



**SNC • LAVALIN**

PEOPLE. DRIVE. RESULTS.

# TRANSFORMING TODAY FOR A WORLD OF TOMORROW

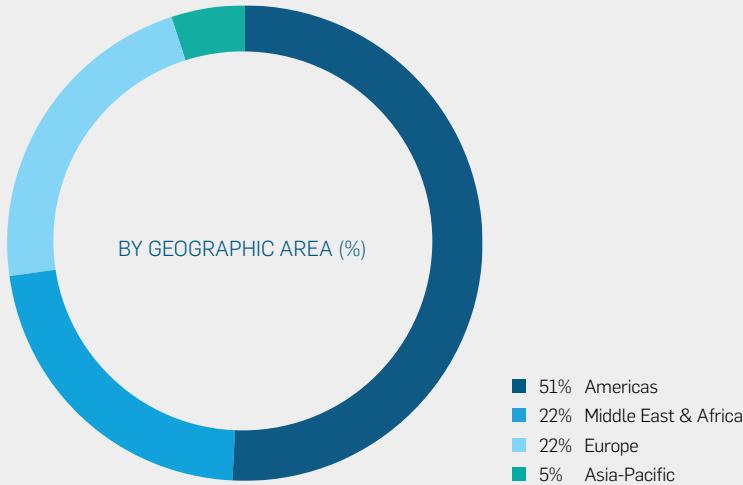
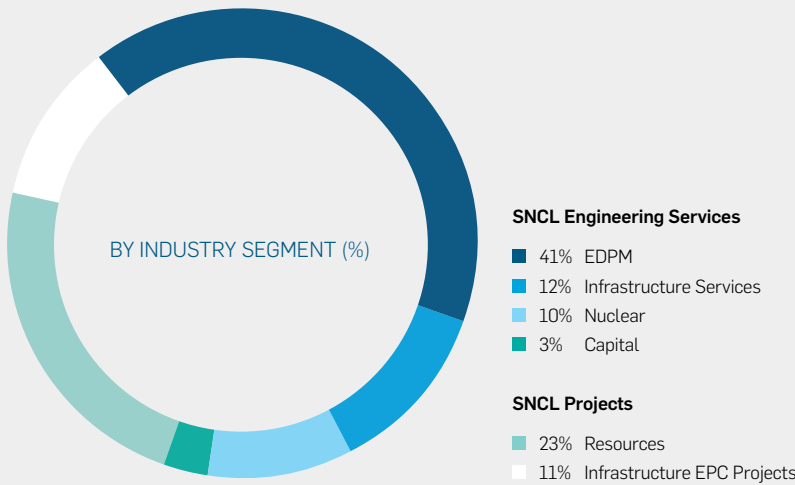
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ANNUAL REPORT



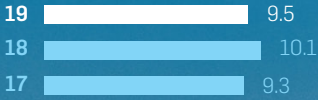
# FINANCIAL HIGHLIGHTS

## 2019 REVENUES

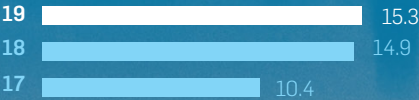


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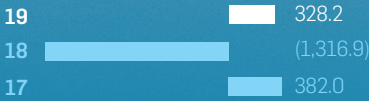
## REVENUES (IN BILLIONS C\$)



## BACKLOG (IN BILLIONS C\$)



## NET INCOME (LOSS) ATTRIBUTABLE TO SNC-LAVALIN SHAREHOLDERS (IN MILLIONS C\$)



## DILUTED EARNINGS (LOSS) PER SHARE (IN C\$)



# PRESIDENT'S MESSAGE

## Transforming today for a world of tomorrow

2019 was a pivotal year for SNC-Lavalin. We navigated challenging conditions and took decisive action to set the Company in a new strategic direction that yielded results in short order and put us on a sustainable path forward. 2019 tested our resilience and demonstrated our ability to be agile and leverage our strengths. I am extremely proud of what we accomplished, and we are excited about our future, and the transformation of SNC-Lavalin into a leading global provider of professional engineering services and project management solutions.

### IDENTIFYING THE ROOT CAUSE TO CHART A SUSTAINABLE PATH FORWARD

When I was asked to lead the Company forward in June 2019, it was clear to me that we needed to immediately address the root cause of the volatility that had affected earnings and cash flows for some time. It required making a radical decision to exit the lump-sum turnkey (LSTK) contracting model altogether and simplify the business so that we could unleash the power and potential of our high-value engineering services business, including Engineering, Design, and Project Management (EDPM), Nuclear and Infrastructure Services.

In July, we unveiled our new strategic direction, which had very clear objectives: to de-risk the business and generate consistent earnings and cash flow. The new strategy included three key initiatives:

Reorganizing the business into two distinct business lines: SNCL Engineering Services, which focuses on our highest-value, most differentiated segments (EDPM, Nuclear, Infrastructure Services, and Capital) and which will form the future of the Company. We have key market positions and are tier-one players in EDPM, Nuclear, and Infrastructure Services, all of which are strong performers that provide a solid platform for growth. Secondly, SNCL Projects, which comprises LSTK projects for the Resources and Infrastructure segments, and the Resources services business.

Exiting LSTK by immediately ceasing to bid on all new LSTK work and running off our existing LSTK project backlog as efficiently as possible. This reduces risk and optimizes the free cash flow generated from SNCL Engineering Services.

Restructuring Resources, exploring all options for the business, particularly with regards to our Oil & Gas business, including transitioning to a services-based business or divestitures, and right-sizing overhead.

### NEW STRATEGIC DIRECTION DELIVERING RESULTS

The Company's financial performance improved significantly in the second half of 2019, demonstrating that the new strategy is delivering results. In the second half of 2019, we generated \$261 million in operating cash flow, which included a very strong fourth quarter, the highest quarterly figure in two years. This was a great achievement and direct result of our actions, that significantly strengthened our balance sheet and raised our cash position to \$1.2 billion at the end of 2019. We also generated in the second half of 2019 an adjusted net income from E&C of \$244.4 million, a significant improvement over the adjusted net loss in the first half of 2019.

We had consistent growth in SNCL Engineering Services, increasing year-over-year Revenue and Backlog, and delivered strong Segment EBIT, with a double-digit Segment EBIT ratio. At the same time, we steadily ran off a portion of our LSTK project backlog, focused on reducing the losses associated with LSTK Resources projects, and initiated a restructure of our Resources sector, with overhead reductions and closure of an underperforming midstream oil & gas facility.

As part of our efforts to de-risk the business, we also significantly reduced our debt levels. We achieved this in large part by selling a portion of our stake in the Highway 407 ETR for \$3 billion – a net gain after tax of \$2.6 billion— and used much of the proceeds to repay debt. This, together with the increased cash flow in the second half of the year, resulted in substantially improved debt ratios, well within our covenants.

While our focus on operations and performance delivered results, we also accomplished a long term aim; the settlement in December of the federal charges resulting from the Company's legacy activities in Libya from 2001 to 2011. I want to be clear that this past behavior runs contrary to our values and we deeply regret the events that took place; the SNC-Lavalin of today has a robust ethics and compliance program that meets the highest international standards. We have put this issue firmly behind us, removing a reputational risk to the Company for past events by people long since gone, and providing clarity on our ability to bid on future government contracts.

\$9.5B

IN REVENUE

66%

OF SNCL ENGINEERING SERVICES CONTRACTS

\$15.3B

DIVERSIFIED REVENUE BACKLOG AT YEAR-END

A PROUD 100+ YEAR HISTORY, AN  
EXCITING FUTURE

In summary, we accomplished a tremendous amount of progress in a relatively short period of time and placed the Company on a strong and robust footing as we enter 2020. We have a diversified business that is well positioned to navigate any market uncertainty, and our long-term strategy to transform SNC-Lavalin into a leading global provider of professional engineering services and project management solutions remains on course.

At the time of writing, I along with the leadership team, have put resiliency measures in place to help weather the impact of the COVID-19 pandemic of the last several months. We have swiftly been able to pivot the majority of our professional services operations to working remotely, and in the main our physical projects are deemed essential, where we provide operations & maintenance or support nuclear facilities. Our priority remains the health and well-being of the staff, while maintaining business operations for customers where allowable and possible, as we move quickly to maximize financial flexibility and liquidity. We have taken all appropriate actions to protect our employees, our work, and the future of our organization.

Having already been focused through 2019 on identifying issues and risks, and addressing them swiftly with affirmative action, we have been well prepared to face this unprecedented global situation. Throughout the crisis we have continued to support governments and clients with their response to the pandemic and are working with them on their longer term needs for infrastructure and innovative solutions.

I look forward to achieving our goals with a renewed senior leadership team that includes the appointment of a new role in the Chief Transformation Officer, a new Chief Financial Officer, General Counsel, and Chief Information Officer. I also want to extend my gratitude to our Board of Directors for their support and guidance, and thank our shareholders for the patience and commitment they've shown this year while we embarked on our new strategic direction.

Most importantly, I want to acknowledge our dedicated and talented employees, who are the foundation of our continued success. SNC-Lavalin has survived and thrived for more than 100 years by adapting and innovating and employing top talent. I look forward to the next chapter in our shared history together.



**Ian L. Edwards**  
President and Chief Executive Officer

LEADERSHIP  
TEAM

From left to right:

**Craig Muir**  
President, Resources

**James Cullens**  
Executive Vice-President,  
Human Resources

**Stéphanie Vaillancourt**  
Executive Vice-President,  
Capital and Treasurer

**Philip Hoare**  
President, Atkins, Engineering,  
Design & Project Management

**Jonathan Wilkinson**  
President, Infrastructure Projects

**Ian L. Edwards**  
President and  
Chief Executive Officer

**Charlene Ripley**  
Executive Vice-President and General Counsel

**Nigel W.M. White**  
Executive Vice-President, Project Oversight

**Jeff Bell**  
Executive Vice President and  
Chief Financial Officer

**Alexander (Sandy) Taylor**  
President, Nuclear

**Erik J. Ryan**  
Executive Vice-President, Strategy, Marketing  
and External Relations

**Louis G. Véronneau**  
Executive Vice-President and  
Chief Transformation Officer



# 2019 HIGHLIGHTS

## Integrity

### SETTLED

Canadian federal charges arising from legacy activities in Libya between 2001 and 2011

### AWARDED

the Compliance Leader Verification from the Ethisphere Institute

### COMPLETED

40,000 hours of Integrity Training for our personnel.

### LAUNCHED

Scotty, an AI chatbot for employee questions on any subject covered in the Code of Conduct, 24/7.

## Health, safety & environment (HSE)

### RECORDED

a total of 105 Perfect Days free of any safety injury, security event or environmental release – 50 days over target and 55 more than recorded in 2018.

## Leadership team appointments

### IAN L. EDWARDS

as President and Chief Executive Officer

### JEFF BELL

as Executive Vice-President and Chief Financial Officer

### CRAIG MUIR

as President, Resources

### CHARLENE RIPLEY

as Executive Vice-President and General Counsel

### STÉPHANIE VAILLANCOURT

as Executive Vice-President, Capital and Treasurer

### LOUIS G. VÉRONNEAU

as Executive Vice-President and Chief Transformation Officer

### NIGEL W.M. WHITE

as Executive Vice-President, Project Oversight

## Project wins

### AWARDED

CONTRACT TO START DECOMMISSIONING

THE LINGEN NUCLEAR POWER PLANT IN GERMANY

### SIGNED

EXTENDED CONTRACT WITH THE U.S. DEPARTMENT OF ENERGY (DOE)

TO CONTINUE SAFE MANAGEMENT OF HANFORD'S HIGH-LEVEL WASTE

### SECURED

THREE-YEAR EXTENDABLE CONTRACT WITH UAE'S AL YASAT PETROLEUM

TO PROVIDE ENGINEERING AND PROJECT SUPPORT

### APPOINTED

TO HELP DEVELOP AUSTRALIA'S LARGEST FREIGHT RAIL INFRASTRUCTURE PROJECT,

THE 1,710 KM INLAND RAIL PROGRAMME CONNECTING REGIONAL AUSTRALIA TO DOMESTIC AND INTERNATIONAL MARKETS.

### SELECTED

BY HIGHWAYS ENGLAND TO PROVIDE DETAILED DESIGNS AND TECHNICAL SUPPORT

FOR ROAD IMPROVEMENTS IN THE EAST OF ENGLAND

### WON

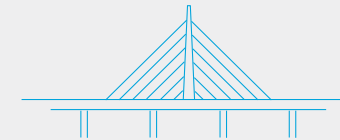
\$1.7-BILLION CONTRACT FROM NETWORK RAIL (UK)

TO DESIGN TRACK UPGRADES FOR THE NEXT DECADE

### CLOSED

DEAL THROUGH JOINT VENTURE COMPANY COMPREHENSIVE DECOMMISSIONING INTERNATIONAL (CDI)

TO DECOMMISSION OYSTER CREEK NUCLEAR POWER PLANT

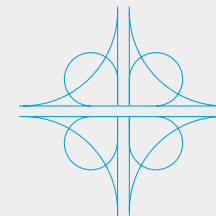


### COMPLETED

CONSTRUCTION OF MONTREAL'S NEW AWARD-WINNING 3.4KM SAMUEL DE CHAMPLAIN BRIDGE

### OPENED

THE 11KM HEUNG YUEN WAI HIGHWAY IN HONG KONG AFTER SIX YEARS OF WORK ON THE PROJECT



### SOLD

10% STAKE OF HIGHWAY 407 ETR, THE FIRST ALL-ELECTRONIC OPEN ACCESS TOLLED HIGHWAY IN THE WORLD

## Key milestones

### CELEBRATED

second Leadership in Energy and Environmental Design (LEED) Gold certification for the McGill University Health Centre's Glen site, a first for a hospital in Quebec

### RECEIVED

the Award of Excellence by the Association of Consulting Engineering Companies British Columbia (ACEC-BC) for work on the John Hart Generating Station Replacement Project

### HONOURED

with an Excellence in Engineering Award by National Council of Structural Engineers Associations (NCSEA) for the Samuel De Champlain Bridge project

### OPENED

the \$1-billion New Orleans International Airport's North Terminal following seven years of design and planning

### DELIVERED

Ottawa's 12.5km, 13-station light rail Confederation Line

### PARTNERED

with Bill Gates' TerraPower and U.S. Department of Energy (DOE) to provide isotopes for next generation cancer research and treatment

### COMMITTED

to a culture of inclusiveness in the Middle East by signing the United Nations Women's Empowerment Principles

### DELIVERED

workshops to break unconscious bias within the organization. Mitigating biases supports an inclusive culture and increases collaboration, one of SNC-Lavalin's core values. The workshops promote the 'AWARENESS' pillar of the global Diversity and Inclusion strategy.

# CHAIRMAN'S MESSAGE



For SNC-Lavalin, 2019 was both a challenging year for the company and its stakeholders and a pivotal year for the changes made to our strategic direction, our leadership team, our legal circumstances and our Board of Directors.

I would like to thank our shareholders and other stakeholders for their support and patience as we navigated through this unprecedented year and for remaining confident in SNC-Lavalin's long-term value and its importance to the economy as a Canadian engineering services company with operations spanning the globe.

As is evident in the financial results, the second half of 2019 demonstrated a very different company from the first half. SNC-Lavalin is a changed organization: a new and clear strategic direction focused on engineering services, a new senior leadership team led by a new CEO, a settlement of important legal issues that have hung over the company and sapped its energies for years, and a renewed Board. I believe the Board has acted decisively in the interests of all stakeholders to put SNC-Lavalin on a new trajectory for long-term success.

## NEW STRATEGIC DIRECTION

In July 2019, we announced a new strategic direction for SNC-Lavalin aimed at focusing on the Company's core, high-value engineering services, and de-risking the business. Under Ian L. Edwards' leadership, SNC-Lavalin has been successfully reorganized into two separate lines of business, engineering services including nuclear and projects. We are no longer bidding on LSTK contracts and we are focusing on running off the remaining LSTK backlog as rapidly as possible. We are exploring all options with regards to the Resources segment, including possible divestitures. We will reduce leverage and improve cash generation, and we are reducing our geographic footprint, simplifying our operations, and reducing our overhead costs. In short, SNC-Lavalin now has a clear strategic path forward that is grounded in expanding our high-value engineering services, delivering predictable results, consistency in execution, and sustainable growth.

## RENEWAL OF THE SENIOR LEADERSHIP TEAM

One of the most significant actions the Board undertook in 2019 was the appointment of Ian L. Edwards, first as Interim CEO in June 2019 and then permanently in October 2019. Ian impressed the Board with his outreach to investors, customers and employees as SNC-Lavalin was buffeted by significant challenges in 2019, and his ability to take these insights and formulate a new strategic direction for the Company that he and the management team are now implementing. To help guide this rapid transformation to the new strategic direction, Ian has also renewed the senior leadership team by appointing a new Chief Financial Officer (Jeff Bell), a new General Counsel (Charlene Ripley), a new Executive Vice-President, Capital (Stéphanie Vaillancourt), a Executive Vice-President, Project Oversight (Nigel W.M. White), a newly created role, and a Chief Transformation Officer (Louis G. Véronneau), also a newly created role.

## SETTLEMENT OF THE FEDERAL CHARGES

The settlement of the federal charges in December 2019 was a crucial step in the renewal of the Company's prospects. Resolving legacy legal challenges, which had been overhanging the Company for many years, allows SNC-Lavalin to focus entirely on implementing the new strategic direction. The settlement was fair for all concerned, with a construction subsidiary pleading guilty to a single charge of fraud and paying a \$280 million fine over five years, while all charges were dropped against SNC-Lavalin Group and SNC-Lavalin International. The Company deeply regrets this past behaviour, which was contrary to our values and ethical standards. SNC-Lavalin has changed a great deal, has embraced a world-class integrity regime and culture, and is going forward with renewed confidence in the future.

## RENEWAL OF THE BOARD

The ongoing process of Board renewal is also a priority, and with the retirement of four directors, we will continue to ensure we align the Board with the transformation of SNC-Lavalin into a global engineering services company and away from LSTK construction projects. In this regard we anticipate renewing nearly half of the independent Board directors, with four new Board nominees standing for election by shareholders at the SNC-Lavalin Annual General Meeting on May 7th, 2020. This is a pivotal time in SNC-Lavalin's evolution and these new nominees bring a wealth of expertise in global operations, financial services and corporate restructuring.

On behalf of the Board of Directors and SNC-Lavalin management, I would like to thank the retiring Board members—Mr. Jacques Bougie, Ms. Catherine J. Hughes, Mr. Alain Rhéaume and Mr. Eric D. Siegel—for their steady leadership, sound counsel and especially their unwavering commitment to SNC-Lavalin and its stakeholders through challenging times.

The Board of Directors had established a Special Committee in December 2018 to explore a range of alternatives to protect and enhance value for SNC-Lavalin given the extent of the challenges the company was encountering. The Company has now chartered a new strategic direction and resolved legacy legal matters.

Having now fulfilled its mandate, the Committee has been disbanded and the Board thanks the directors who served on it for their dedicated service.

## LOOKING TO THE FUTURE

The coming year will be one of transformation for SNC-Lavalin as we fully implement our new strategic direction, reduce our backlog of LSTK projects and consider possible divestitures in our Resources segment in a volatile global economy beset with coronavirus uncertainties. Going forward, we will expand our technology capabilities as we believe this creates competitive advantage in an era of innovation and technological disruption. We will invest in attracting and developing superb talent as it will differentiate SNC-Lavalin as a global engineering services company. We will make greater use of our unique engineering design center to complement our global operations. And we will make strong governance and accountability a hallmark of how we do business globally.

Moving beyond the issues of the past, we are now focused on the future. I believe SNC-Lavalin is a changed organization, a renewed company, with a new and clear sense of direction and the management team to deliver on it.

In closing, on behalf of the Board of Directors, I want to express our appreciation to our investors, who believe in the potential of SNC-Lavalin as a Canadian global engineering champion headquartered in Montreal, and to our dedicated employees, who are such a key part of unleashing the future potential of this great company.

A handwritten signature in dark ink, appearing to read 'Kevin Lynch'.

The Honourable Kevin Lynch,  
Chair, Board of Directors,  
SNC-Lavalin



**SNC • LAVALIN**

PEOPLE. DRIVE. RESULTS.

**20  
19**

FINANCIAL REPORT

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# 2019 Management's Discussion and Analysis

February 27, 2020

Management's Discussion and Analysis ("MD&A") is designed to provide the reader with a greater understanding of the Company's business, the Company's business strategy and performance, as well as how it manages risk and capital resources. It is intended to enhance the understanding of the Company's 2019 audited annual consolidated financial statements and accompanying notes, and should therefore **be read in conjunction with these documents, and should also be read together with the text below on forward-looking statements.** Reference in this MD&A to the "Company" or to "SNC-Lavalin" means, as the context may require, SNC-Lavalin Group Inc. and all or some of its subsidiaries or joint arrangements or associates, or SNC-Lavalin Group Inc. or one or more of its subsidiaries or joint arrangements or associates. Unless otherwise specified, references herein to "Sections" means to Sections of this MD&A.

The Company's quarterly and annual financial information, its Annual Information Form, its Management Proxy Circular, other financial documents and additional information relating to the Company are available on both the Company's website at [www.snclavalin.com](http://www.snclavalin.com) and through SEDAR at [www.sedar.com](http://www.sedar.com). SEDAR is the electronic system for the official filing of documents by public companies with the Canadian securities regulatory authorities. None of the information contained on, or connected to the SNC-Lavalin website is incorporated by reference or otherwise part of this MD&A.

Unless otherwise indicated, all financial information presented in this MD&A, including tabular amounts, is in **Canadian dollars** and is prepared in accordance with **International Financial Reporting Standards ("IFRS")**. **Certain totals, subtotals and percentages may not reconcile due to rounding. Not applicable ("N/A") is used to indicate that the percentage change between the current and prior year figures is not meaningful, or if the percentage change exceeds 1,000%.**

# Non-IFRS Financial Measures and Additional IFRS Measures

Certain indicators used by the Company to analyze and evaluate its results, which are listed in the table below, are non-IFRS financial measures or additional IFRS measures. Consequently, they do not have a standardized meaning as prescribed by IFRS, and therefore may not be comparable to similar measures presented by other issuers. Management believes that, in addition to conventional measures prepared in accordance with IFRS, these non-IFRS financial measures provide additional insight into the Company's financial results and certain investors may use this information to evaluate the Company's performance from period to period. However, these non-IFRS financial measures have limitations and should not be considered in isolation or as a substitute for measures of performance prepared in accordance with IFRS.

NON-IFRS FINANCIAL MEASURE OR ADDITIONAL IFRS MEASURE

## Performance

- Adjusted diluted earnings per share from Engineering & Construction ("**E&C**") ("**Adjusted diluted EPS from E&C**")
- Adjusted earnings before interest, income taxes, depreciation and amortization ("**Adjusted EBITDA**")
- Adjusted net income from E&C
- Booking-to-revenue ratio
- Diluted earnings per share from E&C and Diluted earnings per share from Capital
- Earnings before interest and income taxes ("**EBIT**")
- Earnings before interest, income taxes, depreciation and amortization ("**EBITDA**")
- Return on average shareholders' equity ("**ROASE**")
- Segment EBIT

## Liquidity

- Current ratio
- Net recourse debt (or Cash net of recourse debt)
- Working capital

Definitions of all non-IFRS financial measures and additional IFRS measures are provided in Section 14 to give the reader a better understanding of the indicators used by management. In addition, when applicable, the Company provides a clear quantitative reconciliation from the non-IFRS financial measures to the most directly comparable measure calculated in accordance with IFRS, refer to Section 14 for references to the sections of this MD&A where these reconciliations are provided.

## Comparative figures

Effective January 1, 2019, the Company changed the definition of segment EBIT, its measure of profit or loss for its reportable segments, to reflect a change made to its internal reporting. As such, segment EBIT now includes: i) the contribution attributable to non-controlling interests before income taxes, whereas in the past it excluded such contribution attributable to non-controlling interests before income taxes; and ii) an allocation to the segments of certain other corporate selling, general and administrative expenses. As such, these changes resulted in: i) a reclassification of the negative contribution attributable to non-controlling interests before income taxes in segment EBIT of \$0.3 million for the year ended December 31, 2018; and ii) a reclassification of certain other corporate selling, general and administrative expenses in segment EBIT of \$23.3 million for the year ended December 31, 2018. The Company believes that such inclusions improve the measure of profitability of its reportable segments by better reflecting the overall performance of its reportable segments.

At the same time, given the Company's aim to continue to simplify and de-risk its business, SNC-Lavalin further simplified its market-facing structure. This simplification became effective January 1, 2019 and resulted in a change to the Company's reportable segments, which were: i) Engineering, Design and Project Management ("EDPM"); ii) Infrastructure; iii) Nuclear; iv) Resources; and v) Capital. The Company's new strategic direction adopted for the second quarter of 2019 resulted in the restructuring of its activities into two distinct business lines, SNCL Engineering Services and SNCL Projects. From a segmented information stand-point, this change resulted in the split of the Infrastructure segment into two segments, Infrastructure Services and Infrastructure EPC Projects, all other segments remaining the same. As such, the Company's reportable segments are now EDPM, Nuclear, Infrastructure Services and Capital, all part of SNCL Engineering Services, and Resources and Infrastructure EPC projects, which form SNCL Projects.

These changes were made in accordance with IAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors*, resulting in the restatement of prior figures.

## Forward-Looking Statements

Statements made in this MD&A that describe the Company's or management's budgets, estimates, expectations, forecasts, objectives, predictions, projections of the future or strategies may be "forward-looking statements", which can be identified by the use of the conditional or forward-looking terminology such as "aims", "anticipates", "assumes", "believes", "cost savings", "estimates", "expects", "goal", "intends", "may", "plans", "projects", "should", "synergies", "target", "vision", "will", or the negative thereof or other variations thereon. Forward-looking statements also include any other statements that do not refer to historical facts. Forward-looking statements also include statements relating to the following: i) future capital expenditures, revenues, expenses, earnings, economic performance, indebtedness, financial condition, losses and future prospects; and ii) business and management strategies and the expansion and growth of the Company's operations. All such forward-looking statements are made pursuant to the "safe-harbour" provisions of applicable Canadian securities laws. The Company cautions that, by their nature, forward-looking statements involve risks and uncertainties, and that its actual actions and/or results could differ materially from those expressed or implied in such forward-looking statements, or could affect the extent to which a particular projection materializes. Forward-looking statements are presented for the purpose of assisting investors and others in understanding certain key elements of the Company's current objectives, strategic priorities, expectations and plans, and in obtaining a better understanding of the Company's business and anticipated operating environment. Readers are cautioned that such information may not be appropriate for other purposes.

Forward-looking statements made in this MD&A are based on a number of assumptions believed by the Company to be reasonable on February 27, 2020. The assumptions are set out throughout this MD&A (particularly, in the sections entitled "Critical Accounting Judgments and Key Sources of Estimation Uncertainty" and "How We Analyze and Report our Results" in this MD&A). If these assumptions are inaccurate, the Company's actual results could differ materially from those expressed or implied in such forward-looking statements. In addition, important risk factors could cause the Company's assumptions and estimates to be inaccurate and actual results or events to differ materially from those expressed in or implied by these forward-looking statements. These risks include, but are not limited to: (a) results of the new 2019 strategic direction coupled with a corporate reorganization; (b) fixed-price contracts or the Company's failure to meet contractual schedule, performance requirements or to execute projects efficiently; (c) contract awards and timing; (d) remaining performance obligations; (e) being a provider of services to government agencies; (f) international operations; (g) Nuclear liability; (h) ownership interests in Capital investments; (i) dependence on third parties; (j) joint ventures and partnerships; (k) information systems and data; (l) competition; (m) professional liability or liability for faulty services; (n) monetary damages and penalties in connection with professional and engineering reports and opinions; (o) insurance coverage; (p) health and safety; (q) qualified personnel; (r) work stoppages, union negotiations and other labour matters; (s) extreme weather conditions and the impact of natural or other disasters and global health crises; (t) intellectual property; (u) divestitures and the sale of significant assets; (v) impact of operating results and level of indebtedness on financial situation; (w) liquidity and financial position; (x) indebtedness; (y) security under the SNC-Lavalin Highway Holdings Loan; (z) dependence on subsidiaries to help repay indebtedness; (aa) dividends; (bb) post-employment benefit obligations, including pension-related obligations; (cc) working capital requirements; (dd) collection from customers; (ee) impairment of goodwill and other assets; (ff) outcome of pending and future claims and litigations; (gg) ongoing and potential investigations; (hh) settlements; (ii) further regulatory developments as well as employee, agent or partner misconduct or failure to comply with anti-bribery and other government laws and regulations; (jj) reputation of the Company; (kk) inherent limitations to the Company's control framework; (ll) environmental laws and regulations; (mm) Brexit; (nn) global economic conditions; and (oo) fluctuations in commodity prices.

The Company cautions that the foregoing list of factors is not exhaustive. For more information on risks and uncertainties, and assumptions that could cause the Company's actual results to differ from current expectations, please refer to the sections "Risks and Uncertainties", "How We Analyze and Report Our Results" and "Critical Accounting Judgments and Key Sources of Estimation Uncertainty" in this report.

**The forward-looking statements herein reflect the Company's expectations as at February 27, 2020, when the Company's Board of Directors approved this document, and are subject to change after this date. The Company does not undertake to update publicly or to revise any such forward-looking statements whether as a result of new information, future events or otherwise, unless required by applicable legislation or regulation.**

# Management's Discussion and Analysis – Table of Contents

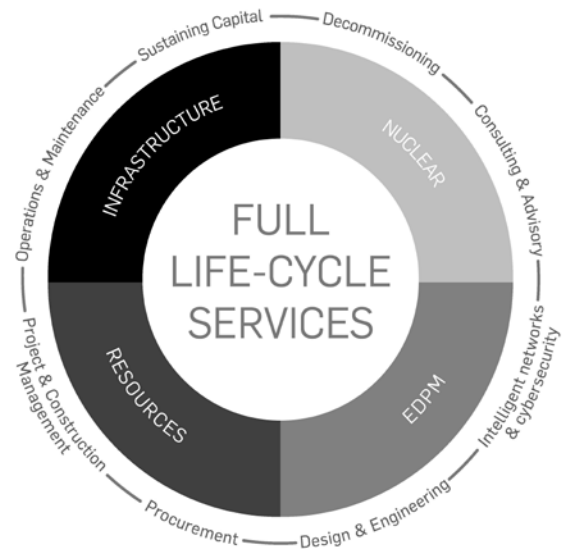
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# 1 Our Business

## 1.1 OUR BUSINESS

Founded in 1911, SNC-Lavalin is a fully integrated professional services and project management company with offices around the world.

SNC-Lavalin connects people, technology and data to help shape and deliver world-leading concepts and projects, while offering comprehensive innovative solutions across the asset lifecycle. Our expertise is wide-ranging – consulting & advisory, intelligent networks & cybersecurity, design & engineering, procurement, project & construction management, operations & maintenance ("O&M"), decommissioning and sustaining capital.



SNC-Lavalin maintains exceptionally high standards for health and safety, ethics and compliance, and environmental protection. The Company is committed to delivering quality projects on budget and on schedule to the complete satisfaction of its clients.

The Company presents its results separately for its two business lines, SNCL Engineering Services and SNCL Projects. In certain parts of this MD&A, activities from Engineering and Construction are collectively referred to as "E&C" to distinguish them from "Capital" activities.

## 1.2 NEW STRATEGIC DIRECTION FOR SNC-LAVALIN

On July 22, 2019, SNC-Lavalin announced its new strategic direction to enable the Company to focus more effectively on its most profitable work: engineering, design, project management and construction management services, O&M and Capital. The Company's new strategic direction is centered around:

- Creating a simplified and more predictable business;
- Generating more consistent earnings, increased cash flow, and profitability;
- Lowering the Company's risk profile; and
- Enabling an improved strategic focus on better margin markets in which the Company has clearly differentiated capabilities.

SNC-Lavalin's new strategic direction has two main focal points. The first is a focus on the high-performing and growth areas of the business and exiting LSTK construction contracting. The second is to reorganize into two separate business lines:

- SNCL Engineering Services
- SNCL Projects

SNC-Lavalin believes that this simplified business model will allow it to generate increased profitability while minimizing its exposure to downside risk, subject to the risks and limitations described in Section 15.

### *Simplify, Focus, Grow*

The Company's strategic review was led by its President and CEO, Ian L. Edwards, and builds upon the actions first announced in March 2019 to simplify, focus, and sustainably grow the business. SNC-Lavalin's new strategic direction involves focusing on what the Company does best – providing world-class services and integration of large, complex projects – while reducing its risk profile, and growing from this position of strength.

### *Simplify*

SNC-Lavalin's new, more simplified, focused business approach reduces the Company's risk profile by no longer bidding on LSTK construction projects. This is due to the challenges in executing such contracts, which typically transfer many risks (known and unknown, manageable or not) from the project owner to the Company.

The Company will, however, continue its repetitive Engineering, Procurement and Construction ("EPC") offerings that are lower-risk, standardized solutions for: i) district cooling plants; and ii) power substations executed through its Linxon subsidiary. The Company may also continue to work on projects based on risk-sharing contracts between the project owner and suppliers, where the Company can limit its downside exposure.

### *Focus & Grow*

SNC-Lavalin has been reorganized into and operates as two distinct businesses that are reported on and managed separately.

## **SNCL Engineering Services**

SNC-Lavalin intends to continue growing where it is strongest and has a differentiated market position, which is the focus of its SNCL Engineering Services business line. The SNCL Engineering Services business line consists of the Company's EDPM and Nuclear segments, Linxon, the services portions of the Company's previous Infrastructure segment (namely O&M, District Cooling and Clean Power services), and Capital. The former Infrastructure segment is shifting its focus toward becoming a program integrator with a greater emphasis on Program and Project Management and Construction Management services.

SNC-Lavalin's objectives for the Engineering Services business are:

- A. Become recognized as a market leader, or expand its market leadership, in the following areas:
  - Advisory, design and project management services for infrastructure projects globally.
  - Nuclear services, including life extension, decontamination and decommissioning ("D&D"), and remediation.
  - Project Management / Construction Management / Operations & Management / Project integration in transportation, especially in rail and transit.
  - Capital – Ownership and management of infrastructure assets.
  - Clean power – Global electrical AC substation projects and renewables engineering services.
  - Linxon (supplier of power substations).
- B. Establish more predictable and strong financial performance and restore investor confidence by delivering:
  - Industry leading EBITDA margins.
  - Strong cash flow results to build a sustainable future.

SNC-Lavalin will continue to be a strong player in the advisory, engineering and design space with EDPM, and expects to maintain its global market-leading position in rail and transit. Rail and transit remains a key focus area for the Company's infrastructure business, where market growth is expected to be above GDP growth levels in the Company's core markets, creating ongoing opportunities for SNC-Lavalin's revised offering.

The Company also has a well-established position in nuclear plant life extension, including a leading position in CANDU-related services and products, and a demonstrated ability to successfully act as a Project Manager/ Construction Manager and to provide O&M for complex transportation projects and social infrastructure. Sustained concerns of climate change are also driving the need for clean energy, and thus a need for life extension in nuclear power plants. Directly and through Comprehensive Decommissioning International, LLC, its joint venture company with Holtec International, the Company is addressing a growing need for nuclear decommissioning along with sustained need for nuclear clean-up services.

### **SNCL Projects**

The SNCL Projects business consists of the Company's current Resources segment and the EPC portion of its former Infrastructure segment. The focus of this business is very straightforward:

- Complete the Company's obligations to our customers;
- Work to mitigate risks of future losses;
- Aggressively pursue resolution of the Company's claims collection and recoveries; and
- Assess the Company's future options for the services part of Oil & Gas and Mining & Metallurgy.

SNC-Lavalin believes that accelerating the pace of risk reduction and organizational effectiveness activities will result in the Company delivering stronger operational and financial performance on a more consistent basis.

Further, SNC-Lavalin will continue to right-size the Company and concentrate on streamlining its overhead costs. SNC Lavalin is also reducing its geographic footprint to reduce risk and complexity by focusing on its core growth regions: Canada, the U.S., and the U.K., along with regional markets such as the Middle East and Asia Pacific and exiting unprofitable operations in certain countries.

### 1.3 NEW STRATEGIC DIRECTION PROGRESS - SCORECARD

We began implementation of our new strategic direction in the third quarter of 2019 and have seen progress toward meeting our objectives from various perspectives, for example:

| Objectives                                                                                     | Progress                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                          |
|------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Exit LSTK construction contracting                                                             | <ul style="list-style-type: none"> <li>The Company's backlog from LSTK focused projects businesses in Resources and Infrastructure declined by 28% and 1%, respectively, year over year, representing a reduction of approximately \$543.6 million. The Company expects to consume a significant portion of the remaining LSTK construction projects backlog by the end of 2021 and the rest by the end of 2024.</li> </ul>                                                                                                                                                                                                                                                                                                                                                                                                                                                       |
| Focus on the high-performing and growth areas of the business                                  | <ul style="list-style-type: none"> <li>Overall Engineering Services revenue (excluding Capital) growth of 9% in 2019 compared with the corresponding period of 2018 with increased profitability.</li> <li>The PMO (Programme Management Office) award by Inland Rail in Australia supports our focus on advisory and related services in the rail and transit market and our intention to grow our project management services business.</li> <li>The Washington River Protection Solutions ("WRPS") contract extension by the US Department of Energy for our nuclear waste remediation activities is an example of our ability to address the need for nuclear clean-up services.</li> <li>The Company's backlog now comprises \$11.3 billion reimbursable and engineering services, or 74% of total backlog, which percentage is expected to continue to increase.</li> </ul> |
| Assess the Company's future options for the services part of Oil & Gas and Mining & Metallurgy | <ul style="list-style-type: none"> <li>The assessment is ongoing. For reference, backlog of Resources now comprises \$973.8 million in reimbursable engineering services.</li> </ul>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              |
| Deliver industry leading EBIT margins in our Engineering Services business                     | <ul style="list-style-type: none"> <li>EBIT margins in EDPM and Nuclear businesses were 9.2% and 13.7%, respectively, in 2019.</li> </ul>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                         |
| Work to mitigate risks of future losses                                                        | <ul style="list-style-type: none"> <li>In addition to exiting LSTK construction contracting: <ul style="list-style-type: none"> <li>Exiting the unprofitable midstream fabrication business, including our compression and production equipment product lines, which were also known under the Valerus brand.</li> <li>Continued the right-sizing of the Company and streamlining of overhead costs.</li> </ul> </li> </ul>                                                                                                                                                                                                                                                                                                                                                                                                                                                       |

## 2

# How We Analyze and Report Our Results

## 2.1 HOW WE REPORT OUR RESULTS

In accordance with its new strategy, the Company carries out its business through two broad lines of business, SNCL Engineering Services and SNCL Projects, which are in turn comprised of six operating and reportable segments as described below.

We report and break down the results of our SNCL Engineering Services line of business through four operating and reportable segments, namely: (i) EPDM; (ii) Nuclear; (iii) Infrastructure Services; and (iv) Capital; while we report and break down the results of our SNCL Projects line of business through two operating and reportable segments, namely: (v) Resources; and (vi) Infrastructure EPC Projects.

In addition, we further report certain results and provide certain financial information separately for (i) engineering and construction (“**E&C**”) activities across our lines of business, which is thus comprised of five of our six operating and reportable segments, namely EPDM, Nuclear, Infrastructure Services, Resources and Infrastructure EPC Projects, and (ii) Capital.

### E&C

What we report in **E&C** includes contracts generating revenues related mainly to consulting & advisory, intelligent networks & cybersecurity, design & engineering, procurement, project & construction management, O&M, decommissioning and sustaining capital. It also includes revenues from LSTK construction contracts, for which the Company ceased to bid in July 2019, except for certain repetitive EPC offerings that are lower-risk, standardized solutions.

Contracts that provide for engineering, procurement and construction management services are often referred to as “EPCM” contracts. Contracts that include engineering services, providing materials and providing or fabricating equipment, and construction activities are often referred to as “EPC” contracts.

While our contracts are negotiated using a variety of contracting options, E&C revenues are derived primarily from three major types of contracts: Reimbursable and engineering services contracts, EPC Fixed-price contracts, and Standardized EPC contracts. E&C contracts can be found in the following segments and lines of business (excluding Capital):

| E&C Breakdown                        |                                          |                    |                         |                    |           |
|--------------------------------------|------------------------------------------|--------------------|-------------------------|--------------------|-----------|
|                                      | SNCL Engineering Services <sup>(1)</sup> |                    |                         | SNCL Projects      |           |
|                                      | EDPM                                     | Nuclear            | Infrastructure Services | Infrastructure EPC | Resources |
| Reimbursable and engineering service | ✓                                        | ✓                  | ✓                       | N/A                | ✓         |
| EPC Fixed-Price contracts            | N/A                                      | N/A <sup>(2)</sup> | N/A                     | ✓                  | ✓         |
| Standardized EPC Contracts           | N/A                                      | N/A                | ✓                       | N/A                | N/A       |

<sup>(1)</sup> The SNCL Engineering Services business line also includes Capital activities, which segment is excluded from E&C.

<sup>(2)</sup> Nuclear includes certain legacy EPC Fixed-Price contracts.

## CAPITAL

Capital is SNC-Lavalin's investment, financing and asset management arm, responsible for developing projects, arranging financing, investing equity, undertaking complex financial modeling and managing its infrastructure investments for optimal returns. Its activities are principally concentrated in infrastructure such as **bridges, highways, mass transit systems, power facilities, energy infrastructure, water treatment plants and social infrastructure (e.g. hospitals)**. The Capital segment includes SNC-Lavalin's 20% ownership interest in and management of SNCL IP Partnership. Also, as mentioned above, although Capital is a segment forming part of the Company's SNCL Engineering Services line of business, it is excluded from E&C.

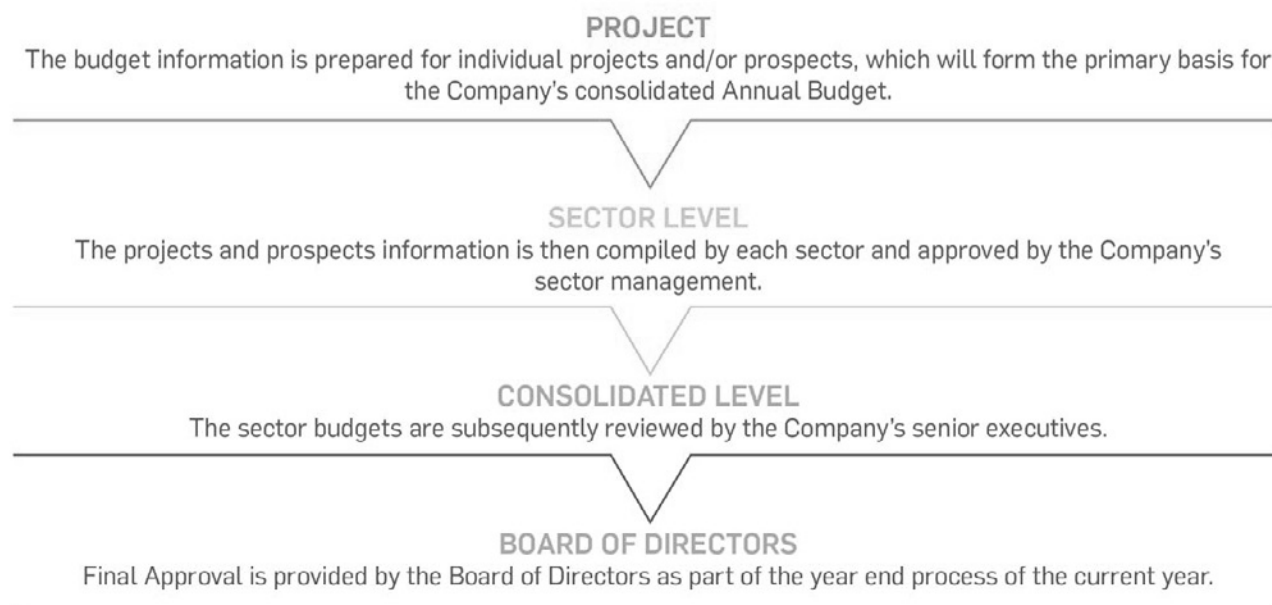
Capital's business model incorporates new project creation in the Company's E&C segments, as well as the Company's geographical regions. Furthermore, many countries are turning to the private sector to take ownership, finance, operate and maintain their assets, usually for a defined period of time.

These arrangements allow for the transfer to the private sector of many of the risks associated with designing, building, operating, maintaining and financing such assets. In return, the client will either: i) commit to making regular payments, usually in the form of availability payments, upon the start of operations of the infrastructure for a defined period of time (typically 20 to 40 years); or ii) authorize the infrastructure concession entity to charge users of the infrastructure for a defined period of time; or iii) a combination of both.

All investments are structured to earn a return on capital adequate for the risk profile of each individual project. **Capital investment revenues** are generated mainly from dividends or distributions received by SNC-Lavalin from the investment concession entities or from all or a portion of an investment concession entity's revenues or net results, depending on the accounting method required by IFRS.

## 2.2 HOW WE BUDGET AND FORECAST OUR RESULTS

The Company prepares a formal annual budget (“Annual Budget”) in the fourth quarter of each year.



The Annual Budget is a key tool used by management to monitor the Company's performance and progress against key financial objectives in accordance with the Company's strategic plan. The Company updates its annual expected results in the first, second and third quarters (“Quarterly Forecasts”), which are also presented to the Board of Directors. In addition, the performance of projects (i.e. its estimated revenues and costs to complete) is reviewed by its respective project manager and, depending on the size and risk profile of the project, by, amongst others, key management personnel, including the divisional manager, the business unit executive vice-president, the sector president, the Chief Financial Officer (“CFO”) and the Chief Executive Officer (“CEO”).

The key elements taken into account when estimating revenues and gross margin for budget and forecast purposes from E&C activities are the following:

| KEY ELEMENTS                       | IMPACT ON THE ANNUAL BUDGET                                                                                                                                                                                                                                                                                                                                                                                                                                                               |
|------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Backlog                            | Firm contracts used to estimate a portion of future revenues taking into account the execution and expected performance of each individual project.                                                                                                                                                                                                                                                                                                                                       |
| Prospects list                     | Unsigned contracts that the Company is currently bidding on, and/or future projects on which it intends to bid. Management selects specific prospects, which are deemed representative of its upcoming activities, to include in the budget together with other sources of revenues such as recurring business from known clients and expected service orders under master service agreements.                                                                                            |
| Execution and expected performance | Revenues and costs (or execution) of projects are determined on an individual project basis for major projects or by groups of projects and take into consideration assumptions on risks and uncertainties that can have an impact on the progress and/or profitability of that project. This includes, but is not limited to, performance of the Company's employees and of subcontractors or equipment suppliers, as well as price and availability of labour, equipment and materials. |

Regarding its **Capital** budget and forecast, the Company establishes the expected results based on assumptions specific to each investment.

One of the key management tools for monitoring the Company's performance is the monthly and quarterly evaluation and analysis of actual results compared with the Annual Budget or the Quarterly Forecasts, for revenues and profitability. This enables management to analyze its performance and, if necessary, take remedial actions.

Variations from plan may arise mainly from the following:

| SOURCE OF VARIATION                                                                     | EXPLANATION                                                                                                                                                                                                                                                                                                                                |
|-----------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Level of activity                                                                       | Variation depends on the number of newly awarded, ongoing, completed or near-completed projects, and on the progress made on each of these projects in the period.                                                                                                                                                                         |
| Changes in the estimated costs to complete each individual project ("cost reforecasts") | Variation of the estimated costs to complete projects for fixed-price contracts result in either a positive or negative impact to a project's results. Increases or decreases in profitability for any given fixed-price project are largely dependent on project execution.                                                               |
| Changes in the estimated revenues and in the recovery of such revenues                  | Variation of the estimated revenues of projects, including the impact from change orders and claims, as well as the change in estimates on the recovery of trade receivables and contract assets may impact the financial results of the Company.                                                                                          |
| Changes in the results of its Capital investments                                       | Variation in the financial results of each Capital investment accounted for under the consolidation or equity methods will impact the financial results of the Company. Additions to the Company's Capital investments portfolio, or divestitures from it, can also impact the Company's results.                                          |
| Level of selling, general and administrative expenses                                   | Variation in selling, general and administrative expenses has a direct impact on the profitability of the Company. The level of selling, general and administrative expenses is influenced by the level of activity, and can depend on several other factors not related to project execution or performance that can be recurring or not. |
| Acquisition-related costs and integration costs                                         | Business acquisitions might require the Company to incur significant acquisition-related costs and integration costs, which have an impact on actual and future results.                                                                                                                                                                   |
| Restructuring costs, goodwill and other intangible assets impairment                    | Changes made to the way the Company operates, closure of certain locations where it conducts business, modifications to its offerings and changes in market perspectives might result, amongst other factors, in restructuring costs, goodwill and other intangible assets impairment, having an impact on actual and future results.      |
| Income taxes                                                                            | Variation in income taxes impact the profitability of the Company, and depends on various factors, such as the geographic areas in which the Company is present, the statutory tax rates enacted, the nature of the revenues earned by the Company as well as tax assessments made by authorities.                                         |
| Finance expense                                                                         | Variation in interest rates could have an impact on the Company's results, as some of its financing bears interest at a variable rate.                                                                                                                                                                                                     |
| Foreign exchange                                                                        | As the Company operates in many countries, foreign currency exchange rates can cause variances to estimates as the budgets and forecasts are prepared at specific rates. It should be noted that the Company has a foreign exchange hedging policy that limits the volatility in results caused by foreign exchange fluctuations.          |

# 3 2019 Executive Summary

## 3.1 EXECUTIVE SUMMARY – KEY FINANCIAL INDICATORS

### FINANCIAL HIGHLIGHTS

| YEARS ENDED DECEMBER 31<br>(IN MILLIONS CA\$)                                               | 2019        | 2018        | CHANGE (%) |
|---------------------------------------------------------------------------------------------|-------------|-------------|------------|
| <b>Income Statements</b>                                                                    |             |             |            |
| Revenues                                                                                    | \$ 9,515.6  | \$ 10,084.0 | (5.6%)     |
| Net income (loss) attributable to SNC-Lavalin shareholders                                  | 328.2       | (1,316.9)   | N/A        |
| Adjusted net income (loss) attributable to SNC-Lavalin shareholders from E&C <sup>(1)</sup> | (70.3)      | 43.1        | N/A        |
| Earnings (loss) per share diluted ("Diluted EPS") (in \$)                                   | 1.87        | (7.50)      | N/A        |
| Adjusted diluted EPS from E&C (in \$) <sup>(1)</sup>                                        | (0.40)      | 0.25        | N/A        |
| EBIT <sup>(1)</sup>                                                                         | 741.4       | (1,160.4)   | N/A        |
| EBITDA <sup>(1)</sup>                                                                       | 3,017.5     | 404.6       | 645.8%     |
| Adjusted E&C EBITDA (% of revenues) <sup>(1)</sup>                                          | 3.0 %       | 3.9 %       | (23.1%)    |
| <b>Financial Position &amp; Cash Flows</b>                                                  |             |             |            |
| Cash and cash equivalents (at December 31)                                                  | \$ 1,188.6  | \$ 634.1    | 87.4%      |
| Cash net of recourse debt (net recourse debt) (at December 31) <sup>(1)</sup>               | 7.7         | (1,657.2)   | N/A        |
| Net cash used for operating activities                                                      | (355.3)     | (303.5)     | 17.1%      |
| <b>Additional Indicator</b>                                                                 |             |             |            |
| Revenue backlog (at December 31)                                                            | \$ 15,262.5 | \$ 14,885.0 | 2.5%       |

<sup>(1)</sup> Non-IFRS financial measures or additional IFRS measures. Please refer to Section 14 for further information on these financial measures and for the reference to the reconciliation from these financial measures to the most directly comparable measure specified under IFRS, when applicable.

The Company's financial highlights reflect the following major items:

#### 2019

- The disposal by the Company of 10.01% of the shares of 407 International Inc. ("Highway 407 ETR") resulting in:
  - \$3.0 billion of cash proceeds collected at closing in August 2019 and up to \$250 million contingently payable over a period of 10 years;
  - A gain before taxes of \$3.0 billion; and
  - The ability to repay some recourse and limited recourse debt.
- The settlement of the federal charges (PPSC), resulting in an expense of \$257.3 million.
- An impairment of goodwill and intangible assets related to Resources totaling \$1.9 billion largely attributable to the Company's decision to cease bidding on LSTK construction projects, as well as lower than expected performance in Resources in the first half of the year and challenges in replenishing the backlog;
- A Segment EBIT of \$802.1 million from SNCL Engineering Services and a negative Segment EBIT of \$448.0 million from SNCL Projects;
- Restructuring costs of \$182.8 million.

#### 2018

- An impairment of goodwill related to Resources totaling \$1.2 billion;
- A Segment EBIT of \$776.5 million from SNCL Engineering Services, and a negative Segment EBIT of \$237.3 million from SNCL Projects;
- The settlement of 2012 class action lawsuits resulting in a \$89.4 million net expense;
- Restructuring costs of \$68.6 million.

## **3.2 EXECUTIVE SUMMARY – OTHER ITEMS**

### **APPOINTMENT OF CHIEF EXECUTIVE OFFICER**

Effective October 31, 2019, Ian L. Edwards was appointed as President and Chief Executive Officer of the Company. Mr. Edwards was previously appointed as SNC-Lavalin's Interim President and Chief Executive Officer on June 11, 2019, after spending approximately five months in the role of Chief Operating Officer.

### **NEW STRATEGIC DIRECTION WITH CORPORATE REORGANIZATION**

On July 22, 2019, the Company announced that it would be focusing on the high-performing and growth areas of the business and that it was exiting LSTK construction contracting.

The Company also announced a reorganization into two separate business lines:

- SNCL Engineering Services which includes EDPM, Nuclear, Infrastructure Services (including Linxon) and Capital.
- SNCL Projects which includes Resources (Oil & Gas and Mining & Metallurgy) and the then existing Infrastructure LSTK construction projects.

The Company also announced that it was exploring all options for its Resources activities, particularly its Oil & Gas business, including transition to a services-based business or divestiture. At the end of 2019, the Company decided to exit the unprofitable midstream fabrication business, including its compression and production equipment product lines, which were also known under the Valerus brand.

The reorganization and exit from LSTK construction contracting are aligned with the new strategic direction of the Company that is focused on de-risking the business and generating more consistent earnings and cash flow. The Company's goal is to strengthen the balance sheet and enhance financial flexibility, while removing volatility. While the Company is exiting the LSTK construction activity, it will fulfil the contractual obligations of its current projects. It may be necessary for the Company to accept change orders under existing LSTK construction contracts, which may temporarily extend the performance timeframe of such contracts.

### **APPOINTMENT OF EXECUTIVE VICE-PRESIDENT, PROJECT OVERSIGHT**

On June 18, 2019, the Company appointed Nigel W.M. White as Executive Vice-President, Project Oversight, effective August 1, 2019. Mr. White reports to Mr. Edwards and leads the newly created Project Oversight function. Project Oversight is an operational function that focuses on assisting all operating segments in achieving timely delivery and on-budget project execution. The objective is to drive consistency and assess risk for the Company in a way that enhances its ability to foresee and fix project-related issues in a timely fashion.

### **APPOINTMENT OF CHIEF TRANSFORMATION OFFICER**

On January 22, 2020, the Company announced the appointment of Louis G. Véronneau to the newly created role of Chief Transformation Officer (CTO), charged with rapidly simplifying the Company's structure and processes, while supporting the new strategic direction with a focus on Information Technology (IT) and divestitures.

### **APPOINTMENT OF CHIEF FINANCIAL OFFICER**

On February 10, 2020, the Company announced the appointment of Jeff Bell as Chief Financial Officer (CFO), effective April 14, 2020. His appointment follows a number of recent appointments that is a part of the ongoing strengthening process of the Company's leadership team focused on supporting the execution of the Company's new strategic direction.

## **FEDERAL CHARGES SETTLEMENT (PPSC)**

On December 18, 2019, the Company announced that the federal charges arising from legacy activities in Libya between 2001 and 2011 had been settled with the Public Prosecution Service of Canada ("PPSC"). The Court of Quebec accepted a guilty plea from SNC-Lavalin Construction Inc. (a subsidiary of the Company) to a single charge of fraud. All other charges against the Company, SNC-Lavalin International Inc., and SNC-Lavalin Construction Inc. have been withdrawn by the PPSC. As part of the settlement, SNC-Lavalin Construction Inc. will pay a fine in the amount of \$280 million, payable in equal installments over 5 years, and will be subject to a three-year probation order.

## **DISPOSAL OF 10.01% INTEREST IN HIGHWAY 407 ETR**

On August 15, 2019 SNC-Lavalin announced that it completed the sale of 10.01% of the shares of Highway 407 ETR to a company controlled by Canada Pension Plan Investment Board ("CPPIB"). At closing and in accordance with the terms and conditions of the agreement, SNC-Lavalin received the base purchase price proceeds of \$3.0 billion, with up to an additional \$250 million contingently payable over a period of 10 years, conditional on the attainment of certain financial thresholds related to the ongoing performance of Highway 407 ETR and recognized a net gain of \$2.6 billion on this transaction. A portion of the \$2.9 billion net proceeds from this transaction was used to repay borrowings made under the Company's second amended and restated credit agreement dated as of April 30, 2018 ("the Credit Agreement"), a portion of the Company's limited recourse loan and a bridge credit facility in full.

SNC-Lavalin's remaining 6.76% ownership interest in Highway 407 ETR continues to be accounted for under the equity method of accounting.

## **OTHER CHANGES TO THE MANAGEMENT TEAM**

Effective April 2019, the Company appointed Craig Muir as President, Resources.

On September 18, 2019, the Company appointed Charlene A. Ripley to the role of Executive Vice-President and General Counsel, effective October 15, 2019.

Effective February 3, 2020, the Company appointed Jonathan Wilkinson, previously President, Infrastructure, to the newly created role of President of Infrastructure Projects, charged with overseeing the rapid and successful run-off of the Company's LSTK backlog. At the same time, the Company has appointed, on an interim basis, Dale Clarke, previously Executive Vice-President, Strategy and Growth, Infrastructure, to the newly created role of Executive Vice-President Infrastructure Services, responsible for growing the high-performing services business in North America.

## **SETTLEMENT WITH CODELCO ON ACID PLANT PROJECT**

On October 11, 2019, the Company announced that it had reached a full and final settlement with Codelco, following the latter's decision to terminate its Mining & Metallurgy contract, as announced on March 25, 2019. This settlement eliminated the potential for any and all future risk stemming from the disputes related to the contract termination.

# 4

## Financial Performance Analysis

### 4.1 SELECTED ANNUAL FINANCIAL INFORMATION

The selected annual financial information presented in the table below has been derived from the Company's audited annual consolidated financial statements prepared in accordance with IFRS for each of the three most recently completed financial years, with the exception of the non-IFRS financial measures specifically identified in the "Additional selected financial information" section below.

| YEARS ENDED DECEMBER 31<br>(IN MILLIONS CA\$, EXCEPT EARNINGS (LOSS) PER SHARE, ADJUSTED DILUTED EPS FROM E&C<br>AND DIVIDENDS PER SHARE DECLARED TO SNC-LAVALIN SHAREHOLDERS) | 2019               | 2018                | 2017               |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------|---------------------|--------------------|
| <b>Revenues:</b>                                                                                                                                                               |                    |                     |                    |
| From E&C                                                                                                                                                                       | \$ 9,252.9         | \$ 9,819.3          | \$ 9,096.7         |
| From Capital                                                                                                                                                                   | 262.7              | 264.7               | 238.0              |
| <b>Total Revenue</b>                                                                                                                                                           | <b>\$ 9,515.6</b>  | <b>\$ 10,084.0</b>  | <b>\$ 9,334.7</b>  |
| <b>Net income (loss) attributable to SNC-Lavalin shareholders:</b>                                                                                                             |                    |                     |                    |
| From E&C                                                                                                                                                                       | \$ (2,444.6)       | \$ (1,563.0)        | \$ 176.0           |
| From Capital                                                                                                                                                                   | 2,772.8            | 246.1               | 206.0              |
| <b>Net income (loss) attributable to SNC-Lavalin shareholders</b>                                                                                                              | <b>\$ 328.2</b>    | <b>\$ (1,316.9)</b> | <b>\$ 382.0</b>    |
| <b>Earnings (loss) per share (in \$):</b>                                                                                                                                      |                    |                     |                    |
| <b>Basic</b>                                                                                                                                                                   | <b>\$ 1.87</b>     | <b>\$ (7.50)</b>    | <b>\$ 2.35</b>     |
| <b>Diluted:</b>                                                                                                                                                                |                    |                     |                    |
| From E&C                                                                                                                                                                       | \$ (13.93)         | \$ (8.90)           | \$ 1.08            |
| From Capital                                                                                                                                                                   | 15.80              | 1.40                | 1.26               |
| <b>Diluted earnings (loss) per share</b>                                                                                                                                       | <b>\$ 1.87</b>     | <b>\$ (7.50)</b>    | <b>\$ 2.34</b>     |
| <b>Additional selected financial information:</b>                                                                                                                              |                    |                     |                    |
| <b>Backlog (at December 31)</b>                                                                                                                                                | <b>\$ 15,262.5</b> | <b>\$ 14,885.0</b>  | <b>\$ 10,406.4</b> |
| <b>Adjusted EBITDA from E&amp;C <sup>(1)</sup></b>                                                                                                                             | <b>\$ 279.1</b>    | <b>\$ 385.6</b>     | <b>\$ 629.0</b>    |
| <b>Total assets (at December 31)</b>                                                                                                                                           | <b>\$ 11,644.7</b> | <b>\$ 12,939.7</b>  | <b>\$ 13,762.5</b> |
| <b>Non-current financial liabilities (at December 31) <sup>(2)</sup></b>                                                                                                       | <b>\$ 2,378.1</b>  | <b>\$ 2,551.9</b>   | <b>\$ 2,824.6</b>  |
| <b>Adjusted diluted EPS from E&amp;C (in \$) <sup>(1)</sup></b>                                                                                                                | <b>\$ (0.40)</b>   | <b>\$ 0.25</b>      | <b>\$ 2.15</b>     |
| <b>Dividends per share declared to SNC-Lavalin shareholders (in \$)</b>                                                                                                        | <b>\$ 0.160</b>    | <b>\$ 0.961</b>     | <b>\$ 1.106</b>    |

<sup>(1)</sup> Non-IFRS financial measure. Please refer to Section 14 for further information on these financial measures and for the reference to the reconciliation from these financial measures to the most directly comparable measure specified under IFRS, when applicable.

<sup>(2)</sup> Non-current financial liabilities include long-term debt (Recourse, Limited recourse and Non-recourse), the financial portion of the Non-current portion of provisions, Other non-current financial liabilities, and the Non-current portion of lease liabilities.

While the variances between 2019 and 2018 are further described in the following sections of the MD&A, the main variances between 2018 and 2017 are explained as follows:

Revenue growth in 2018 is partially explained by the first full year of results of Atkins, acquired in July 2017.

There was a net loss in 2018 compared to a net income in 2017. The variance is mainly attributable to the goodwill impairment of \$1,240.4 million recognized in the fourth quarter of 2018. The remaining variance is due to lower Segment EBIT, the increase in amortization of intangible assets related to business combinations, the gain on disposal of the head office building in 2017 and the net expense in 2018 for the 2012 class action lawsuits settlement, partially offset by lower acquisition-related costs and integration costs in 2018.

## 4.2 STATEMENT OF INCOME

| YEARS ENDED DECEMBER 31<br>(IN MILLIONS OF CA\$, EXCEPT EARNINGS (LOSS) PER SHARE) | 2019            | 2018 <sup>(2)</sup> |
|------------------------------------------------------------------------------------|-----------------|---------------------|
| Revenues                                                                           | \$ 9,515.6      | \$ 10,084.0         |
| Total Segment EBIT                                                                 | \$ 354.1        | \$ 539.1            |
| Corporate selling, general and administrative expenses                             | \$ (73.9)       | \$ (98.0)           |
| Impairment loss arising from expected credit losses                                | (0.2)           | (1.3)               |
| Loss arising on financial assets (liabilities) at fair value                       | (4.7)           | (7.4)               |
| Net 2012 class action lawsuits settlement expense and related legal costs          | —               | (89.4)              |
| Federal charges settlement (PPSC)                                                  | (257.3)         | —                   |
| Restructuring costs                                                                | (182.8)         | (68.6)              |
| Acquisition-related costs and integration costs                                    | (8.3)           | (54.9)              |
| Amortization of intangible assets related to business combinations                 | (182.0)         | (206.5)             |
| Gain on disposal of a Capital investment                                           | 2,970.8         | 67.6                |
| Loss from adjustment on disposals of E&C businesses                                | (0.3)           | (0.5)               |
| Impairment of intangible assets related to business combinations                   | (72.8)          | —                   |
| Impairment of goodwill                                                             | (1,801.0)       | (1,240.4)           |
| <b>Earnings (loss) before interest and income taxes</b>                            | <b>\$ 741.4</b> | <b>\$ (1,160.4)</b> |
| Net financial expenses                                                             | \$ 212.1        | \$ 167.4            |
| <b>Earnings (loss) before income taxes</b>                                         | <b>\$ 529.3</b> | <b>\$ (1,327.8)</b> |
| Income taxes                                                                       | \$ 198.7        | \$ (11.5)           |
| <b>Net income (loss)</b>                                                           | <b>\$ 330.6</b> | <b>\$ (1,316.3)</b> |
| <b>Net income (loss) attributable to:</b>                                          |                 |                     |
| SNC-Lavalin shareholders                                                           | \$ 328.2        | \$ (1,316.9)        |
| Non-controlling interests                                                          | 2.4             | 0.6                 |
| <b>Net income (loss)</b>                                                           | <b>\$ 330.6</b> | <b>\$ (1,316.3)</b> |
| <b>Earnings (loss) per share (in \$):</b>                                          |                 |                     |
| Basic                                                                              | \$ 1.87         | \$ (7.50)           |
| Diluted                                                                            | \$ 1.87         | \$ (7.50)           |
| <b>Additional financial indicators:</b>                                            |                 |                     |
| Diluted EPS from E&C (in \$) <sup>(1)</sup>                                        | \$ (13.93)      | \$ (8.90)           |
| Adjusted diluted EPS from E&C (in \$) <sup>(1)</sup>                               | \$ (0.40)       | \$ 0.25             |
| Adjusted EBITDA from E&C <sup>(1)</sup>                                            | \$ 279.1        | \$ 385.6            |

<sup>(1)</sup> Non-IFRS financial measure. Please refer to Section 14 for further information on these financial measures and for the reference to the reconciliation from these financial measures to the most directly comparable measure specified under IFRS, when applicable.

<sup>(2)</sup> Comparative figures have been restated to reflect a change made to the Company's reporting of its financial results. Please refer to Section 13 for further details.

## 4.2.1 REVENUE ANALYSIS

| YEARS ENDED DECEMBER 31<br>(IN MILLIONS CA\$) | 2019              | 2018               |
|-----------------------------------------------|-------------------|--------------------|
| <b>Revenues:</b>                              |                   |                    |
| From E&C                                      |                   |                    |
| SNCL Engineering Services (excluding Capital) | \$ 6,017.3        | \$ 5,521.7         |
| SNCL Projects                                 | 3,235.6           | 4,297.6            |
| Total from E&C                                | \$ 9,252.9        | \$ 9,819.3         |
| From Capital                                  | 262.7             | 264.7              |
| <b>Total Revenues</b>                         | <b>\$ 9,515.6</b> | <b>\$ 10,084.0</b> |

### REVENUES FROM E&C

**E&C revenues decreased to \$9.3 billion in 2019**, compared with \$9.8 billion in 2018. The variance is largely attributable to lower revenues in SNCL Projects, in both Resources and Infrastructure EPC Projects, partially offset by an increase in revenues in SNCL Engineering Services from E&C, mainly in Infrastructure Services and EDPM. The decrease in revenues from SNCL Projects reflects the completion or near completion of certain major projects, combined with the Company's decision in July 2019 to stop bidding on LSTK construction contracts. The increase in revenues from SNCL Engineering Services (excluding Capital) reflects mainly the first full year of operations of Linxon, acquired in September 2018, and an overall growth in activities in EDPM.

### REVENUES FROM CAPITAL

**Revenues from Capital in 2019** are in line with those of 2018, as the decrease in contribution from Highway 407 ETR following the disposal of a portion of this investment by the Company in August 2019 was offset by a higher level of activity on certain other investments.

## 4.2.2 SEGMENT EBIT ANALYSIS

| YEARS ENDED DECEMBER 31<br>(IN MILLIONS CA\$, EXCEPT RATIO IN %) | 2019            | 2018 <sup>(1)</sup> |
|------------------------------------------------------------------|-----------------|---------------------|
| <b>Total Segment EBIT:</b>                                       |                 |                     |
| From E&C                                                         |                 |                     |
| SNCL Engineering Services (excluding Capital)                    | \$ 558.9        | \$ 551.5            |
| SNCL Projects                                                    | (448.0)         | (237.3)             |
| Total from E&C                                                   | \$ 110.9        | \$ 314.2            |
| From Capital                                                     | 243.2           | 225.0               |
| <b>Total Segment EBIT</b>                                        | <b>\$ 354.1</b> | <b>\$ 539.1</b>     |
| <b>Total Segment EBIT-to-revenue ratio (%):</b>                  |                 |                     |
| From E&C                                                         |                 |                     |
| SNCL Engineering Services (excluding Capital)                    | 9.3%            | 10.0%               |
| SNCL Projects                                                    | (13.8%)         | (5.5%)              |
| Total from E&C                                                   | 1.2%            | 3.2%                |
| From Capital                                                     | 92.6%           | 85.0%               |
| <b>Total Segment EBIT-to-revenue ratio (%)</b>                   | <b>3.7%</b>     | <b>5.3%</b>         |

<sup>(1)</sup> Comparative figures have been restated to reflect a change made to the Company's reporting of its financial results. Please refer to Section 13 for further details.

### SEGMENT EBIT FROM E&C

**E&C total segment EBIT in 2019 was \$110.9 million**, compared with \$314.2 million in 2018. The variance is largely attributable to the increased loss in SNCL Projects, reflecting a loss in Infrastructure EPC Projects in 2019 and the higher level of loss in Resources in 2019 compared to 2018, partially offset by the higher Segment EBIT in SNCL Engineering Services excluding Capital, mainly from Infrastructure Services.

### SEGMENT EBIT FROM CAPITAL

The relationship between revenues and EBIT for Capital investments is not meaningful, as a significant portion of the investments are accounted for under either the equity or cost methods, which do not reflect the line-by-line items of the individual Capital investment's financial results.

**Segment EBIT from Capital increased to \$243.2 million in 2019**, compared with \$225.0 million in 2018, mainly due to an increased contribution from certain investments and lower selling, general and administrative expenses in 2019, partly offset by a lower contribution from Highway 407 ETR following the disposal of a portion of this investment by the Company in August 2019.

### 4.2.3 CORPORATE SELLING, GENERAL AND ADMINISTRATIVE EXPENSES ANALYSIS

| YEARS ENDED DECEMBER 31<br>(IN MILLIONS CA\$)                 | 2019           |                |                | 2018 <sup>(1)</sup> |                |                |
|---------------------------------------------------------------|----------------|----------------|----------------|---------------------|----------------|----------------|
|                                                               | FROM E&C       | FROM CAPITAL   | TOTAL          | FROM E&C            | FROM CAPITAL   | TOTAL          |
| <b>Corporate selling, general and administrative expenses</b> | <b>\$ 45.8</b> | <b>\$ 28.2</b> | <b>\$ 73.9</b> | <b>\$ 70.4</b>      | <b>\$ 27.7</b> | <b>\$ 98.0</b> |

<sup>(1)</sup> Comparative figures have been restated to reflect a change made to the Company's reporting of its financial results. Please refer to Section 13 for further details.

**Corporate selling, general and administrative expenses totaled \$73.9 million in 2019**, compared with \$98.0 million in 2018, mainly reflecting efficiencies obtained from restructuring and right-sizing efforts. The Corporate selling, general and administrative expenses in 2018 included a \$16.2 million favorable impact from revised estimates on legacy sites environmental liability and other asset retirement obligations and a \$25.1 million Guaranteed Minimum Pension ("GMP") equalization cost recognized by the Company for past service cost.

### 4.2.4 NET 2012 CLASS ACTION LAWSUITS SETTLEMENT EXPENSE AND RELATED LEGAL COSTS

| YEARS ENDED DECEMBER 31<br>(IN MILLIONS CA\$)                                    | 2019        | 2018           |
|----------------------------------------------------------------------------------|-------------|----------------|
| <b>Net 2012 class action lawsuits settlement expense and related legal costs</b> | <b>\$ —</b> | <b>\$ 89.4</b> |

On May 22, 2018, the Company reached a settlement agreement in relation to class actions in Quebec and Ontario filed in 2012 on behalf of security holders, resulting in a net expense of \$89.4 million, including the related legal costs.

### 4.2.5 FEDERAL CHARGES SETTLEMENT (PPSC)

| YEARS ENDED DECEMBER 31<br>(IN MILLIONS CA\$) | 2019            | 2018        |
|-----------------------------------------------|-----------------|-------------|
| <b>Federal charges settlement (PPSC)</b>      | <b>\$ 257.3</b> | <b>\$ —</b> |

As part of the settlement reached on December 18, 2019, a subsidiary of the Company will pay a fine in the amount of \$280 million, payable in equal installments over the next 5 years. The \$257.3 million expense recognized in 2019 represents the net present value of these installments.

### 4.2.6 RESTRUCTURING COSTS

| YEARS ENDED DECEMBER 31<br>(IN MILLIONS CA\$) | 2019            | 2018           |
|-----------------------------------------------|-----------------|----------------|
| <b>Restructuring costs</b>                    | <b>\$ 182.8</b> | <b>\$ 68.6</b> |

Over the past years, the Company has been engaged in restructuring its activities. In 2019, the Company announced a new strategy under which the Company is no longer bidding on LSTK construction contracts. SNC-Lavalin is also reducing its geographic footprint to reduce risk and complexity by focusing on its core growth regions: Canada, the U.S., and the U.K., along with regional markets such as the Middle East and Asia Pacific, which involves exiting unprofitable operations in certain countries. At the end of 2019, the Company decided to exit the midstream fabrication business, including its compression and production equipment product lines, which were also known under the Valerus brand.

The Company incurred \$182.8 million of restructuring costs in 2019 (2018: \$68.6 million). The restructuring costs recognized in 2019 included approximately \$72 million related to Valerus, of which \$52.5 million related to non-cash charges, notably \$31.2 million of inventory write-down, \$11.3 million of impairment of right-of-use assets and \$10.0 million of impairment of property and equipment. The remaining balance of restructuring costs recognized in 2019 were mainly for severances. The restructuring costs recognized in 2018 were mainly for severances across the Company's segments and corporate functions.

## 4.2.7 ACQUISITION-RELATED COSTS AND INTEGRATION COSTS

| YEARS ENDED DECEMBER 31<br>(IN MILLIONS CA\$)          | 2019          | 2018           |
|--------------------------------------------------------|---------------|----------------|
| <b>Acquisition-related costs and integration costs</b> | <b>\$ 8.3</b> | <b>\$ 54.9</b> |

In 2019, the Company incurred acquisition-related costs and integration costs totalling \$8.3 million, compared with \$54.9 million in 2018, a variance that was largely attributable to lower professional fees, reflecting the completion of the integration of Atkins and Linxon.

## 4.2.8 AMORTIZATION OF INTANGIBLE ASSETS RELATED TO BUSINESS COMBINATIONS

| YEARS ENDED DECEMBER 31<br>(IN MILLIONS CA\$)                             | 2019            | 2018            |
|---------------------------------------------------------------------------|-----------------|-----------------|
| <b>Amortization of intangible assets related to business combinations</b> | <b>\$ 182.0</b> | <b>\$ 206.5</b> |

Amortization of intangible assets related to business combinations amounted to \$182.0 million in 2019, and to \$206.5 million in 2018, both mainly attributable to the amortization expense of intangible assets related to Atkins.

## 4.2.9 NET GAIN ON DISPOSAL

In August 2019, SNC-Lavalin completed the sale of 10.01% of the shares of Highway 407 ETR to a company controlled by CPPIB. SNC-Lavalin recognized a gain before taxes of \$2,970.8 million on this transaction.

SNC-Lavalin's remaining 6.76% ownership interest in Highway 407 ETR continues to be accounted for under the equity method of accounting.

## 4.2.10 IMPAIRMENT OF GOODWILL AND INTANGIBLE ASSETS RELATED TO BUSINESS COMBINATIONS

| YEARS ENDED DECEMBER 31<br>(IN MILLIONS CA\$)                                        | 2019              | 2018              |
|--------------------------------------------------------------------------------------|-------------------|-------------------|
| <b>Impairment of goodwill</b>                                                        | <b>\$ 1,801.0</b> | <b>\$ 1,240.4</b> |
| <b>Impairment of intangible assets related to business combinations</b>              | <b>72.8</b>       | <b>—</b>          |
| <b>Impairment of goodwill and intangible assets related to business combinations</b> | <b>\$ 1,873.8</b> | <b>\$ 1,240.4</b> |

Impairment of goodwill has increased in 2019 due to the impairment loss on goodwill of \$1.8 billion which was recognized in 2019 for the Resources CGU, largely attributable to the Company's decision to cease bidding on LSTK construction projects, as well as lower than expected performance in Resources in the first half of the year and challenges in replenishing the backlog. At the same time, the intangible assets related to business combinations in the Resources segment were impaired by \$72.8 million.

#### 4.2.11 EBIT, EBITDA ANALYSIS

**EBIT, EBITDA** are non-IFRS financial measures. Definitions and reconciliations of these financial measures to Net Income are presented in Section 14.

**In 2019, EBIT from E&C was negative \$2,441.9 million**, compared with \$1,424.5 million in 2018, a variance mainly due to the higher amount of goodwill impairment related to Resources in 2019, combined with a lower Segment EBIT from E&C in 2019, mainly attributable to losses in Resources and Infrastructure EPC Projects, offset by a higher Segment EBIT from Infrastructure Services. Also explaining the higher loss were the federal charges settlement expense, higher restructuring costs and an impairment of intangible assets related to Resources in 2019, partially offset by the net 2012 class action lawsuits settlement expenses and related legal costs in 2018. This also resulted in an EBITDA from E&C of negative \$166.0 million in 2019, compared with \$140.5 million in 2018. When adjusting for the charges related to restructuring, right-sizing and other, the acquisition-related costs and integration costs, the net expense for the 2012 class action lawsuits settlement and related legal costs, the federal charges settlement (PPSC) expense, the GMP equalization expense, as well as the gains (losses) on disposals of E&C businesses and Capital investments, the adjusted EBITDA from E&C amounted to \$279.1 million in 2019, compared with \$385.6 million in 2018.

**EBIT and EBITDA from Capital** were favorably impacted in 2019 mainly due to the gain on disposal by the Company of a 10.01% of the shares of Highway 407 ETR.

#### 4.2.12 NET FINANCIAL EXPENSES

| YEARS ENDED DECEMBER 31<br>(IN MILLIONS CAS) | 2019            |                |                 | 2018            |                |                 |
|----------------------------------------------|-----------------|----------------|-----------------|-----------------|----------------|-----------------|
|                                              | FROM E&C        | FROM CAPITAL   | TOTAL           | FROM E&C        | FROM CAPITAL   | TOTAL           |
| Interest revenues                            | \$ (10.8)       | \$ (0.2)       | \$ (11.0)       | \$ (7.9)        | \$ (4.4)       | \$ (12.3)       |
| Interest on debt:                            |                 |                |                 |                 |                |                 |
| Recourse                                     | 85.0            | —              | 85.0            | 78.2            | —              | 78.2            |
| Limited recourse                             | 45.1            | —              | 45.1            | 85.2            | —              | 85.2            |
| Non-recourse                                 | 5.7             | 18.1           | 23.8            | 2.1             | 15.8           | 17.9            |
| Net foreign exchange losses                  | (2.7)           | (0.2)          | (3.0)           | 0.2             | 0.1            | 0.2             |
| Interest on lease liabilities                | 23.4            | 0.2            | 23.6            | —               | —              | —               |
| Other                                        | 48.5            | —              | 48.5            | (1.8)           | —              | (1.8)           |
| <b>Net financial expenses</b>                | <b>\$ 194.2</b> | <b>\$ 17.8</b> | <b>\$ 212.1</b> | <b>\$ 156.0</b> | <b>\$ 11.5</b> | <b>\$ 167.4</b> |

**Net financial expenses from E&C increased to \$194.2 million in 2019** compared with \$156.0 million in 2018, a variance mainly due to \$33.8 million of loss related to the amendments of the SNC-Lavalin Holdings Loan Agreement and \$3.7 million related to other E&C financing arrangements in connection with the sale by the Company of 10.01% of the shares of Highway 407 ETR, both included in "Other" in the table above, combined with the additional financial expenses related to lease liabilities in 2019, following the adoption of IFRS 16 on January 1, 2019 without restatement of comparative figures.

**Net financial expenses from Capital were \$17.8 million in 2019**, compared with \$11.5 million in 2018, mainly explained by the decrease in interest revenues.

#### 4.2.13 INCOME TAXES ANALYSIS

| YEARS ENDED DECEMBER 31<br>(IN MILLIONS CA\$) | 2019         |               |               | 2018         |              |              |
|-----------------------------------------------|--------------|---------------|---------------|--------------|--------------|--------------|
|                                               | FROM E&C     | FROM CAPITAL  | TOTAL         | FROM E&C     | FROM CAPITAL | TOTAL        |
| Earnings before income                        | \$ (2,636.1) | \$ 3,165.5    | \$ 529.3      | \$ (1,580.5) | \$ 252.6     | \$ (1,327.8) |
| Income taxes                                  | \$ (193.9)   | \$ 392.7      | \$ 198.7      | \$ (18.1)    | \$ 6.6       | \$ (11.5)    |
| <b>Effective income tax rate</b>              | <b>7.4 %</b> | <b>12.4 %</b> | <b>37.5 %</b> | <b>1.2 %</b> | <b>2.6 %</b> | <b>0.9 %</b> |

In 2019, the Company reported an income tax expense of \$198.7 million, compared to an income tax recovery of \$11.5 million in 2018.

The effective income tax recovery rate from E&C was lower than the Canadian statutory income tax rate of 26.5% in 2019, mainly due to the impact of the non-tax deductible portion of the goodwill impairment, the write down of previously recognized deferred income tax assets, the non-tax deductible Federal Charges Settlement and other permanent items. These impacts were partially offset by the recognition of income tax recoveries on capital losses and earnings not affected by tax.

In 2018, the effective income tax recovery rate from E&C was lower than the Canadian statutory income tax rate of 26.7% mainly due to the impact of the non-tax deductible goodwill impairment, net losses that did not generate an income tax benefit and by adjustments to deferred income taxes due to the US tax reform and the net reversal of previously recognized deferred tax assets. These impacts were partially offset by the geographic mix of earnings before income taxes as well as earnings not affected by tax and other permanent items.

The effective income tax rate from Capital investments increased in 2019 compared with 2018, but was lower than the Canadian statutory income tax rate of 26.5%, mainly due to the non-taxable portion of the gain on the disposal of a 10.01% stake in Highway 407 ETR. In 2018, the effective income tax rate was lower than the Canadian statutory income tax rate of 26.7% mainly due to the non-taxable dividends received from Highway 407 ETR and the non-taxable portion of the gain on the disposition of MHIG to the SNCL IP Partnership.

#### 4.2.14 NET INCOME ANALYSIS

| YEARS ENDED DECEMBER 31<br>(IN MILLIONS C\$)                      | 2019            | 2018                |
|-------------------------------------------------------------------|-----------------|---------------------|
| Net income (loss) attributable to SNC-Lavalin shareholders:       |                 |                     |
| From E&C                                                          | \$ (2,444.6)    | \$ (1,563.0)        |
| From Capital                                                      | 2,772.8         | 246.1               |
| <b>Net income (loss) attributable to SNC-Lavalin shareholders</b> | <b>\$ 328.2</b> | <b>\$ (1,316.9)</b> |
| Non-controlling interests                                         | 2.4             | 0.6                 |
| <b>Net income (loss)</b>                                          | <b>\$ 330.6</b> | <b>\$ (1,316.3)</b> |

#### NET INCOME FROM E&C

**Net loss attributable to SNC-Lavalin shareholders from E&C was \$2,444.6 million in 2019**, compared to a net loss attributable to SNC-Lavalin shareholders from E&C of \$1,563.0 million in 2018, a variance mainly due to the higher amount of goodwill impairment related to Resources in 2019, combined with a lower Segment EBIT from E&C in 2019, mainly attributable to losses in Resources and Infrastructure EPC Projects, offset by a higher Segment EBIT from Infrastructure Services. Also explaining the higher loss were the federal charges settlement expense, higher net financial expenses, higher restructuring costs and an impairment of intangible assets related to Resources in 2019, partially offset by the net 2012 class action lawsuits settlement expenses and related legal costs in 2018.

#### NET INCOME FROM CAPITAL

**Net income attributable to SNC-Lavalin shareholders from Capital increased to \$2,772.8 million in 2019**, compared with \$246.1 million in 2018, mainly from a gain on the disposal by the Company of 10.01% of the shares of Highway 407 ETR, an increased contribution from certain other investments and lower selling, general and administrative expenses in 2019.

## 5 Backlog (Remaining Performance Obligations)

The backlog is defined as a forward-looking indicator of anticipated revenues to be recognized by the Company, determined based on contract awards that are firm and amounting to the transaction price allocated to remaining performance obligations. Management could be required to make estimates regarding the revenue to be generated for certain contracts.

Revenue backlog is derived primarily from three major types of contracts: **Reimbursable and engineering service contracts, Standardized EPC contracts and LSTK construction contracts.**

- **Reimbursable and engineering service contracts:** Under reimbursable contracts, the Company charges the customer for the actual cost incurred plus a mark-up that could take various forms such as a fixed-fee per unit, a percentage of costs incurred or an incentive fee based on achieving certain targets, performance factors or contractual milestones. Reimbursable contracts also include unit-rate contracts for which a fixed amount per quantity is charged to the customer, and reimbursable contracts with a cap. Engineering service contracts include i) time and material agreements based on hourly rates and fixed-price lump-sum contracts with limited procurement or construction risks, and ii) O&M contracts.
- **Standardized EPC contracts:** Under standardized EPC contracts, the Company provides its repetitive EPC offerings that are lower-risk, standardized solutions for: i) district cooling plants; and ii) power substations executed through its Linxon subsidiary.
- **LSTK construction contracts:** Under LSTK construction contracts, the Company completes the work required for the project at a lump-sum price. Before entering into such contracts, the Company estimates the total cost of the project, plus a profit margin. The Company's actual profit margin may vary based on its ability to achieve the project requirements at above or below the initial estimated costs.

### REVENUE BACKLOG BY SEGMENT AND GEOGRAPHIC AREA

The following table provides a breakdown of revenue backlog by segment and geographic area.

| AT DECEMBER 31<br>(IN MILLIONS CA\$)   | 2019               | 2018 <sup>(2)</sup> |
|----------------------------------------|--------------------|---------------------|
| BY SEGMENT                             |                    |                     |
| <b>SNCL Engineering Services</b>       |                    |                     |
| EDPM                                   | \$ 2,630.0         | \$ 2,793.1          |
| Nuclear                                | 1,154.0            | 1,202.9             |
| Infrastructure Services                | 7,337.0            | 6,225.4             |
| Capital <sup>(1)</sup>                 | 176.9              | 155.4               |
| <b>Total SNCL Engineering Services</b> | <b>\$ 11,297.9</b> | <b>\$ 10,376.8</b>  |
| <b>SNCL Projects</b>                   |                    |                     |
| Resources                              | \$ 1,380.1         | \$ 1,907.3          |
| Infrastructure EPC Projects            | 2,584.5            | 2,600.9             |
| <b>Total SNCL Projects</b>             | <b>\$ 3,964.6</b>  | <b>\$ 4,508.2</b>   |
| <b>Total</b>                           | <b>\$ 15,262.5</b> | <b>\$ 14,885.0</b>  |
| From Canada                            | \$ 9,152.8         | \$ 8,560.4          |
| Outside Canada                         | 6,109.7            | 6,324.6             |
| <b>Total</b>                           | <b>\$ 15,262.5</b> | <b>\$ 14,885.0</b>  |

<sup>(1)</sup> Backlog from Capital represents the amount that will be recognized as revenue from contracts with customers in the Capital segment from a concession agreement.

<sup>(2)</sup> Comparative figures have been restated to reflect a change made to the Company's reporting of its financial results. Please refer to Section 13 for further details.

The Company's revenue backlog increased to \$15.3 billion as at December 31, 2019 compared with \$14.9 billion as at December 31, 2018, mainly reflecting an increase in Infrastructure Services partially offset by a decrease in Resources.

**Backlog from Canada increased in 2019**, reflecting an increase mostly in Infrastructure Services explained mainly by major bookings in O&M.

**Backlog from Outside Canada decreased in 2019**, principally due to a decrease in Resources, mainly due to the completion or near completion of certain major projects in 2019.

## BACKLOG RECONCILIATION

In the following section, the Company presents its "booking-to-revenue ratio", a non-IFRS measure, which corresponds to the contract bookings divided by the revenues for a given period. This measure provides a basis for assessing the renewal of business. However, the revenue backlog measure does not include prospects, one of the key elements taken into account when estimating revenues and gross margin for budget and forecast purposes described in Section 2.2, which can be a significant portion of the budgeted and/or forecasted revenues.

| YEARS ENDED DECEMBER 31<br>(IN MILLIONS CA\$ EXCEPT FOR BOOKING-TO-REVENUE RATIO) | 2019               | 2018               |
|-----------------------------------------------------------------------------------|--------------------|--------------------|
| Opening backlog                                                                   | \$ 14,885.0        | \$ 10,406.4        |
| IFRS 15 opening balance adjustment                                                | —                  | 3,390.5            |
| Plus: Contract bookings during the year                                           | 9,623.1            | 10,362.4           |
| Backlog from a business combination                                               | —                  | 526.1              |
| Less: Revenues from contracts with customers recognized during the year           | 9,245.6            | 9,800.4            |
| <b>Ending backlog</b>                                                             | <b>\$ 15,262.5</b> | <b>\$ 14,885.0</b> |
| <b>Booking-to-revenue ratio <sup>(1)</sup></b>                                    | <b>1.04</b>        | <b>1.06</b>        |

<sup>(1)</sup> Non-IFRS financial measures. Please refer to Section 14 for further information on these financial measures and for the reference to the reconciliation from these financial measures to the most directly comparable measure specified under IFRS, when applicable.

## MAJOR CONTRACT AWARDS

In 2019, the Company was awarded several contracts in North America, and in the U.K. notably the Trillium Line Extension project awarded in Canada.

In 2018, the Company was awarded several contracts in North America, Africa and in the U.K., notably the contract related to the Réseau express métropolitain ("REM") in Infrastructure EPC Projects. In the Resources segment, the Company was awarded contracts in the Middle East. The backlog from a business combination resulted from Linxon's opening backlog of \$526.1 million.

## BACKLOG BY TYPES OF CONTRACTS

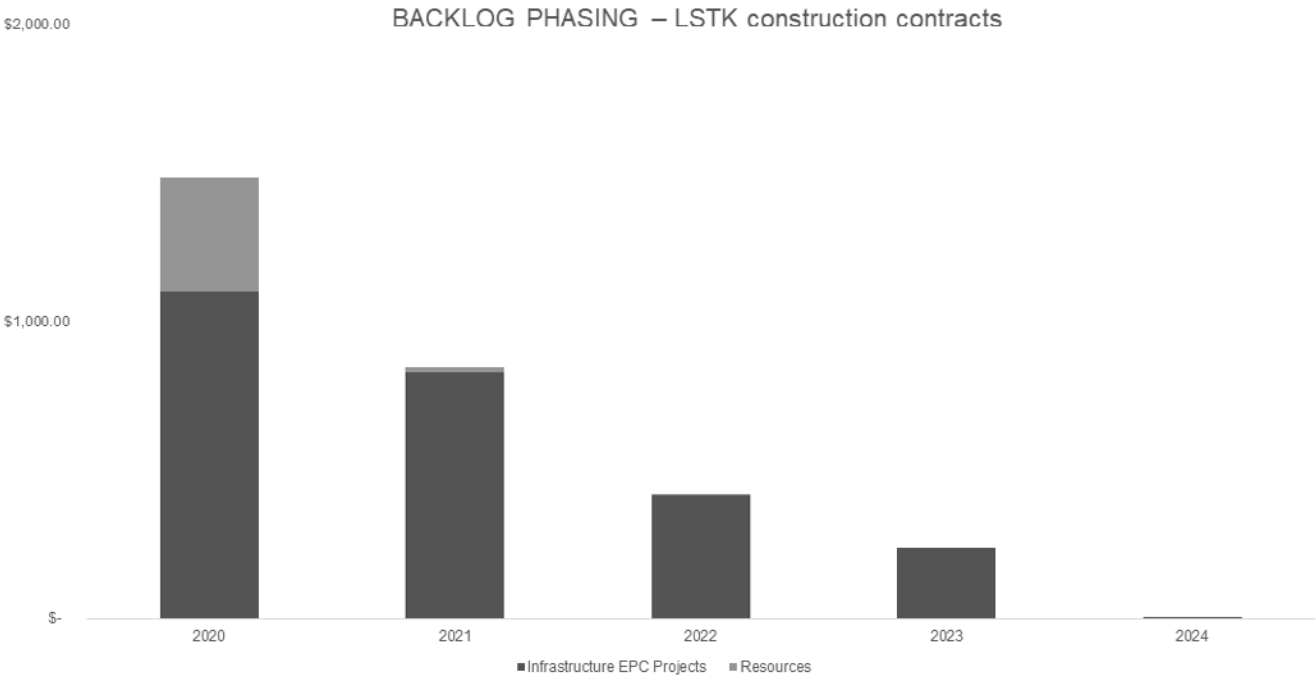
The following table shows the amounts and proportions of reimbursable and engineering service contracts, standardized EPC contracts and LSTK construction contracts included in each segment's backlog as at December 31, 2019:

|                                  | REIMBURSABLE &<br>ENGINEERING SERVICES<br>CONTRACTS |             | STANDARDIZED<br>EPC CONTRACTS |            | LSTK<br>CONSTRUCTION<br>CONTRACTS |             |
|----------------------------------|-----------------------------------------------------|-------------|-------------------------------|------------|-----------------------------------|-------------|
| BY SEGMENT                       |                                                     |             |                               |            |                                   |             |
| <b>SNCL Engineering Services</b> |                                                     |             |                               |            |                                   |             |
| EDPM                             | \$ 2,630.0                                          | 100 %       | \$ —                          | — %        | \$ —                              | — %         |
| Nuclear                          | 1,079.0                                             | 94 %        | —                             | — %        | 75.0                              | 6 %         |
| Infrastructure Services          | 6,444.5                                             | 88 %        | 892.5                         | 12 %       | —                                 | — %         |
| Capital                          | 176.9                                               | 100 %       | —                             | — %        | —                                 | — %         |
| <b>Total SNCL Engineering</b>    | <b>\$ 10,330.4</b>                                  | <b>91 %</b> | <b>\$ 892.5</b>               | <b>8 %</b> | <b>\$ 75.0</b>                    | <b>1 %</b>  |
| <b>SNCL Projects</b>             |                                                     |             |                               |            |                                   |             |
| Resources                        | \$ 973.8                                            | 71 %        | \$ —                          | — %        | \$ 406.3                          | 29 %        |
| Infrastructure EPC Projects      | —                                                   | — %         | —                             | — %        | 2,584.5                           | 100 %       |
| <b>Total SNCL Projects</b>       | <b>\$ 973.8</b>                                     | <b>25 %</b> | <b>\$ —</b>                   | <b>— %</b> | <b>\$ 2,990.8</b>                 | <b>75 %</b> |
| <b>Total</b>                     | <b>\$ 11,304.2</b>                                  | <b>74 %</b> | <b>\$ 892.5</b>               | <b>6 %</b> | <b>\$ 3,065.8</b>                 | <b>20 %</b> |

**BACKLOG PHASING**

The backlog as at December 31, 2019, is expected to be recognized in revenues as follows: 2020 – \$5.6 billion, 2021 – \$2.3 billion, 2022 – \$1.2 billion, and thereafter – \$6.1 billion (2018: 2019 – \$5.8 billion, 2020 – \$2.3 billion, 2021 – \$1.2 billion, and thereafter – \$5.6 billion). It should be noted that these amounts exclude any estimated amounts of variable consideration that are excluded from the transaction price.

The LSTK construction contracts included in the backlog of the Resources and Infrastructure EPC Projects segments have expected completions between 2020 and 2024. The Company will fulfill the contractual obligations of its current LSTK construction projects. It may be necessary for the Company to accept change orders under existing LSTK construction contracts, which may temporarily extend the performance timeframe of such contracts.



Most of the backlog from LSTK construction contracts in these sectors is derived from the following projects: Réseau Express Métropolitain (REM), Trillium Line Extension, Eglinton LRT and Husky White Rose.

# 6

## Geographic Breakdown of Revenues

| YEAR ENDED DECEMBER 31<br>(IN MILLIONS CA\$) | 2019              |              | 2018               |              |
|----------------------------------------------|-------------------|--------------|--------------------|--------------|
|                                              | TOTAL             | %            | TOTAL              | %            |
| Americas:                                    |                   |              |                    |              |
| Canada                                       | \$ 2,813.7        | 30 %         | \$ 2,962.6         | 29 %         |
| United States                                | 1,825.5           | 19 %         | 1,665.6            | 17 %         |
| Latin America                                | 181.6             | 2 %          | 302.4              | 3 %          |
| Middle East and Africa:                      |                   |              |                    |              |
| Saudi Arabia                                 | 871.1             | 9 %          | 1,020.7            | 10 %         |
| Other Middle East countries                  | 817.6             | 9 %          | 962.5              | 10 %         |
| Africa                                       | 363.0             | 4 %          | 469.1              | 5 %          |
| Asia Pacific:                                |                   |              |                    |              |
| Australia                                    | 173.7             | 2 %          | 511.3              | 5 %          |
| Other                                        | 326.8             | 3 %          | 227.6              | 2 %          |
| Europe:                                      |                   |              |                    |              |
| United Kingdom                               | 1,794.1           | 19 %         | 1,658.4            | 16 %         |
| Other                                        | 348.4             | 4 %          | 303.8              | 3 %          |
| <b>Total</b>                                 | <b>\$ 9,515.6</b> | <b>100 %</b> | <b>\$ 10,084.0</b> | <b>100 %</b> |

### AMERICAS:

- **Revenues in Canada in 2019 decreased** from 2018, mainly due to a decrease in Infrastructure EPC and Infrastructure Services.
- **Revenues in the United States increased in 2019** compared with 2018, reflecting an increase in Resources, EDPM and Nuclear, mostly offset by a decrease in Infrastructure EPC Projects, due to the completion or near completion of certain major projects.
- **Revenues in Latin America decreased in 2019** compared with the previous year, principally reflecting a decrease in Resources.

### MIDDLE EAST AND AFRICA:

- **Revenues in Saudi Arabia decreased in 2019** compared with 2018, primarily due to Resources.
- **Revenues in other Middle East countries decreased in 2019** compared with 2018, mainly due to Resources, partially offset by activities from the Linxon business in Infrastructure Services.
- **Revenues in Africa in 2019 decreased** compared with 2018, primarily due to a decrease in Resources.

### ASIA PACIFIC:

- **Revenues in Australia decreased in 2019** compared with the previous year, mainly attributable to a decrease in Resources due to completion or near completion of certain major projects in 2018, partially offset by an increase in Infrastructure EPC Projects.
- **Revenues in other countries, increased in 2019** compared with the previous year, mainly reflecting incremental activities of the Linxon business in Infrastructure Services as well as those in EDPM.

### EUROPE:

- **Revenues in the United Kingdom, increased in 2019** compared with the previous year, mainly due to EDPM and an increase in Infrastructure Services.
- **Revenues in other countries increased in 2019** compared with 2018, mainly due to incremental activities of the Linxon business in Infrastructure Services.

## 7 Segment Information

The Company evaluates segment performance, using **Segment EBIT**, which is a non-IFRS financial measures defined in Section 14. Effective January 1, 2019, the Company changed the definition of segment EBIT, its measure of profit or loss for its reportable segments, to reflect a change made to its internal reporting. As such, segment EBIT now includes: i) the contribution attributable to non-controlling interests before income taxes, whereas in the past it excluded such contribution attributable to non-controlling interests before income taxes; and ii) an allocation to the segments of certain other corporate selling, general and administrative expenses. As such, these changes resulted in: i) a reclassification of the negative contribution attributable to non-controlling interests before income taxes in segment EBIT of \$0.3 million for the year ended December 31, 2018; and ii) a reclassification of certain other corporate selling, general and administrative expenses in segment EBIT of \$23.3 million for the year ended December 31, 2018. The Company believes that such inclusions improve the measure of profitability of its reportable segments by better reflecting the overall performance of its reportable segments.

At the same time, given the Company's aim to continue to simplify and de-risk its business, SNC-Lavalin further simplified its market-facing structure. This simplification became effective January 1, 2019 and resulted in a change to the Company's reportable segments, which were i) EDPM; ii) Infrastructure; iii) Nuclear; iv) Resources; and v) Capital. As further discussed in Section 2, the Company's new strategic direction adopted for the second quarter of 2019 resulted in the restructuring of its activities into two distinct business lines, SNCL Engineering Services and SNCL Projects. From a segmented information stand-point, this change resulted in the split of the Infrastructure segment into two segments, Infrastructure Services and Infrastructure EPC Projects, all other segments remaining the same. As such, the Company's reportable segments are now **EDPM**, **Nuclear**, **Infrastructure Services** and **Capital**, all part of **SNCL Engineering Services**, and **Resources** and **Infrastructure EPC projects**, which form **SNCL Projects**.

These changes were made in accordance with IAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors*, resulting in the restatement of prior figures.

On January 1, 2019, the Company adopted IFRS 16 under the modified retrospective approach. While the impact of this new accounting standard is explained in detail in Note 2 to the Company's 2019 audited annual consolidated financial statements, such change applied without restatement of comparative figures resulted in an increase of Segment EBIT in 2019 due to the presentation of the interest expense on lease liabilities, when such expense is not considered a project cost, in net financial expenses, which are excluded from the measure of Segment EBIT.

The Company derived its revenues from reimbursable and engineering service contracts (2019: 76%; 2018: 73%), standardized EPC contracts (2019: 5%; 2018: 2%) and LSTK construction contracts (2019: 19%; 2018: 25%). The following discussion reviews the Company's segment revenues and Segment EBIT.

YEAR ENDED DECEMBER 31  
(IN MILLIONS CA\$)

|                                        |                   | 2019                     |                              |                       |
|----------------------------------------|-------------------|--------------------------|------------------------------|-----------------------|
| BY SEGMENT                             | REVENUES          | SEGMENT EBIT<br>FROM E&C | SEGMENT EBIT<br>FROM CAPITAL | TOTAL<br>SEGMENT EBIT |
| EDPM                                   | \$ 3,908.9        | \$ 357.8                 | \$ —                         | \$ 357.8              |
| Nuclear                                | 929.8             | 127.6                    | —                            | 127.6                 |
| Infrastructure Services                | 1,178.6           | 73.5                     | —                            | 73.5                  |
| Capital                                | 262.7             | —                        | 243.2                        | 243.2                 |
| <b>Total SNCL Engineering Services</b> | <b>\$ 6,280.0</b> | <b>\$ 558.9</b>          | <b>\$ 243.2</b>              | <b>\$ 802.1</b>       |
| Resources                              | 2,158.9           | (341.5)                  | —                            | (341.5)               |
| Infrastructure EPC Projects            | 1,076.7           | (106.5)                  | —                            | (106.5)               |
| <b>Total SNCL Projects</b>             | <b>\$ 3,235.6</b> | <b>\$ (448.0)</b>        | <b>\$ —</b>                  | <b>\$ (448.0)</b>     |
| <b>Total revenues and Segment EBIT</b> | <b>\$ 9,515.6</b> | <b>\$ 110.9</b>          | <b>\$ 243.2</b>              | <b>\$ 354.1</b>       |

YEAR ENDED DECEMBER 31  
(IN MILLIONS CA\$)

|                                        |                    | 2018 <sup>(1)</sup>      |                              |                       |
|----------------------------------------|--------------------|--------------------------|------------------------------|-----------------------|
| BY SEGMENT                             | REVENUES           | SEGMENT EBIT<br>FROM E&C | SEGMENT EBIT<br>FROM CAPITAL | TOTAL<br>SEGMENT EBIT |
| EDPM                                   | \$ 3,676.4         | \$ 354.7                 | \$ —                         | \$ 354.7              |
| Nuclear                                | 932.6              | 143.9                    | —                            | 143.9                 |
| Infrastructure Services                | 912.7              | 52.9                     | —                            | 52.9                  |
| Capital                                | 264.7              | —                        | 225.0                        | 225.0                 |
| <b>Total SNCL Engineering Services</b> | <b>\$ 5,786.4</b>  | <b>\$ 551.5</b>          | <b>\$ 225.0</b>              | <b>\$ 776.5</b>       |
| Resources                              | 3,001.4            | (256.6)                  | —                            | (256.6)               |
| Infrastructure EPC Projects            | 1,296.3            | 19.3                     | —                            | 19.3                  |
| <b>Total SNCL Projects</b>             | <b>\$ 4,297.7</b>  | <b>\$ (237.3)</b>        | <b>\$ —</b>                  | <b>\$ (237.3)</b>     |
| <b>Total revenues and Segment EBIT</b> | <b>\$ 10,084.0</b> | <b>\$ 314.2</b>          | <b>\$ 225.0</b>              | <b>\$ 539.1</b>       |

<sup>(1)</sup> Comparative figures have been revised to reflect a change made to the measure of profit or loss for the Company's reportable segments and a change made to the Company's reporting structure. Please refer to Section 13 for further details.

## 7.1 SNCL ENGINEERING SERVICES

### 7.1.1 – EDPM

**EDPM** incorporates all consultancy, engineering, design and project management services around the world (including the Canadian market, which was previously in the former Infrastructure segment prior to January 1, 2019). It also leads our efforts to transform the global infrastructure sector by leveraging data and technology to improve the delivery of our clients' projects from conception through to eventual operation. EDPM projects are mainly in transportation (including rail, mass transit, roads and airports), civil infrastructure, aerospace, defence and security and technology, including some of the world's most transformational projects. A significant portion of revenues are derived from the public sector, including national, provincial, state and local and municipal authorities. Similar to 2018, the EDPM segment derived all of its 2019 revenues from reimbursable and engineering service contracts.

| YEARS ENDED DECEMBER 31<br>(IN MILLIONS CA\$) | 2019       | 2018 <sup>(1)</sup> | CHANGE (%) |
|-----------------------------------------------|------------|---------------------|------------|
| Revenues from EDPM                            | \$ 3,908.9 | \$ 3,676.4          | 6.3%       |
| Segment EBIT from EDPM                        | \$ 357.8   | \$ 354.7            | 0.9%       |
| Segment EBIT over revenues from EDPM (%)      | 9.2%       | 9.6%                |            |
| Backlog at year end                           | \$ 2,630.0 | \$ 2,793.1          | (5.8%)     |

<sup>(1)</sup> Comparative figures have been revised to reflect a change made to the measure of profit or loss for the Company's reportable segments and a change made to the Company's reporting structure. Please refer to Section 13 for further details.

**EDPM revenues increased to \$3,908.9 million in 2019** compared with \$3,676.4 million in 2018. The variance was mainly attributable to revenues generated by an increased level of activity in the United Kingdom and Europe, North America and the Middle East.

**The major revenue contributors in 2019** included work from the United Kingdom and Europe as a result of a higher volume of rail and infrastructure projects as Governments maintain their spending on critical infrastructure. In addition, EDPM secured an increased volume of work in the defence and security sector.

In North America, EDPM continues to expand its geographic footprint, as well as benefiting from ongoing disaster recovery work with the Federal Emergency Management Agency (FEMA) and ongoing major projects, notably the Purple Line light rail project in Maryland.

In the Middle East, EDPM celebrated its 10-year anniversary of operating in the Kingdom of Saudi Arabia where it continues to expand, supporting local efforts to manoeuvre the economy to be less oil dependent. The United Arab Emirates (UAE) has seen a flatter market following the work on Dubai Expo 2020.

**Segment EBIT from EDPM was \$357.8 million in 2019** compared with a Segment EBIT of \$354.7 million in 2018, primarily due to the increase in the level of activities, partially offset by a lower profitability ratio, mainly due to an unfavorable geographic mix.

## 7.1.2 – NUCLEAR

**Nuclear** supports clients across the entire nuclear life cycle with the full spectrum of services from consultancy, EPCM services, field services, technology services, spare parts, reactor support & decommissioning and waste management. As stewards of the CANDU technology, it also provides new-build and full refurbishment services of CANDU reactors. The Nuclear segment derives its revenues from reimbursable and engineering service contracts (2019: 98%; 2018: 99%), and two legacy LSTK construction contracts (2019: 2%; 2018: 1%).

| YEARS ENDED DECEMBER 31<br>(IN MILLIONS CA\$) | 2019       | 2018 <sup>(1)</sup> | CHANGE (%) |
|-----------------------------------------------|------------|---------------------|------------|
| Revenues from Nuclear                         | \$ 929.8   | \$ 932.6            | (0.3%)     |
| Segment EBIT from Nuclear                     | \$ 127.6   | \$ 143.9            | (11.3%)    |
| Segment EBIT over revenues from Nuclear (%)   | 13.7%      | 15.4%               |            |
| Backlog at year end                           | \$ 1,154.0 | \$ 1,202.9          | (4.1%)     |

<sup>(1)</sup> Comparative figures have been revised to reflect a change made to the measure of profit or loss for the Company's reportable segments and a change made to the Company's reporting structure. Please refer to Section 13 for further details.

**Nuclear revenues amounted to \$929.8 million in 2019**, in line with \$932.6 million in 2018, mostly driven by higher technology products and services in Asia Pacific, higher volume in the United States operations, offset by slightly lower volume in Europe, the Middle East and in Canada.

**The major revenue contributors in 2019** are services for decommissioning, waste management and environmental clean-up projects and services for life extension projects.

**In 2019, Segment EBIT from Nuclear decreased to \$127.6 million** compared with \$143.9 million in 2018, attributable to a lower profitability ratio mainly driven by higher forecasted costs on a specific legacy LSTK construction project in Canada nearing completion.

### 7.1.3 – INFRASTRUCTURE SERVICES

**Infrastructure Services** includes O&M projects, as well as the Company's repetitive EPC offerings that are lower-risk, standardized solutions for: i) district cooling plants; and ii) power substations executed through its Linxon subsidiary. The segment also includes engineering solutions in hydro, transmission and distribution, renewables, energy storage, and intelligent networks and cybersecurity. As previously mentioned, Segment EBIT now includes the contribution attributable to non-controlling interests. As such, the Segment EBIT of Linxon, a 51% subsidiary, is reported at 100% both in 2019 and 2018. The Infrastructure Services segment derives its revenues from both reimbursable and engineering service contracts (2019: 59%; 2018: 81%) and standardized EPC contracts (2019: 41%; 2018: 19%).

| YEARS ENDED DECEMBER 31<br>(IN MILLIONS C\$)                | 2019       | 2018 <sup>(1)</sup> | CHANGE (%) |
|-------------------------------------------------------------|------------|---------------------|------------|
| Revenues from Infrastructure Services                       | \$ 1,178.6 | \$ 912.7            | 29.1%      |
| Segment EBIT from Infrastructure Services                   | \$ 73.5    | \$ 52.9             | 38.9%      |
| Segment EBIT over revenues from Infrastructure Services (%) | 6.2%       | 5.8%                |            |
| Backlog at year end                                         | \$ 7,337.0 | \$ 6,225.4          | 17.9%      |

<sup>(1)</sup> Comparative figures have been revised to reflect a change made to the measure of profit or loss for the Company's reportable segments and a change made to the Company's reporting structure. Please refer to Section 13 for further details.

**Infrastructure Services revenues were \$1,178.6 million in 2019** compared with \$912.7 million in 2018, an increase mainly reflecting the activities of Linxon, acquired in September 2018.

**The major revenue contributors in 2019** were mainly O&M contracts in Canada and power substation projects from Linxon.

**In 2019, Segment EBIT from Infrastructure Services increased to \$73.5 million** compared with \$52.9 million in 2018, mainly attributable to the increased contribution of the Linxon business and the net favorable impact of reforecasts on certain long-term O&M contracts.

## 7.1.4 – CAPITAL

**Capital** is SNC-Lavalin's investment, financing and asset management arm, responsible for developing projects, arranging financing, investing equity, undertaking complex financial modeling and managing its infrastructure investments for optimal returns. Its activities are principally concentrated in infrastructure such as **bridges, highways, mass transit systems, power facilities, energy infrastructure, water treatment plants and social infrastructure (e.g. hospitals)**. The Capital segment includes SNC-Lavalin's 20% ownership interest in, and management of, SNCL IP Partnership. Also, as mentioned above, although Capital is a segment forming part of the SNCL Engineering Services line of business, it is excluded from E&C.

It is the Company's view that the aggregate fair value of its Capital investments is much higher than their net book value of \$356.0 million as at December 31, 2019. Highway 407 ETR represents the most significant portion of the total fair value of the Company's Capital investments portfolio.

Capital investments net book value, as at December 31, 2019 and 2018, can be summarized as follows:

| AT DECEMBER 31<br>(IN MILLIONS CAS) | 2019            | 2018            |
|-------------------------------------|-----------------|-----------------|
| Highway 407 ETR <sup>(1)</sup>      | \$ —            | \$ —            |
| Others                              | 356.0           | 369.1           |
| <b>Total</b>                        | <b>\$ 356.0</b> | <b>\$ 369.1</b> |

<sup>(1)</sup> The net book value is \$nil as the Company had previously stopped recognizing its share of the losses of Highway 407 ETR when the cumulative losses and dividends resulted in a negative balance for the Company's investment in Highway 407 ETR.

## ACCOUNTING METHODOLOGY FOR CAPITAL INVESTMENTS

The Company's investments are accounted for by either the cost, equity or consolidation methods depending on whether SNC-Lavalin exercises, or not, significant influence, joint control or control. The revenues included in the Company's consolidated income statement are influenced by the consolidation method applied to a Capital investment, as described below:

| ACCOUNTING METHODS FOR THE<br>COMPANY'S INVESTMENTS IN CAPITAL<br>INVESTMENTS | REVENUES INCLUDED IN THE COMPANY'S CONSOLIDATED INCOME STATEMENT                                                                                                                                                                                   |
|-------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Consolidation                                                                 | <b>Revenues</b> that are recognized and reported by the Capital investments                                                                                                                                                                        |
| Equity method                                                                 | SNC-Lavalin's <b>share of net results</b> of the Capital investment or <b>dividends</b> from its Capital investments for which the carrying amount is \$nil, which are recognized when the Company's right to receive payment has been established |
| Cost method                                                                   | <b>Dividends and distributions</b> from the Capital investments                                                                                                                                                                                    |

In evaluating the performance of the segment, the relationship between revenues and EBIT is not meaningful, as a significant portion of the investments are accounted for by the cost and equity methods, which do not reflect the line by line items of the individual Capital investment's financial results.

## REVENUES, SEGMENT EBIT AND DIVIDENDS OF THE CAPITAL SEGMENT

| YEARS ENDED DECEMBER 31<br>(IN MILLIONS CA\$)                                                                    | 2019            | 2018 <sup>(1)</sup> |
|------------------------------------------------------------------------------------------------------------------|-----------------|---------------------|
| <b>Revenues from Capital</b>                                                                                     | <b>\$ 262.7</b> | <b>\$ 264.7</b>     |
| Segment EBIT from Capital investments:                                                                           |                 |                     |
| From Highway 407 ETR                                                                                             | <b>\$ 146.1</b> | <b>\$ 154.3</b>     |
| From other Capital investments <sup>(2)</sup>                                                                    | <b>97.1</b>     | <b>70.7</b>         |
| <b>Segment EBIT from Capital</b>                                                                                 | <b>\$ 243.2</b> | <b>\$ 225.0</b>     |
| Dividends and distributions received by SNC-Lavalin from Capital investments accounted for by the equity method: |                 |                     |
| From Highway 407 ETR                                                                                             | <b>\$ 146.1</b> | <b>\$ 154.3</b>     |
| From other Capital investments                                                                                   | <b>14.0</b>     | <b>16.2</b>         |
| <b>Total</b>                                                                                                     | <b>\$ 160.1</b> | <b>\$ 170.5</b>     |

<sup>(1)</sup> Comparative figures have been revised to reflect a change made to the measure of profit or loss for the Company's reportable segments and a change made to the Company's reporting structure. Please refer to Section 13 for further details.

<sup>(2)</sup> Segment EBIT from other Capital investments is net of divisional and allocated corporate selling, general and administrative expenses, as well as from selling, general and administrative expenses from all other capital investments accounted for by the consolidation method.

Under the equity method of accounting, distributions from a joint venture reduce the carrying amount of the investment. The equity method of accounting requires the Company to stop recognizing its share of the losses of a joint venture when the recognition of such losses results in a negative balance for its investment, or where dividends declared by the joint venture are in excess of the carrying amount of the investment. In these events, the carrying value of the investment is reduced to \$nil, but does not become negative, unless the Company has incurred legal or constructive obligations or made payments on behalf of the joint venture. In these situations, the Company no longer recognizes its share of net income of a Capital investment based on its ownership, but rather recognizes the excess amount of dividends declared by a joint venture in its net income.

As a result, the Company recognized in its income statement, dividends from Highway 407 ETR of \$146.1 million in 2019 (2018: \$154.3 million) and did not recognize its share of Highway 407 ETR's net income of \$72.0 million (2018: \$90.4 million) in the same period, as the carrying amount of its investment in Highway 407 ETR was \$nil at December 31, 2019 and 2018. The negative carrying value of the Company's investment in Highway 407 ETR, which is not recognized on the Company's statement of financial position, amounted to \$716.2 million as at December 31, 2019 (2018: negative carrying value of \$642.0 million).

**Revenues from Capital of \$262.7 million in 2019** were in line with the level of revenues in 2018.

**Segment EBIT from Capital increased to \$243.2 million in 2019** compared with \$225.0 million in 2018, mainly due to an increased contribution from certain investments and lower selling, general and administrative expenses in 2019, partly offset by a lower contribution from Highway 407 ETR following the disposal of a portion of this investment by the Company in August 2019.

## CAPITAL INVESTMENTS PORTFOLIO

The following table presents a list of SNC-Lavalin's main Capital investments as at December 31, 2019:

| NAME                                                                   | OWNERSHIP INTEREST | ACCOUNTING METHOD | SUBJECT TO IFRIC 12 | HELD SINCE | MATURITY OF CONCESSION AGREEMENT | STATUS             | DESCRIPTION OF ACTIVITIES                                                                                                                                                                                                                         |
|------------------------------------------------------------------------|--------------------|-------------------|---------------------|------------|----------------------------------|--------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 407 EAST DEVELOPMENT GROUP GENERAL PARTNERSHIP ("407 EDGGP")           | 50%                | Equity            | Yes                 | 2012       | 2045                             | In operation       | Operates, maintains and rehabilitates Phase 1 of the new highway 407, east of Brock Road.                                                                                                                                                         |
| INPOWER BC GENERAL PARTNERSHIP ("INPOWER BC")                          | 100%               | Consolidation     | Yes                 | 2014       | 2033                             | In operation       | Designs, builds, partially finances, maintains and rehabilitates the John Hart Generating Replacement Facility in Canada.                                                                                                                         |
| RIDEAU TRANSIT GROUP PARTNERSHIP ("RIDEAU")                            | 40%                | Equity            | Yes                 | 2013       | 2043                             | In operation       | Designs, builds, finances and maintains the Confederation Line, City of Ottawa's light rail transit system.                                                                                                                                       |
| CARLYLE GLOBAL INFRASTRUCTURE OPPORTUNITY FUND L.P.                    | 4.5%               | Cost              | N/A                 | 2018       | N/A                              | N/A                | Holding investments in infrastructure projects related to energy, power and natural resources.                                                                                                                                                    |
| HIGHWAY 407 ETR                                                        | 6.76%              | Equity            | No                  | 1999       | 2098                             | In operation       | Operates, maintains and manages highway 407, a 108-km all-electronic toll highway in the Greater Toronto Area, under a 99-year concession agreement.                                                                                              |
| TRANSITNEXT GENERAL PARTNERSHIP ("TransitNEXT")                        | 100%               | Consolidation     | Yes                 | 2019       | 2049                             | Under construction | Designs, builds, finances and maintains the new Trillium Line extension, and also assumes responsibility for the long-term maintenance of the existing Trillium Line, under a 30-year contract.                                                   |
| MYAH TIPAZA S.p.A. ("MYAH TIPAZA")                                     | 25.5%              | Equity            | No                  | 2008       | N/A                              | In operation       | Myah Tipaza owns, operates and maintains a 120,000 m <sup>3</sup> /day seawater desalination plant in Algeria and sells the total capacity of treated water to Sonatrach and l'Algérienne des Eaux ("ADE") under a 25-year take-or-pay agreement. |
| SHARIKET KAHRABA HADJRET EN NOUSS S.p.A. ("SKH")                       | 26%                | Equity            | No                  | 2006       | N/A                              | In operation       | Owns, operates and maintains a 1,227-MW gas-fired thermal power plant in Algeria; the total capacity of electricity is sold to Sonelgaz S.p.A. under a 20-year take-or-pay agreement.                                                             |
| TC DÔME S.A.S. ("TC DÔME")                                             | 51%                | Equity            | Yes                 | 2008       | 2043                             | In operation       | Operates a 5.3-km electric cog railway in France.                                                                                                                                                                                                 |
| HIGHWAY CONCESSIONS ONE PRIVATE LIMITED                                | 10%                | Cost              | N/A                 | 2012       | N/A                              | N/A                | Engages in the business of bidding for, owning, acquiring, investing, developing, implementing and operating infrastructure in the roads sector of India.                                                                                         |
| SIGNATURE ON THE SAINT-LAURENT GROUP GENERAL PARTNERSHIP ("SSL")       | 50%                | Equity            | Yes                 | 2015       | 2049                             | In operation       | Designs, builds, finances, operates and maintains the New Champlain Bridge Corridor project.                                                                                                                                                      |
| CROSSLINX TRANSIT SOLUTIONS GENERAL PARTNERSHIP ("EGLINTON CROSSTOWN") | 25%                | Equity            | Yes                 | 2015       | 2051                             | Under construction | Designs, builds, finances and, once construction is completed, will operate and maintain the Eglinton Crosstown 19-km light rail line.                                                                                                            |
| SNC-LAVALIN INFRASTRUCTURE PARTNERS LP ("PARTNERSHIP")                 | 20%                | Equity            | No                  | 2017       | N/A                              | N/A                | Holds the participations in Rainbow Hospital Partnership, Chinook Roads Partnership, In Transit BC Limited Partnership, Okanagan Lake Concession Limited Partnership and McGill Healthcare Infrastructure Group.                                  |

N/A: not applicable

## HIGHWAY 407 ETR PERFORMANCE SUMMARY

As Highway 407 ETR issues public debt, Highway 407 ETR financial statements, MD&A and other relevant financial materials can be found on [www.sedar.com](http://www.sedar.com), which is the website maintained by the Canadian securities regulators, under the name of 407 International Inc.

On February 19, 2020, Highway 407 ETR announced (at 100% level) revenues of \$1,505.3 million for 2019, compared to \$1,390.3 million for 2018 and reported net income of \$575.7 million for 2019, compared to net income of \$539.0 million for 2018. The Board of Directors of Highway 407 ETR declared an eligible dividend of \$0.403 per common share, payable on or about February 19, 2020 to shareholders of record on February 19, 2020, representing approximately \$21.1 million for the Company.

## ADDITION TO CAPITAL INVESTMENTS IN 2019

### 2019

#### TransitNEXT General Partnership (“TransitNEXT”)

On March 29, 2019, the Company announced that its wholly-owned subsidiary, TransitNEXT General Partnership (“TransitNEXT”), had finalized an agreement on the Trillium Line Extension project with the City of Ottawa. Through TransitNEXT, SNC-Lavalin will design, build, finance and maintain the new extension, and will also assume long-term maintenance of the existing Trillium line. The project, including the long-term cost to maintain and rehabilitate both the existing Trillium Line and its new extension, was valued at \$1.6 billion.

## DISPOSALS OF CAPITAL INVESTMENTS IN 2019 AND 2018

### 2019

#### Highway 407 ETR

On August 15, 2019 SNC-Lavalin announced that it completed the sale of 10.01% of the shares of Highway 407 ETR to a company controlled by CPPIB. At closing and in accordance with the terms and conditions of the agreement, SNC-Lavalin received the base purchase price proceeds of \$3.0 billion, with up to an additional \$250 million contingently payable over a period of 10 years, conditional on the attainment of certain financial thresholds related to the ongoing performance of Highway 407 ETR. This contingent consideration receivable was recognized at \$56.1 million, its estimated fair value at the date of sale. The Company was also entitled to receive additional consideration based on the dividend to be declared in October 2019, for which the fair value was determined at \$12.3 million. SNC-Lavalin recognized a gain before taxes of \$2,970.8 million on this transaction.

SNC-Lavalin’s remaining 6.76% ownership interest in Highway 407 ETR continues to be accounted for under the equity method of accounting.

### 2018

#### McGill Healthcare Infrastructure Group

On June 28, 2018, SNC-Lavalin announced that it had finalized the transfer of its investment in McGill Healthcare Infrastructure Group (“MHIG”) and its holding company to SNC-Lavalin Infrastructure Partners LP (the “SNCL IP Partnership”). This transaction completed the transfer of SNC-Lavalin’s interest in five mature Canadian P3 assets into the SNCL IP Partnership. This transaction resulted in a gain on disposal of \$62.7 million (\$58.4 million after taxes) in the second quarter of 2018.

The SNCL IP Partnership is SNC-Lavalin’s infrastructure investment vehicle, which was established in 2017 to efficiently redeploy capital back into new development opportunities.

#### Astoria Project Partners II LLC

On August 28, 2018, SNC-Lavalin announced that it had reached an agreement to sell its remaining ownership interest in Astoria Project Partners II LLC, the legal entity that owned and operated the Astoria II power plant in New York City. The purchaser, NM Harbert Astoria LLC, is a limited liability company, owned by affiliates of

Northwestern Mutual and Harbert Management Corporation. On October 24, 2018, SNC-Lavalin completed the sale of its ownership interest in Astoria Project Partners II LLC in exchange of total consideration received of US \$41.4 million (CA\$54.1 million), resulting in a gain before taxes of \$4.8 million.

## ADDITIONAL FINANCIAL INFORMATION ON CAPITAL INVESTMENTS

The Company provides additional financial information on its Capital investments to allow the reader to have a better understanding of the financial position, results of operations and cash flows for E&C activities and Capital investments. As such, the following information on the Company's Capital investments is included in the Company's 2019 audited annual consolidated financial statements:

|                                                                     |                                                                                                                                                                                            |
|---------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Consolidated statement of financial position and related notes      | <p>The net book value of Capital investments accounted for by the equity and cost methods, distinctively.</p> <p>Non-recourse debt from Capital investments controlled by the Company.</p> |
| Consolidated statement of cash flows and related notes              | <p>For Capital investments controlled by the Company:</p> <p>Repayment and increase of non-recourse debt from Capital investments.</p>                                                     |
| Other notes to the audited annual consolidated financial statements | <p>Net income attributable to SNC-Lavalin shareholders from Capital investments.</p> <p>Certain other notes provide information regarding Capital investments separately from E&amp;C.</p> |

## 7.2 SNCL PROJECTS

### 7.2.1 – RESOURCES

**Resources** provides a full suite of delivery services to the oil & gas and mining & metallurgy sectors, covering the project lifecycle from project development through project delivery and support services. Resources have ceased bidding for new EPC projects under the LSTK construction contracting model. Resources is now focused on providing engineering, EPCM, project management consultancy (“PMC”), construction & commissioning and technical support services through a lower risk contracting model. The operational delivery is focused on key regions and global clients. The Resources segment derives its revenues from reimbursable and engineering service contracts (2019: 68%; 2018: 61%) and LSTK construction contracts (2019: 32%; 2018: 39%).

| YEARS ENDED DECEMBER 31<br>(IN MILLIONS CA\$) | 2019       | 2018 <sup>(1)</sup> | CHANGE (%) |
|-----------------------------------------------|------------|---------------------|------------|
| Revenues from Resources                       | \$ 2,158.9 | \$ 3,001.4          | (28.1%)    |
| Segment EBIT from Resources                   | \$ (341.5) | \$ (256.6)          | N/A        |
| Segment EBIT over revenues from Resources (%) | (15.8%)    | (8.5%)              |            |
| Backlog at year end                           | \$ 1,380.1 | \$ 1,907.3          | (27.6%)    |

<sup>(1)</sup> Comparative figures have been revised to reflect a change made to the measure of profit or loss for the Company's reportable segments and a change made to the Company's reporting structure. Please refer to Section 13 for further details.

**Resources revenues were \$2,158.9 million in 2019**, compared with \$3,001.4 million in the previous year, mainly attributable to the challenges in replenishing the revenue backlog in the first half of 2019 and the strategic decision announced on July 22, 2019 to stop bidding on LSTK construction contracts, combined with the completion or near completion of certain major LSTK construction contracts and the termination of a major mining and metallurgy project in 2019.

**The major revenue contributors in 2019** included unconventional gas facilities in the Middle East, work on oil and gas infrastructure and processing facilities across the globe, production and processing solutions in the Americas, as well as revenue derived from book and burn service contracts.

**Segment EBIT from Resources was negative \$341.5 million in 2019**, compared with negative \$256.6 million in 2018, mainly due to net unfavorable reforecasts on certain major LSTK construction contracts, a lower level of activity and a lower profitability ratio in 2019, coupled with a net positive impact from certain settlements and reforecasts in 2018. The results for 2019 also reflect continuous challenges from production and processing facilities in the Americas and do not yet include the full benefits from an overall ongoing effort to reduce selling, general and administrative expenses.

The Resources segment has recorded in the first half of 2019 \$243.0 million of negative Segment EBIT. In July 2019, the Company announced its new strategic direction, which included the cessation of bidding for new EPC projects under the LSTK construction contracting model. Since then, losses have decreased and the Company took a further step at the end of 2019 and decided to exit the unprofitable midstream fabrication business, including the compression and production equipment product lines, which were also known under the Valerus brand. The Company continues to explore other options, such as a combination of closures and divestitures and potential transition to a services-based business.

## 7.2.2 – INFRASTRUCTURE EPC PROJECTS

**Infrastructure EPC Projects** includes LSTK construction contracts related to mass transit, heavy rail, roads, bridges, airports, ports and harbours and water infrastructure. In addition, Infrastructure EPC Projects includes the LSTK construction contracts related to the former Clean Power segment, as well as from thermal power activities which the Company exited in 2018. As previously mentioned, the Company decided, in 2019, to cease contracting for new LSTK construction contracts. The Infrastructure EPC Projects segment derives 100% of its revenues from LSTK construction contracts.

| YEARS ENDED DECEMBER 31<br>(IN MILLIONS CA\$)                   | 2019       | 2018 <sup>(1)</sup> | CHANGE (%) |
|-----------------------------------------------------------------|------------|---------------------|------------|
| Revenues from Infrastructure EPC Projects                       | \$ 1,076.7 | \$ 1,296.3          | (16.9%)    |
| Segment EBIT from Infrastructure EPC Projects                   | \$ (106.5) | \$ 19.3             | (651.8%)   |
| Segment EBIT over revenues from Infrastructure EPC Projects (%) | (9.9%)     | 1.5%                |            |
| Backlog at year end                                             | \$ 2,584.5 | \$ 2,600.9          | (0.6%)     |

<sup>(1)</sup> Comparative figures have been revised to reflect a change made to the measure of profit or loss for the Company's reportable segments and a change made to the Company's reporting structure. Please refer to Section 13 for further details.

**Infrastructure EPC Projects revenues were \$1,076.7 million for 2019**, compared with \$1,296.3 million in 2018, as the higher revenues from certain major construction projects was more than offset by the lower level of activity mainly due to the completion or near completion of certain major construction and clean power projects, coupled with no new bidding by the Company in this market.

**The major revenue contributors in 2019** included multiple projects for mass transit systems and general infrastructure projects in Central and Eastern Canada, as well as the construction of a new bridge corridor in Eastern Canada.

**In 2019, Infrastructure EPC Projects Segment EBIT decreased to negative \$106.5 million**, compared with positive \$19.3 million for the corresponding period of 2018. The decrease in Segment EBIT of 2019 is mainly attributable to the net unfavorable reforecasts totaling approximately \$130 million on certain major projects resulting from higher forecasted costs or increased warranty costs as reported in the second quarter of 2019, primarily on two LSTK construction contracts nearing completion and on smaller clean power projects also nearing completion, combined with a lower level of activity.

# 8 Fourth Quarter Results

FOURTH QUARTERS ENDED DECEMBER 31  
(IN MILLIONS CA\$)

|                                                                                             | 2019       | 2018         | CHANGE (%) |
|---------------------------------------------------------------------------------------------|------------|--------------|------------|
| <b>Income Statements</b>                                                                    |            |              |            |
| Revenues                                                                                    | \$ 2,436.1 | \$ 2,562.5   | (4.9%)     |
| Net income (loss) attributable to SNC-Lavalin shareholders:                                 |            |              |            |
| From E&C                                                                                    | (310.4)    | (1,654.3)    | (81.2%)    |
| From Capital                                                                                | 17.5       | 55.6         | (68.5%)    |
| Net loss attributable to SNC-Lavalin shareholders                                           | \$ (292.9) | \$ (1,598.7) | (81.7%)    |
| Adjusted net income (loss) attributable to SNC-Lavalin shareholders from E&C <sup>(1)</sup> | 79.1       | (284.1)      | N/A        |
| Diluted loss per share ("Diluted EPS") (in \$)                                              | \$ (1.67)  | \$ (9.11)    | (81.7%)    |
| Adjusted diluted EPS from E&C (in \$) <sup>(1)</sup>                                        | \$ 0.45    | \$ (1.62)    | N/A        |
| EBIT <sup>(1)</sup>                                                                         | (266.6)    | (1,584.7)    | (83.2%)    |
| EBITDA <sup>(1)</sup>                                                                       | (176.1)    | (256.6)      | (31.4%)    |
| Adjusted E&C EBITDA (% of revenues) <sup>(1)</sup>                                          | 6.9%       | (8.2%)       | N/A        |

<sup>(1)</sup> Non-IFRS financial measure. Please refer to Section 14 for further information on these financial measures and for the reference to the reconciliation from these financial measures to the most directly comparable measure specified under IFRS, when applicable.

- Revenues totalled **\$2,436.1 million in the fourth quarter of 2019**, compared with \$2,562.5 million in the fourth quarter of 2018, mainly reflecting lower revenues in Resources, principally due to the completion or near completion of certain major projects, partially offset by higher revenues in Infrastructure Services and EDPM.
- For the fourth quarter of 2019, net loss attributable to SNC-Lavalin shareholders was **\$292.9 million (\$1.67 per diluted share)**, compared with \$1,598.7 million (\$9.11 per diluted share) for the comparable quarter in 2018, reflecting mainly the impairment of goodwill of \$1.2 billion recognized in the fourth quarter of 2018, a higher Segment EBIT from SNCL Engineering Services in 2019 compared to the corresponding period of 2018 combined with the decrease in corporate selling, general and administrative expenses, lower amortization of intangible assets related to business combinations, lower acquisition-related and integration costs, partly offset by the federal charges settlement (PPSC), combined with a negative Segment EBIT from SNCL Projects in 2019 and higher restructuring costs.
- For the fourth quarter of 2019, adjusted net income attributable to SNC-Lavalin shareholders from E&C was **\$79.1 million (\$0.45 per diluted share)**, compared with an adjusted net loss attributable to SNC-Lavalin shareholders from E&C of \$284.1 million (\$1.62 per diluted share) for the comparable quarter in 2018.
- EBIT, EBITDA and Adjusted E&C EBITDA (% of revenues) have improved in the fourth quarter of 2019 compared to the fourth quarter of 2018, mainly due to the factors described above.

AS AT  
(IN MILLIONS CA\$)

|                             | December 31, 2019 | September 30, 2019 | CHANGE (%) |
|-----------------------------|-------------------|--------------------|------------|
| <b>Additional Indicator</b> |                   |                    |            |
| Cash and cash equivalents   | \$ 1,188.6        | \$ 938.9           | 26.6%      |
| Revenue backlog             | \$ 15,262.5       | \$ 15,632.7        | (2.4%)     |

- At the end of December, 2019, the Company's cash and cash equivalents amounted to **\$1.2 billion**, compared with \$0.9 billion at the end of September, 2019. The increase is mainly attributable to cash generated by operating activities.
- Revenue backlog was **\$15.3 billion as at December 31, 2019**, compared with \$15.6 billion as at September 30, 2019, mostly reflecting a decrease in Resources and Infrastructure Services. The Company's contract bookings during the quarter amounted to \$2.0 billion.

The following table summarizes the Company's revenues and Segment EBIT and reconciles the Segment EBIT to the Company's net income (loss) for the fourth quarters ended December 31, 2019 and 2018.

| FOURTH QUARTERS ENDED DECEMBER 31<br>(IN MILLIONS CA\$)                                         |                   | 2019                           |                                    |                          | 2018 <sup>(1)</sup> |                                |                                    |                          |
|-------------------------------------------------------------------------------------------------|-------------------|--------------------------------|------------------------------------|--------------------------|---------------------|--------------------------------|------------------------------------|--------------------------|
| BY SEGMENT                                                                                      | REVENUES          | SEGMENT<br>EBIT<br>FROM<br>E&C | SEGMENT<br>EBIT<br>FROM<br>CAPITAL | TOTAL<br>SEGMENT<br>EBIT | REVENUES            | SEGMENT<br>EBIT<br>FROM<br>E&C | SEGMENT<br>EBIT<br>FROM<br>CAPITAL | TOTAL<br>SEGMENT<br>EBIT |
| EDPM                                                                                            | \$ 984.0          | \$ 93.4                        | \$ —                               | \$ 93.4                  | \$ 970.8            | \$ 98.7                        | \$ —                               | \$ 98.7                  |
| Nuclear                                                                                         | 250.8             | 45.4                           | —                                  | 45.4                     | 251.7               | 38.5                           | —                                  | 38.5                     |
| Infrastructure Services                                                                         | 338.7             | 20.2                           | —                                  | 20.2                     | 280.4               | 19.3                           | —                                  | 19.3                     |
| Capital                                                                                         | 36.2              | —                              | 31.5                               | 31.5                     | 77.1                | —                              | 62.6                               | 62.6                     |
| <b>Total SNCL Engineering Services</b>                                                          | <b>\$ 1,609.8</b> | <b>\$ 159.0</b>                | <b>\$ 31.5</b>                     | <b>\$ 190.5</b>          | <b>\$ 1,580.0</b>   | <b>\$ 156.5</b>                | <b>\$ 62.6</b>                     | <b>\$ 219.1</b>          |
| Resources                                                                                       | 532.5             | (51.2)                         | —                                  | (51.2)                   | 605.5               | (374.3)                        | —                                  | (374.3)                  |
| Infrastructure EPC Projects                                                                     | 293.8             | 23.4                           | —                                  | 23.4                     | 377.0               | 9.7                            | —                                  | 9.7                      |
| <b>Total SNCL Projects</b>                                                                      | <b>\$ 826.3</b>   | <b>\$ (27.8)</b>               | <b>\$ —</b>                        | <b>\$ (27.8)</b>         | <b>\$ 982.5</b>     | <b>\$ (364.6)</b>              | <b>\$ —</b>                        | <b>\$ (364.6)</b>        |
| <b>Total revenues and Segment EBIT</b>                                                          | <b>\$ 2,436.1</b> | <b>\$ 131.2</b>                | <b>\$ 31.5</b>                     | <b>\$ 162.7</b>          | <b>\$ 2,562.5</b>   | <b>\$ (208.1)</b>              | <b>\$ 62.6</b>                     | <b>\$ (145.5)</b>        |
| Corporate selling, general and administrative expenses and others not allocated to the segments |                   | (21.4)                         | (6.7)                              | (28.0)                   |                     | (54.8)                         | (7.6)                              | (62.4)                   |
| Reversal of impairment loss (Impairment loss) arising from expected credit losses               |                   | 0.5                            | —                                  | 0.5                      |                     | —                              | —                                  | —                        |
| Gain (loss) arising on financial assets (liabilities) at fair value through profit or loss      |                   | 6.0                            | 1.1                                | 7.1                      |                     | (3.0)                          | —                                  | (3.0)                    |
| Net 2012 class action lawsuits settlement expense and related legal costs                       |                   | —                              | —                                  | —                        |                     | (1.4)                          | —                                  | (1.4)                    |
| Restructuring costs                                                                             |                   | (111.4)                        | —                                  | (111.4)                  |                     | (63.8)                         | (0.3)                              | (64.1)                   |
| Acquisition-related costs and integration costs                                                 |                   | (0.1)                          | —                                  | (0.1)                    |                     | (20.8)                         | —                                  | (20.8)                   |
| Amortization of intangible assets related to business combinations                              |                   | (40.0)                         | —                                  | (40.0)                   |                     | (51.6)                         | —                                  | (51.6)                   |
| Gain on disposals of Capital                                                                    |                   | —                              | —                                  | —                        |                     | —                              | 4.8                                | 4.8                      |
| Loss from adjustment on disposals of E&C businesses                                             |                   | (0.1)                          | —                                  | (0.1)                    |                     | (0.2)                          | —                                  | (0.2)                    |
| Impairment of goodwill                                                                          |                   | —                              | —                                  | —                        |                     | (1,240.4)                      | —                                  | (1,240.4)                |
| Federal charges settlement (PPSC)                                                               |                   | (257.3)                        | —                                  | (257.3)                  |                     | —                              | —                                  | —                        |
| <b>EBIT</b>                                                                                     |                   | <b>(292.5)</b>                 | <b>25.9</b>                        | <b>(266.6)</b>           |                     | <b>(1,644.2)</b>               | <b>59.6</b>                        | <b>(1,584.7)</b>         |
| Net financial expenses                                                                          |                   | 20.2                           | 4.4                                | 24.6                     |                     | 40.0                           | 4.3                                | 44.3                     |
| Earnings (loss) before income taxes                                                             |                   | (312.7)                        | 21.5                               | (291.2)                  |                     | (1,684.3)                      | 55.3                               | (1,629.0)                |
| Income taxes                                                                                    |                   | (6.3)                          | 4.0                                | (2.2)                    |                     | (29.9)                         | (0.3)                              | (30.2)                   |
| <b>Net income (loss)</b>                                                                        |                   | <b>\$ (306.5)</b>              | <b>\$ 17.5</b>                     | <b>\$ (289.0)</b>        |                     | <b>\$ (1,654.3)</b>            | <b>\$ 55.6</b>                     | <b>\$ (1,598.8)</b>      |

<sup>(1)</sup> Comparative figures have been revised to reflect a change made to the measure of profit or loss for the Company's reportable segments and a change made to the Company's reporting structure. Please refer to Section 13 for further details.

**E&C total segment EBIT in the fourth quarter of 2019 was \$131.2 million**, compared with a negative segment EBIT of \$208.1 million in the fourth quarter of 2018. The variance is largely attributable to the lower loss in Resources, and an increased contribution from Infrastructure EPC Projects and Nuclear.

The negative Segment EBIT in Resources in the fourth quarter of 2018 included the impact from the under-performance of a major EPC project in mining & metallurgy having a forecasted loss of approximately \$346 million at that time and the unfavorable impact of \$46.6 million related to a preliminary decision of an arbitration process connected to an oil & gas project in Australia.

The corporate selling, general and administrative expenses in the fourth quarter of 2018 included \$25.1 million of GMP equalization costs related to past services in the U.K.

**Segment EBIT from Capital decreased to \$31.5 million in the fourth quarter of 2019**, compared with \$62.6 million in the corresponding period of 2018, mainly due to lower contributions from certain Capital investments, notably from Highway 407 ETR following the disposal of a portion of this investment by the Company in August 2019.

## 9 Liquidity and Capital Resources

This section has been prepared to provide the reader with a better understanding of the major components of the Company's liquidity and capital resources and has been structured as follows:

- A **cash flow analysis**, providing details on how the Company generated and used its cash and cash equivalents;
- A discussion on the Company's **capital structure management** and its **capital resources**;
- A description of the Company's **debt and financing agreements** and its **capital management indicators**;
- An update on the Company's **credit ratings**;
- A review of the Company's **contractual obligations** and **financial instruments**, which provides additional information for a better understanding of the Company's financial situation; and
- The presentation of the Company's **dividends declared** over the past three years.

### 9.1 CASH FLOWS ANALYSIS

#### SUMMARY OF CASH FLOWS

| YEARS ENDED DECEMBER 31<br>(IN MILLIONS CA\$)                                                                   | 2019       | 2018       |
|-----------------------------------------------------------------------------------------------------------------|------------|------------|
| Cash flows generated from (used for):                                                                           |            |            |
| Operating activities                                                                                            | \$ (355.3) | \$ (303.5) |
| Investing activities                                                                                            | 2,718.5    | (45.4)     |
| Financing activities                                                                                            | (1,802.1)  | 269.7      |
| Increase (decrease) in exchange differences on translating cash and cash equivalents held in foreign operations | (6.5)      | 6.7        |
| Net increase (decrease) in cash and cash equivalents                                                            | 554.6      | (72.5)     |
| Cash and cash equivalents at beginning of year                                                                  | 634.1      | 706.6      |
| Cash and cash equivalents at end of year                                                                        | \$ 1,188.6 | \$ 634.1   |

**Cash and cash equivalents increased by \$554.6 million in 2019**, compared with a decrease of \$72.5 million in 2018, as discussed further below.

## OPERATING ACTIVITIES

**Net cash used for operating activities totaled \$355.3 million in 2019**, compared with \$303.5 million in 2018, a variance reconciled as follows:

|                                                                                                                    |                   |
|--------------------------------------------------------------------------------------------------------------------|-------------------|
| (IN MILLIONS CA\$)                                                                                                 |                   |
| Net cash used from operating activities for the year ended December 31, 2018                                       | \$ (303.5)        |
| <b>Changes between the years ended December 31, 2018 and 2019:</b>                                                 |                   |
| Increase in net income                                                                                             | 1,646.9           |
| Decrease in depreciation of property and equipment and amortization of other non-current assets                    | (34.3)            |
| Depreciation of right-of-use assets                                                                                | 112.0             |
| Increase in income taxes recognized in net income                                                                  | 210.3             |
| Increase in net financial expenses recognized in net income                                                        | 44.6              |
| Increase in interest paid                                                                                          | (31.3)            |
| Decrease in share-based expense                                                                                    | (29.5)            |
| Net change in provisions related to forecasted losses on certain contracts                                         | (108.7)           |
| Increase in gain on disposal of Capital investments                                                                | (2,903.2)         |
| Increase in restructuring costs recognized in net income                                                           | 114.2             |
| Increase in restructuring costs paid                                                                               | (70.8)            |
| Impairment of intangible assets related to business combinations                                                   | 72.8              |
| Increase in impairment of goodwill                                                                                 | 560.6             |
| Federal Charges settlement (PPSC)                                                                                  | 257.3             |
| Other items                                                                                                        | (63.8)            |
| Changes in the net cash generated/used by operating activities before net change in non-cash working capital items | (222.9)           |
| Decrease in cash used by the changes in non-cash working capital items                                             | 171.2             |
| <b>Net cash used for operating activities for the year ended December 31, 2019</b>                                 | <b>\$ (355.3)</b> |

- **Net cash used for operating activities before net change in non-cash working capital items totalled \$20.7 million in 2019**, compared with net cash generated from operating activities before net change in working capital items of \$202.2 million in 2018. The variance is mainly explained by the elements in the table above. It should be noted that the net income (loss) of both periods included certain major items that did not have an impact on the Company's operating cash flows, such as the gain on disposal of Capital investments, and the impairment on goodwill.
- As detailed in Note 28B to the Company's 2019 audited annual consolidated financial statements, **changes in non-cash working capital items used net cash of \$334.5 million in 2019**, compared with \$505.7 million in 2018. This difference reflected mainly a favorable variance in contract assets and in other current non-financial liabilities, partly offset by an unfavorable variance in contract liabilities and in trade payables.
- From a business line perspective, SNCL Engineering Services (excluding Capital) generated \$732.6 million of cash from operating activities in 2019 while Capital generated \$196.7 million. During the same period, SNCL Projects used \$731.7 million of cash for operating activities, with the remaining use of cash being related to Corporate activities and to items not allocated to the Company's segments.

## INVESTING ACTIVITIES

**Net cash generated from investing activities amounted to \$2,718.5 million in 2019**, compared with net cash used for investing activities of \$45.4 million in 2018, a variance reconciled as follows:

(IN MILLIONS CA\$)

|                                                                                               |                   |
|-----------------------------------------------------------------------------------------------|-------------------|
| Net cash used for investing activities for the year ended December 31, 2018                   | \$ (45.4)         |
| <b>Changes between the years ended December 31, 2018 and 2019:</b>                            |                   |
| Decrease in acquisitions of property and equipment                                            | 30.5              |
| Payments for Capital investments in 2019                                                      | (40.0)            |
| Change in restricted cash position                                                            | (32.7)            |
| Lower increase in receivables under service concession arrangements, net of recovery          | 39.6              |
| Higher net cash inflow on disposals of Capital investments accounted for by the equity method | 2,920.0           |
| Net cash inflow in 2018 on disposal of a Capital investment accounted for by the cost method  | (51.3)            |
| Higher payments for disposition-related costs on disposals of Capital investments             | (92.9)            |
| Other items                                                                                   | (9.4)             |
| <b>Net cash generated from investing activities for the year ended December 31, 2019</b>      | <b>\$ 2,718.5</b> |

- **In 2019, there was a cash inflow of \$3.0 billion** on disposal by the Company of 10.01% of the shares of Highway 407 ETR. In 2018, there was a net cash inflow of \$92.2 million on the transfer of the investment in MHIG and its holding company to the SNCL IP Partnership. Both transactions are described in Note 5A to the Company's 2019 audited annual consolidated financial statements.
- In 2018, the Company completed the sale of its ownership in Astoria Project Partners II LLC. This resulted in a cash inflow on disposals of Capital investments accounted for by the cost method of \$51.3 million. This transaction is described in Note 5A to the Company's 2019 audited annual consolidated financial statements.
- In 2019 and 2018, a significant portion of the acquisition of property and equipment was related to computer equipment.

## FINANCING ACTIVITIES

**Net cash used for financing activities totaled \$1,802.1 million in 2019**, compared with net cash generated from financing activities of \$269.7 million in 2018, a variance reconciled as follows:

(IN MILLIONS CAS)

|                                                                                    |                     |
|------------------------------------------------------------------------------------|---------------------|
| Net cash generated from financing activities for the year ended December 31, 2018  | \$ 269.7            |
| <b>Changes between the years ended December 31, 2018 and 2019:</b>                 |                     |
| Increase in repayment of recourse debt                                             | (1,211.0)           |
| Lower increase in recourse debt                                                    | (779.1)             |
| Increase in repayment of limited recourse debt                                     | (100.0)             |
| Repayment of lease liabilities in 2019                                             | (119.1)             |
| Decrease in payment of dividends to SNC-Lavalin shareholders                       | 159.4               |
| Lower increase in other non-current financial liabilities                          | (6.6)               |
| Other items                                                                        | (15.4)              |
| <b>Net cash used for financing activities for the year ended December 31, 2019</b> | <b>\$ (1,802.1)</b> |

- The changes in cash flows related to financing activities between 2018 and 2019 were primarily explained by the elements in the table above. Notably, the following transactions on recourse debt, limited recourse and non-recourse debt took place during 2019:
  - The repayment of the balance outstanding on the revolving facility under the Credit Agreement;
  - The repayment of \$600 million of limited recourse debt;
  - The repayment in full of certain debentures maturing in 2019; and
  - The borrowing and repayment in full of \$300 million on a bridge credit facility.
- The repayment of lease liabilities in 2019 results from the change in presentation of a portion of certain lease payments following the adoption of IFRS 16 on January 1, 2019, without restatement of comparative figures.
- The Company also provides a reconciliation between the opening and closing balances in its statement of financial position for liabilities arising from financing activities for the years ended December 31, 2019 and 2018 in Note 28C in its 2019 audited annual consolidated financial statements.
- The Company did not issue and did not repurchase any shares in 2019 (issuance of 66,000 shares under the Company's stock option plan in 2018 for proceeds of \$3.3 million). The number of common shares outstanding as at February 19, 2020 was 175,554,252.
- The dividend paid decreased to \$42.1 million in 2019, from \$201.5 million in 2018, as the Company reduced the amount of dividend per share in order to deleverage and strengthen its balance sheet.

## 9.2 CAPITAL STRUCTURE MANAGEMENT

The Company's sources of funds stem primarily from its operating cash flows from E&C projects and Capital investments, the divestiture of matured Capital investments and non-core assets, the issuance of debt and the additional financial leverage available through the Credit Agreement. The Company's funds are mainly used to meet working capital requirements and sustain capital expenditures on projects, make equity investments, pay dividends to shareholders and complete mergers and acquisitions activities.

SNC-Lavalin's key objectives for its capital allocation framework are:

- To drive organic and inorganic E&C growth;
- Optimize its balance sheet; and
- Return capital to shareholders.

## 9.3 CAPITAL RESOURCES

| AT DECEMBER 31<br>(IN MILLIONS CA\$)                                        | 2019              | 2018              |
|-----------------------------------------------------------------------------|-------------------|-------------------|
| Cash and cash equivalents                                                   | \$ 1,188.6        | \$ 634.1          |
| Unused portion of committed revolving credit facilities <sup>(1), (2)</sup> | 2,411.9           | 2,051.4           |
| <b>Available short-term capital resources</b>                               | <b>\$ 3,600.5</b> | <b>\$ 2,685.5</b> |

<sup>(1)</sup> Including cash draws and letters of credit issued on a committed basis, but excluding bilateral letters of credit that can be issued on a non-committed basis.

<sup>(2)</sup> Before considering potential limitations resulting from contractual covenants.

As at December 31, 2019, the Company has a committed revolving facility of \$2,600 million (December 31, 2018: \$2,600 million), of which \$2,411.9 million was unused as at December 31, 2019 (December 31, 2018: \$2,051.4 million), and uncommitted credit facilities by way of bilateral letters of credit. The increase in cash and cash equivalents as at December 31, 2019 compared with the previous year is explained in Section 9.1.

While liquidity remains subject to numerous risks and limitations, including but not limited to the risks described under Section 15 "Risks and Uncertainties" and in this Section, the Company believes that its current liquidity position, including its cash position, unused credit capacity and cash generated from its operations, should be sufficient to fund its operations over the foreseeable future. Due to the nature of the Company's activities and the fact that its operations are conducted through multiple entities and joint arrangements on an international level, the Company's cash and cash equivalents are distributed across numerous locations. In order to manage its cash needs and reserves, the Company is part of various cash pooling agreements with financial institutions and may transfer cash balances between subsidiaries, joint arrangements or investees or use credit facilities to meet the capital requirements of certain projects or other cash disbursements.

## 9.4 DEBT AND FINANCING AGREEMENTS

### NON-RECOURSE AND LIMITED RECOURSE DEBT

The Company does not consider non-recourse and limited recourse debt when monitoring its capital because such debt results from the consolidation of certain Capital investments or holding entities held by the Company. As such, the lenders of such debt do not have recourse to the general credit of the Company, but rather to the specific assets of the Capital investments or investment in Capital investments they finance. The Company's investments and underlying assets in its Capital investments accounted for by the consolidation or equity methods may be at risk, however, if such investments or holding entities were unable to repay their long-term debt.

### AMENDMENTS TO THE SNC-LAVALIN HIGHWAY HOLDINGS LOAN AGREEMENT AND TO THE CREDIT AGREEMENT

On February 1, 2019, the Company amended the Credit Agreement, modifying the definition of EBITDA to provide that losses related to EPC contracts in Mining & Metallurgy, a segment of the Company at that time, be considered as non-recurring items, up to an amount of \$310 million. The Credit Agreement was also amended to

provide that the net recourse debt to EBITDA ratio calculation be temporarily increased to 4x. It should be noted that the ratio calculation in the Credit Agreement excludes interest and depreciation and amortization resulting from the adoption of IFRS 16, *Leases*. In the third quarter of 2019, the Company and its lenders amended the Credit Agreement to extend the temporary increase in the net recourse debt to EBITDA ratio to 4x from June 30, 2019 to December 31, 2019.

In the second quarter of 2019, the Company and CDPQ Revenu Fixe Inc. ("CDPQ RF") renegotiated certain terms of the SNC-Lavalin Highway Holdings Loan Agreement, which included, among others, the following amendments:

- modification to the net recourse debt to EBITDA ratio covenant to align it with the Credit Agreement and extend the application of such covenant from March 31, 2019 to June 30, 2019;
- following the then expected disposal by the Company of 10.01% of the shares of Highway 407 ETR, the Company committed to repay an amount of \$600 million out of \$1 billion outstanding under tranche A of the CDPQ Loan; and
- decrease of the margin applicable to the base rate and payment by the Company of fees of \$15 million.

On October 15, 2019 and similar to the last amendments to the Credit Agreement, the SNC-Lavalin Highway Holdings Loan Agreement was also amended to extend the temporary increase in the net recourse debt to EBITDA ratio to 4x from June 30, 2019 to December 31, 2019.

As at December 31, 2019, the net recourse debt to EBITDA ratio in accordance with the terms of the Company's Credit Agreement, as amended, was 2.1x.

The terms "net recourse debt" and "EBITDA" are defined in the Credit Agreement and in the SNC-Lavalin Highway Holdings Loan Agreement and do not correspond to the specific terms used in this MD&A. Furthermore, such ratio is calculated using certain financial information not disclosed in the Company's annual audited consolidated financial statements or annual MD&A. For example, the ratio includes the amount of downpayments on contracts totaling \$322.4 million as at December 31, 2019 (December 31, 2018: \$340.2 million) and the amount of financial letters of credit outstanding totaling \$259.6 million as at December 31, 2019 (December 31, 2018: \$255.4 million) as part of the net recourse debt calculation.

## 9.5 CAPITAL MANAGEMENT INDICATORS

The Company periodically monitors capital using certain ratios, which are described further below.

### NET RECOURSE DEBT

Net recourse debt (or Cash net of recourse debt) is a non-IFRS financial measure. A definition of this financial measure is provided in Section 14.

| AT DECEMBER 31<br>(IN MILLIONS OF CA\$)                                                    | 2019          | 2018                | 2017              |
|--------------------------------------------------------------------------------------------|---------------|---------------------|-------------------|
| Cash and cash equivalents                                                                  | \$ 1,188.6    | \$ 634.1            | \$ 706.5          |
| Less:                                                                                      |               |                     |                   |
| Cash and cash equivalents of Capital investments accounted for by the consolidation method | 8.3           | 3.3                 | 1.8               |
| Recourse debt <sup>(1)</sup> :                                                             |               |                     |                   |
| Revolving facility                                                                         | —             | 466.9               | 318.8             |
| Term Loan                                                                                  | 499.1         | 498.8               | —                 |
| Series 2 Debentures                                                                        | —             | 149.9               | —                 |
| Series 3 Debentures                                                                        | 174.7         | 174.5               | —                 |
| Series 4 Debentures                                                                        | 199.3         | 199.1               | —                 |
| Series 5 Debentures                                                                        | —             | 149.9               | —                 |
| Term facility                                                                              | —             | —                   | 378.4             |
| 2019 Debentures                                                                            | —             | 349.9               | 349.6             |
| 2020 Debentures                                                                            | 299.5         | 299.0               | 298.8             |
| <b>Cash net of recourse debt (Net recourse debt)</b>                                       | <b>\$ 7.7</b> | <b>\$ (1,657.2)</b> | <b>\$ (640.8)</b> |

<sup>(1)</sup> Refer to Note 20 to the Company's 2019 annual audited consolidated financial statements for a description of each debt instrument.

- **Cash net of recourse debt as at December 31, 2019 was \$7.7 million**, compared with Net recourse debt of \$1,657.2 million as at December 31, 2018, mainly resulting from the receipt of \$3.0 billion cash proceeds from the disposal by the Company of 10.01% of the shares of Highway 407 ETR in August 2019. The decrease in recourse debt reflects the repayment of the balance outstanding on the revolving facility under the Credit Agreement, and the repayment in full of certain debentures maturing in 2019.

## RETURN ON AVERAGE SHAREHOLDERS' EQUITY ("ROASE")

**ROASE is a non-IFRS financial measure.** A definition of this financial measure is provided in Section 14. **ROASE was 9.9% for 2019**, compared with -28.2% for 2018 and 9.5% for 2017.

## 9.6 CREDIT RATING

On August 19, 2019, S&P downgraded the Company's rating to BB+ from BBB- and maintained its negative outlook. The downgrade primarily reflects the significant losses realized on LSTK construction contracts year-to-date. The negative outlook primarily reflects uncertainty in the Company's ability to recover earnings and cash flow so that the adjusted debt-to-EBITDA ratio, as per S&P's methodology, returns below 3x by 2020.

On July 24, 2019, DBRS issued a rating report downgrading the Company to BBB (low) from BBB and changed the trend to negative from stable. The downgrade reflects considerably weaker than anticipated Q2 2019 results, which DBRS estimated would reduce 2019 forecast earnings resulting in a slower recovery of the Company's financial metrics.

## 9.7 CONTRACTUAL OBLIGATIONS AND FINANCIAL INSTRUMENTS

### CONTRACTUAL OBLIGATIONS

In the normal course of business, SNC-Lavalin has various contractual obligations. The following table provides a summary of SNC-Lavalin's future contractual commitments specifically related to short-term debt and long-term debt repayments, commitments to invest in Capital investments and lease liabilities:

| (IN MILLIONS CA\$)                                                                       | 2020            | 2021-2022       | 2023-2024         | THEREAFTER      | TOTAL             |
|------------------------------------------------------------------------------------------|-----------------|-----------------|-------------------|-----------------|-------------------|
| Short-term debt, long-term debt repayments, commitments to invest and lease liabilities: |                 |                 |                   |                 |                   |
| Recourse                                                                                 | \$ 300.0        | \$ 175.0        | \$ 700.0          | \$ —            | \$ 1,175.0        |
| Limited recourse                                                                         | —               | —               | 400.0             | —               | 400.0             |
| Non-recourse                                                                             | 95.2            | 121.8           | 65.4              | 215.2           | 497.6             |
| Commitments to invest in Capital investments                                             | 70.7            | —               | —                 | —               | 70.7              |
| Lease liabilities                                                                        | 154.4           | 212.4           | 134.0             | 255.6           | 756.4             |
| <b>Total</b>                                                                             | <b>\$ 620.3</b> | <b>\$ 509.2</b> | <b>\$ 1,299.4</b> | <b>\$ 470.8</b> | <b>\$ 2,899.7</b> |

Additional details of the future principal repayments of the Company's recourse and non-recourse short-term debt and long-term debt are provided in Note 20D to the Company's 2019 audited annual consolidated financial statements. The commitments to invest in Capital investments result from SNC-Lavalin not being required to make its contribution immediately when investing, but instead contributing over time, as detailed in Note 5C to the Company's 2019 audited annual consolidated financial statements. At December 31, 2019, the commitments to invest in Capital investments were related to contributions for SSL, Eglinton Crosstown and Carlyle Global Infrastructure Opportunity Fund, L.P. (2018: Rideau, SSL, Eglinton Crosstown and Carlyle Global Infrastructure Opportunity Fund, L.P.) and were presented as "Other current financial liabilities" (see Note 18 to the Company's 2019 audited annual consolidated financial statements) since they are either expected to be paid in the following year or are callable on demand. Information regarding the Company's lease liabilities can be obtained in Note 34 to the Company's 2019 audited annual consolidated financial statements.

In 2016, SNC-Lavalin signed an agreement to support a commitment of US\$100 million to a fund focused on global infrastructure investments sponsored by The Carlyle Group ("Carlyle"), subject to certain conditions. The intent of this agreement is for SNC-Lavalin and Carlyle to cooperate with respect to investments in, and work on, infrastructure projects. Such commitment to invest amounted to US\$89.3 million (approximately CA\$117.2 million) as at December 31, 2019 (2018: US\$92.5 million [approximately CA\$126.0 million]) and will be recognized as a liability, as a whole or in part, when the accounting conditions will be met.

## FINANCIAL INSTRUMENTS

The Company discloses information on the classification and fair value of its financial instruments, as well as on the nature and extent of risks arising from financial instruments, and related risk management in Note 30 to the Company's 2019 audited annual consolidated financial statements.

| Derivative financial instruments                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| SNC-Lavalin enters or may enter into derivative financial instruments, namely:                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                               |
| <ul style="list-style-type: none"> <li>Forward currency exchange contracts to hedge its exposure to fluctuations in foreign currency exchange rates;</li> <li>Interest-rate swaps to hedge the variability of interest rates relating to financing arrangements;</li> <li>Derivative financial instruments to limit its exposure to the variability of the fair value of the share units awarded as part of share unit plans, which fluctuates according to the Company's share price; and</li> <li>Commodity swap agreements for certain contracts to hedge the variability of commodity prices.</li> </ul> |
| Refer to Note 30 to the Company's 2019 audited annual consolidated financial statements for further details.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 |
| All financial instruments are entered into with sound financial institutions, which SNC-Lavalin anticipates will satisfy their obligations under the contracts.                                                                                                                                                                                                                                                                                                                                                                                                                                              |

The derivative financial instruments are subject to normal credit terms and conditions, financial controls and management and risk monitoring procedures.

## 9.8 DIVIDENDS DECLARED

The table below summarizes the dividends declared for each of the past three years:

| YEARS ENDED DECEMBER 31<br>(IN CA\$)                                    | 2019     | 2018     | 2017     |
|-------------------------------------------------------------------------|----------|----------|----------|
| Dividends per share declared to SNC-Lavalin shareholders <sup>(1)</sup> | \$ 0.160 | \$ 0.961 | \$ 1.106 |
| Dividend increase (decrease) (%)                                        | (83%)    | (13%)    | 5%       |

<sup>(1)</sup> The dividends declared are classified in the period for which the financial results are publicly announced, notwithstanding the declaration or payment date.

**Total cash dividends paid in 2019 were \$42.1 million**, compared with \$201.5 million in 2018. The Company has paid quarterly dividends for 30 consecutive years. The Board of Directors of the Company determines the dividend policy.

# 10 Financial Position

## 10.1 CONSOLIDATED FINANCIAL POSITION ANALYSIS

### ASSETS

| AT DECEMBER 31<br>(IN MILLIONS CA\$)                                     | 2019               | 2018              | CHANGE (\$)        | EXPLANATIONS                                                                                                                                                                                                     |
|--------------------------------------------------------------------------|--------------------|-------------------|--------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Current Assets</b>                                                    |                    |                   |                    |                                                                                                                                                                                                                  |
| Cash and cash equivalents                                                | \$ 1,188.6         | \$ 634.1          | \$ 554.6           | See discussion in Section 9.1.                                                                                                                                                                                   |
| Restricted cash                                                          | 34.1               | 12.7              | 21.4               | Increase in restricted cash mainly from a certain Capital investment.                                                                                                                                            |
| Trade receivables                                                        | 1,533.4            | 1,503.8           | 29.6               | Increase is mainly due to variation on multiple projects.                                                                                                                                                        |
| Contract assets                                                          | 1,755.3            | 1,751.1           | 4.3                | Not a significant change compared with prior year.                                                                                                                                                               |
| Inventories                                                              | 84.9               | 104.2             | (19.3)             | Variation mainly due to a \$31.7 million write-down of inventories in 2019 (refer to Section 4.2.6).                                                                                                             |
| Other current financial assets                                           | 222.3              | 247.3             | (25.0)             | Decrease is mainly due to a decrease in fair value of favorable derivative financial instruments, partly offset by an increase in advances to suppliers, subcontractors and employees and deposits on contracts. |
| Other current non-financial assets                                       | 331.4              | 404.8             | (73.4)             | Decrease is due to a decrease in both taxes receivable and prepaid expenses.                                                                                                                                     |
| <b>Total current assets</b>                                              | <b>\$ 5,150.1</b>  | <b>\$ 4,658.0</b> | <b>\$ 492.1</b>    |                                                                                                                                                                                                                  |
| Property and equipment                                                   | \$ 470.6           | \$ 482.6          | \$ (12.0)          | Property and equipment is in line with prior year.                                                                                                                                                               |
| Right-of-use-assets                                                      | 438.8              | —                 | 438.8              | Right-of-use assets arising from the implementation of IFRS 16 on January 1, 2019.                                                                                                                               |
| Capital investments accounted for by the equity method                   | 399.5              | 357.2             | 42.3               | Increase is due to income exceeding dividends received in 2019, revaluation gain and foreign exchange currency translation.                                                                                      |
| Capital investments accounted for by the cost method                     | 8.1                | 10.7              | (2.6)              | Not a significant change compared with prior year.                                                                                                                                                               |
| Goodwill                                                                 | 3,429.1            | 5,369.7           | (1,940.6)          | Decrease is mainly due to the impairment of goodwill related to the Resources CGU, as well as foreign currency translation.                                                                                      |
| Intangible assets related to business combinations                       | 665.6              | 920.6             | (255.0)            | Decrease is primarily due to the amortization expense of 2019 and the impairment of intangible assets related to Resources.                                                                                      |
| Deferred income tax asset                                                | 520.5              | 652.2             | (131.7)            | Decrease is mainly due to decrease of unused tax losses.                                                                                                                                                         |
| Non-current portion of receivables under service concession arrangements | 353.0              | 327.3             | 25.7               | Increase is mainly due to progress of the construction phase of a service concession arrangement.                                                                                                                |
| Other non-current financial assets                                       | 115.9              | 30.0              | 85.9               | Increase is mainly due to the contingent consideration receivable related to the sale of 10.01% of the shares of Highway 407 ETR.                                                                                |
| Other non-current non-financial assets                                   | 93.5               | 131.4             | (37.9)             | Decrease is mainly due to certain E&C investments accounted for by the equity method.                                                                                                                            |
| <b>Total assets</b>                                                      | <b>\$ 11,644.7</b> | <b>\$12,939.7</b> | <b>\$(1,295.0)</b> |                                                                                                                                                                                                                  |

## LIABILITIES

| AT DECEMBER 31<br>(IN MILLIONS CA\$)                   | 2019              | 2018              | CHANGE (\$)        | EXPLANATIONS                                                                                                                                                                                                                                     |
|--------------------------------------------------------|-------------------|-------------------|--------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Current Liabilities</b>                             |                   |                   |                    |                                                                                                                                                                                                                                                  |
| Trade payables                                         | \$ 2,153.5        | \$ 2,352.9        | \$ (199.4)         | Variation is principally attributable to multiple projects.                                                                                                                                                                                      |
| Contract liabilities                                   | 890.0             | 973.0             | (83.0)             | Variation is principally attributable to multiple projects.                                                                                                                                                                                      |
| Other current financial liabilities                    | 287.7             | 298.7             | (11.0)             | Variation is due to a decrease in liability from derivative financial instruments and in commitments to invest in certain Capital investments, partly offset by the current portion of the federal charges settlement (PPSC) recognized in 2019. |
| Other current non-financial liabilities                | 383.2             | 424.9             | (41.7)             | Variance mainly reflects a decrease in share unit plan liabilities and a decrease in income taxes payable.                                                                                                                                       |
| Current portion of provisions                          | 289.2             | 381.8             | (92.6)             | Refer to Note 22 to the 2019 audited annual consolidated financial statements of the Company for details.                                                                                                                                        |
| Current portion of lease liabilities                   | 131.1             | —                 | 131.1              | Current portion of lease liabilities arising from the implementation of IFRS 16 on January 1, 2019.                                                                                                                                              |
| Short-term debt and current portion of long-term debt: |                   |                   |                    |                                                                                                                                                                                                                                                  |
| Recourse                                               | 299.5             | 1,116.6           | (817.1)            | Decrease is mainly due to the repayment of borrowings made under the revolving facility, as well as certain debt instruments that were repaid in full at maturity in 2019, partly offset by certain debentures maturing in 2020.                 |
| Non-recourse                                           | 93.7              | 60.2              | 33.5               | Increase mainly due to the credit facility of InPower BC.                                                                                                                                                                                        |
| <b>Total current liabilities</b>                       | <b>\$ 4,527.9</b> | <b>\$ 5,608.1</b> | <b>\$(1,080.2)</b> |                                                                                                                                                                                                                                                  |
| Long-term debt:                                        |                   |                   |                    |                                                                                                                                                                                                                                                  |
| Recourse                                               | \$ 873.1          | \$ 1,171.4        | \$ (298.3)         | Decrease mainly due to the maturity of certain debentures in 2020 now presented in the current portion of recourse debt.                                                                                                                         |
| Limited recourse                                       | 400.0             | 980.3             | (580.3)            | Decrease mainly due to the \$600 million repayment on the CDPQ Loan in 2019.                                                                                                                                                                     |
| Non-recourse                                           | 391.5             | 339.5             | 51.9               | Increase is mostly due to the credit facility of TransitNext.                                                                                                                                                                                    |
| Other non-current financial liabilities                | 232.6             | 53.5              | 179.1              | Increase mainly due to the non-current portion of the federal charges settlement (PPSC) recognized in 2019.                                                                                                                                      |
| Non-current portion of provisions                      | 672.1             | 706.4             | (34.3)             | Refer to Note 22 to the 2019 audited annual consolidated financial statements of the Company for details.                                                                                                                                        |
| Non-current portion of lease liabilities               | 480.7             | —                 | 480.7              | Non-current portion of lease liabilities arising from the implementation of IFRS 16 on January 1, 2019.                                                                                                                                          |
| Other non-current non-financial liabilities            | 0.6               | 61.5              | (61.0)             | Decrease mainly due to reclassification of non-current deferred lease incentives and deferred rent upon adoption of IFRS 16 on January 1, 2019.                                                                                                  |
| Deferred income tax liability                          | 348.9             | 363.1             | (14.2)             | Deferred income tax liabilities in line with prior year.                                                                                                                                                                                         |
| <b>Total liabilities</b>                               | <b>\$ 7,927.3</b> | <b>\$ 9,283.8</b> | <b>\$(1,356.5)</b> |                                                                                                                                                                                                                                                  |

## EQUITY

| AT DECEMBER 31<br>(IN MILLIONS CA\$)                   | 2019              | 2018              | CHANGE (\$)    | EXPLANATIONS                                                                                                                                                               |
|--------------------------------------------------------|-------------------|-------------------|----------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Share capital                                          | \$ 1,805.1        | \$ 1,805.1        | \$ —           | Share capital in line with prior year.                                                                                                                                     |
| Retained earnings                                      | 1,555.9           | 1,346.6           | 209.2          | The increase was mainly attributable to the 2019 results, partially offset by transitional adjustments on adoption of a new accounting standard and by dividends declared. |
| Other components of equity                             | 354.1             | 499.2             | (145.1)        | The decrease was largely due to exchange differences on translating foreign operations.                                                                                    |
| <b>Equity attributable to SNC-Lavalin shareholders</b> | <b>\$ 3,715.0</b> | <b>\$ 3,650.9</b> | <b>\$ 64.1</b> |                                                                                                                                                                            |
| Non-controlling interests                              | 2.4               | 5.0               | (2.5)          | Not a significant balance.                                                                                                                                                 |
| <b>Total Equity</b>                                    | <b>\$ 3,717.4</b> | <b>\$ 3,655.9</b> | <b>\$ 61.6</b> |                                                                                                                                                                            |

## WORKING CAPITAL

| AT DECEMBER 31<br>(IN MILLIONS CA\$, EXCEPT CURRENT RATIO) | 2019     | 2018       | CHANGE (\$) | EXPLANATIONS                                                                                                                                                                                                          |
|------------------------------------------------------------|----------|------------|-------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Working Capital <sup>(1)</sup>                             | \$ 622.2 | \$ (950.1) | \$ 1,572.3  | Increase is mainly due to the decrease of current liabilities, reflecting a lower level of short-term recourse debt and of the current portion of recourse debt, as well as an increase in cash and cash equivalents. |
| Current Ratio <sup>(1)</sup>                               | 1.14     | 0.83       | 0.31        |                                                                                                                                                                                                                       |

<sup>(1)</sup> Additional IFRS financial measures. Please refer to Section 14 for further information on these financial measures.

# 11

## Related Party Transactions

The Company discloses information on its related party transactions, as defined in IAS 24, *Related party disclosures*, in Note 36 to its 2019 annual audited consolidated financial statements.

In addition to its transactions concluded in the normal course of its operations, SNC-Lavalin transferred its investment in MHIG and its holding company to an investment accounted for by the equity method, namely the SNCL IP Partnership, which resulted in a gain on disposal of \$62.7 million before income taxes (\$58.4 million after income taxes) in 2018. Refer to Section 7.1.4 Capital – Disposals of Capital Investments – 2018 – McGill Healthcare Infrastructure Group.

In the second quarter of 2019, the Company and CDPQ renegotiated certain terms of the CDPQ Loan. Refer to Section 9.4 - Debt and Financing Agreements - Amendments to the SNC-Lavalin Highway Holdings Loan Agreement and to the Credit Agreement.

# 12

## Critical Accounting Judgments and Key Sources of Estimation Uncertainty

In the application of the Company's accounting policies, which are described in Note 2 to the Company's 2019 audited annual consolidated financial statements, management is required to make judgments, estimates, and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and underlying assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

Critical accounting judgments and key estimates concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are described in detail in Note 3 to the Company's 2019 audited annual consolidated financial statements.

# 13 Accounting Policies and Changes

Please refer to Note 2 of the Company's 2019 audited annual consolidated financial statements for more information regarding the Company's significant accounting policies and changes, including the changes made to its segment disclosure in 2019, with restatement of comparative figures.

As supplementary information, in 2019, the Company adopted IFRS 16, *Leases*, using the modified retrospective approach. As such, comparative figures were not restated. Under IFRS 16, the accounting for lease contracts gives rise to depreciation and interest expenses, rather than operating expenses for a portion of the lease payments. Although the total expense recognized under IFRS 16 in a given period is not equal to the expense recognized in the same period under the previous standard on leases, the classification of the expense had the following impact (excluding potential timing differences) on the Company's EBIT and EBITDA:

| YEARS ENDED DECEMBER 31<br>(IN MILLIONS CA\$)                           | 2019                |                   |                   | 2018                |                 |                     |
|-------------------------------------------------------------------------|---------------------|-------------------|-------------------|---------------------|-----------------|---------------------|
|                                                                         | FROM E&C            | FROM CAPITAL      | TOTAL             | FROM E&C            | FROM CAPITAL    | TOTAL               |
| EBIT as reported <sup>(1)</sup>                                         | \$ (2,441.9)        | \$ 3,183.3        | \$ 741.4          | \$ (1,424.5)        | \$ 264.1        | \$ (1,160.4)        |
| Interest expense on lease liabilities                                   | 23.4                | 0.2               | 23.6              | —                   | —               | —                   |
| <b>EBIT excluding presentation impact from IFRS 16 <sup>(1)</sup></b>   | <b>\$ (2,465.3)</b> | <b>\$ 3,183.1</b> | <b>\$ 717.8</b>   | <b>\$ (1,424.5)</b> | <b>\$ 264.1</b> | <b>\$ (1,160.4)</b> |
| EBITDA as reported <sup>(1)</sup>                                       | (166.0)             | 3,183.5           | 3,017.5           | 140.5               | 264.1           | 404.6               |
| Interest expense on lease liabilities                                   | 23.4                | 0.2               | 23.6              | —                   | —               | —                   |
| Depreciation and amortization of right-of-use assets                    | 111.8               | 0.2               | 112.0             | —                   | —               | —                   |
| <b>EBITDA excluding presentation impact from IFRS 16 <sup>(1)</sup></b> | <b>\$ (301.3)</b>   | <b>\$ 3,183.1</b> | <b>\$ 2,881.9</b> | <b>\$ 140.5</b>     | <b>\$ 264.1</b> | <b>\$ 404.6</b>     |

<sup>(1)</sup> Non-IFRS financial measures or additional IFRS measures. Please refer to Section 14 for further information on these financial measures and for the reference to the reconciliation from these financial measures to the most directly comparable measure specified under IFRS, when applicable.

## 14

# Non-IFRS Financial Measures and Additional IFRS Measures

The following section provides information regarding non-IFRS financial measures and additional IFRS measures used by the Company to analyze and evaluate its results. Non-IFRS financial measures do not have any standardized meaning under IFRS and therefore may not be comparable to similar measures presented by other issuers. Management believes that, in addition to conventional measures prepared in accordance with IFRS, these non-IFRS measures provide additional insight into the Company's financial results and certain investors may use this information to evaluate the Company's performance from period to period. However, these non-IFRS financial measures have limitations and should not be considered in isolation or as a substitute for measures of performance prepared in accordance with IFRS.

## 14.1 Performance

**Adjusted diluted earnings per share from E&C ("Adjusted diluted EPS from E&C")** is defined as adjusted net income from E&C, divided by the diluted weighted average number of outstanding shares for the period. Adjusted diluted EPS from E&C is a non-IFRS financial measure that is an indicator of the financial performance of the Company's E&C activities. Refer to **Section 14.3** for the reconciliation of Adjusted diluted EPS from E&C to net income as determined under IFRS.

**Adjusted EBITDA** is defined as earnings before net financial expenses (income), income taxes, depreciation and amortization, and excludes charges related to restructuring, right-sizing and other, the acquisition-related costs and integration costs, the net expense for the 2012 class action lawsuits settlement, and related legal costs, the federal charges settlement (PPSC) expense, the GMP equalization expense, as well as the gains (losses) on disposals of E&C businesses and Capital investments. Refer to **Section 14.3** for a reconciliation of adjusted EBITDA to net income as determined under IFRS.

**Adjusted net income (loss) from E&C** is defined as net income (loss) attributable to SNC-Lavalin shareholders from E&C, excluding charges related to restructuring, right-sizing and other, acquisition-related costs and integration costs, as well as amortization of intangible assets related to business combinations, impairment of goodwill, impairment of intangible assets related to business combinations, the net expense for the 2012 class action lawsuits settlement and related legal costs, the federal charges settlement (PPSC) expense, the GMP equalization expense, the gains (losses) on disposals of E&C businesses, the impact of U.S corporate tax reform and the incremental financing costs related to the amendments to the CDPQ Loan and other E&C financing arrangements in connection with the sale by the Company of 10.01% of the shares of Highway 407 ETR. Adjusted net income (loss) from E&C is a non-IFRS financial measure that is an indicator of the financial performance of the Company's E&C activities. Refer to **Section 14.3** for a reconciliation of adjusted net income (loss) from E&C to net income as determined under IFRS.

**Booking-to-revenue ratio** corresponds to contract bookings divided by the revenues, for a given period. This measure provides a basis for assessing the renewal of business.

**Diluted earnings per share from E&C** and **Diluted earnings per share from Capital** correspond to diluted earnings per share as determined under IFRS, reported separately for E&C and for Capital.

**EBIT** is an indicator of the entity's capacity to generate earnings from operations before taking into account management's financing decisions. Accordingly, EBIT is defined as earnings before net financial expenses (income) and income taxes. Refer to **Section 14.3** for a reconciliation of EBIT to net income as determined under IFRS.

**EBITDA** is defined as earnings before net financial expenses (income), income taxes, depreciation and amortization. Refer to **Section 14.3** for a reconciliation of EBITDA to net income as determined under IFRS.

**Return on Average Shareholders' Equity ("ROASE")** corresponds to the trailing 12-month net income attributable to SNC-Lavalin shareholders, divided by a trailing 13-month average equity attributable to SNC-Lavalin shareholders, excluding "other components of equity". The Company excludes "other components of equity" because this element of equity results in part from the translation into Canadian dollars of its foreign operations having a different functional currency, and from the accounting treatment of cash flow hedges, including its accumulated share of other comprehensive income of investments accounted for by the equity method. These amounts are not representative of the way the Company evaluates the management of its foreign currency risk and interest risk. Accordingly, the "other components of equity" are not representative of the Company's financial position.

**Segment EBIT** consists of revenues less i) direct cost of activities, ii) directly related selling, general and administrative expenses, and iii) corporate selling, general and administrative expenses that are allocated to segments. Expenses that are not allocated to the Company's segments include: certain corporate selling, general and administrative expenses that are not directly related to projects or segments, impairment loss arising from expected credit losses, gain (loss) arising on financial assets (liabilities) at fair value through profit or loss, restructuring costs, impairment of goodwill, impairment of intangible assets related to business combinations, acquisition-related costs and integration costs, amortization of intangible assets related to business combinations, the net expense for the 2012 class action lawsuits settlement and related legal costs, the federal charges settlement (PPSC) expense, and the GMP equalization expense, as well as gains (losses) on disposals of E&C businesses and Capital investments. See reconciliation of Segment EBIT to the most directly comparable IFRS measure in **Section 4.2**.

## 14.2 Liquidity

**Net recourse debt (or Cash net of recourse debt)** corresponds to cash and cash equivalents, less cash and cash equivalents from Capital investments accounted for by the consolidation method and the Company's recourse debt. Refer to **Section 9.5** for a reconciliation of net recourse debt (or cash net of recourse debt) to cash and cash equivalents as determined under IFRS.

**Working capital** corresponds to the amount of the Company's total current assets minus its total current liabilities and the **Current ratio** corresponds to the Company's total current assets divided by its total current liabilities.

### 14.3 Reconciliations

The tables below provide a quantitative reconciliation between certain non-IFRS measures to the most comparable measure specified under IFRS.

| YEARS ENDED DECEMBER 31<br>(IN MILLIONS CA\$, EXCEPT PER DILUTED SHARE INFORMATION [\$])                                    |  | 2019                |                      | 2018                |                      |
|-----------------------------------------------------------------------------------------------------------------------------|--|---------------------|----------------------|---------------------|----------------------|
|                                                                                                                             |  |                     | PER<br>DILUTED SHARE |                     | PER<br>DILUTED SHARE |
| Net income (loss)                                                                                                           |  | \$ 330.6            | N/A                  | \$ (1,316.3)        | N/A                  |
| Less:                                                                                                                       |  |                     |                      |                     |                      |
| Non-controlling interests                                                                                                   |  | 2.4                 | N/A                  | 0.6                 | N/A                  |
| Net income attributable to SNC-Lavalin shareholders from Capital                                                            |  | 2,772.8             | 15.79                | 246.1               | 1.40                 |
| <b>Net income (loss) attributable to SNC-Lavalin shareholders from E&amp;C / Diluted EPS from E&amp;C</b>                   |  | <b>\$ (2,444.6)</b> | <b>\$ (13.92)</b>    | <b>\$ (1,563.0)</b> | <b>\$ (8.90)</b>     |
| Adjustments (net of income taxes):                                                                                          |  |                     |                      |                     |                      |
| Restructuring, right-sizing costs and other <sup>(1)</sup>                                                                  |  | \$ 154.0            | \$ 0.88              | \$ 58.7             | \$ 0.33              |
| Acquisition-related costs and integration costs                                                                             |  | 5.9                 | 0.03                 | 42.8                | 0.24                 |
| Amortization of intangible assets related to business combinations                                                          |  | 148.3               | 0.85                 | 171.1               | 0.97                 |
| Federal charges settlement (PPSC)                                                                                           |  | 257.3               | 1.47                 | —                   | —                    |
| Net 2012 class action lawsuits settlement expense and related legal costs                                                   |  | —                   | —                    | 65.7                | 0.37                 |
| Loss from adjustment on disposals of E&C businesses                                                                         |  | 0.3                 | —                    | 0.5                 | —                    |
| Financing costs related to the agreement to sell shares of Highway 407 ETR                                                  |  | 27.4                | 0.16                 | —                   | —                    |
| Impact of U.S corporate tax reform                                                                                          |  | —                   | —                    | 6.0                 | 0.03                 |
| GMP equalization                                                                                                            |  | —                   | —                    | 20.8                | 0.12                 |
| Impairment of intangible assets related to business combinations                                                            |  | 60.1                | 0.34                 | —                   | —                    |
| Impairment of goodwill                                                                                                      |  | 1,720.9             | 9.80                 | 1,240.4             | 7.06                 |
| <b>Adjusted net income (loss) attributable to SNC-Lavalin shareholders from E&amp;C / Adjusted diluted EPS from E&amp;C</b> |  | <b>\$ (70.3)</b>    | <b>\$ (0.40)</b>     | <b>\$ 43.1</b>      | <b>\$ 0.25</b>       |

<sup>(1)</sup> It should be noted that this adjustment includes a net amount of \$6.9 million (\$5.6 million after taxes) in 2018 which did not meet the criteria to be classified under restructuring costs as defined in accordance with IFRS.

| YEARS ENDED DECEMBER 31<br>(IN MILLIONS CA\$, EXCEPT %)                          |  | 2019                |                   |                   | 2018                |                 |                     |
|----------------------------------------------------------------------------------|--|---------------------|-------------------|-------------------|---------------------|-----------------|---------------------|
|                                                                                  |  | FROM E&C            | FROM CAPITAL      | TOTAL             | FROM E&C            | FROM CAPITAL    | TOTAL               |
| Net income (loss)                                                                |  | \$ (2,442.2)        | \$ 2,772.8        | \$ 330.6          | \$ (1,562.4)        | \$ 246.1        | \$ (1,316.3)        |
| Net financial expenses                                                           |  | 194.2               | 17.8              | 212.1             | 156.0               | 11.5            | 167.4               |
| Income taxes                                                                     |  | (193.9)             | 392.7             | 198.7             | (18.1)              | 6.6             | (11.5)              |
| <b>EBIT</b>                                                                      |  | <b>\$ (2,441.9)</b> | <b>\$ 3,183.3</b> | <b>\$ 741.4</b>   | <b>\$ (1,424.5)</b> | <b>\$ 264.1</b> | <b>\$ (1,160.4)</b> |
| Depreciation and amortization                                                    |  | \$ 220.0            | \$ 0.2            | \$ 220.3          | \$ 118.1            | \$ —            | \$ 118.1            |
| Amortization of intangible assets related to business combinations               |  | 182.0               | —                 | 182.0             | 206.5               | —               | 206.5               |
| Impairment of goodwill and of intangible assets related to business combinations |  | 1,873.8             | —                 | 1,873.8           | 1,240.4             | —               | 1,240.4             |
| <b>EBITDA</b>                                                                    |  | <b>\$ (166.0)</b>   | <b>\$ 3,183.5</b> | <b>\$ 3,017.5</b> | <b>\$ 140.5</b>     | <b>\$ 264.1</b> | <b>\$ 404.6</b>     |
| <b>(as % of Revenues)</b>                                                        |  | <b>(1.8)%</b>       | <b>N/A</b>        | <b>31.7 %</b>     | <b>1.4 %</b>        | <b>N/A</b>      | <b>4.0 %</b>        |
| Restructuring, right-sizing costs and other <sup>(1)</sup>                       |  | \$ 179.2            | \$ 3.6            | \$ 182.8          | \$ 75.2             | \$ 0.3          | \$ 75.5             |
| Federal charges settlement (PPSC)                                                |  | 257.3               | —                 | 257.3             | —                   | —               | —                   |
| Net 2012 class action lawsuits settlement expense and related legal costs        |  | —                   | —                 | —                 | 89.4                | —               | 89.4                |
| Acquisition-related costs and integration costs                                  |  | 8.3                 | —                 | 8.3               | 54.9                | —               | 54.9                |
| Loss from adjustment on disposals of E&C businesses                              |  | 0.3                 | —                 | 0.3               | 0.5                 | —               | 0.5                 |
| GMP equalization                                                                 |  | —                   | —                 | —                 | 25.1                | —               | 25.1                |
| Gain on disposal of Capital investments                                          |  | —                   | (2,970.8)         | (2,970.8)         | —                   | (67.6)          | (67.6)              |
| <b>Adjusted EBITDA</b>                                                           |  | <b>\$ 279.1</b>     | <b>\$ 216.3</b>   | <b>\$ 495.5</b>   | <b>\$ 385.6</b>     | <b>\$ 196.8</b> | <b>\$ 582.4</b>     |
| <b>(as % of Revenues)</b>                                                        |  | <b>3.0 %</b>        | <b>N/A</b>        | <b>5.2 %</b>      | <b>3.9 %</b>        | <b>N/A</b>      | <b>5.8 %</b>        |

<sup>(1)</sup> It should be noted that this adjustment includes a net amount of \$6.9 million (\$5.6 million after taxes) in 2018 which did not meet the criteria to be classified under restructuring costs as defined in accordance with IFRS.

The tables below provide a quantitative reconciliation between certain non-IFRS measures to the most comparable measure specified under IFRS.

| FOURTH QUARTERS ENDED DECEMBER 31<br>(IN MILLIONS CA\$, EXCEPT PER DILUTED SHARE INFORMATION [\$])                          | 2019              |                  | 2018                |                  |
|-----------------------------------------------------------------------------------------------------------------------------|-------------------|------------------|---------------------|------------------|
|                                                                                                                             | PER DILUTED SHARE |                  | PER DILUTED SHARE   |                  |
| Net loss                                                                                                                    | \$ (289.0)        | N/A              | \$ (1,598.7)        | N/A              |
| Less:                                                                                                                       |                   |                  |                     |                  |
| Non-controlling interests                                                                                                   | 3.9               | N/A              | —                   | N/A              |
| Net income attributable to SNC-Lavalin shareholders from Capital                                                            | 17.5              | 0.10             | 55.6                | 0.32             |
| <b>Net loss attributable to SNC-Lavalin shareholders from E&amp;C / Diluted EPS from E&amp;C</b>                            | <b>\$ (310.4)</b> | <b>\$ (1.77)</b> | <b>\$ (1,654.3)</b> | <b>\$ (9.42)</b> |
| Adjustments (net of income taxes):                                                                                          |                   |                  |                     |                  |
| Restructuring, right-sizing costs and other                                                                                 | \$ 99.6           | \$ 0.57          | \$ 48.5             | \$ 0.28          |
| Acquisition-related costs and integration costs                                                                             | —                 | —                | 16.1                | 0.09             |
| Amortization of intangible assets related to business combinations                                                          | 32.4              | 0.18             | 42.9                | 0.24             |
| Federal charges settlement (PPSC)                                                                                           | 257.3             | 1.47             | —                   | —                |
| Net 2012 class actions lawsuits settlement expense and related legal costs                                                  | —                 | —                | 1.2                 | —                |
| Loss from adjustment on disposals of E&C businesses                                                                         | 0.1               | —                | 0.2                 | —                |
| GMP equalization                                                                                                            | —                 | —                | 20.8                | 0.12             |
| Impairment of goodwill                                                                                                      | —                 | —                | 1,240.4             | 7.07             |
| <b>Adjusted net income (loss) attributable to SNC-Lavalin shareholders from E&amp;C / Adjusted diluted EPS from E&amp;C</b> | <b>\$ 79.1</b>    | <b>\$ 0.45</b>   | <b>\$ (284.1)</b>   | <b>\$ (1.62)</b> |

| FOURTH QUARTERS ENDED DECEMBER 31<br>(IN MILLIONS CA\$, EXCEPT %)         | 2019              |                |                   | 2018                |                |                     |
|---------------------------------------------------------------------------|-------------------|----------------|-------------------|---------------------|----------------|---------------------|
|                                                                           | FROM E&C          | FROM CAPITAL   | TOTAL             | FROM E&C            | FROM CAPITAL   | TOTAL               |
| Net income (loss)                                                         | \$ (306.5)        | \$ 17.5        | \$ (289.0)        | \$ (1,654.3)        | \$ 55.6        | \$ (1,598.7)        |
| Net financial expenses                                                    | 20.2              | 4.4            | 24.6              | 39.9                | 4.3            | 44.1                |
| Income taxes                                                              | (6.3)             | 4.0            | (2.2)             | (29.9)              | (0.3)          | (30.2)              |
| <b>EBIT</b>                                                               | <b>\$ (292.5)</b> | <b>\$ 25.9</b> | <b>\$ (266.6)</b> | <b>\$ (1,644.2)</b> | <b>\$ 59.6</b> | <b>\$ (1,584.7)</b> |
| Depreciation and amortization                                             | \$ 50.4           | \$ 0.1         | \$ 50.5           | \$ 36.1             | \$ —           | \$ 36.1             |
| Amortization of intangible assets related to business combinations        | 40.0              | —              | 40.0              | 51.6                | —              | 51.6                |
| Impairment of goodwill                                                    | —                 | —              | —                 | 1,240.4             | —              | 1,240.4             |
| <b>EBITDA</b>                                                             | <b>\$ (202.1)</b> | <b>\$ 25.9</b> | <b>\$ (176.1)</b> | <b>\$ (316.2)</b>   | <b>\$ 59.6</b> | <b>\$ (256.6)</b>   |
| <b>(as % of Revenues)</b>                                                 | <b>(8.4)%</b>     | <b>N/A</b>     | <b>(7.2)%</b>     | <b>(12.7)%</b>      | <b>N/A</b>     | <b>(10.0)%</b>      |
| Restructuring, right-sizing costs and other                               | \$ 111.4          | \$ —           | \$ 111.4          | \$ 63.8             | \$ 0.3         | \$ 64.1             |
| Federal charges settlement (PPSC)                                         | 257.3             | —              | 257.3             | —                   | —              | —                   |
| Net 2012 class action lawsuits settlement expense and related legal costs | —                 | —              | —                 | 1.4                 | —              | 1.4                 |
| Acquisition-related costs and integration costs                           | 0.1               | —              | 0.1               | 20.8                | —              | 20.8                |
| Loss from adjustment on disposals of E&C businesses                       | 0.1               | —              | 0.1               | 0.2                 | —              | 0.2                 |
| GMP equalization                                                          | —                 | —              | —                 | 25.1                | —              | 25.1                |
| Gain on disposal of a Capital investment                                  | —                 | —              | —                 | —                   | (4.8)          | (4.8)               |
| <b>Adjusted EBITDA</b>                                                    | <b>\$ 166.8</b>   | <b>\$ 25.9</b> | <b>\$ 192.7</b>   | <b>\$ (204.9)</b>   | <b>\$ 55.0</b> | <b>\$ (149.8)</b>   |
| <b>(as % of Revenues)</b>                                                 | <b>6.9 %</b>      | <b>N/A</b>     | <b>7.9 %</b>      | <b>(8.2)%</b>       | <b>N/A</b>     | <b>(5.8)%</b>       |

# 15 Risks and Uncertainties

## 15.1 PRINCIPAL RISKS AND UNCERTAINTIES

The Company is subject to a number of risks and uncertainties in carrying out its activities. SNC-Lavalin has measures in place to identify, monitor and, to a certain extent, mitigate such risks and uncertainties. Such measures include, among others, the enterprise risk management program, the work performed by various committees at the Board and management levels, as well as the enforcement of numerous policies and procedures. You should carefully consider the risks and uncertainties below before investing in the Company's securities. Additional risks not currently known or that the Company currently believes are immaterial may also impair its business, results of operations, financial condition and liquidity.

### RESULTS OF THE NEW 2019 STRATEGIC DIRECTION COUPLED WITH A CORPORATE REORGANIZATION

On July 22, 2019, the Company announced that it is focusing on the high-performing and growth areas of the business and is exiting lump-sum turnkey construction contracting. The Company has reorganized into two separate business lines:

- SNCL Engineering Services, which includes EDPM, Nuclear, Infrastructure Services (including Linxon) and Capital.
- SNCL Projects, which includes Resources (comprised of the previous Oil & Gas and Mining & Metallurgy segments) and the then existing Infrastructure LSTK construction projects. The Company is exploring all options for its Resources activities, particularly its Oil & Gas business, including transition to a services-based business or divestiture. The Company will fulfill the contractual obligations of its current lump-sum turnkey construction projects. It may be necessary for the Company to accept change orders under existing lump-sum turnkey construction contracts, which may temporarily extend the performance timeframe of such contracts. The Company expects to complete a significant portion of the remaining lump-sum turnkey construction projects by the end of 2021 and the rest by the end of 2024.

There can be no assurance that the new strategic direction will succeed in whole or in part. Implementation of this plan presents various managerial, organizational, administrative, operational and other challenges, and the Company's organizational, administrative and operational systems may require adjustments in order to appropriately implement the new direction.

The new strategic direction may also be affected by various factors, notably that it will take several years for the exit from lump-sum turnkey construction projects to be fully reflected in the Company's backlog. Until that exit is completed by the run-off or transfer of existing lump-sum turnkey construction projects, the Company may experience losses resulting from the risks inherent in such projects.

If the Company is unable to successfully execute on any or all of the initiatives in its new strategic direction announced on July 22, 2019, the Company's revenues, operating results and profitability may be adversely affected. Even if the Company successfully implements its new strategic direction, there can be no guarantee that it will achieve its intended objectives of improved revenues, operating results and/or profitability. Modifications to the new strategic direction may also be required to achieve such objectives.

## **RISKS RELATING TO THE COMPANY'S OPERATIONS**

### ***Fixed-price contracts or the Company's failure to meet contractual schedule, performance requirements or to execute projects efficiently***

While the Company has announced a new strategic direction and its expectation is that it will complete a significant portion of its lump-sum turnkey construction projects by 2021 and the rest by the end of 2024, a significant portion of the Company's current business and revenues remains dependent on fixed-price contracts. The Company bears the risk for cost overruns from fixed-price contracts. Contract revenues and costs are established, in part, based on estimates which are subject to a number of assumptions, such as those regarding future economic conditions, productivity, performance of the Company's employees and of subcontractors or equipment suppliers, price, inflation, availability of labour, equipment and materials and other requirements that may affect project costs or schedule, such as obtaining the required environmental permits and approvals on a timely basis. Cost overruns may also occur when unforeseen circumstances arise. In addition, reimbursable contracts such as unit-rate contracts for which a fixed amount per quantity is charged to the customer and reimbursable contracts with a cap bear some risks that are similar to those related to fixed-price contracts, as the estimates used to establish the contract unit-rate and/or the contractual cap are also subject to the assumptions listed above.

Furthermore, should the Company experience difficulties in the execution of projects due to various factors, such as a lack of efficiency in the implementation of its processes, failure to estimate accurately project costs and/or conclude strategic transactions pertaining to project resources, such difficulties could have an adverse impact on the Company's financial results from these projects.

If cost overruns occur, the Company could experience reduced profits or, in some cases, a loss for that project. A significant cost overrun can occur on both large and smaller contracts or projects. If a large cost overrun occurs, or if cost overruns occur on multiple projects, such cost overruns could increase the unpredictability and volatility of the Company's profitability as well as have a material adverse impact on its business.

In addition, in certain instances, SNC-Lavalin may guarantee a client that it will complete a project by a scheduled date or that a facility will achieve certain performance standards. As such, SNC-Lavalin may incur additional costs should the project or facility subsequently fail to meet the scheduled completion date or performance standards. A project's revenues could also be reduced in the event the Company is required to pay liquidated damages or in connection with contractual penalty provisions, which can be substantial and can accrue on a daily basis.

### ***Contract awards and timing***

Obtaining new contract awards, which is a key component for the sustainability of net income, is a risk factor in a competitive environment. A substantial portion of SNC-Lavalin's revenue and profitability is generated from large-scale project awards. The timing of when project awards will be made is unpredictable and outside of the Company's control. SNC-Lavalin operates in highly competitive markets where it is difficult to predict whether and when it will receive awards since these awards and projects often involve complex and lengthy negotiations and bidding processes. These processes can be impacted by a wide variety of factors including governmental approvals, financing contingencies, commodity prices, environmental conditions and overall market and economic conditions. In addition, the Company may not win contracts that it has bid upon due to price, a client's perception of the Company's reputation, ability to perform and/or perceived technology or other advantages held by competitors. SNC-Lavalin's competitors may be more inclined to take greater or unusual risks or accept terms and conditions in a contract that the Company might not otherwise deem market or acceptable. Because a significant portion of the Company's revenue is generated from large projects, the Company's results of operations can fluctuate from quarter to quarter and year to year depending on whether and when project awards occur and the commencement and progress of work under awarded contracts. As a result, SNC-Lavalin is subject to the risk of losing new awards to competitors or the risk that revenue may not be derived from awarded projects as quickly as anticipated. Furthermore, the Company may incur significant costs in order to bid on certain projects that may not be awarded to the Company, thus resulting in expenses that did not generate any profit for the Company.

In addition, fluctuating demand cycles are common in the engineering and construction industries and can have a significant impact on the degree of competition for available projects and the awarding of new contracts. As such,

fluctuations in the demand for engineering and construction services or the ability of the private and/or public sector to fund projects in a depressed economic climate could adversely affect the awarding of new contracts and margin and thus SNC-Lavalin's results. Given the cyclical nature of the engineering and construction industries, the financial results of SNC-Lavalin, like others in such industries, may be impacted in any given period by a wide variety of factors beyond its control, and as a result there may, from time to time, be significant and unpredictable variations in the Company's quarterly and annual financial results.

SNC-Lavalin's estimates of future performance depend on, among other matters, whether and when the Company will receive certain new contract awards, including the extent to which the Company utilizes its workforce. The rate at which SNC-Lavalin utilizes its workforce is impacted by a variety of factors including: the Company's ability to manage attrition; the Company's ability to forecast its need for services which in turn allows the Company to maintain an appropriately sized workforce; the Company's ability to transition employees from completed projects to new projects or between internal business groups; and the Company's need to devote resources to non-chargeable activities such as training or business development. While SNC-Lavalin's estimates are based upon its good faith judgment, these estimates can be unreliable and may frequently change based on newly available information. In the case of large-scale domestic and international projects where timing is often uncertain, it is particularly difficult to predict whether and when the Company will receive a contract award. The uncertainty of contract award timing can present difficulties in matching the Company's workforce size with its contract needs. If an expected contract award is delayed or not received, or if an ongoing contract is cancelled, the Company could incur costs resulting from reductions in staff or redundancy of facilities that would have the effect of reducing the Company's operational efficiency, margins and profits.

### ***Remaining performance obligations***

The Company's remaining performance obligations are derived from contract awards that are considered firm or management's estimates of revenues to be generated from firm contract awards for reimbursable contracts, thus an indication of expected future revenues. Project delays, suspensions, terminations, cancellations or reductions in scope do occur from time to time in the Company's industry due to considerations beyond the control of SNC-Lavalin and may have a material impact on the amount of reported remaining performance obligations with a corresponding adverse impact on future revenues and profitability. In addition, many of the Company's contracts contain "termination for convenience" provisions, which permit the client to terminate or cancel the contract at its convenience upon providing the Company with notice a specified period of time before the termination date and/or paying the Company equitable compensation, depending on the specific contract terms. In the event a significant number of the Company's clients were to avail themselves of such "termination for convenience" provisions, or if one or more significant contracts were terminated for convenience, the Company's reported remaining performance obligations would be adversely affected with a corresponding adverse impact on expected future revenues and profitability.

### ***Being a provider of services to government agencies***

SNC-Lavalin is a provider of services to government agencies and is exposed to risks associated with government contracting. SNC-Lavalin's failure to comply with the terms of one or more government contracts or government statutes and regulations could result in the Company's contracts with government agencies being terminated or the Company being suspended or debarred from future government projects for a significant period of time, possible civil or criminal fines and penalties and the risk of public scrutiny of the Company's performance, and potential harm to its reputation, each of which could have a material adverse effect on SNC-Lavalin's business. Other remedies that the Company's government clients may seek for improper activities or performance issues include sanctions such as forfeiture of profits and suspension of payments. In addition, virtually all of the Company's contracts with governments contain "termination for convenience" provisions, as described in the risk factor above entitled "Remaining performance obligations".

Government contracts present SNC-Lavalin with other risks as well. Legislatures typically appropriate funds on a year-by-year basis, while contract performance may take more than one year. As a result, the Company's contracts with government agencies may be only partially funded or may be terminated, and the Company may not realize all of its potential revenues and profits from those contracts. Appropriations and the timing of payment may be influenced by, among other things, the state of the economy, competing political priorities, curtailments in

the use of government contracting firms, budget constraints, the timing and amount of tax receipts and the overall level of government expenditures.

### ***International operations***

A significant portion of SNC-Lavalin's revenues are attributable to projects in international markets outside of Canada. SNC-Lavalin's business is dependent on the continued success of its international operations, and the Company expects its international operations to continue to account for a significant portion of total revenues. The Company's international operations are subject to a variety of risks, most of which also apply to its Canadian operations, including:

- recessions and other economic crises in other regions, or specific foreign economies and the impact on the Company's costs of doing business in those countries;
- difficulties in staffing and managing foreign operations, including logistical, security and communication challenges;
- changes in foreign government policies, laws, regulations and regulatory requirements, or the interpretation, application and/or enforcement thereof;
- difficulty or expense in enforcing contractual rights due to a lack of a developed legal system or otherwise;
- renegotiation or nullification of existing contracts;
- the adoption of new, and the expansion of existing, trade or other restrictions, such as recent retaliatory tariffs between the United States and China;
- difficulties, delays and expense that may be experienced or incurred in connection with the movement and clearance of personnel and goods through the customs and immigration authorities of multiple jurisdictions;
- embargoes;
- acts of war, civil unrest, force majeure and terrorism;
- social, political and economic instability;
- expropriation of property;
- the risk that inter-governmental relationships may deteriorate such that the Company's operations in a given country may be negatively impacted because the Company is head-quartered in Canada or because we carry on business in another country;
- tax increases or changes in tax laws, legislation or regulation or in the interpretation, application and/or enforcement thereof; and
- limitations on the Company's ability to repatriate cash, funds or capital invested or held in jurisdictions outside Canada.

To the extent SNC-Lavalin's international or Canadian operations are affected by unexpected or adverse economic, political and other conditions, the Company's business, financial condition and results of operations may be adversely affected.

In addition, the Company's activities outside Canada expose SNC-Lavalin to foreign currency exchange risks, which could adversely impact its operating results. The Company is particularly vulnerable to fluctuations in British pounds, in U.S. dollars and in currencies pegged to U.S. dollars. While SNC-Lavalin has a hedging strategy in place to mitigate some of the effects of certain foreign currency exposures, there can be no assurance that such hedging strategy will be effective. Furthermore, the volatility of the Company's financial results and cash flows could increase if certain countries cease to peg their currencies to the U.S. dollar. The Company does not have hedging strategies in place with respect to all currencies in which it does business. The Company's hedging strategy includes the use of forward foreign exchange contracts, which also contain an inherent credit risk related to default on obligations by the counterparties to such contracts.

## ***Nuclear liability***

The Company's Nuclear segment supports clients across the entire Nuclear life cycle with the full spectrum of services from consultancy, EPCM services, field services, technology services, spare parts, reactor support & decommissioning and waste management. As stewards of the CANDU technology, it also provides new-build and full refurbishment services of CANDU reactors. Such services can subject the Company to risks arising out of a nuclear, radiological or criticality incident, whether or not within the Company's control.

Indemnification provisions contained in the domestic legislation of the jurisdictions in which the Company's Nuclear segment operates, such as Canada's Nuclear Liability and Compensation Act, the United Kingdom's Nuclear Installations Act 1965, the United States' Price-Anderson Act, or equivalent protections afforded under international conventions, seek to ensure compensation for the general public, while indemnifying nuclear industry participants against liability arising from nuclear incidents, subject to possible exclusions.

These legislative indemnification provisions may however not apply to all liabilities incurred while performing services as a contractor for the nuclear industry. If an incident or certain damages resulting therefrom are not covered under applicable legislative indemnification provisions, the Company could be held liable for damages which could have a material adverse impact on the Company's financial condition and results of operations. In addition to legislative indemnification provisions, the Company seeks to protect itself from liability associated with nuclear incidents and damages resulting therefrom in its contracts, but there can be no assurance that such contractual limitations on liability will be effective in all cases or that the Company's or its clients' insurance will cover all the liabilities assumed under those contracts. The costs of defending against claims arising out of a nuclear incident, and any damages that could be awarded as a result of such claims, could have a material adverse impact on the Company's financial condition and results of operations.

## ***Ownership interests in Capital investments***

SNC-Lavalin holds investments through its investment and asset management arm, Capital. When SNC-Lavalin holds an ownership interest in such an investment, it assumes a degree of risk associated with the financial performance of such investment. The value of the Company's investment is dependent on the ability of the Capital investment to attain its revenue and cost projections as well as the ability to secure initial and ongoing financing, which can be influenced by numerous factors, some partially beyond Capital's control, including, but not limited to, political or legislative changes, lifecycle maintenance, operating revenues, collection success, cost management and the general state of the capital and/or credit markets.

The Company sometimes makes investments in project entities in which it does not hold a controlling interest. These investments may not be subject to the same requirements regarding internal controls and internal control over financial reporting that SNC-Lavalin follows. To the extent the controlling entity makes decisions that negatively impact such investments or internal controls relating thereto and, consequently, problems arise within such investments, it could have a material adverse impact on the Company's business, financial condition and results of operations.

The Company's non-recourse debt from Capital's investments can be affected by fluctuations in interest rates. A hedging strategy is put in place when the management body of the project entity for such investment deems it appropriate. However, the assumptions and estimates inherent to the hedging strategy could be erroneous, thus rendering the hedging strategy ineffective or partially ineffective. Furthermore, the financial instruments associated with the hedging strategy contain an inherent credit risk related to defaults on obligations by the counterparties to such instruments.

In addition, many of the Company's investments made through Capital are governed by shareholder, partnership or similar joint venture agreements or arrangements, many of which restrict the Company's ability or right to freely sell or otherwise dispose of its investments and/or that affect the timing of any such sale or other disposition. Consequently, the Company's ability to efficiently or timely dispose of or monetize one or more of its investments could be limited by such contractual arrangements, which could in turn have an adverse impact on SNC-Lavalin's liquidity or capital resources.

### ***Dependence on third parties***

SNC-Lavalin undertakes contracts wherein it subcontracts a portion of the project or the supply of material and equipment to third parties. If the amount the Company is required to pay for subcontractors or equipment and supplies exceeds what was estimated, the Company may suffer losses on these contracts. If a supplier or subcontractor fails to provide supplies, equipment or services as required under a negotiated contract for any reason, or provides supplies, equipment or services that are not of an acceptable quality, the Company may be required to source those supplies, equipment or services on a delayed basis or at a higher price than anticipated, which could impact contract profitability. In addition, faulty equipment or materials could impact the overall project, resulting in claims against SNC-Lavalin for failure to meet required project specifications. These risks may be intensified during an economic downturn if these suppliers or subcontractors experience financial difficulties or find it difficult to obtain sufficient financing to fund their operations or access to bonding, and are not able to provide the services or supplies or the requisite quality or grade of services or supplies necessary for the Company's business. In addition, in instances where SNC-Lavalin relies on a single contracted supplier or subcontractor or a small number of subcontractors, there can be no assurance that the marketplace can provide these products or services on a timely basis, or at the costs the Company had anticipated. A failure by a third-party subcontractor or supplier to comply with applicable laws, rules or regulations could negatively impact SNC-Lavalin's business and, in the case of government contracts, could result in fines, penalties, suspension or even debarment being imposed on the Company.

### ***Joint ventures and partnerships***

SNC-Lavalin undertakes certain contracts with joint venture partners, as a member of partnerships, and under other similar arrangements. This situation exposes the Company to a number of risks, including the risk that its partners may be unable or unwilling to fulfill their contractual obligations to the Company or its clients. SNC-Lavalin's partners may also be unable or unwilling to provide the required levels of financial support to the partnerships. If these circumstances occur, the Company may be required to pay financial penalties or liquidated damages, provide additional services, or make additional investments to ensure adequate performance and delivery of the contracted services. Under agreements with joint and several (or solidary) liabilities, SNC-Lavalin could be liable for both its obligations and those of its partners. These circumstances could also lead to disputes and litigation with the Company's partners or clients, all of which could have a material adverse impact on the Company's reputation, business, financial condition and results of operations.

SNC-Lavalin participates in joint ventures and similar arrangements in which it is not the controlling partner. In these cases, the Company has limited control over the actions or decisions of the joint venture. These joint ventures may not be subject to the same requirements regarding internal controls and internal control over financial reporting that SNC-Lavalin follows. To the extent the controlling partner makes decisions that negatively impact the joint venture or internal control problems arise within the joint venture, it could have a material adverse impact on the Company's business, financial condition and results of operations.

The failure by a joint venture partner to comply with applicable laws, rules or regulations, or contract requirements, could negatively impact SNC-Lavalin's business and, in the case of government contracts, could result in fines, penalties, suspension or even debarment being imposed on the Company, which could have a material adverse impact on the Company's reputation, business, financial condition and results of operations.

### ***Information systems and data***

The integrity, reliability and security of information in all forms are critical to the Company's daily and strategic operations.

Cyber-attacks have become more frequent and sophisticated and the Company's information technology and other defences must be adequate to repel them. Cyber-attacks include insertion of malware, hacking, industrial espionage, unauthorized access to confidential or proprietary information, phishing or other security breaches and system disruptions. If the Company is unable to protect its information systems, they could be interrupted or delayed. The Company's information systems and operations could also be interrupted or damaged by natural disasters, failures, acts of war, terrorism or cyber-attacks, among others.

Due to changes in technologies, new laws and regulations governing data privacy and the unauthorized disclosure of confidential information, including the European Union General Data Protection Regulation and the California Consumer Privacy Act, pose increasingly complex compliance challenges and potentially elevate costs, and any failure to comply with these laws and regulations could result in significant penalties and legal liability. Changes in legislation related to the protection of personal information could accelerate in several jurisdictions, including Canada.

A successful cyber-attack could harm the Company's reputation and adversely affect its business, financial condition and results of operations as it may lead to network failures; unauthorized access to confidential or proprietary information about its business, customers or employees; theft, loss, leakage, destruction or corruption of data, including information about its customers or employees; physical damage to network assets; litigation, fines and liability for failure to comply with privacy and information security laws; increased fraud; lost revenues; the potential for loss of customers or impairment of the Company ability to attract new ones; and higher insurance premiums.

In addition, cyber-attacks affecting the Company's suppliers or other business partners could also adversely affect the Company's business, financial condition and results of operations.

The Company relies on industry-accepted security measures and technology to protect the confidential and proprietary information on its computer systems. The Company also seeks to adapt its security policies, procedures and controls to protect its assets. There is no assurance that these measures will prevent the occurrence of cyber-attacks, or that any insurance the Company may have will cover the costs, damages, liabilities or losses that could result therefrom.

### ***Competition***

SNC-Lavalin operates businesses in highly competitive industry segments and geographic markets both in Canada and internationally. SNC-Lavalin competes with both large as well as many mid-size and smaller companies across a range of industry segments. In addition, an increase in international companies entering into the Canadian marketplace has also made such market more competitive. New contract awards and contract margin are dependent on the level of competition and the general state of the markets in which the Company operates. Fluctuations in demand in the segments in which the Company operates may impact the degree of competition for work. Competitive position is based on a multitude of factors, including pricing, ability to obtain adequate bonding, remaining performance obligations, financial strength, appetite for risk, availability of partners, suppliers and workforce, and reputation for quality, timeliness and experience. If the Company is unable to effectively respond to these competitive factors, results of operations and financial condition will be adversely impacted. In addition, a prolonged economic slump or slower than anticipated recovery may also result in increased competition in certain market segments, price or margin reductions or decreased demand which may adversely affect results.

### ***Professional liability or liability for faulty services.***

The Company's failure to act or to make judgments and recommendations in accordance with applicable professional standards could result in large monetary damages awards against the Company. The Company's business involves making professional judgments regarding the planning, design, development, construction, operations and management of industrial facilities and public infrastructure projects. A failure or event at one of SNC-Lavalin's project sites or completed projects resulting from the work it has performed could result in significant professional or product liability, warranty or other claims against the Company as well as reputational harm, especially if public safety is impacted. These liabilities could exceed the Company's insurance limits or the fees it generates, or could impact the Company's ability to obtain insurance in the future. In addition, clients or subcontractors who have agreed to indemnify SNC-Lavalin against any such liabilities or losses might refuse or be unable to pay. An uninsured claim, either in part or in whole, if successful and of a material magnitude, could have a material adverse impact on the Company's financial condition and results of operations.

In some jurisdictions where the Company does business, it may be held statutorily jointly and severally (solidarily) liable for both its obligations and those of other parties working on a particular project, notwithstanding the absence of a contractual relationship between the Company and such other parties.

### ***Monetary damages and penalties in connection with professional and engineering reports and opinions***

SNC-Lavalin issues reports and opinions to clients based on its professional engineering expertise, as well as its other professional credentials. The Company's reports and opinions are often required to comply with professional standards, licensing requirements, securities regulations and other laws, regulations, rules and standards governing the performance of professional services in the jurisdiction where the services are performed. In addition, the Company could be liable to third parties who use or rely upon the Company's reports or opinions even if it is not contractually bound to those third parties, which may result in monetary damages or penalties.

### ***Insurance coverage***

As part of SNC-Lavalin's business operations, the Company maintains insurance coverage. There can be no assurance that the Company has in place sufficient insurance coverage to satisfy its needs, or that it will be able to secure all necessary or sufficient insurance coverage in the future. The Company's insurance is purchased from a number of third-party insurers, often in layered insurance arrangements. If any of its third-party insurers fail, refuse to renew or revoke coverage or otherwise cannot satisfy their insurance requirements to SNC-Lavalin, then the Company's overall risk exposure and operational expenses could be increased and its business operations could be interrupted.

SNC-Lavalin has obtained directors' and officers' liability insurance insuring directors and officers against liability for acts or omissions in their capacities as directors and officers of the Company, subject to certain exclusions. Such insurance also insures SNC-Lavalin against losses which the Company may incur in indemnifying officers and directors. In addition, SNC-Lavalin may enter into indemnification agreements with key officers and directors and such persons may also have indemnification rights under applicable laws and the Company's constating documents. SNC-Lavalin's obligations to indemnify directors and officers may pose substantial risks to the Company's financial condition as the Company may not be able to maintain its insurance or, even if the Company is able to maintain its insurance, claims in excess of the Company's insurance coverage could materially deplete its assets.

### ***Health & Safety***

The nature of SNC-Lavalin's work places employees and others near large equipment, dangerous processes or highly regulated materials, and in challenging environments. Many clients require that the Company meet certain safety standards or criteria to be eligible to bid on contracts, and the payment of a portion of the Company's contract fees or profits may be subject to satisfying safety standards or criteria. Unsafe work conditions also have the potential of increasing employee turnover, increasing project and operating costs and could negatively impact the awarding of new contracts. If SNC-Lavalin fails to implement appropriate safety procedures and/or if its procedures fail, employees or others may suffer injuries. Failure to comply with such procedures, client contracts or applicable regulations could subject SNC-Lavalin to losses and liability and adversely impact the Company's business, financial condition and operating results as well as its ability to obtain future projects.

### ***Qualified personnel***

The success of SNC-Lavalin heavily depends on its workforce and the ability to attract and retain qualified personnel in a competitive work environment. The inability to attract and retain qualified personnel could result in, among other factors, lost opportunities, cost overruns, failure to perform on projects and inability to mitigate risks and uncertainties.

### ***Work stoppages, union negotiations and other labour matters***

A portion of the Company's workforce and employees working for various subcontractors are unionized. A lengthy strike or other work stoppages, caused by unionized or non-unionized employees, in connection with any of the Company's projects could have a material adverse effect on the Company. There is an inherent risk that on-going or future negotiations relating to collective bargaining agreements or union representation may not be favourable to the Company. From time to time, the Company has also experienced attempts to unionize the Company's non-unionized employees. Such efforts can often disrupt or delay work and present risk of labour unrest.

### ***Extreme weather conditions and the impact of natural or other disasters and global health crises***

The Company's field activities are generally performed outdoors and include professional surveying, resident engineering services, field data surveys and collection, archeology, geotechnical investigations and exploratory drilling, construction oversight and inspection, plant start-up and testing and plant operations. Extreme weather conditions or natural or other disasters, such as earthquakes, fires, floods, epidemics or pandemics (including the current coronavirus) and similar events, may cause postponements in the initiation and/or completion of the Company's field activities and may hinder the ability of its employees to perform their duties, which may result in delays or loss of revenues that otherwise would be recognized while certain costs continue to be incurred. Extreme weather conditions or disasters may also delay or eliminate the start and/or completion of various phases of work relating to other services that commence concurrently with or subsequent to field activities. The Company's financial and/or operating performance could also be adversely affected by the outbreak of epidemics or other public health crises. For example, in late December 2019, a novel coronavirus (2019-nCoV/COVID-19) was identified as originating in Wuhan, the capital of the Hubei Province of China, with cases subsequently confirmed in multiple Provinces throughout China, as well as in other countries throughout the world. The risks to the Company of epidemics and other public health crises, such as the ongoing coronavirus, include risks to employee health and safety. The Company's business could also experience a slowdown or temporary suspension in operations in geographic locations impacted by an outbreak in the short term, including but not limited to China. Any prolonged restrictive measures put in place in order to contain an outbreak of a contagious disease or other adverse public health development, in China or in any other jurisdictions where the Company operates or holds any assets, may have a material and adverse effect on the Company's financial and/or operating performance. Any delay in the completion of the Company's services may require the Company to incur additional non-compensable costs, including overtime work, that are necessary to meet clients' schedules. Due to various factors, a delay in the commencement or completion of a project may also result in penalties or sanctions under contracts or even the cancellation of contracts.

### ***Intellectual property***

SNC-Lavalin's success depends, in part, upon its ability to protect its intellectual property. The Company relies on a combination of intellectual property policies and other contractual arrangements to protect much of its intellectual property where it does not believe that trademark, patent or copyright protection is appropriate or obtainable. Trade secrets are generally difficult to protect. Although SNC-Lavalin's employees are subject to confidentiality obligations, this protection may be inadequate to deter or prevent misappropriation of the Company's confidential information and/or the infringement of the Company's patents and copyrights. Further, the Company may be unable to detect unauthorized use of its intellectual property or otherwise take appropriate steps to enforce its rights. Failure to adequately protect, maintain, or enforce the Company's intellectual property rights may adversely limit the Company's competitive position.

### ***Divestitures and the sale of significant assets***

The sale of a business unit and/or significant assets is a complex process that involves certain risks, such as failure to properly plan, prepare and execute the transaction and to prepare a contract that protects the Company from post-closing adjustments and additional costs. In addition, the Company is exposed to the risk of the deal falling through, selling at a lower price than the asking price and/or extended deal close times.

## **RISKS RELATED TO THE COMPANY'S LIQUIDITY, CAPITAL RESOURCES AND FINANCIAL POSITION**

### ***Impact of operating results and level of indebtedness on financial situation***

The Company reported a significantly reduced adjusted EBITDA in 2019 relative to its historical results while reporting negative cash flows from operations during the same period. The Adjusted EBITDA, described in Section 14 of this MD&A, does not exactly correspond to the definition of "adjusted EBITDA" used to calculate the net recourse debt to adjusted EBITDA ratio under the Company's Credit Agreement and the SNC-Lavalin Highway Holdings Loan Agreement. However, it reflects the fact that operating results had an unfavorable impact on such ratio. The Company amended the Credit Agreement and the SNC-Lavalin Highway Holdings Loan Agreement to, among other things, extend the temporary loosening of the net recourse debt to adjusted EBITDA ratio from 3.75x to 4x for the period from June 30, 2019 to December 31, 2019. While the Company met its

modified covenant requirements as at December 31, 2019, an increase of net recourse debt due to items such as cash requirements of operating activities or the delay/acceleration of certain investing/divestitures or financing transactions, or an inability to generate sufficient adjusted EBITDA to support the level of indebtedness in the ratio calculation in the future, could have a negative impact on the Company, as further described in the risk factor entitled “Indebtedness” below.

### ***Liquidity and financial position***

The Company relies both on its cash, its credit facilities and other debt instruments, as well as the capital market to provide some of its capital requirements and it is, in certain instances, required to obtain bank guarantees as a means to secure its various contractual obligations for its underlying projects. Significant instability or disruptions of the capital markets or a deterioration in or weakening of its financial position due to internal or external factors, could restrict or prohibit the Company’s access to, or significantly increase the cost of one or more of these financing sources, including credit facilities, the issuance of long-term debt, or the availability of letters of credit to guarantee its contractual and project obligations. There can be no assurance that the Company will maintain an adequate cash balance and generate sufficient cash flow from operations in an amount to enable itself to fund its operations and liquidity needs, service its debt and/or maintain its ability to obtain and secure bank guarantees.

A deterioration in the Company’s financial condition could also result in a reduction or downgrade of its credit ratings, which could limit the Company’s ability to issue new letters of credit or performance guarantees or accessing external sources of short-term and long-term debt financing or could significantly increase the costs associated with utilizing such letters of credit and performance guarantees, bank credit facilities and issuing long-term debt, which would in turn have a material adverse effect on the Company’s business, financial condition and results of operations.

A draw on letters of credit or bank guarantees by one or more third parties could, among other things, significantly reduce the Company’s cash position and have a material adverse effect on its business and results of operations.

### ***Indebtedness***

The Company had approximately \$2.1 billion of consolidated indebtedness as at December 31, 2019 under recourse, limited recourse and non-recourse debt.

The Company will need to refinance or reimburse amounts outstanding under the Company’s consolidated indebtedness. There can be no assurance that any indebtedness of the Company will be refinanced or that additional financing on commercially reasonable terms will be obtained, if at all.

The Company’s degree of leverage could have other important consequences, including the following:

- it may have a negative effect on the current credit ratings of the Company’s rated long-term debt;
- it may limit the Company’s ability to obtain additional financing for working capital, capital expenditures, debt service requirements, acquisitions and general corporate or other purposes on commercially reasonable terms, if at all;
- most of the Company’s borrowings are at variable rates of interest and expose the Company to the risk of increased interest rates;
- it may limit the Company’s ability to adjust to changing market conditions and place the Company at a competitive disadvantage (including if the Company’s credit rating is negatively affected) compared to its competitors that have less debt or greater financial resources;
- it may limit the Company’s ability to declare and pay dividends on its Common Shares;
- the Company may be vulnerable in a downturn in general economic conditions; and
- the Company may be unable to make capital expenditures that are important to its growth and strategies.

The credit facilities and instruments governing the Company’s consolidated debt contain certain financial covenants requiring the Company, on a consolidated basis, to satisfy net recourse debt to adjusted earnings before interest, taxes, depreciation and amortization ratios. Such credit facilities and instruments also contain

covenants restricting the Company's ability to incur liens on its assets, incur additional debt or effect dispositions of assets or fundamental changes in its business, pay dividends and make certain other disbursements, or use the proceeds from the sale of assets and capital stock of subsidiaries. These covenants limit the Company's discretion and financial flexibility in the operation of its business. Under the terms of these credit facilities and instruments, the Company and its subsidiaries are permitted to incur additional debt only in certain circumstances. However, doing so could increase the risks described above. In addition, if the Company or its subsidiaries incur additional debt in the future, the Company may be subject to additional covenants, which may be more restrictive than those that it is subject to now.

A breach of any of these agreements or the Company's inability to comply with these covenants (as the case may be) could, if not cured or waived, result in an acceleration of the Company's consolidated debt or a cross-default under certain of its debt instruments. If the Company's indebtedness is accelerated, the Company may not be able to service its indebtedness, or borrow sufficient funds to refinance its indebtedness.

The Company's ability to service its consolidated debt will depend upon, among other things, its future financial and operating performance, which will be affected by prevailing economic conditions, interest rate fluctuations and financial, business, legal, regulatory and other factors, some of which are beyond the Company's control. If the Company's operating results or liquidity are not sufficient to service its current or future consolidated indebtedness, the Company may be forced to take actions such as reducing dividends, reducing or delaying business activities, acquisitions, investments or capital expenditures, selling assets, restructuring or refinancing its debt, or seeking additional equity capital.

#### ***Security under the SNC-Lavalin Highway Holdings Loan***

SNC-Lavalin Highway Holdings Inc. (the "Borrower"), an indirect wholly-owned subsidiary of the Company, has a loan agreement with CDPQ RF, a wholly-owned subsidiary of Caisse de dépôt et placement du Québec, establishing a limited recourse loan (the "CDPQ Loan" and such agreement being the "SNC-Lavalin Highway Holdings Loan Agreement").

The CDPQ Loan is secured by all of the Borrower's assets, excluding the Highway 407 ETR shares held by the Borrower (until such time as the Borrower may elect to grant a pledge thereon), as well as the rights and loan receivables of the Borrower under the intercompany loan agreement, dated July 10, 2017, between the Borrower, as lender, and the Company, as borrower. In addition to this security, SNC-Lavalin Inc. has provided a guarantee (the "Guarantee") in favour of CDPQ RF secured by a pledge given by SNC-Lavalin Inc. to CDPQ RF over 20,900 common shares held by SNC-Lavalin Inc. in the share capital of the Borrower (representing approximately 29.9% of the outstanding common shares of the Borrower). CDPQ RF's sole recourse against SNC-Lavalin Inc. in connection with the Guarantee and any potential breach or default by the Borrower under the SNC-Lavalin Highway Holdings Loan Agreement is limited to enforcement on or against the shares of the capital of the Borrower held by SNC-Lavalin Inc. The Company has a 6.76% ownership interest in Highway 407 ETR through the Borrower. The terms of the SNC-Lavalin Highway Holdings Loan Agreement include various covenants that must be satisfied by the Borrower. There can be no assurance that such covenants will be satisfied. Any event of default under the SNC-Lavalin Highway Holdings Loan Agreement, including in respect of covenants thereunder, could result in, among other things, CDPQ RF demanding immediate payment of all amounts outstanding under the SNC-Lavalin Highway Holdings Loan Agreement, or forcing the sale of the Highway 407 ETR shares held by the Borrower in compliance with the Highway 407 ETR shareholders' agreement at a time, price and in circumstances outside of the Company's control and/or that may not allow for an optimal sale price of such Highway 407 ETR shares, which could have a material adverse effect on the Company's business and financial position.

#### ***Dependence on subsidiaries to help repay indebtedness***

A significant portion of the Company's assets are the capital stock of its subsidiaries and the Company conducts an important portion of its business through its subsidiaries. Consequently, the Company's cash flow and ability to service its debt obligations are dependent to a great extent upon the earnings of its subsidiaries and the

distribution of those earnings to the Company, or upon loans, advances or other payments made by these entities to the Company.

The Company's subsidiaries are separate and distinct legal entities and may have significant liabilities. The ability of these entities to pay dividends or make other loans, advances or payments to the Company will depend upon their operating results and will be subject to applicable laws and contractual restrictions contained in the instruments governing debt including, for example, the financial covenants set out in the SNC-Lavalin Highway Holdings Loan Agreement pursuant to which the Company's consolidated net recourse debt to adjusted earnings before interest, taxes, depreciation and amortization ratio cannot exceed a certain limit. In addition, certain other deeds and agreements governing certain subsidiaries of the Company contain restrictions on the payment of dividends and distributions, as well as specified liquidity covenants.

The ability of the Company's subsidiaries to generate sufficient cash flow from operations will depend on their future financial performance, which will be affected by a range of economic, competitive and business factors, including those discussed in this section, many of which are outside of the control of the Company or its subsidiaries. The cash flow and earnings of the Company's operating subsidiaries and the amount that they are able to distribute to the Company as dividends or otherwise may not generate sufficient cash flow from operations to satisfy the Company's debt obligations. Accordingly, the Company may have to undertake alternative financing plans, such as refinancing or restructuring its debt, selling assets, reducing or delaying capital investments or seeking to raise additional capital. The Company cannot assure that any such alternatives would be possible, that any assets could be sold, or, if sold, of the timing of the sales and the amount of proceeds realized from those sales, that additional financing could be obtained on acceptable terms, if at all, or that additional financing would be permitted under the terms of the Company's various debt instruments then in effect. The Company's inability to generate sufficient cash flow to satisfy its debt obligations, or to refinance its obligations on commercially reasonable terms, would have a material adverse effect on its business, financial condition and results of operations.

### ***Dividends***

The declaration and payment of dividends on Common Shares are at the discretion of the board of directors of the Company. The cash available for dividends is a function of numerous factors, including the Company's financial performance, the impact of interest rates, debt covenants and obligations, working capital requirements and future capital requirements. In addition, the Company's ability to pay dividends depends upon the payment of dividends by certain of the Company's subsidiaries or the repayment of funds to the Company by its subsidiaries. The Company's subsidiaries, in turn, may be restricted from paying dividends, making repayments or making other distributions to the Company for financial, regulatory, legal or other reasons. To the extent the Company's subsidiaries are not able to pay dividends or repay funds to the Company, it may adversely affect the Company's ability to pay dividends on common shares.

### ***Post-Employment Benefit Obligations, Including Pension-Related Obligations***

The Company operates certain defined benefits plans and provides other post-employment benefits. More specifically, Atkins operates two significant defined benefit plans, namely the Atkins Pension Plan and the Railways Pension Scheme, with combined net significant retirement benefit liabilities. The majority of Atkins' post-employment benefits obligations sits within its U.K. business and is comprised of defined benefit pension obligations. In the U.K., defined benefit pension schemes funding requirements are based on actuarial valuations of the assets and liabilities of each scheme. A scheme's assets are determined by the value of investments held by the scheme and the returns. The valuation of plan liabilities requires significant levels of judgement and technical expertise in choosing appropriate assumptions. Changes in a number of key assumptions can have a material impact on the calculation of the liability. There is also some judgement in the measurement of the fair value of pension assets giving rise to a risk of material misstatement in their valuation.

The nature of the funding regime in the U.K. creates uncertainty around the size and timing of cash that Atkins will be required to pay to the pension schemes. The scheduled contribution to the Atkins Pension Plan and the Railways Pension Scheme from Atkins totalled £36.0 million (or approximately CA\$61.0 million) for the year ending December 31, 2019, with annual contributions escalating by 2.5% each year until March 31, 2025. If Atkins is required to increase cash funding contributions, this will reduce the availability of such funds for other corporate

purposes and limit its ability to invest in growth. Deteriorating economic conditions may result in significant increases in Atkins' funding obligations, which could restrict available cash for Atkins' operations, capital expenditures and other requirements, and have a material adverse effect on Atkins' business, financial condition and results of operations.

The Company's post-employment benefit obligations, including its pension-related liabilities, and its future payment obligations thereunder could restrict cash available for the Company's operations, capital expenditures and other requirements and may materially adversely affect its financial condition and liquidity.

### ***Working capital requirements***

SNC-Lavalin may require significant amounts of working capital to finance the purchase of materials and/or the performance of engineering, construction and other work on certain projects before it receives payment from clients. In some cases, the Company is contractually obligated to its clients to fund working capital on projects. Increases in working capital requirements could negatively impact SNC-Lavalin's business, financial condition and cash flows.

Additionally, the Company could temporarily experience a liquidity shortfall if it is unable to access its cash balances, short-term investments or the Credit Agreement to meet the Company's working capital requirements. SNC-Lavalin's cash balances and short-term investments are in accounts held by banks and financial institutions, and some of the Company's deposits exceed available insurance. There is a risk that such banks and financial institutions may, in the future, go into bankruptcy or forced receivership, or that their assets may be seized by their governments, which may cause the Company to experience a temporary liquidity shortfall or fail to recover its deposits in excess of available insurance, if any.

A significant deterioration of the current global economic and credit market environment could challenge SNC-Lavalin's efforts to maintain a diversified asset allocation with creditworthy financial institutions.

In addition, SNC-Lavalin may invest some of its cash in longer-term investment opportunities, including the acquisition of other entities or operations, the reduction of certain liabilities such as unfunded pension liabilities and/or repurchases of the Company's outstanding shares. To the extent the Company uses cash for such other purposes, the amount of cash available for the working capital needs described above would be reduced.

### ***Collection from customers***

SNC-Lavalin is subject to the risk of loss due to the client's inability to fulfill its obligations with respect to trade receivables, contracts in progress and other financial assets. A client's inability to fulfill its obligations could have an adverse impact on the Company's financial condition and profitability.

In addition, the Company typically bills clients for engineering services in arrears and is, therefore, subject to its clients delaying or failing to pay invoices after the Company has already committed resources to their projects. If one or more clients delays in paying or fails to pay a significant amount of the Company's outstanding receivables, it could have a material adverse impact on the Company's liquidity, financial condition and results of operations.

### ***Impairment of goodwill and other assets***

In accordance with IFRS, goodwill is assessed for impairment at least annually by determining whether the recoverable amount of a cash-generating unit ("CGU") or group of CGUs exceeds its carrying amount. Determining whether goodwill is impaired requires an estimation of the value in use of the CGU or group of CGU to which goodwill has been allocated, requiring management's estimates and judgments that are inherently subjective and uncertain, and thus may change over time. The key assumptions required for the value in use estimation are the future cash flows growth rate and the discount rate. The determination of these estimated cash flows require the exercise of judgment, which might result in significant variances in the carrying amount of these assets.

The Company cannot guarantee that new events or unfavorable circumstances will not take place that would lead it to reassess the value of goodwill and record a significant goodwill impairment loss, which could have a material adverse effect on the Company's results of operations and financial position.

Financial assets, including the Company's investments, other than those accounted for at fair value, are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected. In such instance, the Company may be required to reduce carrying values to their estimated fair value. The inherent subjectivity of the Company's estimates of future cash flows could have a significant impact on its analysis. Any future write-offs or write-downs of assets or in the carrying value of the Company's investments could also have a material adverse effect on its financial condition or results of operations.

## **RISKS RELATED TO LITIGATION, INVESTIGATIONS, SETTLEMENTS AND REGULATORY MATTERS**

### ***Outcome of pending and future claims and litigation***

SNC-Lavalin itself, or the entities through which Capital makes its investments or its other subsidiaries, are or can be party to litigation in the normal course of business. Since the Company engages in engineering and construction, and O&M activities for facilities and projects where design, construction or systems failures can result in substantial injury or damage to employees or others, the Company is exposed to substantial claims and litigation if there is a failure at any such project. Such claims could relate to, among other things, personal injury, loss of life, business interruption, property damage, pollution, and environmental damage and be brought by clients or third parties, such as those who use or reside near clients' projects. SNC-Lavalin can also be exposed to claims if it agreed that a project will achieve certain performance standards or satisfy certain technical requirements and those standards or requirements are not met. In many contracts with clients, subcontractors, and vendors, the Company agrees to retain or assume potential liabilities for damages, penalties, losses and other exposures relating to projects that could result in claims that greatly exceed the anticipated profits relating to those contracts. In addition, while clients and subcontractors may agree to indemnify the Company against certain liabilities, such third parties may refuse or be unable to pay.

#### Class actions

##### *Ruediger Class Action*

On February 6, 2019, a Motion for authorization of a class action and for authorization to bring an action pursuant to section 225.4 of Quebec's Securities Act (the "Ruediger Class Action Motion") was filed with the Quebec Superior Court (the "Ruediger Class Action"), on behalf of persons who acquired SNC-Lavalin securities from February 22, 2018 through January 27, 2019 (the "Ruediger Class Period"), and held some or all of such securities as of the commencement of trading on January 28, 2019.

The Ruediger Class Action Motion alleges that certain documents filed by SNC-Lavalin and oral statements made by its then Chief Executive Officer during the Ruediger Class Period contained misrepresentations related to SNC-Lavalin's revenue forecasts and to the financial performance of the Mining & Metallurgy and Oil & Gas segments, which misrepresentations would have been corrected by way of SNC-Lavalin's January 28, 2019 press release.

The Ruediger Class Action Motion seeks leave from the Quebec Superior Court to bring a statutory misrepresentation claim under Quebec's Securities Act. The proposed action claims damages and seeks the condemnation of the Defendants to pay the class members an unspecified amount for compensatory damages with interest and additional indemnity as well as full costs and expenses, including expert fees, notice fees and fees relating to administering the plan of distribution.

On October 15, 2019, the plaintiffs in the Ruediger Class Action Motion delivered an amended "Motion for authorization of a class action and for authorization to bring an action pursuant to section 225.4 of Quebec's Securities Act". The amendments extend the class period for the Ruediger Class Action Motion to July 22, 2019 and broaden the scope of the claim from the Codelco project to the Company's general execution of fixed price contracts for engineering services, materials, equipment or construction.

SNC-Lavalin believes the claims outlined in the Ruediger Class Action Motion are completely without merit.

### *Drywall Class Action*

On June 5, 2019, a Statement of Claim was filed with the Ontario Superior Court of Justice (the “Drywall Class Action”), on behalf of persons who acquired SNC-Lavalin securities from February 22, 2018 through May 2, 2019 (the “Drywall Class Period”).

The Drywall Class Action claim alleges that disclosures by SNC-Lavalin during the Drywall Class Period contained misrepresentations related to: (i) its IFRS 15 reporting systems and controls compliance; (ii) its revenue recognition in respect of the Mining & Metallurgy segment being non-compliant with IFRS 15; (iii) revenue on the Company’s Codelco project in Chile being overstated in 2018 due to non-compliance with IFRS 15; (iv) the failure of the Company’s disclosure controls and procedures and its internal controls over financial reporting which led to a \$350 million write-down on the Codelco project; (v) when IFRS was applied to the Mining & Metallurgy segment results in 2019, this led to the Company disbanding its Mining & Metallurgy segment; and (vi) the Company’s financial statements during the Drywall Class Period being materially non-compliant with IFRS.

The Drywall Class Action seeks leave from the Ontario Superior Court of Justice to bring a statutory misrepresentation claim under Ontario’s Securities Act. The proposed action claims damages and seeks the condemnation of the Defendants to pay the class members \$1.2 billion or such other compensatory damages as the court may award, with interest and additional indemnity as well as full costs and expenses, including expert fees, notice fees and fees relating to administering the plan of distribution.

On September 13, 2019, counsel to the plaintiffs in the Ruediger Class Action brought a motion to stay the Drywall Class Action on the grounds that it is duplicative of the Ruediger Class Action Motion. Counsel for the Company filed a companion motion in support of this motion on October 1, 2019. These companion motions were heard together on November 8, 2019 and the Ontario Superior Court of Justice rendered its decision on November 21, 2019, dismissing the motions. On December 6, 2019, the plaintiff in the Ruediger Class Action and the Company brought motions for leave to appeal the dismissal of these motions.

On October 15, 2019, the plaintiffs in the Drywall Class Action delivered a proposed Amended Statement of Claim that contemplates expanding the Drywall Class Period to include SNC-Lavalin’s July 22, 2019 and August 1, 2019 press releases and increasing the claim for damages from \$1.2 billion to \$1.8 billion.

### *Peters Class Action*

On February 25, 2019, a Notice of Action was issued with the Ontario Superior Court of Justice, on behalf of persons who acquired SNC-Lavalin securities from September 4, 2018 through October 10, 2018. On March 25, 2019, a Statement of Claim was filed with the Ontario Superior Court of Justice with respect to the claims set out in the Notice of Action (together, the Notice of Action and the Statement of Claim are the “Peters Class Action”).

The Peters Class Action alleges that the defendants, including the Company, its Chairman and certain of its officers, failed to make timely disclosure of a material change in the business, operations or capital of SNC-Lavalin, by failing to disclose that on September 4, 2018, the Director of the PPSC communicated her decision to SNC-Lavalin not to award an opportunity to negotiate a remediation agreement.

The Peters Class Action seeks leave from the Ontario Superior Court of Justice to bring a statutory misrepresentation claim under Ontario’s Securities Act and the comparable acts in other provinces. The Peters Class Action claims damages in the sum of \$75 million or such other amount as the Superior Court may determine plus interest and costs.

SNC-Lavalin intends to defend the Ruediger Class Action, the Drywall Class Action, and the Peters Class Action vigorously. Due to the inherent uncertainties of litigation, it is not possible to predict the final outcome of the Ruediger Class Action, the Drywall Class Action or the Peters Class Action, or determine the amount of any potential losses, if any, and SNC-Lavalin may, in the future, be subject to further class action lawsuits or other litigation. SNC-Lavalin has directors’ and officers’ liability insurance insuring individuals against liability for acts or omissions in their capacity as directors and officers, and the Company itself has coverage for such claims. The amount of coverage under the directors’ and officers’ policy is limited and such coverage may be less than any amounts the Company is required or determines to pay in connection with these proceedings. If the Company is required or determines to pay an amount in connection with the Ruediger Class Action, the Drywall Class Action

or the Peters Class Action, such amount could have a material adverse effect on SNC-Lavalin's liquidity and financial results.

#### *Other Class Actions*

In 2018, the Company reached a settlement agreement in relation to class actions in Quebec and Ontario filed in 2012 on behalf of security holders resulting in a net expense of \$89.4 million, including the related legal costs.

#### Pyrrhotite case

On June 12, 2014, the Quebec Superior Court rendered a decision in "Wave 1" of the matter commonly referred to as the "Pyrrhotite Case" in Trois-Rivières, Quebec and in which SNC-Lavalin is one of numerous defendants. The Quebec Superior Court ruled in favour of the plaintiffs, awarding an aggregate amount of approximately \$168 million in damages apportioned amongst the then-known defendants, on an in solidum basis (the "Wave 1 claims"). SNC-Lavalin, among other parties, filed a Notice to Appeal the Quebec Superior Court decision both on merit and on the apportionment of liability. Based on the current judgment, SNC-Lavalin's share of the damages would be approximately 70%, a significant portion of which the Company would expect to recover from its external insurers (such insurance coverage is itself subject to litigation). The appeal hearing started in October 2017 and was completed during the week of April 30th, 2018. A decision from the Quebec Court of Appeal is expected in early 2020.

In addition to the appeal of the decision, a recourse in warranty was filed against another party seeking its contribution to the damages awarded against SNC-Lavalin in the Wave 1 judgement. This recourse, for which the trial commenced in March 2019 and should be completed in early 2020, may result in a reduction of SNC-Lavalin's share of the damages.

In parallel to the appeal and warranty recourses for Wave 1 claims, additional potential claims were notified and continue to be notified against numerous defendants, including SNC-Lavalin, in "Wave 2" of the Pyrrhotite Case. Wave 2 claims are currently undergoing discovery stage and it is still premature to evaluate SNC-Lavalin's total liability exposure in respect of same, if any. It is currently estimated that a significant portion of the damages claimed are in respect of buildings for which the concrete foundations were poured outside of SNC-Lavalin's liability period, as determined in the Wave 1 judgement. SNC-Lavalin also expects some insurance coverage for Wave 2 claims. In addition, SNC-Lavalin has undertaken a warranty recourse against another party with respect to Wave 2 claims.

#### Dubai civil case

In November, 2018, WS Atkins & Partners Overseas, a subsidiary of the Company, was named as respondent together with other parties by the subrogated insurers of a property developer in a civil case initiated before the courts of Dubai. The claimant is seeking damages jointly from the respondents on account of the alleged refurbishment costs and loss of income arising from a fire at the property developer's building. WS Atkins & Partners Overseas was a subcontractor in the hotel's design and construction supervision and the claim revolves around alleged negligence in the specification, testing and installation of the building cladding which is claimed to have exacerbated the fire, thereby increasing the damage to the building. The claim is in preliminary stages and the Company is not currently in a position to estimate potential liability or amount of loss, if any.

#### Australian arbitration

One of the Company's subsidiaries has a 35% interest in a joint operation for a project that has been completed. The construction joint operation is in a dispute with the project owner over labour rates. Under the relevant project contract, the Company's subsidiary is jointly and severally liable with the other joint operator vis-à-vis the project owner for performance and other liabilities. In December 2018, the joint operation received a split award of liability from an arbitration tribunal resulting in an adverse decision on certain aspects of the dispute. A hearing on the quantum of damages to be awarded against the joint operation (if any) is scheduled for 2020. The other joint operator holding the balance of the joint operation interest (65%), CBI Constructors Pty. Ltd., is part of the McDermott International, Inc. ("McDermott"), group, which filed for Chapter 11 bankruptcy protection in January 2020. While the Company's consolidated statement of financial position reflects its share (35%) of the estimated quantum of the damages, such position might need to be adjusted pending the outcome of the quantum decision.

and/or the McDermott Chapter 11 bankruptcy proceedings in light of the underlying joint and several liability between the parties of the joint operation.

#### General litigation risk

Due to the inherent uncertainties of litigation, it is not possible to (a) predict the final outcome of these and other related proceedings generally, (b) determine if the amount included in the Company's provisions is sufficient or (c) determine the amount of any potential losses, if any, that may be incurred in connection with any final judgment on these matters.

SNC-Lavalin maintains insurance coverage for various aspects of its business and operations. The Company's insurance programs have varying coverage limits and maximums, and insurance companies may seek to deny claims the Company might make. In addition, SNC-Lavalin has elected to retain a portion of losses that may occur through the use of various deductibles, limits and retentions under these programs. As a result, the Company may be subject to future liability in respect of lawsuits or investigations for which it is only partially insured, or completely uninsured.

In addition, the nature of the Company's business sometimes results in clients, subcontractors, and vendors presenting claims for, among other things, recovery of costs related to certain projects. Similarly, SNC-Lavalin occasionally presents change orders and other claims to clients, subcontractors, and vendors. If the Company fails to document properly the nature of claims and change orders or is otherwise unsuccessful in negotiating reasonable settlements with clients, subcontractors and vendors, the Company could incur cost overruns, reduced profits or, in some cases, a loss for a project. A failure to recover promptly on these types of claims could have a material adverse impact on SNC-Lavalin's liquidity and financial results. Additionally, irrespective of how well the Company documents the nature of its claims and change orders, the cost to prosecute and defend claims and change orders can be significant.

Litigation and regulatory proceedings are subject to inherent uncertainties and unfavourable rulings can and do occur. Pending or future claims against SNC-Lavalin could result in professional liability, product liability, criminal liability, warranty obligations, and other liabilities which, to the extent the Company is not insured against a loss or its insurer fails to provide coverage, could have a material adverse impact on the Company's business, financial condition and results of operations.

The Company is subject to ongoing investigations that could subject the Company to criminal and administrative enforcement actions, civil actions and sanctions, fines and other penalties, some of which may be significant. These investigations, and potential results thereof, could harm the Company's reputation, result in suspension, prohibition or debarment of the Company from participating in certain projects, reduce its revenues and net income and adversely affect its business.

#### ***Ongoing and potential investigations***

The Company understands that there are investigations by various authorities which may remain ongoing in connection with certain legacy matters (unrelated to the settlements described below) in various jurisdictions, including, without limitation, Algeria.

The Company also understands that a Royal Canadian Mounted Police (the "RCMP") investigation relating to alleged payments in connection with a 2002 contract for the refurbishment of the Jacques Cartier Bridge by a consortium which included SNC-Lavalin and which led to a guilty plea by the former head of the Canada Federal Bridges Corporation in 2017, continues and its scope may include the Company.

The Company is currently unable to determine when any of these investigations will be completed or whether other investigations of the Company by these or other authorities will be initiated or the scope of current investigations broadened. The Company continues to cooperate and communicate with authorities in connection with all ongoing investigations.

If regulatory, enforcement or administrative authorities or third parties determine to take action against the Company or to sanction the Company in connection with possible violations of law, contracts or otherwise as a result of ongoing or future investigations, the consequences of any such sanctions or other actions, whether

actual or alleged, could require the Company to pay material fines or damages, consent to injunctions on future conduct or lead to other penalties, including temporary or permanent, mandatory or discretionary suspension, prohibition or debarment from participating in projects, or the revocation of authorizations or certifications, by certain administrative organizations or by governments (such as the Government of Canada and/or the Government of Quebec) under applicable procurement laws, regulations, policies or practices. The Company derives a significant percentage of its annual global revenue from government and government-related contracts. Further, public and private sector bid processes in some instances assess whether the bidder, or an affiliate thereof, has ever been the object of any investigations, or sanctions or other actions resulting therefrom. In such instances, if a member of the Company's group must answer affirmatively to a query as to past or current investigations, or sanctions or other actions resulting therefrom, such answer may affect that entity's ability to be considered for the applicable project. In addition, the Company may not win contracts that it has bid upon due to a client's perception of the Company's reputation and/or perceived reputational advantages held by competitors as a result of such investigations, sanctions or other actions. Loss of bidding opportunities resulting from such investigations, sanctions or other actions, whether discretionary (including as a result of reputational factors) or mandatory, from participating in certain government, government-related and private contracts (in Canada, Canadian provinces or elsewhere) could materially adversely affect the Company's business, financial condition and liquidity and the market price of the Company's publicly traded securities.

The outcomes of ongoing or future investigations could also result in, among other things, (i) covenant defaults under various project contracts, (ii) third party claims, which may include claims for special, indirect, derivative or consequential damages, or (iii) adverse consequences on the Company's ability to secure or continue its own financing, or to continue or secure financing for current or future projects, any of which could materially adversely affect the Company's business, financial condition and liquidity and the market prices of the Company's publicly traded securities. In addition, these investigations and outcomes of these investigations and any negative publicity associated therewith, could damage SNC-Lavalin's reputation and ability to do business.

Due to the uncertainties related to the outcome of ongoing or future investigations, the Company is currently unable to reliably estimate an amount of potential liabilities or a range of potential liabilities, if any, in connection with any of these investigations.

The Company's senior management and Board of Directors have been required to devote significant time and resources to the investigations described above and ongoing related matters, as well as the investigations leading to the settlements described below, which have distracted and may continue to distract from the conduct of the Company's daily business, and significant expenses have been and may continue to be incurred in connection with such investigations including substantial fees of lawyers and other advisors. In addition, the Company and/or other employees or additional former employees of the Company could become the subject of these or other investigations by law enforcement and/or regulatory authorities in respect of the matters described above or below, or other matters, which, in turn, could require the devotion of additional time of senior management and the diversion or utilization of other resources.

## **Settlements**

### **PPSC Settlement**

On February 19, 2015, the RCMP and the Public Prosecution Service of Canada ("PPSC") laid charges against the Company and its indirect subsidiaries SNC-Lavalin International Inc. and SNC-Lavalin Construction Inc. Each entity was charged with one count of fraud under Section 380 of the Criminal Code (Canada) (the "Criminal Code") and one count of corruption under Section 3(1)(b) of the Corruption of Foreign Public Officials Act (Canada) (the "CFPOA") (the "Charges"). These Charges followed the RCMP's formal investigation (including in connection with the search warrant executed by the RCMP at the Company on April 13, 2012) into whether improper payments were made or offered, directly or indirectly, to be made, to a government official of Libya to influence the award of certain engineering and construction contracts between 2001 and 2011. This investigation also led to criminal charges being laid against two former employees of the Company.

On December 18, 2019, the Company announced it had reached a settlement with the PPSC regarding the Charges (the "PPSC Settlement"). As part of the PPSC Settlement, SNC-Lavalin Construction Inc. has accepted a plea of guilty to a single charge of fraud (the "Plea"). All other Charges against the Company, SNC-Lavalin

International Inc. and SNC-Lavalin Construction Inc. have been withdrawn by the PPSC. Also as part of the PPSC Settlement, SNC-Lavalin Construction Inc. will pay a fine in the amount of \$280 million, payable in equal installments over 5 years, and will be subject to a three-year probation order. The Company estimated the net present value of these installments at \$257.3 million at the date of settlement. The Company will comply with the probation order for the three-year period.

The Plea may result in, among other things, (i) breaches and/or events of default under various project agreements giving rise to discretionary termination rights in favour of the counterparties thereto, (ii) third party claims, which may include claims for special, indirect, derivative or consequential damages, or (iii) adverse consequences on the Company's ability to secure financing, or to continue to secure financing for current or future projects, any of which could materially adversely affect the Company's business, financial condition and liquidity and the market prices of the Company's publicly traded securities.

In addition, potential consequences of the Plea could include, in respect of the Company or one or more of its subsidiaries, suspension, prohibition or debarment from participating in public or private sector projects or bids, or the revocation of authorizations or certifications, by certain governments or by certain administrative organizations. While the Company does not anticipate that the Plea will affect the eligibility of the Company to bid on future projects that are aligned with its newly announced strategic direction, possible suspension, prohibition, debarment or loss of bidding opportunities or the revocation of authorizations or certifications in the short term, as a result of the Plea, could have a short term material adverse effect on the Company's business, financial condition and liquidity and the market prices of the Company's publicly traded securities.

The Company cannot predict if any other actions may be taken by any other applicable government or authority or the Company's customers or other third parties as a result of the Plea.

#### World Bank Settlement

On April 17, 2013, the Company announced a settlement in connection with the previously announced investigations by the World Bank Group relating to a project in Bangladesh and a project in Cambodia, which includes a suspension of the right to bid on and to be awarded World Bank Group-financed projects by SNC-Lavalin Inc., a subsidiary of the Company, and its controlled affiliates for a period of 10 years (the "World Bank Settlement"). The suspension could be lifted after eight years, if the terms and conditions of the settlement agreement are complied with fully. According to the terms of the World Bank Settlement, the Company and certain of its other affiliates continue to be eligible to bid on and be awarded World Bank Group-financed projects as long as they comply with all of the terms and conditions imposed upon them under the terms of the World Bank Settlement, including an obligation not to evade the sanction imposed. The World Bank Settlement also requires that the Company cooperate with the World Bank on various compliance matters in the future. The World Bank Settlement has led to certain other multilateral development banks following suit, debarring SNC-Lavalin Inc. and its controlled affiliates on the same terms.

#### Canada's Integrity Regime

The Canadian government announced the Integrity Regime for procurement and real property transactions on July 3, 2015. The scope of offences which may cause a supplier to be deemed ineligible to carry on business with the federal government is broad and encompasses offences under the Criminal Code, the Competition Act, and the CFPOA, among others. Some of the offences qualifying for ineligibility include: bribery, fraud against Canada, money laundering, falsification of books and documents, extortion, and offences related to drug trafficking. A determination of ineligibility to participate in federal government procurement projects may apply for 10 years for listed offences. However, the Integrity Regime permits the ineligibility period to be reduced by up to five years if a supplier can establish that it has cooperated with law enforcement authorities or addressed the causes of misconduct. The Canadian government is currently considering further revisions to the Integrity Regime.

If a supplier pleads guilty or is charged with a listed offence (which does not currently include the Plea), it and its affiliates may under the Integrity Regime be ineligible to do business with the Canadian government.

If a supplier applies for a reduced ineligibility period, or if a supplier charged with a listed offence is notified that it could be ineligible to do business with the Canadian government, as a condition of granting the reduced ineligibility period or not suspending the supplier an administrative agreement may be imposed to monitor the

supplier. Administrative agreements include conditions and compliance measures that the supplier must meet to remain eligible to contract with the federal government. In December 2015, the Company entered into an administrative agreement with the Canadian government under the Integrity Regime in connection with the Charges (the “Administrative Agreement”) which, according to its terms, will remain in force for 12 further months from the date of the Plea and will then terminate.

#### Other Risks Resulting from Settlements

Failure by the Company to abide by the terms of the PPSC Settlement, the World Bank Settlement or the Administrative Agreement could result in serious consequences for the Company, including new sanctions, legal actions and/or suspension from eligibility to carry on business with the government or agency involved or to work on projects funded by them. The Company is taking steps that are expected to mitigate these risks.

#### ***Further regulatory developments as well as employee, agent or partner misconduct or failure to comply with anti-bribery and other government laws and regulations***

The Company is subject to various rules, regulations, laws, and other legal requirements, enforced by governments or other authorities. Further regulatory developments, namely abrupt changes in foreign government policies and regulations, could have a significant adverse impact on the Company’s results.

In addition, misconduct, fraud, non-compliance with applicable laws and regulations, or other improper activities by one of the Company’s employees, agents or partners could have a significant negative impact on SNC-Lavalin’s business and reputation. Such misconduct could include the failure to comply with government procurement regulations, regulations regarding the protection of classified information, regulations prohibiting bribery and other foreign corrupt practices, regulations regarding the pricing of labour and other costs in government contracts, regulations on lobbying or similar activities, regulations pertaining to the internal control over financial reporting, environmental laws and any other applicable laws or regulations. For example, the CFPOA and similar anti-bribery laws in other jurisdictions generally prohibit companies and their intermediaries from making improper payments to foreign officials for the purpose of obtaining or retaining business. In addition, SNC-Lavalin provides services that may be highly sensitive or that could relate to critical national security matters; if a security breach were to occur, the Company’s ability to procure future government contracts could be severely limited.

SNC-Lavalin’s policies mandate compliance with these regulations and laws, and the Company takes precautions intended to prevent and detect misconduct. However, since internal controls are subject to inherent limitations, including human error, it is possible that these controls could be intentionally circumvented or become inadequate because of changed conditions. As a result, SNC-Lavalin cannot assure that its controls will protect the Company from reckless or criminal acts committed by employees, agents or partners. Failure to comply with applicable laws or regulations or acts of misconduct could subject SNC-Lavalin to fines and penalties, loss of security clearances, and suspension, prohibition or debarment from contracting, any or all of which could harm the Company’s reputation, subject the Company to criminal and administrative enforcement actions and civil actions and have a negative impact on SNC-Lavalin’s business.

#### ***Reputation of the Company***

The consequence of reputational risk is a negative impact on the Company’s public image, which may cause the cancellation of current projects and influence the Company’s ability to obtain future projects. Reputational risk may arise under many situations including, among others, quality or performance issues on the Company’s projects, a poor health and safety record, alleged or proven non-compliance with laws or regulations by the Company’s employees, agents, subcontractors, suppliers and/or partners, and creation of pollution and contamination.

### **RISKS RELATING TO COMPLIANCE AND FINANCIAL REPORTING**

#### ***Inherent limitations to the Company’s control framework***

SNC-Lavalin maintains accounting systems and internal controls over its financial reporting and disclosure controls and procedures. There are inherent limitations to any control framework, as controls can be circumvented

by acts of individuals, intentional or not, by collusion of two or more individuals, by management override of controls, by lapses in judgment and breakdowns resulting from human error. There are no systems or controls that can provide absolute assurance that all fraud, errors, circumvention of controls or omission of disclosure can and will be prevented or detected. Such fraud, errors, circumvention of controls or omission of disclosure could result in a material misstatement of financial information. Also, projections of any evaluation of the effectiveness of controls to future periods are subject to the risk that controls may become inadequate because of changes in conditions or that the degree of compliance with the policies or procedures may deteriorate.

### ***Environmental laws and regulations***

SNC-Lavalin is exposed to various environmental risks and is subject to complying with environmental laws and regulations which vary from country to country and are subject to change. The Company's inability to comply with environmental laws and regulations could result in penalties, lawsuits and potential harm to its reputation.

The Company manages several legacy sites for which the Company has potential exposure to the costs of environmental remediation and possible harm to neighbouring properties and communities. While the Company is taking steps to manage this risk and has provisions in its books for the related risk and expense, there can be no assurance that it will not be subject to claims for damages, remediation and other related matters, and its provisions may not fully cover any such future claim or expense.

Growing concerns about climate change may also result in the imposition of additional environmental regulations. Legislation, international protocols, regulation or other restrictions on emissions could result in increased compliance costs for the Company and its clients, including those who are involved in the exploration, production or refining of fossil fuels, emit greenhouse gases through the combustion of fossil fuels or emit greenhouse gases through the mining, manufacture, utilization or production of materials or goods. Such policy changes could increase the costs of projects for clients or, in some cases, prevent a project from going forward, thereby potentially reducing the need for the Company's services, which would in turn have a material adverse impact on the Company's business, financial condition and results of operations. However, these changes could also increase the pace of projects, such as carbon capture or storage projects, that could have a positive impact on the Company's business. SNC-Lavalin cannot predict when or whether any of these various proposals may be enacted or what their effect will be on the Company or on its customers.

## **GLOBAL / MACROECONOMIC RISKS**

### ***Brexit***

On June 23, 2016, the United Kingdom (U.K.) held a referendum in which voters approved an exit from the European Union (E.U.), commonly referred to as "Brexit". Brexit could result in increased geopolitical and economic risks, currency exchange fluctuations, and could cause disruptions to and create uncertainty surrounding the Company's businesses, including affecting the Company's relationships with existing and future customers, suppliers and employees, which could in turn have a material adverse effect on the Company's financial results and operations. There could also be greater restrictions on imports and exports between the U.K. and E.U. countries and could also result in increased regulatory complexities. These changes may adversely affect the Company's operations and financial results.

### ***Global economic conditions***

Fluctuations in global economic conditions may have an impact on clients' willingness and ability to fund their projects. These conditions could make it difficult for the Company's clients to accurately forecast and plan future business trends and activities, thereby causing clients to slow or even curb spending on the Company's services, or seek contract terms more favourable to them. SNC-Lavalin's government clients may face budget deficits that prohibit them from funding proposed and existing projects or that cause them to exercise their right to terminate contracts with little or no prior notice. Furthermore, any financial difficulties suffered by the Company's partners, subcontractors or suppliers could increase cost or adversely impact project schedules. These economic conditions continue to reduce the availability of liquidity and credit to fund or support the continuation and expansion of industrial business operations worldwide. Volatile financial market conditions and adverse credit market conditions could adversely affect clients', partners' or the Company's own borrowing capacity, which

support the continuation and expansion of projects worldwide, and could result in contract cancellations or suspensions, project delays, payment delays or defaults by the Company's clients. SNC-Lavalin's ability to operate or expand its business would be limited if, in the future, the Company is unable to access sufficient credit capacity, including capital market funding, bank credit, such as letters of credit, and surety bonding on favourable terms or at all. These disruptions could materially impact the Company's remaining performance obligations, revenues and net income.

### ***Fluctuations in commodity prices***

Commodity prices can affect SNC-Lavalin's clients in a number of ways. For example, for those clients that produce commodity products, fluctuations in price can have a direct effect on their profitability and cash flow and, therefore, their willingness to continue to invest or make new capital investments. To the extent commodity prices decline and the Company's clients defer new investments or cancel or delay existing projects, the demand for the Company's services decreases, which may have a material adverse impact on SNC-Lavalin's business, financial condition and results of operations.

Commodity prices can also strongly affect the costs of projects. Rising commodity prices can negatively impact the cost of completing future projects as well as those in progress, and could have a material adverse impact on SNC-Lavalin's business, financial condition and results of operations.

## 16 Controls and Procedures

The Company's Chief Executive Officer ("CEO") and the Chief Financial Officer ("CFO") are responsible for establishing and maintaining the Company's disclosure controls and procedures as well as its internal control over financial reporting, as those terms are defined in National Instrument 52-109, *Certification of Disclosure in Issuers' Annual and Interim Filings* ("NI 52-109") of the Canadian securities regulatory authorities.

### 16.1 DISCLOSURE CONTROLS AND PROCEDURES AND INTERNAL CONTROLS OVER FINANCIAL REPORTING

The CEO and the CFO have designed disclosure controls and procedures, or caused them to be designed under their supervision, to provide reasonable assurance that:

- i. Material information relating to the Company is made known to them by others, particularly during the period in which the annual filings are being prepared; and
- ii. Information required to be disclosed by the Company in its annual filings, interim filings or other reports filed or submitted by it under securities legislation is recorded, processed, summarized and reported within the time periods specified in securities legislation.

Based on their evaluation carried out to assess the effectiveness of the Company's disclosure controls and procedures, the CEO and the CFO have concluded that the disclosure controls and procedures were designed and operated effectively as at December 31, 2019.

The CEO and the CFO have also evaluated, or caused to be evaluated under their supervision, the effectiveness of the Company's disclosure controls and procedures, and its internal control over financial reporting, in each case as at December 31, 2019.

Based on their evaluation carried out to assess the effectiveness of the Company's internal control over financial reporting, the CEO and the CFO have concluded that the internal control over financial reporting was designed and operated effectively as at December 31, 2019, using the Internal Control – Integrated Framework (2013 Framework) issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO 2013 Framework").

### 16.2 CHANGES IN INTERNAL CONTROL OVER FINANCIAL REPORTING

There have been no changes in the Company's internal control over financial reporting that occurred during the most recent interim period and year ended December 31, 2019 that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting other than changes resulting from the remedial measures that were implemented during the first three quarters of 2019 to address the previously identified material weaknesses that no longer exist as at December 31, 2019.

# 17 Quarterly Information

| YEARS ENDED DECEMBER 31<br>(IN MILLIONS CA\$, EXCEPT PER SHARE AMOUNTS)                    | 2019             |                   |                  |                   |           | 2018             |                   |                  |                   |           |
|--------------------------------------------------------------------------------------------|------------------|-------------------|------------------|-------------------|-----------|------------------|-------------------|------------------|-------------------|-----------|
|                                                                                            | FIRST<br>QUARTER | SECOND<br>QUARTER | THIRD<br>QUARTER | FOURTH<br>QUARTER | TOTAL     | FIRST<br>QUARTER | SECOND<br>QUARTER | THIRD<br>QUARTER | FOURTH<br>QUARTER | TOTAL     |
| Revenues :                                                                                 |                  |                   |                  |                   |           |                  |                   |                  |                   |           |
| From E&C                                                                                   | 2,291.0          | 2,209.4           | 2,352.6          | 2,399.9           | 9,252.9   | 2,367.2          | 2,469.9           | 2,496.8          | 2,485.4           | 9,819.3   |
| From Capital                                                                               | 72.2             | 74.7              | 79.6             | 36.2              | 262.7     | 64.2             | 57.2              | 66.2             | 77.1              | 264.7     |
|                                                                                            | 2,363.2          | 2,284.2           | 2,432.2          | 2,436.1           | 9,515.6   | 2,431.4          | 2,527.1           | 2,563.0          | 2,562.5           | 10,084.0  |
| <b>EBIT</b>                                                                                | 13.9             | (2,113.9)         | 3,108.0          | (266.6)           | 741.4     | 129.8            | 109.1             | 185.4            | (1,584.7)         | (1,160.4) |
| Net financial expenses                                                                     | 52.4             | 92.9              | 42.1             | 24.6              | 212.1     | 42.0             | 37.1              | 44.0             | 44.3              | 167.4     |
| Earnings (loss) before income taxes                                                        | (38.5)           | (2,206.8)         | 3,065.9          | (291.2)           | 529.3     | 87.7             | 72.0              | 141.4            | (1,629.0)         | 1,327.8   |
| Income taxes                                                                               | (20.2)           | (88.1)            | 309.3            | (2.2)             | 198.7     | 9.5              | (11.2)            | 20.4             | (30.2)            | (11.5)    |
| <b>Net income (loss)</b>                                                                   | (18.3)           | (2,118.7)         | 2,756.6          | (289.0)           | 330.6     | 78.3             | 83.2              | 121.0            | (1,598.8)         | (1,316.3) |
| Net income (loss) attributable to:                                                         |                  |                   |                  |                   |           |                  |                   |                  |                   |           |
| SNC-Lavalin shareholders                                                                   | (17.3)           | (2,118.3)         | 2,756.7          | (292.9)           | 328.2     | 78.1             | 83.0              | 120.7            | (1,598.7)         | (1,316.9) |
| Non-controlling interests                                                                  | (1.0)            | (0.4)             | (0.1)            | 3.9               | 2.4       | 0.2              | 0.2               | 0.2              | —                 | 0.6       |
| <b>Net income (loss)</b>                                                                   | (18.3)           | (2,118.7)         | 2,756.6          | (289.0)           | 330.6     | 78.3             | 83.2              | 120.9            | (1,598.7)         | (1,316.3) |
| <b>Basic earnings (loss) per share (\$)</b>                                                | (0.10)           | (12.07)           | 15.70            | (1.67)            | 1.87      | 0.44             | 0.47              | 0.69             | (9.11)            | (7.50)    |
| Diluted earnings (loss) per share (\$):                                                    |                  |                   |                  |                   |           |                  |                   |                  |                   |           |
| From E&C                                                                                   | (0.38)           | (12.44)           | 0.67             | (1.77)            | (13.92)   | 0.18             | (0.10)            | 0.44             | (9.42)            | (8.90)    |
| From Capital                                                                               | 0.29             | 0.37              | 15.04            | 0.10              | 15.79     | 0.26             | 0.56              | 0.25             | 0.32              | 1.40      |
| <b>Diluted earnings (loss) per share (\$)</b>                                              | (0.10)           | (12.07)           | 15.70            | (1.67)            | 1.87      | 0.44             | 0.47              | 0.69             | (9.11)            | (7.50)    |
| <b>Dividend declared per share (\$)</b>                                                    | 0.10             | 0.02              | 0.02             | 0.02              | 0.16      | 0.29             | 0.29              | 0.29             | 0.10              | 0.96      |
| Net income (loss) attributable to<br>SNC-Lavalin shareholders from<br>E&C                  | (67.4)           | (2,183.8)         | 116.9            | (310.4)           | (2,444.6) | 31.5             | (16.8)            | 76.6             | (1,654.3)         | (1,563.0) |
| Net income (loss) attributable to<br>SNC-Lavalin shareholders from<br>Capital investments: |                  |                   |                  |                   |           |                  |                   |                  |                   |           |
| From Highway 407 ETR                                                                       | 41.9             | 41.9              | 41.9             | 20.3              | 146.1     | 38.0             | 38.0              | 39.3             | 39.2              | 154.3     |
| From other Capital investments                                                             | 8.1              | 23.5              | 2,597.9          | (2.8)             | 2,626.7   | 8.6              | 61.9              | 4.9              | 16.4              | 91.8      |
| <b>Net income (loss) attributable to<br/>SNC-Lavalin shareholders</b>                      | (17.3)           | (2,118.3)         | 2,756.7          | (292.9)           | 328.2     | 78.1             | 83.0              | 120.7            | (1,598.7)         | (1,316.9) |

# Management's Responsibility for Financial Reporting

The accompanying audited consolidated financial statements ("financial statements") of SNC-Lavalin Group Inc. and all the information in this financial report are the responsibility of management and are approved by the Board of Directors.

The financial statements have been prepared by management in accordance with International Financial Reporting Standards. When alternative accounting methods exist, management has chosen those it considers most appropriate in the circumstances.

The significant accounting policies used are described in Note 2 to the financial statements. Certain amounts in the financial statements are based on estimates and judgments. Management has determined such amounts on a reasonable basis in order to ensure that the financial statements are presented fairly, in all material respects. Management has prepared the financial information presented elsewhere in the financial report and has ensured that it is consistent with that in the financial statements.

The Company's Chief Executive Officer (the "CEO") and Chief Financial Officer (the "CFO") are responsible for having established and maintaining disclosure controls and procedures and internal controls over financial reporting. The CEO and the CFO have supervised an evaluation of the effectiveness of the Company's internal control over financial reporting, as at December 31, 2019, in accordance with the criteria established in *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on this evaluation, the CEO and the CFO have concluded that the Company's internal control over financial reporting, as at December 31, 2019, was effective to provide reasonable assurance regarding the reliability of the Company's financial reporting and the preparation of its financial statements for external purposes in accordance with International Financial Reporting Standards.

The Board of Directors is responsible for ensuring that management fulfills its responsibilities for financial reporting and is ultimately responsible for reviewing and approving the financial statements. The Board of Directors carries out this responsibility principally through its Audit Committee.

The Audit Committee is appointed by the Board of Directors, and all of its members are independent directors. The Audit Committee meets periodically with management, as well as with the internal and independent auditors, to discuss disclosure controls and procedures, internal control over financial reporting, management information systems, accounting policies, auditing and financial reporting issues, to satisfy itself that each party is properly discharging its responsibilities, and to review the financial statements, the Management's Discussion and Analysis and the independent auditor's report. The Audit Committee reports its findings to the Board of Directors for consideration when approving the financial statements for issuance to the shareholders. The Audit Committee also considers, for review by the Board of Directors and approval by the shareholders, the engagement or reappointment of the independent auditor, and reviews and approves the terms of its engagement as well as the fee, scope and timing of its services.

The financial statements have been audited, on behalf of the shareholders, by Deloitte LLP, the independent auditor, in accordance with Canadian generally accepted auditing standards. The independent auditor has full and free access to the Audit Committee and may meet with or without the presence of management.

**IAN L. EDWARDS** (signed)

PRESIDENT AND  
CHIEF EXECUTIVE OFFICER

**SYLVAIN GIRARD** (signed)

EXECUTIVE VICE-PRESIDENT AND  
CHIEF FINANCIAL OFFICER

FEBRUARY 27, 2020  
MONTREAL, CANADA

# Independent Auditor's Report

To the Shareholders of SNC-Lavalin Group Inc.

## ***Opinion***

We have audited the consolidated financial statements of SNC-Lavalin Group Inc. (the "Company"), which comprise the consolidated statements of financial position as at December 31, 2019 and 2018, and the consolidated income statements, consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies (collectively referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2019 and 2018, and its financial performance and its 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 ("Canadian GAAS"). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company 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.

## ***Other Information***

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

- Management's Discussion and Analysis
- The information, other than the financial statements and our auditor's report thereon, in the 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, or otherwise appears to be materially misstated.

We obtained Management's Discussion and Analysis prior to the date of this auditor's 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 this auditor's report. We have nothing to report in this regard.

The Annual Report is expected to be made available to us after the date of the auditor's 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 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 Company'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 Company or to cease operations, or has no realistic alternative but to do so.

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

## INDEPENDENT AUDITOR'S REPORT (CONTINUED)

### *Auditor's 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 auditor's 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 GAAS 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 these financial statements.

As part of an audit in accordance with Canadian GAAS, 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 Company'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 Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's 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 auditor's report. However, future events or conditions may cause the Company 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.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company 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.

We 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.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditor's report is Christian Jacques.

/s/ Deloitte LLP <sup>(1)</sup>

FEBRUARY 27, 2020  
MONTREAL, QUEBEC

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(1) CPA auditor, CA, public accountancy permit No. A124341

# Consolidated Statements of Financial Position

| (IN THOUSANDS OF CANADIAN DOLLARS)                                       |        | Note | DECEMBER 31<br>2019 | DECEMBER 31<br>2018 |
|--------------------------------------------------------------------------|--------|------|---------------------|---------------------|
| <b>ASSETS</b>                                                            |        |      |                     |                     |
| <b>Current assets</b>                                                    |        |      |                     |                     |
| Cash and cash equivalents                                                | 7      | \$   | 1,188,636           | \$ 634,084          |
| Restricted cash                                                          | 7      |      | 34,118              | 12,722              |
| Trade receivables                                                        | 8A, 9B |      | 1,533,442           | 1,503,824           |
| Contract assets                                                          | 8B, 9B |      | 1,755,325           | 1,751,068           |
| Inventories                                                              | 10     |      | 84,888              | 104,205             |
| Other current financial assets                                           | 11     |      | 222,308             | 247,291             |
| Other current non-financial assets                                       | 12     |      | 331,375             | 404,819             |
| <b>Total current assets</b>                                              |        |      | <b>5,150,092</b>    | <b>4,658,013</b>    |
| Property and equipment                                                   | 13     |      | 470,630             | 482,619             |
| Right-of-use assets                                                      | 34     |      | 438,787             | —                   |
| Capital investments accounted for by the equity method                   | 5      |      | 399,539             | 357,249             |
| Capital investments accounted for by the cost method                     | 5      |      | 8,107               | 10,663              |
| Goodwill                                                                 | 14     |      | 3,429,094           | 5,369,723           |
| Intangible assets related to business combinations                       | 15     |      | 665,598             | 920,586             |
| Deferred income tax asset                                                | 29A    |      | 520,451             | 652,155             |
| Non-current portion of receivables under service concession arrangements |        |      | 352,987             | 327,299             |
| Other non-current financial assets                                       | 16     |      | 115,941             | 30,023              |
| Other non-current non-financial assets                                   | 17     |      | 93,498              | 131,362             |
| <b>Total assets</b>                                                      |        | \$   | <b>11,644,724</b>   | \$ 12,939,692       |
| <b>LIABILITIES AND EQUITY</b>                                            |        |      |                     |                     |
| <b>Current liabilities</b>                                               |        |      |                     |                     |
| Trade payables                                                           |        | \$   | 2,153,520           | \$ 2,352,944        |
| Contract liabilities                                                     | 9B     |      | 889,953             | 972,959             |
| Other current financial liabilities                                      | 18     |      | 287,716             | 298,701             |
| Other current non-financial liabilities                                  | 19     |      | 383,200             | 424,861             |
| Current portion of provisions                                            | 22     |      | 289,227             | 381,848             |
| Current portion of lease liabilities                                     | 34     |      | 131,075             | —                   |
| Short-term debt and current portion of long-term debt:                   |        |      |                     |                     |
| Recourse                                                                 | 20     |      | 299,518             | 1,116,587           |
| Non-recourse                                                             | 20     |      | 93,664              | 60,168              |
| <b>Total current liabilities</b>                                         |        |      | <b>4,527,873</b>    | <b>5,608,068</b>    |
| Long-term debt:                                                          |        |      |                     |                     |
| Recourse                                                                 | 20     |      | 873,145             | 1,171,433           |
| Limited recourse                                                         | 20     |      | 400,000             | 980,303             |
| Non-recourse                                                             | 20     |      | 391,454             | 339,537             |
| Other non-current financial liabilities                                  | 21     |      | 232,569             | 53,505              |
| Non-current portion of provisions                                        | 22     |      | 672,096             | 706,386             |
| Non-current portion of lease liabilities                                 | 34     |      | 480,675             | —                   |
| Other non-current non-financial liabilities                              |        |      | 551                 | 61,508              |
| Deferred income tax liability                                            | 29A    |      | 348,934             | 363,087             |
| <b>Total liabilities</b>                                                 |        |      | <b>7,927,297</b>    | <b>9,283,827</b>    |
| <b>Equity</b>                                                            |        |      |                     |                     |
| Share capital                                                            | 23     |      | 1,805,080           | 1,805,080           |
| Retained earnings                                                        |        |      | 1,555,853           | 1,346,624           |
| Other components of equity                                               | 24     |      | 354,073             | 499,199             |
| Equity attributable to SNC-Lavalin shareholders                          |        |      | 3,715,006           | 3,650,903           |
| Non-controlling interests                                                |        |      | 2,421               | 4,962               |
| <b>Total equity</b>                                                      |        |      | <b>3,717,427</b>    | <b>3,655,865</b>    |
| <b>Total liabilities and equity</b>                                      |        | \$   | <b>11,644,724</b>   | \$ 12,939,692       |

See accompanying notes to consolidated financial statements

Approved, on behalf of the Board of Directors, by:

IAN L. EDWARDS (signed)  
DIRECTOR

BENITA M. WARMBOLD (signed)  
DIRECTOR

# Consolidated Statements of Changes in Equity

YEAR ENDED DECEMBER 31  
(IN THOUSANDS OF CANADIAN DOLLARS, EXCEPT NUMBER OF  
COMMON SHARES)

2019

|                                                                             | EQUITY ATTRIBUTABLE TO SNC-LAVALIN SHAREHOLDERS |              |                   |                                      |              | NON-CONTROLLING INTERESTS | TOTAL EQUITY |
|-----------------------------------------------------------------------------|-------------------------------------------------|--------------|-------------------|--------------------------------------|--------------|---------------------------|--------------|
|                                                                             | SHARE CAPITAL                                   |              | RETAINED EARNINGS | OTHER COMPONENTS OF EQUITY (NOTE 24) | TOTAL        |                           |              |
|                                                                             | COMMON SHARES (IN THOUSANDS)                    | AMOUNT       |                   |                                      |              |                           |              |
| Balance at beginning of year                                                | 175,554                                         | \$ 1,805,080 | \$ 1,346,624      | \$ 499,199                           | \$ 3,650,903 | \$ 4,962                  | \$ 3,655,865 |
| Transitional adjustments on adoption of a new accounting standard (Note 2B) | —                                               | —            | (25,495)          | —                                    | (25,495)     | —                         | (25,495)     |
| Adjusted balance at beginning of year                                       | 175,554                                         | 1,805,080    | 1,321,129         | 499,199                              | 3,625,408    | 4,962                     | 3,630,370    |
| Net income                                                                  | —                                               | —            | 328,219           | —                                    | 328,219      | 2,368                     | 330,587      |
| Other comprehensive loss                                                    | —                                               | —            | (51,362)          | (145,126)                            | (196,488)    | (1,266)                   | (197,754)    |
| Total comprehensive income (loss)                                           | —                                               | —            | 276,857           | (145,126)                            | 131,731      | 1,102                     | 132,833      |
| Dividends declared (Note 23E)                                               | —                                               | —            | (42,133)          | —                                    | (42,133)     | —                         | (42,133)     |
| Dividends declared by subsidiaries to non-controlling interests             | —                                               | —            | —                 | —                                    | —            | (2)                       | (2)          |
| Additional non-controlling interest arising on acquisition of Linxon        | —                                               | —            | —                 | —                                    | —            | (3,671)                   | (3,671)      |
| Capital contributions by non-controlling interests                          | —                                               | —            | —                 | —                                    | —            | 30                        | 30           |
| Balance at end of year                                                      | 175,554                                         | \$ 1,805,080 | \$ 1,555,853      | \$ 354,073                           | \$ 3,715,006 | \$ 2,421                  | \$ 3,717,427 |

YEAR ENDED DECEMBER 31  
(IN THOUSANDS OF CANADIAN DOLLARS, EXCEPT NUMBER OF  
COMMON SHARES)

2018

COMMON SHARES)

2010

|                                                                                            | EQUITY ATTRIBUTABLE TO SNC-LAVALIN SHAREHOLDERS |              |                   |                                      |              | NON-CONTROLLING INTERESTS | TOTAL EQUITY |
|--------------------------------------------------------------------------------------------|-------------------------------------------------|--------------|-------------------|--------------------------------------|--------------|---------------------------|--------------|
|                                                                                            | SHARE CAPITAL                                   |              | RETAINED EARNINGS | OTHER COMPONENTS OF EQUITY (NOTE 24) | TOTAL        |                           |              |
|                                                                                            | COMMON SHARES (IN THOUSANDS)                    | AMOUNT       |                   |                                      |              |                           |              |
| Balance at beginning of year                                                               | 175,488                                         | \$ 1,801,733 | \$ 3,145,424      | \$ 277,974                           | \$ 5,225,131 | \$ (1,909)                | \$ 5,223,222 |
| Transitional adjustments on adoption of new accounting standards                           | —                                               | —            | (327,387)         | 5,448                                | (321,939)    | 369                       | (321,570)    |
| Adjusted balance at beginning of year                                                      | 175,488                                         | 1,801,733    | 2,818,037         | 283,422                              | 4,903,192    | (1,540)                   | 4,901,652    |
| Net income (loss)                                                                          | —                                               | —            | (1,316,898)       | —                                    | (1,316,898)  | 603                       | (1,316,295)  |
| Other comprehensive income                                                                 | —                                               | —            | 47,652            | 215,777                              | 263,429      | 261                       | 263,690      |
| Total comprehensive income (loss)                                                          | —                                               | —            | (1,269,246)       | 215,777                              | (1,053,469)  | 864                       | (1,052,605)  |
| Dividends declared (Note 23E)                                                              | —                                               | —            | (201,521)         | —                                    | (201,521)    | —                         | (201,521)    |
| Shares issued under stock option plan (Note 23B)                                           | 66                                              | 3,347        | (646)             | —                                    | 2,701        | —                         | 2,701        |
| Measurement of a loan from a non-controlling interest at its initial fair value (Note 28C) | —                                               | —            | —                 | —                                    | —            | 5,155                     | 5,155        |
| Non-controlling interest arising on acquisition of Linxon                                  | —                                               | —            | —                 | —                                    | —            | 394                       | 394          |
| Capital contributions by non-controlling interests                                         | —                                               | —            | —                 | —                                    | —            | 89                        | 89           |
| Balance at end of year                                                                     | 175,554                                         | \$ 1,805,080 | \$ 1,346,624      | \$ 499,199                           | \$ 3,650,903 | \$ 4,962                  | \$ 3,655,865 |

See accompanying notes to consolidated financial statements

# Consolidated Income Statements

| YEARS ENDED DECEMBER 31<br>(IN THOUSANDS OF CANADIAN DOLLARS, EXCEPT EARNINGS (LOSS) PER SHARE AND NUMBER OF SHARES) |     | Note | 2019              | 2018 <sup>(1)</sup>   |
|----------------------------------------------------------------------------------------------------------------------|-----|------|-------------------|-----------------------|
| <b>Revenues from:</b>                                                                                                |     |      |                   |                       |
| E&C                                                                                                                  |     |      | \$ 9,252,890      | \$ 9,819,349          |
| Capital investments accounted for by the consolidation or cost methods                                               |     |      | 52,177            | 60,570                |
| Capital investments accounted for by the equity method                                                               |     |      | 210,543           | 204,087               |
|                                                                                                                      |     |      | <b>9,515,610</b>  | <b>10,084,006</b>     |
| Direct costs of activities                                                                                           |     |      | <b>9,161,492</b>  | <b>9,544,871</b>      |
| <b>Total segment EBIT <sup>(2)</sup></b>                                                                             |     |      | <b>354,118</b>    | <b>539,135</b>        |
| Corporate selling, general and administrative expenses                                                               | 25  |      | 73,944            | 98,034                |
| Impairment loss arising from expected credit losses                                                                  |     |      | 240               | 1,349                 |
| Loss arising on financial assets (liabilities) at fair value through profit or loss                                  |     |      | 4,743             | 7,427                 |
| Net 2012 class action lawsuits settlement expense and related legal costs                                            | 33  |      | —                 | 89,443                |
| Restructuring costs                                                                                                  | 26  |      | 182,801           | 68,591                |
| Acquisition-related costs and integration costs                                                                      | 6   |      | 8,315             | 54,878                |
| Amortization of intangible assets related to business combinations                                                   | 15  |      | 181,983           | 206,471               |
| Gain on disposals of Capital investments                                                                             | 5A  |      | (2,970,783)       | (67,552)              |
| Loss from adjustment on disposals of E&C businesses                                                                  |     |      | 294               | 474                   |
| Impairment of intangible assets related to business combinations                                                     | 15  |      | 72,831            | —                     |
| Impairment of goodwill                                                                                               | 14  |      | 1,801,015         | 1,240,415             |
| Federal charges settlement (PPSC)                                                                                    | 33  |      | 257,327           | —                     |
| <b>EBIT <sup>(2)</sup></b>                                                                                           |     |      | <b>741,408</b>    | <b>(1,160,395)</b>    |
| Financial expenses                                                                                                   | 27  |      | 226,063           | 179,528               |
| Financial income and foreign exchange losses (gains)                                                                 | 27  |      | (13,980)          | (12,083)              |
| <b>Earnings (loss) before income taxes</b>                                                                           |     |      | <b>529,325</b>    | <b>(1,327,840)</b>    |
| Income taxes                                                                                                         | 29B |      | 198,738           | (11,545)              |
| <b>Net income (loss)</b>                                                                                             |     |      | <b>\$ 330,587</b> | <b>\$ (1,316,295)</b> |
| <b>Net income (loss) attributable to:</b>                                                                            |     |      |                   |                       |
| SNC-Lavalin shareholders                                                                                             |     |      | \$ 328,219        | \$ (1,316,898)        |
| Non-controlling interests                                                                                            |     |      | 2,368             | 603                   |
| <b>Net income (loss)</b>                                                                                             |     |      | <b>\$ 330,587</b> | <b>\$ (1,316,295)</b> |
| <b>Earnings (loss) per share (in \$)</b>                                                                             |     |      |                   |                       |
| Basic                                                                                                                |     |      | \$ 1.87           | \$ (7.50)             |
| Diluted                                                                                                              |     |      | \$ 1.87           | \$ (7.50)             |
| <b>Weighted average number of outstanding shares (in thousands)</b>                                                  |     |      |                   |                       |
| Basic                                                                                                                | 23D |      | 175,554           | 175,541               |
| Diluted                                                                                                              |     |      | 175,554           | 175,541               |

<sup>(1)</sup> Comparative figures have been revised (see Note 2C)

<sup>(2)</sup> Earnings before interest and taxes ("EBIT")

See accompanying notes to consolidated financial statements

# Consolidated Statements of Comprehensive Income

YEAR ENDED DECEMBER 31  
(IN THOUSANDS OF CANADIAN DOLLARS)

|                                                                                                  | 2019                                           |                              |                   |
|--------------------------------------------------------------------------------------------------|------------------------------------------------|------------------------------|-------------------|
|                                                                                                  | ATTRIBUTABLE TO<br>SNC-LAVALIN<br>SHAREHOLDERS | NON-CONTROLLING<br>INTERESTS | TOTAL             |
| Net income                                                                                       | \$ 328,219                                     | \$ 2,368                     | \$ 330,587        |
| Other comprehensive income (loss):                                                               |                                                |                              |                   |
| Exchange differences on translating foreign operations (Note 24)                                 | (139,697)                                      | (196)                        | (139,893)         |
| Cash flow hedges (Note 24)                                                                       | (410)                                          | (1,070)                      | (1,480)           |
| Share of other comprehensive loss of investments accounted for by<br>the equity method (Note 24) | (2,403)                                        | —                            | (2,403)           |
| Income taxes (Note 24)                                                                           | (2,616)                                        | —                            | (2,616)           |
| Total of items that will be reclassified subsequently to net income                              | (145,126)                                      | (1,266)                      | (146,392)         |
| Equity instruments designated at fair value through other<br>comprehensive income (Note 24)      | (2,034)                                        | —                            | (2,034)           |
| Income taxes (Note 24)                                                                           | 16                                             | —                            | 16                |
| Remeasurement of defined benefit plans (Note 24)                                                 | (55,344)                                       | —                            | (55,344)          |
| Income taxes (Note 24)                                                                           | 8,234                                          | —                            | 8,234             |
| Share of other comprehensive loss of investments accounted for by<br>the equity method (Note 24) | (2,234)                                        | —                            | (2,234)           |
| Total of items that will not be reclassified subsequently to net<br>income                       | (51,362)                                       | —                            | (51,362)          |
| Total other comprehensive loss                                                                   | (196,488)                                      | (1,266)                      | (197,754)         |
| <b>Total comprehensive income</b>                                                                | <b>\$ 131,731</b>                              | <b>\$ 1,102</b>              | <b>\$ 132,833</b> |

YEAR ENDED DECEMBER 31  
(IN THOUSANDS OF CANADIAN DOLLARS)

|                                                                                                  | 2018                                           |                              |                       |
|--------------------------------------------------------------------------------------------------|------------------------------------------------|------------------------------|-----------------------|
|                                                                                                  | ATTRIBUTABLE TO<br>SNC-LAVALIN<br>SHAREHOLDERS | NON-CONTROLLING<br>INTERESTS | TOTAL                 |
| Net income (loss)                                                                                | \$ (1,316,898)                                 | \$ 603                       | \$ (1,316,295)        |
| Other comprehensive income (loss):                                                               |                                                |                              |                       |
| Exchange differences on translating foreign operations (Note 24)                                 | 224,478                                        | 261                          | 224,739               |
| Cash flow hedges (Note 24)                                                                       | (9,459)                                        | —                            | (9,459)               |
| Share of other comprehensive loss of investments accounted for by<br>the equity method (Note 24) | (1,739)                                        | —                            | (1,739)               |
| Income taxes (Note 24)                                                                           | 2,497                                          | —                            | 2,497                 |
| Total of items that will be reclassified subsequently to net income                              | 215,777                                        | 261                          | 216,038               |
| Equity instruments designated at fair value through other<br>comprehensive income (Note 24)      | (1)                                            | —                            | (1)                   |
| Income taxes (Note 24)                                                                           | 49                                             | —                            | 49                    |
| Remeasurement of defined benefit plans (Note 24)                                                 | 57,932                                         | —                            | 57,932                |
| Income taxes (Note 24)                                                                           | (10,328)                                       | —                            | (10,328)              |
| Total of items that will not be reclassified subsequently to net<br>income                       | 47,652                                         | —                            | 47,652                |
| Total other comprehensive income                                                                 | 263,429                                        | 261                          | 263,690               |
| <b>Total comprehensive income (loss)</b>                                                         | <b>\$ (1,053,469)</b>                          | <b>\$ 864</b>                | <b>\$ (1,052,605)</b> |

See accompanying notes to consolidated financial statements

# Consolidated Statements of Cash Flows

YEARS ENDED DECEMBER 31  
(IN THOUSANDS OF CANADIAN DOLLARS)

|                                                                                           | Note     | 2019                | 2018              |
|-------------------------------------------------------------------------------------------|----------|---------------------|-------------------|
| <b>Operating activities</b>                                                               |          |                     |                   |
| Net income (loss)                                                                         |          | \$ 330,587          | \$ (1,316,295)    |
| Income taxes paid                                                                         |          | (9,967)             | (15,164)          |
| Interest paid from E&C                                                                    |          | (199,201)           | (171,336)         |
| Interest paid from Capital investments                                                    |          | (18,285)            | (14,817)          |
| Other reconciling items                                                                   | 28A      | (123,861)           | 1,719,817         |
|                                                                                           |          | (20,727)            | 202,205           |
| Net change in non-cash working capital items                                              | 28B      | (334,546)           | (505,734)         |
| Net cash used for operating activities                                                    |          | (355,273)           | (303,529)         |
| <b>Investing activities</b>                                                               |          |                     |                   |
| Acquisition of property and equipment                                                     |          | (122,444)           | (152,945)         |
| Payments for Capital investments                                                          | 5C       | (39,967)            | —                 |
| Refunds for Capital investments                                                           |          | 4,391               | —                 |
| Net cash inflow on acquisition of businesses                                              | 6        | 14,890              | 19,466            |
| Change in restricted cash position                                                        |          | (24,210)            | 8,535             |
| Increase in receivables under service concession arrangements                             |          | (176,638)           | (130,460)         |
| Recovery of receivables under service concession arrangements                             |          | 155,645             | 69,825            |
| Decrease in short-term and long-term investments                                          |          | —                   | 1,707             |
| Net cash inflow on disposals of Capital investments accounted for by the equity method    | 5A       | 3,012,256           | 92,214            |
| Net cash inflow on disposal of a Capital investments accounted for by the cost method     | 5A       | —                   | 51,336            |
| Payments for disposition-related costs on disposals of Capital investments <sup>(1)</sup> | 5A       | (94,856)            | (1,921)           |
| Other <sup>(1)</sup>                                                                      |          | (10,593)            | (3,134)           |
| Net cash generated from (used for) investing activities                                   |          | 2,718,474           | (45,377)          |
| <b>Financing activities</b>                                                               |          |                     |                   |
| Increase in debt                                                                          | 28C      | 1,926,212           | 2,704,293         |
| Repayment of debt and payment for debt issue costs                                        | 28C      | (3,563,049)         | (2,248,558)       |
| Payment of lease liabilities                                                              | 28C      | (119,106)           | —                 |
| Proceeds from exercise of stock options                                                   |          | —                   | 2,701             |
| Dividends paid to SNC-Lavalin shareholders                                                | 23E, 28C | (42,133)            | (201,521)         |
| Other                                                                                     | 28C      | (4,071)             | 12,800            |
| Net cash generated from (used for) financing activities                                   |          | (1,802,147)         | 269,715           |
| Increase (decrease) from exchange differences on translating cash and cash equivalents    |          | (6,502)             | 6,705             |
| <b>Net increase (decrease) in cash and cash equivalents</b>                               |          | <b>554,552</b>      | <b>(72,486)</b>   |
| <b>Cash and cash equivalents at beginning of year <sup>(2)</sup></b>                      |          | <b>634,084</b>      | <b>706,570</b>    |
| <b>Cash and cash equivalents at end of year</b>                                           |          | <b>\$ 1,188,636</b> | <b>\$ 634,084</b> |

<sup>(1)</sup> In 2018, "Payments for disposition-related costs on disposals of Capital investments" were included in "Other" in investing activities.

<sup>(2)</sup> The amount of \$706.6 million as at December 31, 2017 included \$39 thousand of cash and cash equivalents comprised within "Assets of disposal group classified as held for sale and assets held for sale".

See accompanying notes to consolidated financial statements

# Notes to Consolidated Financial Statements

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# Notes to Consolidated Financial Statements

(ALL TABULAR FIGURES IN THOUSANDS OF CANADIAN DOLLARS, UNLESS OTHERWISE INDICATED)

## 1. DESCRIPTION OF BUSINESS

SNC-Lavalin Group Inc. is incorporated under the Canada Business Corporations Act and has its registered office at 455 René-Lévesque Boulevard West, Montreal, Quebec, Canada H2Z 1Z3. SNC-Lavalin Group Inc. is a public company listed on the Toronto Stock Exchange in Canada. Reference to the “Company” or to “SNC-Lavalin” means, as the context may require, SNC-Lavalin Group Inc. and all or some of its subsidiaries or joint arrangements, or SNC-Lavalin Group Inc. or one or more of its subsidiaries or joint arrangements.

Founded in 1911, SNC-Lavalin is a fully integrated professional services and project management company with offices around the world. SNC-Lavalin connects people, technology and data to help shape and deliver world-leading concepts and projects, while offering comprehensive innovative solutions across the asset lifecycle.

The Company reports its revenues as follows:

- **E&C** includes contracts generating revenues related mainly to consulting & advisory, intelligent networks & cybersecurity, design & engineering, procurement, project & construction management, operations & maintenance (“O&M”), decommissioning and sustaining capital. It also includes revenues from lump-sum turnkey construction contracts, for which the Company ceased to bid in July 2019, except for certain repetitive engineering, procurement and construction (“EPC”) offerings that are lower-risk, standardized solutions.
- **Capital investments** include SNC-Lavalin’s investments in infrastructure concessions for public services or in certain other long-term assets.

In these consolidated financial statements (“financial statements”), activities related to E&C are collectively referred to as “from E&C” or “excluding Capital investments” to distinguish them from activities related to the Capital investments.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### A) BASIS OF PREPARATION

The Company’s financial statements have been prepared in accordance with **International Financial Reporting Standards (“IFRS”)** issued and effective for the year ended December 31, 2019, and are presented in **Canadian dollars**. All values are rounded to the nearest thousand dollars, except where otherwise indicated.

The accounting policies set out below were consistently applied to all periods presented, except for the accounting policy affected by a new standard adopted in 2019 and the change in an accounting policy, as described in Notes 2B and 2C.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Company’s accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant are disclosed in Note 3.

The Company’s financial statements have been prepared on the historical cost basis, with the exception of i) certain financial instruments, derivative financial instruments and liabilities for share unit plans, which are measured at fair value; ii) the defined benefit liabilities, which are measured as the net total of the present value of the defined benefit obligation minus the fair value of plan assets; and iii) investments measured at fair value, which are held by SNC-Lavalin Infrastructure Partners LP, an investment entity accounted for by the equity method and for which SNC-Lavalin elected to retain the fair value measurement applied by this investment entity. Historical cost generally represents the fair value of consideration given in exchange for assets upon initial recognition.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Company takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of IFRS 2, *Share-based Payment*, and measurements that have some similarities to fair value but are not fair value, such as net realisable value in IAS 2, *Inventories*, or value in use in IAS 36, *Impairment of Assets*.

The Company’s financial statements were authorized for issue by the Board of Directors on February 27, 2020.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### B) NEW STANDARD, AMENDMENTS AND AN INTERPRETATION ADOPTED IN 2019

The following standard, amendments to existing standards and interpretation have been adopted by the Company on January 1, 2019:

- IFRS 16, *Leases*, (“IFRS 16”) provides a comprehensive model for the identification of lease arrangements and their treatment in the financial statements of both lessees and lessors. It superseded IAS 17, *Leases*, (“IAS 17”) and its associated interpretative guidance.
- *Prepayment Features with Negative Compensation* (Amendments to IFRS 9, *Financial Instruments*) allow financial assets with a prepayment option that could result in the option’s holder receiving compensation for early termination to meet the solely payments of principal and interest condition if specified criteria are met.
- *Long-term Interests in Associates and Joint Ventures* (Amendments to IAS 28, *Investments in Associates and Joint Ventures*) clarify that an entity applies IFRS 9, including its impairment requirements, to long-term interests in an associate or joint venture that form part of the net investment in the associate or joint venture but to which the equity method is not applied.
- Amendments to IFRS 3, *Business Combinations*, state that an entity shall remeasure its previously held interest in a joint operation when it obtains control of the business.
- Amendments to IFRS 11, *Joint Arrangements*, state that an entity shall not remeasure its previously held interest in a joint operation when it obtains joint control of the business.
- Amendments to IAS 12, *Income Taxes*, clarify that all income tax consequences of dividends (i.e., distribution of profits) should be recognized in profit or loss, regardless of how the tax arises.
- Amendments to IAS 23, *Borrowing Costs*, clarify that if any specific borrowing remains outstanding after the related asset is ready for its intended use or sale, that borrowing becomes part of the funds that an entity borrows generally when calculating the capitalization rate on general borrowings.
- *Plan Amendment, Curtailment or Settlement* (Amendments to IAS 19, *Employee Benefits*) specifies how an entity determines pension expenses when changes to a defined benefit pension plan occur. When a change to a plan – an amendment, curtailment or settlement – takes place, IAS 19 requires an entity to remeasure its net defined benefit liability or asset. The amendments require an entity to use the updated assumptions from this remeasurement to determine current service cost and net interest for the remainder of the reporting period after the change to the plan.
- IFRIC Interpretation 23, *Uncertainty over Income Tax Treatments*, sets out how to determine the accounting for tax positions when there is uncertainty over the income tax treatment. The interpretation requires an entity to: i) determine whether uncertain tax positions are assessed separately or as a group; and ii) assess whether it is probable that a tax authority will accept an uncertain tax treatment as filed, or proposed to be filed, by an entity in its tax filings.

Except for IFRS 16, the amendments and interpretation listed above did not have a significant impact on the Company’s financial statements.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### ADOPTION OF IFRS 16

The Company adopted IFRS 16, *Leases*, on January 1, 2019. Until that date, the Company classified leases as operating or finance leases, in accordance with IAS 17, *Leases*, based on its assessment of whether the lease transferred significantly all of the risks and rewards incidental to ownership of the underlying asset to the lessee. Under IFRS 16, a lessee is required to recognize a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received. The right-of-use asset is subsequently measured at cost, unless it qualifies for fair value measurement, less accumulated depreciation and impairment losses and adjusted for certain remeasurements of the lease liability. The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the lessee's incremental borrowing rate. The lease liability is subsequently measured at amortized cost using the effective interest method and is remeasured to reflect changes in the lease payments, such as upon a lease modification that is not accounted for as a separate lease.

Based on the change in accounting for leases, depreciation expense on the right-of-use asset and interest expense on the lease liability are replacing the corresponding operating lease expense that was recognized under IAS 17.

The Company has elected to apply IFRS 16 using the modified retrospective method, which consists of applying such standard retrospectively with the cumulative effect being recognized in retained earnings at the date of initial application. Under this method, the lessee could elect, on a lease-by-lease basis, to measure the right-of-use asset based on two methodologies. The first methodology consisted of recognizing a right-of-use asset at a value equal to the lease liability, adjusted for the amount of prepaid or accrued lease payments, at the date of transition. The second methodology consisted of measuring the right-of-use asset at the date of transition as if IFRS 16 had been applied since the commencement date of the lease, but discounted using a rate at the date of initial application. The Company used both methodologies when using the modified retrospective method.

The implementation of IFRS 16 allowed for certain optional practical expedients and optional exemptions at the date of initial application, such as the main options summarized in the following table:

| OPTIONAL PRACTICAL EXPEDIENT OR EXEMPTION                                                                                                                                                         | BASIS FOR APPLICATION        | COMPANY'S ELECTION AT THE DATE OF INITIAL APPLICATION                                                                                 |
|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------|---------------------------------------------------------------------------------------------------------------------------------------|
| No reassessment on whether a contract is, or contains, a lease, based on current standards                                                                                                        | All leases                   | Used such practical expedient                                                                                                         |
| Use of the same discount rate for a portfolio of leases with similar characteristics                                                                                                              | By portfolio of leases       | Used such practical expedient when possible                                                                                           |
| Use of onerous lease provision instead of impairment review on the right-of-use asset                                                                                                             | Lease by lease               | Used on leases when applicable                                                                                                        |
| Exemption from recognizing a right-of-use asset and a lease liability when the lease term ends within 12 months of the date of initial application                                                | Lease by lease               | Not applied to most of office real estate leases, applied to certain other leases                                                     |
| Exemption from recognizing a right-of-use asset and a lease liability when the underlying asset is of low value                                                                                   | Lease by lease               | Did not recognize a right-of-use asset and a lease liability when the underlying asset is of low value                                |
| Exemption from recognizing a right-of-use asset and a lease liability when the lease is short term                                                                                                | By class of underlying asset | Not applied to office real estate leases, applied to certain other leases                                                             |
| Exclude initial direct costs from the measurement of the right-of-use asset on transition, when such asset is not deemed to be equal to the lease liability at the date of initial application    | Lease by lease               | Applied to all leases for which the right-of-use asset was not deemed equal to the lease liability at the date of initial application |
| Use of hindsight for lease terms for the measurement of the right-of-use asset on transition, when such asset is not deemed to be equal to the lease liability at the date of initial application | Lease by lease               | Applied to all leases for which the right-of-use asset is not deemed equal to the lease liability at the date of initial application  |

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Since the Company elected to adopt IFRS 16 using the modified retrospective method, the following table summarizes the impacts of adopting IFRS 16 on the Company's consolidated statement of financial position as at January 1, 2019:

### Impact on the consolidated statement of financial position

| (IN THOUSANDS OF CANADIAN DOLLARS)  | Note     | DECEMBER 31<br>2018  | IFRS 16<br>ADOPTION | JANUARY 1<br>2019    |
|-------------------------------------|----------|----------------------|---------------------|----------------------|
| <b>ASSETS</b>                       |          |                      |                     |                      |
| Right-of-use assets                 |          | \$ —                 | \$ 452,366          | \$ 452,366           |
| Deferred income tax asset           |          | 652,155              | 8,892               | 661,047              |
| Other assets                        | (a)      | 12,287,537           | 26,573              | 12,314,110           |
| <b>Total assets</b>                 |          | <b>\$ 12,939,692</b> | <b>\$ 487,831</b>   | <b>\$ 13,427,523</b> |
| <b>LIABILITIES</b>                  |          |                      |                     |                      |
| Lease liabilities                   | (b), (c) | \$ —                 | \$ 614,152          | \$ 614,152           |
| Provisions                          | (d)      | 1,088,234            | (19,042)            | 1,069,192            |
| Deferred income tax liability       |          | 363,087              | 1,346               | 364,433              |
| Other liabilities                   | (d)      | 7,832,506            | (83,130)            | 7,749,376            |
| <b>Total liabilities</b>            |          | <b>9,283,827</b>     | <b>513,326</b>      | <b>9,797,153</b>     |
| <b>EQUITY</b>                       |          |                      |                     |                      |
| Retained earnings                   |          | 1,346,624            | (25,495)            | 1,321,129            |
| Other                               |          | 2,309,241            | —                   | 2,309,241            |
| <b>Total equity</b>                 |          | <b>3,655,865</b>     | <b>(25,495)</b>     | <b>3,630,370</b>     |
| <b>Total liabilities and equity</b> |          | <b>\$ 12,939,692</b> | <b>\$ 487,831</b>   | <b>\$ 13,427,523</b> |

(a) Additional assets of \$26.6 million include mainly net investments in subleases.

(b) Lease liabilities have been determined using incremental borrowing rates as at January 1, 2019 (weighted-average rate of 4.15%).

(c) The difference between the amount of lease liabilities and the \$840.4 million of future minimum lease payments under non-cancellable operating leases as at December 31, 2018 was mainly due to: (i) the discounting factors applied to the fixed lease payments; (ii) the exclusion of lease liabilities related to operating leases for which the Company had future committed payments but for which the leased space was not yet available as at January 1, 2019; and (iii) assumptions made on the probability of exercising early termination or renewal options.

(d) Decrease of other liabilities includes mainly deferred lease incentives, deferred rent and provisions for onerous leases that were incorporated in the measurement of right-of-use assets and/or lease liabilities.

### Procedures and controls

The Company has updated and implemented revised procedures and controls in order to meet the requirements of IFRS 16, notably the recording of the transition adjustment and the change in presentation to be reported in the Company's consolidated financial statements for the year ended December 31, 2019, as well as additional disclosures provided in the Company's 2019 audited annual consolidated financial statements.

## C) CHANGES IN AN ACCOUNTING POLICY AND IN PRESENTATION

### Segment disclosures

Effective January 1, 2019, the Company changed the definition of segment EBIT, its measure of profit or loss for its reportable segments, to reflect a change made to its internal reporting. As such, segment EBIT now includes: i) the contribution attributable to non-controlling interests before income taxes, whereas in the past it excluded such contribution attributable to non-controlling interests before income taxes; and ii) an allocation to the segments of certain other corporate selling, general and administrative expenses. As such, these changes resulted in: i) a reclassification of the negative contribution attributable to non-controlling interests before income taxes in segment EBIT of \$0.3 million for the year ended December 31, 2018; and ii) a reclassification of certain other corporate selling, general and administrative expenses in segment EBIT of \$23.3 million for the year ended December 31, 2018. The Company believes that such inclusions improve the measure of profitability of its reportable segments by better reflecting the overall performance of its reportable segments.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

At the same time, given the Company's aim to continue to simplify and de-risk its business, SNC-Lavalin further simplified its market-facing structure. This simplification became effective January 1, 2019 and resulted in a change to the Company's reportable segments, which were: i) Engineering, Design and Project Management ("EDPM"); ii) Infrastructure; iii) Nuclear; iv) Resources; and v) Capital. The Company's new strategic direction adopted for the second quarter of 2019 resulted in the restructuring of its activities into two distinct business lines, SNCL Engineering Services and SNCL Projects. From a segmented information stand-point, this change resulted in the split of the Infrastructure segment into two segments, Infrastructure Services and Infrastructure EPC Projects, all other segments remaining the same. As such, the Company's reportable segments are now EDPM, Nuclear, Infrastructure Services and Capital, all part of SNCL Engineering Services, and Resources and Infrastructure EPC projects, which form SNCL Projects. See Note 4 for a description of each of the segments.

These changes were made in accordance with IAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors*, resulting in the restatement of prior figures.

### D) AMENDMENTS ISSUED TO BE ADOPTED AT A LATER DATE

The following amendments to standards have been issued and are applicable to the Company for its annual periods beginning on January 1, 2020 and thereafter, with an earlier application permitted:

- Amendments to IFRS 3, *Business Combinations*, improve the definition of a business. The amendments help entities determine whether an acquisition made is of a business or a group of assets. The amended definition emphasises that the output of a business is to provide goods and services to customers, whereas the previous definition focused on returns in the form of dividends, lower costs or other economic benefits to investors and others.
- *Definition of Material* (Amendments to IAS 1, *Presentation of Financial Statements*, ["IAS 1"] and to IAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors* ["IAS 8"]) is intended to make the definition of material in IAS 1 easier to understand and is not intended to alter the underlying concept of materiality in IFRS Standards. The concept of "obscuring" material information with immaterial information has been included as part of the new definition. The threshold for materiality influencing users has been changed from "could influence" to "could reasonably be expected to influence". The definition of material in IAS 8 has been replaced by a reference to the definition of material in IAS 1.
- Amendments to IFRS 9, *Financial Instruments*, IAS 39, *Financial Instruments: Recognition and Measurement*, and IFRS 7, *Financial Instruments: Disclosures*, are designed to support the provision of useful financial information by entities during the period of uncertainty arising from the phasing out of interest-rate benchmarks such as interbank offered rates ("IBORs"). The amendments modify some specific hedge accounting requirements to provide relief from potential effects of the uncertainty caused by the IBOR reform. In addition, the amendments require entities to provide additional information to investors about their hedging relationships which are directly affected by these uncertainties.

The following amendments to a standard have been issued and are applicable to the Company for its annual periods beginning on January 1, 2022 and thereafter, with an earlier application permitted:

- Amendments to IAS 1, *Presentation of Financial Statements*, clarify how to classify debt and other liabilities as current or non-current. The amendments help to determine whether, in the statement of financial position, debt and other liabilities with an uncertain settlement date should be classified as current (due or potentially due to be settled within one year) or non-current. The amendments also include clarifying the classification requirements for debt an entity might settle by converting it into equity.

The Company is currently evaluating the impact of adopting these amendments on its financial statements.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### E) BASIS OF CONSOLIDATION

In accordance with IFRS, SNC-Lavalin's interests in other entities subject to control, joint control or significant influence are accounted for as follows:

| TYPE OF INTEREST | TYPE OF INFLUENCE         | ACCOUNTING METHOD               |
|------------------|---------------------------|---------------------------------|
| Subsidiary       | Control                   | Consolidation method            |
| Joint venture    | Joint control             | Equity method                   |
| Joint operation  | Joint control             | SNC-Lavalin's share of interest |
| Associate        | Significant influence     | Equity method                   |
| Investment       | Non-significant influence | Cost method                     |

A subsidiary that is not wholly-owned by SNC-Lavalin results in non-controlling interests that are presented separately on the consolidated statement of financial position, while the portions of net income and of other comprehensive income attributable to such non-controlling interests are also shown separately on the consolidated income statement and on the consolidated statement of comprehensive income, respectively.

When necessary, adjustments are made to the financial statements of subsidiaries, joint arrangements and associates to bring their accounting policies in line with those used by the Company.

#### Business acquisitions

Acquisitions of businesses are accounted for using the acquisition method. The consideration for each acquisition is measured at the aggregate of the fair values (at the date of acquisition) of assets given, liabilities incurred or assumed, and equity instruments issued by the Company, if any, in exchange for control of the acquiree. Provisional fair values allocated at a reporting date are finalized within twelve months of the acquisition date.

At the date of acquisition, the identifiable assets acquired and the liabilities assumed are recognized at fair value, except that:

- deferred income tax asset or liability, and assets or liabilities related to employee benefit arrangements are recognized and measured in accordance with IAS 12, *Income Taxes*, and IAS 19, *Employee Benefits*, respectively;
- liabilities or equity instruments related to share-based payment arrangements of the acquiree or share-based payment arrangements of the Company entered into to replace share-based payment arrangements of the acquiree are measured in accordance with IFRS 2, *Share-based Payment*, at the date of acquisition; and
- assets (or disposal groups) that are classified as held for sale in accordance with IFRS 5, *Non-current Assets Held for Sale and Discontinued Operations*, are measured in accordance with this standard.

Acquisition-related costs are expensed in the periods in which these costs are incurred and the services are received.

The results of businesses acquired are included in the consolidated financial statements from the date on which control is obtained.

### F) FOREIGN CURRENCY TRANSLATION

#### Functional and presentation currency

The individual financial statements of each entity within the Company are prepared in the currency of the primary economic environment in which the entity operates (its functional currency). For the purpose of the consolidated financial statements, the results and financial position of each entity within the Company are expressed in Canadian dollars, which is the presentation currency of the Company for its consolidated financial statements.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### Foreign currency transactions and balances

For the purpose of preparing financial statements, Canadian and foreign operations apply the following procedure on transactions and balances in currencies other than their functional currency: 1) monetary items are translated in their functional currency using the exchange rate in effect at the period end rate; 2) non-monetary items are translated in their functional currency using the historical exchange rate if they are measured at cost, or using the exchange rate at the measurement date if they are measured at fair value; and 3) revenues and expenses are translated in their functional currency using the appropriate average exchange rate of the period. Any resulting gains or losses are recognized in net income and, if hedge accounting is applied, offsetting losses or gains from the hedging items are also recognized in net income.

As a result of applying the procedures described above, Canadian and foreign operations produce financial statements presented in their functional currency.

### Translation of financial statements of foreign operations

For the purpose of presenting consolidated financial statements in Canadian dollars, the assets and liabilities of the Company's foreign operations that have a functional currency other than Canadian dollars are expressed in Canadian dollars using exchange rates prevailing at the end of the reporting period, while revenues and expenses items are translated at the appropriate average exchange rate for the period. Exchange differences arising on consolidation, if any, are recognized initially in other comprehensive income and reclassified from equity to net income on disposal or partial disposal of foreign operations.

Goodwill and fair value adjustments arising on the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at the period end rate.

### **G) REVENUE RECOGNITION**

Revenue from contracts with customers is recognized, for each performance obligation, either over a period of time or at a point in time, depending on which method reflects the transfer of control of the goods or services underlying the particular performance obligation to the customer.

In most cases, for performance obligations satisfied over time, the Company recognizes revenue over time using an input method, based on costs incurred to date relative to total estimated costs at completion, to measure progress toward satisfying such performance obligations. Under this method, costs that do not contribute to the performance of the Company in transferring control of goods or services to the customer are excluded from the measurement of progress toward satisfying the performance obligation. For certain contracts, notably certain cost-plus contracts or unit-rate contracts, the Company recognizes revenue based on its right to consideration when such amount corresponds directly with the value to the customer of the entity's performance completed to date. In certain other situations, the Company might recognize revenue at a point in time, when the criteria to recognize revenue over time are not met. In any event, when the total anticipated costs exceed the total anticipated revenues on a contract, such loss is recognized in its entirety in the period it becomes known.

The amount of revenue recognized by the Company is based on the transaction price allocated to each performance obligation. Such transaction price corresponds to the amount of consideration to which the Company expects to be entitled in exchange for transferring promised goods or services to a customer, excluding amounts collected on behalf of third parties. The transaction price includes, among other things and when applicable, an estimate of variable consideration only to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognized will not occur when the uncertainty associated with the variable consideration is subsequently resolved. Variable consideration is usually derived from incentives, performance bonuses, and penalties, and could include claims and unpriced change orders. When a contract includes a significant financing component, the value of such component is excluded from the transaction price and is recognized separately as finance income or expense, as applicable.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

SNC-Lavalin may enter into contractual arrangements with a client to deliver services on one project which span more than one performance obligation, such as Engineering, Procurement and Construction (“EPC”) or Engineering, Procurement, and Construction and Management (“EPCM”), Operations and Maintenance (“O&M”) and/or Capital investments. When entering into such arrangements, the Company allocates the transaction price by reference to the stand-alone selling price of each performance obligation. Accordingly, when such arrangements exist on the same project, the value of each performance obligation is based on its stand-alone selling price and recognized according to the respective revenue recognition methods described above.

The Company accounts for a contract modification, which consists of a change in the scope or price (or both) of a contract, as a separate contract when the remaining goods or services to be delivered after the modification are distinct from those delivered prior to the modification and the price of the contract increases by an amount of consideration that reflects the Company’s stand-alone selling price of the additional promised good or services. When the contract modification is not accounted for as a separate contract, the Company recognizes an adjustment to revenue on a cumulative catch-up basis at the date of contract modification.

The Company recognizes assurance-type warranty costs as a provision in accordance with IAS 37, *Provisions, Contingent Liabilities and Contingent Assets*, based on the advancement of the projects, and the provision recognized is then either used when costs are incurred or reversed if it is no longer needed.

In all cases, the value of construction activities, material and equipment purchased by SNC-Lavalin, when acting as purchasing agent for a client, is not recorded as revenue.

The Company may apply its revenue recognition policy to a portfolio of contracts or performance obligations with similar characteristics if the effect on its financial statements of applying such policy to the portfolio is not reasonably expected to differ materially from applying its policy to the individual contracts or performance obligations within that portfolio.

The Company presents its contract balances, on a contract-by-contract basis, in a net contract asset or liability position, separately from its trade receivables. Contract assets and trade receivables are both rights to consideration in exchange for goods or services that the Company has transferred to a customer, however the classification depends on whether such right is only conditional on the passage of time (trade receivables) or if it is also conditional on something else (contract assets), such as the satisfaction of further performance obligations under the contract. A contract liability is the cumulative amount received and contractually receivable by the Company that exceeds the right to consideration resulting from the Company’s performance under a given contract.

Revenues from **Capital investments** include the following:

| ACCOUNTING METHODS FOR THE COMPANY’S CAPITAL INVESTMENTS | REVENUES INCLUDED IN THE COMPANY’S CONSOLIDATED INCOME STATEMENT                                                                                                                                                                                                                                                                                                                                    |
|----------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Consolidation                                            | <b>Revenues</b> that are recognized and reported by the Capital investments                                                                                                                                                                                                                                                                                                                         |
| Equity method                                            | SNC-Lavalin’s <b>share of net results</b> of the Capital investments or <b>dividends</b> from its Capital investments for which the carrying amount is \$nil but would otherwise be negative based on historical financial results and dividends if SNC-Lavalin had an obligation to fund the investment. Dividends are recognized when the Company’s right to receive payment has been established |
| Cost method                                              | <b>Dividends and distributions</b> from the Capital investments                                                                                                                                                                                                                                                                                                                                     |

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### H) FINANCIAL INSTRUMENTS

#### FINANCIAL ASSETS AND LIABILITIES

Unless specifically covered by another accounting policy, the measurement of financial assets and financial liabilities is based on their classification, which is one of the following for SNC-Lavalin:

| CATEGORY – SUBSEQUENTLY MEASURED AT                      | APPLICABLE TO                              | INITIAL MEASUREMENT                    | SUBSEQUENT MEASUREMENT                                                                                                                                                                                                                        | RECOGNITION OF INCOME/EXPENSE AND GAINS/LOSSES ON REMEASUREMENT, IF ANY                                                                                                                                                                                                       |
|----------------------------------------------------------|--------------------------------------------|----------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Fair value through profit or loss (“FVTPL”)              | Financial assets and financial liabilities | Fair value                             | Fair value                                                                                                                                                                                                                                    | All recognized in net income                                                                                                                                                                                                                                                  |
| Fair value through other comprehensive income (“FVTOCI”) | Financial assets                           | Fair value including transaction costs | Fair value derived from published bid price quotations for listed securities. Where there is no active market, fair value is determined using valuation techniques. Where fair value cannot be reliably measured, assets are carried at cost. | Investment income, which includes interest, dividends and distributions, is recognized in net income. For equity instruments, gains (losses) from revaluation are recognized in other comprehensive income with no reclassification to net income on disposal of such assets. |
| Amortized cost                                           | Financial assets and financial liabilities | Fair value including transaction costs | Amortized cost using the effective interest method                                                                                                                                                                                            | All recognized in net income                                                                                                                                                                                                                                                  |

#### *Impairment of assets subsequently measured at amortized cost*

For “Trade receivables”, “Contract assets” and “Finance lease receivables”, the amount of the loss allowance recognized is the amount equal to lifetime expected credit losses that result from all possible default events over the expected life of a financial instrument.

For “Non-current portion of receivables under service concession arrangements”, if the credit risk has not increased significantly since initial recognition, the amount of the loss allowance recognized is the amount equal to 12-month expected credit losses that result from default events on a financial instrument that are possible within the 12 months after the reporting date.

#### *Write-off*

The gross carrying amount of a financial asset is reduced when there are no reasonable expectations of recovering a financial asset in its entirety or a portion thereof.

#### HEDGING (APPLYING IAS 39)

In the normal course of its business, SNC-Lavalin enters into derivative financial instruments, mainly i) forward exchange contracts to hedge its exposure to fluctuations in foreign currency exchange rates on projects; and ii) interest-rate swaps to hedge the variability of interest rates relating to financing arrangements. SNC-Lavalin may also enter into other derivative financial instruments to hedge its exposure to market risk. When applying hedge accounting, SNC-Lavalin formally documents its accounting choice, the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking these hedge transactions, and regularly assesses the effectiveness of these hedges.

#### CASH FLOW HEDGES

Derivative financial instruments designated as cash flow hedges are measured at fair value established by using valuation techniques based on observable market data and taking into account the credit quality of the instruments. The effective portion of the change in fair value of the derivative financial instruments is recorded in other components of equity, while the ineffective portion, if any, of such change is recognized in net income. Gains or losses from cash flow hedges included in other components of equity are reclassified to net income as an offset to the losses or gains recognized on the underlying hedged items.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### FAIR VALUE HEDGES

Changes in the fair value of derivatives that are designated and qualify as fair value hedges of an available-for-sale investment are recognized in net income immediately, together with any changes in the fair value of the hedged available-for-sale investment that are attributable to the hedged risk. The change in the fair value of the hedging instrument and the change in the hedged item attributable to the hedged risk are recognized in net income in the same line item.

Hedge accounting is discontinued when the Company revokes the hedging relationship, when the hedging instrument expires or is sold, terminated, or exercised, or when it no longer qualifies for hedge accounting.

### HEDGES OF NET INVESTMENTS IN FOREIGN OPERATIONS

Hedges of net investments in foreign operations are accounted for similarly to cash flow hedges. Any gain or loss on the hedging instrument relating to the effective portion of the hedge is recognized in other comprehensive income and accumulated under “Exchange differences on translating foreign operations” in the “Other components of equity”. The gain or loss relating to the ineffective portion is recognized immediately in net income, and is included in the “Financial expenses” line item.

Gains and losses on the hedging instrument relating to the effective portion of the hedge accumulated in the “Exchange differences on translating foreign operations” are reclassified to net income on the disposal of the foreign operation.

### I) SERVICE CONCESSION ARRANGEMENTS UNDER IFRIC INTERPRETATION 12

IFRIC Interpretation 12, *Service Concession Arrangements*, (“IFRIC 12”) provides guidance on the accounting for certain qualifying public-private partnership arrangements, whereby the grantor (i.e., usually a government):

- controls or regulates what services the operator (i.e. “the concessionaire”) must provide with the infrastructure, to whom it must provide them, and at what price; and
- controls any significant residual interest in the infrastructure at the end of the term of the arrangement.

Under such concession arrangements, the concessionaire accounts for the infrastructure asset by applying one of the following accounting models depending on the allocation of the demand risk through the usage of the infrastructure between the grantor and the concessionaire:

| ACCOUNTING MODEL       | DEMAND RISK                                                                                                                                                                                                             |
|------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Financial asset model  | The concessionaire does not bear demand risk through the usage of the infrastructure (i.e., it has an unconditional right to receive cash irrespective of the usage of the infrastructure, e.g. availability payments). |
| Intangible asset model | The concessionaire bears demand risk (i.e., it has a right to charge fees for usage of the infrastructure).                                                                                                             |
| Bifurcated model       | The concessionaire shares demand risk with the grantor (i.e., the grantor pays the concessionaire for its services partly by a financial asset and partly by granting a right to charge users of the infrastructure).   |

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenues from service concession arrangements accounted for under IFRIC 12 are recognized as follows:

| ACTIVITIES PROVIDED BY THE CONCESSIONAIRE                                                                                                                                                                      | REVENUE RECOGNITION                                                                                                                                                       | CLASSIFICATION OF REVENUES IN THE COMPANY'S CONSOLIDATED INCOME STATEMENT                                                                                                                                                                                                 |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Construction or upgrade<br>(when a service concession arrangement involves the construction or upgrade of the public service infrastructure)                                                                   | Revenues relating to such activities under a service concession arrangement are recognized based on the Company's accounting policy on recognizing revenue (see Note 2G). | The Company classifies these revenues as "from E&C" when SNC-Lavalin acts as an EPC contractor. When SNC-Lavalin does not act as an EPC contractor, revenues are recognized by the concession as part of "Capital investments" activities.                                |
| Operations and maintenance<br>(these activities may include maintenance of the infrastructure and other activities provided directly to the grantor or the users)                                              |                                                                                                                                                                           | The Company classifies these revenues as "from E&C" when SNC-Lavalin acts as an O&M contractor. When SNC-Lavalin does not act as an O&M contractor, revenues are recognized by the concession as part of "Capital investments" activities.                                |
| Rehabilitation<br>(when a service concession arrangement requires the concessionaire to rehabilitate the infrastructure such that the infrastructure can deliver a specified standard of service at all times) |                                                                                                                                                                           | The Company classifies these revenues as "from E&C" activities when SNC-Lavalin acts as a rehabilitation contractor. When SNC-Lavalin does not act as a rehabilitation contractor, revenues are recognized by the concession as part of "Capital investments" activities. |
| Financing<br>(when financial asset model or bifurcated model is applied)                                                                                                                                       | Finance income generated on financial assets is recognized using the effective interest method.                                                                           | The Company classifies this finance income as "Capital investments" activities.                                                                                                                                                                                           |

### Financial asset model

When the Company delivers more than one category of activity in a service concession arrangement, the consideration received or receivable is allocated by reference to the stand-alone selling price of the activity delivered.

Revenues recognized by the Company under the financial asset model are accumulated in "Receivables under service concession arrangements", a financial asset that is recovered through payments received from the grantor.

### Intangible asset model

The Company recognizes an intangible asset arising from a service concession arrangement when it has a right to charge for usage of the concession infrastructure. The intangible asset received as consideration for providing construction or upgrade services in a service concession arrangement is measured at fair value upon initial recognition. Borrowing costs, if any, are capitalized until the infrastructure is ready for its intended use as part of the carrying amount of the intangible asset.

The intangible asset is then amortized over its expected useful life, which is the concession period in a service concession arrangement. Amortization period begins when the infrastructure is available for use.

Fees collected by the concessionaire upon the usage of the infrastructure are classified as revenues from "Capital investments" activities.

### J) **CASH EQUIVALENTS**

Cash equivalents include short-term liquid investments that are readily convertible into a known amount of cash and which are subject to an insignificant risk of changes in value. Cash equivalents are designated as at FVTPL and accounted for at fair value.

### K) **RESTRICTED CASH**

Restricted cash includes cash and cash equivalents for which the use is restricted for specific purposes under certain arrangements. Restricted cash that is not expected to become unrestricted within the next twelve months is included in "Other non-current financial assets". Restricted cash is designated as at FVTPL and accounted for at fair value.

### L) **INVENTORIES**

Inventories are stated at the lower of cost and net realisable value. Costs of inventories are determined: i) by using specific identification of the individual costs; or ii) on a weighted average cost basis. Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### M) PROPERTY AND EQUIPMENT

Property and equipment are recorded at cost. Depreciation is recorded at rates set to charge operations with the cost of depreciable assets less their residual values (if any) over their estimated useful lives.

Property and equipment are primarily:

| CATEGORY           | DEPRECIATION METHOD                  | DEPRECIATION PERIOD       |
|--------------------|--------------------------------------|---------------------------|
| Buildings          | Straight-line, by component          | 10 to 50 years            |
| Computer equipment | Straight-line                        | 2 to 5 years              |
| Office furniture   | Diminishing balance or straight-line | 20% or from 2 to 10 years |
| Machinery          | Straight-line                        | 1 to 15 years             |

### N) INTANGIBLE ASSETS OTHER THAN GOODWILL

#### Intangible assets acquired in a business combination

Intangible assets acquired in a business combination and recognized separately from goodwill are initially recognized at their fair value at the acquisition date (which is regarded as their cost).

Subsequent to initial recognition, intangible assets acquired in a business combination are reported at cost less accumulated amortization and accumulated impairment losses, on the same basis as intangible assets that are acquired separately.

Intangible assets with definite useful life related to business combinations are primarily:

| CATEGORY               | AMORTIZATION METHOD | AMORTIZATION PERIOD |
|------------------------|---------------------|---------------------|
| Revenue backlog        | Straight-line       | 0.5 to 3.5 years    |
| Customer relationships | Straight-line       | 7 and 10 years      |
| Trademarks             | Straight-line       | 4 to 8 years        |

An intangible asset is derecognized on disposal, or when no future economic benefits are expected from use or disposal. Gains and losses arising from derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, are recognized in net income when the asset is derecognized.

### O) IMPAIRMENT OF TANGIBLE AND INTANGIBLE ASSETS OTHER THAN GOODWILL

At the end of each reporting period, the Company reviews the carrying amounts of its tangible assets, which mainly include property and equipment, and its intangible assets other than goodwill to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated to determine the extent of the impairment loss, if any. Where it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash-generating unit ("CGU") to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to an individual CGU, or otherwise they are allocated to the smallest group of CGU for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of: i) fair value less costs to sell; and ii) value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a post-tax discount rate that reflects current market assessments of the time value of money and risks. If the recoverable amount of an asset (or CGU) is estimated to be less than its carrying amount, the carrying amount of the asset (or CGU) is reduced to its recoverable amount. An impairment loss is recognized immediately in net income.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or CGU) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (or CGU) in prior periods. A reversal of an impairment loss is recognized immediately in net income.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### P) **GOODWILL**

Goodwill represents the excess of the purchase price of an acquired business over the fair value assigned to assets acquired and liabilities assumed. Goodwill on acquisition of subsidiaries is separately disclosed and goodwill on acquisitions of associates and joint ventures is included within investments accounted for by the equity method. For the purpose of impairment testing, goodwill is allocated to each of the Company's CGU or group of CGU expected to benefit from the synergies of the combination. A CGU or group of CGU to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the CGU or group of CGU may be impaired. If the recoverable amount of the CGU or group of CGU is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the CGU or group of CGU and then to the other assets of the CGU or group of CGU pro-rata on the basis of the carrying amount of each asset in the CGU or group of CGU. An impairment loss recognized for goodwill is not reversed in a subsequent period.

The Company has designated October 31 as the date for the annual impairment test.

### Q) **RESEARCH AND DEVELOPMENT COSTS**

Research and development costs are expensed as incurred, except if the costs are related to the development and setup of new products, processes and systems and satisfy generally accepted conditions for capitalization, including reasonable assurance that they will be recovered. All capitalized development costs are amortized when commercial production begins, using the straight-line method over a period not exceeding five years.

### R) **INCOME TAXES**

Income taxes recognized in net income comprise the sum of deferred income tax and current income tax not recognized in other comprehensive income or directly in equity.

Current income tax assets and/or liabilities comprise amounts receivable from or payable to tax authorities relating to the current or prior reporting periods, which are uncollected or unpaid at the reporting date. Current tax is payable on taxable income, which differs from net income in the financial statements. Calculation of current tax is based on tax rates and tax laws that have been enacted or substantively enacted by the end of the reporting period.

Deferred income taxes are calculated using the liability method on temporary differences between the carrying amounts of assets and liabilities and their tax bases. Deferred income tax on temporary differences associated with shares in subsidiaries, joint arrangements and associates is not provided for if reversal of these temporary differences can be controlled by the Company and it is probable that reversal will not occur in the foreseeable future.

Deferred income tax assets and liabilities are calculated, without discounting, at tax rates that are expected to apply to their respective period of realization, provided they are enacted or substantively enacted by the end of the reporting period.

Deferred income tax assets are recognized for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable income will be available against which they can be utilized. For management's assessment of the probability of future taxable income to utilize against deferred income tax assets, see Note 3.

Deferred income tax assets and liabilities are offset only when the Company has a right and intention to offset current tax assets and liabilities from the same taxation authority.

Changes in deferred income tax assets or liabilities are recognized as a component of income taxes in net income, except where they relate to items that are recognized in other comprehensive income or directly in equity, in which case the related deferred income tax is recognized in other comprehensive income or equity, respectively.

### S) **DEFINED BENEFIT PENSION PLANS, OTHER LONG-TERM BENEFITS AND OTHER POST-EMPLOYMENT BENEFITS**

Defined benefit pension plans, other long-term benefits and other post-employment benefits obligations are included in "Provisions" in the consolidated statement of financial position and have been determined using the projected unit credit method, which sees each period of service as giving rise to an additional unit of benefit entitlement to the eligible employees and measures each unit separately to build up the final obligation. In valuing the defined benefit cost as well as other post-employment benefits, assumptions are based on management's best estimates, except for the discount rate where the Company uses the market interest rate at the measurement date based on high quality corporate bonds with cash flows that match the timing and amount of expected benefit payments.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Remeasurement, comprising: i) actuarial gains and losses; ii) the effect of the changes to the asset ceiling (if applicable); and iii) the return on plans' assets (excluding interest), is credited or charged to equity in other comprehensive income in the period in which it arises. Remeasurement recognized in other comprehensive income is not reclassified to net income in subsequent periods. The cumulative amount of remeasurement is included in retained earnings.

Defined benefit costs comprise: i) service cost (including current service cost, past service cost, as well as gains and losses on curtailments and settlements); ii) net interest expense or income; and iii) remeasurement. Service cost and net interest income or expense are recognized in net income while the remeasurement is recognized in other comprehensive income in the period. Net interest is calculated by applying the discount rate at the beginning of the period to the net defined benefit liability or asset.

### T) EARNINGS PER SHARE

Basic and diluted earnings per share have been determined by dividing the consolidated net income attributable to SNC-Lavalin shareholders for the period by the basic and diluted weighted average number of shares, respectively.

The diluted weighted average number of shares outstanding is calculated as if all dilutive options had been exercised at the later of the beginning of the reporting period or date of grant with deemed proceeds from the exercise of such dilutive options used to repurchase common shares at the average market price for the period.

### U) SHARE-BASED PAYMENTS

#### Stock options

Stock options granted to employees are measured at their fair value at the grant date. The estimated fair value of the stock options is determined using the Black-Scholes option pricing model.

The fair value determined at the grant date of the stock options is expensed on a straight-line basis over the shorter of the vesting period or the term over which an employee becomes eligible to retire, based on the Company's estimate of stock options that will eventually vest. At the end of each reporting period, the Company revises its estimate of the number of stock options expected to vest and the impact of such revision, if any, is recognized in net income.

#### Share units

The 2019 Performance Share Unit plan ("2019 PSU plan"), 2017 Performance Share Unit plan ("2017 PSU plan"), 2014 Performance Share Unit plan ("2014 PSU plan"), 2019 Restricted Share Unit plan ("2019 RSU plan"), Restricted Share Unit plan ("RSU plan"), 2009 Deferred Share Unit plan ("2009 DSU plan"), and Deferred Share Unit plan ("DSU plan") are collectively referred as "share unit plans". For share units granted to employees under the share unit plans, a liability is recognized and measured at the fair value of the liability, which is based on the Company's share price. At the end of each reporting period until the liability is settled, and at the date of settlement, the fair value of the liability is remeasured, with any changes in fair value recognized in net income for the period. From January 1, 2018, the fair value of the grants of share units is expensed in the income statement on a straight-line basis over the vesting period, based on the Company's estimate of share units that will eventually vest.

### V) PROVISIONS

A provision is a liability of uncertain timing or amount that is recognized in the consolidated statement of financial position.

Provisions are recognized when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that the Company will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognized as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### Restructuring

A restructuring provision is recognized when the Company has developed a detailed formal plan for the restructuring and has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement the plan or announcing its main features to those affected by it. The measurement of a restructuring provision includes only the direct expenditures arising from the restructuring, which are those amounts that are both necessarily entailed by the restructuring and not associated with the ongoing activities of the entity.

### Onerous contracts

Present obligations arising under onerous contracts are recognized and measured as provisions. An onerous contract is considered to exist where the Company has a contract under which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received from the contract.

### W) **NON-CURRENT ASSETS HELD FOR SALE**

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than continuing use. This condition is regarded as met only when the asset (or disposal group) is available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such asset (or disposal group) and its sale is highly probable. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

When the Company is committed to a sale plan involving loss of control of a subsidiary, all of the assets and liabilities of that subsidiary are classified as held for sale when the criteria described above are met, regardless of whether the Company will retain non-controlling interest in its former subsidiary after the sale.

When the Company is committed to a sale plan involving disposal of an investment, or a portion of an investment, in an associate or a joint venture, the investment or the portion of the investment that will be disposed of is classified as held for sale when the criteria described above are met, and the Company discontinues the use of the equity method in relation to the portion that is classified as held for sale. Any retained portion of an investment in an associate or a joint venture that has not been classified as held for sale continues to be accounted for using the equity method. The Company discontinues the use of the equity method at the time of disposal when the disposal results in the Company losing significant influence over the associate or joint control over the joint venture.

After the disposal takes place, the Company accounts for any retained interest in the associate or joint venture in accordance with IFRS 9, *Financial Instruments*, unless the retained interest continues to be an associate or a joint venture, in which case the Company uses the equity method.

Non-current assets (and disposal groups) classified as held for sale are measured at the lower of their previous carrying amount and fair value less costs to sell.

### X) **LEASING**

#### **POLICY APPLICABLE FROM JANUARY 1, 2019**

#### Accounting for leases as a lessee

The Company recognizes a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received. The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term, and represents a period ranging from 1 to 30 years for office real estate leases and 1 to 8 years for other leased assets. In addition, the right-of-use asset is reduced by impairment losses resulting from impairment tests conducted in accordance with IAS 36, *Impairment of Assets*, if any, and adjusted for certain remeasurements of the lease liability.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the lessee's incremental borrowing rate. Lease payments used for the calculations comprise mainly fixed payments, including in-substance fixed payments, variable lease payments that depend on an index or a rate, the exercise price of a purchase option if the lessee is reasonably certain to exercise that option; and payments of penalties for terminating the lease, if the lease term reflects the lessee exercising an option to terminate the lease. The lease liability is subsequently measured at amortized cost using the effective interest method and is remeasured to reflect changes in the lease payments, such as upon a lease modification that is not accounted for as a separate lease.

A lease modification is considered a separate lease if the modification increases the scope of the lease by adding the right to use one or more underlying assets and the consideration for the lease increases by an amount commensurate with the stand-alone price for the increase in scope and any appropriate adjustments to that stand-alone price to reflect the circumstances of the particular contract. Any other modification is not accounted for as a separate lease.

For a lease modification that is not accounted for as a separate lease, the Company accounts for the modification, at its effective date, as follows:

- a. for a lease modification resulting in a decrease in the scope of the lease, such as a reduction in the term of a lease or in the space being leased, the lease liability is remeasured to reflect the revised lease payments and the carrying amount of the right-of-use asset is reduced to reflect the partial or full termination of the lease. If the carrying amount of the right-of-use asset is reduced to zero and there is a further reduction in the measurement of the lease liability, a lessee shall recognize any remaining amount of the remeasurement in profit or loss. Furthermore, the difference between the reduction in the lease liability and the reduction in the corresponding right-of-use asset's carrying value is recognized in profit or loss.
- b. for all other lease modifications, the lease liability is remeasured to reflect the revised lease payments, with a corresponding adjustment to the right-of-use asset.

The remeasurement of a lease liability upon a lease modification, or upon any change to the lease payments resulting from a change in the lease term or in the assessment of an option to purchase the underlying asset, is based on a revised discount rate reflecting the remainder of the lease term. The remeasurement of a lease liability to reflect revised lease payments due to a change in the amounts expected to be payable to the lessor under a residual value guarantee or to a change in an index or a rate used to determine those payments, other than a change in floating interest rates, is based on an unchanged discount rate.

### Accounting for leases as a lessor

When acting as a lessor, the Company determines at lease commencement whether each lease is a finance lease or an operating lease. To classify each lease, the Company 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 Company considers certain indicators such as whether the lease is for the major part of the economic life of the asset. When the Company subleases one of its leases and concludes that it is a finance lease, it derecognizes the right-of-use asset relating to the head lease being sublet, recognizes a receivable equal to the net investment in the sublease and retains the previously recognized lease liability in its capacity as lessee. The Company then recognizes interest expense on its lease liability and interest income on the receivable in its capacity as finance lessor.

### Accounting for sale and lease back transactions

In a sale and lease back transaction, the transfer of an asset is recognized as a sale when the customer has obtained control of such asset based on the Company's revenue recognition policy, otherwise the Company continues to recognize the transferred asset on its statement of financial position and recognizes a financial liability equal to the proceeds transferred. When the transfer of an asset satisfies the Company's revenue recognition policy to be accounted for as a sale, a partial recognition of the gain on disposal is recognized immediately after the sale, based on the proportion of the asset not retained by the Company through the lease. The proportion of the asset retained by the Company through the lease is recognized as a right-of-use asset and the lease liability is measured as the present value of future lease payments.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### **POLICY APPLICABLE BEFORE JANUARY 1, 2019**

Leases were classified as finance leases whenever the terms of the lease transferred substantially all the risk and rewards of ownership to the lessee. All other leases were classified as operating leases.

#### Operating leases

Operating lease payments were recognized as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased assets were consumed.

Contingent rentals, if any, arising under operating leases were recognized as an expense in the period in which they were incurred.

In the event that lease incentives were received to enter into operating leases, such incentives were recognized as a liability. The aggregate benefit of incentives was recognized as a reduction of rental expense on a straight-line basis, except where another systematic basis was more representative of the time pattern in which economic benefits from the leased asset were consumed.

#### Finance leases

Assets held under finance leases were initially recognized as assets of the Company at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor was included in the consolidated statement of financial position as a finance lease obligation.

Lease payments were apportioned between financial expenses and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Financial expenses were recognized immediately in net income, unless they were directly attributable to qualifying assets, which were assets that necessarily take a substantial period of time to get ready for their intended use or sale, in which case they were capitalized to the cost of those assets. Contingent rentals, if any, were recognized as expenses in the periods in which they were incurred.

#### Sale and lease back transactions

A sale and leaseback transaction involves the sale of an asset by the Company and the leasing back of the same asset from the buyer.

Where a sale and leaseback transaction results in a finance lease, any excess of sales proceeds over the carrying amount is not immediately recognized as income by a seller-lessee. Instead, it is deferred and amortized over the lease term.

Where a leaseback transaction results in an operating lease:

- if the sale price of the asset is at fair value, the gain or loss from the sale is recognized immediately in the Company's income statement;
- if the sale price of the asset is above fair value, the excess over fair value is deferred and amortized over the period for which the asset is expected to be used; and
- if the sale price of the asset is below fair value, any gain or loss is recognized immediately in the Company's income statement except that, if the loss is compensated for by future lease payments at below market price, it is deferred and amortized in proportion to the lease payments over the period for which the asset is expected to be used.

## 3. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Company's accounting policies, which are described in Note 2, management is required to make judgments, estimates, and assumptions about the carrying amounts of assets and liabilities recognized that are not readily apparent from other sources. The estimates and underlying assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

### 3. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (CONTINUED)

The following are the critical accounting judgments and key estimates concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

#### Revenue recognition

The identification of revenue-generating contracts with customers, the identification of performance obligations, the determination of the transaction price and its allocation between identified performance obligations, the use of the appropriate revenue recognition method (over time or at a point in time) for each performance obligation and the measure of progress for performance obligation satisfied over time are the main aspects of the revenue recognition process, all of which require the exercise of judgment and the use of assumptions.

The transaction price corresponds to the amount of consideration to which the Company expects to be entitled in exchange for transferring promised goods or services to a customer. Such amount may require the Company to estimate an amount of variable consideration, notably from estimated volume of work, claims and unpriced change orders, incentives or penalties, among others. Furthermore, the Company needs to constraint the transaction price by including only the amount for which it is highly probable that a significant reversal in the amount of cumulative revenue recognized will not occur when the uncertainty associated with the variable consideration is subsequently resolved. The amount of variable consideration to be included in the transaction price of a given contract is determined by using various estimates and assumptions, which could be based on historical experience with the same customer or other similar contracts, third-party assessments, legal interpretation of relevant contractual clauses, and probabilistic methodologies, among others. Due to the uncertain nature of the estimations, the amount of variable consideration may vary significantly over time. Such estimated amount of variable consideration then needs to be updated at the end of each reporting period.

The determination of anticipated costs for completing a contract is based on estimates that can be affected by a variety of factors such as potential variances in scheduling and cost of materials along with the availability and cost of qualified labour and subcontractors, productivity, and possible claims from subcontractors.

#### Service concession arrangements

The accounting for certain Capital investment activities requires the application of judgment in determining if they fall within the scope of IFRIC Interpretation 12, *Service Concession Arrangements*, (“IFRIC 12”). Additional judgments need to be exercised when determining, among other things, the accounting model to be applied under IFRIC 12, the allocation of the consideration receivable between revenue-generating activities, the classification of costs incurred on such activities, the accounting treatment of rehabilitation costs and associated estimates, as well as the effective interest rate to be applied to the financial asset. As the accounting for Capital investments under IFRIC 12 requires the use of estimates over the term of the arrangement, any changes to these long-term estimates could result in a significant variation in the accounting for the Capital investments.

#### Basis of consolidation

Under certain circumstances, the determination of the Company’s level of power over an investee requires exercise of judgment. As such, the classification of the entity as a subsidiary, a joint arrangement, an associate or a cost investment might require the application of judgment through the analysis of various indicators, such as the percentage of ownership interest held in the entity, the representation on the entity’s board of directors, and various other factors.

#### Values used in impairment tests

Determining whether goodwill is impaired requires an estimation of the recoverable amount of the CGU or group of CGU. Such recoverable amount corresponds, for the purpose of impairment assessment, to the higher of the value in use or the fair value less costs of disposal of the CGU or group of CGU to which goodwill has been allocated.

The value in use calculation requires management to estimate future cash flows expected to arise from the CGU or group of CGU and a suitable discount rate in order to calculate present value. The key assumptions required for the value in use estimation are the future cash flows growth rate and the discount rate.

### 3. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (CONTINUED)

When using the value in use approach, cash flows for each CGU or group of CGU are derived from the budget for the upcoming year, which is approved on an annual basis by members of the Company's Board of Directors, and a long-term forecast prepared by management, which covers an additional period from 3 to 5 years. Cash flows beyond the long-term forecast are extrapolated using a growth rate estimated by management. The discount rate is derived from the Company's post-tax weighted average cost of capital and is adjusted, where applicable, to take into account any specific risks.

When the fair value less costs of disposal approach is used, the fair value is derived from a market multiple approach. Under this approach, transaction multiples are applied to such CGU's future results, mainly EBIT and earnings before interest, income taxes, depreciation and amortization. The key assumptions required for the fair value less costs of disposal are the future results of the CGU or group of CGU, the multiples being used and the costs of disposal.

Future results for each CGU or group of CGU are derived from the budget for the upcoming year. Transaction multiples are derived from observable market value of comparable publicly traded companies or fair value observed from recent acquisitions or disposals of businesses that are comparable to the CGU or group of CGU. Costs of disposal, which usually corresponds to a percentage of the fair value of the CGU or group of CGU, are estimated based on historical transactions of the Company or on input from recent transactions.

For both the value in use and the fair value less costs of disposal approaches, the values assigned to key assumptions reflect past experience and external sources of information that are deemed accurate and reliable. The value in use and the fair value are categorized as Level 3 in the fair value hierarchy described under IFRS 13, *Fair Value Measurement*, as one or more key assumption used is based on unobservable data requiring the use of judgement.

When there is any indication that the tangible and intangible assets other than goodwill have suffered an impairment loss, the determination of the recoverable amount of tangible and intangible assets other than goodwill requires management to estimate cash flows expected to arise from these assets and a suitable discount rate in order to calculate the present value in a manner described above for goodwill.

The identification of events that could have an impact on the estimated cash flows of the assets and the determination of these estimated cash flows require the exercise of judgment, which might result in significant variances in the carrying amount of these assets if found to be impaired.

#### Measurement of retirement benefit obligations, other long-term benefit and other post-employment benefit obligations

SNC-Lavalin's obligations and expenses relating to defined benefit pension plans, other long-term benefits and other post-employment benefits are determined using actuarial valuations, and are dependent on assumptions such as the rate of compensation increase, as determined by management. While management believes these assumptions represent its best estimate, differences in actual results or changes in assumptions could have an impact on the obligations, expenses and amounts of actuarial gains (losses) recognized in the consolidated statement of comprehensive income.

#### *October 26, 2018 U.K. High Court ruling*

As at December 31, 2018, SNC-Lavalin has certain defined benefit pension plans in United Kingdom ("U.K.") that are subject to guaranteed minimum pension ("GMP") accruals. An October 26, 2018 U.K. High Court ruling resulted in a higher pension obligation for SNC-Lavalin since the judgment: (i) requires plans to amend their pension formula to equalize benefits for men and women to adjust for the unequal results produce by the GMP between May 1990 and April 1997; (ii) provides permissible equalization methods under the law and allows the plan sponsors to use the lowest cost method; and (iii) requires plans to make back payments subject to plan rule limitations, with interest applied at one percentage point over the Bank of England base rate.

Whilst the judgment has put forward a range of possible approaches that could be adopted to equalize GMPs, it left it up to individual pension plan trustees and employers to determine their preferred approach. SNC-Lavalin expects that it will take time for trustees and employers to decide on the approach for GMP equalization, gather data for plan participants, calculate the new benefit and cost, and ultimately make payments to members.

As per its preliminary assessment, SNC-Lavalin recognized \$25.1 million as past service cost in its consolidated income statement for the year ended December 31, 2018. In the year ended December 31, 2019, there was no change to the preliminary assessment determined by the Company in 2018.

### 3. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (CONTINUED)

#### Measurement of provisions shown in the consolidated statement of financial position

In measuring a provision, the Company takes risks and uncertainties into account. The uncertainties mainly relate to timing and amount of a provision. Also, risks and uncertainties arise from discounting a provision, where the effect of the time value of money is significant, using a pre-tax discount rate that reflects current market assessments of the time value of money. Additionally, the Company takes future events, such as changes in the law, into account where there is sufficient objective evidence that they will occur when measuring a provision.

#### Contingent liabilities

As described in more detail in Note 33, the Company is subject to certain ongoing investigations and class action lawsuits have been filed against the Company. The outcome of these investigations or actions, while not determinable, could have a material adverse impact on the Company's liquidity and financial results.

#### Measurement of share-based payment expenses

The Company offers PSU plans to selected individuals within the organization. Subject to performance conditions, the number of units granted is adjusted depending on specific indicators to determine the number of units to which all participants receiving the award will be entitled at the end of the vesting period. At each measurement date, management is required to estimate the number of performance share units that will vest, which impacts the amount of associated liabilities and expenses.

#### Assessment of deferred income tax assets and liabilities

Deferred income tax assets and liabilities arise from temporary differences between the tax bases of assets and liabilities and their carrying amounts reported in the financial statements. Deferred income tax assets also reflect the benefit of unutilized tax losses that can be carried forward to reduce income taxes in future years. This method requires the exercise of significant judgment in determining whether or not the Company's deferred income tax assets are probable to be recovered from future taxable income and therefore, can be recognized in the Company's consolidated financial statements. Also, estimates are required to determine the expected timing upon which tax assets will be realized and upon which tax liabilities will be settled, and the enacted or substantively enacted tax rates that will apply at such time.

#### Measurement of financial instruments at fair value

The Company measures some of its financial instruments at fair value. The determination of such fair value is based on the most readily available market data. When data is not readily available, management is required to estimate the fair value of the instrument using various inputs that are either directly or indirectly observable, or that are not based on observable market data.

#### Assets and liabilities acquired in a business combination

Intangible assets and goodwill arising out of business combinations are accounted for by applying the acquisition method of accounting to these transactions. In measuring the fair value of the assets acquired and the liabilities assumed and estimating their useful lives, the Company uses significant estimates and assumptions regarding cash flow projections, economic risk, and weighted average cost of capital.

These estimates and assumptions determine the amount allocated to intangible assets and goodwill, as well as the amortization period for intangible assets with finite lives. If results differ from estimates, the Company may increase amortization or recognize impairment charges.

#### Identification of functional currency

The functional currency for each subsidiary, joint operation, joint venture and associate, is the currency of the primary economic environment in which it operates. Determination of functional currency involves significant judgment and other entities may make different judgments based on similar facts. SNC-Lavalin reconsiders the functional currency of its businesses if there is a change in the underlying transactions, events or conditions which determine their primary economic environment.

The determination of functional currency affects the carrying value of non-current assets included in the statement of financial position and, as a consequence, the amortization of those assets included in the income statement. It also impacts exchange gains and losses included in the income statement and in equity.

### 3. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (CONTINUED)

#### Leases

##### *Estimate of the lease term*

When the Company recognizes a lease as a lessee, it assesses the lease term based on the conditions of the lease and determines whether it is reasonably certain that it will exercise its extension or termination option, if any. It then uses the expected modified term under such option if it is reasonably certain that it will be exercised. As such, a change in the assumption used could result in a significant impact in the amount recognized as right-of-use asset and lease liability, as well as in the amount of depreciation of right-of-use asset and interest expense on lease liability.

##### *Assessment of whether a right-of-use asset is impaired*

The Company assesses whether a right-of-use asset is impaired in accordance with IAS 36, *Impairment of assets*. Such assessment occurs particularly when it vacates an office space and it must determine the recoverability of the asset, to the extent that the Company can sublease the assets or surrender the lease and recover its costs. The Company examines its lease conditions as well as local market conditions and estimates its recoverability potential for each vacated premise. The determination of the lease cost recovery rate involves significant management estimates based on market availability of similar office space and local market conditions. This significant estimate could affect its future results if the Company succeeds in subleasing their vacated offices at a higher or lower rate or at different dates than initially anticipated.

##### *Determining the discount rate for leases*

IFRS 16 requires the Company to discount the lease payments using the rate implicit in the lease if that rate is readily available. If that rate cannot be readily determined, the lessee is required to use its incremental borrowing rate (“IBR”). The Company generally used its IBR when recording leases initially, since the implicit rates are not readily available due to information not being available from the lessor regarding the fair value of underlying assets and direct costs incurred by the lessor related to the leased assets. The determination of the IBR requires the use of various assumptions which, if different than those being used, could result in a significant impact in the amount recognized as right-of-use asset and lease liability, as well as in the amount of depreciation of right-of-use asset and interest expense on lease liability.

##### *Determining if a contract modification increasing the scope of a lease is a separate lease or not*

When a lease modification increasing the scope of a lease occurs, the Company needs to determine if such modification is to be accounted for as a separate lease or not. Such determination requires the use of judgment on the stand-alone selling price and any appropriate adjustments to the stand-alone selling price reflecting the circumstance of the particular contract.

### 4. SEGMENT DISCLOSURES

SNC-Lavalin’s reportable segments are i) **Engineering, Design and Project Management (“EDPM”)**; ii) **Nuclear**; iii) **Infrastructure Services**; iv) **Capital**; v) **Resources**; and vi) **Infrastructure EPC Projects**.

The description of each of the segments is as follows:

**EDPM** incorporates all consultancy, engineering, design and project management services around the world (including the Canadian market, which was previously in the former Infrastructure segment prior to January 1, 2019). It also leads our efforts to transform the global infrastructure sector by leveraging data and technology to improve the delivery of our clients’ projects from conception through to eventual operation. EDPM projects are mainly in transportation (including rail, mass transit, roads and airports), civil infrastructure, aerospace, defence and security and technology, including some of the world’s most transformational projects. A significant portion of revenues are derived from the public sector, including national, provincial, state and local and municipal authorities.

**Nuclear** supports clients across the entire nuclear life cycle with the full spectrum of services from consultancy, engineering, procurement and construction management (“EPCM”) services, field services, technology services, spare parts, reactor support & decommissioning and waste management. As stewards of the CANDU technology, it also provides new-build and full refurbishment services of CANDU reactors.

#### 4. SEGMENT DISCLOSURES (CONTINUED)

**Infrastructure Services** includes O&M projects, as well as the Company's repetitive EPC offerings that are lower-risk, standardized solutions for: i) district cooling plants; and ii) power substations executed through its Linxon subsidiary. The segment also includes engineering solutions in hydro, transmission and distribution, renewables, energy storage, and intelligent networks and cybersecurity.

**Capital** is SNC-Lavalin's investment, financing and asset management arm, responsible for developing projects, arranging financing, investing equity, undertaking complex financial modeling and managing its infrastructure investments for optimal returns. Its activities are principally concentrated in infrastructure such as bridges, highways, mass transit systems, power facilities, energy infrastructure, water treatment plants and social infrastructure (e.g. hospitals). The Capital segment includes SNC-Lavalin's 20% ownership interest in and management of SNCL IP Partnership.

**Resources** provides a full suite of delivery services to the oil & gas and mining & metallurgy sectors, covering the project lifecycle from project development through project delivery and support services. Resources have ceased the new contracting of projects under the lump-sum turnkey construction contracting model. Resources is now focused on providing engineering, EPCM, project management consultancy ("PMC"), construction & commissioning and technical support services through a lower risk contracting model. The operational delivery is focused on key regions and global clients.

**Infrastructure EPC Projects** includes LSTK construction contracts related to mass transit, heavy rail, roads, bridges, airports, ports and harbours and water infrastructure. In addition, Infrastructure EPC Projects includes the LSTK construction projects related to the former Clean Power segment, as well as from thermal power activities which the Company exited in 2018. As previously mentioned, the Company decided, in 2019, to cease contracting for new LSTK construction contracts but will fulfil its contractual obligations for such current projects.

As disclosed in Note 2C, the Company changed the definition of segment EBIT, its measure of profit or loss for its reportable segments, to reflect a change made to its internal reporting. As such, segment EBIT now includes: i) the contribution attributable to non-controlling interests before income taxes, whereas in the past it excluded such contribution attributable to non-controlling interests before income taxes; and ii) an allocation to the segments of certain other corporate selling, general and administrative expenses.

Also, as disclosed in Note 2C, given the Company's aim to continue to simplify and de-risk its business, SNC-Lavalin further simplified its market-facing structure. This simplification became effective January 1, 2019 and resulted in a change to the Company's reportable segments, which were: i) Engineering, Design and Project Management ("EDPM"); ii) Infrastructure; iii) Nuclear; iv) Resources; and v) Capital. The Company's new strategic direction adopted for the second quarter of 2019 resulted in the restructuring of its activities into two distinct business lines, SNCL Engineering Services and SNCL Projects. From a segmented information stand-point, this change resulted in the split of the Infrastructure segment into two segments, Infrastructure Services and Infrastructure EPC Projects, all other segments remaining the same.

The accounting policies for the segments are the same as those described in the Summary of Significant Accounting Policies (Note 2). The Company evaluates segment performance using **segment EBIT**, which consists, except for the Capital segment, of Total segment EBIT less i) directly related selling, general and administrative expenses; and ii) corporate selling, general and administrative expenses that are directly and indirectly related to projects or segments. Corporate selling, general and administrative expenses that are not directly or indirectly related to projects or segments, impairment losses (reversal of impairment losses) arising from expected credit losses, gains (losses) arising on financial assets (liabilities) at fair value through profit or loss, net 2012 class action lawsuits settlement expense and related legal costs, restructuring costs, goodwill impairment, acquisition-related costs and integration costs, amortization of intangible assets related to business combinations, impairment of intangible assets related to business combinations, gains (losses) from disposal(s) or adjustment on disposal(s) of E&C businesses and federal charges settlement (PPSC) are not allocated to the Company's segments.

The Company evaluates the Capital segment performance using: i) dividends or distributions received from investments accounted for by the cost method; ii) SNC-Lavalin's share of the net results of its investments, or dividends from its Capital investments for which the carrying amount is \$nil, but would otherwise be negative based on historical financial results and dividends, for investments accounted for by the equity method; and iii) net result from investments accounted for by the consolidation method.

#### 4. SEGMENT DISCLOSURES (CONTINUED)

The Capital segment EBIT also reflects selling, general and administrative expenses, including corporate selling, general and administrative expenses that are directly and indirectly related to the segment. Accordingly, the **segment EBIT from Capital** is reported net of selling, general and administrative expenses.

The following table presents revenues and segment EBIT according to the Company's segments for the year ended December 31, 2019:

|                                                                                                | YEAR ENDED DECEMBER 31 | 2019                |                       |                     |                   |
|------------------------------------------------------------------------------------------------|------------------------|---------------------|-----------------------|---------------------|-------------------|
|                                                                                                |                        | REVENUES            | SEGMENT EBIT          |                     |                   |
|                                                                                                |                        |                     | E&C                   | CAPITAL             | TOTAL             |
| EDPM                                                                                           |                        | \$ 3,908,900        | \$ 357,766            | \$ —                | \$ 357,766        |
| Nuclear                                                                                        |                        | 929,809             | 127,601               | —                   | 127,601           |
| Infrastructure Services                                                                        |                        | 1,178,582           | 73,511                | —                   | 73,511            |
| Capital                                                                                        |                        | 262,720             | —                     | 243,240             | 243,240           |
| <b>SNCL Engineering Services</b>                                                               |                        | <b>6,280,011</b>    | <b>558,878</b>        | <b>243,240</b>      | <b>802,118</b>    |
| Resources <sup>(1)</sup>                                                                       |                        | 2,158,855           | (341,520)             | —                   | (341,520)         |
| Infrastructure EPC Projects <sup>(2)</sup>                                                     |                        | 1,076,744           | (106,480)             | —                   | (106,480)         |
| <b>SNCL Projects</b>                                                                           |                        | <b>3,235,599</b>    | <b>(448,000)</b>      | <b>—</b>            | <b>(448,000)</b>  |
|                                                                                                |                        | <b>\$ 9,515,610</b> |                       |                     |                   |
| <b>Total segment EBIT</b>                                                                      |                        |                     | <b>110,878</b>        | <b>243,240</b>      | <b>354,118</b>    |
| Corporate selling, general and administrative expenses not allocated to the segments (Note 25) |                        |                     | (45,750)              | (28,194)            | (73,944)          |
| Impairment loss arising from expected credit losses                                            |                        |                     | (240)                 | —                   | (240)             |
| Gain (loss) arising on financial assets (liabilities) at fair value through profit or loss     |                        |                     | (5,807)               | 1,064               | (4,743)           |
| Restructuring costs (Note 26)                                                                  |                        |                     | (179,207)             | (3,594)             | (182,801)         |
| Amortization of intangible assets related to business combinations (Note 15)                   |                        |                     | (181,983)             | —                   | (181,983)         |
| Acquisition-related costs and integration costs (Note 6)                                       |                        |                     | (8,315)               | —                   | (8,315)           |
| Gain on disposal of a Capital investment (Note 5A)                                             |                        |                     | —                     | 2,970,783           | 2,970,783         |
| Loss from adjustment on disposals of E&C businesses                                            |                        |                     | (294)                 | —                   | (294)             |
| Impairment of intangible assets related to business combinations (Note 15)                     |                        |                     | (72,831)              | —                   | (72,831)          |
| Impairment of goodwill (Note 14)                                                               |                        |                     | (1,801,015)           | —                   | (1,801,015)       |
| Federal charges settlement (PPSC) (Note 33)                                                    |                        |                     | (257,327)             | —                   | (257,327)         |
| <b>EBIT</b>                                                                                    |                        |                     | <b>(2,441,891)</b>    | <b>3,183,299</b>    | <b>741,408</b>    |
| Net financial expenses (Note 27)                                                               |                        |                     | 194,241               | 17,842              | 212,083           |
| <b>Earnings (loss) before income taxes</b>                                                     |                        |                     | <b>(2,636,132)</b>    | <b>3,165,457</b>    | <b>529,325</b>    |
| Income taxes (Note 29B)                                                                        |                        |                     | (193,917)             | 392,655             | 198,738           |
| <b>Net income (loss)</b>                                                                       |                        |                     | <b>\$ (2,442,215)</b> | <b>\$ 2,772,802</b> | <b>\$ 330,587</b> |
| <b>Net income (loss) attributable to:</b>                                                      |                        |                     |                       |                     |                   |
| SNC-Lavalin shareholders                                                                       |                        |                     | \$ (2,444,583)        | \$ 2,772,802        | \$ 328,219        |
| Non-controlling interests                                                                      |                        |                     | 2,368                 | —                   | 2,368             |
| <b>Net income (loss)</b>                                                                       |                        |                     | <b>\$ (2,442,215)</b> | <b>\$ 2,772,802</b> | <b>\$ 330,587</b> |

<sup>(1)</sup> The negative segment EBIT is mainly due to net unfavorable reforecasts on certain major lump-sum turnkey construction contracts, a lower level of activity and a lower profitability ratio in 2019.

<sup>(2)</sup> The negative segment EBIT is mainly attributable to the net unfavorable reforecasts totaling approximately \$130 million on certain major projects resulting from higher forecasted costs or increased warranty costs, primarily on two lump-sum turnkey construction contracts nearing completion and on smaller clean power projects also nearing completion, combined with a lower level of activities.

#### 4. SEGMENT DISCLOSURES (CONTINUED)

The following table presents revenues and segment EBIT according to the Company's segments for the year ended December 31, 2018:

| YEAR ENDED DECEMBER 31                                                                                        | 2018 <sup>(1)</sup>  |                       |                   |                       |
|---------------------------------------------------------------------------------------------------------------|----------------------|-----------------------|-------------------|-----------------------|
|                                                                                                               | REVENUES             | SEGMENT EBIT          |                   |                       |
|                                                                                                               |                      | E&C                   | CAPITAL           | TOTAL                 |
| EDPM                                                                                                          | \$ 3,676,397         | \$ 354,745            | \$ —              | \$ 354,745            |
| Nuclear                                                                                                       | 932,616              | 143,858               | —                 | 143,858               |
| Infrastructure Services                                                                                       | 912,704              | 52,854                | —                 | 52,854                |
| Capital                                                                                                       | 264,657              | —                     | 224,975           | 224,975               |
| <b>SNCL Engineering Services</b>                                                                              | <b>5,786,374</b>     | <b>551,457</b>        | <b>224,975</b>    | <b>776,432</b>        |
| Resources <sup>(2)</sup>                                                                                      | 3,001,364            | (256,595)             | —                 | (256,595)             |
| Infrastructure EPC Projects                                                                                   | 1,296,268            | 19,298                | —                 | 19,298                |
| <b>SNCL Projects</b>                                                                                          | <b>4,297,632</b>     | <b>(237,297)</b>      | <b>—</b>          | <b>(237,297)</b>      |
|                                                                                                               | <u>\$ 10,084,006</u> |                       |                   |                       |
| <b>Total segment EBIT</b>                                                                                     |                      | 314,160               | 224,975           | 539,135               |
| Corporate selling, general and administrative expenses not allocated to the segments (Note 25) <sup>(3)</sup> |                      | (70,377)              | (27,657)          | (98,034)              |
| Impairment loss arising from expected credit losses                                                           |                      | (1,349)               | —                 | (1,349)               |
| Loss arising on financial assets (liabilities) at fair value through profit or loss                           |                      | (6,938)               | (489)             | (7,427)               |
| Net 2012 class action lawsuits settlement expense and related legal costs (Note 33)                           |                      | (89,443)              | —                 | (89,443)              |
| Restructuring costs (Note 26)                                                                                 |                      | (68,312)              | (279)             | (68,591)              |
| Amortization of intangible assets related to business combinations (Note 15)                                  |                      | (206,471)             | —                 | (206,471)             |
| Acquisition-related costs and integration costs (Note 6)                                                      |                      | (54,878)              | —                 | (54,878)              |
| Gain on disposals of Capital investments (Note 5A)                                                            |                      | —                     | 67,552            | 67,552                |
| Loss from adjustment on disposals of E&C businesses                                                           |                      | (474)                 | —                 | (474)                 |
| Impairment of goodwill (Note 14)                                                                              |                      | (1,240,415)           | —                 | (1,240,415)           |
| <b>EBIT</b>                                                                                                   |                      | <b>(1,424,497)</b>    | <b>264,102</b>    | <b>(1,160,395)</b>    |
| Net financial expenses (Note 27)                                                                              |                      | 155,986               | 11,459            | 167,445               |
| <b>Earnings (loss) before income taxes</b>                                                                    |                      | <b>(1,580,483)</b>    | <b>252,643</b>    | <b>(1,327,840)</b>    |
| Income taxes (Note 29B)                                                                                       |                      | (18,100)              | 6,555             | (11,545)              |
| <b>Net income (loss)</b>                                                                                      |                      | <b>\$ (1,562,383)</b> | <b>\$ 246,088</b> | <b>\$ (1,316,295)</b> |
| <b>Net income (loss) attributable to:</b>                                                                     |                      |                       |                   |                       |
| SNC-Lavalin shareholders                                                                                      |                      | \$ (1,562,986)        | \$ 246,088        | \$ (1,316,898)        |
| Non-controlling interests                                                                                     |                      | 603                   | —                 | 603                   |
| <b>Net income (loss)</b>                                                                                      |                      | <b>\$ (1,562,383)</b> | <b>\$ 246,088</b> | <b>\$ (1,316,295)</b> |

<sup>(1)</sup> Comparative figures have been revised to reflect changes made to the measure of profit or loss for the Company's reportable segments and changes made to the Company's reporting structure (see Note 2C).

<sup>(2)</sup> The negative segment EBIT is primarily due to the under-performance of a major EPC project mainly due to the fact that the Company did not reach the required level of agreement with the client in order to meet the IFRS 15 conditions for revenue recognition, as well as substantial negative cost reforecast in the fourth quarter of 2018 required to deliver this project to completion.

<sup>(3)</sup> Includes \$25.1 million of past service cost related to guaranteed minimum pension arising from October 26, 2018 U.K. High Court ruling (see Note 3).

#### 4. SEGMENT DISCLOSURES (CONTINUED)

The Company also discloses in the table below supplementary information such as its net income (loss) from E&C, its dividends from 407 International Inc. ("Highway 407 ETR"), and its net income from other Capital investments, as this information may be useful in assessing the Company's value.

It should be noted that supplementary information provided in the following table does not reflect information related to the Company's segments, but is rather an allocation of net income (loss) attributable to SNC-Lavalin shareholders between various components.

| YEARS ENDED DECEMBER 31                                                                                 | 2019              | 2018                  |
|---------------------------------------------------------------------------------------------------------|-------------------|-----------------------|
| <b>Supplementary information:</b>                                                                       |                   |                       |
| Net loss from adjustment on disposals of E&C businesses                                                 | \$ (294)          | \$ (474)              |
| Net 2012 class action lawsuits settlement expense and related legal costs, after income taxes (Note 33) | —                 | (65,740)              |
| Impairment of intangible assets related to business combinations (Note 15)                              | (60,135)          | —                     |
| Impairment of goodwill (Note 14)                                                                        | (1,720,889)       | (1,240,415)           |
| Federal charges settlement (PPSC) (Note 33)                                                             | (257,327)         | —                     |
| Excluding the items listed above                                                                        | (405,938)         | (256,357)             |
| Net loss attributable to SNC-Lavalin shareholders from E&C                                              | (2,444,583)       | (1,562,986)           |
| Net gain on disposals of Capital investments (Note 5A)                                                  | 2,585,998         | 59,823                |
| Highway 407 ETR dividends                                                                               | 146,099           | 154,324               |
| Excluding the items listed above                                                                        | 40,705            | 31,941                |
| Net income attributable to SNC-Lavalin shareholders from Capital                                        | 2,772,802         | 246,088               |
| <b>Net income (loss) attributable to SNC-Lavalin shareholders</b>                                       | <b>\$ 328,219</b> | <b>\$ (1,316,898)</b> |

The following table presents property, equipment, goodwill and intangible assets inside and outside Canada reflected on the Company's consolidated statements of financial position:

|                                                                           | DECEMBER 31<br>2019 | DECEMBER 31<br>2018 |
|---------------------------------------------------------------------------|---------------------|---------------------|
| <b>Property, equipment, goodwill and intangible assets <sup>(1)</sup></b> |                     |                     |
| Canada                                                                    | \$ 250,826          | \$ 349,347          |
| Outside Canada                                                            | 4,314,496           | 6,423,581           |
|                                                                           | <b>\$ 4,565,322</b> | <b>\$ 6,772,928</b> |

<sup>(1)</sup> All related to E&C activities

#### 5. CAPITAL INVESTMENTS

SNC-Lavalin makes investments in infrastructure concessions for public services such as bridges, highways, mass transit systems, power facilities, energy infrastructure, water treatment plants and social infrastructure (e.g. hospitals).

The main concessions and public-private partnerships contracts reported under IFRIC Interpretation 12, *Service Concession Arrangements*, ("IFRIC 12") are all accounted for under the financial asset model.

In order to provide the reader of the financial statements with a better understanding of the financial position and results of operations of its Capital investments, the Company presents certain distinct financial information related specifically to its Capital investments throughout its financial statements, as well as additional information below.

##### A) VARIATIONS IN OWNERSHIP INTERESTS IN INVESTMENTS

##### I) IN 2019

##### TRANSITNEXT GENERAL PARTNERSHIP

On March 29, 2019, SNC-Lavalin announced that its wholly-owned subsidiary, TransitNEXT General Partnership ("TransitNEXT"), signed an agreement with the City of Ottawa to design, build, finance and maintain the new Trillium Line extension, and to also assume responsibility for the long-term maintenance of the existing Trillium Line, under a 30-year contract.

## 5. CAPITAL INVESTMENTS (CONTINUED)

Also, TransitNEXT entered into a credit facility agreement, which is non-recourse to SNC-Lavalin. The aggregate maximum principal amount of the credit facility is \$149.0 million. The credit facility bears interest at a rate of CDOR plus an applicable margin and is repayable the latest on February 10, 2024. The credit facility is secured by all assets of TransitNEXT.

Furthermore, in relation to the credit facility above, TransitNEXT entered into an interest rate swap agreement with financial institutions under which TransitNEXT pays interest at a fixed rate and receives interest at a rate of CDOR.

In addition, a wholly-owned entity indirectly holding TransitNEXT entered into a term loan facility agreement, which is non-recourse to SNC-Lavalin. The aggregate principal amount of the term loan facility is \$99.7 million and cannot be drawn until substantial completion of the Trillium project is achieved. The term loan facility bears interest at a rate of: i) 4.82% prior to August 10, 2026; and ii) CDOR plus an applicable margin from and after August 10, 2026. The maturity of the term loan facility is the earlier of: i) the date that is 4 years after the substantial completion date of the Trillium project; and ii) March 29, 2028. The term loan facility is secured by all assets of such entity indirectly holding TransitNEXT.

SNC-Lavalin's investment in TransitNEXT is accounted for by the consolidation method.

### 407 INTERNATIONAL INC. ("HIGHWAY 407 ETR")

On April 5, 2019, SNC-Lavalin announced that the Company entered into an agreement with Ontario Municipal Employees Retirement System ("OMERS") to sell 10.01% of the shares of Highway 407 ETR (the "Subject Shares"), subject to shareholders' rights, including rights of first refusal in favour of certain other shareholders of Highway 407 ETR.

On May 17, 2019, SNC-Lavalin announced, prior to the expiry of the relevant notice and acceptance period, that another shareholder of Highway 407 ETR exercised its right of first refusal to purchase all of the Subject Shares on the same terms and conditions as those set out in the transaction documents with OMERS. On the basis of the shareholder exercising such a right of first refusal and in accordance with the sale contract, SNC-Lavalin terminated the transaction with OMERS and became subject to the payment of a break fee once the sale is completed.

On August 15, 2019, SNC-Lavalin announced that it had completed the sale of 10.01% of the shares of Highway 407 ETR to a company controlled by Canada Pension Plan Investment Board. Based on the terms of the agreement, SNC-Lavalin received on closing the base purchase price proceeds of \$3.0 billion, with up to an additional \$250 million contingently payable over a period of 10 years, conditional on the attainment of certain financial thresholds related to the ongoing performance of Highway 407 ETR. The Company was also entitled to receive additional consideration based on the dividend to be declared in October 2019, for which the fair value was determined at \$12.3 million.

After the completion of the sale, SNC-Lavalin paid a break fee of \$81.3 million to OMERS.

SNC-Lavalin's remaining 6.76% ownership interest in Highway 407 ETR continues to be accounted for under the equity method of accounting.

### Net gain on partial disposal of Highway 407 ETR

| YEAR ENDED DECEMBER 31                                 | 2019                |
|--------------------------------------------------------|---------------------|
| Consideration received in cash                         | \$ 3,000,000        |
| Additional consideration received                      | 12,256              |
| Contingent consideration receivable <sup>(1)</sup>     | 56,143              |
| Total consideration                                    | 3,068,399           |
| Carrying amount of the investment sold                 | —                   |
| Disposition-related costs <sup>(2)</sup>               | (97,616)            |
| <b>Gain on partial disposal of Highway 407 ETR</b>     | <b>2,970,783</b>    |
| Income taxes                                           | (384,785)           |
| <b>Net gain on partial disposal of Highway 407 ETR</b> | <b>\$ 2,585,998</b> |

<sup>(1)</sup> Under the sale agreement, SNC-Lavalin is entitled to receive up to \$250 million over a period of 10 years, conditional on the attainment of certain financial thresholds related to the ongoing performance of Highway 407 ETR. The amount of \$56.1 million represents the estimated fair value of this receivable at the date of sale.

<sup>(2)</sup> Disposition-related costs included a break fee of \$81.3 million related to the termination of the transaction with OMERS.

## 5. CAPITAL INVESTMENTS (CONTINUED)

### II) IN 2018

#### MCGILL HEALTHCARE INFRASTRUCTURE GROUP

On June 28, 2018, SNC-Lavalin announced that it had finalized the transfer of its investment in McGill Healthcare Infrastructure Group (“MHIG”) and its holding company to SNC-Lavalin Infrastructure Partners LP (the “SNCL IP Partnership”).

#### Net gain on disposal of MHIG

| YEAR ENDED DECEMBER 31                                                  | 2018             |
|-------------------------------------------------------------------------|------------------|
| Consideration received in cash                                          | \$ 92,214        |
| Consideration received in equity instruments of the SNCL IP Partnership | 23,054           |
| Total consideration received                                            | 115,268          |
| Net assets disposed of <sup>(1)</sup>                                   | (50,792)         |
| Disposition-related costs                                               | (1,762)          |
| Gain on disposal of MHIG                                                | 62,714           |
| Income taxes                                                            | (4,311)          |
| <b>Net gain on disposal of MHIG</b>                                     | <b>\$ 58,403</b> |

<sup>(1)</sup> Net assets disposed of mainly included a loan receivable of \$88.9 million, a Capital investment accounted for by the equity method of \$17.5 million, a deferred income tax liability of \$59.3 million and other current net assets of \$3.7 million.

#### ASTORIA PROJECT PARTNERS II LLC

On August 28, 2018, SNC-Lavalin announced that it had reached an agreement to sell its ownership interest in Astoria Project Partners II LLC (“Astoria II”), the legal entity that owned and operated the Astoria II power plant in New York City. The purchaser, NM Harbert Astoria LLC, is a limited liability company, owned by affiliates of Northwestern Mutual and Harbert Management Corporation. On October 24, 2018, SNC-Lavalin completed the sale of its ownership interest in Astoria II.

#### Net gain on disposal of Astoria II

| YEAR ENDED DECEMBER 31                                                                               | 2018            |
|------------------------------------------------------------------------------------------------------|-----------------|
| Consideration received in cash                                                                       | \$ 51,336       |
| Deferred sale proceeds                                                                               | 2,742           |
| Total consideration received                                                                         | 54,078          |
| Net assets disposed of <sup>(2)</sup>                                                                | (48,403)        |
| Cumulative amount of exchange differences on translating foreign operations reclassified from equity | (678)           |
| Disposition-related costs                                                                            | (159)           |
| Gain on disposal of Astoria II                                                                       | 4,838           |
| Income taxes                                                                                         | (3,418)         |
| <b>Net gain on disposal of Astoria II</b>                                                            | <b>\$ 1,420</b> |

<sup>(2)</sup> Net assets disposed of included a Capital investment accounted for by the cost method of \$54.8 million and a deferred income tax liability of \$6.4 million.

For the year ended December 31, 2018, the gain on disposals of Capital investments is presented in the Company’s consolidated income statement as follows:

| YEAR ENDED DECEMBER 31                          | 2018             |                   |                  |
|-------------------------------------------------|------------------|-------------------|------------------|
|                                                 | BEFORE TAXES     | INCOME TAXES      | NET OF TAXES     |
| Gain on disposal of MHIG                        | \$ 62,714        | \$ (4,311)        | \$ 58,403        |
| Gain on disposal of Astoria II                  | 4,838            | (3,418)           | 1,420            |
| <b>Gain on disposals of Capital investments</b> | <b>\$ 67,552</b> | <b>\$ (7,729)</b> | <b>\$ 59,823</b> |

## 5. CAPITAL INVESTMENTS (CONTINUED)

### B) NET BOOK VALUE AND DESCRIPTIONS OF CAPITAL INVESTMENTS

The Company's consolidated statement of financial position includes the following net assets (liabilities) from its consolidated Capital investments and net book value from its Capital investments accounted for by the equity and cost methods.

|                                                                                             | DECEMBER 31<br>2019 | DECEMBER 31<br>2018 |
|---------------------------------------------------------------------------------------------|---------------------|---------------------|
| Net assets (liabilities) from Capital investments accounted for by the consolidation method | \$ (51,620)         | \$ 1,200            |
| Net book value of Capital investments accounted for by the equity method <sup>(1)</sup>     | 399,539             | 357,249             |
| Net book value of Capital investments accounted for by the cost method                      | 8,107               | 10,663              |
| <b>Total net book value of Capital investments</b>                                          | <b>\$ 356,026</b>   | <b>\$ 369,112</b>   |

<sup>(1)</sup> Includes the Company's investment in Highway 407 ETR, for which the net book value was \$nil as at December 31, 2019 and 2018.

### I) CAPITAL INVESTMENTS ACCOUNTED FOR BY THE CONSOLIDATION METHOD

SNC-Lavalin's main Capital investment accounted for by the consolidation method is detailed below:

| NAME OF CAPITAL INVESTMENT      | PRINCIPAL ACTIVITY                               | SUBJECT TO IFRIC 12 | MATURITY OF CONCESSION AGREEMENT | LOCATION | OWNERSHIP INTEREST  |                     |
|---------------------------------|--------------------------------------------------|---------------------|----------------------------------|----------|---------------------|---------------------|
|                                 |                                                  |                     |                                  |          | DECEMBER 31<br>2019 | DECEMBER 31<br>2018 |
| InPower BC General Partnership  | John Hart Generating Replacement Facility        | Yes                 | 2033                             | Canada   | 100.0%              | 100.0%              |
| TransitNEXT General Partnership | New Trillium Line extension (under construction) | Yes                 | 2049                             | Canada   | 100.0%              | —%                  |

## 5. CAPITAL INVESTMENTS (CONTINUED)

### II) CAPITAL INVESTMENTS ACCOUNTED FOR BY THE EQUITY METHOD

SNC-Lavalin's main Capital investments accounted for by the equity method are listed below:

|                                                                        |                                                                                                    |                     |                                  |          | OWNERSHIP INTEREST |                  |
|------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------|---------------------|----------------------------------|----------|--------------------|------------------|
| NAME OF CAPITAL INVESTMENT                                             | PRINCIPAL ACTIVITY                                                                                 | SUBJECT TO IFRIC 12 | MATURITY OF CONCESSION AGREEMENT | LOCATION | DECEMBER 31 2019   | DECEMBER 31 2018 |
| Joint ventures:                                                        |                                                                                                    |                     |                                  |          |                    |                  |
| 407 East Development Group General Partnership (“407 EDGGP”)           | 32-km toll Highway 407 East                                                                        | Yes                 | 2045                             | Canada   | 50.0%              | 50.0%            |
| 407 International Inc. <sup>(1)</sup> (“Highway 407 ETR”)              | 108-km toll highway under a 99-year concession agreement                                           | No                  | 2098                             | Canada   | 6.76%              | 16.77%           |
| Crosslinx Transit Solutions General Partnership (“Eglinton Crosstown”) | Eglinton Crosstown Light Rail Transit project (under construction)                                 | Yes                 | 2051                             | Canada   | 25.0%              | 25.0%            |
| Rideau Transit Group Partnership (“Rideau”)                            | The Confederation Line, City of Ottawa’s light rail transit system                                 | Yes                 | 2043                             | Canada   | 40.0%              | 40.0%            |
| Signature on the Saint-Laurent Group General Partnership (“SSL”)       | New Champlain Bridge Corridor                                                                      | Yes                 | 2049                             | Canada   | 50.0%              | 50.0%            |
| TC Dôme S.A.S. <sup>(2)</sup> (“TC Dôme”)                              | 5.3-km electric cog railway                                                                        | Yes                 | 2043                             | France   | 51.0%              | 51.0%            |
| Associates:                                                            |                                                                                                    |                     |                                  |          |                    |                  |
| Myah Tipaza S.p.A.                                                     | Seawater desalination plant to supply treated water under a 25-year take-or-pay agreement          | No                  | N/A                              | Algeria  | 25.5%              | 25.5%            |
| Shariket Kahraba Hadjret En Nouss S.p.A.                               | 1,227 MW gas-fired thermal power plant supplying electricity under a 20-year take-or-pay agreement | No                  | N/A                              | Algeria  | 26.0%              | 26.0%            |
| SNC-Lavalin Infrastructure Partners LP                                 | Holding interests in mature Capital investments                                                    | No                  | N/A                              | Canada   | 20.0%              | 20.0%            |

<sup>(1)</sup> Although the Company holds less than 20% of the equity shares of Highway 407 ETR, the Company exercises joint control over this entity based on its contractual agreements.

<sup>(2)</sup> Although the Company's ownership interest TC Dôme is more than 50%, the Company does not exercise control over this entity based on its contractual agreements.

N/A: not applicable

## 5. CAPITAL INVESTMENTS (CONTINUED)

### Capital investments accounted for by the equity method – joint ventures

SNC-Lavalin carries out part of its Capital investment activity through joint ventures which are accounted for by the equity method. The aggregate amounts of current assets, non-current assets, current liabilities, non-current liabilities, revenues and expenses related to such joint ventures are summarized below:

| YEAR ENDED DECEMBER 31, 2019            | HIGHWAY 407 ETR | OTHER CAPITAL INVESTMENTS | TOTAL        |
|-----------------------------------------|-----------------|---------------------------|--------------|
| <b>Income statements</b>                |                 |                           |              |
| Revenues (at 100%)                      | \$ 1,505,301    | \$ 1,271,169              | \$ 2,776,470 |
| Interest income (at 100%)               | \$ 24,512       | \$ 20,584                 | \$ 45,096    |
| Interest expense (at 100%)              | \$ 444,615      | \$ 116,317                | \$ 560,932   |
| Depreciation and amortization (at 100%) | \$ 105,512      | \$ —                      | \$ 105,512   |
| Income tax expense (at 100%)            | \$ 207,489      | \$ 4                      | \$ 207,493   |

| YEAR ENDED DECEMBER 31, 2018            | HIGHWAY 407 ETR | OTHER CAPITAL INVESTMENTS | TOTAL        |
|-----------------------------------------|-----------------|---------------------------|--------------|
| <b>Income statements</b>                |                 |                           |              |
| Revenues (at 100%)                      | \$ 1,390,314    | \$ 1,899,232              | \$ 3,289,546 |
| Interest income (at 100%)               | \$ 19,786       | \$ 9,624                  | \$ 29,410    |
| Interest expense (at 100%)              | \$ 390,008      | \$ 119,803                | \$ 509,811   |
| Depreciation and amortization (at 100%) | \$ 107,348      | \$ —                      | \$ 107,348   |
| Income tax expense (at 100%)            | \$ 194,044      | \$ 4                      | \$ 194,048   |

| YEAR ENDED DECEMBER 31, 2019              | HIGHWAY 407 ETR | OTHER CAPITAL INVESTMENTS | TOTAL      |
|-------------------------------------------|-----------------|---------------------------|------------|
| <b>Statements of comprehensive income</b> |                 |                           |            |
| Net income (at 100%)                      | \$ 575,748      | \$ 93,281                 | \$ 669,029 |
| Other comprehensive loss (at 100%)        | (778)           | (3,006)                   | (3,784)    |
| Total comprehensive income (at 100%)      | \$ 574,970      | \$ 90,275                 | \$ 665,245 |

| YEAR ENDED DECEMBER 31, 2018              | HIGHWAY 407 ETR | OTHER CAPITAL INVESTMENTS | TOTAL      |
|-------------------------------------------|-----------------|---------------------------|------------|
| <b>Statements of comprehensive income</b> |                 |                           |            |
| Net income (at 100%)                      | \$ 538,888      | \$ 79,786                 | \$ 618,674 |
| Other comprehensive loss (at 100%)        | (755)           | (3,100)                   | (3,855)    |
| Total comprehensive income (at 100%)      | \$ 538,133      | \$ 76,686                 | \$ 614,819 |

| YEARS ENDED DECEMBER 31                                                                             | 2019       | 2018       |
|-----------------------------------------------------------------------------------------------------|------------|------------|
| Company's share of net income of Capital investments based on its ownership interest <sup>(1)</sup> | \$ 109,565 | \$ 122,878 |
| Company's net income from Capital investments included in its income statement <sup>(1)</sup>       | \$ 185,266 | \$ 188,345 |

<sup>(1)</sup> See Note 1 on the following page

## 5. CAPITAL INVESTMENTS (CONTINUED)

| DECEMBER 31, 2019                                                                                              | HIGHWAY 407 ETR | OTHER CAPITAL INVESTMENTS | TOTAL          |
|----------------------------------------------------------------------------------------------------------------|-----------------|---------------------------|----------------|
| <b>Statements of financial position</b>                                                                        |                 |                           |                |
| Cash and cash equivalents (at 100%)                                                                            | \$ 557,316      | \$ 122,903                | \$ 680,219     |
| Other current assets (at 100%)                                                                                 | 254,470         | 663,691                   | 918,161        |
| Non-current assets (at 100%)                                                                                   | 4,539,752       | 2,669,759                 | 7,209,511      |
| Total assets (at 100%)                                                                                         | 5,351,538       | 3,456,353                 | 8,807,891      |
| Trade payables (at 100%)                                                                                       | 81,248          | 102,259                   | 183,507        |
| Other current financial liabilities (at 100%)                                                                  | 142,614         | 568,539                   | 711,153        |
| Other current non-financial liabilities (at 100%)                                                              | 18,008          | 56,908                    | 74,916         |
| Other non-current financial liabilities (at 100%)                                                              | 8,868,430       | 2,321,948                 | 11,190,378     |
| Other non-current non-financial liabilities (at 100%)                                                          | 529,066         | 428                       | 529,494        |
| Total liabilities (at 100%)                                                                                    | 9,639,366       | 3,050,082                 | 12,689,448     |
| Net assets (liabilities) (at 100%)                                                                             | \$ (4,287,828)  | \$ 406,271                | \$ (3,881,557) |
| Company's carrying value of Capital investments included in its statement of financial position <sup>(1)</sup> | \$ —            | \$ 227,943                | \$ 227,943     |

| DECEMBER 31, 2018                                                                                              | HIGHWAY 407 ETR | OTHER CAPITAL INVESTMENTS | TOTAL          |
|----------------------------------------------------------------------------------------------------------------|-----------------|---------------------------|----------------|
| <b>Statements of financial position</b>                                                                        |                 |                           |                |
| Cash and cash equivalents (at 100%)                                                                            | \$ 308,156      | \$ 7,225                  | \$ 315,381     |
| Other current assets (at 100%)                                                                                 | 483,441         | 380,000                   | 863,441        |
| Non-current assets (at 100%)                                                                                   | 4,469,457       | 3,594,777                 | 8,064,234      |
| Total assets (at 100%)                                                                                         | 5,261,054       | 3,982,002                 | 9,243,056      |
| Trade payables (at 100%)                                                                                       | 57,700          | 38,053                    | 95,753         |
| Other current financial liabilities (at 100%)                                                                  | 104,566         | 450,367                   | 554,933        |
| Other current non-financial liabilities (at 100%)                                                              | 47,065          | —                         | 47,065         |
| Other non-current financial liabilities (at 100%)                                                              | 8,350,991       | 3,245,870                 | 11,596,861     |
| Other non-current non-financial liabilities (at 100%)                                                          | 513,529         | 884                       | 514,413        |
| Total liabilities (at 100%)                                                                                    | 9,073,851       | 3,735,174                 | 12,809,025     |
| Net assets (liabilities) (at 100%)                                                                             | \$ (3,812,797)  | \$ 246,828                | \$ (3,565,969) |
| Company's carrying value of Capital investments included in its statement of financial position <sup>(1)</sup> | \$ —            | \$ 192,474                | \$ 192,474     |

<sup>(1)</sup> Under the equity method of accounting, distributions from a joint venture reduce the carrying amount of the investment. The equity method of accounting requires the Company to stop recognizing its share of the losses of a joint venture when the recognition of such losses results in a negative balance for its investment, or where dividends declared by the joint venture are in excess of the carrying amount of the investment. In these events, the carrying value of the investment is reduced to \$nil, but does not become negative, unless the Company has incurred legal or constructive obligations or made payments on behalf of the joint venture. In these situations, the Company no longer recognizes its share of net income of a Capital investment based on its ownership, but rather recognizes the excess amount of dividends declared by a joint venture in its net income.

As a result, the Company recognized in its income statement dividends from Highway 407 ETR of \$146.1 million in 2019 (2018: \$154.3 million) and did not recognize its share of Highway 407 ETR's net income of \$72.0 million (2018: \$90.4 million) in the same period, as the carrying amount of its investment in Highway 407 ETR was \$nil at December 31, 2019 and 2018. The negative carrying value of the Company's investment in Highway 407 ETR, which is not recognized on the Company's statement of financial position, amounted to \$716.2 million as at December 31, 2019 (2018: negative carrying value of \$642.0 million).

## 5. CAPITAL INVESTMENTS (CONTINUED)

### Capital investments accounted for by the equity method - associates

The summary tables below provide supplementary information in respect of Capital investments classified as associates:

| YEARS ENDED DECEMBER 31                                                                         | 2019                | 2018                |
|-------------------------------------------------------------------------------------------------|---------------------|---------------------|
| <b>Statements of comprehensive income</b>                                                       |                     |                     |
| Revenues (at 100%)                                                                              | \$ 308,023          | \$ 250,223          |
| Expenses (at 100%)                                                                              | 196,102             | 180,969             |
| Net income (at 100%)                                                                            | 111,921             | 69,254              |
| Other comprehensive income (loss) (at 100%)                                                     | —                   | —                   |
| Total comprehensive income (at 100%)                                                            | \$ 111,921          | \$ 69,254           |
| Company's share of net income of Capital investments based on its ownership interest            | \$ 25,277           | \$ 15,742           |
| Company's share of net income from Capital investments included in its income statement         | \$ 25,277           | \$ 15,742           |
|                                                                                                 | DECEMBER 31<br>2019 | DECEMBER 31<br>2018 |
| <b>Statements of financial position</b>                                                         |                     |                     |
| Current assets (at 100%)                                                                        | \$ 358,457          | \$ 369,711          |
| Non-current assets (at 100%)                                                                    | 685,714             | 729,648             |
| Total assets (at 100%)                                                                          | 1,044,171           | 1,099,359           |
| Current liabilities (at 100%)                                                                   | 146,578             | 157,761             |
| Non-current liabilities (at 100%)                                                               | 261,971             | 339,562             |
| Total liabilities (at 100%)                                                                     | 408,549             | 497,323             |
| Net assets (at 100%)                                                                            | \$ 635,622          | \$ 602,036          |
| Company's carrying value of Capital investments included in its statement of financial position | \$ 171,596          | \$ 164,775          |

### III) CAPITAL INVESTMENTS ACCOUNTED FOR BY THE COST METHOD

The main Capital investments accounted for by the cost method are listed below:

|                                                                     |                                                                                                                                                          |          | OWNERSHIP INTEREST  |                     |
|---------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------|----------|---------------------|---------------------|
| NAME OF CAPITAL INVESTMENT                                          | PRINCIPAL ACTIVITY                                                                                                                                       | LOCATION | DECEMBER 31<br>2019 | DECEMBER 31<br>2018 |
| Carlyle Global Infrastructure Opportunity Fund, L.P. <sup>(1)</sup> | Holding investments in infrastructure projects related to energy, power and other natural resources                                                      | U.S.A.   | 4.5%                | 8.1%                |
| Highway Concessions One Private Limited <sup>(1)</sup>              | Engages in the business of bidding for, owning, acquiring, investing, developing, implementing and operating infrastructure in the roads sector of India | India    | 10.0%               | 10.0%               |

<sup>(1)</sup> Included in the measurement category of "at fair value through other comprehensive income"

The investments in Carlyle Global Infrastructure Opportunity Fund, L.P. and in Highway Concession One Private Limited are designated to be measured at fair value through other comprehensive income to avoid the variability of the Company's net income in the future periods.

For the years ended December 31, 2019 and 2018, the Company's consolidated income includes revenues of \$1.9 million and \$1.9 million, respectively, from investments accounted for by the cost method.

## 5. CAPITAL INVESTMENTS (CONTINUED)

### C) PAYMENTS AND REMAINING COMMITMENTS IN CAPITAL INVESTMENTS

When making investments in infrastructure concessions, SNC-Lavalin may not be required to make its contribution immediately but instead may commit to make its contribution over time.

The following table summarizes SNC-Lavalin's payments and outstanding commitments to invest in Capital investments accounted for by the equity or cost methods as at December 31, 2019 and 2018:

|                                                                   | 2019             | 2018              |
|-------------------------------------------------------------------|------------------|-------------------|
| Commitments to invest in Capital investments – January 1          | \$ 108,312       | \$ 98,050         |
| Increase in commitments to invest in Capital investments          | 2,379            | 10,262            |
| Payments for Capital investments during the year                  | (39,967)         | —                 |
| <b>Commitments to invest in Capital investments – December 31</b> | <b>\$ 70,724</b> | <b>\$ 108,312</b> |

At December 31, 2019, the commitments to invest in Capital investments were related to contributions for SSL, Eglinton Crosstown and Carlyle Global Infrastructure Opportunity Fund, L.P. (2018: Rideau, SSL, Eglinton Crosstown and Carlyle Global Infrastructure Opportunity Fund, L.P.) and were presented as "Other current financial liabilities" (see Note 18) since they are either expected to be paid in the following year or are callable on demand.

In 2016, SNC-Lavalin signed an agreement to support a commitment of US\$100 million to a fund focused on global infrastructure investments sponsored by The Carlyle Group ("Carlyle"), subject to certain conditions. The intent of this agreement is for SNC-Lavalin and Carlyle to cooperate with respect to investments in, and work on, infrastructure projects. Such commitment to invest amounted to US\$89.3 million (approximately CA\$117.2 million) as at December 31, 2019 (2018: US\$92.5 million [approximately CA\$126.0 million]) and will be recognized as a liability, as a whole or in part, when the accounting conditions will be met.

## 6. BUSINESS COMBINATION

### I) IN 2019

In 2019, there was no business combination.

### II) IN 2018

#### LINXON PVT LTD

On September 1, 2018, SNC-Lavalin acquired from a subsidiary of ABB Ltd ("ABB") a 51% ownership interest in Linxon Pvt Ltd ("Linxon"), incorporated under the laws of England and Wales, for the execution of turnkey electrical substation projects. Turnkey solutions include project design, engineering, procurement, construction, management, commissioning and after-sales support. The primary reason for this business combination was to combine ABB's technology leadership with SNC-Lavalin's expertise in managing projects to deliver enhanced customer value.

The acquisition of Linxon by SNC-Lavalin has been accounted for using the acquisition method and Linxon has been consolidated from the effective date of acquisition, which is September 1, 2018, with a non-controlling interest of 49%.

In 2019, the Company modified its preliminary allocation of purchase price and has retrospectively revised the impact of changes to the preliminary allocation of purchase price. However, since the effect on the 2018 net income was not material, the cumulative adjustment to earnings was accounted for in 2019.

## 6. BUSINESS COMBINATION (CONTINUED)

### FAIR VALUE OF NET IDENTIFIABLE LIABILITIES OF BUSINESS ACQUIRED

| AT SEPTEMBER 1, 2018                                                   | PRELIMINARY<br>ALLOCATION | ADJUSTMENTS        | FINAL<br>ALLOCATION |
|------------------------------------------------------------------------|---------------------------|--------------------|---------------------|
| Cash                                                                   | \$ 8,314                  | \$ —               | \$ 8,314            |
| Trade receivables                                                      | 9,398                     | —                  | 9,398               |
| Contract assets                                                        | 14,208                    | —                  | 14,208              |
| Other current and non-current assets                                   | 9,919                     | 5,216              | 15,135              |
| Intangible assets related to Linxon acquisition <sup>(1)</sup>         | —                         | 14,138             | 14,138              |
| Trade payables                                                         | (30,403)                  | —                  | (30,403)            |
| Contract liabilities                                                   | (9,806)                   | —                  | (9,806)             |
| Other current and non-current liabilities                              | (5,793)                   | (31,229)           | (37,022)            |
| <b>Fair value of net identifiable liabilities of business acquired</b> | <b>\$ (4,163)</b>         | <b>\$ (11,875)</b> | <b>\$ (16,038)</b>  |

<sup>(1)</sup> Intangible assets with finite useful life related to Linxon acquisition are revenue backlog, which is amortized using the straight-line method over a period from 0.5 to 3.5 years.

### GOODWILL ARISING ON THE BUSINESS COMBINATION

| AT SEPTEMBER 1, 2018                                                                        | PRELIMINARY<br>ALLOCATION | ADJUSTMENTS     | FINAL<br>ALLOCATION |
|---------------------------------------------------------------------------------------------|---------------------------|-----------------|---------------------|
| Contingent consideration to be transferred to seller <sup>(2)</sup>                         | \$ 16,470                 | \$ —            | \$ 16,470           |
| Fair value of net identifiable liabilities of business acquired                             | 4,163                     | 11,875          | 16,038              |
| Non-controlling interest of 49% <sup>(3)</sup>                                              | (2,040)                   | (5,819)         | (7,859)             |
| Cash received by Linxon for working capital adjustment                                      | —                         | (9,351)         | (9,351)             |
| Share of non-controlling interest of cash received by Linxon for working capital adjustment | —                         | 4,582           | 4,582               |
| <b>Goodwill <sup>(4)</sup></b>                                                              | <b>\$ 18,593</b>          | <b>\$ 1,287</b> | <b>\$ 19,880</b>    |

<sup>(2)</sup> Under the business combination arrangement, SNC-Lavalin is required to remit a portion of its future dividends distributed in cash by Linxon, if any, to ABB for a total aggregate amount of US\$25 million (approximately CA\$32.6 million). The range of outcome of the contingent consideration is between US\$nil and US\$25 million (approximately between CA\$nil and CA\$32.6 million). The amount of \$16.5 million represents the preliminary estimated fair value of this obligation at the acquisition date, which was determined using the present value technique.

<sup>(3)</sup> The non-controlling interest recognized at the acquisition date was measured at its proportionate share of the value of net identifiable liabilities acquired.

<sup>(4)</sup> Goodwill represents the excess of the cost of acquisition and of non-controlling interest over the net identifiable tangible and intangible assets acquired and liabilities assumed at their acquisition-date fair values. The fair value allocated to tangible and intangible assets acquired and liabilities assumed are based on assumptions of management. The total amount of goodwill that is expected to be deductible for tax purposes is \$0.3 million.

### NET CASH INFLOW ON ACQUISITION OF LINXON

| YEAR ENDED DECEMBER 31                                                                               | 2019               |
|------------------------------------------------------------------------------------------------------|--------------------|
| Consideration paid in cash                                                                           | \$ —               |
| Less: Return of contingent consideration to be transferred to seller received in cash <sup>(5)</sup> | 5,539              |
| Less: Cash received by Linxon for working capital adjustment                                         | 9,351              |
| <b>Net cash inflow on acquisition of Linxon</b>                                                      | <b>\$ (14,890)</b> |

<sup>(5)</sup> Under the business combination arrangement, ABB is required to compensate Linxon in cash an amount based on the date of transfer of certain additional assets and liabilities, up to June 30, 2019. The range of outcome of such right to a return of contingent consideration to be transferred to seller was between US\$nil and US\$8.3 million (approximately between CA\$nil and CA\$10.8 million).

### III) ACQUISITION-RELATED COSTS AND INTEGRATION COSTS

Acquisition-related costs and integration costs amounted to \$8.3 million in the year ended December 31, 2019 (2018: \$54.9 million), of which \$nil million related solely to acquisition-related costs in the year ended December 31, 2019 (2018: \$2.0 million).

## 7. CASH AND CASH EQUIVALENTS AND RESTRICTED CASH

| A) CASH AND CASH EQUIVALENTS                               | DECEMBER 31<br>2019 | DECEMBER 31<br>2018 |
|------------------------------------------------------------|---------------------|---------------------|
| Bank balances, bank term deposits and bankers' acceptances | \$ 1,188,636        | \$ 634,084          |
| <b>Cash and cash equivalents</b>                           | <b>\$ 1,188,636</b> | <b>\$ 634,084</b>   |

| B) RESTRICTED CASH                                         | DECEMBER 31<br>2019 | DECEMBER 31<br>2018 |
|------------------------------------------------------------|---------------------|---------------------|
| Bank balances, bank term deposits and bankers' acceptances | \$ 34,118           | \$ 12,722           |
| <b>Restricted cash</b>                                     | <b>\$ 34,118</b>    | <b>\$ 12,722</b>    |

## 8. TRADE RECEIVABLES AND CONTRACT ASSETS

### A) TRADE RECEIVABLES

The following table presents the Company's trade receivables that are within normal terms of payment separately from those that are past due, with a reconciliation to the net carrying amount:

|                                                                       | DECEMBER 31<br>2019 | DECEMBER 31<br>2018 |
|-----------------------------------------------------------------------|---------------------|---------------------|
| Trade receivables:                                                    |                     |                     |
| Within normal terms of payment                                        | \$ 1,161,005        | \$ 1,169,919        |
| Past due                                                              | 628,135             | 574,169             |
| Total trade receivables                                               | 1,789,140           | 1,744,088           |
| Allowance for expected credit losses                                  | (255,698)           | (240,264)           |
| <b>Trade receivables, net of allowance for expected credit losses</b> | <b>\$ 1,533,442</b> | <b>\$ 1,503,824</b> |

The change in the allowance for expected credit losses is detailed below:

| YEARS ENDED DECEMBER 31                                          | 2019              | 2018              |
|------------------------------------------------------------------|-------------------|-------------------|
| Balance at beginning of year                                     | \$ 240,264        | \$ 163,985        |
| Transitional adjustment on adoption of a new accounting standard | —                 | 3,044             |
| Adjusted balance at beginning of year                            | 240,264           | 167,029           |
| Change in allowance, other than write-offs and recoveries        | 43,102            | 128,897           |
| Write-offs of trade receivables                                  | (9,133)           | (33,587)          |
| Recoveries                                                       | (18,535)          | (22,075)          |
| <b>Balance at end of year</b>                                    | <b>\$ 255,698</b> | <b>\$ 240,264</b> |

### B) CONTRACT ASSETS

As at December 31, 2019, the Company has contract assets of \$1,755.3 million (2018: \$1,751.1 million), which is net of an allowance for expected credit losses of \$18.3 million (2018: \$11.2 million). The change in the allowance for expected credit losses is detailed below:

| YEARS ENDED DECEMBER 31                                          | 2019             | 2018             |
|------------------------------------------------------------------|------------------|------------------|
| Balance at beginning of year                                     | \$ 11,193        | \$ 7,985         |
| Transitional adjustment on adoption of a new accounting standard | —                | 2,471            |
| Adjusted balance at beginning of year                            | 11,193           | 10,456           |
| Change in allowance, other than write-offs                       | 10,523           | 2,179            |
| Write-offs of contract assets                                    | (3,454)          | (1,442)          |
| <b>Balance at end of year</b>                                    | <b>\$ 18,262</b> | <b>\$ 11,193</b> |

The significant changes in the balance of contract assets are disclosed in Note 9B, while the information about the credit exposures is disclosed in Note 30B.

## 9. REVENUE

### A) DISAGGREGATION OF REVENUE

#### Revenues by geographic area

The following tables present revenues by geographic area according to project location for the years ended December 31, 2019 and 2018:

| YEAR ENDED DECEMBER 31      |                                          | 2019          |              |
|-----------------------------|------------------------------------------|---------------|--------------|
|                             | REVENUE FROM CONTRACTS<br>WITH CUSTOMERS | OTHER REVENUE | TOTAL        |
| Americas:                   |                                          |               |              |
| Canada                      | \$ 2,594,964                             | \$ 218,757    | \$ 2,813,721 |
| United States               | 1,803,940                                | 21,592        | 1,825,532    |
| Latin America               | 181,598                                  | —             | 181,598      |
| Middle East and Africa:     |                                          |               |              |
| Saudi Arabia                | 871,054                                  | —             | 871,054      |
| Other Middle East countries | 812,486                                  | 5,143         | 817,629      |
| Africa                      | 343,401                                  | 19,636        | 363,037      |
| Asia Pacific:               |                                          |               |              |
| Australia                   | 173,746                                  | —             | 173,746      |
| Other                       | 326,771                                  | 35            | 326,806      |
| Europe:                     |                                          |               |              |
| United Kingdom              | 1,791,162                                | 2,933         | 1,794,095    |
| Other                       | 346,474                                  | 1,918         | 348,392      |
|                             | \$ 9,245,596                             | \$ 270,014    | \$ 9,515,610 |

| YEAR ENDED DECEMBER 31      |                                          | 2018          |               |
|-----------------------------|------------------------------------------|---------------|---------------|
|                             | REVENUE FROM CONTRACTS<br>WITH CUSTOMERS | OTHER REVENUE | TOTAL         |
| Americas:                   |                                          |               |               |
| Canada                      | \$ 2,729,692                             | \$ 232,864    | \$ 2,962,556  |
| United States               | 1,641,622                                | 23,940        | 1,665,562     |
| Latin America               | 302,412                                  | —             | 302,412       |
| Middle East and Africa:     |                                          |               |               |
| Saudi Arabia                | 1,020,724                                | —             | 1,020,724     |
| Other Middle East countries | 957,560                                  | 4,896         | 962,456       |
| Africa                      | 457,609                                  | 11,517        | 469,126       |
| Asia Pacific:               |                                          |               |               |
| Australia                   | 511,288                                  | —             | 511,288       |
| Other                       | 227,604                                  | 26            | 227,630       |
| Europe:                     |                                          |               |               |
| United Kingdom              | 1,648,358                                | 10,064        | 1,658,422     |
| Other                       | 303,539                                  | 291           | 303,830       |
|                             | \$ 9,800,408                             | \$ 283,598    | \$ 10,084,006 |

In the year ended December 31, 2019, Canada, the United States and the United Kingdom (2018: Canada, the United States, Saudi Arabia and the United Kingdom) were the only countries where the Company derived more than 10% of its revenues.

## 9. REVENUE (CONTINUED)

### Revenues by type of contracts

The types of contracts presented are defined as follow:

**Reimbursable and engineering service contracts:** Under reimbursable contracts, the Company charges the customer for the actual cost incurred plus a mark-up that could take various forms such as a fixed-fee per unit, a percentage of costs incurred or an incentive fee based on achieving certain targets, performance factors or contractual milestones. Reimbursable contracts also include unit-rate contracts for which a fixed amount per quantity is charged to the customer, and reimbursable contracts with a cap. Engineering service contracts include: i) time and material agreements based on hourly rates and fixed-price lump-sum contracts with limited procurement or construction risks; and ii) O&M contracts.

**Standardized EPC contracts:** Under standardized EPC contracts, the Company provides its repetitive Engineering, Procurement and Construction (“EPC”) offerings that are lower-risk, standardized solutions for: i) district cooling plants; and ii) power substations executed through its Linxon subsidiary.

**Lump-sum turnkey construction contracts:** Under lump-sum turnkey construction contracts, the Company completes the work required for the project at a lump-sum price. Before entering into such contracts, the Company estimates the total cost of the project, plus a profit margin. The Company’s actual profit margin may vary based on its ability to achieve the project requirements at above or below the initial estimated costs.

The following tables present revenues by type of contracts for the years ended December 31, 2019 and 2018:

| YEAR ENDED DECEMBER 31                                                                  |                                                      |                               |                                               | 2019         |
|-----------------------------------------------------------------------------------------|------------------------------------------------------|-------------------------------|-----------------------------------------------|--------------|
|                                                                                         | REIMBURSABLE AND<br>ENGINEERING SERVICE<br>CONTRACTS | STANDARDIZED EPC<br>CONTRACTS | LUMP-SUM TURNKEY<br>CONSTRUCTION<br>CONTRACTS | TOTAL        |
| EDPM                                                                                    | \$ 3,908,772                                         | \$ —                          | \$ —                                          | \$ 3,908,772 |
| Nuclear                                                                                 | 895,657                                              | —                             | 11,018                                        | 906,675      |
| Infrastructure Services                                                                 | 697,773                                              | 480,809                       | —                                             | 1,178,582    |
| Revenue from contracts with customers – SNCL<br>Engineering Services, excluding Capital | 5,502,202                                            | 480,809                       | 11,018                                        | 5,994,029    |
| Resources                                                                               | 1,460,346                                            | —                             | 692,069                                       | 2,152,415    |
| Infrastructure EPC Projects                                                             | —                                                    | —                             | 1,076,744                                     | 1,076,744    |
| Revenue from contracts with customers – SNCL<br>Projects                                | 1,460,346                                            | —                             | 1,768,813                                     | 3,229,159    |
|                                                                                         | \$ 6,962,548                                         | \$ 480,809                    | \$ 1,779,831                                  | \$ 9,223,188 |
| Revenue from E&C investments accounted for by the equity method (Note 17)               |                                                      |                               |                                               | 29,702       |
| Revenue from contracts with customers – Capital segment                                 |                                                      |                               |                                               | 22,408       |
| Other revenue – Capital segment                                                         |                                                      |                               |                                               | 240,312      |
|                                                                                         |                                                      |                               |                                               | \$ 9,515,610 |

| YEAR ENDED DECEMBER 31                                                                  |                                                      |                               |                                               | 2018          |
|-----------------------------------------------------------------------------------------|------------------------------------------------------|-------------------------------|-----------------------------------------------|---------------|
|                                                                                         | REIMBURSABLE AND<br>ENGINEERING SERVICE<br>CONTRACTS | STANDARDIZED EPC<br>CONTRACTS | LUMP-SUM TURNKEY<br>CONSTRUCTION<br>CONTRACTS | TOTAL         |
| EDPM                                                                                    | \$ 3,666,341                                         | \$ —                          | \$ —                                          | \$ 3,666,341  |
| Nuclear                                                                                 | 903,407                                              | —                             | 7,898                                         | 911,305       |
| Infrastructure Services                                                                 | 743,367                                              | 168,679                       | —                                             | 912,046       |
| Revenue from contracts with customers – SNCL<br>Engineering Services, excluding Capital | 5,313,115                                            | 168,679                       | 7,898                                         | 5,489,692     |
| Resources                                                                               | 1,814,737                                            | —                             | 1,181,375                                     | 2,996,112     |
| Infrastructure EPC Projects                                                             | —                                                    | —                             | 1,296,268                                     | 1,296,268     |
| Revenue from contracts with customers – SNCL<br>Projects                                | 1,814,737                                            | —                             | 2,477,643                                     | 4,292,380     |
|                                                                                         | \$ 7,127,852                                         | \$ 168,679                    | \$ 2,485,541                                  | \$ 9,782,072  |
| Revenue from E&C investments accounted for by the equity method (Note 17)               |                                                      |                               |                                               | 37,277        |
| Revenue from contracts with customers – Capital segment                                 |                                                      |                               |                                               | 18,336        |
| Other revenue – Capital segment                                                         |                                                      |                               |                                               | 246,321       |
|                                                                                         |                                                      |                               |                                               | \$ 10,084,006 |

## 9. REVENUE (CONTINUED)

### B) CONTRACT BALANCES

|                             | DECEMBER 31<br>2019 | DECEMBER 31<br>2018 |
|-----------------------------|---------------------|---------------------|
| Trade receivables (Note 8A) | \$ 1,533,442        | \$ 1,503,824        |
| Contract assets (Note 8B)   | 1,755,325           | 1,751,068           |
| Contract liabilities        | \$ 889,953          | \$ 972,959          |

Trade receivables are rights to consideration in exchange of goods or services that the Company has transferred to a customer when such rights are only conditional on the passage of time. Trade receivables are non-interest bearing and are generally on terms of 30 to 90 days.

Contract assets are rights to consideration in exchange of goods or services that the Company has transferred to a customer when such rights are not only conditional on passage of time, but also on something else, such as the satisfaction of further performance obligations under the contract. Contract assets are initially recognized for revenue earned from E&C activities and are usually derecognized when they become trade receivables.

Contract liabilities arise from E&C activities and represent the cumulative amounts received and contractually receivable from customers by the Company that exceed the right to consideration resulting from the Company's performance under a given contract.

The following table presents the amount of revenue recognized from:

| YEARS ENDED DECEMBER 31                                                               | 2019         | 2018       |
|---------------------------------------------------------------------------------------|--------------|------------|
| Amounts included in contract liabilities at the beginning of the year                 | \$ 486,775   | \$ 767,037 |
| Performance obligations satisfied or partially satisfied in previous years (reversal) | \$ (254,787) | \$ 143,581 |

As a significant portion the Company's revenues are recognized over time, the contractual terms which determine when consideration becomes receivable from the customer, such as upon the achievement of certain milestones, the Company's reaching such milestones earlier or later than anticipated and the ability to obtain downpayments on contracts will influence, among other factors, the balance of trade receivables, contract assets and contract liabilities on a given contract. Due to i) the large number of contracts entered into by the Company; ii) the variety of contractual terms of such contracts; and iii) the different level of progress of the underlying projects, the variance of the contract assets and contract liabilities balances is not usually attributable to one given factor, except for significant business combinations or divestitures. In 2019, there were no business combination and no business divestiture. Also, while the amount of contract balances at the end of 2019 was in line with the balance at the end of 2018, the amount of contract liabilities decreased during the same period, reflecting in part progress made on certain major projects.

### C) REMAINING PERFORMANCE OBLIGATIONS

The amount of transaction price allocated to performance obligations that are unsatisfied (or partially satisfied) at December 31, 2019, on all contracts with customers, is expected to be recognized in revenues as follows: 2020 – \$5.6 billion, 2021 – \$2.3 billion, 2022 – \$1.2 billion, and thereafter – \$6.1 billion (2018: 2019 – \$5.8 billion, 2020 – \$2.3 billion, 2021 – \$1.2 billion, and thereafter – \$5.6 billion). It should be noted that these amounts exclude any estimated amounts of variable consideration that are excluded from the transaction price.

## 10. INVENTORIES

|                    | DECEMBER 31<br>2019 | DECEMBER 31<br>2018 |
|--------------------|---------------------|---------------------|
| Raw materials      | \$ 38,042           | \$ 18,612           |
| Work in progress   | 29,563              | 31,620              |
| Finished goods     | 17,283              | 53,973              |
| <b>Inventories</b> | <b>\$ 84,888</b>    | <b>\$ 104,205</b>   |

The cost of inventories recognized by the Company as an expense during the year ended December 31, 2019 was \$150.1 million (2018: \$180.6 million). The amount of write-down of inventories recognized as an expense in the year ended December 31, 2019 was \$31.7 million (2018: \$12.7 million).

## 11. OTHER CURRENT FINANCIAL ASSETS

|                                                                                      | DECEMBER 31<br>2019 | DECEMBER 31<br>2018 |
|--------------------------------------------------------------------------------------|---------------------|---------------------|
| Advances to suppliers, subcontractors and employees and deposits on contracts        | \$ 54,895           | \$ 42,939           |
| Derivative financial instruments used for hedges – favourable fair value             | 19,246              | 39,952              |
| Life insurance policies measured at FVTPL <sup>(1)</sup>                             | 6,047               | 5,903               |
| Current portion of receivables under service concession arrangements                 | 17,556              | 14,160              |
| Return of contingent consideration to be transferred to seller (Note 6)              | —                   | 5,671               |
| Recovery of costs expected from suppliers and subcontractors                         | 49,687              | 48,926              |
| Current portion of finance lease receivables                                         | 3,277               | —                   |
| Derivative financial instruments related to share unit plans – favourable fair value | 1,900               | —                   |
| Other                                                                                | 69,700              | 89,740              |
| <b>Other current financial assets</b>                                                | <b>\$ 222,308</b>   | <b>\$ 247,291</b>   |

<sup>(1)</sup> Fair value through profit or loss (“FVTPL”)

## 12. OTHER CURRENT NON-FINANCIAL ASSETS

|                                           | DECEMBER 31<br>2019 | DECEMBER 31<br>2018 |
|-------------------------------------------|---------------------|---------------------|
| Income taxes and other taxes receivable   | \$ 220,629          | \$ 262,470          |
| Prepaid expenses and other                | 110,746             | 142,349             |
| <b>Other current non-financial assets</b> | <b>\$ 331,375</b>   | <b>\$ 404,819</b>   |

## 13. PROPERTY AND EQUIPMENT

|                                                           | BUILDINGS  | COMPUTER<br>EQUIPMENT | OFFICE<br>FURNITURE | MACHINERY  | OTHER      | TOTAL        |
|-----------------------------------------------------------|------------|-----------------------|---------------------|------------|------------|--------------|
| <b>Gross carrying amount</b>                              |            |                       |                     |            |            |              |
| Balance as at January 1, 2019                             | \$ 102,748 | \$ 433,670            | \$ 158,762          | \$ 147,060 | \$ 234,794 | \$ 1,077,034 |
| Additions                                                 | 366        | 51,291                | 8,377               | 17,235     | 48,243     | 125,512      |
| Effect of foreign currency<br>exchange differences        | (2,832)    | (7,620)               | (2,650)             | (6,279)    | (11,924)   | (31,305)     |
| Disposals / retirements / salvage                         | (2,484)    | (6,580)               | (247)               | (1,631)    | (719)      | (11,661)     |
| Balance as at December 31, 2019                           | \$ 97,798  | \$ 470,761            | \$ 164,242          | \$ 156,385 | \$ 270,394 | \$ 1,159,580 |
| <b>Accumulated depreciation and<br/>impairment losses</b> |            |                       |                     |            |            |              |
| Balance as at January 1, 2019                             | \$ 40,141  | \$ 311,800            | \$ 120,981          | \$ 28,400  | \$ 93,093  | \$ 594,415   |
| Depreciation expense                                      | 4,509      | 43,704                | 8,960               | 31,584     | 19,483     | 108,240      |
| Effect of foreign currency<br>exchange differences        | (1,355)    | (6,309)               | (2,065)             | (1,591)    | (8,894)    | (20,214)     |
| Impairment loss                                           | 33         | 92                    | 446                 | 9,429      | —          | 10,000       |
| Disposals / retirements / salvage                         | (1,225)    | (198)                 | (112)               | (1,690)    | (266)      | (3,491)      |
| Balance as at December 31, 2019                           | \$ 42,103  | \$ 349,089            | \$ 128,210          | \$ 66,132  | \$ 103,416 | \$ 688,950   |

### 13. PROPERTY AND EQUIPMENT (CONTINUED)

|                                                 | BUILDINGS  | COMPUTER<br>EQUIPMENT | OFFICE<br>FURNITURE | MACHINERY  | OTHER      | TOTAL        |
|-------------------------------------------------|------------|-----------------------|---------------------|------------|------------|--------------|
| <b>Gross carrying amount</b>                    |            |                       |                     |            |            |              |
| Balance as at January 1, 2018                   | \$ 89,639  | \$ 374,821            | \$ 150,180          | \$ 83,986  | \$ 209,254 | \$ 907,880   |
| Additions                                       | 18,122     | 69,892                | 12,655              | 69,069     | 13,528     | 183,266      |
| Additions through business combinations         | —          | —                     | —                   | 490        | —          | 490          |
| Effect of foreign currency exchange differences | 5,874      | 9,794                 | 2,278               | 7,858      | 16,155     | 41,959       |
| Disposals / retirements / salvage               | (10,887)   | (20,837)              | (6,351)             | (14,343)   | (4,143)    | (56,561)     |
| Balance as at December 31, 2018                 | \$ 102,748 | \$ 433,670            | \$ 158,762          | \$ 147,060 | \$ 234,794 | \$ 1,077,034 |
| <b>Accumulated depreciation</b>                 |            |                       |                     |            |            |              |
| Balance as at January 1, 2018                   | \$ 26,254  | \$ 274,278            | \$ 107,987          | \$ 12,633  | \$ 72,590  | \$ 493,742   |
| Depreciation expense                            | 21,417     | 40,942                | 16,466              | 22,346     | 16,927     | 118,098      |
| Effect of foreign currency exchange differences | 2,140      | 9,366                 | 1,204               | 2,224      | 5,309      | 20,243       |
| Disposals / retirements / salvage               | (9,670)    | (12,786)              | (4,676)             | (8,803)    | (1,733)    | (37,668)     |
| Balance as at December 31, 2018                 | \$ 40,141  | \$ 311,800            | \$ 120,981          | \$ 28,400  | \$ 93,093  | \$ 594,415   |

Net book value:

|                                |                  |                   |                  |                  |                   |                   |
|--------------------------------|------------------|-------------------|------------------|------------------|-------------------|-------------------|
| <b>As at December 31, 2019</b> | <b>\$ 55,695</b> | <b>\$ 121,672</b> | <b>\$ 36,032</b> | <b>\$ 90,253</b> | <b>\$ 166,978</b> | <b>\$ 470,630</b> |
| As at December 31, 2018        | \$ 62,607        | \$ 121,870        | \$ 37,781        | \$ 118,660       | \$ 141,701        | \$ 482,619        |

Net book value of assets subject to operating leases:

|                                |             |             |             |                  |             |                  |
|--------------------------------|-------------|-------------|-------------|------------------|-------------|------------------|
| <b>As at December 31, 2019</b> | <b>\$ —</b> | <b>\$ —</b> | <b>\$ —</b> | <b>\$ 66,570</b> | <b>\$ —</b> | <b>\$ 66,570</b> |
|--------------------------------|-------------|-------------|-------------|------------------|-------------|------------------|

An amount of \$23.9 million as at December 31, 2019 (2018: \$17.5 million) of property and equipment was not being depreciated as the assets were under construction. The non-cash additions of property and equipment amounted to \$3.1 million in the year ended December 31, 2019 (2018: \$30.8 million).

### 14. GOODWILL

The following table details a reconciliation of the carrying amount of the Company's goodwill:

|                                                                                                               |                     |
|---------------------------------------------------------------------------------------------------------------|---------------------|
| Balance at January 1, 2018                                                                                    | \$ 6,323,440        |
| Net foreign currency exchange differences                                                                     | 279,943             |
| Additional amount recognized from the adjustments to the final allocation of purchase price of Atkins         | 11,358              |
| Amount derecognized from the adjustments to the final allocation of purchase price of Data Transfer Solutions | (20,662)            |
| Goodwill arising from the acquisition of Linxon completed in the year                                         | 16,059              |
| Impairment of goodwill                                                                                        | (1,240,415)         |
| Balance at December 31, 2018                                                                                  | 5,369,723           |
| Net foreign currency exchange differences                                                                     | (143,435)           |
| Additional amount recognized from the adjustments to the final allocation of purchase price of Linxon         | 3,821               |
| Impairment of goodwill                                                                                        | (1,801,015)         |
| <b>Balance at December 31, 2019</b>                                                                           | <b>\$ 3,429,094</b> |

For the purpose of annual impairment testing, goodwill is allocated to CGU or groups of CGU, which are the units expected to benefit from the synergies of the business combinations in which the goodwill arises.

## 14. GOODWILL (CONTINUED)

Following the Company's new organizational structure that took effect on January 1, 2019 and the Company's new strategic direction (see Note 2C), the Company's goodwill was reallocated to the following CGU and groups of CGU as follows:

| CGU OR GROUP OF CGU     | DECEMBER 31<br>2019 | DECEMBER 31 <sup>(1)</sup><br>2018 |
|-------------------------|---------------------|------------------------------------|
| EDPM                    | \$ 2,625,033        | \$ 2,679,753                       |
| Infrastructure Services | 141,741             | 141,796                            |
| Nuclear                 | 642,516             | 662,254                            |
| Resources               | —                   | 1,869,126                          |
| Linxon                  | 19,804              | 16,794                             |
|                         | <b>\$ 3,429,094</b> | <b>\$ 5,369,723</b>                |

<sup>(1)</sup> Comparative figures have been revised (see Note 2C)

### I) IN 2019

As at June 30, 2019, goodwill was impaired by \$1.8 billion (\$1.7 billion after income taxes) in the Resources CGU. Such CGU corresponds to a reportable segment. The impairment is largely attributable to the Company's decision to cease bidding on lump-sum turnkey construction projects, as well as lower than expected performance in Resources in the first half of the year and challenges in replenishing the backlog. The recoverable amount of this CGU was determined using the value in use approach as at June 30, 2019, based on a terminal growth rate of 2.5% and a discount rate of 11.3%.

In 2019, approximately 77% of the Company's goodwill balance is allocated to the EDPM CGU. The recoverable amount of this CGU, based on a terminal growth rate of 2.5% and a discount rate of 9.4%, exceeded its carrying amount by approximately \$829 million as at October 31, 2019. Assuming all other assumptions remained the same, a 220-basis point decrease in the terminal growth rate or a 165-basis point increase in the discount rate would have caused the EDPM CGU's carrying amount to be comparable to its recoverable amount as at that date.

No reasonable change in the key assumptions used for the other CGU or group of CGU would have resulted in an impairment loss as at October 31, 2019. The recoverable amount of other CGU or group of CGU was determined based on the value in use approach. Under this approach, the following assumptions were used: cash flows beyond the long-term forecast were extrapolated using a growth rate of 2.5% in 2019 and discount rates ranging from 9.5% to 11.0% have been used in 2019.

### II) IN 2018

As at October 31, 2018, goodwill was impaired by \$1.24 billion in the previously called Oil & Gas CGU, which is part of the Resources CGU starting from January 1<sup>st</sup>, 2019 (see Note 2C). Such CGU corresponded to a reportable segment. The impairment reflected macro challenges as well as some Company specific headwinds, which were impacting its ability to grow. Inter-governmental relations between Canada and Saudi Arabia, together with unpredictable commodity prices and uncertain client investment plans, have led to deterioration in its near-term prospects. The recoverable amount of this CGU was determined using the value in use approach as at October 31, 2018, based on a terminal growth rate of 2.5% and a discount rate of 11.3%.

In 2018, approximately 50% of the Company's goodwill balance is allocated to the EDPM CGU, following the acquisition of Atkins in July 2017 and Data Transfer Solutions LLC in October 2017. The recoverable amount of this CGU, based on a terminal growth rate of 2.5% and a discount rate of 10.5%, exceeded its carrying amount by \$133.8 million as at October 31, 2018. Assuming all other assumptions remained the same, a 42-basis point decrease in the terminal growth rate or a 45-basis point increase in the discount rate would have caused the EDPM CGU's carrying amount to be comparable to its recoverable amount as at that date.

No reasonable change in the key assumptions used for the other CGU or group of CGU would have resulted in an impairment loss as at October 31, 2018. Except for the previously called Oil & Gas CGU, the recoverable amount of other CGU or group of CGU was determined based on the value in use approach. Under this approach, the following assumptions were used: cash flows beyond the long-term forecast were extrapolated using a growth rate of 2.5% in 2018 and discount rates ranging from 10.5% to 12.8% have been used in 2018.

## 15. INTANGIBLE ASSETS RELATED TO BUSINESS COMBINATIONS

The following tables detail a reconciliation of the carrying amount of intangible assets related to business combinations:

|                                                       | REVENUE<br>BACKLOG | CUSTOMER<br>RELATIONSHIPS | TRADEMARKS | TOTAL        |
|-------------------------------------------------------|--------------------|---------------------------|------------|--------------|
| <b>Gross carrying amount</b>                          |                    |                           |            |              |
| Balance as at January 1, 2019                         | \$ 206,220         | \$ 1,008,313              | \$ 140,929 | \$ 1,355,462 |
| Additions through a business combination (Note 6)     | 14,138             | —                         | —          | 14,138       |
| Derecognition of intangible assets                    | (3,815)            | —                         | —          | (3,815)      |
| Effect of foreign currency exchange differences       | (1,913)            | (8,406)                   | (2,948)    | (13,267)     |
| Balance as at December 31, 2019                       | \$ 214,630         | \$ 999,907                | \$ 137,981 | \$ 1,352,518 |
| <b>Accumulated depreciation and impairment losses</b> |                    |                           |            |              |
| Balance as at January 1, 2019                         | \$ 106,414         | \$ 264,830                | \$ 63,632  | \$ 434,876   |
| Amortization expense                                  | 70,663             | 91,657                    | 19,663     | 181,983      |
| Impairment loss                                       | —                  | 71,756                    | 1,075      | 72,831       |
| Derecognition of intangible assets                    | (3,815)            | —                         | —          | (3,815)      |
| Effect of foreign currency exchange differences       | (57)               | 1,995                     | (893)      | 1,045        |
| Balance as at December 31, 2019                       | \$ 173,205         | \$ 430,238                | \$ 83,477  | \$ 686,920   |

|                                                 | REVENUE<br>BACKLOG | CUSTOMER<br>RELATIONSHIPS | TRADEMARKS       | TOTAL             |
|-------------------------------------------------|--------------------|---------------------------|------------------|-------------------|
| <b>Gross carrying amount</b>                    |                    |                           |                  |                   |
| Balance as at January 1, 2018                   | \$ 324,707         | \$ 969,963                | \$ 131,547       | \$ 1,426,217      |
| Additions through a business combination        | 2,466              | 15,410                    | 7,269            | 25,145            |
| Derecognition of intangible assets              | (135,994)          | —                         | —                | (135,994)         |
| Effect of foreign currency exchange differences | 15,041             | 22,940                    | 2,113            | 40,094            |
| Balance as at December 31, 2018                 | \$ 206,220         | \$ 1,008,313              | \$ 140,929       | \$ 1,355,462      |
| <b>Accumulated depreciation</b>                 |                    |                           |                  |                   |
| Balance as at January 1, 2018                   | \$ 164,046         | \$ 139,517                | \$ 32,817        | \$ 336,380        |
| Amortization expense                            | 70,888             | 108,289                   | 27,294           | 206,471           |
| Derecognition of intangible assets              | (135,994)          | —                         | —                | (135,994)         |
| Effect of foreign currency exchange differences | 7,474              | 17,024                    | 3,521            | 28,019            |
| Balance as at December 31, 2018                 | \$ 106,414         | \$ 264,830                | \$ 63,632        | \$ 434,876        |
| Net book value:                                 |                    |                           |                  |                   |
| <b>As at December 31, 2019</b>                  | <b>\$ 41,425</b>   | <b>\$ 569,669</b>         | <b>\$ 54,504</b> | <b>\$ 665,598</b> |
| As at December 31, 2018                         | \$ 99,806          | \$ 743,483                | \$ 77,297        | \$ 920,586        |

## 16. OTHER NON-CURRENT FINANCIAL ASSETS

|                                                                                                             | DECEMBER 31<br>2019 | DECEMBER 31<br>2018 |
|-------------------------------------------------------------------------------------------------------------|---------------------|---------------------|
| Derivative financial instruments related to share unit plans – favourable fair value (Note 23C)             | \$ 6,561            | \$ —                |
| Other derivative financial instruments – favourable fair value                                              | 2,436               | 5,981               |
| Non-current portion of finance lease receivables                                                            | 24,666              | —                   |
| Contingent consideration receivable related to disposal of the 10.01% interest in Highway 407 ETR (Note 5A) | 57,207              | —                   |
| Other                                                                                                       | 25,071              | 24,042              |
| <b>Other non-current financial assets</b>                                                                   | <b>\$ 115,941</b>   | <b>\$ 30,023</b>    |

The Company's finance lease receivables relate mainly to the subleases of its unused office space. In 2019, the increase of finance lease receivables was mainly due to the adoption of IFRS 16 using the modified retrospective method.

## 17. OTHER NON-CURRENT NON-FINANCIAL ASSETS

|                                                    | DECEMBER 31<br>2019 | DECEMBER 31<br>2018 |
|----------------------------------------------------|---------------------|---------------------|
| Post-employment benefit assets (Note 32A)          | \$ 10,979           | \$ 27,893           |
| E&C investments accounted for by the equity method | 27,145              | 69,847              |
| Other                                              | 55,374              | 33,622              |
| <b>Other non-current non-financial assets</b>      | <b>\$ 93,498</b>    | <b>\$ 131,362</b>   |

### E&C investments accounted for by the equity method – joint ventures

SNC-Lavalin carries out part of its E&C investment activity through joint ventures which are accounted for by the equity method. The aggregate amounts of current assets, non-current assets, current liabilities, non-current liabilities, revenues and expenses related to such joint ventures are summarized below:

| YEARS ENDED DECEMBER 31 | 2019 | 2018 |
|-------------------------|------|------|
|-------------------------|------|------|

#### Income statements

|                                         |              |              |
|-----------------------------------------|--------------|--------------|
| Revenues (at 100%)                      | \$ 1,629,284 | \$ 1,426,790 |
| Interest income (at 100%)               | \$ 4,162     | \$ 3,042     |
| Interest expense (at 100%)              | \$ 5,253     | \$ 3,831     |
| Depreciation and amortization (at 100%) | \$ 3,361     | \$ 406       |
| Income tax expense (at 100%)            | \$ 209       | \$ 266       |

| YEARS ENDED DECEMBER 31 | 2019 | 2018 |
|-------------------------|------|------|
|-------------------------|------|------|

#### Statements of comprehensive income

|                                      |            |            |
|--------------------------------------|------------|------------|
| Net income (at 100%)                 | \$ 102,862 | \$ 102,229 |
| Other comprehensive loss (at 100%)   | (2,025)    | —          |
| Total comprehensive income (at 100%) | \$ 100,837 | \$ 102,229 |

| YEARS ENDED DECEMBER 31 | 2019 | 2018 |
|-------------------------|------|------|
|-------------------------|------|------|

|                                                                                  |           |           |
|----------------------------------------------------------------------------------|-----------|-----------|
| Company's share of net income of E&C investments based on its ownership interest | \$ 29,702 | \$ 37,277 |
| Company's net income from E&C investments included in its income statement       | \$ 29,702 | \$ 37,277 |

|  | DECEMBER 31<br>2019 | DECEMBER 31<br>2018 |
|--|---------------------|---------------------|
|--|---------------------|---------------------|

#### Statements of financial position

|                                                                                             |            |            |
|---------------------------------------------------------------------------------------------|------------|------------|
| Cash and cash equivalents (at 100%)                                                         | \$ 232,152 | \$ 237,457 |
| Other current assets (at 100%)                                                              | 215,780    | 356,034    |
| Non-current assets (at 100%)                                                                | 85,320     | 117,131    |
| Total assets (at 100%)                                                                      | 533,252    | 710,622    |
| Trade payables (at 100%)                                                                    | 110,785    | 261,987    |
| Other current financial liabilities (at 100%)                                               | 198,978    | 170,119    |
| Other current non-financial liabilities (at 100%)                                           | 7,506      | 6,849      |
| Other non-current financial liabilities (at 100%)                                           | 26,490     | 40,640     |
| Other non-current non-financial liabilities (at 100%)                                       | —          | 1,735      |
| Total liabilities (at 100%)                                                                 | 343,759    | 481,330    |
| Net assets (liabilities) (at 100%)                                                          | \$ 189,493 | \$ 229,292 |
| Company's carrying value of E&C investments included in its statement of financial position | \$ 27,145  | \$ 69,847  |

## 17. OTHER NON-CURRENT NON-FINANCIAL ASSETS (CONTINUED)

### E&C investments accounted for by the equity method - associates

The summary tables below provide supplementary information in respect of E&C investments classified as associates:

| YEARS ENDED DECEMBER 31                                                                     | 2019             | 2018             |
|---------------------------------------------------------------------------------------------|------------------|------------------|
| <b>Statements of comprehensive income</b>                                                   |                  |                  |
| Revenues (at 100%)                                                                          | \$ 181,922       | \$ 166,333       |
| Expenses (at 100%)                                                                          | 180,505          | 166,147          |
| Net income (loss) (at 100%)                                                                 | 1,417            | 186              |
| Other comprehensive income (at 100%)                                                        | —                | —                |
| Total comprehensive income (loss) (at 100%)                                                 | \$ 1,417         | \$ 186           |
| Company's share of net income of E&C investments based on its ownership interest            | \$ —             | \$ —             |
| Company's share of net income from E&C investments included in its income statement         | \$ —             | \$ —             |
|                                                                                             | DECEMBER 31 2019 | DECEMBER 31 2018 |
| <b>Statements of financial position</b>                                                     |                  |                  |
| Current assets (at 100%)                                                                    | \$ 62,649        | \$ 36,604        |
| Non-current assets (at 100%)                                                                | 4,527            | 3,524            |
| Total assets (at 100%)                                                                      | 67,176           | 40,128           |
| Current liabilities (at 100%)                                                               | 54,320           | 31,165           |
| Non-current liabilities (at 100%)                                                           | 3,168            | 1,248            |
| Total liabilities (at 100%)                                                                 | 57,488           | 32,413           |
| Net assets (at 100%)                                                                        | \$ 9,688         | \$ 7,715         |
| Company's carrying value of E&C investments included in its statement of financial position | \$ —             | \$ —             |

## 18. OTHER CURRENT FINANCIAL LIABILITIES

|                                                                                                     | DECEMBER 31 2019  | DECEMBER 31 2018  |
|-----------------------------------------------------------------------------------------------------|-------------------|-------------------|
| Commitments to invest in Capital investments accounted for by the equity and cost methods (Note 5C) | \$ 70,724         | \$ 108,312        |
| Retentions on supplier contracts                                                                    | 112,470           | 112,679           |
| Balance of purchase price payable relating to acquisition of businesses                             | 1,736             | 1,808             |
| Derivative financial instruments used for hedges – unfavourable fair value                          | 17,086            | 59,592            |
| Derivative financial instruments related to share unit plans – unfavourable fair value (Note 23C)   | —                 | 662               |
| Federal charges settlement (PPSC) payable (Note 33)                                                 | 55,625            | —                 |
| Other                                                                                               | 30,075            | 15,648            |
| <b>Other current financial liabilities</b>                                                          | <b>\$ 287,716</b> | <b>\$ 298,701</b> |

## 19. OTHER CURRENT NON-FINANCIAL LIABILITIES

|                                                | DECEMBER 31 2019  | DECEMBER 31 2018  |
|------------------------------------------------|-------------------|-------------------|
| Income taxes and other taxes payable           | \$ 324,662        | \$ 343,772        |
| Share unit plans' liabilities (Note 23C)       | 56,122            | 74,790            |
| Other                                          | 2,416             | 6,299             |
| <b>Other current non-financial liabilities</b> | <b>\$ 383,200</b> | <b>\$ 424,861</b> |

## 20. SHORT-TERM DEBT AND LONG-TERM DEBT

As at December 31, 2019 and 2018, the Company's short-term debt and long-term debt included in its consolidated statement of financial position were as follows:

### A) RECOURSE DEBT

|                                                          | DECEMBER 31<br>2019 | DECEMBER 31<br>2018 |
|----------------------------------------------------------|---------------------|---------------------|
| Recourse debt:                                           |                     |                     |
| Revolving Facility (i)                                   | \$ —                | \$ 466,923          |
| Term Loan (ii)                                           | 499,085             | 498,809             |
| Series 2 Debentures (iii)                                | —                   | 149,934             |
| Series 3 Debentures (iii)                                | 174,722             | 174,485             |
| Series 4 Debentures (iii)                                | 199,338             | 199,144             |
| Series 5 Debentures (iii)                                | —                   | 149,866             |
| 2019 Debentures (iv)                                     | —                   | 349,864             |
| 2020 Debentures (v)                                      | 299,518             | 298,995             |
| <b>Total recourse short-term debt and long-term debt</b> | <b>\$ 1,172,663</b> | <b>\$ 2,288,020</b> |
| <b>Less: recourse short-term debt</b>                    | <b>299,518</b>      | <b>1,116,587</b>    |
| <b>Recourse long-term debt</b>                           | <b>\$ 873,145</b>   | <b>\$ 1,171,433</b> |

### B) LIMITED RECOURSE DEBT

|                                        | DECEMBER 31<br>2019 | DECEMBER 31<br>2018 |
|----------------------------------------|---------------------|---------------------|
| Limited recourse debt:                 |                     |                     |
| CDPQ Loan (vi)                         | \$ 400,000          | \$ 980,303          |
| <b>Limited recourse long-term debt</b> | <b>\$ 400,000</b>   | <b>\$ 980,303</b>   |

### C) NON-RECOURSE DEBT (UNSECURED OR SECURED ONLY BY CAPITAL OR E&C INVESTMENT'S SPECIFIC ASSETS)

|                                                              | DECEMBER 31<br>2019 | DECEMBER 31<br>2018 |
|--------------------------------------------------------------|---------------------|---------------------|
| Non-recourse debt:                                           |                     |                     |
| Senior bonds – InPower BC General Partnership (vii)          | \$ 292,125          | \$ 292,812          |
| Credit facility – InPower BC General Partnership (vii)       | 63,130              | 47,745              |
| Senior Secured Notes from an E&C investment (viii)           | 42,495              | 42,769              |
| Unsecured Loan of Linxon (ix)                                | 8,147               | 7,571               |
| Credit facility – TransitNEXT General Partnership (x)        | 70,983              | —                   |
| Other                                                        | 8,238               | 8,808               |
| <b>Total non-recourse short-term debt and long-term debt</b> | <b>\$ 485,118</b>   | <b>\$ 399,705</b>   |
| <b>Less: non-recourse short-term debt</b>                    | <b>93,664</b>       | <b>60,168</b>       |
| <b>Non-recourse long-term debt</b>                           | <b>\$ 391,454</b>   | <b>\$ 339,537</b>   |

- i. The Company's unsecured revolving credit facility (the "Revolving Facility"), which is part of the Company's second amended and restated credit agreement, dated April 30, 2018, between, among others, the Company, as borrower, and the syndicate of lenders party thereto (the "Credit Agreement"), comprises two tranches: (i) tranche A is for an amount of \$2,000 million (2018: \$2,000 million); and (ii) tranche B is for an amount of \$600 million (2018: \$600 million). Borrowings under tranche A may be obtained in the form of: (i) prime rate loans; (ii) acceptances; (iii) US base rate loans; (iv) Libor loans in US dollars, Euros and British pounds; and (v) non-financial, financial or documentary letters of credit. Borrowings under tranche B may be obtained only in the form of non-financial or documentary letters of credit. The Revolving Facility maturity date is May 15, 2022 (2018: May 15, 2022) or such other date as may be agreed pursuant to extension provisions of the Credit Agreement. The aggregate outstanding amount of uncommitted bilateral letters of credit allowed under the Credit Agreement is \$3,000 million (2018: \$3,000 million).

## 20. SHORT-TERM DEBT AND LONG-TERM DEBT (CONTINUED)

In 2019, the Company and its lenders amended the Credit Agreement to modify the calculation of a covenant and to provide that such covenant be temporarily increased. Furthermore, the Company amended its Credit Agreement modifying the calculation of the net recourse debt to earnings before interest, taxes, depreciation and amortization ratio to a pro-forma basis to include the sale of 10.01% of the shares of Highway 407 ETR for the second quarter of 2019. The same amendments were made to the CDPQ Loan agreement (see below) in 2019.

As at December 31, 2019 and 2018, the cash draws and letters of credit outstanding under the Company's Revolving Facility were as follows:

| DECEMBER 31, 2019         | COMMITTED           | CASH DRAWS  | LETTERS OF CREDIT OUTSTANDING    | UNUSED              |
|---------------------------|---------------------|-------------|----------------------------------|---------------------|
| <b>Revolving Facility</b> | <b>\$ 2,600,000</b> | <b>\$ —</b> | <b>\$ 188,062 <sup>(1)</sup></b> | <b>\$ 2,411,938</b> |

<sup>(1)</sup> Includes \$3.3 million of financial letters of credit.

| DECEMBER 31, 2018         | COMMITTED           | CASH DRAWS        | LETTERS OF CREDIT OUTSTANDING   | UNUSED              |
|---------------------------|---------------------|-------------------|---------------------------------|---------------------|
| <b>Revolving Facility</b> | <b>\$ 2,600,000</b> | <b>\$ 474,570</b> | <b>\$ 74,072 <sup>(2)</sup></b> | <b>\$ 2,051,358</b> |

<sup>(2)</sup> Includes \$13.2 million of financial letters of credit.

In addition, as at December 31, 2019, \$1,878.9 million (2018: \$2,300.0 million) of uncommitted bilateral letters of credit were outstanding, of which \$256.3 million (2018: \$242.2 million) related to financial letters of credit.

- ii. The Company's non-revolving term loan, which is part of the Company's Credit Agreement, is in the principal amount of \$500 million (the "Term Loan"). Borrowings under the Term Loan were available by way of prime rate loans or acceptances. The Term Loan maturity date is April 30, 2023.
- iii. These unsecured debentures were in the aggregate principal amount of \$675 million and were divided in four series consisting of: (i) \$150 million in floating rate Series 2 Debentures due in March 2019 (the "Series 2 Debentures"); (ii) \$175 million in floating rate Series 3 Debentures due in March 2021 bearing interest at a rate equal to the 3-month CDOR plus applicable margin (the "Series 3 Debentures"); (iii) \$200 million in 3.235% Series 4 Debentures due in March 2023 (the "Series 4 Debentures"); and (iv) \$150 million in floating rate Series 5 Debentures due in June 2019 (the "Series 5 Debentures"). The Series 2 and 5 Debentures bore interest at a rate equal to the 3-month CDOR plus an applicable margin. The Series 2 Debentures and the Series 5 Debentures were repaid in full at maturity in 2019.
- iv. These unsecured debentures in the principal amount of \$350 million bore interest at a rate of 6.19% and were due in July 2019 (the "2019 Debentures"). These debentures were repaid in full at maturity in 2019.
- v. These unsecured debentures in the principal amount of \$300 million bear interest at a rate of 2.689% and are due in November 2020 (the "2020 Debentures").
- vi. The ("CDPQ Loan") made under the loan agreement ("the CDPQ Loan Agreement"), dated April 20, 2017, as further amended, between SNC-Lavalin Highway Holdings Inc. ("Highway Holdings"), an indirect wholly-owned subsidiary of the Company holding the shares of Highway 407 ETR, as borrower, and CDPQ Revenu Fixe Inc., is a limited recourse debt comprised of two tranches: (i) tranche A which is a non-revolving term loan in an aggregate amount of \$400 million (2018: \$1,000 million); and (ii) tranche B which was a non-revolving term loan in an aggregate amount of \$500 million. Recourse is limited to specific circumstances of enforcement on or against the shares of Highway Holdings. Each of tranche A and tranche B was available by way of a single drawdown by Highway Holdings. Borrowings under tranche A and tranche B bear interest at a base rate, which is the greater of: (i) the CDOR rate; and (ii) 0.9%, plus an applicable margin. In 2018, the Company repaid borrowings under tranche B of its CDPQ Loan in full. The maturity of tranche A of the CDPQ Loan is in 2024.

In 2019, the Company and its lender amended the CDPQ Loan Agreement to align it with the amendments adopted for the Credit Agreement (see above). The amendments to the CDPQ Loan Agreement, which also included: i) the Company's commitment to repay an amount of \$600 million out of \$1,000 million outstanding under the tranche A of the CDPQ Loan; and ii) the decrease of the margin applicable to the base rate and payment by the Company of fees of \$15 million, were accounted for as an extinguishment of financial liability with the issuance of a new financial liability, giving rise to a loss of \$33.8 million recognized in "Net financial expenses" (see Note 27). Such loss includes the \$15 million cash outflow corresponding to the fees disclosed above and the amount of \$18.8 million representing the unamortized balance of deferred financing costs of the CDPQ Loan on the date of its amendment.

## 20. SHORT-TERM DEBT AND LONG-TERM DEBT (CONTINUED)

- vii. The senior bonds of InPower BC General Partnership in the principal amount of \$300 million bear interest at a rate of 4.471% and are due in 2033. The credit facility of InPower BC General Partnership in the principal amount of \$63.2 million bear interest at a variable rate equal to CDOR plus an applicable margin (2018: fixed rate of 4.15%) and is due in 2020 (2018: 2019). The senior bonds and the credit facility are secured by all assets of InPower BC General Partnership.
- viii. The senior secured notes of a subsidiary of the Company are up to US\$40.0 million (approximately CA\$52.5 million) aggregate principal amount (the “Senior Secured Notes”), of which US\$38.0 million (approximately CA\$49.9 million) (2018: US\$33.0 million [approximately CA\$43.1 million]) aggregate principal amount was issued as at December 31, 2019. The Senior Secured Notes are due in 2026 and bear interest at a variable rate. The net proceeds from the issuance of the senior secured notes are used by the subsidiary of the Company to finance certain long-term assets associated to a BOO (Build-Own-Operate) contract.
- ix. In relation to the acquisition of Linxon by SNC-Lavalin in 2018 (see Note 6), the holder of the non-controlling interest of 49% in Linxon granted an unsecured loan (the “Unsecured Loan”) and provided an unsecured working capital revolving credit facility to Linxon. The loan in the principal amount of US\$9.3 million (approximately CA\$12.2 million) is an interest-free loan and is repayable in full on September 1, 2023. The working capital credit facility in a maximum aggregate amount of €30.0 million (approximately CA\$43.7 million) bears interest at a variable rate and is repayable the latest on September 30, 2022.
- x. The credit facility of TransitNEXT General Partnership in the aggregate maximum principal amount of \$149.0 million bears interest at a rate of CDOR plus an applicable margin and is repayable the latest on February 10, 2024. The credit facility is secured by all assets of TransitNEXT.

In July 2019, SNC-Lavalin and a group of financial institutions entered into a new credit agreement, which made available to SNC-Lavalin an unsecured non-revolving bridge term facility (the “Bridge Facility”) in the principal amount of \$300 million and having a maturity of 1 year. The Bridge Facility was repayable in full upon receipt by SNC-Lavalin of the proceeds from the sale of its 10.01% interest in Highway 407 ETR. Borrowings under the Bridge Facility were available by way of prime rate loans or acceptances. In 2019, SNC-Lavalin borrowed and repaid \$300 million under the Bridge Facility.

### D) REPAYMENT OF PRINCIPAL OF SHORT-TERM DEBT AND LONG-TERM DEBT

The future principal payments of SNC-Lavalin’s recourse, limited recourse and non-recourse short-term and long-term debt are summarized below and reconciled to their net carrying amount:

| AT DECEMBER 31, 2019                                               | Recourse  |                  | Limited recourse | Non-recourse   |                   | Total               |
|--------------------------------------------------------------------|-----------|------------------|------------------|----------------|-------------------|---------------------|
| 2020                                                               | \$        | 300,000          | \$               | —              | \$ 95,211         | \$ 395,211          |
| 2021                                                               |           | 175,000          |                  | —              | 24,587            | 199,587             |
| 2022                                                               |           | —                |                  | —              | 97,244            | 97,244              |
| 2023                                                               |           | 700,000          |                  | —              | 38,379            | 738,379             |
| 2024                                                               |           | —                |                  | 400,000        | 27,036            | 427,036             |
| Thereafter                                                         |           | —                |                  | —              | 215,171           | 215,171             |
| Total                                                              | \$        | 1,175,000        | \$               | 400,000        | \$ 497,628        | \$ 2,072,628        |
| Net unamortized deferred financing costs and unamortized discounts |           | (2,337)          |                  | —              | (12,510)          | (14,847)            |
| <b>Net carrying amount of short-term debt and long-term debt</b>   | <b>\$</b> | <b>1,172,663</b> | <b>\$</b>        | <b>400,000</b> | <b>\$ 485,118</b> | <b>\$ 2,057,781</b> |

## 21. OTHER NON-CURRENT FINANCIAL LIABILITIES

|                                                                                                     | DECEMBER 31<br>2019 | DECEMBER 31<br>2018 |
|-----------------------------------------------------------------------------------------------------|---------------------|---------------------|
| Federal charges settlement (PPSC) payable (Note 33)                                                 | \$ 201,764          | \$ —                |
| Contingent consideration payable to seller related to Linxon acquisition                            | 14,405              | 17,889              |
| Derivative financial instrument used for hedges - unfavourable fair value                           | 2,345               | 7,721               |
| Derivative financial instrument related to share unit plans - unfavourable fair value<br>(Note 23C) | —                   | 7,873               |
| Other                                                                                               | 14,055              | 20,022              |
| <b>Other non-current financial liabilities</b>                                                      | <b>\$ 232,569</b>   | <b>\$ 53,505</b>    |

## 22. PROVISIONS

|                                                                                                                                     | Pension, other long-term<br>benefits and other<br>post-employment<br>benefits | Forecasted<br>losses on certain<br>contracts | Restructuring     | Other <sup>(1)</sup> | Total             |
|-------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------|----------------------------------------------|-------------------|----------------------|-------------------|
| Balance at January 1, 2019                                                                                                          | \$ 568,719                                                                    | \$ 178,097                                   | \$ 98,502         | \$ 242,916           | \$ 1,088,234      |
| Transitional adjustment on adoption of a<br>new accounting standard (Note 2B)                                                       | —                                                                             | —                                            | (6,488)           | (12,554)             | (19,042)          |
| Adjusted balance at January 1, 2019                                                                                                 | 568,719                                                                       | 178,097                                      | 92,014            | 230,362              | 1,069,192         |
| Additional provisions recognized in the<br>year                                                                                     | 23,215                                                                        | 64,056                                       | 121,520           | 56,218               | 265,009           |
| Amounts used during the year                                                                                                        | (93,941)                                                                      | (133,464)                                    | (92,872)          | (57,084)             | (377,361)         |
| Unused amounts reversed during the year                                                                                             | —                                                                             | (15,393)                                     | —                 | (23,220)             | (38,613)          |
| Remeasurement recognized in equity                                                                                                  | 55,344                                                                        | —                                            | —                 | —                    | 55,344            |
| Increase from the passage of time, effect<br>of changes in discount rates and effect<br>of foreign currency exchange<br>differences | 7,137                                                                         | (1,302)                                      | 714               | (1,883)              | 4,666             |
| Decrease in post-employment benefit<br>assets                                                                                       | (16,914)                                                                      | —                                            | —                 | —                    | (16,914)          |
| <b>Balance at December 31, 2019</b>                                                                                                 | <b>\$ 543,560</b>                                                             | <b>\$ 91,994</b>                             | <b>\$ 121,376</b> | <b>\$ 204,393</b>    | <b>\$ 961,323</b> |

Presented on the statement of financial position as follows:

|                                          |                   |
|------------------------------------------|-------------------|
| <b>Current portion of provisions</b>     | <b>\$ 289,227</b> |
| <b>Non-current portion of provisions</b> | <b>\$ 672,096</b> |

<sup>(1)</sup> Other provisions include mainly litigations, warranty provisions, environmental liabilities and other asset retirement obligations.

The expected timing of outflows of economic benefits relating to the Company's provisions are as follows: i) most of the litigation provisions are expected to be resolved within the next 5 years; ii) forecasted losses on certain contracts are expected to be incurred over the period of a contract duration, usually up to 3 years; iii) most of the accrued restructuring costs are expected to be disbursed within the next 12 months; iv) warranty expenditures are expected to take place within the next 5 years; and v) most of the other provisions are expected to be resolved over the next 10 years. The main assumptions used to determine the provision for pension, other long-term benefits and other post-employment benefits and other information, including the expected level of future funding payments in respect of those arrangements, are given in Note 32.

## 23. SHARE CAPITAL

### A) AUTHORIZED

The Company is authorized to issue an unlimited number of common shares, an unlimited number of first preferred shares and an unlimited number of second preferred shares.

The Board of Directors is authorized to issue such preferred shares in one or more series and to establish the number of shares in each series and the conditions attaching thereto, prior to their issue.

The share capital issued and outstanding of the Company consists only of fully paid common shares without nominal value. All common shares are equally eligible to receive dividends, subject to the prior rights of the holders of preferred shares. Each common share carries one vote at the shareholders' meeting of the Company.

Subject to the prior rights of the holders of preferred shares, upon the liquidation or dissolution of the Company or any other distribution of its assets among its shareholders for the purpose of winding-up its affairs, all the Company's assets available for payment or distribution to the holders of the common shares shall be paid or distributed equally, share for share, to the holders of such common shares.

### B) STOCK OPTION PLAN

The main features of the stock option plan under which stock options were outstanding during the year ended December 31, 2019 are summarized below:

|                                 | 2013 STOCK OPTION PLAN                                                                                                                                                                                                                                                                                                                                                               |
|---------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Grant date                      | Sixth trading day following the approval by the Company's Board of Directors                                                                                                                                                                                                                                                                                                         |
| Exercise price of stock options | The greater of: i) the average closing price for the five trading days preceding the grant date and ii) the closing price on the first trading day immediately preceding the grant date                                                                                                                                                                                              |
| Vesting of stock options        | Graded vesting in three equal tranches: two years, three years and four years, respectively, after the grant date                                                                                                                                                                                                                                                                    |
| Expiry of stock options         | Six years after the grant date                                                                                                                                                                                                                                                                                                                                                       |
| Other provisions                | In the event of cessation of employment, except in the event of death or if the optionee is eligible to retire, unvested options are cancelled immediately and vested options remain exercisable for a specified period not exceeding 30 days. In the event of death or if the optionee is eligible to retire, both vested and unvested options continue to run their normal course. |

The table below presents the changes in the number of options outstanding in 2019 and 2018:

|                                           | 2019                 |                                                       | 2018                 |                                                       |
|-------------------------------------------|----------------------|-------------------------------------------------------|----------------------|-------------------------------------------------------|
|                                           | NUMBER OF<br>OPTIONS | WEIGHTED<br>AVERAGE<br>EXERCISE PRICE<br>(IN DOLLARS) | NUMBER OF<br>OPTIONS | WEIGHTED<br>AVERAGE<br>EXERCISE PRICE<br>(IN DOLLARS) |
| Options outstanding at beginning of year  | 260,866              | \$ 40.98                                              | 326,763              | \$ 40.98                                              |
| Exercised <sup>(1)</sup>                  | —                    | \$ —                                                  | (65,897)             | \$ 40.98                                              |
| Expired                                   | (260,866)            | \$ 40.98                                              | —                    | \$ —                                                  |
| <b>Options outstanding at end of year</b> | <b>—</b>             | <b>\$ —</b>                                           | <b>260,866</b>       | <b>\$ 40.98</b>                                       |

<sup>(1)</sup> No Company's stock options were exercised in 2019 (2018: the weighted average market price of the Company's common shares upon the exercise of stock options was \$57.22).

As at December 31, 2019, 2,787,863 stock options remained available for future grants under the 2013 stock option plan (2018: 2,526,997 stock options).

The stock option compensation cost recorded in the year ended December 31, 2019 was \$nil (2018: \$nil).

## 23. SHARE CAPITAL (CONTINUED)

### C) SHARE UNIT PLANS

As at December 31, 2019, the Company had six share unit compensation plans for executives, namely the 2019 PSU plan, the 2019 RSU plan, the 2017 PSU plan, the 2014 PSU plan, the 2009 DSU plan, and the RSU plan (2018: the 2017 PSU plan, the 2014 PSU plan, the 2009 DSU plan, and the RSU plan), and a share unit compensation plan, the DSU plan, for members of the Board of Directors of SNC-Lavalin Group Inc.

The terms and conditions of the executive plans are summarized below:

|                  | 2009 DSU PLAN                                                                                                                                                                                                                                                          | 2019 RSU PLAN / RSU PLAN                                                                                                                                                                                                                                               | 2019 PSU PLAN / 2017 PSU PLAN / 2014 PSU PLAN                                                                                                                                                                                                                                                                     |
|------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Grant date       | Date of approval by the Company's Board of Directors                                                                                                                                                                                                                   | Date of approval by the Company's Board of Directors                                                                                                                                                                                                                   | Date of approval by the Company's Board of Directors                                                                                                                                                                                                                                                              |
| Number of units  | Determined at grant date, without any further changes                                                                                                                                                                                                                  | Determined at grant date, without any further changes                                                                                                                                                                                                                  | Subject to performance conditions, the number of units granted shall be adjusted depending on the total shareholder return compared to peers, as defined in the plan                                                                                                                                              |
| Vesting of units | Units vest at a rate of 20% per year at the end of each calendar year following the grant date                                                                                                                                                                         | Units vest in full three years following their grant date                                                                                                                                                                                                              | Units vest in full at the end of the third calendar year following the grant date                                                                                                                                                                                                                                 |
| Payment          | Units are redeemable for cash by the Company within thirty days following the first anniversary of a participant's cessation of employment                                                                                                                             | Units are redeemable for cash by the Company no later than March 15 <sup>th</sup> of the year following the end of the vesting period                                                                                                                                  | Units are redeemable for cash by the Company no later than two and a half months after the end of the performance period of such award. Performance period means the period starting on January 1 <sup>st</sup> of the calendar year during which the grant of such award was made and ending on the vesting date |
| Redemption price | Average closing price per share on the Toronto Stock Exchange on the first anniversary of cessation of employment and the last trading day on the Toronto Stock Exchange of each of the 12 weeks preceding that date                                                   | Average closing price per share on the Toronto Stock Exchange on the five trading days preceding the vesting date                                                                                                                                                      | Average closing price per share on the Toronto Stock Exchange on the five trading days preceding the vesting date                                                                                                                                                                                                 |
| Forfeiture       | If a participant terminates his employment voluntarily for reasons other than death or retirement or if a participant is terminated for cause before the end of the vesting period, the units expire immediately on the date of termination with no payment being made | If a participant terminates his employment voluntarily for reasons other than death or retirement or if a participant is terminated for cause before the end of the vesting period, the units expire immediately on the date of termination with no payment being made | If a participant terminates his employment voluntarily for reasons other than death or retirement or if a participant is terminated for cause before the end of the vesting period, the units expire immediately on the date of termination with no payment being made                                            |
| Other provisions | The units vest immediately in the event of death or if a participant is retiring, with payment being made on the date of the first anniversary following the participant's last day of employment                                                                      | In the event of death or retirement of a participant before the end of the vesting period, the units vest on a <i>pro rata</i> basis, with payment being made no later than March 15 <sup>th</sup> of the year following the event                                     | In the event of death or retirement of a participant before the end of the vesting period, the units vest on a <i>pro rata</i> basis, with payment being made no later than two and a half months following the event                                                                                             |

The terms and conditions of the DSU plan are as follows: each member of the Board of Directors of SNC-Lavalin Group Inc. (the "member") receives an annual retainer consisting of: (a) a lump sum credited in DSU plan units, and (b) a cash award payment. Each member may elect to receive 100% of the cash award payment, as well as 100% of their committee chair retainer, meeting fees and travel fees, if applicable, in either cash or DSU plan units. DSU plan units track the price of SNC-Lavalin's common shares on the Toronto Stock Exchange. They accumulate during a member's term in office and are redeemed in cash when the member leaves the Board of Directors. For the purposes of redeeming DSU plan units, the value of a unit on any given date is equivalent to the average of the closing price for a common share on the Toronto Stock Exchange for the five trading days immediately prior to such date. DSU plan units are credited on a quarterly basis and do not carry voting rights. Furthermore, additional DSU plan units accumulate as dividend equivalents whenever cash dividends are paid on common shares.

## 23. SHARE CAPITAL (CONTINUED)

The table below presents the number of granted share units and the weighted average fair value per granted share unit for the years ended December 31, 2019 and 2018:

|               | 2019                                |                                                                  | 2018                                |                                                                  |
|---------------|-------------------------------------|------------------------------------------------------------------|-------------------------------------|------------------------------------------------------------------|
|               | NUMBER<br>OF GRANTED SHARE<br>UNITS | WEIGHTED AVERAGE<br>FAIR VALUE PER<br>SHARE UNIT<br>(IN DOLLARS) | NUMBER<br>OF GRANTED SHARE<br>UNITS | WEIGHTED AVERAGE<br>FAIR VALUE PER<br>SHARE UNIT<br>(IN DOLLARS) |
| 2019 PSU plan | 595,778                             | \$ 35.87                                                         | —                                   | \$ —                                                             |
| 2019 RSU plan | 870,946                             | \$ 35.73                                                         | —                                   | \$ —                                                             |
| 2017 PSU plan | —                                   | \$ —                                                             | 386,272                             | \$ 56.45                                                         |
| RSU plan      | —                                   | \$ —                                                             | 556,931                             | \$ 56.41                                                         |
| DSU plan      | 14,781                              | \$ 36.22                                                         | 51,253                              | \$ 53.09                                                         |
| 2009 DSU plan | 79,652                              | \$ 26.15                                                         | 69,965                              | \$ 56.45                                                         |

In 2015, the Company entered into derivative financial instruments with investment grade financial institutions to limit the Company's exposure to the variability of the units caused by fluctuations in its share price. The derivative financial instruments, the fair value of which fluctuates in accordance with the movement in the Company's share price, are required to be classified as at FVTPL. As such, they are measured at fair value on the consolidated statement of financial position under "Other current financial assets" (see Note 11) and "Other non-current financial assets" (see Note 16) if the fair value of a derivative financial instrument is favourable or under "Other current financial liabilities" (see Note 18) and "Other non-current financial liabilities" (see Note 21) if the fair value of a derivative financial instrument is unfavourable.

The compensation expense related to the share unit plans was \$16.1 million for the year ended December 31, 2019 (2018: \$45.6 million).

The total intrinsic value of the share unit plans' liabilities for which the participants' right to cash vested was \$12.4 million as at December 31, 2019 (2018: \$34.7 million), while the share unit plans' liabilities amounted to \$56.1 million as at December 31, 2019 (2018: \$74.8 million).

### D) WEIGHTED AVERAGE NUMBER OF OUTSTANDING SHARES – BASIC AND DILUTED

The weighted average number of outstanding shares in 2019 and 2018 used to calculate the basic and diluted earnings per share were as follows:

| YEARS ENDED DECEMBER 31 (IN THOUSANDS)                  | 2019    | 2018    |
|---------------------------------------------------------|---------|---------|
| Weighted average number of outstanding shares – basic   | 175,554 | 175,541 |
| Dilutive effect of stock options                        | —       | —       |
| Weighted average number of outstanding shares – diluted | 175,554 | 175,541 |

In 2019 and 2018, 260,866 outstanding stock options have not been included in the computation of diluted loss per share because they were anti-dilutive.

### E) DIVIDENDS

During the year ended December 31, 2019, the Company recognized as distributions to its equity shareholders dividends of \$42.1 million or \$0.24 per share (2018: \$201.5 million or \$1.148 per share).

## 24. OTHER COMPONENTS OF EQUITY

The Company has the following elements, net of income taxes, within its other components of equity at December 31, 2019 and 2018:

|                                                                                       | DECEMBER 31<br>2019 | DECEMBER 31<br>2018 |
|---------------------------------------------------------------------------------------|---------------------|---------------------|
| Exchange differences on translating foreign operations                                | \$ 365,600          | \$ 505,297          |
| Cash flow hedges                                                                      | (11,652)            | (7,989)             |
| Share of other comprehensive income of investments accounted for by the equity method | 125                 | 1,891               |
| <b>Other components of equity</b>                                                     | <b>\$ 354,073</b>   | <b>\$ 499,199</b>   |

- Exchange differences on translating foreign operations component represents exchange differences relating to the translation from the functional currencies of the Company's foreign operations into Canadian dollars. On disposal of a foreign operation, the cumulative translation differences are reclassified to net income as part of the gain or loss on disposal. Exchange differences also include gains and losses on hedging instruments, if any, relating to the effective portion of hedges of net investments of foreign operations, which are reclassified to net income on the disposal of the foreign operation.
- Cash flow hedges component represents hedging gains and losses recognized on the effective portion of cash flow hedges. The cumulative deferred gain or loss on the hedge is recognized in net income when the hedged transaction impacts net income, or is included as a basis adjustment to the non-financial hedged item, consistent with the applicable accounting policy.
- Share of other comprehensive income (loss) of investments accounted for by the equity method component represents the Company's share of the other comprehensive income (loss) from its investments accounted for by the equity method.

## 24. OTHER COMPONENTS OF EQUITY (CONTINUED)

### A) ITEMS THAT WILL BE RECLASSIFIED SUBSEQUENTLY TO NET INCOME

The following table provides a reconciliation of each element of other components of equity for the years ended December 31, 2019 and 2018:

| YEARS ENDED DECEMBER 31                                                                       | 2019              | 2018              |
|-----------------------------------------------------------------------------------------------|-------------------|-------------------|
| Exchange differences on translating foreign operations:                                       |                   |                   |
| Balance at beginning of year                                                                  | \$ 505,297        | \$ 266,497        |
| Transitional adjustment on adoption of a new accounting standard                              | —                 | 14,322            |
| Current year gains (losses)                                                                   | (140,686)         | 241,697           |
| Reclassification to net income                                                                | —                 | 678               |
| Net investment hedge – current year gains (losses)                                            | 989               | (17,897)          |
| Balance at end of year                                                                        | 365,600           | 505,297           |
| Available-for-sale financial assets:                                                          |                   |                   |
| Balance at beginning of year                                                                  | —                 | 8,874             |
| Transitional adjustment on adoption of a new accounting standard                              | —                 | (8,874)           |
| Balance at end of year                                                                        | —                 | —                 |
| Cash flow hedges:                                                                             |                   |                   |
| Balance at beginning of year                                                                  | (7,989)           | (566)             |
| Current year gains (losses)                                                                   | (7,595)           | 7,196             |
| Income taxes relating to current year gains (losses)                                          | 2,615             | (9,668)           |
| Reclassification to net income                                                                | 7,185             | (16,655)          |
| Income taxes relating to amounts reclassified to net income                                   | (5,868)           | 11,704            |
| Balance at end of year                                                                        | (11,652)          | (7,989)           |
| Share of other comprehensive income (loss) of investments accounted for by the equity method: |                   |                   |
| Balance at beginning of year                                                                  | 1,891             | 3,169             |
| Current year share                                                                            | (2,403)           | (1,904)           |
| Income taxes relating to current year share                                                   | 637               | 505               |
| Reclassification to net income                                                                | —                 | 165               |
| Income taxes relating to amounts reclassified to net income                                   | —                 | (44)              |
| Balance at end of year                                                                        | 125               | 1,891             |
| <b>Other components of equity</b>                                                             | <b>\$ 354,073</b> | <b>\$ 499,199</b> |

## 24. OTHER COMPONENTS OF EQUITY (CONTINUED)

### B) ITEMS THAT WILL NOT BE RECLASSIFIED SUBSEQUENTLY TO NET INCOME

#### Remeasurement recognized in other comprehensive income

The following table provides changes in the cumulative amount of remeasurement gains (losses) recognized in other comprehensive income relating to defined benefit pension plans and other post-employment benefits for the years ended December 31, 2019 and 2018:

| YEARS ENDED DECEMBER 31                   | 2019               |                 |                    | 2018            |                   |                 |
|-------------------------------------------|--------------------|-----------------|--------------------|-----------------|-------------------|-----------------|
|                                           | BEFORE TAX         | INCOME TAX      | NET OF TAX         | BEFORE TAX      | INCOME TAX        | NET OF TAX      |
| Cumulative amount at January 1            | \$ 5,756           | \$ (2,050)      | \$ 3,706           | \$ (52,176)     | \$ 8,278          | \$ (43,898)     |
| Remeasurement recognized during the year: |                    |                 |                    |                 |                   |                 |
| Defined benefit pension plans             | (41,081)           | 6,067           | (35,014)           | 55,851          | (9,026)           | 46,825          |
| Other post-employment benefits            | (14,263)           | 2,167           | (12,096)           | 2,081           | (1,302)           | 779             |
|                                           | (55,344)           | 8,234           | (47,110)           | 57,932          | (10,328)          | 47,604          |
| <b>Cumulative amount at December 31</b>   | <b>\$ (49,588)</b> | <b>\$ 6,184</b> | <b>\$ (43,404)</b> | <b>\$ 5,756</b> | <b>\$ (2,050)</b> | <b>\$ 3,706</b> |

#### Equity instruments designated at fair value through other comprehensive income

The following table provides changes in fair value of the equity instruments designated at fair value through other comprehensive income for the years ended December 31, 2019 and 2018:

| YEARS ENDED DECEMBER 31                   | 2019              |              |                   | 2018          |              |              |
|-------------------------------------------|-------------------|--------------|-------------------|---------------|--------------|--------------|
|                                           | BEFORE TAX        | INCOME TAX   | NET OF TAX        | BEFORE TAX    | INCOME TAX   | NET OF TAX   |
| Cumulative amount at January 1            | \$ (1)            | \$ 49        | \$ 48             | \$ —          | \$ —         | \$ —         |
| Gains (losses) recognized during the year | (2,034)           | 16           | (2,018)           | (1)           | 49           | 48           |
| <b>Cumulative amount at December 31</b>   | <b>\$ (2,035)</b> | <b>\$ 65</b> | <b>\$ (1,970)</b> | <b>\$ (1)</b> | <b>\$ 49</b> | <b>\$ 48</b> |

#### Share of other comprehensive income (loss) of investments accounted for by the equity method

The following table provides the Company's share of changes in the cumulative amount of remeasurement gains (losses) recognized in other comprehensive income by the Company's investments accounted for by the equity method relating to their defined benefit plans for the years ended December 31, 2019 and 2018:

| YEARS ENDED DECEMBER 31                   | 2019              |             |                   | 2018        |             |             |
|-------------------------------------------|-------------------|-------------|-------------------|-------------|-------------|-------------|
|                                           | BEFORE TAX        | INCOME TAX  | NET OF TAX        | BEFORE TAX  | INCOME TAX  | NET OF TAX  |
| Cumulative amount at January 1            | \$ —              | \$ —        | \$ —              | \$ —        | \$ —        | \$ —        |
| Gains (losses) recognized during the year | (2,234)           | —           | (2,234)           | —           | —           | —           |
| <b>Cumulative amount at December 31</b>   | <b>\$ (2,234)</b> | <b>\$ —</b> | <b>\$ (2,234)</b> | <b>\$ —</b> | <b>\$ —</b> | <b>\$ —</b> |

## 25. CORPORATE SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

| YEARS ENDED DECEMBER 31                                       | 2019             | 2018 <sup>(1)</sup> |
|---------------------------------------------------------------|------------------|---------------------|
| Selling expenses                                              | \$ 2,662         | \$ 1,827            |
| General and administrative expenses                           | 71,282           | 96,207              |
| <b>Corporate selling, general and administrative expenses</b> | <b>\$ 73,944</b> | <b>\$ 98,034</b>    |

<sup>(1)</sup> Comparative figures have been revised (see Note 2C)

## 26. RESTRUCTURING COSTS

Over the past years, the Company has been engaged in restructuring its activities. In 2019, the Company announced a new strategy under which the Company is no longer bidding on lump-sum turnkey construction contracts.

SNC-Lavalin is also reducing its geographic footprint to reduce risk and complexity by focusing on its core growth regions: Canada, the U.S., and the U.K., along with regional markets such as the Middle East and Asia Pacific, which involves exiting unprofitable operations in certain countries.

At the end of 2019, the Company decided to exit the midstream fabrication business, including its compression and production equipment product lines, which were also known under the Valerus brand.

The Company incurred \$182.8 million of restructuring costs in 2019 (2018: \$68.6 million).

The restructuring costs recognized in 2019 included approximately \$72 million related to Valerus, of which \$52.5 million related to non-cash charges, notably \$31.2 million of inventory write-down, \$11.3 million of impairment of right-of-use assets and \$10.0 million of impairment of property and equipment. The remaining balance of restructuring costs recognized in 2019 were mainly for severances.

The restructuring costs recognized in 2018 were mainly for severances across the Company's segments and corporate functions.

## 27. NET FINANCIAL EXPENSES

| YEARS ENDED DECEMBER 31                                         | 2019              |                          |                   | 2018              |                          |                   |
|-----------------------------------------------------------------|-------------------|--------------------------|-------------------|-------------------|--------------------------|-------------------|
|                                                                 | FROM E&C          | FROM CAPITAL INVESTMENTS | TOTAL             | FROM E&C          | FROM CAPITAL INVESTMENTS | TOTAL             |
| Interest on debt:                                               |                   |                          |                   |                   |                          |                   |
| Recourse                                                        | \$ 85,048         | \$ —                     | \$ 85,048         | \$ 78,230         | \$ —                     | \$ 78,230         |
| Limited recourse                                                | 45,128            | —                        | 45,128            | 85,185            | —                        | 85,185            |
| Non-recourse                                                    | 5,733             | 18,085                   | 23,818            | 2,097             | 15,833                   | 17,930            |
| Interest on lease liabilities                                   | 23,439            | 151                      | 23,590            | —                 | —                        | —                 |
| Other <sup>(1)</sup>                                            | 48,479            | —                        | 48,479            | (1,817)           | —                        | (1,817)           |
| <b>Financial expenses</b>                                       | <b>207,827</b>    | <b>18,236</b>            | <b>226,063</b>    | <b>163,695</b>    | <b>15,833</b>            | <b>179,528</b>    |
| Financial income                                                | (10,837)          | (167)                    | (11,004)          | (7,883)           | (4,439)                  | (12,322)          |
| Net foreign exchange losses (gains)                             | (2,749)           | (227)                    | (2,976)           | 174               | 65                       | 239               |
| <b>Financial income and net foreign exchange losses (gains)</b> | <b>(13,586)</b>   | <b>(394)</b>             | <b>(13,980)</b>   | <b>(7,709)</b>    | <b>(4,374)</b>           | <b>(12,083)</b>   |
| <b>Net financial expenses</b>                                   | <b>\$ 194,241</b> | <b>\$ 17,842</b>         | <b>\$ 212,083</b> | <b>\$ 155,986</b> | <b>\$ 11,459</b>         | <b>\$ 167,445</b> |

<sup>(1)</sup> In 2019, "Other" included \$33.8 million of loss related to the amendments of the CDPQ Loan Agreement and \$3.7 million related to the other E&C financing arrangements in connection with the sale by the Company of 10.01% of the shares of Highway 407 ETR.

## 28. STATEMENTS OF CASH FLOWS

### A) OTHER RECONCILING ITEMS

The following table presents the items to reconcile net income (loss) to cash flows from operating activities presented in the statements of cash flows, for the years ended December 31:

|                                                                                                   | 2019                | 2018                |
|---------------------------------------------------------------------------------------------------|---------------------|---------------------|
| Depreciation of property and equipment and amortization of other non-current non-financial assets | \$ 290,223          | \$ 324,569          |
| Depreciation of right-of-use assets                                                               | 112,037             | —                   |
| Income taxes recognized in net income (Note 29B)                                                  | 198,738             | (11,545)            |
| Net financial expenses recognized in net income (Note 27)                                         | 212,083             | 167,445             |
| Share-based expense (Note 23C)                                                                    | 16,061              | 45,586              |
| Income from Capital investments accounted for by the equity method                                | (210,543)           | (204,087)           |
| Dividends and distributions received from Capital investments accounted for by the equity method  | 160,063             | 170,540             |
| Income from E&C investments accounted for by the equity method                                    | (29,702)            | (37,277)            |
| Dividends and distributions received from E&C investments accounted for by the equity method      | 38,043              | 7,919               |
| Net change in provisions related to forecasted losses on certain contracts                        | (84,861)            | 23,826              |
| Gain on disposals of Capital investments (Note 5A)                                                | (2,970,783)         | (67,552)            |
| Restructuring costs recognized in net income (Note 26)                                            | 182,801             | 68,591              |
| Restructuring costs paid                                                                          | (92,872)            | (22,045)            |
| Loss from adjustment on disposals of E&C businesses                                               | 294                 | 474                 |
| Impairment of intangible assets related to business combinations (Note 15)                        | 72,831              | —                   |
| Impairment of goodwill (Note 14)                                                                  | 1,801,015           | 1,240,415           |
| Federal charges settlement (PPSC) (Note 33)                                                       | 257,327             | —                   |
| Other                                                                                             | (76,616)            | 12,958              |
| <b>Other reconciling items</b>                                                                    | <b>\$ (123,861)</b> | <b>\$ 1,719,817</b> |

### B) NET CHANGE IN NON-CASH WORKING CAPITAL ITEMS

The following table presents the items included in the net change in non-cash working capital related to operating activities presented in the statements of cash flows, for the years ended December 31:

|                                                            | 2019                | 2018                |
|------------------------------------------------------------|---------------------|---------------------|
| Decrease (increase) in trade receivables                   | \$ (15,214)         | \$ 51,957           |
| Increase in contract assets                                | (34,506)            | (453,412)           |
| Decrease in inventories                                    | 15,193              | 11,956              |
| Increase in other current financial assets                 | (2,970)             | (43,979)            |
| Decrease (increase) in other current non-financial assets  | (12,926)            | 57,160              |
| Decrease in trade payables                                 | (193,288)           | (14,614)            |
| Increase (decrease) in contract liabilities                | (91,888)            | 121,856             |
| Increase (decrease) in other current financial liabilities | 16,720              | (19,195)            |
| Decrease in other current non-financial liabilities        | (15,667)            | (217,463)           |
| <b>Net change in non-cash working capital items</b>        | <b>\$ (334,546)</b> | <b>\$ (505,734)</b> |

## 28. STATEMENTS OF CASH FLOWS (CONTINUED)

### C) CHANGES IN LIABILITIES ARISING FROM FINANCING ACTIVITIES

The following table provides a reconciliation between the opening and closing balances in the statement of financial position for liabilities arising from financing activities for the year ended December 31, 2019:

|                                                                                                                                                                                       | Recourse <sup>(1)</sup><br>debt | Limited<br>recourse debt | Non-<br>recourse <sup>(2)</sup><br>debt | Lease <sup>(3)</sup><br>liabilities | Dividends<br>declared to<br>SNC-Lavalin<br>shareholders | Other non-<br>current <sup>(4)</sup><br>financial<br>liabilities | Other non-<br>current <sup>(4)</sup><br>non-financial<br>liabilities |
|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------|--------------------------|-----------------------------------------|-------------------------------------|---------------------------------------------------------|------------------------------------------------------------------|----------------------------------------------------------------------|
| Balance at January 1, 2019                                                                                                                                                            | \$ 2,288,020                    | \$ 980,303               | \$ 399,705                              | \$ —                                | \$ —                                                    | \$ 53,505                                                        | \$ 61,508                                                            |
| Transitional adjustment on adoption<br>of a new accounting standard<br>(Note 2B)                                                                                                      | —                               | —                        | —                                       | 614,152                             | —                                                       | (2,929)                                                          | (60,044)                                                             |
| Adjusted balance at January 1, 2019                                                                                                                                                   | 2,288,020                       | 980,303                  | 399,705                                 | 614,152                             | —                                                       | 50,576                                                           | 1,464                                                                |
| Changes arising from cash flows:                                                                                                                                                      |                                 |                          |                                         |                                     |                                                         |                                                                  |                                                                      |
| Increase                                                                                                                                                                              | 1,829,988                       | —                        | 96,224                                  | —                                   | —                                                       | 608                                                              | 5,543                                                                |
| Repayment                                                                                                                                                                             | (2,952,302)                     | (600,000)                | (10,747)                                | (119,106)                           | (42,133)                                                | (3,368)                                                          | (6,556)                                                              |
| Total – changes arising from cash<br>flows                                                                                                                                            | (1,122,314)                     | (600,000)                | 85,477                                  | (119,106)                           | (42,133)                                                | (2,760)                                                          | (1,013)                                                              |
| Non-cash changes:                                                                                                                                                                     |                                 |                          |                                         |                                     |                                                         |                                                                  |                                                                      |
| Declaration of dividends to<br>SNC-Lavalin shareholders                                                                                                                               | —                               | —                        | —                                       | —                                   | 42,133                                                  | —                                                                | —                                                                    |
| Effect of foreign currency exchange<br>differences                                                                                                                                    | (3,316)                         | —                        | (2,501)                                 | (6,108)                             | —                                                       | (522)                                                            | 100                                                                  |
| Amortization of deferred financing<br>costs and discounts                                                                                                                             | 4,321                           | 19,697                   | 2,437                                   | —                                   | —                                                       | —                                                                | —                                                                    |
| Gain on derivatives used for hedges                                                                                                                                                   | —                               | —                        | —                                       | —                                   | —                                                       | (13,578)                                                         | —                                                                    |
| Change in fair value of contingent<br>consideration related to the<br>Linxon transaction                                                                                              | —                               | —                        | —                                       | —                                   | —                                                       | (2,911)                                                          | —                                                                    |
| Reclassification of deferred<br>financing costs to “Other current<br>non-financial assets” and “Other<br>non-current non-financial assets”<br>upon repayment of Revolving<br>Facility | 5,952                           | —                        | —                                       | —                                   | —                                                       | —                                                                | —                                                                    |
| Net increase in lease liabilities                                                                                                                                                     | —                               | —                        | —                                       | 122,812                             | —                                                       | —                                                                | —                                                                    |
| Federal charges settlement (PPSC)<br>(Note 33)                                                                                                                                        | —                               | —                        | —                                       | —                                   | —                                                       | 201,764                                                          | —                                                                    |
| <b>Balance at December 31, 2019</b>                                                                                                                                                   | <b>\$ 1,172,663</b>             | <b>\$ 400,000</b>        | <b>\$ 485,118</b>                       | <b>\$ 611,750</b>                   | <b>\$ —</b>                                             | <b>\$ 232,569</b>                                                | <b>\$ 551</b>                                                        |

(1), (2), (3), (4) See Notes 1, 2, 3 and 4 on the following page

## 28. STATEMENTS OF CASH FLOWS (CONTINUED)

### CHANGES ARISING FROM CASH FLOWS – RECOURSE DEBT, LIMITED RECOURSE DEBT AND NON-RECOURSE DEBT

| YEAR ENDED DECEMBER 31                            | 2019                |                       |                                 |
|---------------------------------------------------|---------------------|-----------------------|---------------------------------|
|                                                   | INCREASE<br>OF DEBT | REPAYMENT<br>OF DEBT  | PAYMENT FOR<br>DEBT ISSUE COSTS |
| Recourse debt:                                    |                     |                       |                                 |
| Revolving Facility                                | \$ 1,529,988        | \$ (1,942,052)        | \$ —                            |
| Bridge Facility                                   | 300,000             | (300,000)             | (1,060)                         |
| Series 2 Debentures                               | —                   | (150,000)             | —                               |
| Series 5 Debentures                               | —                   | (150,000)             | —                               |
| 2019 Debentures                                   | —                   | (350,000)             | —                               |
| Bank overdraft                                    | —                   | (59,190)              | —                               |
| <b>Total – Recourse debt</b>                      | <b>1,829,988</b>    | <b>(2,951,242)</b>    | <b>(1,060)</b>                  |
| Limited recourse debt:                            |                     |                       |                                 |
| CDPQ Loan                                         | —                   | (600,000)             | —                               |
| <b>Total – Limited recourse debt</b>              | <b>—</b>            | <b>(600,000)</b>      | <b>—</b>                        |
| Non-recourse debt:                                |                     |                       |                                 |
| Credit facility – InPower BC General Partnership  | 14,895              | —                     | —                               |
| Senior Bonds – InPower BC General Partnership     | —                   | (1,350)               | —                               |
| Credit facility – TransitNEXT General Partnership | 74,717              | (2,859)               | (998)                           |
| Senior Secured Notes of an E&C investment         | 6,612               | (5,540)               | —                               |
| <b>Total – Non-recourse debt</b>                  | <b>96,224</b>       | <b>(9,749)</b>        | <b>(998)</b>                    |
| <b>Total</b>                                      | <b>\$ 1,926,212</b> | <b>\$ (3,560,991)</b> | <b>\$ (2,058)</b>               |

(1) Recourse short-term debt and recourse long-term debt were presented in the Company's consolidated statements of financial position as follows:

|                          | DECEMBER 31<br>2019 | JANUARY 1<br>2019   |
|--------------------------|---------------------|---------------------|
| Recourse short-term debt | \$ 299,518          | \$ 1,116,587        |
| Recourse long-term debt  | 873,145             | 1,171,433           |
| <b>Total</b>             | <b>\$ 1,172,663</b> | <b>\$ 2,288,020</b> |

(2) Non-recourse short-term debt and non-recourse long-term debt were presented in the Company's consolidated statements of financial position as follows:

|                              | DECEMBER 31<br>2019 | JANUARY 1<br>2019 |
|------------------------------|---------------------|-------------------|
| Non-recourse short-term debt | \$ 93,664           | \$ 60,168         |
| Non-recourse long-term debt  | 391,454             | 339,537           |
| <b>Total</b>                 | <b>\$ 485,118</b>   | <b>\$ 399,705</b> |

(3) Lease liabilities were presented in the Company's consolidated financial statements of financial position as follows:

|                                          | DECEMBER 31<br>2019 | JANUARY 1<br>2019 |
|------------------------------------------|---------------------|-------------------|
| Current portion of lease liabilities     | \$ 131,075          | \$ —              |
| Non-current portion of lease liabilities | 480,675             | —                 |
| <b>Total</b>                             | <b>\$ 611,750</b>   | <b>\$ —</b>       |

(4) Change arising from cash flows of other non-current financial liabilities and other non-current non-financial liabilities was presented in the financing activities in the Company's consolidated statement of cash flows as follows:

| YEAR ENDED DECEMBER 31                      | 2019              |
|---------------------------------------------|-------------------|
| Other non-current financial liabilities     | \$ (2,760)        |
| Other non-current non-financial liabilities | (1,013)           |
| Other                                       | (298)             |
| <b>Total</b>                                | <b>\$ (4,071)</b> |

## 28. STATEMENTS OF CASH FLOWS (CONTINUED)

The following table provides a reconciliation between the opening and closing balances in the statement of financial position for liabilities arising from financing activities for the year ended December 31, 2018:

|                                                                                        | Recourse <sup>(1)</sup><br>debt | Limited<br>recourse debt | Non-recourse <sup>(2)</sup><br>debt | Dividends<br>declared to<br>SNC-Lavalin<br>shareholders | Other non- <sup>(3)</sup><br>current<br>financial<br>liabilities | Other non- <sup>(3)</sup><br>current non-<br>financial<br>liabilities |
|----------------------------------------------------------------------------------------|---------------------------------|--------------------------|-------------------------------------|---------------------------------------------------------|------------------------------------------------------------------|-----------------------------------------------------------------------|
| Balance at January 1, 2018                                                             | \$ 1,345,539                    | \$ 1,475,177             | \$ 312,964                          | \$ —                                                    | \$ 15,425                                                        | \$ 53,367                                                             |
| Changes arising from cash flows:                                                       |                                 |                          |                                     |                                                         |                                                                  |                                                                       |
| Increase                                                                               | 2,609,134                       | —                        | 95,159                              | —                                                       | 7,250                                                            | 20,663                                                                |
| Repayment                                                                              | (1,741,315)                     | (500,000)                | (7,243)                             | (201,521)                                               | (2,089)                                                          | (13,040)                                                              |
| Total – changes arising from cash flows                                                | 867,819                         | (500,000)                | 87,916                              | (201,521)                                               | 5,161                                                            | 7,623                                                                 |
| Non-cash changes:                                                                      |                                 |                          |                                     |                                                         |                                                                  |                                                                       |
| Declaration of dividends to<br>SNC-Lavalin shareholders                                | —                               | —                        | —                                   | 201,521                                                 | —                                                                | —                                                                     |
| Effect of foreign currency exchange<br>differences                                     | 68,802                          | —                        | 2,836                               | —                                                       | 1,890                                                            | 518                                                                   |
| Amortization of deferred financing<br>costs and discounts                              | 5,860                           | 5,126                    | 1,144                               | —                                                       | —                                                                | —                                                                     |
| Loss on derivatives used for hedges                                                    | —                               | —                        | —                                   | —                                                       | 14,559                                                           | —                                                                     |
| Measurement of a loan from a non-<br>controlling interest at its initial fair<br>value | —                               | —                        | (5,155)                             | —                                                       | —                                                                | —                                                                     |
| Contingent consideration related to the<br>Linxon transaction                          | —                               | —                        | —                                   | —                                                       | 16,470                                                           | —                                                                     |
| <b>Balance at December 31, 2018</b>                                                    | <b>\$ 2,288,020</b>             | <b>\$ 980,303</b>        | <b>\$ 399,705</b>                   | <b>\$ —</b>                                             | <b>\$ 53,505</b>                                                 | <b>\$ 61,508</b>                                                      |

(1), (2), (3) See Notes 1, 2 and 3 on the following page

### CHANGES ARISING FROM CASH FLOWS – RECOURSE DEBT, LIMITED RECOURSE DEBT AND NON-RECOURSE DEBT

| YEAR ENDED DECEMBER 31                           | 2018                |                       |                                 |
|--------------------------------------------------|---------------------|-----------------------|---------------------------------|
|                                                  | INCREASE<br>OF DEBT | REPAYMENT<br>OF DEBT  | PAYMENT FOR<br>DEBT ISSUE COSTS |
| Recourse debt:                                   |                     |                       |                                 |
| Revolving Facility                               | \$ 1,376,381        | \$ (1,339,461)        | \$ (1,586)                      |
| Term Facility                                    | —                   | (397,553)             | —                               |
| Term Loan                                        | 500,000             | —                     | (1,375)                         |
| 2020 Debentures                                  | —                   | —                     | (357)                           |
| Series 2, 3 and 4 Debentures                     | 523,713             | —                     | (823)                           |
| Series 5 Debentures                              | 149,850             | —                     | (160)                           |
| Bank overdraft                                   | 59,190              | —                     | —                               |
| <b>Total – Recourse debt</b>                     | <b>2,609,134</b>    | <b>(1,737,014)</b>    | <b>(4,301)</b>                  |
| Limited recourse debt:                           |                     |                       |                                 |
| CDPQ Loan                                        | —                   | (500,000)             | —                               |
| <b>Total – Limited recourse debt</b>             | <b>—</b>            | <b>(500,000)</b>      | <b>—</b>                        |
| Non-recourse debt:                               |                     |                       |                                 |
| Credit facility – InPower BC General Partnership | 42,164              | —                     | —                               |
| Senior Secured Notes of an E&C investment        | 40,850              | —                     | —                               |
| Unsecured loan from Linxon                       | 12,145              | —                     | —                               |
| Other                                            | —                   | (7,243)               | —                               |
| <b>Total – Non-recourse debt</b>                 | <b>95,159</b>       | <b>(7,243)</b>        | <b>—</b>                        |
| <b>Total</b>                                     | <b>\$ 2,704,293</b> | <b>\$ (2,244,257)</b> | <b>\$ (4,301)</b>               |

## 28. STATEMENTS OF CASH FLOWS (CONTINUED)

- (1) Recourse short-term debt and recourse long-term debt were presented in the Company's consolidated statements of financial position as follows:

|                          | DECEMBER 31<br>2018 | JANUARY 1<br>2018   |
|--------------------------|---------------------|---------------------|
| Recourse short-term debt | \$ 1,116,587        | \$ 318,757          |
| Recourse long-term debt  | 1,171,433           | 1,026,782           |
| <b>Total</b>             | <b>\$ 2,288,020</b> | <b>\$ 1,345,539</b> |

- (2) Non-recourse short-term debt and no-recourse long-term debt from Capital investments were presented in the Company's consolidated statements of financial position as follows:

|                              | DECEMBER 31<br>2018 | JANUARY 1<br>2018 |
|------------------------------|---------------------|-------------------|
| Non-recourse short-term debt | \$ 60,168           | \$ 15,566         |
| Non-recourse long-term debt  | 339,537             | 297,398           |
| <b>Total</b>                 | <b>\$ 399,705</b>   | <b>\$ 312,964</b> |

- (3) Change arising from cash flows of other non-current financial liabilities and other non-current non-financial liabilities was presented in the financing activities in the Company's consolidated statement of cash flows as follows:

| YEAR ENDED DECEMBER 31                      | 2018             |
|---------------------------------------------|------------------|
| Other non-current financial liabilities     | \$ 5,161         |
| Other non-current non-financial liabilities | 7,623            |
| Other                                       | 16               |
| <b>Total</b>                                | <b>\$ 12,800</b> |

## 29. INCOME TAXES

### A) DEFERRED INCOME TAX ASSET AND DEFERRED INCOME TAX LIABILITY

Deferred income taxes arising from temporary differences and unused tax losses can be summarized as follows:

|                                                                       | JANUARY 1<br>2019 | Impact of<br>adoption of a<br>new standard<br>(Note 2B) | Recognized in<br>other<br>comprehensive<br>income | Recognized<br>directly in equity | Recognized in<br>net income | Exchange<br>differences and<br>other charges | DECEMBER 31<br>2019 |
|-----------------------------------------------------------------------|-------------------|---------------------------------------------------------|---------------------------------------------------|----------------------------------|-----------------------------|----------------------------------------------|---------------------|
| Current:                                                              |                   |                                                         |                                                   |                                  |                             |                                              |                     |
| Contract assets                                                       | \$ (46,298)       | \$ —                                                    | \$ —                                              | \$ —                             | \$ 15,438                   | \$ 398                                       | \$ (30,462)         |
| Retentions on supplier<br>contracts                                   | 16,609            | —                                                       | —                                                 | —                                | (9,100)                     | —                                            | 7,509               |
| Accrued employee<br>compensation                                      | 34,320            | —                                                       | —                                                 | —                                | (519)                       | (688)                                        | 33,113              |
| Current liabilities                                                   | 74,587            | —                                                       | —                                                 | —                                | (6,924)                     | (372)                                        | 67,291              |
| Other                                                                 | 22,138            | (2,954)                                                 | —                                                 | —                                | (12,883)                    | (493)                                        | 5,808               |
| Non-current:                                                          |                   |                                                         |                                                   |                                  |                             |                                              |                     |
| Property and equipment,<br>and goodwill                               | (189,830)         | —                                                       | —                                                 | —                                | 74,439                      | 3,586                                        | (111,805)           |
| Right-of-use assets                                                   | —                 | (100,679)                                               | —                                                 | —                                | 22,292                      | 1,195                                        | (77,192)            |
| Other non-current<br>financial assets                                 | (36,437)          | (8,776)                                                 | 16                                                | —                                | 3,389                       | —                                            | (41,808)            |
| Provisions                                                            | (2,018)           | (3,513)                                                 | —                                                 | —                                | (15,394)                    | (695)                                        | (21,620)            |
| Capital investments<br>accounted for by the<br>equity or cost methods | (127,494)         | —                                                       | 637                                               | —                                | 10,541                      | —                                            | (116,316)           |
| Lease liabilities                                                     | —                 | 140,463                                                 | —                                                 | —                                | (38,332)                    | (1,289)                                      | 100,842             |
| Pension plans and other<br>post-employment<br>benefits                | 87,943            | —                                                       | 8,234                                             | —                                | (10,678)                    | (3,162)                                      | 82,337              |
| Other                                                                 | 66,318            | (16,995)                                                | (3,253)                                           | (8,347)                          | 4,332                       | (1,463)                                      | 40,592              |
| Unused tax losses                                                     | 389,230           | —                                                       | —                                                 | —                                | (149,123)                   | (6,879)                                      | 233,228             |
| <b>Deferred income tax asset,<br/>net</b>                             | <b>\$ 289,068</b> | <b>\$ 7,546</b>                                         | <b>\$ 5,634</b>                                   | <b>\$ (8,347)</b>                | <b>\$ (112,522)</b>         | <b>\$ (9,862)</b>                            | <b>\$ 171,517</b>   |
| Presented on the statement of financial position as follows:          |                   |                                                         |                                                   |                                  |                             |                                              |                     |
| <b>Deferred income tax asset</b>                                      | <b>\$ 652,155</b> |                                                         |                                                   |                                  |                             |                                              | <b>\$ 520,451</b>   |
| <b>Deferred income tax<br/>liability</b>                              | <b>\$ 363,087</b> |                                                         |                                                   |                                  |                             |                                              | <b>\$ 348,934</b>   |

## 29. INCOME TAXES (CONTINUED)

Deferred income taxes for the comparative period of 2018 can be summarized as follows:

|                                                                 | JANUARY 1<br>2018 | Impact of<br>adoption of<br>new standards<br>and an<br>amendment | Recognized in<br>other<br>comprehensive<br>income | Derecognized<br>upon disposals<br>of investments | Recognized in<br>net income | Exchange<br>differences and<br>other charges | DECEMBER 31<br>2018 |
|-----------------------------------------------------------------|-------------------|------------------------------------------------------------------|---------------------------------------------------|--------------------------------------------------|-----------------------------|----------------------------------------------|---------------------|
| Current:                                                        |                   |                                                                  |                                                   |                                                  |                             |                                              |                     |
| Retentions on client contracts                                  | \$ (32,352)       | \$ 32,352                                                        | \$ —                                              | \$ —                                             | \$ —                        | \$ —                                         | \$ —                |
| Contract assets                                                 | —                 | (41,840)                                                         | —                                                 | —                                                | (5,414)                     | 956                                          | (46,298)            |
| Contracts in progress                                           | (10,149)          | 10,149                                                           | —                                                 | —                                                | —                           | —                                            | —                   |
| Retentions on supplier contracts                                | 18,573            | —                                                                | —                                                 | —                                                | (1,964)                     | —                                            | 16,609              |
| Accrued employee compensation                                   | 28,112            | (1,113)                                                          | —                                                 | —                                                | 5,960                       | 1,361                                        | 34,320              |
| Current liabilities                                             | 81,501            | 815                                                              | —                                                 | —                                                | (9,159)                     | 1,430                                        | 74,587              |
| Other                                                           | 8,968             | —                                                                | —                                                 | —                                                | 12,261                      | 909                                          | 22,138              |
| Non-current:                                                    |                   |                                                                  |                                                   |                                                  |                             |                                              |                     |
| Property and equipment, and goodwill                            | (203,436)         | —                                                                | —                                                 | —                                                | 18,761                      | (5,155)                                      | (189,830)           |
| Other non-current financial assets                              | (25,860)          | 117                                                              | —                                                 | —                                                | (10,694)                    | —                                            | (36,437)            |
| Provisions                                                      | (53)              | —                                                                | —                                                 | —                                                | (15,732)                    | 13,767                                       | (2,018)             |
| Capital investments accounted for by the equity or cost methods | (106,806)         | —                                                                | 5,192                                             | 6,419                                            | (30,552)                    | (1,747)                                      | (127,494)           |
| Pension plans and other post-employment benefits                | 101,833           | —                                                                | (10,328)                                          | —                                                | (4,382)                     | 820                                          | 87,943              |
| Other                                                           | 32,367            | 51,988                                                           | 2,037                                             | —                                                | (21,653)                    | 1,579                                        | 66,318              |
| Unused tax losses                                               | 275,628           | —                                                                | —                                                 | —                                                | 108,238                     | 5,364                                        | 389,230             |
| <b>Deferred income tax asset, net</b>                           | <b>\$ 168,326</b> | <b>\$ 52,468</b>                                                 | <b>\$ (3,099)</b>                                 | <b>\$ 6,419</b>                                  | <b>\$ 45,670</b>            | <b>\$ 19,284</b>                             | <b>\$ 289,068</b>   |

Presented on the statement of financial position as follows:

|                                      |                   |                   |
|--------------------------------------|-------------------|-------------------|
| <b>Deferred income tax asset</b>     | <b>\$ 545,551</b> | <b>\$ 652,155</b> |
| <b>Deferred income tax liability</b> | <b>\$ 377,225</b> | <b>\$ 363,087</b> |

As at December 31, 2019, the Company had \$2,255.6 million (2018: \$2,665.4million) of non-capital tax losses carried-forward of which \$1,288.7 million will expire in varying amounts from 2020 to 2040 (2018: \$1,691.5 million expiring from 2019 to 2039). As at December 31, 2019, a deferred income tax asset of \$233.2 million (2018: \$389.2 million) has been recognized on \$1,049.6 million (2018: \$1,660.3 million) of these losses. The deferred income tax assets are recognized only to the extent that it is probable that taxable income will be available against which the unused tax losses can be utilized. As at December 31, 2019, the Company had \$512.6 million of the unrecognized non-capital tax losses that will expire in varying amounts from 2020 to 2040 (2018: \$275.5 million expiring in varying amounts from 2019 to 2039).

As at December 31, 2019, the Company had \$82.1 million (2018: \$187.5 million) of non-expiring capital tax losses carried-forward on which no deferred income tax asset has been recognized (2018: \$25.1 million expiring in 2031 and 2032).

As at December 31, 2019, a deferred income tax liability has not been recognized on taxable temporary differences of \$757.3 million (2018: \$846.5 million) associated with investments in subsidiaries, associates and interests in joint arrangements, as the Company controls the timing of the reversal and it is probable that the temporary differences will not reverse in the foreseeable future.

## 29. INCOME TAXES (CONTINUED)

### B) INCOME TAXES

The relationship between the expected income taxes based on the Canadian effective tax rate of SNC-Lavalin at 26.5% (2018: 26.7%) and the reported income taxes in net income can be reconciled as follows:

| YEARS ENDED DECEMBER 31                                                                                     |           | 2019           |             | 2018               |            |
|-------------------------------------------------------------------------------------------------------------|-----------|----------------|-------------|--------------------|------------|
|                                                                                                             |           | AMOUNT         | %           | AMOUNT             | %          |
| Income (loss) before income taxes                                                                           | \$        | 529,325        |             | \$ (1,327,840)     |            |
| Canadian tax rate for SNC-Lavalin                                                                           |           |                | 26.5        |                    | 26.7       |
| Expected income taxes                                                                                       | \$        | 140,283        |             | \$ (354,706)       |            |
| Increase (decrease) resulting from:                                                                         |           |                |             |                    |            |
| Effect of goodwill impairment                                                                               |           | 353,657        | 66.8        | 331,352            | (25.0)     |
| Effect of Federal charges settlement (PPSC)                                                                 |           | 68,545         | 12.9        | —                  | —          |
| Effect of differences of foreign tax rates compared to Canadian rates                                       |           | 18,009         | 3.4         | (24,829)           | 1.9        |
| Effect of Canadian provincial tax rate differences                                                          |           | 2,384          | 0.5         | (672)              | 0.1        |
| Effect of adjustments to deferred tax attributable to changes related to the U.S. Tax Reform                |           | —              | —           | 6,021              | (0.5)      |
| Net income and losses not affected by tax                                                                   |           | (20,982)       | (4.0)       | 99,209             | (7.5)      |
| Effect of benefit from a previously unrecognized tax loss used to reduce current tax expense                |           | (47,773)       | (9.0)       | —                  | —          |
| Effect of differences between accounting gain and taxable gain realized on disposals of Capital investments |           | (405,443)      | (76.5)      | (11,113)           | 0.8        |
| Effect of reversal of a previous write-down of deferred income tax asset                                    |           | (20,470)       | (3.9)       | (2,181)            | 0.2        |
| Effect of write-down of previously recognized deferred income tax asset (liability)                         |           | 143,621        | 27.1        | 9,280              | (0.7)      |
| Non-taxable income from certain Capital investments accounted for by the equity or cost methods             |           | (44,075)       | (8.3)       | (45,793)           | 3.4        |
| Other permanent differences for tax purposes                                                                |           | 11,967         | 2.2         | 5,321              | (0.4)      |
| Other                                                                                                       |           | (985)          | (0.1)       | (23,434)           | 1.9        |
| <b>Income taxes at effective tax rate</b>                                                                   | <b>\$</b> | <b>198,738</b> | <b>37.6</b> | <b>\$ (11,545)</b> | <b>0.9</b> |

SNC-Lavalin's income taxes were comprised of the following:

| YEARS ENDED DECEMBER 31 |           | 2019           | 2018               |
|-------------------------|-----------|----------------|--------------------|
| Current income taxes    | \$        | 86,216         | \$ 34,125          |
| Deferred income taxes   |           | 112,522        | (45,670)           |
| <b>Income taxes</b>     | <b>\$</b> | <b>198,738</b> | <b>\$ (11,545)</b> |

## 30. FINANCIAL INSTRUMENTS

### A) CLASSIFICATION AND FAIR VALUE OF FINANCIAL INSTRUMENTS

The following table presents the carrying value of financial assets held by SNC-Lavalin at December 31, 2019 by category and classification, with the corresponding fair value, when available:

| AT DECEMBER 31                                                                          | 2019                                           |                       |                     |                             |                     |                     |
|-----------------------------------------------------------------------------------------|------------------------------------------------|-----------------------|---------------------|-----------------------------|---------------------|---------------------|
|                                                                                         | CARRYING VALUE OF FINANCIAL ASSETS BY CATEGORY |                       |                     |                             |                     |                     |
|                                                                                         | FVTPL <sup>(1)</sup>                           | FVTOCI <sup>(2)</sup> | AMORTIZED COST      | DERIVATIVES USED FOR HEDGES | TOTAL               | FAIR VALUE          |
| Cash and cash equivalents                                                               | \$ 1,188,636                                   | \$ —                  | \$ —                | \$ —                        | \$ 1,188,636        | \$ 1,188,636        |
| Restricted cash                                                                         | 34,118                                         | —                     | —                   | —                           | 34,118              | 34,118              |
| Trade receivables                                                                       | —                                              | —                     | 1,533,442           | —                           | 1,533,442           | 1,533,442           |
| Other current financial assets:                                                         |                                                |                       |                     |                             |                     |                     |
| Derivative financial instruments                                                        | —                                              | —                     | —                   | 21,146                      | 21,146              | 21,146              |
| Financial assets at FVTPL                                                               | 6,047                                          | —                     | —                   | —                           | 6,047               | 6,047               |
| Other                                                                                   | —                                              | —                     | 195,115             | —                           | 195,115             | 196,483             |
| Capital investment accounted for by the cost method                                     | —                                              | 8,107                 | —                   | —                           | 8,107               | 8,107               |
| Non-current portion of receivables under service concession arrangements <sup>(3)</sup> | —                                              | —                     | 352,987             | —                           | 352,987             | 387,060             |
| Other non-current financial assets:                                                     |                                                |                       |                     |                             |                     |                     |
| Derivative financial instruments                                                        | —                                              | —                     | —                   | 8,997                       | 8,997               | 8,997               |
| Financial asset at FVTOCI                                                               | —                                              | 303                   | —                   | —                           | 303                 | 303                 |
| Financial asset at FVTPL <sup>(4)</sup>                                                 | 57,207                                         | —                     | —                   | —                           | 57,207              | 57,207              |
| Other <sup>(3)</sup>                                                                    | —                                              | —                     | 49,434              | —                           | 49,434              | 49,434              |
| <b>Total</b>                                                                            | <b>\$ 1,286,008</b>                            | <b>\$ 8,410</b>       | <b>\$ 2,130,978</b> | <b>\$ 30,143</b>            | <b>\$ 3,455,539</b> | <b>\$ 3,490,980</b> |

<sup>(1)</sup> Fair value through profit or loss ("FVTPL")

<sup>(2)</sup> Fair value through other comprehensive income ("FVTOCI")

<sup>(3)</sup> For non-current portion of receivables under service concession arrangements and most of the other non-current financial assets other than at fair value, the Company uses the present value technique to determine the fair value.

<sup>(4)</sup> In 2019, the gain on contingent consideration receivable from the acquirer of the 10.01% interest in Highway 407 ETR (see Note 5A) amounted to \$1.1 million and is included in "Loss (gain) arising on financial assets (liabilities) at fair value through profit or loss" in the consolidated income statement.

### 30. FINANCIAL INSTRUMENTS (CONTINUED)

The following table presents the carrying value of financial assets held by SNC-Lavalin at December 31, 2018 by category and classification, with the corresponding fair value, when available:

|                                                                                         | 2018                                           |                       |                     |                             |                     |                     |
|-----------------------------------------------------------------------------------------|------------------------------------------------|-----------------------|---------------------|-----------------------------|---------------------|---------------------|
|                                                                                         | CARRYING VALUE OF FINANCIAL ASSETS BY CATEGORY |                       |                     |                             |                     |                     |
|                                                                                         | FVTPL <sup>(1)</sup>                           | FVTOCI <sup>(2)</sup> | AMORTIZED COST      | DERIVATIVES USED FOR HEDGES | TOTAL               | FAIR VALUE          |
| Cash and cash equivalents                                                               | \$ 634,084                                     | \$ —                  | \$ —                | \$ —                        | \$ 634,084          | \$ 634,084          |
| Restricted cash                                                                         | 12,722                                         | —                     | —                   | —                           | 12,722              | 12,722              |
| Trade receivables                                                                       | —                                              | —                     | 1,503,824           | —                           | 1,503,824           | 1,503,824           |
| Other current financial assets:                                                         |                                                |                       |                     |                             |                     |                     |
| Derivative financial instruments                                                        | —                                              | —                     | —                   | 39,952                      | 39,952              | 39,952              |
| Financial assets at FVTPL                                                               | 11,574                                         | —                     | —                   | —                           | 11,574              | 11,574              |
| Other                                                                                   | —                                              | —                     | 195,765             | —                           | 195,765             | 196,370             |
| Capital investment accounted for by the cost method                                     | —                                              | 10,663                | —                   | —                           | 10,663              | 10,663              |
| Non-current portion of receivables under service concession arrangements <sup>(3)</sup> | —                                              | —                     | 327,299             | —                           | 327,299             | 342,122             |
| Other non-current financial assets:                                                     |                                                |                       |                     |                             |                     |                     |
| Derivative financial instruments                                                        | —                                              | —                     | —                   | 5,981                       | 5,981               | 5,981               |
| Financial asset at FVTOCI                                                               | —                                              | 657                   | —                   | —                           | 657                 | 657                 |
| Other <sup>(3)</sup>                                                                    | —                                              | —                     | 23,385              | —                           | 23,385              | 23,385              |
| <b>Total</b>                                                                            | <b>\$ 658,380</b>                              | <b>\$ 11,320</b>      | <b>\$ 2,050,273</b> | <b>\$ 45,933</b>            | <b>\$ 2,765,906</b> | <b>\$ 2,781,334</b> |

<sup>(1)</sup> Fair value through profit or loss ("FVTPL")

<sup>(2)</sup> Fair value through other comprehensive income ("FVTOCI")

<sup>(3)</sup> For non-current portion of receivables under service concession arrangements and most of the other non-current financial assets other than at fair value, the Company uses the present value technique to determine the fair value.

### 30. FINANCIAL INSTRUMENTS (CONTINUED)

The following tables present the carrying value of SNC-Lavalin's financial liabilities at December 31, 2019 and December 31, 2018 by category and classification, with the corresponding fair value, when available:

| AT DECEMBER 31                                         | 2019                                                |                      |                     |                     |                     |  |
|--------------------------------------------------------|-----------------------------------------------------|----------------------|---------------------|---------------------|---------------------|--|
|                                                        | CARRYING VALUE OF FINANCIAL LIABILITIES BY CATEGORY |                      |                     |                     |                     |  |
|                                                        | DERIVATIVES USED<br>FOR HEDGES                      | FVTPL <sup>(1)</sup> | AMORTIZED COST      | TOTAL               | FAIR VALUE          |  |
| Trade payables                                         | \$ —                                                | \$ —                 | \$ 2,153,520        | \$ 2,153,520        | \$ 2,153,520        |  |
| Other current financial liabilities:                   |                                                     |                      |                     |                     |                     |  |
| Derivative financial instruments                       | 17,086                                              | —                    | —                   | 17,086              | 17,086              |  |
| Other                                                  | —                                                   | —                    | 270,630             | 270,630             | 270,630             |  |
| Provisions                                             | —                                                   | —                    | 121,376             | 121,376             | 121,376             |  |
| Lease liabilities                                      | —                                                   | —                    | 611,750             | 611,750             | N/A <sup>(2)</sup>  |  |
| Short-term debt and long-term debt <sup>(3)</sup> :    |                                                     |                      |                     |                     |                     |  |
| Recourse                                               | —                                                   | —                    | 1,172,663           | 1,172,663           | 1,172,458           |  |
| Limited recourse                                       | —                                                   | —                    | 400,000             | 400,000             | 400,000             |  |
| Non-recourse                                           | —                                                   | —                    | 485,118             | 485,118             | 511,838             |  |
| Other non-current financial liabilities <sup>(4)</sup> | 2,345                                               | 14,405               | 215,819             | 232,569             | 232,569             |  |
| <b>Total</b>                                           | <b>\$ 19,431</b>                                    | <b>\$ 14,405</b>     | <b>\$ 5,430,876</b> | <b>\$ 5,464,712</b> | <b>\$ 4,879,477</b> |  |

| AT DECEMBER 31                                         | 2018                                                |                      |                     |                     |                     |  |
|--------------------------------------------------------|-----------------------------------------------------|----------------------|---------------------|---------------------|---------------------|--|
|                                                        | CARRYING VALUE OF FINANCIAL LIABILITIES BY CATEGORY |                      |                     |                     |                     |  |
|                                                        | DERIVATIVES USED<br>FOR HEDGES                      | FVTPL <sup>(1)</sup> | AMORTIZED COST      | TOTAL               | FAIR VALUE          |  |
| Trade payables                                         | \$ —                                                | \$ —                 | \$ 2,352,944        | \$ 2,352,944        | \$ 2,352,944        |  |
| Other current financial liabilities:                   |                                                     |                      |                     |                     |                     |  |
| Derivative financial instruments                       | 60,254                                              | —                    | —                   | 60,254              | 60,254              |  |
| Other                                                  | —                                                   | —                    | 238,447             | 238,447             | 238,447             |  |
| Provisions                                             | —                                                   | —                    | 98,502              | 98,502              | 98,502              |  |
| Short-term debt and long-term debt <sup>(3)</sup> :    |                                                     |                      |                     |                     |                     |  |
| Recourse                                               | —                                                   | —                    | 2,288,020           | 2,288,020           | 2,290,682           |  |
| Limited recourse                                       | —                                                   | —                    | 980,303             | 980,303             | 980,303             |  |
| Non-recourse                                           | —                                                   | —                    | 399,705             | 399,705             | 415,577             |  |
| Other non-current financial liabilities <sup>(4)</sup> | 15,594                                              | 17,889               | 20,022              | 53,505              | 53,505              |  |
| <b>Total</b>                                           | <b>\$ 75,848</b>                                    | <b>\$ 17,889</b>     | <b>\$ 6,377,943</b> | <b>\$ 6,471,680</b> | <b>\$ 6,490,214</b> |  |

<sup>(1)</sup> Fair value through profit or loss ("FVTPL")

<sup>(2)</sup> N/A: not applicable

<sup>(3)</sup> The fair value of short-term debt and long-term debt was determined using public quotations or the discounted cash flows method in accordance with current financing arrangements. The discount rates used correspond to prevailing market rates offered to SNC-Lavalin or to the Capital investments, depending on which entity has issued the debt instrument, for debt with the similar terms and conditions.

<sup>(4)</sup> In 2019, the gain on contingent consideration payable to seller related to Linxon acquisition (see Note 6), which is a financial liability at FVTPL, amounted to \$2.9 million (2018: loss of \$1.4 million) and is included in "Loss (gain) arising on financial assets (liabilities) at fair value through profit or loss" in the consolidated income statement.

### 30. FINANCIAL INSTRUMENTS (CONTINUED)

#### FINANCIAL INSTRUMENTS MEASURED AT FAIR VALUE

The methodology used to measure the Company's financial instruments accounted for at fair value is determined based on the following hierarchy:

| LEVEL   | BASIS FOR DETERMINATION OF FAIR VALUE                                                                                     | FINANCIAL INSTRUMENTS                                                                                                                                                                                                                                                               |
|---------|---------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Level 1 | Quoted prices in active markets for identical assets or liabilities                                                       | None                                                                                                                                                                                                                                                                                |
| Level 2 | Inputs other than quoted prices included in Level 1 that are directly or indirectly observable for the asset or liability | Cash and cash equivalents, restricted cash, derivatives, life insurance policies, which are included in "Other current financial assets" and equity investments measured at FVTOCI                                                                                                  |
| Level 3 | Inputs for the asset or liability that are not based on observable market data                                            | Contingent consideration receivable from the acquirer of the 10.01% interest in Highway 407 ETR included in "Other non-current financial assets" and contingent consideration payable to seller related to Linxon acquisition included in "Other non-current financial liabilities" |

#### ASSETS AND LIABILITIES NOT MEASURED AT FAIR VALUE AND FOR WHICH THE FAIR VALUE IS DISCLOSED

The methodology used to determine the fair value of the following Company's assets and liabilities not measured at fair value is based on the following hierarchy:

| LEVEL   | BASIS FOR DETERMINATION OF FAIR VALUE                                                                                     | ASSETS AND LIABILITIES                                                                                                                                                                                                                                                                                                                                                |
|---------|---------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Level 1 | Quoted prices in active markets for identical assets or liabilities                                                       | None                                                                                                                                                                                                                                                                                                                                                                  |
| Level 2 | Inputs other than quoted prices included in Level 1 that are directly or indirectly observable for the asset or liability | Trade receivables, receivables under service concession arrangements, trade payables, short-term debt and long-term debt, as well as the following assets and liabilities not measured at fair value: other current financial assets, other non-current financial assets, other current financial liabilities, provisions and other non-current financial liabilities |
| Level 3 | Inputs for the asset or liability that are not based on observable market data                                            | None                                                                                                                                                                                                                                                                                                                                                                  |

For the years ended December 31, 2019 and 2018, there were no changes in valuation techniques and in inputs used in the fair value measurements and there were no transfers between the levels of the fair value hierarchy.

#### LEVEL 3 FINANCIAL INSTRUMENTS

The following table presents changes in fair value of Level 3 financial instruments for the year ended December 31, 2019:

|                                                              | CONTINGENT CONSIDERATION<br>RECEIVABLE FROM<br>THE ACQUIRER OF THE 10.01%<br>INTEREST IN HIGHWAY 407 ETR | CONTINGENT CONSIDERATION<br>PAYABLE TO SELLER RELATED TO<br>LINXON ACQUISITION |
|--------------------------------------------------------------|----------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------|
| Balance as at January 1, 2019                                | \$ —                                                                                                     | \$ 17,889                                                                      |
| Disposal of the 10.01% interest in Highway 407 ETR (Note 5A) | 56,143                                                                                                   | —                                                                              |
| Unrealized net gains                                         | 1,064                                                                                                    | 2,911                                                                          |
| Effect of foreign currency exchange differences              | —                                                                                                        | (573)                                                                          |
| <b>Balance as at December 31, 2019</b>                       | <b>\$ 57,207</b>                                                                                         | <b>\$ 14,405</b>                                                               |

#### Assumptions

When measuring Level 3 financial instruments at fair value using the present value technique, some assumptions are not derived from an observable market. The main assumptions developed internally relate to discount rate and to future expected cash flows, based on the projected future performance. The projected future performance is an important input for the determination of fair value and is prepared by management of SNC-Lavalin based on budget and strategic plan.

The significant assumptions used in measuring fair value of Level 3 financial instruments as at December 31, 2019 were as follows: i) the discount rate, which was 7.80% for contingent consideration receivable from the acquirer of the 10.01% interest in Highway 407 ETR and 11.95% for contingent consideration payable to seller related to Linxon acquisition; and ii) the expected future cash flows of Highway 407 ETR and Linxon.

### 30. FINANCIAL INSTRUMENTS (CONTINUED)

#### *Sensitivity analysis*

These assumptions, not derived from an observable market, are established by management of SNC-Lavalin using estimates and judgments that can have a significant effect on net income.

The following impact on net income has been calculated changing one of these assumptions to other reasonably possible alternative assumption for the year ended December 31, 2019:

|                     |                                                                | IMPACT ON NET INCOME                                                                            |                                                                          |
|---------------------|----------------------------------------------------------------|-------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------|
|                     |                                                                | CONTINGENT CONSIDERATION RECEIVABLE FROM THE ACQUIRER OF THE 10.01% INTEREST IN HIGHWAY 407 ETR | CONTINGENT CONSIDERATION PAYABLE TO SELLER RELATED TO LINXON ACQUISITION |
| Increase (decrease) | If the discount rate is 100 basis points lower <sup>(1)</sup>  | \$ 4,834                                                                                        | \$ (756)                                                                 |
| Increase (decrease) | If the discount rate is 100 basis points higher <sup>(1)</sup> | \$ (4,363)                                                                                      | \$ 693                                                                   |
| Increase (decrease) | If the expected future cash flows are 1% lower <sup>(1)</sup>  | \$ (11,431)                                                                                     | \$ —                                                                     |
| Increase (decrease) | If the expected future cash flows are 1% higher <sup>(1)</sup> | \$ 11,787                                                                                       | \$ —                                                                     |

<sup>(1)</sup> Assuming all other variables remain the same.

#### B) NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS AND RELATED RISK MANAGEMENT

| NATURE OF RISK | DESCRIPTION                                                                                                                                                                                                                                                                                                                          |
|----------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Credit risk    | Risk that SNC-Lavalin will incur a financial loss if the other party to a financial instrument fails to discharge an obligation. The maximum exposure to credit risk for SNC-Lavalin at the end of a given period usually corresponds to the carrying amount of its financial assets exposed to such risk, as presented in Note 30A. |
| Liquidity risk | Possibility that SNC-Lavalin will encounter difficulties in meeting the obligations associated with its financial liabilities                                                                                                                                                                                                        |
| Market risk    | Variability in the fair value or future cash flows of a financial instrument caused by a change in market prices in items such as currency rates, interest rates and equity prices                                                                                                                                                   |

#### CREDIT RISK

For SNC-Lavalin, credit risk arises from:

- Cash and cash equivalents, and restricted cash, which are invested in liquid and high-grade financial instruments, based on SNC-Lavalin's investment policy.
- Derivative financial instruments with a favourable fair value, which contain an inherent credit risk relating to default on obligations by the counterparty. This credit risk is reduced by entering into such contracts with high-grade financial institutions, which are expected to satisfy their obligations under the contracts.
- Trade receivables, as detailed in Note 8A, and contract assets, as detailed in Note 8B. A given client may represent a material portion of SNC-Lavalin's consolidated revenues in any given year due to the size of a particular project and the progress accomplished on such project.

The Company's objective is to reduce credit risk by ensuring collection of its trade receivables on a timely basis. The amounts of trade receivables presented in the consolidated statements of financial position are net of an allowance for expected credit losses, estimated by the Company and based, in part, on the age of specific and aggregated receivable balances, on the financial situation of specific customers and the current and expected collection trends. When assessing the credit risk associated with its trade receivables, the Company also considers the other financial and non-financial assets and liabilities recognized with the same customer or within the same project to provide additional indications on the Company's exposure to credit risk. As such, in addition to the age of its trade receivables, the Company also considers the age of its contract assets, as well as the existence of any contract liabilities on the same project or with the same customer.

In addition to providing for individual balances of trade receivables and other financial assets upon certain events, the Company has an internal policy in place which requires to record, by default, an allowance on any trade receivable or contract asset that has been outstanding longer than a specific threshold, unless it can be demonstrated that the recovery of such trade receivable is not at risk or only partially at risk, in which case the allowance is adjusted accordingly. Moreover, the Company records an amount of additional expected credit losses on trade receivables and contract assets for balances that are not provided for and for which no impairment indicator exist as at period end, but for which it can be reasonably expected that credit losses might occur in the future. Such analysis incorporates the Company's past experience, adjusted as needed to better reflect anticipated conditions.

### 30. FINANCIAL INSTRUMENTS (CONTINUED)

Generally, trade receivables and contract assets are written-off if they are no longer subject to enforcement activity. As such, the amount of trade receivables and contract assets that have been written off but are still being pursued is minimal.

The maximum exposure to credit risk at the reporting date is the carrying value of each class of financial asset disclosed in Note 8. The Company does not generally hold collateral as security.

- iv) Other current financial assets, as detailed in Note 11, and other non-current financial assets, as detailed in Note 16. The current and non-current portions of receivables under service concession arrangements are within normal terms of payment and there were no significant amounts that were past due as at December 31, 2019 and 2018.

#### LIQUIDITY RISK

SNC-Lavalin monitors its liquidity risk arising from financial instruments on an ongoing basis by ensuring that it has access to sufficient resources to meet its obligations.

The Company's liquidity is generally provided by available cash and cash equivalents, cash generated from operations, credit facilities and access to capital markets, as needed. Due to the nature of the Company's activities, the fact that its operations are conducted through multiple entities and joint operations and that it operates in many countries, the Company's cash and cash equivalents are distributed across numerous locations. In order to manage its cash needs and reserves, the Company is part of various cash pooling agreements with financial institutions, may transfer cash balances between subsidiaries, joint arrangements or investees and use credit facilities to meet the capital requirements of certain projects or other cash disbursements.

SNC-Lavalin's consolidated statement of financial position included \$482.4 million at December 31, 2019 (2018: \$356.5 million) of liabilities from Capital investments that are accounted for by the consolidation method. These liabilities, which are non-recourse to the Company, are to be repaid by the Capital investments and are secured by the respective concession's assets, including \$422.0 million of financial assets at December 31, 2019 (2018: \$356.5 million), and by SNC-Lavalin's shares or units in such concession investments. As such, the actual book value at risk for SNC-Lavalin, assuming its Capital investments accounted for by the consolidation method were unable to meet their obligations, corresponds to the carrying amount invested in these entities.

SNC-Lavalin's future principal payments on its short-term debt and long-term debt are presented in Note 20.

#### I) MATURITY ANALYSIS OF FINANCIAL LETTERS OF CREDIT

A draw on letters of credit or bank guarantees (Note 30C) by one or more third parties could, among other things, significantly reduce the Company's cash position and have a material adverse effect on its business and results of operations. The following table presents a maturity analysis for the financial letters of credit outstanding as at December 31, 2019 and 2018:

| MATURITY                                     | DECEMBER 31<br>2019 | DECEMBER 31<br>2018 |
|----------------------------------------------|---------------------|---------------------|
| Not later than 1 year                        | \$ 201,802          | \$ 233,986          |
| Later than 1 year and not later than 5 years | 57,269              | 20,768              |
| Later than 5 years                           | 521                 | 694                 |
|                                              | <b>\$ 259,592</b>   | <b>\$ 255,448</b>   |

#### II) MATURITY ANALYSIS OF TRADE PAYABLES

As at December 31, 2019, 99% (2018: 100%) of the outstanding balance of "Trade payables" of \$2,153.5 million (2018: \$2,352.9 million) had a maturity of not later than 1 year.

#### MARKET RISK

##### I) CURRENCY RISK

SNC-Lavalin's foreign currency risk arises from arrangements in currencies other than its reporting currency and from the net assets (liabilities) of its foreign operations.

Foreign currency risk is managed by the Company by matching, when possible, the cash receipts in a foreign currency and the cash disbursements in the same foreign currency, for revenue-generating projects in which foreign currencies are involved. Derivative financial instruments with banks, usually forward foreign exchange contracts, are also used to hedge the cash flows in foreign currencies.

### 30. FINANCIAL INSTRUMENTS (CONTINUED)

The following table summarizes the major forward foreign exchange contracts that were outstanding, for which SNC-Lavalin has committed to buy or sell foreign currencies:

| AT DECEMBER 31, 2019 |           |      |         |           | AT DECEMBER 31, 2018 |           |                          |
|----------------------|-----------|------|---------|-----------|----------------------|-----------|--------------------------|
| BUY                  |           | SELL |         | MATURITY  | BUY                  |           | MATURITY                 |
| CA\$                 | 943,877   | US\$ | 721,956 | 2020-2023 | CA\$                 | 1,756,097 | US\$ 1,323,215 2019-2023 |
| CA\$                 | 13,205    | €    | 8,593   | 2020-2022 | CA\$                 | 19,435    | € 12,512 2019-2022       |
| US\$                 | 248,518   | CA\$ | 327,226 | 2020-2022 | US\$                 | 721,989   | CA\$ 964,180 2019-2021   |
| €                    | 53,512    | CA\$ | 79,623  | 2020-2022 | €                    | 60,240    | CA\$ 91,968 2019-2022    |
| CA\$                 | 213,508   | £    | 124,000 | 2020      | CA\$                 | 404,713   | £ 235,700 2019           |
| AU\$                 | 58,787    | CA\$ | 52,926  | 2020      | AU\$                 | 130,000   | CA\$ 126,066 2019        |
| £                    | 131,344   | CA\$ | 226,473 | 2020      | £                    | 144,577   | CA\$ 245,627 2019        |
| €                    | 57,765    | US\$ | 67,098  | 2020      | €                    | 86,247    | US\$ 104,791 2019-2020   |
| INR                  | 5,305,000 | £    | 52,054  | 2020-2021 | INR                  | 7,124,000 | £ 68,715 2019-2021       |
| US\$                 | 97,621    | £    | 75,561  | 2020      | US\$                 | 57,560    | £ 45,514 2019            |
| CHF                  | 46,503    | US\$ | 48,208  | 2020-2021 | CHF                  | 60,867    | US\$ 60,743 2019-2021    |

As at December 31, 2019, the forward foreign exchange contracts used for hedging purposes by the Company had a net favourable fair value of \$1.7 million (2018: net unfavourable fair value of \$21.4 million). The majority of the forward foreign exchange contracts that were outstanding at that date were to either buy or sell foreign currencies against the Canadian dollar.

#### CURRENCY SENSITIVITY ANALYSIS

The following impact on equity for the year ended December 31, 2019 has been calculated from the Company's net assets (liabilities) denominated in US dollars, Saudi Arabian riyals and British pounds, from derivative financial instruments used to hedge the exposure to US dollars, Saudi Arabian riyals and British pounds and from investments made in foreign operations.

|                     |                                                        | IMPACT ON EQUITY              |                              |                            |
|---------------------|--------------------------------------------------------|-------------------------------|------------------------------|----------------------------|
|                     |                                                        | CA\$/US\$ <sup>(2), (3)</sup> | CA\$/SAR <sup>(2), (4)</sup> | CA\$/£ <sup>(2), (5)</sup> |
| Increase (decrease) | 10% appreciation in the Canadian dollar <sup>(1)</sup> | \$ (142,512)                  | \$ (10,565)                  | \$ (244,243)               |
| Increase (decrease) | 10% depreciation in the Canadian dollar <sup>(1)</sup> | \$ 142,512                    | \$ 10,565                    | \$ 244,243                 |

<sup>(1)</sup> Assuming all other variables remain the same.

<sup>(2)</sup> The Company's exposure to other currencies is not significant.

<sup>(3)</sup> Includes mainly \$156.8 million of change in exchange differences on translating foreign operations.

<sup>(4)</sup> Includes mainly \$10.9 million of change in exchange differences on translating foreign operations.

<sup>(5)</sup> Includes mainly \$223.3 million of change in exchange differences on translating foreign operations.

As at December 31, 2019, the 10% appreciation in the Canadian dollar comparing to: i) the US dollar would decrease the Company's net income by \$0.2 million (10% depreciation in the Canadian dollar comparing to the US dollar would increase the Company's net income by \$0.2 million); ii) the Saudi Arabian riyal would increase the Company's net income by \$0.4 million (10% depreciation in the Canadian dollar comparing to the Saudi Arabian riyal would decrease the Company's net income by \$0.4 million); and iii) the British pound would increase the Company's net income by \$0.6 million (10% depreciation in the Canadian dollar comparing to the British pound would decrease the Company's net income by \$0.6 million).

#### II) INTEREST RATE RISK

Cash and cash equivalents, and restricted cash, usually involve limited interest rate risk due to their short-term nature.

#### NON-RECOURSE DEBT

Unlike E&C activities, Capital investments are often capital intensive due to the ownership of assets that are financed mainly with project-specific debt, which is usually non-recourse to the general credit of the Company. These investments usually reduce their exposure to interest rate risk by entering into fixed-rate financing arrangements or by hedging the variability of interest rates through derivative financial instruments. Fixing the interest rates gives the Capital investments stable and predictable financing cash outflows, which are usually structured to match the expected timing of their cash inflows.

### 30. FINANCIAL INSTRUMENTS (CONTINUED)

In 2019 and 2018, a subsidiary of the Company from E&C activities issued senior secured notes to finance certain long-term assets associated to a BOO (Build-Own-Operate) contract. The senior secured notes bear interest at a variable rate which exposes the Company to interest rate risk. Also, in relation to the acquisition of Linxon by SNC-Lavalin in 2018, the holder of non-controlling interest of 49% in Linxon granted an interest-free loan and provided a working capital revolving credit facility to Linxon. The working capital revolving credit facility bears interest at a variable rate which exposes the Company to the interest rate risk.

#### **LIMITED RECOURSE DEBT**

SNC-Lavalin's limited recourse debt bears interest at a variable rate which exposes the Company to the interest rate risk.

#### **RECOURSE DEBT**

SNC-Lavalin's recourse short-term debt bears interest at a variable rate which exposes the Company to interest rate risk.

Certain SNC-Lavalin's debentures bear interest at a fixed rate and are measured at amortized cost; therefore, the Company's net income is not exposed to a change in interest rates on these financial liabilities.

SNC-Lavalin's Term Loan and certain debentures bear interest at a variable rate which exposes the Company to interest rate risk.

#### **INTEREST RATE SWAP**

TransitNEXT General Partnership (see Note 5A) entered into an interest rate swap agreement with financial institutions related to its credit facility in the aggregate maximum principal amount of \$149.0 million, which bears interest at a rate of CDOR plus an applicable margin, to hedge the variability of the interest rate. Under the interest rate swap agreement, TransitNEXT pays interest at a fixed rate and receives interest at a rate of CDOR. This hedge is classified as a cash flow hedge.

#### **INTEREST RATE SENSITIVITY ANALYSIS**

For floating rate debt, the analysis is prepared assuming the amount of the debt outstanding at the end of the reporting period was outstanding for the whole year. A 1% (100 basis points) increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

If interest rates had been 1% higher/lower of the base rate and all other variables were held constant, the Company's net income for the year ended December 31, 2019 would decrease/increase by \$9.2 million. This is mainly attributable to the Company's exposure to interest rates on its variable rate borrowings.

The Company's sensitivity to interest rates has decreased in 2019 mainly due to repayment of certain variable rate debt instruments.

#### **III) EQUITY PRICE RISK**

SNC-Lavalin limits its exposure arising from the share unit plans caused by fluctuations in its share price, through financial arrangements with investment high-grade financial institutions described in Note 23C.

#### **IV) COMMODITY PRICE RISK**

In 2019, the Company entered into a copper commodity swap agreement with a financial institution related to its standardized EPC contracts for power substations executed through its Linxon subsidiary to hedge the variability of the copper price. The copper commodity agreement is for 1,308 metric tonnes at an average price of US\$5,805 (approximately CA\$7,617) per metric ton with gradual settlement dates until September 2020. This hedge is classified as a cash flow hedge.

#### **C) LETTERS OF CREDIT**

Under certain circumstances, SNC-Lavalin provides bank letters of credit as collateral for the fulfillment of contractual obligations, including guarantees for performance, advance payments, contractual retentions and bid bonds. Certain letters of credit decrease in relation to the percentage of completion of projects. As at December 31, 2019, SNC-Lavalin had outstanding letters of credit of \$2,067.0 million (2018: \$2,347.1 million).

## 31. CAPITAL MANAGEMENT

SNC-Lavalin's main objective when managing its capital is to maintain an adequate balance between: i) having sufficient capital for financing net asset positions, maintaining satisfactory bank lines of credit and capacity to absorb project net retained risks, while at the same time, ii) maximizing return on equity.

The Company defines its capital as its equity attributable to SNC-Lavalin shareholders excluding other components of equity plus its recourse debt. The Company excludes other components of equity from its definition of capital because this element of equity results in part from the translation into Canadian dollars of its foreign operations having a different functional currency, and from the accounting treatment of cash flow hedges, including its accumulated share of other comprehensive income of investments accounted for by the equity method. These amounts are not representative of the way the Company evaluates the management of its foreign currency risk and interest risk. Accordingly, the other components of equity are not representative of the Company's financial position.

The Company does not consider non-recourse and limited recourse debt when monitoring its capital because such debt results from the consolidation of certain E&C investments and Capital investments or holding entities held by the Company. As such, the lenders of such debt do not have recourse to the general credit of the Company, but rather to the specific assets of the E&C investments and Capital investments or investment in Capital investments they finance. The Company's investments and underlying assets in its E&C investments and Capital investments accounted for by the consolidation or equity methods may be at risk, however, if such investments or holding entities were unable to repay their long-term debt.

The Company's capital for the years ended December 31, 2019 and 2018 was as follows:

|                                                 | DECEMBER 31<br>2019 | DECEMBER 31<br>2018 |
|-------------------------------------------------|---------------------|---------------------|
| Recourse debt                                   | \$ 1,172,663        | \$ 2,288,020        |
| Equity attributable to SNC-Lavalin shareholders | \$ 3,715,006        | \$ 3,650,903        |
| Less: Other components of equity                | 354,073             | 499,199             |
| Plus: Recourse debt                             | 1,172,663           | 2,288,020           |
| <b>Total amount of capital</b>                  | <b>\$ 4,533,596</b> | <b>\$ 5,439,724</b> |

The Company has paid quarterly dividends for 30 consecutive years. Dividend policy is determined by the Board of Directors of the Company.

### COVENANTS ON RECOURSE AND LIMITED RECOURSE DEBT

The Company's unsecured recourse debentures are committed and subject to affirmative and negative covenants, as defined in the underlying indentures related thereto.

The Company's Revolving Facility and Term Loan are committed and subject to affirmative, negative and financial covenants, including a requirement to maintain at all times, on a rolling 12-month basis, a net recourse debt to earnings before interest, taxes, depreciation and amortization ("EBITDA") ratio, as defined in the Credit Agreement, not exceeding a certain limit.

The terms "net recourse debt" and "EBITDA" are defined in the Credit Agreement and do not correspond to the Company's metrics as presented above and/or to the specific terms used in the Company's Management's Discussion and Analysis for the year ended December 31, 2019.

The CDPQ Loan is subject to affirmative and negative covenants, as well as financial covenants, notably not to exceed, on a rolling 12-month and consolidated basis, a maximum net recourse debt to EBITDA ratio, as defined under the CDPQ Loan Agreement, on two consecutive quarters, starting six full quarters after the initial funding date.

In case of an event of default, the Company's debentures, the Revolving Facility, the Term Loan and the CDPQ Loan are subject to customary accelerated repayment terms.

In 2019, the Company complied with all of the covenants, as amended from time to time, related to its debentures, Revolving Facility, Term Loan and CDPQ Loan.

## 32. PENSION PLANS, OTHER LONG-TERM BENEFITS AND OTHER POST-EMPLOYMENT BENEFITS

### A) PENSION PLANS

SNC-Lavalin has defined contribution and defined benefit pension plans. The total cash amount paid by SNC-Lavalin for its pension plans, consisting of contributions to its defined contribution and defined benefit pension plans, was \$228.4 million in 2019 (2018: \$208.9 million).

#### DEFINED CONTRIBUTION PENSION PLANS

SNC-Lavalin's contributions to its defined contribution plans are recorded as expenses in the year in which they are incurred and totaled \$153.3 million in 2019 (2018: \$134.8 million).

#### DEFINED BENEFIT PENSION PLANS

SNC-Lavalin has a number of defined benefit pension plans, which are mostly closed to new entrants, and that provide pension benefits based on length of service and final pensionable earnings. An individual actuarial valuation is performed every year for two plans and at least every three years for the remaining plans. The measurement date used for the benefit obligation and plan assets is December 31 of each year. All SNC-Lavalin's defined benefit pension plans are partly funded, except for two plans, of which one plan is unfunded and one plan is secured by a letter of credit.

The defined benefit plans are administrated by committees composed of a number of representatives from employer's representatives, active employees, inactive employees and independent members. Members of the committees are required by law and by their articles of association to act in the best interest of the pension plans and all their relevant stakeholders, i.e. active employees, inactive employees, retirees and employers. The pension plan committees are responsible for the investment policy with regard to the assets of the pension plans, which are held by a trustee legally separated from SNC-Lavalin.

SNC-Lavalin's defined benefit pension plans typically expose the Company to actuarial risks such as: investment risk, interest rate risk, compensation risk and longevity risk.

| NATURE OF RISK    | DESCRIPTION                                                                                                                                                                                                                                                                                   |
|-------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Investment risk   | The present value of the defined benefit pension plan obligation is calculated using a discount rate determined by reference to high quality corporate bond yields; if the return on the plans' assets is below this rate, it will create a plan deficit.                                     |
| Interest risk     | A decrease in the bond interest rate will increase the plans' liabilities; however, this will be partially offset by an increase in the return on the plans' debt securities.                                                                                                                 |
| Compensation risk | The present value of the defined benefit pension plan obligation is calculated by reference to the final pensionable earnings of the plans' participants.                                                                                                                                     |
| Longevity risk    | The present value of the defined benefit plan liability is calculated by reference to the best estimate of the mortality of the plans' participants both during and after their employment. An increase in the life expectancy of the plans' participants will increase the plans' liability. |

The two main defined benefit schemes of the Company are the Atkins Pension Plan and the U.K. Railways Pension Scheme (the "Railways Pension Scheme"), both of which are funded final salary schemes in the U.K. The latest actuarial valuations were performed on March 31, 2016 for the Atkins Pension Plan and on December 31, 2016 for the Railways Pension Scheme.

## 32. PENSION PLANS, OTHER LONG-TERM BENEFITS AND OTHER POST-EMPLOYMENT BENEFITS (CONTINUED)

The following tables set forth the change in pension benefit obligation and pension plan assets, as well as the funded status of SNC-Lavalin's defined benefit pension plans:

| YEAR ENDED DECEMBER 31, 2019                                    | ATKINS<br>PENSION<br>PLAN | RAILWAYS<br>PENSION<br>SCHEME | OTHER<br>PLANS    | TOTAL               |
|-----------------------------------------------------------------|---------------------------|-------------------------------|-------------------|---------------------|
| <b>Change in pension benefit obligation:</b>                    |                           |                               |                   |                     |
| Pension benefit obligation at beginning of year                 | \$ 2,810,839              | \$ 646,364                    | \$ 288,948        | \$ 3,746,151        |
| Current service cost                                            | 169                       | 4,065                         | 1,027             | 5,261               |
| Interest cost                                                   | 75,882                    | 17,446                        | 7,431             | 100,759             |
| Past service cost                                               | —                         | —                             | (478)             | (478)               |
| Benefits paid                                                   | (112,468)                 | (24,221)                      | (13,198)          | (149,887)           |
| Contributions by plan participants                              | —                         | 2,710                         | 425               | 3,135               |
| Remeasurement:                                                  |                           |                               |                   |                     |
| Actuarial gains arising from changes in demographic assumptions | (11,179)                  | (678)                         | (847)             | (12,704)            |
| Actuarial losses arising from changes in financial assumptions  | 267,790                   | 62,163                        | 28,818            | 358,771             |
| Actuarial losses arising from experience adjustments            | 68,091                    | 1,694                         | 1,710             | 71,495              |
| Effect of foreign currency exchange differences                 | (25,520)                  | (5,889)                       | (7,763)           | (39,172)            |
| <b>Pension benefit obligation at end of year</b>                | <b>\$ 3,073,604</b>       | <b>\$ 703,654</b>             | <b>\$ 306,073</b> | <b>\$ 4,083,331</b> |

|                                                         |                     |                   |                   |                     |
|---------------------------------------------------------|---------------------|-------------------|-------------------|---------------------|
| <b>Change in pension plan assets:</b>                   |                     |                   |                   |                     |
| Fair value of pension plan assets at beginning of year  | \$ 2,520,543        | \$ 489,508        | \$ 283,036        | \$ 3,293,087        |
| Interest income                                         | 68,768              | 13,211            | 7,493             | 89,472              |
| Remeasurement:                                          |                     |                   |                   |                     |
| Return on plan assets (excluding interest income)       | 329,464             | 45,908            | (1,744)           | 373,628             |
| Administration costs                                    | —                   | (847)             | (278)             | (1,125)             |
| Benefits paid                                           | (112,468)           | (24,221)          | (13,198)          | (149,887)           |
| Contributions by the employer                           | 61,146              | 5,759             | 8,195             | 75,100              |
| Contributions by plan participants                      | —                   | 2,710             | 425               | 3,135               |
| Effect of foreign currency exchange differences         | (22,319)            | (4,501)           | (7,369)           | (34,189)            |
| <b>Fair value of pension plan assets at end of year</b> | <b>\$ 2,845,134</b> | <b>\$ 527,527</b> | <b>\$ 276,560</b> | <b>\$ 3,649,221</b> |

| AT DECEMBER 31, 2019                                                   | ATKINS<br>PENSION<br>PLAN | RAILWAYS<br>PENSION<br>SCHEME | OTHER<br>PLANS   | TOTAL             |
|------------------------------------------------------------------------|---------------------------|-------------------------------|------------------|-------------------|
| <b>Funded status reflected in the statement of financial position:</b> |                           |                               |                  |                   |
| Present value of pension benefit obligation                            | \$ 3,073,604              | \$ 703,654                    | \$ 306,073       | \$ 4,083,331      |
| Fair value of pension plan assets                                      | 2,845,134                 | 527,527                       | 276,560          | 3,649,221         |
| Funded status                                                          | 228,470                   | 176,127                       | 29,513           | 434,110           |
| Additional liability due to minimum funding requirements               | —                         | —                             | —                | —                 |
| <b>Net accrued pension benefit liability</b>                           | <b>\$ 228,470</b>         | <b>\$ 176,127</b>             | <b>\$ 29,513</b> | <b>\$ 434,110</b> |

Presented on the statement of financial position as follows:

|                                                         |                   |
|---------------------------------------------------------|-------------------|
| <b>Other non-current non-financial assets</b> (Note 17) | <b>\$ 10,979</b>  |
| <b>Non-current portion of provisions</b>                | <b>\$ 445,089</b> |

## 32. PENSION PLANS, OTHER LONG-TERM BENEFITS AND OTHER POST-EMPLOYMENT BENEFITS (CONTINUED)

The following tables set forth the change in pension benefit obligation and pension plan assets, as well as the funded status of SNC-Lavalin's defined benefit pension plans:

| YEAR ENDED DECEMBER 31, 2018                                    | ATKINS<br>PENSION<br>PLAN | RAILWAYS<br>PENSION<br>SCHEME | OTHER<br>PLANS    | TOTAL               |
|-----------------------------------------------------------------|---------------------------|-------------------------------|-------------------|---------------------|
| <b>Change in pension benefit obligation:</b>                    |                           |                               |                   |                     |
| Pension benefit obligation at beginning of year                 | \$ 3,053,563              | \$ 683,728                    | \$ 294,439        | \$ 4,031,730        |
| Acquisition of Linxon                                           | —                         | —                             | 9,175             | 9,175               |
| Current service cost                                            | 173                       | 4,496                         | 727               | 5,396               |
| Interest cost                                                   | 72,281                    | 16,600                        | 7,553             | 96,434              |
| Past service cost <sup>(1)</sup>                                | 19,668                    | 4,722                         | 672               | 25,062              |
| Benefits paid                                                   | (155,801)                 | (23,517)                      | (15,810)          | (195,128)           |
| Contributions by plan participants                              | —                         | 2,594                         | 107               | 2,701               |
| Remeasurement:                                                  |                           |                               |                   |                     |
| Actuarial gains arising from changes in demographic assumptions | (17,638)                  | (15,217)                      | (1,938)           | (34,793)            |
| Actuarial gains arising from changes in financial assumptions   | (203,354)                 | (42,365)                      | (12,125)          | (257,844)           |
| Actuarial losses (gains) arising from experience adjustments    | (1,729)                   | 5,879                         | 923               | 5,073               |
| Effect of foreign currency exchange differences                 | 43,676                    | 9,444                         | 5,225             | 58,345              |
| <b>Pension benefit obligation at end of year</b>                | <b>\$ 2,810,839</b>       | <b>\$ 646,364</b>             | <b>\$ 288,948</b> | <b>\$ 3,746,151</b> |
| <b>Change in pension plan assets:</b>                           |                           |                               |                   |                     |
| Fair value of pension plan assets at beginning of year          | \$ 2,720,318              | \$ 503,537                    | \$ 281,530        | \$ 3,505,385        |
| Acquisition of Linxon                                           | —                         | —                             | 5,806             | 5,806               |
| Interest income                                                 | 64,326                    | 12,277                        | 7,166             | 83,769              |
| Remeasurement:                                                  |                           |                               |                   |                     |
| Return on plan assets (excluding interest income)               | (207,108)                 | (16,886)                      | (7,823)           | (231,817)           |
| Administration costs                                            | —                         | (682)                         | (264)             | (946)               |
| Benefits paid                                                   | (155,801)                 | (23,517)                      | (15,810)          | (195,128)           |
| Contributions by the employer                                   | 60,868                    | 5,361                         | 7,875             | 74,104              |
| Contributions by plan participants                              | —                         | 2,594                         | 107               | 2,701               |
| Effect of foreign currency exchange differences                 | 37,940                    | 6,824                         | 4,449             | 49,213              |
| <b>Fair value of pension plan assets at end of year</b>         | <b>\$ 2,520,543</b>       | <b>\$ 489,508</b>             | <b>\$ 283,036</b> | <b>\$ 3,293,087</b> |

| AT DECEMBER 31, 2018                                                   | ATKINS<br>PENSION<br>PLAN | RAILWAYS<br>PENSION<br>SCHEME | OTHER<br>PLANS  | TOTAL             |
|------------------------------------------------------------------------|---------------------------|-------------------------------|-----------------|-------------------|
| <b>Funded status reflected in the statement of financial position:</b> |                           |                               |                 |                   |
| Present value of pension benefit obligation                            | \$ 2,810,839              | \$ 646,364                    | \$ 288,948      | \$ 3,746,151      |
| Fair value of pension plan assets                                      | 2,520,543                 | 489,508                       | 283,036         | 3,293,087         |
| Funded status                                                          | 290,296                   | 156,856                       | 5,912           | 453,064           |
| Additional liability due to minimum funding requirements               | —                         | —                             | 2,758           | 2,758             |
| <b>Net accrued pension benefit liability</b>                           | <b>\$ 290,296</b>         | <b>\$ 156,856</b>             | <b>\$ 8,670</b> | <b>\$ 455,822</b> |

Presented on the statement of financial position as follows:

|                                                         |            |
|---------------------------------------------------------|------------|
| <b>Other non-current non-financial assets</b> (Note 17) | \$ 27,893  |
| <b>Non-current portion of provisions</b>                | \$ 483,715 |

<sup>(1)</sup> Relates to October 26, 2018 U.K. High Court ruling (see Note 3)

## 32. PENSION PLANS, OTHER LONG-TERM BENEFITS AND OTHER POST-EMPLOYMENT BENEFITS (CONTINUED)

SNC-Lavalin's net defined benefit pension costs recognized in net income were comprised of:

| YEAR ENDED DECEMBER 31, 2019                                        | ATKINS<br>PENSION<br>PLAN | RAILWAYS<br>PENSION<br>SCHEME | OTHER<br>PLANS | TOTAL            |
|---------------------------------------------------------------------|---------------------------|-------------------------------|----------------|------------------|
| Current service cost                                                | \$ 169                    | \$ 4,065                      | \$ 1,027       | \$ 5,261         |
| Net interest expense                                                | 7,114                     | 4,235                         | 33             | 11,382           |
| Administration costs                                                | —                         | 847                           | 278            | 1,125            |
| Past service cost                                                   | —                         | —                             | (478)          | (478)            |
| <b>Components of benefit pension costs recognized in net income</b> | <b>\$ 7,283</b>           | <b>\$ 9,147</b>               | <b>\$ 860</b>  | <b>\$ 17,290</b> |

| YEAR ENDED DECEMBER 31, 2018                                        | ATKINS<br>PENSION<br>PLAN | RAILWAYS<br>PENSION<br>SCHEME | OTHER<br>PLANS  | TOTAL            |
|---------------------------------------------------------------------|---------------------------|-------------------------------|-----------------|------------------|
| Current service cost                                                | \$ 173                    | \$ 4,496                      | \$ 727          | \$ 5,396         |
| Net interest expense                                                | 7,954                     | 4,323                         | 476             | 12,753           |
| Administration costs                                                | —                         | 682                           | 264             | 946              |
| Past service cost <sup>(1)</sup>                                    | 19,668                    | 4,722                         | 672             | 25,062           |
| <b>Components of benefit pension costs recognized in net income</b> | <b>\$ 27,795</b>          | <b>\$ 14,223</b>              | <b>\$ 2,139</b> | <b>\$ 44,157</b> |

<sup>(1)</sup> Relates to October 26, 2018 U.K. High Court ruling (see Note 3)

SNC-Lavalin's net defined benefit pension costs recognized in other comprehensive income were comprised of:

| YEAR ENDED DECEMBER 31, 2019                                                                      | ATKINS<br>PENSION<br>PLAN | RAILWAYS<br>PENSION<br>SCHEME | OTHER<br>PLANS   | TOTAL            |
|---------------------------------------------------------------------------------------------------|---------------------------|-------------------------------|------------------|------------------|
| Remeasurement on the net defined benefit liability:                                               |                           |                               |                  |                  |
| Return on plan assets (excluding interest income)                                                 | \$ (329,464)              | \$ (45,908)                   | \$ 1,744         | \$ (373,628)     |
| Actuarial gains arising from changes in demographic assumptions                                   | (11,179)                  | (678)                         | (847)            | (12,704)         |
| Actuarial losses arising from changes in financial assumptions                                    | 267,790                   | 62,163                        | 28,818           | 358,771          |
| Actuarial losses arising from experience adjustments                                              | 68,091                    | 1,694                         | 1,710            | 71,495           |
| Variation in liability due to minimum funding requirements                                        | —                         | —                             | (2,853)          | (2,853)          |
| <b>Components of (reversal of) benefit pension costs recognized in other comprehensive income</b> | <b>\$ (4,762)</b>         | <b>\$ 17,271</b>              | <b>\$ 28,572</b> | <b>\$ 41,081</b> |

| YEAR ENDED DECEMBER 31, 2018                                                                    | ATKINS<br>PENSION<br>PLAN | RAILWAYS<br>PENSION<br>SCHEME | OTHER<br>PLANS    | TOTAL              |
|-------------------------------------------------------------------------------------------------|---------------------------|-------------------------------|-------------------|--------------------|
| Remeasurement on the net defined benefit liability:                                             |                           |                               |                   |                    |
| Return on plan assets (excluding interest income)                                               | \$ 207,108                | \$ 16,886                     | \$ 7,823          | \$ 231,817         |
| Actuarial gains arising from changes in demographic assumptions                                 | (17,638)                  | (15,217)                      | (1,938)           | (34,793)           |
| Actuarial gains arising from changes in financial assumptions                                   | (203,354)                 | (42,365)                      | (12,125)          | (257,844)          |
| Actuarial (gains) losses arising from experience adjustments                                    | (1,729)                   | 5,879                         | 923               | 5,073              |
| Variation in liability due to minimum funding requirements                                      | —                         | —                             | (104)             | (104)              |
| <b>Components of reversal of benefit pension costs recognized in other comprehensive income</b> | <b>\$ (15,613)</b>        | <b>\$ (34,817)</b>            | <b>\$ (5,421)</b> | <b>\$ (55,851)</b> |

SNC-Lavalin expects to make contributions of \$77.5 million in 2020 to its defined benefit pension plans.

## 32. PENSION PLANS, OTHER LONG-TERM BENEFITS AND OTHER POST-EMPLOYMENT BENEFITS (CONTINUED)

The following tables present the fair value of the major categories of assets of SNC-Lavalin's defined benefit pension plans:

| AT DECEMBER 31, 2019  | ATKINS<br>PENSION<br>PLAN | RAILWAYS<br>PENSION<br>SCHEME | OTHER<br>PLANS    | TOTAL               |
|-----------------------|---------------------------|-------------------------------|-------------------|---------------------|
| <b>Asset category</b> |                           |                               |                   |                     |
| Equity securities     | \$ 676,885                | \$ 224,208                    | \$ 32,841         | \$ 933,934          |
| Debt securities       | 1,757,514                 | 200,679                       | 178,879           | 2,137,072           |
| Other <sup>(1)</sup>  | 410,735                   | 102,640                       | 64,840            | 578,215             |
| <b>Total</b>          | <b>\$ 2,845,134</b>       | <b>\$ 527,527</b>             | <b>\$ 276,560</b> | <b>\$ 3,649,221</b> |

| AT DECEMBER 31, 2018  | ATKINS<br>PENSION<br>PLAN | RAILWAYS<br>PENSION<br>SCHEME | OTHER<br>PLANS    | TOTAL               |
|-----------------------|---------------------------|-------------------------------|-------------------|---------------------|
| <b>Asset category</b> |                           |                               |                   |                     |
| Equity securities     | \$ 570,777                | \$ 206,272                    | \$ 27,624         | \$ 804,673          |
| Debt securities       | 1,603,512                 | 185,782                       | 243,924           | 2,033,218           |
| Other <sup>(1)</sup>  | 346,254                   | 97,454                        | 11,488            | 455,196             |
| <b>Total</b>          | <b>\$ 2,520,543</b>       | <b>\$ 489,508</b>             | <b>\$ 283,036</b> | <b>\$ 3,293,087</b> |

<sup>(1)</sup> As at December 31, 2019 and 2018, the asset category "Other" includes mainly property and cash.

The fair values of the above equity and debt instruments are mainly determined based on quoted prices in active markets.

The following is a summary of significant weighted average assumptions used in measuring SNC-Lavalin's accrued pension benefit obligation as at December 31, 2019:

| AT DECEMBER 31, 2019                                       | ATKINS<br>PENSION<br>PLAN | RAILWAYS<br>PENSION<br>SCHEME | OTHER<br>PLANS |
|------------------------------------------------------------|---------------------------|-------------------------------|----------------|
| <b>Accrued pension benefit obligation</b>                  |                           |                               |                |
| Discount rate                                              | 2.00%                     | 2.00%                         | 1.96%          |
| Rate of compensation increase <sup>(2)</sup>               | 2.70%                     | 2.70%                         | 1.72%          |
| Inflation <sup>(3)</sup>                                   | 2.70%                     | 2.70%                         | 1.87%          |
| Longevity at age 65 for current pensioners                 |                           |                               |                |
| Men                                                        | 23.0 years                | 22.6 years                    | 23.2 years     |
| Women                                                      | 24.9 years                | 23.7 years                    | 25.1 years     |
| Longevity at age 65 for future pensioners (current age 45) |                           |                               |                |
| Men                                                        | 24.4 years                | 23.9 years                    | 24.6 years     |
| Women                                                      | 26.3 years                | 25.2 years                    | 26.5 years     |

<sup>(2)</sup> The weighted average rate of compensation increase for other plans, excluding pension plans for which benefits are not linked to future salary levels, represented 2.51% as at December 31, 2019.

<sup>(3)</sup> The inflation assumption shown for Atkins Pension Plan and the Railways Pension Scheme is for the Retail Price Index. The assumption for the Consumer Price Index was 1.8% as at December 31, 2019.

## 32. PENSION PLANS, OTHER LONG-TERM BENEFITS AND OTHER POST-EMPLOYMENT BENEFITS (CONTINUED)

The following is a summary of significant weighted average assumptions used in measuring SNC-Lavalin's accrued pension benefit obligation as at December 31, 2018:

| AT DECEMBER 31, 2018                                       | ATKINS<br>PENSION<br>PLAN | RAILWAYS<br>PENSION<br>SCHEME | OTHER<br>PLANS |
|------------------------------------------------------------|---------------------------|-------------------------------|----------------|
| <b>Accrued pension benefit obligation</b>                  |                           |                               |                |
| Discount rate                                              | 2.80%                     | 2.80%                         | 2.71%          |
| Rate of compensation increase <sup>(1)</sup>               | 3.10%                     | 3.10%                         | 1.88%          |
| Inflation <sup>(2)</sup>                                   | 3.10%                     | 3.10%                         | 2.19%          |
| Longevity at age 65 for current pensioners                 |                           |                               |                |
| Men                                                        | 23.2 years                | 22.5 years                    | 23.1 years     |
| Women                                                      | 24.4 years                | 23.6 years                    | 25.1 years     |
| Longevity at age 65 for future pensioners (current age 45) |                           |                               |                |
| Men                                                        | 24.6 years                | 23.9 years                    | 24.6 years     |
| Women                                                      | 25.9 years                | 25.1 years                    | 26.5 years     |

<sup>(1)</sup> The weighted average rate of compensation increase for other plans, excluding pension plans for which benefits are not linked to future salary levels, represented 2.76% as at December 31, 2018.

<sup>(2)</sup> The inflation assumption shown for Atkins Pension Plan and the Railways Pension Scheme is for the Retail Price Index. The assumption for the Consumer Price Index was 2.10% as at December 31, 2018.

The sensitivity analysis below was determined based on reasonable possible changes of the respective assumptions occurring at December 31, 2019, while holding all other assumptions constant.

If the discount rate is 1% higher (lower), the defined benefit pension obligation would decrease by an estimated amount of \$804.4 million (increase by an estimated amount of \$809.8 million).

If the rate of compensation increase is 1% higher (lower), the defined benefit pension obligation would increase by an estimated amount of \$24.7 million (decrease by an estimated amount of \$24.7 million).

If the inflation is 1% higher (lower), the defined benefit pension obligation would increase by an estimated amount of \$613.1 million (decrease by an estimated amount of \$611.3 million).

If the longevity increases by 1 year, the defined benefit pension obligation would increase by an estimated amount of \$144.4 million.

The sensitivity analyses presented above may not be representative of the actual change in the defined benefit pension obligation as it is unlikely that the change in assumptions would occur in isolation of one another as some of the assumptions may be correlated. Furthermore, in presenting the above sensitivity analyses, the present value of the defined benefit pension obligation was calculated using the projected unit credit method at the end of the reporting period, which is the same method applied in calculating the defined benefit obligation liability recognized in the statement of financial position.

The weighted average duration of the pension benefit obligation as at December 31, 2019 was 18.0 years for Atkins Pension Plan (2018: 19.0 years), 17.1 years for Railways Pension Scheme (2018: 17.1 years) and 16.5 years for the other plans (2018: 15.5 years).

### B) OTHER LONG-TERM BENEFITS AND OTHER POST-EMPLOYMENT BENEFITS

SNC-Lavalin has a number of other long-term benefit and other post-employment benefit plans, which are all defined benefit plans and include mainly termination indemnities, medical and dental care benefits, and life insurance benefits. SNC-Lavalin's other long-term benefit and other post-employment benefit plans are unfunded plans.

## 32. PENSION PLANS, OTHER LONG-TERM BENEFITS AND OTHER POST-EMPLOYMENT BENEFITS (CONTINUED)

The following table sets forth the change in obligation of SNC-Lavalin's other long-term benefit and other post-employment benefit plans:

| YEARS ENDED DECEMBER 31                         | 2019             | 2018             |
|-------------------------------------------------|------------------|------------------|
| <b>Change in obligation:</b>                    |                  |                  |
| Obligation at beginning of year                 | \$ 85,004        | \$ 78,885        |
| Acquisition of Linxon                           | —                | 3,728            |
| Current service cost                            | 16,819           | 14,989           |
| Past service cost                               | —                | 667              |
| Interest cost                                   | 4,216            | 3,732            |
| Remeasurement <sup>(1)</sup>                    | 393              | (171)            |
| Benefits paid                                   | (18,841)         | (18,640)         |
| Actuarial losses (gains) (Note 24)              | 14,263           | (2,081)          |
| Effect of foreign currency exchange differences | (3,383)          | 3,895            |
| <b>Obligation at end of year</b>                | <b>\$ 98,471</b> | <b>\$ 85,004</b> |

SNC-Lavalin's net defined other long-term benefit and other post-employment benefit costs recognized in net income were comprised of:

| YEARS ENDED DECEMBER 31                                                                                       | 2019             | 2018             |
|---------------------------------------------------------------------------------------------------------------|------------------|------------------|
| Current service cost                                                                                          | \$ 16,819        | \$ 14,989        |
| Past service cost                                                                                             | —                | 667              |
| Interest cost                                                                                                 | 4,216            | 3,732            |
| Remeasurement <sup>(1)</sup>                                                                                  | 393              | (171)            |
| <b>Components of other long-term benefit and other post-employment benefit costs recognized in net income</b> | <b>\$ 21,428</b> | <b>\$ 19,217</b> |

<sup>(1)</sup> Remeasurement relates to two other long-term employee benefit plans of SNC-Lavalin for which remeasurement is not recognized in other comprehensive income, but rather in the income statement.

The following is a summary of significant weighted average assumptions used in measuring SNC-Lavalin's accrued other long-term benefit and other post-employment benefit obligation:

|                                                                                     | DECEMBER 31<br>2019 | DECEMBER 31<br>2018 |
|-------------------------------------------------------------------------------------|---------------------|---------------------|
| <b>Accrued other long-term benefit and other post-employment benefit obligation</b> |                     |                     |
| Discount rate                                                                       | 4.45%               | 4.73%               |
| Rate of compensation increase <sup>(2)</sup>                                        | 4.55%               | 4.50%               |

<sup>(2)</sup> Rate of compensation increase applies only to termination indemnities.

### 33. CONTINGENT LIABILITIES

#### Class actions

##### *Ruediger Class Action*

On February 6, 2019, a Motion for authorization of a class action and for authorization to bring an action pursuant to section 225.4 of Quebec's Securities Act (the "Ruediger Class Action Motion") was filed with the Quebec Superior Court (the "Ruediger Class Action"), on behalf of persons who acquired SNC-Lavalin securities from February 22, 2018 through January 27, 2019 (the "Ruediger Class Period"), and held some or all of such securities as of the commencement of trading on January 28, 2019.

The Ruediger Class Action Motion alleges that certain documents filed by SNC-Lavalin and oral statements made by its then Chief Executive Officer during the Ruediger Class Period contained misrepresentations related to SNC-Lavalin's revenue forecasts and to the financial performance of the Mining & Metallurgy and Oil & Gas segments, which misrepresentations would have been corrected by way of SNC-Lavalin's January 28, 2019 press release.

The Ruediger Class Action Motion seeks leave from the Quebec Superior Court to bring a statutory misrepresentation claim under Quebec's Securities Act. The proposed action claims damages and seeks the condemnation of the Defendants to pay the class members an unspecified amount for compensatory damages with interest and additional indemnity as well as full costs and expenses, including expert fees, notice fees and fees relating to administering the plan of distribution.

On October 15, 2019, the plaintiffs in the Ruediger Class Action Motion delivered an amended "Motion for authorization of a class action and for authorization to bring an action pursuant to section 225.4 of Quebec's Securities Act". The amendments extend the class period for the Ruediger Class Action Motion to July 22, 2019 and broaden the scope of the claim from the Codelco project to the Company's general execution of fixed price contracts for engineering services, materials, equipment or construction.

SNC-Lavalin believes the claims outlined in the Ruediger Class Action Motion are completely without merit.

##### *Drywall Class Action*

On June 5, 2019, a Statement of Claim was filed with the Ontario Superior Court of Justice (the "Drywall Class Action"), on behalf of persons who acquired SNC-Lavalin securities from February 22, 2018 through May 2, 2019 (the "Drywall Class Period").

The Drywall Class Action claim alleges that disclosures by SNC-Lavalin during the Drywall Class Period contained misrepresentations related to: (i) its IFRS 15 reporting systems and controls compliance; (ii) its revenue recognition in respect of the Mining & Metallurgy segment being non-compliant with IFRS 15; (iii) revenue on the Company's Codelco project in Chile being overstated in 2018 due to non-compliance with IFRS 15; (iv) the failure of the Company's disclosure controls and procedures and its internal controls over financial reporting which led to a \$350 million write-down on the Codelco project; (v) when IFRS was applied to the Mining & Metallurgy segment results in 2019, this led to the Company disbanding its Mining & Metallurgy segment; and (vi) the Company's financial statements during the Drywall Class Period being materially non-compliant with IFRS.

The Drywall Class Action seeks leave from the Ontario Superior Court of Justice to bring a statutory misrepresentation claim under Ontario's Securities Act. The proposed action claims damages and seeks the condemnation of the Defendants to pay the class members \$1.2 billion or such other compensatory damages as the court may award, with interest and additional indemnity as well as full costs and expenses, including expert fees, notice fees and fees relating to administering the plan of distribution.

On September 13, 2019, counsel to the plaintiffs in the Ruediger Class Action brought a motion to stay the Drywall Class Action on the grounds that it is duplicative of the Ruediger Class Action Motion. Counsel for the Company filed a companion motion in support of this motion on October 1, 2019. These companion motions were heard together on November 8, 2019 and the Ontario Superior Court of Justice rendered its decision on November 21, 2019, dismissing the motions. On December 6, 2019, the plaintiff in the Ruediger Class Action and the Company brought motions for leave to appeal the dismissal of these motions.

On October 15, 2019, the plaintiffs in the Drywall Class Action delivered a proposed Amended Statement of Claim that contemplates expanding the Drywall Class Period to include SNC-Lavalin's July 22, 2019 and August 1, 2019 press releases and increasing the claim for damages from \$1.2 billion to \$1.8 billion.

### 33. CONTINGENT LIABILITIES (CONTINUED)

#### *Peters Class Action*

On February 25, 2019, a Notice of Action was issued with the Ontario Superior Court of Justice, on behalf of persons who acquired SNC-Lavalin securities from September 4, 2018 through October 10, 2018. On March 25, 2019, a Statement of Claim was filed with the Ontario Superior Court of Justice with respect to the claims set out in the Notice of Action (together, the Notice of Action and the Statement of Claim are the “Peters Class Action”).

The Peters Class Action alleges that the defendants, including the Company, its Chairman and certain of its officers, failed to make timely disclosure of a material change in the business, operations or capital of SNC-Lavalin, by failing to disclose that on September 4, 2018, the Director of the PPSC communicated her decision to SNC-Lavalin not to award an opportunity to negotiate a remediation agreement.

The Peters Class Action seeks leave from the Ontario Superior Court of Justice to bring a statutory misrepresentation claim under Ontario’s Securities Act and the comparable acts in other provinces. The Peters Class Action claims damages in the sum of \$75 million or such other amount as the Superior Court may determine plus interest and costs.

SNC-Lavalin intends to defend the Ruediger Class Action, the Drywall Class Action, and the Peters Class Action vigorously. Due to the inherent uncertainties of litigation, it is not possible to predict the final outcome of the Ruediger Class Action, the Drywall Class Action or the Peters Class Action, or determine the amount of any potential losses, if any, and SNC-Lavalin may, in the future, be subject to further class action lawsuits or other litigation. SNC-Lavalin has directors’ and officers’ liability insurance insuring individuals against liability for acts or omissions in their capacity as directors and officers, and the Company itself has coverage for such claims. The amount of coverage under the directors’ and officers’ policy is limited and such coverage may be less than any amounts the Company is required or determines to pay in connection with these proceedings. If the Company is required or determines to pay an amount in connection with the Ruediger Class Action, the Drywall Class Action or the Peters Class Action, such amount could have a material adverse effect on SNC-Lavalin’s liquidity and financial results.

#### *Other Class Actions*

In 2018, the Company reached a settlement agreement in relation to class actions in Quebec and Ontario filed in 2012 on behalf of security holders resulting in a net expense of \$89.4 million, including the related legal costs.

#### Pyrrhotite case

On June 12, 2014, the Quebec Superior Court rendered a decision in “Wave 1” of the matter commonly referred to as the “Pyrrhotite Case” in Trois-Rivières, Quebec and in which SNC-Lavalin is one of numerous defendants. The Quebec Superior Court ruled in favour of the plaintiffs, awarding an aggregate amount of approximately \$168 million in damages apportioned amongst the then-known defendants, on an in solidum basis (the “Wave 1 claims”). SNC-Lavalin, among other parties, filed a Notice to Appeal the Quebec Superior Court decision both on merit and on the apportionment of liability. Based on the current judgment, SNC-Lavalin’s share of the damages would be approximately 70%, a significant portion of which the Company would expect to recover from its external insurers (such insurance coverage is itself subject to litigation). The appeal hearing started in October 2017 and was completed during the week of April 30th, 2018. A decision from the Quebec Court of Appeal is expected in early 2020.

In addition to the appeal of the decision, a recourse in warranty was filed against another party seeking its contribution to the damages awarded against SNC-Lavalin in the Wave 1 judgement. This recourse, for which the trial commenced in March 2019 and should be completed in early 2020, may result in a reduction of SNC-Lavalin’s share of the damages.

In parallel to the appeal and warranty recourses for Wave 1 claims, additional potential claims were notified and continue to be notified against numerous defendants, including SNC-Lavalin, in “Wave 2” of the Pyrrhotite Case. Wave 2 claims are currently undergoing discovery stage and it is still premature to evaluate SNC-Lavalin’s total liability exposure in respect of same, if any. It is currently estimated that a significant portion of the damages claimed are in respect of buildings for which the concrete foundations were poured outside of SNC-Lavalin’s liability period, as determined in the Wave 1 judgement. SNC-Lavalin also expects some insurance coverage for Wave 2 claims. In addition, SNC-Lavalin has undertaken a warranty recourse against another party with respect to Wave 2 claims.

### 33. CONTINGENT LIABILITIES (CONTINUED)

#### Dubai civil case

In November, 2018, WS Atkins & Partners Overseas, a subsidiary of the Company, was named as respondent together with other parties by the subrogated insurers of a property developer in a civil case initiated before the courts of Dubai. The claimant is seeking damages jointly from the respondents on account of the alleged refurbishment costs and loss of income arising from a fire at the property developer's building. WS Atkins & Partners Overseas was a subcontractor in the hotel's design and construction supervision and the claim revolves around alleged negligence in the specification, testing and installation of the building cladding which is claimed to have exacerbated the fire, thereby increasing the damage to the building. The claim is in preliminary stages and the Company is not currently in a position to estimate potential liability or amount of loss, if any.

#### Australian Arbitration

One of the Company's subsidiaries has a 35% interest in a joint operation for a project that has been completed. The construction joint operation is in a dispute with the project owner over labour rates. Under the relevant project contract, the Company's subsidiary is jointly and severally liable with the other joint operator vis-à-vis the project owner for performance and other liabilities. In December 2018, the joint operation received a split award of liability from an arbitration tribunal resulting in an adverse decision on certain aspects of the dispute. A hearing on the quantum of damages to be awarded against the joint operation (if any) is scheduled for 2020. The other joint operator holding the balance of the joint operation interest (65%), CBI Constructors Pty. Ltd., is part of the McDermott International, Inc. ("McDermott") group, which filed for Chapter 11 bankruptcy protection in January 2020. While the Company's consolidated statement of financial position reflects its share (35%) of the estimated quantum of the damages, such position might need to be adjusted pending the outcome of the quantum decision and/or the McDermott Chapter 11 bankruptcy proceedings in light of the underlying joint and several liability between the parties of the joint operation.

#### General litigation risk

Due to the inherent uncertainties of litigation, it is not possible to (a) predict the final outcome of these and other related proceedings generally, (b) determine if the amount included in the Company's provisions is sufficient or (c) determine the amount of any potential losses, if any, that may be incurred in connection with any final judgment on these matters.

SNC-Lavalin maintains insurance coverage for various aspects of its business and operations. The Company's insurance programs have varying coverage limits and maximums, and insurance companies may seek to deny claims the Company might make. In addition, SNC-Lavalin has elected to retain a portion of losses that may occur through the use of various deductibles, limits and retentions under these programs. As a result, the Company may be subject to future liability in respect of lawsuits or investigations for which it is only partially insured, or completely uninsured.

In addition, the nature of the Company's business sometimes results in clients, subcontractors, and vendors presenting claims for, among other things, recovery of costs related to certain projects. Similarly, SNC-Lavalin occasionally presents change orders and other claims to clients, subcontractors, and vendors. If the Company fails to document properly the nature of claims and change orders or is otherwise unsuccessful in negotiating reasonable settlements with clients, subcontractors and vendors, the Company could incur cost overruns, reduced profits or, in some cases, a loss for a project. A failure to recover promptly on these types of claims could have a material adverse impact on SNC-Lavalin's liquidity and financial results. Additionally, irrespective of how well the Company documents the nature of its claims and change orders, the cost to prosecute and defend claims and change orders can be significant.

Litigation and regulatory proceedings are subject to inherent uncertainties and unfavourable rulings can and do occur. Pending or future claims against SNC-Lavalin could result in professional liability, product liability, criminal liability, warranty obligations, and other liabilities which, to the extent the Company is not insured against a loss or its insurer fails to provide coverage, could have a material adverse impact on the Company's business, financial condition and results of operations.

The Company is subject to ongoing investigations that could subject the Company to criminal and administrative enforcement actions, civil actions and sanctions, fines and other penalties, some of which may be significant. These investigations, and potential results thereof, could harm the Company's reputation, result in suspension, prohibition or debarment of the Company from participating in certain projects, reduce its revenues and net income and adversely affect its business.

### 33. CONTINGENT LIABILITIES (CONTINUED)

#### Ongoing and potential investigations

The Company understands that there are investigations by various authorities which may remain ongoing in connection with certain legacy matters (unrelated to the settlements described below) in various jurisdictions, including, without limitation, Algeria.

The Company also understands that a Royal Canadian Mounted Police (the “RCMP”) investigation relating to alleged payments in connection with a 2002 contract for the refurbishment of the Jacques Cartier Bridge by a consortium which included SNC-Lavalin and which led to a guilty plea by the former head of the Canada Federal Bridges Corporation in 2017, continues and its scope may include the Company.

The Company is currently unable to determine when any of these investigations will be completed or whether other investigations of the Company by these or other authorities will be initiated or the scope of current investigations broadened. The Company continues to cooperate and communicate with authorities in connection with all ongoing investigations.

If regulatory, enforcement or administrative authorities or third parties determine to take action against the Company or to sanction the Company in connection with possible violations of law, contracts or otherwise as a result of ongoing or future investigations, the consequences of any such sanctions or other actions, whether actual or alleged, could require the Company to pay material fines or damages, consent to injunctions on future conduct or lead to other penalties, including temporary or permanent, mandatory or discretionary suspension, prohibition or debarment from participating in projects, or the revocation of authorizations or certifications, by certain administrative organizations or by governments (such as the Government of Canada and/or the Government of Quebec) under applicable procurement laws, regulations, policies or practices. The Company derives a significant percentage of its annual global revenue from government and government-related contracts. Further, public and private sector bid processes in some instances assess whether the bidder, or an affiliate thereof, has ever been the object of any investigations, or sanctions or other actions resulting therefrom. In such instances, if a member of the Company’s group must answer affirmatively to a query as to past or current investigations, or sanctions or other actions resulting therefrom, such answer may affect that entity’s ability to be considered for the applicable project. In addition, the Company may not win contracts that it has bid upon due to a client’s perception of the Company’s reputation and/or perceived reputational advantages held by competitors as a result of such investigations, sanctions or other actions. Loss of bidding opportunities resulting from such investigations, sanctions or other actions, whether discretionary (including as a result of reputational factors) or mandatory, from participating in certain government, government-related and private contracts (in Canada, Canadian provinces or elsewhere) could materially adversely affect the Company’s business, financial condition and liquidity and the market price of the Company’s publicly traded securities.

The outcomes of ongoing or future investigations could also result in, among other things, (i) covenant defaults under various project contracts, (ii) third party claims, which may include claims for special, indirect, derivative or consequential damages, or (iii) adverse consequences on the Company’s ability to secure or continue its own financing, or to continue or secure financing for current or future projects, any of which could materially adversely affect the Company’s business, financial condition and liquidity and the market prices of the Company’s publicly traded securities. In addition, these investigations and outcomes of these investigations and any negative publicity associated therewith, could damage SNC-Lavalin’s reputation and ability to do business.

Due to the uncertainties related to the outcome of ongoing or future investigations, the Company is currently unable to reliably estimate an amount of potential liabilities or a range of potential liabilities, if any, in connection with any of these investigations.

The Company’s senior management and Board of Directors have been required to devote significant time and resources to the investigations described above and ongoing related matters, as well as the investigations leading to the settlements described below, which have distracted and may continue to distract from the conduct of the Company’s daily business, and significant expenses have been and may continue to be incurred in connection with such investigations including substantial fees of lawyers and other advisors. In addition, the Company and/or other employees or additional former employees of the Company could become the subject of these or other investigations by law enforcement and/or regulatory authorities in respect of the matters described above or below, or other matters, which, in turn, could require the devotion of additional time of senior management and the diversion or utilization of other resources.

### 33. CONTINGENT LIABILITIES (CONTINUED)

#### Settlements

##### *PPSC Settlement*

On February 19, 2015, the RCMP and the Public Prosecution Service of Canada (“PPSC”) laid charges against the Company and its indirect subsidiaries SNC-Lavalin International Inc. and SNC-Lavalin Construction Inc. Each entity was charged with one count of fraud under Section 380 of the Criminal Code (Canada) (the “Criminal Code”) and one count of corruption under Section 3(1)(b) of the Corruption of Foreign Public Officials Act (Canada) (the “CFPOA”) (the “Charges”). These Charges followed the RCMP’s formal investigation (including in connection with the search warrant executed by the RCMP at the Company on April 13, 2012) into whether improper payments were made or offered, directly or indirectly, to be made, to a government official of Libya to influence the award of certain engineering and construction contracts between 2001 and 2011. This investigation also led to criminal charges being laid against two former employees of the Company.

On December 18, 2019, the Company announced it had reached a settlement with the PPSC regarding the Charges (the “PPSC Settlement”). As part of the PPSC Settlement, SNC-Lavalin Construction Inc. has accepted a plea of guilty to a single charge of fraud (the “Plea”). All other Charges against the Company, SNC-Lavalin International Inc. and SNC-Lavalin Construction Inc. have been withdrawn by the PPSC. Also as part of the PPSC Settlement, SNC-Lavalin Construction Inc. will pay a fine in the amount of \$280 million, payable in equal installments over 5 years, and will be subject to a three-year probation order. The Company estimated the net present value of these installments at \$257.3 million at the date of settlement. The Company will comply with the probation order for the three-year period.

The Plea may result in, among other things, (i) breaches and/or events of default under various project agreements giving rise to discretionary termination rights in favour of the counterparties thereto, (ii) third party claims, which may include claims for special, indirect, derivative or consequential damages, or (iii) adverse consequences on the Company’s ability to secure financing, or to continue to secure financing for current or future projects, any of which could materially adversely affect the Company’s business, financial condition and liquidity and the market prices of the Company’s publicly traded securities.

In addition, potential consequences of the Plea could include, in respect of the Company or one or more of its subsidiaries, suspension, prohibition or debarment from participating in public or private sector projects or bids, or the revocation of authorizations or certifications, by certain governments or by certain administrative organizations. While the Company does not anticipate that the Plea will affect the eligibility of the Company to bid on future projects that are aligned with its newly announced strategic direction, possible suspension, prohibition, debarment or loss of bidding opportunities or the revocation of authorizations or certifications in the short term, as a result of the Plea, could have a short term material adverse effect on the Company’s business, financial condition and liquidity and the market prices of the Company’s publicly traded securities.

The Company cannot predict if any other actions may be taken by any other applicable government or authority or the Company’s customers or other third parties as a result of the Plea.

##### *World Bank Settlement*

On April 17, 2013, the Company announced a settlement in connection with the previously announced investigations by the World Bank Group relating to a project in Bangladesh and a project in Cambodia, which includes a suspension of the right to bid on and to be awarded World Bank Group-financed projects by SNC-Lavalin Inc., a subsidiary of the Company, and its controlled affiliates for a period of 10 years (the “World Bank Settlement”). The suspension could be lifted after eight years, if the terms and conditions of the settlement agreement are complied with fully. According to the terms of the World Bank Settlement, the Company and certain of its other affiliates continue to be eligible to bid on and be awarded World Bank Group-financed projects as long as they comply with all of the terms and conditions imposed upon them under the terms of the World Bank Settlement, including an obligation not to evade the sanction imposed. The World Bank Settlement also requires that the Company cooperate with the World Bank on various compliance matters in the future. The World Bank Settlement has led to certain other multilateral development banks following suit, debarring SNC-Lavalin Inc. and its controlled affiliates on the same terms.

### 33. CONTINGENT LIABILITIES (CONTINUED)

#### *Canada's Integrity Regime*

The Canadian government announced the Integrity Regime for procurement and real property transactions on July 3, 2015. The scope of offences which may cause a supplier to be deemed ineligible to carry on business with the federal government is broad and encompasses offences under the Criminal Code, the Competition Act, and the CFPOA, among others. Some of the offences qualifying for ineligibility include: bribery, fraud against Canada, money laundering, falsification of books and documents, extortion, and offences related to drug trafficking. A determination of ineligibility to participate in federal government procurement projects may apply for 10 years for listed offences. However, the Integrity Regime permits the ineligibility period to be reduced by up to five years if a supplier can establish that it has cooperated with law enforcement authorities or addressed the causes of misconduct. The Canadian government is currently considering further revisions to the Integrity Regime.

If a supplier pleads guilty or is charged with a listed offence (which does not currently include the Plea), it and its affiliates may under the Integrity Regime be ineligible to do business with the Canadian government.

If a supplier applies for a reduced ineligibility period, or if a supplier charged with a listed offence is notified that it could be ineligible to do business with the Canadian government, as a condition of granting the reduced ineligibility period or not suspending the supplier an administrative agreement may be imposed to monitor the supplier. Administrative agreements include conditions and compliance measures that the supplier must meet to remain eligible to contract with the federal government. In December 2015, the Company entered into an administrative agreement with the Canadian government under the Integrity Regime in connection with the Charges (the "Administrative Agreement") which, according to its terms, will remain in force for 12 further months from the date of the Plea and will then terminate.

#### Other legal proceedings

SNC-Lavalin becomes involved in various legal proceedings as a part of its ordinary course of business and this section describes certain important ordinary course of business legal proceedings, including the general cautionary language relating to the risks inherent to all litigation and proceedings against SNC-Lavalin, which is equally applicable to the legal proceedings described below.

SNC-Lavalin Inc. has initiated court proceedings against a Canadian client stemming from engineering, procurement, and construction management services that SNC-Lavalin Inc. provided in relation to the client's expansion of an ore-processing facility. SNC-Lavalin claimed from the client certain amounts due under the project contract. The client has counterclaimed alleging that SNC-Lavalin defaulted under the project contracts and is seeking damages.

Due to the inherent uncertainties of litigation, it is not possible to (a) predict the final outcome of this and other legal proceedings generally, (b) determine if the amount included in the Company's provisions is sufficient or (c) determine the amount of any potential losses, if any, that may be incurred in connection with any final judgment on these matters.

The Company is a party to other claims and litigation arising in the normal course of operations, including by clients, subcontractors, and vendors presenting claims for, amongst other things, recovery of costs related to certain projects. Due to the inherent uncertainties of litigation and/or the early stage of certain proceedings, it is not possible to predict the final outcome of all ongoing claims and litigation at any given time or to determine the amount of any potential losses, if any. With respect to claims or litigation arising in the normal course of operations which are at a more advanced stage and which permit a better assessment of potential outcome, the Company does not expect the resolution of these matters to have a materially adverse effect on its financial position or results of operations.

## 34. LEASES

### Right-of-use assets

|                                             | OFFICE REAL<br>ESTATE | EQUIPMENT        | TOTAL             |
|---------------------------------------------|-----------------------|------------------|-------------------|
| YEAR ENDED DECEMBER 31, 2019                |                       |                  |                   |
| Depreciation expense on right-of-use assets | \$ 99,266             | \$ 12,771        | \$ 112,037        |
| Additions                                   | \$ 136,727            | \$ 22,207        | \$ 158,934        |
| Net book value:                             |                       |                  |                   |
| <b>As at December 31, 2019</b>              | <b>\$ 406,990</b>     | <b>\$ 31,797</b> | <b>\$ 438,787</b> |

### Lease liabilities

The table below presents the future gross lease liabilities payments as at December 31, 2019:

| MATURITY                                     | DECEMBER 31<br>2019 |
|----------------------------------------------|---------------------|
| Not later than 1 year                        | \$ 154,432          |
| Later than 1 year and not later than 5 years | 346,427             |
| Later than 5 years                           | 255,566             |
|                                              | <b>\$ 756,425</b>   |

### Amounts recognized in the income statement

| YEAR ENDED DECEMBER 31                                                                               | 2019       |
|------------------------------------------------------------------------------------------------------|------------|
| Depreciation expense on right-of-use assets (Note 28A)                                               | \$ 112,037 |
| Interest expense on lease liabilities (Note 27)                                                      | \$ 23,590  |
| Expense relating to short-term leases                                                                | \$ 4,149   |
| Expense relating to variable lease payments not included in the measurement of the lease liabilities | \$ 39,852  |
| Income from subleasing right-of-use assets                                                           | \$ 11,993  |

### Amounts recognized in the statement of cash flows

Total cash outflows for leases amounted to \$186.7 million for the year ended December 31, 2019.

### Operating leases

Operating leases, in which the Company is the lessor, relate mainly to equipment owned by the Company. For the year ended December 31, 2019, the lease income on operating leases amounted to \$13.4 million.

## 35. REMUNERATION

### A) EMPLOYEE REMUNERATION

Expenses recognized for employee benefits, including expenses recognized for key management remuneration and directors' fees, are analyzed as follows:

| YEARS ENDED DECEMBER 31                                                                    | 2019                | 2018                |
|--------------------------------------------------------------------------------------------|---------------------|---------------------|
| Short-term benefits <sup>(1)</sup>                                                         | \$ 4,098,596        | \$ 4,203,622        |
| Share-based payments                                                                       | 16,061              | 45,586              |
| Defined contribution pension plans                                                         | 153,327             | 134,770             |
| Defined benefit pension plans, other long-term benefits and other post-employment benefits | 38,718              | 63,374              |
|                                                                                            | <b>\$ 4,306,702</b> | <b>\$ 4,447,352</b> |

<sup>(1)</sup> Short-term benefits include mainly wages, salaries, social security contributions, sick leaves, profit-sharing and bonuses, non-monetary benefits and termination benefits that are expected to be settled within twelve months after the end of the annual reporting period.

### B) KEY MANAGEMENT REMUNERATION AND DIRECTORS' FEES

The Company's key management include all employees that are classified at the executive levels, corresponding mainly to the vice-presidents and above, and all members of the Company's Board of Directors.

The number of individuals included as key management was 177 people in 2019 (2018: 142 people).

Expenses recognized for key management remuneration and directors' fees, even if the services were provided only for a portion of the year, are detailed as follows:

| YEARS ENDED DECEMBER 31                                                                                             | 2019              | 2018              |
|---------------------------------------------------------------------------------------------------------------------|-------------------|-------------------|
| Short-term benefits <sup>(2)</sup>                                                                                  | \$ 103,222        | \$ 76,616         |
| Share-based payments                                                                                                | 2,219             | 29,084            |
| Termination benefits                                                                                                | 8,419             | 1,668             |
| Defined benefit and defined contribution pension plans, other long-term benefits and other post-employment benefits | 2,131             | 2,939             |
|                                                                                                                     | <b>\$ 115,991</b> | <b>\$ 110,307</b> |

<sup>(2)</sup> Short-term benefits include mainly wages, salaries, social security contributions, sick leaves, profit-sharing and bonuses and non-monetary benefits that are expected to be settled within twelve months after the end of the annual reporting period.

### 36. RELATED PARTY TRANSACTIONS

In the normal course of its operations, SNC-Lavalin enters into transactions with certain of its associates and joint ventures, mainly its Capital investments. Investments in which SNC-Lavalin has significant influence or joint control, which are accounted for by the equity method, are considered related parties.

For the year ended December 31, 2019 and 2018, SNC-Lavalin recognized the following transactions with its related parties:

| YEARS ENDED DECEMBER 31                                                                          | 2019       | 2018         |
|--------------------------------------------------------------------------------------------------|------------|--------------|
| E&C revenue from contracts with investments accounted for by the equity method                   | \$ 717,471 | \$ 1,102,920 |
| Income from Capital investments accounted for by the equity method                               | 210,543    | 204,087      |
| Dividends and distributions received from Capital investments accounted for by the equity method | 160,063    | 170,540      |
| Income from E&C investments accounted for by the equity method                                   | 29,702     | 37,277       |
| Dividends and distributions received from E&C investments accounted for by the equity method     | \$ 38,043  | \$ 7,919     |

As at December 31, 2019 and 2018, SNC-Lavalin has the following balances with its related parties:

| AT DECEMBER 31                                                                                     | 2019       | 2018       |
|----------------------------------------------------------------------------------------------------|------------|------------|
| Trade receivables from investments accounted for by the equity method                              | \$ 165,371 | \$ 117,359 |
| Other current financial assets receivable from investments accounted for by the equity method      | 108,330    | 131,694    |
| Remaining commitment to invest in Capital investments accounted for by the equity method (Note 5C) | \$ 70,724  | \$ 108,312 |

In 2018, SNC-Lavalin transferred its investment in MHIG and its holding company to an investment accounted for by the equity method, namely the SNCL IP Partnership, which resulted in a gain on disposal of \$62.7 million before income taxes (\$58.4 million after income taxes) (see Note 5A).

All of these related party transactions are measured at fair value.

### 37. SUBSIDIARIES, JOINT ARRANGEMENTS AND ASSOCIATES

The main subsidiaries, joint ventures, joint operations and associates of the Company at December 31, 2019 and 2018, except where otherwise indicated, in addition to their jurisdiction of incorporation and the percentage of voting shares beneficially owned, or controlled, or directed, directly or indirectly by the Company or the percentage of joint arrangement interest are set out below:

| SUBSIDIARIES                                  | 2019  | 2018  | COUNTRY              |
|-----------------------------------------------|-------|-------|----------------------|
|                                               | %     | %     |                      |
| Atkins China Limited                          | 100.0 | 100.0 | China                |
| Atkins Danmark A/S                            | 100.0 | 100.0 | Denmark              |
| Atkins Limited                                | 100.0 | 100.0 | United Kingdom       |
| Atkins North America, Inc.                    | 100.0 | 100.0 | United States        |
| Atkins US Holdings Inc.                       | 100.0 | 100.0 | United States        |
| Candu Energy Inc.                             | 100.0 | 100.0 | Canada               |
| Faithful+Gould, Inc.                          | 100.0 | 100.0 | United States        |
| Faithful+Gould Limited                        | 100.0 | 100.0 | United Kingdom       |
| Faithful+Gould Saudi Arabia Limited           | 51.0  | 51.0  | Saudi Arabia         |
| InPower BC General Partnership                | 100.0 | 100.0 | Canada               |
| Kentz Canada Holdings Limited                 | 100.0 | 100.0 | Canada               |
| Kentz Corporation Limited                     | 100.0 | 100.0 | Channel Islands      |
| Kentz Pty Ltd.                                | 100.0 | 100.0 | Australia            |
| Linxon Gulf LLC <sup>(1)</sup>                | 49.0  | —     | United Arab Emirates |
| Linxon Pvt Ltd                                | 51.0  | 51.0  | United Kingdom       |
| Linxon Switzerland Ltd                        | 100.0 | 100.0 | Switzerland          |
| Protrans BC Operations Ltd.                   | 100.0 | 100.0 | Canada               |
| P.T. SNC-Lavalin TPS                          | 95.0  | 95.0  | Indonesia            |
| Saudi Arabia Kentz Co. LLC                    | 75.0  | 75.0  | Saudi Arabia         |
| SNC-Lavalin                                   | 100.0 | 100.0 | Belgium              |
| SNC-Lavalin (GB) Holdings Limited             | 100.0 | 100.0 | United Kingdom       |
| SNC-Lavalin (GB) Limited                      | 100.0 | 100.0 | United Kingdom       |
| SNC-Lavalin (Malaysia) Sdn. Bhd.              | 100.0 | 100.0 | Malaysia             |
| SNC-Lavalin (Proprietary) Limited             | 100.0 | 100.0 | South Africa         |
| SNC-Lavalin Algérie EURL                      | 100.0 | 100.0 | Algeria              |
| SNC-Lavalin Arabia LLC                        | 100.0 | 100.0 | Saudi Arabia         |
| SNC-Lavalin ATP Inc.                          | 100.0 | 100.0 | Canada               |
| SNC-Lavalin Australia Pty. Ltd.               | 100.0 | 100.0 | Australia            |
| SNC-Lavalin Capital Inc.                      | 100.0 | 100.0 | Canada               |
| SNC-Lavalin Chile SpA                         | 100.0 | 100.0 | Chile                |
| SNC-Lavalin Colombia S.A.S.                   | 100.0 | 100.0 | Colombia             |
| SNC-Lavalin Construction Inc.                 | 100.0 | 100.0 | Canada               |
| SNC-Lavalin Construction (Ontario) Inc.       | 100.0 | 100.0 | Canada               |
| SNC-Lavalin Constructors Inc.                 | 100.0 | 100.0 | United States        |
| SNC-Lavalin Constructors International Inc.   | 100.0 | 100.0 | Canada               |
| SNC-Lavalin Constructors (Pacific) Inc.       | 100.0 | 100.0 | Canada               |
| SNC-Lavalin Defence Programs Inc.             | 100.0 | 100.0 | Canada               |
| SNC-Lavalin Engineering India Private Limited | 100.0 | 100.0 | India                |
| SNC-Lavalin Engineers & Constructors, Inc.    | 100.0 | 100.0 | United States        |
| SNC-Lavalin Europe B.V.                       | 100.0 | 100.0 | Netherlands          |
| SNC-Lavalin Europe S.A.S.                     | 100.0 | 100.0 | France               |
| SNC-Lavalin GEM Ontario Inc.                  | 100.0 | 100.0 | Canada               |
| SNC-Lavalin GEM Québec Inc.                   | 100.0 | 100.0 | Canada               |
| SNC-Lavalin Highway Holdings Inc.             | 100.0 | 100.0 | Canada               |
| SNC-Lavalin Inc.                              | 100.0 | 100.0 | Canada               |
| SNC-Lavalin International Inc.                | 100.0 | 100.0 | Canada               |
| SNC-Lavalin International S.A.S.              | 100.0 | 100.0 | France               |

<sup>(1)</sup> Although the Company holds less than 50% of the equity shares of Linxon Gulf LLC, the Company exercises control over this entity based on its contractual agreements.

### 37. SUBSIDIARIES, JOINT ARRANGEMENTS AND ASSOCIATES (CONTINUED)

|                                               | 2019  | 2018  |                |
|-----------------------------------------------|-------|-------|----------------|
| SUBSIDIARIES                                  | %     | %     | COUNTRY        |
| SNC-Lavalin Major Projects Inc.               | 100.0 | 100.0 | Canada         |
| SNC-Lavalin Nuclear Inc.                      | 100.0 | 100.0 | Canada         |
| SNC-Lavalin Operations & Maintenance Inc.     | 100.0 | 100.0 | Canada         |
| SNC-Lavalin Peru S.A.                         | 100.0 | 100.0 | Peru           |
| SNC-Lavalin Polska Sp. Z o.o.                 | 100.0 | 100.0 | Poland         |
| SNC-Lavalin Projetos Industriais Ltda.        | 100.0 | 100.0 | Brazil         |
| SNC-Lavalin Rail & Transit Limited            | 100.0 | 100.0 | United Kingdom |
| SNC-Lavalin Romania S.A.                      | 100.0 | 100.0 | Romania        |
| SNC-Lavalin SA (PTY) LTD                      | 70.0  | 70.0  | South Africa   |
| SNC-Lavalin Stavibel Inc.                     | 100.0 | 100.0 | Canada         |
| SNC-Lavalin UK Limited                        | 100.0 | 100.0 | United Kingdom |
| The Atkins North America Holdings Corporation | 100.0 | 100.0 | United States  |
| The SNC-Lavalin Corporation                   | 100.0 | 100.0 | United States  |
| TransitNEXT General Partnership               | 100.0 | —     | Canada         |
| Valerus Field Solutions Holdings LLC          | 100.0 | 100.0 | United States  |
| WS Atkins International Limited               | 100.0 | 100.0 | United Kingdom |
| WS Atkins Limited (previously WS Atkins plc)  | 100.0 | 100.0 | United Kingdom |

|                                                                                    | 2019 | 2018  |               |
|------------------------------------------------------------------------------------|------|-------|---------------|
| JOINT VENTURES                                                                     | %    | %     | COUNTRY       |
| <b>Capital investments</b>                                                         |      |       |               |
| 407 East Development Group General Partnership                                     | 50.0 | 50.0  | Canada        |
| 407 International Inc. <sup>(1)</sup>                                              | 6.76 | 16.77 | Canada        |
| Crosslinx Transit Solutions General Partnership                                    | 25.0 | 25.0  | Canada        |
| Rideau Transit Group General Partnership                                           | 40.0 | 40.0  | Canada        |
| Signature on the Saint-Laurent Group General Partnership                           | 50.0 | 50.0  | Canada        |
| TC Dôme S.A.S. <sup>(2)</sup>                                                      | 51.0 | 51.0  | France        |
| <b>Other</b>                                                                       |      |       |               |
| Canadian National Energy Alliance Ltd.                                             | 50.0 | 50.0  | Canada        |
| Central Plateau Cleanup Company LLC                                                | 22.0 | —     | United States |
| Comprehensive Decommissioning International, LLC                                   | 40.0 | 40.0  | United States |
| SNC-Lavalin International Inc. and Zuhair Fayeze Engineering Consultancies Company | 50.0 | 50.0  | Saudi Arabia  |

|                                                                  | 2019 | 2018 |           |
|------------------------------------------------------------------|------|------|-----------|
| JOINT OPERATIONS                                                 | %    | %    | COUNTRY   |
| 407 East Construction General Partnership                        | 50.0 | 50.0 | Canada    |
| Crosslinx Transit Solutions Constructors G.P.                    | 25.0 | 25.0 | Canada    |
| NouvLR General Partnership                                       | 24.0 | 24.0 | Canada    |
| Signature on the Saint Lawrence Construction General Partnership | 45.0 | 45.0 | Canada    |
| SLN-Aecon JV                                                     | 40.0 | 40.0 | Canada    |
| SNC-Dragados-Pennecon G.P.                                       | 40.0 | 40.0 | Canada    |
| UGL Kentz Joint Venture                                          | 50.0 | 50.0 | Australia |

<sup>(1)</sup> Although the Company holds less than 20% of the equity shares of 407 International Inc., the Company exercises joint control over this entity based on its contractual agreements.

<sup>(2)</sup> Although the Company's ownership interest in TC Dôme S.A.S. is more than 50%, the Company does not exercise control over this entity based on its contractual agreements.

### 37. SUBSIDIARIES, JOINT ARRANGEMENTS AND ASSOCIATES (CONTINUED)

|                                          | 2019 | 2018 |         |
|------------------------------------------|------|------|---------|
| ASSOCIATES                               | %    | %    | COUNTRY |
| <b>Capital investments</b>               |      |      |         |
| Myah Tipaza S.p.A.                       | 25.5 | 25.5 | Algeria |
| Shariket Kahraba Hadjret En Nouss S.p.A. | 26.0 | 26.0 | Algeria |
| SNC-Lavalin Infrastructure Partners LP   | 20.0 | 20.0 | Canada  |

# Glossary

**Adjusted diluted earnings per share from E&C (“Adjusted diluted EPS from E&C”)** is defined as adjusted net income from E&C, divided by the diluted weighted average number of outstanding shares for the period. Adjusted diluted EPS from E&C is a non-IFRS financial measure that is an indicator of the financial performance of the Company's E&C activities.

**Adjusted EBITDA** is a non-IFRS financial measure defined as earnings before net financial expenses (income), income taxes, depreciation and amortization, and excludes charges related to restructuring, right-sizing and other, the acquisition-related costs and integration costs, the net expense for the 2012 class action lawsuits settlement and related legal costs, the federal charges settlement (PPSC) expense, the GMP equalization expense, as well as the gains (losses) on disposals of E&C businesses and Capital investments.

**Adjusted net income (loss) from E&C** is a non-IFRS financial measure defined as net income (loss) attributable to SNC-Lavalin shareholders from E&C, excluding charges related to restructuring, right-sizing and other, acquisition-related costs and integration costs, as well as amortization of intangible assets related to business combinations, impairment of goodwill, impairment of intangible assets related to business combinations, the net expense for the 2012 class action lawsuits settlement and related legal costs, the federal charges settlement (PPSC) expense, the GMP equalization expense, the gains (losses) on disposals of E&C businesses, the impact of U.S corporate tax reform and the incremental financing costs related to the amendments to the CDPQ Loan and other E&C financing arrangements in connection with the sale by the Company of 10.01% of the shares of Highway 407 ETR.

**Booking-to-revenue ratio** corresponds to contract bookings divided by the revenues, for a given period.

**Capital** is SNC-Lavalin's investment, financing and asset management arm, responsible for developing projects, arranging financing, investing equity, undertaking complex financial modeling and managing its infrastructure investments for optimal returns. Its activities are principally concentrated in infrastructure such as bridges, highways, mass transit systems, power facilities, energy infrastructure, water treatment plants and social infrastructure (e.g. hospitals).

**Diluted earnings per share from E&C and Diluted earnings per share from Capital** correspond to diluted earnings per share as determined under IFRS, reported separately for E&C and for Capital.

**EBIT** is defined as earnings before net financial expenses (income) and income taxes.

**EBITDA** is defined as earnings before net financial expenses (income), income taxes, depreciation and amortization.

**E&C (engineering and construction)** includes contracts generating revenues related mainly to consulting & advisory, intelligent networks & cybersecurity, design & engineering, procurement, project & construction management, operations & maintenance (“O&M”), decommissioning and sustaining capital. It also includes revenues from LSTK construction contracts, for which the Company ceased to bid in July 2019, except for certain repetitive EPC offerings that are lower-risk, standardized solutions.

**EDPM** incorporates all consultancy, engineering, design and project management services around the world (including the Canadian market, which was previously in the former Infrastructure segment prior to January 1, 2019). It also leads our efforts to transform the global infrastructure sector by leveraging data and technology to improve the delivery of our clients' projects from conception through to eventual operation. EDPM projects are mainly in transportation (including rail, mass transit, roads and airports), civil infrastructure, aerospace, defence and security and technology, including some of the world's most transformational projects. A significant portion of revenues are derived from the public sector, including national, provincial, state and local and municipal authorities.

**EPC** Type of agreement whereby the Company provides Engineering, Procurement and Construction.

**EPCM** Type of agreement whereby the Company provides services related to Engineering, Procurement, and Construction Management activities.

**IFRS** International financial reporting standards.

**Infrastructure EPC Projects** includes LSTK construction contracts related to mass transit, heavy rail, roads, bridges, airports, ports and harbours and water infrastructure. In addition, Infrastructure EPC Projects includes the LSTK construction contracts related to the former Clean Power segment, as well as from thermal power activities which the Company exited in 2018. The Company decided, in 2019, to cease contracting for new LSTK construction contracts.

## Glossary (continued)

**Infrastructure Services** includes O&M projects, as well as the Company's repetitive EPC offerings that are lower-risk, standardized solutions for: i) district cooling plants; and ii) power substations executed through its Linxon subsidiary. The segment also includes engineering solutions in hydro, transmission and distribution, renewables, energy storage, and intelligent networks and cybersecurity.

**LSTK** stands for lump-sum turnkey.

**LSTK construction contracts:** Under LSTK construction contracts, the Company completes the work required for the project at a lump-sum price. Before entering into such contracts, the Company estimates the total cost of the project, plus a profit margin. The Company's actual profit margin may vary based on its ability to achieve the project requirements at above or below the initial estimated costs.

**Net recourse debt (or Cash net of recourse debt)** corresponds to cash and cash equivalents, less cash and cash equivalents from Capital investments accounted for by the consolidation method and the Company's recourse debt.

**Nuclear** supports clients across the entire nuclear life cycle with the full spectrum of services from consultancy, EPCM services, field services, technology services, spare parts, reactor support & decommissioning and waste management. As stewards of the CANDU technology, it also provides new build and full refurbishment services of CANDU reactors.

**Reimbursable and engineering service contracts:** Under reimbursable contracts, the Company charges the customer for the actual cost incurred plus a mark-up that could take various forms such as a fixed-fee per unit, a percentage of costs incurred or an incentive fee based on achieving certain targets, performance factors or contractual milestones. Reimbursable contracts also include unit-rate contracts for which a fixed amount per quantity is charged to the customer, and reimbursable contracts with a cap. Engineering service contracts include i) time and material agreements based on hourly rates and fixed-price lump-sum contracts with limited procurement or construction risks, and ii) O&M contracts.

**Resources** provides a full suite of delivery services to the oil & gas and mining & metallurgy sectors, covering the project lifecycle from project development through project delivery and support services. Resources have ceased bidding for new EPC projects under the LSTK construction contracting model. Resources is now focused on providing engineering, EPCM,

project management consultancy ("PMC"), construction & commissioning and technical support services through a lower risk contracting model. The operational delivery is focused on key regions and global clients.

### **Return on Average Shareholders' Equity ("ROASE")**

corresponds to the trailing 12-month net income attributable to SNC-Lavalin shareholders, divided by a trailing 13-month average equity attributable to SNC-Lavalin shareholders, excluding "other components of equity".

**Revenue backlog** is defined as a forward-looking indicator of anticipated revenues to be recognized by the Company, determined based on contract awards that are firm and amounting to the transaction price allocated to remaining performance obligations. Management could be required to make estimates regarding the revenue to be generated for certain contracts.

**Segment EBIT** consists of revenues less i) direct cost of activities, ii) directly related selling, general and administrative expenses, and iii) corporate selling, general and administrative expenses that are allocated to segments. Expenses that are not allocated to the Company's segments include: certain corporate selling, general and administrative expenses that are not directly related to projects or segments, impairment loss arising from expected credit losses, gain (loss) arising on financial assets (liabilities) at fair value through profit or loss, restructuring costs, impairment of goodwill, impairment of intangible assets related to business combinations, acquisition-related costs and integration costs, amortization of intangible assets related to business combinations, the net expense for the 2012 class action lawsuits settlement and related legal costs, the federal charges settlement (PPSC) expense, and the GMP equalization expense, as well as gains (losses) on disposals of E&C businesses and Capital investments.

**Standardized EPC contracts:** Under standardized EPC contracts, the Company provides its repetitive EPC offerings that are lower-risk, standardized solutions for: i) district cooling plants; and ii) power substations executed through its Linxon subsidiary.

**Working capital** corresponds to the amount of the Company's total current assets minus its total current liabilities and the Current ratio corresponds to the Company's total current assets divided by its total current liabilities.

# Ten-year statistical summary

YEARS ENDED DECEMBER 31  
(IN MILLIONS \$, UNLESS OTHERWISE INDICATED)

|                                                                                                          | 2019    | 2018      | 2017    | 2016    | 2015    | 2014    | 2013    | 2012    | 2011    | 2010    |
|----------------------------------------------------------------------------------------------------------|---------|-----------|---------|---------|---------|---------|---------|---------|---------|---------|
| Revenues:                                                                                                |         |           |         |         |         |         |         |         |         |         |
| From E&C                                                                                                 | 9,252.9 | 9,819.3   | 9,096.7 | 8,223.1 | 9,363.5 | 7,334.7 | 7,149.3 | 7,525.9 | 6,708.5 | 5,521.6 |
| From Capital                                                                                             | 262.7   | 264.7     | 238.0   | 247.7   | 223.4   | 904.1   | 763.8   | 565.1   | 501.4   | 442.7   |
|                                                                                                          | 9,515.6 | 10,084.0  | 9,334.7 | 8,470.8 | 9,587.0 | 8,238.8 | 7,913.2 | 8,091.0 | 7,209.9 | 5,964.3 |
| Restructuring costs and Impairment of goodwill and of intangible assets related to business combinations | 2,056.6 | 1,309.0   | 26.4    | 115.4   | 116.4   | 109.9   | 123.5   | —       | —       | —       |
| Acquisition-related costs and integration costs                                                          | 8.3     | 54.9      | 124.3   | 4.4     | 19.6    | 62.5    | —       | —       | —       | —       |
| EBIT <sup>(1)</sup>                                                                                      | 741.4   | (1,160.4) | 603.4   | 312.1   | 521.6   | 1,877.4 | 228.8   | 499.5   | 595.6   | 717.8   |
| Net income (loss) attributable to:                                                                       |         |           |         |         |         |         |         |         |         |         |
| SNC-Lavalin shareholders                                                                                 | 328.2   | (1,316.9) | 382.0   | 255.5   | 404.3   | 1,333.3 | 35.8    | 305.9   | 377.4   | 475.5   |
| Non-controlling interests                                                                                | 2.4     | 0.6       | 1.1     | 1.0     | 33.2    | 1.2     | 0.6     | 0.4     | 8.5     | 10.7    |
| Net income (loss)                                                                                        | 330.6   | (1,316.3) | 383.2   | 256.6   | 437.5   | 1,334.6 | 36.4    | 306.3   | 385.9   | 486.3   |
| Acquisition of property and equipment:                                                                   |         |           |         |         |         |         |         |         |         |         |
| From E&C                                                                                                 | 122.4   | 152.9     | 124.8   | 151.4   | 116.0   | 70.2    | 55.5    | 96.2    | 67.2    | 46.0    |
| From Capital                                                                                             | —       | —         | —       | —       | —       | 1,522.4 | 1,545.9 | 849.2   | 545.8   | 402.0   |
|                                                                                                          | 122.4   | 152.9     | 124.8   | 151.4   | 116.0   | 1,592.5 | 1,601.5 | 945.4   | 613.0   | 448.0   |
| Depreciation and amortization <sup>(1)</sup> :                                                           |         |           |         |         |         |         |         |         |         |         |
| From E&C                                                                                                 | 402.0   | 324.6     | 215.6   | 140.6   | 162.4   | 113.7   | 67.9    | 61.6    | 45.4    | 39.6    |
| From Capital                                                                                             | 0.2     | —         | —       | 2.5     | —       | 53.5    | 133.1   | 99.2    | 93.1    | 86.9    |
|                                                                                                          | 402.2   | 324.6     | 215.6   | 143.1   | 162.4   | 167.2   | 201.0   | 160.8   | 138.5   | 126.5   |
| Net financial expenses <sup>(1)</sup> :                                                                  |         |           |         |         |         |         |         |         |         |         |
| From E&C                                                                                                 | 194.2   | 156.0     | 107.8   | 27.9    | (7.7)   | 38.9    | 19.5    | 13.7    | 15.5    | 26.0    |
| From Capital                                                                                             | 17.8    | 11.5      | 10.0    | 14.2    | 8.0     | 180.9   | 131.2   | 112.5   | 99.7    | 85.1    |
|                                                                                                          | 212.1   | 167.5     | 117.8   | 42.1    | 0.3     | 219.8   | 150.7   | 126.2   | 115.2   | 111.1   |
| EBITDA <sup>(1)</sup> :                                                                                  |         |           |         |         |         |         |         |         |         |         |
| From E&C                                                                                                 | (166.0) | 140.5     | 589.4   | 219.1   | 333.7   | (160.0) | (131.6) | 273.1   | 389.9   | 513.7   |
| From Capital                                                                                             | 3,183.5 | 264.1     | 229.6   | 236.1   | 350.3   | 2,233.1 | 617.8   | 387.2   | 344.1   | 330.6   |
|                                                                                                          | 3,017.5 | 404.6     | 818.9   | 455.2   | 684.0   | 2,073.1 | 486.2   | 660.3   | 734.0   | 844.3   |
| Return on average shareholders' equity <sup>(2)</sup>                                                    | 9.9%    | (28.2)%   | 9.5%    | 7.1%    | 12.0%   | 58.7%   | 1.6%    | 14.6%   | 19.1%   | 28.2%   |

Certain totals, subtotals and percentages may not be reconciled due to rounding.

Certain indicators used by the Company to analyze and evaluate its results, which are listed in the ten-year statistical summary table, are non-IFRS financial measures or additional IFRS measures. Consequently, they do not have a standardized meaning as prescribed by IFRS, and therefore may not be comparable to similar measures presented by other issuers. Management believes that, in addition to conventional measures prepared in accordance with IFRS, these non-IFRS financial measures provide additional insight into the Company's financial results and certain investors may use this information to evaluate the Company's performance from period to period. However, these non-IFRS financial measures have limitations and should not be considered in isolation or as a substitute for measures of performance prepared in accordance with IFRS. Definitions of all non-IFRS financial measures and additional IFRS measures are provided in Section 14 of the Company's 2019 Management's Discussion and Analysis ("MD&A") to give the reader a better understanding of the indicators used by management. In addition, when applicable, the Company provides a clear quantitative reconciliation from the non-IFRS financial measures to the most directly comparable measure calculated in accordance with IFRS in its 2019 MD&A.

<sup>(1)</sup> Effective January 1, 2019, the Company adopted IFRS 16, *Leases*, using the modified retrospective approach. Under IFRS 16, depreciation of right-of-use asset and interest expense on the lease liability replace the operating lease expenses which were recognized under the previous standard. As permitted under the modified retrospective approach, the prior periods were not restated. Please refer to Section 13 "Accounting Policies and Changes" in the Company's 2019 Management's Discussion and Analysis ("MD&A") and to Note 2 to the Company's 2019 audited annual consolidated financial statements for more information.

<sup>(2)</sup> Excluding other components of equity.

## Ten-year statistical summary (continued)

| YEARS ENDED DECEMBER 31<br>(IN MILLIONS CAS,<br>UNLESS OTHERWISE INDICATED)   | 2019      | 2018      | 2017    | 2016    | 2015    | 2014    | 2013    | 2012    | 2011    | 2010    |
|-------------------------------------------------------------------------------|-----------|-----------|---------|---------|---------|---------|---------|---------|---------|---------|
| Supplementary information:                                                    |           |           |         |         |         |         |         |         |         |         |
| Net income (loss) attributable to SNC-Lavalin shareholders from E&C           | (2,444.6) | (1,563.0) | 176.0   | 46.3    | 95.8    | (300.5) | (245.8) | 149.0   | 246.2   | 340.6   |
| Net income attributable to SNC-Lavalin shareholders from Capital investments: |           |           |         |         |         |         |         |         |         |         |
| From Highway 407 ETR                                                          | 146.1     | 154.3     | 141.7   | 132.5   | 125.8   | 122.5   | 114.1   | 100.6   | 77.2    | 50.3    |
| From AltaLink                                                                 | —         | —         | —       | —       | —       | 175.6   | 91.8    | 54.5    | 33.8    | 22.9    |
| From other Capital investments                                                | 2,626.7   | 91.8      | 64.3    | 76.7    | 182.7   | 1,335.9 | 75.7    | 1.8     | 20.2    | 61.7    |
| Net income (loss) attributable to SNC-Lavalin shareholders                    | 328.2     | (1,316.9) | 382.0   | 255.5   | 404.3   | 1,333.3 | 35.8    | 305.9   | 377.4   | 475.5   |
| Earnings (loss) per share (\$):                                               |           |           |         |         |         |         |         |         |         |         |
| Basic                                                                         | 1.87      | (7.50)    | 2.35    | 1.70    | 2.68    | 8.76    | 0.24    | 2.03    | 2.50    | 3.15    |
| Diluted                                                                       | 1.87      | (7.50)    | 2.34    | 1.70    | 2.68    | 8.74    | 0.24    | 2.02    | 2.48    | 3.12    |
| Weighted average number of outstanding shares (in thousands):                 |           |           |         |         |         |         |         |         |         |         |
| Basic                                                                         | 175,554   | 175,541   | 162,910 | 150,077 | 150,918 | 152,218 | 151,497 | 151,058 | 150,897 | 151,020 |
| Diluted                                                                       | 175,554   | 175,541   | 163,029 | 150,279 | 150,988 | 152,605 | 151,814 | 151,304 | 151,940 | 152,277 |
| Annual dividends declared per share (\$)                                      | 0.160     | 0.961     | 1.106   | 1.053   | 1.01    | 0.97    | 0.93    | 0.89    | 0.85    | 0.72    |

| AT DECEMBER 31<br>(IN MILLIONS CAS,<br>UNLESS OTHERWISE INDICATED) | 2019     | 2018     | 2017     | 2016     | 2015     | 2014     | 2013    | 2012     | 2011     | 2010    |
|--------------------------------------------------------------------|----------|----------|----------|----------|----------|----------|---------|----------|----------|---------|
| Number of employees                                                | 46,490   | 52,435   | 52,448   | 34,952   | 36,754   | 42,003   | 29,714  | 33,909   | 28,100   | 23,923  |
| Revenue backlog <sup>(3)</sup>                                     | 15,262.5 | 14,885.0 | 10,406.4 | 10,677.4 | 11,991.9 | 12,325.5 | 8,287.8 | 10,133.4 | 10,088.0 | 9,715.9 |
| Cash and cash equivalents                                          | 1,188.6  | 634.1    | 706.5    | 1,055.5  | 1,581.8  | 1,702.2  | 1,108.7 | 1,174.9  | 1,231.0  | 1,235.1 |
| Working capital                                                    | 622.2    | (950.1)  | 111.9    | 227.9    | 108.1    | (365.4)  | (527.0) | (267.9)  | 32.0     | 679.9   |
| Property and equipment:                                            |          |          |          |          |          |          |         |          |          |         |
| From E&C                                                           | 470.6    | 482.6    | 414.1    | 298.3    | 265.1    | 246.1    | 180.4   | 193.1    | 159.9    | 115.2   |
| From Capital                                                       | —        | —        | —        | —        | —        | —        | 5,132.0 | 3,470.0  | 2,637.7  | 2,072.8 |
|                                                                    | 470.6    | 482.6    | 414.1    | 298.3    | 265.1    | 246.1    | 5,312.4 | 3,663.1  | 2,797.6  | 2,188.0 |
| Recourse long-term debt                                            | 873.1    | 1,171.4  | 1,026.8  | 349.4    | 349.1    | 348.9    | 348.7   | 348.5    | 348.4    | 348.2   |
| Limited recourse long-term debt                                    | 400.0    | 980.3    | 1,475.2  | —        | —        | —        | —       | —        | —        | —       |
| Non-recourse long-term debt                                        | 391.5    | 339.5    | 297.4    | 472.6    | 525.8    | 530.7    | 3,536.9 | 2,000.7  | 1,561.4  | 1,529.0 |
| Equity attributable to SNC-Lavalin shareholders                    | 3,715.0  | 3,650.9  | 5,225.1  | 3,873.2  | 3,868.2  | 3,313.8  | 2,036.7 | 2,075.4  | 1,883.1  | 1,816.8 |
| Book value per share (\$)                                          | 21.16    | 20.80    | 29.77    | 25.76    | 25.83    | 21.73    | 13.42   | 13.74    | 12.47    | 12.03   |
| Number of outstanding common shares (in thousands)                 | 175,554  | 175,554  | 175,488  | 150,357  | 149,772  | 152,465  | 151,807 | 151,069  | 151,034  | 151,034 |
| Closing market price per share (\$)                                | 29.95    | 45.92    | 57.05    | 57.79    | 41.12    | 44.31    | 47.79   | 40.32    | 51.08    | 59.77   |
| Market capitalization                                              | 5,257.8  | 8,061.5  | 10,011.6 | 8,689.1  | 6,158.6  | 6,755.7  | 7,254.8 | 6,091.1  | 7,714.8  | 9,027.3 |

Certain totals, subtotals and percentages may not be reconciled due to rounding.

<sup>(3)</sup> Effective January 1, 2018, the Company's definition of backlog ("backlog") has been changed and now corresponds to the concept of remaining performance obligations, which is based on IFRS 15, *Revenue from Contracts with Customers*, without restatement of the prior periods.

# Information for shareholders

## Common Share Information

LISTED: Toronto Stock Exchange

SYMBOL: SNC

SHARES OUTSTANDING: 175.6 million (December 31, 2019)

MARKET CAPITALIZATION: \$5,258 million (December 31, 2019)

## Registrar and Transfer Agent

If you would like to modify your address, eliminate multiple mailings, transfer SNC-Lavalin shares, or for other information on your shareholder account such as dividends and registration, please contact:

Computershare Investor Services Inc.

100 University Ave., 8th Floor, North Tower, Toronto ON, M5J 2Y1

Telephone: 1-800-564-6253

Website: [www.investorcentre.com](http://www.investorcentre.com)

## Investor Relations

Denis Jasmin, Vice-President, Investor Relations

[denis.jasmin@snclavalin.com](mailto:denis.jasmin@snclavalin.com)

514-393-1000

## Annual Meeting

The Annual Shareholders' Meeting will be held on Thursday, May 7, 2020. To learn more, go to [www.snclavalin.com/en/investors/shareholder-information/general-information](http://www.snclavalin.com/en/investors/shareholder-information/general-information).

## Corporate Governance

Our website provides information on our corporate governance practices, including our Code of Conduct, and the mandates for the Board of Directors and the Board committees as well as various position descriptions. To learn more, go to [www.snclavalin.com](http://www.snclavalin.com) and click on About Us.

## Code of Conduct

Our Code of Conduct seeks to promote integrity and transparency in the conduct of our business and in our relations with our colleagues, directors, shareholders and business partners, including customers, associates and suppliers. To learn more on our Code of Conduct, go to [www.snclavalin.com/en/about/integrity](http://www.snclavalin.com/en/about/integrity).

## Proxy Circular

The proxy circular contains information about our directors, Board committee reports and further details of our corporate governance practices. This document is available online at [www.snclavalin.com](http://www.snclavalin.com).

## Have Your Say

If you would like to ask a question at our annual meeting of shareholders, you can submit it in person. You can also send your question in by writing to the Vice-President and Corporate Secretary at:

Vice-President and Corporate Secretary

455 René-Lévesque Blvd. West, Montreal QC, H2Z 1Z3, Canada

## Head Office

SNC-Lavalin Group Inc.

455 René-Lévesque Blvd West, Montreal QC, H2Z 1Z3, Canada

## [www.snclavalin.com](http://www.snclavalin.com)

We invite you to visit our website at [www.snclavalin.com](http://www.snclavalin.com) to learn more about SNC-Lavalin, our governance practices, our continuous disclosure materials and to obtain electronic copies of this and other reports.

## Exemplaires en français

Pour télécharger la version française de ce rapport ou en demander un exemplaire, veuillez consulter la section Investisseurs au [www.snclavalin.com](http://www.snclavalin.com).

At SNC-Lavalin,  
we recognize  
the importance  
of helping protect  
the environment.

Our financial report is available online.  
We invite you to visit our website at  
[www.snclavalin.com](http://www.snclavalin.com) for a list of our offices  
and to learn more about SNC-Lavalin.



**SNC • LAVALIN**

Head Office

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Montreal, QC, H2Z 1Z3, Canada  
Tel.: 514-393-1000 Fax: 514-866-0795

    [snclavalin.com](http://snclavalin.com)