

Management's Responsibility for Financial Reporting

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

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

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

The Company's Chief Executive Officer and Chief Financial Officer are responsible for having established and maintaining disclosure controls and procedures and internal controls over financial reporting. Two material weaknesses relating to the design and operating effectiveness of the Company's internal control over financial reporting were identified and it was determined that the Company's disclosure controls and procedures and internal control over financial reporting were not effective, in both cases, as at December 31, 2011. Management has identified and, in certain instances, begun to implement a number of measures to address the material weaknesses and continues to strengthen the Company's internal control over financial reporting, as more fully described in the "Controls and Procedures" section of the 2011 Management's Discussion and Analysis. However, such measures may not be effective and the Company could face additional risks and/or unknown losses.

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

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

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



IAN A. BOURNE
VICE-CHAIRMAN AND
INTERIM CHIEF EXECUTIVE OFFICER



GILLES LARAMÉE
EXECUTIVE VICE-PRESIDENT AND
CHIEF FINANCIAL OFFICER

MONTREAL, CANADA
MARCH 25, 2012

Independent Auditor's Report

To the shareholders of SNC-Lavalin Group Inc.

We have audited the accompanying consolidated financial statements of SNC-Lavalin Group Inc., which comprise the consolidated statements of financial position as at December 31, 2011, December 31, 2010 and January 1, 2010, and the consolidated income statements, the consolidated statements of comprehensive income, changes in equity and cash flows for the years ended December 31, 2011 and 2010, and a summary of significant accounting policies and other explanatory information.

MANAGEMENT'S RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

AUDITOR'S RESPONSIBILITY

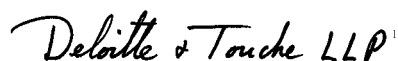
Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

OPINION

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of SNC-Lavalin Group Inc. as at December 31, 2011, December 31, 2010 and January 1, 2010, and its financial performance and its cash flows for the years ended December 31, 2011 and 2010 in accordance with International Financial Reporting Standards.

The logo for Deloitte & Touche LLP, featuring the company name in a stylized, cursive script.

CHARTERED ACCOUNTANTS

MONTREAL, CANADA
MARCH 25, 2012

(1) Chartered accountant auditor permit No. 18190

Consolidated Financial Statements

SNC-Lavalin Group Inc.

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

| (IN THOUSANDS OF CANADIAN DOLLARS) | NOTE | DECEMBER 31 2011 | DECEMBER 31 2010 | JANUARY 1 2010 |
|--|-------|---------------------|---------------------|---------------------|
| ASSETS | | | | |
| Current assets | | | | |
| Cash and cash equivalents | 7 | \$ 1,231,049 | \$ 1,235,085 | \$ 1,191,398 |
| Restricted cash | 7 | 39,354 | 39,369 | 31,377 |
| Trade receivables | 8 | 1,155,544 | 1,273,509 | 1,042,421 |
| Contracts in progress | | 557,220 | 608,135 | 479,637 |
| Other current financial assets | 9 | 396,552 | 290,254 | 279,805 |
| Other current assets | 10 | 166,563 | 120,128 | 132,941 |
| Total current assets | | 3,546,282 | 3,566,480 | 3,157,579 |
| Property and equipment: | | | | |
| From ICI | 5, 11 | 2,637,735 | 2,072,814 | 1,725,206 |
| From other activities | 11 | 159,883 | 115,189 | 111,672 |
| ICI accounted for by the equity or cost methods | 5 | 643,487 | 626,948 | 575,863 |
| Goodwill | 12 | 639,471 | 542,028 | 520,862 |
| Deferred income tax asset | 26 | 161,364 | 158,419 | 139,265 |
| Non-current financial assets | 13 | 412,258 | 313,295 | 285,728 |
| Other non-current assets | 14 | 153,521 | 125,607 | 73,974 |
| Total assets | | \$ 8,354,001 | \$ 7,520,780 | \$ 6,590,149 |
| LIABILITIES AND EQUITY | | | | |
| Current liabilities | | | | |
| Trade payables | | \$ 1,520,395 | \$ 1,274,658 | \$ 1,294,752 |
| Downpayments on contracts | | 316,714 | 422,930 | 397,329 |
| Deferred revenues | | 907,118 | 728,187 | 510,189 |
| Other current financial liabilities | 15 | 291,031 | 324,949 | 240,083 |
| Other current liabilities | 16 | 151,689 | 97,106 | 121,757 |
| Short-term debt and current portion of long-term debt: | | | | |
| Recourse | 17 | – | – | 104,874 |
| Non-recourse from ICI | 17 | 327,381 | 38,762 | 51,596 |
| Total current liabilities | | 3,514,328 | 2,886,592 | 2,720,580 |
| Long-term debt: | | | | |
| Recourse | 17 | 348,369 | 348,204 | 348,048 |
| Non-recourse from ICI | 17 | 1,561,377 | 1,529,024 | 1,258,402 |
| Other non-current financial liabilities | 18 | 130,744 | 76,397 | 81,697 |
| Provisions | 19 | 224,834 | 177,087 | 131,411 |
| Other non-current liabilities | 20 | 486,217 | 432,183 | 378,475 |
| Deferred income tax liability | 26 | 201,416 | 151,861 | 71,843 |
| Total liabilities | | 6,467,285 | 5,601,348 | 4,990,456 |
| Equity | | | | |
| Share capital | 21 | 455,682 | 424,935 | 397,735 |
| Retained earnings | | 1,543,199 | 1,459,323 | 1,124,508 |
| Other components of equity | 22 | (115,813) | (67,480) | (4,035) |
| Equity attributable to SNC-Lavalin shareholders | | 1,883,068 | 1,816,778 | 1,518,208 |
| Non-controlling interests | | 3,648 | 102,654 | 81,485 |
| Total equity | | 1,886,716 | 1,919,432 | 1,599,693 |
| Total liabilities and equity | | \$ 8,354,001 | \$ 7,520,780 | \$ 6,590,149 |

See accompanying notes to consolidated financial statements.

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


IAN A. BOURNE
DIRECTOR


DAVID GOLDMAN
DIRECTOR

Consolidated Financial Statements

SNC-Lavalin Group Inc.

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

YEAR ENDED DECEMBER 31

(IN THOUSANDS OF CANADIAN DOLLARS, EXCEPT NUMBER OF COMMON SHARES)

2011

| | EQUITY ATTRIBUTABLE TO SNC-LAVALIN SHAREHOLDERS | | | | | NON- CONTROLLING INTERESTS | TOTAL EQUITY |
|--|---|-------------------|----------------------|---|---------------------|----------------------------------|---------------------|
| | SHARE CAPITAL | | RETAINED EARNINGS | OTHER COMPONENTS OF EQUITY (NOTE 22) | TOTAL | | |
| | COMMON SHARES (IN THOUSANDS) | AMOUNT | | | | | |
| Balance at beginning of year | 151,034 | \$ 424,935 | \$ 1,459,323 | \$ (67,480) | \$ 1,816,778 | \$ 102,654 | \$ 1,919,432 |
| Net income | – | – | 378,800 | – | 378,800 | 8,542 | 387,342 |
| Other comprehensive income (loss) | – | – | (11,747) | (45,565) | (57,312) | 702 | (56,610) |
| Total comprehensive income | – | – | 367,053 | (45,565) | 321,488 | 9,244 | 330,732 |
| Dividends declared (Note 21F) | – | – | (126,750) | – | (126,750) | – | (126,750) |
| Dividends declared by subsidiaries to non-controlling interests | – | – | – | – | – | (827) | (827) |
| Stock option compensation (Note 21B) | – | – | 15,411 | – | 15,411 | – | 15,411 |
| Shares issued under stock option plans (Note 21B) | 820 | 33,219 | (6,283) | – | 26,936 | – | 26,936 |
| Shares redeemed and cancelled (Note 21D) | (820) | (2,472) | (41,799) | – | (44,271) | – | (44,271) |
| Acquisition of non-controlling interests of AltaLink (Note 5A) | – | – | (124,353) | (2,768) | (127,121) | (110,813) | (237,934) |
| Acquisition of other non-controlling interests | – | – | 597 | – | 597 | (1,226) | (629) |
| Capital contributions by non-controlling interests | – | – | – | – | – | 4,616 | 4,616 |
| Balance at end of year | 151,034 | \$ 455,682 | \$ 1,543,199 | \$ (115,813) | \$ 1,883,068 | \$ 3,648 | \$ 1,886,716 |

YEAR ENDED DECEMBER 31

(IN THOUSANDS OF CANADIAN DOLLARS, EXCEPT NUMBER OF COMMON SHARES)

2010

IN THOUSANDS OF CANADIAN DOLLARS, EXCEPT NUMBER OF COMMON SHARES

2010

| EQUITY ATTRIBUTABLE TO SNC-LAVALIN SHAREHOLDERS | | | | | | NON- CONTROLLING INTERESTS | TOTAL EQUITY |
|--|---------------------------------|------------|----------------------|---|--------------|----------------------------------|--------------|
| | SHARE CAPITAL | | RETAINED EARNINGS | OTHER COMPONENTS OF EQUITY (NOTE 22) | TOTAL | | |
| | COMMON SHARES (IN THOUSANDS) | AMOUNT | | | | | |
| Balance at beginning of year | 151,033 | \$ 397,735 | \$ 1,124,508 | \$ (4,035) | \$ 1,518,208 | \$ 81,485 | \$ 1,599,693 |
| Net income | — | — | 476,666 | — | 476,666 | 10,723 | 487,389 |
| Other comprehensive income (loss) | — | — | (1,083) | (63,445) | (64,528) | 770 | (63,758) |
| Total comprehensive income | — | — | 475,583 | (63,445) | 412,138 | 11,493 | 423,631 |
| Dividends declared (Note 21F) | — | — | (102,706) | — | (102,706) | — | (102,706) |
| Dividends declared by subsidiaries to non-controlling interests | — | — | — | — | — | (1,796) | (1,796) |
| Stock option compensation (Note 21B) | — | — | 12,736 | — | 12,736 | — | 12,736 |
| Shares issued under stock option plans (Note 21B) | 903 | 29,737 | (5,392) | — | 24,345 | — | 24,345 |
| Shares redeemed and cancelled (Note 21D) | (902) | (2,537) | (45,406) | — | (47,943) | — | (47,943) |
| Capital contributions by non-controlling interests | — | — | — | — | — | 11,472 | 11,472 |
| Balance at end of year | 151,034 | \$ 424,935 | \$ 1,459,323 | \$ (67,480) | \$ 1,816,778 | \$ 102,654 | \$ 1,919,432 |

See accompanying notes to consolidated financial statements.

Consolidated Financial Statements

SNC-Lavalin Group Inc.

CONSOLIDATED INCOME STATEMENTS

| YEAR ENDED DECEMBER 31 (IN THOUSANDS OF CANADIAN DOLLARS, EXCEPT EARNINGS PER SHARE AND NUMBER OF SHARES) | NOTE | 2011 | 2010 |
|--|------|-------------------|--------------|
| Revenues by activity: | | | |
| Services | | \$ 2,437,778 | \$ 2,053,787 |
| Packages | | 2,871,530 | 2,137,421 |
| O&M | | 1,399,197 | 1,330,459 |
| ICI | | 501,366 | 472,274 |
| | | 7,209,871 | 5,993,941 |
| Direct costs of activities | | 5,957,735 | 4,692,964 |
| Gross margin | | 1,252,136 | 1,300,977 |
| Selling, general and administrative expenses | 24 | 654,691 | 581,699 |
| Net financial expenses | 23 | 115,211 | 111,075 |
| Income before income tax expense | | 482,234 | 608,203 |
| Income tax expense | 26 | 94,892 | 120,814 |
| Net income | | \$ 387,342 | \$ 487,389 |
| Net income attributable to: | | | |
| SNC-Lavalin shareholders | | \$ 378,800 | \$ 476,666 |
| Non-controlling interests | | 8,542 | 10,723 |
| Net income | | \$ 387,342 | \$ 487,389 |
| Earnings per share (in \$) | | | |
| Basic | | \$ 2.51 | \$ 3.16 |
| Diluted | | \$ 2.49 | \$ 3.13 |
| Weighted average number of outstanding shares (in thousands) | 21E | | |
| Basic | | 150,897 | 151,020 |
| Diluted | | 151,940 | 152,277 |

See accompanying notes to consolidated financial statements.

Consolidated Financial Statements

SNC-Lavalin Group Inc.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

| YEAR ENDED DECEMBER 31 (IN THOUSANDS OF CANADIAN DOLLARS) | 2011 | | |
|--|--|------------------------------|-------------------|
| | ATTRIBUTABLE TO SNC-LAVALIN SHAREHOLDERS | NON-CONTROLLING INTERESTS | TOTAL |
| Net income | \$ 378,800 | \$ 8,542 | \$ 387,342 |
| Other comprehensive income (loss): | | | |
| Exchange differences on translating foreign operations (Note 22) | (11,951) | 39 | (11,912) |
| Available-for-sale financial assets (Note 22) | 212 | – | 212 |
| Cash flow hedges (Note 22) | (11,859) | 663 | (11,196) |
| Defined benefit pension plans and other post-employment benefits (Note 22) | (16,033) | – | (16,033) |
| Share of other comprehensive loss of investments accounted for by the equity method (Note 22) | (42,863) | – | (42,863) |
| Income tax benefit relating to components of other comprehensive loss (Note 22) | 25,182 | – | 25,182 |
| Total other comprehensive income (loss) | (57,312) | 702 | (56,610) |
| Total comprehensive income | \$ 321,488 | \$ 9,244 | \$ 330,732 |

| YEAR ENDED DECEMBER 31 (IN THOUSANDS OF CANADIAN DOLLARS) | 2010 | | |
|--|--|------------------------------|-------------------|
| | ATTRIBUTABLE TO SNC-LAVALIN SHAREHOLDERS | NON-CONTROLLING INTERESTS | TOTAL |
| Net income | \$ 476,666 | \$ 10,723 | \$ 487,389 |
| Other comprehensive income (loss): | | | |
| Exchange differences on translating foreign operations (Note 22) | (21,077) | (116) | (21,193) |
| Available-for-sale financial assets (Note 22) | (11,456) | – | (11,456) |
| Cash flow hedges (Note 22) | (16,408) | 886 | (15,522) |
| Defined benefit pension plans and other post-employment benefits (Note 22) | (1,442) | – | (1,442) |
| Share of other comprehensive loss of investments accounted for by the equity method (Note 22) | (27,250) | – | (27,250) |
| Income tax benefit relating to components of other comprehensive loss (Note 22) | 13,105 | – | 13,105 |
| Total other comprehensive income (loss) | (64,528) | 770 | (63,758) |
| Total comprehensive income | \$ 412,138 | \$ 11,493 | \$ 423,631 |

See accompanying notes to consolidated financial statements.

Consolidated Financial Statements

SNC-Lavalin Group Inc.

CONSOLIDATED STATEMENTS OF CASH FLOWS

| YEAR ENDED DECEMBER 31 (IN THOUSANDS OF CANADIAN DOLLARS) | NOTE | 2011 | 2010 |
|--|------|---------------------|---------------------|
| Operating activities | | | |
| Net income | | \$ 387,342 | \$ 487,389 |
| Adjustments to reconcile net income to cash flows from operating activities: | | | |
| Depreciation of property and equipment and amortization of other non-current assets: | | | |
| From ICI | | 93,099 | 86,879 |
| From other activities | | 45,378 | 39,664 |
| Income tax expense recognized in net income | 26 | 94,892 | 120,814 |
| Income taxes paid | | (14,145) | (2,397) |
| Net financial expenses recognized in net income | 23 | 115,211 | 111,075 |
| Interest paid: | | | |
| From ICI | | (91,072) | (78,287) |
| From other activities | | (21,507) | (32,784) |
| Expense recognized in respect of stock options | 21B | 15,411 | 12,736 |
| Expense recognized in respect of cash-settled share-based payment arrangements | 21C | 8,938 | 5,523 |
| Income from ICI accounted for by the equity method | | (102,827) | (76,897) |
| Net gain on disposals of ICI, before taxes | 5B | – | (29,567) |
| Other | | (42,178) | (6,491) |
| Dividends and distributions received from ICI accounted for by the equity method | | 89,372 | 51,904 |
| | | 577,914 | 689,561 |
| Net change in non-cash working capital items | 25 | 341,755 | (189,480) |
| Net cash generated from operating activities | | 919,669 | 500,081 |
| Investing activities | | | |
| Acquisition of property and equipment: | | | |
| From ICI | | (545,781) | (402,013) |
| From other activities | | (67,224) | (46,032) |
| Payments for ICI | 5D | (101,138) | (92,728) |
| Recovery from ICI | | 16,055 | – |
| Acquisition of businesses | 6 | (140,399) | (39,164) |
| Proceeds from disposals of ICI | | – | 176,934 |
| Increase in receivables under service concession arrangements | | (83,735) | (48,999) |
| Recovery of receivables under service concession arrangements | | 68,255 | 15,698 |
| Other | | (9,670) | (39,589) |
| Net cash used for investing activities | | (863,637) | (475,893) |
| Financing activities | | | |
| Repayment of debt: | | | |
| Non-recourse from ICI | | (7,683) | (142,263) |
| Recourse from other activities | | – | (105,000) |
| Acquisition of a subsidiary's debenture related to the AltaLink transaction | 5A | (50,000) | – |
| Increase in non-recourse debt from ICI | | 374,792 | 400,646 |
| Proceeds from exercise of stock options | | 26,936 | 24,345 |
| Redemption of shares | 21D | (44,271) | (47,943) |
| Dividends paid to SNC-Lavalin shareholders | 21F | (126,750) | (102,706) |
| Acquisition of non-controlling interests of AltaLink ⁽¹⁾ | 5A | (228,816) | – |
| Other | | (976) | 4,790 |
| Net cash generated from (used for) financing activities | | (56,768) | 31,869 |
| Decrease in exchange differences on translating cash and cash equivalents held in foreign operations | | (3,300) | (12,370) |
| Net increase (decrease) in cash and cash equivalents | | (4,036) | 43,687 |
| Cash and cash equivalents at beginning of year | | 1,235,085 | 1,191,398 |
| Cash and cash equivalents at end of year | | \$ 1,231,049 | \$ 1,235,085 |

Supplementary cash flow information

25

(1) The acquisition of non-controlling interests of AltaLink is classified as cash flows used for **financing activities** in accordance with IFRS as there is specific applicable guidance when acquiring non-controlling interests and, as such, is not part of **investing activities**.

See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements

TABLE OF CONTENTS

| NOTE | PAGE |
|--|------|
| 1 Description of Business | 92 |
| 2 Summary of Significant Accounting Policies | 92 |
| 3 Critical Accounting Judgments and Key Sources of Estimation Uncertainty | 103 |
| 4 Segment Disclosures | 105 |
| 5 Infrastructure Concession Investments ("ICI") | 109 |
| 6 Acquisition of Businesses | 118 |
| 7 Cash and Cash Equivalents and Restricted Cash | 120 |
| 8 Trade Receivables | 120 |
| 9 Other Current Financial Assets | 121 |
| 10 Other Current Assets | 121 |
| 11 Property and Equipment | 121 |
| 12 Goodwill | 123 |
| 13 Non-Current Financial Assets | 123 |
| 14 Other Non-Current Assets | 124 |
| 15 Other Current Financial Liabilities | 124 |
| 16 Other Current Liabilities | 124 |
| 17 Short-Term Debt and Long-Term Debt | 125 |
| 18 Other Non-Current Financial Liabilities | 126 |
| 19 Provisions | 126 |
| 20 Other Non-Current Liabilities | 127 |
| 21 Share Capital | 127 |
| 22 Other Components of Equity | 131 |
| 23 Net Financial Expenses | 133 |
| 24 Selling, General and Administrative Expenses | 133 |
| 25 Supplementary Cash Flow Information | 134 |
| 26 Income Taxes | 134 |
| 27 Financial Instruments | 137 |
| 28 Capital Management | 142 |
| 29 Pension Plans and Other Post-Employment Benefits | 143 |
| 30 Contingent Liabilities | 146 |
| 31 Operating Lease Arrangements | 146 |
| 32 Remuneration | 146 |
| 33 Related Party Transactions | 147 |
| 34 Subsidiaries, Joint Ventures and Associates | 148 |
| 35 First-Time Adoption of IFRS | 150 |
| 36 Subsequent Events | 169 |

Notes to Consolidated Financial Statements

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

1 Description of Business

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

The Company provides engineering and construction, and operations and maintenance expertise through its network of offices located across Canada and in over 40 other countries, and is currently working on projects around the world. SNC-Lavalin also makes select investments in infrastructure concessions that are complementary to its other activities.

The Company reports its revenues under **four categories of activity**, which are as follows:

- > **Services:** includes contracts wherein SNC-Lavalin provides engineering services, feasibility studies, planning, detailed design, contractor evaluation and selection, project and construction management, and commissioning.

Services revenues are derived primarily from cost-plus reimbursable contracts.

- > **Packages:** includes contracts wherein SNC-Lavalin is responsible not only for providing one or more of the Services activities listed above, but also undertakes the responsibility for providing materials and equipment, and usually also includes construction activities.

Packages revenues are derived primarily from fixed-price contracts.

- > **Operations and Maintenance ("O&M"):** consists of providing operations, maintenance and logistics solutions for buildings, power plants, water supply and treatment systems, desalination plants, postal services, broadcasting facilities, highways, bridges, light rail transit systems, airports, ships and camps for construction sites and the military.

O&M revenues are derived primarily from cost reimbursable with fixed-fee contracts, and from fixed-price contracts.

- > **Infrastructure Concession Investments ("ICI"):** regroups SNC-Lavalin's investments in infrastructure concessions for public services, such as airports, bridges, cultural and public service buildings, power, mass transit systems, roads and water.

In these audited consolidated financial statements ("financial statements"), activities from Services, Packages, and O&M are collectively referred to as "from other activities" or "excluding ICI" to distinguish them from ICI.

2 Summary of Significant Accounting Policies

A) BASIS OF PREPARATION

The Company's financial statements have been prepared in accordance with **International Financial Reporting Standards ("IFRS")** issued and effective, or issued and early adopted, for the year ended December 31, 2011, and are presented in **Canadian dollars**. All values are rounded to the nearest thousand dollars, except where otherwise indicated.

These are the Company's first annual consolidated financial statements prepared in accordance with IFRS and IFRS 1, *First-Time Adoption of International Financial Reporting Standards*, ("IFRS 1") is applied.

The preparation of annual consolidated financial statements in accordance with IFRS resulted in changes to the accounting policies as compared to the most recent annual financial statements prepared under Canadian generally accepted accounting principles ("GAAP"). An explanation of how the transition to IFRS has affected the reported financial position, financial performance and cash flows of the Company is provided in Note 35.

The IFRS accounting policies set out below were consistently applied to all periods presented. They were also applied in preparing the IFRS statement of financial position as at January 1, 2010 ("Date of Transition") for the purpose of transition to IFRS, as required by IFRS 1.

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

Notes to Consolidated Financial Statements

2 Summary of Significant Accounting Policies (continued)

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 cash-settled share-based payment arrangements, which are measured at fair value; and ii) defined benefit liability, which is measured as the net total of the present value of the defined benefit obligation minus the fair value of plan assets. Historical cost generally represents the fair value of consideration given in exchange for assets upon initial recognition.

The Company's financial statements were authorized for issue by the Board of Directors on March 25, 2012.

B) STANDARDS AND INTERPRETATIONS ISSUED TO BE ADOPTED AT A LATER DATE

The following standards and amendments to existing standards have been issued and are applicable to the Company for its annual periods beginning on or after January 1, 2013, with earlier application permitted:

- > IFRS 10, *Consolidated Financial Statements*, ("IFRS 10") replaces IAS 27, *Consolidated and Separate Financial Statements*, and SIC-12, *Consolidation—Special Purpose Entities*, and establishes principles for identifying when an entity controls other entities.
- > IFRS 11, *Joint Arrangements*, ("IFRS 11") supersedes IAS 31, *Interests in Joint Ventures*, and SIC-13, *Jointly Controlled Entities—Non-monetary Contributions by Venturers*, and requires a single method to account for interests in jointly controlled entities.
- > IFRS 12, *Disclosure of Interests in Other Entities*, ("IFRS 12") establishes comprehensive disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, and special purpose vehicles.
- > IFRS 13, *Fair Value Measurement*, provides a single source of fair value measurement and disclosure requirements in IFRS.
- > Amended and re-titled IAS 27, *Separate Financial Statements*, and IAS 28, *Investments in Associates and Joint Ventures*, as a consequence of the new IFRS 10, IFRS 11 and IFRS 12.
- > Amendments to IAS 1, *Presentation of Financial Statements*, to require entities to group items within other comprehensive income that may be reclassified to net income.
- > Amendments to IAS 19, *Employee Benefits*, to eliminate the corridor method that defers the recognition of gains and losses, to streamline the presentation of changes in assets and liabilities arising from defined benefit plans and to enhance the disclosure requirements for defined benefit plans.

The following standard has been issued and is applicable to the Company for its annual periods beginning on or after January 1, 2015, with earlier application permitted:

- > IFRS 9, *Financial Instruments*, covers the classification and measurement of financial assets and financial liabilities.

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

Notes to Consolidated Financial Statements

2 Summary of Significant Accounting Policies (continued)

C) BASIS OF CONSOLIDATION

The financial statements consist of the full consolidation of the accounts of SNC-Lavalin Group Inc. and its subsidiaries.

In accordance with IFRS, SNC-Lavalin's investments are accounted for as follows:

| TYPE OF INVESTMENT | TYPE OF INFLUENCE | ACCOUNTING METHOD |
|------------------------------------|---------------------------|--------------------------------------|
| Subsidiary | Control | Full consolidation method |
| Jointly controlled entity | Joint control | Equity method |
| Jointly controlled operation | Joint control | SNC-Lavalin's proportionate interest |
| Associate | Significant influence | Equity method |
| Available-for-sale financial asset | Non-significant influence | Cost method |

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

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

BUSINESS ACQUISITIONS

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

Business acquisition costs are expensed in the periods in which these costs are incurred and the services are received.

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

D) FOREIGN CURRENCY TRANSLATION

FUNCTIONAL AND PRESENTATION CURRENCY

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

FOREIGN CURRENCY TRANSACTIONS AND BALANCES

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

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

Notes to Consolidated Financial Statements

2 Summary of Significant Accounting Policies (continued)

TRANSLATION OF FINANCIAL STATEMENTS OF FOREIGN OPERATIONS

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

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

E) REVENUE RECOGNITION

REVENUES FROM SERVICES, PACKAGES, AND OPERATIONS AND MAINTENANCE ACTIVITIES

Revenues from **Services, Packages, and Operations and Maintenance** activities are recognized based on the nature of the contract, which are mainly as follows:

- > **Services and Packages: Cost-plus reimbursable contract** revenues are recognized as costs are incurred, and include applicable fees earned as services are provided. **Fixed-price contract** revenues are recorded on the stage of completion basis over the duration of the contract, which consists of recognizing revenue on a given contract proportionately with its stage of completion at any given time. The stage of completion is determined by dividing the cumulative costs incurred as at the period end date by the sum of incurred costs and anticipated costs for completing a contract.
- > **Operations and Maintenance:** The fixed-fee revenue portion from **cost reimbursable with fixed-fee contracts** is recognized on a straight-line basis over the term of the contract, while the revenues from the cost-reimbursable portion are recognized as costs are incurred. Revenues on **fixed-price contracts** are recognized based on the stage of completion of the contract activity which involves taking the cumulative costs incurred as at the period end date and dividing them by the sum of incurred costs and anticipated costs for completing a contract. This measure of progress is then applied to the related anticipated revenue, resulting in recognizing revenues proportionately with the stage of completion at any given time.

For fixed-price contracts in all of the above-mentioned activities, the cumulative effect of changes to anticipated costs and anticipated revenues for completing a contract are recognized in the period in which the revisions are identified. In the event that the total anticipated costs exceed the total anticipated revenues on a contract, such loss is recognized in its entirety in the period it becomes known. SNC-Lavalin has numerous contracts that are in various stages of completion. Estimates are required to determine the appropriate anticipated costs and revenues. Anticipated revenues on contracts may include future revenues from claims and unapproved change orders, if such additional revenues can be reliably estimated and it is considered probable that they will be recovered. Such additional revenues are limited to the costs related to the claims or unapproved change orders. Revenues from performance incentives are recognized when specific indicators have been met and collection is reasonably assured.

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

Notes to Consolidated Financial Statements

2 Summary of Significant Accounting Policies (continued)

REVENUES FROM ICI

Revenues from ICI regroup the following:

| ACCOUNTING METHODS FOR THE COMPANY'S INVESTMENTS IN ICI | REVENUES INCLUDED IN THE COMPANY'S CONSOLIDATED INCOME STATEMENT |
|---|--|
| Full consolidation | Revenues that are recognized and reported by the ICI |
| Equity method | SNC-Lavalin's share of net results of the ICI or dividends from ICI for which the carrying amount is \$nil |
| Cost method | Dividends and distributions from the ICI |

MULTIPLE REVENUE CATEGORY CONTRACTUAL ARRANGEMENTS

SNC-Lavalin may enter into contractual arrangements with a client to deliver activities on one project which span more than one of the following categories: Services or Packages, and/or Operations and Maintenance, and/or ICI. When entering into such arrangements, the Company allocates consideration received or receivable by reference to the relative fair values of the services delivered, when the amounts are separately identifiable. Accordingly, when such arrangements exist on the same project, the value of each revenue category is based on the fair value of each related activity and recognized according to the respective revenue recognition methods described above.

F) FINANCIAL INSTRUMENTS

FINANCIAL ASSETS AND LIABILITIES

Financial instruments are contracts that give rise to a financial asset or a financial liability. Unless specifically covered by another accounting policy, the measurement of financial assets and financial liabilities is based on their classification, which is one of the following for SNC-Lavalin:

| CATEGORY | APPLICABLE TO | INITIAL MEASUREMENT | SUBSEQUENT MEASUREMENT | RECOGNITION OF INCOME/EXPENSE AND GAINS/LOSSES ON REMEASUREMENT, IF ANY |
|-----------------------------|--|---|---|--|
| Held for trading | Financial assets and financial liabilities | Transaction price | Fair value | All recognized in net income |
| Available-for-sale | Financial assets | Transaction price including transaction costs | Fair value derived from published bid price quotations for listed securities. Where there is no active market, fair value is determined using valuation techniques. Where fair value cannot be reliably measured, assets are carried at cost. | Investment income, which includes interest, dividends or distributions, is recognized in net income. Gains/losses from revaluation are recognized in other comprehensive income until assets are disposed of or impaired, at which time the gains/losses are recognized in net income. |
| Loans and receivables | Financial assets | Transaction price including transaction costs | Amortized cost using the effective interest method | All recognized in net income |
| Other financial liabilities | Financial liabilities | Transaction price including transaction costs | Amortized cost using the effective interest method | All recognized in net income |

Notes to Consolidated Financial Statements

2 Summary of Significant Accounting Policies (continued)

DERIVATIVE FINANCIAL INSTRUMENTS USED FOR HEDGE ACCOUNTING

SNC-Lavalin enters into derivative financial instruments, namely i) forward exchange contracts to hedge its exposure to fluctuations in foreign currency exchange rates on projects; and ii) interest-rate swaps to hedge the variability of interest rates relating to financing arrangements. SNC-Lavalin formally documents all relationships between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking these hedge transactions, and regularly assesses the effectiveness of these hedges. As such, all the derivative financial instruments described above qualify for hedge accounting and are accounted for as cash flow hedges and are measured at fair value. The Company does not enter into derivative financial instruments for speculative purposes.

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

IMPAIRMENT OF FINANCIAL ASSETS

Financial assets, other than those held for trading, are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected.

For financial assets carried at amortized cost, the amount of the impairment loss recognized is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced, with the amount of the loss recognized in net income.

When an available-for-sale financial asset is considered to be impaired, the cumulative gains or losses previously recognized in other comprehensive income are reclassified to net income. Impairment losses previously recognized in net income are not reversed through net income. Any increase in fair value subsequent to an impairment is recognized in other comprehensive income.

G) SERVICES CONCESSION ARRANGEMENTS UNDER IFRIC INTERPRETATION 12

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

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

Notes to Consolidated Financial Statements

2 Summary of Significant Accounting Policies (continued)

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

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

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

| ACTIVITIES PROVIDED BY THE CONCESSIONAIRE | REVENUE RECOGNITION | CLASSIFICATION OF REVENUES IN THE INCOME STATEMENT |
|--|---|--|
| Construction or upgrade (when a service concession arrangement involves the construction or upgrade of the public service infrastructure) | Revenues relating to construction or upgrade services under a service concession arrangement are recognized based on the stage of completion of the work performed, consistent with the Company's accounting policy on recognizing revenue applicable to any construction contract (see Note 2E). | The Company classifies these revenues as "Packages" activities when SNC-Lavalin acts as an EPC contractor. When SNC-Lavalin does not act as an EPC contractor, revenues are recognized by the concession as part of "ICI" activities. |
| Operations and maintenance (these activities may include maintenance of the infrastructure and other activities provided directly to the grantor or the users) | Operations and maintenance revenues are recognized in the period in which the activities are performed by the Company, consistent with the Company's accounting policy on recognizing revenue applicable to any operation and maintenance contract (see Note 2E). | The Company classifies these revenues as "O&M" activities when SNC-Lavalin acts as an O&M contractor. When SNC-Lavalin does not act as an O&M contractor, revenues are recognized by the concession as part of "ICI" activities. |
| Rehabilitation (when a service concession arrangement requires the concessionaire to rehabilitate the infrastructure such that the infrastructure can deliver a specified standard of service at all times) | When rehabilitation activities are considered revenue-generating activities, revenues are recognized in the period in which the services are provided, consistent with the Company's accounting policy on recognizing revenue applicable to any other similar contract (see Note 2E). | The Company classifies these revenues as "O&M" activities when SNC-Lavalin acts as a rehabilitation contractor. When SNC-Lavalin does not act as a rehabilitation contractor, revenues are recognized by the concession as part of "ICI" activities. |
| Financing (when financial asset model is applied) | Finance income generated on financial assets is recognized using the effective interest method. | The Company classifies this finance income as "ICI" activities. |

FINANCIAL ASSET MODEL

When the Company delivers more than one category of activity in a service concession arrangement, the consideration received or receivable is allocated by reference to the relative fair values of the activity delivered, when the amounts are separately identifiable.

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

Notes to Consolidated Financial Statements

2 Summary of Significant Accounting Policies (continued)

INTANGIBLE ASSET MODEL

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

The intangible asset is then amortized over its expected useful life, which is the concession period in a service concession arrangement.

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

H) CASH EQUIVALENTS

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

I) RESTRICTED CASH

Restricted cash includes cash and cash equivalents for which the use is restricted for specific purposes under certain arrangements. Restricted cash that is not expected to become unrestricted within the next twelve months is included in "Non-current financial assets" (Note 13). Restricted cash is designated as held for trading and accounted for at fair value.

J) CONTRACTS IN PROGRESS

Contracts in progress represent the gross unbilled amount for a given project that is expected to be collected from customers for contract work performed to date. It is measured at cost plus profit recognized by the Company to date less progress billings.

If progress billings for a given project exceed costs incurred plus recognized profits, then the difference is presented as deferred revenues.

K) PROPERTY AND EQUIPMENT

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

FROM ICI

Property and equipment from ICI that are accounted for by the full consolidation method are primarily:

| ICI | CATEGORY | DEPRECIATION METHOD | DEPRECIATION PERIOD |
|----------|-------------------------------|---------------------|---------------------|
| AltaLink | Transmission assets and other | Straight-line | 30 to 40 years |

Borrowing costs are capitalized if they are incurred in connection with the acquisition or production of a "qualified asset" for which a considerable period of time is required to prepare the asset for its intended use.

AltaLink borrows funds to provide financing for its capital construction program. Borrowing costs eligible for capitalization are allocated to capital expenditures. The capitalization rate is based on actual costs of debt used to finance the acquisition or construction of qualifying assets.

FROM OTHER ACTIVITIES

Property and equipment used for Services, Packages, and Operations and Maintenance activities are primarily:

| CATEGORY | DEPRECIATION METHOD | DEPRECIATION PERIOD |
|--------------------|-----------------------------|---------------------|
| Buildings | Straight-line, by component | 25 to 50 years |
| Computer equipment | Straight-line | 2 years |
| Office furniture | Diminishing balance | 20% |

Notes to Consolidated Financial Statements

2 Summary of Significant Accounting Policies (continued)

L) IMPAIRMENT OF TANGIBLE AND INTANGIBLE ASSETS OTHER THAN GOODWILL

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

Recoverable amount is the higher of: i) fair value less costs to sell; and ii) value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and risks.

If the recoverable amount of an asset (or CGU) is estimated to be less than its carrying amount, the carrying amount of the asset (or CGU) is reduced to its recoverable amount. An impairment loss is recognized immediately in net income.

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

M) GOODWILL

Goodwill represents the excess of the purchase price of an acquired business over the fair value assigned to assets acquired and liabilities assumed. Goodwill on acquisition of subsidiaries is separately disclosed and goodwill on acquisitions of associates and jointly controlled entities is included within investments accounted for by the equity method.

Goodwill is not amortized and is assessed for impairment at least annually. For the purpose of impairment testing, goodwill is allocated to each of the Company's CGU or group of CGU expected to benefit from the synergies of the combination. A CGU or group of CGU to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the CGU or group of CGU may be impaired. If the recoverable amount of the CGU or group of CGU is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the CGU or group of CGU and then to the other assets of the CGU or group of CGU pro-rata on the basis of the carrying amount of each asset in the CGU or group of CGU. An impairment loss recognized for goodwill is not reversed in a subsequent period.

The Company has designated October 31 as the date for the annual impairment test. As at January 1, 2010, Date of Transition to IFRS, as at October 31, 2011, date of the last impairment test, and as at October 31, 2010, goodwill was not considered to be impaired.

N) RESEARCH AND DEVELOPMENT COSTS

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

O) DOWNPAYMENTS ON CONTRACTS

Downpayments on contracts are contractually agreed advance payments made by clients that are deducted from future billings to such clients as work is performed.

Notes to Consolidated Financial Statements

2 Summary of Significant Accounting Policies (continued)

P) DEFERRED REVENUES

Deferred revenues consist of amounts billed to clients for a given project in excess of revenue recognized according to the corresponding revenue recognition method and represents the opposite of contracts in progress. A given project may present an amount in either deferred revenues or in contracts in progress, but not both.

Q) INCOME TAXES

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

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

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

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

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

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

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

R) DEFINED BENEFIT PENSION PLANS AND OTHER POST-EMPLOYMENT BENEFITS

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

Current service costs, vested past service costs and effects of any curtailment or settlements are recognized in net income in the period. Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are credited or charged to equity in other comprehensive income in the period in which they arise. For the purpose of calculating the expected return on plan assets, such assets are valued at fair value.

S) SELLING EXPENSES

All costs related to contract proposals are expensed as incurred.

Notes to Consolidated Financial Statements

2 Summary of Significant Accounting Policies (continued)

T) EARNINGS PER SHARE

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

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

U) SHARE-BASED PAYMENTS

STOCK OPTIONS

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

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

CASH-SETTLED SHARE-BASED PAYMENT ARRANGEMENTS

The objective of the 2009 Performance Share Unit plan ("2009 PSU plan"), 2009 Deferred Share Unit plan ("2009 DSU plan"), Restricted Share Unit plan ("RSU plan"), Performance Share Unit plan ("PSU plan") and Deferred Share Unit plan ("DSU plan") is to align executive compensation to the long-term objectives of the Company. For share units granted to employees under cash-settled share-based payment arrangements, a liability is recognized and measured at the fair value of the liability. At the end of each reporting period until the liability is settled, and at the date of settlement, the fair value of the liability is remeasured, with any changes in fair value recognized in net income for the period.

V) PROVISIONS

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

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

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

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

Notes to Consolidated Financial Statements

3 Critical Accounting Judgments and Key Sources of Estimation Uncertainty

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

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

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

REVENUE AND GROSS MARGIN RECOGNITION

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

The determination of **anticipated revenues** includes the contractually agreed revenue and may also involve estimates of future revenues from claims and unapproved change orders if such additional revenues can be reliably estimated and it is considered probable that they will be recovered. A change order results from a change to the scope of the work to be performed compared to the original contract that was signed. An example of such contract variation could be a change in the specifications or design of the project, whereby costs related to such variation might be incurred prior to the client's formal contract amendment signature. A claim represents an amount expected to be collected from the client or a third-party as reimbursement for costs incurred that are not part of the original contract. In both cases, management's judgments are required in determining the probability that additional revenue will be recovered from these variations and in determining the measurement of the amount to be recovered.

As risks and uncertainties are different for each fixed-price project, the sources of variations between anticipated costs and actual costs incurred will also vary for each project. In particular, while Services and Packages activities usually do not exceed 4 years, O&M activities include fixed-price contracts for which the duration might exceed 20 years, notably on certain public-private partnership arrangements. The long-term nature of certain fixed-price arrangements usually results in significant estimates related to scheduling and prices.

The determination of estimates is based on SNC-Lavalin's business practices as well as its historical experience. Furthermore, management regularly reviews underlying estimates of project profitability.

SERVICE CONCESSION ARRANGEMENTS

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

BASIS OF CONSOLIDATION

Under certain circumstances, the determination of the Company's level of power to govern the financial and operating policies of another entity requires exercise of judgment. As such, the classification of the entity as a subsidiary, a joint venture, an associate or a cost investment might require the application of judgment through the analysis of various indicators, such as the percentage of ownership interest held in the entity, the representation on the entity's board of directors and various other factors.

Notes to Consolidated Financial Statements

3 Critical Accounting Judgments and Key Sources of Estimation Uncertainty (continued)

VALUES USED IN IMPAIRMENT TESTS

Determining whether goodwill is impaired requires an estimation of the value in use of the CGU or group of CGU to which goodwill has been allocated. The value in use calculation requires management to estimate future cash flows expected to arise from the CGU or group of CGU and a suitable discount rate in order to calculate present value.

The identification of events that could have an impact on the estimated cash flows of the financial assets and the determination of these estimated cash flows require the exercise of judgment, which might result in significant variances in the carrying amount of these assets.

MEASUREMENT OF RETIREMENT BENEFIT OBLIGATIONS AND OTHER POST-EMPLOYMENT BENEFIT OBLIGATIONS

SNC-Lavalin's obligations and expenses relating to defined benefit pension plans and other post-employment benefits are determined using actuarial valuations, and are dependent on significant assumptions such as the expected long-term rate of return on plan assets and the rate of compensation increase as determined by management. While management believes these assumptions represent its best estimate, differences in actual results or changes in assumptions could have an impact on the obligations, expenses and amounts of actuarial gains (losses) recognized in the consolidated statement of comprehensive income.

MEASUREMENT OF PROVISIONS SHOWN IN THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION

In measuring a provision, the Company takes risks and uncertainties into account. The uncertainties mainly relate to timing and amount of a provision. Also, risks and uncertainties arise from discounting a provision, where the effect of the time value of money is significant, using a pre-tax discount rate that reflects current market assessments of the time value of money. Additionally, the Company takes future events, such as changes in the law, into account where there is sufficient objective evidence that they will occur when measuring a provision.

MEASUREMENT OF SHARE-BASED PAYMENT EXPENSES

The Company offers the 2009 performance share unit plan to selected individuals within the organization. Subject to performance conditions, the number of units granted is adjusted depending on the three-year cumulative annualized growth of earnings per share to determine the number of units to which all participants receiving the award will be entitled at the end of the vesting period. At each measurement date, management is required to estimate the number of 2009 performance share units that will vest, which impacts the amount of associated liability and expenses.

ASSESSMENT OF DEFERRED INCOME TAX ASSETS AND LIABILITIES

Deferred income tax assets and liabilities arise from temporary differences between the tax bases of assets and liabilities and their carrying amounts reported in the financial statements. Deferred income tax assets also reflect the benefit of unutilized tax losses that can be carried forward to reduce income taxes in future years. This method requires the exercise of significant judgment in determining whether or not the Company's deferred income tax assets are "probable" to be recovered from future taxable income and therefore, can be recognized in the Company's consolidated financial statements. Also, estimates are required to determine the expected timing upon which tax assets will be realized and upon which tax liabilities will be settled, and the enacted or substantially enacted tax rates that will apply at such time.

MEASUREMENT OF FINANCIAL INSTRUMENTS AT FAIR VALUE

The Company measures certain of its financial instruments at fair value. The determination of such fair value is based on the most readily available market data. When no readily available data is available, management is required to estimate the fair value of the instrument using various inputs that are either, directly or indirectly observable, or not based on observable market data.

RATE-REGULATED ACTIVITIES

AltaLink, a subsidiary of the Company, is an entity whose operations are subject to rate regulation. Certain estimates are necessary since the regulatory environment in which AltaLink operates often requires amounts to be recorded at estimated values until these amounts are finalized in regulatory decisions, or other regulatory proceedings. Estimates and judgments are based on historical experience, including experience with the regulatory process, current conditions and various other assumptions that are believed to be reasonable under the circumstances. These factors form the basis for making judgments about the carrying values of assets and liabilities.

Notes to Consolidated Financial Statements

4 Segment Disclosures

The Company's results are analyzed by segment. The segments regroup related activities within SNC-Lavalin consistent with the way management performance is evaluated:

- i) **Services and Packages** activities relate to engineering and construction operations and are presented in the way management performance is evaluated by regrouping its projects within the related industries, and are as follows:
 - > **Infrastructure & Environment** includes a full range of infrastructure projects for the public and private sectors including airports, buildings, health and care, educational and recreational facilities, seaports, marine and ferry terminals, flood control systems, urban transit systems, railways, roads and bridges, and water and wastewater treatment and distribution facilities. It also includes social and environmental impact assessments and studies, community engagement, site assessment, remediation and reclamation, ecological and human health risk assessments, waste management, water resources planning, development and supply, treatment and sanitation, marine and coastal management, geoenvironmental services, climate change, air quality and acoustics, environmental management, geographic information systems, and agriculture and rural development.
 - > **Hydrocarbons & Chemicals** (previously Chemicals & Petroleum) includes projects in the areas of bitumen production, heavy or conventional oil production, onshore and offshore oil and gas, upgrading and refining, petrochemicals, chemicals, biofuels and green chemicals, gas processing, liquefied natural gas ("LNG") plants and re-gasification terminals, coal gasification, carbon capture, transportation and storage, pipelines, terminals and pump stations.
 - > **Mining & Metallurgy** includes a full range of services for all mineral and metal recovery processes, including mine infrastructure development, mineral processing, smelting, refining, mine closure and reclamation, mine and tailings management, and fertilizers.
 - > **Power** includes projects in hydro, thermal and nuclear power generation, energy from waste, green energy solutions, and transmission and distribution.
 - > **Other Industries** combines projects in several industry sectors, namely agrifood, pharmaceuticals and biotechnology, sulphuric acid as well as projects related to other industrial facilities not already identified as part of any other preceding segments.
- ii) **O&M** consists of providing operations, maintenance and logistics solutions for buildings, power plants, water supply and treatment systems, desalination plants, postal services, broadcasting facilities, highways, bridges, light rail transit systems, airports, ships, and camps for construction sites and the military.
- iii) **ICI** regroups SNC-Lavalin's investments in infrastructure concessions, for which further details are provided in Note 5.

The accounting policies for the segments are the same as those described in the Summary of Significant Accounting Policies (Note 2) except for imputed interest calculated on non-cash working capital position. The Company evaluates segment performance, except for the ICI segment, using **operating income**, which consists of gross margin less directly related selling, general and administrative expenses, imputed interest and corporate selling, general and administrative expenses. Imputed interest is allocated monthly to these segments at a rate of 10% per year resulting in a cost or revenue depending on whether the segment's current assets exceed current liabilities or vice versa, while corporate selling, general and administrative expenses are allocated based on the gross margin of each of these segments. Corporate income taxes are not allocated to these segments.

The Company evaluates the ICI segment performance using: i) dividends or distributions received from investments accounted for by the cost method; ii) SNC-Lavalin's share of the net results of its investments, or dividends from ICI for which the carrying amount is \$nil (i.e., 407 International Inc.), for investments accounted for by the equity method; and iii) net income from investments accounted for by the full consolidation method, less the portion attributable to non-controlling interests. In the case of ICI for which income taxes are payable by the investor, such as investments in limited partnerships in Canada, corporate income taxes are allocated based on SNC-Lavalin's tax rate for such investments. Accordingly, the **operating income from ICI** is reported net of income taxes and represents SNC-Lavalin's net income from its ICI.

Notes to Consolidated Financial Statements

4 Segment Disclosures (continued)

The following table presents revenues and operating income according to the Company's segments:

| YEAR ENDED DECEMBER 31 | 2011 | | 2010 | |
|---|---------------------|-------------------|---------------------|-------------------|
| | REVENUES | OPERATING INCOME | REVENUES | OPERATING INCOME |
| Services and Packages | | | | |
| Infrastructure & Environment | \$ 1,945,147 | \$ 46,801 | \$ 1,807,120 | \$ 221,320 |
| Hydrocarbons & Chemicals ⁽¹⁾ | 1,075,559 | 33,747 | 888,653 | 21,770 |
| Mining & Metallurgy | 1,022,006 | 80,611 | 683,821 | 59,547 |
| Power ⁽²⁾ | 894,081 | 119,637 | 496,565 | 116,367 |
| Other Industries | 372,515 | 43,228 | 315,049 | 38,621 |
| O&M | 1,399,197 | 50,136 | 1,330,459 | 39,432 |
| ICI ⁽³⁾ | 501,366 | 131,215 | 472,274 | 134,896 |
| | \$ 7,209,871 | 505,375 | \$ 5,993,941 | 631,953 |
| Reversal of items included above: | | | | |
| Imputed interest benefit | | (29,058) | | (22,886) |
| Net financial expenses from ICI | | 99,731 | | 85,094 |
| Income tax expense from ICI | | 12,644 | | 14,428 |
| Non-controlling interests before income tax expense | | 8,753 | | 10,689 |
| Income before net financial expenses and income tax expense | | 597,445 | | 719,278 |
| Net financial expenses (Note 23) | | 115,211 | | 111,075 |
| Income before income tax expense | | 482,234 | | 608,203 |
| Income tax expense (Note 26) | | 94,892 | | 120,814 |
| Net income | | \$ 387,342 | | \$ 487,389 |
| Net income attributable to: | | | | |
| SNC-Lavalin shareholders | | \$ 378,800 | | \$ 476,666 |
| Non-controlling interests | | 8,542 | | 10,723 |
| Net income | | \$ 387,342 | | \$ 487,389 |

The Company also discloses in the table below under "Supplementary Information" its dividends from 407 International Inc. ("Highway 407"), separately from its net income attributable to SNC-Lavalin shareholders from other ICI, from other activities and from net gains on disposals as this information is useful in assessing the value of the Company's share price.

| YEAR ENDED DECEMBER 31 | 2011 | 2010 |
|--|-------------------|-------------------|
| Supplementary information: | | |
| Net income attributable to SNC-Lavalin shareholders from ICI: | | |
| From Highway 407 | \$ 77,161 | \$ 50,323 |
| From other ICI: | | |
| From a net gain on disposal of Trencap Limited Partnership and Valener Inc. ⁽³⁾ | – | 26,125 |
| Excluding the net gain on disposal of Trencap Limited Partnership and Valener Inc. | 54,054 | 58,448 |
| Net income attributable to SNC-Lavalin shareholders excluding ICI: ⁽²⁾ | | |
| From a gain on disposal of certain technology solution assets | – | 19,625 |
| Excluding the gain on disposal of certain technology solution assets | 247,585 | 322,145 |
| Net income attributable to SNC-Lavalin shareholders | \$ 378,800 | \$ 476,666 |

(1) Previously Chemicals & Petroleum.

(2) In 2010, SNC-Lavalin concluded an agreement with a third-party to dispose of certain technology solution assets that help manage and optimize the flow of electricity through power grids. The transaction has generated a gain before taxes of \$22.8 million included in Packages activities, under "Power", resulting in a gain after taxes of \$19.6 million included in "Net income attributable to SNC-Lavalin shareholders excluding ICI" in 2010.

(3) In 2010, SNC-Lavalin sold all of its interests in Trencap Limited Partnership and Valener Inc. (Note 5B). The transactions resulted in a net gain after taxes of \$26.1 million included in "ICI" in 2010.

Notes to Consolidated Financial Statements

4 Segment Disclosures (continued)

As previously stated, the segment performance, except for the ICI segment, takes into account imputed interest calculated on non-cash working capital position. As such, the table below reconciles the Company's consolidated total assets to the sum of i) total assets from ICI; ii) the non-cash working capital of segments from other activities; and iii) other assets from other activities:

| | DECEMBER 31 2011 | DECEMBER 31 2010 | JANUARY 1 2010 |
|---|---------------------|---------------------|---------------------|
| Total assets from ICI (Note 5): | | | |
| ICI accounted for by the full consolidation method | \$ 3,458,683 | \$ 2,748,681 | \$ 2,304,755 |
| ICI accounted for by the equity method | 350,246 | 392,528 | 244,632 |
| ICI accounted for by the cost method | 293,241 | 234,420 | 331,231 |
| Total assets from ICI | 4,102,170 | 3,375,629 | 2,880,618 |
| Segment non-cash working capital (deficit) from other activities | | | |
| Services and Packages | | | |
| Infrastructure & Environment | (197,168) | (26,079) | (64,353) |
| Hydrocarbons & Chemicals | 142,561 | 117,653 | (81,337) |
| Mining & Metallurgy | 59,142 | 22,756 | 23,383 |
| Power | (447,594) | (204,390) | (34,591) |
| Other Industries | (110,562) | (85,728) | (75,187) |
| O&M | (150,410) | (64,250) | (92,659) |
| Total segment non-cash working capital (deficit) from other activities | (704,031) | (240,038) | (324,744) |
| Reversal of current liabilities included in the non-cash working capital (deficit) above | 2,877,921 | 2,467,251 | 2,218,135 |
| Current assets from other activities, excluding cash and cash equivalents and restricted cash | 2,173,890 | 2,227,213 | 1,893,391 |
| Other assets from other activities: | | | |
| Cash and cash equivalents and restricted cash from other activities | 1,237,137 | 1,249,462 | 1,196,363 |
| Property and equipment, goodwill, other non-current financial assets and other non-current assets from other activities | 840,804 | 668,476 | 619,777 |
| Total assets from other activities | 4,251,831 | 4,145,151 | 3,709,531 |
| Total assets | \$ 8,354,001 | \$ 7,520,780 | \$ 6,590,149 |

The following table presents property, equipment, goodwill and intangible assets inside and outside Canada reflected on the Company's consolidated statements of financial position:

| | DECEMBER 31 2011 | DECEMBER 31 2010 | JANUARY 1 2010 |
|--|---------------------|---------------------|-------------------|
| Property, equipment, goodwill and intangible assets | | | |
| Canada: | | | |
| From ICI | \$ 2,946,470 | \$ 2,361,565 | \$ 1,971,077 |
| From other activities | 284,896 | 202,164 | 197,316 |
| | 3,231,366 | 2,563,729 | 2,168,393 |
| Outside Canada: | | | |
| From ICI | 7,762 | – | – |
| From other activities | 310,672 | 251,267 | 231,432 |
| | 318,434 | 251,267 | 231,432 |
| | \$ 3,549,800 | \$ 2,814,996 | \$ 2,399,825 |

Notes to Consolidated Financial Statements

4 Segment Disclosures (continued)

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

| YEAR ENDED DECEMBER 31 | 2011 | | | |
|------------------------------------|--------------------------|---------------------|-------------------|---------------------|
| | SERVICES AND PACKAGES | O&M | ICI | TOTAL |
| Revenues by geographic area | | | | |
| Canada | \$ 2,325,973 | \$ 1,195,863 | \$ 480,663 | \$ 4,002,499 |
| Africa | 1,035,779 | 85,628 | 19,308 | 1,140,715 |
| Europe | 571,963 | 49,725 | 2,392 | 624,080 |
| Latin America | 480,921 | 45,815 | – | 526,736 |
| Middle East | 388,118 | 3,033 | – | 391,151 |
| United States | 247,533 | – | (997) | 246,536 |
| Asia Pacific | 222,226 | 19,133 | – | 241,359 |
| Other Regions | 36,795 | – | – | 36,795 |
| | \$ 5,309,308 | \$ 1,399,197 | \$ 501,366 | \$ 7,209,871 |

| YEAR ENDED DECEMBER 31 | 2010 | | | |
|------------------------------------|--------------------------|---------------------|-------------------|---------------------|
| | SERVICES AND PACKAGES | O&M | ICI | TOTAL |
| Revenues by geographic area | | | | |
| Canada | \$ 1,449,436 | \$ 1,179,730 | \$ 445,841 | \$ 3,075,007 |
| Africa | 1,123,709 | 76,777 | 25,510 | 1,225,996 |
| Europe | 446,588 | 24,911 | 2,202 | 473,701 |
| Latin America | 343,069 | 23,644 | – | 366,713 |
| Middle East | 396,616 | 2,906 | – | 399,522 |
| United States | 221,243 | – | (1,279) | 219,964 |
| Asia Pacific | 159,324 | 22,491 | – | 181,815 |
| Other Regions | 51,223 | – | – | 51,223 |
| | \$ 4,191,208 | \$ 1,330,459 | \$ 472,274 | \$ 5,993,941 |

Notes to Consolidated Financial Statements

5 Infrastructure Concession Investments ("ICI")

SNC-Lavalin makes investments in infrastructure concessions in certain infrastructure for public services, such as airports, bridges, cultural and public service buildings, power, mass transit systems, roads and water.

In accordance with IFRS, SNC-Lavalin's infrastructure concession investments are accounted for as follows:

ACCOUNTING METHOD

| TYPE OF INFLUENCE | ACCOUNTING METHOD |
|---------------------------|---------------------------|
| Non-significant influence | Cost method |
| Significant influence | Equity method |
| Joint control | Equity method |
| Control | Full consolidation method |

ACCOUNTING MODEL

| TYPE OF CONCESSION | ACCOUNTING MODEL |
|--|--|
| ICI accounted for under IFRIC 12 | Financial asset model when concessionaire bears no demand risk |
| | Intangible asset model when concessionaire bears demand risk |
| | Bifurcated model when concessionaire and grantor share demand risk |
| ICI outside the scope of application of IFRIC 12 | Model based on specific facts and circumstances, but usually with infrastructure asset accounted for as property and equipment |

The main concessions and public-private partnerships contracts reported under IFRIC Interpretation 12, *Service Concession Arrangements*, ("IFRIC 12") are all accounted for under the financial asset model, except the Rayalseema Expressway Private Limited ("REPL") concession, which is accounted for under the intangible asset model, and the Société d'Exploitation de l'Aéroport de Mayotte S.A.S. concession, which is accounted for under the bifurcated 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 ICI, the Company presents certain distinct financial information related specifically to its ICI throughout its financial statements, as well as certain additional information below.

A) ADDITIONS OF ICI AND INCREASED OWNERSHIP INTEREST IN ICI

I) IN 2011

MAYOTTE DAOUDZI AIRPORT

In April 2011, Société d'Exploitation de l'Aéroport de Mayotte S.A.S., a wholly-owned subsidiary of the Company, entered into an agreement with the French government to upgrade the infrastructure and build a new terminal building for the Mayotte airport, on a French island located in the Indian Ocean. Société d'Exploitation de l'Aéroport de Mayotte S.A.S. also has the mandate to manage and maintain the airport, in addition to assuming the commercial development, for a 15-year period. The Company committed to invest in this ICI an amount of €10.6 million (approximately \$14 million) in equity.

ALTALINK

In September 2011, SNC-Lavalin completed the acquisition of Macquarie Essential Assets Partnership's ("MEAP") 23.08% ownership interest in AltaLink for a total consideration of \$228.8 million in cash. As part of the transaction, SNC-Lavalin recognized an additional \$9.1 million of deferred income tax liability. The transaction increased the Company's ownership of AltaLink from 76.92% to 100%.

Notes to Consolidated Financial Statements

5 Infrastructure Concession Investments ("ICI") (continued)

The following summarizes the effect of this transaction on equity attributable to SNC-Lavalin shareholders:

| | |
|---|------------|
| Cash consideration paid for the additional 23.08% ownership interest in AltaLink, including transaction costs | \$ 228,816 |
| Recognition of deferred income tax liability | 9,118 |
| Total consideration and liability related to the equity transaction | 237,934 |
| Less: Carrying amount of non-controlling interests at the date of acquisition | 110,813 |
| Difference recognized as a reduction of equity attributable to SNC-Lavalin shareholders | \$ 127,121 |

Upon acquisition of the remaining interest in AltaLink, SNC-Lavalin also acquired from MEAP a debenture issued by one of the Company's subsidiaries with a face value of \$45.0 million, plus accrued interest. The acquisition of the debenture for a consideration of \$50.0 million plus accrued interest of \$1.1 million for a total consideration of \$51.1 million in cash resulted in a loss before taxes of \$5.0 million (\$3.8 million after taxes). This loss is due to the fact that SNC-Lavalin's subsidiary that issued the debenture was carrying it at amortized cost in its statement of financial position in accordance with IFRS while the receivable relating to this debenture recognized in the statement of financial position of another SNC-Lavalin's subsidiary was carried at the amount of consideration paid of \$50.0 million, which corresponds to its fair value. Upon consolidation, both the asset and the liability of the subsidiaries are eliminated.

The following summarizes the effect of the acquisition of the 23.08% ownership interest and \$45.0 million debenture on the carrying amount of SNC-Lavalin's investment in AltaLink, at the date of transaction:

| | |
|--|------------|
| Carrying amount of 23.08% ownership interest of non-controlling interests acquired, prior to the date of acquisition | \$ 110,813 |
| Carrying amount of debenture and accrued interest acquired by SNC-Lavalin and eliminated at consolidated level | 46,062 |
| Net increase in SNC-Lavalin's ownership interest in AltaLink | 156,875 |
| Carrying amount of SNC-Lavalin's 76.92% ownership interest in AltaLink, excluding carrying amount of non-controlling interests | 370,859 |
| Carrying amount of SNC-Lavalin's 100% ownership interest in AltaLink, after the acquisition | \$ 527,734 |

As previously indicated, the carrying amount of SNC-Lavalin's 100% ownership interest in AltaLink of \$527.7 million has not been increased by the difference between i) the total consideration of \$237.9 million and ii) the carrying amount of the 23.08% ownership interest of the non-controlling interests prior to the acquisition of \$110.8 million, since that difference of \$127.1 million was recognized as a reduction of equity attributable to SNC-Lavalin shareholders.

RAINBOW HOSPITAL PARTNERSHIP

In September 2011, Rainbow Hospital Partnership ("Rainbow"), wholly-owned by SNC-Lavalin, was awarded a public-private partnership contract by the Government of New Brunswick for the design, construction, commissioning, financing and certain operation and maintenance functions of the new Restigouche Hospital Centre for psychiatric care in Campbellton, New Brunswick. Rainbow subcontracted the construction of the new hospital to an SNC-Lavalin-led joint venture. It will have 140 beds in seven in-patient units with facilities for education and research, clinical support, and administration and general support services. It will also serve as the forensic psychiatry facility for the province. SNC-Lavalin Operations & Maintenance will provide the operations and maintenance activities for the centre for a total of 30 years.

SNC-Lavalin's investment in Rainbow is accounted for by the full consolidation method.

Notes to Consolidated Financial Statements

5 Infrastructure Concession Investments ("ICI") (continued)

II) IN 2010

CHINOOK ROADS PARTNERSHIP

At the end of March 2010, Chinook Roads Partnership ("Chinook"), an entity accounted for by the equity method in which SNC-Lavalin holds a 50% equity interest, entered into a contract with Alberta Transportation to design, build, operate, maintain and partially finance the southeast section of Calgary's Stoney Trail Ring Road, in Canada.

Under this public-private partnership contract, Chinook will design and build 25 kilometres of a six-lane road including nine interchanges, one road and two rail flyovers, and 27 bridge structures. Once completed, Chinook will operate and maintain the road and other existing infrastructure until 2043.

Upon signing the contract with Alberta Transportation, Chinook subcontracted the engineering, procurement and construction ("EPC") and the O&M work to joint ventures 50% owned by SNC-Lavalin.

SNC-Lavalin and its partner committed to invest a total of \$32.3 million in equity and subordinated debt in Chinook.

MCGILL UNIVERSITY HEALTH CENTRE PROJECT

In July 2010, SNC-Lavalin, its partner and the McGill University Health Centre ("MUHC") announced the financial closure and official signing of a partnership agreement between MUHC and Groupe immobilier santé McGill ("MIHG"), composed of SNC-Lavalin and Innisfree Ltd. Under this 34-year public-private partnership, MIHG will design, build, finance and maintain MUHC's new Glen Campus, comprised mainly of two hospitals, a cancer centre and a research institute, located in Montreal, Canada.

Also in July 2010, MIHG awarded to SNC-Lavalin an EPC contract for approximately \$1.6 billion to design and build the facilities. Construction is underway and is expected to be completed in the autumn of 2014. Once completed, MIHG will maintain the campus for the next 30 years.

SNC-Lavalin and its partner committed to invest, directly or indirectly, an amount of \$191.8 million in equity and subordinated debt. SNC-Lavalin's investment in MIHG is accounted for by the equity method.

RAYALSEEMA EXPRESSWAY PRIVATE LIMITED

The Company acquired in 2010 a 36.9% equity interest in Rayalseema Expressway Private Limited ("REPL"), an entity that had previously entered into a contract with the National Highways Authority of India to build and operate the 189-kilometre Cuddapah-Kurnool section of National Highway 18, in the state of Andhra Pradesh, India. Under this 30-year public-private partnership contract, REPL will expand the existing two-lane stretch to four lanes and operate the section of the toll highway. SNC-Lavalin committed to invest then an amount of \$36.7 million in equity and subordinated debt. SNC-Lavalin's investment in REPL is accounted for by the equity method.

B) DISPOSALS OF ICI

I) IN 2010

VALENER INC. (PREVIOUSLY GAZ MÉTRO LIMITED PARTERSHIP)

In October 2010, SNC-Lavalin had entered into an agreement with a group of financial institutions to sell all of its 10.07% equity interest in Valener Inc. ("Valener") consisting of 3,516,453 common shares of Valener, on an underwritten block trade basis, for net proceeds of \$58.7 million, resulting in a loss after taxes of \$1.3 million. The transaction was closed in November 2010.

TRENCAP LIMITED PARTNERSHIP

In November 2010, SNC-Lavalin had entered into an agreement with Caisse de dépôt et placement du Québec to sell all of its 11.1% interest in Trencap Limited Partnership. The transaction generated net proceeds of \$118.2 million and resulted in a gain after taxes of \$27.4 million.

Notes to Consolidated Financial Statements

5 Infrastructure Concession Investments ("ICI") (continued)

C) NET BOOK VALUE AND DESCRIPTIONS OF ICI

The Company's consolidated statement of financial position includes the following assets and liabilities from its ICI:

| | DECEMBER 31 2011 | DECEMBER 31 2010 | JANUARY 1 2010 |
|--|---------------------|---------------------|-------------------|
| Cash and cash equivalents | \$ 30,901 | \$ 16,757 | \$ 15,612 |
| Restricted cash | 2,365 | 8,235 | 10,800 |
| Trade receivable, other current financial assets and other current assets | 101,989 | 64,813 | 41,413 |
| Property and equipment | 2,637,735 | 2,072,814 | 1,725,206 |
| Goodwill | 203,786 | 203,786 | 203,786 |
| Non-current financial assets | 366,869 | 294,851 | 265,516 |
| Other non-current assets | 115,038 | 87,425 | 42,422 |
| Total assets | 3,458,683 | 2,748,681 | 2,304,755 |
| Trade payables, deferred revenues, other current financial liabilities and other current liabilities | 246,599 | 142,560 | 150,216 |
| Non-recourse short-term debt and current portion of non-recourse long-term debt | 327,381 | 38,762 | 51,596 |
| Non-recourse long-term debt | 1,561,377 | 1,529,024 | 1,258,402 |
| Other non-current financial liabilities | 113,958 | 69,932 | 77,404 |
| Provisions and other non-current liabilities | 487,510 | 428,796 | 374,141 |
| Non-controlling interests | — | 98,172 | 76,886 |
| Total liabilities and non-controlling interests | 2,736,825 | 2,307,246 | 1,988,645 |
| Net assets from ICI accounted for by the full consolidation method | \$ 721,858 | \$ 441,435 | \$ 316,110 |
| Net book value of ICI accounted for by the equity method | \$ 350,246 | \$ 392,528 | \$ 244,632 |
| Net book value of ICI accounted for by the cost method | 293,241 | 234,420 | 331,231 |
| Net book value of ICI accounted for by the equity or cost methods | \$ 643,487 | \$ 626,948 | \$ 575,863 |
| Total net book value of ICI | \$ 1,365,345 | \$ 1,068,383 | \$ 891,973 |

Notes to Consolidated Financial Statements

5 Infrastructure Concession Investments ("ICI") (continued)

I) ICI ACCOUNTED FOR BY THE FULL CONSOLIDATION METHOD

SNC-Lavalin's main ICI accounted for by the full consolidation method are detailed below:

| NAME OF ICI | PRINCIPAL ACTIVITY | SUBJECT TO IFRIC 12 | MATURITY OF CONCESSION AGREEMENT | LOCATION | OWNERSHIP INTEREST | | |
|---|---|---------------------|----------------------------------|----------|--------------------|------------------|----------------|
| | | | | | DECEMBER 31 2011 | DECEMBER 31 2010 | JANUARY 1 2010 |
| AltaLink ⁽¹⁾ | Rate-regulated transmission lines and substations | No | N/A | Canada | 100.0% | 76.92% | 76.92% |
| Ovation Real Estate Group (Quebec) Inc. ("Ovation") | 2,100-seat acoustic concert hall under a 29-year concession agreement | Yes | 2038 | Canada | 100.0% | 100.0% | 100.0% |
| Okanagan Lake Concession Limited Partnership ("Okanagan Lake Concession") | 1.1-km William R. Bennett Bridge under a 30-year concession agreement | Yes | 2035 | Canada | 100.0% | 100.0% | 100.0% |
| Rainbow Hospital Partnership ("Rainbow") | Restigouche Hospital Center for psychiatric care (under construction) | Yes | 2044 | Canada | 100.0% | – | – |
| Société d'Exploitation de l'Aéroport de Mayotte S.A.S. | Mayotte airport under a 15-year concession agreement (under construction) | Yes | 2026 | France | 100.0% | – | – |

(1) SNC-Lavalin holds an ownership interest of 100% in AltaLink Holdings, L.P. ("AltaLink"), and ultimately owns 100% of all of its subsidiaries, including AltaLink, L.P., the owner and operator of transmission lines and substations subject to rate regulation.

N/A: not applicable

The Company's consolidated income statement includes the following revenues and net income from these investments:

| YEAR ENDED DECEMBER 31 | 2011 | 2010 |
|--|------------|------------|
| Revenues and net income included in the Company's consolidated income statement: | | |
| Revenues | \$ 398,539 | \$ 362,128 |
| Net income from ICI accounted for by the full consolidation method, less the portion attributable to non-controlling interests | \$ 28,388 | \$ 24,750 |

Notes to
Consolidated Financial Statements**5 Infrastructure Concession Investments ("ICI") (continued)****II) ICI ACCOUNTED FOR BY THE EQUITY METHOD**

SNC-Lavalin's main ICI accounted for by the equity method are listed below:

| | | | | | OWNERSHIP INTEREST | | |
|--|---|---------------------|----------------------------------|----------|--------------------|------------------|----------------|
| NAME OF ICI | PRINCIPAL ACTIVITY | SUBJECT TO IFRIC 12 | MATURITY OF CONCESSION AGREEMENT | LOCATION | DECEMBER 31 2011 | DECEMBER 31 2010 | JANUARY 1 2010 |
| Jointly controlled entities: | | | | | | | |
| 407 International Inc. ⁽¹⁾ ("Highway 407") | 108-km toll highway under a 99-year concession agreement | No | 2098 | Canada | 16.77% | 16.77% | 16.77% |
| Chinook Roads Partnership ("Chinook") | 25-km of six-lane road (under construction) | Yes | 2043 | Canada | 50.0% | 50.0% | – |
| Groupe Immobilier Santé McGill ⁽²⁾ ("MIHG") | McGill University Health Centre—Glen Campus under a 34-year concession agreement (under construction) | Yes | 2044 | Canada | 60.0% | 60.0% | – |
| TC Dôme S.A.S. ⁽²⁾ ("TC Dôme") | 5.3-km electric cog railway (under construction) | Yes | 2043 | France | 51.0% | 51.0% | 51.0% |
| Associates: | | | | | | | |
| Astoria Project Partners LLC | 500 MW natural-gas power plant | No | N/A | U.S.A. | 21.0% | 21.0% | 21.0% |
| Astoria Project Partners II LLC ⁽³⁾ | 550 MW natural-gas power plant | No | N/A | U.S.A. | 18.5% | 18.5% | 18.5% |
| InTransit BC Limited Partnership ("InTransit BC") | 19-km rapid transit line | Yes | 2040 | Canada | 33.3% | 33.3% | 33.3% |
| Malta International Airport p.l.c. ⁽³⁾ | 65-year concession agreement to operate the Malta airport | No | 2067 | Malta | 15.5% | 15.5% | 15.5% |
| Myah Tipaza S.p.A. | Seawater desalination plant to supply treated water under a 25-year take-or-pay agreement | No | N/A | Algeria | 25.5% | 25.5% | 25.5% |
| Rayalseema Expressway Private Limited ("REPL") | 30-year concession agreement to build and operate a 189-km toll highway section (under construction) | Yes | 2040 | India | 36.9% | 36.9% | – |
| Société d'Exploitation de Vatry Europort S.A. ⁽²⁾ | 20-year concession agreement to operate the Vatry airport | No | 2020 | France | 51.1% | 51.1% | 51.1% |
| Shariket Kahraba Hadjret En Nouss S.p.A. | 1,227 MW gas-fired thermal power plant supplying electricity under a 20-year take-or-pay agreement | No | N/A | Algeria | 26.0% | 26.0% | 26.0% |

(1) Although the Company holds less than 20% of the equity shares of Highway 407, the Company exercises joint control over this entity based on its contractual agreements.

(2) Although the Company's ownership interest in MIHG, TC Dôme and Société d'Exploitation de Vatry Europort S.A. is more than 50%, the Company does not exercise control over these entities based on its contractual agreements.

(3) Although the Company's ownership interest in Astoria Project Partners II LLC and in Malta International Airport p.l.c. is less than 20%, the Company exercises significant influence over these entities based on its contractual agreements.

N/A: not applicable

Notes to Consolidated Financial Statements

5 Infrastructure Concession Investments ("ICI") (continued)

ICI ACCOUNTED FOR BY THE EQUITY METHOD—JOINTLY CONTROLLED ENTITIES

SNC-Lavalin carries out part of its ICI activity through jointly controlled entities which are accounted for by the equity method. The aggregate amounts of current assets, non-current assets, current liabilities, non-current liabilities, revenues and expenses related to such jointly controlled entities are summarized below:

| YEAR ENDED DECEMBER 31 | 2011 | 2010 |
|---|--------------|------------|
| Income statements (at 100%) | | |
| Revenues (at 100%) | \$ 1,230,428 | \$ 918,211 |
| Expenses (at 100%) | 1,098,108 | 840,642 |
| Net income (at 100%) | \$ 132,320 | \$ 77,569 |
| Company's share of net income of ICI based on its ownership interest ⁽¹⁾ | \$ 23,737 | \$ 12,531 |
| Company's net income from ICI reported in its income statement ⁽¹⁾ | \$ 79,364 | \$ 49,946 |

| | DECEMBER 31 2011 | DECEMBER 31 2010 | JANUARY 1 2010 |
|--|---------------------|---------------------|-------------------|
| Statements of financial position | | | |
| Current assets (at 100%) | \$ 1,205,494 | \$ 1,008,568 | \$ 526,514 |
| Non-current assets (at 100%) | 5,113,502 | 5,184,081 | 4,311,504 |
| Total assets (at 100%) | \$ 6,318,996 | \$ 6,192,649 | \$ 4,838,018 |
| Current liabilities (at 100%) | \$ 344,151 | \$ 359,712 | \$ 920,604 |
| Non-current liabilities (at 100%) | 6,815,088 | 6,332,419 | 4,187,771 |
| Total liabilities (at 100%) | \$ 7,159,239 | \$ 6,692,131 | \$ 5,108,375 |
| Net liabilities (at 100%) | \$ (840,243) | \$ (499,482) | \$ (270,357) |
| Company's carrying value of ICI reported in its statement of financial position ⁽¹⁾ | \$ 124,206 | \$ 131,022 | \$ 10,050 |

(1) Under the equity method of accounting, distributions from a jointly controlled entity reduce the carrying amount of the investment. The equity method of accounting requires the Company to stop recognizing its share of the losses of a jointly controlled entity when the recognition of such losses results in a negative balance for its investment, or where dividends payable by the jointly controlled entity are in excess of the carrying amount of the investment. In these events, the carrying value of the investment is reduced to \$nil, but does not become negative, unless the Company has incurred legal or constructive obligations or made payments on behalf of the jointly controlled entity. The excess amount of dividends payable by a jointly controlled entity is recognized in net income of the Company.

As a result, the Company recognized in its income statement dividends from Highway 407 of \$77.2 million in 2011 (2010: \$50.3 million) and did not recognize its share of Highway 407's net income of \$21.5 million (2010: \$12.9 million) in the same period, as the carrying amount of its investment in Highway 407 was \$nil at December 31, 2011, December 31, 2010 and January 1, 2010.

ICI ACCOUNTED FOR BY THE EQUITY METHOD—ASSOCIATES

The summary tables below provide supplementary information in respect of the Company's ICI that are associates:

| YEAR ENDED DECEMBER 31 | 2011 | 2010 |
|--------------------------------------|------------|------------|
| Total revenue (at 100%) | \$ 724,369 | \$ 671,659 |
| Total net income (at 100%) | \$ 99,429 | \$ 133,845 |
| Company's share of net income of ICI | \$ 23,463 | \$ 26,951 |

| | DECEMBER 31 2011 | DECEMBER 31 2010 | JANUARY 1 2010 |
|--------------------------------------|---------------------|---------------------|-------------------|
| Total assets (at 100%) | \$ 4,322,081 | \$ 3,978,903 | \$ 3,721,443 |
| Total liabilities (at 100%) | 3,691,152 | 3,326,966 | 3,151,554 |
| Net assets (at 100%) | \$ 630,929 | \$ 651,937 | \$ 569,889 |
| Company's share of net assets of ICI | \$ 226,040 | \$ 261,506 | \$ 234,582 |

Notes to
Consolidated Financial Statements**5 Infrastructure Concession Investments ("ICI") (continued)****III) ICI ACCOUNTED FOR BY THE COST METHOD**

SNC-Lavalin's main ICI accounted for by the cost method are listed below:

| NAME OF ICI | PRINCIPAL ACTIVITY | MATURITY OF CONCESSION AGREEMENT | LOCATION | OWNERSHIP INTEREST | | |
|--|--|----------------------------------|------------|--------------------|------------------|----------------|
| | | | | DECEMBER 31 2011 | DECEMBER 31 2010 | JANUARY 1 2010 |
| Ambatovy Nickel Project ("Ambatovy") | Open-pit mine and hydrometallurgical processing plant (under construction) | N/A | Madagascar | 5.0% | 5.0% | 5.0% |
| Valener Inc. (previously Gaz Métro Limited Partnership) ⁽¹⁾ | Publicly traded entity involved mainly in natural gas distribution | N/A | Canada | – | – | 2.42% |
| Trencap Limited Partnership ⁽¹⁾ | Holds an indirect interest in Gaz Métro | N/A | Canada | – | – | 11.1% |

(1) In 2010, SNC-Lavalin sold all of its ownership interest in Trencap Limited Partnership and Valener Inc.

N/A: not applicable

The Company's consolidated income includes the following revenues from these investments:

| YEAR ENDED DECEMBER 31 | 2011 | 2010 |
|---|------|-----------|
| Dividends and distributions from ICI accounted for by the cost method included in the Company's consolidated income statements | \$ – | \$ 7,124 |
| Net gain on disposals of ICI accounted for by the cost method included in the Company's consolidated income statements, after taxes | \$ – | \$ 26,125 |

Notes to Consolidated Financial Statements

5 Infrastructure Concession Investments ("ICI") (continued)

D) PAYMENTS AND REMAINING COMMITMENTS IN ICI

When making investments in infrastructure concessions, SNC-Lavalin may not be required to make its contribution immediately but instead may commit to make its contribution over time.

The following table summarizes SNC-Lavalin's payments and outstanding commitments to invest in ICI accounted for by the equity or cost methods as at December 31, 2011 and 2010 and January 1, 2010:

| | 2011 | 2010 |
|---|-------------------|-------------------|
| Commitments to invest in ICI—January 1 | \$ 214,678 | \$ 105,600 |
| Increase in commitments to invest in ICI | 45,538 | 201,806 |
| Payments for ICI during the year | (101,138) | (92,728) |
| Commitments to invest in ICI—December 31 | \$ 159,078 | \$ 214,678 |

At December 31, 2011, the commitments to invest in ICI were related to contributions for Ambatovy, Chinook, MIHG and TC Dôme (December 31, 2010: Ambatovy, Astoria II, Chinook, MIHG, REPL and TC Dôme; and January 1, 2010: Ambatovy and Astoria II) and were presented as "Other current financial liabilities" since they are either expected to be paid in the following year or are callable on demand.

In addition to the commitments presented above, SNC-Lavalin provides a US\$105 million financial guarantee (December 31, 2010 and January 1, 2010: US\$105 million) and a US\$70 million cross-guarantee (December 31, 2010 and January 1, 2010: US\$70 million) to the Ambatovy project's lenders, which are not recognized in the Company's consolidated statement of financial position. The amount of US\$175 million represents the maximum that could be paid if both the financial guarantee and cross-guarantee were called upon once the project debt financing is fully drawn. Both guarantees will remain outstanding until certain legal, financial and operating conditions are satisfied upon completion of construction and commissioning of the project.

In addition, SNC-Lavalin is committed to finance a portion of the contribution of one of Ambatovy's shareholders, which is also the project operator ("Project Operator"), for up to US\$57.3 million (CA\$58.3 million) (December 31, 2010: US\$57.3 million [CA\$57.4 million] and January 1, 2010: US\$57.3 million [CA\$60.3 million]). At December 31, 2011, SNC-Lavalin had loaned US\$57.3 million (CA\$58.3 million) (December 31, 2010: US\$53.5 million [CA\$53.5 million] and January 1, 2010: US\$40.0 million [CA\$42.1 million]) presented in "ICI accounted for by the equity or cost methods".

Notes to Consolidated Financial Statements

6 Acquisition of Businesses

A) BUSINESSES ACQUIRED

In 2011, SNC-Lavalin completed the following business acquisitions, which added approximately 2,900 people to its workforce:

In May 2011, Groupe Stavibel, a multidisciplinary consulting engineering firm based in Abitibi-Témiscamingue, Quebec. Groupe Stavibel provides engineering consulting expertise in numerous fields of activity in the buildings, infrastructure, transport, mining, and environment sectors. The firm has approximately 300 permanent employees working in several offices throughout Abitibi-Témiscamingue and in the Greater Montreal area.

In June 2011, Aqua Data, a company of about 100 employees specializing in the computerized diagnosis and analysis of water distribution systems and wastewater collection systems for municipal, commercial and industrial clients. Formerly a subsidiary of Gaz Métro, Aqua Data has clients in Quebec, Ontario, the Maritimes and the United States. Its head office is in Pincourt, Quebec, near Montreal.

In July 2011, MDH Engineered Solutions, an engineering consulting and research firm based in Saskatoon, Saskatchewan. MDH Engineered Solutions provides geo-environmental, geotechnical, hydrogeological and environmental engineering consulting services to the mining, oil and gas, transportation, utility and government sectors. The firm has approximately 175 permanent employees working in offices in Saskatoon, Regina, Prince Albert and Esterhazy, Saskatchewan, and in Edmonton and Fort McMurray, Alberta.

In October 2011, Candu Energy Inc., a wholly-owned subsidiary of the Company, acquired certain assets of Atomic Energy of Canada Limited's ("AECL") commercial reactor division. Approximately 1,400 employees transitioned from AECL to Candu Energy Inc. In addition to the acquisition, Candu Energy Inc. will work towards completing the Enhanced CANDU reactor (EC6) development program.

In October 2011, Interfleet Technology ("Interfleet"), an international rail technology consultancy group headquartered in Derby, United Kingdom. Interfleet specializes in rolling stock, railway systems, and strategic railway management and is well-known for its detailed understanding of both national rail systems and international best-practice. Interfleet has approximately 600 employees in 22 locations. Interfleet serves public and private clients around the world from its offices in United Kingdom, Scandinavia, Central Europe, Australasia, India and North America.

In December 2011, Arcturus Realty Corporation ("Arcturus"), an entity that manages over 35 million square feet of office, retail and industrial properties in Canada. With over 350 employees, Arcturus provides a comprehensive scope of real estate services including property management, leasing, development advisory services and facilities management. Its client base consists of financial institutions, insurance companies, major retailers, public sector and private investors.

In December 2011, Harder Associates Engineering Consulting, an engineering consulting firm based in Fort St. John, British Columbia. Harder Associates Engineering Consulting provides consulting services in construction, upstream oil and gas, and environmental and geotechnical fields. The firm has 16 employees working in offices in Fort St. John and Fort Nelson, British Columbia, and Grande Prairie, Alberta.

In 2010, SNC-Lavalin completed the following business acquisitions, which added approximately 1,200 people to its workforce:

In April 2010, a South African firm, B E Morgan Associates (Proprietary) Limited, specializing in engineering and construction of various industrial facilities and that also provides project management and contracting services primarily to various South African corporations, employing approximately 50 people.

In December 2010, Itansuca Proyectos de Ingenieria S.A., an engineering firm in the hydrocarbons and chemicals sector based in Bogota, Colombia, that employs approximately 1,000 people. Since 1989, Itansuca Proyectos de Ingenieria S.A. has been offering energy consulting, electromechanical installation, design and supervision services from its Bogota head office and 21 other locations around the country to clients in Colombia and in a number of other countries around the world.

During 2010, five engineering firms in France, namely EBI Conseil, Groupe Teco, Pénicaud Architecture Environnement EURL, ETF Ingénierie—Société d'ingénieurs conseils and Groupe Setor, that employ a total of approximately 160 people.

During 2010, two engineering firms in Montreal, Canada, namely Nucleonex Inc. and Hydrosult, that employ a total of approximately 20 people.

Notes to Consolidated Financial Statements

6 Acquisition of Businesses (continued)

B) ALLOCATION OF PURCHASE PRICE

These acquisitions have been accounted for using the acquisition method and consolidated from the effective date of acquisition. All business acquisitions completed by SNC-Lavalin in 2011 and 2010 were for 100% of the voting shares, except for the acquisition of certain assets of AECL in October 2011.

The purchase price for these business acquisitions, subject to final adjustments, was \$131.4 million (2010: \$39.1 million), net of cash and cash equivalents existing in these businesses at the time of acquisition of \$2.5 million (2010: \$9.9 million). The allocation of the purchase price to acquire these businesses and the total cash consideration paid were as follows:

| YEAR ENDED DECEMBER 31 | 2011 | 2010 |
|--|------------|-----------|
| Cash and cash equivalents | \$ 2,530 | \$ 9,896 |
| Trade receivables and other current assets | 79,908 | 27,230 |
| Contracts in progress | 11,870 | 171 |
| Property and equipment | 24,970 | 1,767 |
| Other non-current assets | 3,448 | 1,188 |
| Trade payables | (39,279) | (16,389) |
| Other liabilities assumed | (55,130) | (3,402) |
| Net identifiable assets of businesses acquired | 28,317 | 20,461 |
| Goodwill | 105,653 | 28,576 |
| Total purchase price | 133,970 | 49,037 |
| Less: Cash and cash equivalents at acquisition | 2,530 | 9,896 |
| Total purchase price, net of cash and cash equivalents at acquisition | 131,440 | 39,141 |
| Less: Balance of purchase price payable in future years | 18,455 | 19,195 |
| Cash consideration paid for businesses acquired in the year | 112,985 | 19,946 |
| Plus: Balance of purchase price from previous years paid in current year | 27,414 | 19,218 |
| Cash consideration paid for acquisition of businesses presented on consolidated statements of cash flows | \$ 140,399 | \$ 39,164 |

C) GOODWILL ARISING ON BUSINESS ACQUISITIONS

Goodwill arose in the business combinations because the consideration paid for the combinations effectively included amounts in relation to the benefit of expected synergies, revenue growth, future market development and the assembled workforce. These benefits are not recognized separately from goodwill as the future economic benefits arising from them cannot be reliably measured.

D) BUSINESS ACQUISITION COSTS

For the year ended December 31, 2011, business acquisition costs of \$4.0 million (2010: \$1.6 million) related to the transactions described above and were included in the selling, general and administrative expenses in the consolidated income statement.

E) IMPACT OF BUSINESS ACQUISITIONS ON THE RESULTS OF SNC-LAVALIN

SNC-Lavalin's consolidated revenues and net income attributable to SNC-Lavalin shareholders in 2011 included approximately \$142.1 million and \$9.2 million, respectively, from business acquisitions completed in 2011. Had 2011 business acquisitions all occurred on January 1, 2011, SNC-Lavalin's pro-forma consolidated revenues and net income attributable to SNC-Lavalin shareholders would have been approximately \$7,542.1 million and \$397.9 million, respectively. These pro-forma figures have been estimated based on the results of the acquired businesses prior to being purchased by SNC-Lavalin, adjusted to reflect the Company's accounting policies when significant differences existed, and should not be viewed as indicative of SNC-Lavalin's future results.

Notes to Consolidated Financial Statements

7 Cash and Cash Equivalents and Restricted Cash

A) CASH AND CASH EQUIVALENTS

| | DECEMBER 31 2011 | DECEMBER 31 2010 | JANUARY 1 2010 |
|--|---------------------|---------------------|---------------------|
| Bank balances, bank term deposits and bankers' acceptances | \$ 1,231,049 | \$ 1,235,085 | \$ 1,190,778 |
| Government treasury bills and treasury notes | — | — | 620 |
| Cash and cash equivalents | \$ 1,231,049 | \$ 1,235,085 | \$ 1,191,398 |

B) RESTRICTED CASH

| | DECEMBER 31 2011 | DECEMBER 31 2010 | JANUARY 1 2010 |
|--|---------------------|---------------------|-------------------|
| Bank balances, bank term deposits and bankers' acceptances | \$ 40,981 | \$ 40,283 | \$ 32,253 |
| Government treasury bills and treasury notes | 4,471 | 5,184 | 5,061 |
| Restricted cash—current and non-current | \$ 45,452 | \$ 45,467 | \$ 37,314 |
| Presented on the statement of financial position as follows: | | | |
| Current assets—"Restricted cash" | \$ 39,354 | \$ 39,369 | \$ 31,377 |
| Non-current assets—included in "Non-current financial assets" (Note 13) | \$ 6,098 | \$ 6,098 | \$ 5,937 |

8 Trade Receivables

The following table presents the Company's trade receivables that are within normal terms of payment separately from those that are past due, with reconciliation to the net carrying amount:

| | DECEMBER 31 2011 | DECEMBER 31 2010 | JANUARY 1 2010 |
|--|---------------------|---------------------|---------------------|
| Trade receivables: | | | |
| Within normal terms of payment | \$ 851,875 | \$ 967,424 | \$ 830,087 |
| Past due | 417,604 | 385,720 | 275,883 |
| Total trade receivables | 1,269,479 | 1,353,144 | 1,105,970 |
| Allowance for doubtful accounts | (113,935) | (79,635) | (63,549) |
| Trade receivables, net of allowance for doubtful accounts | \$ 1,155,544 | \$ 1,273,509 | \$ 1,042,421 |

The allowance for doubtful accounts is established based on SNC-Lavalin's best estimates on the recovery of balances for which collection may be uncertain. Uncertainty of collection may become apparent from various indicators, such as a deterioration of the credit situation of a given client or delay in collection when the aging of invoices exceeds the normal payment terms. Management regularly reviews trade receivables and assesses the appropriateness of the allowance for doubtful accounts.

The change in the allowance for doubtful accounts is detailed below:

| YEAR ENDED DECEMBER 31 | 2011 | 2010 |
|---|-------------------|------------------|
| Balance at beginning of year | \$ 79,635 | \$ 63,549 |
| Change in allowance, other than write-offs and recoveries | 61,137 | 39,018 |
| Write-offs of trade receivables | (10,555) | (8,451) |
| Recoveries | (16,282) | (14,481) |
| Balance at end of year | \$ 113,935 | \$ 79,635 |

Notes to Consolidated Financial Statements

9 Other Current Financial Assets

| | | DECEMBER 31 2010 | JANUARY 1 2010 |
|--|--|---------------------|-------------------|
| Retentions on client contracts | | \$ 77,000 | \$ 71,362 |
| Advances to suppliers, subcontractors and employees and deposits on contracts | | 93,141 | 127,174 |
| Derivative financial instruments used for cash flow hedges—favourable fair value | | 37,793 | 26,448 |
| Cash-settled share-based payment arrangement asset (Note 21C) | | 34,544 | 47,766 |
| Current portion of receivables under service concession arrangements | | 19,115 | 1,694 |
| Other | | 28,661 | 5,361 |
| Other current financial assets | | \$ 290,254 | \$ 279,805 |

10 Other Current Assets

| | | DECEMBER 31 2010 | JANUARY 1 2010 |
|---|--|---------------------|-------------------|
| Income taxes and other taxes receivable | | \$ 94,352 | \$ 108,761 |
| Prepaid expenses and other | | 25,776 | 24,180 |
| Other current assets | | \$ 120,128 | \$ 132,941 |

11 Property and Equipment

A) PROPERTY AND EQUIPMENT FROM ICI

| | PROPERTY AND EQUIPMENT OF ALTA LINK |
|---------------------------------|---|
| Gross carrying amount | |
| Balance as at January 1, 2011 | \$ 2,149,288 |
| Additions | 648,911 |
| Balance as at December 31, 2011 | \$ 2,798,199 |
| Accumulated depreciation | |
| Balance as at January 1, 2011 | 76,474 |
| Depreciation expense | 83,990 |
| Balance as at December 31, 2011 | \$ 160,464 |

| | PROPERTY AND EQUIPMENT OF ALTA LINK |
|---------------------------------|---|
| Gross carrying amount | |
| Balance as at January 1, 2010 | \$ 1,725,206 |
| Additions | 424,082 |
| Balance as at December 31, 2010 | \$ 2,149,288 |
| Accumulated depreciation | |
| Balance as at January 1, 2010 | — |
| Depreciation expense | 76,474 |
| Balance as at December 31, 2010 | \$ 76,474 |

Net book value:

| | |
|--------------------------------|---------------------|
| As at January 1, 2010 | \$ 1,725,206 |
| As at December 31, 2010 | \$ 2,072,814 |
| As at December 31, 2011 | \$ 2,637,735 |

An amount of \$671.2 million as at December 31, 2011 (December 31, 2010: \$302.8 million and January 1, 2010: \$353.7 million) of property and equipment from ICI was not being depreciated as the corresponding assets are mainly transmission assets of AltaLink under construction. AltaLink has a contractual commitment to acquire property and equipment of \$1,062.1 million as at December 31, 2011.

Notes to Consolidated Financial Statements

11 Property and Equipment (continued)

B) PROPERTY AND EQUIPMENT FROM OTHER ACTIVITIES

| | BUILDINGS | COMPUTER EQUIPMENT | OFFICE FURNITURE | OTHER | TOTAL |
|---|-----------|-----------------------|---------------------|-----------|------------|
| Gross carrying amount | | | | | |
| Balance as at January 1, 2011 | \$ 67,170 | \$ 251,477 | \$ 107,055 | \$ 58,367 | \$ 484,069 |
| Additions | 7,016 | 31,854 | 13,637 | 14,641 | 67,148 |
| Additions through business acquisitions | 4,335 | 3,431 | 10,269 | 6,935 | 24,970 |
| Effect of foreign currency exchange differences | (643) | (1,668) | (521) | (495) | (3,327) |
| Disposals/retirements/salvage | – | (15,777) | (4,945) | (1,482) | (22,204) |
| Balance as at December 31, 2011 | \$ 77,878 | \$ 269,317 | \$ 125,495 | \$ 77,966 | \$ 550,656 |
| Accumulated depreciation | | | | | |
| Balance as at January 1, 2011 | 26,602 | 224,774 | 80,525 | 36,979 | 368,880 |
| Depreciation expense | 2,979 | 25,341 | 8,666 | 6,814 | 43,800 |
| Effect of foreign currency exchange differences | (28) | (1,400) | (189) | (237) | (1,854) |
| Disposals/retirements/salvage | – | (15,365) | (4,014) | (674) | (20,053) |
| Balance as at December 31, 2011 | \$ 29,553 | \$ 233,350 | \$ 84,988 | \$ 42,882 | \$ 390,773 |

| | BUILDINGS | COMPUTER EQUIPMENT | OFFICE FURNITURE | OTHER | TOTAL |
|---|-----------|-----------------------|---------------------|-----------|------------|
| Gross carrying amount | | | | | |
| Balance as at January 1, 2010 | \$ 65,579 | \$ 237,226 | \$ 105,382 | \$ 55,717 | \$ 463,904 |
| Additions | 3,089 | 24,816 | 9,089 | 8,893 | 45,887 |
| Additions through business acquisitions | 856 | 188 | 635 | 88 | 1,767 |
| Effect of foreign currency exchange differences | (28) | (3,078) | (1,783) | (954) | (5,843) |
| Disposals/retirements/salvage | (2,326) | (7,675) | (6,268) | (5,377) | (21,646) |
| Balance as at December 31, 2010 | \$ 67,170 | \$ 251,477 | \$ 107,055 | \$ 58,367 | \$ 484,069 |
| Accumulated depreciation | | | | | |
| Balance as at January 1, 2010 | 24,560 | 211,608 | 80,248 | 35,816 | 352,232 |
| Depreciation expense | 2,532 | 23,084 | 6,710 | 6,260 | 38,586 |
| Effect of foreign currency exchange differences | – | (2,789) | (1,380) | (492) | (4,661) |
| Disposals/retirements/salvage | (490) | (7,129) | (5,053) | (4,605) | (17,277) |
| Balance as at December 31, 2010 | \$ 26,602 | \$ 224,774 | \$ 80,525 | \$ 36,979 | \$ 368,880 |

Net book value:

| | | | | | |
|--------------------------------|------------------|------------------|------------------|------------------|-------------------|
| As at January 1, 2010 | \$ 41,019 | \$ 25,618 | \$ 25,134 | \$ 19,901 | \$ 111,672 |
| As at December 31, 2010 | \$ 40,568 | \$ 26,703 | \$ 26,530 | \$ 21,388 | \$ 115,189 |
| As at December 31, 2011 | \$ 48,325 | \$ 35,967 | \$ 40,507 | \$ 35,084 | \$ 159,883 |

The Company did not receive any compensation from third parties that is included in net income in 2011 and/or 2010 for items of property and equipment that were impaired, lost or given up.

Notes to Consolidated Financial Statements

12 Goodwill

The following table details a reconciliation of the carrying amount of the Company's goodwill:

| | ICI | FROM OTHER ACTIVITIES | | TOTAL |
|---|-------------------|-----------------------|------------------|-------------------|
| | | SERVICES AND PACKAGES | O&M | |
| Balance at January 1, 2010 | \$ 203,786 | \$ 296,201 | \$ 20,875 | \$ 520,862 |
| Goodwill arising from acquisitions completed in the year | – | 28,576 | – | 28,576 |
| Net foreign currency exchange differences | – | (7,410) | – | (7,410) |
| Balance at December 31, 2010 | 203,786 | 317,367 | 20,875 | 542,028 |
| Goodwill arising from acquisitions completed in the year | – | 101,357 | 4,296 | 105,653 |
| Net foreign currency exchange differences | – | (8,210) | – | (8,210) |
| Balance at December 31, 2011 | \$ 203,786 | \$ 410,514 | \$ 25,171 | \$ 639,471 |

At the Date of Transition, the amount of goodwill was tested for impairment. The forecast at the Date of Transition showed that there was no impairment. As at October 31, 2011 and 2010, the Company assessed the recoverable amount of goodwill and determined that there was no impairment.

For the purpose of annual impairment testing and as at Date of Transition, goodwill is allocated to the following CGU or groups of CGU, which are the units expected to benefit from the synergies of the business combinations in which the goodwill arises.

| CGU OR GROUP OF CGU | DECEMBER 31 2011 | DECEMBER 31 2010 | JANUARY 1 2010 |
|------------------------------|---------------------|---------------------|-------------------|
| AltaLink | \$ 203,786 | \$ 203,786 | \$ 203,786 |
| Services and Packages–Europe | 137,402 | 77,249 | 78,151 |
| Services and Packages–Brazil | 77,118 | 84,905 | 82,857 |
| Services and Packages–Other | 195,994 | 155,213 | 135,193 |
| O&M | 25,171 | 20,875 | 20,875 |
| | \$ 639,471 | \$ 542,028 | \$ 520,862 |

The recoverable amounts of the CGU or groups of CGU were determined based on value in use calculations, covering a five-year forecast for all CGU or groups of CGU, followed by a terminal value based on extrapolation of expected future cash flows.

13 Non-Current Financial Assets

| | DECEMBER 31 2011 | DECEMBER 31 2010 | JANUARY 1 2010 |
|---|---------------------|---------------------|-------------------|
| From ICI | | | |
| Receivables under service concession arrangements | \$ 239,113 | \$ 219,646 | \$ 190,599 |
| Third party deposits of AltaLink | 95,285 | 48,965 | 62,842 |
| Restricted cash | 6,098 | 6,098 | 5,937 |
| Other | 26,373 | 20,142 | 6,138 |
| | 366,869 | 294,851 | 265,516 |
| From other activities | 45,389 | 18,444 | 20,212 |
| Non-current financial assets | \$ 412,258 | \$ 313,295 | \$ 285,728 |

Certain third parties of AltaLink contribute their share of capital project costs in advance of construction and provide advance funding for future operating and maintenance costs of assets constructed with third party-contributed funds. Third party deposits of AltaLink are recognized as non-current financial assets with corresponding other non-current financial liabilities (see Note 18).

Notes to Consolidated Financial Statements

14 Other Non-Current Assets

| | DECEMBER 31 2011 | DECEMBER 31 2010 | JANUARY 1 2010 |
|---------------------------------|---------------------|---------------------|-------------------|
| From ICI | | | |
| Intangible assets of AltaLink | \$ 104,949 | \$ 84,965 | \$ 42,085 |
| Other | 10,089 | 2,460 | 337 |
| | 115,038 | 87,425 | 42,422 |
| From other activities | 38,483 | 38,182 | 31,552 |
| Other non-current assets | \$ 153,521 | \$ 125,607 | \$ 73,974 |

Intangible assets of AltaLink include mainly land rights. The amortization rate applied to land rights was 2.00% for the year ended December 31, 2011 (2010: 2.85%), while the amortization rates applied by AltaLink to its other intangible assets ranged from 12.38% to 24.32% (2010: from 12.95% to 25.64%). Intangible assets under construction are not amortized until they are available for use. An amount of \$18.8 million as at December 31, 2011 (December 31, 2010: \$3.1 million and January 1, 2010: \$nil) of the intangible assets was not being amortized.

15 Other Current Financial Liabilities

| | DECEMBER 31 2011 | DECEMBER 31 2010 | JANUARY 1 2010 |
|---|---------------------|---------------------|-------------------|
| Commitments to invest in ICI accounted for by the equity and cost methods (Note 5D) | \$ 159,078 | \$ 214,678 | \$ 105,600 |
| Retentions on supplier contracts | 103,605 | 77,322 | 104,482 |
| Balance of purchase price payable relating to acquisition of businesses | 20,631 | 25,356 | 19,529 |
| Derivative financial instruments used for cash flow hedges—unfavourable fair value | 7,717 | 7,593 | 10,472 |
| Other current financial liabilities | \$ 291,031 | \$ 324,949 | \$ 240,083 |

16 Other Current Liabilities

| | DECEMBER 31 2011 | DECEMBER 31 2010 | JANUARY 1 2010 |
|---|---------------------|---------------------|-------------------|
| Income taxes and other taxes payable | \$ 113,946 | \$ 62,876 | \$ 73,991 |
| Cash-settled share-based payment arrangement liabilities (Note 21C) | 37,743 | 34,230 | 47,766 |
| Other current liabilities | \$ 151,689 | \$ 97,106 | \$ 121,757 |

Notes to Consolidated Financial Statements

17 Short-Term Debt and Long-Term Debt

A) RECOURSE REVOLVING CREDIT FACILITIES

The Company has access to committed long-term revolving lines of credit with banks, totalling \$590.0 million, upon which it may either issue letters of credit, or borrow at variable rates not exceeding the prime rate plus 0.00% (2010: 0.20%). As at December 31, 2011, \$145.9 million of these lines of credit remained unused, while the balance of \$444.1 million was exclusively used for the issuance of letters of credit. In addition, the Company has other lines of credit specifically available for the issuance of letters of credit. All the above-mentioned lines of credit are unsecured and subject to negative pledge clauses.

B) RECOURSE LONG-TERM DEBT

| | DECEMBER 31 2011 | DECEMBER 31 2010 | JANUARY 1 2010 |
|--|---------------------|---------------------|-------------------|
| Recourse (to the general credit of the Company) | | | |
| Debentures, 7.70%, fully repaid at face value of \$105.0 million in 2010 | \$ — | \$ — | \$ 104,874 |
| Debentures, 6.19%, due in July 2019 with a face value of \$350.0 million repayable in full at maturity | 348,369 | 348,204 | 348,048 |
| Both the 2010 and 2019 debentures described are unsecured and subject to negative pledge clauses. | | | |
| Total recourse long-term debt | 348,369 | 348,204 | 452,922 |
| Less: current portion | — | — | 104,874 |
| Recourse long-term debt | \$ 348,369 | \$ 348,204 | \$ 348,048 |

C) NON-RECOURSE DEBT FROM ICI (UNSECURED OR SECURED ONLY BY ICI'S SPECIFIC ASSETS)

| | DECEMBER 31 2011 | DECEMBER 31 2010 | JANUARY 1 2010 |
|--|---------------------|---------------------|---------------------|
| AltaLink | | | |
| Senior Debt, 4.46% to 5.43%, due from 2013 to 2041, secured by a first floating charge security interest on AltaLink L.P.'s assets. | \$ 1,219,244 | \$ 945,211 | \$ 671,543 |
| Unsecured Debt, 5.02%, due in 2012, 10.50%, due in 2015, and 5.21%, due in 2016 | 392,994 | 437,200 | 436,469 |
| Unsecured credit facility of \$300 million (December 31, 2010: \$150 million and January 1, 2010: \$10 million) under which AltaLink may borrow at prime rate and bankers' acceptances, maturing in 2014 | 104,500 | 34,964 | — |
| Unsecured Commercial Paper and bank credit facility | 18,981 | — | 47,982 |
| The unsecured commercial paper is supported by a \$850 million (December 31, 2010: \$550 million and January 1, 2010: \$400 million) bank credit facility under which AltaLink may also borrow at prime rate and bankers' acceptances, maturing in 2013 and ranking equally with the Senior Debt. At December 31, 2011 and 2010, drawdowns under the bank credit facility were \$nil (January 1, 2010: \$nil). | | | |
| Other | 433 | 707 | 983 |
| Okanagan Lake Concession | | | |
| 5.415% credit facility, due in 2033, secured by all assets of Okanagan Lake Concession, including a pledge by SNC-Lavalin of its units in Okanagan Lake Concession as well as an assignment of the concession's future revenues. | 141,324 | 149,704 | 153,021 |
| Other | 11,282 | — | — |
| Total non-recourse long-term debt from ICI | 1,888,758 | 1,567,786 | 1,309,998 |
| Less: short-term debt and current portion of long-term debt | 327,381 | 38,762 | 51,596 |
| Non-recourse long-term debt from ICI | \$ 1,561,377 | \$ 1,529,024 | \$ 1,258,402 |

Notes to Consolidated Financial Statements

17 Short-Term Debt and Long-Term Debt (continued)

D) REPAYMENT OF PRINCIPAL OF SHORT-TERM DEBT AND LONG-TERM DEBT

The future principal payments of SNC-Lavalin's recourse and non-recourse short-term and long-term debt are summarized below and reconciled to their net carrying amount:

| AT DECEMBER 31, 2011 | RECOURSE | NON-RECOURSE FROM ICI | TOTAL |
|--|-------------------|--------------------------|---------------------|
| 2012 | \$ – | \$ 327,381 | \$ 327,381 |
| 2013 | – | 340,171 | 340,171 |
| 2014 | – | 3,876 | 3,876 |
| 2015 | – | 49,098 | 49,098 |
| 2016 | – | 154,332 | 154,332 |
| Thereafter | 350,000 | 1,026,230 | 1,376,230 |
| Total | \$ 350,000 | \$ 1,901,088 | \$ 2,251,088 |
| Net unamortized deferred financing costs and unamortized discounts | (1,631) | (12,330) | (13,961) |
| Net carrying amount of short-term debt and long-term debt | \$ 348,369 | \$ 1,888,758 | \$ 2,237,127 |

18 Other Non-Current Financial Liabilities

| | DECEMBER 31 2011 | DECEMBER 31 2010 | JANUARY 1 2010 |
|--|---------------------|---------------------|-------------------|
| Third party deposits of AltaLink | \$ 95,285 | \$ 48,965 | \$ 62,842 |
| Other | 35,459 | 27,432 | 18,855 |
| Other non-current financial liabilities | \$ 130,744 | \$ 76,397 | \$ 81,697 |

Certain third parties of AltaLink contribute their share of capital project costs in advance of construction and provide advance funding for future operating and maintenance costs of assets constructed with third party-contributed funds. Third party deposits of AltaLink are recognized as non-current financial assets (see Note 13) with corresponding other non-current financial liabilities.

19 Provisions

| | PENSION AND OTHER POST- EMPLOYMENT BENEFITS | OTHER ⁽¹⁾ | TOTAL |
|---|--|----------------------|-------------------|
| Balance at January 1, 2011 | \$ 50,753 | \$ 126,334 | \$ 177,087 |
| Additional provisions recognized in the year | 24,625 | 72,146 | 96,771 |
| Amounts used during the year | (9,507) | (44,001) | (53,508) |
| Unused amounts reversed during the year | – | (19,675) | (19,675) |
| Actuarial losses recognized in equity | 16,033 | – | 16,033 |
| Unwinding of discount and effect of changes in discount rates | 6,919 | 1,207 | 8,126 |
| Balance at December 31, 2011 | \$ 88,823 | \$ 136,011 | \$ 224,834 |

(1) Other provisions include mainly litigations, forecasted losses on certain contracts and warranty provisions.

Notes to Consolidated Financial Statements

20 Other Non-Current Liabilities

Other non-current liabilities mainly include contributions received by AltaLink from third parties used to finance certain capital construction costs which are released into revenues over the lives of the related assets. Other non-current liabilities also include funds provided by the *Alberta Utilities Commission* to AltaLink to pay for salvage costs, which are released into revenues when the associated costs are incurred.

| | DECEMBER 31 2011 | DECEMBER 31 2010 | JANUARY 1 2010 |
|---------------------------------------|---------------------|---------------------|-------------------|
| Third party contributions of AltaLink | \$ 310,498 | \$ 247,919 | \$ 195,071 |
| Funds for salvage costs of AltaLink | 170,596 | 174,960 | 173,283 |
| Other | 5,123 | 9,304 | 10,121 |
| Other non-current liabilities | \$ 486,217 | \$ 432,183 | \$ 378,475 |

21 Share Capital

A) AUTHORIZED

The Company is authorized to issue an unlimited number of common shares, an unlimited number of first preferred shares and an unlimited number of second preferred shares.

The Board of Directors is authorized to issue such preferred shares in one or more series and to establish the number of shares in each series and the conditions attaching thereto, prior to their issue.

The share capital issued and outstanding of the Company consists only of fully paid common shares without nominal value. All common shares are equally eligible to receive dividends, subject to the prior rights of the holders of preferred shares. Each common share carries one vote at the shareholders' meeting of the Company.

Subject to the prior rights of the holders of preferred shares, upon the liquidation or dissolution of the Company or any other distribution of its assets among its shareholders for the purpose of winding-up its affairs, all the Company's assets available for payment or distribution to the holders of the common shares are paid or distributed equally, share for share, to the holders of such common shares.

B) STOCK OPTION PLANS

The main features of the stock option plans under which stock options were outstanding at December 31, 2011 are summarized below:

| | 2011, 2009 AND 2007 STOCK OPTION PLANS | 2004 STOCK OPTION PLAN |
|---------------------------------|---|--|
| Grant date | Sixth trading day following the approval by the Company's Board of Directors | Corresponds to the date of approval by the Company's Board of Directors |
| Exercise price of stock options | The greater of: i) the average closing price for the five trading days preceding the grant date and ii) the closing price on the first trading day immediately preceding the grant date | Closing price on the first trading day immediately preceding the grant date |
| Vesting of stock options | Graded vesting in three equal tranches: two years, three years and four years, respectively, after the grant date | Full vesting two years after the grant date |
| Expiry of stock options | Five years after the grant date | Six years after the grant date |
| Other provisions | In the event of cessation of employment, except in the event of death or if the optionee is eligible to retire, unvested options are cancelled immediately and vested options remain exercisable for a specified period not exceeding 30 days. In the event of death or if the optionee is eligible to retire, both vested and unvested options continue to run their normal course | In the event of death or if the optionee is eligible to retire, the vesting of the options continues in accordance with the plan, but the life of the option is limited to a period of two years following such event. All options are cancelled immediately upon other cessations of employment |

Notes to Consolidated Financial Statements

21 Share Capital (continued)

The table below presents the changes in the number of options outstanding in 2011 and 2010:

| | 2011 | | 2010 | |
|---|-------------------|--|-------------------|--|
| | NUMBER OF OPTIONS | WEIGHTED AVERAGE EXERCISE PRICE (IN DOLLARS) | NUMBER OF OPTIONS | WEIGHTED AVERAGE EXERCISE PRICE (IN DOLLARS) |
| Options outstanding at beginning of year | 5,126,117 | \$ 40.61 | 5,073,954 | \$ 35.57 |
| Granted ⁽¹⁾ | 1,119,200 | \$ 54.06 | 1,110,500 | \$ 52.45 |
| Exercised ⁽²⁾ | (820,216) | \$ 32.84 | (902,465) | \$ 26.98 |
| Forfeited | (67,586) | \$ 44.21 | (155,872) | \$ 39.84 |
| Options outstanding at end of year | 5,357,515 | \$ 44.57 | 5,126,117 | \$ 40.61 |

(1) The weighted average fair value of stock options granted was \$15.04 in 2011 (\$15.50 in 2010).

(2) The weighted average market price of the Company's common shares upon the exercise of stock options was \$53.56 in 2011 (\$52.63 in 2010).

The table below summarizes information regarding the stock options outstanding and exercisable as at December 31, 2011.

| RANGE OF EXERCISE PRICES | OPTIONS OUTSTANDING | | | | | OPTIONS EXERCISABLE | |
|--------------------------|---------------------|---------------|--------------------|---|--|---------------------|--|
| | STOCK OPTION PLAN | YEAR OF GRANT | NUMBER OUTSTANDING | WEIGHTED AVERAGE REMAINING OPTIONS' TERM (MONTHS) | WEIGHTED AVERAGE EXERCISE PRICE (IN DOLLARS) | NUMBER EXERCISABLE | WEIGHTED AVERAGE EXERCISE PRICE (IN DOLLARS) |
| \$29.20 to \$32.50 | 2004 | 2006 | 131,500 | 3 | \$ 30.24 | 131,500 | \$ 30.24 |
| \$37.64 to \$42.36 | 2007 | 2007 | 688,450 | 5 | \$ 37.74 | 688,450 | \$ 37.74 |
| \$37.17 to \$55.10 | 2007 | 2008 | 1,099,368 | 15 | \$ 46.23 | 696,834 | \$ 46.23 |
| \$31.59 | 2007 | 2009 | 914,826 | 26 | \$ 31.59 | 261,735 | \$ 31.59 |
| \$37.53 | 2009 | 2009 | 337,421 | 28 | \$ 37.53 | 104,022 | \$ 37.53 |
| \$52.40 to \$57.07 | 2009 | 2010 | 1,074,250 | 39 | \$ 52.45 | – | \$ – |
| \$51.55 to \$54.07 | 2011 | 2011 | 1,111,700 | 52 | \$ 54.06 | – | \$ – |
| | | | 5,357,515 | 29 | \$ 44.57 | 1,882,541 | \$ 39.49 |

As at December 31, 2011, 1,188,300 stock options remained available for future grants under the 2011 stock option plan (December 31, 2010: 548,516 stock options and January 1, 2010: 1,629,891 stock options remained available under the 2009 stock option plan), while no stock options remain available for future grants under the 2009, 2007 and the 2004 stock option plans.

The following table presents the weighted average assumptions used to determine the stock option compensation cost, using the Black-Scholes option pricing model, for the year ended December 31:

| | 2011 | 2010 |
|---------------------------------|---------|---------|
| Risk-free interest rate | 2.15% | 2.47% |
| Expected stock price volatility | 34.78% | 36.64% |
| Expected option life | 4 years | 4 years |
| Expected dividend yield | 1.00% | 1.00% |

The underlying expected volatility was determined by reference to historical data.

C) CASH-SETTLED SHARE-BASED PAYMENT ARRANGEMENTS

As at December 31, 2011, the Company had four cash-settled share-based payment compensation plans for executives, namely 2009 PSU plan, 2009 DSU plan, PSU plan and RSU plan, which was introduced in 2010. As at December 31, 2011, the Company also had a cash-settled share-based payment compensation plan, DSU plan, for members of the Board of Directors of SNC-Lavalin Group Inc.

Notes to Consolidated Financial Statements

21 Share Capital (continued)

The terms and conditions of the executive plans are summarized below:

| | 2009 PSU PLAN | 2009 DSU PLAN / PSU PLAN ⁽¹⁾ | RSU PLAN |
|-----------------------|---|--|--|
| Grant date | Date of approval by the Company's Board of Directors | Date of approval by the Company's Board of Directors | Date of approval by the Company's Board of Directors |
| Number of units | Subject to performance conditions, the number of units granted shall be adjusted depending on the three-year cumulative annualized growth of earnings per share, to determine the number of units to which all participants receiving the award will be entitled to, if any | Determined at grant date, without any further changes | Determined at grant date, without any further changes |
| Vesting of units | Units vest in full at the end of the third calendar year following the grant date | Units vest at a rate of 20% per year following the grant date | Units vest in full three years following their grant date |
| Payment or conversion | At the option of the participant, upon vesting, units are redeemable for cash by the Company within ninety days following the completion of the vesting period or are converted as vested 2009 DSU | Units are redeemable for cash by the Company within thirty days following the first year anniversary of a participant's cessation of employment | Units are redeemable for cash by the Company within ninety business days following the completion of the vesting period |
| Redemption price | Average closing price per share on the Toronto Stock Exchange at the vesting date and the four trading days preceding such date | Average closing price per share on the Toronto Stock Exchange on the first year anniversary of cessation of employment and the last trading day on the Toronto Stock Exchange of each of the 12 weeks preceding that date | Average closing price per share on the Toronto Stock Exchange on the five trading days preceding the vesting date |
| Forfeiture | If a participant terminates his employment voluntarily for reasons other than death or retirement or if a participant is terminated for cause before the end of the vesting period, the units expire immediately on the date of termination with no payment being made | If a participant terminates his employment voluntarily for reasons other than death or retirement or if a participant is terminated for cause before the end of the vesting period, the units expire immediately on the date of termination with no payment being made | If a participant terminates his employment voluntarily for reasons other than death or retirement or if a participant is terminated for cause before the end of the vesting period, the units expire immediately on the date of termination with no payment being made |
| Other provisions | The units vest immediately in the event of death or if a participant is eligible to retire, with payment being made within ninety business days following the end of the third calendar year from the grant date | The units vest immediately in the event of death or if a participant is retiring, with payment being made on the date of the first year anniversary following the participant's last day of employment | In the event of death or retirement of a participant before the end of the vesting period, the units vest on a <i>pro rata</i> basis, with payment being made within ninety business days following the end of the original vesting period |

(1) The PSU plan has the same terms and conditions as the 2009 DSU plan, except that under certain conditions the vesting was immediate allowing the participant to receive 50% of the current year's grant as a cash payment. No units are available for future grants under the PSU plan since January 1, 2010.

The terms and conditions of the DSU plan are as follows: units are issued to Board Members of SNC-Lavalin Group Inc. at the end of each quarter. Each member is required to participate in the DSU plan by deferring at least 25% of their annual retainer. An additional number of units is also granted annually as determined by the Corporate Governance Committee of SNC-Lavalin Group Inc. All units issued vest immediately. When a member ceases to be a member of the Board of Directors, units are redeemed immediately in cash.

Notes to Consolidated Financial Statements

21 Share Capital (continued)

The table below presents the number of granted share units and the weighted average fair value per granted share unit for the years ended December 31, 2011 and 2010:

| | | | 2010 | |
|---------------|--|--|-------------------------------------|---|
| | | | NUMBER OF GRANTED SHARE UNITS | WEIGHTED AVERAGE FAIR VALUE PER SHARE UNIT (IN DOLLARS) |
| 2009 PSU plan | | | 31,322 | \$ 52.40 |
| 2009 DSU plan | | | 34,027 | \$ 52.40 |
| RSU plan | | | 84,507 | \$ 52.86 |
| DSU plan | | | 22,037 | \$ 48.82 |

The tables below present the changes in the number of outstanding share units in 2011 and 2010:

| | 2011 | | | | |
|---|-----------------------|-----------------------|----------------|----------------|----------------|
| | NUMBER OF 2009 PSU | NUMBER OF 2009 DSU | NUMBER OF RSU | NUMBER OF PSU | NUMBER OF DSU |
| Share units outstanding at beginning of year | 31,322 | 34,027 | 81,125 | 341,816 | 101,128 |
| Granted | 35,734 | 36,516 | 91,678 | – | 24,717 |
| Exercised | – | – | (4,119) | – | – |
| Forfeited | – | – | (6,186) | – | – |
| Share units outstanding at end of year | 67,056 | 70,543 | 162,498 | 341,816 | 125,845 |

| | 2010 | | | | |
|---|-----------------------|-----------------------|---------------|----------------|----------------|
| | NUMBER OF 2009 PSU | NUMBER OF 2009 DSU | NUMBER OF RSU | NUMBER OF PSU | NUMBER OF DSU |
| Share units outstanding at beginning of year | – | – | – | 800,136 | 84,589 |
| Granted | 31,322 | 34,027 | 84,507 | – | 22,037 |
| Exercised | – | – | – | (458,320) | (5,498) |
| Forfeited | – | – | (3,382) | – | – |
| Share units outstanding at end of year | 31,322 | 34,027 | 81,125 | 341,816 | 101,128 |

The Company has a financial arrangement with an investment grade financial institution to limit its exposure to the variability of the units caused by fluctuations in its share price. This financial arrangement includes a financial instrument, which fluctuates in accordance with the movement in the Company's share price, and is required to be classified as held for trading. As such, it is measured at fair value on the consolidated statement of financial position under "Other current financial assets", while the cash-settled share-based payment arrangement liabilities are recorded in "Other current liabilities". Gains and losses from the remeasurement of the financial instrument offset most of the related losses and gains from the fair value remeasurement of the cash-settled share-based payment arrangement liabilities. The financing arrangement is adjusted as needed to reflect new awards and/or settlements of units.

The compensation expense, net of the loss of \$5.6 million from the remeasurement of the cash-settled share-based payment arrangement asset which offsets the gain of \$5.2 million from the remeasurement of the cash-settled share-based payment arrangement liabilities in 2011 (2010: gain of \$3.7 million which offsets the loss of \$3.4 million), was \$8.9 million for the year ended December 31, 2011 (2010: \$5.5 million).

The total intrinsic value of the cash-settled share-based payment arrangement liabilities for which the participant's right to cash vested was \$31.7 million as at December 31, 2011, \$30.5 million as at December 31, 2010 and \$47.8 million as at January 1, 2010.

Notes to Consolidated Financial Statements

21 Share Capital (continued)

D) REDEMPTION OF SHARES

In 2011, the Board of Directors authorized the renewal of its normal course issuer bid to purchase for cancellation, on the open market, up to 3.0 million (2010: 3.0 million) common shares within a one-year period. The renewal of the Company's normal course issuer bid requires annual approval by the Board of Directors and the Toronto Stock Exchange. The redemptions of shares in 2011 and 2010 were as follows:

| | 2011 | 2010 |
|---|-----------|-----------|
| Redeemed and cancelled: | | |
| Portion allocated to share capital | \$ 2,472 | \$ 2,537 |
| Portion allocated to retained earnings | 41,799 | 45,406 |
| | \$ 44,271 | \$ 47,943 |
| Number of shares redeemed and cancelled | 819,400 | 901,600 |
| Average redemption price per share (\$) | \$ 54.03 | \$ 53.18 |

E) WEIGHTED AVERAGE NUMBER OF OUTSTANDING SHARES—BASIC AND DILUTED

The weighted average number of outstanding shares in 2011 and 2010 used to calculate the basic and diluted earnings per share were as follows:

| AT DECEMBER 31 (IN THOUSANDS) | 2011 | 2010 |
|---|---------|---------|
| Weighted average number of outstanding shares—basic | 150,897 | 151,020 |
| Dilutive effect of stock options | 1,043 | 1,257 |
| Weighted average number of outstanding shares—diluted | 151,940 | 152,277 |

In 2011, 2,186,950 outstanding stock options have not been included in the computation of diluted earnings per share because they were anti-dilutive (2010: 1,095,250 outstanding stock options).

F) DIVIDENDS

During the year ended December 31, 2011, the Company recognized as distributions to its equity shareholders dividends of \$126.8 million or \$0.84 per share (2010: \$102.7 million or \$0.68 per share).

22 Other Components of Equity

The Company has the following elements, net of income tax, within its other components of equity at December 31, 2011, December 31, 2010 and January 1, 2010:

| | DECEMBER 31 2011 | DECEMBER 31 2010 | JANUARY 1 2010 |
|---|---------------------|---------------------|-------------------|
| Exchange differences on translating foreign operations | \$ (33,028) | \$ (21,077) | \$ — |
| Available-for-sale financial assets | 1,538 | 1,317 | 11,215 |
| Cash flow hedges | (24,375) | (15,920) | (1,136) |
| Share of other comprehensive loss of investments accounted for by the equity method | (59,948) | (31,800) | (14,114) |
| Other components of equity | \$ (115,813) | \$ (67,480) | \$ (4,035) |

Notes to Consolidated Financial Statements

22 Other Components of Equity (continued)

- > 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.
- > Available-for-sale financial assets component arises upon the revaluation of available-for-sale financial assets. When a revalued financial asset is sold, the portion of the component that relates to that financial asset, and is effectively realized, is recognized in net income. When a revalued financial asset is impaired, the portion of the component that relates to that financial asset is recognized in net income.
- > 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 proportionate share of the other comprehensive income (loss) from its investments accounted for by the equity method.

The following table provides a reconciliation of each element of other components of equity for the years ended December 31, 2011 and 2010:

| YEAR ENDED DECEMBER 31 | 2011 | 2010 |
|--|---------------------|--------------------|
| Exchange differences on translating foreign operations: | | |
| Balance at beginning of year | \$ (21,077) | \$ – |
| Current year losses | (11,951) | (21,077) |
| Balance at end of year | (33,028) | (21,077) |
| Available-for-sale financial assets: | | |
| Balance at beginning of year | 1,317 | 11,215 |
| Current year gains | 1,395 | 18,111 |
| Income tax expense relating to current year gains | (151) | (1,884) |
| Reclassification to net income | (1,183) | (29,567) |
| Income tax expense relating to amounts reclassified to net income | 160 | 3,442 |
| Balance at end of year | 1,538 | 1,317 |
| Cash flow hedges: | | |
| Balance at beginning of year | (15,920) | (1,136) |
| Current year gains (losses) | (7,618) | 38,519 |
| Income tax benefit (expense) relating to current year gains (losses) | 2,632 | (18,743) |
| Reclassification to net income | (4,241) | (54,927) |
| Income tax expense relating to amounts reclassified to net income | 3,540 | 20,367 |
| Balance at end of year before the acquisition of non-controlling interests of AltaLink | (21,607) | (15,920) |
| Portion of cash flow hedges attributable to non-controlling interests of AltaLink reallocated to equity attributable to SNC-Lavalin shareholders | (3,690) | – |
| Income tax benefit related to the reallocated portion of cash flows hedges of AltaLink | 922 | – |
| Balance at end of year after the acquisition of non-controlling interests of AltaLink | (24,375) | (15,920) |
| Share of other comprehensive income (loss) of investments accounted for by the equity method: | | |
| Balance at beginning of year | (31,800) | (14,114) |
| Current year share | (49,738) | (34,178) |
| Income tax benefit relating to current year share | 16,156 | 11,236 |
| Reclassification to net income | 6,875 | 6,928 |
| Income tax benefit relating to amounts reclassified to net income | (1,441) | (1,672) |
| Balance at end of year | (59,948) | (31,800) |
| Other components of equity | \$ (115,813) | \$ (67,480) |

Notes to Consolidated Financial Statements

22 Other Components of Equity (continued)

The Company expects that approximately \$13.1 million of the accumulated net unrealized loss on cash flow hedges at December 31, 2011 will be reclassified in net income in the next 12 months, offsetting unrealized gains on the corresponding underlying hedged items.

ACTUARIAL GAINS AND LOSSES RECOGNIZED IN OTHER COMPREHENSIVE INCOME

Actuarial gains and losses recognized in other comprehensive income relating to defined benefit pension plans and other post-employment benefits were as follows:

| YEAR ENDED DECEMBER 31 | 2011 | | | 2010 | | |
|---|--------------------|-----------------------|--------------------|-------------------|---------------------------------|-------------------|
| | BEFORE TAX | INCOME TAX BENEFIT | NET OF TAX | BEFORE TAX | INCOME TAX BENEFIT (EXPENSE) | NET OF TAX |
| Cumulative amount at January 1 | \$ (1,442) | \$ 359 | \$ (1,083) | \$ – | \$ – | \$ – |
| Recognized during the year: | | | | | | |
| Defined benefit pension plans | (15,358) | 4,117 | (11,240) | (2,204) | 544 | (1,660) |
| Other post-employment benefits | (675) | 169 | (507) | 762 | (185) | 577 |
| | (16,033) | 4,286 | (11,747) | (1,442) | 359 | (1,083) |
| Cumulative amount at December 31 | \$ (17,475) | \$ 4,645 | \$ (12,830) | \$ (1,442) | \$ 359 | \$ (1,083) |

The actuarial gains and losses on defined benefit plans are recognized in other comprehensive income and are not reclassified to net income in subsequent periods. The cumulative amount of actuarial gains and losses is included in retained earnings.

23 Net Financial Expenses

| YEAR ENDED DECEMBER 31 | 2011 | | | 2010 | | |
|-------------------------------|------------------|--------------------------|-------------------|------------------|--------------------------|-------------------|
| | FROM ICI | FROM OTHER ACTIVITIES | TOTAL | FROM ICI | FROM OTHER ACTIVITIES | TOTAL |
| Interest revenues | \$ (7,139) | \$ (10,158) | \$ (17,297) | \$ (105) | \$ (6,646) | \$ (6,751) |
| Interest on debt: | | | | | | |
| Recourse | – | 21,879 | 21,879 | – | 27,754 | 27,754 |
| Non-recourse: | | | | | | |
| AltaLink | 87,862 | – | 87,862 | 71,829 | – | 71,829 |
| Other | 7,947 | – | 7,947 | 8,609 | – | 8,609 |
| Other ⁽¹⁾ | 11,061 | 3,759 | 14,820 | 4,761 | 4,873 | 9,634 |
| Net financial expenses | \$ 99,731 | \$ 15,480 | \$ 115,211 | \$ 85,094 | \$ 25,981 | \$ 111,075 |

(1) In 2011, other net financial expenses from ICI include a loss of \$5.0 million before taxes from the acquisition of a subsidiary's debenture related to the AltaLink transaction (Note 5A).

24 Selling, General and Administrative Expenses

| YEAR ENDED DECEMBER 31 | 2011 | 2010 |
|---|-------------------|-------------------|
| Selling costs | \$ 191,282 | \$ 168,199 |
| General and administrative expenses | 463,409 | 413,500 |
| Selling, general and administrative expenses | \$ 654,691 | \$ 581,699 |

Notes to Consolidated Financial Statements

25 Supplementary Cash Flow Information

The following table presents the items included in the net change in non-cash working capital related to operating activities presented in the statements of cash flows, for the year ended December 31:

| | 2011 | 2010 |
|--|-------------------|---------------------|
| Decrease (increase) in trade receivables | \$ 69,674 | \$ (241,840) |
| Decrease (increase) in contracts in progress | 59,384 | (135,748) |
| Decrease (increase) in other current financial assets | (98,480) | 6,972 |
| Increase in other current assets | (16,793) | (2,970) |
| Increase in trade payables | 151,221 | 19,985 |
| Increase (decrease) in downpayments on contracts | (75,024) | 29,690 |
| Increase in deferred revenues | 223,617 | 224,260 |
| Increase (decrease) in other current financial liabilities | 24,557 | (22,045) |
| Increase (decrease) in other current liabilities | 3,599 | (67,784) |
| Net change in non-cash working capital items | \$ 341,755 | \$ (189,480) |

26 Income Taxes

A) DEFERRED INCOME TAX ASSET AND DEFERRED INCOME TAX LIABILITY

Deferred income taxes arising from temporary differences and unused tax losses can be summarized as follows:

| | JANUARY 1 2011 | RECOGNIZED IN OTHER COMPREHENSIVE INCOME | RECOGNIZED IN BUSINESS COMBINATIONS AND UPON ACQUISITION OF NON-CONTROLLING INTERESTS OF ALTALINK | RECOGNIZED IN NET INCOME | EXCHANGE DIFFERENCES AND OTHER CHARGES | DECEMBER 31 2011 |
|---|-------------------|---|--|-----------------------------|--|---------------------|
| Current: | | | | | | |
| Retentions on client contracts | \$ (9,479) | \$ — | \$ (2) | \$ (22,614) | \$ — | \$ (32,095) |
| Contracts in progress | (14,639) | — | (332) | (12,714) | — | (27,685) |
| Retentions on supplier contracts | 14,384 | — | — | 8,043 | — | 22,427 |
| Accrued employee compensation | 4,528 | — | — | 2,044 | — | 6,572 |
| Current liabilities | 50,119 | — | 10 | 9,204 | 56 | 59,389 |
| Other | 1,248 | — | — | (885) | — | 363 |
| Non-current: | | | | | | |
| Property and equipment, and goodwill | (41,434) | — | (10,396) | (28,469) | 8,282 | (72,017) |
| Non-current financial assets | (6,473) | — | — | (703) | — | (7,176) |
| Provisions | (54,171) | — | — | (4,100) | (4,001) | (62,272) |
| ICL accounted for by the equity or cost methods | 2,819 | 14,716 | — | (29,654) | (45) | (12,164) |
| Pension plans and other post-employment benefits | 11,224 | 4,286 | 2,553 | (1,822) | (6) | 16,235 |
| Other | (6,414) | 6,180 | 488 | 2,704 | 518 | 3,476 |
| Unused tax losses | 54,846 | — | 16 | 14,370 | (4,337) | 64,895 |
| Deferred income tax asset (liability), net | \$ 6,558 | \$ 25,182 | \$ (7,663) | \$ (64,596) | \$ 467 | \$ (40,052) |
| Presented on the statement of financial position as follows: | | | | | | |
| Deferred income tax asset | \$ 158,419 | — | — | — | — | \$ 161,364 |
| Deferred income tax liability | \$ 151,861 | — | — | — | — | \$ 201,416 |

Notes to Consolidated Financial Statements

26 Income Taxes (continued)

Deferred income taxes for the comparative period 2010 can be summarized as follows:

| | JANUARY 1 2010 | RECOGNIZED IN OTHER COMPREHENSIVE INCOME | RECOGNIZED IN BUSINESS COMBINATIONS | RECOGNIZED IN NET INCOME | EXCHANGE DIFFERENCES AND OTHER CHARGES | DECEMBER 31 2010 |
|---|-------------------|---|---|-----------------------------|--|---------------------|
| Current: | | | | | | |
| Retentions on client contracts | \$ (1,410) | \$ – | \$ – | \$ (8,069) | \$ – | \$ (9,479) |
| Contracts in progress | (12,056) | – | – | (2,583) | – | (14,639) |
| Retentions on supplier contracts | 15,777 | – | – | (1,393) | – | 14,384 |
| Accrued employee compensation | 7,612 | – | – | (3,084) | – | 4,528 |
| Current liabilities | 44,946 | | 37 | 4,982 | 154 | 50,119 |
| Other | 2,463 | – | – | (1,215) | – | 1,248 |
| Non-current: | | | | | | |
| Property and equipment, and goodwill | (23,960) | – | – | (14,812) | (2,662) | (41,434) |
| Non-current financial assets | (6,311) | – | – | (162) | – | (6,473) |
| Provisions | (29,104) | – | (22) | (26,367) | 1,322 | (54,171) |
| ICI accounted for by the equity or cost methods | (12,811) | 9,565 | – | 5,996 | 69 | 2,819 |
| Pension plans and other post-employment benefits | 12,492 | 359 | – | (1,627) | – | 11,224 |
| Other | (6,520) | 3,181 | – | (2,796) | (279) | (6,414) |
| Unused tax losses | 76,304 | – | – | (22,203) | 745 | 54,846 |
| Deferred income tax asset, net | \$ 67,422 | \$ 13,105 | \$ 15 | \$ (73,333) | \$ (651) | \$ 6,558 |
| Presented on the statement of financial position as follows: | | | | | | |
| Deferred income tax asset | \$ 139,265 | – | – | – | – | \$ 158,419 |
| Deferred income tax liability | \$ 71,843 | – | – | – | – | \$ 151,861 |

At December 31, 2011, the Company had \$250.1 million of non-capital tax losses carried-forward that expire in varying amounts from 2012 to 2031. A deferred income tax asset of \$64.9 million has been recognized on \$218.4 million of these losses. The deferred income tax assets are recognized only to the extent that it is probable that taxable income will be available against which the unused tax losses can be utilized.

A deferred income tax liability has not been recognized on temporary differences of \$884.6 millions (2010: \$776.3 million) associated with investments in subsidiaries, associates and interests in joint ventures, as the Company controls the timing of the reversal and it is probable that the temporary differences will not reverse in the foreseeable future.

Notes to Consolidated Financial Statements

26 Income Taxes (continued)

B) INCOME TAX EXPENSE

The relationship between the expected tax expense based on Canadian effective tax rate of SNC-Lavalin at 27.7% (2010: 29.4%) and the reported tax expense in net income can be reconciled as follows, also showing major components of tax expense:

| YEAR ENDED DECEMBER 31 | 2011 | | 2010 | |
|--|------------------|-------------|-------------------|-------------|
| | AMOUNT | % | AMOUNT | % |
| Income before income tax expense | \$ 482,234 | | \$ 608,203 | |
| Canadian tax rate for SNC-Lavalin | | 27.7 | | 29.4 |
| Expected income tax expense | \$ 133,690 | | \$ 178,990 | |
| Increase (decrease) resulting from: | | | | |
| Effect of differences of foreign tax rates compared to Canadian rates | (13,941) | (2.9) | (44,811) | (7.3) |
| Net income not affected by tax | (50) | – | 3,888 | 0.6 |
| Non-taxable income from certain ICI accounted for by the equity or cost methods | (27,549) | (5.7) | (26,892) | (4.4) |
| Other permanent differences for tax purposes | 9,593 | 2.0 | 13,111 | 2.2 |
| Effect of income tax rate changes on deferred income tax asset and deferred income tax liability | 1,323 | 0.3 | (2,886) | (0.5) |
| Non-taxable capital gain on dispositions of assets and ICI | – | – | (6,646) | (1.1) |
| Other | (8,174) | (1.7) | 6,060 | 1.0 |
| Income tax expense at effective tax rate | \$ 94,892 | 19.7 | \$ 120,814 | 19.9 |

The effective income tax rate in 2011 is in line with 2010.

SNC-Lavalin's income tax expense was comprised of the following:

| YEAR ENDED DECEMBER 31 | 2011 | 2010 |
|-----------------------------|------------------|-------------------|
| Current income tax expense | \$ 30,296 | \$ 47,481 |
| Deferred income tax expense | 64,596 | 73,333 |
| Income tax expense | \$ 94,892 | \$ 120,814 |

Notes to Consolidated Financial Statements

27 Financial Instruments

A) CLASSIFICATION AND FAIR VALUE OF FINANCIAL INSTRUMENTS

The following tables present the carrying value of financial assets held by SNC-Lavalin at December 31, 2011, December 31, 2010 and January 1, 2010 by category and classification, with the corresponding fair value, when available:

| AT DECEMBER 31 | 2011 | | | | | |
|--|--|------------------------|--------------------------|---|---------------------|--------------------|
| | CARRYING VALUE OF FINANCIAL ASSETS BY CATEGORY | | | | | FAIR VALUE |
| | HELD FOR TRADING | AVAILABLE- FOR-SALE | LOANS AND RECEIVABLES | DERIVATIVES USED FOR CASH FLOW HEDGES | TOTAL | |
| Cash and cash equivalents | \$ 1,231,049 | \$ — | \$ — | \$ — | \$ 1,231,049 | \$ 1,231,049 |
| Restricted cash | 39,354 | — | — | — | 39,354 | 39,354 |
| Trade receivables | — | — | 1,155,544 | — | 1,155,544 | 1,155,544 |
| Other current financial assets: | | | | | | |
| Cash-settled share-based payment arrangement asset | 39,671 | — | — | — | 39,671 | 39,671 |
| Derivative financial instruments | — | — | — | 42,960 | 42,960 | 42,960 |
| Other current financial assets | — | — | 313,921 | — | 313,921 | 313,921 |
| ICI accounted for by the cost method: | | | | | | |
| At cost ⁽¹⁾ | — | 226,362 | — | — | 226,362 | See ⁽¹⁾ |
| At amortized cost | — | — | 66,879 | — | 66,879 | 66,879 |
| Non-current financial assets: | | | | | | |
| Restricted cash | 6,098 | — | — | — | 6,098 | 6,098 |
| Other: | | | | | | |
| At fair value | — | 13,505 | — | — | 13,505 | 13,505 |
| At cost/amortized cost | 95,285 | — | 297,370 | — | 392,655 | 403,722 |
| Total | \$ 1,411,457 | \$ 239,867 | \$ 1,833,714 | \$ 42,960 | \$ 3,527,998 | |

| AT DECEMBER 31 | 2010 | | | | | |
|--|--|------------------------|--------------------------|---|---------------------|--------------------|
| | CARRYING VALUE OF FINANCIAL ASSETS BY CATEGORY | | | | | FAIR VALUE |
| | HELD FOR TRADING | AVAILABLE- FOR-SALE | LOANS AND RECEIVABLES | DERIVATIVES USED FOR CASH FLOW HEDGES | TOTAL | |
| Cash and cash equivalents | \$ 1,235,085 | \$ — | \$ — | \$ — | \$ 1,235,085 | \$ 1,235,085 |
| Restricted cash | 39,369 | — | — | — | 39,369 | 39,369 |
| Trade receivables | — | — | 1,273,509 | — | 1,273,509 | 1,273,509 |
| Other current financial assets: | | | | | | |
| Cash-settled share-based payment arrangement asset | 34,544 | — | — | — | 34,544 | 34,544 |
| Derivative financial instruments | — | — | — | 37,793 | 37,793 | 37,793 |
| Other current financial assets | — | — | 217,917 | — | 217,917 | 217,917 |
| ICI accounted for by the cost method: | | | | | | |
| At cost ⁽¹⁾ | — | 179,228 | — | — | 179,228 | See ⁽¹⁾ |
| At amortized cost | — | — | 55,192 | — | 55,192 | 55,192 |
| Non-current financial assets: | | | | | | |
| Restricted cash | 6,098 | — | — | — | 6,098 | 6,098 |
| Other: | | | | | | |
| At fair value | — | 13,664 | — | — | 13,664 | 13,664 |
| At cost/amortized cost | 48,965 | — | 244,568 | — | 293,533 | 279,760 |
| Total | \$ 1,364,061 | \$ 192,892 | \$ 1,791,186 | \$ 37,793 | \$ 3,385,932 | |

(1) These available-for-sale financial assets represent equity instruments that do not have a quoted market price in an active market.

Notes to Consolidated Financial Statements

27 Financial Instruments (continued)

| AT JANUARY 1 | 2010 | | | | | |
|--|--|--------------------|-----------------------|---------------------------------------|---------------------|--------------------|
| | CARRYING VALUE OF FINANCIAL ASSETS BY CATEGORY | | | | | FAIR VALUE |
| | HELD FOR TRADING | AVAILABLE-FOR-SALE | LOANS AND RECEIVABLES | DERIVATIVES USED FOR CASH FLOW HEDGES | TOTAL | |
| Cash and cash equivalents | \$ 1,191,398 | \$ – | \$ – | \$ – | \$ 1,191,398 | \$ 1,191,398 |
| Restricted cash | 31,377 | – | – | – | 31,377 | 31,377 |
| Trade receivables | – | – | 1,042,421 | – | 1,042,421 | 1,042,421 |
| Other current financial assets: | | | | | | |
| Cash-settled share-based payment arrangement asset | 47,766 | – | – | – | 47,766 | 47,766 |
| Derivative financial instruments | – | – | – | 26,448 | 26,448 | 26,448 |
| Other current financial assets | – | – | 205,591 | – | 205,591 | 205,591 |
| ICI accounted for by the cost method: | | | | | | |
| At fair value | – | 148,054 | – | – | 148,054 | 148,054 |
| At cost ⁽¹⁾ | – | 139,589 | – | – | 139,589 | See ⁽¹⁾ |
| At amortized cost | – | – | 43,588 | – | 43,588 | 43,588 |
| Non-current financial assets: | | | | | | |
| Restricted cash | 5,937 | – | – | – | 5,937 | 5,937 |
| Other: | | | | | | |
| At fair value | – | 15,376 | – | 3,759 | 19,135 | 19,135 |
| At cost/amortized cost | 62,842 | – | 197,814 | – | 260,656 | 236,830 |
| Total | \$ 1,339,320 | \$ 303,019 | \$ 1,489,414 | \$ 30,207 | \$ 3,161,960 | |

(1) These available-for-sale financial assets represent equity instruments that do not have a quoted market price in an active market.

The following tables present the carrying value of SNC-Lavalin's financial liabilities at December 31, 2011, December 31, 2010 and January 1, 2010 by category and classification, with the corresponding fair value, when available:

| AT DECEMBER 31 | 2011 | | | |
|---|---|-----------------------------|---------------------|--------------|
| | CARRYING VALUE OF FINANCIAL LIABILITIES BY CATEGORY | | | FAIR VALUE |
| | DERIVATIVES USED FOR CASH FLOW HEDGES | OTHER FINANCIAL LIABILITIES | TOTAL | |
| Trade payables | \$ – | \$ 1,520,395 | \$ 1,520,395 | \$ 1,520,395 |
| Other current financial liabilities: | | | | |
| Derivative financial instruments | 7,717 | – | 7,717 | 7,717 |
| Other current financial liabilities | – | 283,314 | 283,314 | 283,314 |
| Downpayments on contracts | – | 316,714 | 316,714 | 316,714 |
| Short-term debt and long-term debt ⁽²⁾ : | | | | |
| Recourse | – | 348,369 | 348,369 | 411,079 |
| Non-recourse from ICI | – | 1,888,758 | 1,888,758 | 2,101,628 |
| Other non-current financial liabilities | 8,056 | 122,688 | 130,744 | 130,744 |
| Total | \$ 15,773 | \$ 4,480,238 | \$ 4,496,011 | |

(2) The fair value of short-term debt and long-term debt classified in the "other financial liabilities" category 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 ICI, depending on which entity has issued the debt instrument, for debt with the same terms and conditions.

Notes to Consolidated Financial Statements

27 Financial Instruments (continued)

| AT DECEMBER 31 | 2010 | | | |
|---|---|-----------------------------------|---------------------|--------------|
| | CARRYING VALUE OF FINANCIAL LIABILITIES BY CATEGORY | | | FAIR VALUE |
| | DERIVATIVES USED FOR CASH FLOW HEDGES | OTHER FINANCIAL LIABILITIES | TOTAL | |
| Trade payables | \$ – | \$ 1,274,658 | \$ 1,274,658 | \$ 1,274,658 |
| Other current financial liabilities: | | | | |
| Derivative financial instruments | 7,593 | – | 7,593 | 7,593 |
| Other current financial liabilities | – | 317,356 | 317,356 | 317,356 |
| Downpayments on contracts | – | 422,930 | 422,930 | 422,930 |
| Short-term debt and long-term debt ⁽¹⁾ : | | | | |
| Recourse | – | 348,204 | 348,204 | 387,730 |
| Non-recourse from ICI | – | 1,567,786 | 1,567,786 | 1,675,962 |
| Other non-current financial liabilities | – | 76,397 | 76,397 | 76,397 |
| Total | \$ 7,593 | \$ 4,007,331 | \$ 4,104,924 | |

| AT JANUARY 1 | 2010 | | | |
|---|---|-----------------------------------|---------------------|--------------|
| | CARRYING VALUE OF FINANCIAL LIABILITIES BY CATEGORY | | | FAIR VALUE |
| | DERIVATIVES USED FOR CASH FLOW HEDGES | OTHER FINANCIAL LIABILITIES | TOTAL | |
| Trade payables | \$ – | \$ 1,294,752 | \$ 1,294,752 | \$ 1,294,752 |
| Other current financial liabilities: | | | | |
| Derivative financial instruments | 10,472 | – | 10,472 | 10,472 |
| Other current financial liabilities | – | 229,611 | 229,611 | 229,611 |
| Downpayments on contracts | – | 397,329 | 397,329 | 397,329 |
| Short-term debt and long-term debt ⁽¹⁾ : | | | | |
| Recourse | – | 452,922 | 452,922 | 481,005 |
| Non-recourse from ICI | – | 1,309,998 | 1,309,998 | 1,350,826 |
| Other non-current financial liabilities | – | 81,697 | 81,697 | 81,697 |
| Total | \$ 10,472 | \$ 3,766,309 | \$ 3,776,781 | |

(1) The fair value of short-term debt and long-term debt classified in the "other financial liabilities" category 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 ICI, depending on which entity has issued the debt instrument, for debt with the same terms and conditions.

FAIR VALUE OF FINANCIAL INSTRUMENTS

The methodology used to measure the Company's financial instruments accounted for at fair value is determined based on the following hierarchy:

| LEVEL | BASIS FOR DETERMINATION OF FAIR VALUE | FINANCIAL INSTRUMENTS |
|---------|---|---|
| Level 1 | Quoted prices in active markets for identical assets or liabilities | Available-for-sale equity investments accounted for at fair value |
| Level 2 | Inputs other than quoted prices included in Level 1 that are directly or indirectly observable for the asset or liability | Cash and cash equivalents, restricted cash, derivatives used for cash flow hedges, as well as cash-settled share-based payment arrangement asset (included in other current financial assets) |
| Level 3 | Inputs for the asset or liability that are not based on observable market data | None |

Notes to Consolidated Financial Statements

27 Financial Instruments (continued)

B) NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS AND RELATED RISK MANAGEMENT

| NATURE OF RISK | DESCRIPTION |
|----------------|---|
| Credit risk | Risk that SNC-Lavalin will incur a financial loss if the other party to a financial instrument fails to discharge an obligation. The maximum exposure to credit risk for SNC-Lavalin at the end of a given period usually corresponds to the carrying amount of its financial assets exposed to such risk |
| Liquidity risk | Possibility that SNC-Lavalin will encounter difficulties in meeting the obligations associated with its financial liabilities |
| Market risk | Variability in the fair value or future cash flows of a financial instrument caused by a change in market prices in items such as currency rates, interest rates and equity prices |

CREDIT RISK

For SNC-Lavalin, credit risk arises from:

- i) Cash and cash equivalents, and restricted cash, which are invested in liquid and high-grade financial instruments, based on SNC-Lavalin's investment policy.
- ii) Derivative financial instruments used for hedging purposes with a favourable fair value and the cash-settled share-based payment arrangement asset, which contain an inherent credit risk relating to default on obligations by the counterparty. This credit risk is reduced by entering into such contracts with high-grade financial institutions, which are expected to satisfy their obligations under the contracts.
- iii) Trade receivables, as detailed in Note 8. A given client may represent a material portion of SNC-Lavalin's consolidated revenues in any given year due to the size of a particular project and the progress accomplished on such project; however, the exposure to credit risk is generally limited due to the large number of clients comprising SNC-Lavalin's revenue base, and their dispersion across different industry segments and geographic areas. Furthermore, SNC-Lavalin endeavours to structure positive cash flow arrangements on its projects to reduce the underlying credit risk.

The Company's objective is to reduce credit risk by ensuring collection of its trade receivables on a timely basis. The Company internally allocates imputed interest to provide an incentive to project managers to collect trade receivables, as uncollected balances result in an internal cost for the related project and, as such, impacts the profitability of the project, which is used to determine a manager's compensation, and of the associated operating segment.

- iv) Other current financial assets, as detailed in Note 9, and non-current financial assets, as detailed in Note 13.
- v) The financial assets classified as "Loans and Receivables" included in "ICI accounted for by the equity or cost methods", which consist mainly of a loan to the Ambatovy's Project Operator (Note 5D).
- vi) The financial guarantees on the Ambatovy project disclosed in Note 5D.

LIQUIDITY RISK

SNC-Lavalin monitors its liquidity risk arising from financial instruments on an ongoing basis by ensuring that it has access to sufficient resources to meet its obligations.

As part of its liquidity analysis, the Company calculates what it refers to as freehold cash, which represents the amount of cash and cash equivalents that is not committed for its operations and not committed for investments in ICI. Furthermore, if needed, SNC-Lavalin has access to committed lines of credit with banks.

As presented in Note 5, SNC-Lavalin's consolidated statement of financial position included approximately \$2,736.8 million at December 31, 2011 (December 31, 2010: \$2,209.1 million and January 1, 2010: \$1,911.8 million) of liabilities from ICI that are accounted for by the full consolidation method. These liabilities, which are non-recourse to the Company, are to be repaid by the ICI and are secured by the respective concession's assets, including \$492.9 million of financial assets at December 31, 2011 (December 31, 2010: \$361.8 million and January 1, 2010: \$322.2 million), and by SNC-Lavalin's shares or units in such concession investments. As such, the actual book value at risk for SNC-Lavalin, assuming its ICI accounted for by the full consolidation method were unable to meet their obligations, corresponds to the carrying amount invested in these entities, which totalled \$721.9 million at December 31, 2011 (December 31, 2010: \$441.4 million and January 1, 2010: \$316.1 million).

SNC-Lavalin's future principal payments on its short-term debt and long-term debt are presented in Note 17.

Notes to Consolidated Financial Statements

27 Financial Instruments (continued)

MARKET RISK

I) CURRENCY RISK

SNC-Lavalin's foreign currency risk arises from arrangements in currencies other than its reporting currency and from the net assets of its foreign operations.

Foreign currency risk is managed by the Company by matching, when possible, the cash receipts in a foreign currency and the cash disbursements in the same foreign currency, for each revenue-generating project in which foreign currencies are involved. Derivative financial instruments with banks (i.e., forward foreign exchange contracts) are also used to hedge the cash flows in foreign currencies.

The following table summarizes the major forward foreign exchange contracts that were outstanding, for which SNC-Lavalin has committed to buy or sell foreign currencies:

| AT DECEMBER 31, 2011 | | | AT DECEMBER 31, 2010 | | | AT JANUARY 1, 2010 | | |
|----------------------|--------------|-----------|----------------------|--------------|-----------|--------------------|--------------|-----------|
| BUY | SELL | MATURITY | BUY | SELL | MATURITY | BUY | SELL | MATURITY |
| CA\$ 471,149 | US\$ 456,234 | 2012-2016 | CA\$ 181,642 | US\$ 172,856 | 2011-2015 | CA\$ 290,643 | US\$ 264,634 | 2010-2013 |
| CA\$ 533,003 | € 375,781 | 2012-2015 | CA\$ 530,946 | € 375,608 | 2011-2015 | CA\$ 368,559 | € 241,171 | 2010-2013 |
| US\$ 61,806 | CA\$ 63,829 | 2012-2013 | US\$ 27,961 | CA\$ 28,756 | 2011-2012 | US\$ 27,787 | CA\$ 29,499 | 2010-2011 |
| US\$ 21,457 | € 15,698 | 2012 | US\$ 37,098 | € 28,689 | 2011 | US\$ 50,924 | € 37,474 | 2010 |
| € 19,793 | US\$ 26,761 | 2012-2013 | € 9,756 | US\$ 13,368 | 2011 | € 23,639 | US\$ 32,777 | 2010 |
| € 26,223 | CA\$ 37,066 | 2012-2013 | € 20,487 | CA\$ 30,454 | 2011-2013 | € 19,304 | CA\$ 29,112 | 2010-2012 |

As at December 31, 2011, the forward foreign exchange contracts used for hedging purposes by the Company had a net favourable fair value of \$35.2 million (December 31, 2010: \$30.2 million and January 1, 2010: \$16.0 million). The major forward foreign exchange contracts that were outstanding at that date were to either buy or sell foreign currencies against the Canadian dollar, or to either buy or sell the US dollar against the Euro.

SENSITIVITY ANALYSIS

| CHANGE IN FOREIGN EXCHANGES RATES ⁽¹⁾ | ESTIMATED IMPACT ON OTHER COMPONENTS OF EQUITY ⁽²⁾ |
|---|---|
| 10% increase in the Canadian dollar for all forward foreign exchange contracts involving Canadian dollars combined with a 10% increase in the US dollar for all forward foreign exchange contracts involving the US dollar against the Euro | "Other components of equity" would have been a cumulative loss of \$79.7 million, compared to a cumulative loss of \$115.8 million reported at December 31, 2011 |
| 10% decrease in the Canadian dollar for all forward foreign exchange contracts involving Canadian dollars combined with a 10% decrease in the US dollar for all forward foreign exchange contracts involving the US dollar against the Euro | "Other components of equity" would have been a cumulative loss of \$151.9 million, compared to a cumulative loss of \$115.8 million reported at December 31, 2011 |

(1) Assuming all other variables remain the same.

(2) No material impact on the Company's net income as all forward foreign exchange contracts entered into by the Company are used for hedging purposes and the hedging relationships are highly effective.

Investments made in foreign operations are usually not hedged against foreign currency fluctuations. The exchange gains or losses on the net equity investment of these operations are reflected in the "Other components of equity" account, as part of the exchange differences on translating foreign operations.

Notes to Consolidated Financial Statements

27 Financial Instruments (continued)

II) INTEREST RATE RISK

Cash and cash equivalents, and restricted cash, usually involve limited interest rate risk due to their short-term nature.

NON-RECOURSE SHORT-TERM DEBT AND LONG-TERM DEBT FROM ICI

Unlike Services, Packages and O&M activities, ICI are often capital intensive due to the ownership of infrastructure assets that are financed mainly with project-specific debt, which is non-recourse to the general credit of the Company. These investments usually reduce their exposure to interest rate risk by entering into fixed-rate financing arrangements or by hedging the variability of interest rates through derivative financial instruments. Fixing the interest rates gives the ICI stable and predictable financing cash outflows, which are usually structured to match the expected timing of their cash inflows. As a result, the changes in interest rates do not have a significant impact on SNC-Lavalin's consolidated net income.

RECOURSE LONG-TERM DEBT FROM OTHER ACTIVITIES

SNC-Lavalin's recourse long-term debt bears interest at a fixed rate and is measured at amortized cost, therefore, the Company's net income is not exposed to a change in interest rates on these financial liabilities.

III) EQUITY PRICE RISK

SNC-Lavalin limits its exposure arising from the cash-settled share-based payment arrangements caused by fluctuations in its share price, through a financing arrangement with a high-grade financial institution described in Note 21C.

C) LETTERS OF CREDIT

Under certain circumstances, SNC-Lavalin provides bank letters of credit as collateral for the fulfillment of contractual obligations, including guarantees for performance, advance payments, contractual retentions and bid bonds. Certain letters of credit decrease in relation to the percentage of completion of projects. As at December 31, 2011, SNC-Lavalin had outstanding letters of credit of \$1,907.9 million (December 31, 2010: \$2,005.6 million and January 1, 2010: \$1,652.1 million).

28 Capital Management

SNC-Lavalin's main objective when managing its capital is to maintain an adequate balance between: i) having sufficient capital for financing net asset positions, maintaining satisfactory bank lines of credit and capacity to absorb project net retained risks, while at the same time, ii) optimizing return on average equity attributable to SNC-Lavalin shareholders.

Maintaining sufficient capital and access to satisfactory bank lines of credit is key to the Company's activities, as it demonstrates the Company's financial strength and its ability to meet its performance guarantees on multiple projects, and allows the Company to provide letters of credit as collateral for the fulfillment of its contractual obligations. Maintaining sufficient capital is also a key financial indicator that allows the Company to maintain its investment grade credit rating, which results in, among other things, having access to financing arrangements at a competitive cost.

The Company defines its capital as its equity attributable to SNC-Lavalin shareholders excluding other components of equity plus its recourse debt. The Company excludes other components of equity from its definition of capital because this element of equity results mainly from the accounting treatment of cash flow hedges, including the share of comprehensive income of investments accounted for by the equity method, and is not representative of the way the Company evaluates the management of its foreign currency risk. Accordingly, the other components of equity are not representative of the Company's financial position.

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

Notes to Consolidated Financial Statements

28 Capital Management (continued)

The Company's objective remains to maintain a recourse debt-to-capital ratio that would not exceed a ratio of 30:70. The recourse debt-to-capital ratio, as calculated by the Company, was as follows:

| | DECEMBER 31 2011 | DECEMBER 31 2010 | JANUARY 1 2010 |
|---|---------------------|---------------------|-------------------|
| Recourse debt | \$ 348,369 | \$ 348,204 | \$ 452,922 |
| Equity attributable to SNC-Lavalin shareholders | \$ 1,883,068 | \$ 1,816,778 | \$ 1,518,208 |
| Less: Other components of equity | (115,813) | (67,480) | (4,035) |
| Plus: Recourse debt | 348,369 | 348,204 | 452,922 |
| Capital | \$ 2,347,250 | \$ 2,232,462 | \$ 1,975,165 |
| Recourse debt-to-capital ratio | 15:85 | 16:84 | 23:77 |

As a general practice, when managing its capital, the Company repurchases its common shares under its normal course issuer bid mainly to offset the dilutive effect of stock issuance under its stock option programs. The Company has paid quarterly dividends for 22 consecutive years and strives to increase its yearly dividend paid per share, which it has done over the past 11 years.

In 2011, the Company complied with all of the covenants related to its debentures and bank credit facilities.

29 Pension Plans and Other Post-Employment Benefits

A) PENSION PLANS

SNC-Lavalin has defined contribution pension plans for which its contributions are recorded as expenses in the year in which they are incurred, totalling \$70.9 million in 2011 (2010: \$57.6 million).

SNC-Lavalin also has a number of defined benefit pension plans, which are all closed to new entrants and provide pension benefits based on length of service and final pensionable earnings. An individual actuarial valuation is performed at least every three years for each plan. For the three principal pension plans, the latest actuarial valuations were performed on December 31, 2010. The measurement date used for the above benefit obligation and plan assets is December 31 of each year. All SNC-Lavalin's defined benefit pension plans are partly funded.

The total cash amount paid by SNC-Lavalin for its pension plans, consisting of contributions to its defined contribution and defined benefit pension plans, was \$78.4 million in 2011 (2010: \$68.0 million).

Notes to Consolidated Financial Statements

29 Pension Plans and Other Post-Employment Benefits (continued)

The following table sets forth the change in pension benefit obligation and pension plan assets, as well as the funded status of SNC-Lavalin's defined benefit pension plans:

| AT DECEMBER 31 | 2011 | 2010 |
|---|-------------------|-------------------|
| Change in pension benefit obligation: | | |
| Pension benefit obligation at beginning of year | \$ 122,677 | \$ 155,323 |
| Current service cost | 1,327 | 840 |
| Interest cost | 6,202 | 6,415 |
| Benefits paid | (11,531) | (10,297) |
| Actuarial losses | 19,419 | 3,521 |
| Effect of foreign currency exchange differences | (1,479) | – |
| Business acquisitions | 66,835 | – |
| Settlement | – | (33,125) |
| Pension benefit obligation at end of year | \$ 203,450 | \$ 122,677 |
| Change in pension plan assets: | | |
| Fair value of pension plan assets at beginning of year | \$ 85,244 | \$ 115,038 |
| Expected return on plan assets | 6,038 | 5,698 |
| Actuarial gains | 1,984 | 633 |
| Effect of foreign currency exchange differences | (1,283) | – |
| Benefits paid | (11,531) | (10,297) |
| Employer contributions | 7,484 | 10,361 |
| Business acquisitions | 57,769 | – |
| Settlement | – | (36,189) |
| Fair value of pension plan assets at end of year | \$ 145,705 | \$ 85,244 |

| | DECEMBER 31 2011 | DECEMBER 31 2010 | JANUARY 1 2010 |
|--|---------------------|---------------------|-------------------|
| Funded status reflected in the statement of financial position: | | | |
| Pension plans in deficit | \$ 57,745 | \$ 37,433 | \$ 40,285 |
| Additional liability due to minimum funding requirements | 689 | 2,766 | 3,450 |
| Net accrued pension benefit liability | \$ 58,434 | \$ 40,199 | \$ 43,735 |

Notes to Consolidated Financial Statements

29 Pension Plans and Other Post-Employment Benefits (continued)

The following table presents the allocation of the major categories of assets of SNC-Lavalin's defined benefit pension plans:

| | DECEMBER 31 2011 | DECEMBER 31 2010 | JANUARY 1 2010 |
|-----------------------|---------------------|---------------------|-------------------|
| Asset category | | | |
| Equity securities | 70% ⁽¹⁾ | 56% | 43% |
| Debt securities | 30% ⁽¹⁾ | 44% | 57% |
| Total | 100% | 100% | 100% |

(1) Due to the acquisition of Interfleet Technology Limited completed by SNC-Lavalin in 2011, the allocation of the major categories of assets of SNC-Lavalin's defined benefit pension plans as at December 31, 2011 is not representative of SNC-Lavalin's asset management policy or of its historical allocation patterns and is expected to be changed in the future to get closer to SNC-Lavalin's historical allocation patterns.

The following is a summary of significant weighted average assumptions used in measuring SNC-Lavalin's accrued pension benefit obligation and net benefit pension costs:

| | DECEMBER 31 2011 | DECEMBER 31 2010 | JANUARY 1 2010 |
|---|---------------------|---------------------|-------------------|
| Accrued pension benefit obligation | | | |
| Discount rate | 3.82% | 4.57% | 4.64% |
| Rate of compensation increase | 4.06% | 4.61% | 4.62% |

YEAR ENDED DECEMBER 31

| | 2011 | 2010 |
|--|-------|-------|
| Net benefit pension costs | | |
| Discount rate | 4.62% | 4.64% |
| Expected long-term rate of return on plan assets | 6.85% | 6.30% |
| Rate of compensation increase | 4.04% | 4.62% |

SNC-Lavalin's assessment of the expected long-term rate of return on plan assets is based on the historical return trends and advisors' predictions on the future return of each asset category.

SNC-Lavalin's net defined benefit pension costs recognized in net income was comprised of:

| YEAR ENDED DECEMBER 31 | 2011 | 2010 |
|--|-----------------|-----------------|
| Current service cost | \$ 1,327 | \$ 840 |
| Interest cost on benefit obligation | 6,202 | 6,415 |
| Expected actuarial return on plan assets | (6,038) | (5,698) |
| Settlement loss | – | 3,064 |
| Other | – | 74 |
| Net defined benefit pension cost recognized in the year | \$ 1,491 | \$ 4,695 |

SNC-Lavalin expects to make contributions of \$7.6 million in 2012 to its defined benefit pension plans.

B) OTHER POST-EMPLOYMENT BENEFITS

As at December 31, 2011, the obligation for other post-employment benefits amounted to \$30.4 million (December 31, 2010: \$10.6 million and January 1, 2010: \$11.3 million), of which \$19.1 million relate to businesses acquired in 2011.

Notes to Consolidated Financial Statements

30 Contingent Liabilities

In the normal conduct of operations, there are pending claims by and against SNC-Lavalin. Litigation is subject to many uncertainties, and the outcome of individual matters is not predictable with assurance. In the opinion of management, based on the advice and information provided by its legal counsel, final determination of these litigations will not materially affect the Company's consolidated financial position or results of operations.

BANGLADESH INVESTIGATION

As previously announced on September 6, 2011, the Royal Canadian Mounted Police (the "RCMP") is investigating the Company's involvement in projects in Bangladesh and certain countries in Africa. The Company understands that the investigation is primarily focused on its involvement in a past submission as the Owner's Engineer for the Bangladesh government where the Company would have supervised the contractor responsible for the overall project. The Company's involvement in this matter is also being investigated by the World Bank. The Company understands that the RCMP investigation into this matter is ongoing but no charges have been laid against the Company. The Company also understands that the World Bank investigation is ongoing but no sanctions or proceedings have been initiated against the Company. Due to the nature of these investigations, it is not possible to predict the respective outcomes with any certainty or potential losses, if any, for the Company in connection therewith.

31 Operating Lease Arrangements

SNC-Lavalin's minimum lease payments for annual basic rental under long-term operating leases, mainly for office space, amounted to \$437.7 million in 2011. The annual minimum lease payments are as follows: 2012—\$89.5 million; 2013—\$76.7 million; 2014—\$68.7 million; 2015—\$59.5 million; 2016—\$43.3 million and thereafter—\$100.0 million.

32 Remuneration

A) EMPLOYEE REMUNERATION

Expenses recognized for employee benefits, including expenses recognized for key management remuneration and directors' fees, are analyzed as follows:

| YEAR ENDED DECEMBER 31 | 2011 | 2010 |
|--|---------------------|---------------------|
| Short-term benefits | \$ 2,037,228 | \$ 1,777,272 |
| Share-based payments | 24,349 | 18,259 |
| Pension plans and other post-employment benefits | 3,773 | 6,036 |
| | \$ 2,065,350 | \$ 1,801,567 |

B) KEY MANAGEMENT REMUNERATION AND DIRECTORS' FEES

Expenses recognized for key management remuneration and directors' fees, representing approximately 103 people (2010: 93 people) and comprising all members of the Company's Management Committee and all directors of SNC-Lavalin Group Inc.'s Board of Directors, are detailed as follows:

| YEAR ENDED DECEMBER 31 | 2011 | 2010 |
|--|------------------|------------------|
| Short-term benefits | \$ 32,290 | \$ 33,324 |
| Share-based payments | 13,761 | 11,778 |
| Pension plans and other post-employment benefits | 3,505 | 4,854 |
| | \$ 49,556 | \$ 49,956 |

Notes to Consolidated Financial Statements

33 Related Party Transactions

In the normal course of its operations, SNC-Lavalin enters into transactions with certain of its ICI. Investments in which SNC-Lavalin has significant influence or joint control, which are accounted for by the equity method, are considered related parties, consistent with IFRS.

Consistent with IFRS, intragroup profits generated from revenues with ICI accounted for by the equity or full consolidation methods are eliminated in the period they occur, except when such profits are deemed to have been realized by the ICI. Profits generated from transactions with ICI accounted for by the cost method are not eliminated, in accordance with IFRS.

The accounting treatment of intragroup profits is summarized below:

| ICI | ACCOUNTING METHOD | ACCOUNTING TREATMENT OF INTRAGROUP PROFITS |
|----------------------------------|---------------------------|---|
| AltaLink | Full consolidation method | Not eliminated upon consolidation in the period they occur, as they are considered realized by AltaLink via legislation applied by an independent governmental regulatory body. |
| ICI accounted for under IFRIC 12 | Full consolidation method | Not eliminated upon consolidation in the period they occur, as they are considered realized by the ICI through the contractual agreement with its client. |
| | Equity method | Not eliminated upon consolidation in the period they occur, as they are considered realized by the ICI through the contractual agreement with its client. |
| Others | Equity method | Eliminated in the period they occur, as a reduction of the underlying asset and subsequently recognized over the depreciation period of the corresponding asset. |
| | Cost method | Not eliminated, in accordance with IFRS. |

For the year ended December 31, 2011, SNC-Lavalin recognized revenues of \$559.5 million (2010: \$306.3 million) from contracts with ICI accounted for by the equity method. SNC-Lavalin also recognized income from these ICI, which represents the Company's share of net income from these ICI, of \$102.8 million for the year ended December 31, 2011 (2010: \$76.9 million). Intragroup revenues generated from transactions with AltaLink, which amounted to \$419.6 million for the year ended December 31, 2011 (2010: \$263.7 million), were eliminated upon consolidation, while profits from those transactions were not eliminated.

SNC-Lavalin's trade receivables from these ICI accounted for by the equity method amounted to \$43.7 million as at December 31, 2011 (December 31, 2010: \$12.0 million and January 1, 2010: \$102.8 million). SNC-Lavalin's other non-current financial assets receivables from these ICI accounted for by the equity method amounted to \$83.0 million as at December 31, 2011 (December 31, 2010: \$25.5 million and January 1, 2010: \$nil). SNC-Lavalin's remaining commitment to invest in these ICI accounted for by the equity method was \$129.0 million at December 31, 2011 (December 31, 2010: \$178.6 million and January 1, 2010: \$78.3 million).

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

Notes to Consolidated Financial Statements

34 Subsidiaries, Joint Ventures and Associates

The main subsidiaries, jointly controlled entities, jointly controlled operations and associates of the Company at December 31, 2011, in addition to their jurisdiction of incorporation and the percentage of voting shares beneficially owned, or controlled, or directed, directly or indirectly by the Company or the percentage of joint venture interest are set out below:

| SUBSIDIARIES | % | COUNTRY |
|---|-------|--------------------|
| AltaLink, L.P. | 100.0 | Canada |
| Candu Energy Inc. | 100.0 | Canada |
| Groupe Qualitas Inc. | 100.0 | Canada |
| Groupe Stavibel Inc. | 100.0 | Canada |
| Intecsa-Inarsa, S.A. | 100.0 | Spain |
| Interfleet Technology Limited | 100.0 | United Kingdom |
| Itansuca Proyectos de Ingenieria S.A. | 100.0 | Colombia |
| MDH Engineered Solutions Corp. | 100.0 | Canada |
| Marte Engenharia Ltda | 100.0 | Brazil |
| Minerconsult Engenharia Ltda | 100.0 | Brazil |
| Nexacor Realty Management Inc. | 100.0 | Canada |
| Okanagan Lake Concession Limited Partnership | 100.0 | Canada |
| Ovation Real Estate Group (Québec) Inc. | 100.0 | Canada |
| P.T. SNC-Lavalin TPS | 95.0 | Indonesia |
| Rainbow Hospital Partnership | 100.0 | Canada |
| S.A. SNC-Lavalin N.V. | 100.0 | Belgium |
| SNC-Lavalin (Malaysia) Sdn. Bhd. | 100.0 | Malaysia |
| SNC-Lavalin (Shanghai) International Trading Co. Ltd. | 100.0 | China |
| SNC-Lavalin Aéroports S.A.S.U. | 100.0 | France |
| SNC-Lavalin Algérie EURL | 100.0 | Algeria |
| SNC-Lavalin Angola Lda | 100.0 | Angola |
| SNC-Lavalin Arabia LLC | 100.0 | Saudi Arabia |
| SNC-Lavalin ATP Inc. | 100.0 | Canada |
| SNC-Lavalin Australia Pty. Ltd. | 100.0 | Australia |
| SNC-Lavalin Chile S.A. | 100.0 | Chile |
| SNC-Lavalin Construction (Atlantic) Inc. | 100.0 | Canada |
| SNC-Lavalin Construction Inc. | 100.0 | Canada |
| SNC-Lavalin Construction (Ontario) Inc. | 100.0 | Canada |
| SNC-Lavalin Construction International SAS | 100.0 | France |
| SNC-Lavalin Constructors Inc. | 100.0 | United States |
| SNC-Lavalin Defence Programs Inc. | 100.0 | Canada |
| SNC-Lavalin Dominicana S.A. | 100.0 | Dominican Republic |
| SNC-Lavalin Engineering India Private Limited | 100.0 | India |
| SNC-Lavalin Engineers & Constructors, Inc. | 100.0 | United States |
| SNC-Lavalin Eurasia OOO | 100.0 | Russia |
| SNC-Lavalin Europe B.V. | 100.0 | Netherlands |
| SNC-Lavalin Europe S.A.S. | 100.0 | France |
| SNC-Lavalin Inc. | 100.0 | Canada |
| SNC-Lavalin International Inc. | 100.0 | Canada |
| SNC-Lavalin International S.A.S. | 100.0 | France |
| SNC-Lavalin Nuclear Inc. | 100.0 | Canada |
| SNC-Lavalin Operations & Maintenance Inc. | 100.0 | Canada |
| SNC-Lavalin Peru S.A. | 100.0 | Peru |
| SNC-Lavalin Pharma Inc. | 100.0 | Canada |
| SNC-Lavalin Pharma S.A. | 100.0 | Belgium |
| SNC-Lavalin Polska Sp. z o.o. | 100.0 | Poland |
| SNC-Lavalin Romania S.A. | 100.0 | Romania |
| SNC-Lavalin S.A.S. | 100.0 | France |

Notes to Consolidated Financial Statements

34 Subsidiaries, Joint Ventures and Associates (continued)

| SUBSIDIARIES | % | COUNTRY |
|--|-------|----------------|
| SNC-Lavalin Services Ltd. | 100.0 | Canada |
| SNC-Lavalin South Africa (Proprietary) Limited | 100.0 | South Africa |
| SNC-Lavalin UK Limited | 100.0 | United Kingdom |
| Société d'Exploitation de l'Aéroport de Mayotte S.A.S. | 100.0 | France |
| Socodex Venezuela C.A. | 100.0 | Venezuela |
| The SNC-Lavalin Corporation | 100.0 | United States |

| JOINTLY CONTROLLED ENTITIES | % | COUNTRY |
|---|-------|---------|
| Infrastructure Concession Investments | | |
| 407 International Inc. ⁽¹⁾ | 16.77 | Canada |
| Chinook Roads Partnership | 50.0 | Canada |
| Groupe immobilier santé McGill, S.E.N.C. ⁽³⁾ | 60.0 | Canada |
| TC Dôme S.A.S. ⁽³⁾ | 51.0 | France |

| JOINTLY CONTROLLED OPERATIONS | % | COUNTRY |
|--|-------|----------------------|
| SLN-Aecon JV | 50.0 | Canada |
| SNC-Lavalin Graham Joint Venture | 50.0 | Canada |
| SNC-Lavalin Gulf Contractors LLC | 49.0 | United Arab Emirates |
| Société d'expertise et d'ingénierie L.G.L., S.A. | 33.33 | Haiti |
| JV Vault | 50.0 | Canada |

| ASSOCIATES | % | COUNTRY |
|--|------|---------------|
| Infrastructure Concession Investments | | |
| Astoria Project Partners LLC | 21.0 | United States |
| Astoria Project Partners II LLC ⁽²⁾ | 18.5 | United States |
| InTransit BC Limited Partnership | 33.3 | Canada |
| Malta International Airport p.l.c. ⁽²⁾ | 15.5 | Malta |
| Myah Tipaza S.p.A. | 25.5 | Algeria |
| Rayalseema Expressway Private Limited | 36.9 | India |
| Shariket Kahraba Hadjret En Nouss S.p.A. | 26.0 | Algeria |
| Société d'Exploitation de Vetry Europort S.A. ⁽³⁾ | 51.1 | France |
| Other | | |
| QAO VNIPIneft | 48.0 | Russia |

- (1) Although the Company holds less than 20% of the equity shares of 407 International Inc., the Company exercises joint control over this entity based on its contractual agreements.
- (2) Although the Company's ownership interest in Astoria Project Partners II LLC and in Malta International Airport p.l.c. is less than 20%, the Company exercises significant influence over these entities based on its contractual agreements.
- (3) Although the Company's ownership interest in Groupe immobilier santé McGill, S.E.N.C., TC Dôme S.A.S. and Société d'Exploitation de Vetry Europort S.A. is more than 50%, the Company does not exercise control over these entities based on its contractual agreements.

Notes to Consolidated Financial Statements

35 First-Time Adoption of IFRS

As stated in Note 2, these are the Company's first consolidated financial statements prepared in accordance with International Financial Reporting Standards ("IFRS").

In February 2008, the Canadian Accounting Standards Board ("AcSB") announced the changeover to IFRS for Canadian publicly accountable enterprises for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. In October 2009, the AcSB reconfirmed January 1, 2011 as the date of changeover to move financial reporting for Canadian publicly accountable enterprises to IFRS, as issued by the International Accounting Standards Board ("IASB"). Therefore, the Company's IFRS accounting policies presented in Note 2 have been applied in preparing these consolidated financial statements as at and for the year ended December 31, 2011, the opening consolidated statement of financial position as at January 1, 2010, as well as all comparative information included in these financial statements. Consequently, January 1, 2010 is the Company's date of transition ("Date of Transition") from Canadian generally accepted accounting principles ("GAAP") to IFRS.

The current note has been prepared with the objective of explaining to the reader the impact of the Company's transition from Canadian GAAP to IFRS, and is structured as follows:

| SECTION | TITLE | OBJECTIVE |
|---------|---|--|
| 35.1 | Executive summary | Provides an overview of the main accounting differences in the Company's accounting policies resulting from the adoption of IFRS |
| 35.2 | Effect of IFRS adoption on the Company's consolidated statements of financial position and equity | Provides a quantitative reconciliation between Canadian GAAP and IFRS for the Company's consolidated statements of financial position and equity as at the Date of Transition and as at December 31, 2010, with detailed explanations on the reconciling items |
| 35.3 | Effect of IFRS adoption on the Company's consolidated income statement | Provides a quantitative reconciliation between Canadian GAAP and IFRS for the Company's consolidated income statement for the year ended December 31, 2010, with detailed explanations on the reconciling items |
| 35.4 | Effect of IFRS adoption on the Company's consolidated statement of comprehensive income | Provides a quantitative reconciliation between Canadian GAAP and IFRS for the Company's consolidated statement of comprehensive income for the year ended December 31, 2010, with detailed explanations of the reconciling items |
| 35.5 | Effect of IFRS adoption on the Company's consolidated statements of cash flows | Explains the main differences between Canadian GAAP and IFRS for the Company's consolidated statements of cash flows from January 1, 2010 and thereafter |
| 35.6 | Other | Explains other IFRS requirements regarding January 1, 2010 |

35.1 EXECUTIVE SUMMARY

As required by IFRS, the Company has applied IFRS 1, *First-time Adoption of International Financial Reporting Standards*, ("IFRS 1") in preparing its first IFRS consolidated financial statements. The general principle underlying IFRS 1 is that the first IFRS financial statements are to be prepared as if IFRS had been the framework for the Company's accounting since its inception (i.e., retrospective application).

While IFRS 1 does not require the restatement of all historical financial statements previous to the Date of Transition (January 1, 2010), the cumulative differences on net income between Canadian GAAP and IFRS resulting from transactions prior to that date are to be recorded as adjustments to the opening balance of retained earnings as at January 1, 2010. As the burden of issuers adopting IFRS for the first time could be significant, IFRS 1 provides for a limited number of mandatory exceptions and of optional exemptions to the general principle of retrospective application. All issuers adopting IFRS for the first time are required to apply the mandatory exceptions, but they have a choice to apply or not the optional exemptions. The Company has applied all mandatory exceptions and has applied certain of the optional exemptions that are detailed in the current note, resulting in the prospective application of IFRS related to these exceptions and exemptions.

Notes to Consolidated Financial Statements

35 First-Time Adoption of IFRS (continued)

Upon transition to IFRS, certain of the Company's accounting policies did not require a change, while others have been changed. The following table summarizes the main differences between IFRS and Canadian GAAP that impacted the Company's consolidated financial statements:

| IFRS | Canadian GAAP | Impact on the Company at the Date of Transition | Future impact on the Company | Retrospective application |
|--|--|---|--|---------------------------|
| Service Concession Arrangements (IFRIC 12) [Note a in section 35.2] | | | | |
| IFRIC 12 provides guidance on the accounting for certain qualifying public-private partnership arrangements. Under such arrangements, the concessionaire accounts for the infrastructure asset by applying the intangible asset model, the financial asset model, or a combination of both. | No equivalent standard. The accounting treatment is derived from other relevant standards based on the arrangement's facts and circumstances. | The adjustments relating to the retrospective application of IFRIC 12 were recorded in the Company's opening retained earnings at the Date of Transition to IFRS. | The Company will follow the guidance of IFRIC 12 to account for its qualifying public-private partnership agreements. | Yes |
| Interests in Joint Ventures (IAS 31) [Note b in section 35.2] | | | | |
| IFRS currently allows accounting for jointly controlled entities using either the equity method or the proportionate consolidation method. IFRS requires a venturer to account for its share of the assets, liabilities, revenues and expenses for jointly controlled operations and jointly controlled assets. | Canadian GAAP requires the use of the proportionate consolidation method for all types of joint ventures. | Upon transition to IFRS, the Company elected to account for its jointly controlled entities, mainly ICI, using the equity method. At the Date of Transition, the adjustment relating to this change in accounting policy was recorded in the opening retained earnings of the Company. This adjustment is related to investments that had a negative carrying amount. | The Company continues to account for its share of the assets, liabilities, revenues and expenses from its jointly controlled operations while the equity method applies to its jointly controlled entities (mainly ICI). | Yes |
| Business Combinations (IFRS 3) | | | | |
| IFRS requires all business combinations to be accounted for using the acquisition method. As per the acquisition method, identifiable net assets acquired in a business combination are recorded at "full fair value", with components of non-controlling interests in the acquiree recorded at either: i) fair value; or ii) non-controlling interests' proportionate share in the recognized amounts of the acquiree's identifiable net assets. All acquisition-related costs are recognized as period expenses, unless they constitute costs associated with issuing debt or equity securities. | Under Canadian GAAP, business acquisitions were accounted for using the purchase method. As per the purchase method, identifiable net assets and goodwill acquired in a business combination were recorded at the acquirer's share of the fair value of the net assets acquired. Any non-controlling interest in the acquiree was recorded at the non-controlling interest's proportionate share in the net book value of the acquiree's identifiable net assets. All acquisition-related costs were capitalized in goodwill, unless they constituted costs associated with issuing debt or equity securities. | As per the optional exemption in IFRS 1, an entity may elect not to apply IFRS 3 retrospectively to business combinations undertaken prior to the Date of Transition. The Company has elected not to restate business combinations undertaken prior to January 1, 2010. However, the Company applied all of the requirements prescribed by IFRS 1 to business combinations that the Company recognized before the Date of Transition, with no adjustment relating to business combinations recorded by the Company on the Date of Transition to IFRS. | All business combinations undertaken on or after January 1, 2010 are accounted for using the acquisition method. | No |
| Employee Benefits (IAS 19) [Note d.2 in section 35.2] | | | | |
| IFRS allows accounting for actuarial gains and losses arising from defined benefit plans and post-employment benefit plans in net income or in other comprehensive income. | Canadian GAAP requires to account for recognized actuarial gains or losses arising from defined benefit plans and post-employment benefit plans in net income. | The optional exemption in IFRS 1 provides for the recognition of all cumulative unrecognized actuarial gains and losses through an adjustment to the opening balance of retained earnings at the Date of Transition to IFRS. The Company elected to apply this exemption and recorded an adjustment in the amount of the Canadian GAAP balance of its cumulative unrecognized net actuarial losses in its opening retained earnings at the Date of Transition. | The effect of actuarial gains and losses arising from defined benefit plans and post-employment benefit plans will no longer affect net income under the Company's accounting policy choice. The effects of actuarial gains and losses will be recognized immediately in equity, rather than being recognized over a period of time in net income. | No |

Notes to Consolidated Financial Statements

35 First-Time Adoption of IFRS (continued)

| IFRS | Canadian GAAP | Impact on the Company at the Date of Transition | Future impact on the Company | Retrospective application |
|---|--|--|---|--|
| The Effects of Changes in Foreign Exchange Rates (IAS 21) [Note d.3 in section 35.2] | | | | |
| IFRS does not distinguish between self-sustaining or integrated foreign operations. It rather requires all entities, including foreign operations, to determine their functional currency and to translate their results and financial position into that functional currency. Then, the financial statements of foreign operations with a functional currency different from the functional currency of the reporting entity are translated in the presentation currency, so that the foreign operations can be included in the financial statements of the reporting entity by consolidation, proportionate consolidation or the equity method by using a method equivalent to the current rate method. | Canadian GAAP requires self-sustaining foreign operations to be translated using the current rate method and integrated foreign operations to be translated using the temporal method. | The optional exemption in IFRS 1 allows an entity to reset its cumulative translation differences for all foreign operations to zero by transferring the balance of its cumulative translation differences account, included in the statement of changes in equity, to its retained earnings at the Date of Transition to IFRS. The Company elected to apply this exemption and transferred to retained earnings the Canadian GAAP balance included in other components of equity, under "exchange differences on translating foreign operations" account, on the Date of Transition to IFRS. | Starting January 1, 2010, the Company applies the IFRS guidance on foreign currency on a prospective basis, with no significant impact expected on net income. | No |
| Rate-regulated Activities [Note c.5 in section 35.2] | | | | |
| No specific standard for rate-regulated activities | Canadian GAAP provides guidance for entities subject to rate regulation related to the recognition of their regulatory assets and regulatory liabilities. | <p>The carrying amount of items of property and equipment or intangible assets subject to rate regulation might include amounts, under Canadian GAAP, that do not qualify for capitalisation under IFRS. As per the optional exemption in IFRS 1 effective for annual periods beginning on or after January 1, 2011, an entity may elect to use the Canadian GAAP carrying amount of such items as its opening IFRS balance at the Date of Transition to IFRS if it early adopts this optional exemption on January 1, 2010. The Company elected to early adopt this optional exemption on January 1, 2010 and applied it to the qualifying items of property and equipment and intangible assets of AltaLink, its subsidiary involved with rate-regulated transmission lines and substations in Alberta, Canada. AltaLink's qualifying items of property and equipment and intangible assets subject to rate regulation are therefore carried at their Canadian GAAP balance in the Company's consolidated statement of financial position at the Date of Transition to IFRS and thereafter.</p> <p>All other assets and liabilities of AltaLink were subject to the IFRS 1 requirement of retrospective application, except for those subject to the mandatory exceptions and optional exemptions.</p> | Property and equipment and intangible assets of AltaLink used in operations subject to rate regulation constructed or acquired on or after January 1, 2010 are accounted for under applicable relevant standards of IFRS. No material impact on AltaLink's net income is expected following the transition to IFRS. | No for property and equipment and intangible assets subject to rate regulation |
| Financial Instruments: Recognition and Measurement (IAS 39) [Note d.1 in section 35.2] | | | | |
| IFRS requires all available-for-sale financial assets to be measured at fair value, unless fair value is not reliably determinable. | Under Canadian GAAP, unlisted securities are measured at cost, even if their fair value could be reliably determined. | The Company measured its unlisted securities at fair value on January 1, 2010, unless fair value was not reliably measurable, and recorded a corresponding adjustment in its other components of equity at January 1, 2010. | Subsequent to January 1, 2010, revaluation gains (losses) on these securities are recognized in the statement of comprehensive income. | Yes |

Other optional exemptions available under IFRS 1 as well as other accounting standards under which the Company had to elect a method from available accounting methods are not discussed here as their impact is not material to the Company.

Notes to Consolidated Financial Statements

35 First-Time Adoption of IFRS (continued)

35.2 EFFECT OF IFRS ADOPTION ON THE COMPANY'S JANUARY 1, 2010 ("OPENING STATEMENT OF FINANCIAL POSITION") AND DECEMBER 31, 2010 CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

| (IN THOUSANDS OF CANADIAN DOLLARS) | | JANUARY 1, 2010 | | | | | |
|--|------------------|------------------------------|------------------|------------------------|---------------|----------------|------------------|
| | | EFFECT OF TRANSITION TO IFRS | | | | | |
| | CANADIAN GAAP | IFRIC 12 | IAS 31 | RECLASSI- FICATIONS | OTHER | TAX EFFECT | IFRS |
| ASSETS | | (Note 35.2a) | (Note 35.2b) | (Note 35.2c) | (Note 35.2d) | | |
| Current assets | | | | | | | |
| Cash and cash equivalents | 1,218,225 | – | (26,827) | – | – | – | 1,191,398 |
| Restricted cash | 68,185 | – | (36,808) | – | – | – | 31,377 |
| Trade and other receivables | 1,480,478 | (16,537) | (6,588) | (414,932) | – | – | 1,042,421 |
| Contracts in progress | 479,637 | – | – | – | – | – | 479,637 |
| Contracts in progress from concession arrangements | 33,941 | (33,941) | – | – | – | – | – |
| Other current financial assets | – | 1,694 | (3,824) | 281,935 | – | – | 279,805 |
| Deferred income tax asset | 112,557 | – | – | (112,557) | – | – | – |
| Other current assets | – | – | (56) | 132,997 | – | – | 132,941 |
| Total current assets | 3,393,023 | (48,784) | (74,103) | (112,557) | – | – | 3,157,579 |
| Property and equipment: | | | | | | | |
| From ICI | 2,217,047 | (144,309) | (384,747) | 37,215 | – | – | 1,725,206 |
| From other activities | 113,952 | – | – | – | (2,280) | – | 111,672 |
| ICI accounted for by the equity or cost methods | 469,402 | 40,097 | 9,976 | 43,588 | 12,800 | – | 575,863 |
| Goodwill | 520,862 | – | – | – | – | – | 520,862 |
| Deferred income tax asset | – | – | (8,555) | 112,557 | 38,775 | (3,512) | 139,265 |
| Non-current financial assets | – | 190,599 | (52,585) | 145,082 | 2,632 | – | 285,728 |
| Other non-current assets | 491,997 | – | (271,438) | (146,585) | – | – | 73,974 |
| Total assets | 7,206,283 | 37,603 | (781,452) | 79,300 | 51,927 | (3,512) | 6,590,149 |

See pages 157 to 166 for explanatory notes to the reconciliation above.

Notes to Consolidated Financial Statements

35 First-Time Adoption of IFRS (continued)

| (IN THOUSANDS OF CANADIAN DOLLARS) | | JANUARY 1, 2010 | | | | | |
|---|------------------|------------------------------|------------------|------------------------|----------------|----------------|------------------|
| | | EFFECT OF TRANSITION TO IFRS | | | | | |
| | CANADIAN GAAP | IFRIC 12 | IAS 31 | RECLASSI- FICATIONS | OTHER | TAX EFFECT | IFRS |
| LIABILITIES AND EQUITY | | (Note 35.2a) | (Note 35.2b) | (Note 35.2c) | (Note 35.2d) | | |
| Current liabilities | | | | | | | |
| Trade and other payables | 1,702,034 | – | (16,975) | (390,307) | – | – | 1,294,752 |
| Downpayments on contracts | 397,329 | – | – | – | – | – | 397,329 |
| Deferred revenues | 505,531 | (328) | (620) | 5,606 | – | – | 510,189 |
| Other current financial liabilities | – | – | 4,094 | 235,989 | – | – | 240,083 |
| Other current liabilities | – | – | – | 121,757 | – | – | 121,757 |
| Current portion of long-term debt: | | | | | | | |
| Recourse | 104,874 | – | – | – | – | – | 104,874 |
| Non-recourse from ICI | 139,183 | – | (135,193) | 47,606 | – | – | 51,596 |
| Total current liabilities | 2,848,951 | (328) | (148,694) | 20,651 | – | – | 2,720,580 |
| Long-term debt: | | | | | | | |
| Recourse | 348,048 | – | – | – | – | – | 348,048 |
| Non-recourse from ICI | 2,005,485 | – | (699,477) | (47,606) | – | – | 1,258,402 |
| Other non-current financial liabilities | – | – | – | 83,225 | (1,528) | – | 81,697 |
| Provisions | – | – | – | 109,529 | 21,882 | – | 131,411 |
| Other non-current liabilities | 464,666 | – | – | (86,191) | – | – | 378,475 |
| Deferred income tax liability | 24,408 | – | 6,654 | (308) | 38,775 | 2,314 | 71,843 |
| Total liabilities | 5,691,558 | (328) | (841,517) | 79,300 | 59,129 | 2,314 | 4,990,456 |
| Non-controlling interests | 80,033 | – | – | (80,033) | – | – | – |
| Equity | | | | | | | |
| Share capital | 397,735 | – | – | – | – | – | 397,735 |
| Contributed surplus | 33,473 | – | – | (33,473) | – | – | – |
| Retained earnings | 1,026,790 | 36,513 | 63,196 | 33,473 | (31,960) | (3,504) | 1,124,508 |
| Other components of equity | (23,306) | – | (3,131) | – | 24,724 | (2,322) | (4,035) |
| Equity attributable to SNC-Lavalin shareholders | 1,434,692 | 36,513 | 60,065 | – | (7,236) | (5,826) | 1,518,208 |
| Non-controlling interests | – | 1,418 | – | 80,033 | 34 | – | 81,485 |
| Total equity | 1,434,692 | 37,931 | 60,065 | 80,033 | (7,202) | (5,826) | 1,599,693 |
| Total liabilities and equity | 7,206,283 | 37,603 | (781,452) | 79,300 | 51,927 | (3,512) | 6,590,149 |

See pages 157 to 166 for explanatory notes to the reconciliation above.

Notes to Consolidated Financial Statements

35 First-Time Adoption of IFRS (continued)

| (IN THOUSANDS OF CANADIAN DOLLARS) | | DECEMBER 31, 2010 | | | | | | |
|--|------------------|------------------------------|-----------------|--------------------|-------------------|---------------|----------------|------------------|
| | | EFFECT OF TRANSITION TO IFRS | | | | | | |
| | CANADIAN GAAP | 2010 CORRECTION | IFRIC 12 | IAS 31 | RECLASSIFICATIONS | OTHER | TAX EFFECT | IFRS |
| ASSETS | | (Note 35.2e) | (Note 35.2a) | (Note 35.2b) | (Note 35.2c) | (Note 35.2d) | | |
| Current assets | | | | | | | | |
| Cash and cash equivalents | 1,288,232 | – | – | (53,147) | – | – | – | 1,235,085 |
| Restricted cash | 340,063 | – | – | (300,694) | – | – | – | 39,369 |
| Trade and other receivables | 1,673,082 | – | (16,537) | (5,960) | (377,076) | – | – | 1,273,509 |
| Contracts in progress | 624,547 | (16,412) | – | – | – | – | – | 608,135 |
| Contracts in progress from concession arrangements | 167,097 | – | (82,249) | (84,848) | – | – | – | – |
| Other current financial assets | – | – | 19,115 | 15,054 | 255,477 | 608 | – | 290,254 |
| Deferred income tax asset | 78,306 | – | – | – | (78,306) | – | – | – |
| Other current assets | – | – | – | (1,471) | 121,599 | – | – | 120,128 |
| Total current assets | 4,171,327 | (16,412) | (79,671) | (431,066) | (78,306) | 608 | – | 3,566,480 |
| Property and equipment: | | | | | | | | |
| From ICI | 2,588,649 | – | (141,289) | (380,799) | 22,548 | (16,295) | – | 2,072,814 |
| From other activities | 117,510 | – | – | – | – | (2,321) | – | 115,189 |
| ICI accounted for by the equity or cost methods | 386,696 | – | 61,348 | 123,712 | 55,192 | – | – | 626,948 |
| Goodwill | 543,642 | – | – | – | – | (1,614) | – | 542,028 |
| Deferred income tax asset | – | – | – | (6,545) | 78,306 | 91,978 | (5,320) | 158,419 |
| Non-current financial assets | – | – | 219,646 | (356,162) | 429,282 | 20,529 | – | 313,295 |
| Other non-current assets | 795,399 | – | – | (270,282) | (399,510) | – | – | 125,607 |
| Total assets | 8,603,223 | (16,412) | 60,034 | (1,321,142) | 107,512 | 92,885 | (5,320) | 7,520,780 |

See pages 157 to 166 for explanatory notes to the reconciliation above.

Notes to Consolidated Financial Statements

35 First-Time Adoption of IFRS (continued)

| (IN THOUSANDS OF CANADIAN DOLLARS) | | DECEMBER 31, 2010 | | | | | | |
|---|------------------|--------------------|------------------------------|--------------------|------------------------|-----------------|-----------------|------------------|
| | | | EFFECT OF TRANSITION TO IFRS | | | | | |
| | CANADIAN GAAP | 2010 CORRECTION | IFRIC 12 | IAS 31 | RECLASSI- FICATIONS | OTHER | TAX EFFECT | IFRS |
| LIABILITIES AND EQUITY | | (Note 35.2e) | (Note 35.2a) | (Note 35.2b) | (Note 35.2c) | (Note 35.2d) | | |
| Current liabilities | | | | | | | | |
| Trade and other payables | 1,666,117 | – | (17) | (18,407) | (373,035) | – | – | 1,274,658 |
| Downpayments on contracts | 551,862 | – | – | (128,932) | – | – | – | 422,930 |
| Deferred revenues | 700,279 | – | (744) | 19,782 | 8,870 | – | – | 728,187 |
| Other current financial liabilities | – | – | – | 129,080 | 195,869 | – | – | 324,949 |
| Other current liabilities | – | 1,476 | – | – | 95,630 | – | – | 97,106 |
| Current portion of long-term debt: | | | | | | | | |
| Recourse | – | – | – | – | – | – | – | – |
| Non-recourse from ICI | 6,651 | – | – | (2,463) | 34,574 | – | – | 38,762 |
| Total current liabilities | 2,924,909 | 1,476 | (761) | (940) | (38,092) | – | – | 2,886,592 |
| Long-term debt: | | | | | | | | |
| Recourse | 348,204 | – | – | – | – | – | – | 348,204 |
| Non-recourse from ICI | 2,981,448 | – | – | (1,417,850) | (34,574) | – | – | 1,529,024 |
| Other non-current financial liabilities | – | – | – | (660) | 75,858 | 1,199 | – | 76,397 |
| Provisions | – | – | – | – | 155,543 | 21,544 | – | 177,087 |
| Other non-current liabilities | 481,148 | – | – | (2,189) | (46,776) | – | – | 432,183 |
| Deferred income tax liability | 56,493 | – | – | 3,053 | (4,447) | 91,978 | 4,784 | 151,861 |
| Total liabilities | 6,792,202 | 1,476 | (761) | (1,418,586) | 107,512 | 114,721 | 4,784 | 5,601,348 |
| Non-controlling interests | 102,595 | – | – | – | (102,595) | – | – | – |
| Equity | | | | | | | | |
| Share capital | 424,935 | – | – | – | – | – | – | 424,935 |
| Contributed surplus | 42,742 | – | – | – | (42,742) | – | – | – |
| Retained earnings | 1,315,692 | (17,888) | 60,778 | 100,475 | 42,742 | (32,790) | (9,686) | 1,459,323 |
| Other components of equity | (74,943) | – | – | (3,031) | – | 10,912 | (418) | (67,480) |
| Equity attributable to SNC-Lavalin shareholders | 1,708,426 | (17,888) | 60,778 | 97,444 | – | (21,878) | (10,104) | 1,816,778 |
| Non-controlling interests | – | – | 17 | – | 102,595 | 42 | – | 102,654 |
| Total equity | 1,708,426 | (17,888) | 60,795 | 97,444 | 102,595 | (21,836) | (10,104) | 1,919,432 |
| Total liabilities and equity | 8,603,223 | (16,412) | 60,034 | (1,321,142) | 107,512 | 92,885 | (5,320) | 7,520,780 |

See pages 157 to 166 for explanatory notes to the reconciliation above.

Notes to Consolidated Financial Statements

35 First-Time Adoption of IFRS (continued)

RECONCILIATION OF EQUITY

| (IN THOUSANDS OF CANADIAN DOLLARS) | NOTE | JANUARY 1 2010 | DECEMBER 31 2010 |
|--|----------|-------------------|---------------------|
| Total shareholders' equity under Canadian GAAP | | 1,434,692 | 1,708,426 |
| Service concession arrangements | 35.2 a | 37,931 | 60,795 |
| Jointly controlled entities | 35.2 b | 60,065 | 97,444 |
| Reclassification of non-controlling interests to equity | 35.2 c.1 | 80,033 | 102,595 |
| Measurement of available-for-sale securities | 35.2 d.1 | 15,432 | 1,620 |
| Defined benefit plans and other post-employment benefits | 35.2 d.2 | (19,366) | (18,847) |
| 2010 correction | 35.2 e | – | (16,412) |
| Other | | (3,268) | (4,609) |
| Total adjustment to equity, before income taxes | | 170,827 | 222,586 |
| Income tax effect of the above | | (5,826) | (11,580) |
| Total adjustment to equity | | 165,001 | 211,006 |
| Total equity under IFRS | | 1,599,693 | 1,919,432 |

35.2 A. SERVICE CONCESSION ARRANGEMENTS (IFRIC 12)

Upon transition to IFRS, the Company retrospectively adopted IFRIC Interpretation 12, *Service Concession Arrangements*, ("IFRIC 12"). IFRIC 12 provides guidance on the accounting for certain qualifying public-private partnership arrangements, whereby the grantor (i.e., usually a government):

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

Typically, in a public-private service concession arrangement within the scope of IFRIC 12, the underlying infrastructure is used to deliver public services (e.g., roads, bridges, hospitals, electricity supply plants, etc.) to users of those services. The contractual arrangement between the government and the concessionaire is referred to as a "concession agreement", under which the government specifies the responsibilities of the concessionaire and governs the basis upon which the concessionaire will be remunerated. The concessionaire is usually responsible for the construction of the infrastructure, its operation and maintenance and its rehabilitation and is usually paid by the government, the users, or both. In certain cases, the concessionaire can receive payments from the government during the initial construction phase. At the end of the term of a concession agreement, the infrastructure is returned to the government, often for no additional consideration. These arrangements vary greatly in duration, but terms of 20 to 40 years are usual.

Under such concession arrangements, the concessionaire accounts for the infrastructure asset by applying i) the intangible asset model if the concessionaire bears demand risk through the usage of the infrastructure; ii) the financial asset model if the concessionaire does not bear such risk; or iii) a combination of both (i.e., bifurcated model) if the concessionaire bears part of such risk.

Notes to
Consolidated Financial Statements**35 First-Time Adoption of IFRS (continued)**

The following Company's ICI were identified as being within the scope of IFRIC 12:

| | FINANCIAL ASSET MODEL | INTANGIBLE ASSET MODEL | BIFURCATED MODEL |
|--|-----------------------|------------------------|------------------|
| ICI existing at January 1, 2010: | | | |
| InTransit BC Limited Partnership | ✓ | | |
| Okanagan Lake Concession Limited Partnership | ✓ | | |
| Ovation Real Estate Group (Quebec) Inc. | ✓ | | |
| TC Dôme S.A.S. | ✓ | | |
| ICI entered into after January 1, 2010: | | | |
| Chinook Roads Partnership | ✓ | | |
| Groupe Immobilier Santé McGill | ✓ | | |
| Rainbow Hospital Partnership | ✓ | | |
| Rayalseema Expressway Private Limited | | ✓ | |
| Société d'Exploitation de l'Aéroport de Mayotte S.A.S. | | | ✓ |

In these concession arrangements, the concessionaire usually subcontracts the EPC and O&M contracts to the Company's subsidiaries or joint ventures.

The table below highlights the main characteristics of the Company's concession arrangements within the scope of IFRIC 12 for which the financial asset model is applied:

| | |
|---|--|
| Demand risk | The government bears demand risk as the government pays the Company a fixed monetary amount, usually conditional on availability and performance conditions, regardless of the usage of the infrastructure. |
| Impact on the Company's consolidated income statement | <p>General principle: The Company accounts for the total consideration as revenue, based on the fair value of each deliverable activity. Consistent with IFRS, intragroup profits generated by the Company's subsidiaries or joint ventures acting as a contractor or operator for the concessionaire are not eliminated, resulting in the Company recognizing revenues and profit (loss) from all activities provided through the concession agreement.</p> <p>Construction revenues: The Company recognizes revenues and costs relating to construction of infrastructure in accordance with IAS 11, <i>Construction Contracts</i>, ("IAS 11") under the same methodology as any other construction contract and classifies these revenues as "Packages" activities.</p> <p>Operations and maintenance revenues: The Company recognizes revenues and costs relating to operation and maintenance of an infrastructure as any other operation and maintenance contract and classifies these revenues as "O&M" activities.</p> <p>Rehabilitation revenues: When rehabilitation activities are considered revenue-generating activities, revenues are recognized in accordance with IAS 11 under the same methodology as any other similar contract and the Company classifies these revenues as "O&M" activities.</p> <p>Finance income: Finance income generated on financial assets is recognized using the effective interest method and is classified as revenue from "ICI" activities.</p> |
| Impact on the Company's consolidated statement of financial position | Revenues recognized by the Company under the financial asset model are accumulated in "Receivables under service concession arrangements", which are included in "Other current financial assets" or "Non-current financial assets" on the Company's consolidated statement of financial position. The balance of these "Receivables under service concession arrangements" is reduced by the payments received from the government. |

Notes to Consolidated Financial Statements

35 First-Time Adoption of IFRS (continued)

For concession arrangements accounted for by the intangible asset model, the concessionaire recognizes an intangible asset to the extent that it receives a right to charge for the usage of the asset.

Borrowing costs, if any, are capitalized as part of the carrying amount of the intangible asset during the construction phase. Capitalization of borrowing costs ceases when the infrastructure is ready for its intended use.

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

The Company's only concession arrangement accounted for by the intangible asset model is REPL, which is an ICI accounted for by the equity method.

35.2 B. INTERESTS IN JOINT VENTURES (IAS 31)

The Company carries out certain of its activities through joint ventures, which are mainly jointly controlled operations for its Services, Packages and O&M activities, and jointly controlled entities for its ICI activities.

JOINTLY CONTROLLED OPERATIONS

Under Canadian GAAP, jointly controlled operations were accounted for by the proportionate consolidation method. Under IFRS, the Company recognizes the assets that it controls, the liabilities and expenses that it incurs, and its share of the income that it earns from the sale of goods or services by the jointly controlled operations. Therefore, there is no significant impact on the Company's consolidated financial statements at the Date of Transition to IFRS or thereafter relating to the accounting of its jointly controlled operations.

JOINTLY CONTROLLED ENTITIES

Under IFRS, interests in jointly controlled entities are to be accounted for using either the equity method or the proportionate consolidation method. Under Canadian GAAP, such interests were accounted for using the proportionate consolidation method.

To better reflect the Company's view of the nature of its jointly controlled entities, which are mainly ICI, the Company elected to use the equity method upon its transition to IFRS. The use of the equity method for jointly controlled entities provides the reader with a greater understanding of the Company's underlying assets, earning base and financial resources as opposed to the proportionate consolidation method which recognizes the Company's proportionate share of assets and liabilities that it does not control or for which it has no obligation, including debt that is non-recourse to the Company.

IMPACT ON THE COMPANY'S CONSOLIDATED STATEMENTS OF FINANCIAL POSITIONS

At the Date of Transition and at December 31, 2010, the Company eliminated its share of proportionately consolidated assets and liabilities of its interests in jointly controlled entities and recognized its net investment in these entities as "ICI accounted for by the equity or cost methods" for its jointly controlled entities from ICI.

Under Canadian GAAP, the proportionate method of accounting required the Company to recognize its proportionate share of the jointly controlled entities' losses irrespective of the carrying amount of its investment in such jointly controlled entities. As a result, the balance of interests in jointly controlled entities was negative \$60.1 million at January 1, 2010 and \$97.5 million at December 31, 2010, mainly due to Highway 407.

Under IFRS, the equity method requires the Company to stop recognizing its share of the losses of a jointly controlled entity when the recognition of such losses results in a negative balance for its investment, unless the Company has incurred legal or constructive obligations or made payments on behalf of the jointly controlled entity. Since the Company did not incur any legal or constructive obligations or did not make payments on behalf of these jointly controlled entities, the carrying amount of the Company's investments in these jointly controlled entities is not negative under IFRS, but is recorded at \$nil.

Therefore, the change in accounting policy from the proportionate consolidation method used to account for the Company's jointly controlled entities under Canadian GAAP to the equity method which is used to account for the Company's jointly controlled entities under IFRS was accounted for on a retrospective basis and resulted in an increase of the Company's equity of \$60.1 million at the Date of Transition (an increase of \$63.2 million in retained earnings and a decrease of \$3.1 million in other components of equity) and of \$97.5 million at December 31, 2010 (an increase of \$100.5 million in retained earnings and a decrease of \$3.0 million in other components of equity), mainly from the Company's investment in Highway 407.

Notes to Consolidated Financial Statements

35 First-Time Adoption of IFRS (continued)

IMPACT ON THE COMPANY'S CONSOLIDATED INCOME STATEMENTS

In regards to the income statement, under Canadian GAAP, the proportionate consolidation method required the Company to consolidate its proportionate share of the jointly controlled entities' revenues and expenses on a line-by-line basis.

Under IFRS, the equity method requires the Company to recognize in its income statement its share of net income (loss) of its jointly controlled entities for the period. Also, under the equity method, distributions receivable from a jointly controlled entity reduce the carrying amount of the investment recorded by the Company. Where dividends payable by the jointly controlled entity are in excess of the carrying amount of the investment, the carrying value is reduced to nil, but does not become negative, unless the Company has incurred legal or constructive obligations or made payments on behalf of the jointly controlled entity. Such excess amount of dividends payable by a jointly controlled entity is recognized in net income of the Company.

Accordingly, the adjustments to the Company's consolidated income statement for the year ended December 31, 2010 include: (i) an elimination of revenues and expenses previously recognized by the Company under the proportionate consolidation method; (ii) a recognition by the Company of its share of net income (loss) for the year of its jointly controlled entities which investment account shows a positive carrying amount as at December 31, 2010; and (iii) a recognition by the Company of dividends from its jointly controlled entities where dividends are in excess of the carrying amount of the investment.

For further details regarding the Company's jointly controlled entities accounted for by the equity method, refer to Note 5.

Notes to Consolidated Financial Statements

35 First-Time Adoption of IFRS (continued)

35.2 C. RECLASSIFICATIONS

The following reclassifications were made to the Company's consolidated statements of financial position at January 1, 2010 and at December 31, 2010, with the total impact presented under the "Reclassifications" column of the "Effect of IFRS adoption on the Company's January 1, 2010 ("opening statement of financial position") and December 31, 2010 consolidated statements of financial position" tables:

| (IN THOUSANDS OF CANADIAN DOLLARS) | | JANUARY 1, 2010 | | | | | |
|---|------------------|-------------------|------------------|------------------|------------------|------------------|-----------|
| | | RECLASSIFICATIONS | | | | | |
| Statement of financial position line items | NOTE 35.2 C.1 | NOTE 35.2 C.2 | NOTE 35.2 C.3 | NOTE 35.2 C.4 | NOTE 35.2 C.5 | NOTE 35.2 C.6 | TOTAL |
| Current assets | | | | | | | |
| Trade and other receivables | – | (414,932) | – | – | – | – | (414,932) |
| Other current financial assets | – | 281,935 | – | – | – | – | 281,935 |
| Deferred income tax asset | – | – | (112,557) | – | – | – | (112,557) |
| Other current assets | – | 132,997 | – | – | – | – | 132,997 |
| Net impact on current assets | – | – | (112,557) | – | – | – | (112,557) |
| Non-current assets | | | | | | | |
| Property and equipment: | | | | | | | |
| From ICI | – | – | – | 200,675 | (163,460) | – | 37,215 |
| ICI accounted for by the equity or cost methods | – | 43,588 | – | – | – | – | 43,588 |
| Deferred income tax asset | – | – | 112,557 | – | – | – | 112,557 |
| Non-current financial assets | – | 145,082 | – | – | – | – | 145,082 |
| Other non-current assets | – | (188,670) | – | – | 42,085 | – | (146,585) |
| Net impact on non-current assets | – | – | 112,557 | 200,675 | (121,375) | – | 191,857 |
| Total impact on assets | – | – | – | 200,675 | (121,375) | – | 79,300 |
| Current liabilities | | | | | | | |
| Trade and other payables | – | (359,438) | – | – | – | (30,869) | (390,307) |
| Deferred revenues | – | – | – | 5,606 | – | – | 5,606 |
| Other current financial liabilities | – | 235,989 | – | – | – | – | 235,989 |
| Other current liabilities | – | 121,757 | – | – | – | – | 121,757 |
| Current portion of long-term debt: | | | | | | | |
| Non-recourse from ICI | – | 47,606 | – | – | – | – | 47,606 |
| Net impact on current liabilities | – | 45,914 | – | 5,606 | – | (30,869) | 20,651 |
| Non-current liabilities | | | | | | | |
| Long-term debt | | | | | | | |
| Non-recourse from ICI | – | (47,606) | – | – | – | – | (47,606) |
| Other non-current financial liabilities | – | 191,580 | – | – | (108,355) | – | 83,225 |
| Provisions | – | – | – | – | – | 109,529 | 109,529 |
| Other non-current liabilities | – | (189,580) | – | 195,069 | (13,020) | (78,660) | (86,191) |
| Deferred income tax liability | – | (308) | – | – | – | – | (308) |
| Net impact on non-current liabilities | – | (45,914) | – | 195,069 | (121,375) | 30,869 | 58,649 |
| Non-controlling interests | (80,033) | – | – | – | – | – | (80,033) |
| Equity | | | | | | | |
| Contributed surplus | (33,473) | – | – | – | – | – | (33,473) |
| Retained earnings | 33,473 | – | – | – | – | – | 33,473 |
| Non-controlling interests | 80,033 | – | – | – | – | – | 80,033 |
| Total impact on liabilities and equity | 80,033 | – | – | 200,675 | (121,375) | – | 80,033 |
| | – | – | – | – | – | – | 79,300 |

Only line items of the Company's consolidated statement of financial position affected by the reclassifications at January 1, 2010 are shown in the table above.

Notes to Consolidated Financial Statements

35 First-Time Adoption of IFRS (continued)

| (IN THOUSANDS OF CANADIAN DOLLARS) | | DECEMBER 31, 2010 | | | | | |
|---|------------------|-------------------|------------------|------------------|------------------|------------------|-----------|
| | | RECLASSIFICATIONS | | | | | |
| Statement of financial position line items | NOTE 35.2 C.1 | NOTE 35.2 C.2 | NOTE 35.2 C.3 | NOTE 35.2 C.4 | NOTE 35.2 C.5 | NOTE 35.2 C.6 | TOTAL |
| Current assets | | | | | | | |
| Trade and other receivables | - | (377,076) | - | - | - | - | (377,076) |
| Other current financial assets | - | 255,477 | - | - | - | - | 255,477 |
| Deferred income tax asset | - | - | (78,306) | - | - | - | (78,306) |
| Other current assets | - | 121,599 | - | - | - | - | 121,599 |
| Net impact on current assets | - | - | (78,306) | - | - | - | (78,306) |
| Non-current assets | | | | | | | |
| Property and equipment: | | | | | | | |
| From ICI | - | - | - | 256,787 | (234,239) | - | 22,548 |
| ICI accounted for by the equity or cost methods | - | 55,192 | - | - | - | - | 55,192 |
| Deferred income tax asset | - | - | 78,306 | - | - | - | 78,306 |
| Non-current financial assets | - | 429,282 | - | - | - | - | 429,282 |
| Other non-current assets | - | (484,474) | - | - | 84,964 | - | (399,510) |
| Net impact on non-current assets | - | - | 78,306 | 256,787 | (149,275) | - | 185,818 |
| Total impact on assets | - | - | - | 256,787 | (149,275) | - | 107,512 |
| Current liabilities | | | | | | | |
| Trade and other payables | - | (291,200) | - | - | - | (81,835) | (373,035) |
| Deferred revenues | - | - | - | 8,870 | - | - | 8,870 |
| Other current financial liabilities | - | 195,869 | - | - | - | - | 195,869 |
| Other current liabilities | - | 95,630 | - | - | - | - | 95,630 |
| Current portion of long-term debt: | | | | | | | |
| Non-recourse from ICI | - | 34,574 | - | - | - | - | 34,574 |
| Net impact on current liabilities | - | 34,873 | - | 8,870 | - | (81,835) | (38,092) |
| Non-current liabilities | | | | | | | |
| Long-term debt | | | | | | | |
| Non-recourse from ICI | - | (34,574) | - | - | - | - | (34,574) |
| Other non-current financial liabilities | - | 160,752 | - | - | (84,894) | - | 75,858 |
| Provisions | - | - | - | - | - | 155,543 | 155,543 |
| Other non-current liabilities | - | (156,604) | - | 247,917 | (64,381) | (73,708) | (46,776) |
| Deferred income tax liability | - | (4,447) | - | - | - | - | (4,447) |
| Net impact on non-current liabilities | - | (34,873) | - | 247,917 | (149,275) | 81,835 | 145,604 |
| Non-controlling interests | (102,595) | - | - | - | - | - | (102,595) |
| Equity | | | | | | | |
| Contributed surplus | (42,742) | - | - | - | - | - | (42,742) |
| Retained earnings | 42,742 | - | - | - | - | - | 42,742 |
| Non-controlling interests | 102,595 | - | - | - | - | - | 102,595 |
| Total impact on liabilities and equity | - | - | - | 256,787 | (149,275) | - | 107,512 |

Only line items of the Company's consolidated statement of financial position affected by the reclassifications at December 31, 2010 are shown in the table above.

Notes to Consolidated Financial Statements

35 First-Time Adoption of IFRS (continued)

35.2 C.1 RECLASSIFICATION OF NON-CONTROLLING INTERESTS AND CONTRIBUTED SURPLUS

Under IFRS, non-controlling interests are presented within equity as they represent the residual interest in the net assets of the subsidiaries and therefore meet the definition of equity as per the *Framework for the Preparation and Presentation of Financial Statements*. Under Canadian GAAP, non-controlling interests were presented outside shareholders' equity. The effect of the change is an increase in equity of \$80.0 million at January 1, 2010 and of \$102.6 million at December 31, 2010.

On the Date of Transition, the Company elected to reclassify the amount of contributed surplus relating to the stock option compensation to retained earnings. The effect of the change is a decrease in contributed surplus and an equivalent increase in retained earnings of \$33.5 million at January 1, 2010 and of \$42.7 million at December 31, 2010.

35.2 C.2 RECLASSIFICATION OF FINANCIAL AND NON-FINANCIAL INSTRUMENTS

Certain figures relating to financial and non-financial instruments have been reclassified to conform to the presentation adopted by the Company upon transition to IFRS as required by IAS 1, *Presentation of Financial Statements*, with no impact on the Company's total assets, total liabilities or equity.

35.2 C.3 RECLASSIFICATION OF DEFERRED INCOME TAX ASSET AND DEFERRED INCOME TAX LIABILITY

Under Canadian GAAP, when an enterprise segregated its assets and liabilities between current and non-current assets and liabilities, the current and non-current portions of deferred income tax liabilities and deferred income tax assets were also segregated.

Under IFRS, when an entity classifies its statement of financial position by presenting current assets and current liabilities separately from non-current assets and non-current liabilities, it needs to classify deferred income tax assets and deferred income tax liabilities as non-current assets and non-current liabilities. Therefore, a deferred income tax asset of \$112.6 million included in current assets was reclassified to non-current assets on the Date of Transition (December 31, 2010: \$78.3 million).

35.2 C.4 TRANSFERS OF ASSETS FROM CUSTOMERS

AltaLink, a subsidiary of the Company, enters into certain transactions whereby it receives cash from customers dedicated to the construction of transmission lines and substations, which provides these customers with ongoing access to a supply of electricity. Under Canadian GAAP, there is no specific guidance applicable to such agreements and the amount of such cash received by AltaLink was presented as a reduction of the carrying values of the related items of property and equipment in the statement of financial position.

Upon transition to IFRS, the Company retrospectively adopted IFRIC Interpretation 18, *Transfers of Assets from Customers*, ("IFRIC 18") with the effective date of April 29, 2002 (date of inception of AltaLink). IFRIC 18 applies to transactions described above. As per IFRIC 18's guidance, when an entity receives a transfer of cash from a customer, it shall assess whether the constructed or acquired item of property, plant and equipment meets the definition of an asset. If the definition of an asset is met, the entity recognizes the item of property, plant and equipment at its cost and recognizes revenue or deferred revenue, as applicable, for the same amount based on the appropriate revenue recognition policy.

The effect of this change resulted in an increase in property and equipment of \$200.7 million at January 1, 2010 (December 31, 2010: \$256.8 million), with an equivalent increase to deferred revenues, of which \$5.6 million is in current liabilities and \$195.1 million is in other non-current liabilities (December 31, 2010: \$8.9 million and \$247.9 million, respectively). This change did not have any impact on the Company's retained earnings at January 1, 2010.

The effect of this change also resulted in an increase of revenues and of the depreciation expense by \$7.9 million for the year ended December 31, 2010, with no impact on net income.

Notes to Consolidated Financial Statements

35 First-Time Adoption of IFRS (continued)

35.2 C.5 ASSET RETIREMENT OBLIGATION AND RATE-REGULATED ACTIVITIES

Under Canadian GAAP, AltaLink recognized liabilities for future dismantling costs related to both the interim retirement and the final retirement of transmission facilities. Under IFRS, AltaLink recognizes a reserve for salvage costs liability for forecasted future dismantling costs associated with the retirement of tangible long-lived assets.

Under IFRS, AltaLink's asset retirement obligation at January 1, 2010 is reduced from \$186.3 million (December 31, 2010: \$239.3 million) to \$nil, combined with a decrease of \$121.4 million (December 31, 2010: \$149.3 million) in property and equipment and an increase of \$64.9 million (December 31, 2010: \$90.0 million) in other non-current liabilities.

As mentioned in section 35.1, AltaLink is an entity whose operations are subject to rate regulation. Under Canadian GAAP, it is subject to accounting for entities subject to rate regulation. Consequently, AltaLink presented certain of its intangible assets, mainly land rights, together with property and equipment. Under IFRS, such intangible assets are presented as a separate line item in the statement of financial position. Therefore, the effect of this reclassification is a decrease of property and equipment of \$42.1 million at January 1, 2010 (December 31, 2010: \$85.0 million) and an increase in other non-current assets of the same amount.

35.2 C.6 PROVISIONS

Under Canadian GAAP, provisions were included in "trade and other payables" and "other non-current liabilities" in the statement of financial position. Under IFRS, provisions have to be included in the statement of financial position as a separate line item. Therefore, the effect of this reclassification is a decrease of trade and other payables of \$30.9 million and of other non-current liabilities of \$78.7 million at January 1, 2010 (December 31, 2010: \$81.8 million and \$73.7 million, respectively) and an increase in provisions of the same amount.

35.2 D. OTHER ADJUSTMENTS

The following other adjustments were made to the Company's consolidated statements of financial position at January 1, 2010 and December 31, 2010, with the total impact presented under the "Other" column of the "Effect of IFRS adoption on the Company's January 1, 2010 ("opening statement of financial position") and December 31, 2010 consolidated statements of financial position" tables:

| (IN THOUSANDS OF CANADIAN DOLLARS) | JANUARY 1, 2010 | | | | |
|---|-------------------|------------------|------------------|---------|----------|
| | OTHER ADJUSTMENTS | | | | |
| Statement of financial position line items | NOTE 35.2 D.1 | NOTE 35.2 D.2 | NOTE 35.2 D.3 | OTHER | TOTAL |
| Non-current assets | | | | | |
| Property and equipment: | | | | | |
| From other activities | – | – | – | (2,280) | (2,280) |
| ICI accounted for by the cost method | 12,800 | – | – | – | 12,800 |
| Deferred income tax asset | – | – | – | 38,775 | 38,775 |
| Non-current financial assets | 2,632 | – | – | – | 2,632 |
| Total impact on assets | 15,432 | – | – | 36,495 | 51,927 |
| Non-current liabilities | | | | | |
| Other non-current financial liabilities | – | (1,528) | – | – | (1,528) |
| Provisions | – | 20,894 | – | 988 | 21,882 |
| Deferred income tax liability | – | – | – | 38,775 | 38,775 |
| Net impact on non-current liabilities | – | 19,366 | – | 39,763 | 59,129 |
| Equity | | | | | |
| Retained earnings | – | (19,400) | (9,292) | (3,268) | (31,960) |
| Other components of equity | 15,432 | – | 9,292 | – | 24,724 |
| Non-controlling interests | – | 34 | – | – | 34 |
| Net impact on equity | 15,432 | (19,366) | – | (3,268) | (7,202) |
| Total impact on liabilities and equity | 15,432 | – | – | 36,495 | 51,927 |

Only line items of the Company's consolidated statement of financial position affected by the adjustments at January 1, 2010 are shown in the table above.

Notes to Consolidated Financial Statements

35 First-Time Adoption of IFRS (continued)

| (IN THOUSANDS OF CANADIAN DOLLARS) | | DECEMBER 31, 2010 | | | |
|---|------------------|-------------------|------------------|----------|----------|
| | | OTHER ADJUSTMENTS | | | |
| Statement of financial position line items | NOTE 35.2 D.1 | NOTE 35.2 D.2 | NOTE 35.2 D.3 | OTHER | TOTAL |
| Current assets | | | | | |
| Other current financial assets | - | - | - | 608 | 608 |
| Net impact on current assets | - | - | - | 608 | 608 |
| Non-current assets | | | | | |
| Property and equipment: | | | | | |
| From ICI | - | - | - | (16,295) | (16,295) |
| From other activities | - | - | - | (2,321) | (2,321) |
| Goodwill | - | - | - | (1,614) | (1,614) |
| Deferred income tax asset | - | - | - | 91,978 | 91,978 |
| Non-current financial assets | 1,620 | - | - | 18,909 | 20,529 |
| Net impact on non-current assets | 1,620 | - | - | 90,657 | 92,277 |
| Total impact on assets | 1,620 | - | - | 91,265 | 92,885 |
| Non-current liabilities | | | | | |
| Other non-current financial liabilities | - | (2,023) | - | 3,222 | 1,199 |
| Provisions | - | 20,870 | - | 674 | 21,544 |
| Deferred income tax liability | - | - | - | 91,978 | 91,978 |
| Net impact on non-current liabilities | - | 18,847 | - | 95,874 | 114,721 |
| Equity | | | | | |
| Retained earnings | - | (18,889) | (9,292) | (4,609) | (32,790) |
| Other components of equity | 1,620 | - | 9,292 | - | 10,912 |
| Non-controlling interests | - | 42 | - | - | 42 |
| Net impact on equity | 1,620 | (18,847) | - | (4,609) | (21,836) |
| Total impact on liabilities and equity | 1,620 | - | - | 91,265 | 92,885 |

Only line items of the Company's consolidated statement of financial position affected by the adjustments at December 31, 2010 are shown in the table above.

Notes to Consolidated Financial Statements

35 First-Time Adoption of IFRS (continued)

35.2 D.1 MEASUREMENT OF UNLISTED SECURITIES

Under Canadian GAAP, available-for-sale equity securities that are not traded on an active market were measured at cost. Under IFRS, all available-for-sale financial assets are measured at fair value, unless fair value is not reliably determinable. Upon transition to IFRS, the effect of the change is an increase in equity of \$15.4 million (December 31, 2010: \$1.6 million), with an increase to ICI accounted for by the equity or cost methods of \$12.8 million (December 31, 2010: \$nil) and to non-current financial assets of \$2.6 million (December 31, 2010: \$1.6 million).

After the Date of Transition, revaluation gains (losses) on these available-for-sale financial assets that are not traded on an active market are recognized in the statement of comprehensive income. When these available-for-sale financial assets are disposed of or are determined to be impaired, the cumulative amount of gains (losses) recognized in the statement of comprehensive income is reclassified from the "other components of equity" to the income statement.

35.2 D.2 DEFINED BENEFIT PLANS AND OTHER POST-EMPLOYMENT BENEFITS

As mentioned in section 35.1, the Company has elected to apply the optional exemption in IFRS 1 and recognized unamortized net actuarial losses for all its defined benefit plans in the consolidated statement of financial position, i.e., the full net pension liability is recognized at January 1, 2010. The Company also applied IFRIC Interpretation 14, *The Limit on a Defined Benefit Asset, Minimum Funding Requirements and Their Interaction*, ("IFRIC 14"). The total effect of IFRS 1 and IFRIC 14 is a decrease in equity at the Date of Transition of \$19.4 million (December 31, 2010: \$18.8 million).

Net actuarial gains and losses arising after the Date of Transition for all the Company's defined benefit plans are recognized in other comprehensive income. Net actuarial losses recognized in other comprehensive income amounted to \$1.4 million for the year ended December 31, 2010. The reversal of the Canadian GAAP amount relating to the amortization of actuarial losses in net income represented \$1.1 million for the year ended December 31, 2010.

35.2 D.3 CUMULATIVE TRANSLATION DIFFERENCE FROM FOREIGN OPERATIONS

As mentioned in section 35.1, the Company elected to reclassify cumulative translation losses included in other components of equity, under "exchange differences on translating foreign operations" account, to retained earnings. The gain or loss on a subsequent disposal of any foreign operation excludes translation differences that arose before the Date of Transition.

Upon transition to IFRS, the effect of the change is a decrease to retained earnings and an increase to other components of equity of \$9.3 million at January 1, 2010 and at December 31, 2010.

35.2 E. 2010 CORRECTION

The 2010 correction relates to \$20 million in payments made in 2010 under what is presumed to be an agency agreement, that were charged and documented to a construction project to which they did not relate (see Note 36A). Because these payments were documented to a construction project to which they did not relate and that there is no direct and conclusive evidence on the use and purpose of these payments or the nature of services rendered in connection therewith, the Company concluded that these payments should be treated as period expenses (i.e., not generating revenues) for accounting purposes.

The 2010 payments accounted for as period expenses, net of the effect resulting from an increased forecasted gross margin following the exclusion of the payments from the project costs on the project that the payments were originally allocated to, resulted in a reduction in net income of \$17.9 million in 2010 (\$0.12 per share on both a basic and diluted basis). The Company decided to correct its prior period comparative financial information under its first issuance of annual audited consolidated financial statements prepared in accordance with IFRS.

Notes to Consolidated Financial Statements

35 First-Time Adoption of IFRS (continued)

35.3 EFFECT OF IFRS ADOPTION ON THE COMPANY'S CONSOLIDATED INCOME STATEMENT FOR THE YEAR ENDED DECEMBER 31, 2010

| YEAR ENDED DECEMBER 31, 2010 (IN THOUSANDS OF CANADIAN DOLLARS, EXCEPT PER SHARE AMOUNTS) | EFFECT OF TRANSITION TO IFRS | | | | | | IFRS |
|---|------------------------------|--------------------|--------------|--------------|--|----------------------|-----------|
| | CANADIAN GAAP | 2010 CORRECTION | IFRIC 12 | IAS 31 | RECLASSI- FICATIONS AND CONSOLIDATION ELIMINATION | OTHER | |
| Revenues by activity: | | (Note 35.2e) | (Note 35.2a) | (Note 35.2b) | (Note 35.3a) | | |
| Services | 2,051,894 | – | 1,893 | – | – | – | 2,053,787 |
| Packages | 2,409,000 | (16,412) | 8,496 | – | (263,663) | – | 2,137,421 |
| O&M | 1,330,501 | – | (42) | – | – | – | 1,330,459 |
| ICI | 523,595 | – | 12,365 | (84,048) | 7,911 | 12,451 | 472,274 |
| | 6,314,990 | (16,412) | 22,712 | (84,048) | (255,752) | 12,451 | 5,993,941 |
| Direct cost of activities | 4,983,264 | – | (1,703) | (32,099) | (255,752) | (746) | 4,692,964 |
| Gross margin | 1,331,726 | (16,412) | 24,415 | (51,949) | – | 13,197 | 1,300,977 |
| Selling, general and administrative expenses | 585,629 | – | 193 | (12,254) | 1,315 | 6,816 | 581,699 |
| Net financial expenses | – | – | – | (70,488) | 177,727 | 3,836 | 111,075 |
| Interest and capital taxes | 174,903 | – | – | – | (174,903) | – | – |
| Income before income taxes | 571,194 | (16,412) | 24,222 | 30,793 | (4,139) | 2,545 | 608,203 |
| Income tax expense | 123,422 | 1,476 | – | (6,486) | (4,139) | 6,541 ⁽¹⁾ | 120,814 |
| Non-controlling interests | 10,758 | – | – | – | (10,758) | – | – |
| Net income | 437,014 | (17,888) | 24,222 | 37,279 | 10,758 | (3,996) | 487,389 |
| Net income attributable to: | | | | | | | |
| SNC-Lavalin shareholders | 437,014 | (17,888) | 24,265 | 37,279 | – | (4,004) | 476,666 |
| Non-controlling interests | – | – | (43) | – | 10,758 | 8 | 10,723 |
| Net income | 437,014 | (17,888) | 24,222 | 37,279 | 10,758 | (3,996) | 487,389 |
| Earnings per share (in \$) | | | | | | | |
| Basic | 2.89 | | | | | | 3.16 |
| Diluted | 2.87 | | | | | | 3.13 |

(1) Represents income tax expense from all IFRS adjustments, excluding \$1.5 million of income tax expense relating to the 2010 correction.

35 First-Time Adoption of IFRS (continued)

35.3 A. RECLASSIFICATIONS AND CONSOLIDATION ELIMINATION

Certain figures have been reclassified to conform to the presentation adopted by the Company upon transition to IFRS as required by IAS 1, *Presentation of Financial Statements*, with no impact on net income attributable to the SNC-Lavalin shareholders.

Packages revenues between SNC-Lavalin and AltaLink have been eliminated on a consolidated basis while related intragroup profits have not been eliminated upon consolidation in the period they occur, as transactions are considered realized by AltaLink via legislation applied by an independent governmental regulatory body. As such, this packages revenues elimination has no impact on the Company's net income.

35.4 EFFECT OF IFRS ADOPTION ON THE COMPANY'S CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED DECEMBER 31, 2010

| YEAR ENDED DECEMBER 31, 2010 (IN THOUSANDS OF CANADIAN DOLLARS) | | | EFFECT OF TRANSITION TO IFRS | | | | IFRS |
|---|------------------|--------------------------|------------------------------|------------------------|--|----------|----------|
| | CANADIAN GAAP | 2010 CORRECTION | IFRIC 12 | IAS 31 | RECLASSI- FICATIONS AND CONSOLIDATION ELIMINATION | OTHER | |
| Net income | 437,014 | (Note 35.2e) (17,888) | (Note 35.2a) 24,222 | (Note 35.2b) 37,279 | (Note 35.3a) 10,758 | (3,996) | 487,389 |
| Other comprehensive income (loss): | | | | | | | |
| Exchange differences on translating foreign operations | (21,077) | – | – | – | (116) | – | (21,193) |
| Available-for-sale financial assets (Note 35.2 d.1) | 2,010 | – | – | – | 346 | (13,812) | (11,456) |
| Cash flow hedges | (32,570) | – | – | 100 | 16,948 | – | (15,522) |
| Defined benefit pension plans and other post-employment benefits (Note 35.2 d.2) | – | – | – | – | – | (1,442) | (1,442) |
| Share of other comprehensive loss of investments accounted for by the equity method | – | – | – | – | (27,250) | – | (27,250) |
| Income tax benefit relating to components of other comprehensive income (loss) | – | – | – | – | 10,842 | 2,263 | 13,105 |
| Total other comprehensive loss | (51,637) | – | – | 100 | 770 | (12,991) | (63,758) |
| Total comprehensive income | 385,377 | (17,888) | 24,222 | 37,379 | 11,528 | (16,987) | 423,631 |
| Total comprehensive income attributable to: | | | | | | | |
| SNC-Lavalin shareholders | 385,377 | (17,888) | 24,265 | 37,379 | – | (16,995) | 412,138 |
| Non-controlling interests | – | – | (43) | – | 11,528 | 8 | 11,493 |
| Total comprehensive income | 385,377 | (17,888) | 24,222 | 37,379 | 11,528 | (16,987) | 423,631 |

35.5 EFFECT OF IFRS ADOPTION ON THE COMPANY'S CONSOLIDATED STATEMENTS OF CASH FLOWS

INTERESTS IN JOINT VENTURES (IAS 31)

Under Canadian GAAP, interests in jointly controlled entities were accounted for using the proportionate consolidation method. Under IFRS, interests in jointly controlled entities are accounted for using either the equity method or the proportionate consolidation method. The Company has elected to account for its interests in jointly controlled entities using the equity method upon transition to IFRS.

In regards to the statement of cash flows, under Canadian GAAP, the proportionate consolidation method required the Company to consolidate its proportionate share of the jointly controlled entities' cash flows on a line-by-line basis. Therefore, the adjustment to the consolidated statements of cash flows represents an elimination of cash flows and cash positions previously recognized by the Company under proportionate consolidation method.

35 First-Time Adoption of IFRS (continued)

STATEMENT OF CASH FLOWS (IAS 7)

Under Canadian GAAP, interest paid and income taxes paid included in the determination of net income were disclosed separately as supplementary cash flow information. Under IFRS, interest paid and income taxes paid are included into the body of the statement of cash flows as separate line items.

35.6 OTHER

As per IFRS 1, since IFRS 3 is not applied retrospectively, regardless of whether there is any indication that the goodwill may be impaired, the first-time adopter applies IAS 36, *Impairment of Assets*, in testing the goodwill for impairment at the date of transition to IFRS. Therefore, the Company performed an impairment test on its goodwill as at the Date of Transition and concluded that there was no impairment.

36 Subsequent Events

A) INDEPENDENT REVIEW

In February 2012, the Board of Directors initiated an independent review (the "Independent Review") led by its Audit Committee, of the facts and circumstances surrounding certain payments that were documented (under certain agreements presumed to be agency agreements, the "Representative Agreements") to construction projects to which they did not relate, and certain other contracts. The Company's senior management and Board of Directors have been required to devote significant time to the Independent Review and related matters which has been distracting from the conduct of the Company's daily business and significant expenses have been incurred in connection with the Independent Review including substantial fees of lawyers and other advisors. In addition, the Company and/or employees of the Company could become the subject of investigations by law enforcement and/or regulatory authorities in respect of the matters that were subject to the Independent Review which, in turn, could require the devotion of additional time of senior management and other resources. In the absence of direct and conclusive evidence, the use and purpose of the payments or nature of the services rendered or actions taken under these Representative Agreements could not be determined with certainty by the Independent Review. However, the absence of conclusive findings of the Independent Review does not exclude the possibility that, if additional facts that are adverse to the Company became known, including matters beyond the scope of the Representative Agreements that were the subject of the Independent Review, sanctions could be brought against the Company in connection with possible violations of law or contracts. The consequences of any such sanctions or other actions, whether actual or alleged, could adversely affect our business and the market price of our publicly traded securities. In addition, the Independent Review and any negative publicity associated with the Independent Review, could damage our reputation and ability to do business.

B) PROPOSED CLASS ACTION LAWSUIT

On March 1, 2012, a proposed class action lawsuit was filed with the Quebec Superior Court, on behalf of persons who acquired SNC-Lavalin securities from and including March 13, 2009 through and including February 28, 2012, whether in a primary market offering or in the secondary market. The Motion for authorization alleges that certain documents issued by SNC-Lavalin between these dates contained misrepresentations. The Motion seeks leave from the Superior Court to bring a statutory misrepresentation claim under Quebec's Securities Act and the equivalent provisions contained in the various other Canadian provinces' securities legislation. The proposed action claims damages equivalent to the decline in market value of the securities purchased by class members when SNC-Lavalin issued a press release dated February 28, 2012, as well as the costs of administering the plan to distribute recovery pursuant to the class action. Due to the inherent uncertainties of litigation, it is not possible to predict the final outcome of this lawsuit or determine the amount of any potential losses, if any, and SNC-Lavalin may, in the future, be subject to further class actions or other litigation.