SNC • LAVALIN

# Q1

# Interim Condensed Consolidated Financial Statements (unaudited)

As at and for the three-month periods ended
March 31, 2019 and 2018

SNC-Lavalin Group Inc.

**INTERIM CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**

(UNAUDITED)

(IN THOUSANDS OF CANADIAN DOLLARS)

| | Note | March 31 2019 | December 31 2018 |
|---|---|---|---|
| **ASSETS** | | | |
| **Current assets** | | | |
| Cash and cash equivalents | | $ **614,850** | $ 634,084 |
| Restricted cash | | **56,815** | 12,722 |
| Trade receivables | | **1,429,074** | 1,503,824 |
| Contract assets | | **1,959,889** | 1,751,068 |
| Inventories | | **120,647** | 104,205 |
| Other current financial assets | | **249,004** | 247,291 |
| Other current non-financial assets | | **381,484** | 404,819 |
| **Total current assets** | | **4,811,763** | 4,658,013 |
| Property and equipment | | **488,670** | 482,619 |
| Right-of-use assets | 2B | **441,679** | – |
| Capital investments accounted for by the equity method | 4 | **368,402** | 357,249 |
| Capital investments accounted for by the cost method | 4 | **10,551** | 10,663 |
| Goodwill | 14 | **5,308,762** | 5,369,723 |
| Intangible assets related to business combinations | | **866,439** | 920,586 |
| Deferred income tax asset | | **654,962** | 652,155 |
| Non-current portion of receivables under service concession arrangements | | **345,173** | 327,299 |
| Other non-current financial assets | | **60,461** | 30,023 |
| Other non-current non-financial assets | | **150,861** | 131,362 |
| **Total assets** | | $ **13,507,723** | $ 12,939,692 |
| **LIABILITIES AND EQUITY** | | | |
| **Current liabilities** | | | |
| Trade payables | | $ **2,353,487** | $ 2,352,944 |
| Contract liabilities | | **935,280** | 972,959 |
| Other current financial liabilities | | **321,676** | 298,701 |
| Other current non-financial liabilities | | **380,917** | 424,861 |
| Current portion of provisions | | **254,743** | 381,848 |
| Current portion of lease liabilities | 2B | **134,513** | – |
| Short-term debt and current portion of long-term debt: | | | |
| Recourse | | **1,442,516** | 1,116,587 |
| Non-recourse | | **72,798** | 60,168 |
| **Total current liabilities** | | **5,895,930** | 5,608,068 |
| Long-term debt: | | | |
| Recourse | | **1,171,738** | 1,171,433 |
| Limited recourse | | **981,183** | 980,303 |
| Non-recourse | | **391,222** | 339,537 |
| Other non-current financial liabilities | | **58,707** | 53,505 |
| Non-current portion of provisions | | **734,786** | 706,386 |
| Non-current portion of lease liabilities | 2B | **467,027** | – |
| Other non-current non-financial liabilities | | **533** | 61,508 |
| Deferred income tax liability | | **351,695** | 363,087 |
| **Total liabilities** | | **10,052,821** | 9,283,827 |
| **Equity** | | | |
| Share capital | | **1,805,080** | 1,805,080 |
| Retained earnings | | **1,246,393** | 1,346,624 |
| Other components of equity | 8 | **397,519** | 499,199 |
| Equity attributable to SNC-Lavalin shareholders | | **3,448,992** | 3,650,903 |
| Non-controlling interests | | **5,910** | 4,962 |
| **Total equity** | | **3,454,902** | 3,655,865 |
| **Total liabilities and equity** | | $ **13,507,723** | $ 12,939,692 |

See accompanying notes to interim condensed consolidated financial statements.

SNC-Lavalin Group Inc.

**INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY**

(UNAUDITED)

THREE MONTHS ENDED MARCH 31
(IN THOUSANDS OF CANADIAN DOLLARS, EXCEPT NUMBER OF COMMON SHARES)

**2019**

| | Equity attributable to SNC-Lavalin shareholders | | | | | | |
|---|---|---|---|---|---|---|---|
| | Share Capital | | | | | | |
| | Common shares (in thousands) | Amount | Retained earnings | Other components of equity (Note 8) | Total | Non-controlling interests | Total equity |
| **Balance at beginning of the period** | **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 the period** | **175,554** | **1,805,080** | **1,321,129** | **499,199** | **3,625,408** | **4,962** | **3,630,370** |
| Net loss for the period | **–** | **–** | **(17,305)** | **–** | **(17,305)** | **(1,011)** | **(18,316)** |
| Other comprehensive income (loss) for the period | **–** | **–** | **(39,876)** | **(101,680)** | **(141,556)** | **1,928** | **(139,628)** |
| Total comprehensive income (loss) for the period | **–** | **–** | **(57,181)** | **(101,680)** | **(158,861)** | **917** | **(157,944)** |
| Dividends declared (Note 7) | **–** | **–** | **(17,555)** | **–** | **(17,555)** | **–** | **(17,555)** |
| Capital contributions by non-controlling interests | **–** | **–** | **–** | **–** | **–** | **31** | **31** |
| **Balance at end of the period** | **175,554** | **$ 1,805,080** | **$ 1,246,393** | **$ 397,519** | **$ 3,448,992** | **$ 5,910** | **$ 3,454,902** |

THREE MONTHS ENDED MARCH 31
(IN THOUSANDS OF CANADIAN DOLLARS, EXCEPT NUMBER OF COMMON SHARES)

2018

| | Equity attributable to SNC-Lavalin shareholders | | | | | | |
|---|---|---|---|---|---|---|---|
| | Share Capital | | | | | | |
| | Common shares (in thousands) | Amount | Retained earnings | Other components of equity (Note 8) | Total | Non-controlling interests | Total equity |
| **Balance at beginning of the period** | 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 the period** | 175,488 | 1,801,733 | 2,818,037 | 283,422 | 4,903,192 | (1,540) | 4,901,652 |
| Net income for the period | – | – | 78,072 | – | 78,072 | 203 | 78,275 |
| Other comprehensive income (loss) for the period | – | – | 21,279 | 107,823 | 129,102 | 4 | 129,106 |
| Total comprehensive income (loss) for the period | – | – | 99,351 | 107,823 | 207,174 | 207 | 207,381 |
| Dividends declared (Note 7) | – | – | (50,377) | – | (50,377) | – | (50,377) |
| Shares issued under stock option plans | 40 | 2,004 | (381) | – | 1,623 | – | 1,623 |
| Capital contributions by non-controlling interests | – | – | – | – | – | 129 | 129 |
| **Balance at end of the period** | 175,528 | $ 1,803,737 | $ 2,866,630 | $ 391,245 | $ 5,061,612 | $ (1,204) | $ 5,060,408 |

See accompanying notes to interim condensed consolidated financial statements.

SNC-Lavalin Group Inc.

**INTERIM CONDENSED CONSOLIDATED INCOME STATEMENTS**

(UNAUDITED)

(IN THOUSANDS OF CANADIAN DOLLARS, EXCEPT EARNINGS (LOSS) PER SHARE AND NUMBER OF SHARES)

| | | THREE MONTHS ENDED MARCH 31 | |
|---|---|---|---|
| | **Note** | **2019** | 2018 (1) |
| **Revenues from:** | | | |
| E&C | | **$ 2,291,016** | $ 2,367,197 |
| Capital investments accounted for by the consolidation or cost methods | | **12,970** | 12,916 |
| Capital investments accounted for by the equity method | | **59,207** | 51,281 |
| | | **2,363,193** | 2,431,394 |
| Direct cost of activities | | **2,264,500** | 2,202,621 |
| **Total segment EBIT** (2) | | **98,693** | 228,773 |
| Corporate selling, general and administrative expenses | | **6,244** | 25,334 |
| Impairment loss arising from expected credit losses | | **359** | 530 |
| Loss arising on financial assets (liabilities) at fair value through profit or loss | | **11,136** | 4,176 |
| Restructuring costs | | **10,367** | 1,528 |
| Acquisition-related costs and integration costs | | **5,058** | 10,702 |
| Amortization of intangible assets related to business combinations | | **51,545** | 56,727 |
| Loss from adjustment on disposals of E&C businesses | | **83** | – |
| **EBIT** (2) | | **13,901** | 129,776 |
| Financial expenses | 5 | **58,223** | 40,189 |
| Financial income and net foreign exchange losses (gains) | 5 | **(5,801)** | 1,836 |
| **Earnings (loss) before income taxes** | | **(38,521)** | 87,751 |
| Income taxes | | **(20,205)** | 9,476 |
| **Net income (loss) for the period** | | **$ (18,316)** | $ 78,275 |
| | | | |
| **Net income (loss) attributable to:** | | | |
| SNC-Lavalin shareholders | | **$ (17,305)** | $ 78,072 |
| Non-controlling interests | | **(1,011)** | 203 |
| **Net income (loss) for the period** | | **$ (18,316)** | $ 78,275 |
| | | | |
| **Earnings (loss) per share (in $)** | | | |
| Basic | | **$ (0.10)** | $ 0.44 |
| Diluted | | **$ (0.10)** | $ 0.44 |
| | | | |
| **Weighted average number of outstanding shares (in thousands)** | 6 | | |
| Basic | | **175,554** | 175,522 |
| Diluted | | **175,554** | 175,599 |

(1) Comparative figures have been revised (see Note 2C)

(2) Earnings before interest and income taxes (“EBIT”)

See accompanying notes to interim condensed consolidated financial statements.

SNC-Lavalin Group Inc.

**INTERIM CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**

(UNAUDITED)

THREE MONTHS ENDED MARCH 31
(IN THOUSANDS OF CANADIAN DOLLARS)

| | **2019** | | |
|---|---|---|---|
| | Attributable to SNC-Lavalin shareholders | Non-controlling interests | Total |
| Net loss for the period | **$ (17,305)** | **$ (1,011)** | **$ (18,316)** |
| Other comprehensive income (loss): | | | |
| Exchange differences on translating foreign operations (Note 8) | **(93,765)** | **(118)** | **(93,883)** |
| Cash flow hedges (Note 8) | **(8,000)** | **2,046** | **(5,954)** |
| Share of other comprehensive loss of investments accounted for by the equity method (Note 8) | **(1,324)** | **–** | **(1,324)** |
| Income taxes (Note 8) | **1,409** | **–** | **1,409** |
| Total of items that will be reclassified subsequently to net income | **(101,680)** | **1,928** | **(99,752)** |
| Financial assets at fair value through other comprehensive income (Note 8) | **22** | **–** | **22** |
| Income taxes (Note 8) | **19** | **–** | **19** |
| Remeasurement on defined benefit plans (Note 8) | **(48,195)** | **–** | **(48,195)** |
| Income taxes (Note 8) | **8,278** | **–** | **8,278** |
| Total of items that will not be reclassified subsequently to net income | **(39,876)** | **–** | **(39,876)** |
| Total other comprehensive loss for the period | **(141,556)** | **1,928** | **(139,628)** |
| **Total comprehensive income (loss) for the period** | **$ (158,861)** | **$ 917** | **$ (157,944)** |

THREE MONTHS ENDED MARCH 31
(IN THOUSANDS OF CANADIAN DOLLARS)

| | 2018 | | |
|---|---|---|---|
| | Attributable to SNC-Lavalin shareholders | Non-controlling interests | Total |
| Net income for the period | $ 78,072 | $ 203 | $ 78,275 |
| Other comprehensive income (loss): | | | |
| Exchange differences on translating foreign operations (Note 8) | 103,810 | 4 | 103,814 |
| Cash flow hedges (Note 8) | 4,670 | – | 4,670 |
| Share of other comprehensive income of investments accounted for by the equity method (Note 8) | 770 | – | 770 |
| Income taxes (Note 8) | (1,427) | – | (1,427) |
| Total of items that will be reclassified subsequently to net income | 107,823 | 4 | 107,827 |
| Financial assets at fair value through other comprehensive income (Note 8) | 298 | – | 298 |
| Remeasurement on defined benefit plans (Note 8) | 25,250 | – | 25,250 |
| Income taxes (Note 8) | (4,269) | – | (4,269) |
| Total of items that will not be reclassified subsequently to net income | 21,279 | – | 21,279 |
| Total other comprehensive income for the period | 129,102 | 4 | 129,106 |
| **Total comprehensive income for the period** | $ 207,174 | $ 207 | $ 207,381 |

See accompanying notes to interim condensed consolidated financial statements.

SNC-Lavalin Group Inc.

**INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**

(UNAUDITED)

| (IN THOUSANDS OF CANADIAN DOLLARS) | | THREE MONTHS ENDED MARCH 31 | |
|---|---|---|---|
| | Note | 2019 | 2018 |
| **Operating activities** | | | |
| Net income (loss) for the period | | **$ (18,316)** | $ 78,275 |
| Income taxes received | | **2,648** | 23,680 |
| Interest paid from E&C | | **(59,732)** | (50,714) |
| Interest paid from Capital investments | | **(8,681)** | (6,808) |
| Other reconciling items | 9A | **(1,868)** | 93,902 |
| | | **(85,949)** | 138,335 |
| Net change in non-cash working capital items | 9B | **(162,906)** | (285,084) |
| Net cash used for operating activities | | **(248,855)** | (146,749) |
| **Investing activities** | | | |
| Acquisition of property and equipment | | **(33,287)** | (31,321) |
| Payments for Capital investments | | **(9,967)** | – |
| Net cash inflow on acquisition of businesses | 13 | **3,619** | – |
| Change in restricted cash position | | **(44,473)** | – |
| Increase in receivables under service concession arrangements | | **(37,468)** | (43,116) |
| Recovery of receivables under service concession arrangements | | **9,498** | 19,219 |
| Decrease in short-term and long-term investments | | **–** | 1,707 |
| Other | | **(2,285)** | (3,486) |
| Net cash used for investing activities | | **(114,363)** | (56,997) |
| **Financing activities** | | | |
| Increase in debt | 9C | **662,766** | 918,720 |
| Repayment of debt and payment for debt issue costs | 9C | **(266,595)** | (739,729) |
| Payment of lease liabilities | | **(30,235)** | – |
| Proceeds from exercise of stock options | | **–** | 1,623 |
| Dividends paid to SNC-Lavalin shareholders | 7, 9C | **(17,555)** | (50,377) |
| Other | 9C | **(2,292)** | 2,684 |
| Net cash generated from financing activities | | **346,089** | 132,921 |
| Increase (decrease) from exchange differences on translating cash and cash equivalents | | **(2,105)** | 11,093 |
| **Net decrease in cash and cash equivalents** | | **(19,234)** | (59,732) |
| **Cash and cash equivalents at beginning of period** [(1)] | | **634,084** | 706,570 |
| **Cash and cash equivalents at end of period** | | **$ 614,850** | $ 646,838 |
| Presented on the statement of financial position as follows: | | | |
| **Cash and cash equivalents** | | **$ 614,850** | $ 646,837 |
| **Assets of disposal group classified as held for sale and assets held for sale** | | **–** | 1 |
| | | **$ 614,850** | $ 646,838 |

(1) 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 interim condensed consolidated financial statements.

SNC-Lavalin Group Inc.

**NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

# 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.

The Company provides consulting, design, engineering, construction as well as sustaining capital and operations and maintenance expertise, which together are referred to as "E&C", through its network of offices in over 50 countries, and is currently working on projects around the world. SNC-Lavalin also makes select investments that are complementary to its other activities, which are referred to as "Capital investments" or "Capital" in these financial statements.

# 2. BASIS OF PREPARATION

## A) BASIS OF PREPARATION

The Company's financial statements are presented in **Canadian dollars**. All values are rounded to the nearest thousand dollars, except where otherwise indicated.

These financial statements have been prepared in accordance with IAS 34, *Interim Financial Reporting*, ("IAS 34").

The IFRS accounting policies that are set out in Note 2 to the Company's annual audited consolidated financial statements for the year ended December 31, 2018 were consistently applied to all periods presented, except for the change in an accounting policy and the accounting policy affected by a new standard adopted in the three-month period ended March 31, 2019, as described in Notes 2B and 2C.

The preparation of financial statements in conformity with IAS 34 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 in the Company's annual audited consolidated financial statements for the year ended December 31, 2018 and remained unchanged for the three-month period ended March 31, 2019, except for the new judgments and estimates related to the adoption of IFRS 16, *Leases*, effective January 1, 2019, as described in Note 2D.

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; 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 that investment entity; and iv) liability resulting from a contingent consideration arrangement in a business combination, which is measured at its acquisition-date fair value. 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*.

These interim condensed consolidated financial statements do not include all of the information required for annual financial statements and should be read in conjunction with the Company's 2018 annual audited consolidated financial statements.

These Company's interim condensed consolidated financial statements were authorized for issue by the Board of Directors on May 1, 2019.

## 2. BASIS OF PREPARATION (CONTINUED)

### B) NEW STANDARD, AMENDMENTS AND AN INTERPRETATION ADOPTED IN THE THREE-MONTH PERIOD ENDED MARCH 31, 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. BASIS OF PREPARATION (CONTINUED)

**ADOPTION OF IFRS 16**

The Company adopted IFRS 16, *Leases* ("IFRS 16"), on January 1, 2019. Until that date, the Company classified leases as operating or finance leases, in accordance with IAS 17, *Leases* ("IFRS 17"), 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. BASIS OF PREPARATION (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 2018 | IFRS 16 ADOPTION | JANUARY 1 2019 |
|---|---|---|---|---|
| **ASSETS** | | | | |
| 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 |
| **Total assets** | | **$ 12,939,692** | **$ 487,831** | **$ 13,427,523** |
| **LIABILITIES** | | | | |
| 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 |
| **Total liabilities** | | **9,283,827** | **513,326** | **9,797,153** |
| **EQUITY** | | | | |
| Retained earnings | | 1,346,624 | (25,495) | 1,321,129 |
| Other | | 2,309,241 | – | 2,309,241 |
| **Total equity** | | **3,655,865** | **(25,495)** | **3,630,370** |
| **Total liabilities and equity** | | **$ 12,939,692** | **$ 487,831** | **$ 13,427,523** |

a. Includes 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. 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 interim condensed consolidated financial statements for the three-month period ended March 31, 2019, as well as additional disclosures to be provided in the Company's 2019 audited annual consolidated financial statements.

### C) CHANGES IN ACCOUNTING POLICIES AND IN PRESENTATION

#### LEASES

*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. BASIS OF PREPARATION (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.

### 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 contribution attributable to non-controlling interests before income taxes in segment EBIT of $0.3 million for the three-month period ended March 31, 2018; and ii) a reclassification of certain other corporate selling, general and administrative expenses in segment EBIT of $5.3 million in the three-month period ended March 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. BASIS OF PREPARATION (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 to achieve consistent and high-performing delivery and to position the Company for responsible growth. This simplification of its market-facing structure, which became effective January 1, 2019, resulted in a change to the Company's reportable segments, which are now: i) Engineering, Design and Project Management ("EDPM"); ii) Infrastructure; iii) Nuclear; iv) Resources; and v) Capital. See Note 3 for 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 2018 figures.

### D) **CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY**

#### 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 directs 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.

### E) **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.

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

## 3. SEGMENT DISCLOSURES

SNC-Lavalin's reportable segments are i) **Engineering, Design and Project Management** ("**EDPM**"); ii) **Infrastructure**; iii) **Nuclear**; iv) **Resources**; and v) **Capital**.

The description of each of the segments is as follows:

**EDPM** incorporates all engineering, design and project management services around the world, including the Canadian market which was previously within the Infrastructure segment. It also harnesses our enhanced capabilities in intelligent mobility and digital asset management. Projects are mainly in transportation, (including rail, mass transit and roads), infrastructure, aerospace, defence and security & technology. Some projects are largely funded by the public sector, be it federal Government, its agencies, including departments for transportation and utilities as well as, states and local authorities.

**Infrastructure** provides end-to-end services to a broad range of sectors, including mass transit, heavy rail, roads, bridges, airports, ports and harbours, facilities architecture and engineering (structural, mechanical, electrical), industrial (pharmaceutical, agrifood, life sciences, automation, industrial processes), geotechnical engineering, materials testing, and water infrastructure. In addition, Infrastructure includes O&M projects. The Infrastructure segment also includes the Technology Ventures business, which consolidates our expertise in how technology should shape the world around us, how it can bring efficiency to our delivery, results for our clients, and more sustainable solutions. Technology Ventures includes hydro, transmission and distribution, renewables, energy storage, and intelligent networks and cybersecurity, as well as the Linxon subsidiary. The Infrastructure segment also includes our Thermal power activities, which the Company exited in 2018.

**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.

**Resources** combines the full lifecycle services in oil, gas and metals and mining. These areas remain regionally structured across the globe. This allows the Company to serve the cyclical markets while sharing our deep project execution expertise, which apply across all resource projects, and retaining our important specialisms. Resources includes projects in the upstream, midstream, downstream and supporting infrastructure sectors for major oil and gas and resources companies, while the mining and metallurgy business is now focused on studies, EPCM scopes, and design and owner's engineering.

**Capital** is the investment and asset management arm of SNC-Lavalin. Its main purpose is to invest equity or subordinated debt into projects to generate integrated, whole life-cycle revenues in engineering and construction, as well as operations and maintenance. All investments are structured with the intention to earn a return on capital adequate for the risk profile of each individual project. SNC-Lavalin makes capital investments in a variety of infrastructure assets such as bridges and highways, mass transit systems, power facilities, energy infrastructure and water treatment plants.

## 3. SEGMENT DISCLOSURES (CONTINUED)

The following table presents revenues and EBIT according to the Company's segments for the three-month periods ended March 31, 2019 and 2018:

| THREE MONTHS ENDED MARCH 31 | 2019 | | | | 2018 [(1)] | | | |
|---|---|---|---|---|---|---|---|---|
| | | SEGMENT EBIT | | | | SEGMENT EBIT | | |
| | REVENUES | E&C | CAPITAL | TOTAL | REVENUES | E&C | CAPITAL | TOTAL |
| EDPM | $ 982,955 | $ 80,229 | $ – | $ 80,229 | $ 879,010 | $ 73,500 | $ – | $ 73,500 |
| Infrastructure | 499,135 | 3,671 | – | 3,671 | 501,061 | 15,809 | – | 15,809 |
| Nuclear | 223,694 | 10,792 | – | 10,792 | 230,027 | 30,696 | – | 30,696 |
| Resources | 585,232 | (61,398) | – | (61,398) | 757,099 | 52,348 | – | 52,348 |
| **Total E&C segments** | 2,291,016 | 33,294 | – | 33,294 | 2,367,197 | 172,353 | – | 172,353 |
| **Capital** | 72,177 | – | 65,399 | 65,399 | 64,197 | – | 56,420 | 56,420 |
| | $ 2,363,193 | | | | $ 2,431,394 | | | |
| **Total segment EBIT** | | 33,294 | 65,399 | 98,693 | | 172,353 | 56,420 | 228,773 |
| Corporate selling, general and administrative expenses | | 1,736 | (7,980) | (6,244) | | (18,239) | (7,095) | (25,334) |
| Impairment loss arising from expected credit losses | | (359) | – | (359) | | (530) | – | (530) |
| Loss arising on financial assets (liabilities) at fair value through profit or loss | | (11,136) | – | (11,136) | | (3,684) | (492) | (4,176) |
| Restructuring costs | | (8,005) | (2,362) | (10,367) | | (1,528) | – | (1,528) |
| Acquisition-related costs and integration costs | | (5,058) | – | (5,058) | | (10,702) | – | (10,702) |
| Amortization of intangible assets related to business combinations | | (51,545) | – | (51,545) | | (56,727) | – | (56,727) |
| Loss from adjustment on disposals of E&C businesses | | (83) | – | (83) | | – | – | – |
| **EBIT** | | (41,156) | 55,057 | 13,901 | | 80,943 | 48,833 | 129,776 |
| Net financial expenses (Note 5) | | 48,098 | 4,324 | 52,422 | | 40,748 | 1,277 | 42,025 |
| **Earnings (loss) before income taxes** | | (89,254) | 50,733 | (38,521) | | 40,195 | 47,556 | 87,751 |
| Income taxes | | (20,888) | 683 | (20,205) | | 8,451 | 1,025 | 9,476 |
| **Net income (loss) for the period** | | $ (68,366) | $ 50,050 | $ (18,316) | | $ 31,744 | $ 46,531 | $ 78,275 |
| **Net income (loss) attributable to:** | | | | | | | | |
| SNC-Lavalin shareholders | | $ (67,355) | $ 50,050 | $ (17,305) | | $ 31,541 | $ 46,531 | $ 78,072 |
| Non-controlling interests | | (1,011) | – | (1,011) | | 203 | – | 203 |
| **Net income (loss) for the period** | | $ (68,366) | $ 50,050 | $ (18,316) | | $ 31,744 | $ 46,531 | $ 78,275 |

(1) Comparative figures have been revised to reflect changes made to the measure of profit or loss for the Company's reportable segments and a change made to the Company's reporting structure (see Note 2C).

## 3. SEGMENT DISCLOSURES (CONTINUED)

The Company also discloses in the table below supplementary information such as its net income 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.

| THREE MONTHS ENDED MARCH 31 | 2019 | 2018 |
|---|---|---|
| **Supplementary information:** | | |
| Net loss from adjustment on disposals of E&C businesses | **$ (83)** | $ – |
| Excluding the item listed above | **(67,272)** | 31,541 |
| Net income (loss) attributable to SNC-Lavalin shareholders from E&C | **(67,355)** | 31,541 |
| Highway 407 ETR dividends | **41,935** | 37,952 |
| Excluding the item listed above | **8,115** | 8,579 |
| Net income attributable to SNC-Lavalin shareholders from Capital | **50,050** | 46,531 |
| **Net income (loss) attributable to SNC-Lavalin shareholders for the period** | **$ (17,305)** | $ 78,072 |

The following table presents revenues by geographic area according to project location:

| THREE MONTHS ENDED MARCH 31 | 2019 | | | 2018 | | |
|---|---|---|---|---|---|---|
| | REVENUE FROM CONTRACTS WITH CUSTOMERS | OTHER REVENUE | TOTAL | REVENUE FROM CONTRACTS WITH CUSTOMERS | OTHER REVENUE | TOTAL |
| Americas: | | | | | | |
| Canada | **$ 615,926** | **$ 61,166** | **$ 677,092** | $ 622,403 | $ 53,927 | $ 676,330 |
| United States | **434,986** | **3,944** | **438,930** | 422,751 | 5,409 | 428,160 |
| Latin America | **70,017** | **–** | **70,017** | 88,599 | – | 88,599 |
| Middle East and Africa: | | | | | | |
| Saudi Arabia | **234,004** | **–** | **234,004** | 234,956 | – | 234,956 |
| Other Middle East countries | **210,027** | **6,320** | **216,347** | 166,496 | 876 | 167,372 |
| Africa | **64,716** | **6,347** | **71,063** | 83,139 | 5,663 | 88,802 |
| Asia Pacific: | | | | | | |
| Australia | **56,913** | **–** | **56,913** | 188,681 | – | 188,681 |
| Other | **51,616** | **5** | **51,621** | 58,687 | 13 | 58,700 |
| Europe: | | | | | | |
| United Kingdom | **468,150** | **1,299** | **469,449** | 429,639 | 2,521 | 432,160 |
| Other | **77,757** | **–** | **77,757** | 67,634 | – | 67,634 |
| | **$ 2,284,112** | **$ 79,081** | **$ 2,363,193** | $ 2,362,985 | $ 68,409 | $ 2,431,394 |

In the three-month periods ended March 31, 2019 and 2018, Canada, the United States and the United Kingdom were the only countries where the Company derived more than 10% of its revenues.

## 3. SEGMENT DISCLOSURES (CONTINUED)

The following table presents revenues by type of contracts:

| THREE MONTHS ENDED MARCH 31 | 2019 | | | 2018 [1] | | |
|---|---|---|---|---|---|---|
| | REIMBURSABLE AND ENGINEERING SERVICE CONTRACTS | EPC FIXED-PRICE CONTRACTS | TOTAL | REIMBURSABLE AND ENGINEERING SERVICE CONTRACTS | EPC FIXED-PRICE CONTRACTS | TOTAL |
| EDPM | **$ 981,587** | **$ –** | **$ 981,587** | $ 876,521 | $ – | $ 876,521 |
| Infrastructure | **157,431** | **341,549** | **498,980** | 197,256 | 303,376 | 500,632 |
| Nuclear | **219,237** | **1,076** | **220,313** | 222,731 | 2,631 | 225,362 |
| Resources | **346,994** | **231,574** | **578,568** | 524,432 | 232,118 | 756,550 |
| Revenue from contracts with customers - Total E&C segments | **1,705,249** | **574,199** | **2,279,448** | 1,820,940 | 538,125 | 2,359,065 |
| Revenue from E&C investments accounted for by the equity method | | | **11,568** | | | 8,132 |
| Revenue from contracts with customers - Capital segment | | | **4,664** | | | 3,920 |
| Other revenue - Capital segment | | | **67,513** | | | 60,277 |
| | | | **$ 2,363,193** | | | $ 2,431,394 |

(1) Comparative figures have been revised to reflect a change made to the Company's reporting structure (see Note 2C).

# 4. CAPITAL INVESTMENTS

SNC-Lavalin makes investments in infrastructure concessions for public services such as airports, bridges, public service buildings, highways, mass transit systems, power facilities, energy infrastructure and water treatment plants.

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

### 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.

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. 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.

## B) NET BOOK VALUE 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.

| | | **MARCH 31 2019** | | DECEMBER 31 2018 |
|---|---|---|---|---|
| Net assets (liabilities) from Capital investments accounted for by the consolidation method | **$** | **(14,695)** | $ | 1,200 |
| Net book value of Capital investments accounted for by the equity method (1) | | **368,402** | | 357,249 |
| Net book value of Capital investments accounted for by the cost method | | **10,551** | | 10,663 |
| **Total net book value of Capital investments** | **$** | **364,258** | $ | 369,112 |

(1) Includes the Company's investment in Highway 407 ETR, for which the net book value was $nil as at March 31, 2019 and December 31, 2018.

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, subject to certain conditions. Such commitment to invest amounted to US$92.5 million (approximately CA$123.2 million) as at March 31, 2019 (December 31, 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.

# 5. NET FINANCIAL EXPENSES

| THREE MONTHS ENDED MARCH 31 | 2019 | | | 2018 | | |
|---|---|---|---|---|---|---|
| | FROM E&C | FROM CAPITAL | TOTAL | FROM E&C | FROM CAPITAL | TOTAL |
| Interest on debt: | | | | | | |
| Recourse | $ 25,352 | $ – | $ 25,352 | $ 14,871 | $ – | $ 14,871 |
| Limited recourse | 18,570 | – | 18,570 | 26,032 | – | 26,032 |
| Non-recourse | 1,270 | 4,254 | 5,524 | – | 3,442 | 3,442 |
| Interest on lease liabilities | 5,863 | – | 5,863 | – | – | – |
| Other | 2,914 | – | 2,914 | (4,161) | 5 | (4,156) |
| **Financial expenses** | 53,969 | 4,254 | 58,223 | 36,742 | 3,447 | 40,189 |
| Financial income | (1,733) | (19) | (1,752) | (1,839) | (2,227) | (4,066) |
| Net foreign exchange losses (gains) | (4,138) | 89 | (4,049) | 5,845 | 57 | 5,902 |
| **Financial income and net foreign exchange losses (gains)** | (5,871) | 70 | (5,801) | 4,006 | (2,170) | 1,836 |
| **Net financial expenses** | $ 48,098 | $ 4,324 | $ 52,422 | $ 40,748 | $ 1,277 | $ 42,025 |

# 6. WEIGHTED AVERAGE NUMBER OF OUTSTANDING SHARES

The weighted average number of outstanding shares for the first quarters ended March 31, 2019 and 2018 used to calculate the basic and diluted earnings (loss) per share were as follows:

| THREE MONTHS ENDED MARCH 31 (IN THOUSANDS) | 2019 | 2018 |
|---|---|---|
| Weighted average number of outstanding shares - basic | 175,554 | 175,522 |
| Dilutive effect of stock options | – | 77 |
| Weighted average number of outstanding shares - diluted | 175,554 | 175,599 |

In the first quarter ended March 31, 2019, 260,866 outstanding stock options have not been included in the computation of diluted loss per share because they were anti-dilutive. In the first quarter ended March 31, 2018, all outstanding stock options have been included in the computation of diluted earnings per share.

# 7. DIVIDENDS

During the three-month period ended March 31, 2019, the Company recognized as distributions to its equity shareholders dividends of $17.6 million or $0.10 per share (2018: $50.4 million or $0.287 per share).

| THREE MONTHS ENDED MARCH 31 | 2019 | 2018 |
|---|---|---|
| Dividends payable at January 1 | $ – | $ – |
| Dividends declared during the period | 17,555 | 50,377 |
| Dividends paid during the period | (17,555) | (50,377) |
| **Dividends payable at March 31** | $ – | $ – |

## 8. OTHER COMPONENTS OF EQUITY

The Company has the following elements, net of income taxes, within its other components of equity at March 31, 2019 and December 31, 2018:

| | | MARCH 31 2019 | | DECEMBER 31 2018 |
|---|---|---|---|---|
| Exchange differences on translating foreign operations | $ | **411,532** | $ | 505,297 |
| Cash flow hedges | | **(14,930)** | | (7,989) |
| Share of other comprehensive income of investments accounted for by the equity method | | **917** | | 1,891 |
| **Other components of equity** | **$** | **397,519** | $ | 499,199 |

- 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 the hedging instrument, 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.

## 8. 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 first quarters ended March 31, 2019 and 2018:

| THREE MONTHS ENDED MARCH 31 | 2019 | 2018 |
|---|---|---|
| Exchange differences on translating foreign operations: | | |
| Balance at beginning of period | $ 505,297 | $ 266,497 |
| Transitional adjustment on adoption of a new accounting standard | – | 14,322 |
| Current period gains (losses) | (83,926) | 143,907 |
| Net investment hedge - current period losses | (9,839) | (40,097) |
| Balance at end of period | 411,532 | 384,629 |
| Available-for-sale financial assets: | | |
| Balance at beginning of period | – | 8,874 |
| Transitional adjustment on adoption of a new accounting standard | – | (8,874) |
| Balance at end of period | – | – |
| Cash flow hedges: | | |
| Balance at beginning of period | (7,989) | (566) |
| Current period losses | (1,321) | (1,962) |
| Income tax relating to current period losses | 1,429 | 294 |
| Reclassification to net income | (6,679) | 6,632 |
| Income taxes relating to amounts reclassified to net income | (370) | (1,517) |
| Balance at end of period | (14,930) | 2,881 |
| Share of other comprehensive income (loss) of investments accounted for by the equity method: | | |
| Balance at beginning of period | 1,891 | 3,169 |
| Current period share | (1,324) | 678 |
| Income taxes relating to current period share | 350 | (180) |
| Reclassification to net income | – | 92 |
| Income taxes relating to amounts reclassified to net income | – | (24) |
| Balance at end of period | 917 | 3,735 |
| **Other components of equity** | $ 397,519 | $ 391,245 |

### 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 first quarters ended March 31, 2019 and 2018:

| THREE MONTHS ENDED MARCH 31 | 2019 | | | 2018 | | |
|---|---|---|---|---|---|---|
| | BEFORE TAX | INCOME TAX | NET OF TAX | BEFORE TAX | INCOME TAX | NET OF TAX |
| Cumulative amount at beginning of period | $ (110,108) | $ 18,606 | $ (91,502) | $ (52,176) | $ 8,278 | $ (43,898) |
| Gains (losses) recognized during the period | (48,195) | 8,278 | (39,917) | 25,250 | (4,269) | 20,981 |
| **Cumulative amount at end of period** | $ (158,303) | $ 26,884 | $ (131,419) | $ (26,926) | $ 4,009 | $ (22,917) |

*Financial assets at fair value through other comprehensive income*

| THREE MONTHS ENDED MARCH 31 | 2019 | | | 2018 | | |
|---|---|---|---|---|---|---|
| | BEFORE TAX | INCOME TAX | NET OF TAX | BEFORE TAX | INCOME TAX | NET OF TAX |
| Cumulative amount at beginning of period | $ (1) | $ 49 | $ 48 | $ – | $ – | $ – |
| Gains recognized during the period | 22 | 19 | 41 | 298 | – | 298 |
| **Cumulative amount at end of period** | $ 21 | $ 68 | $ 89 | $ 298 | $ – | $ 298 |

# 9. STATEMENTS OF CASH FLOWS

## A) OTHER RECONCILING ITEMS

The following table presents the items to reconcile net income to cash flows from operating activities presented in the statements of cash flows:

| THREE MONTHS ENDED MARCH 31 | | 2019 | | 2018 |
|---|---|---|---|---|
| Depreciation of property and equipment and amortization of other non-current assets | **$** | **80,265** | $ | 84,143 |
| Depreciation of right-of-use assets | | **26,999** | | – |
| Income taxes recognized in net income | | **(20,205)** | | 9,476 |
| Net financial expenses recognized in net income (Note 5) | | **52,422** | | 42,025 |
| Share-based expense (recovery) | | **(1,322)** | | 13,326 |
| Income from Capital investments accounted for by the equity method | | **(59,207)** | | (51,281) |
| Dividends and distributions received from Capital investments accounted for by the equity method | | **43,614** | | 38,709 |
| Income from E&C investments accounted for by the equity method [(1)] | | **(11,568)** | | (8,132) |
| Dividends and distributions received from E&C investments accounted for by the equity method [(1)] | | **2,753** | | 3,136 |
| Net change in provisions related to forecasted losses on certain contracts | | **(86,339)** | | (28,164) |
| Restructuring costs recognized in net income | | **10,367** | | 1,528 |
| Restructuring costs paid | | **(21,433)** | | (8,420) |
| Loss from adjustment on disposals of E&C businesses | | **83** | | – |
| Other | | **(18,297)** | | (2,444) |
| **Other reconciling items** | **$** | **(1,868)** | $ | 93,902 |

[(1)] In the first quarter of 2018, "Income from E&C investments accounted for by the equity method" and "Dividends and distributions received from E&C investments accounted for by the equity method" were included in "Other" in "Other reconciling items".

## 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:

| THREE MONTHS ENDED MARCH 31 | | 2019 | | 2018 |
|---|---|---|---|---|
| Decrease in trade receivables | **$** | **69,355** | $ | 30,483 |
| Increase in contract assets | | **(226,083)** | | (210,199) |
| Increase in inventories | | **(18,521)** | | (4,570) |
| Decrease (increase) in other current financial assets | | **(17,008)** | | 34,762 |
| Decrease (increase) in other current non-financial assets | | **24,597** | | (21,364) |
| Increase (decrease) in trade payables | | **20,826** | | (10,689) |
| Decrease in contract liabilities | | **(33,913)** | | (30,897) |
| Increase in other current financial liabilities | | **70,813** | | 328 |
| Decrease in other current non-financial liabilities | | **(52,972)** | | (72,938) |
| **Net change in non-cash working capital items** | **$** | **(162,906)** | $ | (285,084) |

# 9. 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 three-month period ended March 31, 2019:

| | Recourse debt (1) | Limited recourse debt | Non-recourse debt (2) | Lease liabilities (3) | Dividends declared to SNC-Lavalin shareholders | Other non-current financial liabilities (4) | Other non-current non-financial liabilities (4) |
|---|---|---|---|---|---|---|---|
| Balance at January 1, 2019 | $ 2,288,020 | $ 980,303 | $ 399,705 | $ – | $ – | $ 53,505 | $ 61,508 |
| Transitional adjustments on adoption of a new accounting standard (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 | 596,725 | – | 66,041 | – | – | 85 | 4,699 |
| Repayment | (265,597) | – | (998) | (30,235) | (17,555) | (1,436) | (5,639) |
| Total - changes arising from cash flows | 331,128 | – | 65,043 | (30,235) | (17,555) | (1,351) | (940) |
| Non-cash changes: | | | | | | | |
| Declaration of dividends to SNC-Lavalin shareholders | – | – | – | – | 17,555 | – | – |
| Effect of foreign currency exchange differences | (5,972) | – | (1,375) | (105) | – | (399) | 9 |
| Amortization of deferred financing costs and discounts | 1,078 | 880 | 647 | – | – | – | – |
| Loss on derivatives used for hedges | – | – | – | – | – | 9,881 | – |
| Net increase in lease liabilities | – | – | – | 17,728 | – | – | – |
| **Balance at March 31, 2019** | **$ 2,614,254** | **$ 981,183** | **$ 464,020** | **$ 601,540** | **$ –** | **$ 58,707** | **$ 533** |

(1), (2), (3), (4) See Notes 1, 2, 3 and 4 on the following page

### CHANGES ARISING FROM CASH FLOWS – RECOURSE DEBT AND NON-RECOURSE DEBT

| THREE MONTHS ENDED MARCH 31 | 2019 | | |
|---|---|---|---|
| | INCREASE OF DEBT | REPAYMENT OF DEBT | PAYMENT FOR DEBT ISSUE COSTS |
| Recourse debt: | | | |
| Revolving Facility | $ 596,725 | $ (87,051) | $ – |
| Series 2 Debentures | – | (150,000) | – |
| Bank overdraft | – | (28,546) | – |
| **Total – Recourse debt** | **596,725** | **(265,597)** | **–** |
| Non-recourse debt: | | | |
| Credit facility – InPower BC General Partnership | 4,615 | – | – |
| Credit facility – TransitNEXT General Partnership (Note 4A) | 54,814 | – | (998) |
| Senior Secured notes of an E&C investment | 6,612 | – | – |
| **Total – non-recourse debt** | **66,041** | **–** | **(998)** |
| **Total** | **$ 662,766** | **$ (265,597)** | **$ (998)** |

## 9. 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:

| | MARCH 31 2019 | JANUARY 1 2019 |
|---|---|---|
| Recourse short-term debt | $ 1,442,516 | $ 1,116,587 |
| Recourse long-term debt | 1,171,738 | 1,171,433 |
| **Total** | **$ 2,614,254** | **$ 2,288,020** |

(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:

| | MARCH 31 2019 | JANUARY 1 2019 |
|---|---|---|
| Non-recourse short-term debt from Capital investments | $ 69,755 | $ 57,240 |
| Non-recourse short-term debt from E&C | 3,043 | 2,928 |
| Non-recourse short-term debt | 72,798 | 60,168 |
| Non-recourse long-term debt from Capital investments | 338,154 | 292,125 |
| Non-recourse long-term debt from E&C | 53,068 | 47,412 |
| Non-recourse long-term debt | 391,222 | 339,537 |
| **Total** | **$ 464,020** | **$ 399,705** |

(3) Lease liabilities were presented in the Company's consolidated statements of financial position as follows:

| | MARCH 31 2019 | JANUARY 1 2019 |
|---|---|---|
| Current portion of lease liabilities | $ 134,513 | $ – |
| Non-current portion of lease liabilities | 467,027 | – |
| **Total** | **$ 601,540** | **$ –** |

(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:

| THREE MONTHS ENDED MARCH 31 | 2019 |
|---|---|
| Other non-current financial liabilities | $ (1,351) |
| Other non-current non-financial liabilities | (940) |
| Other | (1) |
| **Total** | **$ (2,292)** |

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 three-month period ended March 31, 2018:

| | Recourse debt (5) | Limited recourse debt | Non-recourse debt (6) | Dividends declared to SNC-Lavalin shareholders | Other non-current financial liabilities (7) | Other non-current non-financial liabilities (7) |
|---|---|---|---|---|---|---|
| Balance at January 1, 2018 | $ 1,345,539 | $ 1,475,177 | $ 312,964 | $ – | $ 15,425 | $ 53,367 |
| Changes arising from cash flows: | | | | | | |
| Increase | 898,386 | – | 20,334 | – | 1,582 | 10,956 |
| Repayment | (739,729) | – | – | (50,377) | (559) | (8,770) |
| Total - changes arising from cash flows | 158,657 | – | 20,334 | (50,377) | 1,023 | 2,186 |
| Non-cash changes: | | | | | | |
| Declaration of dividends to SNC-Lavalin shareholders | – | – | – | 50,377 | – | – |
| Effect of foreign currency exchange differences | 35,892 | – | 1,031 | – | 277 | 71 |
| Amortization of deferred financing costs and discounts | 2,556 | 939 | 216 | – | – | – |
| Loss on derivatives used for hedges | – | – | – | – | 6,051 | – |
| **Balance at March 31, 2018** | **$ 1,542,644** | **$ 1,476,116** | **$ 334,545** | **$ –** | **$ 22,776** | **$ 55,624** |

(5), (6), (7) See Notes 5, 6 and 7 on the following page

## 9. STATEMENTS OF CASH FLOWS (CONTINUED)

### CHANGES ARISING FROM CASH FLOWS – RECOURSE DEBT AND NON-RECOURSE DEBT

| THREE MONTHS ENDED MARCH 31 | 2018 | | |
|---|---|---|---|
| | INCREASE OF DEBT | REPAYMENT OF DEBT | PAYMENT FOR DEBT ISSUE COSTS |
| Recourse debt: | | | |
| Revolving Facility | $ 351,685 | $ (339,617) | $ (1,463) |
| Term Facility | – | (397,553) | – |
| 2020 Debentures | – | – | (296) |
| Series 2, 3 and 4 Debentures | 523,713 | – | (800) |
| Bank overdraft | 22,988 | – | – |
| **Total – Recourse debt** | **898,386** | **(737,170)** | **(2,559)** |
| Non-recourse debt: | | | |
| Credit facility – InPower BC General Partnership | 20,334 | – | – |
| **Total – Non-recourse debt** | **20,334** | – | – |
| **Total** | **$ 918,720** | **$ (737,170)** | **$ (2,559)** |

(5) Recourse short-term debt and recourse long-term debt were presented in the Company's consolidated statements of financial position as follows:

| | MARCH 31 2018 | JANUARY 1 2018 |
|---|---|---|
| Recourse short-term debt | $ 521,022 | $ 318,757 |
| Recourse long-term debt | 1,021,622 | 1,026,782 |
| **Total** | **$ 1,542,644** | **$ 1,345,539** |

(6) Non-recourse short-term debt and non-recourse long-term debt from Capital investments were presented in the Company's consolidated statements of financial position as follows:

| | MARCH 31 2018 | JANUARY 1 2018 |
|---|---|---|
| Non-recourse short-term debt from Capital investments | $ 16,597 | $ 15,566 |
| Non-recourse long-term debt from Capital investments | 317,948 | 297,398 |
| **Total** | **$ 334,545** | **$ 312,964** |

(7) 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:

| THREE MONTHS ENDED MARCH 31 | 2018 |
|---|---|
| Other non-current financial liabilities | $ 1,023 |
| Other non-current non-financial liabilities | 2,186 |
| Other | (525) |
| **Total** | **$ 2,684** |

## 10. 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 three-month periods ended March 31, 2019 and 2018, SNC-Lavalin recognized the following transactions with its related parties:

| THREE MONTHS ENDED MARCH 31 | **2019** | 2018 |
|---|---|---|
| E&C revenue from contracts with investments accounted for by the equity method | **$ 198,873** | $ 250,410 |
| Income from Capital investments accounted for by the equity method | **59,207** | 51,281 |
| Dividends and distributions received from Capital investments accounted for by the equity method | **43,614** | 38,709 |
| Income from E&C investments accounted for by the equity method | **11,568** | 8,132 |
| Dividends and distributions received from E&C investments accounted for by the equity method | **$ 2,753** | $ 3,136 |

As at March 31, 2019 and December 31, 2018, SNC-Lavalin has the following balances with its related parties:

| | **MARCH 31 2019** | DECEMBER 31 2018 |
|---|---|---|
| Trade receivables from investments accounted for by the equity method | **$ 116,461** | $ 117,359 |
| Other current financial assets receivable from investments accounted for by the equity method | **135,447** | 131,694 |
| Remaining commitment to invest in Capital investments accounted for by the equity method | **$ 98,050** | $ 108,312 |

All of these related party transactions are measured at fair value.

## 11. FINANCIAL INSTRUMENTS

The following table presents the carrying value of financial assets held by SNC-Lavalin at March 31, 2019 by category and classification, with the corresponding fair value, when available:

| MARCH 31 | **2019** | | | | | |
|---|---|---|---|---|---|---|
| | CARRYING VALUE OF FINANCIAL ASSETS BY CATEGORY | | | | | |
| | FVTPL (1) | FVTOCI (2) | AMORTIZED COST | DERIVATIVES USED FOR HEDGES | TOTAL | FAIR VALUE |
| Cash and cash equivalents | **$ 614,850** | **$ –** | **$ –** | **$ –** | **$ 614,850** | **$ 614,850** |
| Restricted cash | **56,815** | **–** | **–** | **–** | **56,815** | **56,815** |
| Trade receivables | **–** | **–** | **1,429,074** | **–** | **1,429,074** | **1,429,074** |
| Other current financial assets | **7,803** | **–** | **222,364** | **18,837** | **249,004** | **250,965** |
| Capital investments accounted for by the cost method | **–** | **10,551** | **–** | **–** | **10,551** | **10,551** |
| Non-current portion of receivables under service concession arrangements (3) | **–** | **–** | **345,173** | **–** | **345,173** | **370,545** |
| Other non-current financial assets (3) | **–** | **279** | **55,799** | **4,383** | **60,461** | **60,461** |
| **Total** | **$ 679,468** | **$ 10,830** | **$ 2,052,410** | **$ 23,220** | **$ 2,765,928** | |

(1) Fair value through profit or loss ("FVTPL")

(2) Fair value through other comprehensive income ("FVTOCI")

(3) 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.

## 11. 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:

| AT DECEMBER 31 | 2018 | | | | | |
|---|---|---|---|---|---|---|
| | CARRYING VALUE OF FINANCIAL ASSETS BY CATEGORY | | | | | |
| | FVTPL [(1)] | FVTOCI [(2)] | 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 | 11,574 | – | 195,765 | 39,952 | 247,291 | 247,896 |
| Capital investments accounted for by the cost method | – | 10,663 | – | – | 10,663 | 10,663 |
| Non-current portion of receivables under service concession arrangements [(3)] | – | – | 327,299 | – | 327,299 | 342,122 |
| Other non-current financial assets [(3)] | – | 657 | 23,385 | 5,981 | 30,023 | 30,023 |
| **Total** | $ 658,380 | $ 11,320 | $ 2,050,273 | $ 45,933 | $ 2,765,906 | |

(1) Fair value through profit or loss ("FVTPL")

(2) Fair value through other comprehensive income ("FVTOCI")

(3) 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.

The following tables present the carrying value of financial liabilities held by SNC-Lavalin at March 31, 2019 and December 31, 2018 by category and classification, with the corresponding fair value, when available:

| AT MARCH 31 | **2019** | | | | |
|---|---|---|---|---|---|
| | CARRYING VALUE OF FINANCIAL LIABILITIES BY CATEGORY | | | | |
| | DERIVATIVES USED FOR HEDGES | FVTPL [(4)] | AMORTIZED COST | TOTAL | FAIR VALUE |
| Trade payables | **$ –** | **$ –** | **$ 2,353,487** | **$ 2,353,487** | **$ 2,353,487** |
| Other current financial liabilities | **25,004** | **–** | **296,672** | **321,676** | **321,676** |
| Provisions | **–** | **–** | **72,971** | **72,971** | **72,971** |
| Lease liabilities [(5)] | **–** | **–** | **601,540** | **601,540** | **595,403** |
| Short-term debt and long-term debt [(5)] | **–** | **–** | **4,059,457** | **4,059,457** | **4,087,045** |
| Other non-current financial liabilities | **25,473** | **17,511** | **15,723** | **58,707** | **58,707** |
| **Total** | **$ 50,477** | **$ 17,511** | **$ 7,399,850** | **$ 7,467,838** | |

| AT DECEMBER 31 | 2018 | | | | |
|---|---|---|---|---|---|
| | CARRYING VALUE OF FINANCIAL LIABILITIES BY CATEGORY | | | | |
| | DERIVATIVES USED FOR HEDGES | FVTPL [(4)] | AMORTIZED COST | TOTAL | FAIR VALUE |
| Trade payables | $ – | $ – | $ 2,352,944 | $ 2,352,944 | $ 2,352,944 |
| Other current financial liabilities | 60,254 | – | 238,447 | 298,701 | 298,701 |
| Provisions | – | – | 98,502 | 98,502 | 98,502 |
| Short-term debt and long-term debt [(5)] | – | – | 3,668,028 | 3,668,028 | 3,686,562 |
| Other non-current financial liabilities | 15,594 | 17,889 | 20,022 | 53,505 | 53,505 |
| **Total** | $ 75,848 | $ 17,889 | $ 6,377,943 | $ 6,471,680 | |

(4) Fair value through profit or loss ("FVTPL")

(5) The fair value of short-term debt and long-term debt and of lease liabilities 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 or has enteretd into a lease, for debt and lease with the similar terms and conditions.

For the three-month periods ended March 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.

# 12. CONTINGENT LIABILITIES

## A) **ONGOING INVESTIGATIONS**

In February 2012, the Board of Directors initiated an independent investigation (the "Independent Review"), led by its Audit Committee, of the facts and circumstances surrounding certain payments that were documented (under certain agreements presumed to be agency agreements) to construction projects to which they did not relate, and certain other contracts. On March 26, 2012, the Company announced the results of the Independent Review and related findings and recommendations of the Audit Committee to the Board of Directors and provided information to the appropriate authorities. The Company understands that investigations by law enforcement and securities regulatory authorities remain ongoing in connection with this information, which are described in greater detail below.

<u>Charges and RCMP investigations</u>

On February 19, 2015, the Royal Canadian Mounted Police (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 has been 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 follow 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. The Company understands that the charges laid against one or both of these former employees include bribery under the CFPOA, fraud, laundering the proceeds of crime and possession of property obtained by crime under the Criminal Code, and contravention of the *Regulations Implementing the United Nations Resolutions on Libya* in Canada. Due to the inherent uncertainties of these proceedings, it is not possible to predict the final outcome of the Charges, which could possibly result in a conviction on one or more of the Charges. The Company cannot predict what, 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 Charges, or whether additional charges may be brought in connection with the RCMP investigation of these matters.

In September 2018, amendments to the Criminal Code came into effect introducing new provisions allowing the settlement of certain types of charges against a corporation (including certain charges related to the CFPOA, such as those of which the Company has been accused) through a remediation agreement. The Company was advised by the Director of the PPSC in October 2018 that at this time it will not be invited by PPSC to negotiate a remediation agreement in relation to the Charges and in accordance with these new provisions.

On October 19, 2018, the Company filed an application with the Federal Court of Canada for a judicial review of the decision of the Director of the PPSC. The Director of the PPSC in turn filed a motion with that court to strike out that application. A hearing of that motion to strike took place February 1, 2019. On March 8, 2019, judgement of the court was rendered in favor of the Director of the PPSC's motion to strike out the Company's application. On April 4, 2019, the Company filed to appeal the Federal Court's decision.

The preliminary inquiry into the Charges against the Company began in the Court of Quebec from October 29, 2018 to April 1, 2019. The purpose of the preliminary inquiry was to determine if there is sufficient evidence to set the matter down for a full trial. Judgement of the court is expected on or after May 29, 2019. Depending on the outcome of the preliminary inquiry, the Company may seek a judicial review of the decision of the Court of Quebec by the Quebec Superior Court. Subject to the outcome of the preliminary inquiry, and of any resulting review, a trial on the Charges may commence in 2019 or 2020.

While the Company remains open and committed to the possibility of negotiating a remediation agreement with the office of the Director of the PPSC, it also has defences to the Charges and will pursue those vigorously in any trial and any applicable appeals thereof.

However, having regard to the uncertainty regarding a remediation agreement, in December 2018 the Board of directors of SNC-Lavalin established a special committee to consider options that would protect value for SNC-Lavalin stakeholders.

## 12. CONTINGENT LIABILITIES (CONTINUED)

The Charges and potential outcomes thereof, and the persistent negative publicity associated therewith, have an adverse effect on the Company’s share valuation, business, results of operations, reputation and staff morale and retention, and could subject the Company to sanctions, fines and other penalties, some of which may be significant. In addition, potential consequences of the Charges could include, in respect of the Company or one or more of its subsidiaries, mandatory or discretionary suspension, prohibition or debarment from participating in projects by certain governments or by certain administrative organizations under applicable procurement laws, regulations, policies or practices. The Company derives a significant percentage of its annual global revenue (and an even larger percentage of its annual Canadian revenue) from government and government-related contracts. Further, private sector bid processes also in some instances assess whether the bidder, or an affiliate thereof, has ever been criminally convicted and/or debarred by a governmental agency. In such instances, if a member of the Company’s group must answer affirmatively to a query as to past convictions and/or debarment, such answer may affect that entity’s ability to be considered for the private sector project. As a result, suspension, prohibition or debarment, whether discretionary or mandatory, from participating in certain government and government-related contracts (in Canada, Canadian provinces or elsewhere) would likely have a 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 also understands that a 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.

AMF Investigation; AMF Certification under the Quebec Act Respecting Contracting by Public Bodies

The Company understands that there is an ongoing investigation being conducted in the context of applicable securities laws and regulations by the securities regulator in the Province of Quebec, the Autorité des marchés financiers (the “AMF”).

Certain subsidiaries of the Company require certification from the AMF, subject to periodic renewal, to contract with public bodies in the Province of Quebec, as required pursuant to the *Act Respecting Contracting by Public Bodies*. If an entity or any of its affiliates is convicted of certain specified offences under the Criminal Code or the CFPOA, AMF certification can be automatically revoked. In addition, the AMF has the discretionary power to refuse to grant an authorization or revoke or not renew an authorization if it determines that the enterprise concerned fails to meet the high standards of integrity that the public is entitled to expect from a party to a public contract or subcontract. Those subsidiaries of the Company that need to be certified by the AMF have obtained that certification.

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.

African Development Bank Settlement

On October 1, 2015, the Company announced a settlement with the African Development Bank relating to allegations of corruption in two African countries (the “African Development Bank Settlement”). The African Development Bank Settlement requires that the Company cooperate with the African Development Bank on various compliance matters in the future.

## 12. 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 are broad and encompass offences under the Criminal Code, the Competition Act, and the CFPOA, among others. Some of the offences qualifying for ineligibility include: bribery, fraud, 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 is charged with a listed offence (as is presently the case with the Company), it may under the Integrity Regime be ineligible to do business with the Canadian government while legal proceedings are ongoing.

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.

The Company has signed an administrative agreement with Public Services and Procurement (PSP) of the Government of Canada under the Integrity Regime.

Failure of the Company to abide by the terms of any of its certification from the AMF, the World Bank Settlement, the African Development Bank Settlement and/or the PSP 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 this risk.

Other Investigations

On October 1, 2014, Mr. Ben Aïssa entered guilty pleas to certain criminal charges in the Federal Criminal Court of Switzerland following a lengthy investigation by Swiss authorities and the detention of Mr. Ben Aïssa by Swiss authorities from April 2012 to October 2014. The Company was recognized as an injured party in the context of the Swiss proceedings and was awarded for certain offences for which Mr. Ben Aïssa has plead guilty a sum equivalent to CA$17.2 million translated using the exchange rates as at October 1, 2014 (representing the equivalent of 12.9 million CHF and US$2.0 million) plus interest. The Company has received the full amount due under this award.

The Company is currently unable to determine when any of the above 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 as noted above. 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, 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 by certain administrative organizations (such as those provided for in the World Bank Settlement) or by governments (such as the Government of Canada and/or the Government of Quebec) under applicable procurement laws, regulations, policies or practices, each of which could and/or would, materially adversely affect the Company's business, financial condition and liquidity and the market price of the Company's publicly traded securities.

## 12. CONTINGENT LIABILITIES (CONTINUED)

The outcomes of the above investigations or the Charges 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, the Charges, these investigations and outcomes of these investigations or Charges and any negative publicity associated therewith, could damage SNC-Lavalin's reputation and ability to do business. Finally, the findings and outcomes of the Charges or these investigations may affect the course of the class action lawsuits (described below).

Due to the uncertainties related to the outcome of the Charges and each of the above 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 the Charges or 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 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 these 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 other matters which, in turn, could require the devotion of additional time of senior management and the diversion or utilization of other resources.

### B) **CLASS ACTION LAWSUITS**

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 the Quebec securities act" (the "Quebec Class Action Motion") was filed with the Quebec Superior Court, on behalf of persons who acquired SNC-Lavalin securities from February 22, 2018 through January 27, 2019 (the "Class Period"), and held some or all of such shares as of the commencement of trading on January 28, 2019.

The Quebec Class Action Motion alleges that certain documents filed by SNC-Lavalin and oral statements made by its Chief Executive Officer during the Class Period contained misrepresentations related to its 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 Quebec Class Action Motion seeks leave from the 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 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 to October 10, 2018 (the "Ontario Class Period"). 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 "Ontario Action").

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

## 12. CONTINGENT LIABILITIES (CONTINUED)

SNC-Lavalin believes the claims outlined in the Quebec Class Action Motion and the Ontario Action are completely without merit and intends to defend them vigorously. Due to the inherent uncertainties of litigation, it is not possible to predict the final outcome of the Quebec Class Action Motion or the Ontario 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 a claim. 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 Class Action Motion or the Ontario Action, such amount could have a material adverse impact on SNC-Lavalin's liquidity and financial results.

### C) **OTHER**

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 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 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 in the week of April 30th, 2018. A decision from the Quebec Court of Appeal is expected in 2019.

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 has commenced in March 2019 and is expected to be completed in the fall of 2019, may result in 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.

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.

While SNC-Lavalin cannot predict with certainty the final outcome or timing of the legal proceedings described below, based on the information currently available (which in some cases remains incomplete), SNC-Lavalin believes that it has strong defences to these claims and intends to vigorously defend its position.

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 seeking damages.

WS Atkins & Partners Overseas, a subsidiary of the Company, has been named as respondent together with other parties by the subrogated insurers of a former customer 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 customer's building. WS Atkins & Partners Overseas was involved 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.

## 12. CONTINGENT LIABILITIES (CONTINUED)

SNC-Lavalin Inc. and its Chilean subsidiary SNC-Lavalin Chile SpA have commenced arbitration proceedings against Codelco, the Chilean state-owned copper producer to adjudicate certain mutual claims related to the engineering, procurement and construction contract for two 2050 MTPD sulphuric acid plants located at their Chuquicamata smelter site in Calama, Chile. Codelco terminated this contract on March 25, 2019, for reasons SNC-Lavalin is vigorously contesting and has asserted as being unfounded and in bad faith. SNC-Lavalin claims from Codelco certain amounts due under or in connection with the project contract. Codelco has counter-claimed, alleging that SNC-Lavalin is in default under the project contract and is seeking damages. SNC-Lavalin Chile SpA is also in an arbitration process with a key sub-contractor in relation to the same project, which dispute involves claims and counter-claims.

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.

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.

## 13. BUSINESS COMBINATION

### 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%.

During the three-month period ended March 31, 2019, no significant modifications were made to the preliminary allocation of the purchase price.

### NET CASH INFLOW ON ACQUISITION OF LINXON

| THREE MONTHS ENDED MARCH 31 | | 2019 |
|---|---|---|
| Consideration paid in cash | $ | – |
| Less: Return of contingent consideration to be transferred to seller received in cash [1] | | 3,619 |
| **Net cash inflow on acquisition of Linxon** | $ | (3,619) |

(1) 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).

## 14. GOODWILL

Following the Company's new organizational structure that took effect on January 1, 2019 (see Note 2C), the Company's goodwill was reallocated to the following cash-generating units ("CGU") and groups of CGU as follows:

| CGU OR GROUP OF CGU | MARCH 31 2019 | JANUARY 1 2019 |
|---|---|---|
| EDPM | **$ 2,666,151** | $ 2,679,753 |
| Infrastructure | **88,669** | 88,664 |
| Nuclear | **652,127** | 662,254 |
| Resources | **1,832,243** | 1,869,126 |
| O&M | **53,132** | 53,132 |
| Linxon | **16,440** | 16,794 |
| | **$ 5,308,762** | $ 5,369,723 |

## 15. EVENTS AFTER THE REPORTING PERIOD

### A) AGREEMENT TO SELL 10.01% INTEREST IN HIGHWAY 407 ETR

On April 5, 2019, SNC-Lavalin announced that it has reached an agreement to sell 10.01% of the shares of 407 International Inc. ("Highway 407 ETR") to Ontario Municipal Employees Retirement System ("OMERS"). Gross proceeds from the sale could reach $3.25 billion in aggregate, $3.0 billion payable at the closing date and $250 million over a period of 10 years, conditional to certain financial thresholds related to the ongoing performance of Highway 407 ETR. As at March 31, 2019, the net book value of SNC-Lavalin's investment in Highway 407 ETR was $nil.

The transaction is expected to be completed within approximately two months. The sale is subject to certain shareholders' rights, including rights of first refusal, and to customary closing conditions. SNC-Lavalin has been informed that a Highway 407 ETR shareholder may exercise its right of first refusal. If a right of first refusal is properly exercised, OMERS will not be the buyer of the aforementioned tranche of shares of Highway 407 ETR, and SNC-Lavalin will owe OMERS a break fee of 2.5% of the purchase price.

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

### B) AMENDMENTS TO THE CDPQ LOAN

Concurrently to reaching the agreement to sell 10.01% of the shares of Highway 407 ETR, the Company and CDPQ have renegotiated certain terms of the CDPQ Loan, which include, among others, the following amendments:

- modification of the covenant to align it with the amendment made to the Credit Agreement in 2018 and delay the application of such covenant from March 31, 2019 to June 30, 2019;
- following the expected disposal of 10.01% of the shares of Highway 407 ETR, the Company committed to repay an amount of $600 million out of $1,000 million outstanding under the 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.

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