SNC · LAVALIN

Q2

Interim Condensed Consolidated Financial Statements (unaudited)

As at and for the three-month and six-month periods ended June 30, 2020 and 2019

SNC-LAVALIN GROUP INC.

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION (UNAUDITED)

(IN THOUSANDS OF CANADIAN DOLLARS)

	Note	JUNE 30 2020	DECEMBER 31 2019
ASSETS			
Current assets			
Cash and cash equivalents		**$ 1,591,221**	$ 1,188,636
Restricted cash		**37,610**	34,118
Trade receivables		**1,360,483**	1,533,442
Contract assets		**1,754,991**	1,755,325
Inventories		**43,181**	84,888
Other current financial assets		**237,304**	222,308
Other current non-financial assets		**312,750**	331,375
Total current assets		**5,337,540**	5,150,092
Property and equipment		**452,836**	470,630
Right-of-use assets		**422,457**	438,787
Capital investments accounted for by the equity method	4	**392,896**	399,539
Capital investments accounted for by the cost method	4	**8,193**	8,107
Goodwill		**3,433,455**	3,429,094
Intangible assets related to business combinations		**574,800**	665,598
Deferred income tax asset		**529,784**	520,451
Non-current portion of receivables under service concession arrangements		**392,148**	352,987
Other non-current financial assets		**44,526**	115,941
Other non-current non-financial assets		**106,708**	93,498
Total assets		**$ 11,695,343**	$ 11,644,724
LIABILITIES AND EQUITY			
Current liabilities			
Trade payables		**$ 2,018,280**	$ 2,153,520
Contract liabilities		**934,021**	889,953
Other current financial liabilities		**316,754**	287,716
Other current non-financial liabilities		**391,934**	383,200
Current portion of provisions		**286,739**	289,227
Current portion of lease liabilities		**123,625**	131,075
Short-term debt and current portion of long-term debt:			
Recourse	13	**970,375**	299,518
Non-recourse	13	**299,539**	93,664
Total current liabilities		**5,341,267**	4,527,873
Long-term debt:			
Recourse	13	**698,659**	873,145
Limited recourse	13	**400,000**	400,000
Non-recourse	13	**124,526**	391,454
Other non-current financial liabilities		**191,961**	232,569
Non-current portion of provisions		**745,016**	672,096
Non-current portion of lease liabilities		**457,630**	480,675
Other non-current non-financial liabilities		**535**	551
Deferred income tax liability		**297,076**	348,934
Total liabilities		**8,256,670**	7,927,297
Equity			
Share capital		**1,805,080**	1,805,080
Retained earnings		**1,296,708**	1,555,853
Other components of equity	8	**327,746**	354,073
Equity attributable to SNC-Lavalin shareholders		**3,429,534**	3,715,006
Non-controlling interests		**9,139**	2,421
Total equity		**3,438,673**	3,717,427
Total liabilities and equity		**$ 11,695,343**	$ 11,644,724

See accompanying notes to interim condensed consolidated financial statements

SNC-LAVALIN GROUP INC.

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY (UNAUDITED)

SIX MONTHS ENDED JUNE 30
(IN THOUSANDS OF CANADIAN DOLLARS, EXCEPT NUMBER OF COMMON SHARES)

2020

	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**	**$ 1,555,853**	**$ 354,073**	**$ 3,715,006**	**$ 2,421**	**$ 3,717,427**
Net income (loss) for the period	**—**	**—**	**(177,611)**	**—**	**(177,611)**	**5,216**	**(172,395)**
Other comprehensive income (loss) for the period	**—**	**—**	**(74,512)**	**(26,327)**	**(100,839)**	**1,498**	**(99,341)**
Total comprehensive income (loss) for the period	**—**	**—**	**(252,123)**	**(26,327)**	**(278,450)**	**6,714**	**(271,736)**
Dividends declared (Note 7)	**—**	**—**	**(7,022)**	**—**	**(7,022)**	**—**	**(7,022)**
Dividends declared by subsidiaries to non-controlling interests	**—**	**—**	**—**	**—**	**—**	**(8)**	**(8)**
Capital contributions by non-controlling interests	**—**	**—**	**—**	**—**	**—**	**12**	**12**
Balance at end of the period	**175,554**	**$ 1,805,080**	**$ 1,296,708**	**$ 327,746**	**$ 3,429,534**	**$ 9,139**	**$ 3,438,673**

SIX MONTHS ENDED JUNE 30
(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 (ACCUMULATED DEFICIT)	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	—	—	(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	—	—	(2,135,625)	—	(2,135,625)	(1,411)	(2,137,036)
Other comprehensive loss for the period	—	—	(120,414)	(229,848)	(350,262)	(1,193)	(351,455)
Total comprehensive loss for the period	—	—	(2,256,039)	(229,848)	(2,485,887)	(2,604)	(2,488,491)
Dividends declared (Note 7)	—	—	(35,111)	—	(35,111)	—	(35,111)
Additional non-controlling interest arising on acquisition of Linxon	—	—	—	—	—	40	40
Capital contributions by non-controlling interests	—	—	—	—	—	30	30
Balance at end of the period	175,554	$ 1,805,080	$ (970,021)	$ 269,351	$ 1,104,410	$ 2,428	$ 1,106,838

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 LOSS PER SHARE AND NUMBER OF SHARES)		SECOND QUARTERS		SIX MONTHS ENDED JUNE 30	
	Note	**2020**	2019	**2020**	2019
Revenues from:					
PS&PM [1]		**$ 1,931,151**	$ 2,209,431	**$ 4,114,393**	$ 4,500,447
Capital investments accounted for by the consolidation or cost methods		**10,492**	11,363	**21,332**	24,333
Capital investments accounted for by the equity method		**11,096**	63,383	**46,498**	122,590
		1,952,739	2,284,177	**4,182,223**	4,647,370
Direct costs of activities	16	**1,943,145**	2,399,334	**4,073,315**	4,663,834
Corporate selling, general and administrative expenses	16	**18,132**	19,808	**54,917**	26,052
Impairment loss arising from expected credit losses		**—**	96	**1,000**	455
Loss (gain) arising on financial assets (liabilities) at fair value through profit or loss		**(990)**	10,385	**60,947**	21,521
Restructuring costs	17	**54,173**	41,794	**56,579**	52,161
Amortization of intangible assets related to business combinations		**39,952**	48,738	**80,408**	100,283
Acquisition-related costs and integration costs		**—**	3,964	**—**	9,022
Loss from adjustment on disposals of PS&PM businesses		**—**	91	**—**	174
Impairment of intangible assets related to business combinations	15	**—**	72,831	**—**	72,831
Impairment of goodwill	15	**—**	1,801,015	**—**	1,801,015
EBIT [2]		**(101,673)**	(2,113,879)	**(144,943)**	(2,099,978)
Financial expenses	5	**32,373**	96,629	**69,478**	154,852
Financial income and foreign exchange losses (gains)	5	**(6,036)**	(3,681)	**(11,594)**	(9,482)
Loss before income taxes		**(128,010)**	(2,206,827)	**(202,827)**	(2,245,348)
Income taxes		**(18,155)**	(88,107)	**(30,432)**	(108,312)
Net loss for the period		**$ (109,855)**	$ (2,118,720)	**$ (172,395)**	$ (2,137,036)
Net income (loss) attributable to:					
SNC-Lavalin shareholders		**$ (111,647)**	$ (2,118,320)	**$ (177,611)**	$ (2,135,625)
Non-controlling interests		**1,792**	(400)	**5,216**	(1,411)
Net loss for the period		**$ (109,855)**	$ (2,118,720)	**$ (172,395)**	$ (2,137,036)
Loss per share (in $)					
Basic		**$ (0.64)**	$ (12.07)	**$ (1.01)**	$ (12.17)
Diluted		**$ (0.64)**	$ (12.07)	**$ (1.01)**	$ (12.17)
Weighted average number of outstanding shares (in thousands)	6				
Basic		**175,554**	175,554	**175,554**	175,554
Diluted		**175,554**	175,554	**175,554**	175,554

(1) Professional Services & Project Management (“PS&PM”) (previously “E&C”)

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

See accompanying notes to interim condensed consolidated financial statements

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (UNAUDITED)

THREE MONTHS ENDED JUNE 30 (IN THOUSANDS OF CANADIAN DOLLARS)	2020			2019		
	ATTRIBUTABLE TO SNC-LAVALIN SHAREHOLDERS	NON-CONTROLLING INTERESTS	TOTAL	ATTRIBUTABLE TO SNC-LAVALIN SHAREHOLDERS	NON-CONTROLLING INTERESTS	TOTAL
Net income (loss) for the period	**$ (111,647)**	**$ 1,792**	**$ (109,855)**	$ (2,118,320)	$ (400)	$ (2,118,720)
Other comprehensive income (loss):						
Exchange differences on translating foreign operations (Note 8)	**(175,840)**	**(119)**	**(175,959)**	(127,640)	(16)	(127,656)
Cash flow hedges (Note 8)	**(6,865)**	**161**	**(6,704)**	5,061	(3,105)	1,956
Share of other comprehensive income (loss) of investments accounted for by the equity method (Note 8)	**27**	**—**	**27**	(1,287)	—	(1,287)
Income taxes (Note 8)	**734**	**—**	**734**	(4,302)	—	(4,302)
Total of items that will be reclassified subsequently to net income	**(181,944)**	**42**	**(181,902)**	(128,168)	(3,121)	(131,289)
Equity instruments designated at fair value through other comprehensive income (Note 8)	**57**	**—**	**57**	33	—	33
Income taxes (Note 8)	**24**	**—**	**24**	(7)	—	(7)
Remeasurement of defined benefit plans (Note 8)	**(552,506)**	**—**	**(552,506)**	(96,577)	—	(96,577)
Income taxes (Note 8)	**95,226**	**—**	**95,226**	16,013	—	16,013
Total of items that will not be reclassified subsequently to net income	**(457,199)**	**—**	**(457,199)**	(80,538)	—	(80,538)
Total other comprehensive income (loss) for the period	**(639,143)**	**42**	**(639,101)**	(208,706)	(3,121)	(211,827)
Total comprehensive income (loss) for the period	**$ (750,790)**	**$ 1,834**	**$ (748,956)**	$ (2,327,026)	$ (3,521)	$ (2,330,547)

SIX MONTHS ENDED JUNE 30 (IN THOUSANDS OF CANADIAN DOLLARS)	2020			2019		
	ATTRIBUTABLE TO SNC-LAVALIN SHAREHOLDERS	NON-CONTROLLING INTERESTS	TOTAL	ATTRIBUTABLE TO SNC-LAVALIN SHAREHOLDERS	NON-CONTROLLING INTERESTS	TOTAL
Net income (loss) for the period	**$ (177,611)**	**$ 5,216**	**$ (172,395)**	$ (2,135,625)	$ (1,411)	$ (2,137,036)
Other comprehensive income (loss):						
Exchange differences on translating foreign operations (Note 8)	**(8,814)**	**427**	**(8,387)**	(221,405)	(134)	(221,539)
Cash flow hedges (Note 8)	**(16,042)**	**1,071**	**(14,971)**	(2,939)	(1,059)	(3,998)
Share of other comprehensive loss of investments accounted for by the equity method (Note 8)	**(2,454)**	**—**	**(2,454)**	(2,611)	—	(2,611)
Income taxes (Note 8)	**983**	**—**	**983**	(2,893)	—	(2,893)
Total of items that will be reclassified subsequently to net income	**(26,327)**	**1,498**	**(24,829)**	(229,848)	(1,193)	(231,041)
Equity instruments designated at fair value through other comprehensive income (Note 8)	**584**	**—**	**584**	55	—	55
Income taxes (Note 8)	**40**	**—**	**40**	12	—	12
Remeasurement of defined benefit plans (Note 8)	**(90,058)**	**—**	**(90,058)**	(144,772)	—	(144,772)
Income taxes (Note 8)	**16,311**	**—**	**16,311**	24,291	—	24,291
Share of other comprehensive loss of investments accounted for by the equity method (Note 8)	**(1,389)**	**—**	**(1,389)**	—	—	—
Total of items that will not be reclassified subsequently to net income	**(74,512)**	**—**	**(74,512)**	(120,414)	—	(120,414)
Total other comprehensive income (loss) for the period	**(100,839)**	**1,498**	**(99,341)**	(350,262)	(1,193)	(351,455)
Total comprehensive income (loss) for the period	**$ (278,450)**	**$ 6,714**	**$ (271,736)**	$ (2,485,887)	$ (2,604)	$ (2,488,491)

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)		SECOND QUARTERS		SIX MONTHS ENDED JUNE 30	
	Note	**2020**	2019	**2020**	2019
Operating activities					
Net loss for the period		**$ (109,855)**	$ (2,118,720)	**$ (172,395)**	$ (2,137,036)
Income taxes received (paid)		**17,991**	8,106	**(16,579)**	10,754
Interest paid from PS&PM		**(22,064)**	(64,221)	**(46,737)**	(123,953)
Interest paid from Capital investments		**(716)**	(979)	**(8,221)**	(9,660)
Other reconciling items	9A	**114,755**	2,037,037	**264,963**	2,035,169
		111	(138,777)	**21,031**	(224,726)
Net change in non-cash working capital items	9B	**129,707**	(228,826)	**132,141**	(391,732)
Net cash generated from (used for) operating activities		**129,818**	(367,603)	**153,172**	(616,458)
Investing activities					
Acquisition of property and equipment		**(20,630)**	(28,019)	**(44,819)**	(61,306)
Payments for Capital investments		**—**	—	**(46,832)**	(9,967)
Net cash inflow on acquisition of businesses	14	**—**	1,920	**—**	5,539
Change in restricted cash position		**(30,399)**	42,915	**(3,787)**	(1,558)
Increase in receivables under service concession arrangements		**(71,876)**	(68,753)	**(107,232)**	(106,221)
Recovery of receivables under service concession arrangements		**59,784**	52,204	**75,738**	61,702
Proceeds from disposal of property and equipment [1]		**1,027**	631	**9,811**	11,777
Other [1]		**(619)**	(636)	**(2,170)**	(14,067)
Net cash generated from (used for) investing activities		**(62,713)**	262	**(119,291)**	(114,101)
Financing activities					
Increase in debt	9C	**7,103**	533,064	**1,010,805**	1,195,830
Repayment of debt and payment for debt issue costs	9C	**(544,665)**	(151,618)	**(575,098)**	(418,213)
Payment of lease liabilities	9C	**(29,767)**	(27,336)	**(59,769)**	(57,571)
Dividends paid to SNC-Lavalin shareholders	7, 9C	**(3,511)**	(17,556)	**(7,022)**	(35,111)
Other	9C	**(273)**	(962)	**(654)**	(3,254)
Net cash generated from (used for) financing activities		**(571,113)**	335,592	**368,262**	681,681
Increase (decrease) from exchange differences on translating cash and cash equivalents		**(7,095)**	(2,476)	**442**	(4,581)
Net increase (decrease) in cash and cash equivalents		**(511,103)**	(34,225)	**402,585**	(53,459)
Cash and cash equivalents at beginning of period		**2,102,324**	614,850	**1,188,636**	634,084
Cash and cash equivalents at end of period		**$ 1,591,221**	$ 580,625	**$ 1,591,221**	$ 580,625

[1] In the second quarter and six-month period ended June 30, 2019, “Proceeds from disposal of property and equipment” of $0.6 million and $11.8 million, respectively, were included in “Other” in investing activities.

See accompanying notes to interim condensed consolidated financial statements

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.

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

The Company reports its revenues as follows:

- **Professional Services & Project Management** ("**PS&PM**", formerly referred to as E&C, or engineering & construction) includes contracts generating revenues related mainly to consulting and advisory, intelligent networks and cybersecurity, design and engineering, procurement, project and construction management, operations & maintenance ("O&M"), decommissioning and sustaining capital. It also includes revenues from lump-sum turnkey construction contracts, for which the Company ceased to bid in July 2019, except for certain repetitive engineering, procurement and construction ("EPC") offerings that are lower-risk, standardized solutions.
- **Capital investments** include SNC-Lavalin's investments in infrastructure concessions for public services such as bridges, highways, mass transit systems, power facilities, energy infrastructure, water treatment plants and social infrastructure (e.g. hospitals).

In these interim condensed consolidated financial statements of the Company ("financial statements"), activities related to PS&PM are collectively referred to as "from PS&PM" or "excluding Capital investments" to distinguish them from activities related to the Capital investments.

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 International Financial Reporting Standards ("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, 2019 were consistently applied to all periods presented, except for the accounting policy related to government grants adopted in the six-month period ended June 30, 2020, as described in Note 16A.

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, 2019 and are updated in these financial statements.

In late December 2019, a disease arising from a novel coronavirus ("COVID-19") was identified as originating in Wuhan, the capital of the Hubei Province of China. Subsequently, it spread globally and on March 11, 2020, the World Health Organization declared it was a pandemic.

The COVID-19 pandemic has significantly disrupted global health, economic and market conditions, which has triggered an indeterminate period of slowdown in the global economy and recessions. The full impact of the COVID-19 pandemic, including the impact of the preventative and mitigation measures that the Company, other businesses and governments worldwide are taking to combat the spread of the disease, continues to rapidly evolve and the pandemic continues to have material adverse repercussions in the jurisdictions where the Company has offices, delivers services and holds investments, and it continues creating significant volatility and negative pressure on virtually all national economies as well as financial markets.

2. BASIS OF PREPARATION (CONTINUED)

The impact of the COVID-19 pandemic on the main areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant, for the preparation of the Company's financial statements are:

- Impairment of non-financial assets (including goodwill):
  - The Company considered the potential impacts of the COVID-19 pandemic as part of its review of impairment indicators for long-lived assets, notably the estimated repercussions of the COVID-19 pandemic on the worldwide economy, the Company's main markets (including the jurisdictions where the Company has offices, delivers services and holds investments), its partners, its workforce and its customers. The Company performed a number of scenario analyses using various underlying assumptions related to the COVID-19 pandemic, and determined that no impairment loss related to such assets should be recognized as at June 30, 2020.

    As at June 30, 2020, there was no impairment indicator which would require an impairment test on the carrying amount of goodwill.

    As at March 31, 2020, as part of its assessment, the Company conducted an impairment test on the carrying amount of goodwill associated to its EDPM cash-generating unit ("CGU"), which amounted to $2,725.1 million, in order to determine the estimated impact of the COVID-19 pandemic. The recoverable amount of this CGU, based on a terminal growth rate of 2.5% and a discount rate of 9.8%, exceeded its carrying amount by approximately $245 million as at that date. Assuming all other assumptions remained the same, a 65-basis point decrease in the terminal growth rate or a 50-basis point increase in the discount rate would have caused the EDPM CGU's carrying amount to be comparable to its recoverable amount as at March 31, 2020.
- Revenue recognition:
  - The Company considered the potential impacts of the COVID-19 pandemic on the amount of revenue recognized in the first six months of 2020. While numerous variables having an impact on revenue recognition are, or could be, affected by the COVID-19 pandemic, such as limitations or suspensions of certain business operations throughout the world, the inability to execute work on certain sites for, in certain cases, indeterminate periods of time and the delays resulting therefrom, unavailability of labor and supply chain disruptions, the vast majority of the Company's projects and engineering services operations were not significantly impacted by the COVID-19 pandemic in the first six months of 2020. Where available, *force majeure* relief (or similar) clauses contained in the contracts that underpin certain of the Company's major revenue generating projects were invoked and relied upon by the Company in response to the impacts of the COVID-19 pandemic and, consequently, the Company is presently addressing all the claims that have arisen in connection with this process.

    The amount of anticipated incremental revenues (and decline thereof) and costs have been included in the forecast of performance obligations satisfied over time using the input method where such figures could be estimated with reasonable assurance based on facts and circumstances that existed at the time of such estimate. Where such figures could not be estimated with reasonable assurance, they were excluded from the forecast of performance obligations satisfied over time using the input method.
- Allowance for expected credit losses:
  - The Company included the estimated potential impact of the COVID-19 pandemic in its quarterly analysis of expected credit losses performed as at June 30, 2020. Such analysis incorporated estimates of potential credit losses, including delays in collection, stemming from the inability of customers to honor their debt or other financial obligations owing to the Company on a timely basis due to a deterioration of their financial situation. The Company applied judgment based on the type of customers – many of which are governmental bodies or large corporations – the segments in which such customers operate, the geographic location of the relevant project or the customer and other indicators that could lead to currently unidentified credit losses. Additionally, the Company reviewed the current conditions as to delay of payments by its customers compared to historical data. Based on such review, SNC-Lavalin increased its loss allowance for expected credit losses by $1.0 million as at June 30, 2020.

2. BASIS OF PREPARATION (CONTINUED)

- Fair value measurement:
  - The Company measures some of its financial instruments at fair value. The determination of such fair value is based on the most readily available market data. When data are not readily available, management is required to estimate the fair value of the financial instrument using various inputs that are either directly or indirectly observable, or that are not based on observable market data. Most of the Company's financial instruments measured at fair value, such as cash and cash equivalents, restricted cash, derivatives, certain investments in equity instruments and pension plan assets, are based on the most readily available market data; therefore, the Company determined that there is no impact from the COVID-19 pandemic related to the measurement of such financial instruments as at June 30, 2020.

    The Company also accounts for financial instruments classified in the category "Level 3" of the hierarchy of fair value, including the contingent consideration receivable from the acquirer of the 10.01% interest in 407 International Inc. ("Highway 407 ETR"). The value of this receivable was reduced to $nil due to the lower actual and expected traffic and lower associated revenues as a result of COVID-19 impacts, as the underlying payments by the acquirer are conditioned on the attainment of certain cumulative financial thresholds related to the performance of Highway 407 ETR.

    See note 11 for additional disclosures on the Company's Level 3 financial instruments.
- Hedging relationships:
  - For its cash flow hedges, the Company assessed whether a forecast transaction that is the subject of a hedge is still highly probable as at June 30, 2020 due to the impacts of the COVID-19 pandemic and related limitations or suspensions of business operations worldwide imposed by many countries/regions. Based on such assessment, the Company determined that the majority of such forecast transactions are still highly probable as at June 30, 2020 and that there is no need to prospectively discontinue the application of the cash flow hedge accounting for such transactions.
- Recoverability of deferred income tax asset:
  - The Company reviewed its assumptions related to the recovery of deferred income tax assets from future taxable income, both in terms of amount and timing, in view of the anticipated impact of the COVID-19 pandemic. Based on such review, the Company concluded that there was no significant negative impact on the carrying value of its deferred income tax assets as at June 30, 2020.

The management of the Company has made the above-mentioned judgments, estimates and assumptions about the future based on the facts and circumstances available at the time such estimates were made. The management of the Company used historical experience, general economic conditions and trends, as well as assumptions regarding probable future outcomes as the basis for determining such estimates. The outcomes of such judgments, estimates and assumptions are highly uncertain. Importantly, the impacts of the COVID-19 pandemic significantly exacerbate such level of uncertainty, notably because of its unknown effect on the overall economy, financial markets, specific industries and geographic regions. Any change to estimates and assumptions that were used could result in a material impact, including a material adverse impact, on the Company's financial statements.

The Company's financial statements have been prepared on the historical cost basis, with the exception of i) certain financial instruments, derivative financial instruments and liabilities for share unit plans, which are measured at fair value; ii) the defined benefit liabilities, which are measured as the net total of the present value of the defined benefit obligation minus the fair value of plan assets; and iii) investments measured at fair value, which are held by SNC-Lavalin Infrastructure Partners LP, which is 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. 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 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 realizable value in IAS 2, *Inventories*, or value in use in IAS 36, *Impairment of Assets*.

2. BASIS OF PREPARATION (CONTINUED)

These interim condensed financial statements do not include all of the information required for annual financial statements and should be read in conjunction with the Company's 2019 annual audited consolidated financial statements.

These financial statements were authorized for issue by the Board of Directors of the Company on July 30, 2020.

B) NEW AMENDMENTS ADOPTED IN THE SIX-MONTH PERIOD ENDED JUNE 30, 2020

The following amendments to existing standards have been adopted by the Company on January 1, 2020:

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

The following amendment to an existing standard has been adopted by the Company on June 1, 2020:

- *COVID-19 Related Rent Concessions* (Amendment to IFRS 16, *Leases*): i) provide lessees with a practical expedient that relieves a lessee from assessing whether a COVID-19-related rent concession is a lease modification; ii) require lessees that apply the practical expedient to account for COVID-19-related rent concessions as if they were not lease modifications.

The adoption by the Company of the amendments listed above did not have a significant impact on the Company's financial statements.

C) CHANGE IN PRESENTATION

Starting in the second quarter of 2020, the measure of profit or loss of each segment is now referred to (without any change to this financial measure's composition) as Segment Adjusted EBIT (formerly "Segment EBIT") to clarify that this measure excludes items other than interest and taxes. Also, effective from the second quarter of 2020, the Company presents the financial results of Capital outside of SNCL Engineering Services to further simplify the presentation of financial information excluding Capital. This change, which only modified the presentation of financial information provided, was made in accordance with IAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors*, resulting in the restatement of prior period figures (see Note 3).

D) AMENDMENTS ISSUED TO BE ADOPTED AT A LATER DATE

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

- Amendments to IFRS 3, *Business Combinations*, are designed to: i) update its reference to the 2018 *Conceptual Framework* instead of the 1989 *Framework*; ii) add a requirement that, for obligations within the scope of IAS 37, *Provisions, Contingent Liabilities and Contingent Assets*, ("IAS 37") an acquirer applies IAS 37 to determine whether at the acquisition date a present obligation exists as a result of past events. For a levy that would be within the scope of IFRIC Interpretation 21, *Levies*, ("IFRIC 21") the acquirer applies IFRIC 21 to determine whether the obligating event that gives rise to a liability to pay the levy has occurred by the acquisition date; and iii) add an explicit statement that an acquirer does not recognize contingent assets acquired in a business combination.

2. BASIS OF PREPARATION (CONTINUED)

- Amendments to IAS 16, *Property, Plant and Equipment*, prohibit deducting from the cost of an item of property, plant and equipment any proceeds from selling items produced before that asset is available for use, i.e. proceeds while bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognizes the proceeds from selling such items, and the cost of producing those items, in profit or loss.
- Amendments to IAS 37 specify that the “cost of fulfilling” a contract comprises the “costs that relate directly to the contract”. Costs that relate directly to a contract consist of both the incremental costs of fulfilling that contract (examples would be direct labor or materials) and an allocation of other costs that relate directly to fulfilling contracts (an example would be the allocation of the depreciation charge for an item of property, plant and equipment used in fulfilling the contract).
- Amendments to IFRS 1, *First-time Adoption of International Financial Reporting Standards*, extend the relief, which allows subsidiaries that become a first-time adopter later than its parent to measure its assets and liabilities at the carrying amounts that would be included in the parent’s consolidated financial statements, to the cumulative translation differences for all foreign operations.
- Amendments to IFRS 9, *Financial Instruments*, clarify which fees an entity includes when it applies the “10 per cent” test in assessing whether to derecognize a financial liability. An entity includes only fees paid or received between the entity (the borrower) and the lender, including fees paid or received by either the entity or the lender on the other’s behalf.
- Amendments to IFRS 16, *Leases*, (“IFRS 16”) remove the illustration of the reimbursement of leasehold improvements included in the Illustrative Example 13 of IFRS 16 since it does not explain clearly enough the conclusion as to whether the reimbursement would meet the definition of a lease incentive in IFRS 16.

The following amendment to an existing standard has been issued and is applicable to the Company for its annual periods beginning on January 1, 2023 and thereafter, with an earlier application permitted:

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

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

3. SEGMENT DISCLOSURES

The following table presents revenues and Segment Adjusted EBIT according to the Company's segments for the three-month periods ended June 30, 2020 and 2019:

THREE MONTHS ENDED JUNE 30	2020				2019 [(1)]			
		SEGMENT ADJUSTED EBIT				SEGMENT ADJUSTED EBIT		
	REVENUES	PS&PM	CAPITAL	TOTAL	REVENUES	PS&PM	CAPITAL	TOTAL
EDPM	**$ 933,645**	**$ 78,762**	**$ —**	**$ 78,762**	$ 972,092	$ 81,541	$ —	$ 81,541
Nuclear	**221,235**	**30,931**	**—**	**30,931**	241,866	31,910	—	31,910
Infrastructure Services	**314,625**	**22,833**	**—**	**22,833**	285,794	9,907	—	9,907
SNCL Engineering Services	**1,469,505**	**132,526**	**—**	**132,526**	1,499,752	123,358	—	123,358
Resources	**279,084**	**(122,337)**	**—**	**(122,337)**	479,154	(181,616)	—	(181,616)
Infrastructure EPC Projects	**182,562**	**(18,970)**	**—**	**(18,970)**	230,525	(126,088)	—	(126,088)
SNCL Projects	**461,646**	**(141,307)**	**—**	**(141,307)**	709,679	(307,704)	—	(307,704)
Capital	**21,588**	**—**	**18,375**	**18,375**	74,746	—	69,189	69,189
	$ 1,952,739				$ 2,284,177			
Total Segment Adjusted EBIT		**(8,781)**	**18,375**	**9,594**		(184,346)	69,189	(115,157)
Corporate selling, general and administrative expenses not allocated to the segments		**(11,090)**	**(7,042)**	**(18,132)**		(13,374)	(6,434)	(19,808)
Impairment loss arising from expected credit losses		**—**	**—**	**—**		(96)	—	(96)
Gain (loss) arising on financial assets (liabilities) at fair value through profit or loss		**990**	**—**	**990**		(10,385)	—	(10,385)
Restructuring costs (Note 17)		**(54,173)**	**—**	**(54,173)**		(41,587)	(207)	(41,794)
Amortization of intangible assets related to business combinations		**(39,952)**	**—**	**(39,952)**		(48,738)	—	(48,738)
Acquisition-related costs and integration cost		**—**	**—**	**—**		(3,964)	—	(3,964)
Loss from adjustment on disposals of PS&PM businesses		**—**	**—**	**—**		(91)	—	(91)
Impairment of intangible assets related to business combinations (Note 15)		**—**	**—**	**—**		(72,831)	—	(72,831)
Impairment of goodwill (Note 15)		**—**	**—**	**—**		(1,801,015)	—	(1,801,015)
EBIT		**(113,006)**	**11,333**	**(101,673)**		(2,176,427)	62,548	(2,113,879)
Net financial expenses (Note 5)		**22,122**	**4,215**	**26,337**		88,354	4,594	92,948
Earnings (loss) before income taxes		**(135,128)**	**7,118**	**(128,010)**		(2,264,781)	57,954	(2,206,827)
Income taxes		**(18,678)**	**523**	**(18,155)**		(80,609)	(7,498)	(88,107)
Net income (loss) for the period		**$ (116,450)**	**$ 6,595**	**$ (109,855)**		$ (2,184,172)	$ 65,452	$ (2,118,720)
Net income (loss) attributable to:								
SNC-Lavalin shareholders		**$ (118,242)**	**$ 6,595**	**$ (111,647)**		$ (2,183,772)	$ 65,452	$ (2,118,320)
Non-controlling interests		**1,792**	**—**	**1,792**		(400)	—	(400)
Net income (loss) for the period		**$ (116,450)**	**$ 6,595**	**$ (109,855)**		$ (2,184,172)	$ 65,452	$ (2,118,720)

(1) Comparative figures have been revised to reflect a change made to the Company's presentation of financial results of Capital, now presented separately from SNCL Engineering Services (see Note 2C).

3. SEGMENT DISCLOSURES (CONTINUED)

The following table presents revenues and Segment Adjusted EBIT according to the Company's segments for the six-month periods ended June 30, 2020 and 2019:

SIX MONTHS ENDED JUNE 30	2020				2019 [1]			
		SEGMENT ADJUSTED EBIT				SEGMENT ADJSUTED EBIT		
	REVENUES	PS&PM	CAPITAL	TOTAL	REVENUES	PS&PM	CAPITAL	TOTAL
EDPM	**$ 1,878,793**	**$ 136,297**	**$ —**	**$ 136,297**	$ 1,955,047	$ 161,770	$ —	$ 161,770
Nuclear	**458,169**	**67,630**	**—**	**67,630**	465,560	42,702	—	42,702
Infrastructure Services	**667,312**	**40,131**	**—**	**40,131**	521,156	19,666	—	19,666
SNCL Engineering Services	**3,004,274**	**244,058**	**—**	**244,058**	2,941,763	224,138	—	224,138
Resources [2]	**705,288**	**(180,351)**	**—**	**(180,351)**	1,064,386	(243,014)	—	(243,014)
Infrastructure EPC Projects [3]	**404,831**	**(15,202)**	**—**	**(15,202)**	494,298	(132,176)	—	(132,176)
SNCL Projects	**1,110,119**	**(195,553)**	**—**	**(195,553)**	1,558,684	(375,190)	—	(375,190)
Capital	**67,830**	**—**	**60,403**	**60,403**	146,923	—	134,588	134,588
	$ 4,182,223				$ 4,647,370			
Total Segment Adjusted EBIT		**48,505**	**60,403**	**108,908**		(151,052)	134,588	(16,464)
Corporate selling, general and administrative expenses not allocated to the segments		**(40,826)**	**(14,091)**	**(54,917)**		(11,638)	(14,414)	(26,052)
Impairment loss arising from expected credit losses		**(1,000)**	**—**	**(1,000)**		(455)	—	(455)
Loss arising on financial assets (liabilities) at fair value through profit or loss		**(3,740)**	**(57,207)**	**(60,947)**		(21,521)	—	(21,521)
Restructuring costs (Note 17)		**(56,579)**	**—**	**(56,579)**		(49,592)	(2,569)	(52,161)
Amortization of intangible assets related to business combinations		**(80,408)**	**—**	**(80,408)**		(100,283)	—	(100,283)
Acquisition-related costs and integration costs		**—**	**—**	**—**		(9,022)	—	(9,022)
Loss from adjustment on disposals of PS&PM businesses		**—**	**—**	**—**		(174)	—	(174)
Impairment of intangible assets related to business combinations (Note 15)		**—**	**—**	**—**		(72,831)	—	(72,831)
Impairment of goodwill (Note 15)		**—**	**—**	**—**		(1,801,015)	—	(1,801,015)
EBIT		**(134,048)**	**(10,895)**	**(144,943)**		(2,217,583)	117,605	(2,099,978)
Net financial expenses (Note 5)		**49,356**	**8,528**	**57,884**		136,452	8,918	145,370
Earnings (loss) before income taxes		**(183,404)**	**(19,423)**	**(202,827)**		(2,354,035)	108,687	(2,245,348)
Income taxes		**(24,453)**	**(5,979)**	**(30,432)**		(101,497)	(6,815)	(108,312)
Net income (loss) for the period		**$ (158,951)**	**$ (13,444)**	**$ (172,395)**		$ (2,252,538)	$ 115,502	$ (2,137,036)
Net income (loss) attributable to:								
SNC-Lavalin shareholders		**$ (164,167)**	**$ (13,444)**	**$ (177,611)**		$ (2,251,127)	$ 115,502	$ (2,135,625)
Non-controlling interests		**5,216**	**—**	**5,216**		(1,411)	—	(1,411)
Net income (loss) for the period		**$ (158,951)**	**$ (13,444)**	**$ (172,395)**		$ (2,252,538)	$ 115,502	$ (2,137,036)

(1) Comparative figures have been revised to reflect a change made to the Company's presentation of financial results of Capital, now presented separately from SNCL Engineering Services (see Note 2C).

(2) For the six-month period ended June 30, 2020, the negative Segment Adjusted EBIT included a $70 million charge related to client disputes on a Middle East lump-sum turnkey ("LSTK") construction project (2019: the negative Segment Adjusted EBIT included net unfavorable reforecasts on certain major projects for a combined impact totaling approximately $150 million from higher forecasted costs, increased warranty costs or partial descoping primarily for three LSTK construction projects in the Middle East).

(3) For the six-month period ended June 30, 2019, the negative Segment Adjusted EBIT included net unfavorable reforecasts totaling approximately $130 million on certain major projects resulting from higher forecasted costs or increased warranty costs, primarily on two LSTK construction projects nearing completion and on smaller clean power projects.

3. SEGMENT DISCLOSURES (CONTINUED)

The Company also discloses in the table below supplementary information such as its net income (loss) from PS&PM, its dividends from Highway 407 ETR, and its net income (loss) 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.

	SECOND QUARTERS		SIX MONTHS ENDED JUNE 30	
	2020	2019	**2020**	2019
Supplementary information:				
Net loss from adjustment on disposals of PS&PM businesses	**$ —**	$ (91)	**$ —**	$ (174)
Impairment of intangible assets related to business combinations	**—**	(60,135)	**—**	(60,135)
Impairment of goodwill	**—**	(1,720,889)	**—**	(1,720,889)
Excluding the items listed above	**(118,242)**	(402,657)	**(164,167)**	(469,929)
Net loss attributable to SNC-Lavalin shareholders from PS&PM	**(118,242)**	(2,183,772)	**(164,167)**	(2,251,127)
Net loss arising on contingent consideration receivable from the acquirer of the 10.01% interest in Highway 407 ETR	**—**	—	**(49,627)**	—
Highway 407 ETR dividends	**—**	41,935	**21,138**	83,870
Excluding the items listed above	**6,595**	23,517	**15,045**	31,632
Net income (loss) attributable to SNC-Lavalin shareholders from Capital	**6,595**	65,452	**(13,444)**	115,502
Net loss attributable to SNC-Lavalin shareholders for the period	**$ (111,647)**	$ (2,118,320)	**$ (177,611)**	$ (2,135,625)

3. SEGMENT DISCLOSURES (CONTINUED)

The following tables present revenues by geographic area according to project location:

THREE MONTHS ENDED JUNE 30			2020			2019
	REVENUE FROM CONTRACTS WITH CUSTOMERS	OTHER REVENUE	TOTAL	REVENUE FROM CONTRACTS WITH CUSTOMERS	OTHER REVENUE	TOTAL
Americas:						
Canada	**$ 509,616**	**$ 10,327**	**$ 519,943**	$ 610,078	$ 63,267	$ 673,345
United States	**399,223**	**1,881**	**401,104**	463,957	24	463,981
Latin America	**27,732**	**—**	**27,732**	37,278	—	37,278
Middle East and Africa:						
Saudi Arabia	**75,785**	**—**	**75,785**	184,212	—	184,212
Other Middle East countries	**146,932**	**1,670**	**148,602**	194,151	(3,375)	190,776
Africa	**85,519**	**6,206**	**91,725**	85,557	6,663	92,220
Asia Pacific:						
Australia	**31,408**	**—**	**31,408**	45,903	—	45,903
Other	**83,374**	**—**	**83,374**	76,243	7	76,250
Europe:						
United Kingdom	**466,007**	**(1,142)**	**464,865**	432,881	(972)	431,909
Other	**108,201**	**—**	**108,201**	88,303	—	88,303
	$ 1,933,797	**$ 18,942**	**$ 1,952,739**	$ 2,218,563	$ 65,614	$ 2,284,177

SIX MONTHS ENDED JUNE 30			2020			2019
	REVENUE FROM CONTRACTS WITH CUSTOMERS	OTHER REVENUE	TOTAL	REVENUE FROM CONTRACTS WITH CUSTOMERS	OTHER REVENUE	TOTAL
Americas:						
Canada	**$ 1,100,726**	**$ 45,473**	**$ 1,146,199**	$ 1,226,004	$ 124,433	$ 1,350,437
United States	**823,753**	**3,156**	**826,909**	898,943	3,968	902,911
Latin America	**60,004**	**—**	**60,004**	107,295	—	107,295
Middle East and Africa:						
Saudi Arabia	**238,695**	**—**	**238,695**	418,216	—	418,216
Other Middle East countries	**318,592**	**4,083**	**322,675**	404,178	2,945	407,123
Africa	**172,195**	**12,339**	**184,534**	150,273	13,010	163,283
Asia Pacific:						
Australia	**59,865**	**—**	**59,865**	102,816	—	102,816
Other	**165,066**	**2**	**165,068**	127,859	12	127,871
Europe:						
United Kingdom	**959,288**	**601**	**959,889**	901,031	327	901,358
Other	**218,385**	**—**	**218,385**	166,060	—	166,060
	$ 4,116,569	**$ 65,654**	**$ 4,182,223**	$ 4,502,675	$ 144,695	$ 4,647,370

During the second quarters and six-month periods ended June 30, 2020 and 2019, 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 tables present revenues by type of contracts:

THREE MONTHS ENDED JUNE 30				2020				2019
	REIMBURSABLE AND ENGINEERING SERVICE CONTRACTS	STANDARDIZED EPC CONTRACTS	LUMP-SUM TURNKEY CONSTRUCTION CONTRACTS	TOTAL	REIMBURSABLE AND ENGINEERING SERVICE CONTRACTS	STANDARDIZED EPC CONTRACTS	LUMP-SUM TURNKEY CONSTRUCTION CONTRACTS	TOTAL
EDPM	**$ 935,407**	**$ —**	**$ —**	**$ 935,407**	$ 973,022	$ —	$ —	$ 973,022
Nuclear	**219,587**	**—**	**(747)**	**218,840**	221,892	—	20,301	242,193
Infrastructure Services	**199,794**	**114,405**	**—**	**314,199**	164,305	121,489	—	285,794
Revenue from contracts with customers – SNCL Engineering Services	**1,354,788**	**114,405**	**(747)**	**1,468,446**	1,359,219	121,489	20,301	1,501,009
Resources	**266,824**	**—**	**10,911**	**277,735**	338,082	—	144,129	482,211
Infrastructure EPC Projects	**—**	**—**	**182,562**	**182,562**	—	—	230,525	230,525
Revenue from contracts with customers – SNCL Projects	**266,824**	**—**	**193,473**	**460,297**	338,082	—	374,654	712,736
	$ 1,621,612	**$ 114,405**	**$ 192,726**	**$ 1,928,743**	$ 1,697,301	$ 121,489	$ 394,955	$ 2,213,745
Revenue from PS&PM investments accounted for by the equity method				**2,408**				(4,314)
Revenue from contracts with customers – Capital segment				**5,054**				4,818
Other revenue – Capital segment				**16,534**				69,928
				$ 1,952,739				$ 2,284,177

SIX MONTHS ENDED JUNE 30				2020				2019
	REIMBURSABLE AND ENGINEERING SERVICE CONTRACTS	STANDARDIZED EPC CONTRACTS	LUMP-SUM TURNKEY CONSTRUCTION CONTRACTS	TOTAL	REIMBURSABLE AND ENGINEERING SERVICE CONTRACTS	STANDARDIZED EPC CONTRACTS	LUMP-SUM TURNKEY CONSTRUCTION CONTRACTS	TOTAL
EDPM	**$ 1,878,792**	**$ —**	**$ —**	**$ 1,878,792**	$ 1,954,666	$ —	$ —	$ 1,954,666
Nuclear	**450,995**	**—**	**3,257**	**454,252**	441,129	—	21,377	462,506
Infrastructure Services	**407,066**	**259,820**	**—**	**666,886**	325,647	195,509	—	521,156
Revenue from contracts with customers – SNCL Engineering Services	**2,736,853**	**259,820**	**3,257**	**2,999,930**	2,721,442	195,509	21,377	2,938,328
Resources	**598,534**	**—**	**103,257**	**701,791**	685,076	—	375,703	1,060,779
Infrastructure EPC Projects	**—**	**—**	**404,831**	**404,831**	—	—	494,086	494,086
Revenue from contracts with customers – SNCL Projects	**598,534**	**—**	**508,088**	**1,106,622**	685,076	—	869,789	1,554,865
	$ 3,335,387	**$ 259,820**	**$ 511,345**	**$ 4,106,552**	$ 3,406,518	$ 195,509	$ 891,166	$ 4,493,193
Revenue from PS&PM investments accounted for by the equity method				**7,841**				7,254
Revenue from contracts with customers – Capital segment				**10,017**				9,482
Other revenue – Capital segment				**57,813**				137,441
				$ 4,182,223				$ 4,647,370

4. CAPITAL INVESTMENTS

SNC-Lavalin makes investments in infrastructure concessions for public services such as bridges, highways, mass transit systems, power facilities, energy infrastructure, water treatment plants and social infrastructure (e.g. hospitals).

The main concessions and public-private partnerships contracts reported under IFRIC Interpretation 12, *Service Concession Arrangements*, 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

IN THE SIX MONTH PERIOD ENDED JUNE 30, 2019

TRANSITNEXT GENERAL PARTNERSHIP

On March 29, 2019, SNC-Lavalin announced that its wholly-owned subsidiary, TransitNEXT General Partnership (“TransitNEXT”), signed an agreement with the City of Ottawa to design, build, finance and maintain the new Trillium Line extension, and to also assume responsibility for the long-term maintenance of the existing Trillium Line, under a 30-year contract.

Also, TransitNEXT entered into a credit facility agreement, which is non-recourse to SNC-Lavalin. The aggregate maximum principal amount of the credit facility is $149.0 million. The credit facility bears interest at a rate of CDOR plus an applicable margin and is repayable the latest on February 10, 2024. The credit facility is secured by all assets of TransitNEXT.

Furthermore, in relation to the credit facility above, TransitNEXT entered into an interest rate swap agreement with financial institutions under which TransitNEXT pays interest at a fixed rate and receives interest at a rate of CDOR.

In addition, a wholly-owned entity indirectly holding TransitNEXT entered into a term loan facility agreement, which is non-recourse to SNC-Lavalin. The aggregate principal amount of the term loan facility is $99.7 million and cannot be drawn until substantial completion of the Trillium project is achieved. The term loan facility bears interest at a rate of: i) 4.82% prior to August 10, 2026; and ii) CDOR plus an applicable margin from and after August 10, 2026. The maturity of the term loan facility is the earlier of: i) the date that is 4 years after the substantial completion date of the Trillium project; and ii) March 29, 2028. The term loan facility is secured by all assets of such entity indirectly holding TransitNEXT.

SNC-Lavalin’s investment in TransitNEXT is accounted for by the consolidation method.

AGREEMENT TO SELL A 10.01% INTEREST IN HIGHWAY 407 ETR

On April 5, 2019, SNC-Lavalin announced that the Company entered into an agreement with Ontario Municipal Employees Retirement System (“OMERS”) to sell 10.01% of the shares of Highway 407 ETR (the “Subject Shares”), subject to shareholders’ rights, including rights of first refusal in favour of certain other shareholders of Highway 407 ETR.

On May 17, 2019, SNC-Lavalin announced, prior to the expiry of the relevant notice and acceptance period, that another shareholder of Highway 407 ETR exercised its right of first refusal to purchase all of the Subject Shares on the same terms and conditions as those set out in the transaction documents with OMERS. On the basis of the shareholder exercises such a right of first refusal and in accordance with the sale contract, SNC-Lavalin terminated the transaction with OMERS, which was subject to a payment of a break fee of 2.5% of the purchase price once the sale completed.

As at June 30, 2019, the net book value of SNC-Lavalin’s investment in Highway 407 ETR was $nil. SNC-Lavalin’s 10.01% interest in Highway 407 ETR to be sold represented an asset held for sale as at June 30, 2019.

The remaining SNC-Lavalin’s 6.76% ownership interest in Highway 407 ETR continues to be accounted for under the equity method of accounting, following the completion of the sale of the 10.01% interest in Highway 407 ETR in August 2019.

4. CAPITAL INVESTMENTS (CONTINUED)

B) NET BOOK VALUE AND DESCRIPTIONS OF CAPITAL INVESTMENTS

The Company's consolidated statement of financial position includes the following net assets (liabilities) from its consolidated Capital investments and net book value from its Capital investments accounted for by the equity and cost methods.

		JUNE 30 2020		DECEMBER 31 2019
Net assets (liabilities) from Capital investments accounted for by the consolidation method	**$**	**27,545**	$	(51,620)
Net book value of Capital investments accounted for by the equity method [(1)]		**392,896**		399,539
Net book value of Capital investments accounted for by the cost method		**8,193**		8,107
Total net book value of Capital investments	**$**	**428,634**	$	356,026

(1) Includes the Company's investment in Highway 407 ETR, for which the net book value was $nil as at June 30, 2020 and December 31, 2019

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$89.3 million (approximately CA$121.1 million) as at June 30, 2020 (December 31, 2019: US$89.3 million [approximately CA$117.2 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 JUNE 30		**2020**							2019			
		FROM PS&PM		FROM CAPITAL INVESTMENTS		TOTAL		FROM PS&PM		FROM CAPITAL INVESTMENTS		TOTAL
Interest on debt:												
Recourse	**$**	**14,762**	**$**	**—**	**$**	**14,762**	$	28,594	$	—	$	28,594
Limited recourse		**4,253**		**—**		**4,253**		12,791		—		12,791
Non-recourse		**1,144**		**3,887**		**5,031**		1,736		4,619		6,355
Interest on lease liabilities		**5,628**		**1**		**5,629**		5,522		77		5,599
Other [(1)]		**2,698**		**—**		**2,698**		43,290		—		43,290
Financial expenses		**28,485**		**3,888**		**32,373**		91,933		4,696		96,629
Financial income		**(4,556)**		**(4)**		**(4,560)**		(1,807)		(21)		(1,828)
Net foreign exchange losses (gains)		**(1,807)**		**331**		**(1,476)**		(1,772)		(81)		(1,853)
Financial income and net foreign exchange losses (gains)		**(6,363)**		**327**		**(6,036)**		(3,579)		(102)		(3,681)
Net financial expenses	**$**	**22,122**	**$**	**4,215**	**$**	**26,337**	$	88,354	$	4,594	$	92,948

SIX MONTHS ENDED JUNE 30		**2020**							2019			
		FROM PS&PM		FROM CAPITAL INVESTMENTS		TOTAL		FROM PS&PM		FROM CAPITAL INVESTMENTS		TOTAL
Interest on debt:												
Recourse	**$**	**26,147**	**$**	**—**	**$**	**26,147**	$	53,946	$	—	$	53,946
Limited recourse		**9,207**		**—**		**9,207**		31,361		—		31,361
Non-recourse		**2,368**		**8,196**		**10,564**		3,006		8,873		11,879
Interest on lease liabilities		**11,515**		**4**		**11,519**		11,385		77		11,462
Other [(1)]		**12,041**		**—**		**12,041**		46,204		—		46,204
Financial expenses		**61,278**		**8,200**		**69,478**		145,902		8,950		154,852
Financial income		**(9,063)**		**(14)**		**(9,077)**		(3,540)		(40)		(3,580)
Net foreign exchange losses (gains)		**(2,859)**		**342**		**(2,517)**		(5,910)		8		(5,902)
Financial income and net foreign exchange losses (gains)		**(11,922)**		**328**		**(11,594)**		(9,450)		(32)		(9,482)
Net financial expenses	**$**	**49,356**	**$**	**8,528**	**$**	**57,884**	$	136,452	$	8,918	$	145,370

(1) In the second quarter of 2019, "Other" included $33.8 million of loss related to amendments of the CDPQ Loan (see Note 13B) and $3.7 million related to other PS&PM financing arrangements in connection with the agreement to sell 10.01% of the shares of Highway 407 ETR.

6. WEIGHTED AVERAGE NUMBER OF OUTSTANDING SHARES

The weighted average number of outstanding shares for the second quarters and six-month periods ended June 30, 2020 and 2019 used to calculate the basic and diluted earnings (loss) per share were as follows:

(IN THOUSANDS)	SECOND QUARTERS		SIX MONTHS ENDED JUNE 30	
	2020	2019	**2020**	2019
Weighted average number of outstanding shares – basic	**175,554**	175,554	**175,554**	175,554
Weighted average number of outstanding shares – diluted	**175,554**	175,554	**175,554**	175,554

No dilutive effect of stock options has been calculated in either the second quarter or six-month period ended June 30, 2020 as no stock options were outstanding during either of those periods. In each of the second quarter and six-month period ended June 30, 2019, 260,866 outstanding stock options were not included in the computation of diluted loss per share because they were anti-dilutive.

7. DIVIDENDS

During the six-month period ended June 30, 2020, the Company recognized as distributions to its equity shareholders dividends of $7.0 million or $0.04 per share (2019: $35.1 million or $0.20 per share).

SIX MONTHS ENDED JUNE 30		**2020**		2019
Dividends payable at January 1	**$**	**—**	$	—
Dividends declared during the period		**7,022**		35,111
Dividends paid during the period		**(7,022)**		(35,111)
Dividends payable at June 30	**$**	**—**	$	—

8. OTHER COMPONENTS OF EQUITY

The Company has the following elements, net of income taxes, within its other components of equity at June 30, 2020 and December 31, 2019:

		JUNE 30 2020		DECEMBER 31 2019
Exchange differences on translating foreign operations	**$**	**356,786**	$	365,600
Cash flow hedges		**(27,361)**		(11,652)
Share of other comprehensive income (loss) of investments accounted for by the equity method		**(1,679)**		125
Other components of equity	**$**	**327,746**	$	354,073

- Exchange differences on translating foreign operations component represents exchange differences relating to the translation from the functional currencies of the Company's foreign operations into Canadian dollars. On disposal of a foreign operation, the cumulative translation differences are reclassified to net income as part of the gain or loss on disposal. Exchange differences also include gains and losses on hedging instruments, if any, relating to the effective portion of hedges of net investments of foreign operations, which are reclassified to net income on the disposal of the foreign operation.
- Cash flow hedges component represents hedging gains and losses recognized on the effective portion of cash flow hedges. The cumulative deferred gain or loss on the hedge is recognized in net income when the hedged transaction impacts net income, or is included as a basis adjustment to the non-financial hedged item, consistent with the applicable accounting policy.
- Share of other comprehensive income (loss) of investments accounted for by the equity method component represents the Company's share of the other comprehensive income (loss) from its investments accounted for by the equity method.

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 second quarters and six-month periods ended June 30, 2020 and 2019:

	SECOND QUARTERS		SIX MONTHS ENDED JUNE 30	
	2020	2019	**2020**	2019
Exchange differences on translating foreign operations:				
Balance at beginning of the period	**$ 532,626**	$ 411,532	**$ 365,600**	$ 505,297
Current period losses	**(173,384)**	(141,525)	**(8,740)**	(225,451)
Net investment hedge – current period gains (losses)	**(2,456)**	13,885	**(74)**	4,046
Balance at end of the period	**356,786**	283,892	**356,786**	283,892
Cash flow hedges:				
Balance at beginning of the period	**(21,237)**	(14,930)	**(11,652)**	(7,989)
Current period losses	**(711)**	(6,571)	**(294)**	(7,892)
Income taxes relating to current period losses	**(1,266)**	(2,927)	**21**	(1,498)
Reclassification to net income	**(6,154)**	11,632	**(15,748)**	4,953
Income taxes relating to amounts reclassified to net income	**2,007**	(1,716)	**312**	(2,086)
Balance at end of the period	**(27,361)**	(14,512)	**(27,361)**	(14,512)
Share of other comprehensive income (loss) of investments accounted for by the equity method:				
Balance at beginning of the period	**(1,699)**	917	**125**	1,891
Current period share	**27**	(1,287)	**(2,454)**	(2,611)
Income taxes relating to current period share	**(7)**	341	**650**	691
Balance at end of the period	**(1,679)**	(29)	**(1,679)**	(29)
Other components of equity	**$ 327,746**	$ 269,351	**$ 327,746**	$ 269,351

B) ITEMS THAT WILL NOT BE RECLASSIFIED SUBSEQUENTLY TO NET INCOME

Remeasurement recognized in other comprehensive income

The following tables provide 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 second quarters and the six-month periods ended June 30, 2020 and 2019:

THREE MONTHS ENDED JUNE 30	**2020**			2019		
	BEFORE TAX	INCOME TAX	NET OF TAX	BEFORE TAX	INCOME TAX	NET OF TAX
Cumulative amount at beginning of period	**$ 412,860**	**$ (72,731)**	**$ 340,129**	$ (42,439)	$ 6,228	$ (36,211)
Gains (losses) recognized during the period	**(552,506)**	**95,226**	**(457,280)**	(96,577)	16,013	(80,564)
Cumulative amount at end of the period	**$ (139,646)**	**$ 22,495**	**$ (117,151)**	$ (139,016)	$ 22,241	$ (116,775)

SIX MONTHS ENDED JUNE 30	**2020**			2019		
	BEFORE TAX	INCOME TAX	NET OF TAX	BEFORE TAX	INCOME TAX	NET OF TAX
Cumulative amount at beginning of period	**$ (49,588)**	**$ 6,184**	**$ (43,404)**	$ 5,756	$ (2,050)	$ 3,706
Gains (losses) recognized during the period	**(90,058)**	**16,311**	**(73,747)**	(144,772)	24,291	(120,481)
Cumulative amount at end of period	**$ (139,646)**	**$ 22,495**	**$ (117,151)**	$ (139,016)	$ 22,241	$ (116,775)

8. OTHER COMPONENTS OF EQUITY (CONTINUED)

Equity instruments designated at fair value through other comprehensive income

The following tables provide changes in fair value of the equity instruments designated at fair value through other comprehensive income for the second quarters and the six-month periods ended June 30, 2020 and 2019:

THREE MONTHS ENDED JUNE 30		**2020**			2019	
	BEFORE TAX	INCOME TAX	NET OF TAX	BEFORE TAX	INCOME TAX	NET OF TAX
Cumulative amount at beginning of period	**$ (1,508)**	**$ 81**	**$ (1,427)**	$ 21	$ 68	$ 89
Gains (losses) recognized during the period	**57**	**24**	**81**	33	(7)	26
Cumulative amount at end of period	**$ (1,451)**	**$ 105**	**$ (1,346)**	$ 54	$ 61	$ 115

SIX MONTHS ENDED JUNE 30		**2020**			2019	
	BEFORE TAX	INCOME TAX	NET OF TAX	BEFORE TAX	INCOME TAX	NET OF TAX
Cumulative amount at beginning of period	**$ (2,035)**	**$ 65**	**$ (1,970)**	$ (1)	$ 49	$ 48
Gains (losses) recognized during the period	**584**	**40**	**624**	55	12	67
Cumulative amount at end of period	**$ (1,451)**	**$ 105**	**$ (1,346)**	$ 54	$ 61	$ 115

Share of other comprehensive income (loss) of investments accounted for by the equity method

The following tables provide the Company's share of changes in the cumulative amount of remeasurement gains (losses) recognized in other comprehensive income by the Company's investments accounted for by the equity method relating to their defined benefit plans for the second quarters and the six-month periods ended June 30, 2020 and 2019:

THREE MONTHS ENDED JUNE 30		**2020**			2019	
	BEFORE TAX	INCOME TAX	NET OF TAX	BEFORE TAX	INCOME TAX	NET OF TAX
Cumulative amount at beginning of period	**$ (3,623)**	**$ —**	**$ (3,623)**	$ —	$ —	$ —
Gains (losses) recognized during the period	**—**	**—**	**—**	—	—	—
Cumulative amount at end of period	**$ (3,623)**	**$ —**	**$ (3,623)**	$ —	$ —	$ —

SIX MONTHS ENDED JUNE 30		**2020**			2019	
	BEFORE TAX	INCOME TAX	NET OF TAX	BEFORE TAX	INCOME TAX	NET OF TAX
Cumulative amount at beginning of period	**$ (2,234)**	**$ —**	**$ (2,234)**	$ —	$ —	$ —
Gains (losses) recognized during the period	**(1,389)**	**—**	**(1,389)**	—	—	—
Cumulative amount at end of period	**$ (3,623)**	**$ —**	**$ (3,623)**	$ —	$ —	$ —

9. STATEMENTS OF CASH FLOWS

A) OTHER RECONCILING ITEMS

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

	SECOND QUARTERS		SIX MONTHS ENDED JUNE 30	
	2020	2019	**2020**	2019
Depreciation of property and equipment and amortization of other non-current non-financial assets	**$ 70,432**	$ 79,825	**$ 137,388**	$ 160,090
Depreciation of right-of-use assets	**28,097**	25,428	**54,793**	52,427
Income taxes recognized in net income	**(18,155)**	(88,107)	**(30,432)**	(108,312)
Net financial expenses recognized in net income (Note 5)	**26,337**	92,948	**57,884**	145,370
Share-based expense (recovery)	**(100)**	18,250	**(2,100)**	16,928
Income from Capital investments accounted for by the equity method	**(11,096)**	(63,383)	**(46,498)**	(122,590)
Dividends and distributions received from Capital investments accounted for by the equity method	**21,001**	43,317	**45,362**	86,931
Loss (income) from PS&PM investments accounted for by the equity method	**(2,408)**	4,314	**(7,841)**	(7,254)
Dividends and distributions received from PS&PM investments accounted for by the equity method	**4,394**	9,110	**5,378**	11,863
Net change in provisions related to forecasted losses on certain contracts	**(9,763)**	31,562	**(18,489)**	(54,777)
Restructuring costs recognized in net income (Note 17)	**54,173**	41,794	**56,579**	52,161
Restructuring costs paid	**(19,188)**	(18,181)	**(50,220)**	(39,614)
Loss from adjustment on disposals of PS&PM businesses	**—**	91	**—**	174
Impairment of intangible assets related to business combinations (Note 15)	**—**	72,831	**—**	72,831
Impairment of goodwill (Note 15)	**—**	1,801,015	**—**	1,801,015
Loss (gain) arising on financial assets (liabilities) at fair value through profit or loss [(1)]	**(990)**	10,385	**60,947**	21,521
Other [(1)]	**(27,979)**	(24,162)	**2,212**	(53,595)
Other reconciling items	**$ 114,755**	$ 2,037,037	**$ 264,963**	$ 2,035,169

(1) During the second quarter and six-month period ended June 30, 2019, “Loss (gain) arising on financial assets (liabilities) at fair value through profit or loss” of $10.4 million and $21.5 million, respectively, was included in “Other”.

9. STATEMENTS OF CASH FLOWS (CONTINUED)

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:

	SECOND QUARTERS		SIX MONTHS ENDED JUNE 30	
	2020	2019	**2020**	2019
Decrease (increase) in trade receivables	**$ 136,394**	$ (67,064)	**$ 183,237**	$ 2,291
Decrease (increase) in contract assets	**195,924**	66,755	**17,865**	(159,328)
Decrease (increase) in inventories	**13,286**	(25,511)	**42,767**	(44,032)
Decrease (increase) in other current financial assets	**1,360**	(26,924)	**(23,876)**	(43,932)
Increase in other current non-financial assets	**(21,953)**	(28,798)	**(590)**	(4,201)
Decrease in trade payables	**(295,017)**	(32,548)	**(241,536)**	(11,722)
Increase (decrease) in contract liabilities	**6,351**	(23,850)	**37,877**	(57,763)
Increase (decrease) in other current financial liabilities	**36,850**	(58,690)	**76,076**	12,123
Increase (decrease) in other current non-financial liabilities	**56,512**	(32,196)	**40,321**	(85,168)
Net change in non-cash working capital items	**$ 129,707**	$ (228,826)	**$ 132,141**	$ (391,732)

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 six-month period ended June 30, 2020:

	Recourse (1) debt	Limited recourse debt	Non-(2) recourse debt	Lease (3) liabilities	Dividends declared to SNC-Lavalin shareholders	Other non-(4) current financial liabilities	Other non-(4) current non-financial liabilities
Balance at January 1, 2020	$ 1,172,663	$ 400,000	$ 485,118	$ 611,750	$ —	$ 232,569	$ 551
Changes arising from cash flows:							
Increase	1,000,000	—	10,805	—	—	2,739	107
Repayment	(500,000)	—	(75,098)	(59,769)	(7,022)	(3,325)	(173)
Total – changes arising from cash flows	500,000	—	(64,293)	(59,769)	(7,022)	(586)	(66)
Non-cash changes:							
Declaration of dividends to SNC-Lavalin shareholders	—	—	—	—	7,022	—	—
Effect of foreign currency exchange differences	—	—	2,119	3,501	—	1,013	50
Amortization of deferred financing costs and discounts and increase from the passage of time	1,760	—	1,121	—	—	3,688	—
Loss on derivatives used for hedges	—	—	—	—	—	8,811	—
Change in fair value of contingent consideration related to the Linxon transaction	—	—	—	—	—	874	—
Reclassification of deferred financing costs from “Other current non-financial assets” and “Other non-current non-financial assets” upon increase of Revolving Facility	(5,389)	—	—	—	—	—	—
Net increase in lease liabilities	—	—	—	25,773	—	—	—
Reclassification of payable related to Federal charges settlement (PPSC) to “Other current financial liabilities”	—	—	—	—	—	(54,408)	—
Balance at June 30, 2020	**$ 1,669,034**	**$ 400,000**	**$ 424,065**	**$ 581,255**	**$ —**	**$ 191,961**	**$ 535**

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

9. STATEMENTS OF CASH FLOWS (CONTINUED)

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

SIX MONTHS ENDED JUNE 30	2020		
	INCREASE OF DEBT	REPAYMENT OF DEBT	PAYMENT FOR DEBT ISSUE COSTS
Recourse debt:			
Revolving Facility	$ 1,000,000	$ (500,000)	$ —
Total – Recourse debt	**1,000,000**	**(500,000)**	**—**
Non-recourse debt:			
Credit facility – InPower BC General Partnership	—	(63,130)	—
Senior Bonds – InPower BC General Partnership	—	(8,156)	—
Credit facility – TransitNEXT General Partnership	10,805	—	—
Senior Secured Notes of a PS&PM investment	—	(3,812)	—
Total – Non-recourse debt	**10,805**	**(75,098)**	**—**
Total	**$ 1,010,805**	**$ (575,098)**	**$ —**

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

	JUNE 30 2020	JANUARY 1 2020
Recourse short-term debt	$ 970,375	$ 299,518
Recourse long-term debt	698,659	873,145
Total	**$ 1,669,034**	**$ 1,172,663**

(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:

	JUNE 30 2020	JANUARY 1 2020
Non-recourse short-term debt	$ 299,539	$ 93,664
Non-recourse long-term debt	124,526	391,454
Total	**$ 424,065**	**$ 485,118**

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

	JUNE 30 2020	JANUARY 1 2020
Current portion of lease liabilities	$ 123,625	$ 131,075
Non-current portion of lease liabilities	457,630	480,675
Total	**$ 581,255**	**$ 611,750**

(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:

SIX MONTHS ENDED JUNE 30	2020
Other non-current financial liabilities	$ (586)
Other non-current non-financial liabilities	(66)
Other	(2)
Total	**$ (654)**

9. STATEMENTS OF CASH FLOWS (CONTINUED)

The following table provides a reconciliation between the opening and closing balances in the statement of financial position for liabilities arising from financing activities for the six-month period ended June 30, 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 adjustment on adoption of a new accounting standard	—	—	—	614,152	—	(2,929)	(60,044)
Adjusted balance at January 1, 2019	2,288,020	980,303	399,705	614,152	—	50,576	1,464
Changes arising from cash flows:							
Increase	1,119,988	—	75,842	—	—	125	5,313
Repayment	(415,331)	—	(2,882)	(57,571)	(35,111)	(2,255)	(6,426)
Total – changes arising from cash flows	704,657	—	72,960	(57,571)	(35,111)	(2,130)	(1,113)
Non-cash changes:							
Declaration of dividends to SNC-Lavalin shareholders	—	—	—	—	35,111	—	—
Effect of foreign currency exchange differences	(3,316)	—	(1,642)	(8,811)	—	(811)	100
Amortization of deferred financing costs and discounts	2,067	19,697	1,301	—	—	—	—
Loss on derivatives used for hedges	—	—	—	—	—	(6,396)	—
Change in fair value of contingent consideration related to the Linxon transaction	—	—	—	—	—	258	—
Net increase in lease liabilities	—	—	—	26,069	—	—	—
Balance at June 30, 2019	**$ 2,991,428**	**$ 1,000,000**	**$ 472,324**	**$ 573,839**	**$ —**	**$ 41,497**	**$ 451**

[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

SIX MONTHS ENDED JUNE 30	2019		
	INCREASE OF DEBT	REPAYMENT OF DEBT	PAYMENT FOR DEBT ISSUE COSTS
Recourse debt:			
Revolving Facility	$ 1,119,988	$ (87,051)	$ —
Series 2 Debentures	—	(150,000)	—
Series 5 Debentures	—	(150,000)	—
Bank overdraft	—	(28,280)	—
Total – Recourse debt	**1,119,988**	**(415,331)**	**—**
Non-recourse debt:			
Credit facility – InPower BC General Partnership	6,865	—	—
Credit facility – TransitNEXT General Partnership	62,365	—	(998)
Senior Secured Notes of a PS&PM investment	6,612	(1,884)	—
Total – Non-recourse debt	**75,842**	**(1,884)**	**(998)**
Total	**$ 1,195,830**	**$ (417,215)**	**$ (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:

	JUNE 30 2019	JANUARY 1 2019
Recourse short-term debt	$ 1,819,385	$ 1,116,587
Recourse long-term debt	1,172,043	1,171,433
Total	**$ 2,991,428**	**$ 2,288,020**

(2) Non-recourse short-term debt and no-recourse long-term debt from Capital investments were presented in the Company's consolidated statements of financial position as follows:

	JUNE 30 2019	JANUARY 1 2019
Non-recourse short-term debt	$ 76,372	$ 60,168
Non-recourse long-term debt	395,952	339,537
Total	**$ 472,324**	**$ 399,705**

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

	JUNE 30 2019	JANUARY 1 2019
Current portion of lease liabilities	$ 106,527	$ —
Non-current portion of lease liabilities	467,312	—
Total	**$ 573,839**	**$ —**

(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:

SIX MONTHS ENDED JUNE 30	2019
Other non-current financial liabilities	$ (2,130)
Other non-current non-financial liabilities	(1,113)
Other	(11)
Total	**$ (3,254)**

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 second quarters and six-month periods ended June 30, 2020 and 2019, SNC-Lavalin recognized the following transactions with its related parties:

	SECOND QUARTERS		SIX MONTHS ENDED JUNE 30	
	2020	2019	**2020**	2019
PS&PM revenue from contracts with investments accounted for by the equity method	**$ 169,189**	$ 137,363	**$ 339,368**	$ 336,236
Income from Capital investments accounted for by the equity method	**11,096**	63,383	**46,498**	122,590
Dividends and distributions received from Capital investments accounted for by the equity method	**21,001**	43,317	**45,362**	86,931
Income (loss) from PS&PM investments accounted for by the equity method	**2,408**	(4,314)	**7,841**	7,254
Dividends and distributions received from PS&PM investments accounted for by the equity method	**$ 4,394**	$ 9,110	**$ 5,378**	$ 11,863

As at June 30, 2020 and December 31, 2019, SNC-Lavalin has the following balances with its related parties:

	JUNE 30 2020	DECEMBER 31 2019
Trade receivables from investments accounted for by the equity method	**$ 162,472**	$ 165,371
Other current financial assets receivable from investments accounted for by the equity method	**110,259**	108,330
Remaining commitment to invest in Capital investments accounted for by the equity method	**$ 24,920**	$ 70,724

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

11. FINANCIAL INSTRUMENTS

A) CLASSIFICATION AND FAIR VALUE OF FINANCIAL INSTRUMENTS

The following table presents the carrying value of SNC-Lavalin's financial assets as at June 30, 2020 and December 31, 2019 by category and classification, with the corresponding fair value, when available:

AT JUNE 30	2020					
	CARRYING VALUE OF FINANCIAL ASSETS BY CATEGORY					
	FVTPL (1)	FVTOCI (2)	AMORTIZED COST	DERIVATIVES USED FOR HEDGES	TOTAL	FAIR VALUE
Cash and cash equivalents	**$ 1,591,221**	**$ —**	**$ —**	**$ —**	**$ 1,591,221**	**$ 1,591,221**
Restricted cash	**37,610**	**—**	**—**	**—**	**37,610**	**37,610**
Trade receivables	**—**	**—**	**1,360,483**	**—**	**1,360,483**	**1,360,483**
Other current financial assets	**6,271**	**—**	**221,785**	**9,248**	**237,304**	**239,554**
Capital investment accounted for by the cost method	**—**	**8,193**	**—**	**—**	**8,193**	**8,193**
Non-current portion of receivables under service concession arrangements (3)	**—**	**—**	**392,148**	**—**	**392,148**	**455,005**
Other non-current financial assets (3)	**—**	**—**	**41,204**	**3,322**	**44,526**	**44,526**
Total	**$ 1,635,102**	**$ 8,193**	**$ 2,015,620**	**$ 12,570**	**$ 3,671,485**	**$ 3,736,592**

AT DECEMBER 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	$ 1,188,636	$ —	$ —	$ —	$ 1,188,636	$ 1,188,636
Restricted cash	34,118	—	—	—	34,118	34,118
Trade receivables	—	—	1,533,442	—	1,533,442	1,533,442
Other current financial assets	6,047	—	195,115	21,146	222,308	223,676
Capital investment accounted for by the cost method	—	8,107	—	—	8,107	8,107
Non-current portion of receivables under service concession arrangements (3)	—	—	352,987	—	352,987	387,060
Other non-current financial assets (3)	57,207	303	49,434	8,997	115,941	115,941
Total	$ 1,286,008	$ 8,410	$ 2,130,978	$ 30,143	$ 3,455,539	$ 3,490,980

(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 tables present the carrying value of SNC-Lavalin's financial liabilities as at June 30, 2020 and December 31, 2019 by category and classification, with the corresponding fair value, when available:

AT JUNE 30	2020				
	CARRYING VALUE OF FINANCIAL LIABILITIES BY CATEGORY				
	DERIVATIVES USED FOR HEDGES	FVTPL [(1)]	AMORTIZED COST	TOTAL	FAIR VALUE
Trade payables	**$ —**	**$ —**	**$ 2,018,280**	**$ 2,018,280**	**$ 2,018,280**
Other current financial liabilities	**22,903**	**—**	**293,851**	**316,754**	**316,754**
Provisions	**—**	**—**	**93,764**	**93,764**	**93,764**
Lease liabilities	**—**	**—**	**581,255**	**581,255**	**N/A [(2)]**
Short-term debt and long-term debt [(3)]	**—**	**—**	**2,493,099**	**2,493,099**	**2,536,444**
Other non-current financial liabilities	**11,156**	**17,231**	**163,574**	**191,961**	**191,961**
Total	**$ 34,059**	**$ 17,231**	**$ 5,643,823**	**$ 5,695,113**	**$ 5,157,203**

AT DECEMBER 31	2019				
	CARRYING VALUE OF FINANCIAL LIABILITIES BY CATEGORY				
	DERIVATIVES USED FOR HEDGES	FVTPL [(1)]	AMORTIZED COST	TOTAL	FAIR VALUE
Trade payables	$ —	$ —	$ 2,153,520	$ 2,153,520	$ 2,153,520
Other current financial liabilities	17,086	—	270,630	287,716	287,716
Provisions	—	—	121,376	121,376	121,376
Lease liabilities	—	—	611,750	611,750	N/A [(2)]
Short-term debt and long-term debt [(3)]	—	—	2,057,781	2,057,781	2,084,296
Other non-current financial liabilities	2,345	14,405	215,819	232,569	232,569
Total	$ 19,431	$ 14,405	$ 5,430,876	$ 5,464,712	$ 4,879,477

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

(2) N/A: not applicable

(3) The fair value of short-term debt and long-term debt was determined using public quotations or the discounted cash flows method in accordance with current financing arrangements. The discount rates used correspond to prevailing market rates offered to SNC-Lavalin or to the Capital investments, depending on which entity has issued the debt instrument, for debt with the similar terms and conditions.

For the six-month periods ended June 30, 2020 and 2019, there were no changes in valuation techniques and in inputs used in the fair value measurements and there were no transfers between the levels of the fair value hierarchy.

LEVEL 3 FINANCIAL INSTRUMENTS

The following table presents changes in fair value of Level 3 financial instruments for the six-month period ended June 30, 2020:

	CONTINGENT CONSIDERATION RECEIVABLE FROM THE ACQUIRER OF THE 10.01% INTEREST IN HIGHWAY 407 ETR	CONTINGENT CONSIDERATION PAYABLE TO SELLER RELATED TO LINXON ACQUISITION
Balance as at January 1, 2020	**$ 57,207**	**$ 14,405**
Unrealized net losses [(4)]	**(57,207)**	**874**
Effect of foreign currency exchange differences	**—**	**1,952**
Balance as at June 30, 2020	**$ —**	**$ 17,231**

(4) Included in "Loss (gain) arising on financial assets (liabilities) at fair value through profit or loss" in the consolidated income statement

11. FINANCIAL INSTRUMENTS (CONTINUED)

Assumptions

When measuring Level 3 financial instruments at fair value using the present value technique, some assumptions are not derived from an observable market. The main assumptions developed internally relate to discount rate and to future expected cash flows, based on the projected future performance. The projected future performance is an important input for the determination of fair value and is prepared by the management of SNC-Lavalin based on the budget and the strategic plan.

The significant assumptions used in measuring fair value of Level 3 financial instruments as at June 30, 2020 were as follows: i) the discount rate, which was 7.80% for contingent consideration receivable from the acquirer of the 10.01% interest in Highway 407 ETR and 11.95% for contingent consideration payable to the seller related to the Linxon acquisition; and ii) the expected future cash flows of Highway 407 ETR and Linxon.

Sensitivity analysis

These assumptions, not derived from an observable market, are established by the management of SNC-Lavalin using estimates and judgments that can have a significant effect on net income.

The following impact on net income has been calculated changing one of these assumptions to another reasonably possible alternative assumption for the six-month period ended June 30, 2020:

		IMPACT ON NET INCOME	
		CONTINGENT CONSIDERATION RECEIVABLE FROM THE ACQUIRER OF THE 10.01% INTEREST IN HIGHWAY 407 ETR	CONTINGENT CONSIDERATION PAYABLE TO THE SELLER RELATED TO THE LINXON ACQUISITION
Increase (decrease)	If the discount rate is 100 basis points lower [(1)]	$ —	$ **(785)**
Increase (decrease)	If the discount rate is 100 basis points higher [(1)]	$ —	$ **719**
Increase (decrease)	If the expected future cash flows are 1% lower [(1)]	$ —	$ —
Increase (decrease)	If the expected future cash flows are 1% higher [(1)]	$ **7,741**	$ —

(1) Assuming all other variables remain the same

12. CONTINGENT LIABILITIES

Class actions

Ruediger Class Action

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

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

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

On October 15, 2019, the plaintiffs in the Ruediger Class Action Motion delivered an amended "Motion for authorization of a class action and for authorization to bring an action pursuant to section 225.4 of Quebec's Securities Act". The amendments extend the class period for the Ruediger Class Action Motion to July 22, 2019 and broaden the scope of the claim to include amongst other things the Company's ability to execute certain fixed price contracts.

12. CONTINGENT LIABILITIES (CONTINUED)

Drywall Class Action

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

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

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

On September 13, 2019, counsel to the plaintiffs in the Ruediger Class Action brought a motion to stay the Drywall Class Action on the grounds that it is duplicative of the Ruediger Class Action Motion. Counsel for the Company filed a companion motion in support of this motion on October 1, 2019. These companion motions were heard together on November 8, 2019 and the Ontario Superior Court of Justice rendered its decision on November 21, 2019, dismissing the motions. On December 6, 2019, the plaintiff in the Ruediger Class Action and the Company brought motions for leave to appeal the dismissal of these motions, which are scheduled to be heard in writing during the week of August 17, 2020.

On October 15, 2019, the plaintiff in the Drywall Class Action delivered a proposed Amended Statement of Claim that contemplates expanding the Drywall Class Period to include SNC-Lavalin's July 22, 2019 and August 1, 2019 press releases and increasing the claim for damages from $1.2 billion to $1.8 billion. On November 5, 2019, the plaintiff delivered a motion record for leave under Ontario's Securities Act and certification under the Class Proceedings Act. On June 30, 2020, the defendants in the Drywall Class Action delivered their responding motion record for the leave and certification hearing which is scheduled for October 19 to 23, 2020.

Peters Class Action

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

The Peters Class Action alleges that the defendants, including the Company, its Chairman and certain of its then 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 Public Prosecution Service of Canada ("PPSC") communicated her decision to SNC-Lavalin not to award an opportunity to negotiate a remediation agreement.

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

On March 5, 2020, the plaintiff in the Peters Class Action brought a motion for leave and certification of the Peters Class Action.

12. CONTINGENT LIABILITIES (CONTINUED)

SNC-Lavalin believes that the claims outlined in the Ruediger Class Action Motion, the Drywall Class Action and the Peters Class Action are, in each case, entirely without merit and is vigorously defending these claims. Due to the inherent uncertainties of litigation, it is not possible to predict the final outcomes of the Ruediger Class Action, the Drywall Class Action or the Peters Class Action, or determine the amount of any potential losses resulting therefrom, if any, and SNC-Lavalin may, in the future, be subject to further class action lawsuits or other litigation. SNC-Lavalin has directors' and officers' liability insurance insuring individuals against liability for acts or omissions in their capacity as directors and officers, and the Company itself has coverage for such claims. The amount of coverage under the directors' and officers' policy is limited and such coverage may be less than any amounts the Company is required or determines to pay in connection with these proceedings. If the Company is required or determines to pay an amount in connection with the Ruediger Class Action, the Drywall Class Action or the Peters Class Action, such amount could have a material adverse effect on SNC-Lavalin's liquidity and financial results.

<u>Pyrrhotite case</u>

On June 12, 2014, the Quebec Superior Court rendered a decision in "Wave 1" of the matter commonly referred to as the "Pyrrhotite Case" in Trois-Rivières, Quebec and in which SNC-Lavalin is one of numerous defendants. The Quebec Superior Court ruled in favour of the plaintiffs, awarding an aggregate amount of approximately $168 million in damages apportioned amongst the then-known defendants, on a solidary (in solidum) basis (the "Wave 1 claims"). The Quebec Superior Court ruled that SNC-Lavalin's share of the damages award was approximately 70%. The Company's external insurers dispute the extent of the insurance coverage available to the Company and this dispute is included in the Pyrrhotite Case. The Company, among other parties, appealed the Quebec Superior Court's ruling and on April 6, 2020, the Quebec Court of Appeal rendered its decision dismissing most of the appeals filed by all parties and upheld: (i) the Quebec Superior Court's ruling regarding SNC-Lavalin's approximate 70% share of liability; and (ii) the solidary nature of the defendants' liability. In a further ruling, on June 12, 2020, the Quebec Court of Appeal confirmed SNC-Lavalin's allocated share of the damages, inclusive of interest and costs at approximately $200 million, and the Company will pay this damage amount to the plaintiffs on August 3, 2020. The Company has filed a notice seeking leave to appeal to the Supreme Court of Canada.

The Quebec Court of Appeal also dismissed an appeal from SNC-Lavalin's external insurers and confirmed that multiple insurance policy towers were triggered by the Wave 1 claims, resulting in multiple years of coverage. The Company's external insurers have filed notices seeking leave to appeal to the Supreme Court of Canada.

SNC-Lavalin is expecting its external insurers to comply with terms contained in the relevant policies of insurance and the orders of the Quebec Superior Court and the Quebec Court of Appeal requiring them to pay a substantial portion of the $200 million damage award. On June 10, 2020, the Company filed an application with the Quebec Superior Court seeking an order requiring the Company's external insurers to comply with the Quebec Court of Appeal's order and facilitate execution of the $200 million damages award by way of the multiple towers of insurance. The hearing in this matter is scheduled for the week of August 10, 2020.

SNC-Lavalin has filed a recourse in warranty claim against Lafarge Canada Inc. ("Lafarge") seeking its contribution to the damages awarded against SNC-Lavalin in the Wave 1 judgement. This case, for which the trial commenced in March 2019, is expected to conclude in 2020 with a ruling anticipated by year end 2020 or in the first quarter of 2021. The claim against Lafarge may result in a reduction of SNC-Lavalin's share of the damages.

In parallel to the Wave 1 claims, notices of additional potential claims have been made and continue to be made against numerous defendants, including SNC-Lavalin, in "Wave 2" of the Pyrrhotite Case. Wave 2 claims are in a preliminary stage and SNC-Lavalin's liability exposure in respect of the Wave 2 claims remains subject to several uncertainties. SNC-Lavalin expects some insurance coverage for the Wave 2 claims. In addition, SNC-Lavalin has filed recourse in warranty claims against Lafarge with respect to the Wave 2 claims.

<u>Dubai civil case</u>

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

12. CONTINGENT LIABILITIES (CONTINUED)

Australian Arbitration

One of the Company's subsidiaries has a 35% interest in a joint operation for a project that has been completed. The construction joint operation is in a dispute with the project owner over labor rates. Under the relevant project contract, the Company's subsidiary is jointly and severally liable with the other joint operator vis-à-vis the project owner for performance and other liabilities. In December 2018, the joint operation received a split award of liability from an arbitration tribunal resulting in an adverse decision on certain aspects of the dispute. A hearing on the quantum of damages to be awarded against the joint operation (if any) is scheduled for 2020.

General litigation risk

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

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

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

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

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

Ongoing and potential investigations

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

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

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

12. CONTINGENT LIABILITIES (CONTINUED)

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

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

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

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

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.

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 is broad and encompasses offences under the Criminal Code, (Canada) (the "Criminal Code"), the Competition Act, and the Corruption of Foreign Public Officials Act (Canada) (the "CFPOA,"), among others. Some of the offences qualifying for ineligibility include: bribery, fraud against Canada, money laundering, falsification of books and documents, extortion, and offences related to drug trafficking. A determination of ineligibility to participate in federal government procurement projects may apply for 10 years for listed offences. However, the Integrity Regime permits the ineligibility period to be reduced by up to five years if a supplier can establish that it has cooperated with law enforcement authorities or addressed the causes of misconduct. The Canadian government is currently considering further revisions to the Integrity Regime.

If a supplier is charged with or pleads guilty to a listed offence (which does not currently include the plea of guilty to a single charge of fraud by SNC-Lavalin Construction Inc. (the "Plea") made as part of the settlement the Company announced it had reached with the PPSC on December 18, 2019 regarding the charges of one count of fraud under Section 380 of the Criminal Code and one count of corruption under Section 3(1)(b) of the CFPOA laid by the PPSC against each of the Company and its indirect subsidiaries SNC-Lavalin International Inc. and SNC-Lavalin Construction Inc. (the "Charges")), it and its affiliates may under the Integrity Regime be ineligible to do business with the Canadian government.

If a supplier applies for a reduced ineligibility period, or if a supplier charged with a listed offence is notified that it could be ineligible to do business with the Canadian government, as a condition of granting the reduced ineligibility period or not suspending the supplier, an administrative agreement may be imposed to monitor the supplier. Administrative agreements include conditions and compliance measures that the supplier must meet to remain eligible to contract with the federal government. In December 2015, the Company entered into an administrative agreement with the Canadian government under the Integrity Regime in connection with the Charges. The 2015 administrative agreement will, according to its terms, remain in force for 12 further months from the date of the Plea and then terminate.

<u>Other legal proceedings</u>

SNC-Lavalin becomes involved in various legal proceedings as a part of its ordinary course of business and this section describes an important ordinary course of business legal proceeding, including the general cautionary language relating to the risks inherent to all litigation and proceedings against SNC-Lavalin, which is equally applicable to the legal proceedings described below.

SNC-Lavalin Inc. has initiated court proceedings against a Canadian client stemming from engineering, procurement, and construction management services that SNC-Lavalin Inc. provided in relation to the client's expansion of an ore-processing facility. SNC-Lavalin Inc. claimed from the client certain amounts due under the project contract. The client has counterclaimed alleging that SNC-Lavalin Inc. defaulted under the project contracts and is seeking damages.

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

The Company is a party to other claims and litigation arising in the normal course of operations, including by clients, subcontractors, and vendors presenting claims for, amongst other things, recovery of costs related to certain projects. Due to the inherent uncertainties of litigation and-or the early stage of certain proceedings, it is not possible to predict the final outcome of all ongoing claims and litigation at any given time or to determine the amount of any potential losses, if any. With respect to claims or litigation arising in the normal course of operations which are at a more advanced stage and which permit a better assessment of potential outcome, the Company does not expect the resolution of these matters to have a materially adverse effect on its financial position or results of operations.

13. SHORT-TERM DEBT AND LONG-TERM DEBT

A) NON-RECOURSE DEBT – SENIOR BONDS OF INPOWER BC GENERAL PARTNERSHIP

In the second quarter of 2020, InPower BC General Partnership, a wholly-owned subsidiary of the Company, did not comply with the Lenders Long Stop Date ("LLSD") under its principal financing document (Common Terms and Intercreditor Agreement) due to a delay in achieving the Total Completion Date on or prior to May 13, 2020. Total Completion was reached on May 22, 2020, 9 days later than the LLSD. The non-compliance with the LLSD triggered an Event of Default which entitles the bondholders to exercise their rights including, but not limited to, repayment on demand of the outstanding senior bonds in the principal amount of $289.7 million as at June 30, 2020. As such, the carrying amount of the senior bonds of InPower BC General Partnership of $284.3 million is presented in "Short-term debt and current portion of long-term debt – Non-recourse" in the consolidated statement of financial position as at June 30, 2020. Given the non-recourse nature of the indebtedness of InPower BC General Partnership, the Event of Default under the InPower BC General Partnership Common Terms and Intercreditor Agreement did not constitute or trigger any form of cross-default, default, event of default or acceleration event under any of the Company's other recourse, non-recourse or limited recourse indebtedness.

On July 20, 2020, a settlement agreement was signed among British Columbia Hydro and Power Authority, InPower BC General Partnership and SNC-Lavalin Inc. pursuant to which the LLSD was extended by 10 days and, as a result, the Total Completion Date of May 22, 2020 is in compliance with the updated/extended LLSD. Consequently, this had the effect of eliminating the Event of Default under the Common Terms and Intercreditor Agreement. There is no expected negative financial impact from the above-mentioned facts and circumstances.

B) AMENDMENTS TO THE CDPQ LOAN AND TO THE CREDIT AGREEMENT

In the second quarter of 2019, the Company and CDPQ renegotiated certain terms of the CDPQ loan agreement dated April 20, 2017 (as amended, from time to time, the "CDPQ Loan"), which included, among others, the following amendments:

- modification of the covenant to align it with the amendment made to the Company's second amended and restated credit agreement dated as of April 30, 2018 (as amended, from time to time, 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 (see note 4A), 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 to CDPQ.

The amendments described above were accounted for as an extinguishment of financial liability with the issuance of a new financial liability, giving rise to a loss of $33.8 million recognized in "Net financial expenses" (see Note 5), which included the $15 million cash outflow corresponding to the fees disclosed above and the amount of $18.8 million representing the unamortized balance of deferred financing costs of the CDPQ Loan on the date of its amendment.

Furthermore, the Company amended its Credit Agreement modifying the calculation of the net recourse debt to earnings before interest, taxes, depreciation and amortization ratio to a pro-forma basis to include the sale of 10.01% of the shares of Highway 407 ETR in the second quarter of 2019. The same amendment was made to the CDPQ Loan agreement in the second quarter of 2019.

The terms "net recourse debt to earnings before interest, taxes, depreciation and amortization ratio" are defined in the Credit Agreement and in the CDPQ Loan agreement and do not correspond to the specific terms used in the Management's Discussion and Analysis for the six-month period ended June 30, 2019.

14. 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%.

14. BUSINESS COMBINATION (CONTINUED)

NET CASH INFLOW ON ACQUISITION OF LINXON

SIX MONTHS ENDED JUNE 30		2019
Consideration paid in cash	$	—
Less: Return of contingent consideration to be transferred to seller received in cash [(1)]		5,539
Net cash inflow on acquisition of Linxon	**$**	**(5,539)**

(1) Under the business combination arrangement, ABB was 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).

15. GOODWILL AND INTANGIBLE ASSETS RELATED TO BUSINESS COMBINATIONS

In the second quarter of 2019, goodwill was impaired by $1.8 billion in the Resources CGU. Such CGU corresponds to a reportable segment. The impairment was largely attributable to the Company's decision to cease bidding on lump-sum turnkey construction projects, as well as lower than expected performance in Resources in the first half of 2019 and challenges in replenishing the backlog. The recoverable amount of this CGU was determined using the value in use approach as at June 30, 2019, based on a terminal growth rate of 2.5% and a discount rate of 11.3%.

At the same time, the intangible assets related to business combinations in the Resources segment were impaired by $72.8 million.

16. GOVERNMENT GRANTS

A) ACCOUNTING POLICY ADOPTED IN THE SIX-MONTH PERIOD ENDED JUNE 30, 2020

In the six-month period ended June 30, 2020, SNC-Lavalin adopted an accounting policy related to government grants as follows:

Government grants

SNC-Lavalin recognizes grants from the government at their fair value where there is a reasonable assurance that the grant will be received and SNC-Lavalin will comply with all attached conditions.

Government grants are recognized in the income statement on a systematic basis over the periods in which SNC-Lavalin recognizes as expenses the related costs for which the grants are intended to compensate. Specifically, government grants whose primary condition is that the Company should purchase, construct or otherwise acquire non-current assets (including property and equipment) are recognized by deducting the grants from the carrying amount of the related assets in the statement of financial position and transferred to the income statement on a systematic and rational basis over the useful lives of the related assets.

Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Company with no future related costs are recognized in the income statement in the period in which they become receivable.

B) GOVERNMENT GRANTS RECOGNIZED IN THE SECOND QUARTER OF 2020

In the second quarter of 2020, certain subsidiaries of the Company participated in various government assistance programs related to COVID-19, mainly in Canada and in the United Kingdom. The main programs resulted in governments subsidizing a portion of salaries paid by qualifying employers who experienced a decrease in activities exceeding a certain threshold or subsidizing salaries of employees that were no longer providing services to their employers but continued to receive compensation.

In the second quarter of 2020, SNC-Lavalin recognized government grants in reduction of "Direct costs of activities" for $33.3 million and in reduction of "Corporate selling, general and administrative expenses" for $1.4 million in the consolidated income statement, as an offset of costs for which the grants were intended to compensate.

17. RESTRUCTURING COSTS

The Company incurred $56.6 million of restructuring costs in the six-month period ended June 30, 2020 (2019: $52.2 million), of which $54.2 million were incurred in the three-month period ended June 30, 2020 (2019: $41.8 million). The restructuring costs recognized in the three-month and six-month periods ended June 30, 2020 and 2019 were mainly for severances.

After a thorough review of strategic options for the Resources Services business, management of SNC-Lavalin has concluded that this business will be restructured to focus on a Services offering in a limited number of primary markets (the Americas and the Middle East). The legacy Resources Projects business and associated LSTK projects will be largely wound down and the projects complete by the end of 2020. The Company will exit non-primary markets through either sale or closure.

As such, approximately $29.9 million of restructuring costs were incurred in connection with the Resources segment in the three-month period ended June 30, 2020, of which $8.7 million related to non-cash charges, notably $6.2 million of impairment of property and equipment and $2.5 million of impairment of right-of-use assets. In addition, restructuring actions were taken in the second quarter of 2020 to adjust the cost base of other operating segments, notably in the Middle East and United Kingdom regions of the EDPM segment, for which an amount of $19.2 million of restructuring costs were recognized during the three-month period ended June 30, 2020, of which $0.5 million related to impairment of right-of-use assets.

18. EVENTS AFTER THE REPORTING PERIOD

At the end of July 2020, as part of its strategy, SNC-Lavalin entered into agreements to sell certain subsidiaries part of its Resources segment in South Africa and in Europe. These transactions are subject to conditions precedent, including receipt of the approval of the exchange control authorities of the South African Reserve Bank for the South African subsidiaries. Subject to changes up to the closing of these transactions, these disposals are not expected to result in a significant gain or loss on disposal of PS&PM businesses before income taxes. However, these transactions are expected to give rise to an income tax expense of approximately $20 million.

SNC·LAVALIN

www.snclavalin.com

SNC-LAVALIN
455 René-Lévesque Blvd. West
Montreal, Quebec
H2Z 1Z3 Canada
Tel: 514-393-1000
Fax: 514-866-0795