Wajax Corporation
Management's Discussion and Analysis – Q1 2019

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 quarter ended March 31, 2019. This MD&A should be read in conjunction with the information contained in the unaudited condensed consolidated interim financial statements and accompanying notes for the quarter ended March 31, 2019, the annual audited consolidated financial statements and accompanying notes for the year ended December 31, 2018 that are prepared in accordance with International Financial Reporting Standards (IFRS) and the associated MD&A. Information contained in this MD&A is based on information available to management as of May 6, 2019.

Management is responsible for the information disclosed in this MD&A and the unaudited condensed consolidated interim 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 unaudited condensed consolidated interim 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 unaudited condensed consolidated interim financial statements and accompanying notes.

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

Wajax Corporation Overview

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

Strategic Direction and Outlook

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

- Investing in the Wajax team - The safety, well-being and engagement of the Corporation's team of 2,800 technicians, sales professionals, support staff and leaders is the foundation of the Corporation. The Corporation is very proud of the team's accomplishments in workplace safety, progress on personal wellness programs and enhanced training and professional development.

- Investing in Wajax' customers - The Corporation has the privilege of supporting 32,000 individual customers across Canada ranging from small local contractors to the country's largest industrial and resource organizations. Wajax continues to expand its Voice of the Customer (VoC) program which evaluates detailed customer service levels for each location and shares customer feedback openly with all parts of the Corporation. For an increasing number of large customers, the VoC program also uses analytical systems and dedicated teams to explore opportunities to increase the Corporation's share-of-wallet with individual customers.

- Executing a clear organic growth strategy - The Corporation has classified its ten current product and service categories based on a category's contribution to sustainable growth. While Wajax is competitive in all of the categories it participates in, these classifications ensure that resources (such as inventory, personnel and marketing) are allocated appropriately. The Corporation's classifications are Targeted Growth (which includes the Construction, Material Handling and Engineered Repair Services categories), Core Strength (which includes the Industrial Parts, Forestry, On-Highway and Power and Marine categories) and Cyclical and Major Projects (which includes the Mining, Engines and Transmissions and Crane/Utility categories). The majority of the Corporation's strategic plan's organic growth is expected to result from Targeted Growth categories due to the relatively high opportunity for market share increases, resilient aftermarkets, the strength of the Corporation's product and service range and related manufacturer relationships. In 2018, 53% of the Corporation's revenue growth was driven by Targeted Growth categories.

- Accretive acquisitions strategy - Wajax has developed clear acquisition criteria for the Canadian and U.S. markets. In Canada, the focus is primarily on acquisitions that add to the Corporation's scale in the Engineered Repair Services ("ERS") business and secondarily to extensions to the Corporation's existing distribution businesses. In the U.S. market, the focus is on reviewing growth opportunities related to distribution businesses that provide a long-term growth platform for the One Wajax multi-category model. Acquisitions are considered when they can be achieved within acceptable leverage parameters, are consistent with the Corporation's product and service strategy, accretive to EBITDA margin, provide scale and have effective management teams.

- Investing in the Wajax infrastructure - The Corporation is making major changes to its infrastructure to improve the consistency of customer service, lower fixed costs and add new sales channels in an increasingly technology-enabled industry. The Corporation's current infrastructure programs include the ongoing consolidation of the branch network to improve customer service and to lower the cost of its physical footprint. In addition, the Corporation is investing in new information systems and capabilities that replace the aged legacy systems and provide a platform for new customer-facing capabilities. In 2018, the Corporation completed the majority of the configuration and testing of its new ERP system, which the Corporation expects to begin implementing in the first half of 2019.

- Ongoing refinements to the One Wajax organizational model - In 2016, Wajax made major changes to how its team is organized in order to improve growth, drive consistency and to lower fixed costs. The changes reduced costs by approximately $20 million at the time of the change, primarily through the reduction of administrative personnel costs. As the business has grown, the Corporation has reinvested those savings, primarily in revenue generating roles, such as sales professionals and technicians. Wajax continues to refine its organizational model and expects additional improvements in cost productivity, due primarily to technology investments.

Outlook

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

Highlights for the Quarter

- Revenue in the first quarter of 2019 increased $32.1 million or 9%, to $374.6 million, from $342.4 million in the first quarter of 2018.(1) Regionally:
    - Revenue in western Canada of $159.3 million increased 1% over the prior year as strong mining parts and service sales were partially offset by lower construction and power generation sales.
    - Revenue in central Canada of $74.4 million increased 3% over the prior year as higher ERS sales, due primarily to the acquisition of Delom in the fourth quarter of 2018, and sales gains in power generation, crane and utility and industrial parts, more than offset reductions in construction.
    - Revenue in eastern Canada of $140.9 million increased 25% over the prior year due to sales gains in the majority of product categories, including higher ERS sales due primarily to the acquisition of Delom in the fourth quarter of 2018 and higher material handling sales.

- Gross profit margin of 19.5% increased 0.5% compared to the same period of 2018 and increased 2.3% sequentially compared to the fourth quarter of 2018. On a sequential basis, gross profit margin improved due to improved product support margins.

- Selling and administrative expenses as a percentage of revenue increased 1.0% to 15.2% in the first quarter of 2019 from 14.2% in the same period of 2018.(1) Selling and administrative expenses increased by $8.0 million compared to the first quarter of 2018 due mainly to higher personnel costs, sales-related expenses and a $1.1 million gain recorded on sales of properties in 2018.(1) As expected, the Corporation incurred higher personnel costs in the first quarter due to increased year-over-year headcount and the acquisition of Delom. The increase in expenses is consistent with the Corporation's 2019 sales goals and workplan for major projects. The year-over-year increase in expenses is expected to be lower in the second half of 2019.

- EBIT increased $0.9 million, or 6.2%, to $15.4 million in the first quarter of 2019 versus $14.5 million in the same period of 2018.(1)(2) The year-over-year improvement is primarily attributable to increased revenue and the acquisition of Delom in the fourth quarter of 2018.

- The Corporation generated net earnings of $7.9 million, or $0.39 per share, in the first quarter of 2019 versus $9.3 million, or $0.48 per share, in the same period of 2018.(1)(2) The Corporation generated adjusted net earnings of $8.7 million, or $0.43 per share, in the first quarter of 2019 versus $9.6 million, or $0.49 per share, in the same period of 2018.(1)(2) These results include the negative influence of $0.02 per share due to the Corporation's adoption of IFRS 16 *Leases* ("IFRS 16") on January 1, 2019 (see the Changes in Accounting Policies section).

- Adjusted EBITDA margin increased to 7.9% in the first quarter of 2019 from 6.0% in the same period of 2018.(1)(2) Adjusted EBITDA margin includes the positive impact related to the adoption of IFRS 16.(1)(2) See the Changes in Accounting Policies section.

- The Corporation's backlog at March 31, 2019 of $255.3 million increased $48.3 million, or 23%, compared to December 31, 2018 due primarily to higher mining, material handling and forestry orders. Compared to the first quarter of 2018, backlog increased $49.9 million, or 24%, due primarily to higher mining orders.(2)

- Inventory of $392.3 million at March 31, 2019 increased $26.3 million from December 31, 2018 due to higher new equipment, parts inventory levels and work-in-process. The level of new equipment inventory is consistent with the Corporation's sales plans. Increases in parts inventory supports increases in market share in key categories and higher mining stock levels.

- Working capital of $384.9 million at March 31, 2019 increased $50.2 million from December 31, 2018 due primarily to higher trade and other receivables, inventory levels and lower income taxes payable. Trailing four-quarter average working capital as a percentage of the trailing 12-month sales was 22.8%, an increase of 0.9% from December 31, 2018 due primarily to the higher trailing four-quarter average working capital.(2)

- The Corporation's leverage ratio increased to 2.89 times at March 31, 2019 compared to 2.45 times at December 31, 2018.(3) The increase in the leverage ratio was primarily due to the higher debt level associated with the increase in working capital offset partially by the higher trailing 12-month pro-forma adjusted EBITDA.[(2)]

- On April 10, 2019, the Corporation announced the resignation of Darren Yaworsky, Senior Vice President, Finance and Chief Financial Officer, for personal reasons.

  On May 6, 2019, the Corporation announced that, effective May 7th, 2019, Stuart Auld will assume the role of Senior Vice President, Finance and Chief Financial Officer. Mr. Auld joined Wajax's senior leadership team in 2014 and was most recently the Corporation's Senior Vice President, Human Resources and Information Systems. In addition to his new role, Mr. Auld will retain responsibility for the Corporation's information systems. Prior to joining Wajax, Mr. Auld's career included 30 years of senior finance experience at companies including the Hudson's Bay Company and Canadian Tire Corporation. Mr. Auld is a Chartered Accountant.

  The Corporation also announced that, effective May 7, 2019, Irene Stretton will assume the role of Vice President, Human Resources. Ms. Stretton joined Wajax's leadership team in 2010 and was most recently Director, Total Rewards. Prior to joining Wajax, Ms. Stretton's human resources career included 20 years of experience in senior roles at Labatt Breweries of Canada, Campbell Company of Canada and Aramark Canada Ltd.

Notes:

(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. See the Adjustments to Prior Period Comparative Financial Statements section.

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

(3) 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 leverage ratio for December 31, 2018 using the amended definition of funded net debt is shown above. See the Non-GAAP and Additional GAAP Measures section.

Summary of Operating Results

Statement of earnings highlights For the three months ended March 31	**2019**	2018 (As adjusted)[5]	% change
Revenue	**$ 374.6**	$ 342.4	9.4 %
Gross profit	**$ 73.2**	$ 65.0	12.6 %
Selling and administrative expenses	**$ 56.8**	$ 48.8	16.4 %
Restructuring and other related costs	**$ 1.0**	$ 1.7	(41.2)%
Earnings before finance costs and income taxes[1]	**$ 15.4**	$ 14.5	6.2 %
Finance costs	**$ 4.5**	$ 1.7	164.7 %
Earnings before income taxes[1]	**$ 10.9**	$ 12.8	(14.8)%
Income tax expense	**$ 3.0**	$ 3.5	(14.3)%
Net earnings	**$ 7.9**	$ 9.3	(15.1)%
- Basic earnings per share[2]	**$ 0.39**	$ 0.48	(18.8)%
- Diluted earnings per share[2]	**$ 0.39**	$ 0.46	(15.2)%
Adjusted net earnings[1][3]	**$ 8.7**	$ 9.6	(9.4)%
- Adjusted basic earnings per share[1][2][3]	**$ 0.43**	$ 0.49	(12.2)%
- Adjusted diluted earnings per share[1][2][3]	**$ 0.43**	$ 0.47	(8.5)%
Adjusted EBITDA[1]	**$ 29.7**	$ 20.4	45.6 %
Key ratios:			
Gross profit margin	**19.5%**	19.0%	
Selling and administrative expenses as a percentage of revenue	**15.2%**	14.2%	
EBIT margin[1]	**4.1%**	4.2%	
Adjusted EBITDA margin[1]	**7.9%**	6.0%	
Effective income tax rate	**27.7%**	27.7%	

Statement of financial position highlights As at	**March 31 2019**	December 31 2018	% change
Trade and other receivables	**$ 218.1**	$ 206.3	5.7 %
Inventory	**$ 392.3**	$ 366.0	7.2 %
Accounts payable and accrued liabilities	**$ (260.5)**	$ (253.0)	3.0 %
Other working capital amounts[1]	**$ 35.0**	$ 15.4	127.3 %
Working capital[1]	**$ 384.9**	$ 334.7	15.0 %
Rental equipment	**$ 73.2**	$ 73.7	(0.7)%
Property, plant and equipment	**$ 134.9**	$ 59.0	128.6 %
Funded net debt[1][4]	**$ 272.4**	$ 222.0	22.7 %
Key ratio:			
Leverage ratio[1][4]	**2.89**	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 outstanding for calculation of basic and diluted earnings per share for the three months ended March 31, 2019 was 19,977,618 (2018 – 19,504,107) and 20,343,535 (2018 – 20,177,396), respectively.
(3) Net earnings excluding the following:
   a. after-tax restructuring and other related costs of $0.7 million (2018 – $1.2 million), or basic earnings per share of $0.04 (2018 - $0.06 per share) and diluted earnings per share of $0.03 (2018 – $0.06 per share), for the three months ended March 31, 2019.

b. after-tax gain recorded on sales of properties of $0.9 million, or basic and diluted earnings per share of $(0.05) for the three months ended March 31, 2018.
c. after-tax non-cash gains on mark to market of derivative instruments of $0.4 million (2018 – nil), or basic and diluted earnings per share of $(0.02) (2018 – nil) for the three months ended March 31, 2019.
d. after-tax CSC project costs of $0.5 million (2018 – nil), or basic and diluted earnings per share of $0.03 (2018 – nil) for the three months ended March 31, 2019.

(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.

(5) 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. See the Adjustments to Prior Period Comparative Financial Statements section.

Results of Operations

Revenue Sources

For the three months ended March 31		**2019**		2018 (As adjusted)[1]
Equipment sales	**$**	**112.1**	$	123.9
Equipment rental	**$**	**8.9**	$	8.0
Industrial parts	**$**	**93.4**	$	88.9
Product support	**$**	**124.3**	$	105.7
ERS/Other	**$**	**35.8**	$	15.9
Total revenue	**$**	**374.6**	$	342.4

(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. See the Adjustments to Prior Period Comparative Financial Statements section.

Revenue in the first quarter of 2019 increased 9.4%, or $32.1 million, to $374.6 million, from $342.4 million in the first quarter of 2018. In addition to regional revenue commentary provided previously herein, the following factors contributed to the increase in revenue:

- Equipment sales have decreased due to lower construction sales in western and central Canada and lower mining sales in western Canada. These decreases were partially offset by an increase in power generation sales in central and eastern Canada and improved construction, material handling and forestry sales in eastern Canada.
- Revenue from industrial parts has increased due primarily to increased bearings and hydraulics sales in eastern Canada.
- Product support sales have increased on strength in mining parts and service sales in western Canada.
- ERS/Other sales have increased due to higher ERS revenues in eastern Canada due primarily to the acquisition of Delom in the fourth quarter of 2018.

Backlog
Backlog of $255.3 million at March 31, 2019 increased $48.3 million compared to December 31, 2018 due primarily to higher mining, material handling and forestry orders. Backlog of $255.3 million at March 31, 2019 increased $49.9 million compared to March 31, 2018 due primarily to higher mining orders.

Gross profit
Gross profit increased $8.2 million, or 12.6%, in the first quarter of 2019 compared to the same quarter last year, primarily as a result of higher volumes. Gross profit margin of 19.5% in the first quarter of 2019 increased from 19.0% in the same quarter last year.

Selling and administrative expenses
Selling and administrative expenses increased $8.0 million in the first quarter of 2019 compared to the same quarter last year. This increase was primarily due to higher personnel costs, sales-related expenses, CSC project costs of $0.7 million in the current quarter and a $1.1 million gain recorded on sales of properties in 2018. Selling and administrative expenses as a percentage of revenue increased to 15.2% in the first quarter of 2019 from 14.2% in the first quarter of 2018.

Restructuring and other related costs
In the first quarter of 2018, the Corporation commenced the Finance Reorganization Plan and a leadership re-alignment within its ERS function. The cost of the Finance Reorganization Plan is expected to be approximately $5.6 million in severance, project management and interim duplicate labour costs, of which $1.0 million has been recognized in the first quarter of 2019 and $3.8 million recognized in 2018. The remaining $0.8 million in anticipated costs, primarily relating to project management and interim duplicate labour costs, will be expensed as incurred over the remaining project period. Management anticipates that the majority of the remaining project work will be completed by the first half of 2019.

Finance costs
Finance costs of $4.5 million in the first quarter of 2019 increased $2.8 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 incremental interest expense of $1.2 million related to right-of-use assets as a result of the adoption of IFRS 16 in the first quarter of 2019. See the Liquidity and Capital Resources section.

Income tax expense
The Corporation's effective income tax rate in the first quarter of 2019 was 27.7% (2018 – 27.7%) compared to the statutory rate of 26.9% (2018 – 26.9%) due to the impact of expenses not deductible for tax purposes. The statutory income tax rate of 26.9% is unchanged compared to 2018.

Net earnings
In the first quarter of 2019, the Corporation had net earnings of $7.9 million, or $0.39 per share, compared to $9.3 million, or $0.48 per share, in the first quarter of 2018. The $1.4 million decrease in net earnings resulted primarily from higher operating expenses and finance costs not fully offset by increased revenue and gross profit and lower restructuring and other related costs of $0.5 million after-tax.

Adjusted net earnings (See the Non-GAAP and Additional GAAP Measures section)
Adjusted net earnings in the first quarter of 2019 excludes restructuring and other related costs of $0.7 million after-tax, or $0.04 per share (2018 – $1.2 million after-tax, or $0.06 per share), certain non-recurring CSC project costs of $0.5 million after-tax, or $0.03 per share (2018 – nil) and non-cash gains on mark to market of derivative instruments of $0.4 million after-tax, or $0.02 per share (2018 – nil).

As such, adjusted net earnings decreased $0.9 million to $8.7 million, or $0.43 per share, in the first quarter of 2019, from $9.6 million, or $0.49 per share, in the same period of 2018.

Comprehensive income
In the first quarter of 2019, the total comprehensive income of $6.5 million included net earnings of $7.9 million and an other comprehensive loss of $1.4 million. The other comprehensive loss of $1.4 million in the current period resulted primarily from $1.4 million of losses on derivative instruments outstanding at the end of the period designated as cash flow hedges and $0.1 million of gains on derivative instruments designated as cash flow hedges in prior periods reclassified to net earnings during the current period.

Selected Quarterly Information

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

	2019	2018				2017 (As adjusted)[(2)]		
	Q1	Q4	Q3	Q2	Q1[(1)]	Q4	Q3	Q2
Revenue	**$ 374.6**	$ 389.8	$ 367.1	$ 382.3	$ 342.4	$ 375.5	$ 297.9	$ 325.9
Net earnings	**$ 7.9**	$ 6.1	$ 9.1	$ 11.4	$ 9.3	$ 6.1	$ 8.1	$ 7.5
Net earnings per share								
- Basic	**$ 0.39**	$ 0.31	$ 0.46	$ 0.58	$ 0.48	$ 0.31	$ 0.41	$ 0.38
- Diluted	**$ 0.39**	$ 0.30	$ 0.45	$ 0.56	$ 0.46	$ 0.30	$ 0.40	$ 0.37

(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. See the Adjustments to Prior Period Comparative Financial Statements section.

(2) The Corporation has adjusted its comparative 2017 earnings and financial position as a result of the adoption on January 1, 2018 of IFRS 15 *Revenue from Contracts with Customers* and its comparative 2017 earnings and financial position as a result of the adjustments to prior period financial statements identified as part of the Finance Reorganization Plan. See the Adjustments to Prior Period Financial Statements section of the Corporation's MD&A for the year ended December 31, 2018.

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 results. As well, large deliveries of mining trucks and shovels and power generation packages can shift the revenue and net earnings throughout the year.

The first quarter 2018 net earnings of $9.3 million included after-tax restructuring and other related costs of $1.2 million and after-tax gain recorded on sales of properties of $0.9 million. Excluding the restructuring and other related costs and gain recorded on sales of properties, first quarter 2018 adjusted net earnings were $9.6 million. The second quarter 2018 net earnings of $11.4 million included after-tax restructuring and other related costs of $0.9 million. Excluding the restructuring and other related costs, second quarter 2018 adjusted net earnings were $12.3 million. The third quarter 2018 net earnings of $9.1 million included after-tax restructuring and other related costs of $0.4 million. Excluding the restructuring and other related costs, third quarter 2018 adjusted net earnings were $9.5 million. The fourth quarter 2018 net earnings of $6.1 million included after-tax restructuring and other related costs of $0.5 million, after-tax non-cash losses on mark to market of derivative instruments of $1.5 million and after-tax Delom transaction costs of $0.3 million. Excluding the restructuring and other related costs, non-cash losses on mark to market of derivative instruments and Delom transaction costs, fourth quarter 2018 adjusted net earnings were $8.3 million.

The 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 the restructuring and other related costs, CSC project costs and non-cash gains on mark to market of derivative instruments, first quarter 2019 adjusted net earnings were $8.7 million. See the Non-GAAP and Additional GAAP Measures section.

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

Consolidated Financial Condition

Capital Structure and Key Financial Condition Measures

		March 31 2019		December 31 2018
Shareholders' equity	**$**	**298.6**	$	297.0
Funded net debt[(1)(2)]		**272.4**		222.0
Total capital	**$**	**571.0**	$	519.0
Funded net debt to total capital[(1)(2)]		**47.7%**		42.8%
Leverage ratio[(1)(2)]		**2.89**		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 maintain a leverage ratio between 1.5 times and 2.0 times. However, there may be instances where the Corporation is willing to maintain a leverage ratio outside this range to support: key growth initiatives, acquisitions and fluctuations in working capital levels during changes in economic cycles. The Corporation's current leverage ratio above target has been driven by the acquisition of Delom, an increase in working capital including higher trade and other receivables, investments made in inventory to satisfy the Corporation's sales goals and lower income taxes payable due to a large income tax installment payment made in the first quarter of 2019. See the Funded Net Debt section below.

Shareholders' Equity

The Corporation's shareholders' equity at March 31, 2019 of $298.6 million increased $1.6 million from December 31, 2018, as earnings of $7.9 million exceeded dividends declared of $5.0 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	27,473	$	0.5
Issued and outstanding, March 31, 2019	20,159,667	$	182.4
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, March 31, 2019	(156,113)	$	(1.4)
Issued and outstanding, net of shares held in trust, March 31, 2019	**20,003,554**	**$**	**181.0**

At the date of this MD&A, the Corporation had 20,003,554 common shares issued and outstanding, net of shares held in trust.

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

As of March 31, 2019, there were 312,131 (2018 – 399,135) SOP and DDSUP (treasury share rights plans) rights outstanding, 295,264 (2018 – 685,311) MTIP PSUs and DSUP (market-purchased share rights plans) rights outstanding and 373,748 (2018 – 16,642) MTIP RSUs and cash-settled deferred share units (cash-settled rights plans) rights outstanding. At March 31, 2019 and March 31, 2018, all SOP and DDSUP rights were vested. Depending on the actual level of achievement of the performance targets associated with the outstanding MTIP PSUs and the outstanding DSUP grants, the number of market-purchased shares required to satisfy the Corporation's obligations could be higher or lower.

Wajax recorded compensation expense of $1.7 million for the quarter (2018 – $1.0 million) in respect of these plans.

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

		March 31 2019		December 31 2018 (Pro-forma)[1]
(Cash) bank indebtedness	**$**	**(5.8)**	$	3.9
Long-term debt		**278.2**		218.1
Funded net debt	**$**	**272.4**	$	222.0

(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 $272.4 million at March 31, 2019 increased $50.4 million compared to $222.0 million at December 31, 2018.[1] The increase during the quarter was due primarily to cash used in operating activities of $37.2 million, dividends paid of $5.0 million and payment of lease liabilities of $5.2 million.

The Corporation's ratio of funded net debt to total capital increased to 47.7% at March 31, 2019 from 42.8% at December 31, 2018, primarily due to the higher funded net debt level in the current period.[1]

The Corporation's leverage ratio of 2.89 times at March 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 offset partially by the higher trailing 12-month pro-forma adjusted EBITDA.[1] See the Non-GAAP and Additional GAAP Measures section.

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.

Financial Instruments

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

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

Wajax has entered into interest rate hedge contracts to minimize exposure to interest rate fluctuations on its variable rate debt. All interest rate hedge contracts are recorded in the consolidated financial statements at fair value. As at both March 31, 2019 and December 31, 2018, Wajax had the following interest rate hedge contracts outstanding:

- $104.0 million, expiring in November 2023, with a weighted average interest rate of 2.70%.

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 March 31, 2019, Wajax had the following contracts outstanding:

- to buy U.S. $35.5 million (December 31, 2018 – to buy U.S. $34.3 million),
- to sell U.S. $20.7 million (December 31, 2018 – to sell U.S. $20.9 million), and
- to sell Euro €2.5 million (December 31, 2018 – €2.8 million).

The U.S. dollar contracts expire between April 2019 and August 2020, with an average U.S./Canadian dollar rate of 1.3145.

The Euro contracts expire between April 2019 and November 2019, with an average Euro/Canadian dollar rate of 1.5308.

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 March 31, 2019, Wajax had the following total return swap contracts outstanding:

- contracts totaling 235,000 shares at an initial share value of $6.1 million, expiring between March 2020 and March 2021.

Contractual Obligations

There have been no material changes to the Corporation's contractual obligations since December 31, 2018. See the Liquidity and Capital Resources section.

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 9 and 11 of the condensed consolidated interim financial statements and accompanying notes for the period ended March 31, 2019.

It is likely but not reasonably certain that existing leases are likely to 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 $155.8 million (December 31, 2018 – $129.0 million) of consigned inventory on hand from a major manufacturer at March 31, 2019, net of deposits of $15.0 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 markets, or reduce dividends to accommodate any shortfalls in Wajax's credit facility. See the Liquidity and Capital Resources section.

Liquidity and Capital Resources

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

Bank and Non-bank Credit Facilities

At March 31, 2019, Wajax had borrowed $280.0 million and issued $5.6 million of letters of credit for a total utilization of $285.6 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 March 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 March 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.

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 March 31, 2019, Wajax had no utilization of the interest bearing equipment financing facilities.

As at March 31, 2019, $114.4 million was unutilized under the bank facility and $25 million was unutilized under the non-bank facilities. As of May 6, 2019, Wajax maintained a bank credit facility with a limit of $400 million and an additional $25 million in credit facilities with non-bank lenders, which is permitted under the bank credit facility. Wajax maintains sufficient liquidity to meet short-term normal course working capital and maintenance capital requirements and certain strategic investments. However, Wajax may be required to access the equity or debt markets to fund significant acquisitions.

In addition, the Corporation’s tolerance to interest rate risk decreases/increases as the Corporation’s leverage ratio increases/decreases. At March 31, 2019, $104 million of the Corporation’s funded net debt, or 38%, 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 Condensed Consolidated Interim Statements of Cash Flows for the three months ended March 31, 2019 and March 31, 2018:

For the three months ended March 31	**2019**	2018 (As adjusted)[1]	Change
Net earnings	**$ 7.9**	$ 9.3	$ (1.4)
Items not affecting cash flow	**21.7**	10.4	11.3
Changes in non-cash operating working capital	**(36.5)**	(19.6)	(16.9)
Finance costs paid	**(4.4)**	(1.6)	(2.8)
Income taxes paid	**(16.3)**	(1.7)	(14.6)
Rental equipment additions	**(7.3)**	(5.4)	(1.9)
Other non-current liabilities	**(0.9)**	(0.1)	(0.8)
Cash paid on settlement of total return swaps	**(1.5)**	—	(1.5)
Cash used in operating activities	**$ (37.2)**	$ (8.9)	$ (28.3)
Cash used in investing activities	**$ (2.5)**	$ (1.0)	$ (1.5)
Cash generated from (used in) financing activities	**$ 49.4**	$ (1.8)	$ 51.2

(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. See the Adjustments to Prior Period Comparative Financial Statements section.

Cash Used In Operating Activities

Cash flows used in operating activities amounted to $37.2 million in the first quarter of 2019, compared to $8.9 million in the same quarter of the previous year. The decrease in cash flows generated from operating activities was mainly attributable to a decrease in cash generated from changes in non-cash operating working capital of $16.9 million and an increase in income taxes paid of $14.6 million related mainly to prior year taxes payable.

Rental equipment additions in the first quarter of 2019 of $7.3 million (2018 – $5.4 million) related primarily to lift trucks.

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

Changes in Non-cash Operating Working Capital[1]

For the three months ended March 31	**2019**	2018 (As adjusted)[2]
Trade and other receivables	**$ (12.0)**	$ 3.7
Contract assets	**(6.4)**	2.6
Inventory	**(23.6)**	(22.0)
Deposits on inventory	**(2.0)**	0.5
Prepaid expenses	**(0.8)**	(0.7)
Accounts payable and accrued liabilities	**7.9**	(5.0)
Contract liabilities	**0.5**	1.1
Total Changes in Non-cash Operating Working Capital	**$ (36.5)**	$ (19.6)

(1) Increase (decrease) in cash flow
(2) 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. See the Adjustments to Prior Period Comparative Financial Statements section.

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

- Trade and other receivables increased $12.0 million in 2019 compared to a decrease of $3.7 million in 2018. The increase in 2019 resulted primarily from higher trade receivables from certain large mining customers in the first quarter.
- Contract assets increased $6.4 million in 2019 compared to a decrease of $2.6 million in 2018. The increase in 2019 resulted primarily from increased contracts in progress due mainly to the acquisition of Delom.
- Inventory increased $23.6 million in 2019 compared to an increase of $22.0 million in 2018. The increase in 2019 was due mainly to higher new equipment, parts inventory levels and work-in-process. The increase in 2018 was due mainly to higher construction equipment inventory.
- Accounts payable and accrued liabilities increased $7.9 million in 2019 compared to a decrease of $5.0 million in 2018. The increase in 2019 resulted primarily from higher accrued liabilities. The decrease in 2018 resulted primarily from lower trade payables related to mining equipment inventory offset partially by the payment of annual incentive accruals relating to 2017.

Investing Activities
During the first quarter of 2019, Wajax invested $1.5 million in property, plant and equipment additions, compared to $1.3 million in the first quarter of 2018. Intangible assets additions of $1.1 million (2018 – $1.3 million) in the first quarter of 2019 resulted primarily from software additions relating to the new ERP system currently being implemented.

Financing Activities
The Corporation generated $49.4 million of cash from financing activities in the first quarter of 2019 compared to a use of cash of $1.8 million in the same quarter of 2018. Financing activities in the quarter, including a net bank credit facility borrowing of $60.0 million (2018 – $4.0 million), were partially offset by the payment of lease liabilities of $5.2 million (2018 – $0.9 million) and dividends paid to shareholders of $5.0 million (2018 – $4.9 million).

Dividends

Dividends to shareholders 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
Three months ended March 31, 2019		**$ 0.25**	**$ 5.0**

On May 6, 2019, the Corporation declared a dividend of $0.25 per share for the second quarter of 2019 payable on July 3, 2019 to shareholders of record on June 14, 2019.

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 and goodwill and intangible assets.

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

Allowance for 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, OEMs and various levels of government. The Corporation follows a program of credit evaluations of customers and limits the amount of credit extended when deemed necessary. The Corporation maintains an allowance for possible credit losses, and any such losses to date have been within management's expectations. The allowance for 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 $1.1 million allowance for credit losses at March 31, 2019 increased $0.1 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 2018 which would result in an increased charge to earnings.

Inventory obsolescence
The value of the Corporation's new and used equipment and high value parts are evaluated by management throughout the year, on a unit-by-unit basis. When required, provisions are recorded to ensure that the book value of equipment and parts are valued at the lower of cost or estimated net realizable value. The Corporation performs an aging analysis to identify slow moving or obsolete lower value parts inventory and estimates appropriate obsolescence provisions related thereto. The Corporation takes advantage of supplier programs that allow for the return of eligible parts for credit within specified time periods. The inventory obsolescence charged to earnings for the three months ended March 31, 2019 was $1.3 million (2018 – $1.2 million). As economic conditions change, there is risk that the Corporation could have an increase in inventory obsolescence compared to prior periods which would result in an increased charge to earnings.

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

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 March 31, 2019.

Changes in Accounting Policies

Accounting standards adopted during the period

IFRS 16 Leases
On January 1, 2019, the Corporation adopted IFRS 16 using the modified retrospective transition method.

As a lessee
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), less any lease incentives receivable, variable payments that are based on an index or a rate, amounts expected to be payable by the lessor 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 was 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 lease recognized in the statement of financial position immediately before the date of transition, with no impact on retained earnings.

The lease liability was and shall be measured at amortized cost using the effective interest rate method and shall be 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 was and shall be 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 shall be 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 on a straight-line basis, 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 is as follows:

	As reported as at December 31, 2018	Impact of adoption of IFRS 16	**Adjusted opening balance as at January 1, 2019**
Property, plant and equipment	$ 59.0	$ 81.2	**$ 140.2**
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**

Adjustments to Prior Period Comparative Financial Statements

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.

The Corporation's prior period condensed consolidated interim statements of financial position have been impacted as follows by the Other adjustments:

	As previously reported March 31, 2018	Other adjustments	**As adjusted March 31, 2018**
Inventory	$ 339.6	$ (0.2)	$ 339.4
Rental equipment	58.9	(0.8)	58.1
Accounts payable and accrued liabilities	218.6	13.3	231.8
Income taxes payable	3.8	(2.3)	1.5
Deferred tax liabilities	1.2	(0.4)	0.8
Other liabilities	0.4	(0.4)	0.1
Retained earnings	104.3	(11.3)	93.0

The Corporation's condensed consolidated interim statement of earnings for the three months ended March 31, 2018 has been impacted as follows by the Other adjustments:

	As previously reported	Other adjustments	**As adjusted**
Revenue	$ 342.7	$ (0.3)	$ 342.4
Cost of sales	276.4	1.1	277.4
Selling and administrative expenses	49.0	(0.2)	48.8
Restructuring and other related costs	2.0	(0.3)	1.7
Income tax expense	3.8	(0.2)	3.5
Net earnings	9.9	(0.6)	9.3
Basic earnings per share	$ 0.51	$ (0.03)	$ 0.48
Diluted earnings per share	$ 0.49	$ (0.03)	$ 0.46

The Corporation's condensed consolidated interim statement of cash flows for the three months ended March 31, 2018 has been impacted as follows by the Other adjustments:

	As previously reported	Other adjustments	**As adjusted**
Operating activities:			
Net earnings	$ 9.9	$ (0.6)	**$ 9.3**
Intangible assets amortization	0.3	(0.2)	**0.1**
Income tax expense	3.8	(0.2)	**3.5**
Changes in non-cash operating working capital	(21.0)	1.4	**(19.6)**
Cash used in operating activities	(9.2)	0.3	**(8.9)**
Investing activities:			
Property, plant and equipment additions	(1.0)	(0.3)	**(1.3)**

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. There are however, a number of risks that deserve particular comment which are discussed in detail in the MD&A for the year ended December 31, 2018 which can be found on SEDAR at www.sedar.com. There have been no material changes to the business of Wajax that require an update to the discussion of the applicable risks discussed in the MD&A for the year ended December 31, 2018.

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 March 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 March 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 ("COSO") in its 2013 version of Internal Control – Integrated Framework. With regard to general controls over information technology, management also used the set of practices of Control Objectives for Information and related Technology ("COBIT") created by the IT Governance Institute. The Corporation has excluded from its evaluation the ICFR of Delom, which was acquired on October 16, 2018, as discussed in Note 6 of the consolidated financial statements and accompanying notes for the year ended December 31, 2018. The total revenue subject to Delom's ICFR represented 5% of the Corporation's consolidated total revenue for the three months ended March 31, 2019. The total assets subject to Delom's ICFR represented 5% of the Corporation's consolidated total assets as at March 31, 2019.

There was no change in Wajax's ICFR that occurred during the three months ended March 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 losses (gains) from non-hedged derivative instruments and the MTIP share-based compensation plans. These adjustments to net earnings and basic and diluted earnings per share allow the Corporation's management to consistently compare periods by removing infrequent charges incurred outside of the Corporation's principal business activities and the impact of fluctuations in interest rates and the Corporation's share price.

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

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

Non-GAAP financial measures are identified and defined below:

Funded net debt	Funded net debt includes bank indebtedness 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.
Debt	Debt is funded net debt plus letters of credit. Debt is relevant in calculating the Corporation’s Leverage Ratio, which is a non-GAAP measure commonly used as an indicator of a company’s ability to raise and service debt.
EBITDA	Net earnings (loss) before finance costs, income tax expense, depreciation and amortization.
EBITDA margin	Defined as EBITDA divided by revenue, as presented on the Condensed Consolidated Interim Statements of Earnings.
Adjusted net earnings (loss)	Net earnings (loss) before after-tax restructuring and other related costs (recoveries), (gain) loss recorded on sales of properties, non-cash losses (gains) on mark to market of derivative instruments and CSC project costs.
Adjusted basic and diluted earnings (loss) per share	Basic and diluted earnings (loss) per share before after-tax restructuring and other related costs (recoveries), (gain) loss recorded on sales of properties, non-cash losses (gains) on mark to market of derivative instruments and CSC project costs.
Adjusted EBITDA	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, Delom transaction costs and CSC project costs.

Adjusted EBITDA margin	Defined as Adjusted EBITDA divided by revenue, as presented on the Condensed Consolidated Interim Statements of Earnings.
Pro-forma adjusted EBITDA	Defined as Adjusted EBITDA adjusted for the EBITDA of business acquisitions made during the period as if they were made at the beginning of the trailing 12-month period pursuant to the terms of the bank credit facility.
Leverage ratio	The leverage ratio is defined as debt at the end of a particular quarter divided by trailing 12-month Pro-forma adjusted EBITDA. The Corporation's objective is to maintain this ratio between 1.5 times and 2.0 times.
Funded net debt to total capital	Defined as funded net debt divided by total capital. Total capital is the funded net debt plus shareholder's equity.
Backlog	Backlog is a management measure which includes the total sales value of customer purchase commitments for future delivery or commissioning of equipment, parts and related services. This differs from the remaining performance obligations as defined by IFRS 15.

Additional GAAP measures are identified and defined below:

Earnings (loss) before finance costs and income taxes (EBIT)	Earnings (loss) before finance costs and income taxes, as presented on the Condensed Consolidated Interim Statements of Earnings.
EBIT margin	Defined as EBIT divided by revenue, as presented on the Condensed Consolidated Interim Statements of Earnings.
Earnings (loss) before income taxes (EBT)	Earnings (loss) before income taxes, as presented on the Condensed Consolidated Interim Statements of Earnings.
Working capital	Defined as current assets less current liabilities, as presented on the Condensed Consolidated Interim Statements of Financial Position.
Other working capital amounts	Defined as working capital less trade and other receivables and inventory plus accounts payable and accrued liabilities, as presented on the Condensed Consolidated Interim 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 March 31	
	2019	2018 (As adjusted)[3]
Net earnings	**$ 7.9**	$ 9.3
Restructuring and other related costs (recoveries), after-tax	**0.7**	1.2
Gain recorded on sales of properties, after-tax	**—**	(0.9)
Non-cash gains on mark to market of derivative instruments, after-tax	**(0.4)**	—
CSC project costs	**0.5**	—
Adjusted net earnings	**$ 8.7**	$ 9.6
Adjusted basic earnings per share[(1)(2)]	**$ 0.43**	$ 0.49
Adjusted diluted earnings per share[(1)(2)]	**$ 0.43**	$ 0.47

(1) For the three months ended March 31, 2019, the numbers of basic and diluted shares outstanding were 19,977,618 and 20,343,535, respectively.

(2) For the three months ended March 31, 2018, the numbers of basic and diluted shares outstanding were 19,504,107 and 20,177,396, respectively.

(3) 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. See the Adjustments to Prior Period Comparative Financial Statements section.

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		For the twelve months ended	
	March 31 2019	March 31 2018 (As adjusted)[10]	**March 31 2019**	December 31 2018
Net earnings	**$ 7.9**	$ 9.3	**$ 34.5**	$ 35.9
Income tax expense	**3.0**	3.5	**13.4**	14.0
EBT	**10.9**	12.8	**47.9**	49.8
Finance costs[1]	**4.5**	1.7	**11.6**	8.8
EBIT	**15.4**	14.5	**59.5**	58.6
Depreciation and amortization[2]	**13.1**	5.3	**34.8**	27.0
EBITDA	**28.5**	19.8	**94.3**	85.6
Restructuring and other related costs (recoveries)[3]	**1.0**	1.7	**3.5**	4.1
Gain recorded on sales of properties[4]	**—**	(1.1)	**—**	(1.2)
Non-cash (gains) losses on mark to market of derivative instruments[5]	**(0.5)**	—	**1.7**	2.2
Delom transaction costs[6]	**—**	—	**0.5**	0.5
CSC project costs[7]	**0.7**	—	**0.7**	—
Adjusted EBITDA	**$ 29.7**	$ 20.4	**$ 100.5**	$ 91.2
Delom acquisition pro-forma adjusted EBITDA[8]	**—**	—	**4.2**	6.3
Pro-forma adjusted EBITDA, as previously reported	**$ 29.7**	$ 20.4	**$ 104.7**	$ 97.5
Payment of lease liabilities[9]	**(5.2)**	(0.9)	**(8.5)**	(4.2)
Pro-forma adjusted EBITDA	**$ 24.5**	$ 19.5	**$ 96.3**	$ 93.3

(1) As a result of the adoption of IFRS 16, the Corporation incurred interest costs of $1.2 million that are included in finance costs for the three months ended March 31, 2019.

(2) As a result of the adoption of IFRS 16, the Corporation incurred depreciation expense of $4.4 million that is included in depreciation and amortization for the three months ended March 31, 2019.

(3) For the three months ended March 31, 2019 – Includes the $1.0 million restructuring and other related costs recorded in the first quarter of 2019.
For the three months ended March 31, 2018 – Includes the $1.7 million restructuring and other related costs recorded in the first quarter of 2018.
For the twelve months ended March 31, 2019 – Includes the $1.0 million restructuring and other related costs recorded in the first quarter of 2019, the $0.7 million restructuring and other related costs recorded in the fourth quarter of 2018, the $0.6 million restructuring and other related costs recorded in the third quarter of 2018 and the $1.2 million restructuring and other related costs recorded in the second quarter of 2018.
For the twelve months ended December 31, 2018 – Includes the $4.1 million restructuring and other related costs recorded in 2018.

(4) For the three months ended March 31, 2018 – Includes the $1.1 million gain recorded on sales of properties recorded in the first quarter of 2018.
For the twelve months ended December 31, 2018 – Includes the $1.2 million gain recorded on sales of properties recorded in 2018.

(5) For the three months ended March 31, 2019 – Includes the $0.5 million non-cash gains on mark to market of derivative instruments recorded in the first quarter of 2019.
For the twelve months ended March 31, 2019 – Includes the $0.5 million non-cash gains on mark to market of derivative instruments recorded in the first quarter of 2019 and the $2.2 million non-cash losses on mark to market of derivative instruments recorded in the fourth quarter of 2018.

(6) For the twelve months ended March 31, 2019 and December 31, 2018 – Includes the $0.5 million Delom transaction costs recorded in the fourth quarter of 2018.

(7) For the three and twelve months ended March 31, 2019 – Includes the $0.7 million CSC project costs recorded in the first quarter of 2019.

(8) For the twelve months ended March 31, 2019 – Includes the $4.2 million Delom acquisition pro-forma adjusted EBITDA.
For the twelve months ended December 31, 2018 – Includes the $6.3 million Delom acquisition pro-forma adjusted EBITDA.

(9) 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.

For the three months ended March 31, 2019 – Includes the $5.2 million payment of lease liabilities recorded in the first quarter of 2019.
For the three months ended March 31, 2018– Includes the $0.9 million payment of lease liabilities recorded in the first quarter of 2018.
For the twelve months ended March 31, 2019 – Includes the $5.2 million payment of lease liabilities recorded in the first quarter of 2019, the $1.1 million payment of lease liabilities recorded in the fourth quarter of 2018, the $1.0 million payment of lease liabilities recorded in the third quarter of 2018 and the $1.1 million payment of lease liabilities recorded in the second quarter of 2018.

(10) 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. See the Adjustments to Prior Period Comparative Financial Statements section.

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

		March 31 2019		December 31 2018 (Pro-forma)[1]		December 31 2018 (As previously reported)
(Cash) bank indebtedness	$	**(5.8)**	$	3.9	$	3.9
Obligations under finance leases		**—**		—		13.7
Long-term debt		**278.2**		218.1		218.1
Funded net debt[1]	$	**272.4**	$	222.0	$	235.8
Letters of credit		**5.6**		6.1		6.1
Debt	$	**278.1**	$	228.1	$	241.9
Pro-forma adjusted EBITDA[2]	$	**96.3**	$	93.3	$	97.5
Leverage ratio[3]		**2.89**		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 March 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. 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 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 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 includes forward looking statements regarding, among other things, the main elements of our updated Strategic Plan, including our focus on executing clear plans in six important areas: investments in our team, investments in our customers, our organic growth strategy, our acquisition strategy, investments in our infrastructure and refinements to the One Wajax organizational model; our expectation that the majority of our Strategic Plan growth will originate from our Targeted Growth categories; our expectation of additional improvements in cost productivity as we continue to refine our organizational model; our expectations and outlook for 2019, including our outlook on regional market conditions in Canada as well as certain key end markets; our expectation that full year adjusted net earnings will increase over 2018 based on revenue improvements and the full year effect of the Delom acquisition; our belief that current market conditions in western Canada are more favourable than those which prevailed in 2015 and 2016 when energy prices were weak; our intention to commence implementation of our new ERP system and Customer Support Centres in the first half of 2019; our view that expected earnings improvements in 2019 will be weighted to the second half of the year; our expectation that our leverage will remain within acceptable boundaries and that the Corporation maintains sufficient financial flexibility to execute its 2019 business plan; our expectation that our year-over-year increase in costs will be lower in the second half of 2019; the expected cost of the redesign of our finance function and our expectation that the majority of such project work will be completed during the first half of 2019; the expected cost of our ERS leadership re-alignment; our objective of maintaining our target leverage ratio range of 1.5 - 2.0 times; our expectation that the impact of changes in interest rates (in particular, related to unhedged variable rate debt) will not have a material impact on our results of operations or financial condition over the longer term; our financing, working and maintenance capital requirements, as well as our capital structure and leverage ratio; our estimate of the number of shares required to settle our obligations under certain share-based compensation plans; 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; and the adequacy of our debt facilities. 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 to successfully implement new information technology platforms, systems and software; our ability to realize the full benefits from our 2016 strategic reorganization, including cost savings and productivity gains; the future financial performance of the Corporation; our costs; market competition; our ability to attract and retain skilled staff; our ability to procure quality products and inventory; and our ongoing relations with suppliers, employees and customers. The foregoing list of assumptions is not exhaustive. Factors that may cause actual results to vary materially include, but are not limited to, a deterioration in general business and economic conditions; volatility in the supply and demand for, and the level of prices for, oil, natural gas and other commodities; a continued or prolonged decrease in the price of oil or natural gas; fluctuations in financial market conditions, including interest rates; the level of demand for, and prices of, the products and services we offer; levels of customer confidence and spending; market acceptance of the products we offer; termination of distribution or original equipment manufacturer agreements; unanticipated operational difficulties (including failure of plant, equipment or processes to operate in accordance with specifications or expectations, cost escalation, our inability to reduce costs in response to slow-downs in market activity, unavailability of quality products or inventory, supply disruptions, job action and unanticipated events related to health, safety and environmental matters); our ability to attract and retain skilled staff and our ability to maintain our relationships with suppliers, employees and customers. The foregoing list of factors is not exhaustive. Further information concerning the risks and uncertainties associated with these forward looking statements and the Corporation's business may be found in this MD&A under the heading "Risk Management and Uncertainties" and in our Annual Information Form for the year ended December 31, 2018, filed on SEDAR. The forward-looking statements contained in this MD&A 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.

Additional information, including Wajax's Annual Report, are available on SEDAR at www.sedar.com.