important aspect of the One Wajax strategy. It can be an accretive value add service for existing customers and it offers an effective means to build new customer relationships that in turn can result in growth of other Wajax categories.

Wajax's ERS strategy combines organic growth and acquisitions that add scale and new capabilities.

In October 2018, Wajax acquired Groupe Delom (Delom). Founded in 1963, Delom's six locations specialize in the maintenance and repair of critical electromechanical and rotating equipment for continuous process industries and power utilities. With the addition of Delom's $69.4 million in annual revenue and ~350 employees, Wajax's ERS business now includes 19 locations across Canada, annual revenue of approximately $140 million and a team of over 500 technicians, engineers, sales and support professionals.[2][3]

The combination of Wajax and Delom offers important synergies. Wajax's 32,000 customers now have access to Delom's capabilities in electromechanical repair, while Delom gains access to Wajax's national branch infrastructure and sales and marketing. Wajax also benefits from the addition of important new capabilities relevant to major customers and gains valuable expertise in new markets such as hydro, wind and downstream petrochemical.

Through strong organic growth plans and the review of additional acquisitions, Wajax will continue to drive its ERS business as a key differentiating aspect of the company's One Wajax strategy.

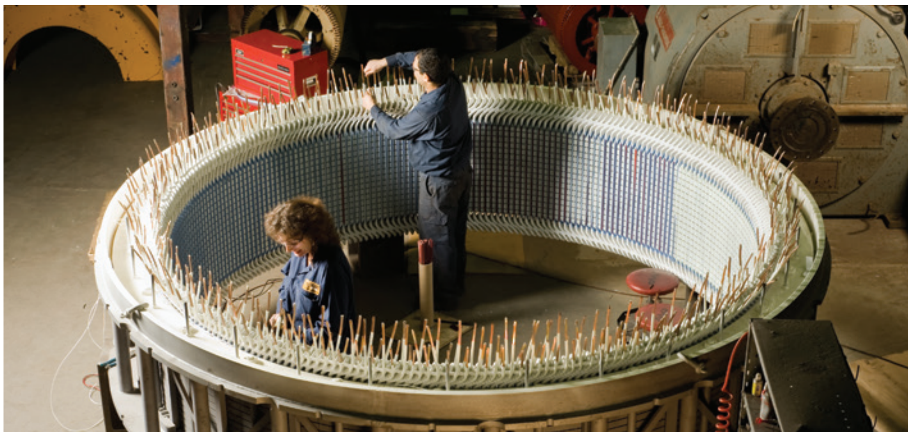
Consolidated ERS category

$140 million in annual ERS revenue[3]

>500 team members

70 engineers and technical support personnel

19 locations



Groupe Delom specializes in a full range of services related to electromechanical equipment. Specifically, complete rewinding of large motors and generators, manufacturing of replacement components and strategic spares such as rotor poles coils and stator coils. Over the years, Groupe Delom has developed a strong on-site reliability service including emergency breakdown and predictive maintenance.

(1) Wajax internal estimates.
(2) 12 months ended September 30, 2018
(3) Based on Wajax base 2018 revenue of $70.0 million and Delom TTM (September 2018) of $69.4 million.

Investing in Our People

The safety, well being and engagement of our team of 2,800 technicians, sales professionals, support staff and leaders is the foundation of our company. Our customer service level is a direct reflection of the environment we create for our team.

26%
reduction in recordable incidents in 2018

76%
reduction in recordable incidents since the restructure of safety program in 2014

1.02
TRIF rate in 2018

We are focussing on the following areas to attract and retain the best professionals in the industry:

- **Workplace safety** – The most important goal in our company is that everyone goes home safe at the end of every shift. Individual dedication to personal safety is a fundamental responsibility of all Wajax team members. Our safety programs continue to improve and the effectiveness of those programs shows in the results. 2018 was our safest year to date with a TRIF rate of 1.02, a reduction in recordable injuries of 26% compared to 2017 and a 76% reduction in recordable injuries since our safety program was restructured in 2014. As proud as we are of Wajax's improvements in safety, one injury is too many. We continue to invest in the tools, support and cultural systems necessary to achieve zero workplace injuries.
- **Personal health and wellness** – Improvements in workplace safety and the strength of the environment we create for our team have been greatly enhanced through a focus on personal health and wellness. Many of our employees operate regularly in harm's way and their physical health and mind-on-task is critical to their safety. Our physical health programs have been expanded to include on-site health clinics, broader benefits programs, ergonomics assessments and physical job analysis. In addition to our focus on physical health and safety, Wajax has placed significant emphasis on mental health support in order to better support our employees and their families. Based on the "Hey, are you OK?" program, we have implemented a range of management and employee training and support programs aimed at reducing the stigma of mental health issues. We are pleased to report that Wajax's mental health support programs were certified by Excellence Canada in 2018.

Wajax is proud to validate our progress on safety under the Certificate of Recognition (COR) program, achieving an excellent 97% result during our 2018 re-certification audit.

2019 Canadian Mental Health Association (CMHA) National Workplace Excellence Award

Wajax has been chosen as the recipient of the 2019 Workplace Excellence Award. This award is presented annually to an outstanding organization that has advanced the promotion of mental health in the workplace.

"Hey, are you okay?"
It's time to start the conversation.
EXCELLENCE 2018 CANADA
Visit our Health & Wellness Intranet page.
NOT myself TODAY

- **Training and development** – Wajax's diversified business leads to a requirement for comprehensive management and technical training and the company has invested more significantly in the support systems, scheduling and content necessary to deliver training to employees. A major focus in 2018 has been on training for technicians in areas such as safety and product support. Our Technician Safety Excellence Program packages technician-specific safety training, including SafeStart® situational awareness, pre-work hazard assessments, Life Saving rules and personal protective equipment. To continue to improve product support training, individual curriculums were built for more than 700 Service Operations equipment and power train technicians, providing access to hundreds of mandatory and elective courses from 13 major manufacturing partners.
- **Communications** – Wajax is a branch-based company, meaning that effective communications between locations is key to day-to-day operations and customer service. Alignment on safety, business results and local, regional and company-wide objectives are important factors in our organizational effectiveness. In addition to the many team, manufacturer and customer meetings, we continue to utilize our Town Hall program, which sees senior and regional leaders meeting face-to-face with employees in the field. In 2018, Town Hall meetings were held in 20 major locations across Canada, involving approximately 60% of all employees. Town Halls are used to gather direct feedback from team members to establish overall organizational objectives. Senior managers are also accountable for conducting quarterly safety meetings in the field to share and observe best practices and to gather employee feedback on the effectiveness of our health and wellness programs.

>700

Service Operations technicians have access to >600 technical courses from 13 major manufacturers

Investing in Our Customers

We have the privilege of supporting 32,000 individual customers across Canada, ranging from small local contractors to the country's largest industrial and resource companies.

The One Wajax model is especially relevant to large customers, for whom Wajax is uniquely positioned to satisfy customer demand across a wide range of products and services.

Wajax's Voice of the Customer (VoC) program took two major steps forward in 2018:

- **Customer feedback systems** – Wajax has implemented detailed customer feedback systems based on Net Promoter Scores (NPS) for overall customer satisfaction and we measure the customer's experience at each "Moment of Truth" within equipment sales, parts and service transactions. These "Moments of Truth" represent the major points that drive customer satisfaction within each interaction with Wajax including aspects such as fast access to knowledgeable staff, product availability, price competitiveness, delivery timing and customer follow up. NPS scores are updated monthly and customer feedback is shared openly with all locations where local action plans are developed and executed in order to address priority areas for customer service improvement.
- **Dedicated VoC teams at large customers** – We deployed dedicated teams of technical sales and engineering staff to a number of large customers in 2018 to test our effectiveness in identifying new opportunities to serve those customers and build a stronger relationship. The results were very encouraging and represent a new way of proactively serving customers where opportunities exist to grow our share-of-wallet by increasing sales in currently-purchased categories or providing additional products and services that displace a competitor. The One Wajax model is especially relevant to large customers, for whom Wajax is uniquely positioned to satisfy customer demand across a wide range of products and services. A constant focus on broadening our offer to customers increases our relevance to them and is key to our strategy and value proposition.

The breadth of Wajax's product and service offer translates into diverse opportunities to serve existing and new customers across every major resource and industrial market. The following ten examples illustrate a range of customer interactions, from filtration systems delivered to a hydroelectric customer to being an embedded partner with a major resource customer. These customer stories are drawn from the approximately 900,000 customer interactions we completed in 2018.

One Wajax Solution Delivers Significant Cost Savings

A leading producer and exporter of metallurgical coal for the global steel industry acquired three additional coal mines in Canada. Following the purchase, Wajax was engaged to conduct a comprehensive operational analysis. Wajax solution experts conducted a week-long assessment at the three sites to identify efficiency opportunities. Following the assessment, Wajax partnered with leadership to build a 3-5-year roadmap to help enhance their business operations. Wajax's breadth of product and service offering enables the customer to leverage a complementary mix of service, repair and engineering solutions. Wajax deployed an integrated team of experts to include strategists, engineers, technicians and equipment experts to deliver against the roadmap, which resulted in significant cost savings. As a result, Wajax was recognized as the 'Most Innovative Partner' by the client for the approach to solution assessment – and its dynamic approach to support business growth for the client.

Major Transit System Construction

A major Canadian city engaged in creating a high-profile bus transit system, requiring 1.4 million cubic meters of earth to be moved. Wajax's client, a leading excavation and removal services company, was sub-contracted by the city to build a four kilometre section of the transit system. To complete the project in the most effective way, new machines that were powerful, efficient and reliable were required. Understanding the intricacies of the project needs, Wajax put its extensive industry and product knowledge to work. The recommended solution included expanding the client's fleet with Hitachi ZX470LC-5, ZX350LC-5 and ZX225LC-3. In response to the successful outcome of the project, the client shared its experience working with Wajax saying, "It's not only the performance of the machines, but also the service you get from the dealer. We've worked with Wajax for over a decade and hope to continue that relationship for many more years."

Transloading Operation Required Enhanced Material Handling

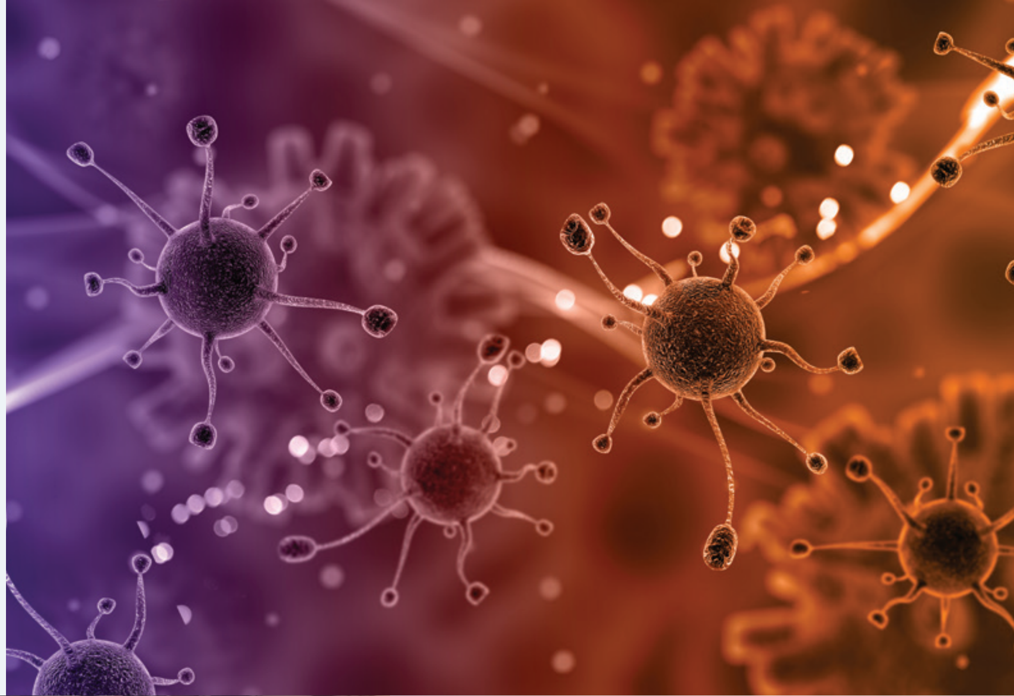
Wajax's client was looking to open a new transloading facility in British Columbia to increase exporting capability. This included maximizing capacity and efficiency in loading shipping containers with grains, pulses and cereals. The operation consisted of a rail loop corridor of more than 100 railcars, a grain dumper pit, and a state-of-the-art conveyance system. Wajax partnered with the client to provide the optimal solution to drive its business objectives, including supplying two Hyster RS46-36 ReachStackers and the Hyster H60FT forklift. Following Wajax's recommendations, the new transloading operation is now the first facility on the west coast of Canada capable of handling a 100 car unit train in a matter of three to four days all year round. The client not only significantly increased its operational capacity – but is well-positioned for continued growth, serving as a strategic export gateway from western Canada to Asia and beyond.

Filtration System Cools Critical Pumps to Keep Dam Functioning Reliably

A utilities client that manages the generation, transmission and distribution of electricity regionally in Canada required an efficient filtration system to filter water used to cool down critical pump seals at its dam facility. While the system needed to optimize efficiency, the client also needed a system that required minimum supervision and maintenance. To help support the business and operational objectives, Wajax worked with the client to develop the optimal solution. This included the implementation of advanced filter and strainer systems based on technology that surpasses all other designs in low pressure applications. The exceptional performance of the system, expertise of the engineering and service, and timely delivery resulted in this client requesting the implementation of a similar system in an additional dam in another region in Canada. Wajax's business with this client includes projects such as this, power generation systems and critical electromechanical equipment repairs and maintenance.

Filtration Solutions Help Vaccine Production

Wajax's client, a vaccine producer, urgently needed to find the best filtration solution for an essential clarification process. Faced with an aggressive and highly infectious virus affecting people across the globe, finding a timely and effective solution was critical. Partnering with Wajax's team of experts to help determine the most effective filtration solution, the focus was to enable the client to scale rapidly from the lab to developing millions of doses of the critical vaccine within a very aggressive timeline. At the same time, it was imperative to ensure the system would be fully certified for biopharmaceutical production. As part of the solution, Wajax proposed and delivered advanced 3M filters, which successfully became part of the new filtration platform used in full-scale production. Following the implementation of the solution, the plant site subsequently became the production location for the vaccines to meet global demand.



Re-Powering the Canadian Coast Guard

The Canadian Coast Guard vessel Frederick G. Creed was powered by a 30-year old propulsion system that required replacement. The CCGS Frederick G. Creed is a unique twin hull Canadian design that imposes specific technical requirements on its propulsion system. Wajax satisfied the vessel's requirements with a combined engine, transmission and mechatronics system centered on Volvo Penta's D13 engines which supply the most cost effective power to weight solution and meet the specific needs of this project. Wajax continues to develop its longstanding relationship with the Canadian Coast Guard with projects like the CCGS Frederick G. Creed and propulsion systems for the new high endurance search and rescue lifeboats equipped with MTU power. Working in partnership with companies such as Rolls Royce Power Systems, MTU and Volvo, Wajax continues to develop its commercial and defense marine business.

Custom Modifications Lead to Clean Water

With a focus on recycling water in the oil sands, Wajax's client required a system to clean and process water with maximum efficiency. In needing to operate at temperatures down to -45°C, the challenge was to prevent the water from freezing. Leveraging it's technical and industry expertise, Wajax's team worked with the client to develop the most effective solution. This included incorporating advanced and uniquely configured Fluid Engineering strainers that enable simplified maintenance and cleaning when required. To prevent the water from freezing, Wajax's engineering team made several custom modifications to the systems, including insulating the equipment and adding custom heated covers. The client greatly appreciated the innovative solutions implemented by Wajax, which included key safety features such as explosion-proof construction and design changes to improve safety during maintenance. Wajax continues to develop its overall business with this important oil sands client in other categories.

Improvements to Pipeline System Offer Enhanced Safety and Environmental Protection

A Wajax client that transports various grades of fuel through a pipeline system required enhancements to its operational processes. A key challenge was that when ambient temperatures fluctuate, deep vacuums are created inside the pipes for up to several hours. These can trigger mechanical switches that monitor the pipeline pressures to leak fuel. Fuel leaks can present a risk of explosion, require ground remediation and harm the environment. Leveraging its technical and industry expertise around safety and operational efficiency, Wajax implemented a system to prevent leaks due to vacuums. This system uses an all-stainless steel welded diaphragm and sensors capable of withstanding full vacuum for several days without calibration issues. In addition, a digital display implemented eliminates the need for a mechanical gauge which reduces potential leak paths. The solution enabled the client to address environmental, safety and operational concerns.

Infrared Monitoring System Improves Safety

Wajax's client required gigantic industrial ladles to transport hundreds of tons of molten steel each day within its facility. Due to the extreme heat of the liquid metal, these vessels were prone to damage and break-outs, which can threaten personnel safety and create significant damage to the plant. Operators were primarily reliant on personal judgement around the number of 'heats' to evaluate the level of risk. To ensure long-term safety and efficiency, Wajax partnered with the client to help implement a system that would enable the client to evaluate the structural integrity of ladles using real-time data. Wajax implemented an AMETEK Land system to help prevent these breakouts. The system fed data from multiple thermal imaging cameras into a software system that provided early detection of hotspots. With more accurate and timely information, the client was able to successfully improve safety, prevent break-outs and extend the life of its equipment. As one of Wajax's largest customers, this client's business with the Company also includes heavy equipment, industrial parts and Engineered Repair Services.

Remote Communities in the Canadian Arctic Implement Modernized Power Plants

In the Canadian Arctic, weather conditions can be extreme and many remote communities depend on diesel generators for their electrical power. During winter months, many of these communities are accessible only by air, meaning that their power systems have to be highly reliable and fuel efficient. In 2018, several remote communities required the replacement of legacy generators and Wajax was selected to design and supply the generators and control systems for new power systems. The custom systems were engineered and fabricated in Wajax's 68,000 square foot Drummondville, Quebec power systems integration centre. Four MTU series 4000 generators were configured to provide 3.6 megawatts of power to 1,200 residents. The team completed the design, fabricated the systems and delivered the project within very tight timelines to ensure that these generators were up and running in time for the winter season.

Investing in Our Growth

Wajax currently provides products and services in ten categories. Growth planning focuses on the relative opportunities in each of these categories considering market size and share, the strength of manufacturing relationships, category profitability and the durability of opportunity through the business cycle.

Revenue by Category Classification (%)

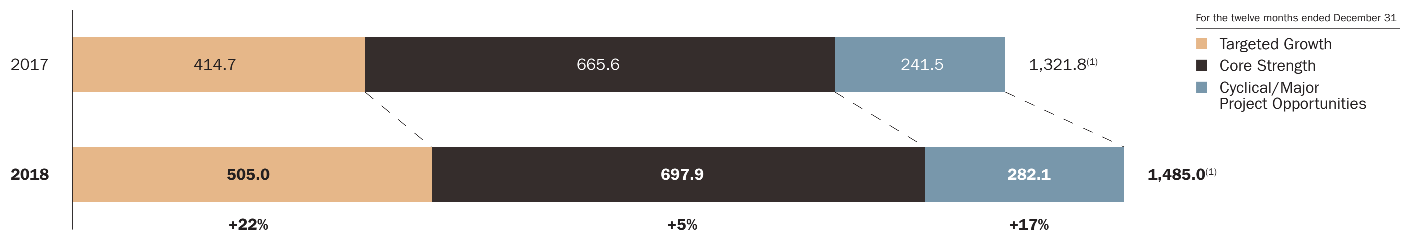
For the twelve months ended December 31	2018
Targeted Growth	34%
Core Strength	47%
Cyclical/Major Project Opportunities	19%

Wajax's peak to trough performance has historically been related to a high proportion of profitability resulting from categories that are sensitive to commodity cycles. The objective of revenue planning is to derive growth from categories where opportunities exist and business conditions are more stable through the cycle, while not sacrificing growth opportunities in more cyclical businesses.

Wajax's ten product and service categories have been grouped into three classifications:

- **Targeted Growth** – These categories represent the majority of planned growth due to Wajax's market share opportunities, excellent manufacturer relationships and opportunities to grow through the cycle. Targeted Growth categories are Construction, Material Handling and Engineered Repair Services, and growth is based on gaining market share. In 2018, these categories collectively grew by 22%.
- **Core Strength** – These categories are very important contributors to Wajax's revenue base and growth is expected to be generally consistent with long-term positive trends. In these categories, Wajax has strong current market shares or performance. Core Strength categories include Industrial Parts, Forestry, On-Highway and Power Generation/Marine. In 2018, these categories collectively grew by 5%.
- **Cyclical/Major Project Opportunities** – These categories address customer needs in more cyclical industries or are sensitive to major capital projects that are difficult to predict. Growth in the strategic plan in these categories has been estimated on a conservative basis and is based on forecasts below peak levels. Wajax and its manufacturing partners offer very strong products and services and we remain well-positioned to benefit from upside in each of these categories. Cyclical/Major Project Opportunities categories include Mining, Engines and Transmissions, and Crane/Utility. In 2018, these categories collectively grew 17%.

Year-Over-Year Revenue Growth by Category Classification ($ millions)



Targeted Growth

- Construction revenue increased 18% driven by market share growth, our new Hitachi wheel-loader program and positive market conditions.
- Material Handling revenue increased 19% driven by a 33% increase in new equipment sales, ongoing investment in rental and positive market conditions.
- ERS revenue increased 40% driven by organic growth of 11% and the acquisition of Groupe Delom.

Core Strength

- Power and Marine revenue increased 33% based on large project deliveries.
- Industrial Parts revenue increased 6% based on a broad range of categories.
- Strength in Power and Marine and Industrial Parts offset minor declines in Forestry and On-Highway.

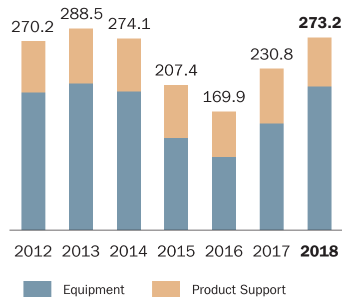
Cyclical/Major Project Opportunities

- Mining revenue increased 49% based on strong equipment and product support revenue in western Canada related primarily to coal and oil sands customers.
- Engines and Transmissions revenue grew slightly due to refurbishment and re-power projects for mining, well stimulation and oil sands customers.

(1) Consolidated categories do not match total revenue due to exclusion of head office and eliminations.

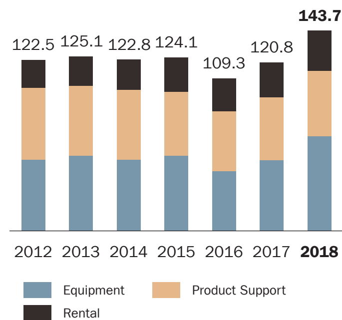
Targeted Growth ($ millions)

Construction



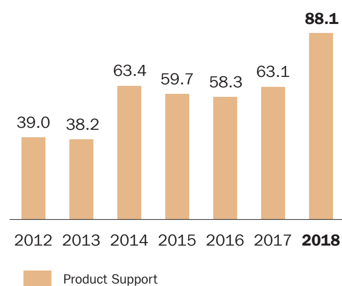
Working closely with our partners at Hitachi, Bell and other manufacturers, we plan to continue to grow our market share in construction equipment, focusing on excavators, wheel loaders and articulated dump trucks. Wajax offers core construction products, a full range of aftermarket services, enhanced sales coverage and will increasingly offer new rental options on heavy equipment to ensure we are meeting the needs of our construction customers.

Material Handling



In partnership with Hyster-Yale Material Handling, our focus is to build upon our strength in the material handling market and expand our market share through enhanced sales coverage, ancillary equipment and warehouse products, expanded aftermarket services and investment in our rental fleet. Wajax offers a broad range of products and services to address the material handling needs of warehouse, industrial and heavy-lift customers.

Engineered Repair Services (ERS)

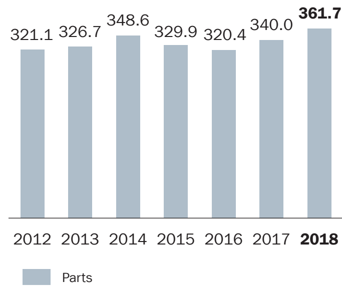


Wajax continues to build ERS capabilities, offering shop and field services, commissioning, design, repairs and rebuilds, reliability and installation services. Our organic growth strategy includes a focus on major account development for industrial and resource customers and enhanced services including asset management, condition monitoring and predictive maintenance. Acquisitions are expected to play an important role in our business.

Note: Certain comparative information has been adjusted to conform to the current year's presentation.

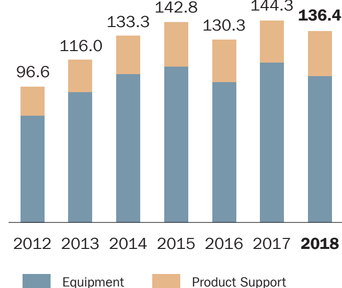
Core Strength ($ millions)

Industrial Parts



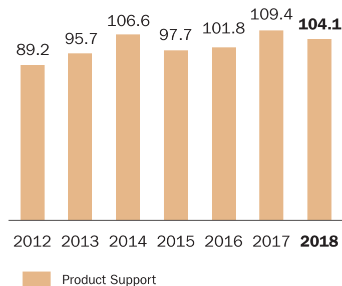
Working closely with major vendors, including SKF, Timken, ITT, 3M, Eaton and Moyno, Wajax offers its customers expert service and support across a full range of bearings and power transmission, process and fluid power products. Industrial Parts is a very significant revenue contributor and an important competitive differentiator. The category is consumed by virtually all industrial users and offers access to a large number of customers, generating sales and service opportunities in other categories.

Forestry



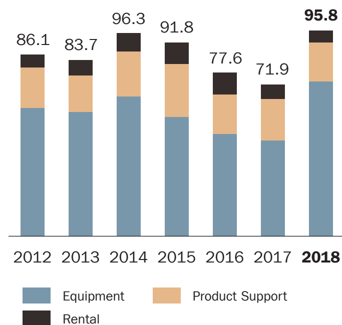
In partnership with Tigercat and Hitachi, Wajax offers an industry-leading range of equipment and aftermarket services to logging contractors and other forestry customers. Wajax has achieved strong market share in a number of important product areas and continues to see growth opportunities as manufacturing partners invest in new product development that increases the safety, productivity and cost effectiveness of the logging operations of customers.

On-Highway



On-Highway product support covers a wide range of shop and road services for municipalities, coach operators and large vehicle customers. Working with partners such as Detroit and Allison, who have excellent market share in the installed vehicle population, Wajax is an industry leader in large engine and transmission services. Continued growth is based on ongoing improvements in our customer service and expansion of our services to additional vehicle systems.

Power Generation/Marine

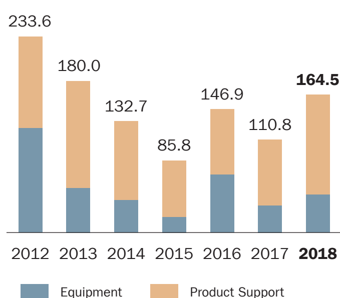


Standby, prime power and co-generation power systems are an important focus for Wajax and our primary partner Rolls-Royce Power Systems/MTU On-Site Energy. Wajax's legacy strength in resource industries have been augmented to focus on growth areas including data centres, health care and water treatment. In marine power generation and propulsion, Wajax enjoys strong partnerships with Rolls-Royce and Volvo, providing growth opportunities in commercial and defense marine.

Note: Certain comparative information has been adjusted to conform to the current year's presentation.

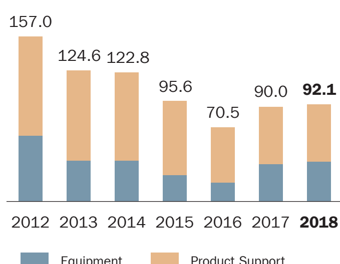
Cyclical/Major Project Opportunities ($ millions)

Mining



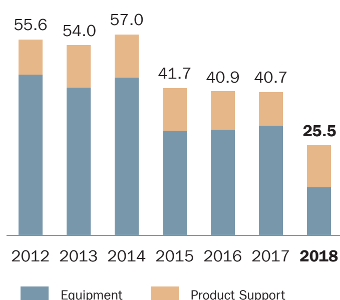
Working closely with Hitachi, Wajax is a leader in the sales and service of large hydraulic mining shovels, used in surface mining operations across Canada, and continues to develop new opportunities in the rigid frame mining truck market. To expand the range of products and services available to our mining customers, Wajax has focused on new underground mining equipment, working with partners such as Fletcher, and re-build services for other major equipment to help our customers extend the life and efficiency of their assets.

Engines/Transmissions



Wajax supports a very broad range of engines and transmissions used in off-highway applications such as oil and gas drilling, well stimulation and large vehicle or system re-powers. Products and services include design engineering, systems packaging, shop and field repair, and re-build services. Our primary partners include Rolls Royce Power Systems/MTU, Allison and others. To partially compensate for the cyclicality in this category, Wajax continues to focus on aftermarket and re-power services.

Crane/Utility



Working with partners such as Terex and Palfinger, Wajax offers a broad range of design and fabrication services to provincial utility and other customers. As utility customers adjust their capital spending on new equipment, Wajax is reviewing additional crane and utility opportunities.

Note: Certain comparative information has been adjusted to conform to the current year's presentation.

Investing in Our Infrastructure

We are making major changes to our infrastructure to improve the consistency of customer service, lower fixed costs and add new sales channels in an increasingly technology-enabled industry.

Our objectives include:

- **Consolidating our facility network** – We have continued to reduce the number of facilities we operate in order to improve the consistency of our customer service, enhance the environment we provide for our team and lower our operating costs. Wajax's current facility count of 106 locations has been reduced by 12% over the past 5 years including a 3% reduction in 2018. Consolidation is driven by combining the operations of legacy businesses that maintained separate networks prior to the One Wajax reorganization. Re-thinking our network allows us to invest in improved facilities and provides a better experience for our customers and team. In 2018, we opened or renovated major facilities in key markets such as Quebec City and Fort McMurray and we are in the process of major upgrades in markets such as London, Calgary and Red Deer.

Red Deer, Alberta

A new 35,903 sq. ft. design/build facility is due to be completed in May 2019 and will co-locate two existing locations. The 24,000 sq. ft. shop area, with a dedicated engine dyno and flexible crane configuration, will allow a variety of functions, from assembling cranes to rebuilding transport trucks and buses. The new facility will replace two existing sites (totalling 53,570 sq. ft.) that will be closing.

Fort McMurray, Alberta

This purpose built 24,000 sq. ft. truck and heavy equipment repair facility was added in 2018. Combined with an existing site in the area, Wajax now operates two efficient facilities, replacing the four facilities previously operated prior to the reorganization of the company.

- **Improving our information systems** – Wajax's current information technology is based on multiple legacy systems that are impediments to our strategy and operational efficiency. Our 2016 reorganization reduced the number of legacy information systems from four to two and we expect to begin implementation of a single, modern Enterprise Resource Planning (ERP) system in 2019. The new ERP system will provide a stronger platform from which to deliver our strategy, improved information transparency and increased automation and will be the basis for the development of new customer support capabilities and sales channels. We plan to begin implementation in the first half of 2019. Roll-out to all locations is expected to occur over an approximate 12 – 18 month timeframe in order to manage the risks associated with a major technology change.

- **Delivering improved branch and customer support through regional Customer Support Centres (CSCs)** – The focus of the One Wajax strategy is to provide customers with access to our full range of products and services while delivering a consistently excellent level of customer service. Wajax's breadth of products and services and the related technical skills to service customers makes this commitment difficult for any one branch to deliver. Based on work completed in 2018, we will begin implementation of regional Customer Support Centres in 2019. After ramp-up, these centres will be capable of handling 24/7 inbound and outbound multi-channel communications and will provide direct support to customers or indirect support via the local branch for all categories. CSCs will offer Wajax a new cost efficient customer support channel, provide new sales opportunities and valuable assistance to our sales and operations teams.

Our 2016 reorganization reduced the number of legacy information systems and we begin implementation of a single, modern ERP system in 2019.

Customer Support Centres (CSC) will ensure that our customers and branches have access to our full range of technical expertise, products and services from any location, using the channel most convenient for them. They are designed to provide customers with an improved, consistent, customer experience. The centres will provide new fulfillment capabilities and broader market coverage, augmenting our branch network in the delivery of the One Wajax promise.

Message from the Chairman

Wajax's primary focus during 2018 was the execution of the updated growth strategy introduced earlier in the year. Building on work completed in 2016 and 2017 to further integrate and streamline its operations, the corporation again delivered stronger financial results, while advancing major employee and customer initiatives, infrastructure projects and completing an important acquisition.

Board of Directors

Thomas M. Alford ▲■
Director since 2014
Mr. Alford is President, Well Services of Precision Drilling Corporation.

Edward M. Barrett ●▲
Director since 2006
Mr. Barrett is Chairman and Co-Chief Executive Officer of Barrett Corporation.

Anne E. Bélec ●▲
Director since 2018
Ms. Bélec is the Co-Founder and Chief Executive Officer of Mosaic Group, LLC.

Douglas A. Carty ●■
Director since 2009
Mr. Carty is a corporate director and the Chairman and Co-Founder of Switzer-Carty Transportation Inc.

Sylvia D. Chrominska ●▲
Director since 2015
Ms. Chrominska is a corporate director.

Robert P. Dexter
Director since 1988
Mr. Dexter is Chairman and Chief Executive Officer of Maritime Travel Inc. and the Chairman of the Board of Directors of the Corporation.

John C. Eby ●■
Director since 2006
Mr. Eby is a corporate director and a Founder and the President of Developing Scholars.

A. Mark Foote
Director since 2012
Mr. Foote is President and Chief Executive Officer of the Corporation.

Alexander S. Taylor ▲■
Director since 2009
Mr. Taylor is President, Nuclear of SNC-Lavalin Group Inc.

● Audit Committee
▲ Human Resources and Compensation Committee
■ Governance Committee

It was another year of progress and change at Wajax, with the corporation's updated growth strategy taking centre stage. While maintaining the Corporation's competitive position in categories sensitive to commodity cycles, such as mining, oil sands, and oil and gas, Mark and his team worked hard throughout the year to increase focus on categories offering more resilient growth throughout such cycles. Consistent with those adjustments, and as detailed elsewhere in this Annual Report, the majority of Wajax's growth in 2018 came from these Targeted Growth categories. In addition, significant progress was made during the year on important initiatives designed to improve the health, safety and well-being of employees, the quality of service received by Wajax customers, and to upgrade critical infrastructure. Important investments were also made in technicians, sales personnel and training, and the acquisition of Groupe Delom has added greatly to the technical and service capabilities offered by Wajax.

As Wajax continues to transform its business, the board has maintained its focus on testing and challenging the plans and assumptions of management, monitoring the pace of change, and ensuring that the attendant risks are appropriately mitigated. Overall, the board has been very pleased with the progress made since the strategic reorganization announced by the corporation in March 2016, and continues to believe very strongly that the growth priorities, improved integration and investments in people and technology set forth in Wajax's updated strategic plan will result in higher and more sustainable growth throughout the business cycle.

As part of its own renewal process, the board welcomed Anne Bélec as a director in November 2018. Anne brings over 33 years of experience in marketing and business development, brand strategy and customer experience, and has held senior executive roles at Ford Motor Company, Navistar and Bombardier Recreational Products. She is the co-founder and presently serves as Chief Executive Officer of Mosaic Group, a firm offering outsourced marketing services for brands in Canada, the United States and globally. We look forward to her contributions as a director.

On behalf of the board, I would like to thank Wajax's team of employees and managers for their hard work as Wajax pushes toward its goal of becoming Canada's leading industrial products and services provider. We also thank Wajax's many suppliers and loyal customers for their support. To my fellow directors, thank you for your counsel and efforts throughout the year.

Robert P. Dexter
Chairman of the Board

Management's Discussion and Analysis

The following management's discussion and analysis ("MD&A") discusses the consolidated financial condition and results of operations of Wajax Corporation ("Wajax" or the "Corporation") for the year ended December 31, 2018. This MD&A should be read in conjunction with the information contained in the Corporation's consolidated financial statements and accompanying notes for the year ended December 31, 2018. Information contained in this MD&A is based on information available to management as of March 21, 2019.

Management is responsible for the information disclosed in this MD&A and the consolidated financial statements and accompanying notes, and has in place appropriate information systems, procedures and controls to ensure that information used internally by management and disclosed externally is materially complete and reliable. Wajax's Board of Directors has approved this MD&A and the consolidated financial statements and accompanying notes. In addition, Wajax's Audit Committee, on behalf of the Board of Directors, provides an oversight role with respect to all public financial disclosures made by Wajax and has reviewed this MD&A and the consolidated financial statements and accompanying notes.

Unless otherwise indicated, all financial information within this MD&A is in millions of Canadian dollars, except ratio calculations, share, share rights and per share data. Additional information, including Wajax's Annual Report and Annual Information Form, are available on SEDAR at www.sedar.com.

Wajax Corporation Overview

Founded in 1858, Wajax (TSX: WJX) is one of Canada's longest-standing and most diversified industrial products and services providers. The Corporation operates an integrated distribution system, providing sales, parts and services to a broad range of customers in diverse sectors of the Canadian economy, including: construction, forestry, mining, industrial and commercial, oil sands, transportation, metal processing, government and utilities and oil and gas.

Strategic Direction and Outlook

The focus of the One Wajax strategy is to provide customers with access to the Corporation's full range of products and services while delivering a consistently excellent level of customer service. The strategy builds on the Corporation's strengths of a well-trained and dedicated team of professionals, a broad range of products and services, deep experience in a wide range of markets, strong relationships with leading manufacturers and a national branch network. The Corporation is focused on delivering a strong experience for its team, customers and investors by executing clear plans in six important areas:

- **Investing in the Wajax team** – The safety, well-being and engagement of the Corporation's team of 2,800 technicians, sales professionals, support staff and leaders is the foundation of the Corporation. The Corporation is very proud of the Wajax team's accomplishments in workplace safety, progress on personal wellness programs and enhanced training and professional development.
- **Investing in Wajax' customers** – The Corporation has the privilege of supporting 32,000 individual customers across Canada ranging from small local contractors to the country's largest industrial and resource organizations. Wajax continues to expand its Voice of the Customer (VoC) program which evaluates detailed customer service levels for each location and shares customer feedback openly with all parts of the Corporation. For an increasing number of large customers, the VoC program also uses analytical systems and dedicated teams to explore opportunities to increase the Corporation's share-of-wallet with individual customers.
- **Executing a clear organic growth strategy** – The Corporation has classified its ten current product and service categories based on a category's contribution to sustainable growth. While Wajax is competitive in all of the categories it participates in, these classifications ensure that resources (such as inventory, personnel and marketing) are allocated appropriately. The Corporation's classifications are Targeted Growth (which includes the Construction, Material Handling and Engineered Repair Services categories), Core Strength (which includes the Industrial Parts, Forestry, On-Highway and Power and Marine categories) and Cyclical and Major Projects (which includes the Mining, Engines and Transmissions and Crane/Utility categories). The majority of the Corporation's strategic plan's organic growth is expected to result from Targeted Growth categories due to the relatively high opportunity for market share increases, resilient aftermarkets, the strength of the Corporation's product and service range and related manufacturer relationships. In 2018, 55% of the Corporation's revenue growth was driven by Targeted Growth categories.
- **Accretive acquisitions strategy** – Wajax has developed clear acquisition criteria for the Canadian and U.S. markets. In Canada, the focus is primarily on acquisitions that add to the Corporation's scale in the Engineered Repair Services (ERS) business and secondarily to extensions to the Corporation's existing distribution businesses. In the U.S. market, the focus is on reviewing growth opportunities related to distribution businesses that provide a long-term growth platform for the One Wajax multi-category model. Acquisitions are considered when they can be achieved within acceptable leverage parameters, are consistent with our product and service strategy, accretive to EBITDA margin, provide scale and have effective management teams.
- **Investing in the Wajax infrastructure** – The Corporation is making major changes to its infrastructure to improve the consistency of customer service, lower fixed costs and add new sales channels in an increasingly technology-enabled industry. The Corporation's current infrastructure programs include the ongoing consolidation of the branch network to improve customer service and to lower the cost of its physical footprint. In addition, the Corporation is investing in new information systems and capabilities that replace the aged legacy systems and provide a platform for new customer-facing capabilities. In 2018, the Corporation completed the majority of the configuration and testing of its new ERP system, which the Corporation expects to begin implementing in the first half of 2019.
- **Ongoing refinements to the One Wajax organizational model** – In 2016, Wajax made major changes to how its team is organized in order to improve growth, drive consistency and to lower fixed costs. The changes reduced costs by approximately $20 million at the time of the change, primarily through the reduction of administrative personnel costs. As the business has grown, the Corporation has reinvested those savings, primarily in revenue generating roles, such as sales professionals and technicians. Wajax continues to refine its organizational model and expects additional improvements in cost productivity, due primarily to technology investments.

Outlook

Wajax expects generally stable market conditions in eastern and central Canada in 2019. Market conditions in western Canada are uncertain at present where activity remains stable to positive in important end markets such as the oil sands, mining and forestry, but is expected to slow temporarily in areas such as conventional oil and gas, construction and related markets. Wajax believes that the current conditions in western Canada are more favourable to the Corporation than those that prevailed when energy prices were weak in 2015 and 2016. While recognizing the possible effect of these market conditions, the Corporation has not changed its internal financial targets or operational plans which remain consistent with the original goals of its strategic plan. Wajax expects full year adjusted net earnings to increase over 2018 based on consolidated revenue improvements and the full year effect of the acquisition of Groupe Delom Inc. ("Delom"). 2019 is an important year for major projects such as the Corporation's new ERP and Customer Support Centres, both of which are scheduled to begin implementation in the first half of 2019. The Corporation's current view of the timing of revenue and operational expenditures suggests that the expected earnings improvements will be weighted to the second half of the year. Leverage is expected to remain within acceptable boundaries and the Corporation maintains sufficient financial flexibility to execute the 2019 business plan. See the Non-GAAP and Additional GAAP Measures and Cautionary Statement Regarding Forward-Looking Information sections.

Annual and Fourth Quarter Highlights

2018 Full Year Highlights

- Revenue increased $162.9 million or 12%, to $1,481.6 million, in 2018 versus $1,318.7 million in 2017.[2] Regionally:
  - Revenue in western Canada of $653.1 million increased 14% over the prior year. Sales gains in the majority of product categories, led by strong gains in construction and mining, more than offset reductions in forestry.
  - Revenue in central Canada of $324.3 million increased 5% over the prior year. Sales gains in construction, mining, material handling and power generation more than offset reductions in crane and utility.
  - Revenue in eastern Canada of $504.2 million increased 15% over the prior year due to sales gains in the majority of product categories, including higher ERS sales due primarily to the acquisition of Delom on October 16, 2018.
- Selling and administrative expenses as a percentage of revenue decreased 80 basis points to 14.1% in 2018 from 14.9% in 2017.[2] Selling and administrative expenses increased by $12.7 million compared to 2017 due mainly to higher sales-related expenses and occupancy costs, non-cash losses on mark to market of derivative instruments and higher personnel costs and occupancy expenses resulting from the acquisition of Delom.[2] These increases were partially offset by a $1.2 million gain recorded on sales of properties in 2018.
- EBIT increased $5.4 million, or 10.2%, to $58.6 million in 2018 versus $53.2 million in 2017.[1][2] The year-over-year improvement is primarily attributable to increased revenue and the acquisition of Delom in the fourth quarter of 2018.
- Based on the improved EBIT result, the Corporation generated net earnings of $35.9 million, or $1.82 per share, in 2018 versus $27.4 million, or $1.40 per share, in 2017.[1][2] The Corporation generated adjusted net earnings of $39.9 million, or $2.02 per share, in 2018 versus $30.1 million, or $1.54 per share, in 2017.[1][2]
- Adjusted EBITDA margin increased to 6.2% in 2018 from 5.7% in 2017.[1][2]
- The Corporation's backlog at December 31, 2018 of $206.9 million decreased $33.3 million, or 14%, compared to September 30, 2018 due primarily to the fulfillment of forestry, mining and material handling orders. The Corporation's backlog at December 31, 2018 of $206.9 million increased $28.0 million, or 16%, compared to December 31, 2017 due primarily to higher mining, power generation and crane and utility orders.[1]
- Inventory of $366.0 million at December 31, 2018 decreased $3.8 million from September 30, 2018 due primarily to lower construction and mining inventory offset partially by higher ERS, forestry and industrial parts inventory. Inventory of $366.0 million at December 31, 2018 increased $53.0 million from December 31, 2017 due primarily to higher construction, forestry, power generation and industrial parts inventory.[2]
- Working capital of $334.7 million at December 31, 2018 decreased $1.3 million from September 30, 2018. Trailing four-quarter average working capital as a percentage of the trailing 12-month sales was 21.9%, an increase of 0.6% from September 30, 2018 due primarily to the higher trailing four-quarter average working capital. Working capital at December 31, 2018 increased $45.0 million from December 31, 2017 due primarily to higher inventory levels. Trailing four-quarter average working capital as a percentage of the trailing 12-month sales increased by 1.0% from 2017.[1][2]
- The Corporation's leverage ratio increased to 2.48 times at December 31, 2018 compared to 2.29 times at September 30, 2018. The increase in the leverage ratio was primarily due to the higher debt level associated with the acquisition of Delom offset partially by the higher trailing 12-month pro-forma adjusted EBITDA. The Corporation's leverage ratio increased to 2.48 times at December 31, 2018 compared to 2.17 times at December 31, 2017 due to the higher debt level offset partially by the higher trailing 12-month pro-forma adjusted EBITDA.[1][2]
- On October 16, 2018, the Corporation completed the acquisition of all of the issued and outstanding shares of Montréal, Québec-based Delom. The aggregate purchase price for the shares was $52.1 million, including $2.0 million which is subject to the achievement of certain performance targets post-closing.
- On October 16, 2018, the Corporation also announced amendments to its senior secured credit facilities. Pursuant to such amendments, the aggregate commitments of the lenders under such facilities have been increased from $300 million to $400 million, and the maturity date has been extended from 2021 to 2023 representing a five year commitment from lenders.
- On November 5, 2018, the Corporation announced the appointment of Anne Bélec to its Board of Directors effective that same date.

(1) "Backlog", "Leverage ratio", "Adjusted net earnings", "EBITDA margin", "Adjusted EBITDA", "Adjusted EBITDA margin" and "Pro-forma adjusted EBITDA" do not have standardized meanings prescribed by generally accepted accounting principles ("GAAP"). "EBIT" and "Working capital" are additional GAAP measures. See the Non-GAAP and Additional GAAP Measures section.

(2) The Corporation has adjusted its comparative 2017 earnings and financial position as a result of the adoption on January 1, 2018 of IFRS 15 *Revenue from Contracts with Customers* and its comparative 2017 earnings and financial position as a result of the adjustments to prior period financial statements identified as part of the Finance Reorganization Plan. See the Adjustments to Prior Period Financial Statements section.

- During 2016, as part of its transition to the "One Wajax" operating model, the Corporation consolidated its three former operating divisions – Wajax Equipment, Wajax Power Systems and Wajax Industrial Components - into one business. As a result, in 2017, the Corporation began to report on its operations as one operating segment, versus the prior three operating segments. In 2018, the Corporation communicated plans to redesign its finance function ("Finance Reorganization Plan"), with the following objectives: (1) to better align the operation of the finance group with the operation of the business, (2) to standardize financial policies, procedures and controls of the three former operating divisions, and (3) apply the standardized financial policies, procedures and controls across the organization to support the implementation of the Corporation's new ERP system which is expected to begin in 2019. The finance function redesign is being completed with the support of external advisors to ensure adherence to industry best practices.
- Management has applied the now standardized financial policies, procedures and controls to the three former operating divisions and noted non-cash accounting errors in the current and prior periods, primarily relating to accounts payable. Although not material to any one year, management has corrected the errors in the financial statements for the current period ending December 31, 2018 and adjusted prior period comparative information. The after-tax error for fiscal 2018 and 2017 totals $1.8 million and $3.1 million, respectively. The cumulative after-tax error for fiscal 2016 and prior periods totals $7.6 million. As at December 31, 2018, the Corporation believes that the control deficiencies have been rectified and its control environment has been strengthened.

Fourth Quarter Highlights

- Revenue in the fourth quarter of 2018 increased $14.3 million, or 4%, to $389.8 million from $375.5 million in the fourth quarter of 2017.[2] Regionally:
  - Revenue in western Canada of $166.2 million decreased 1% from the prior year period.
  - Revenue in central Canada of $88.0 million increased 9% from the prior year period due to sales gains in construction, power generation, industrial parts and ERS offset partially by lower crane and utility sales.
  - Revenue in eastern Canada of $135.5 million increased 7% over the prior year period due to sales gains in industrial parts and ERS offset partially by lower mining, crane and utility and construction sales. The sales gains in ERS were primarily attributable to the acquisition of Delom on October 16, 2018.
- Selling and administrative expenses as a percentage of revenue increased 80 basis points to 14.1% in the fourth quarter of 2018 from 13.3% in the same period of 2017.[2] Selling and administrative expenses increased by $5.0 million compared to the fourth quarter of 2017 due mainly to higher personnel costs and occupancy expenses resulting from the acquisition of Delom and non-cash losses on mark to market of derivative instruments.[2]
- EBIT decreased $4.3 million, or 27.2%, to $11.5 million in the fourth quarter of 2018 versus $15.7 million in the same period of 2017.[1][2] The year-over-year decrease is attributable to lower gross profit margins, increased selling and administrative expenses and restructuring and other related costs of $0.7 million in the current period.
- Adjusted EBITDA margin increased to 6.0% in the fourth quarter of 2018 from 5.5% in the same period of 2017.[1][2]
- The Corporation generated net earnings of $6.1 million, or $0.31 per share, in the fourth quarter of 2018 versus $6.1 million, or $0.31 per share, in the same period of 2017.[2] The Corporation generated adjusted net earnings of $8.3 million, or $0.42 per share, in the fourth quarter of 2018 versus $9.1 million, or $0.47 per share, in the same period of 2017.[1][2]

Summary of Annual Operating Results

For the twelve months ended December 31		2018		2017 (As adjusted)[4]	% change
Revenue	**$**	**1,481.6**	$	1,318.7	12.4%
Gross profit	**$**	**272.3**	$	250.0	8.9%
Selling and administrative expenses	**$**	**209.5**	$	196.8	6.5%
Restructuring and other related costs	**$**	**4.1**	$	—	—%
Earnings before finance costs and income taxes[1]	**$**	**58.6**	$	53.2	10.2%
Finance costs	**$**	**8.8**	$	15.2	(42.1)%
Earnings before income taxes[1]	**$**	**49.8**	$	37.9	31.4%
Income tax expense	**$**	**14.0**	$	10.6	32.1%
Net earnings	**$**	**35.9**	$	27.4	31.0%
– Basic earnings per share[2]	**$**	**1.82**	$	1.40	30.0%
– Diluted earnings per share[2]	**$**	**1.78**	$	1.36	30.9%
Adjusted net earnings[1][4]	**$**	**39.9**	$	30.1	32.6%
– Adjusted basic earnings per share[1][2][3]	**$**	**2.02**	$	1.54	31.2%
– Adjusted diluted earnings per share[1][2][3]	**$**	**1.98**	$	1.50	32.0%
Adjusted EBITDA[1]	**$**	**91.2**	$	74.9	21.8%
Key ratios:					
Gross profit margin		**18.4%**		19.0%	
Selling and administrative expenses as a percentage of revenue		**14.1%**		14.9%	
EBIT margin[1]		**4.0%**		4.0%	
Adjusted EBITDA margin[1]		**6.2%**		5.7%	
Effective income tax rate		**28.0%**		27.8%	

Statement of financial position highlights

As at December 31		2018		2017 (As adjusted)[4]
Trade and other receivables	**$**	**206.3**	$	203.9
Inventory	**$**	**366.0**	$	313.0
Accounts payable and accrued liabilities	**$**	**(253.0)**	$	(236.2)
Other working capital amounts[1]	**$**	**15.4**	$	9.0
Working capital[1]	**$**	**334.7**	$	289.7
Rental equipment	**$**	**73.7**	$	60.4
Property, plant and equipment	**$**	**59.0**	$	43.6
Funded net debt[1]	**$**	**235.8**	$	154.9
Key ratio:				
Leverage ratio[1]		**2.48**		2.17

(1) These measures do not have a standardized meaning prescribed by GAAP. See the Non-GAAP and Additional GAAP Measures section.

(2) Weighted average shares outstanding for calculation of basic and diluted earnings per share for the twelve months ended December 31, 2018 was 19,686,075 (2017 – 19,605,884) and 20,147,902 (2017 – 20,204,738), respectively.

(3) Net earnings excluding the following:

a. after-tax restructuring and other related costs of $3.0 million (2017 – nil), or basic and diluted earnings per share of $0.15 (2017 – nil), for the twelve months ended December 31, 2018.

b. after-tax gain recorded on sales of properties of $0.9 million (2017 – $1.2 million), or basic and diluted earnings per share of $(0.04) (2017 – $(0.06) per share) for the twelve months ended December 31, 2018.

c. after-tax non-cash losses on mark to market of derivative instruments of $1.6 million (2017 – nil), or basic and diluted earnings per share of $0.08 (2017 – nil) for the twelve months ended December 31, 2018.

d. after-tax Delom transaction costs of $0.3 million (2017 – nil), or basic and diluted earnings per share of $0.02 (2017 – nil) for the twelve months ended December 31, 2018.

e. after-tax senior notes redemption costs of $4.0 million, or basic and diluted earnings per share of $0.20, for the twelve months ended December 31, 2017.

(4) The Corporation has adjusted its comparative 2017 earnings and financial position as a result of the adoption on January 1, 2018 of IFRS 15 *Revenue from Contracts with Customers* and its comparative 2017 earnings and financial position as a result of the adjustments to prior period financial statements identified as part of the Finance Reorganization Plan. See the Adjustments to Prior Period Financial Statements section.

Annual Results of Operations

Revenue in 2018 increased 12.4%, or $162.9 million, to $1,481.6 million, from $1,318.7 million in 2017. In addition to regional revenue commentary provided previously herein, the following factors contributed to the increase in revenue:

- Equipment sales have increased due to higher construction, mining, material handling and power generation sales in all regions. These increases were partially offset by a decrease in crane and utility sales in all regions.
- Revenue from industrial parts has increased due primarily to increased bearings and hydraulics sales in all regions.
- Product support sales have increased on strength in mining parts and service sales in all regions offset partially by lower construction parts and service sales in all regions.
- ERS/Other sales have increased due to higher ERS revenues in all regions. The ERS increases in central and eastern Canada were primarily due to the acquisition of Delom in the fourth quarter of 2018.

Backlog

Backlog of $206.9 million at December 31, 2018 increased $28.0 million compared to December 31, 2017 due primarily to increases in mining, power generation and crane and utility orders.

Gross profit

Gross profit increased $22.2 million, or 8.9%, in 2018 compared to the prior year, primarily as a result of higher volumes offset partially by lower product support margin rates. Gross profit margin of 18.4% in 2018 decreased from 19.0% in the prior year, due primarily to lower product support margin rates.

Selling and administrative expenses

Selling and administrative expenses increased $12.7 million in 2018 compared to the prior year. This increase was primarily due to higher sales-related expenses and occupancy costs, non-cash losses on mark to market of derivative instruments and higher personnel costs and occupancy expenses resulting from the acquisition of Delom. Selling and administrative expenses as a percentage of revenue decreased to 14.1% in 2018 from 14.9% in 2017.

Restructuring and other related costs (recoveries)

In the first quarter of 2018, the Corporation commenced the Finance Reorganization Plan and a leadership re-alignment within its ERS function. The cost of the Finance Reorganization Plan is expected to be approximately $5.6 million in severance, project management and interim duplicate labour costs, of which $3.5 million has been recognized in 2018 and $0.3 million recognized in 2017. The remaining $1.8 million in anticipated costs, primarily relating to project management and interim duplicate labour costs, will be expensed as incurred over the remaining project period. Management anticipates that the majority of the remaining project work will be completed by the first half of 2019.

During the first quarter of 2018, the Corporation also commenced a leadership re-alignment within its ERS function, which is also intended to better align such function with the One Wajax model. The costs of the re-alignment are estimated at $0.5 million of which $0.4 million has been recognized in the twelve months ended December 31, 2018.

During the second quarter of 2018, the Corporation incurred $0.3 million (net of a $0.5 million recovery) of additional severance related costs associated with the 2016 strategic reorganization which were expensed and paid during the three months ended June 30, 2018. No additional severance related costs associated with the 2016 strategic reorganization were recognized in the second half of 2018 and the Corporation does not anticipate any further related costs to be incurred.

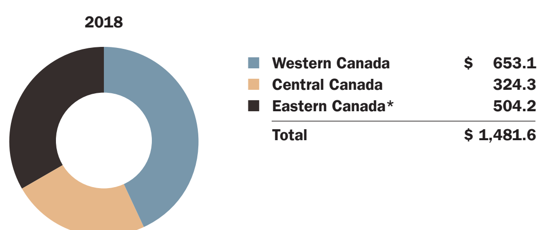
Finance costs

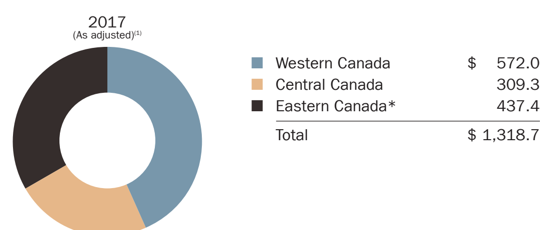
Finance costs of $8.8 million in 2018 decreased $6.5 million compared to 2017 due primarily to lower average interest rates relating to the senior notes redemption in the fourth quarter of 2017 offset partially by higher average debt levels. See the Liquidity and Capital Resources section.

Income tax expense

The Corporation's effective income tax rate in 2018 was 28.0% (2017 – 27.8%) compared to the statutory rate of 26.9% (2017 – 26.9%) due to the impact of expenses not deductible for tax purposes. The statutory income tax rate of 26.9% is unchanged compared to 2017.

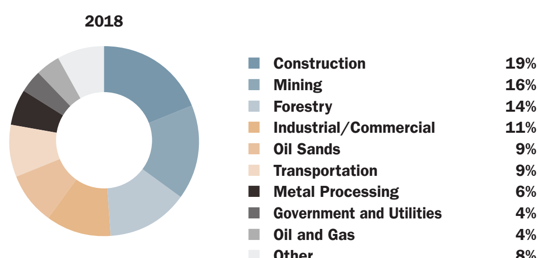
Revenue by Geographic Region ($ millions)

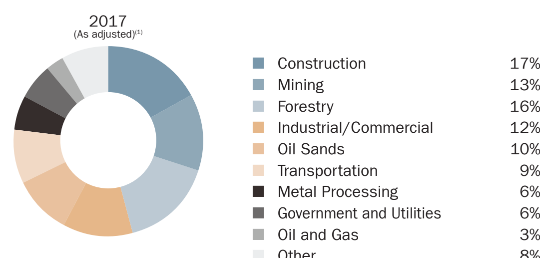




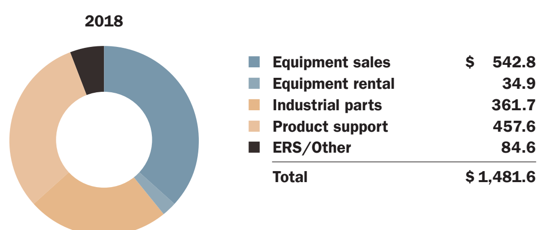
* Includes Quebec and the Atlantic provinces.

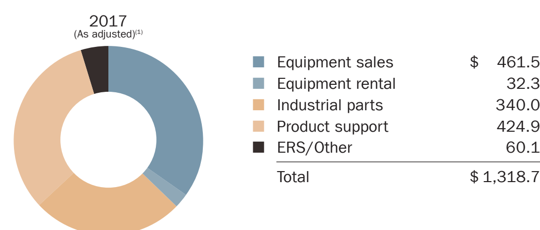
Revenue by Market





Revenue Sources ($ millions)





(1) The Corporation has adjusted its comparative 2017 earnings and financial position as a result of the adoption on January 1, 2018 of IFRS 15 *Revenue from Contracts with Customers* and its comparative 2017 earnings and financial position as a result of the adjustments to prior period financial statements identified as part of the Finance Reorganization Plan. See the Adjustments to Prior Period Financial Statements section.

Net earnings

In 2018, the Corporation had net earnings of $35.9 million, or $1.82 per share, compared to $27.4 million, or $1.40 per share, in 2017. The $8.5 million increase in net earnings resulted primarily from higher volumes, improved selling and administrative expense efficiency and lower finance costs. These increases were partially offset by restructuring and other related costs of $3.0 million after-tax in the current year.

Adjusted net earnings (See the Non-GAAP and Additional GAAP Measures section)

Adjusted net earnings in 2018 excludes restructuring and other related costs of $3.0 million after-tax, or $0.15 per share (2017 – nil), a gain recorded on sales of properties of $0.9 million after-tax, or $0.04 per share (2017 – gain recorded on sales of properties of $1.2 million after-tax, or $0.06 per share), non-cash losses on mark to market of derivative instruments of $1.6 million after-tax, or $0.08 per share (2017 – nil) and Delom transaction costs of $0.3 million after-tax, or $0.02 per share (2017 – nil).

As such, adjusted net earnings increased $9.8 million to $39.9 million, or $2.02 per share, in 2018, from $30.1 million, or $1.54 per share, in 2017. The $9.8 million increase in adjusted net earnings resulted primarily from higher volumes, improved selling and administrative expense efficiency and lower finance costs.

Comprehensive income

In 2018, the total comprehensive income of $34.6 million included net earnings of $35.9 million and an other comprehensive loss of $1.2 million. The other comprehensive loss of $1.2 million in the current year resulted primarily from $0.7 million of losses on derivative instruments outstanding at the end of the period designated as cash flow hedges and $0.6 million of gains on derivative instruments designated as cash flow hedges in prior periods reclassified to net earnings during the current year.

Acquisition of Delom

On October 16, 2018, the Corporation completed the acquisition of all of the issued and outstanding shares of Delom. The aggregate purchase price for the shares was $52.1 million, including $2.0 million which is subject to the achievement of certain performance targets post-closing. Founded in 1963, Delom specializes in the maintenance and repair of critical electromechanical and rotating equipment for continuous process industries, and has annual sales of approximately $70 million. Serving customers in diverse end markets, including hydroelectric, wind and nuclear power generation, mining, pulp and paper, petrochemical, aluminum smelting, and rail and marine transportation, Delom has six branches across Eastern Canada and employs more than 350 people. Consistent with the Corporation's strategy, the acquisition of Delom is expected to provide meaningful growth in the Corporation's ERS business.

Selected Annual Information

The following selected annual information is audited and has been prepared on the same basis as the 2018 annual audited consolidated financial statements except for 2016 which has not been adjusted as a result of the adoption on January 1, 2018 of IFRS 15 *Revenue from Contracts with Customers* and as a result of the adjustments to prior period financial statements identified as part of the Finance Reorganization Plan. See the Adjustments to Prior Period Financial Statements section.

For the twelve months ended December 31	**2018**	2017 (As adjusted)[1]	2016
Revenue	**$ 1,481.6**	$ 1,318.7	$ 1,221.9
Net earnings	**$ 35.9**	$ 27.4	$ 11.0
Basic earnings per share	**$ 1.82**	$ 1.40	$ 0.55
Diluted earnings per share	**$ 1.78**	$ 1.36	$ 0.54
Total assets (as adjusted)	**$ 831.2**	$ 694.4	$ 664.9
Non-current liabilities	**$ 244.1**	$ 160.9	$ 138.6
Dividends declared per share	**$ 1.00**	$ 1.00	$ 1.00

(1) The Corporation has adjusted its comparative 2017 earnings and financial position as a result of the adoption on January 1, 2018 of IFRS 15 *Revenue from Contracts with Customers* and its comparative 2017 earnings and financial position as a result of the adjustments to prior period financial statements identified as part of the Finance Reorganization Plan. See the Adjustments to Prior Period Financial Statements section.

Revenue in 2018 of $1,481.6 million increased $162.9 million compared to 2017. The increase is due to growth in all regions, led by strong gains in construction, mining, material handling, power generation and industrial parts. These gains were partially offset by lower crane and utility revenue primarily in central Canada. Revenue in 2017 of $1,318.7 million increased $96.8 million compared to 2016. The increase is attributable to strength in western Canada, led by strong gains in construction and forestry and higher industrial parts revenue in eastern Canada. These gains were partially offset by lower mining equipment revenue primarily in western Canada.

Net earnings in 2018 of $35.9 million increased $24.9 million, or $1.27 per share, from 2016. Excluding the after-tax restructuring and other related costs of $3.0 million ($0.15 per share), after-tax gain recorded on sales of properties of $0.9 million ($0.04 per share), after-tax non-cash losses on mark to market of derivative instruments of $1.6 million ($0.08 per share) and after-tax Delom transaction costs of $0.3 million ($0.02 per share) in 2018 and the after-tax restructuring and other related costs of $9.1 million ($0.46 per share) in 2016, net earnings increased $19.7 million, or $1.01 per share. This increase was due principally to higher volumes and reduced finance costs offset partially by lower gross profit margins. See the Non-GAAP and Additional GAAP Measures and Liquidity and Capital Resources sections.

The $166.3 million increase in total assets between December 31, 2016 and December 31, 2018 was mainly attributable to higher contract assets, inventory, rental equipment and goodwill and intangible assets offset partially by a reduction in cash and deposits on inventory.

Non-current liabilities at December 31, 2018 of $244.1 million increased $105.5 million from December 31, 2016 primarily attributable to a $96.2 million increase in long-term debt. The increase in long-term debt resulted mainly from higher working capital at December 31, 2018 compared to December 31, 2016 and the acquisition of Delom in 2018.

Selected Quarterly Information

The following table summarizes unaudited quarterly consolidated financial data for the eight most recently completed quarters.

	2018				2017 (As adjusted)[1]			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Revenue	**$ 389.8**	$ 367.1	$ 382.3	$ 342.4	$ 375.5	$ 297.9	$ 325.9	$ 319.4
Net earnings	**$ 6.1**	$ 9.1	$ 11.4	$ 9.3	$ 6.1	$ 8.1	$ 7.5	$ 5.7
Net earnings per share								
– Basic	**$ 0.31**	$ 0.46	$ 0.58	$ 0.48	$ 0.31	$ 0.41	$ 0.38	$ 0.29
– Diluted	**$ 0.30**	$ 0.45	$ 0.56	$ 0.46	$ 0.30	$ 0.40	$ 0.37	$ 0.28

(1) The Corporation has adjusted its comparative 2017 earnings and financial position as a result of the adoption on January 1, 2018 of IFRS 15 *Revenue from Contracts with Customers* and its comparative 2017 earnings and financial position as a result of the adjustments to prior period financial statements identified as part of the Finance Reorganization Plan. See the Adjustments to Prior Period Financial Statements section.

The following table summarizes unaudited quarterly consolidated financial data for the seven most recently completed quarters as previously reported.

	2018 As previously reported				2017 As previously reported			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Revenue	**$ 389.8**	$ 367.4	$ 382.7	$ 342.7	$ 375.5	$ 297.9	$ 325.9	$ 319.4
Net earnings	**$ 6.1**	$ 10.3	$ 12.2	$ 9.9	$ 7.7	$ 8.7	$ 7.7	$ 6.3
Net earnings per share								
– Basic	**$ 0.31**	$ 0.52	$ 0.62	$ 0.51	$ 0.39	$ 0.45	$ 0.40	$ 0.32
– Diluted	**$ 0.30**	$ 0.51	$ 0.60	$ 0.49	$ 0.38	$ 0.43	$ 0.38	$ 0.31

Although quarterly fluctuations in revenue and net earnings are difficult to predict, during times of weak energy sector activity, the first quarter will tend to have seasonally lower results. As well, large deliveries of mining trucks and shovels and power generation packages can shift the revenue and net earnings throughout the year.

Fourth quarter 2017 net earnings of $6.1 million included an after-tax gain recorded on sales of properties of $1.2 million and after-tax senior notes redemption costs of $4.0 million. Excluding the gain recorded on sales of properties and senior notes redemption costs, fourth quarter 2017 adjusted net earnings were $9.1 million. The first quarter 2018 net earnings of $9.3 million included after-tax restructuring and other related costs of $1.4 million and after-tax gain recorded on sales of properties of $0.9 million. Excluding the restructuring and other related costs and gain recorded on sales of properties, first quarter 2018 adjusted net earnings were $9.8 million. The second quarter 2018 net earnings of $11.4 million included after-tax restructuring and other related costs of $0.9 million. Excluding the restructuring and other related costs, second quarter 2018 adjusted net earnings were $12.3 million. The third quarter 2018 net earnings of $9.1 million included after-tax restructuring and other related costs of $0.4 million. Excluding the restructuring and other related costs, third quarter 2018 adjusted net earnings were $9.5 million. The fourth quarter 2018 net earnings of $6.1 million included after-tax restructuring and other related costs of $0.5 million, after-tax non-cash losses on mark to market of derivative instruments of $1.5 million and after-tax Delom transaction costs of $0.3 million. Excluding the restructuring and other related costs, gain recorded on sales of properties, non-cash losses on mark to market of derivative instruments and Delom transaction costs, fourth quarter 2018 adjusted net earnings were $8.3 million. See the Non-GAAP and Additional GAAP Measures section.

A discussion of Wajax's previous quarterly results can be found in Wajax's quarterly MD&A available on SEDAR at www.sedar.com.

Consolidated Financial Condition

Capital Structure and Key Financial Condition Measures

	December 31	
	2018	2017 (As adjusted)[2]
Shareholders' equity	**$ 297.0**	$ 274.7
Funded net debt[1]	**235.8**	154.9
Total capital	**$ 532.8**	$ 429.6
Funded net debt to total capital[1]	**44.3%**	36.1%
Leverage ratio[1]	**2.48**	2.17

(1) See the Non-GAAP and Additional GAAP Measures section.

(2) The Corporation has adjusted its comparative 2017 earnings and financial position as a result of the adoption on January 1, 2018 of IFRS 15 *Revenue from Contracts with Customers* and its comparative 2017 earnings and financial position as a result of the adjustments to prior period financial statements identified as part of the Finance Reorganization Plan. See the Adjustments to Prior Period Financial Statements section.

The Corporation's objective is to maintain a leverage ratio between 1.5 times and 2.0 times. However, there may be instances where the Corporation is willing to maintain a leverage ratio outside this range to either support key growth initiatives or fluctuations in working capital levels during changes in economic cycles. The Corporation's current leverage ratio above target has been driven by recent investments made in inventory to satisfy customer demands and the acquisition of Delom. See the Funded Net Debt section below.

Shareholders' Equity

The Corporation's shareholders' equity at December 31, 2018 of $297.0 million increased $22.3 million from December 31, 2017, as earnings of $35.9 million and the net sale of shares held in trust of $9.1 million net of tax exceeded dividends declared of $19.7 million.

The Corporation's share capital, included in shareholders' equity on the balance sheet, consists of:

	Number of Common Shares	Amount
Issued and outstanding, December 31, 2017	20,026,819	$ 180.6
Common shares issued to settle share-based compensation plans	105,375	$ 1.4
Issued and outstanding, December 31, 2018	20,132,194	$ 182.0
Shares held in trust, December 31, 2017	(522,712)	$ (4.7)
Net shares sold by trust	347,032	$ 3.1
Shares held in trust, December 31, 2018	(175,680)	$ (1.6)
Issued and outstanding, net of shares held in trust, December 31, 2018	**19,956,514**	**$ 180.4**

At the date of this MD&A, the Corporation had 19,956,514 common shares issued and outstanding, net of shares held in trust.

At December 31, 2018, Wajax had four share-based compensation plans; the Wajax Share Ownership Plan ("SOP"), the Directors' Deferred Share Unit Plan ("DDSUP"), the Mid-Term Incentive Plan for Senior Executives ("MTIP") (with MTIP awards being composed of performance share units ("PSUs") and restricted share units ("RSUs")) and the Deferred Share Unit Plan ("DSUP").

As of December 31, 2018, there were 325,171 (2017 – 388,983) SOP and DDSUP (treasury share settled) rights outstanding and 285,595 (2017 – 203,096) MTIP PSUs and DSUP (market-purchased share settled) rights outstanding. On August 10, 2018, the Corporation changed the settlement terms of the MTIP RSUs from share-settled to cash-settled, resulting in a fair value liability of $4.6 million. At December 31, 2018 and December 31, 2017, all SOP and DDSUP rights were vested. Depending on the actual level of achievement of the performance targets associated with the outstanding MTIP PSUs and the outstanding DSUP grants, the number of market-purchased shares required to satisfy the Corporation's obligations could be higher or lower.

Wajax recorded compensation expense of $1.8 million for the year (2017 – $3.8 million) in respect of these plans.

Funded Net Debt (See the Non-GAAP and Additional GAAP Measures section)

	December 31	
	2018	2017
Bank indebtedness	**$ 3.9**	$ 1.7
Obligations under finance lease	**13.7**	9.5
Long-term debt	**218.1**	143.7
Funded net debt[1]	**$ 235.8**	$ 154.9

(1) See the Non-GAAP and Additional GAAP Measures section.

Funded net debt of $235.8 million at December 31, 2018 increased $80.9 million compared to $154.9 million at December 31, 2017. The increase during the year was due primarily to acquisition costs of $51.1 million relating to Delom, dividends paid of $19.6 million, finance lease payments of $4.2 million and cash used in operating activities of $2.9 million.

The Corporation's ratio of funded net debt to total capital increased to 44.3% at December 31, 2018 from 36.1% at December 31, 2017, primarily due to the higher funded net debt level in the current period.

The Corporation's leverage ratio of 2.48 times at December 31, 2018 increased from the December 31, 2017 ratio of 2.17 times due to the higher debt levels offset partially by the higher trailing 12-month pro-forma adjusted EBITDA. See the Non-GAAP and Additional GAAP Measures section.

See the Liquidity and Capital Resources section.

Financial Instruments

Wajax uses derivative financial instruments in the management of its foreign currency, interest rate and share-based compensation exposures. Wajax policy restricts the use of derivative financial instruments for trading or speculative purposes.

Wajax monitors the proportion of variable rate debt to its total debt portfolio and may enter into interest rate hedge contracts to mitigate a portion of the interest rate risk on its variable rate debt. A change in interest rates, in particular related to the Corporation's unhedged variable rate debt, is not expected to have a material impact on the Corporation's results of operations or financial condition over the longer term.

Wajax has entered into interest rate hedge contracts to minimize exposure to interest rate fluctuations on its variable rate debt. All interest rate hedge contracts are recorded in the consolidated financial statements at fair value. As at December 31, 2018, Wajax had the following interest rate hedge contracts outstanding:

- $104.0 million, expiring in November 2023, with a weighted average interest rate of 2.70% (December 31, 2017 – $40.0 million, expiring between November 2019 and November 2022, with a weighted average interest rate of 2.01%).

Wajax enters into foreign exchange forward contracts to hedge the exchange risk associated with the cost of certain inbound inventory and foreign currency-denominated sales to customers along with the associated receivables as part of its normal course of business. As at December 31, 2018, Wajax had the following contracts outstanding:

- to buy U.S. $34.3 million (December 31, 2017 – to buy U.S. $48.5 million),
- to sell U.S. $20.9 million (December 31, 2017 – to sell U.S. $13.8 million),
- to buy Euro €0.2 million (December 31, 2017 – nil), and
- to sell Euro €2.8 million (December 31, 2017 – nil).

The U.S. dollar contracts expire between January 2019 and August 2020, with an average U.S./Canadian dollar rate of 1.3037.

The Euro contracts expire between January 2019 and November 2019, with an average Euro/Canadian dollar rate of 1.5307.

Wajax has entered into total return swap contracts to hedge the exposure to share price market risk on a class of MTIP rights that are cash-settled. All total return swap contracts are recorded in the consolidated financial statements at fair value. As at December 31, 2018, Wajax had the following total return swap contracts outstanding:

- contracts totaling 440,000 shares at an initial share value of $11.5 million, expiring between March 2019 and March 2021.

Wajax measures derivative instruments not accounted for as hedging items at fair value with subsequent changes in fair value being recorded in earnings. Derivatives designated as effective hedges are measured at fair value with subsequent changes in fair value being recorded in other comprehensive income until the related hedged item is recorded and affects income or inventory. The fair value of derivative instruments is estimated based upon market conditions using appropriate valuation models. The carrying values reported in the statement of financial position for financial instruments are not significantly different from their fair values.

A change in foreign currency, relative to the Canadian dollar, on transactions with customers that include unhedged foreign currency exposures is not expected to have a material impact on the Corporation's results of operations or financial condition over the longer term.

Wajax will periodically institute price increases to offset the negative impact of foreign exchange rate increases and volatility on imported goods to ensure margins are not eroded. However, a sudden strengthening of the U.S. dollar relative to the Canadian dollar can have a negative impact mainly on parts margins in the short term prior to price increases taking effect.

The impact of a change in the Corporation's share price on cash-settled MTIP rights is not expected to have a material impact on the Corporation's results of operations or financial condition over the longer term.

Wajax is exposed to the risk of non-performance by counterparties to foreign exchange forward contracts, long-term interest rate hedge contracts and total return swap contracts. These counterparties are large financial institutions that maintain high short-term and long-term credit ratings. To date, no such counterparty has failed to meet its financial obligations to Wajax. Management does not believe there is a significant risk of non-performance by these counterparties and will continue to monitor the credit risk of these counterparties.

Contractual Obligations

Contractual Obligations	**Total**	< 1 year	1 – 5 years	After 5 years
Operating leases	**$ 99.7**	$ 20.2	$ 52.3	$ 27.1
Obligations under finance leases[1]	**$ 13.7**	$ 4.6	$ 9.1	$ —
Bank debt	**$ 220.0**	$ —	$ 220.0	$ —
Total	**$ 333.4**	$ 24.8	$ 281.4	$ 27.1

(1) Amounts exclude finance costs.

The operating leases relate primarily to contracts entered into for facilities, a portion of the long-term lift truck rental fleet and office equipment. See the Off Balance Sheet Financing section for additional information.

The obligations under finance leases relate to certain leased vehicles that have a minimum one year term and are extended on a monthly basis thereafter until termination.

The bank debt obligation relates to the bank credit facility. See the Liquidity and Capital Resources section.

The above table does not include obligations to fund pension benefits. Wajax sponsors certain defined benefit plans that cover executive employees, a small group of inactive employees and certain employees on long-term disability benefits. The defined benefit plans are subject to actuarial valuations in 2021. Management does not expect future cash contribution requirements to change materially from the 2018 contribution level of $0.8 million as a result of these valuations or any declines in the fair value of the defined benefit plans' assets.

Related Party Transactions

The Corporation's related party transactions, consisting of the compensation of the Board of Directors and key management personnel, totaled $7.9 million in 2018 (2017 – $10.6 million).

Off Balance Sheet Financing

Off balance sheet financing arrangements include operating lease contracts for facilities with various landlords and other equipment related mainly to office equipment. The total obligations for all operating leases are detailed in the Contractual Obligations section above. At December 31, 2018, the non-discounted operating lease commitments for facilities totaled $98.7 million, for vehicles totaled $0.5 million and for rental fleet totaled $0.4 million.

Although Wajax'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, Wajax may incur capital expenditures to acquire equivalent capacity.

The Corporation had $129.0 million (2017 – $90.6 million) of consigned inventory on hand from a major manufacturer at December 31, 2018, net of deposits of $13.0 million (2017 – $6.4 million). In the normal course of business, Wajax receives inventory on consignment from this manufacturer which is generally sold or rented to customers or purchased by Wajax. Under the terms of the consignment program, Wajax is required to make periodic deposits to the manufacturer on the consigned inventory that is rented to Wajax customers or on-hand for greater than nine months. This consigned inventory is not included in Wajax's inventory as the manufacturer retains title to the goods. In the event the inventory consignment program was terminated, Wajax would utilize interest free financing, if any, made available by the manufacturer and/or utilize capacity under its credit facility to finance the purchase of inventory.

Although management currently believes Wajax has adequate debt capacity, Wajax would have to access the equity or debt markets, or reduce dividends to accommodate any shortfalls in Wajax's credit facility. See the Liquidity and Capital Resources section.

Liquidity and Capital Resources

The Corporation's liquidity is maintained through various sources, including bank and non-bank credit facilities and cash generated from operations.

Bank and Non-bank Credit Facilities

On October 16, 2018, the Corporation amended its bank credit facility, increasing the limit from $300 million to $400 million and extending the maturity date from September 20, 2021 to September 20, 2023. There were no changes to the existing financial covenants under the credit facility restricting distributions, acquisitions and investments. The $0.9 million cost of amending the facility has been capitalized and will be amortized over the remaining term of the facility.

The terms of the $400 million bank credit facility include the following:

- The facility is fully secured and expires September 20, 2023.
- Borrowing capacity is dependent upon the level of inventory on hand and the outstanding trade accounts receivable.
- The bank credit facility contains customary restrictive covenants, including limitations on the payment of cash dividends and the maintenance of certain financial ratios, all of which were met as at December 31, 2018. In particular, the Corporation is restricted from declaring dividends in the event the Corporation's leverage ratio, as defined in the bank credit facility agreement, exceeds 4.0 times.
- Borrowings under the bank credit facility bear floating rates of interest at margins over Canadian dollar bankers' acceptance yields, U.S. dollar LIBOR rates or prime. Margins on the facility depend on the Corporation's leverage ratio at the time of borrowing and range between 1.5% and 3.0% for Canadian dollar bankers' acceptances and U.S. dollar LIBOR borrowings, and 0.5% and 2.0% for prime rate borrowings.

At December 31, 2018, Wajax had borrowed $220.0 million and issued $6.1 million of letters of credit for a total utilization of $226.1 million of its $400 million bank credit facility. At December 31, 2018, borrowing capacity under the bank credit facility was equal to $379 million.

Under the terms of the bank credit facility, Wajax is permitted to have additional interest bearing debt of $25 million. As such, Wajax has up to $25 million of demand inventory equipment financing capacity with two non-bank lenders. At December 31, 2018, Wajax had no utilization of the interest bearing equipment financing facilities.

As at December 31, 2018, $173.9 million was unutilized under the bank facility and $25 million was unutilized under the non-bank facilities. As of March 21, 2019, Wajax maintained a bank credit facility with a limit of $400 million and an additional $25 million in credit facilities with non-bank lenders, which is permitted under the bank credit facility. Wajax maintains sufficient liquidity to meet short-term normal course working capital and maintenance capital requirements and certain strategic investments. However, Wajax may be required to access the equity or debt markets to fund significant acquisitions.

In addition, the Corporation's tolerance to interest rate risk decreases/increases as the Corporation's leverage ratio increases/decreases. At December 31, 2018, $104 million of the Corporation's funded net debt, or 44%, was at a fixed interest rate which is within the Corporation's interest rate risk policy.

Cash Flow

The following table highlights the major components of cash flow as reflected in the Consolidated Statements of Cash Flows for the years ended December 31, 2018 and December 31, 2017:

		2018		2017 (As adjusted)[1]		Change
Net earnings	$	**35.9**	$	27.4	$	8.5
Items not affecting cash flow		**54.7**		52.2		2.5
Net change in non-cash operating working capital		**(33.5)**		(30.1)		(3.4)
Finance costs paid		**(8.4)**		(14.8)		6.4
Income taxes paid		**(6.5)**		(7.4)		0.9
Rental equipment additions		**(43.6)**		(19.3)		(24.3)
Other non-current liabilities		**(1.4)**		(1.3)		(0.1)
Cash (used in) generated from operating activities	$	**(2.9)**	$	6.8	$	(9.7)
Cash used in investing activities	$	**(58.9)**	$	(1.5)	$	(57.4)
Cash generated from (used in) financing activities	$	**59.6**	$	(11.9)	$	71.5

(1) The Corporation has adjusted its comparative 2017 earnings and financial position as a result of the adoption on January 1, 2018 of IFRS 15 *Revenue from Contracts with Customers* and its comparative 2017 earnings and financial position as a result of the adjustments to prior period financial statements identified as part of the Finance Reorganization Plan. See the Adjustments to Prior Period Financial Statements section.

Cash Used In Operating Activities

The $9.7 million year over year decrease in cash flows generated from operating activities was mainly attributable to a decrease in cash generated from changes in non-cash operating working capital of $3.4 million and an increase in rental equipment additions of $24.3 million, offset partially by increased net earnings of $8.5 million and lower finance costs paid of $6.4 million.

Rental equipment additions in 2018 of $43.6 million (2017 – $19.3 million) related primarily to lift trucks.

Significant components of non-cash operating working capital, along with changes for the years ended December 31, 2018 and December 31, 2017 include the following:

Changes in Non-cash Operating Working Capital[1]		2018		2017 (As adjusted)[2]
Trade and other receivables	$	**12.6**	$	(12.5)
Contract assets		**(3.0)**		3.0
Inventory		**(33.2)**		(35.7)
Deposits on inventory		**(6.6)**		12.5
Prepaid expenses		**(2.0)**		1.1
Accounts payable and accrued liabilities		**3.3**		(5.1)
Contract liabilities		**(4.6)**		6.6
Total Changes in Non-cash Operating Working Capital	$	**(33.5)**	$	(30.1)

(1) Increase (decrease) in cash flow

(2) The Corporation has adjusted its comparative 2017 earnings and financial position as a result of the adoption on January 1, 2018 of IFRS 15 *Revenue from Contracts with Customers* and its comparative 2017 earnings and financial position as a result of the adjustments to prior period financial statements identified as part of the Finance Reorganization Plan. See the Adjustments to Prior Period Financial Statements section.

Significant components of the changes in non-cash operating working capital for the year ended December 31, 2018 compared to the year ended December 31, 2017 are as follows:

- Trade and other receivables decreased $12.6 million in 2018 compared to an increase of $12.5 million in 2017. The decrease in 2018 resulted primarily from lower trade receivables mainly due to the sale of selected trade accounts receivable in the current year compared to the same period in 2017. The increase in 2017 resulted primarily from higher trade receivables from a large oil and gas customer.
- Contract assets increased $3.0 million in 2018 compared to a decrease of $3.0 million in 2017. The increase in 2018 resulted primarily from increased contracts in progress due mainly to the acquisition of Delom.
- Inventory increased $33.2 million in 2018 compared to an increase of $35.7 million in 2017. The increase in 2018 was due mainly to higher construction and forestry equipment inventory and higher parts inventory partially offset by lower mining equipment inventory. The increase in 2017 was due to higher construction, mining and material handling equipment inventory.
- Deposits on inventory increased $6.6 million in 2018 compared to a decrease of $12.5 million in 2017. The increase in 2018 resulted from an increase in deposits on consignment inventory. The decrease in 2017 resulted from a decrease in deposits on consignment inventory. See the Off Balance Sheet Financing section.

Investing Activities

For the year ended December 31, 2018, Wajax invested $5.5 million in property, plant and equipment additions, compared to $3.1 million for the year ended December 31, 2017. Proceeds on disposal of property, plant and equipment, consisting primarily of proceeds on disposal of properties, amounted to $2.5 million for the year ended December 31, 2018, compared to $2.8 million for the year ended December 31, 2017. Intangible assets additions of $4.8 million (2017 – $1.3 million) for the year ended December 31, 2018 resulted primarily from software additions relating to the new ERP system currently being implemented.

For the year ended December 31, 2018, Wajax invested $51.1 million (2017 – nil) on the acquisition of Delom.

Financing Activities

The Corporation generated $59.6 million of cash from financing activities in 2018 compared to a use of cash of $11.9 million in 2017. Financing activities during the year included a net bank credit facility borrowing of $75.0 million (2017 – $20.0 million) and the net sale of shares held in trust of $9.5 million (2017 – net purchase of shares held in trust of $7.5 million) offset partially by dividends paid to shareholders of $19.6 million (2017 – $19.7 million) and finance lease payments of $4.2 million (2017 – $4.0 million).

Dividends

Dividends to shareholders for the periods January 1, 2018 to December 31, 2018 and January 1, 2017 to December 31, 2017 were declared and payable to shareholders of record as follows:

	2018				2017			
Month		**Per Share**		**Amount**		Per Share		Amount
March	$	**0.25**	$	**4.9**	$	0.25	$	5.0
June	$	**0.25**	$	**4.9**	$	0.25	$	4.9
September	$	**0.25**	$	**5.0**	$	0.25	$	4.9
December	$	**0.25**	$	**5.0**	$	0.25	$	4.9
Total dividends for the years ended December 31	$	**1.00**	$	**19.7**	$	1.00	$	19.6

For the years ended December 31, 2018 and December 31, 2017, Wajax declared dividends to shareholders totaling $1.00 per share in each year. Dividends paid in 2018 were funded from cash generated from operating activities.

On March 21, 2019, the Corporation declared a dividend of $0.25 per share for the first quarter of 2019 payable on April 2, 2019 to shareholders of record on March 29, 2019.

Fourth Quarter Consolidated Results

For the three months ended December 31		2018		2017 (As adjusted)[4]	% change
Revenue	$	389.8	$	375.5	3.8%
Gross profit	$	67.0	$	66.0	1.6%
Selling and administrative expenses	$	54.9	$	49.9	10.0%
Restructuring and other related costs	$	0.7	$	0.3	—
Earnings before finance costs and income taxes[1]	$	11.5	$	15.7	(27.2)%
Finance costs	$	2.8	$	7.4	(62.7)%
Earnings before income taxes[1]	$	8.7	$	8.3	4.5%
Income tax expense	$	2.6	$	2.2	16.2%
Net earnings	$	6.1	$	6.1	0.3%
– Basic earnings per share[2]	$	0.31	$	0.31	—%
– Diluted earnings per share[2]	$	0.30	$	0.30	—%
Adjusted net earnings[1][3]	$	8.3	$	9.1	(8.9)%
– Adjusted basic earnings per share[1][2][3]	$	0.42	$	0.47	(9.7)%
– Adjusted diluted earnings per share[1][2][3]	$	0.41	$	0.45	(9.5)%
Adjusted EBITDA[1]	$	23.2	$	20.8	11.8%
Key ratios:					
Gross profit margin		17.2%		17.6%	
Selling and administrative expenses as a percentage of revenue		14.1%		13.3%	
EBIT margin[1]		2.9%		4.2%	
Adjusted EBITDA margin[1]		6.0%		5.5%	
Effective income tax rate		29.8%		26.8%	

(1) These measures do not have a standardized meaning prescribed by GAAP. See the Non-GAAP and Additional GAAP Measures section.

(2) Weighted average shares outstanding for calculation of basic and diluted earnings per share for the three months ended December 31, 2018 was 19,947,235 (2017 – 19,504,107) and 20,393,145 (2017 – 20,132,863), respectively.

(3) Net earnings excluding the following:

a. after-tax restructuring and other related costs of $0.5 million (2017 – $0.2 million), or basic and diluted earnings per share of $0.02 (2017 – $0.01 per share), for the three months ended December 31, 2018.

b. after-tax non-cash losses on mark to market of derivative instruments of $1.5 million (2017 – nil), or basic and diluted earnings per share of $0.07 (2017 – nil) for the three months ended December 31, 2018.

c. after-tax Delom transaction costs of $0.3 million (2017 – nil), or basic and diluted earnings per share of $0.02 (2017 – nil) for the three months ended December 31, 2018.

d. after-tax gain recorded on sales of properties of $1.2 million, or basic and diluted earnings per share of ($0.06) for the three months ended December 31, 2017.

e. after-tax senior notes redemption costs of $4.0 million, or basic and diluted earnings per share of $0.20, for the three months ended December 31, 2017.

(4) The Corporation has adjusted its comparative 2017 earnings and financial position as a result of the adoption on January 1, 2018 of IFRS 15 *Revenue from Contracts with Customers* and its comparative 2017 earnings and financial position as a result of the adjustments to prior period financial statements identified as part of the Finance Reorganization Plan. See the Adjustments to Prior Period Financial Statements section.

Revenue

For the three months ended December 31		2018		2017 (As adjusted)[1]
Equipment sales	$	139.1	$	157.0
Equipment rental	$	9.2	$	8.9
Industrial parts	$	90.5	$	82.9
Product support	$	114.2	$	108.6
ERS/Other	$	36.8	$	18.1
Total revenue	$	389.8	$	375.5

(1) The Corporation has adjusted its comparative 2017 earnings and financial position as a result of the adoption on January 1, 2018 of IFRS 15 *Revenue from Contracts with Customers* and its comparative 2017 earnings and financial position as a result of the adjustments to prior period financial statements identified as part of the Finance Reorganization Plan. See the Adjustments to Prior Period Financial Statements section.

Revenue in the fourth quarter of 2018 increased 3.8%, or $14.3 million, to $389.8 million from $375.5 million in the fourth quarter of 2017. The following factors contributed to the increase in revenue:

- Regionally, revenue increased 9% and 7% in central and eastern Canada respectively and decreased 1% in western Canada.
- Equipment sales have decreased due primarily to lower crane and utility sales in all regions and lower forestry and engines and transmissions sales in western Canada. These decreases were partially offset by higher construction sales in western and central Canada.
- Revenue from industrial parts has increased due primarily to higher bearings and hydraulics sales in central and eastern Canada.
- Product support sales have increased due primarily to higher mining sales in all regions offset partially by lower on-highway and engines and transmissions sales in all regions.
- ERS/Other sales have increased due to higher ERS revenues in all regions. The increases in central and eastern Canada were due primarily to the acquisition of Delom on October 16, 2018.

Backlog

Backlog of $206.9 million at December 31, 2018 decreased $33.3 million compared to September 30, 2018 due primarily to decreases in forestry, material handling and mining orders.

Gross profit

Gross profit increased $1.1 million, or 1.6%, in the fourth quarter of 2018 compared to the same quarter last year. Gross profit margin percentage of 17.2% in the fourth quarter of 2018 decreased from 17.6% in the same quarter last year due mainly to lower product support margin rates offset partially by a higher proportion of product support volumes.

Selling and administrative expenses

Selling and administrative expenses as a percentage of revenue increased to 14.1% in the fourth quarter of 2018 from 13.3% in the fourth quarter of 2017. Selling and administrative expenses increased $5.0 million in the fourth quarter of 2018 compared to the same quarter last year due mainly to higher personnel costs and occupancy expenses resulting from the acquisition of Delom, non-cash losses on mark to market of derivative instruments and a $1.4 million gain recorded on sales of properties in the fourth quarter of 2017.

Restructuring and other related costs

In the first quarter of 2018, the Corporation commenced the Finance Reorganization Plan and a leadership re-alignment within its ERS function. The cost of the Finance Reorganization Plan is expected to be approximately $5.6 million in severance, project management and interim duplicate labour costs, of which $0.7 million has been recognized in the three months ended December 31, 2018.

Finance costs

Finance costs of $2.8 million in the fourth quarter of 2018 decreased $4.7 million compared to the same quarter last year due primarily to lower average interest rates relating to the senior notes redemption in the fourth quarter of 2017 offset partially by higher average debt levels. See the Liquidity and Capital Resources section.

Income tax expense

The Corporation's effective income tax rate of 29.8% for the fourth quarter of 2018 (2017 – 26.8%) was higher compared to the statutory rate of 26.9% (2017 – 26.9%) due mainly to the impact of expenses not deductible for tax purposes. The Corporation's effective income tax rate of 26.8% for the fourth quarter of 2017 was slightly lower compared to the statutory rate of 26.9% due to the impact of the non-taxable portion of the sale of properties offset by expenses not deductible for tax purposes.

Net earnings

In the fourth quarter of 2018, the Corporation had net earnings of $6.1 million, or $0.31 per share, compared to $6.1 million, or $0.31 per share, in the fourth quarter of 2017.

Adjusted net earnings (See the Non-GAAP and Additional GAAP Measures section)

Adjusted net earnings for the three months ended December 31, 2018 excludes restructuring and other related costs of $0.5 million after-tax (2017 – $0.2 million), or $0.02 per share (2017 – $0.01 per share), non-cash losses on mark to market of derivative instruments of $1.5 million after-tax (2017 – nil), or $0.07 per share (2017 – nil) and Delom transaction costs of $0.3 million after-tax (2017 – nil) or $0.02 per share (2017 – nil).

As such, adjusted net earnings decreased $0.8 million to $8.3 million, or $0.42 per share, in the fourth quarter of 2018 from $9.1 million, or $0.47 per share, in the same period of 2017. The $0.8 million decrease in adjusted net earnings resulted primarily from lower gross profit margins and higher selling and administrative expenses offset partially by lower finance costs compared to the prior year.

Comprehensive income

Total comprehensive income of $4.3 million in the fourth quarter of 2018 included net earnings of $6.1 million and an other comprehensive loss of $1.8 million. In the fourth quarter of 2017, total comprehensive income of $6.2 million consisted of net earnings of $6.1 million and other comprehensive income of $0.2 million.

Fourth Quarter Cash Flows

Cash Flow

The following table highlights the major components of cash flow as reflected in the Consolidated Statements of Cash Flows for the quarters ended December 31, 2018 and December 31, 2017:

For the quarter ended December 31	**2018**	2017 (As adjusted)[1]	Change
Net earnings	**$ 6.1**	$ 6.1	$ 0.0
Items not affecting cash flow	**17.4**	15.8	1.6
Net change in non-cash operating working capital	**24.2**	4.3	19.9
Finance costs paid	**(2.6)**	(9.4)	6.8
Income taxes paid	**(1.7)**	(1.4)	(0.3)
Rental equipment additions	**(16.3)**	(7.0)	(9.3)
Other non-current liabilities	**(0.4)**	(0.7)	0.3
Cash generated from operating activities	**$ 26.6**	$ 7.8	$ 18.8
Cash used in investing activities	**$ (54.1)**	$ (0.3)	$ (53.8)
Cash generated from (used in) financing activities	**$ 34.8**	$ (3.9)	$ 38.7

(1) The Corporation has adjusted its comparative 2017 earnings and financial position as a result of the adoption on January 1, 2018 of IFRS 15 *Revenue from Contracts with Customers* and its comparative 2017 earnings and financial position as a result of the adjustments to prior period financial statements identified as part of the Finance Reorganization Plan. See the Adjustments to Prior Period Financial Statements section.

Cash Generated From Operating Activities

Cash flows generated from operating activities amounted to $26.6 million in the fourth quarter of 2018, compared to $7.8 million in the same quarter of the previous year. The increase of $18.8 million was mainly attributable to an increase in cash generated from changes in non-cash operating working capital of $19.9 million and a decrease in finance costs paid of $6.8 million, offset partially by an increase in rental equipment additions of $9.3 million resulting from the Corporation's strategy to increase its rental fleet.

Rental equipment additions in the fourth quarter of 2018 of $16.3 million (2017 – $7.0 million) related primarily to lift trucks.

Significant components of non-cash operating working capital, along with changes for the quarters ended December 31, 2018 and December 31, 2017 include the following:

Changes in Non-cash Operating Working Capital[1]	**2018**	2017 (As adjusted)[2]
Trade and other receivables	**$ 29.5**	$ (32.9)
Contract assets	**$ (0.4)**	$ (1.5)
Inventory	**$ 13.9**	$ 10.6
Deposits on inventory	**$ 0.2**	$ 0.9
Prepaid expenses	**$ 1.3**	$ 0.9
Accounts payable and accrued liabilities	**$ (17.0)**	$ 21.4
Contract liabilities	**$ (3.2)**	$ 5.0
Total Changes in Non-cash Operating Working Capital	**$ 24.2**	$ 4.3

(1) Increase (decrease) in cash flow.

(2) The Corporation has adjusted its comparative 2017 earnings and financial position as a result of the adoption on January 1, 2018 of IFRS 15 *Revenue from Contracts with Customers* and its comparative 2017 earnings and financial position as a result of the adjustments to prior period financial statements identified as part of the Finance Reorganization Plan. See the Adjustments to Prior Period Financial Statements section.

Significant components of the changes in non-cash operating working capital for the quarter ended December 31, 2018 compared to the quarter ended December 31, 2017 are as follows:

- Trade and other receivables decreased $29.5 million in 2018 compared to an increase of $32.9 million in 2017. The decrease in 2018 resulted primarily from improved collections and the sale of selected trade accounts receivable in the fourth quarter compared to the previous quarter. The increase in 2017 resulted primarily from higher sales activity in the fourth quarter compared to the previous quarter.
- Inventory decreased $13.9 million in 2018 compared to a decrease of $10.6 million in 2017. The decrease in 2018 was due mainly to lower construction and mining equipment inventory offset partially by higher forestry equipment inventory. The decrease in 2017 was due to lower forestry, crane and utility and engines and transmissions inventory offset partially by higher construction inventory.
- Accounts payable and accrued liabilities decreased $17.0 million in 2018 compared to an increase of $21.4 million in 2017. The decrease in 2018 resulted primarily from lower trade payables, including lower trade payables related to mining equipment inventory. The increase in 2017 resulted primarily from higher trade payables, including higher trade payables related to mining equipment inventory.

Investing Activities

During the fourth quarter of 2018, Wajax invested $2.5 million in property, plant and equipment additions, compared to $0.9 million in the fourth quarter of 2017. Proceeds on disposal of property, plant and equipment amounted to $0.5 million in the fourth quarter of 2018, compared to $1.9 million in the same quarter of the previous year. Intangible assets additions of $1.0 million (2017 – nil) in the fourth quarter of 2018 resulted primarily from software additions relating to the new ERP system currently being implemented.

During the fourth quarter of 2018, Wajax invested $51.1 million (2017 – nil) on the acquisition of Delom.

Financing Activities

The Corporation generated $34.8 million of cash from financing activities in the fourth quarter of 2018 compared to cash used in financing activities of $3.9 million in the same quarter of 2017. Financing activities in the quarter included a net bank credit facility borrowing of $44.0 million (2017 – $2.0 million) offset partially by the net sale of shares held in trust of $2.0 million (2017 – nil), dividends paid to shareholders of $5.0 million (2017 – $4.9 million) and finance lease payments of $1.1 million (2017 – $0.9 million).

Critical Accounting Estimates

The preparation of the consolidated financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, revenue and expenses. Actual results could differ from those judgements, estimates and assumptions. Note 3 of the annual consolidated financial statements describes the significant accounting policies and methods used in preparation of the annual consolidated financial statements. The Corporation bases its estimates on historical experience and various other assumptions that are believed to be reasonable in the circumstances.

The areas where significant judgements and assumptions are used to determine the amounts recognized in the financial statements include the allowance for doubtful accounts, inventory obsolescence and goodwill and intangible assets.

The key assumptions concerning the future and other key sources of estimation uncertainty that have a significant risk of resulting in a material adjustment to the carrying amount of assets and liabilities within the next fiscal year are as follows:

Allowance for doubtful accounts

The Corporation is exposed to credit risk with respect to its trade and other receivables. However, this is partially mitigated by the Corporation's diversified customer base of over 32,000 customers, with no one customer accounting for more than 10% of the Corporation's annual consolidated sales, which covers many business sectors across Canada. In addition, the Corporation's customer base spans large public companies, small independent contractors, OEMs and various levels of government. The Corporation follows a program of credit evaluations of customers and limits the amount of credit extended when deemed necessary. The Corporation maintains an allowance for possible credit losses, and any such losses to date have been within management's expectations. The allowance for doubtful accounts is determined by estimating the lifetime expected credit losses, taking into account the Corporation's past experience of collecting payments as well as observable changes in and forecasts of future economic conditions that correlate with default on receivables. At the point when the Corporation is satisfied that no recovery of the amount owing is possible, the amount is considered not recoverable and the financial asset is written off. The $1.0 million provision for doubtful accounts at December 31, 2018 increased $0.1 million from $0.8 million at December 31, 2017. As economic conditions change, there is risk that the Corporation could experience a greater number of defaults compared to 2018 which would result in an increased charge to earnings.

Inventory obsolescence

The value of the Corporation's new and used equipment and high value parts are evaluated by management throughout the year, on a unit-by-unit basis. When required, provisions are recorded to ensure that the book value of equipment and parts are valued at the lower of cost or estimated net realizable value. The Corporation performs an aging analysis to identify slow moving or obsolete lower value parts inventory and estimates appropriate obsolescence provisions related thereto. The Corporation takes advantage of supplier programs that allow for the return of eligible parts for credit within specified time periods. The inventory obsolescence charged to earnings for the three months ended December 31, 2018 was $1.7 million (2017 – recovery of $1.4 million) and for the twelve months ended December 31, 2018 was $5.5 million (2017 – $3.5 million). As economic conditions change, there is risk that the Corporation could have an increase in inventory obsolescence compared to prior periods which would result in an increased charge to earnings.

Goodwill and intangible assets

The value in use of goodwill and intangible assets has been estimated using the forecasts prepared by management for the next five years. The key assumptions for the estimate are those regarding revenue growth, gross margin, discount rate and the level of working capital required to support the business. These estimates are based on past experience and management's expectations of future changes in the market and forecasted growth initiatives.

During the year, the Corporation performed an annual impairment test, based on value in use, of its goodwill and intangible assets with an indefinite life based on its single cash generating unit group and concluded that no impairment existed.

Changes in Accounting Policies

Accounting standards adopted during the year

IFRS 15 *Revenue from Contracts with Customers* – On January 1, 2018, the Corporation adopted IFRS 15 *Revenue from Contracts with Customers* ("IFRS 15"). The standard contains a single model that applies to contracts with customers and two approaches to recognizing revenue: at a point in time or over time. The model features a contract-based five-step analysis of transactions to determine whether, how much and when revenue is recognized. New estimates and judgement thresholds have been introduced which may affect the timing of revenue recognized.

The Corporation records revenue from contracts with customers in accordance with the five steps in IFRS 15 as follows:

1. Identify the contract with a customer;
2. Identify the performance obligations in the contract;
3. Determine the transaction price, which is the total consideration provided by the customer;
4. Allocate the transaction price among the performance obligations in the contract based on their relative fair values; and
5. Recognize revenue when the relevant criteria are met for each unit (at a point in time or over time).

The following change has resulted in an adjustment from the adoption of IFRS 15:

- The revenue recognition pattern for Product support service and Other (ERS) has changed to an over-time pattern to depict performance in transferring control of the repair service, rather than the point in time recognition that was previously used. The key judgement for recognizing revenue on incomplete service orders is estimating the transaction price and the margin that will eventually be realized.

The Corporation has elected to use the retrospective application method and has recorded the cumulative adjustment of the accounting change to retained earnings as at January 1, 2017 and has restated its comparative 2017 financial position and earnings.

The effect of adopting IFRS 15 on the consolidated statements of financial position and consolidated statement of earnings can be found in Note 5 of the consolidated financial statements and accompanying notes for the year ended December 31, 2018.

IFRS 9 *Financial Instruments* – On January 1, 2018, the Corporation adopted IFRS 9 *Financial Instruments* ("IFRS 9") retrospectively with no restatement of comparative periods. The standard includes revised guidance on the classification and measurement of financial assets, including impairment and a new general hedge accounting model. IFRS 9 largely retains the existing accounting requirements for financial liabilities with the exception of accounting for certain non-substantial modifications of financial liabilities and the accounting treatment of fair value changes attributable to changes in its own credit risk of financial liabilities that are designated as fair value through profit or loss.

Classification and measurement

IFRS 9 contains a new classification and measurement approach for financial assets that reflects the business model in which assets are managed and their cash flow characteristics. Financial assets are classified and measured based on the three categories: amortized cost, fair value through other comprehensive income ("FVOCI") and fair value through profit and loss ("FVTPL"). Financial liabilities are classified and measured in two categories: amortized cost or FVTPL. Under IFRS 9, derivatives embedded in contracts where the host is a financial asset in the scope of the standard are not separated, but the hybrid financial instrument as a whole is assessed for classification. The adoption of the new classification requirements under IFRS 9 did not result in significant changes to measurement or the carrying amounts of financial assets and liabilities. The following table summarizes the classification impacts upon the adoption of IFRS 9:

Asset/Liability	Classification under IAS 39	Classification under IFRS 9
Cash	Loans and receivables	Amortized cost
Trade and other receivables	Loans and receivables	Amortized cost
Derivative instruments	FV if hedging instrument, or Held-for-trading	FV if hedging instrument, or mandatorily at FVTPL
Bank indebtedness	Other liabilities	Amortized cost
Accounts payable and accrued liabilities	Other liabilities	Amortized cost
Dividends payable	Other liabilities	Amortized cost
Other liabilities	Other liabilities	Amortized cost
Long-term debt	Other liabilities	Amortized cost

Impairment

IFRS 9 replaces the "incurred loss" model in IAS 39 with a forward-looking "expected credit loss" ("ECL") model. The ECL model requires judgement, including consideration of how changes in economic factors affect ECLs, which are determined on a probability-weighted basis. The new impairment model is applied, at each reporting date, to the Corporation's financial assets measured at amortized cost and contract assets.

The Corporation adopted the simplified approach to determine ECL on trade and other receivables using a provision matrix based on historical credit loss experiences adjusted to reflect information about current economic conditions and forecasts of future economic conditions to estimate lifetime ECL. The ECL models applied to other financial assets and contract assets also required judgement, assumptions and estimations on changes in credit risks, forecasts of future economic conditions and historical information on the credit quality of the financial asset. The provision matrix and other ECL models applied on adoption of IFRS 9 did not have a material impact on the financial assets of the Corporation.

Impairment losses are recorded in selling and administrative expenses with the carrying amount of the financial asset or contract asset reduced through the use of impairment allowance accounts.

General hedging

The Corporation has elected to adopt the new general hedge accounting model in IFRS 9. IFRS 9 requires the Corporation to ensure that hedge accounting relationships are aligned with the Corporation's risk management objectives and strategy and to apply a more qualitative and forward-looking approach to assessing hedge effectiveness. All hedging relationships designated under IAS 39 at December 31, 2017 met the criteria for hedge accounting under IFRS 9 at January 1, 2018 and are therefore treated as continuing hedging relationships. Under IFRS 9, for cash flow hedges of foreign currency risk associated with forecast inventory purchases, the amounts accumulated in the cash flow hedges reserve are included directly in the initial cost of the inventory item when it is recognized. Otherwise the adoption of the standard did not have an impact on the Corporation's hedging arrangements.

New standards and interpretations not yet adopted

On January 1, 2019, the Corporation will be required to adopt IFRS 16 Leases. The new standard contains a single lease accounting model for lessees, whereby all leases with a term longer than 12 months are recognized on-balance sheet through a right-of-use asset and lease liability. The model features a front-loaded total lease expense recognized through a combination of depreciation and interest. Lessor accounting remains similar to current requirements. The Corporation has elected to apply the modified retrospective approach of accounting on transition resulting in no restatement of prior period comparatives. The Corporation's long term leases primarily relate to rental of real estate. The new standard will result in a material increase in right-of-use assets and lease obligations which will differ to the operating lease commitments disclosed in Note 25 of the consolidated financial statements and accompanying notes for the year ended December 31, 2018, primarily as a result of the discount rates applied and lease term determination.

IFRIC 23 *Uncertainty over Income Tax Treatments* (effective January 1, 2019) provides guidance when there is uncertainty over income tax treatments including, but not limited to, whether uncertain tax treatments should be considered separately; assumptions made about the examination of tax treatments by tax authorities; the determination of taxable profit, tax bases, unused tax losses, unused tax credits, and tax rates; and, the impact of changes in facts and circumstances. Management has assessed the interpretation and expects there to be no impact.

Adjustments to Prior Period Financial Statements

The Corporation has adjusted the prior period financial statements for the following:

a) Adoption of IFRS 15

As discussed in Note 4 of the consolidated financial statements and accompanying notes for the year ended December 31, 2018, the Corporation adopted IFRS 15 effective January 1, 2018 with retrospective application.

b) Correction of non-material errors in prior periods ("Other adjustments")

The Corporation's prior year consolidated statements of financial position have been impacted as follows by the adoption of IFRS 15 as discussed in Note 4 of the consolidated financial statements and accompanying notes for the year ended December 31, 2018, and by the Other adjustments as discussed in Note 5 of the consolidated financial statements and accompanying notes for the year ended December 31, 2018:

	As originally reported December 31 2016	IFRS 15 adjustment	Other adjustments	**As adjusted January 1 2017**
Trade and other receivables	$ 194.6	(2.9)	—	**$ 191.7**
Contract assets	7.1	15.2	—	**22.3**
Inventory	283.4	(9.5)	0.6	**274.6**
Rental equipment	58.1	—	(0.2)	**57.9**
Deferred tax assets	4.6	(0.8)	0.1	**4.0**
Accounts payable and accrued liabilities	234.1	—	9.3	**243.4**
Income taxes payable	2.3	—	(1.2)	**1.1**
Retained earnings	90.8	2.1	(7.6)	**85.3**

	As originally reported December 31 2017	IFRS 15 adjustment	Other adjustments	**As adjusted December 31 2017**
Trade and other receivables	$ 207.4	(3.4)	—	**$ 203.9**
Contract assets	4.1	15.2	—	**19.3**
Inventory	322.8	(9.5)	(0.3)	**313.0**
Income taxes receivable	—	—	0.5	**0.5**
Rental equipment	61.3	—	(0.8)	**60.4**
Property, plant and equipment	43.9	—	(0.3)	**43.6**
Goodwill and intangible assets	41.9	—	(0.2)	**41.7**
Accounts payable and accrued liabilities	224.4	—	11.8	**236.2**
Income taxes payable	0.7	—	(0.7)	**—**
Deferred tax liabilities	1.4	0.6	(1.3)	**0.7**
Other liabilities	2.6	—	(0.4)	**2.2**
Retained earnings	97.7	1.7	(10.7)	**88.6**

The Corporation's consolidated statement of earnings for the year ended December 31, 2017 has been impacted as follows by the adoption of IFRS 15 as discussed in Note 4 of the consolidated financial statements and accompanying notes for the year ended December 31, 2018, and by the Other adjustments as discussed in Note 5 of the consolidated financial statements and accompanying notes for the year ended December 31, 2018:

	As originally reported	IFRS 15 adjustment	Other adjustments	**As adjusted**
Revenue	$ 1,319.3	(0.6)	—	**$ 1,318.7**
Cost of sales	1,064.5	—	4.2	**1,068.7**
Selling and administrative expenses	197.1	—	(0.3)	**196.8**
Restructuring and other related costs (recoveries)	(0.3)	—	0.3	**—**
Income tax expense	11.8	(0.2)	(1.1)	**10.6**
Net earnings	30.9	(0.4)	(3.1)	**27.4**
Basic earnings per share	1.58	(0.02)	(0.16)	**1.40**
Diluted earnings per share	1.53	(0.02)	(0.15)	**1.36**

The Corporation's consolidated statement of cash flows for the year ended December 31, 2017 has been impacted as follows by the adoption of IFRS 15 as discussed in Note 4 of the consolidated financial statements and accompanying notes for the year ended December 31, 2018, and by the Other adjustments as discussed in Note 5 of the consolidated financial statements and accompanying notes for the year ended December 31, 2018:

	As previously reported	IFRS 15 adjustment	Other adjustments	**As adjusted**
Operating activities:				
Net earnings	$ 30.9	$ (0.4)	$ (3.1)	**$ 27.4**
Rental equipment depreciation	13.4	—	0.6	**14.0**
Intangible assets amortization	0.6	—	0.2	**0.8**
Income tax expense	11.8	(0.2)	(1.1)	**10.6**
Changes in non-cash operating working capital	(34.1)	0.6	3.4	**(30.1)**
Other non-current liabilities	(0.9)	—	(0.4)	**(1.3)**
Cash generated from operating activities	7.1	—	(0.3)	**6.8**
Investing activities:				
Property, plant and equipment additions	(3.4)	—	0.3	**(3.1)**

Risk Management 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 and Wajax's ability to pay cash dividends to shareholders. Wajax attempts to minimize many of these risks through diversification of core businesses and through the geographic diversity of its operations. In addition, Wajax has adopted an annual enterprise risk management assessment which is prepared by the Corporation's senior management and overseen by the Board of Directors and committees of the Board of Directors. The enterprise risk management framework sets out principles and tools for identifying, evaluating, prioritizing and managing risk effectively and consistently across Wajax.

The following are a number of risks that deserve particular comment:

Manufacturer relationships and product access

Wajax seeks to distribute leading product lines in each of its regional markets and its success is dependent upon continuing relations with the manufacturers it represents. Wajax 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. In the equipment, engines, transmissions and power generation categories, and in certain cases in the hydraulics and process pumps portion of the industrial parts category, manufacturer relationships are governed through effectively exclusive distribution agreements. Distribution agreements are for the most part open-ended, but are cancellable within a relatively short notification period specified in each agreement. Although Wajax enjoys good relationships with its major manufacturers and seeks to develop additional strong long-term partnerships, a loss of a major product line without a comparable replacement would have a significantly adverse effect on Wajax's results of operations or cash flow.

There is a continuing consolidation trend among industrial equipment and component manufacturers. Consolidation may impact the products distributed by Wajax, in either a favourable or unfavourable manner. Consolidation of manufacturers may have a negative impact on the results of operations or cash flow if product lines Wajax distributes become unavailable as a result of the consolidation.

Suppliers generally have the ability to unilaterally change distribution terms and conditions, product lines or limit supply of product in times of intense market demand. Supplier changes in the area of product pricing and availability can have a negative or positive effect on Wajax's revenue and margins. A change in one of a supplier's product lines can result in conflicts with another supplier's product lines that may have a negative impact on the results of operations or cash flow if one of the suppliers cancels its distribution with Wajax due to the conflict. As well, from time to time suppliers make changes to payment terms for distributors. This may affect Wajax's interest-free payment period or consignment terms, which may have a materially negative or positive impact on working capital balances such as cash, inventory, deposits on inventory, trade and other payables and bank debt.

Economic conditions/Business cyclicality

Wajax's customer base consists of businesses operating in the natural resources, construction, transportation, manufacturing, industrial processing and utilities industries. These industries can be capital intensive and cyclical in nature, and as a result, customer demand for Wajax's products and services may be affected by economic conditions at both a global or local level. Changes in interest rates, consumer and business confidence, corporate profits, credit conditions, foreign exchange, commodity prices and the level of government infrastructure spending may influence Wajax's customers' operating, maintenance and capital spending, and therefore Wajax's sales and results of operations. Although Wajax has attempted to address its exposure to business and industry cyclicality by diversifying its operations by geography, product offerings and customer base, there can be no assurance that Wajax's results of operations or cash flows will not be adversely affected by changes in economic conditions.

Commodity prices

Many of Wajax's customers are directly and indirectly affected by fluctuations in commodity prices in the forestry, metals and minerals and petroleum and natural gas industries, and as a result Wajax is also indirectly affected by fluctuations in these prices. In particular, each of Wajax's products and services categories are exposed to fluctuations in the price of oil and natural gas. A downward change in commodity prices, and particularly in the price of oil and natural gas, could therefore adversely affect Wajax's results of operations or cash flows.

Growth initiatives, integration of acquisitions and project execution

The Corporation's updated Strategic Plan establishes priorities for organic growth, acquisitions and operating infrastructure, including maintaining a target leverage ratio range of 1.5 - 2.0 times unless a leverage ratio outside this range is either to support key growth initiatives or fluctuations in working capital levels during changes in economic cycles. See the Strategic Direction and Outlook section and the Non-GAAP and Additional GAAP Measures sections. While end market conditions remain challenging, the Corporation believes it has a robust strategy and is confident in its growth prospects. The Corporation's confidence is strengthened by the enhanced earnings potential of a reorganized Corporation and by relationships with its customers and vendors. Wajax's ability to develop its core capabilities and successfully grow its business through organic growth will be dependent on achieving the individual growth initiatives. Wajax's ability to successfully grow its business through acquisitions will be dependent on a number of factors including: identification of accretive new business or acquisition opportunities; negotiation of purchase agreements on satisfactory terms and prices; prior approval of acquisitions by third parties, including any necessary regulatory approvals; securing attractive financing arrangements; and integration of newly acquired operations into the existing business. All of these activities associated with growing the business, realizing enhanced earnings potential from the new structure and investments made in systems may be more difficult to implement or may take longer to execute than management anticipates. Further, any significant expansion of the business may increase the operating complexity of Wajax, and divert management away from regular business activities. Any failure of Wajax to successfully manage its growth strategy, including acquisitions, could have a material adverse impact on Wajax's business, results of operations or financial condition.

Key personnel

The success of Wajax is largely dependent on the abilities and experience of its senior management team and other key personnel. Its future performance will also depend on its ability to attract, develop and retain highly qualified employees in all areas of its business. Competition for skilled management, sales and technical personnel is intense, particularly in certain markets where Wajax competes. Wajax continuously reviews and makes adjustments to its hiring, training and compensation practices in an effort to attract and retain a highly competent workforce. There can be no assurance, however, that Wajax will be successful in its efforts and a loss of key employees, or failure to attract and retain new talent as needed, may have an adverse impact on Wajax's current operations or future prospects.

Leverage, credit availability and restrictive covenants

Wajax has a $400 million bank credit facility which expires September 20, 2023. The bank credit facility contains restrictive covenants which place restrictions on, among other things, the ability of Wajax to encumber or dispose of its assets, the amount of finance costs incurred and dividends declared relative to earnings and certain reporting obligations. A failure to comply with the obligations of the facility could result in an event of default which, if not cured or

waived, could require an accelerated repayment of the facility. There can be no assurance that Wajax's assets would be sufficient to repay the facility in full.

Wajax's short-term normal course working capital requirements can swing widely quarter-to-quarter due to timing of large inventory purchases and/or sales and changes in market activity. In general, as Wajax experiences growth, there is a need for additional working capital. Conversely, as Wajax experiences economic slowdowns, working capital reduces reflecting the lower activity levels. While management believes the bank credit facility will be adequate to meet the Corporation's normal course working capital requirements, maintenance capital requirements and certain strategic investments, there can be no assurance that additional credit will become available if required, or that an appropriate amount of credit with comparable terms and conditions will be available when the bank credit facility matures.

Wajax may be required to access the equity or debt markets or reduce dividends in order to fund significant acquisitions and growth related working capital and capital expenditures. The amount of debt service obligations under the bank credit facility will be dependent on the level of borrowings and fluctuations in interest rates to the extent the rate is unhedged. As a result, fluctuations in debt servicing costs may have a detrimental effect on future earnings or cash flow.

Wajax also has credit lines available with other financial institutions for purposes of financing inventory. These facilities are not committed lines and their future availability cannot be assured, which may have a negative impact on cash available for dividends and future growth opportunities.

Quality of products distributed

The ability of Wajax to maintain and expand its customer base is dependent upon the ability of the manufacturers represented by Wajax to sustain or improve the quality of their products. The quality and reputation of such products are not within Wajax's control, and there can be no assurance that manufacturers will be successful in meeting these goals. The failure of these manufacturers to maintain a market presence could adversely affect Wajax's results of operations or cash flow.

Inventory obsolescence

Wajax maintains substantial amounts of inventory in its business operations. While Wajax believes it has appropriate inventory management systems in place, variations in market demand for the products it sells can result in certain items of inventory becoming obsolete. This could result in a requirement for Wajax to take a material write down of its inventory balance resulting in Wajax not being able to realize expected revenue and cash flows from its inventory, which would negatively affect results from operations or cash flow.

Government regulation

Wajax's business is subject to evolving laws and government regulations, particularly in the areas of taxation, the environment, and health and safety. Changes to such laws and regulations may impose additional costs on Wajax and may adversely affect its business in other ways, including requiring additional compliance measures by Wajax.

Insurance

Wajax maintains a program of insurance coverage that is comparable to those maintained by similar businesses, including property insurance and general liability insurance. Although the limits and self-insured retentions of such insurance policies have been established through risk analysis and the recommendations of professional advisors, there can be no assurance that such insurance will remain available to Wajax at commercially reasonable rates or that the amount of such coverage will be adequate to cover all liability incurred by Wajax. If Wajax is held liable for amounts exceeding the limits of its insurance coverage or for claims outside the scope of that coverage, its business, results of operations or financial condition could be adversely affected.

Information systems and technology

Information systems are an integral part of Wajax's business processes, including marketing of equipment and support services, inventory and logistics, and finance. Some of these systems are integrated with certain suppliers' core processes and systems. Any disruptions to these systems or new systems due, for example, to the upgrade or conversion thereof, or the failure of these systems or new systems to operate as expected could, depending on the magnitude of the problem, adversely affect Wajax's operating results by limiting the ability to effectively monitor and control Wajax's operations.

Credit risk

Wajax extends credit to its customers, generally on an unsecured basis. Although Wajax is not substantially dependent on any one customer and it has a system of credit management in place, the loss of a large receivable would have an adverse effect on Wajax's profitability.

Labour relations

Wajax has approximately 2,800 employees. At the outset of 2018, Wajax was party to twelve collective agreements covering a total of 325 employees. During 2018, eight collective agreements covering 204 employees were ratified. One agreement covering 55 employees expired at the end of 2018 and negotiations are in progress. The remaining three agreements covering 66 employees expire in 2019 and 2020. Wajax believes its labour relations to be satisfactory and does not anticipate it will be unable to renew the collective agreements. If Wajax is unable to renew or negotiate collective agreements from time to time, it could result in work stoppages and other labour disturbances. The failure to renew collective agreements upon satisfactory terms could have a material adverse impact on Wajax's business, results of operations or financial condition.

Foreign exchange exposure

Wajax's operating results are reported in Canadian dollars. While the majority of Wajax'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 impact on Wajax's revenue, margins and working capital balances. Wajax mitigates certain exchange rate risks by entering into foreign exchange forward contracts to fix the cost of certain inbound inventory and to hedge certain foreign-currency denominated sales to customers. In addition, Wajax will periodically institute price increases to offset the negative impact of foreign exchange rate increases on imported goods. The inability of Wajax to mitigate exchange rate risks or increase prices to offset foreign exchange rate increases, including sudden and volatile changes in the U.S. dollar exchange rate, may have a material adverse effect on the results of operations or financial condition of Wajax.

A declining U.S. dollar relative to the Canadian dollar can have a negative effect on Wajax's revenue and cash flows as a result of certain products being imported from the U.S. In some cases market conditions require Wajax to lower its selling prices as the U.S. dollar declines. As well, many of Wajax's customers export products to the U.S., and a strengthening Canadian dollar can negatively impact their overall competitiveness and demand for their products, which in turn may reduce product purchases from Wajax.

A strengthening U.S. dollar relative to the Canadian dollar can have a positive effect on Wajax's revenue, as Wajax will periodically institute price increases on inventory imported from the U.S. to offset the negative impact of foreign exchange rate increases to ensure margins are not eroded. However, a sudden strengthening U.S. dollar relative

to the Canadian dollar can have a negative impact mainly on parts margins in the short-term prior to price increases taking effect.

Wajax maintains a hedging policy whereby significant transactional currency risks are identified and hedged.

Interest rate risk

Wajax has exposure to interest rate fluctuations on its interest-bearing financial liabilities, in particular from its long-term debt. Changes in interest rates can have a negative or positive impact on Wajax's finance costs and cash flows. Wajax monitors the proportion of variable rate debt to its total debt portfolio and may enter into interest rate hedge contracts to mitigate a portion of the interest rate risk on its variable rate debt. The inability of Wajax to mitigate interest rate risks to offset interest rate increases may have a material adverse effect on the results of operations or financial condition of Wajax.

Equity price risk

The Corporation's total return swaps are exposed to fluctuations in its share price. Changes in the Corporation's share price can have a positive or negative impact on Wajax's net earnings and cash flows. Wajax monitors the proportion of MTIP rights that are cash-settled and may enter into total return swap contracts to mitigate a portion of the equity price risk on these MTIP rights. The inability of Wajax to mitigate equity price risks to offset fluctuations in its share price may have a material adverse effect on the results of operations or financial condition of Wajax.

Competition

The categories in which Wajax participates are highly competitive and include competitors who are national, regional and local. Competitors can be grouped into three classifications:

Capital Equipment Dealers and Distributors – these competitors typically represent a major alternative manufacturer and provide sales, product support, rental, financing and other services in categories such as construction, forestry, mining and power generation. Examples include the regional dealer and distributor networks of Caterpillar, Komatsu, John Deere and Cummins. Competition is based on product range and quality, aftermarket support and price.

Industrial Parts Distributors – these competitors typically represent a broad range of industrial parts manufacturers and offer sales and, in many cases, product support services including design, assembly and repair. Competitive product range varies from focused on specific applications (e.g. hydraulics) to very broad (similar to Wajax). Competitors can be local, regional and national. Competition is based on brand access, product quality, customer service levels, price and ancillary services.

Aftermarket Service Providers – these competitors provide aftermarket services in areas such as on-highway transportation. Competitors vary from the dealer and distributor networks of manufacturers such as Freightliner and Western Star to local service providers. Competition is based on customer service levels and price.

There can be no assurance that Wajax will be able to continue to effectively compete. Increased competitive pressures, the growing influence of online distribution or the inability of Wajax to maintain the factors which have enhanced its competitive position could adversely affect its results of operations or cash flow.

Litigation and product liability claims

In the ordinary course of its business, Wajax may be party to various legal actions, the outcome of which cannot be predicted with certainty. One category of potential legal actions is product liability claims. Wajax carries product liability insurance, and management believes that this insurance is adequate to protect against potential product liability claims. Not all risks, however, are covered by insurance, and no assurance can be given that insurance will be consistently available, or will be consistently available on an economically feasible basis, or that the amounts of insurance will at all times be sufficient to cover each and every loss or claim that may occur involving Wajax's assets or operations.

Guaranteed residual value, recourse and buy-back contracts

In some circumstances Wajax makes certain guarantees to finance providers on behalf of its customers. These guarantees can take the form of assuring the resale value of equipment, guaranteeing a portion of customer lease payments, or agreeing to buy back the equipment at a specified price. These contracts are subject to certain conditions being met by the customer, such as maintaining the equipment in good working condition. Historically, Wajax has not incurred substantial losses on these types of contracts, however, there can be no assurance that losses will not be incurred in the future.

Future warranty claims

Wajax provides manufacturers' and/or dealer warranties for most of the product it sells. In some cases, the product warranty claim risk is shared jointly with the manufacturer. In addition, Wajax provides limited warranties for workmanship on services provided. Accordingly, Wajax has some liability for warranty claims. There is a risk that a possible product quality erosion or a lack of a skilled workforce could increase warranty claims in the future, or may be greater than management anticipates. If Wajax's liability in respect of such claims is greater than anticipated, it may have a material adverse impact on Wajax's business, results of operations or financial condition.

Maintenance and repair contracts

Wajax frequently enters into long-term maintenance and repair contracts with its customers, whereby Wajax is obligated to maintain certain fleets of equipment at various negotiated performance levels. The length of these contracts varies significantly, often ranging up to five or more years. The contracts are generally fixed price, although many contracts have additional provisions for inflationary adjustments. Due to the long-term nature of these contracts, there is a risk that significant cost overruns may be incurred. If Wajax has miscalculated the extent of maintenance work required, or if actual parts and service costs increase beyond the contracted inflationary adjustments, the contract profitability will be adversely affected. In order to mitigate this risk, Wajax closely monitors the contracts for early warning signs of cost overruns. In addition, the manufacturer may, in certain circumstances, share in the cost overruns if profitability falls below a certain threshold. Any failure by Wajax to effectively price and manage these contracts could have a material adverse impact on Wajax's business, results of operations or financial condition.

Environmental factors

From time to time, Wajax experiences environmental incidents, emissions or spills in the course of its normal business activities. Wajax has established environmental compliance and monitoring programs, including an internal compliance audit function, which management believes are appropriate for its operations. In addition, Wajax retains environmental engineering consultants to conduct the following activities: environmental site assessments prior to the acquisition or occupation by Wajax; ongoing monitoring of soil and groundwater contamination; and remediation of contaminated sites. To date, these environmental incidents, emissions and spills have not resulted in any material liabilities to the Corporation, however, there can be no assurance that any future incidents, emissions or spills will not result in a material adverse effect on Wajax's results of operations or cash flows. Management is not aware of any material environmental concerns for which a provision has not been recorded.

Cyber security

Wajax's business relies on information technology including third party service providers, to process, transmit and store electronic information including that related to customers, vendors and employees. A breach in the security of the Corporation's information technology, or that of its third party service providers, could expose the business to a risk of loss, misuse of confidential information and/or business interruption.

The Corporation has general security controls in place, including security tools, and reviews security internally and with the assistance of a third party. In addition, the Corporation has policies in place regarding security over confidential customer, vendor and employee information, performs employee security training, and has recovery plans in place in the event of a cyber-attack.

Despite such security controls, there is no assurance that cyber security threats can be fully detected, prevented or mitigated. Should such threats materialize and depending on the magnitude of the problem, they could have a material impact on Wajax's business, results of operations or financial condition.

Disclosure Controls and Procedures and Internal Control over Financial Reporting

Wajax's management, under the supervision of its Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO"), is responsible for establishing and maintaining disclosure controls and procedures ("DC&P") and internal control over financial reporting ("ICFR").

During the implementation of the Corporation's Finance Reorganization Plan in 2018, the Corporation identified a control deficiency in the design and operating effectiveness of internal control over financial reporting as it related to how the legacy Wajax Equipment and Wajax Power businesses were managing the accounts payable processes. The Corporation believes that the deficiencies noted, have been rectified and the control environment has been strengthened as at December 31, 2018. See Note 5 of the consolidated financial statements and accompanying notes for the year ended December 31, 2018 for further discussion and information.

As at December 31, 2018, Wajax's management, under the supervision of its CEO and CFO, had designed DC&P to provide reasonable assurance that information required to be disclosed by Wajax in annual filings, interim filings or other reports filed or submitted under applicable securities legislation is recorded, processed, summarized and reported within the time periods specified in such securities legislation. DC&P are designed to ensure that information required to be disclosed by Wajax in annual filings, interim filings or other reports filed or submitted under applicable securities legislation is accumulated and communicated to Wajax's management, including its CEO and CFO, as appropriate, to allow timely decisions regarding required disclosure.

As at December 31, 2018, Wajax's management, under the supervision of its CEO and CFO, had designed ICFR to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS. In completing the design, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO") in its 2013 version of Internal Control – Integrated Framework. With regard to general controls over information technology, management also used the set of practices of Control Objectives for Information and related Technology ("COBIT") created by the IT Governance Institute.

During the year, Wajax's management, under the supervision of its CEO and CFO, evaluated the effectiveness and operation of its DC&P and ICFR. This evaluation included a risk evaluation, documentation of key processes and tests of effectiveness conducted on a sample basis throughout the year. Due to the inherent limitations in all control systems, an evaluation of the DC&P and ICFR can only provide reasonable assurance over the effectiveness of the controls. As a result, DC&P and ICFR are not expected to prevent and detect all misstatements due to error or fraud. The CEO and CFO have concluded that Wajax's DC&P and ICFR were effective as at December 31, 2018. The Corporation has excluded from its evaluation the ICFR of Delom, which was acquired on October 16, 2018, as discussed in Note 6 of the consolidated financial statements and accompanying notes for the year ended December 31, 2018. The total revenue subject to Delom's ICFR represented 1% of the Corporation's consolidated total revenue for the year ended December 31, 2018. The total assets subject to Delom's ICFR represented 6% of the Corporation's consolidated total assets as at December 31, 2018.

There was no change in Wajax's ICFR that occurred during the three months ended December 31, 2018 that has materially affected, or is reasonably likely to materially affect, Wajax's ICFR.

Non-GAAP and Additional GAAP Measures

The MD&A contains certain non-GAAP and additional GAAP measures that do not have a standardized meaning prescribed by GAAP. Therefore, these financial measures may not be comparable to similar measures presented by other issuers. Investors are cautioned that these measures should not be construed as an alternative to net earnings or to cash flow from operating, investing, and financing activities determined in accordance with GAAP as indicators of the Corporation's performance. The Corporation's management believes that:

(i) these measures are commonly reported and widely used by investors and management;

(ii) the non-GAAP measures are commonly used as an indicator of a company's cash operating performance, profitability and ability to raise and service debt;

(iii) the additional GAAP measures are commonly used to assess a company's earnings performance excluding its capital and tax structures; and

(iv) "Adjusted net earnings" and "Adjusted basic and diluted earnings per share" provide indications of the results by the Corporation's principal business activities prior to recognizing non-recurring costs (recoveries) and losses (gains) from non-hedged derivative instruments and the MTIP share-based compensation plans. These adjustments to net earnings and basic and diluted earnings per share allow the Corporation's management to consistently compare periods by removing infrequent charges incurred outside of the Corporation's principal business activities and the impact of fluctuations in interest rates and the Corporation's share price.

(v) "Adjusted EBITDA" provides an indication of the results by the Corporation's principal business activities prior to recognizing non-recurring costs (recoveries) and losses (gains) from non-hedged derivative instruments and the MTIP share-based compensation plans. These adjustments to EBITDA allow the Corporation's management to consistently compare periods by removing infrequent charges incurred outside of the Corporation's principal business activities and the impact of fluctuations in finance costs related to the Corporation's capital structure, tax rates, long-term assets and the Corporation's share price.

(vi) "Pro-forma adjusted EBITDA" used in calculating the Leverage Ratio provides an indication of the results by the Corporation's principal business activities adjusted for the EBITDA of business acquisitions made during the period as if they were made at the beginning of the trailing 12-month period pursuant to the terms of the bank credit facility and prior to recognizing non-recurring costs (recoveries), losses (gains) from derivative instruments and share-based compensation plans.

Non-GAAP financial measures are identified and defined below:

Funded net debt	Funded net debt includes bank indebtedness, total long-term debt and total obligations under finance leases, net of cash. Funded net debt is relevant in calculating the Corporation's Funded Net Debt to Total Capital, which is a non-GAAP measure commonly used as an indicator of a company's ability to raise and service debt.
Debt	Debt is funded net debt plus letters of credit. Debt is relevant in calculating the Corporation's Leverage Ratio, which is a non-GAAP measure commonly used as an indicator of a company's ability to raise and service debt.
EBITDA	Net earnings (loss) before finance costs, income tax expense, depreciation and amortization.
EBITDA margin	Defined as EBITDA divided by revenue, as presented on the Consolidated Statements of Earnings.
Adjusted net earnings (loss)	Net earnings (loss) before after-tax restructuring and other related costs (recoveries), (gain) loss recorded on sales of properties, non-cash losses on mark to market of derivative instruments, Delom transaction costs and senior notes redemption costs.
Adjusted basic and diluted earnings (loss) per share	Basic and diluted earnings (loss) per share before after-tax restructuring and other related costs (recoveries), (gain) loss recorded on sales of properties, non-cash losses on mark to market of derivative instruments, Delom transaction costs and senior notes redemption costs.
Adjusted EBITDA	EBITDA before restructuring and other related costs (recoveries), (gain) loss recorded on sales of properties, non-cash losses on mark to market of derivative instruments, Delom transaction costs and senior notes redemption costs.
Adjusted EBITDA margin	Defined as Adjusted EBITDA divided by revenue, as presented on the Consolidated Statements of Earnings.
Pro-forma adjusted EBITDA	Defined as Adjusted EBITDA adjusted for the EBITDA of business acquisitions made during the period as if they were made at the beginning of the trailing 12-month period pursuant to the terms of the bank credit facility.
Leverage ratio	The leverage ratio is defined as debt at the end of a particular quarter divided by trailing 12-month Pro-forma adjusted EBITDA. The Corporation's objective is to maintain this ratio between 1.5 times and 2.0 times.
Funded net debt to total capital	Defined as funded net debt divided by total capital. Total capital is the funded net debt plus shareholder's equity.
Backlog	Backlog is a management measure which includes the total sales value of customer purchase commitments for future delivery or commissioning of equipment, parts and related services. This differs from the remaining performance obligations as defined by IFRS 15.

Additional GAAP measures are identified and defined below:

Earnings (loss) before finance costs and income taxes (EBIT)	Earnings (loss) before finance costs and income taxes, as presented on the Consolidated Statements of Earnings.
EBIT margin	Defined as EBIT divided by revenue, as presented on the Consolidated Statements of Earnings.
Earnings (loss) before income taxes (EBT)	Earnings (loss) before income taxes, as presented on the Consolidated Statements of Earnings.
Working capital	Defined as current assets less current liabilities, as presented on the Consolidated Statements of Financial Position.
Other working capital amounts	Defined as working capital less trade and other receivables and inventory plus accounts payable and accrued liabilities, as presented on the Consolidated Statements of Financial Position.

Reconciliation of the Corporation's net earnings to adjusted net earnings and adjusted basic and diluted earnings per share is as follows:

	Three months ended December 31		**Twelve months ended December 31**	
	2018	2017 (As adjusted)[3]	**2018**	2017 (As adjusted)[3]
Net earnings	**$ 6.1**	$ 6.1	**$ 35.9**	$ 27.4
Restructuring and other related costs (recoveries), after-tax	**0.5**	0.2	**3.0**	0.0
(Gain) recorded on sales of properties, after-tax	**—**	(1.2)	**(0.9)**	(1.2)
Non-cash losses on mark to market of derivative instruments, after-tax	**1.5**	—	**1.6**	—
Delom transaction costs, after-tax	**0.3**	—	**0.3**	—
Senior notes redemption, after-tax	**—**	4.0	**—**	3.9
Adjusted net earnings	**$ 8.3**	$ 9.1	**$ 39.9**	$ 30.1
Adjusted basic earnings per share[1][2]	**$ 0.42**	$ 0.47	**$ 2.02**	$ 1.54
Adjusted diluted earnings per share[1][2]	**$ 0.41**	$ 0.45	**$ 1.98**	$ 1.50

(1) At December 31, 2018 the numbers of basic and diluted shares outstanding were 19,947,235 and 20,393,145, respectively for the three months ended and 19,686,075 and 20,147,902, respectively for the twelve months ended.

(2) At December 31, 2017 the numbers of basic and diluted shares outstanding were 19,504,107 and 20,132,863, respectively for the three months ended and 19,605,884 and 20,204,738, respectively for the twelve months ended.

(3) The Corporation has adjusted its comparative 2017 earnings and financial position as a result of the adoption on January 1, 2018 of IFRS 15 *Revenue from Contracts with Customers* and its comparative 2017 earnings and financial position as a result of the adjustments to prior period financial statements identified as part of the Finance Reorganization Plan. See the Adjustments to Prior Period Financial Statements section.

Reconciliation of the Corporation's net earnings to EBT, EBIT, EBITDA and Adjusted EBITDA is as follows:

	Three months ended December 31		Twelve months ended December 31	
	2018	2017 (As adjusted)[7]	**2018**	2017 (As adjusted)[7]
Net earnings	**$ 6.1**	$ 6.1	**$ 35.9**	$ 27.4
Income tax expense	**2.6**	2.2	**14.0**	10.6
EBT	**8.7**	8.3	**49.8**	37.9
Finance costs	**2.8**	2.0	**8.8**	9.8
Senior notes redemption[1]	**—**	5.5	**—**	5.5
EBIT	**11.5**	15.7	**58.6**	53.2
Depreciation and amortization	**8.6**	6.2	**27.0**	23.2
EBITDA	**20.1**	21.9	**85.6**	76.4
Restructuring and other related costs (recoveries)[2]	**0.7**	—	**4.1**	—
(Gain) recorded on sales of properties[3]	**—**	(1.4)	**(1.2)**	(1.5)
Non-cash losses on mark to market of derivative instruments[4]	**2.1**	—	**2.2**	—
Delom transaction costs[5]	**0.5**	—	**0.5**	—
Adjusted EBITDA	**$ 23.2**	$ 20.8	**$ 91.2**	$ 74.9
Delom acquisition pro-forma adjusted EBITDA[6]	**—**	—	**6.3**	—
Pro-forma adjusted EBITDA	**$ 23.2**	$ 20.8	**$ 97.5**	$ 74.9

(1) For the three and twelve months ended December 31, 2017 – Includes the $5.5 million senior notes redemption costs recorded in the fourth quarter of 2017.

(2) For the three months ended December 31, 2018 – Includes the $0.7 million restructuring and other related costs recorded in the fourth quarter of 2018.

For the twelve months ended December 31, 2018 – Includes the $0.7 million restructuring and other related costs recorded in the fourth quarter of 2018, the $0.6 million restructuring and other related costs recorded in the third quarter of 2018, the $1.2 million restructuring and other related costs recorded in the second quarter of 2018 and the $1.7 million restructuring and other related costs recorded in the first quarter of 2018.

(3) For the three months ended December 31, 2017 – Includes the $1.4 million gain recorded on sales of properties recorded in the fourth quarter of 2017.

For the twelve months ended December 31, 2018 – Includes the $1.2 million gain recorded on sales of properties recorded in the first quarter of 2018.

For the twelve months ended December 31, 2017 – Includes the $1.5 million gain recorded on sales of properties recorded in 2017.

(4) For the three months ended December 31, 2018 – Includes the $2.1 million non-cash losses on mark to market of derivative instruments recorded in the fourth quarter of 2018.

For the twelve months ended December 31, 2018 – Includes the $2.2 million non-cash losses on mark to market of derivative instruments recorded in the fourth quarter of 2018.

(5) For the three and twelve months ended December 31, 2018 – Includes the $0.5 million Delom transaction costs recorded in the fourth quarter of 2018.

(6) For the twelve months ended December 31, 2018 – Includes the $6.3 million Delom acquisition pro-forma adjusted EBITDA.

(7) The Corporation has adjusted its comparative 2017 earnings and financial position as a result of the adoption on January 1, 2018 of IFRS 15 *Revenue from Contracts with Customers* and its comparative 2017 earnings and financial position as a result of the adjustments to prior period financial statements identified as part of the Finance Reorganization Plan. See the Adjustments to Prior Period Financial Statements section.

Calculation of the Corporation's funded net debt, debt and leverage ratio is as follows:

	December 31	
	2018	2017
Bank indebtedness	**3.9**	1.7
Obligations under finance leases	**13.7**	9.5
Long-term debt	**218.1**	143.7
Funded net debt	**235.8**	154.9
Letters of credit	**6.1**	7.3
Debt	**241.9**	162.2
Leverage ratio[1][2]	**2.48**	2.17

(1) Calculation uses trailing four-quarter Pro-forma adjusted EBITDA.

This leverage ratio is calculated for purposes of monitoring the Corporation's objective target leverage ratio of between 1.5 times and 2.0 times. The calculation contains some differences from the leverage ratio calculated under the Corporation's bank credit facility agreement. The resulting under the bank credit facility agreement is not significantly different. See the Liquidity and Capital Resources section.

(2) The Corporation has adjusted its comparative 2017 earnings and financial position as a result of the adoption on January 1, 2018 of IFRS 15 *Revenue from Contracts with Customers* and its comparative 2017 earnings and financial position as a result of the adjustments to prior period financial statements identified as part of the Finance Reorganization Plan. See the Adjustments to Prior Period Financial Statements section.

Cautionary Statement Regarding Forward-Looking Information

This MD&A and Annual Report contains certain forward-looking statements and forward-looking information, as defined in applicable securities laws (collectively, "forward-looking statements"). These forward-looking statements relate to future events or the Corporation's future performance. All statements other than statements of historical fact are forward-looking statements. Often, but not always, forward looking statements can be identified by the use of words such as "plans", "anticipates", "intends", "predicts", "expects", "is expected", "scheduled", "believes", "estimates", "projects" or "forecasts", or variations of, or the negatives of, such words and phrases or state that certain actions, events or results "may", "could", "would", "should", "might" or "will" be taken, occur or be achieved. Forward looking statements involve known and unknown risks, uncertainties and other factors beyond the Corporation's ability to predict or control which may cause actual results, performance and achievements to differ materially from those anticipated or implied in such forward looking statements. There can be no assurance that any forward looking statement will materialize. Accordingly, readers should not place undue reliance on forward looking statements. The forward looking statements in this MD&A and Annual Report are made as of the date of this MD&A, reflect management's current beliefs and are based on information currently available to management. Although management believes that the expectations represented in such forward-looking statements are reasonable, there is no assurance that such expectations will prove to be correct. Specifically, this MD&A and Annual Report includes forward looking statements regarding, among other things, our goal of becoming Canada's leading industrial products and services provider, distinguished through our core capabilities; our belief that achieving excellence in our areas of core capability will position Wajax to create value for its customers, employees, vendors

and shareholders; the main elements of our updated Strategic Plan, including our focus on executing clear plans in six important areas: investments in our team, investments in our customers, our organic growth strategy, our acquisition strategy, investments in our infrastructure and refinements to the One Wajax organizational model; our expectations and outlook for 2019, including our outlook on regional market conditions in Canada and our expectation that full year adjusted net earnings will increase over 2018; our belief that current market conditions in western Canada are more favourable than those which prevailed in 2015 and 2016 when energy prices were weak; our intention to commence implementation of our new ERP system and Customer Support Centres in the first half of 2019; our view that expected earnings improvements in 2019 will be weighted to the second half of the year; our expectation that our leverage will remain within acceptable boundaries and that the Corporation maintains sufficient financial flexibility to execute its 2019 business plan; our belief that the control deficiencies identified as part of the Finance Reorganization Plan have been rectified and that the Corporation's control environment has been strengthened; the expected cost of the redesign of our finance function and our expectation that the majority of such project work will be completed during the first half of 2019; the expected cost of our ERS leadership re-alignment; our expectation that we will not incur any future costs related to our 2016 strategic reorganization; our expectation that the acquisition of Delom will provide meaningful growth in our ERS business; our target leverage ratio range of 1.5 – 2.0 times; our financing, working and maintenance capital requirements, as well as our capital structure and leverage ratio; our estimate of the number of shares required to settle our obligations under certain share-based compensation plans; our expectation that the impact of changes in interest rates (in particular, related to unhedged variable rate debt), foreign currency exchange rates relative to the Canadian dollar (in particular, on transactions with customers that include unhedged foreign currency exposure), and our share price (in particular, on MTIP units that are cash settled) will not have a material impact on our results of operations or financial condition over the longer term; our belief there is not a significant risk of non-performance by counterparties to our foreign exchange forward contracts, long-term interest rate hedge contracts and total return swap contracts; the adequacy of our debt capacity and sufficiency of our debt facilities; our intention and ability to access debt and equity markets or reduce dividends should additional capital be required, including the potential that we may access equity or debt markets to fund significant acquisitions, growth related capital and capital expenditures; our belief that that we have a robust strategy and our confidence in our growth prospects; our growth and performance expectations for our Targeted Growth, Core Strength and Cyclical and Major Projects product and service categories; and the adequacy of our credit facilities. These statements are based on a number of assumptions which may prove to be incorrect, including, but not limited to, assumptions regarding the nature and extent of the non-cash accounting errors identified during the transition to our new finance group operating model and subsequent financial review; general business and economic conditions; the supply and demand for, and the level and volatility of prices for, oil, natural gas and other commodities; financial market conditions, including interest rates; our ability to execute our updated Strategic Plan, including our ability to develop our core capabilities, execute our organic growth priorities, complete and effectively integrate acquisitions, such as Delom, and to successfully implement new information technology platforms, systems and software; our ability to realize the full benefits from our 2016 strategic reorganization, including cost savings and productivity gains; the future financial performance of the Corporation; our costs; market competition; our ability to attract and retain skilled staff; our ability to procure quality products and inventory; and our ongoing relations with suppliers, employees and customers. The foregoing list of assumptions is not exhaustive. Factors that may cause actual results to vary materially include, but are not limited to, the ongoing implementation of our Finance Reorganization Plan, including the ongoing standardization of financial policies, procedures and controls; a deterioration in general business and economic conditions; volatility in the supply and demand for, and the level of prices for, oil, natural gas and other commodities; a continued or prolonged decrease in the price of oil or natural gas; fluctuations in financial market conditions, including interest rates; the level of demand for, and prices of, the products and services we offer; levels of customer confidence and spending; market acceptance of the products we offer; termination of distribution or original equipment manufacturer agreements; unanticipated operational difficulties (including failure of plant, equipment or processes to operate in accordance with specifications or expectations, cost escalation, our inability to reduce costs in response to slow-downs in market activity, unavailability of quality products or inventory, supply disruptions, job action and unanticipated events related to health, safety and environmental matters); our ability to attract and retain skilled staff and our ability to maintain our relationships with suppliers, employees and customers. The foregoing list of factors is not exhaustive. Further information concerning the risks and uncertainties associated with these forward looking statements and the Corporation's business may be found in this MD&A under the heading "Risk Management and Uncertainties" and in our Annual Information Form for the year ended December 31, 2018, filed on SEDAR. The forward-looking statements contained in this MD&A and Annual Report are expressly qualified in their entirety by this cautionary statement. The Corporation does not undertake any obligation to publicly update such forward-looking statements to reflect new information, subsequent events or otherwise unless so required by applicable securities laws.

Management's Responsibility for Financial Reporting

The consolidated financial statements of Wajax Corporation are the responsibility of management and have been prepared in accordance with International Financial Reporting Standards. 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.

Wajax maintains a system of internal control designed to provide financial information and the safeguarding of its assets. Wajax also maintains an internal audit function, which reviews the system of internal control and its application.

The Audit Committee of the Board, 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, which reviews and approves the consolidated financial statements.

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

Mark Foote
President and
Chief Executive Officer

Darren Yaworsky
Senior Vice President and
Chief Financial Officer

Mississauga, Canada, March 21, 2019

Independent Auditors' Report

To the Shareholders of Wajax Corporation

Opinion

We have audited the consolidated financial statements of Wajax Corporation (the "Entity"), which comprise:

- the consolidated statements of financial position as at December 31, 2018 and December 31, 2017
- the consolidated statements of earnings for the years then ended
- the consolidated statements of comprehensive income for the years then ended
- the consolidated statements of changes in shareholders' equity for the years then ended
- the consolidated statements of cash flows for the years then ended
- and notes to the consolidated financial statements, including a summary of significant accounting policies

(Hereinafter referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the consolidated financial position of the Entity as at December 31, 2018 and December 31, 2017, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards (IFRS).

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *"Auditors' Responsibilities for the Audit of the Financial Statements"* section of our auditors' report.

We are independent of the Entity in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of Matter – Comparative Information

We draw attention to Note 4 and Note 5(a) to the financial statements as it relates to the adoption of IFRS 15, *Revenue from Contracts with Customers*, which explains that certain comparative information presented:

- for the year ended December 31, 2017 has been restated.
- as at January 1, 2017 has been derived from the financial statements for the year ended December 31, 2016 which have been restated (not presented herein).

Note 4 and Note 5(a) explain the reason for the restatement and also explains the adjustments that were applied to restate certain comparative information.

Our opinion is not modified in respect of this matter.

Other Information

Management is responsible for the other information. Other information comprises:

- the information included in Management's Discussion and Analysis filed with the relevant Canadian Securities Commissions.
- the information, other than the financial statements and the auditors' report thereon, included in a document likely to be entitled "2018 Annual Report".

Our opinion on the financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit and remain alert for indications that the other information appears to be materially misstated.

We obtained the information included in Management's Discussion and Analysis filed with the relevant Canadian Securities Commissions as at the date of this auditors' report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in the auditors' report.

We have nothing to report in this regard.

The information, other than the financial statements and the auditors' report thereon, included in a document likely to be entitled "2018 Annual Report" is expected to be made available to us after the date of this auditors' report. If, based on the work we will perform on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact to those charged with governance.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards (IFRS), and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Entity's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Entity or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Entity's financial reporting process.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit.

We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.

  The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Entity's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Entity to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.
- Provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group Entity to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

Chartered Professional Accountants, Licensed Public Accountants

The engagement partner on the audit resulting in this auditors' report is Laura Price.

Vaughan, Canada, March 21, 2019

Consolidated Statements of Financial Position

As at (in thousands of Canadian dollars)	Note	December 31 2018	2017 As adjusted (Note 5)	January 1 2017 As adjusted (Note 5)
Assets				
Current				
Cash		**$ —**	$ —	$ 4,854
Trade and other receivables	7	**206,257**	203,949	191,744
Contract assets	8	**30,307**	19,329	22,319
Inventory	9	**365,997**	312,974	274,566
Deposits on inventory	9	**13,445**	6,874	19,407
Income taxes receivable		**—**	484	—
Prepaid expenses		**7,190**	4,329	5,463
Derivative financial assets	16	**1,635**	550	784
		624,831	548,489	519,137
Non-Current				
Rental equipment	10	**73,716**	60,418	57,908
Property, plant and equipment	10	**59,017**	43,598	45,658
Goodwill and intangible assets	11	**73,685**	41,705	41,205
Derivative financial assets	16	**—**	151	5
Deferred tax assets	23	**—**	—	3,950
		206,418	145,872	148,726
Total assets		**$ 831,249**	$ 694,361	$ 667,863
Liabilities And Shareholders' Equity				
Current				
Bank indebtedness		**$ 3,932**	$ 1,724	$ —
Accounts payable and accrued liabilities	12	**252,958**	236,179	243,398
Contract liabilities	8	**8,291**	11,129	4,486
Dividends payable	17	**4,989**	4,876	4,956
Income taxes payable		**12,173**	—	1,136
Obligations under finance leases	13	**4,622**	3,790	3,701
Derivative financial liabilities	16	**3,167**	1,097	234
		290,132	258,795	257,911
Non-Current				
Deferred tax liabilities	23	**1,209**	731	—
Employee benefits	14	**8,445**	8,545	8,106
Derivative financial liabilities	16	**5,036**	—	2
Other liabilities		**2,214**	2,235	3,423
Obligations under finance leases	13	**9,127**	5,721	5,154
Long-term debt	15	**218,116**	143,667	121,952
		244,147	160,899	138,637
Total liabilities		**534,279**	419,694	396,548
Shareholders' Equity				
Share capital	17	**$ 180,369**	$ 175,863	$ 178,764
Contributed surplus	18	**7,360**	10,455	7,137
Retained earnings		**110,842**	88,643	85,312
Accumulated other comprehensive (loss) income		**(1,601)**	(294)	102
Total shareholders' equity		**296,970**	274,667	271,315
Total liabilities and shareholders' equity		**$ 831,249**	$ 694,361	$ 667,863

On behalf of the Board:

Robert P. Dexter, Q.C.
Chairman

Douglas A. Carty
Director

Consolidated Statements of Earnings

For the years ended December 31 (in thousands of Canadian dollars, except per share data)	Note	2018	2017 As adjusted (Note 5)
Revenue	8, 19	**$1,481,597**	$1,318,731
Cost of sales	9	**1,209,330**	1,068,713
Gross profit		**272,267**	250,018
Selling and administrative expenses		**209,522**	196,816
Restructuring and other related costs	21	**4,143**	21
Earnings before finance costs and income taxes		**58,602**	53,181
Finance costs	22	**8,775**	15,249
Earnings before income taxes		**49,827**	37,932
Income tax expense	23	**13,975**	10,551
Net earnings		**$ 35,852**	$ 27,381
Basic earnings per share	17	**$ 1.82**	$ 1.40
Diluted earnings per share	17	**1.78**	1.36

Consolidated Statements of Comprehensive Income

For the years ended December 31 (in thousands of Canadian dollars)	Note	2018	2017 As adjusted (Note 5)
Net earnings		**$ 35,852**	$ 27,381
Items that will not be reclassified to income			
Actuarial gains (losses) on pension plans, net of tax expense of $26 (2017 – expense of $49)	14	**72**	132
Items that may be subsequently reclassified to income			
(Gains) losses on derivative instruments designated as cash flow hedges in prior periods reclassified to net earnings during the period, net of tax expense of $229 (2017 – recovery of $253)		**(622)**	686
(Losses) gains on derivative instruments outstanding at the end of the period designated as cash flow hedges, net of tax recovery of $252 (2017 – recovery of $399)		**(685)**	(1,082)
Other comprehensive (loss) income, net of tax		**(1,235)**	(264)
Total comprehensive income		**$ 34,617**	$ 27,117

Consolidated Statements of Changes in Shareholders' Equity

For the year ended December 31, 2018 (in thousands of Canadian dollars)	Note	Share capital	Contributed surplus	Retained earnings	Accumulated other comprehensive income (loss) Cash flow hedges	Total
December 31, 2017 (as adjusted)	4, 5	$ 175,863	$ 10,455	$ 88,643	$ (294)	$ 274,667
Net earnings		—	—	35,852	—	35,852
Other comprehensive income		—	—	72	(1,307)	(1,235)
Total comprehensive income for the year		—	—	35,924	(1,307)	34,617
Shares issued to settle share-based compensation plans	18	1,380	(1,380)	—	—	—
Net sale (purchase) of shares held in trust (net of tax)	17	3,126	—	6,022	—	9,148
Change from equity to cash settled RSUs	18	—	(4,578)	—	—	(4,578)
Share-based compensation expense	18	—	2,863	—	—	2,863
Dividends declared	17	—	—	(19,747)	—	(19,747)
December 31, 2018		**$ 180,369**	**$ 7,360**	**$ 110,842**	**$ (1,601)**	**$ 296,970**

For the year ended December 31, 2017 (in thousands of Canadian dollars)	Note	Share capital	Contributed surplus	Retained earnings As adjusted (Note 5)	Accumulated other comprehensive income (loss) Cash flow hedges	Total As adjusted (Note 5)
December 31, 2016 (as previously reported)		$ 178,764	$ 7,137	$ 90,812	$ 102	$ 276,815
Impact of prior period adjustment (Note 5 b)	5	—	—	(7,596)	—	(7,596)
Impact of adopting IFRS 15 (Note 5 a)	4	—	—	2,096	—	2,096
January 1, 2017 (as adjusted)	4, 5	178,764	7,137	85,312	102	271,315
Net earnings (as adjusted)		—	—	27,381	—	27,381
Other comprehensive loss		—	—	132	(396)	(264)
Total comprehensive income (loss) for the year		—	—	27,513	(396)	27,117
Shares purchased and held in trust	17	(2,901)	—	(4,598)	—	(7,499)
Share-based compensation expense	18	—	3,318	—	—	3,318
Dividends declared	17	—	—	(19,584)	—	(19,584)
December 31, 2017 (as adjusted)		**$ 175,863**	**$ 10,455**	**$ 88,643**	**$ (294)**	**$ 274,667**

Consolidated Statements of Cash Flows

For the years ended December 31 (in thousands of Canadian dollars)	Note	2018	2017 As adjusted (Note 5)
Operating Activities			
Net earnings		**$ 35,852**	$ 27,381
Items not affecting cash flow:			
Depreciation and amortization:			
Rental equipment	10	**17,018**	14,043
Property, plant and equipment	10	**8,757**	8,403
Intangible assets	11	**1,190**	770
Gain on disposal of property, plant and equipment		**(1,197)**	(1,493)
Share-based compensation expense	18	**1,786**	3,773
Non-cash rental (recovery) expense		**(110)**	187
Employee benefits expense, net of payments		**242**	443
Change in fair value of non-hedge derivative instruments	16	**4,299**	306
Finance costs	22	**8,775**	15,249
Income tax expense	23	**13,975**	10,551
		90,587	79,613
Changes in non-cash operating working capital	24	**(33,530)**	(30,067)
Rental equipment additions	10	**(43,638)**	(19,310)
Other non-current liabilities		**(1,444)**	(1,252)
Finance costs paid		**(8,422)**	(14,784)
Income taxes paid		**(6,481)**	(7,393)
Cash (used in) generated from operating activities		**(2,928)**	6,807
Investing Activities			
Property, plant and equipment additions	10	**(5,527)**	(3,055)
Proceeds on disposal of property, plant and equipment		**2,522**	2,816
Intangible assets additions	11	**(4,837)**	(1,270)
Acquisition of business (net of cash acquired)	6	**(51,061)**	—
Cash used in investing activities		**(58,903)**	(1,509)
Financing Activities			
Net increase in bank debt	15	**75,000**	20,000
Net sale (purchase) of shares held in trust	17	**9,475**	(7,499)
Deferred financing costs	15	**(918)**	(567)
Finance lease payments	13	**(4,214)**	(3,955)
Settlement of non-hedge derivative instruments		**(86)**	(191)
Dividends paid		**(19,634)**	(19,664)
Cash generated from (used in) financing activities		**59,623**	(11,876)
Change in cash and bank indebtedness		**(2,208)**	(6,578)
(Bank indebtedness) cash – beginning of period		**(1,724)**	4,854
Bank indebtedness – end of period		**$ (3,932)**	$ (1,724)

Notes to Consolidated Financial Statements

December 31, 2018 (amounts in thousands of Canadian dollars, except share and per share data)

1. Company Profile

Wajax Corporation (the "Corporation") is incorporated in Canada. The address of the Corporation's registered office is 2250 Argentia Road, Mississauga, Ontario, Canada. The Corporation operates an integrated distribution system, providing sales, parts and services to a broad range of customers in diversified sectors of the Canadian economy, including: construction, forestry, mining, industrial and commercial, oil sands, transportation, metal processing, government and utilities and oil and gas.

2. Basis of Preparation

Statement of compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as published by the International Accounting Standards Board ("IASB").

These consolidated financial statements were authorized for issue by the Board of Directors on March 21, 2019.

Basis of measurement

These consolidated financial statements have been prepared under the historical cost basis except for derivative financial instruments and share-based payment arrangements that have been measured at fair value. The defined benefit liability is recognized as the net total of the fair value of the plan assets and the present value of the defined benefit obligation.

Functional and presentation currency

These consolidated financial statements are presented in Canadian dollars, which is the Corporation's functional currency. All financial information presented in Canadian dollars has been rounded to the nearest thousand, unless otherwise stated and except share and per share data.

Judgements and estimation uncertainty

The preparation of these consolidated financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts and disclosures made in these consolidated financial statements. Actual results could differ from those judgements, estimates and assumptions. The Corporation bases its estimates on historical experience and various other assumptions that are believed to be reasonable in the circumstances.

The key assumptions concerning the future and other key sources of estimation uncertainty that have a significant risk of resulting in a material adjustment to the carrying amount of assets and liabilities within the next fiscal year are as follows:

Allowance for doubtful accounts

The Corporation is exposed to credit risk with respect to its trade and other receivables. However, this is partially mitigated by the Corporation's large customer base which covers many business sectors across Canada. The Corporation follows a program of credit evaluations of customers and limits the amount of credit extended when deemed necessary. The Corporation maintains an allowance for possible credit losses, and any such losses to date have been within management's expectations. The allowance for doubtful accounts is determined by estimating the lifetime expected credit losses, taking into account the Corporation's past experience of collecting payments as well as observable changes in and forecasts of future economic conditions that correlate with default on receivables. At the point when the Corporation is satisfied that no recovery of the amount owing is possible, the amount is considered not recoverable and the financial asset is written off.

Inventory obsolescence

The value of the Corporation's new and used equipment and high value parts is evaluated by management throughout the year, on a unit-by-unit basis. When required, provisions are recorded to ensure that equipment and parts are valued at the lower of cost and estimated net realizable value. The Corporation performs an aging analysis to identify slow moving or obsolete lower value parts inventory and estimates appropriate obsolescence provisions related thereto. The Corporation takes advantage of supplier programs that allow for the return of eligible parts for credit within specified time periods.

Goodwill and intangible assets

The value in use of goodwill and intangible assets has been estimated using the forecasts prepared by management for the next five years. The key assumptions for the estimate are those regarding revenue growth, EBITDA margin, discount rate and the level of working capital required to support the business. These estimates are based on past experience and management's expectations of future changes in the market and forecasted growth initiatives.

3. Significant Accounting Policies

Principles of consolidation

These consolidated financial statements include the accounts of Wajax Corporation and its subsidiary entities, which are all wholly-owned. Intercompany balances and transactions are eliminated on consolidation.

Revenue recognition

Revenue from contracts with customers is recognized for each performance obligation as control is transferred to the customer. The following is a description of principal activities from which the Corporation generates its revenue, and the associated timing of revenue recognition.

Revenue type	Nature and timing of satisfaction of performance obligations
Equipment sales	
Retail sales	Retail sales include the sale of new and used equipment. The Corporation recognizes revenue when control of the equipment passes to the customer based on shipment terms.
Construction contracts	Construction contracts are equipment sales that involve the design, installation, and assembly of power generation systems. As a result of control transferring over time, revenue is recognized based on the extent of progress towards completion of the performance obligation. The Corporation generally uses the cost-to-cost measure of progress for its contracts because it best reflects the transfer of control of the work-in-progress to the customer as the asset is being constructed.
Industrial parts	The Corporation recognizes revenue when control of the parts passes to the customer based on shipment terms.
Product support	
Service	As a result of control transferring over time, revenue is recognized based on the extent of progress towards completion of the performance obligation. The Corporation generally uses the cost-to-cost measure of progress for its service work because the customer controls the asset as it is being serviced.
Parts	The Corporation recognizes revenue when control of the parts passes to the customer based on shipment terms or upon customer pickup.
ERS/Other	This revenue consists primarily of engineered repair services ("ERS"). As a result of control transferring over time, revenue is recognized based on the extent of progress towards completion of the performance obligation. The Corporation generally uses the cost-to-cost measure of progress for ERS because it best reflects the transfer of control of the work-in-progress to the customer as the asset is being constructed or modified.

The transaction price is generally the amount stated in the contract. Certain contracts are subject to discounts which are estimated and included in the transaction price. Provisions are made for expected returns and warranty costs based on historical data.

Revenue from the rental of equipment is recognized on a straight-line basis over the term of the lease.

Trade and other receivables

Trade accounts receivable are amounts due from customers for merchandise sold or services performed in the ordinary course of business. Other accounts receivable are generally from suppliers for warranty and rebates. If collection is expected in one year or less (or in the normal operating cycle of the business, if longer), they are classified as current assets. If not, they are presented as non-current assets. Trade accounts receivable are recognized initially at amounts due, net of impairment for estimated expected credit loss. The expense relating to expected credit loss is included within selling and administrative expenses in the consolidated statements of earnings.

Contract assets

Contract assets primarily relate to the Corporation's rights to consideration for work completed but not billed at the reporting date on product support and ERS revenue. The contract assets are transferred to receivables when billed.

Inventory

Inventory is valued at the lower of cost and net realizable value. Cost is determined using the weighted average method except where the items are not ordinarily interchangeable, in which case the specific identification method is used. Cost of equipment and parts includes purchase cost, conversion cost, if applicable, and the cost incurred in bringing inventory to its present location and condition. Cost of work-in- process and cost of conversion includes cost of direct labour, direct materials and a portion of direct and indirect overheads, allocated based on normal capacity. Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs to sell.

Deposits on inventory

In the normal course of business, the Corporation receives inventory on consignment from a major manufacturer which is either rented, sold to customers, or purchased. Under the terms of the consignment program, the Corporation is required to make periodic deposits to the manufacturer on the consigned inventory that is rented to customers or on-hand for greater than nine months. This consigned inventory is not included in the Corporation's inventory as the manufacturer retains title to the goods, however the deposits paid to the manufacturer are recorded as deposits on inventory. Other inventory prepayments are also included in deposits on inventory.

Rental equipment

Rental equipment assets are recorded at cost less accumulated depreciation. Cost includes all expenditures directly attributable to the acquisition of the asset. Assets are depreciated over their estimated useful lives using the declining balance method at a rate of 20% – 30% per year for material handling equipment and a straight-line method for power generation equipment.

Property, plant and equipment

Property, plant and equipment are recorded at cost less accumulated depreciation. Cost includes all expenditures directly attributable to the acquisition of the asset. Assets are depreciated over their estimated useful lives based on the following methods and annual rates:

Asset	Method	Rate
Buildings	declining balance	5% – 10%
Equipment and vehicles	declining balance	20% – 30%
Computer hardware	straight-line	3 – 5 years
Furniture and fixtures	declining balance	10% – 20%
Leasehold improvements	straight-line	over the remaining terms of the leases

Assets under finance leases are depreciated over the shorter of the lease term and their useful life.

Leases

As lessor:

The Corporation's equipment rentals and leases are classified as operating leases with amounts received included in revenue on a straight-line basis over the term of the lease.

As lessee:

Leases are classified as finance leases when the terms of the lease transfer substantially all the risks and rewards of ownership to the Corporation. A leased asset is recorded at the lower of its fair value and the present value of the minimum lease payments at the inception of the lease. A lease obligation is recorded and is classified as current and non-current liabilities. The interest component of the lease is charged to earnings over the period of the lease using the effective interest rate method.

All other leases are classified as operating leases. The cost of operating leases is charged to earnings on a straight-line basis over the periods of the leases.

Goodwill and intangible assets

Goodwill arising in a business combination is recognized as an asset at the date that control is acquired. Goodwill and indefinite life intangible assets are subsequently measured at cost less accumulated impairment losses. Goodwill and indefinite life intangible assets are not amortized but are tested for impairment at least annually, or more frequently if certain indicators arise that indicate the assets might be impaired. Goodwill and indefinite life intangible assets are allocated to cash-generating units ("CGUs") that are expected to benefit from the synergies of the acquisition.

Product distribution rights represent the fair value attributed to these rights at the time of acquisition and are classified as indefinite life intangible assets because the Corporation is generally able to renew these rights with minimal cost of renewal.

Customer lists and non-competition agreements are amortized on a straight-line basis over their useful lives which range from 2 to 7 years. Computer application software is classified as an intangible asset and is amortized on a straight-line basis over the useful life ranging from 1 to 7 years.

Impairment

Property, plant and equipment, rental equipment and definite life intangible assets are reviewed at the end of each period to determine if any indicators of impairment exist. If an indicator of impairment is identified, an impairment test is performed comparing its recoverable amounts to its carrying value. An impairment loss would be recognized as the amount by which the asset's carrying amount exceeds its recoverable amount. Where the asset does not generate cash flows that are independent of other assets, impairment is considered for the CGU or group of CGUs to which the asset belongs.

Goodwill and indefinite life intangible assets are tested for impairment at least annually or whenever events or changes in circumstances indicate that their carrying amount may not be recoverable. To test for impairment, the Corporation compares the carrying values of its goodwill and indefinite life intangibles to their recoverable amounts. Recoverable amount is the higher of value in use or fair value less costs of disposal, if the fair value can be readily determined. The value in use is the present value of future cash flows using a pre-tax discount rate that reflects the time value of money and the risk specific to the assets. The fair value less costs of disposal is determined either by an adjusted net asset-based approach or by the present value of future cash flows from a market participant perspective. Any impairment of goodwill or indefinite life intangible assets would be recorded as a charge against earnings.

A CGU is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets. For the purpose of impairment testing the CGUs are grouped at the level at which it is monitored, which is at the consolidated Corporation level. As a result, goodwill and intangible assets impairment has been tested for impairment using the cash flows generated by the consolidated operations of the Corporation.

Cash and bank indebtedness

Cash and bank indebtedness includes cash on hand, demand deposits, bank overdrafts and outstanding cheques. The Corporation considers bank indebtedness to be an integral part of the Corporation's cash management. Cash and bank indebtedness are offset and the net amount presented in the consolidated statements of financial position to the extent that there is a right to set off and a practice of net settlement.

Financing costs

Transaction costs directly attributable to the acquisition or amendment of bank debt are deferred and amortized to finance costs over the term of the long-term debt using the effective interest rate method. Deferred financing costs reduce the carrying amount of the related long-term debt.

Derivative financial instruments and hedge accounting

The Corporation uses derivative financial instruments in the management of: a) its foreign currency exposures related to certain inventory purchases and customer sales commitments, b) its interest rate risk related to its variable rate debt, and c) its equity price risk related to certain share-based compensation plans. The Corporation's policy is to not utilize derivative financial instruments for trading or speculative purposes. Where the Corporation intends to apply hedge accounting it formally documents the relationship between the derivative and the risk being hedged, as well as the risk management objective and strategy for undertaking the hedge transaction. The documentation links the derivative to a specific asset or liability or to specific firm commitments or forecasted transactions. The Corporation also assesses, at the hedge's inception and at least quarterly whether the hedge is effective in offsetting changes in fair values or cash flows of the risk being hedged. Should a hedge become ineffective, hedge accounting will be discontinued prospectively. All derivative instruments are recorded in the consolidated statements of financial position at fair value. All changes in fair value are recorded in earnings unless hedge accounting is applied, in which case the effective portion of changes in fair value of the hedged instrument are recorded in other comprehensive income. If the cash flow hedge of a firm commitment or forecast transaction results in the recognition of a non-financial asset or liability, then, at the time the asset or liability is recognized, the associated gains or losses on the derivative that had previously been recognized in other comprehensive income are included in the initial measurement of the asset or liability.

Share-based compensation plans

The fair value of share-based compensation plan rights is based on the trading price of a Wajax Corporation common share on the Toronto Stock Exchange ("TSX") or a Monte Carlo simulation. Compensation expense for share-settled plans is based upon the fair value of the rights at the date of grant and is charged to selling and administrative expenses on a straight-line basis over the vesting period, with an offsetting adjustment to contributed surplus. Compensation expense for cash-settled plans varies with the price of the Corporation's shares and is charged to selling and administrative expenses, recognized over the vesting period with an offset to accounts payable and accrued liabilities.

Employee benefits

The Corporation has defined contribution pension plans for most of its employees. The cost of the defined contribution plans is recognized in earnings based on the contributions required to be made each year.

The Corporation also has defined benefit plans covering certain 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 Corporation has adopted the following policies:

- The cost of pension benefits earned by employees is actuarially determined using the projected unit credit method for defined benefit plans and management's best estimate of salary escalation, and retirement ages of employees.
- For purposes of calculating expected return on plan assets, those assets are valued at fair value.
- The charge to earnings for the defined benefit plans is split between an operating cost and a finance charge. The finance charge represents the net interest cost on the defined benefit obligation net of the expected return on plan assets and is included in selling and administrative expenses.
- Actuarial gains and losses are recognized in full in other comprehensive income in the year in which they occur.

Income taxes

Income tax expense comprises current and deferred taxes. Current and deferred taxes are recognized in earnings except to the extent that they relate to a business combination or to items recognized directly in equity or in other comprehensive income.

Current tax is the expected taxes payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to income taxes payable in respect of previous years.

Deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

A deferred tax asset is recognized for unused tax losses and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

4. Change In Accounting Policies

Accounting standards adopted during the year

IFRS 15 *Revenue from Contracts with Customers* – On January 1, 2018, the Corporation adopted IFRS 15 *Revenue from Contracts with Customers* ("IFRS 15"). The standard contains a single model that applies to contracts with customers and two approaches to recognizing revenue: at a point in time or over time. The model features a contract-based five-step analysis of transactions to determine whether, how much and when revenue is recognized. New estimates and judgement thresholds have been introduced which may affect the timing of revenue recognized.

The Corporation records revenue from contracts with customers in accordance with the five steps in IFRS 15 as follows:

1. Identify the contract with a customer;
2. Identify the performance obligations in the contract;
3. Determine the transaction price, which is the total consideration provided by the customer;
4. Allocate the transaction price among the performance obligations in the contract based on their relative fair values; and
5. Recognize revenue when the relevant criteria are met for each unit (at a point in time or over time).

The following change has resulted in an adjustment from the adoption of IFRS 15:

- The revenue recognition pattern for product support service and ERS has changed to an over-time pattern to depict performance in transferring control of the repair service, rather than the point in time recognition that was previously used. The key judgement for recognizing revenue on incomplete service orders is estimating the transaction price and the margin that will eventually be realized.

The Corporation has elected to use the retrospective application method and has recorded the cumulative adjustment of the accounting change to retained earnings as at January 1, 2017 and has restated its comparative 2017 financial position and earnings.

The effect of adopting IFRS 15 on the consolidated statements of financial position and consolidated statement of earnings can be found in Note 5.

IFRS 9 *Financial Instruments* – On January 1, 2018, the Corporation adopted IFRS 9 *Financial Instruments* ("IFRS 9") retrospectively with no restatement of comparative periods. The standard includes revised guidance on the classification and measurement of financial assets, including impairment and a new general hedge accounting model. IFRS 9 largely retains the existing accounting requirements for financial liabilities with the exception of accounting for certain non-substantial modifications of financial liabilities and the accounting treatment of fair value changes attributable to changes in its own credit risk of financial liabilities that are designated as fair value through profit or loss.

Classification and measurement

IFRS 9 contains a new classification and measurement approach for financial assets that reflects the business model in which assets are managed and their cash flow characteristics. Financial assets are classified and measured based on the three categories: amortized cost, fair value through other comprehensive income ("FVOCI") and fair value through profit and loss ("FVTPL"). Financial liabilities are classified and measured in two categories: amortized cost or FVTPL. Under IFRS 9, derivatives embedded in contracts where the host is a financial asset in the scope of the standard are not separated, but the hybrid financial instrument as a whole is assessed for classification. The adoption of the new classification requirements under IFRS 9 did not result in significant changes to measurement or the carrying amounts of financial assets and liabilities.

The following table summarizes the classification impacts upon the adoption of IFRS 9:

Asset/Liability	Classification under IAS 39	Classification under IFRS 9
Cash	Loans and receivables	Amortized cost
Trade and other receivables	Loans and receivables	Amortized cost
Derivative instruments	FV if hedging instrument, or Held-for-trading	FV if hedging instrument, or mandatorily at FVTPL
Bank indebtedness	Other liabilities	Amortized cost
Accounts payable and accrued liabilities	Other liabilities	Amortized cost
Dividends payable	Other liabilities	Amortized cost
Other liabilities	Other liabilities	Amortized cost
Long-term debt	Other liabilities	Amortized cost

Impairment

IFRS 9 replaces the "incurred loss" model in IAS 39 with a forward-looking "expected credit loss" ("ECL") model. The ECL model requires judgement, including consideration of how changes in economic factors affect ECLs, which are determined on a probability-weighted basis. The new impairment model is applied, at each reporting date, to the Corporation's financial assets measured at amortized cost and contract assets.

The Corporation adopted the simplified approach to determine ECL on trade and other receivables, using a provision matrix based on historical credit loss experiences adjusted to reflect information about current economic conditions and forecasts of future economic conditions to estimate lifetime ECL. The ECL models applied to other financial assets and contract assets also required judgement, assumptions and estimations on changes in credit risks, forecasts of future economic conditions and historical information on the credit quality of the financial asset. The provision matrix and other ECL models applied on adoption of IFRS 9 did not have a material impact on the financial assets of the Corporation.

Impairment losses are recorded in selling and administrative expenses with the carrying amount of the financial asset or contract asset reduced through the use of impairment allowance accounts.

General hedging

The Corporation has elected to adopt the new general hedge accounting model in IFRS 9. IFRS 9 requires the Corporation to ensure that hedge accounting relationships are aligned with the Corporation's risk management objectives and strategy and to apply a more qualitative and forward-looking approach to assessing hedge effectiveness. All hedging relationships designated under IAS 39 at December 31, 2017 met the criteria for hedge accounting under IFRS 9 at January 1, 2018 and are therefore treated as continuing hedging relationships. Under IFRS 9, for cash flow hedges of foreign currency risk associated with forecast inventory purchases, the amounts accumulated in the cash flow hedges reserve are included directly in the initial cost of the inventory item when it is recognized. Otherwise the adoption of the standard did not have an impact on the Corporation's hedging arrangements.

New standards and interpretations not yet adopted

On January 1, 2019, the Corporation will be required to adopt IFRS 16 *Leases*. The new standard contains a single lease accounting model for lessees, whereby all leases with a term longer than 12 months are recognized on-balance sheet through a right-of-use asset and lease liability. The model features a front- loaded total lease expense recognized through a combination of depreciation and interest. Lessor accounting remains similar to current requirements. The Corporation has elected to apply the modified retrospective approach of accounting on transition resulting in no restatement of prior period comparatives. The Corporation's long term leases primarily relate to rental of real estate. The new standard will result in a material increase in right-of-use assets and lease obligations which will differ to the operating lease commitments disclosed in Note 25, primarily as a result of the discount rates applied and lease term determination.

IFRIC 23 *Uncertainty over Income Tax Treatments* (effective January 1, 2019) provides guidance when there is uncertainty over income tax treatments including, but not limited to, whether uncertain tax treatments should be considered separately; assumptions made about the examination of tax treatments by tax authorities; the determination of taxable profit, tax bases, unused tax losses, unused tax credits, and tax rates; and, the impact of changes in facts and circumstances. Management has assessed the interpretation and expects there to be no impact.

5. Adjustments to Prior Period Financial Statements

The Corporation has adjusted the prior period financial statements for the following:

a) Adoption of IFRS 15

As discussed in Note 4, the Corporation adopted IFRS 15 effective January 1, 2018 with retrospective application.

b) Correction of non-material errors in prior periods ("Other adjustments")

During 2016, as part of its transition to the "One Wajax" operating model, the Corporation consolidated its three former operating divisions - Wajax Equipment, Wajax Power Systems and Wajax Industrial Components – into one business. As a result, in 2017, the Corporation began to report on its operations as one operating segment, versus the prior three operating segments. In 2018, the Corporation communicated plans to redesign its finance function ("Finance Reorganization Plan"), with the following objectives: (1) to better align the operation of the finance group with the operation of the business, (2) to standardize financial policies, procedures and controls of the three former operating divisions, and (3) apply the standardized financial policies, procedures and controls across the organization to support the implementation of the Corporation's new ERP system which is expected to begin in 2019. The finance function redesign is being completed with the support of external advisors to ensure adherence to industry best practices.

Management has applied the now standardized financial policies, procedures and controls to the three former operating divisions and noted non-cash accounting errors in the current and prior periods, primarily relating to accounts payable. Although not material to any one year, management has corrected the errors in the financial statements for the current period ending December 31, 2018 and adjusted prior period comparative information. The after-tax error for fiscal 2018 and 2017 totals $1,755 and $3,073, respectively. The cumulative after-tax error for fiscal 2016 and prior periods totals $7,596.

The Corporation's prior year consolidated statements of financial position have been impacted as follows by the adoption of IFRS 15 as discussed in Note 4, and by the Other adjustments:

	As previously reported December 31 2016	IFRS 15 adjustment (Note 4)	Other adjustments (Note 5)	**As adjusted January 1 2017**
Trade and other receivables	$ 194,613	$ (2,869)	$ —	**$ 191,744**
Contract assets	7,095	15,224	—	**22,319**
Inventory	283,421	(9,488)	633	**274,566**
Rental equipment	58,106	—	(198)	**57,908**
Deferred tax assets	4,573	(771)	148	**3,950**
Accounts payable and accrued liabilities	238,554	(4,486)	9,330	**243,398**
Contract liabilities	—	4,486	—	**4,486**
Income taxes payable	2,287	—	(1,151)	**1,136**
Retained earnings	90,812	2,096	(7,596)	**85,312**

	As previously reported December 31 2017	IFRS 15 adjustment (Note 4)	Other adjustments (Note 5)	**As adjusted December 31 2017**
Trade and other receivables	$ 207,353	$ (3,404)	$ —	**$ 203,949**
Contract assets	4,128	15,201	—	**19,329**
Inventory	322,778	(9,538)	(266)	**312,974**
Income taxes receivable	—	—	484	**484**
Rental equipment	61,257	—	(839)	**60,418**
Property, plant and equipment	43,934	—	(336)	**43,598**
Goodwill and intangible assets	41,905	—	(200)	**41,705**
Accounts payable and accrued liabilities	235,501	(11,129)	11,807	**236,179**
Contract liabilities	—	11,129	—	**11,129**
Income taxes payable	667	—	(667)	**—**
Deferred tax liabilities	1,401	608	(1,278)	**731**
Other liabilities	2,585	—	(350)	**2,235**
Retained earnings	97,661	1,651	(10,669)	**88,643**

The Corporation's consolidated statement of earnings for the year ended December 31, 2017 has been impacted as follows by the adoption of IFRS 15 as discussed in Note 4, and by the Other adjustments:

	As previously reported	IFRS 15 adjustment (Note 4)	Other adjustments (Note 5)	**As adjusted**
Revenue	$1,319,290	$ (559)	$ —	**$1,318,731**
Cost of sales	1,064,468	49	4,196	**1,068,713**
Selling and administrative expenses	197,145	—	(329)	**196,816**
Restructuring and other related costs (recoveries)	(315)	—	336	**21**
Income tax expense	11,844	(163)	(1,130)	**10,551**
Net earnings	30,899	(445)	(3,073)	**27,381**
Basic earnings per share	1.58	(0.02)	(0.16)	**1.40**
Diluted earnings per share	1.53	(0.02)	(0.15)	**1.36**

The Corporation's consolidated statement of cash flows for the year ended December 31, 2017 has been impacted as follows by the adoption of IFRS 15 as discussed in Note 4, and by the Other adjustments:

	As previously reported	IFRS 15 adjustment (Note 4)	Other adjustments (Note 5)	**As adjusted**
Operating activities:				
Net earnings	$ 30,899	$ (445)	$ (3,073)	**$ 27,381**
Rental equipment depreciation	13,402	—	641	**14,043**
Intangible assets amortization	570	—	200	**770**
Income tax expense	11,844	(163)	(1,130)	**10,551**
Changes in non-cash operating working capital	(34,051)	608	3,376	**(30,067)**
Other non-current liabilities	(902)	—	(350)	**(1,252)**
Cash generated from operating activities	7,143	—	(336)	**6,807**
Investing activities:				
Property, plant and equipment additions	(3,391)	—	336	**(3,055)**

6. Acquisition of Business

Groupe Delom Inc. ("Delom")

On October 16, 2018, the Corporation acquired 100% of the issued and outstanding shares of Montreal, Quebec-based Delom. The aggregate purchase price for the shares was $52,141 cash (subject to final working capital adjustments), including $2,000 which is subject to the achievement of certain performance targets post-closing. Founded in 1963, Delom specializes in the maintenance and repair of critical electromechanical and rotating equipment for continuous process industries. Serving customers in diverse end markets, including hydroelectric, wind and nuclear power generation, mining, pulp and paper, petrochemical, aluminum smelting, and rail and marine transportation, Delom has six branches across Eastern Canada and employs more than 350 people. Revenues of $18,046 and net income of $1,335 were included in the consolidated statements of earnings and statements of comprehensive income from the date of acquisition.

Final valuations of certain items are not yet complete due to the inherent complexity associated with valuations and the timing of the acquisition. Therefore, the purchase price allocation is preliminary and subject to adjustment on completion of the valuation process. The Corporation determined the preliminary fair values based on discounted cash flows, market information, independent valuations and management's estimates.

Recognized amounts of identifiable assets acquired and liabilities assumed for the acquisition are as follows:

Cash	$ 1,080
Trade and other receivables	14,532
Contract assets	8,010
Inventory	6,481
Prepaid expenses	899
Property, plant and equipment	11,521
Deferred tax liabilities	(5,140)
Accounts payable and accrued liabilities	(10,880)
Contract liabilities	(1,792)
Income taxes payable	(629)
Derivative financial liabilities	(70)
Other liabilities	(204)
Tangible net assets acquired	$ 23,808
Intangible assets	17,065
Goodwill	11,268
Total Purchase Price	$ 52,141

Net cash outflow for the acquisition was $51,061, as $1,080 of cash was acquired as part of Delom's net assets.

Trade and other receivables represents gross contractual amounts receivable of $14,582 less management's best estimate of the allowance for doubtful accounts of $50.

Goodwill arises principally from the ability to leverage customer relationships, the established trade names, assembled workforce and industry knowledge, future growth and the potential to realize synergies in the form of cost savings. The goodwill recorded on the acquisition of Delom is not deductible for income tax purposes.

Delom transaction costs, primarily for advisory services, were approximately $456 and were included in selling and administrative expenses for the year ended December 31, 2018.

Pro-forma disclosures

The following pro-forma supplemental information presents certain results of operations as if the acquisition had been completed on January 1, 2018.

	As reported	Pro-forma (unaudited)
Revenue	$1,481,597	$1,533,784
Net earnings	$ 35,852	$ 39,116

The pro-forma supplemental information is based on estimates and assumptions which are believed to be reasonable. The pro-forma supplemental information is not necessarily indicative of the Corporation's consolidated financial results in future periods or the results that would have been realized had the business acquisition been completed at the beginning of the period presented. The pro-forma supplemental information excludes business integration costs and opportunities.

7. Trade and Other Receivables

The Corporation’s trade and other receivables consist of trade accounts receivable from customers and other accounts receivable, generally from suppliers for warranty and rebates. Trade and other receivables as at December 31, 2018 and December 31, 2017 are comprised of the following:

	2018	2017 As adjusted (Note 5)
Trade accounts receivable	**$ 182,587**	$ 187,031
Less: allowance for credit losses	**(953)**	(832)
Net trade accounts receivable	**181,634**	186,199
Other receivables	**24,623**	17,750
Total trade and other receivables	**$ 206,257**	$ 203,949

The Corporation has an agreement with a financial institution to sell 100% of selected trade accounts receivable on a recurring, non-recourse basis. Under the agreement, up to $20,000 of accounts receivable may be sold to the financial institution and can remain outstanding at any point in time. After the sale, the Corporation does not retain any interests in the accounts receivable and removes them from its consolidated statement of financial position, but continues to service and collect the outstanding accounts receivable on behalf of the financial institution. Net proceeds from this program are classified in operating activities in the consolidated statements of cash flows. This program reduced the Corporation's trade and other receivables by $9,877 as at December 31, 2018 (2017 – $nil).

The Corporation’s exposure to credit and currency risks related to trade and other receivables is disclosed in Note 16.

8. Contract Assets and Liabilities

The following table provides information about contract assets and contract liabilities from contracts with customers:

	December 31 2018	As adjusted December 31 2017	As adjusted January 1 2017
Contract assets	**$ 30,307**	$ 19,329	$ 22,319
Contract liabilities	**8,291**	11,129	4,486

The contract assets primarily relate to the Corporation's rights to consideration for work completed but not billed at the reporting date on product support and ERS revenue. The contract assets are transferred to receivables when billed upon completion of significant milestones. The contract liabilities primarily relate to the advance consideration received from customers on equipment sales, industrial parts, and ERS revenue, for which revenue is recognized when control transfers to the customer.

Revenue recognized in 2018 that was included in the contract liability balance at the beginning of the year was $9,415 (2017 – $3,324). During the year, contract assets increased by $8,010 and contract liabilities increased by $1,792 due to the business acquisition further discussed in Note 6.

9. Inventory

The Corporation’s inventory balances as at December 31, 2018 and December 31, 2017 consisted of the following:

	2018	2017 As adjusted (Note 5)
Equipment	**$ 221,081**	$ 194,311
Parts	**127,026**	104,170
Work-in-process	**17,890**	14,493
Total inventory	**$ 365,997**	$ 312,974

All amounts shown are net of obsolescence reserves of $26,014 (2017 – $22,644). For the year ended December 31, 2018, $5,474 (2017 – $3,452) was recorded in cost of sales for the write-down of inventory to estimated net realizable value.

The Corporation recognized $988,513 (2017 – $870,671) of inventory as an expense which is included in cost of sales.

As at December 31, 2018 the Corporation has included $47,266, (December 31, 2017 – $37,159) in Equipment inventory related to short term rental contracts that are expected to convert to Equipment sales within a six to twelve month period.

Substantially all of the Corporation's inventory is pledged as security for the bank credit facility (Note 15).

Deposits on inventory in the statements of financial position, amounting to $13,445 as at December 31, 2018 (2017 – $6,874), represents deposits and other required periodic payments on equipment held on consignment. These payments reduce the collateral value of the equipment and therefore the ultimate amount owing to the supplier upon eventual purchase. Upon sale of the equipment to a customer, the Corporation is required to purchase the equipment in full from the supplier.

10. Property, Plant and Equipment and Rental Equipment

	Land and buildings	Equipment and vehicles	Computer hardware	Furniture and fixtures	Leasehold improvements	**Property, plant and equipment**	**Rental equipment**
Cost							
December 31, 2017 (as adjusted)	$ 38,125	$ 74,546	$ 4,249	$ 11,700	$ 9,763	**$ 138,383**	**$ 118,682**
Additions	720	10,499	1,581	633	563	**13,996**	**43,638**
Net transfers to inventory	—	—	—	—	—	**—**	**(34,152)**
Disposals	(1,353)	(8,141)	(222)	(1,439)	(756)	**(11,911)**	**—**
Acquisition of business (Note 6)	—	8,947	104	241	2,229	**11,521**	**—**
December 31, 2018	**$ 37,492**	**$ 85,851**	**$ 5,712**	**$ 11,135**	**$ 11,799**	**$ 151,989**	**$ 128,168**
Accumulated depreciation							
December 31, 2017 (as adjusted)	$ 18,004	$ 56,209	$ 3,303	$ 9,121	$ 8,148	**$ 94,785**	**$ 58,264**
Charge for the year	696	6,223	505	611	722	**8,757**	**17,018**
Net transfers to inventory	—	—	—	—	—	**—**	**(20,830)**
Disposals	(608)	(7,775)	(13)	(1,420)	(754)	**(10,570)**	**—**
December 31, 2018	**$ 18,092**	**$ 54,657**	**$ 3,795**	**$ 8,312**	**$ 8,116**	**$ 92,972**	**$ 54,452**
Carrying amount							
December 31, 2018	**$ 19,400**	**$ 31,194**	**$ 1,917**	**$ 2,823**	**$ 3,683**	**$ 59,017**	**$ 73,716**
Cost							
December 31, 2016	$ 39,620	$ 74,361	$ 6,366	$ 12,003	$ 9,588	$ 141,938	$ 106,543
Additions	112	6,380	422	282	514	7,710	19,310
Net transfers to inventory	—	—	—	—	—	—	(7,171)
Disposals	(1,607)	(6,195)	(2,539)	(585)	(339)	(11,265)	—
December 31, 2017 (as adjusted)	$ 38,125	$ 74,546	$ 4,249	$ 11,700	$ 9,763	$ 138,383	$ 118,682
Accumulated depreciation							
December 31, 2016 (as adjusted)	$ 17,996	$ 56,120	$ 5,246	$ 9,025	$ 7,893	$ 96,280	$ 48,635
Charge for the year	798	5,801	541	640	623	8,403	14,043
Net transfers to inventory	—	—	—	—	—	—	(4,414)
Disposals	(790)	(5,712)	(2,484)	(544)	(368)	(9,898)	—
December 31, 2017 (as adjusted)	$ 18,004	$ 56,209	$ 3,303	$ 9,121	$ 8,148	$ 94,785	$ 58,264
Carrying amount							
December 31, 2017 (as adjusted)	$ 20,121	$ 18,337	$ 946	$ 2,579	$ 1,615	$ 43,598	$ 60,418

Included in property, plant and equipment are vehicles held under finance leases as follows:

	2018	2017
Cost, beginning of year	**$ 21,067**	$ 20,234
Additions	**8,469**	4,655
Disposals	**(240)**	(230)
Purchased at end of lease	**(4,491)**	(3,592)
Cost, end of year	**$ 24,805**	$ 21,067
Accumulated depreciation, beginning of year	**$ 12,400**	$ 12,935
Charge for the year	**3,305**	2,628
Disposals	**(223)**	(186)
Purchased at end of lease	**(3,865)**	(2,977)
Accumulated depreciation, end of year	**$ 11,617**	$ 12,400
Carrying amount	**$ 13,188**	$ 8,667

All property, plant and equipment except land and buildings and vehicles held under finance leases have been pledged as security for bank debt (Note 15).

11. Goodwill and Intangible Assets

The Corporation performed its annual impairment test of its goodwill and indefinite life intangibles as at December 31, 2018. The recoverable amount of the CGU group was estimated based on the present value of the future cash flows expected to be derived from the CGU group (value in use). This approach requires assumptions about revenue growth rates, operating margins, tax rates and discount rates. The maintainable discretionary after-tax cash flows from operations are based on historical results, the Corporation's projected 2019 operating budget and its long term strategic plan. To prepare these calculations, the forecasts were extrapolated beyond the five year period at the estimated long-term inflation rate of 2% (2017 – 2%). The Corporation assumed a discount

rate of approximately 9.7% (2017 – 9.2%) which is based on the Corporation's after-tax weighted average cost of capital.

The tax rates applied to the cash flow projections were based on the effective tax rate of the Corporation of approximately 28.0%. Tax assumptions are sensitive to changes in tax laws as well as assumptions about the jurisdictions in which profits are earned. It is possible that actual tax rates could differ from those assumed.

The Corporation concluded as at December 31, 2018 that no impairment existed in either the goodwill or the intangible assets with an indefinite life, as the recoverable amount of the CGU group exceeded its carrying value.

The Company did not reverse any impairment losses for definite life intangible assets for the years ended December 31, 2018 and December 31, 2017.

		Goodwill	Product distribution rights	Customer lists/Non-competition agreements	Software		**Total**
Cost							
December 31, 2017	$	36,395	3,200	7,402	5,554	**$**	**52,551**
Additions		—	—	—	4,837		**4,837**
Disposals		—	—	—	(3)		**(3)**
Acquisition of business (Note 6)		11,268	176	16,729	160		**28,333**
December 31, 2018	**$**	**47,663**	**3,376**	**24,131**	**10,548**	**$**	**85,718**
Accumulated amortization							
December 31, 2017 (as adjusted)	$	—	—	6,601	4,245	**$**	**10,846**
Charge for the year		—	—	927	263		**1,190**
Disposals		—	—	—	(3)		**(3)**
December 31, 2018	**$**	**—**	**—**	**7,528**	**4,505**	**$**	**12,033**
Carrying amount							
December 31, 2018	**$**	**47,663**	**3,376**	**16,603**	**6,043**	**$**	**73,685**
Cost							
December 31, 2016	$	36,395	3,200	7,402	5,187	$	52,184
Additions		—	—	—	1,270		1,270
Disposals		—	—	—	(903)		(903)
December 31, 2017	$	36,395	3,200	7,402	5,554	$	52,551
Accumulated amortization							
December 31, 2016	$	—	—	6,001	4,978	$	10,979
Charge for the year		—	—	600	170		770
Disposals		—	—	—	(903)		(903)
December 31, 2017 (as adjusted)	$	—	—	6,601	4,245	$	10,846
Carrying amount							
December 31, 2017 (as adjusted)	$	36,395	3,200	801	1,309	$	41,705

Amortization of intangible assets is charged to selling and administrative expenses.

12. Accounts Payable and Accrued Liabilities

Trade payables and other amounts at December 31, 2018 and December 31, 2017 are comprised of the following:

	Note	**2018**	2017 As adjusted (Note 5)
Trade payables		**$ 142,818**	$ 126,556
Deferred income – other		**1,053**	893
Supplier payables with extended terms		**34,672**	36,119
Payroll, bonuses and incentives		**32,223**	29,751
Restructuring accrual	21	**817**	468
Accrued liabilities		**39,193**	36,349
Provisions		**2,182**	6,043
Accounts payable and accrued liabilities		**$ 252,958**	$ 236,179

Supplier payables with extended terms relate to equipment purchases from suppliers with payment terms ranging anywhere from approximately 60 days to 8 months.

13. Finance Leases

The Corporation finances certain vehicles under finance lease arrangements. The leases have a minimum one year term and are extended on a monthly basis thereafter until terminated. On termination, the Corporation has an option to purchase the vehicles at their residual value, or the difference between the lessor's proceeds of disposal and the residual value is charged or refunded to the Corporation as a rental adjustment. Obligations under finance leases are as follows:

	2018			2017		
	Payment	Finance costs	Present value of minimum lease payments	Payment	Finance costs	Present value of minimum lease payments
Current	**$ 5,270**	**648**	**4,622**	$ 4,236	446	3,790
Non-current (between one and five years)	**10,132**	**1,005**	**9,127**	6,294	573	5,721
Total minimum lease payments	**$ 15,402**	**1,653**	**13,749**	$ 10,530	1,019	9,511

The change in obligations under finance leases is as follows:

	2018	2017
Balance at beginning of year	**$ 9,511**	$ 8,855
Changes from financing cash flows		
Finance lease payments	**(4,214)**	(3,955)
Other changes		
New finance leases, net of disposals	**8,452**	4,611
Balance at end of year	**$ 13,749**	$ 9,511

14. Employee Benefits

The Corporation sponsors three pension plans: the Wajax Limited Pension Plan (the “Employees’ Plan”) which, except for a small group of employees, is a defined contribution plan (“DC”) and two defined benefit plans (“DB”): the Pension Plan for Executive Employees of Wajax Limited (the “Executive Plan”) and the Wajax Limited Supplemental Executive Retirement Plan (the “SERP”).

The Corporation also contributes to several union sponsored multi-employer pension plans for a small number of employees. Two of these are target benefit plans but they are accounted for as DC plans since the Corporation has no involvement in the management of these plans and does not have sufficient information to account for the plans as DB plans.

The Corporation uses actuarial reports prepared by independent actuaries for funding and accounting purposes and measures its defined benefit obligations and the fair value of plan assets for accounting purposes as at December 31 of each year. These actuarial assumptions include discount rates, compensation increases, mortality rates, inflation and service life. While management believes that the actuarial assumptions are appropriate, any significant changes to those used would affect the statements of financial position and statements of earnings.

The schedule for actuarial valuations of the pension plans for funding purposes is as follows:

Plan	Previous valuation	Next valuation
Employees Plan	January 1, 2018	January 1, 2021
Executive Plan	January 1, 2018	January 1, 2021

The following significant actuarial assumptions were used to determine the net defined benefit plan cost and the defined benefit plan obligations:

	December 31	
	2018	2017
Discount rate – at beginning of year (to determine plan expenses)	**3.3%**	3.5%
Discount rate – at end of year (to determine defined benefit obligation)	**3.5%**	3.3%
Rate of compensation increase	**3.0%**	3.0%
Rate of inflation	**2.0%**	2.0%

Assumptions regarding future mortality were based on the following mortality tables: 2014 Private Sector Canadian Pensioner's Mortality Table for the Employees’ Plan, and 2014 Public Sector Canadian Pensioner's Mortality Table for the Executive Plan and SERP.

Plan assets for the DC plans are invested according to the directions of the plan members. Plan assets for defined benefit plans are invested in the following major categories of plan assets as a percentage of total plan assets:

	December 31	
	2018	2017
Cash	**3.9%**	3.7%
Fixed Income	**37.4%**	36.5%
Canadian Equities	**28.2%**	28.2%
Foreign Equities	**30.5%**	31.6%
	100.0%	100.0%

The history of adjustments on the defined benefit plans for the current and prior year are as follows:

	2018	2017
Actuarial (gain) loss on defined benefit obligation arising from:		
Experience adjustment	**$ (307)**	$ (478)
Demographic assumption changes	**260**	—
Economic assumption changes	**(665)**	949
	(712)	471
Actuarial loss (gain) on asset return	**614**	(652)
Total remeasurement gain recognized in OCI	**$ (98)**	$ (181)

Total cash payments

Total cash payments for employee future benefits for 2018, consisting of cash contributed by the Corporation to its funded pension plans, cash payments directly to beneficiaries for its unfunded pension plans, and cash contributed to its DC plans was $8,694 (2017 – $7,758).

The Corporation expects to contribute $515 to the defined benefit pension plans in the year ended December 31, 2019.

The plan expenses recognized in earnings are as follows:

	2018	2017
Defined contribution plans		
Current service cost	**$ 7,853**	$ 6,974
Defined benefit plans		
Current service cost	**451**	434
Administration expenses	**354**	317
SERP line of credit fees	**227**	183
Interest cost on defined benefit obligation	**708**	770
Interest income on assets	**(430)**	(470)
	1,310	1,234
Total plan expense recognized in earnings	**$ 9,163**	$ 8,208

Of the amounts recognized in earnings, $3,350 (2017 – $2,493) is included in cost of sales and $5,813 (2017 – $5,715) is included in selling and administrative expenses.

The amounts recognized in other comprehensive income are as follows:

	2018	2017
Net actuarial gains	**$ (98)**	$ (181)
Deferred tax expense	**26**	49
Amount recognized in other comprehensive income	**$ (72)**	$ (132)
Cumulative actuarial losses, net of tax	**$ 3,171**	$ 3,243

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

Present value of benefit obligation	2018	2017
Present value of benefit obligation, beginning of year	**$ 22,344**	$ 22,025
Current service cost	**451**	434
Participant contributions	**24**	32
Interest cost on defined benefit obligation	**708**	770
Actuarial (gain) loss	**(712)**	471
Benefits paid	**(1,425)**	(1,388)
Present value of benefit obligation, end of year	**$ 21,390**	$ 22,344

Plan assets	2018	2017
Fair value of plan assets, beginning of year	**$ 13,423**	$ 13,295
Actual (loss) return	**(184)**	1,129
Participant contributions	**24**	32
Employer contributions	**841**	672
Benefits paid	**(1,425)**	(1,388)
Administration expenses	**(354)**	(317)
Fair value of plan assets, end of year	**$ 12,325**	$ 13,423

Funded Status	2018	2017
Fair value of plan assets, end of year	**$ 12,325**	$ 13,423
Present value of benefit obligation, end of year	**(21,390)**	(22,344)
Plan deficit	**$ (9,065)**	$ (8,921)

The accrued benefit liability is included in the Corporation's statement of financial position as follows:

	2018	2017
Accounts payable and accrued liabilities	**$ (620)**	$ (376)
Employee benefits	**(8,445)**	(8,545)
Plan deficit	**$ (9,065)**	$ (8,921)

Present value of benefit obligation includes a benefit obligation of $5,919 (2017 – $6,504) related to the SERP that is not funded. This obligation is secured by a letter of credit of $5,810 (2017 – $6,970).

15. Long-Term Debt

On October 16, 2018, the Corporation amended its bank credit facility, increasing the limit from $300,000 to $400,000 and extending the maturity date from September 20, 2021 to September 20, 2023. There were no changes to the existing financial covenants under the credit facility restricting distributions, acquisitions and investments. The $918 cost of amending the facility has been capitalized and will be amortized over the remaining term of the facility.

Borrowings under the bank credit facility bear floating rates of interest at margins over Canadian dollar bankers' acceptance yields, U.S. dollar LIBOR rates or prime. Margins on the facility depend on the Corporation's leverage ratio at the time of borrowing and range between 1.5% and 3.0% for Canadian dollar bankers' acceptances and U.S. dollar LIBOR borrowings, and 0.5% and 2.0% for prime rate borrowings.

Borrowing capacity under the bank credit facility is dependent upon the level of the Corporation's inventory on hand and the outstanding trade accounts receivable. In addition, the bank credit facility contains customary restrictive covenants including limitations on the declaration of cash dividends and an interest coverage maintenance ratio, all of which were met as at December 31, 2018.

As at December 31, 2018 and December 31, 2017 the following balances were outstanding:

	2018	2017
Bank credit facility		
Non-revolving term portion	**$ 50,000**	$ 50,000
Revolving term portion	**170,000**	95,000
	220,000	145,000
Deferred financing costs, net of accumulated amortization	**(1,884)**	(1,333)
Total long-term debt	**$ 218,116**	$ 143,667

The Corporation had $6,101 (2017 – $7,258) letters of credit outstanding at the end of the year.

Interest on long-term debt amounted to $8,281 (2017 – $9,366). Movements in the long-term debt balance throughout the year are shown as follows:

	2018	2017
Balance at beginning of year	**$ 143,667**	$ 121,952
Changes from financing cash flows		
Net proceeds of borrowings	**75,000**	20,000
Transaction costs related to borrowings	**(918)**	(567)
Other changes		
Amortization of capitalized transaction costs	**367**	657
Write-off of capitalized transaction costs	**—**	1,625
Balance at end of year	**$ 218,116**	$ 143,667

16. Financial Instruments and Financial Risk Management

At December 31, 2018, the Corporation's financial instruments consisted of cash and cash equivalents and bank indebtedness, trade and other receivables, interest rate swaps, foreign exchange forwards, total return swaps, trade and other payables, finance lease liabilities and long term debt.

The Corporation uses the following fair value hierarchy for determining and disclosing the fair value of financial instruments:

Level 1 – unadjusted quoted prices in active markets for identical assets or liabilities.

Level 2 – other techniques for which all inputs that have a significant effect on the recorded fair value are observable, either directly or indirectly.

Level 3 – techniques that use inputs that have a significant effect on the recorded fair value that are not based on observable market data.

The Corporation categorizes its financial assets and financial liabilities as follows:

	2018	2017 As adjusted (Note 5)
Financial assets measured at amortized cost:		
(Bank indebtedness) cash	**$ (3,932)**	$ (1,724)
Trade and other receivables	**206,257**	203,949
Contract assets	**30,307**	19,329
Financial liabilities measured at amortized cost:		
Accounts payable and accrued liabilities	**(252,958)**	(236,179)
Contract liabilities	**(8,291)**	(11,129)
Dividends payable	**(4,989)**	(4,876)
Other liabilities	**(2,214)**	(2,235)
Obligations under finance leases	**(13,749)**	(9,511)
Long-term debt	**(218,116)**	(143,667)
Net derivative financial assets (liabilities) measured at fair value:		
Foreign exchange forwards	**(67)**	(547)
Total return swaps	**(4,265)**	—
Interest rate swaps	**(2,236)**	151

The Corporation measures non-derivative financial assets and financial liabilities at amortized cost. Derivative financial assets/ liabilities are recorded on the consolidated statements of financial position at fair value. Changes in fair value are recognized in the consolidated statements of earnings except for changes in fair value related to derivative financial assets/liabilities which are effectively designated as hedging instruments which are recognized in other comprehensive income. The Corporation's derivative financial assets/liabilities are held with major Canadian chartered banks and are deemed to be Level 2 financial instruments. The fair values of financial assets/liabilities measured at amortized cost, excluding long-term debt and cash-settled share-based compensation liabilities, approximate their recorded values due to the short-term maturities of these instruments. The cash-settled share-based compensation liability is recorded at fair value based on the Corporation's share price and deemed to be a Level 1 financial instrument. The fair value of long-term debt approximates its recorded value due to its floating interest rate.

The Corporation, through its financial assets and liabilities, has exposure to the following risks from its use of financial instruments: credit risk, liquidity risk, and market risk (consisting of currency risk, interest rate risk and equity price risk). The following analysis provides a measurement of these risks as at December 31, 2018 and 2017.

Credit risk

The Corporation is exposed to credit risk with respect to its trade and other receivables. This risk is mitigated by the Corporation's large customer base which covers many business sectors across Canada. The Corporation follows a program of credit evaluations of customers and limits the amount of credit extended when deemed necessary. The Corporation's trade and other receivables consist of trade accounts receivable from customers and other accounts receivable, generally from suppliers for warranty and rebates.

The aging of the trade accounts receivable is as follows:

	2018	2017
Current	**$ 88,065**	$ 101,931
Less than 60 days overdue	**75,577**	74,251
More than 60 days overdue	**18,945**	10,849
Total trade accounts receivable	**$ 182,587**	$ 187,031

The carrying amounts of accounts receivable represent the maximum credit exposure.

The Corporation maintains an allowance for expected credit losses taking into account past experience of collecting payments as well as observable changes in and forecasts of future economic conditions that correlate with default on receivables. Any such losses to date have been within management's expectations. Movement of the allowance for credit losses is as follows:

	2018	2017
Opening balance	**$ 832**	$ 1,079
Additions	**1,042**	615
Utilization	**(921)**	(862)
Closing balance	**$ 953**	$ 832

The Corporation is also exposed to the risk of non-performance by counterparties to foreign exchange forwards, interest rate swaps and total return swaps. These counterparties are large financial institutions that maintain high short-term and long-term credit ratings. To date, no such counterparty has failed to meet its financial obligations to the Corporation. Management does not believe there is a significant risk of non- performance by these counterparties and will continue to monitor the credit risk of these counterparties.

Liquidity risk

Liquidity risk is the risk that the Corporation will encounter difficulty in meeting obligations associated with its financial liabilities as they become due. The contractual maturity of the bank credit facility is September 20, 2023. At December 31, 2018, the Corporation had borrowed $220,000 (2017 – $145,000) from the bank credit facility. The Corporation issued $6,101 (2017 – $7,258) of letters of credit for a total utilization of $226,101 (2017 – $152,258) of its $400,000 (2017 – $300,000) bank credit facility and had not utilized any (2017 – nil) of its $25,000 (2017 – $25,000) interest bearing equipment financing facilities.

Wajax's $400,000 bank credit facility, of which $173,899 was unutilized at the end of the year, along with the additional $25,000 of capacity permitted under the bank credit facility, is deemed to be sufficient to meet Wajax's short-term normal course working capital and maintenance capital requirements and certain strategic investments. However, Wajax may be required to access the equity or debt markets to fund significant acquisitions.

Market risk

Market risk is the risk from changes in market prices, such as changes in foreign exchange rates, interest rates, and the Corporation's share price which will affect the Corporation's earnings as well as the value of the financial instruments held and cash-settled share-based liabilities outstanding. The exposure to these risks is managed through the use of various derivative instruments.

a) Currency risk

Certain of the Corporation's sales to customers and purchases from vendors are exposed to fluctuations in the U.S. dollar ("USD") and the Euro ("EUR"). When considered appropriate, the Corporation purchases foreign exchange forwards for USD and EUR as a means of mitigating this risk. A change in foreign currency relative to the Canadian dollar would not have a material impact on the Corporation’s unhedged foreign currency-denominated sales to customers along with the associated receivables, or on the Corporation’s unhedged foreign currency-denominated purchases from vendors along with the associated payables. The Corporation will periodically institute price increases to offset the negative impact of foreign exchange rate increases and volatility on imported goods to ensure margins are not eroded. However, a sudden strengthening of the U.S. dollar relative to the Canadian dollar can have a negative impact mainly on parts margins in the short term prior to price increases taking effect.

The Corporation maintains a hedging policy whereby significant transactional currency risks are usually identified and hedged.

b) Interest rate risk

The Corporation's borrowing costs are impacted by changes in interest rates. The Corporation’s tolerance to interest rate risk decreases as the Corporation’s leverage ratio increases and interest coverage ratio decreases. To manage this risk prudently, guideline percentages of floating interest rate debt decrease as the Corporation’s leverage ratio increases. Wajax has entered into interest rate swap contracts primarily to minimize exposure to interest rate fluctuations on its variable rate debt.

A 1.00 percentage point change in interest rates on the average amount outstanding under the bank credit facility for 2018 would result in a change to earnings before income taxes of approximately $1,846 for the year.

c) Equity price risk

The Corporation's total return swaps are exposed to fluctuations in its share price. A $1.00 per share decrease in the share price would result in a decrease in earnings before income taxes of approximately $440 relating to the total return swaps. An increase of $1.00 per share would result in an equal and opposite effect on earnings before income taxes.

Derivative financial instruments and hedges

The interest rate swaps are designated as effective hedges and are measured at fair value with subsequent changes in fair value recorded in other comprehensive income. Amounts in accumulated other comprehensive income are reclassified to net earnings in the periods when the hedged item affects profit or loss. For the year ended December 31, 2018, the Corporation recognized a loss of $1,746 (2017 – gain of $110), net of tax in other comprehensive income associated with its interest rate swaps. The Corporation’s interest rate swaps outstanding are summarized as follows:

December 31, 2018	Notional Amount	Average Interest Rate	Maturity
Interest rate swaps	$ 104,000	2.70%	November 2023

December 31, 2017	Notional Amount	Average Interest Rate	Maturity
Interest rate swaps	$ 40,000	2.01%	November 2019 to November 2022

The Corporation enters into short-term foreign exchange forwards to hedge the exchange risk associated with the cost of certain inbound inventory and certain foreign currency-denominated sales to customers along with the associated receivables as part of its normal course of business. Foreign exchange forwards are initially recognized on the date the derivative contract is entered into and are subsequently re-measured at their fair values. The method of recognizing the resulting gain or loss depends on whether the derivative is designated as a hedging instrument. In a cash flow hedging relationship, the effective portion of the change in the fair value of the hedging derivative, net of taxes, is recognized in other comprehensive income while the ineffective portion is recognized within net earnings. Amounts in accumulated other comprehensive income are reclassified to net earnings in the periods when the hedged item affects profit or loss. For the year ended December 31, 2018, the Corporation recognized a gain of $52 (2017– loss of $115) associated with its foreign exchange forwards in the consolidated statements of earnings and a gain of $365 (2017 – loss of $719), net of tax in other comprehensive income. The Corporation’s contracts to buy and sell foreign currencies are summarized as follows:

December 31, 2018	Notional Amount	Average Exchange Rate	Maturity
Purchase contracts	US$ 34,313	1.3146	January 2019 to December 2019
	€ 200	1.5575	January 2019 to March 2019
Sales contracts	US$ 20,934	1.2856	January 2019 to August 2020
	€ 2,772	1.5288	January 2019 to November 2019

December 31, 2017	Notional Amount	Average Exchange Rate	Maturity
Purchase contracts	US$ 48,507	1.2736	January 2018 to December 2018
Sales contracts	US$ 13,816	1.2787	January 2018 to June 2018

The Corporation has certain total return swaps to hedge the exposure associated with increases in its share price on its outstanding restricted share units ("RSUs"). The Corporation does not apply hedge accounting to these relationships and as such, gains and losses arising from marking these derivatives to market are recognized in earnings in the period in which they arise. As at December 31, 2018, the Corporation's total return swaps cover 440,000 of the Corporation's underlying common shares (2017 – nil). For the year ended December 31, 2018, the Corporation recognized a loss of $4,265 (2017 – loss of $nil) associated with its total return swaps.

Derivative financial assets consist of:

	December 31 **2018**	2017
Interest rate swaps	**$ —**	$ 151
Foreign exchange forwards	**1,635**	550
Total derivative financial assets	**$ 1,635**	$ 701
Current portion	**$ 1,635**	$ 550
Long-term portion	**$ —**	$ 151

Derivative financial liabilities consist of:

	December 31 **2018**	2017
Interest rate swaps	**$ 2,236**	$ —
Foreign exchange forwards	**1,702**	1,097
Total return swaps	**4,265**	—
Total derivative financial liabilities	**$ 8,203**	$ 1,097
Current portion	**$ 3,167**	$ 1,097
Long-term portion	**$ 5,036**	$ —

(Gains) losses on derivative financial assets/liabilities are as follows:

	2018	2017
Opening net derivative financial liability (asset)	**$ 396**	$ (553)
Loss recognized in net earnings	**4,213**	115
Loss recognized in other comprehensive income – net of tax	**1,381**	609
Tax on loss recognized in other comprehensive income	**508**	225
Acquisition of business	**70**	—
Ending net derivative financial liability	**$ 6,568**	$ 396

The balance in accumulated other comprehensive income relates to changes in the value of the Corporation's various interest rate swaps and foreign exchange forwards. These accumulated amounts will be continuously released to the consolidated statements of earnings within finance costs and gross profit, respectively.

During the years presented and cumulatively to date, changes in counterparty credit risk have not significantly contributed to the overall changes in the fair value of these derivative instruments.

17. Share Capital and Earnings Per Share

The Corporation is authorized to issue an unlimited number of no par value common shares and an unlimited number of no par value preferred shares. Each common share entitles the holder of record to one vote at all meetings of shareholders. All issued common shares are fully paid. There were no preferred shares outstanding as at December 31, 2018 (2017 – nil). Each common share represents an equal beneficial interest in any distributions of the Corporation and in the net assets of the Corporation in the event of its termination or winding-up.

	Note	Number of Common Shares	Amount
Issued and outstanding, December 31, 2017		20,026,819	$ 180,572
Common shares issued to settle share-based compensation plans	18	105,375	1,380
Issued and outstanding, December 31, 2018		20,132,194	181,952
Shares held in trust, December 31, 2017		(522,712)	(4,709)
Net sale of (purchase of) shares held in trust		347,032	3,126
Shares held in trust, December 31, 2018		(175,680)	(1,583)
Issued and outstanding, net of shares held in trust, December 31, 2018		**19,956,514**	**$ 180,369**

	Note	Number of Common Shares	Amount
Issued and outstanding, December 31, 2016 and December 31, 2017		20,026,819	$ 180,572
Shares held in trust, December 31, 2016		(200,968)	(1,808)
Purchased for future settlement of certain share-based compensation plans		(321,744)	(2,901)
Shares held in trust, December 31, 2017		(522,712)	(4,709)
Issued and outstanding, net of shares held in trust, December 31, 2017		**19,504,107**	**$ 175,863**

During 2018, the Corporation amended its Mid-Term Incentive Plan for Senior Executives ("MTIP"), which is comprised of both restricted share units ("RSUs") and performance share units ("PSUs"), such that the RSU portion of the plan which was previously settled in market-purchased common shares shall be settled in cash at the end of the vested term. As a result of the modification to the MTIP program, 440,000 shares previously held in trust for the purpose of the future settlement of the MTIP were sold and subsequently hedged through the use of derivative instruments. The cash consideration received from the sale was $11,475, resulting in an increase to share capital and retained earnings of $3,964 and $7,184 (net of tax in the amount of $327) respectively.

During 2018, the Corporation purchased 92,968 (2017 – 321,744) common shares on the open market through Employee Benefit Plan Trusts for the future settlement of certain share-based compensation plans. The cash consideration paid for the purchase was $2,000 (2017 – $7,499), the reduction in share capital was $838 (2017 – $2,901) and the premium charged to retained earnings was $1,162 (2017 – $4,598).

Dividends declared

During 2018, the Corporation declared cash dividends of $1.00 per share or $19,747 (2017 – dividends of $1.00 per share or $19,584). As at December 31, 2018, the Corporation had $4,989 (2017 – $4,876) dividends outstanding to be paid on January 3, 2019.

On March 21, 2019, the Corporation declared a first quarter 2019 dividend of $0.25 per share or $4,989.

Earnings per share

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

		2018		2017 As adjusted (Note 5)
Numerator for basic and diluted earnings per share: – net earnings	**$**	**35,852**	$	27,381
Denominator for basic earnings per share: – weighted average shares, net of shares held in trust		**19,686,075**		19,605,884
Denominator for diluted earnings per share: – weighted average shares, net of shares held in trust		**19,686,075**		19,605,884
– effect of dilutive share rights		**461,827**		598,854
Denominator for diluted earnings per share		**20,147,902**		20,204,738
Basic earnings per share	**$**	**1.82**	$	1.40
Diluted earnings per share	**$**	**1.78**	$	1.36

15,865 anti-dilutive share rights were excluded from the above calculation (2017 – 15,204).

18. Share-Based Compensation Plans

The Corporation has four share-based compensation plans: the Wajax Share Ownership Plan ("SOP"), the Directors' Deferred Share Unit Plan ("DDSUP"), the Mid-Term Incentive Plan for Senior Executives ("MTIP") and the Deferred Share Unit Plan ("DSUP"). The following table provides the share-based compensation expense for awards under all plans:

		2018		2017
Treasury share rights plans				
SOP equity-settled	**$**	**—**	$	19
DDSUP equity-settled		**570**		589
Total treasury share rights plans expense	**$**	**570**	$	608
Market-purchased share rights plans				
MTIP equity-settled	**$**	**960**	$	2,593
DSUP equity-settled		**194**		117
Total market-purchased share rights plans expense	**$**	**1,154**	$	2,710
Cash-settled rights plans				
MTIP cash-settled	**$**	**119**	$	391
DSUP cash-settled		**(57)**		64
Total cash-settled rights plans expense	**$**	**62**	$	455
Total share-based compensation expense	**$**	**1,786**	$	3,773

a) Treasury share rights plans

Under the SOP and the DDSUP, rights are issued to the participants which, upon satisfaction of time vesting conditions, are settled by issuing Wajax Corporation shares for no cash consideration. Vested rights are settled when the participant is no longer employed by the Corporation or one of its subsidiary entities or no longer sits on its board. Whenever dividends are paid on the Corporation's shares, additional rights (dividend equivalents) with a value equal to the dividends are credited to the participants' accounts.

The following rights under these plans are outstanding:

	Number of rights		Fair value at time of grant
Outstanding at December 31, 2017	388,983	$	6,524
Granted in the year – new grants	26,111		571
– dividend equivalents	15,452		—
Settled in the year	(105,375)		(1,380)
Outstanding at December 31, 2018	325,171	$	5,715

At December 31, 2018 and December 31, 2017, all share rights were vested.

The outstanding aggregate number of shares issuable to satisfy entitlements under these plans is as follows:

	Number of Shares
Approved by shareholders	1,050,000
Exercised to date	(352,664)
Rights outstanding	(325,171)
Available for future grants	372,165

b) Market-purchased share rights plans

The MTIP plan consists of restricted share units ("RSUs") and performance share units ("PSUs"), and the equity-settled DSUP plan consists of deferred share units ("DSUs"). During 2018, the Corporation changed the settlement terms of the RSUs from share-settled to cash-settled. On the date of modification, a liability for the now cash settled RSUs was recognized at fair value of $4,578 as a reduction from equity.

Market-purchased share rights plans now consist only of PSUs and DSUs, which vest over three years and are settled in common shares of the Corporation on a one-for-one basis. DSUs are only subject to time- vesting, whereas PSUs are also subject to performance vesting. PSUs can be split into two components: return on net assets ("RONA") PSUs and total shareholder return ("TSR") PSUs.

- RONA PSUs, introduced in 2016, vest dependent upon the attainment of a target level of return on net assets. Such performance vesting criteria results in a performance vesting factor that ranges from 0% to 150% depending on the level of RONA attained.
- TSR PSUs, introduced in 2016, vest dependent upon the attainment of a TSR market condition. Such performance vesting criteria result in a performance vesting factor that ranges from 0% to 200% depending on the Corporation's TSR relative to a pre-selected group of peers.

These plans are settled through shares purchased on the open market by the employee benefit plan trust, subject to the attainment of their vesting conditions. PSUs are settled at the end of the vesting period, and the number of shares remitted to the participant upon settlement is equal to the number of PSUs awarded multiplied by the performance vesting factor less shares withheld to satisfy the

participant's withholding tax requirement. DSUs are settled when the participant is no longer employed by the Corporation or one of its subsidiary entities. Whenever dividends are paid on the Corporation's shares, additional rights with a value equal to the dividends are credited to the participants' accounts with the same vesting conditions as the original PSU and DSU rights. The following rights under these plans are outstanding:

	Number of rights	Fair value at time of grant
Outstanding at December 31, 2017	203,096	$ 4,658
Granted in the year – new grants	84,933	2,462
– dividend equivalents	10,659	—
Forfeitures	(13,093)	(320)
Outstanding at December 31, 2018	285,595	$ 6,800

At December 31, 2018 and December 31, 2017, no PSUs or DSUs were vested.

c) Cash-settled rights plans

In the first quarter of 2018, the Corporation paid out $938 to settle the MTIP awards granted in 2015, representing the last payout under the old MTIP plan. Cash-settled rights plans now consist of MTIP RSUs and vested DSUs. Compensation expense varies with the price of the Corporation's shares and is recognized over the three year vesting period. RSUs are settled at the end of the vesting period, whereas DSUs are settled when the participant is no longer employed by the Corporation or one of its subsidiary entities. Whenever dividends are paid on the Corporation's shares, additional rights with a value equal to the dividends are credited to the participants' accounts with the same vesting conditions as the original rights. The value of the payout is equal to the number of rights awarded including earned dividend equivalents, multiplied by the five previous day volume weighted average share price, from the date of settlement. At December 31, 2018, the carrying amount of the liabilities for these plans was $3,738 (December 31, 2017 – $1,373). The following rights under these plans are outstanding:

	Number of rights
Outstanding at December 31, 2017	355,540
Granted in the year – new grants	122,642
– dividend equivalents	16,163
Forfeitures	(49,498)
Settled in the year	(50,518)
Outstanding at December 31, 2018	394,329

At December 31, 2018, 8,577 DSU rights were vested, representing all DSU rights outstanding (December 31, 2017 – 10,452 DSU rights).

19. Revenue

a) Disaggregation of revenue

In the following table, revenue is disaggregated by revenue type:

	2018	2017 As adjusted (Note 5a)
Equipment sales	**$ 542,814**	$ 461,482
Industrial parts	**361,668**	339,965
Product support	**457,576**	424,854
ERS/Other	**84,618**	60,081
Revenue from contracts with customers	**1,446,676**	1,286,382
Equipment rental	**34,921**	32,349
Total	**$1,481,597**	$1,318,731

As at December 31, 2018, the Corporation has included $30,144 (December 31, 2017 – $19,674) in Equipment sales related to short term rental contracts that are expected to convert to Equipment sales within a six to twelve month period.

b) Transaction price allocated to the remaining performance obligations

The following table includes revenue expected to be recognized in the future related to performance obligations that are unsatisfied (or partially unsatisfied) at the reporting date:

	2019	2020	Total
Equipment sales	$ 2,847	$ 889	$ 3,736
Product support	2,874	1,363	4,237
ERS/Other	174	3,160	3,334
Total	$ 5,895	$ 5,412	$ 11,307

The Corporation has applied the practical expedient which permits the Corporation to not disclose information about remaining performance obligations that have original expected durations of one year or less.

The Corporation has applied the practical expedient which permits the Corporation to not disclose the amount of the transaction price allocated to the remaining performance obligations and an explanation of when the Corporation expects to recognize that amount as revenue for the year ended December 31, 2017.

20. Employee Costs

Employee costs recorded in Cost of sales and in Selling and administrative expenses for the Corporation during the year amounted to:

	2018	2017
Wages and salaries, including bonuses	**$ 220,925**	$ 201,826
Other benefits	**29,647**	29,852
Pension costs – defined contribution plans	**7,853**	6,974
Pension costs – defined benefit plans	**1,310**	1,234
Share-based compensation expense	**1,786**	3,773
	$ 261,521	$ 243,659

21. Restructuring Costs

In 2018, the Corporation commenced the Finance Reorganization Plan and a leadership re-alignment within its ERS function. The cost of the Finance Reorganization Plan is expected to be approximately $5,600 in severance, project management and interim duplicate labour costs, of which $3,485 has been recognized in 2018 and $336 recognized in 2017. The remaining $1,779 in anticipated costs, primarily relating to project management and interim duplicate labour costs, will be expensed as incurred over the remaining project period. The cost of the ERS re-alignment of $354 has been recognized in 2018.

In 2018, the Corporation incurred $304 (net of a $452 recovery) of additional severance related costs associated with the 2016 strategic reorganization; the Corporation does not anticipate any future costs to be incurred.

Movements in the restructuring accrual are outlined in the following table:

	2018	2017 As adjusted (Note 5)
Opening accrual	**$ 468**	$ 4,687
Charge for the year	**4,595**	336
Utilized in the year	**(3,794)**	(4,240)
Recovery in the year	**(452)**	(315)
Ending accrual	**$ 817**	$ 468

22. Finance Costs

Finance costs for the years ended December 31, 2018 and 2017 is comprised of the following:

	2018	2017
Interest on long-term debt	**$ 8,281**	$ 9,366
Senior notes redemption	**—**	5,454
Interest on finance leases	**494**	429
Finance costs	**$ 8,775**	$ 15,249

23. Income Taxes

Income tax expense comprises current and deferred tax as follows:

	2018	2017 As adjusted (Note 5)
Current	**$ 18,509**	$ 5,773
Deferred	**(4,534)**	4,778
Income tax expense	**$ 13,975**	$ 10,551

The calculation of current tax is based on a combined federal and provincial statutory income tax rate of 26.9% (2017 – 26.9%). Deferred tax assets and liabilities are measured at tax rates that are expected to apply to the period when the asset is realized or the liability is settled. Deferred tax assets and liabilities have been measured using an expected average combined statutory income tax rate of 26.9% based on the tax rates in years when the temporary differences are expected to reverse.

The reconciliation of the effective income tax rate is as follows:

	2018	2017 As adjusted (Note 5)
Combined statutory income tax rate	**26.9%**	26.9%
Expected income tax expense at statutory rates	**$ 13,403**	$ 10,204
Non-deductible expenses	**601**	467
Other	**(29)**	(120)
Income tax expense	**$ 13,975**	$ 10,551

Recognized deferred tax assets and liabilities and the movement in temporary differences during the year are as follows:

	December 31 2017 As adjusted (Note 5)	Recognized in profit or loss	Recognized in other comprehensive income	Recognized in retained earnings	Recognized on acquisition of business	December 31 2018
Property, plant and equipment	**$ (3,979)**	**85**	**—**	**—**	**—**	**$ (3,894)**
Finance leases	**229**	**(76)**	**—**	**—**	**—**	**153**
Intangible assets	**329**	**(87)**	**—**	**—**	**(5,140)**	**(4,898)**
Accrued liabilities	**3,670**	**969**	**(26)**	**—**	**—**	**4,613**
Provisions	**2,192**	**(1,277)**	**—**	**—**	**—**	**915**
Derivative instruments	**121**	**1,175**	**481**	**—**	**—**	**1,777**
Employee benefits	**2,298**	**(26)**	**—**	**—**	**—**	**2,272**
Deferred financing costs	**1,219**	**(563)**	**—**	**—**	**—**	**656**
Partnership income not currently taxable	**(6,810)**	**4,334**	**—**	**(327)**	**—**	**(2,803)**
Net deferred tax assets (liabilities)	**$ (731)**	**4,534**	**455**	**(327)**	**(5,140)**	**$ (1,209)**

	December 31 2016 As adjusted (Note 5)	Recognized in profit or loss	Recognized in other comprehensive income	Recognized in retained earnings	Recognized on acquisition of business	December 31 2017 As adjusted (Note 5)
Property, plant and equipment	$ (3,786)	(193)	—	—	—	$ (3,979)
Finance leases	421	(192)	—	—	—	229
Intangible assets	474	(145)	—	—	—	329
Accrued liabilities	3,542	193	(65)	—	—	3,670
Provisions	2,116	76	—	—	—	2,192
Derivative instruments	(25)	—	146	—	—	121
Employee benefits	2,180	102	16	—	—	2,298
Deferred financing costs	120	1,099	—	—	—	1,219
Partnership income not currently taxable	(1,092)	(5,718)	—	—	—	(6,810)
Net deferred tax assets (liabilities)	$ 3,950	(4,778)	97	—	—	$ (731)

24. Changes in Non-Cash Operating Working Capital

The net change in non-cash working capital comprises the following:

	2018	2017 As adjusted (Note 5)
Trade and other receivables	**$ 12,555**	$ (12,536)
Contract assets	**(2,968)**	2,990
Inventory	**(33,220)**	(35,651)
Deposits on inventory	**(6,571)**	12,533
Prepaid expenses	**(1,962)**	1,063
Accounts payable and accrued liabilities	**3,266**	(5,109)
Contract liabilities	**(4,630)**	6,643
Total	**$ (33,530)**	$ (30,067)

25. Commitments and Contingencies

Operating leases – as lessee

The Corporation leases certain land and buildings, rental equipment and office equipment. Some of the lease terms can be extended at the option of the Corporation.

The future minimum non-cancellable payments due under the agreements are as follows:

	2018	2017
Less than one year	**$ 20,189**	$ 18,289
Between one and five years	**52,347**	41,370
More than five years	**27,124**	14,864
	$ 99,660	$ 74,523

Operating leases – as lessor

The Corporation rents equipment to customers under rental agreements with terms of up to 5 years. The rentals have been classified as operating leases. The rentals may be cancelled subject to a cancellation fee. The future minimum lease payments receivable under the agreements are as follows:

	2018	2017
Less than one year	**$ 10,709**	$ 10,594
Between one and five years	**15,269**	15,513
More than five years	**30**	—
	$ 26,008	$ 26,107

Contingencies

In the ordinary course of business, the Corporation is contingently liable for various amounts that could arise from litigation, environmental matters or other sources. The Corporation does not expect the resolution of these matters to have a materially adverse effect on its financial position or results of operations. Provisions have been made in these consolidated financial statements when the liability is expected to result in an outflow of economic resources, and where the obligation can be reliably measured.

26. Capital Management

Objective

The Corporation defines its capital as the total of its shareholders' equity and long-term debt and obligations under finance leases ("interest bearing debt"). The Corporation's objective when managing capital is to have a capital structure and capacity to support the Corporation's operations and strategic objectives set by the Board of Directors.

Management of capital

As part of the Corporation's renewed long-term strategy, its capital structure will continue to be managed such that it maintains a prudent leverage ratio, defined below, in order to provide funds available to invest in strategic growth initiatives, provide liquidity in times of economic uncertainty and to allow for the payment of dividends. In addition, the Corporation's tolerance to interest rate risk decreases/increases as the Corporation's leverage ratio increases/decreases. The Corporation's objective is to maintain a leverage ratio between 1.5 times and 2.0 times. However, there may be instances where the Corporation is willing to maintain a leverage ratio outside the range to either support key growth initiatives or fluctuations in working capital levels during changes in economic cycles.

The leverage ratio at the end of a particular quarter is defined as debt divided by trailing 12-month pro-forma adjusted EBITDA. Debt includes bank indebtedness, long-term debt, obligations under finance leases, and letters of credit, net of cash. Pro-forma adjusted EBITDA used in calculating the leverage ratio under the bank credit agreement is calculated as earnings before restructuring and other related costs (recoveries), gain recorded on sales of properties, non-cash losses on mark to market of derivative instruments, Delom transaction costs, finance costs, income tax expense and depreciation and amortization, adjusted for the EBITDA of business acquisitions made during the period as if they were made at the beginning of the trailing 12-month period pursuant to the terms of the bank credit facility.

Although management currently believes the Corporation has adequate debt capacity, the Corporation may have to access the equity or debt markets, or temporarily reduce dividends to accommodate any shortfalls in the Corporation's credit facilities or significant growth capital requirements.

There were no significant changes in the Corporation's approach to capital management during the year.

Restrictions on capital

The interest bearing debt includes a $400,000 bank credit facility which expires September 20, 2023. The bank credit facility contains the following key covenants:

- Borrowing capacity is dependent upon the level of the Corporation's inventory on hand and the outstanding trade accounts receivable ("borrowing base"). At December 31, 2018, borrowing capacity under the bank credit facility was equal to $379,055.
- The Corporation will be restricted from the declaration of cash dividends in the event the Corporation's leverage ratio, as defined under the bank credit facility, exceeds 4.0 times.
- An interest coverage maintenance ratio.

At December 31, 2018, the Corporation was in compliance with all covenants and there were no restrictions on the declaration of quarterly cash dividends.

Under the terms of the $400,000 bank credit facility, the Corporation is permitted to have additional interest bearing debt of $25,000. As a result, the Corporation has up to $25,000 of demand inventory equipment financing capacity with two lenders. The equipment notes payable under the facilities bear floating rates of interest at margins over Canadian dollar bankers' acceptance yields and U.S. LIBOR rates. Principal repayments are generally due the earlier of 12 months from the date of financing and the date the equipment is sold. At December 31, 2018, the Corporation had not utilized any of its interest bearing equipment financing facilities.

27. Related Party Transactions

The Corporation's related party transactions consist of the compensation of the Board of Directors and key management personnel which is set out in the following table:

	2018	2017
Salaries, bonus and other short-term employee benefits	**$ 5,683**	$ 7,135
Pension costs – defined contribution plans	**182**	162
Pension costs – defined benefit plans	**408**	1,019
Share-based compensation expense	**1,621**	2,320
Total compensation	**$ 7,894**	$ 10,636

28. Operating Segments

The Corporation's Chief Executive Officer, who is also the Chief Operating Decision Maker, regularly assesses the performance of, and makes resource allocation decisions based on, the Corporation as a whole. As a result, the Corporation has determined that it comprises a single operating segment and therefore a single reportable segment.

29. Comparative Information

Certain comparative information has been reclassified to conform to the current year's presentation.

Summary of Quarterly Data – Unaudited

(in millions of dollars, except per share data)	2018 Q1	2018 Q2	2018 Q3	2018 Q4	2017 Q1	2017 Q2	2017 Q3	2017 Q4
Revenue	**$ 342.4**	**$ 382.3**	**$ 367.1**	**$ 389.8**	$ 319.4	$ 325.9	$ 297.9	$ 375.5
Net earnings	**9.3**	**11.4**	**9.1**	**6.1**	5.7	7.5	8.1	6.1
Earnings per share – Basic	**$ 0.48**	**$ 0.58**	**$ 0.46**	**$ 0.31**	$ 0.29	$ 0.38	$ 0.41	$ 0.31
Earnings per share – Diluted	**0.46**	**0.56**	**0.45**	**0.30**	0.28	0.37	0.40	0.30

Eleven Year Summary – Unaudited

	2018[(1)]	2017[(1)]	2016[(1)]	2015	2014	2013	2012	2011	2010	2009	2008
Operating Results											
Revenue	**$1,481.6**	$ 1,318.7	$ 1,221.9	$ 1,273.3	$ 1,451.3	$ 1,428.5	$ 1,466.0	$ 1,377.1	$ 1,110.9	$ 1,007.2	$ 1,213.5
Net earnings (loss)	**35.9**	27.4	11.0	(11.0)	41.2	47.7	65.9	63.8	56.4	34.2	75.8
Interest expense	**8.8**	15.2	11.2	12.2	13.0	9.0	4.4	4.6	5.2	4.5	4.7
Property, plant and equipment expenditures – net	**4.2**	1.7	6.5	4.1	5.4	3.9	5.6	5.3	1.7	7.0	7.4
Rental equipment expenditures – net	**43.6**	19.3	13.5	23.0	23.1	20.0	25.1	20.2	5.8	0.4	7.0
Depreciation and amortization	**27.0**	23.2	24.7	24.5	22.5	21.6	17.8	13.5	11.2	9.7	9.7
Per Share											
Net (loss) earnings – Basic	**$ 1.82**	$ 1.40	$ 0.55	$ (0.59)	$ 2.46	$ 2.85	$ 3.95	$ 3.84	$ 3.39	$ 2.06	$ 4.57
Dividends declared	**1.00**	1.00	1.00	1.23	2.40	2.68	3.10	2.14	—	—	—
Distributions declared	**—**	—	—	—	—	—	—	—	3.40	2.47	4.13
Equity	**14.88**	14.08	13.68	14.44	14.82	14.77	14.45	13.69	12.00	12.07	12.40
Financial Position											
Working capital	**$ 334.7**	$ 289.7	$ 261.2	$ 302.7	$ 258.2	$ 272.7	$ 230.1	$ 167.0	$ 77.9	$ 160.1	$ 198.8
Rental equipment	**73.7**	60.4	57.9	64.1	59.4	52.3	43.7	28.1	15.8	16.4	21.8
Property, plant and equipment – net	**59.0**	43.6	45.7	46.2	48.7	49.7	50.7	47.9	43.3	36.2	33.6
Long-term debt excluding current portion	**218.1**	143.7	122.0	151.6	180.9	195.9	151.7	59.0	—	79.5	116.2
Shareholders' equity	**297.0**	274.7	271.3	288.5	248.5	247.2	241.9	227.6	199.3	200.4	205.7
Total assets	**831.2**	694.4	667.9	677.5	718.2	682.1	671.9	589.9	522.5	448.2	529.6
Other Information											
Number of employees	**2,800**	2,418	2,318	2,609	2,725	2,766	2,833	2,738	2,382	2,291	2,662
Shares outstanding (000s)	**19,957**	19,504	19,826	19,986	16,779	16,744	16,736	16,629	16,629	16,603	16,585
Price range of shares											
High	**$ 28.17**	$ 25.74	$ 25.76	$ 30.93	$ 39.56	$ 46.24	$ 53.43	$ 44.94	$ 38.50	$ 23.40	$ 35.75
Low	**15.43**	18.49	13.34	14.81	28.75	29.38	38.59	27.80	21.65	10.95	14.00

(1) The Corporation has disclosed errors affecting net income for 2018 and 2017 of $1.755 million and $3.073 million after-tax respectively. Those values are included in the table above. The cumulative after-tax error in net income for fiscal 2016 and prior years totals $7.596 million and, at the time of this report, had not been reflected in the table above. See the 2018 Management's Discussion and Analysis for further information.

Corporate Information

Directors

Robert P. Dexter
Chairman, Wajax Corporation
Chairman and Chief Executive Officer,
Maritime Travel Inc.

Thomas M. Alford [2, 3]
President, Well Services,
Precision Drilling Corporation

Edward M. Barrett [1, 2]
Chairman and Co-Chief Executive Officer,
Barrett Corporation

Anne E. Bélec [1, 2]
Co-Founder and Chief Executive Officer,
Mosaic Group, LLC

Douglas A. Carty [1, 3]
Corporate Director

Sylvia D. Chrominska [1, 2]
Corporate Director

John C. Eby [1, 3]
Corporate Director

A. Mark Foote
President and Chief Executive Officer,
Wajax Corporation

Alexander S. Taylor [2, 3]
President, Nuclear, SNC-Lavalin Group Inc.

1 Member of the Audit Committee
2 Member of the Human Resources and Compensation Committee
3 Member of the Governance Committee

Honourary Director

H. Gordon MacNeill

Home Office

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Mississauga, ON L5N 6A5
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Officers

A. Mark Foote
President and Chief Executive Officer

Darren Yaworsky
Senior Vice President, Finance and
Chief Financial Officer

Steven C. Deck
Senior Vice President,
Business Development

Thomas Plain
Senior Vice President,
Service Operations

Stuart H. Auld
Senior Vice President,
Human Resources and Information Systems

Donna Baratto
Vice President, Supply Chain

Cristian Rodriguez
Vice President, Environment,
Health and Safety

Trevor Carson
Vice President, Financial Planning
and Risk Management

Tania Casadinho
Vice President, Finance and Controller

Andrew W. H. Tam
General Counsel and Corporate Secretary

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 Investor Services Inc.
100 University Avenue, 8th Floor
Toronto, ON M5J 2Y1
Telephone: 1-800-564-6253
Fax: 1-888-453-0330
Web: www.investorcentre.com/service

Auditors
KPMG LLP

Exchange Listing
Toronto Stock Exchange

Symbol
WJX

Wajax Corporation
Share Trading Information
(January 1 – December 31, 2018)

Open	High	Low	Close	Volume of Shares Traded
$24.69	$28.17	$15.43	$16.58	7,592,249

Quarterly Earnings Reports
Quarterly earnings for 2019 are anticipated to be announced after market close on May 6, August 8 and November 4, 2019 and March 2, 2020.

2019 Dividend Dates
Quarterly dividends are payable to shareholders of record on or about the 15th day of the last month in each quarter and will generally be paid in the first week of the following month.

Investor Information
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Senior Vice President, Finance
and Chief Financial Officer, or
Trevor Carson
Treasurer and Vice President,
Financial Planning and Risk Management
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To obtain a delayed share quote, read news releases, listen to the latest analysts' conference call, and stay abreast of other Corporation news, visit our website at www.wajax.com.

Annual Meeting
Shareholders are invited to attend the Annual Meeting of Wajax Corporation, to be held at the Sheraton Gateway Hotel, Toronto International Airport, Toronto, Ontario, on Tuesday, May 7, 2019, at 11:00 a.m. EDT.

Vous pouvez obtenir la version française de ce rapport en écrivant à la Secrétaire,
Corporation Wajax,
2250 Argentia Road,
Mississauga, (ON) L5N 6A5

tenmay.com

Branch Locations

Western Canada

Fort St. John, BC
Kamloops, BC
Langley, BC
Nanaimo, BC
Prince George, BC
Sparwood, BC
Tumbler Ridge, BC

Acheson, AB
Blackfalds, AB
Calgary, AB
Clairmont, AB
Edmonton, AB
Fort McMurray, AB
Grande Prairie, AB
Nisku, AB
Red Deer, AB
Redcliff, AB

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Saskatoon, SK

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Ottawa, ON
Pembroke, ON
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Sudbury, ON
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