



# Wajax 2019 Annual Report

**\\ Together We Get More Done.™**

With over 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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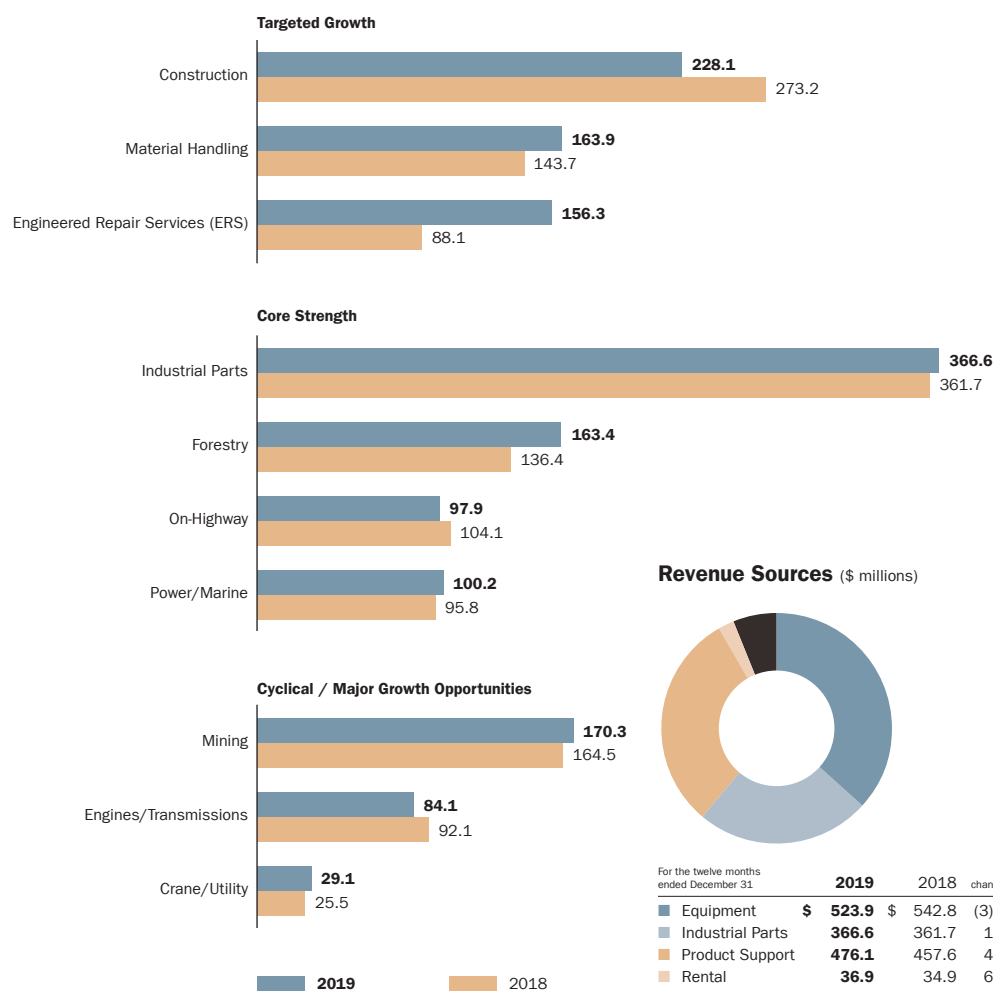
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# Wajax at a Glance

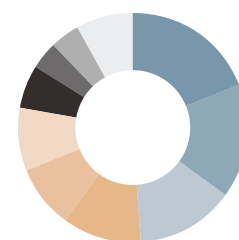
## Financial Highlights (in millions of Canadian dollars, except leverage ratio, share and per share data)

For the years ended December 31	2019	2018
Revenue	\$ 1,553.0	\$ 1,481.6
Net earnings	39.5	35.9
Adjusted net earnings <sup>(1)</sup>	41.9	39.9
Funded net debt <sup>(1)</sup>	276.5	222.0
Shareholders' equity	316.8	297.0
Basic earnings per share	1.98	1.82
Adjusted basic earnings per share <sup>(1)</sup>	2.10	2.02
Cash dividends declared per share	1.00	1.00
Leverage ratio <sup>(1)</sup>	2.60	2.45
Weighted average number of shares outstanding <sup>(4)</sup>	19,998,656	19,686,075

## Year-Over-Year Revenue by Category<sup>(2)</sup> (\$ millions)

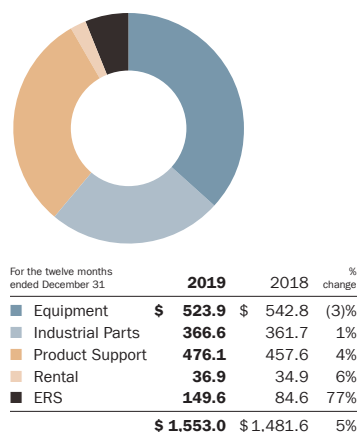


## Revenue by End Market<sup>(3)</sup>

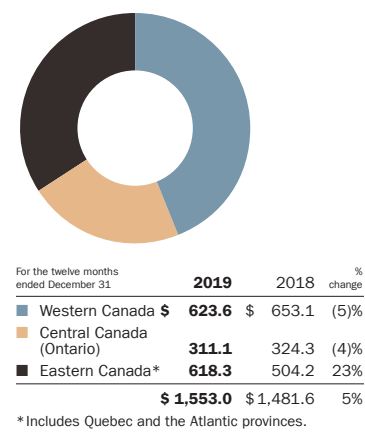


For the twelve months ended December 31	2019	2018
Construction	15%	19%
Mining	15%	16%
Forestry	14%	14%
Industrial/Commercial	11%	11%
Oil Sands	11%	9%
Transportation	9%	9%
Metal Processing	7%	6%
Government and Utilities	7%	4%
Oil and Gas	3%	4%
Other	8%	8%

## Revenue Sources (\$ millions)



## Revenue by Region (\$ millions)



\* 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 38 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 38.

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

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

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

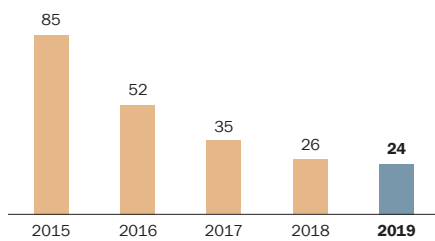
# Message to Shareholders

**“Together We Get More Done” is the essence of our company. Wajax’s strategy is based on a strong foundation, clear growth plans and investments in our business; all working together to give our customers and our employees a consistently excellent experience.**

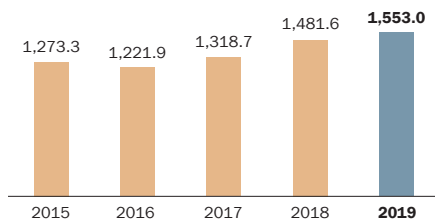
Record year for  
workplace safety

**0.93** TRIF<sup>(1)</sup>

## Recordable Incidents



## Revenue (\$ millions)



Our strategy is transforming Wajax from its legacy as a group of decentralized product-centric distribution businesses to a unified industrial services provider which leverages market-leading product and service breadth and a superb team to set a new standard for what customers can expect.

## 2019

The Wajax team performed exceptionally well in 2019, delivering adjusted net earnings of \$41.9 million, an increase of 5% on record revenue of \$1.55 billion, also up 5%. 2019 was another record year for workplace safety with a TRIF rate of 0.93 resulting from an 8% reduction in recordable injuries.<sup>(1)</sup>

Efforts to regionally balance revenue paid dividends in 2019. Revenue of \$618 million in eastern Canada grew 23%, offsetting weakness in western Canada where revenue of \$624 million declined 5% under progressively more difficult conditions. Central Canada revenue of \$311 million declined 4% due to the loss of a road-building distribution agreement. Net of that, revenue in central Canada was up 2%.

While we are satisfied with the results given the challenging market conditions, we had higher expectations as we entered the year. Weakness related to the western Canada market and a 14% reduction in demand for construction equipment nationally were the principal drivers in lower than planned earnings and elevated inventory.<sup>(2)</sup>

We are very pleased with the significant progress made in 2019 on our infrastructure initiatives. These programs are designed to improve Wajax’s customer service capabilities, operational consistency and cost efficiency. We completed an extensive pilot of our new ERP system and made excellent progress with the testing of our Customer Support Centres. Organizationally, we completed the centralization of our Finance function and realigned the management of our regional sales and operations teams. In addition to the benefits of a simpler organization, the realignment is estimated to save \$5 million pre-tax annually starting in 2020.

Engineered Repair Services (ERS) was an important contributor to our growth in 2019. Revenue of \$156 million (up \$68 million or 77%) resulted from the combination of our legacy ERS business and the first full year of operation of Groupe Delom, which we acquired in October 2018. ERS is an important competitive differentiator, especially to our large customers. It encompasses a wide range of services to meet the engineering, repair, fabrication, maintenance and reliability needs of our industrial and resource customers in their fixed-plant operations. Adding to our scale in this business, we announced the acquisition of NorthPoint Technical Services in January 2020. NorthPoint brings a complimentary branch network, a skilled electro-mechanical repair workforce and additional revenue of approximately \$49 million.<sup>(3)</sup>

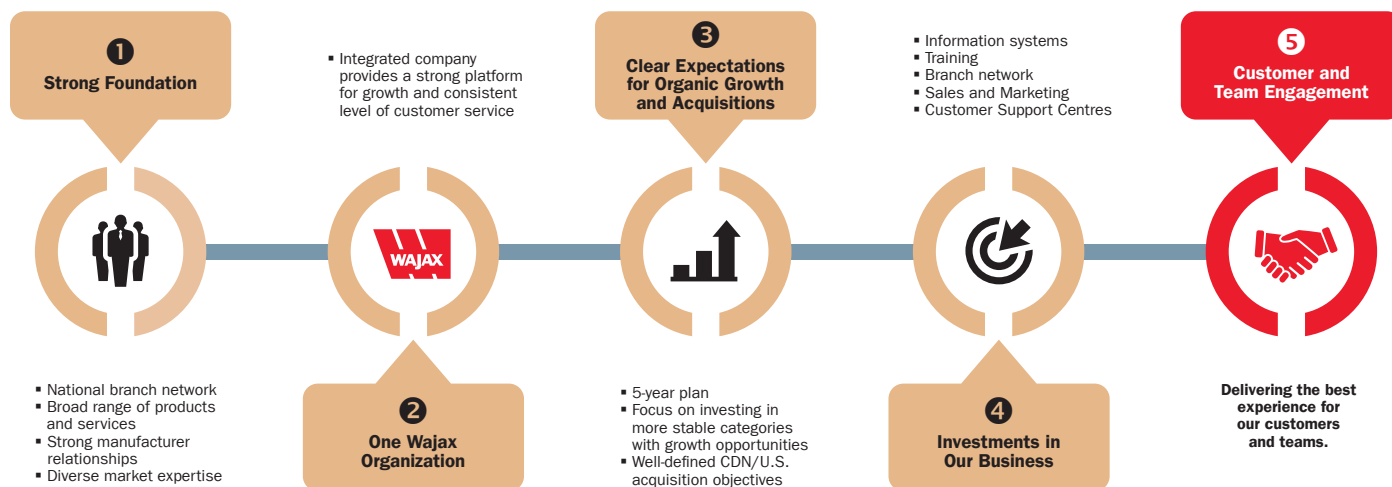
2019 also included steps to ensure that the company has the financial flexibility that it requires to grow. Among the actions taken in the year, our \$400 million bank credit facility was extended through October 2024 and we completed a public offering of senior unsecured debentures, maturing January 2025, with net proceeds of \$54 million which were applied to our credit facilities. In addition, Wajax began a real estate monetization program for selected owned properties. Combined with working capital management balanced to current market conditions, these activities are expected to reduce leverage to our target range in support of the base business and to provide flexible access to capital for our acquisition program.

(1) Total Recordable Injury Frequency

(2) Based on the demand for construction class excavators in Wajax addressable markets.

(3) Trailing Twelve Month (TTM) revenue of NorthPoint Technical Services to December 31, 2019.

## Wajax Strategy



## 2020

Our plans are based on an expectation that the more challenging market conditions that emerged in 2019 will continue in 2020 resulting in pressure on capital equipment demand. Equipment utilization rates, however, are expected to be generally stable on a full year basis which will support parts and service volumes. Based on manufacturer discussions and industry information, market conditions are anticipated to improve later in 2020.

Our objective for the year is to manage the business and capital conservatively until trends in the market improve. Market-related pressure on consolidated revenue is expected to be at least partially offset by the addition of NorthPoint, higher industrial parts volumes and expected mining deliveries in the second half of the year. We have also identified opportunities to improve gross margins, drive additional cost productivity and to lower finance costs based on reductions in inventory.

In our infrastructure programs, we plan to move forward with the implementation of our new ERP system beginning in the second quarter. Implementation is expected to occur over an 18 to 24 month timeframe in order to minimize the risks associated with the change. Our branch network optimization program will also continue including the previously described efforts to monetize selected real estate assets through either sale and leaseback transactions or site closure due to the colocation of branches. Proceeds from the real estate program are expected to be applied to our credit facilities.

We will continue to manage with an appropriate balance between pace and market conditions while tracking toward our strategic plan goals and targets.

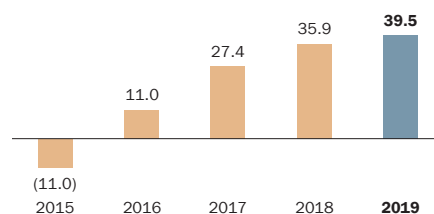
## Proceeding with Confidence

We are confident in our direction, pleased with our progress and very excited about our future. The strategic plan is designed to position Wajax in a unique and valuable position in the industrial services market. As we progress toward that, and as we listen to the perspectives of our customers and employees, we see even more benefits from our strategy than we originally expected.

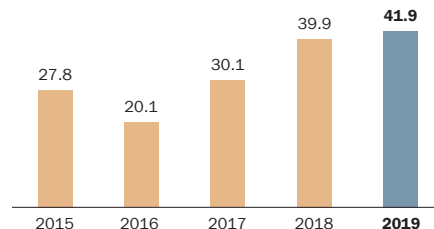
I will close by thanking our team who have done an excellent job again in 2019. They have shown constant attention to workplace safety, advanced our strategic plan initiatives, increased customer service levels and delivered improved financial results. We thank each of our employees, welcome our new colleagues from NorthPoint and express our appreciation for the strong support of our manufacturing partners. The energy and dedication to Wajax's success is demonstrated every day. It is a real privilege to be part of this team.

**Mark Foote**  
Chief Executive Officer

**Basic Net Earnings** (\$ millions)



**Adjusted Net Earnings** (\$ millions)



# Serving Our Customers Coast to Coast



Location count

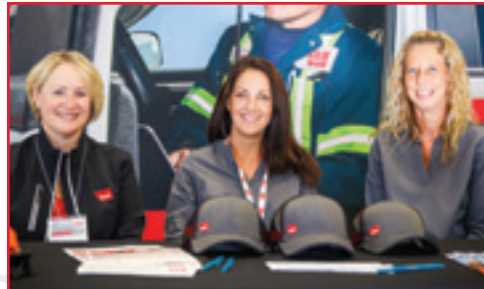
8

Team members

180

## British Columbia

Important customer markets include forestry/pulp and paper, mining, construction, utilities, natural gas and intermodal transportation-driving categories such as mining, construction, material handling and forestry equipment, industrial parts and ERS.



Location count

2

Team members

137

## Fort McMurray

Important customer markets include mining and SAG-D oil sands extraction, processing, transportation and related contractors and support services-driving categories such as mining, construction and material handling equipment, engines and transmissions, on-highway transportation, industrial parts and ERS.



Location count

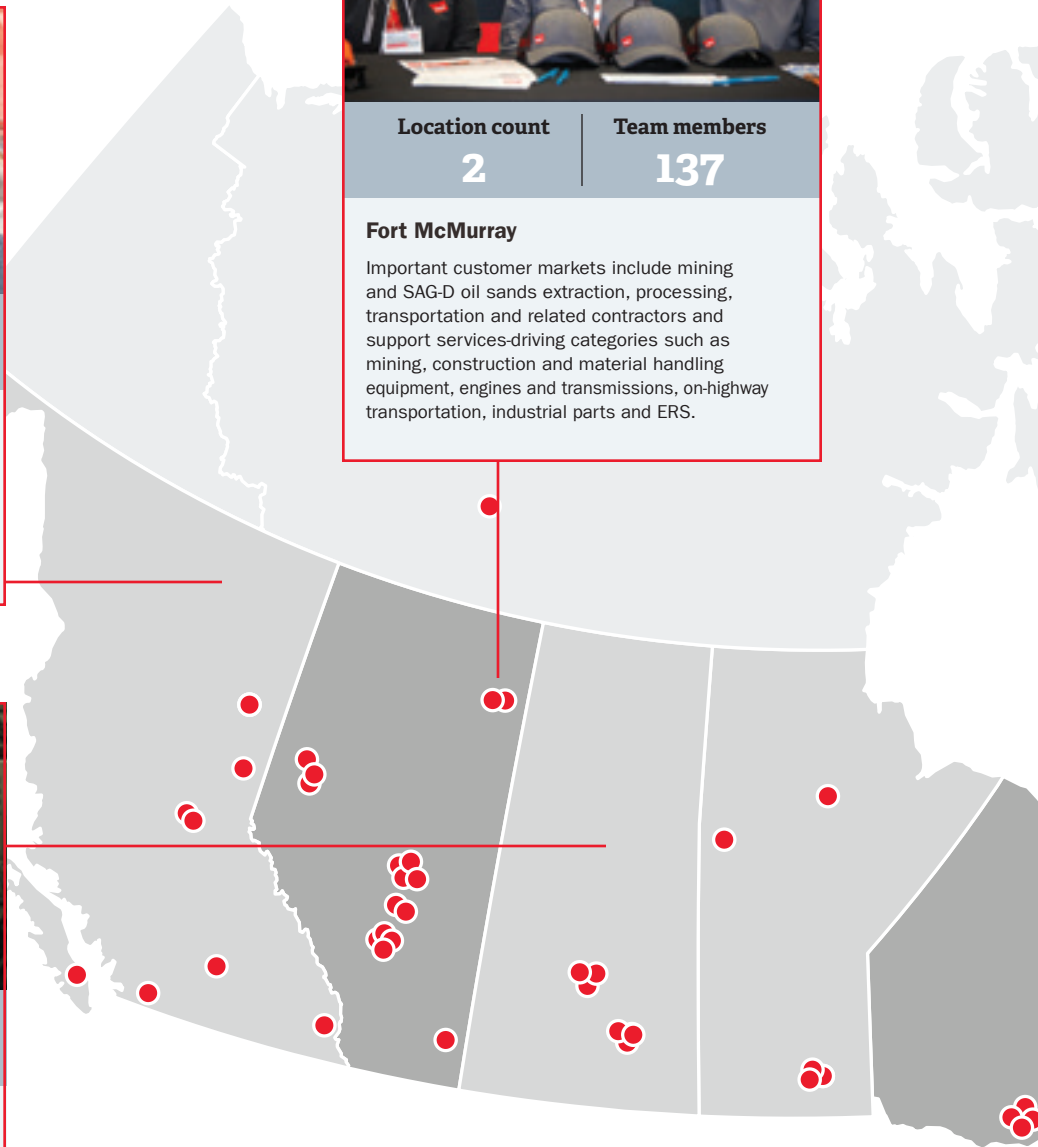
26

Team members

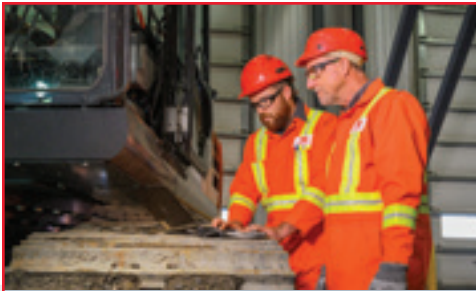
572

## Prairies

Important customer markets include construction, forestry, conventional oil and gas (exploration, extraction, processing, transportation and services), mining and transportation-driving categories such as construction, forestry and material handling equipment, engines and transmissions, on-highway transportation, industrial parts, ERS and power generation.



Wajax's team of almost 2,900 employees serve 32,000 customers through 115 locations in every major resource and industrial market in Canada.



Location count	Team members
29	1,087

**Quebec**

Important customer markets include construction, forestry/pulp and paper, distribution, mining, manufacturing, utilities, transportation and commercial and defense marine-driving categories such as construction, forestry, mining, material handling and crane equipment, on-highway transportation, power generation, marine, engines and transmissions, industrial parts and ERS. Wajax's power generation integration centre, primary ERS and marine engineering teams and financial shared services centre are in Quebec.



Location count	Team members
17	189

**Atlantic**

Important customer markets include construction, forestry, mining, commercial and defense marine and transportation-driving categories such as construction, forestry, mining and material handling equipment, on-highway transportation, marine, engines and transmissions, industrial parts and ERS.



Location count	Team members
33	708

**Ontario**

Important customer markets include construction, forestry, distribution, mining, manufacturing, utilities and transportation-driving categories such as construction, forestry, mining, material handling and crane equipment, on-highway transportation, power generation, marine, industrial parts and ERS. Wajax's corporate and support functions are located in Ontario.



# Driving Our Strategy

The goal 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. We are focused on delivering a strong experience for our customers and employees through the execution of clear plans in five key areas:

Record revenue of  
**\$1.55** billion

**32,000**  
customers

**62**  
Net Promoter  
Score®

**42,500**  
CSC calls

Customer Support Centres (CSCs) will provide customers and branches 24/7 access to experts in all product and service categories, helping to address Wajax's most important service priority – allowing customers to reach the right Wajax representative quickly. CSCs can be accessed directly by a customer or by branch staff who require technical assistance to service a local client. The CSC concept was piloted in Ontario in 2019 and will be expanded to additional Ontario and eastern Canada markets in 2020. The CSC handled approximately 42,500 customer calls during the test and together with branch support, achieved a significant improvement in customer service.

**Investing in our team** – The safety, well-being and engagement of our team of nearly 2,900 technicians, sales professionals, support staff and leaders is the foundation of our company.

**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.

**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.

**Accretive acquisitions strategy** – We have 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.

**Investing in our infrastructure** – We are making major changes to our infrastructure to improve the consistency of customer service and lower costs. Our current programs include the ongoing consolidation of our branch network, investing in new information systems and implementing Customer Support Centres that provide 24/7 customer support in all product and service categories.

Each of these areas is further described in this report.





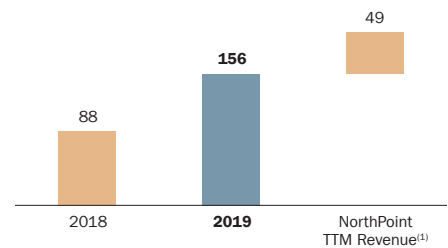
# Engineered Repair Services (ERS)



NorthPoint Technical Services (NTS) was acquired by Wajax in January 2020. NTS operates nine locations across Canada that are complimentary to Wajax's existing ERS network and has a skilled workforce of 177 specializing in electro-mechanical repair, a critical area of ERS services. The combination of NTS' branch network and technical skills with Wajax's sales force and customer relations are expected to result in substantial growth in our ERS business.

## 617 ERS employees

ERS Revenue (\$ millions)



(1) Trailing Twelve Month (TTM) revenue of NorthPoint Technical Services to December 31, 2019.

Wajax estimates the ERS market to be approximately \$5 billion annually for commercial and resource customers. The market is highly fragmented and generally comprised of local or regional service providers that specialize in shop and field repair and maintenance of various types of plant equipment. Generally, the largest consumers of ERS services are resource companies who manage extensive extraction and processing operations and are highly sensitive to uptime and reliability.

ERS is an important growth category and competitive differentiator for Wajax. It increases our range of services, improves our ability to meet the needs of a wide range of industrial and resource customers and compliments our industrial parts category by providing additional parts volume. Wajax provides an increasingly diverse range of ERS services including engineering, design, fabrication, repair, preventative maintenance and reliability services for electro-mechanical, bearings, power transmission, hydraulic, process and instrumentation systems. The combination of Wajax's customer reach, deep market knowledge, national coverage and manufacturing relationships are catalysts for growth in ERS.

Our strategy combines organic growth plans and acquisitions. Revenue grew 77% to \$156 million in 2019 due to the combination of our legacy ERS business and the first full year of operation of Groupe Delom, which we acquired in October 2018. In January 2020, Wajax announced the acquisition of NorthPoint Technical Services (approximate annual volume of \$49 million), adding further to the geographic reach and scale of the business.



# Investing in Our People

Wajax's team of almost 2,900 technicians, sales professionals, support staff and leaders is our most important asset. Our customer service level is a direct reflection of the environment we create for our team.

0.93 TRIF<sup>(1)</sup>

1.02 in 2018

92%

health and safety  
audit score

90% in 2018



Canadian Mental  
Health Association  
Mental health for all



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

Wajax was 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.

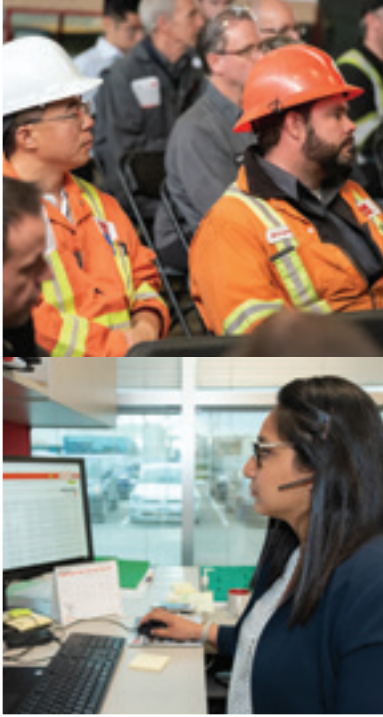
Approximately 20 Town Hall meetings were held in 2018 which brought together branch leadership teams to discuss the most important areas of improvement from the perspectives of customers and employees. The "Voice Of" programs resulted in 88 local action plans that were used by site managers to engage their teams in helping to improve their location's performance in priority areas of customer service and employee satisfaction. In total, approximately 80% of Wajax employees have been engaged in their location's Voice of the Customer and Voice of the Employee programs.

In 2019, we focused on four priorities set by our team:

- **Health and Safety** – The most important goal in our company is that everyone goes home safe at the end of every shift. Based on the hard work of all employees, we achieved our safest year ever, based on an 8% reduction in recordable injuries and resulting in a TRIF rate of 0.93. In addition to new plans and programs for individual safety, we launched a development program for frontline leaders to improve our support to them in helping to manage the safety of their local team.
- **Communications** – 2019 saw some important improvements in how we communicate throughout the organization. In addition to maintaining a high-level of shop-floor interaction between leaders and their teams, Wajax launched its new Navigator website used internally for a broad range of interbranch information sharing, customer service and employee stories. Navigator is an important tool to satisfy the interest of our employees on Wajax's diversity of markets, customers and projects.
- **Personal Development** – Access to technical, sales and leadership training is an important aspect of employee satisfaction. Wajax implemented a new Learning Management System in 2019 that now houses over 2,000 individual courses available to our team. In addition, new general leadership training was piloted and is rolling out to an expanded group of local managers in 2020.
- **Onboarding New Team Members** – Getting off to a good start as a new employee builds confidence quickly. In order to improve the experience of new team members, we developed new standards in the orientation process based on defined schedules and personal follow-ups. Ensuring a positive experience for new team members is a major factor in reducing voluntary turnover.



## Voice of the Employee (VoE)



The objective of the “Voice of the Employee” program is to use feedback from employees to prioritize areas of improvement for Wajax that will increase employee satisfaction, continuously improve the alignment of local leaders and their teams and improve our service to customers.

Progress is measured throughout the year based on employee surveys that include individual questions targeting specific areas of improvement. Overall employee satisfaction is based on an employee Net Promoter Score (eNPS). Wajax’s eNPS score at the end of 2019 was +10, an 11 point increase from 2018. eNPS scores between 0 and +30 are considered good and scores in excess of 30 are considered excellent.

Employees defined the most important areas of improvement as: communications, performance feedback, training and development and the onboarding of new team members.

In 2019, local leaders participated in facilitated planning sessions and developed action plans for their sites to address areas deemed important by employees. Progress was measured quarterly and is factored into leadership incentive compensation in 2019 and 2020.

**11**  
point increase  
in eNPS  
to last year

**79%**  
of employees  
understand  
and are  
engaged  
in VoE

## Voice of the Customer (VoC)



The objective of the “Voice of the Customer” program is to use feedback to prioritize areas of improvement for Wajax that will improve customer service in each of the main types of customer interactions – equipment sales, parts sales and service work orders. Each of these transaction types is “mapped” to understand the key points of success that the customer deems important.

Progress is measured throughout the year based on customer surveys that include individual questions on the main interaction points in each transaction. Overall customer satisfaction is based on a customer Net Promoter Score (cNPS). Wajax’s cNPS score at the end of 2019 was +62, a 9 point increase from 2018. cNPS scores between 0 and +50 are considered good and scores in excess of 50 are considered excellent.

Customers defined the most important areas of improvement as: reaching the right person quickly (all transaction types), parts availability service levels and follow-up (all transaction types and especially with service work orders).

In 2019, local leaders participated in facilitated planning sessions and developed action plans for their sites to address areas deemed important by customers. Progress was measured quarterly and is factored into leadership incentive compensation in 2019 and 2020.

**9**  
point increase  
in cNPS  
to last year

**80%**  
of employees  
understand  
and are  
engaged  
in VoC

# Investing in Our Customers

The diversity of Wajax's market knowledge, technical capabilities, broad product and service offer and manufacturer relationships makes every Canadian industrial or resource company a potential customer. Our goal is to maximize our potential with each customer by understanding their objectives and then configuring our business in a manner that best suits their needs. The following fifteen customer stories demonstrate the diversity of our ability to serve customers and are drawn from the approximately 900,000 customer transactions we completed in 2019.



## North Warning System Short Range Radar Sites

Working with a major defense contractor, Wajax is updating the power generation systems for the North Warning System Short Range Radar sites. The majority of the 37 sites are located in the Canadian Arctic and provide the Canadian and U.S. departments of defense with intrusion warnings.

The project involves replacement of over 100 systems with new units designed, built and placed in hardened crates for shipping from Wajax's Drummondville, Quebec power generation integration centre. Wajax's team worked closely with our engine partners at Deutz on this project.

Site work is performed in remote areas of the Arctic, with most locations accessible only by helicopter. The sites are required to operate continuously, requiring Wajax's 3-person installation crews to be onsite for up to nine days, working in harsh conditions and under tight timelines to install the new generators and avoid service interruptions. With a focus on safety and timelines, delivery of the units is expected to be completed in 2021.

## Hitachi Reliability Unsurpassed – Even Under Extreme Conditions

The Hitachi EX8000 is one of the world's largest and most reliable hydraulic mining shovels. With a bucket capacity of up to 43 cubic meters, it can fill an ultra-class mining truck in roughly five passes. While the power of the machine is obvious, its reliability makes it a trusted asset for many of Canada's large surface mining operations.

The reliability of the EX8000 was recently demonstrated by a major Wajax customer during a prolonged cold stretch when temperatures ran to  $-40^{\circ}\text{C}$  and the site's cable shovel loading fleet was down due to the extreme cold. Mine operations leaders repositioned their EX8000s to be the sole production loaders for a 3-day period and the EX8000s operated with near perfect 98.5% reliability, stopping only for fuel and maintenance checks.

The combination of the power and reliability of Hitachi products and the sales, technical and aftermarket support provided by Wajax, have created strong partnerships with our mining customers with three additional large shovels scheduled for delivery in 2020.



## Geared Up to Service the Oil Sands

Ore conveyance and processing systems are critical components in an oil sands mine, and main drive gear boxes are key to the operation and reliability of these systems.

A major oil sands customer experienced a critical late night failure in a main drive gear box during extreme weather conditions and requested that Wajax assess the problem and recommend a solution that would allow the customer to restart the affected operation. Wajax technical support was onsite quickly and completed a diagnosis of the problem within hours. With no spare gear boxes available at the customer's site, Wajax's technical team worked closely with the customer and provided support for an in-situ repair allowing a safe re-start of the system as quickly as possible.

The customer's satisfaction with Wajax's responsiveness and technical knowledge resulted in further support to the customer for additional gear box storage, maintenance, reconditioning and preservation services.

When oil sands and mining customers have difficulties in material handling and processing systems, Wajax is there quickly and can apply technical expertise across a broad range of manufacturers and industries to get the customer running.





### When It Snows, These Machines are Ready to Go

Montreal sees a lot of snow and relies on snow removal company Roxboro to keep things moving at the airport, on highways and at major shopping centers across the region. As one of the largest construction and snow removal companies in the business, Roxboro leveraged its extensive fleet of more than 130 wheel loaders to get the job done. With winter approaching and some machines coming to the end of their life cycle, it was time to add some new muscle to its snow removal arsenal. To support this and to continue to deliver excellent service while meeting new emissions standards, Roxboro turned to Wajax which provided a fleet of new-to-market Hitachi wheel loaders in a range of sizes to meet Roxboro's requirements. With engines from both Cummins and Isuzu, the loaders are very efficient and meet all required emissions standards – exactly what Roxboro needed.

Wajax is continuing to expand the presence of Hitachi wheel loaders in Canada with construction, municipal and mining customers.

### Sugar Syrup Filtration System Enhances Purification and Significantly Reduces Cost

For Wajax's client, one of Canada's largest refiners of cane sugar, filtration is a key step in the production process. Its existing filtration system was changed on a frequent basis due to high contamination. The frequent shutdowns resulted in production downtime as well as a large amount of sugar syrup being wasted. Wajax was entrusted to provide a tailored solution to address downtime and safety hazards and proposed the 3M DF Series Filtration system. Upon completion of an initial trial, it was concluded that the 3M technology provided considerable improvement in service life as the increased filtration surface area achieved up to four times the throughput compared to the previous filters. The Wajax solution, improved the number of bags per batch, lowered labour hours, and reduced production downtime and product waste.



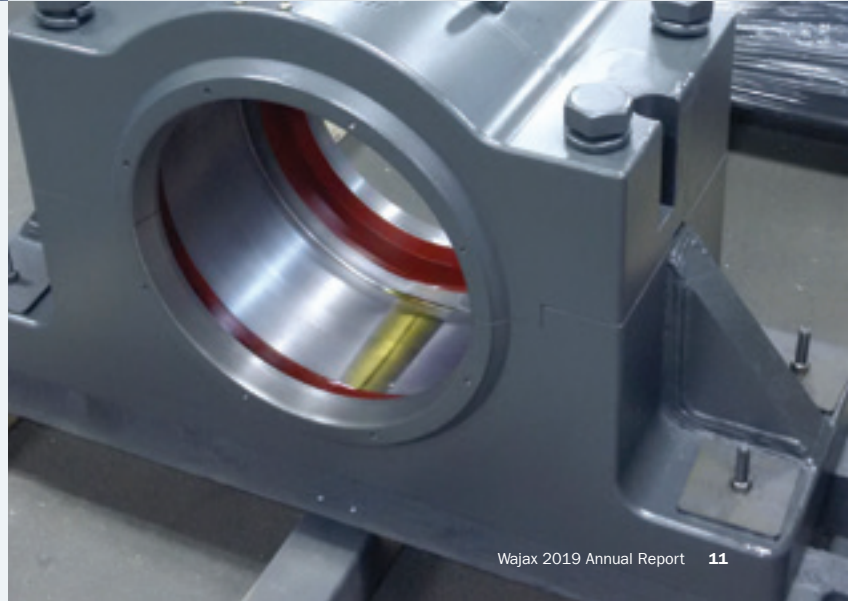
### Gear Motor Solution Withstands Harsh Outdoor Conditions

A customer's bulk material handling system had experienced repetitive failures operating in a very difficult outdoor environment affected by ice, snow, rain and dust. The system is intended to operate 24 hours, seven days a week, but was impacted by a major component which was obsolete causing reliability and costly maintenance issues. The customer required an up-to-date and highly reliable replacement that would eliminate unplanned maintenance in the challenging environment. Wajax's technical team worked closely with the customer and partners at Sumitomo to implement improvements to the system that were engineered to improve reliability through new seal technology, integrated heating systems to improve cold weather operations and modular components to simplify installation and reduce future maintenance costs. The changes have been proven in operations to have solved the customer's repetitive failure issue, making this important process more reliable and allowing the customer to operate this key material handling system with confidence.

### Custom Pillow Block Bearings Prevent a Costly Mine Shutdown

Scheduled maintenance shutdowns are important events at a mine and getting through the maintenance period safely and on schedule is essential.

After scheduling a maintenance shutdown, a major mining customer realized that they were missing required parts with an expected lead time of 16 weeks for the parts to arrive, and the shutdown was taking place in just five weeks. The project required two sets of custom pillow blocks along with other necessary components. With time of the essence, Wajax and its suppliers teamed up to deliver an innovative solution. Combining their knowledge, experience and skills with state-of-the-art machinery, fully machined steel plates were delivered instead of castings. Wajax and its suppliers worked 16-20 hours a day, seven days a week during a period of five weeks – successfully delivering the pillow blocks in time for the customer's shutdown and saving the customer considerable cost and delay.



## New Gearbox Leads to a Bigger Mix for Growing Chocolate Fix

One of the largest cocoa processor and chocolate ingredient suppliers in North America had plans to significantly expand production. The project required an investment in larger and newer mixing tanks. In partnership with a strategic vendor, SM Cyclo/Sumitomo, Wajax was enlisted to provide technical support and the required drawings for the gearboxes. The project included a Sumitomo gearbox with a high horsepower electric drive motor. Based on the outstanding success of the project, Wajax completed a subsequent project of four identical tanks for another area of the plant. The Canadian project extended into international growth opportunities, with co-workers in the United States taking notice and contracting the new build of five other tanks, with Wajax as the solution partner for the project.



## Digging for a Living

David Stalker Excavating Ltd. was hired by Oak Bay Marine Group in Ladysmith B.C. to excavate a road leading to their new marina, as well as the adjacent mill site. David's crew would be digging a tremendous amount of material from some of the rockiest terrain on Vancouver Island. David needed a powerful excavator that could spend long days digging through hardened earth and stone. However, powerful machines can be big and unusable in areas where space is limited. Space for this job wasn't an issue, but it would be in the future – and David didn't want a machine he could only use today. For this job, David chose the Hitachi ZX345, a "zero-tail-swing" excavator. Its powerful engine could easily get through tough earth and the zero-tail-swing meant it could maneuver in tight spaces. David's new Hitachi 345 had many expectations to live up to, and it met every one of them. His operators love the three-pump hydraulic system as it gave them fast cycle times, and the power-boost button meant there was very little it couldn't get through.

## Ensuring a Wood Plant Keeps Things Moving Safely

A wood pelletizing plant encountered operational challenges with sawdust storage. As sawdust and other wood materials were added to storage silos, the weight caused build-up and blockages that can lead to the overheating of kiln dryers used in the production process. The plant needed a solution to monitor and control the flow of wood material to prevent blockages and detect if chutes were plugged. There was also another unique need – to be able prevent metal from entering the pelletizing machine. Wajax partnered with the client to assess the best custom solution, and provide expertise addressing safety and operational challenges. This included the provision of numerous multi-vane paddle Roto-Bindicator™ Pro metal detectors. Wajax also ensured a magnetic paddlewheel was incorporated. With Wajax's technical and safety expertise, the new system was not only able to reduce the risk of fire and help increase safety for personnel, but also enhance operational productivity for the client.



## Upgrading Columbia Icefield Adventure "Ice Explorer" Tour Vehicles

Deep in the Canadian Rockies lies one of the largest non-polar ice fields in the world – the Columbia Icefield. The icefield is home to six major glaciers, including the most imposing one – the Athabasca Glacier. Tour provider Columbia Icefield Adventure transports visitors in specialized coach vehicles called Ice Explorers, which provide safe all-terrain mobility on the glacier and an up-close sight seeing experience. In season, the Ice Explorer coaches transport thousands of passengers daily, running up to 16 hours a day.

Meeting stringent environmental standards is top-of-mind for Columbia Icefield Adventure and they chose to rebuild and retrofit coaches with modern engine technology. Using engines from Wajax's partners at MTU, Wajax provided a full ground-up rebuild for the vehicles, including new powertrain systems that meet exacting emissions standards.

"To us, partnering with a company that can work with us regularly on maintenance and evolving our coaches is very important," says Corey Donovan, general manager, Columbia Icefield Adventure. "Before the rebuilds, the Ice Explorer engines would idle on the glacier to maintain heat in the passenger cabin. By eliminating the need to idle, we minimize our impact on the environment and improve our guests' experience on the glacier."



### Hydrogen Fuel Cells for Improved Productivity

One of Canada's largest retailers was reviewing innovative ways to improve efficiency and safety, and reduce power use in their distribution operations. Hundreds of lead acid battery powered forklifts ran 24 hours a day, seven days a week and were causing problems, including acid spills, inefficient battery changeovers, carbon recycling and health and safety issues. The company chose hydrogen as a solution, including fuel production and fuel cells to power the forklifts. After a detailed evaluation of options, Wajax and Hyster's Nuvera fuel cell systems were selected. With Wajax providing planning, technical support, installation and training, the Nuvera system allows the existing mixed fleet of machines to be retrofit with the new hydrogen systems leading to lower emissions, elimination of acid spills, removal of battery charging stations and improved safety. Wajax and Hyster have delivered over 100 fuel cells to date and Wajax has developed specialized technical training to safely support this new technology. The project is expected to increase the retailer's productivity and safety and lower its carbon footprint.

### Family Construction Company Finds Itself in a Tight Spot

Kang Construction Ltd. has been a Wajax customer for over 20 years. Kang is a family-owned company in need of a fleet of excavators that could haul a tremendous amount of material, all within the tight quarters of the city of Calgary. They needed powerful machines that were comfortable to use in a very compact size. Wajax supplied a fleet of Hitachi excavators that included large construction class units and compact machines including a ZX345 used in the excavation of the Foothills Hospital Calgary Cancer Centre. This Hitachi model is an "ultrashort" excavator with reduced tail-swing. Kang was incredibly happy with the performance of their Hitachi excavators. The reduced tail-swing of the all new ZX345 worked perfectly, and the excavator was able to function at its highest potential, regardless of the restricted area. Not only is it efficient, but it has also become a favourite among Kang's employees.



### Gas Turbine Filtration System Optimizes Maintenance

A global power generation company had excessive maintenance costs related to turbine service. Their turbine experienced frequent blade fouling that required it to be taken offline for cleaning, resulting in inefficient timelines between air filter changes. They needed an innovative filtration system that would provide solutions to several challenges, including a need to reduce moisture bypass through the filters into the turbine and eliminating inner liner corrosion issues adding to the turbine blade fouling. Wajax and its partner Donaldson worked together to assess the system and proposed changes to improve reliability through the deployment of a new filtration system. The new system provided an advanced filtration mechanism with anti-corrosion properties that improved efficiency, lowered turbine fouling and reduced the frequency of required cleaning. Wajax and Donaldson have an excellent history of working together to bring advanced filtration systems to customers.

### A Contractor's Training Program to Build Capacity in Local Forestry Community

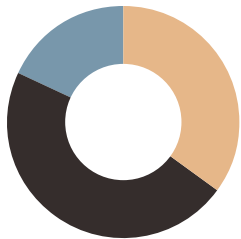
Goliboski, a contractor based in Thunder Bay, Ontario, started a training program with Confederation College for the Agoke Development Corporation – an organization that prepares First Nations people for work in the Ogoki Forest. The new training program is designed to give local First Nations communities an opportunity to gain the necessary training to be skilled equipment operators in the forestry industry. After acquiring training and safety certificates, students complete a final test with their machinery. Goliboski uses purpose-built forestry machines from Wajax's partner – Tigercat. Having owned Tigercat machinery throughout the company's history, the customer knew the significant benefits offered by the brand. In addition to power, durability and ease of use, Tigercat's new digital telematics system allows customers to view operations remotely in real-time, providing reassurance that things are on track. Tigercat and Wajax work together to offer the best forestry equipment and support in the industry.



# Driving Sustainable 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 (%)



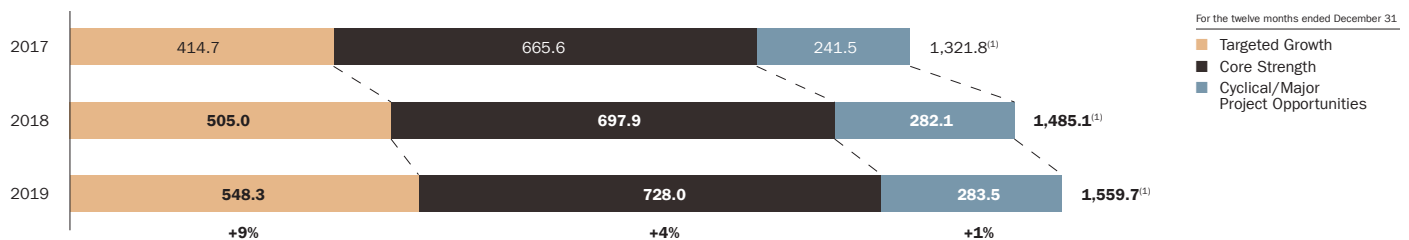
For the twelve months ended December 31			
	2019	2018	2017
Targeted Growth	35%	34%	32%
Core Strength	47%	47%	50%
Cyclical/Major Project Opportunities	18%	19%	18%

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 2019, these categories collectively grew by 9%.
- 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 2019, these categories collectively grew by 4%.
- 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 2019, these categories collectively grew 1%.

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



## Targeted Growth

- Construction revenue decreased by 17% driven primarily by a 14% decline in demand.
- Material Handling revenue increased 14% driven by a 13% increase in new equipment sales, ongoing investment in rental and positive market conditions.
- ERS revenue increased 77% driven by organic growth of 18% and the acquisition of Groupe Delom.

## Core Strength

- Power and Marine revenue increased 5% based on large project deliveries.
- Industrial Parts revenue increased 1% based on a broad range of categories.
- Forestry revenue increased 20% due primarily to higher equipment sales.
- On-Highway decreased 6%.

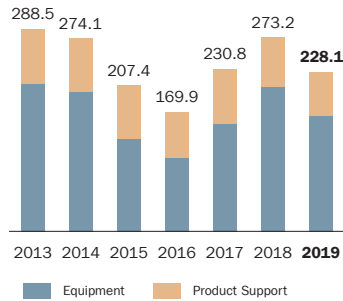
## Cyclical/Major Project Opportunities

- Mining revenue increased 4% based on strong equipment and product support revenue in western Canada related primarily to coal and oil sands customers.
- Engines and Transmissions revenue decreased 9% due to conditions in the oil and gas market.
- Crane/Utility increased 14%.



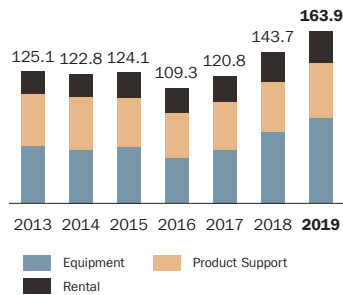
## Targeted Growth (\$ millions)

### Construction



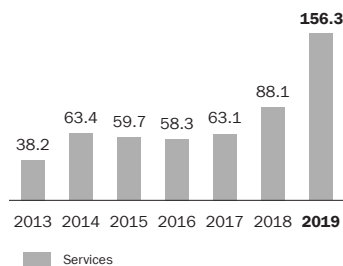
Working closely with our partners at Hitachi, Bell and other manufacturers, we plan to continue to grow our market share in construction equipment, focusing on excavators, wheel loaders and articulated dump trucks. Wajax offers core construction products, a full range of aftermarket services, enhanced sales coverage and is testing new rental options on heavy equipment to ensure we are meeting the needs of our construction customers. 2019 revenue was affected by a 14% decline in the Canadian construction equipment market.

### 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)

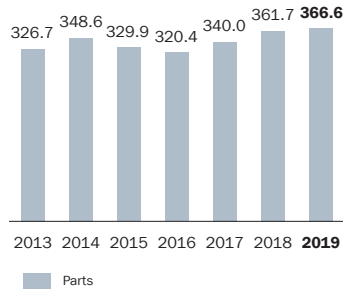


Wajax continues to build ERS capabilities, offering shop and field services, commissioning, design, repairs and rebuilds, reliability and installation services. Our organic growth strategy includes a focus on major account development for industrial and resource customers and enhanced services including asset management, condition monitoring and predictive maintenance. Acquisitions are expected to play an important role in our business. 2019 revenue was positively affected by organic growth and acquisition.

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

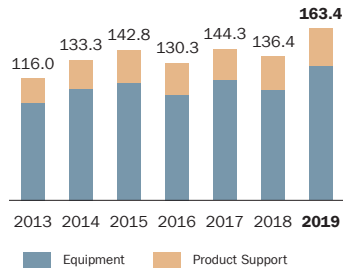
## Core Strength (\$ millions)

### Industrial Parts



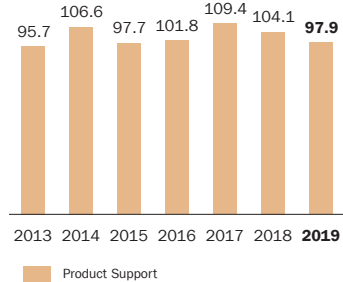
Working closely with major vendors, including SKF, Timken, ITT, 3M, Eaton and Moyno, Wajax offers its customers expert service and support across a full range of bearings and power transmission, process and fluid power products. Industrial Parts is a very significant revenue contributor and an important 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



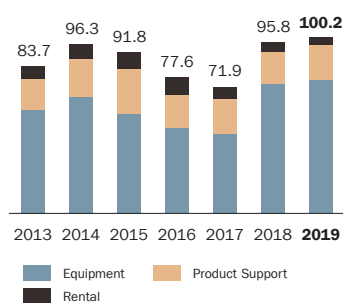
In partnership with Tigercat and Hitachi, Wajax offers an industry-leading range of equipment and aftermarket services to logging contractors and other forestry customers. Wajax has achieved strong market share in a number of important product areas and continues to see growth opportunities as manufacturing 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 service. Growth is based on ongoing improvements in our customer services and expansion of our services to additional vehicle systems.

### Power Generation/Marine

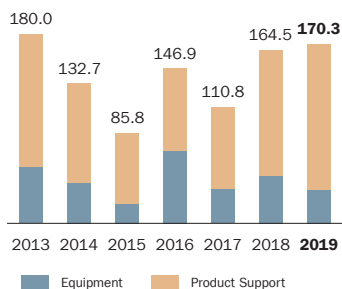


Standby, prime power and co-generation power systems are an important focus for Wajax and our primary partner Rolls-Royce Power Systems/MTU On-Site Energy. Wajax's legacy strength in resource industries has been augmented to focus on growth areas including data centres, health care and water treatment. 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.

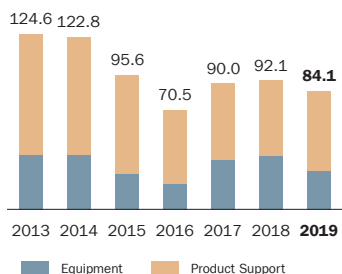
## Cyclical/Major Project Opportunities (\$ millions)

### Mining



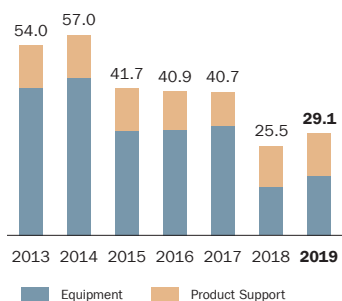
Working closely with Hitachi, Wajax is a leader in the sales and service of large hydraulic mining shovels, used in surface mining operations across Canada, and continues to develop new opportunities in the rigid frame mining truck market. To expand the range of products and services available to our mining customers, Wajax also provides 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, Volvo and Deutz. To partially compensate for the cyclical nature in this category, Wajax continues to focus on aftermarket and re-power services. This category continued to be negatively affected by weak Canadian conventional oil and gas markets.

### Crane/Utility



Working with partners such as Terex, 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.

# Message from the Chairman

Wajax's primary objective during 2019 was the continued execution of its growth strategy. Building on adjustments made in 2018 to increase focus on categories offering more resilient growth, the corporation again delivered stronger financial results – despite the more challenging market conditions which emerged as the year progressed. The corporation also advanced its major infrastructure initiatives, increased its financial flexibility and added to its ERS capabilities.

## 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.

It was another busy year at Wajax, with Mark and his team continuing to work diligently on the execution of the corporation's growth strategy. Consistent with that focus, the majority of Wajax's growth in 2019 again came from Targeted Growth categories – categories offering Wajax more resilient growth throughout the commodity cycle. Consolidated performance in these categories was strong and the corporation delivered record revenue and increased net earnings – despite weakening conditions in western Canada and a significant decline in the demand for construction equipment nationally. The corporation also continued to advance its major initiatives, such as its new ERP system and Customer Support Centres, each of which will help transform Wajax and the experience it provides to its customers. Steps taken during the year to increase the corporation's financial flexibility, including the public offering of senior unsecured debentures completed in the fourth quarter, will help to ensure that the corporation has sufficient capital to pursue strategic acquisitions – such as the acquisition of NorthPoint Technical Services which closed in early January 2020. Last, but very certainly not least, Wajax employees achieved another record year in workplace safety through a continual focus on injury prevention. The health and safety of the Wajax team has become a fundamental aspect of the corporation's culture.

While continuing to monitor the pace of change at the corporation, the board shifted its attention during the year towards the changing market conditions and their impact. Although these conditions dampened the financial expectations we held at the outset of the year, the stronger financial results achieved in spite of them underscore the progress made in transforming Wajax since the strategic reorganization announced in 2016. As a board, we believe that these results also validate the corporation's growth strategy and its emphasis on more resilient product categories and regional diversification. As a result, we remain very confident in that strategy and the direction of Wajax.

Regrettably, Anne Bélec has advised that she will not be standing for re-election as a director of the corporation. On behalf of the board, I thank Anne for her contributions and wish her all the best as she takes on other challenges.

As the important work continues, Wajax employees continue to show their mettle. On behalf of the board, I thank them for their energy and enthusiasm. Thank you as well to the corporation's many loyal customers and suppliers for their continued support, and to my fellow directors for their counsel throughout the year.



**Robert P. Dexter**  
Chairman of the Board

- Audit Committee
- ▲ Human Resources and Compensation Committee
- Governance Committee

# 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, 2019. This MD&A should be read in conjunction with the information contained in the consolidated financial statements and accompanying notes for the year ended December 31, 2019. Information contained in this MD&A is based on information available to management as of March 2, 2020.

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](http://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 goal 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. Wajax is focused on delivering a strong experience for its customers and employees through the execution of clear plans in five key areas:

- **Investing in the Wajax team** – The safety, well-being and engagement of the Corporation's team of nearly 2,900 technicians, sales professionals, support staff and leaders is the foundation of the Corporation.
- **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.
- **Executing a clear organic growth strategy** – The Corporation has classified each of 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, capital, personnel and marketing) are allocated appropriately.
- **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.
- **Investing in the Wajax infrastructure** – The Corporation is making major changes to its infrastructure to improve the consistency of customer service and lower costs. The Corporation's current programs include the ongoing consolidation of its branch network, investing in new information systems and implementing Customer Support Centres that provide 24/7 customer support in all product and service categories.

## Outlook

Wajax expects that the more challenging market conditions that emerged in 2019 will continue in 2020, resulting in pressure on capital equipment demand. Equipment utilization rates, however, are expected to be generally stable on a full year basis, which will support parts and service volumes. Based on manufacturer discussions and industry information, market conditions are anticipated to improve later in 2020.

The Corporation's objective for the year is to manage the business and capital conservatively until trends in the market improve. Market-oriented pressure on consolidated revenue is expected to be at least partially offset by higher volumes in engineered repair services and industrial parts and expected mining deliveries in the second half of the year. The Corporation has also identified opportunities to improve gross margins, drive additional cost productivity and to lower finance costs based on reductions in inventory in 2020.

The Corporation plans to move forward with the implementation of the new ERP system beginning in the second quarter of 2020. Implementation is expected to occur over an 18 to 24 month time frame in order to minimize the risks associated with the change. The Corporation's branch network optimization program will also continue, including the previously disclosed efforts to monetize selected real estate assets through either sale and leaseback transactions or site closure due to the colocation of branches. Proceeds from the real estate program are expected to be applied to the Corporation's credit facilities.

Wajax will continue to manage with an appropriate balance between pace and market conditions while tracking toward its strategic plan goals and targets.

## Annual and Fourth Quarter Highlights

### 2019 Full Year Highlights

- Revenue increased \$71.4 million or 4.8%, to \$1,553.0 million in 2019 from \$1,481.6 million in 2018. Regionally:
  - Revenue in western Canada of \$623.6 million decreased 4.5% over the prior year due primarily to lower construction and engines and transmissions sales. This was partially offset by higher mining parts and service sales.
  - Revenue in central Canada of \$311.1 million decreased 4.1% over the prior year mainly due to lower construction and power generation sales. This was partially offset by strong forestry equipment sales and higher ERS sales.
  - Revenue in eastern Canada of \$618.3 million increased 22.6% over the prior year due to sales gains in a majority of product categories, including higher ERS, industrial parts, material handling and power generation equipment sales.
- Gross profit margin of 18.8% in 2019 increased 0.4% compared to 2018 due mainly to higher equipment and product support margins offset partially by lower industrial parts margins.
- Selling and administrative expenses as a percentage of revenue decreased 40 bps to 13.7% in 2019 from 14.1% in 2018. Selling and administrative expenses increased by \$3.2 million compared to 2018 due mainly to higher personnel costs as a result of the acquisition of Groupe Delom Inc. ("**Delom**"), Customer Support Centre ("**CSC**") project costs, and higher restructuring and other related costs, partially offset by higher gains on the sale of properties and lower variable incentive accruals.
- EBIT increased \$14.9 million, or 25.4%, to \$73.5 million in 2019 versus \$58.6 million in 2018.<sup>(4)</sup> The year-over-year improvement is primarily attributable to increased revenue and gross profit margins, partially offset by higher selling and administrative expenses and higher restructuring and other related costs of \$1.4 million.
- The Corporation generated net earnings of \$39.5 million, or \$1.98 per share in 2019, versus \$35.9 million, or \$1.82 per share in 2018. The Corporation generated adjusted net earnings of \$41.9 million, or \$2.10 per share in 2019, versus \$39.9 million, or \$2.02 per share in 2018.<sup>(4)</sup>
- Adjusted EBITDA margin increased to 8.4% in 2019 from 6.2% in 2018.<sup>(4)</sup> Adjusted EBITDA margin includes the positive impact related to the adoption of IFRS 16.<sup>(4)</sup> See the Changes in Accounting Policies section.
- The Corporation's backlog at December 31, 2019 of \$218.1 million decreased \$69.9 million, or 24.3%, compared to September 30, 2019 due primarily to lower mining, forestry, power generation and material handling orders. Compared to December 31, 2018, backlog increased \$11.2 million, or 5.4%, due primarily to higher mining orders offset partially by lower power generation, material handling, engines and transmissions and construction orders.<sup>(4)</sup>
- Inventory of \$414.9 million at December 31, 2019 decreased \$20.2 million from September 30, 2019 due to lower equipment and parts inventory in most categories, partially offset by higher mining equipment and parts inventory. Inventory increased \$48.9 million from December 31, 2018 due primarily to higher construction equipment inventory and mining equipment and parts inventory.
- Working capital of \$404.1 million at December 31, 2019 increased \$1.7 million from September 30, 2019 due primarily to higher trade and other receivables and deposits on inventory. These working capital increases were partially offset by lower inventory and higher accounts payable and accrued liabilities. Trailing four-quarter average working capital as a percentage of the trailing 12-month sales was 25.3%, an increase of 0.9% from September 30, 2019 due primarily to the higher trailing four-quarter average working capital. Working capital at December 31, 2019 increased \$69.4 million from December 31, 2018 due primarily to higher trade and other receivables, inventory levels, and deposits on inventory. These working capital increases were partially offset by higher accounts payable and accrued liabilities and current lease liabilities due to the adoption of IFRS 16. Trailing four-quarter average working capital as a percentage of the trailing 12-month sales increased by 3.4% from 2018, due primarily to the higher trailing four-quarter average working capital.

- The Corporation's leverage ratio decreased to 2.60 times at December 31, 2019 compared to 2.81 times at September 30, 2019. The decrease in the leverage ratio was due to the lower debt level combined with the higher trailing 12-month pro-forma adjusted EBITDA.<sup>(1)</sup> The Corporation's leverage ratio increased to 2.60 times at December 31, 2019 compared to 2.45 times at December 31, 2018 due to the higher debt level offset partially by the higher trailing 12-month pro-forma adjusted EBITDA.<sup>(1)</sup>
- On July 2, 2019, the Corporation began the implementation of its new ERP system. Integrity and effectiveness of the system has been evaluated through pilots in a limited number of branches in the latter half of 2019. The Corporation's plans are to move forward with the implementation of the new ERP system beginning in the second quarter of 2020. Implementation is expected to occur over an 18 to 24 month time frame in order to minimize the risks associated with the change.
- In the third quarter of 2019, the Corporation commenced a planned management realignment (the "**Management Realignment**"), resulting in a pre-tax restructuring charge of \$3.7 million recognized in the year relating primarily to expected severance costs. The Management Realignment simplifies the Corporation's regional management structure, further enhances the collaboration between sales and product support, and integrates Delom with the Corporation's legacy ERS business. These changes are expected to result in pre-tax annual savings of \$5.0 million, approximately \$0.5 million of which was realized in 2019.
- In the fourth quarter of 2019, the Corporation entered into two sale and leaseback transactions for two of its owned properties. The proceeds net of transaction costs on the sale of the two properties was \$9.4 million and the net book value was \$2.8 million, resulting in a total gain on the sale of properties of \$6.6 million, of which \$2.3 million has been recognized in the fourth quarter.
- On October 1, 2019, the Corporation amended its senior secured credit facility, extending the maturity date from September 20, 2023 to October 1, 2024.
- On December 4, 2019, the Corporation issued \$50 million of senior unsecured debentures by way of a prospectus offering. On December 11, 2019, a further \$7 million of senior unsecured debentures were issued pursuant to the exercise of an over-allotment option granted in connection with the offering. The \$57 million in senior unsecured debentures (the "**Debentures**") bear interest at a rate of 6.00% per annum, payable semi-annually and mature on January 15, 2025.
- Subsequent to year-end, the Corporation announced on January 13, 2020 the acquisition of all of the issued and outstanding shares of Calgary, Alberta-based NorthPoint Technical Services ULC ("NorthPoint"). The shares were acquired from an affiliate of Denver, Colorado-based Lion Equity Partners for an aggregate purchase price of \$18 million.

#### Fourth Quarter Highlights

- Revenue in the fourth quarter of 2019 increased \$14.2 million or 3.6%, to \$403.9 million, from \$389.8 million in the fourth quarter of 2018. Regionally:
  - Revenue in western Canada of \$164.2 million decreased 1.2% over the prior year due primarily to lower construction equipment and engines and transmissions sales, partially offset by strength in mining equipment sales.
  - Revenue in central Canada of \$82.5 million decreased 6.3% over the prior year mainly due to lower construction equipment sales, partially offset by strong forestry equipment sales.
  - Revenue in eastern Canada of \$157.3 million increased 16.1% over the prior year due to sales gains in a majority of product categories, including higher forestry, material handling, and power generation equipment sales.
- Gross profit margin of 17.6% in the fourth quarter of 2019 increased 0.4% compared to the same period of 2018, due mainly to higher equipment, product support and ERS margins offset partially by lower industrial parts margins and a higher proportion of equipment sales.
- Selling and administrative expenses as a percentage of revenue decreased 180 bps to 12.3% in the fourth quarter of 2019 from 14.1% in the same period of 2018. Selling and administrative expenses decreased by \$5.2 million compared to the fourth quarter of 2018 due mainly to lower variable incentive accruals, a \$2.3 million gain on sale of properties, lower sales-related expenses, and lower non-cash losses on mark to market of derivative instruments.
- EBIT increased \$9.8 million, or 85.2%, to \$21.4 million in the fourth quarter of 2019 versus \$11.6 million in the same period of 2018.<sup>(1)</sup> The year-over-year improvement is primarily attributable to increased revenue and gross profit margins, and lower operating expenses.
- The Corporation generated net earnings of \$12.2 million, or \$0.61 per share, in the fourth quarter of 2019 versus \$6.1 million, or \$0.31 per share, in the same period of 2018. The Corporation generated adjusted net earnings of \$10.1 million, or \$0.51 per share, in the fourth quarter of 2019 versus \$8.3 million, or \$0.42 per share, in the same period of 2018.<sup>(1)</sup>
- Adjusted EBITDA margin increased to 7.9% in the fourth quarter of 2019 from 6.0% in the same period of 2018.<sup>(1)</sup> Adjusted EBITDA margin includes the positive impact related to the adoption of IFRS 16.<sup>(1)</sup> See the Changes in Accounting Policies section.

(1) "Backlog", "Leverage ratio", "Adjusted net earnings", "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.

## Summary of Annual Operating Results

### Statement of earnings highlights

For the twelve months ended December 31	2019	2018	% change
Revenue	\$ 1,553.0	\$ 1,481.6	4.8%
Gross profit	\$ 291.8	\$ 272.3	7.2%
Selling and administrative expenses	\$ 212.8	\$ 209.5	1.6%
Restructuring and other related costs	\$ 5.6	\$ 4.1	36.6%
Earnings before finance costs and income taxes <sup>(1)</sup>	\$ 73.5	\$ 58.6	25.4%
Finance costs	\$ 19.7	\$ 8.8	123.9%
Earnings before income taxes <sup>(1)</sup>	\$ 53.8	\$ 49.8	8.0%
Income tax expense	\$ 14.3	\$ 14.0	2.1%
Net earnings	\$ 39.5	\$ 35.9	10.0%
– Basic earnings per share <sup>(2)</sup>	\$ 1.98	\$ 1.82	8.8%
– Diluted earnings per share <sup>(2)</sup>	\$ 1.93	\$ 1.78	8.4%
Adjusted net earnings <sup>(1)(3)</sup>	\$ 41.9	\$ 39.9	5.0%
– Adjusted basic earnings per share <sup>(1)(2)(3)</sup>	\$ 2.10	\$ 2.02	4.0%
– Adjusted diluted earnings per share <sup>(1)(2)(3)</sup>	\$ 2.05	\$ 1.98	3.5%
Adjusted EBITDA <sup>(4)</sup>	\$ 130.3	\$ 91.2	42.9%
<b>Key ratios:</b>			
Gross profit margin	18.8%	18.4%	
Selling and administrative expenses as a percentage of revenue	13.7%	14.1%	
EBIT margin <sup>(1)</sup>	4.7%	4.0%	
Adjusted EBITDA margin <sup>(1)</sup>	8.4%	6.2%	
Effective income tax rate	26.5%	28.0%	

### Statement of financial position highlights

As at December 31	2019	2018
Trade and other receivables	\$ 238.2	\$ 206.3
Inventory	\$ 414.9	\$ 366.0
Accounts payable and accrued liabilities	\$ (287.7)	\$ (253.0)
Other working capital amounts <sup>(1)</sup>	\$ 38.6	\$ 15.4
Working capital <sup>(1)</sup>	\$ 404.1	\$ 334.7
Rental equipment	\$ 77.0	\$ 73.7
Property, plant and equipment	\$ 42.1	\$ 59.0
Funded net debt <sup>(1)(4)</sup>	\$ 276.5	\$ 222.0

#### Key ratios:

Leverage ratio <sup>(1)(4)</sup>	2.60	2.45
Senior secured leverage ratio <sup>(1)(4)</sup>	2.10	2.45

(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, net of shares held in trust, outstanding for calculation of basic and diluted earnings per share for the twelve months ended December 31, 2019 was 19,998,656 (2018 – 19,686,075) and 20,416,191 (2018 – 20,147,902), respectively.

(3) Net earnings excluding the following:

- after-tax restructuring and other related costs of \$4.1 million (2018 – \$3.0 million), or basic and diluted earnings per share of \$0.21 and \$0.20 respectively (2018 – basic and diluted earnings of \$0.15 per share) for the twelve months ended December 31, 2019.
- after-tax gain recorded on sales of properties of \$2.3 million (2018 – \$0.9 million), or basic and diluted earnings per share of \$0.11 (2018 – \$0.04 per share) for the twelve months ended December 31, 2019.
- after-tax non-cash gains on mark to market of derivative instruments of \$0.4 million (2018 – losses of \$1.6 million), or basic and diluted earnings per share of \$0.02 (2018 – \$0.08 per share) for the twelve months ended December 31, 2019.
- after-tax CSC project costs of \$0.9 million (2018 – nil), or basic and diluted earnings per share of \$0.05 and \$0.04 respectively (2018 – nil) for the twelve months ended December 31, 2019.
- after-tax Delom transaction costs of \$0.3 million, or basic and diluted earnings per share of \$0.02 for the twelve months ended December 31, 2018.

(4) Effective with the reporting period beginning on January 1, 2019 and the adoption of IFRS 16, the Corporation has amended the definition of Funded net debt to exclude lease liabilities not considered part of debt. For comparison purposes, the pro-forma funded net debt and leverage ratio for December 31, 2018 using the amended definition of funded net debt is shown in the table above.

## Annual Results of Operations

For the year ended December 31, 2019, revenue increased 4.8%, or \$71.4 million, to \$1,553.0 million, from \$1,481.6 million in 2018. In addition to regional revenue commentary provided herein, the following factors contributed to the increase in revenue:

- ERS sales have increased due to higher ERS revenues nationally due primarily to the acquisition of Delom in the fourth quarter of 2018 and organic growth in the legacy ERS business.
- Product support sales have increased on strength in mining parts and service sales in western Canada and higher material handling sales in all regions. These increases were partially offset by lower construction sales in western and central Canada and lower on-highway sales in all regions.
- Equipment sales have decreased due to lower construction sales in western and central Canada, lower mining sales across all regions, and lower engines and transmissions sales in western Canada. These decreases were partially offset by higher forestry sales in all regions and higher material handling sales in eastern Canada.

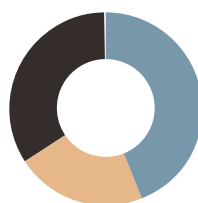
#### Backlog

Backlog of \$218.1 million at December 31, 2019 increased \$11.2 million compared to December 31, 2018 due primarily to higher mining orders offset partially by lower power generation, material handling, engines and transmissions and construction orders.



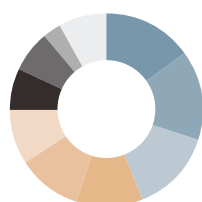
**Revenue by Geographic Region** (\$ millions)

Twelve months ended December 31		2019	\$ change
■ Western Canada	\$	623.6	(29.5)
■ Central Canada		311.1	(13.2)
■ Eastern Canada*		618.3	114.1
<b>Total</b>		<b>\$ 1,553.0</b>	<b>\$ 71.4</b>

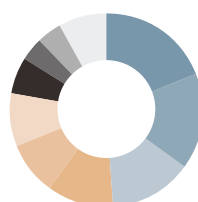


Twelve months ended December 31		2018
■ Western Canada	\$	653.1
■ Central Canada		324.3
■ Eastern Canada*		504.2
<b>Total</b>		<b>\$ 1,481.6</b>

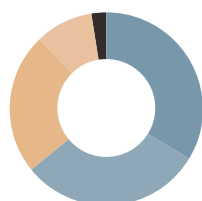
\* Includes Quebec and the Atlantic provinces.

**Revenue by Market**

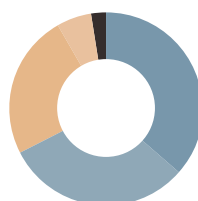
Twelve months ended December 31		2019
■ Construction		15%
■ Mining		15%
■ Forestry		14%
■ Industrial/Commercial		11%
■ Oil Sands		11%
■ Transportation		9%
■ Metal Processing		7%
■ Government and Utilities		7%
■ Oil and Gas		3%
■ Other		8%



Twelve months ended December 31		2018
■ Construction		19%
■ Mining		16%
■ Forestry		14%
■ Industrial/Commercial		11%
■ Oil Sands		9%
■ Transportation		9%
■ Metal Processing		6%
■ Government and Utilities		4%
■ Oil and Gas		4%
■ Other		8%

**Revenue Sources** (\$ millions)

Twelve months ended December 31		2019	\$ change
■ Equipment sales	\$	523.9	(18.9)
■ Product support		476.1	18.5
■ Industrial parts		366.6	4.9
■ ERS		149.6	65.0
■ Equipment rental		36.9	2.0
<b>Total</b>		<b>\$ 1,553.0</b>	<b>\$ 71.4</b>



Twelve months ended December 31		2018
■ Equipment sales	\$	542.8
■ Product support		457.6
■ Industrial parts		361.7
■ ERS		84.6
■ Equipment rental		34.9
<b>Total</b>		<b>\$ 1,481.6</b>

**Gross profit**

For the year ended December 31, 2019, gross profit increased \$19.6 million, or 7.2%, compared to the same period last year due to increased volumes and higher gross profit margins. Gross profit margin of 18.8% in 2019 increased 0.4% compared to 2018 due mainly to higher equipment and product support margins offset partially by lower industrial parts margins.

**Selling and administrative expenses**

For the year ended December 31, 2019, selling and administrative expenses increased \$3.2 million compared to the same period last year. This increase was primarily due to higher personnel costs as a result of the acquisition of Delom, CSC project costs in the current year and higher restructuring costs, partially offset by higher gains on the sale of properties and lower variable incentive accruals. Selling and administrative expenses as a percentage of revenue decreased to 13.7% in 2019 from 14.1% in 2018.

**Restructuring and other related costs**

In the first quarter of 2018, the Corporation commenced the redesign of its finance function (the "**Finance Reorganization Plan**"). The cost of the Finance Reorganization Plan was expected to be approximately \$5.6 million in severance, project management and interim duplicate labour costs, of which \$1.9 million has been recognized in 2019, \$3.5 million was recognized in 2018, and \$0.3 million was recognized in 2017.

In the third quarter of 2019, the Corporation commenced the Management Realignment resulting in an estimated restructuring cost of approximately \$3.7 million recognized in the year relating

primarily to expected severance costs. The realignment simplifies the Corporation's regional management structure, further enhances the collaboration between sales and product support, and integrates Delom with the Corporation's legacy ERS business. These changes are expected to result in pre-tax annual savings of \$5.0 million, approximately \$0.5 million of which was realized in 2019.

**Finance costs**

For the year ended December 31, 2019, finance costs of \$19.7 million increased \$10.9 million compared to the same period in 2018 due primarily to higher average debt levels, due in part to the acquisition of Delom in the fourth quarter of 2018, and interest on lease liabilities of \$5.7 million related to right-of-use assets as a result of the adoption of IFRS 16 on January 1, 2019. See the Liquidity and Capital Resources section.

**Income tax expense**

The Corporation's effective income tax rate for the twelve months ended December 31, 2019 was 26.5% (2018 – 28.0%) compared to the statutory rate of 26.8% (2018 – 26.9%) due to the non-taxable portion of the gain recorded on sales of properties.

**Net earnings**

For the year ended December 31, 2019, the Corporation generated net earnings of \$39.5 million, or \$1.98 per share, compared to \$35.9 million, or \$1.82 per share, in the same period of 2018. The \$3.7 million increase in net earnings resulted primarily from increased revenue and gross profit margins, partially offset by higher operating expenses, higher restructuring and other related costs, and higher finance costs.

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

Adjusted net earnings for the twelve months ended December 31, 2019 excludes restructuring and other related costs of \$4.1 million after-tax, or \$0.21 per share (2018 – \$3.0 million after-tax, or \$0.15 per share), certain non-recurring CSC project costs of \$0.9 million after-tax, or \$0.05 per share (2018 – nil), non-cash gains on mark to market of derivative instruments of \$0.4 million after-tax, or \$0.02 per share (2018 – losses of \$1.6 million after-tax, or \$0.08 per share), and a gain recorded on sales of properties of \$2.3 million after-tax, or \$0.11 per share (2018 – \$0.9 million after-tax, or \$0.04 per share).

As such, adjusted net earnings increased \$2.0 million to \$41.9 million, or \$2.10 per share, for the twelve months ended December 31, 2019 from \$39.9 million, or \$2.02 per share, in the same period of 2018.

### Comprehensive income

For the year ended December 31, 2019, the total comprehensive income of \$38.7 million included net earnings of \$39.5 million and an other comprehensive loss of \$0.8 million. The other comprehensive loss of \$0.8 million in the current year resulted primarily from \$1.0 million of losses on derivative instruments outstanding at the end of the period designated as cash flow hedges.

### Selected Annual Information

The following selected annual information is audited and has been prepared on the same basis as the 2019 annual audited consolidated financial statements except for 2018 and 2017 which have not been adjusted for the adoption on January 1, 2019 of IFRS 16 Leases ("IFRS 16").

For the twelve months ended December 31	2019	2018	2017
Revenue	\$ 1,553.0	\$ 1,481.6	\$ 1,318.7
Net earnings	\$ 39.5	\$ 35.9	\$ 27.4
Basic earnings per share	\$ 1.98	\$ 1.82	\$ 1.40
Diluted earnings per share	\$ 1.93	\$ 1.78	\$ 1.36
Total assets	\$ 1,045.1	\$ 831.2	\$ 694.4
Non-current liabilities	\$ 404.8	\$ 244.1	\$ 160.9
Dividends declared per share	\$ 1.00	\$ 1.00	\$ 1.00

Revenue in 2019 of \$1,553.0 million increased \$71.4 million compared to 2018. The increase is due primarily to ERS strength in central and eastern Canada, forestry strength in all regions, and strong material handling sales in eastern Canada. These gains were partially offset by lower construction revenue in western and central Canada. Revenue in 2018 of \$1,481.6 million increased \$162.9 million compared to 2017. The increase was 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.

Net earnings in 2019 of \$39.5 million increased \$3.7 million, or 10.2%, from 2018. The increase in net earnings resulted primarily from increased revenue and gross profit margins, partially offset by higher operating expenses, higher restructuring and other related costs, and higher finance costs. The Corporation generated adjusted net earnings of \$41.9 million, or \$2.10 per share in 2019, versus \$39.9 million, or \$2.02 per share in 2018. Net earnings in 2018 of \$35.9 million increased \$8.5 million, or 30.9%, from 2017. The 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 2018. 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.

The \$350.7 million increase in total assets between December 31, 2017 and December 31, 2019 was mainly attributable to higher trade and other receivables of \$34.2 million, inventory of \$102.0 million, deposits on inventory of \$30.6 million, goodwill and intangible assets of \$37.9 million, and the recognition of right-of-use assets of \$117.1 million due to the adoption of IFRS 16.

Non-current liabilities at December 31, 2019 of \$404.8 million increased \$243.9 million from December 31, 2017 primarily attributable to the issuance of the Debentures in the fourth quarter of 2019 resulting in a liability of \$54.1 million, an \$81.9 million increase in long-term debt, and an increase in lease liabilities of \$100.7 million due to the adoption of IFRS 16. The increase in long-term debt resulted mainly from higher working capital at December 31, 2019 compared to December 31, 2017 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. The 2018 financial data has not been adjusted for the adoption on January 1, 2019 of IFRS 16.

	2019				2018			
	Q4	Q3	Q2	Q1	Q4	Q3 <sup>(1)</sup>	Q2 <sup>(1)</sup>	Q1 <sup>(1)</sup>
Revenue	\$ 403.9	\$ 365.1	\$ 409.4	\$ 374.6	\$ 389.8	\$ 367.1	\$ 382.3	\$ 342.4
Net earnings	\$ 12.2	\$ 7.6	\$ 11.9	\$ 7.9	\$ 6.1	\$ 9.1	\$ 11.4	\$ 9.3
Net earnings per share								
– Basic	\$ 0.61	\$ 0.38	\$ 0.59	\$ 0.39	\$ 0.31	\$ 0.46	\$ 0.58	\$ 0.48
– Diluted	\$ 0.60	\$ 0.37	\$ 0.58	\$ 0.39	\$ 0.30	\$ 0.45	\$ 0.56	\$ 0.46
Adjusted net earnings <sup>(2)</sup>	\$ 10.1	\$ 10.3	\$ 12.6	\$ 8.7	\$ 8.3	\$ 9.5	\$ 12.3	\$ 9.6
Adjusted earnings per share <sup>(2)</sup>								
– Basic	\$ 0.51	\$ 0.52	\$ 0.63	\$ 0.43	\$ 0.42	\$ 0.48	\$ 0.63	\$ 0.49
– Diluted	\$ 0.50	\$ 0.51	\$ 0.62	\$ 0.43	\$ 0.41	\$ 0.47	\$ 0.60	\$ 0.47

(1) As disclosed in the Corporation's audited consolidated financial statements for the year ended December 31, 2018, a correction of non-material errors in prior periods ("Other adjustments") was recorded impacting the prior year comparative periods.

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

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

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 these items, fourth quarter 2018 adjusted net earnings were \$8.3 million.

First quarter 2019 net earnings of \$7.9 million included after-tax restructuring and other related costs of \$0.7 million, certain non-recurring after-tax CSC project costs of \$0.5 million and after-tax non-cash gains on mark to market of derivative instruments of \$0.4 million. Excluding these items, first quarter 2019 adjusted net earnings were \$8.7 million. Second quarter 2019 net earnings of \$11.9 million included after-tax restructuring and other related costs of \$0.3 million, certain non-recurring after-tax CSC project costs of \$0.3 million and after-tax non-cash losses on mark to market of derivative instruments of \$0.2 million. Excluding these items, second quarter 2019 adjusted net earnings were \$12.6 million. Third quarter 2019 net earnings of \$7.6 million included after-tax restructuring and other related costs of \$2.9 million, and after-tax non-cash gains on mark to market of derivative instruments of \$0.2 million. Excluding these items, third quarter 2019 adjusted net earnings were \$10.3 million. Fourth quarter 2019 net earnings of \$12.2 million included after-tax restructuring and other related costs of \$0.1 million, and after-tax gain recorded on sales of properties of \$2.3 million. Excluding these items, fourth quarter 2019 adjusted net earnings were \$10.1 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](http://www.sedar.com).

## Consolidated Financial Condition

### Capital Structure and Key Financial Condition Measures

	December 31	
	2019	2018
Shareholders' equity	\$ 316.8	\$ 297.0
Funded net debt <sup>(1)(2)</sup>	276.5	222.0
Total capital	\$ 593.3	\$ 519.0
Funded net debt to total capital <sup>(1)(2)</sup>	46.6%	42.8%
Leverage ratio <sup>(1)(2)</sup>	2.60	2.45
Senior secured leverage ratio <sup>(1)(2)</sup>	2.10	2.45

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

(2) Effective with the reporting period beginning on January 1, 2019 and the adoption of IFRS 16, the Corporation has amended the definition of Funded net debt to exclude lease liabilities not considered part of debt. For comparison purposes, the pro-forma funded net debt, funded net debt to total capital and leverage ratio for December 31, 2018 using the amended definition of funded net debt is shown in the table above. See the Non-GAAP and Additional GAAP Measures section.

The Corporation's objective is to manage its working capital and normal-course capital investment programs within a leverage range of 1.5 to 2.0 times and to fund those programs through operating cash flow and its bank credit facilities as required. There may be instances whereby the Corporation is willing to maintain a leverage ratio outside of this range during changes in economic cycles. The Corporation may also maintain a leverage ratio above the stated range as a result

of investment in acquisitions and may fund those acquisitions using its bank credit facilities and other debt instruments in accordance with the Corporation's expectations of total future cash flows, financing costs and other factors. The Corporation's leverage ratio is currently above the target range primarily due to the acquisition of Delom and investments made in working capital. See the Funded Net Debt section.

### Shareholders' Equity

The Corporation's shareholders' equity at December 31, 2019 of \$316.8 million increased \$19.8 million from December 31, 2018, as earnings of \$39.5 million exceeded dividends declared of \$20.0 million.

The Corporation's share capital, included in shareholders' equity on the statements of financial position, consists of:

	Number of Common Shares	Amount
Issued and outstanding, December 31, 2018	20,132,194	\$ 182.0
Common shares issued to settle share-based compensation plans	35,509	\$ 0.5
Issued and outstanding, December 31, 2019	20,167,703	\$ 182.5
Shares held in trust, December 31, 2018	(175,680)	\$ (1.6)
Released for settlement of certain share-based compensation plans	19,567	\$ 0.2
Shares held in trust, December 31, 2019	(156,113)	\$ (1.4)
<b>Issued and outstanding, net of shares held in trust, December 31, 2019</b>	<b>20,011,590</b>	<b>\$ 181.1</b>

At the date of this MD&A, the Corporation had 20,011,590 common shares issued and outstanding, net of shares held in trust.

At December 31, 2019, Wajax had four share-based compensation plans; the Wajax Share Ownership Plan (the "SOP"), the Directors' Deferred Share Unit Plan (the "DDSUP"), the Mid-Term Incentive Plan for Senior Executives (the "MTIP") (with MTIP awards being composed of performance share units ("PSUs") and restricted share units ("RSUs")) and the Deferred Share Unit Plan (the "DSUP").

As of December 31, 2019, there were 361,100 (2018 – 325,171) SOP and DDSUP (treasury share rights plans) rights outstanding, 213,149 (2018 – 290,656) MTIP PSUs and equity-settled DSUP (market-purchased share rights plans) rights outstanding and 334,696 (2018 – 389,295) MTIP RSUs and cash-settled DSUP (cash-settled rights plans) rights outstanding. At December 31, 2019, 347,946 SOP and DDSUP rights were vested (December 31, 2018 – all SOP and DDSUP rights were vested), 15,426 equity-settled DSUP rights were vested (December 31, 2018 – nil), and 9,127 cash-settled DSUP rights were vested (December 31, 2018 – 8,577). Depending on the actual level of achievement of the performance targets associated with the outstanding MTIP PSUs, the number of market-purchased shares required to satisfy the Corporation's obligations could be higher or lower.

Wajax recorded compensation expense of \$3.4 million for the twelve months ended December 31, 2019 (2018 – \$1.8 million) in respect of these plans.

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

	December 31	
	2019	2018 (Pro-forma) <sup>(1)</sup>
(Cash) bank indebtedness	\$ (3.2)	\$ 3.9
Debentures	54.1	—
Long-term debt	225.6	218.1
<b>Funded net debt</b>	<b>\$ 276.5</b>	<b>\$ 222.0</b>

(1) Effective with the reporting period beginning on January 1, 2019 and the adoption of IFRS 16, the Corporation has amended the definition of Funded net debt to exclude lease liabilities not considered part of debt. See the Non-GAAP and Additional GAAP Measures section.

Funded net debt of \$276.5 million at December 31, 2019 increased \$54.5 million compared to \$222.0 million at December 31, 2018.<sup>(1)</sup> The increase during the period was due primarily to cash used in operating activities of \$9.7 million, payment of lease liabilities of \$22.0 million and dividends paid of \$20.0 million.

The Corporation's ratio of funded net debt to total capital increased to 46.6% at December 31, 2019 from 42.8% at December 31, 2018, primarily due to the higher funded net debt level in the current period.<sup>(1)</sup>

The Corporation's leverage ratio of 2.60 times at December 31, 2019 increased from the December 31, 2018 ratio of 2.45 times due to the higher debt level associated with the increase in working capital, partially offset by the higher trailing 12-month pro-forma adjusted EBITDA.<sup>(1)</sup> 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 long 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, 2019, Wajax had the following interest rate hedge contracts outstanding:

- \$104.0 million, expiring in November 2024, with a weighted average interest rate of 2.56%.

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, 2019, Wajax had the following contracts outstanding:

- to buy U.S. \$45.2 million (December 31, 2018 – to buy U.S. \$34.3 million),
- to sell U.S. \$30.5 million (December 31, 2018 – to sell U.S. \$20.9 million), and
- to sell Euro €1.1 million (December 31, 2018 – €2.8 million).

The U.S. dollar contracts expire between January 2020 and March 2021, with an average U.S./Canadian dollar rate of 1.3198.

The Euro contracts expire between January 2020 and November 2020, with an average Euro/Canadian dollar rate of 1.5003.

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, 2019, Wajax had the following total return swap contracts outstanding:

- contracts totaling 365,000 shares at an initial share value of \$8.3 million (December 31, 2018 – contracts totaling 440,000 shares at an initial share value of \$11.5 million)

The total return swap contracts expire between March 2020 and March 2022.

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 value, 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
Undiscounted lease obligations	\$ 158.9	\$ 26.6	\$ 76.5	\$ 55.7
Bank debt	\$ 227.4	\$ —	\$ 227.4	\$ —
Debentures	\$ 57.0	\$ —	\$ —	\$ 57.0
<b>Total</b>	<b>\$ 443.3</b>	<b>\$ 26.6</b>	<b>\$ 303.9</b>	<b>\$ 112.7</b>

The lease obligations relate primarily to contracts entered into for facilities, certain leased vehicles, leased computer hardware, and leased material handling equipment. The bank debt obligation relates to the bank credit facility, and the debentures obligation relates to the Debentures. See the Liquidity and Capital Resources section.

(1) Effective with the reporting period beginning on January 1, 2019 and the adoption of IFRS 16, the Corporation has amended the definition of Funded net debt to exclude lease liabilities not considered part of debt. See the Non-GAAP and Additional GAAP Measures section.

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 2019 contribution level of \$0.5 million as a result of these valuations or any declines in 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 \$6.2 million in 2019 (2018 – \$7.9 million).

### Off Balance Sheet Financing

The Corporation implemented IFRS 16 on January 1, 2019 and recorded right-of-use assets and lease liabilities in the amount of \$81.2 million and \$82.5 million, respectively. See Notes 4, 10 and 13 of the consolidated financial statements and accompanying notes for the year ended December 31, 2019.

It is likely but not reasonably certain that existing leases will 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 \$123.3 million (December 31, 2018 – \$129.0 million) of consigned inventory on hand from a major manufacturer at December 31, 2019, net of deposits of \$33.1 million (December 31, 2018 – \$13.0 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 capital 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, debentures and cash generated from operations.

### Bank and Non-bank Credit Facilities and Debentures

In the fourth quarter of 2019, the Corporation amended its senior secured credit facility, extending the maturity date from September 20, 2023 to October 1, 2024. In addition, the minimum value of the interest coverage ratio covenant was reduced to 2.75:1 from 3.0:1. The \$0.3 million cost of amending the facility has been capitalized and will be amortized over the remaining term of the facility.

At December 31, 2019, Wajax had borrowed \$227.4 million and issued \$5.5 million of letters of credit for a total utilization of \$232.9 million of its \$400 million bank credit facility. Borrowing capacity under the bank credit facility is dependent on the level of inventories on-hand and outstanding trade accounts receivables. At December 31, 2019, borrowing capacity under the bank credit facility was equal to \$400 million.

The bank credit facility contains customary restrictive covenants, including limitations on the payment of cash dividends and an interest coverage maintenance ratio, all of which were met as at December 31, 2019. 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.

In addition, Wajax had \$57 million of Debentures outstanding at December 31, 2019, bearing interest at a rate of 6.00% per annum, payable semi-annually and maturing on January 15, 2025. The Debentures will not be redeemable before January 15, 2023 (the "First Call Date"), except upon the occurrence of a change of control of the Corporation in accordance with the terms of the indenture governing the Debentures (the "Indenture"). On and after the First Call Date and prior to January 15, 2024, the Debentures will be redeemable in whole or in part from time to time at the Corporation's option at a redemption price equal to 103.0% of the principal amount of the Debentures redeemed plus accrued and unpaid interest, if any, up to but excluding the date set for redemption. On and after January 15, 2024 and prior to the maturity date, the Debentures will be redeemable, in whole or in part, from time to time at the Corporation's option at par plus accrued and unpaid interest, if any, up to but excluding the date set for redemption. The Corporation shall provide not more than 60 nor less than 30 days' prior notice of redemption of the Debentures.

The Corporation will have the option to satisfy its obligation to repay the principal amount of the Debentures due at redemption or maturity by issuing and delivering that number of freely tradeable common shares determined in accordance with the terms of the Indenture. The Debentures will not be convertible into common shares at the option of the holders at any time.

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, 2019, Wajax had no utilization of the interest bearing equipment financing facilities.

In addition, the Corporation has an agreement with a financial institution to sell 100% of selected accounts receivable on a recurring, non-recourse basis. Under this facility, up to \$20 million of accounts receivable is permitted to be sold to the financial institution and can remain outstanding at any point in time. After the sale, Wajax does not retain any interests in the accounts receivable, but continues to service and collect the outstanding accounts receivable on behalf of the financial institution. At December 31, 2019, the Corporation continues to service and collect \$13.4 million in accounts receivable on behalf of the financial institution.

As at December 31, 2019, \$167.1 million was unutilized under the bank facility and \$25 million was unutilized under the non-bank facilities. As of March 2, 2020, Wajax continues to maintain its \$400 million bank credit facility and an additional \$25 million in credit facilities with non-bank lenders. 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 capital markets to fund significant acquisitions.

The Corporation's tolerance to interest rate risk decreases/increases as the Corporation's leverage ratio increases/decreases. At December 31, 2019, \$158.1 million of the Corporation's funded net debt, or 57.2%, 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, 2019 and December 31, 2018:

	2019	2018	\$ change
Net earnings	\$ 39.5	\$ 35.9	\$ 3.7
Items not affecting cash flow	88.2	54.8	33.5
Changes in non-cash operating working capital	(50.5)	(33.6)	(16.9)
Finance costs paid on debts	(13.1)	(8.4)	(4.6)
Finance costs paid on lease liabilities	(5.7)	0.0	(5.7)
Income taxes paid	(27.8)	(6.5)	(21.3)
Rental equipment additions	(37.5)	(43.6)	6.1
Other non-current liabilities	(1.4)	(1.4)	0.1
Cash paid on settlement of total return swaps	(1.5)	—	(1.5)
Cash used in operating activities	\$ (9.7)	\$ (3.0)	\$ (6.7)
Cash used in investing activities	\$ (2.0)	\$ (58.9)	\$ 56.9
Cash generated from financing activities	\$ 18.7	\$ 59.7	\$ (41.0)

### Cash Used In Operating Activities

For the year ended December 31, 2019, cash flows used in operating activities amounted to \$9.7 million, compared to \$3.0 million for the same period in the previous year. The increase in cash flows used in operating activities was mainly attributable to higher income taxes paid of \$21.3 million, an increase in cash used in changes in non-cash operating working capital of \$16.9 million, higher finance costs paid on debts of \$4.6 million, and higher finance costs paid on lease liabilities of \$5.7 million, partially offset by an increase in items not affecting cash flow of \$33.5 million.

For the year ended December 31, 2019, rental equipment additions of \$37.5 million (2018 – \$43.6 million) related primarily to material handling lift trucks and construction excavators.

Significant components of non-cash operating working capital, along with changes for the years ended December 31, 2019 and December 31, 2018 include the following:

Changes in Non-cash Operating Working Capital <sup>(1)</sup>	2019	2018
Trade and other receivables	\$ (32.1)	\$ 12.6
Contract assets	7.0	(3.0)
Inventory	(36.3)	(33.2)
Deposits on inventory	(24.1)	(6.6)
Prepaid expenses	1.1	(2.0)
Accounts payable and accrued liabilities	34.9	3.2
Contract liabilities	(1.1)	(4.6)
<b>Total Changes in Non-cash Operating Working Capital</b>	<b>\$ (50.5)</b>	<b>\$ (33.6)</b>

(1) Increase (decrease) in cash flow

Significant components of the changes in non-cash operating working capital for the year ended December 31, 2019 compared to the year ended December 31, 2018 are as follows:

- Trade and other receivables increased \$32.1 million in 2019 compared to a decrease of \$12.6 million in 2018. The increase in 2019 resulted primarily from higher current trade receivables from large oil sands customers and a large material handling equipment delivery to a new customer. The decrease in 2018 resulted primarily from lower trade receivables mainly due to the sale of selected trade accounts receivable in the year compared to the same period in 2017.
- Inventory increased \$36.3 million in 2019 compared to an increase of \$33.2 million in 2018. The increase in 2019 was due mainly to higher construction equipment inventory and mining equipment and parts inventory. 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.
- Deposits on inventory increased \$24.1 million in 2019 compared to an increase of \$6.6 million in 2018. The increase in both years was due primarily to increased deposits related to consignment inventory being held in excess of nine months.
- Accounts payable and accrued liabilities increased \$34.9 million in 2019 compared to an increase of \$3.2 million in 2018. The increase in 2019 resulted primarily from higher trade payables, including higher trade payables related to mining equipment inventory. The decrease in 2018 resulted primarily from lower trade payables, including lower trade payables related to mining equipment inventory.

### Investing Activities

For the year ended December 31, 2019, Wajax invested \$5.9 million in property, plant and equipment additions, compared to \$5.5 million in the same period of 2018. Proceeds on disposal of property, plant and equipment, consisting primarily of proceeds on disposal of properties, amounted to \$10.1 million for the year ended December 31, 2019, compared to \$2.5 million for the year ended December 31, 2018. Intangible assets additions of \$5.4 million (2018 – \$4.8 million) for the twelve months ended December 31, 2019 resulted primarily from software additions relating to the new ERP system currently being implemented.

### Financing Activities

For the year ended December 31, 2019, the Corporation generated \$18.7 million of cash from financing activities compared to \$59.7 million in the same period of 2018. Financing activities for the twelve months ended December 31, 2019 included a net bank credit facility borrowing of \$7.4 million (2018 – \$75.0 million) and the proceeds from issuance of the Debentures of \$57.0 million (2018 – nil), partially offset by the payment of lease liabilities of \$22.0 million (2018 – \$4.2 million) and dividends paid to shareholders of \$20.0 million (2018 – \$19.6 million).

### Dividends

Dividends to shareholders for the 2019 and 2018 years were declared and payable to shareholders of record as follows:

Record Date	Payment Date	Per Share	Amount
March 29, 2019	April 2, 2019	\$ 0.25	\$ 5.0
June 14, 2019	July 3, 2019	\$ 0.25	\$ 5.0
September 16, 2019	October 2, 2019	\$ 0.25	\$ 5.0
December 16, 2019	January 3, 2020	\$ 0.25	\$ 5.0
<b>Twelve months ended December 31, 2019</b>		<b>\$ 1.00</b>	<b>\$ 20.0</b>

Record Date	Payment Date	Per Share	Amount
March 15, 2018	April 4, 2018	\$ 0.25	\$ 4.9
June 15, 2018	July 4, 2018	\$ 0.25	\$ 4.9
September 14, 2018	October 2, 2018	\$ 0.25	\$ 5.0
December 14, 2018	January 3, 2019	\$ 0.25	\$ 5.0
<b>Twelve months ended December 31, 2018</b>		<b>\$ 1.00</b>	<b>\$ 19.7</b>

On March 2, 2020, the Corporation declared a dividend of \$0.25 per share for the first quarter of 2020 payable on April 2, 2020 to shareholders of record on March 16, 2020.

## Fourth Quarter Consolidated Results

For the three months ended December 31	2019	2018	% change
Revenue	\$ 403.9	\$ 389.8	3.6%
Gross profit	\$ 71.1	\$ 67.0	6.2%
Selling and administrative expenses	\$ 49.6	\$ 54.8	(9.5)%
Restructuring and other related costs	\$ 0.2	\$ 0.7	(71.4)%
Earnings before finance costs and income taxes <sup>(1)</sup>	\$ 21.4	\$ 11.6	85.2%
Finance costs	\$ 5.4	\$ 2.9	89.4%
Earnings before income taxes <sup>(1)</sup>	\$ 16.0	\$ 8.7	83.8%
Income tax expense	\$ 3.8	\$ 2.6	46.5%
Net earnings	\$ 12.2	\$ 6.1	99.7%
Basic earnings per share <sup>(2)</sup>	\$ 0.61	\$ 0.31	99.1%
Diluted earnings per share <sup>(2)</sup>	\$ 0.60	\$ 0.30	99.4%
Adjusted net earnings <sup>(1),(3)</sup>	\$ 10.1	\$ 8.3	21.6%
Adjusted basic earnings per share <sup>(1),(2),(3)</sup>	\$ 0.51	\$ 0.42	21.2%
Adjusted diluted earnings per share <sup>(1),(2),(3)</sup>	\$ 0.50	\$ 0.41	21.4%
Adjusted EBITDA <sup>(1)</sup>	\$ 31.9	\$ 23.3	36.9%
<b>Key ratios:</b>			
Gross profit margin	17.6%	17.2%	
Selling and administrative expenses as a percentage of revenue	12.3%	14.1%	
EBIT margin <sup>(1)</sup>	5.3%	3.0%	
Adjusted EBITDA margin <sup>(1)</sup>	7.9%	6.0%	
Effective income tax rate	23.8%	29.8%	

(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, net of shares held in trust outstanding for calculation of basic and diluted earnings per share for the three months ended December 31, 2019 was 20,009,494 (2018 – 19,947,235) and 20,421,685 (2018 – 20,393,145), respectively.

(3) Net earnings excluding the following:

- after-tax restructuring and other related costs of \$0.1 million (2018 – \$0.5 million), or basic and diluted earnings per share of \$0.01 (2018 – \$0.02 per share), for the three months ended December 31, 2019.
- after-tax gain recorded on sales of properties of \$2.3 million (2018 – nil), or basic and diluted earnings per share of \$0.11 (2018 – nil) for the three months ended December 31, 2019.
- after-tax Delom transaction costs of \$0.3 million, or basic and diluted earnings per share of \$0.02 for the three months ended December 31, 2018.
- after-tax non-cash losses on mark to market of derivative instruments of \$1.5 million, or basic and diluted earnings per share of \$0.07 for the three months ended December 31, 2018.

Revenue	2019	2018
For the three months ended December 31		
Equipment sales	\$ 156.5	\$ 139.1
Product support	\$ 110.2	\$ 114.2
Industrial parts	\$ 88.5	\$ 90.5
ERS	\$ 39.2	\$ 36.8
Equipment rental	\$ 9.5	\$ 9.2
Total revenue	\$ 403.9	\$ 389.8

Revenue in the fourth quarter of 2019 increased 3.6%, or \$14.2 million, to \$403.9 million from \$389.8 million in the fourth quarter of 2018. The following factors contributed to the increase in revenue:

- Regionally, revenue increased 16.3% in eastern Canada and decreased 1.0% and 6.2% in western and central Canada respectively.
- Equipment sales have increased due primarily to higher material handling sales in western and eastern Canada, higher mining sales in western Canada, and higher forestry sales in central and eastern Canada. These increases were partially offset by lower construction sales in western and central Canada.

## Backlog

Backlog of \$218.1 million at December 31, 2019 decreased \$69.9 million compared to September 30, 2019 due primarily to decreases in mining, forestry, power generation and material handling orders.

## Gross profit

Gross profit increased \$4.1 million, or 6.2%, in the fourth quarter of 2019 compared to the same quarter last year due to increased volumes and higher gross profit margins. Gross profit margin percentage of 17.6% in the fourth quarter of 2019 increased from 17.2% in the same quarter last year due mainly to higher equipment, product support and ERS margins offset partially by lower industrial parts margins and a higher proportion of equipment sales.

## Selling and administrative expenses

Selling and administrative expenses as a percentage of revenue decreased to 12.3% in the fourth quarter of 2019 from 14.1% in the fourth quarter of 2018. Selling and administrative expenses in the fourth quarter of 2019 decreased \$5.2 million compared to the same quarter last year due mainly to lower variable incentive accruals, the gain on sale of properties, lower sales-related expenses, and lower non-cash losses on mark to market of derivative instruments.

## Restructuring and other related costs

In the third quarter of 2019, the Corporation commenced the Management Realignment, resulting in an estimated restructuring cost of approximately \$3.7 million. In the first quarter of 2018, the Corporation commenced the Finance Reorganization Plan. The cost of the Finance Reorganization Plan was expected to be approximately \$5.6 million in severance, project management and interim duplicate labour costs. During the fourth quarter \$0.2 million has been recognized during the three months ended December 31, 2019, related to both the Finance Reorganization Plan and Management Realignment.

## Finance costs

Finance costs of \$5.4 million in the fourth quarter of 2019 increased \$2.6 million compared to the same quarter last year due primarily to higher average debt levels, due in part to the acquisition of Delom in the fourth quarter of 2018, and interest on lease liabilities of \$1.7 million related to right-of-use assets as a result of the adoption of IFRS 16 on January 1, 2019. See the Liquidity and Capital Resources section.

## Income tax expense

The Corporation's effective income tax rate of 23.8% for the fourth quarter of 2019 (2018 – 29.8%) was lower compared to the statutory rate of 26.8% (2018 – 26.9%) due mainly to the non-taxable portion of the gain recorded on sales of properties. The Corporation's effective income tax rate of 29.8% for the fourth quarter of 2018 was higher compared to the statutory rate of 26.9% due mainly to the impact of expenses not deductible for tax purposes.

## Net earnings

In the fourth quarter of 2019, the Corporation had net earnings of \$12.2 million, or \$0.61 per share, compared to \$6.1 million, or \$0.31 per share, in the fourth quarter of 2018. The \$6.1 million increase in net earnings resulted primarily from increased revenue and gross profit margins and lower operating expenses, partially offset by higher finance costs.

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

Adjusted net earnings for the three months ended December 31, 2019 excludes restructuring and other related costs of \$0.1 million after-tax (2018 – \$0.5 million), or \$0.01 per share (2018 – \$0.02 per share), and the gain recorded on sales of properties of \$2.3 million after-tax (2018 – nil), or \$0.11 per share (2018 – nil).

As such, adjusted net earnings increased \$1.8 million to \$10.1 million, or \$0.51 per share, in the fourth quarter of 2019 from \$8.3 million, or \$0.42 per share, in the same period of 2018.

## Comprehensive income

Total comprehensive income of \$13.0 million in the fourth quarter of 2019 included net earnings of \$12.2 million and an other comprehensive gain of \$0.8 million. In the fourth quarter of 2018, total comprehensive income of \$4.3 million consisted of net earnings of \$6.1 million and other comprehensive loss of \$1.8 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, 2019 and December 31, 2018:

For the quarter ended December 31	2019	2018	\$ Change
Net earnings	\$ 12.2	\$ 6.1	\$ 6.1
Items not affecting cash flow	20.6	17.3	3.3
Net change in non-cash operating working capital	3.3	24.2	(20.9)
Finance costs paid on debts	(3.7)	(2.6)	(1.1)
Finance costs paid on lease liabilities	(1.7)	0.0	(1.7)
Income taxes paid	(0.1)	(1.7)	1.6
Rental equipment additions	(14.2)	(16.3)	2.1
Other non-current liabilities	0.0	(0.4)	0.4
Cash generated from operating activities	\$ 16.3	\$ 26.5	\$ (10.1)
Cash generated from (used in) investing activities	\$ 5.8	\$ (54.1)	\$ 59.8
Cash (used in) generated from financing activities	\$ (18.5)	\$ 35.0	\$ (53.4)

## Cash Generated From Operating Activities

Cash flows generated from operating activities amounted to \$16.3 million in the fourth quarter of 2019, compared to \$26.5 million in the same quarter of the previous year. The decrease of \$10.1 million was mainly attributable to a decrease in cash generated from changes in non-cash operating working capital of \$20.9 million, partially offset by higher net earnings of \$6.1 million and an increase in items not affecting cash flow of \$3.3 million.

Rental equipment additions in the fourth quarter of 2019 of \$14.2 million (2018 – \$16.3 million) related primarily to material handling lift trucks and construction excavators.

Significant components of non-cash operating working capital, along with changes for the quarters ended December 31, 2019 and December 31, 2018 include the following:

Changes in Non-cash Operating Working Capital <sup>(1)</sup>	2019	2018
Trade and other receivables	\$ (40.4)	\$ 29.5
Contract assets	\$ 7.3	\$ (0.4)
Inventory	\$ 24.7	\$ 13.9
Deposits on inventory	\$ (14.3)	\$ 0.2
Prepaid expenses	\$ (0.6)	\$ 1.3
Accounts payable and accrued liabilities	\$ 32.1	\$ (17.1)
Contract liabilities	\$ (5.4)	\$ (3.2)
<b>Total Changes in Non-cash Operating Working Capital</b>	<b>\$ 3.3</b>	<b>\$ 24.2</b>

(1) Increase (decrease) in cash flow

Significant components of the changes in non-cash operating working capital for the quarter ended December 31, 2019 compared to the quarter ended December 31, 2018 are as follows:

- Trade and other receivables increased \$40.4 million in 2019 compared to a decrease of \$29.5 million in 2018. The increase in 2019 resulted primarily from higher current trade receivables from large oil sands customers and a large material handling equipment delivery to a new customer. 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.
- Inventory decreased \$24.7 million in 2019 compared to a decrease of \$13.9 million in 2018. The decrease in 2019 was due to lower equipment and parts inventory in most categories, partially offset by higher mining equipment and parts inventory. The decrease in 2018 was due to lower construction and mining equipment inventory offset partially by higher forestry equipment inventory.
- Deposits on inventory increased \$14.3 million in 2019 compared to a decrease of \$0.2 million in 2018. The increase in 2019 was due primarily to increased deposits related to consignment inventory being held in excess of nine months.
- Accounts payable and accrued liabilities increased \$32.1 million in 2019 compared to a decrease of \$17.1 million in 2018. The increase in 2019 resulted primarily from higher trade payables, including higher trade payables related to mining equipment inventory. The decrease in 2018 resulted primarily from lower trade payables, including lower trade payables related to mining equipment inventory.

## Investing Activities

During the fourth quarter of 2019, Wajax invested \$0.9 million in property, plant and equipment additions, compared to \$2.5 million in the fourth quarter of 2018. Proceeds on disposal of property, plant and equipment amounted to \$9.7 million in the fourth quarter of 2019, compared to \$0.5 million in the same quarter of the



previous year. Intangible assets additions of \$2.2 million (2018 – \$1.0 million) in the fourth quarter of 2019 resulted primarily from software additions relating to the new ERP system currently being implemented.

### Financing Activities

The Corporation used \$18.5 million of cash in financing activities in the fourth quarter of 2019 compared to cash generated from financing activities of \$35.0 million in the same quarter of 2018. Financing activities in the quarter included a net bank credit facility repayment of \$61.6 million (2018 – net borrowing of \$44.0 million), dividends paid to shareholders of \$5.0 million (2018 – \$5.0 million) and finance lease payments of \$5.6 million (2018 – \$1.1 million), offset partially by proceeds from issuance of the Debentures of \$57.0 million (2018 – nil).

### 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. 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 credit losses, inventory obsolescence, goodwill and intangible assets and the lease term of contracts with renewal options.

*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 credit losses

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, original equipment manufacturers 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 credit losses 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 \$2.4 million allowance for credit losses at December 31, 2019 increased \$1.4 million from \$1.0 million at December 31, 2018. As economic conditions change, there is risk that the Corporation could experience a greater number of defaults compared to 2019 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 impact on earnings for the three months ended December 31, 2019 was a recovery of \$1.0 million (2018 – charge of \$1.7 million) and for the twelve months ended December 31, 2019 was a charge of \$2.3 million (2018 – charge of \$5.5 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, 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.

The Corporation performs an annual impairment test of its goodwill and intangible assets unless there is an early indication that the assets may be impaired in which case the impairment tests would occur earlier. There was no early indication of impairment in the quarter ended December 31, 2019.

#### Lease term of contracts with renewal options

The lease term is defined as the non-cancellable term of the lease, including any periods covered by a renewal option to extend the lease if it is reasonably certain that the renewal option will be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain that the termination option will not be exercised.

Significant judgement is used when evaluating whether the Corporation is reasonably certain that the lease renewal option will be exercised, including examining any factors that may provide an economic advantage for renewal. In the event of a significant event within the Corporation's control that could affect its ability to exercise the renewal option, the lease term will be reassessed.

### Changes in Accounting Policies

#### Accounting standards adopted during the year

##### IFRIC 23 Uncertainty over Income Tax Treatments ("IFRIC 23")

On January 1, 2019, the Corporation adopted IFRIC 23, which 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. The adoption had no impact on the Corporation.

##### IFRS 16 Leases ("IFRS 16")

Under IFRS 16, a lessee no longer classifies leases as operating or financing and records all leases on the consolidated statement of financial position. On January 1, 2019, the Corporation adopted IFRS 16 using the modified retrospective transition method and recognized the cumulative effect of initial application on January 1, 2019 on the consolidated statement of financial position, subject to permitted and elected practical expedients. This method of application has not resulted in a restatement of amounts reported in periods prior to January 1, 2019. Therefore, the comparative information continues to be reported under applicable accounting policies under IAS 17 Leases and related interpretations.

Policy applicable prior to January 1, 2019:

#### As a 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.

#### As a 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.

Policy applicable from January 1, 2019:

#### As a lessee

Under IFRS 16, assets and liabilities from a lease are initially measured on a present value basis. The lease liabilities are measured at the present value of the remaining lease payments (including in-substance fixed payments), adjusted for any lease incentives receivable, variable payments that are based on an index or a rate, amounts expected to be payable under residual value guarantees, the exercise price of a purchase option if the lessee is reasonably certain to exercise that option, and payments of penalties for early termination of a lease unless the Corporation is reasonably certain not to terminate early. The lease payments are discounted using the implicit interest rate in the lease or, if that rate is not readily determinable, the Corporation's incremental borrowing rate. The associated right-of-use assets are measured at the amount equal to the lease liability on January 1, 2019, adjusted for any prepaid and accrued lease payments relating to the leases recognized in the statement of financial position immediately before the date of transition, with no impact on retained earnings or comparative periods.

The lease liability is measured at amortized cost using the effective interest rate method and is remeasured if there is a change in the future lease payments, if there is a change in the Corporation's estimate of the amounts expected to be payable or if the Corporation changes its assessments of whether it will exercise a purchase, renewal, or termination option. The right-of-use asset is subsequently depreciated using the straight-line method from the commencement to the earlier of the date of the useful life of the right-of-use asset or to the end of the lease term. If a lease liability is remeasured, the corresponding adjustments are made to the carrying amount of the right-of-use asset, or in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

#### Short-term leases and leases of low value assets

The Corporation has elected not to recognize right-of-use assets and lease liabilities for short-term leases, defined as a lease having a term of 12 months or less and leases of low-value assets. The respective lease payments associated with these leases are recognized in the statement of earnings as incurred, unless a different basis is deemed to be more appropriate.

#### As a lessor

There was no significant impact to lessor accounting from the adoption of IFRS 16.

The impact of the adoption of IFRS 16 as at January 1, 2019 was as follows:

	As reported as at December 31, 2018	Impact of adoption of IFRS 16	Adjusted opening balance as at January 1, 2019
Right-of-use assets	\$ —	\$ 81.2	\$ 81.2
Accounts payable and accrued liabilities	253.0	(1.3)	251.6
Lease liabilities			
– current	4.6	14.0	18.6
Lease liabilities			
– non-current	9.1	68.5	77.6

On transition to IFRS 16 on January 1, 2019, the Corporation recognized \$82.5 million of additional lease liabilities primarily related to property leases for the Corporation's branch network. The Corporation also leases certain vehicles, machinery and IT equipment. When measuring lease liabilities recognized in the statement of financial position at the date of initial application, the Corporation discounted lease payments using its incremental borrowing rate. The Corporation applied the practical expedient to apply a single discount rate to a portfolio of leases with reasonably similar characteristics. The discount rates used are based on the remaining lease term of the particular lease. The weighted average incremental borrowing rate applied to lease liabilities recognized on January 1, 2019 was 6.1%.

The Corporation has elected to apply the practical expedient which does not require it to reassess whether a contract is, or contains, a lease at the date of initial application. Instead, the Corporation is permitted to apply the transition requirements to contracts that were previously identified as leases applying IAS 17 *Leases* and IFRIC 4 *Determining whether an Arrangement contains a Lease*. The Corporation applied the definition of a lease under IFRS 16 to contracts entered into or changed on or after January 1, 2019. The Corporation elected to use the practical expedient allowing it to exclude the initial direct costs from the measurement of the right-of-use assets at the date of initial application. In addition, the Corporation elected to rely on assessments of whether leases were onerous by applying IAS 37 *Provisions, Contingent Liabilities, and Contingent Assets* immediately before the date of initial application as an alternative to performing an impairment review.

Below is the reconciliation of the lease commitments disclosed as at December 31, 2018 to the lease liabilities recognized on January 1, 2019:

#### Operating lease commitments at December 31, 2018

Less than one year	\$ 20.2
Between one and five years	52.3
More than five years	27.1
<b>Operating lease commitments at December 31, 2018</b>	<b>99.7</b>
Discounted using incremental borrowing rate	(22.4)
	77.2
New leases/extensions reasonably certain to be exercised	6.6
Short term, low value exclusions	(1.3)
<b>Lease liabilities recognized on January 1, 2019</b>	<b>\$ 82.5</b>
Current	\$ 14.0
Non-Current	\$ 68.5

## 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 equipment and certain industrial categories, manufacturer relationships are governed through effectively exclusive distribution agreements. Distribution agreements are typically multi-year terms and are cancellable by Wajax or the manufacturer based on a notification period specified in the 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. The Corporation may also maintain a leverage ratio above the stated range as a result of investment in significant acquisitions and may fund those acquisitions using its bank credit facilities and other debt instruments in accordance with the Corporation's expectations of total future cash flows, financing costs and other factors. 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 October 1, 2024. 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 had approximately 2,700 employees as at December 31, 2019. Subsequent to the end of 2019, nearly 200 employees were added through the acquisition of NorthPoint, bringing the Wajax team to nearly 2,900. At the outset of 2019, Wajax was party to twelve collective agreements covering a total of 300 employees. During 2019, two collective agreements covering 74 employees were ratified. One agreement covering 7 employees expired at the end of 2019 and negotiations are in progress. Six agreements covering 97 employees expire in 2020. Two agreements covering 115 employees expire in 2021. The remaining agreement covering 7 employees expires in 2023. Subsequent to the end of the 2019 year, an additional 19 union employees were added to the team through the acquisition of NorthPoint; these employees are covered by two collective agreements expiring in 2022. 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

Certain share-based compensation plans of the Corporation, and the resulting liabilities, are exposed to fluctuations in the Corporation's 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**").

As at December 31, 2019, 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, 2019, 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 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 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, 2019.

There was no change in Wajax's ICFR that occurred during the three months ended December 31, 2019 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 non-cash losses (gains) on mark to market of derivative instruments. 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 non-cash losses (gains) on mark to market of derivative instruments. 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 and Senior secured 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 the deduction of payments of lease liabilities, and prior to recognizing non-recurring costs (recoveries) and non-cash losses (gains) on mark to market of derivative instruments.

Non-GAAP financial measures are identified and defined below:

<b>Funded net debt</b>	Funded net debt includes bank indebtedness, debentures and total long-term debt, 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.
<b>Debt</b>	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.
<b>Total capital</b>	Total capital is shareholders' equity plus funded net debt.
<b>EBITDA</b>	Net earnings (loss) before finance costs, income tax expense, depreciation and amortization.
<b>EBITDA margin</b>	Defined as EBITDA divided by revenue, as presented on the Consolidated Statements of Earnings.
<b>Adjusted net earnings (loss)</b>	Net earnings (loss) before after-tax restructuring and other related costs (recoveries), (gain) loss recorded on sales of properties, non-cash losses (gains) on mark to market of derivative instruments, CSC project costs, and Delom transaction costs.
<b>Adjusted basic and diluted earnings (loss) per share</b>	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 (gains) on mark to market of derivative instruments, CSC project costs, and Delom transaction costs.
<b>Adjusted EBITDA</b>	EBITDA before restructuring and other related costs (recoveries), (gain) loss recorded on sales of properties, non-cash losses (gains) on mark to market of derivative instruments, CSC project costs, and Delom transaction costs.
<b>Adjusted EBITDA margin</b>	Defined as adjusted EBITDA divided by revenue, as presented on the Consolidated Statements of Earnings.
<b>Pro-forma adjusted EBITDA</b>	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 and the deduction of payments of lease liabilities.
<b>Leverage ratio</b>	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.
<b>Senior secured leverage ratio</b>	The senior secured leverage ratio is defined as debt excluding debentures at the end of a particular quarter divided by trailing 12-month pro-forma adjusted EBITDA.
<b>Funded net debt to total capital</b>	Defined as funded net debt divided by total capital. Total capital is the funded net debt plus shareholder's equity.
<b>Backlog</b>	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 Revenue from Contracts with Customers.

Additional GAAP measures are identified and defined below:

<b>Earnings (loss) before finance costs and income taxes (EBIT)</b>	Earnings (loss) before finance costs and income taxes, as presented on the Consolidated Statements of Earnings.
<b>EBIT margin</b>	Defined as EBIT divided by revenue, as presented on the Consolidated Statements of Earnings.
<b>Earnings (loss) before income taxes (EBT)</b>	Earnings (loss) before income taxes, as presented on the Consolidated Statements of Earnings.
<b>Working capital</b>	Defined as current assets less current liabilities, as presented on the Consolidated Statements of Financial Position.
<b>Other working capital amounts</b>	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	
	2019	2018	2019	2018
Net earnings	\$ 12.2	\$ 6.1	\$ 39.5	\$ 35.9
Restructuring and other related costs, after-tax	\$ 0.1	\$ 0.5	\$ 4.1	\$ 3.0
Gain recorded on sales of properties, after-tax	\$ (2.3)	\$ —	\$ (2.3)	\$ (0.9)
Non-cash losses (gains) on mark to market of derivative instruments, after-tax	\$ —	\$ 1.5	\$ (0.4)	\$ 1.6
Delom transaction costs, after-tax	\$ —	\$ 0.3	\$ —	\$ 0.3
CSC project costs, after-tax	\$ —	\$ —	\$ 0.9	\$ —
<b>Adjusted net earnings</b>	<b>\$ 10.1</b>	<b>\$ 8.3</b>	<b>\$ 41.9</b>	<b>\$ 39.9</b>
<b>Adjusted basic earnings per share<sup>(1)(2)</sup></b>	<b>\$ 0.51</b>	<b>\$ 0.42</b>	<b>\$ 2.10</b>	<b>\$ 2.02</b>
<b>Adjusted diluted earnings per share<sup>(1)(2)</sup></b>	<b>\$ 0.50</b>	<b>\$ 0.41</b>	<b>\$ 2.05</b>	<b>\$ 1.98</b>

(1) At December 31, 2019, the numbers of basic and diluted shares outstanding were 20,009,494 and 20,421,685, respectively for the three months ended and 19,998,656 and 20,416,191, respectively for the twelve months ended.

(2) 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.

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

	For the three months ended December 31		For the year ended December 31	
	2019	2018	2019	2018
<b>Net earnings</b>	\$ 12.2	\$ 6.1	\$ 39.5	\$ 35.9
Income tax expense	3.8	2.6	14.3	14.0
<b>EBT</b>	<b>16.0</b>	8.7	<b>53.8</b>	49.8
Finance costs <sup>(1)</sup>	5.4	2.9	19.7	8.8
<b>EBIT</b>	<b>21.4</b>	11.6	<b>73.5</b>	58.6
Depreciation and amortization <sup>(2)</sup>	12.5	8.6	52.8	27.0
<b>EBITDA</b>	<b>33.9</b>	20.2	<b>126.3</b>	85.6
Restructuring and other related costs <sup>(3)</sup>	0.2	0.7	5.6	4.1
Gain recorded on sales of properties	(2.3)	—	(2.3)	(1.2)
Non-cash losses (gains) on mark to market of derivative instruments <sup>(4)</sup>	0.0	2.1	(0.5)	2.2
Delom transaction costs <sup>(5)</sup>	—	0.5	—	0.5
CSC project costs <sup>(6)</sup>	0.1	—	1.2	—
<b>Adjusted EBITDA</b>	<b>\$ 31.9</b>	\$ 23.3	<b>\$ 130.3</b>	\$ 91.2
Delom acquisition pro-forma adjusted EBITDA <sup>(7)</sup>	—	—	—	6.3
<b>Pro-forma adjusted EBITDA, as previously reported</b>	<b>\$ 32.0</b>	\$ 23.3	<b>\$ 130.3</b>	\$ 97.5
Payment of lease liabilities <sup>(8)</sup>	(5.6)	(1.1)	(22.0)	(4.2)
<b>Pro-forma adjusted EBITDA</b>	<b>\$ 26.3</b>	\$ 22.2	<b>\$ 108.4</b>	\$ 93.3

- (1) As a result of the adoption of IFRS 16, the Corporation incurred interest costs that are included in finance costs of \$1.5 million for the three months ended December 31, 2019 and \$5.0 million for the twelve months ended December 31, 2019.
- (2) As a result of the adoption of IFRS 16, the Corporation incurred depreciation expense that is included in depreciation and amortization of \$4.8 million for the three months ended December 31, 2019 and \$18.4 million for the twelve months ended December 31, 2019.
- (3) For 2019, restructuring and other related costs includes costs relating to the Finance Reorganization Plan and the Management Realignment. The Finance Reorganization Plan commenced in the first quarter of 2018 and consists of severance, project management and interim duplicate labour costs as the Corporation redesigns its finance function. The Management Realignment commenced in the third quarter of 2019 and consists primarily of severance costs as the Corporation simplifies its regional management structure, strengthens the partnership between sales and product support, and integrates the Corporation's legacy ERS business with Delom.
- For 2018, restructuring and other related costs includes costs relating to the Finance Reorganization Plan, a leadership realignment within the Corporation's ERS business, and the 2016 strategic reorganization. The leadership realignment within the ERS business was intended to better align such business with the One Wajax model. The 2016 strategic reorganization costs in 2018 related to additional severance costs as part of the Corporation's transition to the One Wajax model.
- (4) Non-cash losses (gains) on mark to market of non-hedged derivative instruments.
- (5) In 2018, the Corporation incurred transaction costs in order to acquire Delom. These costs were primarily for advisory services.
- (6) In 2019, the Corporation incurred professional fees relating to the CSC project.
- (7) Pro-forma adjusted EBITDA for Delom for pre-acquisition periods, to adjust 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.
- (8) Effective with the reporting period beginning on January 1, 2019 and the adoption of IFRS 16, the Corporation has amended the definition of funded net debt to exclude lease liabilities not considered part of debt. As a result, the corresponding lease costs must also be deducted from EBITDA for the purpose of calculating the leverage ratio.

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

	2019	December 31	
		2018 (Pro-forma) <sup>(1)</sup>	2018 (As previously reported)
Bank indebtedness (cash)	\$ (3.2)	\$ 3.9	\$ 3.9
Lease liabilities	—	—	13.7
Debentures	54.1	—	—
Long-term debt	225.6	218.1	218.1
<b>Funded net debt<sup>(1)</sup></b>	<b>\$ 276.5</b>	\$ 222.0	\$ 235.8
Letters of credit	5.5	6.1	6.1
<b>Debt</b>	<b>\$ 282.0</b>	\$ 228.1	\$ 241.9
<b>Pro-forma adjusted EBITDA<sup>(2)</sup></b>	<b>\$ 108.4</b>	\$ 93.3	\$ 97.5
<b>Leverage ratio<sup>(3)</sup></b>	<b>2.60</b>	2.45	2.48
<b>Senior secured leverage ratio<sup>(4)</sup></b>	<b>2.10</b>	2.45	2.48

(1) Effective with the reporting period beginning on January 1, 2019 and the adoption of IFRS 16, the Corporation has amended the definition of Funded net debt to exclude lease liabilities not considered part of debt. For comparison purposes, the pro-forma funded net debt and leverage ratio for December 31, 2018 using the amended definition of funded net debt is shown in the table above.

(2) For the twelve months ended December 31, 2019 and December 31, 2018.

(3) 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, and is different from the leverage ratio calculated under the Corporation's bank credit facility agreement.

(4) Calculation uses debt excluding debentures divided by the trailing four-quarter Pro-forma adjusted EBITDA.

While the calculation contains some differences from the leverage ratio calculated under the Corporation's bank credit facility agreement, the resulting leverage ratio under the bank credit facility agreement is not significantly different. See the Liquidity and Capital Resources 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, the main elements of our updated Strategic Plan, including our focus on executing clear plans in five important areas: investments in our team, investments in our customers, our organic growth strategy, our acquisition strategy and investments in our infrastructure; our outlook on market conditions for 2020, including demand for capital equipment, equipment utilization rates and our expectation that conditions will improve later in the year; our objective of managing the Corporation's business and capital conservatively during 2020 until market conditions improve; our expectation that market-oriented pressure on revenue will be at least partially offset by higher volumes in engineered repair services and industrial parts, and expected mining deliveries in the second half of 2020; opportunities to improve gross margins, drive additional cost productivity and lower finance costs through reductions in inventory; our plans to move forward with the implementation of our new ERP system, as well as our implementation time frame and the minimization of risk; the continuation of our branch optimization program, including our intention of applying proceeds from the sale of real estate assets to the Corporation's credit facilities; our balancing of pace and market conditions while we track toward our strategic plan goals and targets; our growth and performance expectations for our Targeted Growth, Core Strength and Cyclical/Major Project Opportunity product and service categories; our expectation that the combination of NorthPoint's branch network and technical skill with the Corporation's sales force will result in substantial growth in our ERS business; our expectation that we will deliver three large mining shovels to customers during 2020; our plans to grow market share in our Targeted Growth categories and our expectation that acquisitions will play an important role in our ERS business; the expected costs and benefits of the Management Realignment commenced in Q3 2019, including expected annual pre-tax savings; the expected costs of the Finance Reorganization Plan; our expectation that neither the impact of (a) changes in interest rates (in particular, related to unhedged variable rate debt), (b) a change in foreign currency value relative to the Canadian dollar, on transactions with customers which include unhedged foreign currency exposures, nor (c) a change in the Corporation's share price on cash-settled MTIP rights, will have a material impact on our results of operations or financial condition over the longer term; our belief that there is no significant risk of non-performance by counterparties to foreign exchange forward contracts, long-term interest rate hedge contracts and total return swap contracts; our expectation that future cash contribution requirements to defined benefit plans will not change materially; 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 objective of maintaining a leverage ratio between 1.5 – 2.0 times; and our financing, working and maintenance capital requirements, as well as our capital structure and leverage ratio. These statements are based on a number of assumptions which may prove to be incorrect, including, but not limited to, assumptions regarding 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 NorthPoint, and to successfully implement new information technology platforms, systems and software; 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, 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, 2019, 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



**Stuart Auld**  
Chief Financial Officer

Mississauga, Canada, March 2, 2020

## 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, 2019 and December 31, 2018
- the consolidated statements of earnings for the years then ended
- the consolidated statements of comprehensive income or 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, 2019 and December 31, 2018, 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 – Change in Accounting Policy

We draw attention to Note 4 to the financial statements which indicates that the Entity has changed its accounting policy for leases as of January 1, 2019 due to the adoption of IFRS 16 Leases and has applied that change using a modified retrospective approach.

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 "Wajax 2019 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 "Wajax 2019 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.

*KPMG LLP*

#### **Chartered Professional Accountants, Licensed Public Accountants**

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

Vaughan, Canada, March 2, 2020

# Consolidated Statements of Financial Position

As at (in thousands of Canadian dollars)	Note	December 31	
		2019	2018
<b>Assets</b>			
<b>Current</b>			
Cash		\$ 3,180	\$ —
Trade and other receivables	6	238,194	206,257
Contract assets	7	23,318	30,307
Inventory	8	414,928	365,997
Deposits on inventory	8	37,513	13,445
Lease receivables	13	617	—
Income taxes receivable		3,166	—
Prepaid expenses		6,110	7,190
Derivative financial assets	17	484	1,635
		<b>727,510</b>	624,831
<b>Non-Current</b>			
Rental equipment	9	77,020	73,716
Property, plant and equipment	9	42,139	59,017
Right-of-use assets	10	117,091	—
Lease receivables	13	1,714	—
Goodwill and intangible assets	11	79,572	73,685
Deferred tax assets	17	48	—
		<b>317,584</b>	206,418
Total assets		<b>\$1,045,094</b>	\$ 831,249
<b>Liabilities And Shareholders' Equity</b>			
<b>Current</b>			
Bank indebtedness		\$ —	\$ 3,932
Accounts payable and accrued liabilities	12	287,656	252,958
Contract liabilities	7	7,230	8,291
Dividends payable	18	5,003	4,989
Income taxes payable		—	12,173
Lease liabilities	13	20,706	4,622
Derivative financial liabilities	17	2,849	3,167
		<b>\$ 323,444</b>	\$ 290,132
<b>Non-Current</b>			
Deferred tax liabilities	24	3,787	1,209
Employee benefits	14	9,144	8,445
Derivative financial liabilities	17	4,190	5,036
Other liabilities		1,602	2,214
Lease liabilities	13	106,424	9,127
Debentures	15	54,115	—
Long-term debt	16	225,573	218,116
		<b>404,835</b>	244,147
Total liabilities		<b>728,279</b>	534,279
<b>Shareholders' Equity</b>			
Share capital	18	181,075	180,369
Contributed surplus		7,165	7,360
Retained earnings		130,961	110,842
Accumulated other comprehensive loss		(2,386)	(1,601)
Total shareholders' equity		<b>316,815</b>	296,970
Total liabilities and shareholders' equity		<b>\$1,045,094</b>	\$ 831,249

Contingencies – see Note 26

The accompanying Notes to Consolidated Financial Statements are an integral part of these statements.

# Consolidated Statements of Earnings

For the years ended December 31 (in thousands of Canadian dollars, except per share data)	Note	2019	2018
Revenue	20	<b>\$1,553,046</b>	\$1,481,597
Cost of sales		<b>1,261,222</b>	1,209,330
Gross profit		<b>291,824</b>	272,267
Selling and administrative expenses		<b>212,752</b>	209,522
Restructuring and other related costs	22	<b>5,587</b>	4,143
Earnings before finance costs and income taxes		<b>73,485</b>	58,602
Finance costs	23	<b>19,716</b>	8,775
Earnings before income taxes		<b>53,769</b>	49,827
Income tax expense	24	<b>14,265</b>	13,975
Net earnings		<b>\$ 39,504</b>	\$ 35,852
Basic earnings per share	18	<b>\$ 1.98</b>	\$ 1.82
Diluted earnings per share	18	<b>1.93</b>	1.78

# Consolidated Statements of Comprehensive Income

For the years ended December 31 (in thousands of Canadian dollars)	Note	2019	2018
Net earnings		<b>\$ 39,504</b>	\$ 35,852
<b>Items that will not be reclassified to income</b>			
Actuarial gains (losses) on pension plans, net of tax expense of \$5 (2018 – expense of \$26)	14	<b>14</b>	72
<b>Items that may be subsequently reclassified to income</b>			
Losses (gains) on derivative instruments designated as cash flow hedges in prior years reclassified to net earnings during the year, net of tax recovery of \$96 (2018 – expense of \$229)		<b>262</b>	(622)
(Losses) gains on derivative instruments outstanding at the end of the year designated as cash flow hedges, net of tax recovery of \$385 (2018 – recovery of \$252)		<b>(1,047)</b>	(685)
Other comprehensive loss, net of tax		<b>(771)</b>	(1,235)
Total comprehensive income		<b>\$ 38,733</b>	\$ 34,617

The accompanying Notes to Consolidated Financial Statements are an integral part of these statements.

# Consolidated Statements of Changes in Shareholders' Equity

For the year ended December 31, 2019 (in thousands of Canadian dollars)	Note	Share capital	Contributed surplus	Retained earnings	Accumulated other comprehensive loss	Total
					Cash flow hedges	
December 31, 2018		\$ 180,369	\$ 7,360	\$ 110,842	\$ (1,601)	\$ 296,970
Net earnings		—	—	39,504	—	39,504
Other comprehensive gain (loss)		—	—	14	(785)	(771)
Total comprehensive income (loss)		—	—	39,518	(785)	38,733
Shares issued to settle share-based compensation plans	18	530	(530)	—	—	—
Shares released from trust to settle share-based compensation plans	18	176	(1,215)	607	—	(432)
Share-based compensation expense	19	—	1,550	—	—	1,550
Dividends declared	18	—	—	(20,006)	—	(20,006)
<b>December 31, 2019</b>		<b>\$ 181,075</b>	<b>\$ 7,165</b>	<b>\$ 130,961</b>	<b>\$ (2,386)</b>	<b>\$ 316,815</b>

The accompanying Notes to Consolidated Financial Statements are an integral part of these statements.

For the year ended December 31, 2018 (in thousands of Canadian dollars)	Note	Share capital	Contributed surplus	Retained earnings	Accumulated other comprehensive loss	Total
					Cash flow hedges	
December 31, 2017		\$ 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		—	—	35,924	(1,307)	34,617
Shares issued to settle share-based compensation plans	18	1,380	(1,380)	—	—	—
Net sale of shares held in trust (net of tax)	18	3,126	—	6,022	—	9,148
Change from equity to cash settled RSUs		—	(4,578)	—	—	(4,578)
Share-based compensation expense	19	—	2,863	—	—	2,863
Dividends declared	18	—	—	(19,747)	—	(19,747)
<b>December 31, 2018</b>		<b>\$ 180,369</b>	<b>\$ 7,360</b>	<b>\$ 110,842</b>	<b>\$ (1,601)</b>	<b>\$ 296,970</b>

The accompanying Notes to Consolidated Financial Statements are an integral part of these statements.

# Consolidated Statements of Cash Flows

For the years ended December 31 (in thousands of Canadian dollars)

	Note	2019	2018
<b>Operating Activities</b>			
Net earnings		\$ 39,504	\$ 35,852
Items not affecting cash flow:			
Depreciation and amortization:			
Rental equipment	9	20,678	17,018
Property, plant and equipment	9	6,876	8,757
Right-of-use assets	10	23,029	—
Intangible assets	11	2,182	1,190
Gain on disposal of property, plant and equipment		(2,329)	(1,197)
Share-based compensation expense	19	3,446	1,786
Non-cash income from finance leases		(174)	—
Employee benefits expense, net of payments		470	242
Loss on derivative financial instruments	17	88	4,213
Finance costs	23	19,716	8,775
Income tax expense	24	14,265	13,975
		<b>127,751</b>	90,611
Changes in non-cash operating working capital	25	(50,546)	(33,640)
Rental equipment additions	9	(37,531)	(43,638)
Other non-current liabilities		(1,374)	(1,444)
Cash paid on settlement of total return swaps	17	(1,479)	—
Finance costs paid on debts		(13,051)	(8,422)
Finance costs paid on lease liabilities	13	(5,675)	—
Income taxes paid		(27,764)	(6,481)
Cash used in operating activities		<b>(9,669)</b>	(3,014)
<b>Investing Activities</b>			
Property, plant and equipment additions	9	(5,943)	(5,527)
Proceeds on disposal of property, plant and equipment		10,124	2,522
Intangible assets additions	11	(5,352)	(4,837)
Acquisition of business (net of cash acquired)	5	(795)	(51,061)
Cash used in investing activities		<b>(1,966)</b>	(58,903)
<b>Financing Activities</b>			
Net increase in bank debt	16	7,362	75,000
Proceeds from issuance of debentures	15	57,000	—
Net sale of shares held in trust		—	9,475
Transaction costs on debts	15, 16	(3,224)	(918)
Payment of lease liabilities	13	(21,967)	(4,214)
Payment of tax withholding for share-based compensation		(432)	—
Dividends paid		(19,992)	(19,634)
Cash generated from financing activities		<b>18,747</b>	59,709
<b>Change in cash and bank indebtedness</b>		<b>7,112</b>	(2,208)
Bank indebtedness – beginning of year		(3,932)	(1,724)
Cash (bank indebtedness) – end of year		\$ 3,180	\$ (3,932)

The accompanying Notes to Consolidated Financial Statements are an integral part of these statements.

# Notes to Consolidated Financial Statements

For the years ended December 31, 2019 and 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 head office is 2250 Argentea 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 2, 2020.

### 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 credit losses

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 which covers many business sectors across Canada. In addition, the Corporation's customer base spans large public companies, small independent contractors, original equipment manufacturers 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 credit losses 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, earnings before interest, taxes, depreciation and amortization ("EBITDA") margin, tax rates, discount rates 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.

### Lease term of contracts with renewal options

The lease term is defined as the non-cancellable term of the lease, including any periods covered by a renewal option to extend the lease if it is reasonably certain that the renewal option will be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain that the termination option will not be exercised.

Significant judgement is used when evaluating whether the Corporation is reasonably certain that the lease renewal option will be exercised, including examining any factors that may provide an economic advantage for renewal.



### 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
<b>Equipment sales</b>	
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.
<b>Industrial parts</b>	The Corporation recognizes revenue when control of the parts passes to the customer based on shipment terms.
<b>Product support</b>	
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.
<b>ERS</b>	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 losses. The expense relating to expected credit losses 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 is recorded at cost less accumulated depreciation. Cost includes all expenditures directly attributable to the acquisition of the asset. Rental equipment is depreciated over its estimated useful life to its estimated residual value on a straight-line basis, which ranges from 4 to 5 years.

### 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

### 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 12 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.

Financial assets measured at amortized cost are assessed for impairment at the end of each reporting period and a loss allowance is measured by estimating the lifetime expected credit losses ("ECL"). The Corporation uses 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. Impairment losses are recorded in selling and administrative expenses with the carrying amount of the financial asset reduced through the use of impairment allowance accounts.

### 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.

### Finance costs

Finance costs are comprised of interest on the Corporation's debts and interest expense from lease liabilities measured at the present value of the lease payment to be made over the lease term under IFRS 16 Leases. 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 forecasted 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

#### IFRIC 23 Uncertainty over Income Tax Treatments ("IFRIC 23")

On January 1, 2019, the Corporation adopted IFRIC 23, which 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. The adoption had no impact on the Corporation.

#### IFRS 16 Leases ("IFRS 16")

Under IFRS 16, a lessee no longer classifies leases as operating or financing and records all leases on the consolidated statement of financial position. On January 1, 2019, the Corporation adopted IFRS 16 using the modified retrospective transition method and recognized the cumulative effect of initial application on January 1, 2019 on the consolidated statement of financial position, subject to permitted and elected practical expedients. This method of application has not resulted in a restatement of amounts reported in periods prior to January 1, 2019. Therefore, the comparative information continues to be reported under applicable accounting policies under IAS 17 *Leases* and related interpretations.

*Policy applicable prior to January 1, 2019:*

#### As a 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.

#### As a 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.

*Policy applicable from January 1, 2019:*

#### As a lessee

Under IFRS 16, assets and liabilities from a lease are initially measured on a present value basis. The lease liabilities are measured at the present value of the remaining lease payments (including in-substance fixed payments), adjusted for any lease incentives receivable, variable payments that are based on an index or a rate, amounts expected to be payable under residual value guarantees, the exercise price of a purchase option if the lessee is reasonably certain to exercise that option, and payments of penalties for early termination of a lease unless the Corporation is reasonably certain not to terminate early. The lease payments are discounted using the implicit interest rate in the lease or, if that rate is not readily determinable, the Corporation's incremental borrowing rate. The associated right-of-use assets are measured at the amount equal to the lease liability on January 1, 2019, adjusted for any prepaid and accrued lease payments relating to the leases recognized in the statement of financial position immediately before the date of transition, with no impact on retained earnings or comparative periods.

The lease liability is measured at amortized cost using the effective interest rate method and is remeasured if there is a change in the future lease payments, if there is a change in the Corporation's estimate of the amounts expected to be payable or if the Corporation changes its assessments of whether it will exercise a purchase, renewal, or termination option. The right-of-use asset is subsequently depreciated using the straight-line method from the commencement to the earlier of the date of the useful life of the right-of-use asset or to the end of the lease term. If a lease liability is remeasured, the corresponding adjustments are made to the carrying amount of the right-of-use asset, or in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

#### Short-term leases and leases of low value assets

The Corporation has elected not to recognize right-of-use assets and lease liabilities for short-term leases, defined as a lease having a term of 12 months or less and leases of low-value assets. The respective lease payments associated with these leases are recognized in the statement of earnings as incurred, unless a different basis is deemed to be more appropriate.

#### As a lessor

There was no significant impact to lessor accounting from the adoption of IFRS 16.

The impact of the adoption of IFRS 16 as at January 1, 2019 was as follows:

	As reported as at December 31, 2018	Impact of adoption of IFRS 16	Adjusted opening balance as at January 1, 2019
Right-of-use assets	\$ —	\$ 81,222	\$ <b>81,222</b>
Accounts payable and accrued liabilities	252,958	(1,322)	<b>251,636</b>
Lease liabilities			
– current	4,622	14,024	<b>18,646</b>
Lease liabilities			
– non-current	9,127	68,520	<b>77,647</b>

On transition to IFRS 16 on January 1, 2019, the Corporation recognized \$82,544 of additional lease liabilities primarily related to property leases for the Corporation's branch network. The Corporation also leases certain vehicles, machinery and IT equipment. When measuring lease liabilities recognized in the statement of financial position at the date of initial application, the Corporation discounted lease payments using its incremental borrowing rate. The Corporation applied the practical expedient to apply a single discount rate to a portfolio of leases with reasonably similar characteristics. The discount rates used are based on the remaining lease term of the particular lease. The weighted average incremental borrowing rate applied to lease liabilities recognized on January 1, 2019 was 6.1%.

The Corporation has elected to apply the practical expedient which does not require it to reassess whether a contract is, or contains, a lease at the date of initial application. Instead, the Corporation is permitted to apply the transition requirements to contracts that were previously identified as leases applying IAS 17 Leases and IFRIC 4 *Determining whether an Arrangement contains a Lease*. The Corporation applied the definition of a lease under IFRS 16 to contracts entered into or changed on or after January 1, 2019. The Corporation elected to use the practical expedient allowing it to exclude the initial direct costs from the measurement of the

right-of-use assets at the date of initial application. In addition, the Corporation elected to rely on assessments of whether leases were onerous by applying IAS 37 *Provisions, Contingent Liabilities, and Contingent Assets* immediately before the date of initial application as an alternative to performing an impairment review.

Below is the reconciliation of the lease commitments disclosed as at December 31, 2018 to the lease liabilities recognized on January 1, 2019:

#### Operating lease commitments at December 31, 2018

Less than one year	\$ 20,189
Between one and five years	52,347
More than five years	27,124

<b>Operating lease commitments at December 31, 2018</b>	<b>99,660</b>
Discounted using incremental borrowing rate	(22,420)
	77,240

New leases/extensions reasonably certain to be exercised	6,611
Short term, low value exclusions	(1,307)

<b>Lease liabilities recognized on January 1, 2019</b>	<b>\$ 82,544</b>
Current	\$ 14,024
Non-Current	\$ 68,520

## 5. 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 \$52,936 cash.

During the year ended December 31, 2019, the Corporation recorded adjustments to increase goodwill by \$3,074, of which \$1,022 related to an increase in deferred tax liabilities, \$369 related to the valuation of intangible assets, \$888 related to the valuation of inventory, and the remaining \$795 related to an increase in the overall purchase price. The Corporation determined the 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	5,593
Prepaid expenses	899
Property, plant and equipment	11,521
Deferred tax liabilities	(6,162)
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	21,898
Intangible assets	16,696
Goodwill	14,342
<b>Total Purchase Price</b>	<b>\$ 52,936</b>

As at December 31, 2019, the purchase price allocation is considered final. Net cash outflow for the acquisition was \$51,856, 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 credit losses of \$50.

Goodwill arises principally from the ability to leverage the assembled workforce, 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.

## 6. 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 are comprised of the following:

	December 31	
	2019	2018
Trade accounts receivable	\$ 213,686	\$ 182,587
Less: allowance for credit losses	(2,371)	(953)
Net trade accounts receivable	211,315	181,634
Other receivables	26,879	24,623
Total trade and other receivables	\$ 238,194	\$ 206,257

The Corporation has two agreements with financial institutions to sell 100% of selected trade accounts receivable on a recurring, non-recourse basis. Under the first agreement, up to \$20,000 of accounts receivable may be sold to the financial institution and can remain outstanding at any point in time, while the second has no limit. After the sale, the Corporation does not retain any interests in the accounts receivable and removes them from its consolidated statement of financial position. For the first agreement, the Corporation continues to service and collect the outstanding accounts receivable on behalf of the financial institution. As at December 31, 2019, the Corporation continues to service and collect \$13,388 in accounts receivable on behalf of this financial institution (December 31, 2018 – \$9,877). For the second agreement, after the sale of accounts receivable to the financial institution, the Corporation does not continue to service and collect the outstanding accounts receivable on behalf of the financial institution. Net proceeds from these programs are classified in operating activities in the consolidated statements of cash flows.

The Corporation's exposure to credit and currency risks related to trade and other receivables is disclosed in Note 17.

## 7. Contract Assets and Liabilities

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

	December 31	
	2019	2018
Contract assets	\$ 23,318	\$ 30,307
Contract liabilities	7,230	8,291

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 engineered repair services ("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 2019 that was included in the contract liability balance at the beginning of the year was \$5,635 (2018 – \$9,415).

## 8. Inventory

The Corporation's inventory balances consisted of the following:

	December 31	
	2019	2018
Equipment	\$ 256,058	\$ 221,081
Parts	138,210	127,026
Work-in-process	20,660	17,890
Total inventory	\$ 414,928	\$ 365,997

All amounts shown are net of obsolescence reserves of \$26,263 (2018 – \$26,014). For the year ended December 31, 2019, \$2,297 (2018 – \$5,474) was recorded in cost of sales for the write-down of inventory to estimated net realizable value.

For the year ended December 31, 2019, the Corporation recognized \$1,006,929 (2018 – \$988,513) of inventory as an expense which is included in cost of sales.

As at December 31, 2019, the Corporation has included \$54,022 (December 31, 2018 – \$47,266) 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.

Deposits on inventory in the statements of financial position, amounting to \$37,513 as at December 31, 2019 (December 31, 2018 – \$13,445), 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.

## 9. 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
<b>Cost</b>							
<b>December 31, 2018</b>	\$ 37,492	\$ 85,851	\$ 5,712	\$ 11,135	\$ 11,799	\$ 151,989	\$ 128,168
<b>Adoption of IFRS 16 reclassification</b>	—	(24,804)	—	—	—	(24,804)	—
<b>Additions</b>	525	2,810	1,173	693	742	5,943	37,531
<b>Net transfers to inventory</b>	—	—	—	—	—	—	(31,575)
<b>Net transfers to intangibles</b>	—	—	(135)	—	—	(135)	—
<b>Purchased at end of lease</b>	—	4,168	—	—	—	4,168	—
<b>Disposals</b>	(4,801)	(2,370)	(361)	(177)	(359)	(8,068)	—
<b>December 31, 2019</b>	\$ 33,216	\$ 65,655	\$ 6,389	\$ 11,651	\$ 12,182	\$ 129,093	\$ 134,124
<b>Accumulated depreciation</b>							
<b>December 31, 2018</b>	\$ 18,092	\$ 54,657	\$ 3,795	\$ 8,312	\$ 8,116	\$ 92,972	\$ 54,452
<b>Adoption of IFRS 16 reclassification</b>	—	(11,617)	—	—	—	(11,617)	—
<b>Charge for the year</b>	687	3,951	836	592	810	6,876	20,678
<b>Net transfers to inventory</b>	—	—	—	—	—	—	(18,026)
<b>Net transfers to intangibles</b>	—	—	(122)	—	—	(122)	—
<b>Purchased at end of lease</b>	—	3,498	—	—	—	3,498	—
<b>Disposals</b>	(1,888)	(1,941)	(356)	(114)	(354)	(4,653)	—
<b>December 31, 2019</b>	\$ 16,891	\$ 48,548	\$ 4,153	\$ 8,790	\$ 8,572	\$ 86,954	\$ 57,104
<b>Carrying amount</b>							
<b>December 31, 2019</b>	\$ 16,325	\$ 17,107	\$ 2,236	\$ 2,861	\$ 3,610	\$ 42,139	\$ 77,020
<b>Cost</b>							
December 31, 2017	\$ 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 5)	—	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
<b>Accumulated depreciation</b>							
December 31, 2017	\$ 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
<b>Carrying amount</b>							
December 31, 2018	\$ 19,400	\$ 31,194	\$ 1,917	\$ 2,823	\$ 3,683	\$ 59,017	\$ 73,716

All property, plant and equipment except land and buildings have been pledged as security for bank debt (Note 16).

## 10. Right-of-Use Assets

	Properties	Vehicles	Computer hardware	Equipment	Total
<b>Cost</b>					
<b>January 1, 2019</b> (Note 4)	\$ 80,375	\$ 372	\$ 475	\$ —	\$ 81,222
<b>Adoption of IFRS 16 reclassification</b>	—	24,805	—	—	24,805
<b>Additions</b>	40,613	4,777	1,035	2,128	48,553
<b>Disposals</b>	(746)	(172)	—	—	(918)
<b>Disposal to lease receivables upon sublease</b>	—	—	—	(2,128)	(2,128)
<b>Purchased at end of lease</b>	—	(4,168)	—	—	(4,168)
<b>December 31, 2019</b>	\$ 120,242	\$ 25,614	\$ 1,510	\$ —	\$ 147,366
<b>Accumulated depreciation</b>					
<b>January 1, 2019</b>	\$ —	\$ —	\$ —	\$ —	\$ —
<b>Adoption of IFRS 16 reclassification</b>	—	11,617	—	—	11,617
<b>Charge for the year</b>	18,090	4,793	146	—	23,029
<b>Disposals</b>	(746)	(127)	—	—	(873)
<b>Purchased at end of lease</b>	—	(3,498)	—	—	(3,498)
<b>December 31, 2019</b>	\$ 17,344	\$ 12,785	\$ 146	\$ —	\$ 30,275
<b>Carrying amount</b>					
<b>December 31, 2019</b>	\$ 102,898	\$ 12,829	\$ 1,364	\$ —	\$ 117,091

On transition to IFRS 16 on January 1, 2019, the Corporation recognized \$81,222 of right-of-use assets primarily related to property leases for the Corporation's branch network.

The Corporation entered into two sale and leaseback transactions for two of its wholly owned properties. The proceeds net of transaction costs on the sale of the two properties was \$9,385 and the carrying amount was \$2,773, resulting in a total gain on the sale of the properties of \$6,612, of which \$2,262 has been recognized in the consolidated statements of earnings and the remainder deferred as a reduction of the right-of-use asset. The Corporation also recorded lease liabilities of \$6,526 and right-of-use assets of \$2,178 related to these sale and lease back transactions. The terms of the leases are 10 and 15 years.

## 11. Goodwill and Intangible Assets

The Corporation performed its annual impairment test of its goodwill and indefinite life intangibles as at December 31, 2019. 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, EBITDA margins, tax rates, discount rates

and the level of working capital required to support the business. The maintainable discretionary after-tax cash flows from operations are based on historical results, the Corporation's projected 2020 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% (2018 – 2%). The Corporation assumed a discount rate of approximately 9.4% (2018 – 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, 2019 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 Corporation did not reverse any impairment losses for definite life intangible assets for the years ended December 31, 2019 and December 31, 2018.

	Goodwill	Product distribution rights	Customer lists/Non-competition agreements	Software	Total
<b>Cost</b>					
<b>December 31, 2018</b>	\$ 47,663	\$ 3,376	\$ 24,131	\$ 10,548	\$ 85,718
<b>Additions</b>	—	—	—	5,352	5,352
<b>Disposals</b>	—	—	—	(15)	(15)
<b>Transfers</b>	—	—	—	135	135
<b>Acquisition of business</b> (Note 5)	3,074	(140)	(229)	—	2,705
<b>December 31, 2019</b>	\$ 50,737	\$ 3,236	\$ 23,902	\$ 16,020	\$ 93,895
<b>Accumulated amortization</b>					
<b>December 31, 2018</b>	\$ —	\$ —	\$ 7,528	\$ 4,505	\$ 12,033
<b>Charge for the year</b>	—	—	1,695	487	2,182
<b>Disposals</b>	—	—	—	(14)	(14)
<b>Transfers</b>	—	—	—	122	122
<b>December 31, 2019</b>	\$ —	\$ —	\$ 9,223	\$ 5,100	\$ 14,323
<b>Carrying amount</b>					
<b>December 31, 2019</b>	\$ 50,737	\$ 3,236	\$ 14,679	\$ 10,920	\$ 79,572
<b>Cost</b>					
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 5)	11,268	176	16,729	160	28,333
December 31, 2018	\$ 47,663	\$ 3,376	\$ 24,131	\$ 10,548	\$ 85,718
<b>Accumulated amortization</b>					
December 31, 2017	\$ —	\$ —	\$ 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
<b>Carrying amount</b>					
December 31, 2018	\$ 47,663	\$ 3,376	\$ 16,603	\$ 6,043	\$ 73,685

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

## 12. Accounts Payable and Accrued Liabilities

Accounts payable and accrued liabilities are comprised of the following:

	Note	December 31 2019	2018
Trade payables		\$ 174,770	\$ 142,818
Deferred income – other		1,078	1,053
Supplier payables			
with extended terms		41,310	34,672
Payroll, bonuses and incentives		21,869	32,223
Restructuring accrual	22	3,646	817
Accrued liabilities		43,584	39,193
Provisions		1,399	2,182
Accounts payable and accrued liabilities		\$ 287,656	\$ 252,958

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

## 13. Lease Liabilities and Lease Receivables

### Lessee

The Corporation leases properties for its branch network, certain vehicles, machinery and IT equipment. The lease liabilities are measured at the present value of the remaining lease payments discounted using the implicit interest rate in the lease or, if that rate is not readily determinable, the Corporation's incremental borrowing rate.

The change in lease liabilities is as follows:

For the year ended December 31	Note	2019	2018
Balance at beginning of year		\$ 13,749	\$ 9,511
<b>Changes from operating cash flows</b>			
Finance costs paid on lease liability		(5,675)	(494)
<b>Changes from financing cash flows</b>			
Payment of lease liabilities		(21,967)	(4,214)
<b>Other changes</b>			
Lease liabilities recognized on January 1, 2019 per IFRS 16	4	82,544	—
Interest expense	23	5,675	494
New leases, net of disposals		52,804	8,452
Balance at end of year		\$ 127,130	\$ 13,749
Current		\$ 20,706	\$ 4,622
Non-Current		\$ 106,424	\$ 9,127

Not included in the balance of lease liabilities are short-term leases, leases of low-value assets and variable lease payments not linked to an index. Variable lease payments, and lease payments associated with short-term leases and leases of low-value assets are expensed as incurred in the consolidated statements of earnings.

For the year ended December 31	Note	2019
Expense related to short term leases		\$ 209
Expense related to low value assets, excluding short term leases of low value assets		—
Expense relating to variable lease payments not included in the measurement of lease liabilities		1,323
Payment of lease liabilities		21,967
Interest paid on lease liabilities	23	5,675
Total cash outflow for leases		\$ 29,174

The maturity analysis of contractual undiscounted cash flows of lease obligations as at December 31, 2019 is as follows:

Less than one year	\$ 26,591
One to five years	76,541
More than five years	55,739
Total undiscounted lease obligations	\$ 158,871

### Lessor

When the Corporation acts as lessor, it determines at lease commencement whether each lease is a finance lease or an operating lease. To classify each lease, the Corporation makes an overall assessment of whether the lease transfers to the lessee substantially all of the risks and rewards of ownership incidental to ownership of the underlying asset. If this is the case, then the lease is a finance lease; if not, then it is an operating lease. As part of this assessment, the Corporation considers certain indicators such as whether the lease is for the major part of the economic life of the asset.

### Operating leases

The Corporation rents equipment to customers under rental agreements with terms of up to 5 years. The rentals have been assessed and 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:

	2019	2018
Less than one year	\$ 9,175	\$ 10,709
Between one and five years	12,052	15,269
More than five years	—	30
	\$ 21,227	\$ 26,008

### Finance leases

The Corporation subleases certain equipment to customers. The Corporation assessed and classified its subleases as finance leases, and therefore derecognized the right-of-use assets relating to the respective head leases being sublet, recognized lease receivables equal to the net investment in the subleases, and retained the previously recognized lease liabilities in its capacity as lessee.



The following table sets out a maturity analysis of lease receivables, showing the undiscounted lease payments to be received after the reporting date:

Less than one year	\$ 676
One to five years	1,812
More than five years	—
<b>Total undiscounted lease payments receivable</b>	<b>2,488</b>
Unearned finance income	(157)
<b>Lease receivables</b>	<b>\$ 2,331</b>
<b>Current portion</b>	<b>\$ 617</b>
<b>Long term portion</b>	<b>\$ 1,714</b>

## 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	
	2019	2018
Discount rate – at beginning of year (to determine plan expenses)	<b>3.5%</b>	3.3%
Discount rate – at end of year (to determine defined benefit obligation)	<b>3.0%</b>	3.5%
Rate of compensation increase	<b>3.0%</b>	3.0%
Rate of inflation	<b>2.0%</b>	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:

	Employees' Plan December 31, 2019	Executive Plan December 31, 2019	Combined Employees' and Executive Plan December 31, 2018
Cash	2.3%	0.6%	3.9%
Fixed Income	97.7%	40.2%	37.4%
Canadian Equities	—%	0.3%	28.2%
Foreign Equities	—%	58.9%	30.5%
	100.0%	100.0%	100.0%

The history of adjustments on the defined benefit plans recognized in other comprehensive income for the current and prior year are as follows:

	2019	2018
Actuarial (gain) loss on defined benefit obligation arising from:		
Experience adjustment	\$ —	\$ (307)
Demographic assumption changes	—	260
Economic assumption changes	<b>1,308</b>	(665)
	<b>1,308</b>	(712)
Actuarial (gain) loss on asset return	<b>(1,327)</b>	614
Total remeasurement gain recognized in OCI, pre-tax	<b>\$ (19)</b>	\$ (98)

### Total cash payments

Total cash payments for employee future benefits for 2019, 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 \$8,459 (2018 – \$8,694).

The Corporation expects to contribute \$363 to the defined benefit pension plans in the year ended December 31, 2020.

The plan expenses recognized in earnings are as follows:

	2019	2018
Defined contribution plans		
Current service cost	<b>\$ 7,967</b>	\$ 7,853
Defined benefit plans		
Current service cost	<b>295</b>	451
Administration expenses	<b>358</b>	354
SERP line of credit fees	<b>228</b>	227
Interest cost on defined benefit obligation	<b>728</b>	708
Interest income on assets	<b>(419)</b>	(430)
	<b>1,190</b>	1,310
Total plan expense recognized in earnings	<b>\$ 9,157</b>	\$ 9,163

Of the amounts recognized in earnings, \$3,600 (2018 – \$3,350) is included in cost of sales and \$5,557 (2018 – \$5,813) is included in selling and administrative expenses.

The amounts recognized in other comprehensive income are as follows:

	2019	2018
Net actuarial gains	\$ (19)	\$ (98)
Deferred tax expense	5	26
Amount recognized in other comprehensive income	\$ (14)	\$ (72)
Cumulative actuarial losses, net of tax	\$ 3,157	\$ 3,171

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

<b>Present value of benefit obligation</b>	<b>2019</b>	<b>2018</b>
Present value of benefit obligation, beginning of year	\$ 21,390	\$ 22,344
Current service cost	295	451
Participant contributions	19	24
Interest cost on defined benefit obligation	728	708
Actuarial loss (gain)	1,308	(712)
Benefits paid	(1,555)	(1,425)
Present value of benefit obligation, end of year	\$ 22,185	\$ 21,390

<b>Plan assets</b>	<b>2019</b>	<b>2018</b>
Fair value of plan assets, beginning of year	\$ 12,325	\$ 13,423
Actual return (loss)	1,746	(184)
Participant contributions	19	24
Employer contributions	492	841
Benefits paid	(1,555)	(1,425)
Administration expenses	(358)	(354)
Fair value of plan assets, end of year	\$ 12,669	\$ 12,325

<b>Funded Status</b>	<b>2019</b>	<b>2018</b>
Fair value of plan assets, end of year	\$ 12,669	\$ 12,325
Present value of benefit obligation, end of year	(22,185)	(21,390)
Plan deficit	\$ (9,516)	\$ (9,065)

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

	2019	2018
Accounts payable and accrued liabilities	\$ (372)	\$ (620)
Employee benefits	(9,144)	(8,445)
Plan deficit	\$ (9,516)	\$ (9,065)

Present value of benefit obligation includes a benefit obligation of \$6,332 (2018 – \$5,919) related to the SERP that is not funded. This obligation is secured by a letter of credit of \$5,359 (2018 – \$5,810).

### Sensitivity analysis

The following sensitivity analysis is hypothetical and should be used with caution. The sensitivities of the key assumption have been calculated independently of any changes in other assumptions. Actual experience may result in changes in a number of assumptions simultaneously. Changes in one factor may result in changes in another, which could amplify or reduce the impact of such assumptions.

A 1% increase in discount rate would result in a \$2,548 (2018 – \$2,455) decrease to the defined benefit obligation as at December 31, 2019. A 1% decrease in discount rate would result in a \$2,879 (2018 – \$2,774) increase to the defined benefit obligation.

## 15. Debentures

### Senior Unsecured Debentures – 6%, due January 15, 2025

On December 4, 2019, the Corporation issued \$50,000 in unsecured subordinated debentures with a term of five years due January 15, 2025. On December 11, 2019, an additional \$7,000 in unsecured subordinated debentures were issued under the same terms. These debentures bear a fixed interest rate of 6.00% per annum, payable semi-annually on January 15 and July 15 of each year, commencing July 15, 2020. The intended use of the net proceeds of the debentures was to pay down outstanding indebtedness under the existing credit facility.

The debentures will not be redeemable before January 15, 2023, except upon the occurrence of a change of control of the Corporation in accordance with the terms of the indenture governing the debentures. On or after January 15, 2023, but prior to January 15, 2024, the debentures are redeemable, in whole at any time or in part from time to time at the option of the Corporation at a price equal to 103% of the principal amount redeemed plus accrued and unpaid interest. On or after January 15, 2024, but prior to the maturity date of January 15, 2025, the debentures are redeemable at a price equal to their principal amount plus accrued and unpaid interest.

On redemption or at maturity on January 15, 2025, the Corporation has the option to repay the debentures in either cash or freely tradable voting shares of the Corporation.

The debentures are classified as a financial liability and initially recorded at fair value of \$54,075 net of transaction costs of \$2,925. The debentures are measured subsequently at amortized cost using the effective interest method over the life of the debentures. Movements in the debentures balance are as follows:

For the year ended December 31	2019
Balance at beginning of year	\$ —
<b>Changes from financing cash flows</b>	
Proceeds from issuance	57,000
Transaction costs related to issuance	(2,925)
<b>Other changes</b>	
Amortization of capitalized transaction costs	40
Balance at end of year	\$ 54,115

Interest expense on the debentures for the year ended December 31, 2019 amounted to \$295 (2018 – nil).

## 16. Long-Term Debt

In the fourth quarter of 2019, the Corporation amended its senior secured credit facility, by extending the maturity date from September 20, 2023 to October 1, 2024. In addition, the minimum value of the interest coverage ratio covenant was reduced to 2.75:1 from 3.0:1. The \$299 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, 2019.

The following balances were outstanding:

	December 31	
	2019	2018
Bank credit facility		
Non-revolving term portion	\$ 50,000	\$ 50,000
Revolving term portion	177,362	170,000
	<b>227,362</b>	220,000
Deferred financing costs, net of accumulated amortization	<b>(1,789)</b>	(1,884)
<b>Total long-term debt</b>	<b>\$ 225,573</b>	\$ 218,116

The Corporation had \$5,489 (2018 – \$6,101) letters of credit outstanding at the end of the year. Interest on long-term debt amounted to \$13,746 (2018 – \$8,281). Movements in the long-term debt balance are as follows:

For the year ended December 31	2019	2018
Balance at beginning of year	\$ 218,116	\$ 143,667
<b>Changes from financing cash flows</b>		
Net proceeds of borrowings	7,362	75,000
Transaction costs related to borrowings	(299)	(918)
<b>Other changes</b>		
Amortization of capitalized transaction costs	394	367
<b>Balance at end of year</b>	<b>\$ 225,573</b>	\$ 218,116

## 17. Financial Instruments and Financial Risk Management

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 instruments as follows:

	December 31	
	2019	2018
Financial assets (liabilities) measured at amortized cost:		
Cash (bank indebtedness)	\$ 3,180	\$ (3,932)
Trade and other receivables	238,194	206,257
Contract assets	23,318	30,307
Financial liabilities measured at amortized cost:		
Accounts payable and accrued liabilities	(287,656)	(252,958)
Contract liabilities	(7,230)	(8,291)
Dividends payable	(5,003)	(4,989)
Other liabilities	(1,602)	(2,214)
Lease liabilities	(127,130)	(13,749)
Debentures	(54,115)	—
Long-term debt	(225,573)	(218,116)
Net derivative financial liabilities measured at fair value:		
Foreign exchange forwards	(930)	(67)
Total return swaps	(2,952)	(4,265)
Interest rate swaps	(2,625)	(2,236)

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, debentures 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 fair value of the debentures is estimated based on the trading price of the debentures, which takes into account the Corporation's own credit risk. At December 31, 2019, the Corporation has estimated the fair value of its debentures to be approximately \$58,134.

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, 2019 and 2018:

### 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:

	December 31	
	2019	2018
Current	\$ 113,565	\$ 88,065
Less than 60 days overdue	79,126	75,577
More than 60 days overdue	20,995	18,945
<b>Total trade accounts receivable</b>	<b>\$ 213,686</b>	<b>\$ 182,587</b>

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:

For the year ended December 31	2019		2018	
Opening balance	\$ 953	\$	832	
Additions	1,891	\$	1,042	
Utilization	(473)	\$	(921)	
<b>Closing balance</b>	<b>\$ 2,371</b>	<b>\$</b>	<b>953</b>	

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 October 1, 2024. At December 31, 2019, the Corporation had borrowed \$227,362 (2018 – \$220,000) from the bank credit facility. The Corporation issued \$5,489 (2018 – \$6,101) of letters of credit for a total utilization of \$232,851 (2018 – \$226,101) of its \$400,000 (2018 – \$400,000) bank credit facility and had not utilized any (2018 – nil) of its \$25,000 (2018 – \$25,000) interest bearing equipment financing facilities.

On December 4, 2019, the Corporation issued \$50,000 in senior subordinated debentures with a term of five years due January 15, 2025. On December 11, 2019 an additional \$7,000 in senior subordinated debentures were issued under the same terms. On redemption or at maturity on January 15, 2025, the Corporation has the option to repay the debentures in either cash or freely tradable voting shares of the Corporation.

Wajax's \$400,000 bank credit facility, of which \$167,149 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.

Contractual obligations are as follows:

	Total	< 1 year	1 – 5 years	After 5 years
Undiscounted				
lease obligations	<b>\$158,871</b>	\$ 26,591	\$ 76,541	\$ 55,739
Long-term debt	<b>227,362</b>	—	227,362	—
Debentures	<b>57,000</b>	—	—	57,000
<b>Total</b>	<b>\$443,233</b>	\$ 26,591	\$303,903	\$112,739

#### 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 typically 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 2019 would result in a change to earnings before income taxes of approximately \$2,878 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 \$365 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, 2019, the Corporation recognized a loss of \$284 (2018 – loss of \$1,746), net of tax in other comprehensive income associated with its interest rate swaps.

The Corporation's interest rate swaps outstanding are summarized as follows:

Interest rate swaps	Notional Amount	Weighted Average Interest Rate	Maturity
December 31, 2019	\$ 104,000	2.56%	November 2024
December 31, 2018	\$ 104,000	2.70%	November 2023

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, 2019, the Corporation recognized a gain of \$79 (2018 – gain of \$52) associated with its foreign exchange forwards in the consolidated statements of earnings, and a loss of \$688 (2018 – gain of \$365), net of tax in other comprehensive income.

The Corporation's contracts to buy and sell foreign currencies are summarized as follows:

December 31, 2019	Notional Amount	Average Exchange Rate	Maturity
Purchase contracts	US\$ 45,190	1.3270	January 2020 to October 2020
Sales contracts	US\$ 30,545	1.3091	January 2020 to March 2021
	€ 1,074	1.5003	January 2020 to November 2020

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

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, 2019, the Corporation's total return swaps cover 365,000 of the Corporation's underlying common shares (December 31, 2018 – 440,000). During the year, the Corporation settled a total return swap contract for 205,000 shares, resulting in a cash payout of \$1,479. For the year ended December 31, 2019, the Corporation recognized a loss of \$167 (2018 – loss of \$4,265) associated with its total return swaps.

Derivative financial assets consist of:

	December 31	
	2019	2018
Foreign exchange forwards	\$ 532	\$ 1,635
Current portion	\$ 484	\$ 1,635
Long-term portion	\$ 48	\$ —

Derivative financial liabilities consist of:

	December 31	
	2019	2018
Interest rate swaps	\$ 2,625	\$ 2,236
Foreign exchange forwards	1,462	1,702
Total return swaps	2,952	4,265
Total derivative financial liabilities	\$ 7,039	\$ 8,203
Current portion	\$ 2,849	\$ 3,167
Long-term portion	\$ 4,190	\$ 5,036

Losses (gains) on derivative financial assets/liabilities are as follows:

	2019	2018
Opening net derivative financial liability	\$ 6,568	\$ 396
Loss recognized in net earnings	88	4,213
Loss recognized in other comprehensive income – net of tax	972	1,381
Tax on loss recognized in other comprehensive income	358	508
Acquisition of business	—	70
Cash paid on settlement of total return swaps	(1,479)	—
Ending net derivative financial liability	\$ 6,507	\$ 6,568

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 periods 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.

## 18. 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, 2019 (2018 – 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, 2018		20,132,194	\$ 181,952
Common shares issued to settle share-based compensation plans	19	35,509	530
Issued and outstanding, December 31, 2019		20,167,703	182,482
Shares held in trust, December 31, 2018		(175,680)	(1,583)
Released for settlement of certain share-based compensation plans		19,567	176
Shares held in trust, December 31, 2019		(156,113)	(1,407)
<b>Issued and outstanding, net of shares held in trust, December 31, 2019</b>		<b>20,011,590</b>	<b>\$ 181,075</b>

	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		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 shares held in trust		347,032	3,126
Shares held in trust, December 31, 2018		(175,680)	(1,583)
<b>Issued and outstanding, net of shares held in trust, December 31, 2018</b>		<b>19,956,514</b>	<b>\$ 180,369</b>

### Dividends declared

During 2019, the Corporation declared cash dividends of \$1.00 per share or \$20,006 (2018 – dividends of \$1.00 per share or \$19,747). As at December 31, 2019, the Corporation had \$5,003 (December 31, 2018 – \$4,989) dividends outstanding to be paid on January 3, 2020.

On March 2, 2020, the Corporation declared a first quarter 2020 dividend of \$0.25 per share or \$5,003.

### Earnings per share

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

	2019	2018
Numerator for basic and diluted earnings per share: – net earnings	\$ 39,504	\$ 35,852
Denominator for basic earnings per share: – weighted average shares, net of shares held in trust	19,998,656	19,686,075
Denominator for diluted earnings per share: – weighted average shares, net of shares held in trust – effect of dilutive share rights	19,998,656 417,535	19,686,075 461,827
Denominator for diluted earnings per share	20,416,191	20,147,902
Basic earnings per share	\$ 1.98	\$ 1.82
Diluted earnings per share	\$ 1.93	\$ 1.78

24,906 anti-dilutive share rights were excluded from the above calculation (2018 – 15,865).

## 19. Share-Based Compensation Plans

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

	2019	2018
<b>Treasury share rights plans</b>		
SOP equity-settled	\$ 52	\$ —
DDSUP equity-settled	597	570
Total treasury share rights plans expense	\$ 649	\$ 570
<b>Market-purchased share rights plans</b>		
MTIP equity-settled	\$ 920	\$ 960
DSUP equity-settled	(19)	194
Total market-purchased share rights plans expense	\$ 901	\$ 1,154
<b>Cash-settled rights plans</b>		
MTIP cash-settled	\$ 1,897	\$ 119
DSUP cash-settled	(1)	(57)
Total cash-settled rights plans expense	\$ 1,896	\$ 62
<b>Total share-based compensation expense</b>	<b>\$ 3,446</b>	<b>\$ 1,786</b>

### a) Treasury share rights plans

Under the SOP and the DDSUP, rights are issued to the participants which are settled by issuing Wajax Corporation shares for no cash consideration. Rights under the SOP vest over three years, while rights under the DDSUP vest immediately. 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, 2018	325,171	\$ 5,715
Grants – new grants	50,493	799
– dividend equivalents	20,945	—
Settlements	(35,509)	(530)
Outstanding at December 31, 2019	361,100	\$ 5,984

At December 31, 2019, 347,946 share rights were vested (December 31, 2018, 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	1,000,000
Exercised to date	(352,810)
Rights outstanding	(361,100)
Available for future grants at December 31, 2019	286,090

#### b) Market-purchased share rights plans

The MTIP plan consists of cash-settled restricted share units ("RSUs") and equity-settled performance share units ("PSUs"), and the equity-settled DSUP plan consists of deferred share units ("DSUs").

Market-purchased share rights plans consist of PSUs under the MTIP plan 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 are comprised of two components: return on net assets ("RONA") PSUs and total shareholder return ("TSR") PSUs as described below:

- RONA PSUs 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 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 PSUs and DSUs.

The following rights under these plans are outstanding:

	Number of rights	Fair value at time of grant
Outstanding at December 31, 2018	290,656	\$ 6,875
Grants – new grants	101,354	2,418
– dividend equivalents	16,400	—
Forfeitures	(153,194)	(3,195)
Settlements	(42,067)	(1,017)
Outstanding at December 31, 2019	213,149	\$ 5,081

At December 31, 2019, 15,426 outstanding rights were vested under these plans (December 31, 2018 – nil). All vested rights are DSUs.

#### c) Cash-settled rights plans

Cash-settled rights plans consist of MTIP RSUs and cash-settled 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. In the first quarter of 2019, the Corporation paid out \$3,111 to settle the RSU awards granted in 2016. At December 31, 2019, the carrying amount of the liabilities for these plans was \$2,524 (December 31, 2018 – \$3,738).

The following rights under these plans are outstanding:

	Number of rights
Outstanding at December 31, 2018	389,295
Grants – new grants	151,666
– dividend equivalents	23,274
Forfeitures	(67,442)
Settlements	(162,097)
Outstanding at December 31, 2019	334,696

At December 31, 2019, 9,127 outstanding rights were vested, representing all DSUs outstanding (December 31, 2018 – 8,577 rights).

## 20. Revenue

#### a) Disaggregation of revenue

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

	2019	2018
Equipment sales	\$ 523,874	\$ 542,814
Industrial parts	366,561	361,668
Product support	476,125	457,576
ERS	149,579	84,618
Revenue from contracts with customers	1,516,139	1,446,676
Equipment rental	36,907	34,921
Total	\$1,553,046	\$1,481,597

As at December 31, 2019, the Corporation has included \$22,504 (2018 – \$30,144) 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:

	2020	2021	2022	Total
Equipment sales	\$ —	\$ —	\$ —	\$ —
Product support	1,100	—	—	1,100
ERS	4,557	1,577	158	6,292
<b>Total</b>	<b>\$ 5,657</b>	<b>\$ 1,577</b>	<b>\$ 158</b>	<b>\$ 7,392</b>

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.

## 21. Employee Costs

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

	2019	2018
Wages and salaries, including bonuses	\$ 236,512	\$ 220,925
Other benefits	35,036	29,647
Pension costs – defined contribution plans	7,967	7,853
Pension costs – defined benefit plans	1,190	1,310
Share-based compensation expense	3,446	1,786
	<b>\$ 284,151</b>	<b>\$ 261,521</b>

## 22. Restructuring And Other Related Costs

In the third quarter of 2019, the Corporation commenced a planned Management Realignment resulting in an estimated restructuring cost of approximately \$3,718, recognized in the year relating primarily to expected severance costs.

In the first quarter of 2018, the Corporation commenced the Finance Reorganization Plan. The cost of the Finance Reorganization Plan was expected to be approximately \$5,600 in severance, project management and interim duplicate labour costs, of which \$1,869 has been recognized in 2019, \$3,485 was recognized in 2018, and \$336 was recognized in 2017.

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

For the year ended December 31	2019	2018
Opening accrual	\$ 817	\$ 468
Charge during the year	5,587	4,595
Utilized during the year	(2,758)	(3,794)
Recovery during the year	—	(452)
<b>Ending accrual</b>	<b>\$ 3,646</b>	<b>\$ 817</b>

## 23. Finance Costs

Finance costs for the years ended December 31, 2019 and 2018 is comprised of the following:

	Note	2019	2018
Interest on long-term debt	16	\$ 13,746	\$ 8,281
Interest on debentures	15	295	—
Interest on lease liabilities	13	5,675	494
<b>Finance costs</b>		<b>\$ 19,716</b>	<b>\$ 8,775</b>

## 24. Income Tax Expense

Income tax expense comprises current and deferred tax as follows:

For the year ended December 31	2019	2018
Current	\$ 12,425	\$ 18,509
Deferred	1,840	(4,534)
<b>Income tax expense</b>	<b>\$ 14,265</b>	<b>\$ 13,975</b>

The calculation of current tax is based on a combined federal and provincial statutory income tax rate of 26.8% (2018 – 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 26.8% 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:

For the year ended December 31	2019	2018
Combined statutory income tax rate	26.8%	26.9%
Expected income tax expense at statutory rates	\$ 14,410	\$ 13,403
Non-deductible expenses	636	692
Non-taxable portion of gain on real estate disposal	(654)	(91)
Other	(127)	(29)
<b>Income tax expense</b>	<b>\$ 14,265</b>	<b>\$ 13,975</b>



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

	December 31, 2018	Recognized in profit or loss	Recognized in other comprehensive income	Recognized in retained earnings	Recognized on acquisition of business	December 31, 2019
Property, plant and equipment	\$ (3,894)	\$ (3,394)	\$ —	\$ —	\$ (1,022)	\$ (8,310)
Finance leases	153	1,915	—	—	—	2,068
Intangible assets	(4,898)	1,318	—	—	—	(3,580)
Goodwill	—	(184)	—	—	—	(184)
Accrued liabilities	4,613	(827)	(5)	—	—	3,781
Provisions	915	(540)	—	—	—	375
Derivative instruments	1,777	(372)	289	—	—	1,694
Employee benefits	2,272	178	—	—	—	2,450
Deferred financing costs	656	(676)	—	—	—	(20)
Partnership income not currently taxable	(2,803)	855	—	—	—	(1,948)
Tax loss carryforwards	—	(113)	—	—	—	(113)
Net deferred tax (liabilities) assets	\$ (1,209)	\$ (1,840)	\$ 284	\$ —	\$ (1,022)	\$ (3,787)

	December 31, 2017	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 (liabilities) assets	\$ (731)	\$ 4,534	\$ 455	\$ (327)	\$ (5,140)	\$ (1,209)

## 25. Changes In Non-Cash Operating Working Capital

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

	2019	2018
Trade and other receivables	\$ (32,093)	\$ 12,555
Contract assets	6,989	(2,968)
Inventory	(36,270)	(33,220)
Deposits on inventory	(24,068)	(6,571)
Prepaid expenses	1,080	(1,962)
Accounts payable and accrued liabilities	34,877	3,156
Contract liabilities	(1,061)	(4,630)
Total	\$ (50,546)	\$ (33,640)

## 26. 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.

## 27. Capital Management

### Objective

The Corporation defines its capital as the total of its shareholders' equity, long-term debt, and debentures ("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 manage its working capital and normal-course capital investment programs within a leverage range of 1.5 to 2.0 times and to fund those programs through operating cash flow and its bank credit facilities as required. There may be instances whereby the Corporation is willing to maintain a leverage ratio outside of this range during changes in economic cycles. The Corporation may also maintain a leverage ratio above the stated range as a result of investment in significant acquisitions and may fund those acquisitions using its bank credit facilities and other debt instruments in accordance with the Corporation's expectations of total future cash flows, financing costs and other factors.

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, debentures, and total long-term debt, 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, CSC project costs, 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 October 1, 2024. 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, 2019, borrowing capacity under the bank credit facility was equal to \$400,000.
- 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, 2019, 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, 2019, the Corporation had not utilized any of its interest bearing equipment financing facilities.

## 28. 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:

	2019	2018
Salaries, bonus and other		
short-term employee benefits	\$ 3,771	\$ 5,683
Pension costs		
– defined contribution plans	189	182
Pension costs		
– defined benefit plans	255	408
Share-based compensation expense	1,972	1,621
Total compensation	\$ 6,187	\$ 7,894

## 29. 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.

## 30. Comparative Information

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

## 31. Subsequent Event

On January 13, 2020, the Corporation acquired all of the issued and outstanding shares of Calgary, Alberta-based NorthPoint Technical Services ULC ("NorthPoint") for approximately \$18,000 cash subject to final working capital adjustments.

**Summary of Quarterly Data – Unaudited**

(in millions of dollars, except per share data)	2019				2018			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Revenue	\$ 374.6	\$ 409.4	\$ 365.1	\$ 403.9	\$ 342.4	\$ 382.3	\$ 367.1	\$ 389.8
Net earnings	7.9	11.9	7.6	12.2	9.3	11.4	9.1	6.1
Earnings per share – Basic	\$ 0.39	\$ 0.59	\$ 0.38	\$ 0.61	\$ 0.48	\$ 0.58	\$ 0.46	\$ 0.31
Earnings per share – Diluted	0.39	0.58	0.37	0.60	0.46	0.56	0.45	0.30

**Eleven Year Summary – Unaudited**

	2019	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
<b>Operating Results</b>											
Revenue	\$1,553.0	\$ 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
Net earnings (loss)	39.5	35.9	27.4	11.0	(11.0)	41.2	47.7	65.9	63.8	56.4	34.2
Interest expense	19.7	8.8	15.2	11.2	12.2	13.0	9.0	4.4	4.6	5.2	4.5
Property, plant and equipment expenditures – net	2.5	4.2	1.7	6.5	4.1	5.4	3.9	5.6	5.3	1.7	7.0
Rental equipment expenditures – net	37.5	43.6	19.3	13.5	23.0	23.1	20.0	25.1	20.2	5.8	0.4
Depreciation and amortization	52.8	27.0	23.2	24.7	24.5	22.5	21.6	17.8	13.5	11.2	9.7
<b>Per Share</b>											
Net (loss) earnings – Basic	\$ 1.98	\$ 1.82	\$ 1.40	\$ 0.55	\$ (0.59)	\$ 2.46	\$ 2.85	\$ 3.95	\$ 3.84	\$ 3.39	\$ 2.06
Dividends declared	1.00	1.00	1.00	1.00	1.23	2.40	2.68	3.10	2.14	—	—
Distributions declared	—	—	—	—	—	—	—	—	—	3.40	2.47
Equity	15.83	14.88	14.08	14.07	14.44	14.82	14.77	14.45	13.69	12.00	12.07
<b>Financial Position</b>											
Working capital	\$ 404.1	\$ 334.7	\$ 289.7	\$ 268.8	\$ 302.7	\$ 258.2	\$ 272.7	\$ 230.1	\$ 167.0	\$ 77.9	\$ 160.1
Rental equipment	77.0	73.7	60.4	58.1	64.1	59.4	52.3	43.7	28.1	15.8	16.4
Property, plant and equipment – net	42.1	59.0	43.6	45.7	46.2	48.7	49.7	50.7	47.9	43.3	36.2
Debentures	54.1	—	—	—	—	—	—	—	—	—	—
Long-term debt excluding current portion	225.6	218.1	143.7	122.0	151.6	180.9	195.9	151.7	59.0	—	79.5
Shareholders' equity	316.8	297.0	274.7	278.9	288.5	248.5	247.2	241.9	227.6	199.3	200.4
Total assets	1,045.1	831.2	694.4	667.3	677.5	718.2	682.1	671.9	589.9	522.5	448.2
<b>Other Information</b>											
Number of employees	2,700	2,800	2,418	2,318	2,609	2,725	2,766	2,833	2,738	2,382	2,291
Shares outstanding (000s)	20,012	19,957	19,504	19,826	19,986	16,779	16,744	16,736	16,629	16,629	16,603
Price range of shares											
High	\$ 19.95	\$ 28.17	\$ 25.74	\$ 25.76	\$ 30.93	\$ 39.56	\$ 46.24	\$ 53.43	\$ 44.94	\$ 38.50	\$ 23.40
Low	13.98	15.43	18.49	13.34	14.81	28.75	29.38	38.59	27.80	21.65	10.95

# Corporate Information

## Directors

### Robert P. Dexter

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

### Thomas M. Alford<sup>2,3</sup>

President, Well Services,  
Precision Drilling Corporation

### Edward M. Barrett<sup>1,2</sup>

Chairman and Co-Chief Executive Officer,  
Barrett Corporation

### Anne E. Bélec<sup>1,2</sup>

Co-Founder and Chief Executive Officer,  
Mosaic Group, LLC.

### Douglas A. Carty<sup>1,3</sup>

Corporate Director

### Sylvia D. Chrominska<sup>1,2</sup>

Corporate Director

### John C. Eby<sup>1,3</sup>

Corporate Director

### A. Mark Foote

President and Chief Executive Officer,  
Wajax Corporation

### Alexander S. Taylor<sup>2,3</sup>

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

2250 Argentia Road  
Mississauga, ON L5N 6A5  
Telephone: (905) 212-3300  
Fax: (905) 212-3350

## Officers

### A. Mark Foote

President and Chief Executive Officer

### Steven C. Deck

Chief Operating Officer

### Stuart H. Auld

Chief Financial Officer

### Irene Stretton

Vice President, Human Resources

### Cristian Rodriguez

Vice President, Environment,  
Health and Safety

### Donna Baratto

Vice President, Customer Service Centres

### Trevor Carson

Vice President, Supply Chain and  
Corporate Development

### Tania Casadinho

Vice President, Corporate 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](http://www.investorcentre.com/service)

### Auditors

KPMG LLP

## Exchange Listing

Toronto Stock Exchange

## Symbol

WJX

## Wajax Corporation

### Share Trading Information

(January 1 – December 31, 2019)

	Open	High	Low	Close	Volume of Shares Traded
	\$16.75	\$19.95	\$13.98	\$14.80	11,761,231

## Quarterly Earnings Reports

Quarterly earnings for 2020 are anticipated to  
be announced after market close on May 4,  
August 6 and November 2, 2020 and  
March 1, 2021.

## 2020 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

Stuart Auld, Chief Financial Officer, or  
Trevor Carson, Vice President, Supply Chain  
and Corporate Development,  
Telephone: (905) 212-3300  
Fax: (905) 212-3350  
E-mail: [ir@wajax.com](mailto:ir@wajax.com)

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](http://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 5, 2020, at 11:00 a.m. EDT.

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

# Locations

## Western Canada

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

Acheson, AB  
Calgary, AB  
Clairmont, AB  
Edmonton, AB  
Fort McMurray, AB  
Grande Prairie, AB  
Nisku, AB  
Red Deer, AB  
Redcliff, AB  
Rock View County, AB

Regina, SK  
Saskatoon, SK

Flin Flon, MB  
Thompson, MB  
Winnipeg, MB

Yellowknife, NT

## Ontario

Belleville, ON  
Espanola, ON  
Guelph, ON  
Kapuskasing, ON  
Kirkland Lake ON  
Kitchener, ON  
London, ON  
Mississauga, ON  
Ottawa, ON  
Pembroke, ON  
Sarnia, ON  
Sault Ste. Marie, ON  
Stoney Creek, ON  
Sudbury, ON  
Thunder Bay, ON  
Timmins, ON  
Toronto, ON  
Vaughan, ON  
Windsor, ON

## Eastern Canada

Baie-Comeau, QC  
Chambly, QC  
Chicoutimi, QC  
Dorval, QC  
Drummondville, QC  
Granby, QC  
Lachine, QC  
Lasalle, QC  
Laval, QC  
Longueuil, QC  
Montreal, QC  
Noranda, QC  
Québec City, QC  
Rimouski, QC  
Sept-Îles, QC  
Sherbrooke, QC  
St-Félicien, QC  
St-Germain-de-Grantham, QC  
Temiscaming, QC  
Tracy, QC  
Trois-Rivières, QC  
Val d'Or, QC  
Valleyfield, QC  
Ville d'Anjou, QC

Bathurst, NB  
Edmundston, NB  
Moncton, NB

Charlottetown, PEI

Dartmouth, NS  
Port Hawkesbury, NS  
Stellarton, NS

Corner Brook, NL  
Mount Pearl, NL  
Pasadena, NL  
St. John's, NL  
Wabush, NL

### Photo Credit

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**wajax.com**