



SNC • LAVALIN

Management's Discussion and Analysis

Second Quarter and First Six Months of 2019 versus
Second Quarter and First Six Months of 2018

July 31, 2019

All financial information in Canadian dollars, unless otherwise indicated

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Management's Discussion and Analysis

July 31, 2019

Management's Discussion and Analysis ("MD&A") is designed to provide the reader with a greater understanding of the Company's business, the Company's business strategy and performance, as well as how it manages risks and capital resources. It is intended to enhance the understanding of the unaudited interim condensed consolidated financial statements of the second quarter of 2019 and accompanying notes, and should therefore **be read in conjunction with that document, with the annual MD&A and annual audited consolidated financial statements for the year ended December 31, 2018, and should also be read together with the text below on forward-looking statements.** Reference in this MD&A to the "Company" or to "SNC-Lavalin" means, as the context may require, SNC-Lavalin Group Inc. and all or some of its subsidiaries or joint arrangements, or SNC-Lavalin Group Inc. or one or more of its subsidiaries or joint arrangements.

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

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

Non-IFRS Financial Measures and Additional IFRS Measures

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

NON-IFRS FINANCIAL MEASURE OR ADDITIONAL IFRS MEASURE	
Performance	
› Adjusted diluted earnings per share from Engineering & Construction ("E&C") ("Adjusted diluted EPS from E&C")	› Earnings before interest and income taxes ("EBIT")
› Adjusted earnings before interest, income taxes, depreciation and amortization ("Adjusted EBITDA")	› Earnings before interest, income taxes, depreciation and amortization ("EBITDA")
› Adjusted net income from E&C	› Profitability ratio
› Diluted earnings per share from E&C and Diluted earnings per share from Capital	› Return on average shareholders' equity ("ROASE")
	› Segment EBIT
Liquidity	
› Net recourse debt (or Cash net of recourse debt)	› Net recourse debt to adjusted EBITDA ratio

Definitions of all non-IFRS financial measures and additional IFRS measures are provided in Section 10 to give the reader a better understanding of the indicators used by management. In addition, when applicable, the Company provides a clear quantitative reconciliation from the non-IFRS financial measures to the most directly comparable measure calculated in accordance with IFRS, refer to Section 10 for references to the sections of this MD&A where these reconciliations are provided.

Comparative figures

Effective January 1, 2019, the Company adopted IFRS 16, *Leases*, without restatement of comparative figures, as described in Section 9.

The Company modified its comparative figures for the following changes:

Effective January 1, 2019, the Company changed the definition of Segment EBIT, its measure of profit or loss for its reportable segments, to reflect a change made to its internal reporting. As such, Segment EBIT now includes: i) the contribution attributable to non-controlling interests before income taxes, whereas in the past it excluded such contribution attributable to non-controlling interests before income taxes; and ii) an allocation to the segments of certain other corporate selling, general and administrative expenses. As such, these changes resulted in: i) a reclassification of the contribution attributable to non-controlling interests before income taxes in Segment EBIT of \$0.3 million for the three-month period ended June 30, 2018 and \$0.5 million for the six-month period ended June 30, 2018; and ii) a reclassification of certain other corporate selling, general and administrative expenses in Segment EBIT of \$5.8 million for the three-month period ended June 30, 2018 and \$11.1 million for the six-month period ended June 30, 2018. The Company believes that such inclusions improve the measure of profitability of its reportable segments by better reflecting the overall performance of its reportable segments.

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

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

Caution Regarding Forward-Looking Statements

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

Forward-looking statements made in this MD&A are based on a number of assumptions believed by the Company to be reasonable on July 31, 2019. The assumptions are set out throughout the Company's 2018 MD&A (particularly, in the sections entitled "Critical Accounting Judgments and Key Sources of Estimation Uncertainty" and "How We Analyze and Report our Results"). If these assumptions are inaccurate, the Company's actual results could differ materially from those expressed or implied in such forward-looking statements. In addition, important risk factors could cause the Company's assumptions and estimates to be inaccurate and actual results or events to differ materially from those expressed in or implied by these forward-looking statements. These risks include, but are not limited to: (a) outcome of pending and future claims and litigation; (b) on February 19, 2015, the Company was charged with one count of corruption under the Corruption of Foreign Public Officials Act (Canada) (the "CFPOA") and one count of fraud under the *Criminal Code* (Canada), and is also subject to other ongoing investigations which could subject the Company to criminal and administrative enforcement actions, civil actions and sanctions, fines and other penalties, some of which may be

significant. These charges and investigations, and potential results thereof, could harm the Company's reputation, result in suspension, prohibition or debarment of the Company from participating in certain projects, reduce its revenues and net income and adversely affect its business; (c) further regulatory developments as well as employee, agent or partner misconduct or failure to comply with anti-bribery and other government laws and regulations; (d) reputation of the Company; (e) fixed-price contracts or the Company's failure to meet contractual schedule or performance requirements or to execute projects efficiently; (f) contract awards and timing; (g) remaining performance obligations; (h) being a provider of services to government agencies; (i) international operations; (j) Brexit; (k) ownership interests in Capital investments; (l) dependence on third parties; (m) joint ventures and partnerships; (n) competition; (o) professional liability or liability for faulty services; (p) monetary damages and penalties in connection with professional and engineering reports and opinions; (q) insurance coverage; (r) health and safety; (s) qualified personnel; (t) work stoppages, union negotiations and other labour matters; (u) information systems and data; (v) acquisitions or other investment; (w) divestitures and the sale of significant assets; (x) liquidity and financial position; (y) indebtedness; (z) security under the SNC-Lavalin Highway Holdings Loan; (aa) dependence on subsidiaries to help repay indebtedness; (bb) dividends; (cc) post-employment benefit obligations, including pension-related obligations; (dd) working capital requirements; (ee) collection from customers; (ff) impairment of goodwill and other assets; (gg) global economic conditions; (hh) fluctuations in commodity prices; (ii) inherent limitations to the Company's control framework; (jj) environmental laws and regulations; (kk) results of the new 2019 strategic direction coupled with a corporate reorganization, and (ll) impact of operating results and level of indebtedness on financial situation.

The Company cautions that the foregoing list of factors is not exhaustive. For more information on risks and uncertainties, and assumptions that could cause the Company's actual results to differ from current expectations, please refer to the sections "Risks and Uncertainties", "How We Analyze and Report Our Results" and "Critical Accounting Judgments and Key Sources of Estimation Uncertainty" in the Company's 2018 MD&A, as updated in this MD&A, filed with the securities regulatory authorities in Canada and available on SEDAR at www.sedar.com and on the Company's website at www.snc-lavalin.com under the "Investors" section.

The forward-looking statements herein reflect the Company's expectations as at July 31, 2019, when the Company's Board of Directors approved this document, and are subject to change after this date. The Company does not undertake to update publicly or to revise any such forward-looking statements whether as a result of new information, future events or otherwise, unless required by applicable legislation or regulation.

1 Our Business

Founded in 1911, **SNC-Lavalin** is a global engineering professional services and project management company and a major player in the ownership of infrastructure.

SNC-Lavalin's teams provide comprehensive project solutions – including capital investment, consulting, design, engineering, construction management, sustaining capital, and operations and maintenance – to clients across the EDPM, Infrastructure, Nuclear, and Resources businesses.

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

The Company presents its results separately for its two business lines, SNCL Engineering Services and SNCL Projects and reports its results distinctly for Engineering and Construction ("E&C") and Capital.

2 New Strategic Direction for SNC-Lavalin

SNC-Lavalin's performance in early 2019 related to revenue, EBITDA, and with respect to cash flow in recent years spurred the Company to conduct an in-depth review of the Company's risk profile, operations and strategic direction.

As a result of the Company's strategic review, SNC-Lavalin is embarking on a new strategic direction focused on strengthening the balance sheet and enhancing financial flexibility, while lessening volatility.

This new approach will enable the Company to focus more effectively on our most profitable work: engineering, design, project management and construction management services and operations and maintenance. The Company's new strategic direction is centered around:

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

SNC-Lavalin's new strategic direction has two main focal points. The first is that it will focus on the high-performing and growth areas of the business and exit lump-sum turnkey construction contracting. The second is that it will reorganize into two separate business lines:

- › SNCL Engineering Services, which include EPDM, Nuclear, Infrastructure Services (including Linxon) and Capital. SNCL Engineering Services recorded a 10.8% growth in revenues in the first half of 2019 and the backlog for this business line totaled 11.1 billion at the end of the second quarter of 2019, an increase of 8.5% on an annual basis.
- › SNCL Projects which will include Resources (Oil & Gas and Mining & Metallurgy) and our existing Infrastructure lump-sum turnkey construction projects following continued poor performance of these segments. The Company is exploring all options for its Resources segment, particularly its Oil & Gas business, including transition to a services-based business or divestiture. The Company will fulfil the contractual obligations of its current lump-sum turnkey construction projects, including full commitment to the Réseau express métropolitain (REM) and be reorganized as SNCL Projects, while providing separate ongoing financial disclosure to the market on this business line. The Company expects to complete 80% of the remaining lump-sum turnkey construction projects by the end of 2021 and the rest by the end of 2024.

SNC-Lavalin believes that this simplified business model will allow it to generate increased profitability while minimizing its exposure to downside risk, subject to risks and limitations described in Section 11.

Simplify, Focus, Grow

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

Simplify

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

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

Focus & Grow

SNC-Lavalin will be reorganized and operated as two distinct businesses that will be reported on and managed separately. These two business lines are SNCL Engineering Services and SNCL Projects.

SNC-Lavalin intends to grow where it is strongest and has a differentiated market position, which is the focus of its SNCL Engineering Services business line. The SNCL Engineering Services business line will consist of the Company's current Engineering, Design, Procurement and Management (EPDM), and Nuclear segments, as well as Linxon, the services portions of the Company's current Infrastructure segment (which consist of Operations & Maintenance, District Cooling and Clean Power services), and Capital. The Infrastructure segment will also be shifting its focus toward becoming a program integrator with a greater emphasis on Program and Project Management and Construction Management services.

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

- A. Become recognized as a market leader, or expand its market leadership, in the following areas:
 - › Deliver industry leading EBITDA margins.
 - › Deliver strong cash flow results to build a sustainable future.
- B. Establish more predictable and strong financial performance and restore investor confidence.
 - › Advisory, design and project management services for Infrastructure projects globally.
 - › Nuclear services, including life extension, decontamination and decommissioning (D&D), and remediation.
 - › Project Management / Construction Management / Operations & Management / Project integration in transportation, especially in rail and transit.

- › Capital – Provision and ownership of infrastructure assets in Canada.
- › Clean power – Global electrical AC substation projects and renewables engineering services.
- › Linxon (power substation)

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

The Company also has a well-established position in nuclear plant life extension, including a leading position in CANDU-related services and products, and a demonstrated ability to successfully act as a Project Manager/Construction Manager and to provide Operation & Maintenance for complex transportation projects. Sustained concerns of climate change are also driving the need for clean energy, and thus a need for life extension in nuclear power plants (combined with a growing need for nuclear decommissioning along with sustained need for nuclear clean-up services).

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

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

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

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

3

Second Quarter and First Six Months of 2019 Executive Summary

3.1 EXECUTIVE SUMMARY-KEY FINANCIAL INDICATORS

FINANCIAL HIGHLIGHTS

(IN MILLIONS OF CA\$, EXCEPT EARNINGS PER SHARE)	SECOND QUARTER		SIX MONTHS ENDED JUNE 30	
	2019	2018	2019	2018
Income Statement				
Revenues	\$ 2,284.2	\$ 2,527.1	\$ 4,647.4	\$ 4,958.5
Net income (loss) attributable to SNC-Lavalin shareholders	(2,118.3)	83.0	(2,135.6)	161.1
Adjusted net income (loss) attributable to SNC-Lavalin shareholders from E&C ⁽¹⁾	(299.8)	113.5	(314.7)	203.0
Earnings per share - diluted ("Diluted EPS") (in \$)	(12.07)	0.47	(12.17)	0.92
Adjusted diluted EPS from E&C (in \$) ⁽¹⁾	(1.71)	0.65	(1.79)	1.16
EBIT ⁽¹⁾	(2,113.9)	109.1	(2,100.0)	238.9
EBITDA ⁽¹⁾	(134.8)	187.8	(13.6)	401.7
Adjusted E&C EBITDA (% of revenues) ⁽¹⁾	-6.9%	7.7%	-1.6%	7.6%
Financial Position & Cash Flows				
Cash and cash equivalents (at June 30)			\$ 580.6	\$ 721.4
Net recourse debt (at June 30) ⁽¹⁾			(2,413.5)	(1,459.7)
Net cash used for operating activities			(616.5)	(207.1)
Additional Indicator				
Backlog (at June 30)			\$ 15,684.2	\$ 15,174.8

(1) Non-IFRS financial measures or additional IFRS measures. Please refer to Section 10 for further information on these financial measures and for the reference to the reconciliation from these financial measures to the most directly comparable measure specified under IFRS, when applicable.

- Revenues totalled \$2,284.2 million in the second quarter of 2019, compared with \$2,527.1 million in the corresponding period of 2018. For the first six months of 2019, revenues totalled \$4,647.4 million, compared with the \$4,958.5 million the same period last year. The decrease is mainly due to lower revenues from Resources and Infrastructure EPC Projects, partially offset by a 10.8% increase in revenues from SNCL Engineering Services mainly in EDPM and Infrastructure Services.
- Net loss attributable to SNC-Lavalin shareholders totalled \$2,118.3 million in the second quarter of 2019, compared with a net income of \$83.0 million in the corresponding period of 2018. The change is mainly due to a \$1.9 billion impairment loss on goodwill and intangible assets related to Resources in 2019, combined with a negative Segment EBIT in 2019 mainly attributable to losses in Resources and Infrastructure EPC Projects. Also contributing to the variance between the two periods are higher net financial expenses and restructuring costs, as well as a gain on disposal of a Capital investment in 2018, partially offset by a higher recovery of income taxes in 2019 and the net 2012 class action lawsuit settlement expense in 2018. For the first six months of 2019, the net loss attributable to SNC-Lavalin shareholders totalled \$2,135.6 million, compared with a net income of \$161.1 million for the same period of 2018, a variance mainly due to the factors described above.
- An impairment loss on goodwill of \$1.8 billion was recognized in 2019 for the Resources cash generating unit ("CGU"), largely attributable to the Company's decision to cease bidding on lump-sum turnkey construction projects, as well as lower than expected performance in Resources in the first half of the year and challenges in replenishing the

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

- › **Adjusted net loss attributable to SNC-Lavalin shareholders from E&C was \$299.8 million (negative \$1.71 per share on a diluted basis) for the second quarter of 2019**, compared with an adjusted net income attributable to SNC-Lavalin shareholders from E&C of \$113.5 million (\$0.65 per share on a diluted basis) for the second quarter of 2018, a variance mainly due to a negative Segment EBIT in Resources and Infrastructure EPC Projects in 2019, compared to a positive contribution in 2018, partially offset by a favorable variance in income taxes. **For the first six months of 2019, adjusted net loss attributable to SNC-Lavalin shareholders from E&C was \$314.7 million (negative \$1.79 per share on a diluted basis)**, compared with an adjusted net income attributable to SNC-Lavalin shareholders from E&C of \$203.0 million (\$1.16 per share on a diluted basis) in the corresponding period of 2018, a variance mainly due to a negative Segment EBIT in Resources and Infrastructure EPC Projects in 2019, compared to a positive contribution in 2018, partially offset by a favorable variance in income taxes and a lower level of corporate selling, general and administrative costs.
- › **EBIT in the second quarter of 2019 was negative \$2,113.9 million**, compared with a positive EBIT of \$109.1 million in the same period in 2018, mainly due to a \$1.9 billion impairment loss on goodwill and intangible assets related to Resources in 2019, combined with a negative Segment EBIT in 2019, mainly attributable to losses in Resources and Infrastructure EPC Projects, partially offset by the net 2012 class action lawsuit settlement expense in 2018. EBIT from E&C included \$105.2 million of depreciation and amortization expenses in the second quarter of 2019, compared with \$78.7 million in the second quarter of 2018, an increase mainly attributable to the \$25.4 million depreciation of right-of-use assets following the adoption of IFRS 16 in 2019 (see Section 9 for further details). **For the first six months of 2019, EBIT was negative \$2,100.0 million**, compared with a positive EBIT of \$238.9 million in the corresponding period of 2018, mainly due to the reasons stated above.
- › **EBITDA was negative \$134.8 million in the second quarter of 2019**, compared with a positive EBITDA of \$187.8 million in the same period in 2018. **For the first six months of 2019, EBITDA was negative \$13.6 million**, compared with a positive EBITDA of \$401.7 million in the corresponding period of 2018. The decrease is principally explained by the reasons stated above, partially offset by higher depreciation and amortization expenses related to the implementation of IFRS 16 at January 1, 2019. Refer to section 9 for further details on the implementation of IFRS 16.
- › **Adjusted E&C EBITDA (as a % of revenues) decreased in the second quarter of 2019**, compared with the same period in 2018. **For the first six months of 2019, adjusted E&C EBITDA (as a % of revenues) decreased** compared to the same period in 2018, mainly due to the lower EBIT, partially offset by higher depreciation and amortization expenses related to the implementation of IFRS 16 at January 1, 2019. Refer to section 9 for further details on the implementation of IFRS 16.
- › **Net recourse debt as at June 30, 2019 was \$2.4 billion**, compared with \$1.5 billion as at June 30, 2018, mainly reflecting additional recourse debt raised to finance cash used by operating activities.
- › **Net cash used for operating activities increased by \$409.4 million in the first six months of 2019**, compared with the corresponding period of 2018, mainly attributable to a higher level of cash used by operating activities before the net change in non-cash working capital items. Refer to section 7 for further details.
- › **Backlog totalled \$15.7 billion as at June 30, 2019**, compared with \$15.8 billion as at March 31, 2019 and \$14.9 billion as at December 31, 2018. **The Company's contract bookings amounted to \$5.4 billion in the first six months of 2019.**

3.2 EXECUTIVE SUMMARY – OTHER ITEMS

NEW STRATEGIC DIRECTION WITH CORPORATE REORGANIZATION

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

- › SNCL Engineering Services, which include EPDM, Nuclear, Infrastructure Services (including Linxon) and Capital. SNCL Engineering Services recorded a 10.8% growth in revenues in the first half of 2019 and the backlog for this business line totaled 11.1 billion at the end of the second quarter of 2019 and increase of 8.5% on an annual basis.
- › SNCL Projects which will include Resources (Oil & Gas and Mining & Metallurgy) and our existing Infrastructure lump-sum turnkey construction projects following continued poor performance of these segments. The Company is exploring all options for its Resources activities, particularly its Oil & Gas business, including transition to a services-based business or divestiture. The Company will fulfil the contractual obligations of its current lump-sum turnkey construction projects, including full commitment to the Réseau express métropolitain (REM) and be reorganized as SNCL Projects, while providing separate ongoing financial disclosure to the market on this business line. The Company expects to complete 80% of the remaining lump-sum turnkey construction projects by the end of 2021 and the rest by the end of 2024.

The reorganization and exiting from lump-sum turnkey construction contracting is the first step of the new strategic direction for the Company that is focused on de-risking the business and generating more consistent earnings and cash flow. Together with the recently announced sale of 10.01% of Highway 407 ETR for \$3 billion, the Company's goal is to strengthen the balance sheet and enhance financial flexibility, while removing volatility.

APPOINTMENT OF INTERIM CHIEF EXECUTIVE OFFICER

Effective June 11, 2019, the Company appointed Ian L. Edwards as Interim President and Chief Executive Officer (CEO). He also joined the Board of Directors, succeeding Neil Bruce who has retired as President and CEO, and from the Board. Mr. Edwards was previously appointed to Chief Operating Officer ("COO") on January 28, 2019 where he has taken the lead in executing the initiative to simplify, focus and grow the business. As Interim CEO, the Board of Directors has asked Mr. Edwards to undertake a review of the strategic direction of the Company on an expedited basis and to develop a plan for sustainable success that de-risks and simplifies the business model and generated consistent earnings and cash flow. The first step in this strategic review was announced on July 22nd, 2019.

APPOINTMENT OF EXECUTIVE VICE-PRESIDENT, PROJECT OVERSIGHT

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

KEY ORGANISATIONAL CHANGES

Effective January 1, 2019, the Company's new organizational structure, aimed at simplifying and de-risking the business and serving its clients worldwide even more effectively, was as follows: **EDPM, Infrastructure, Nuclear, Resources and Capital**. The Company's new strategic direction recently resulted in a further change to its structure, as indicated above.

AGREEMENT TO SELL 10.01% INTEREST IN HIGHWAY 407 ETR

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

On May 17, 2019, SNC-Lavalin announced, prior to the expiry of the relevant notice and acceptance period, that the other shareholders of Highway 407 ETR exercised their rights of first refusal to purchase all of the Subject Shares on the same terms and conditions as those set out in the transaction documents with OMERS. On the basis of the shareholders exercise of their rights of first refusal and in accordance with the sale contract, SNC-Lavalin terminated the transaction with OMERS, which is subject to a payment of a break fee of 2.5% of the purchase price.

The transaction with one or both of the other shareholders of Highway 407 ETR is expected to be completed in the third quarter of 2019, but timing will be dictated in large measure by a court resolution of a dispute over whether a long-standing waiver by Cintra, one of the other shareholders, of its right of first refusal over SNC-Lavalin's Highway 407 ETR shares applies in the present circumstances. Gross proceeds from the sale could reach \$3.25 billion in aggregate, \$3.0 billion payable at the closing date and up to \$250 million over a period of 10 years, conditional to certain financial thresholds related to the future performance of Highway 407 ETR. As at June 30, 2019, the net book value of SNC-Lavalin's investment in Highway 407 ETR was \$nil. SNC-Lavalin's 10.01% interest in Highway 407 ETR to be sold represents an asset held for sale as at June 30, 2019.

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

AMENDMENTS TO THE CDPQ LOAN

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

- › modification of the net recourse debt-to-equity ratio to align it with the amendment made to the Credit Agreement in 2018 and delay the application of such covenant from March 31, 2019 to June 30, 2019;
- › following the expected disposal of 10.01% of the shares of Highway 407 ETR, the Company committed to repay an amount of \$600 million out of \$1.0 billion outstanding under the tranche A of the CDPQ Loan; and
- › decrease of the margin applicable to the base interest rate and payment by the Company of fees of \$15 million.

TRANSITNEXT GENERAL PARTNERSHIP

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

CODELCO'S DECISION TO TERMINATE ITS MINING & METALLURGY CONTRACT

On March 25, 2019, the Company announced that Codelco, its client on its Mining & Metallurgy project indicated in the February 11th, 2019 and January 28th, 2019 press releases, has terminated its contract with SNC-Lavalin and initiated a drawdown on its approximately US \$42 million (CA \$55.7 million) in bank guarantees. The Company believes that this termination is unwarranted and in breach of good faith agreements reached by the Parties.

The Company continues to prepare the dispute resolution actions required to advance its claims against Codelco and defend any claims Codelco may make.

UPDATE ON THE FEDERAL CHARGES BY THE PUBLIC PROSECUTOR SERVICE OF CANADA (PPSC)

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

The preliminary inquiry into the Charges against the Company began in the Court of Quebec from October 29, 2018 to April 1, 2019. The judgement of the court in respect of the preliminary inquiry was delivered on May 29, 2019; it determined that there is sufficient evidence to set the matter down for a full trial. The trial on the Charges has yet to be scheduled but may commence in late 2019 or 2020.

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

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

CLASS ACTION LAWSUITS

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

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

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

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

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

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

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

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

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

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

4 Financial Performance Analysis

The financial information presented in the table below has been derived from the Company's unaudited interim condensed consolidated financial statements prepared in accordance with IAS 34, *Interim Financial Reporting*, for the six-month periods ended June 30, 2019 and 2018, with the exception of the non-IFRS financial measures specifically identified in the "Additional financial indicators" section below.

(IN MILLIONS OF CA\$, EXCEPT EARNINGS (LOSS) PER SHARE)	SECOND QUARTER		SIX MONTHS ENDED JUNE 30	
	2019	2018 ⁽¹⁾	2019	2018 ⁽¹⁾
Revenues	\$ 2,284.2	\$ 2,527.1	\$ 4,647.4	\$ 4,958.5
Total Segment EBIT	\$ (115.2)	\$ 215.6	\$ (16.5)	\$ 444.4
Corporate selling, general and administrative expenses	\$ 19.8	\$ 18.7	\$ 26.1	\$ 44.0
Impairment loss arising from expected credit losses	0.1	0.1	0.5	0.7
Loss (gain) arising on financial assets (liabilities) at fair value through profit or loss	10.4	(4.6)	21.5	(0.4)
Net 2012 class action lawsuits settlement expense	–	88.0	–	88.0
Restructuring costs	41.8	1.1	52.2	2.6
Acquisition-related costs and integration costs	4.0	12.8	9.0	23.5
Amortization of intangible assets related to business combinations	48.7	52.8	100.3	109.5
Gain on disposal of a Capital investment	–	(62.7)	–	(62.7)
Loss from adjustment on disposals of E&C businesses	0.1	0.3	0.2	0.3
Impairment of intangible assets related to business combinations	72.8	–	72.8	–
Impairment of goodwill	1,801.0	–	1,801.0	–
Earnings (loss) before interest and income taxes	\$ (2,113.9)	\$ 109.1	\$ (2,100.0)	\$ 238.9
Net financial expenses	\$ 92.9	\$ 37.1	\$ 145.4	\$ 79.1
Earnings (loss) before income taxes	\$ (2,206.8)	\$ 72.0	\$ (2,245.3)	\$ 159.8
Income taxes	\$ (88.1)	\$ (11.2)	\$ (108.3)	\$ (1.7)
Net income (loss) for the period	\$ (2,118.7)	\$ 83.2	\$ (2,137.0)	\$ 161.5
Net income (loss) attributable to:				
SNC-Lavalin shareholders	\$ (2,118.3)	\$ 83.0	\$ (2,135.6)	\$ 161.1
Non-controlling interests	\$ (0.4)	0.2	\$ (1.4)	0.4
Net income (loss) for the period	\$ (2,118.7)	\$ 83.2	\$ (2,137.0)	\$ 161.5
Earnings (loss) per share (in \$):				
Basic	\$ (12.07)	\$ 0.47	\$ (12.17)	\$ 0.92
Diluted	\$ (12.07)	\$ 0.47	\$ (12.17)	\$ 0.92
Additional financial indicators:				
Diluted EPS from E&C (in \$) ⁽²⁾	\$ (12.44)	\$ (0.10)	\$ (12.82)	\$ 0.08
Adjusted diluted EPS from E&C (in \$) ⁽²⁾	(1.71)	0.65	(1.79)	1.16
Adjusted EBITDA from E&C ⁽²⁾	(151.8)	189.7	(72.6)	367.0

(1) Comparative figures have been revised. Please refer to Section 9 for further details.

(2) Non-IFRS financial measures or additional IFRS measures. Please refer to Section 10 for further information on these financial measures and for the reference to the reconciliation from these financial measures to the most directly comparable measure specified under IFRS, when applicable.

4.1 REVENUES AND TOTAL SEGMENT EBIT

(IN MILLIONS OF C\$)	SECOND QUARTER		SIX MONTHS ENDED JUNE 30	
	2019	2018 ⁽¹⁾	2019	2018 ⁽¹⁾
Revenues:				
SNCL Engineering Services	\$ 1,574.5	\$ 1,412.8	\$ 3,088.7	\$ 2,787.5
SNCL Projects	709.7	1,114.4	1,558.7	2,171.0
Total	\$ 2,284.2	\$ 2,527.1	\$ 4,647.4	\$ 4,958.5
From E&C-SNCL Engineering Services (excluding Capital)	\$ 1,499.8	\$ 1,355.6	\$ 2,941.8	\$ 2,666.1
From E&C-SNCL Projects	709.7	1,114.4	1,558.7	2,171.0
Total E&C	\$ 2,209.4	\$ 2,469.9	\$ 4,500.4	\$ 4,837.1
From Capital	74.7	57.2	146.9	121.4
Total	\$ 2,284.2	\$ 2,527.1	\$ 4,647.4	\$ 4,958.5
Total Segment EBIT: ⁽¹⁾				
SNCL Engineering Services	\$ 192.5	\$ 204.3	\$ 358.7	\$ 372.5
SNCL Projects	(307.7)	11.3	(375.2)	71.8
Total	\$ (115.2)	\$ 215.6	\$ (16.5)	\$ 444.4
From E&C-SNCL Engineering Services (excluding Capital)	\$ 123.4	\$ 153.4	\$ 224.1	\$ 265.3
From E&C-SNCL Projects	(307.7)	11.3	(375.2)	71.8
Total E&C	\$ (184.3)	\$ 164.8	\$ (151.1)	\$ 337.1
From Capital	69.2	50.8	134.6	107.2
Total	\$ (115.2)	\$ 215.6	\$ (16.5)	\$ 444.4
Total Segment EBIT-to-revenue ratio (%): ⁽¹⁾				
SNCL Engineering Services	12.2%	14.5%	11.6%	13.4%
SNCL Projects	-43.4%	1.0%	-24.1%	3.3%
Total	-5.0%	8.5%	-0.4%	9.0%
From E&C-SNCL Engineering Services (excluding Capital)	8.2%	11.3%	7.6%	10.0%
From E&C-SNCL Projects	-43.4%	1.0%	-24.1%	3.3%
Total E&C	-8.3%	6.7%	-3.4%	7.0%
From Capital	92.6%	88.9%	91.6%	88.3%
Total	-5.0%	8.5%	-0.4%	9.0%

(1) Comparative figures have been revised. Please refer to Section 9 for further details.

The Company analyses its revenues and Total Segment EBIT separately for E&C and for Capital.

REVENUES AND TOTAL SEGMENT EBIT FROM E&C

Revenues from E&C for the second quarter of 2019 totaled \$2.2 billion, compared with \$2.5 billion in the corresponding quarter of 2018. For the first six months of 2019, revenues from E&C totaled \$4.5 billion, compared with \$4.8 billion in the same period of 2018, as the 10.3% increase in revenues in SNCL Engineering Services from E&C, mainly in EDPM and Infrastructure Services, were more than offset by lower revenues in SNCL Projects, in both Resources and Infrastructure EPC Projects.

Total Segment EBIT from E&C for the second quarter of 2019 was negative \$184.3 million, compared with \$164.8 million in the corresponding quarter of 2018. Total Segment EBIT from E&C for the first six months of 2019 was negative \$151.1 million, compared with \$337.1 million in the corresponding period of 2018, principally due to a negative contribution from

SNCL Projects in 2019, reflecting a negative Segment EBIT in both Resources and Infrastructure EPC Projects compared to a positive Segment EBIT in both segments in 2018, and a lower contribution from SNCL Engineering Services from E&C, reflecting a lower Segment EBIT in 2019 in Nuclear, EDPM and Infrastructure Services compared to the corresponding period of 2018.

REVENUES AND TOTAL SEGMENT EBIT FROM CAPITAL

Revenues from Capital for the second quarter of 2019 increased to \$74.7 million, compared with \$ 57.2 million for the same quarter of 2018. Revenues from Capital increased to \$146.9 million in the first six months of 2019, compared with \$121.4 million for the same quarter of 2018 due to higher dividends received from 407 International Inc. ("Highway 407 ETR") and a higher level of activity on certain other investments.

Total Segment EBIT from Capital increased to \$69.2 million for the second quarter of 2019, compared with \$50.8 million for the corresponding period of 2018. Total Segment EBIT from Capital increased to \$134.6 million for the first six months of 2019, compared with \$107.2 million for the corresponding period of 2018 due to the higher contribution from Highway 407 ETR, lower selling, general and administrative costs and an increased contribution from certain other investments.

4.2 NET INCOME ANALYSIS

(IN MILLIONS OF CAS)	SECOND QUARTER		SIX MONTHS ENDED JUNE 30	
	2019	2018	2019	2018
Net income (loss) attributable to SNC-Lavalin shareholders:				
From E&C	\$ (2,183.8)	\$ (16.8)	\$ (2,251.1)	\$ 14.7
From Capital	65.5	99.8	115.5	146.4
Net income (loss) attributable to SNC-Lavalin shareholders	\$ (2,118.3)	\$ 83.0	\$ (2,135.6)	\$ 161.1
Non-controlling interests	\$ (0.4)	\$ 0.2	\$ (1.4)	\$ 0.4
Net income (loss)	\$ (2,118.7)	\$ 83.2	\$ (2,137.0)	\$ 161.5

The Company analyses its net income separately for E&C and for Capital.

Second Quarter of 2019

For the second quarter of 2019, the net loss attributable to SNC-Lavalin shareholders from E&C was \$2,183.8 million, compared with a net loss attributable to SNC-Lavalin shareholders from E&C of \$16.8 million for the corresponding period of 2018. This change was mainly due to a \$1.9 billion impairment loss on goodwill and intangible assets related to Resources in 2019, combined with a negative Segment EBIT in 2019 mainly attributable to losses in Resources and Infrastructure EPC Projects. Also contributing to the variance between the two periods were higher net financial expenses and restructuring costs, as well as a gain on disposal of a Capital investment in 2018, partially offset by a higher recovery of income taxes in 2019 and the net 2012 class action lawsuit settlement expense in 2018.

For the second quarter of 2019, net income attributable to SNC-Lavalin shareholders from Capital was \$65.5 million, compared with \$99.8 million for the same period last year, as the net gain on disposal of a Capital investment in 2018 more than offset the higher contribution from Highway 407 ETR and certain other investments in 2019.

Additionally, certain significant items other than those mentioned above had an impact on total net income attributable to SNC-Lavalin shareholders in the second quarters of 2019 and 2018, namely:

- › **Amortization of intangible assets related to business combinations** amounted to \$48.7 million (\$40.5 million after taxes) in the second quarter of 2019, and to \$52.8 million (\$43.7 million after taxes) in the corresponding period of 2018, both mainly attributable to the amortization expense of the intangible assets related to the acquisition of Atkins; and
- › **Acquisition-related costs and integration costs** amounted to \$4.0 million (\$2.0 million after taxes) in the second quarter of 2019 and \$12.8 million (\$10.3 million after taxes) in the same quarter last year, reflecting mainly costs incurred in connection with the integration of Atkins, acquired in the third quarter of 2017.

First Six Months of 2019

For the first six months of 2019, the net loss attributable to SNC-Lavalin shareholders from E&C was \$2,251.1 million, compared with a net income attributable to SNC-Lavalin shareholders from E&C of \$14.7 million for the corresponding period of 2018. This change was mainly due to a \$1.9 billion impairment loss on goodwill and intangible assets related to Resources in 2019, combined with a negative Segment EBIT in 2019 mainly attributable to losses in Resources and Infrastructure EPC Projects. Also contributing to the variance between the two periods were higher net financial expenses and restructuring costs, as well as a gain on disposal of a Capital investment in 2018, partially offset by a higher recovery of income taxes in 2019 and the net 2012 class action lawsuit settlement expense in 2018.

For the first six months of 2019, net income attributable to SNC-Lavalin shareholders from Capital was \$115.5 million, compared with \$146.4 million for the same period last year, as the net gain on disposal of a Capital investment in 2018 more than offset the higher contribution from Highway 407 ETR and certain other investments in 2019.

Additionally, certain significant items other than those mentioned above had an impact on total net income attributable to SNC-Lavalin shareholders in the first six months of 2019 and 2018, namely:

- › **Amortization of intangible assets related to business combinations** amounted to \$100.3 million (\$83.2 million after taxes) in the first six months of 2019, and to \$109.5 million (\$90.6 million after taxes) in the corresponding period of 2018, both mainly attributable to the amortization expense of the intangible assets related to the acquisition of Atkins; and
- › **Acquisition-related costs and integration costs** amounted to \$9.0 million (\$5.4 million after taxes) in the first six months of 2019, compared with \$23.5 million (\$18.7 million after taxes) in the same period last year, a decrease mainly due to lower costs incurred in connection with the integration of Atkins, acquired in the third quarter of 2017.

4.3 ADJUSTED NET INCOME FROM E&C AND ADJUSTED DILUTED EPS FROM E&C

Adjusted net income from E&C and adjusted diluted EPS from E&C are non-IFRS financial measures. Definitions of these financial measures are provided in Section 10.

Second Quarter of 2019

SECOND QUARTER ENDED JUNE 30 (IN MILLIONS OF C\$, EXCEPT PER DILUTED SHARE INFORMATION (\$))	2019		2018	
	PER DILUTED SHARE		PER DILUTED SHARE	
Net income (loss)	\$ (2,118.7)	N/A	\$ 83.2	N/A
Less:				
Non-controlling interests	(0.4)	N/A	0.2	N/A
Net income attributable to SNC-Lavalin shareholders from Capital	65.5	\$ 0.37	99.8	\$ 0.57
Net income (loss) attributable to SNC-Lavalin shareholders from E&C / Diluted EPS from E&C	\$ (2,183.8)	\$ (12.44)	\$ (16.8)	\$ (0.10)
Adjustments (net of income taxes):				
Restructuring, right-sizing costs and other	\$ 32.9	\$ 0.19	\$ 6.7	\$ 0.04
Acquisition-related costs and integration costs	2.0	0.01	10.3	0.06
Amortization of intangible assets related to business combinations	40.5	0.23	43.7	0.25
Impact of U.S. Corporate tax reform	–	–	4.8	0.03
Net 2012 class action lawsuits settlement expense	–	–	64.5	0.37
Loss from adjustment on disposals of E&C businesses	0.1	0.00	0.2	0.00
Financing costs related to the agreement to sell shares of Highway 407 ETR	27.4	0.16	–	–
Impairment of intangible assets related to business combinations	60.1	0.34	–	–
Impairment of goodwill	1,720.9	9.80	–	–
Adjusted net income (loss) attributable to SNC-Lavalin shareholders from E&C / Adjusted diluted EPS from E&C	\$ (299.8)	\$ (1.71)	\$ 113.5	\$ 0.65

Adjusted net loss attributable to SNC-Lavalin shareholders from E&C was \$299.8 million (\$1.71 per share on a diluted basis) for the second quarter of 2019, compared with an adjusted net income attributable to SNC-Lavalin shareholders from E&C of \$113.5 million (\$0.65 per share on a diluted basis) for the second quarter of 2018, principally due to the negative contribution of SNCL Projects in 2019, resulting from a negative Segment EBIT in Resources and Infrastructure EPC Projects in the period.

For the second quarters of 2019 and 2018, adjusted net income (loss) attributable to SNC-Lavalin shareholders from E&C included the following adjustments (net of income taxes):

- › An impairment loss on goodwill and intangible assets related to Resources totalling \$1.8 billion (\$10.15 per diluted share) for the second quarter of 2019, compared to \$nil for the second quarter of 2018.
- › Amortization of intangible assets related to business combinations of \$40.5 million (\$0.23 per diluted share) for the second quarter of 2019, and \$43.7 million (\$0.25 per diluted share) for the second quarter of 2018, mainly related to Atkins, which was acquired in the third quarter of 2017;
- › Restructuring, right-sizing and other costs of \$32.9 million (\$0.19 per diluted share) for the second quarter of 2019, and \$6.7 million (\$0.04 per diluted share) for the second quarter of 2018, mainly related to severances;

- › **Financing costs of \$27.4 million (\$0.16 per diluted share) for the second quarter of 2019** resulting from a loss related to the amendments of the CDPQ Loan and to expenses on other E&C financing arrangements in connection with the agreement to sell 10.01% of the shares of Highway 407 ETR;
- › **Acquisition-related costs and integration costs of \$2.0 million (\$0.01 per diluted share) for the second quarter of 2019**, compared with \$10.3 million (\$0.06 per diluted share) for the second quarter of 2018, reflecting lower costs related to the acquisition and integration of Atkins, and
- › Net 2012 class action lawsuits settlement expense of \$64.5 million (\$0.37 per diluted share) in the second quarter of 2018 related to the class actions in Quebec and Ontario filed in 2012.

First Six Months of 2019

SIX MONTHS ENDED JUNE 30 (IN MILLIONS OF C\$; EXCEPT PER DILUTED SHARE INFORMATION (\$))	2019		2018	
	PER DILUTED SHARE		PER DILUTED SHARE	
Net income (loss)	\$ (2,137.0)	N/A	\$ 161.5	N/A
Less:				
Non-controlling interests	(1.4)	N/A	0.4	N/A
Net income attributable to SNC-Lavalin shareholders from Capital	115.5	\$ 0.66	146.4	\$ 0.83
Net income (loss) attributable to SNC-Lavalin shareholders from E&C / Diluted EPS from E&C	\$ (2,251.1)	\$ (12.82)	\$ 14.7	\$ 0.08
Adjustments (net of income taxes):				
Restructuring, right-sizing costs and other	\$ 39.1	\$ 0.22	\$ 8.0	\$ 0.05
Acquisition-related costs and integration costs	5.4	0.03	18.7	0.11
Amortization of intangible assets related to business combinations	83.2	0.47	90.6	0.52
Impact of U.S. Corporate tax reform	–	–	6.2	0.04
Net 2012 class action lawsuits settlement expense	–	–	64.5	0.37
Loss from adjustment on disposals of E&C businesses	0.2	0.00	0.3	0.00
Financing costs related to the agreement to sell shares of Highway 407 ETR	27.4	0.16	–	–
Impairment of intangible assets related to business combinations	60.1	0.34	–	–
Impairment of goodwill	1,720.9	9.80	–	–
Adjusted net income (loss) attributable to SNC-Lavalin shareholders from E&C / Adjusted diluted EPS from E&C	\$ (314.7)	\$ (1.79)	\$ 203.0	\$ 1.16

Adjusted net loss attributable to SNC-Lavalin shareholders from E&C was \$314.7 million (\$1.79 per share on a diluted basis) for the first six months of 2019, compared with an adjusted net income attributable to SNC-Lavalin shareholders from E&C of \$203.0 million (\$1.16 per share on a diluted basis) for the first six months of 2018, principally due to the negative contribution of SNCL Projects in 2019, resulting from a negative Segment EBIT in Resources and Infrastructure EPC Projects in the period.

For the first six months of 2019 and 2018, adjusted net income (loss) attributable to SNC-Lavalin shareholders from E&C included the following adjustments (net of income taxes):

- › **An impairment loss on goodwill and intangible assets related to Resources totalling \$1.8 billion (\$10.15 per diluted share) for the first six months of 2019**, compared to \$nil for first six months of 2018.
- › **Amortization of intangible assets related to business combinations of \$83.2 million (\$0.47 per diluted share) for the first six months of 2019**, and \$90.6 million (\$0.52 per diluted share) for the first six months of 2018, mainly related to Atkins, which was acquired in the third quarter of 2017;

- › **Restructuring, right-sizing and other costs of \$39.1 million (\$0.22 per diluted share) for the first six months of 2019**, and \$8.0 million (\$0.05 per diluted share) for the corresponding period of 2018, mainly related to severances;
- › **Financing costs of \$27.4 million (\$0.16 per diluted share) for the first six months of 2019** resulting from a loss related to the amendments of the CDPQ Loan and to expenses on other E&C financing arrangements in connection with the agreement to sell 10.01% of the shares of Highway 407 ETR;
- › **Acquisition-related costs and integration costs of \$5.4 million (\$0.03 per diluted share) for the first six months of 2019**, compared with \$18.7 million (\$0.11 per diluted share) in the corresponding period of 2018, reflecting lower costs related to the acquisition and integration of Atkins; and
- › Net 2012 class action lawsuits settlement expense of \$64.5 million (\$0.37 per diluted share) in the second quarter of 2018 related to the class actions in Quebec and Ontario filed in 2012.

4.4 EBIT, EBITDA AND ADJUSTED EBITDA ANALYSIS

EBIT, EBITDA and Adjusted EBITDA are non-IFRS financial measures. Definitions of these financial measures are presented in Section 10.

Second Quarter of 2019

SECOND QUARTER ENDED JUNE 30 (IN MILLIONS OF CA\$)	2019			2018		
	FROM E&C	FROM CAPITAL	TOTAL	FROM E&C	FROM CAPITAL	TOTAL
Net income (loss)	\$ (2,184.2)	\$ 65.5	\$ (2,118.7)	\$ (16.6)	\$ 99.8	\$ 83.2
Net financial expenses	88.4	4.6	92.9	35.4	1.7	37.1
Income taxes	(80.6)	(7.5)	(88.1)	(16.9)	5.7	(11.2)
EBIT	\$ (2,176.4)	\$ 62.5	\$ (2,113.9)	\$ 1.9	\$ 107.2	\$ 109.1
Depreciation and amortization	\$ 56.5	\$ 0.1	\$ 56.6	\$ 25.9	\$ –	\$ 25.9
Amortization of intangible assets related to business combinations	48.7	–	48.7	52.8	–	52.8
Goodwill impairment and impairment of intangible assets	1,873.8	–	1,873.8	–	–	–
EBITDA	\$ (197.4)	\$ 62.6	\$ (134.8)	\$ 80.6	\$ 107.2	\$ 187.8
(as % of Revenues)	(8.9%)	N/A	(5.9%)	3.3%	N/A	7.4%
Restructuring, right-sizing costs and other	\$ 41.6	\$ 0.2	\$ 41.8	\$ 8.0	\$ –	\$ 8.0
Net 2012 class action lawsuits settlement expense	–	–	–	88.0	–	88.0
Acquisition-related costs and integration costs	4.0	–	4.0	12.8	–	12.8
Loss from adjustment on disposals of E&C businesses	0.1	–	0.1	0.3	–	0.3
Gain on disposal of a Capital investment	–	–	–	–	(62.7)	(62.7)
Adjusted EBITDA	\$ (151.8)	\$ 62.8	\$ (89.0)	\$ 189.7	\$ 44.4	\$ 234.2
(as % of Revenues)	(6.9%)	N/A	(3.9%)	7.7%	N/A	9.3%

For the second quarter of 2019, EBIT from E&C amounted to negative \$2.2 billion, compared with \$1.9 million for the corresponding period of 2018, mainly due to a \$1.9 billion impairment loss on goodwill and intangible assets related to Resources in 2019, combined with a negative Segment EBIT in 2019, mainly attributable to losses in Resources and Infrastructure EPC Projects, partially offset by the net 2012 class action lawsuit settlement expense in 2018. EBIT from

E&C included \$105.2 million of depreciation and amortization expenses in the second quarter of 2019, compared with \$78.7 million in the second quarter of 2018, an increase mainly attributable to the \$25.4 million depreciation of right-of-use assets following the adoption of IFRS 16 in 2019 (see Section 9 for further details). As a result, **EBITDA from E&C was negative \$197.4 million for the second quarter of 2019**, compared with \$80.6 million for the corresponding period of 2018. Also, in the second quarter of 2019, the Company incurred \$4.0 million in acquisition-related costs and integration costs, compared with \$12.8 million in the second quarter of 2018, both mainly related to the integration of Atkins as well as \$41.6 million in restructuring, right-sizing and other costs (\$8.0 million in the second quarter of 2018) mainly related to severances. The Company also incurred an \$88.0 million net expense related to the settlement of the 2012 class action lawsuits in the second quarter of 2018. As such, the **Adjusted EBITDA from E&C amounted to negative \$151.8 million for the second quarter of 2019**, compared with \$189.7 million for the second quarter of 2018.

For the second quarter of 2019, EBIT and EBITDA from Capital amounted to \$62.5 million and \$62.6 million respectively, compared with and EBIT and EBITDA of \$107.2 million for both measures for the corresponding period of 2018, as the gain on disposal of a Capital investment in 2018 more than offset the higher contribution from Highway 407 ETR and certain other investments in 2019.

First Six Months of 2019

SIX MONTHS ENDED JUNE 30 (IN MILLIONS OF CAS)	2019			2018		
	FROM E&C	FROM CAPITAL	TOTAL	FROM E&C	FROM CAPITAL	TOTAL
Net income (loss)	\$ (2,252.5)	\$ 115.5	\$ (2,137.0)	\$ 15.1	\$ 146.4	\$ 161.5
Net financial expenses	136.5	8.9	145.4	76.2	2.9	79.1
Income taxes	(101.5)	(6.8)	(108.3)	(8.5)	6.7	(1.7)
EBIT	\$ (2,217.6)	\$ 117.6	\$ (2,100.0)	\$ 82.9	\$ 156.0	\$ 238.9
Depreciation and amortization	\$ 112.2	\$ 0.1	\$ 112.3	\$ 53.3	\$ –	\$ 53.3
Amortization of intangible assets related to business combinations	100.3	–	100.3	109.5	–	109.5
Goodwill impairment and impairment of investments	1,873.8	–	1,873.8	–	–	–
EBITDA	\$ (131.3)	\$ 117.7	\$ (13.6)	\$ 245.7	\$ 156.0	\$ 401.7
(as % of Revenues)	(2.9%)	N/A	(0.3%)	5.1%	N/A	8.1%
Restructuring, right-sizing costs and other	\$ 49.6	\$ 2.6	\$ 52.2	\$ 9.5	\$ –	\$ 9.5
Net 2012 class action lawsuits settlement expense	–	–	–	88.0	–	88.0
Acquisition-related costs and integration costs	9.0	–	9.0	23.5	–	23.5
Loss from adjustment on disposals of E&C businesses	0.2	–	0.2	0.3	–	0.3
Gain on disposal of a Capital investment	–	–	–	–	(62.7)	(62.7)
Adjusted EBITDA	\$ (72.6)	\$ 120.3	\$ 47.7	\$ 367.0	\$ 93.3	\$ 460.3
(as % of Revenues)	(1.6%)	N/A	1.0%	7.6%	N/A	9.3%

For the first six months of 2019, EBIT from E&C amounted to negative \$2.2 billion, compared with \$82.9 million for the corresponding period of 2018, mainly due to a \$1.9 billion impairment loss on goodwill and intangible assets related to Resources in 2019, combined with a negative Segment EBIT in 2019, mainly attributable to losses in Resources and Infrastructure EPC Projects, partially offset by the net 2012 class action lawsuit settlement expense in 2018. EBIT from E&C included \$212.5 million of depreciation and amortization expenses in the first six months of 2019, compared with \$162.8 million in first six months of 2018, an increase mainly attributable to the \$52.4 million depreciation of right-of-use assets following the adoption of IFRS 16 in 2019 (see Section 9 for further details). As a result, **EBITDA from E&C was negative \$131.3 million for the first six months of 2019**, compared with \$245.7 million for the corresponding period

of 2018. Also, in the first six months of 2019, the Company incurred \$9.0 million in acquisition-related costs and integration costs, compared with \$23.5 million in the corresponding period of 2018, both mainly related to the integration of Atkins as well as \$49.6 million in restructuring, right-sizing and other costs (\$9.5 million in the first six months of 2018) mainly related to severances. The Company also incurred an \$88.0 million net expense related to the settlement of the 2012 class action lawsuits in the first six months of 2018. As such, the **Adjusted EBITDA from E&C amounted to negative \$72.6 million for the first six months of 2019**, compared with \$367.0 million for the corresponding period of 2018.

For the first six months of 2019, EBIT and EBITDA from Capital amounted to \$117.6 and \$117.7 million respectively, compared with an EBIT and EBITDA of \$156.0 million for both measures for the corresponding period of 2018, as the net gain on disposal of a Capital investment in 2018 more than offset the higher contribution from Highway 407 ETR and an increased contribution from certain other investments in 2019.

As mentioned in Section 9, the Company adopted IFRS 16, *Leases*, using the modified retrospective approach. As such, comparative figures were not restated. Under IFRS 16, the accounting for lease contracts gives rise to depreciation and interest expenses, rather than operating expenses for a portion of the lease payments. Although the total expense recognized under IFRS 16 is not equal to the expense recognized under the previous standard on leases, the classification of the expense had the following impact on the Company's EBIT and EBITDA:

SECOND QUARTER ENDED JUNE 30 (IN MILLIONS CA\$)	2019			2018		
	FROM E&C	FROM CAPITAL	TOTAL	FROM E&C	FROM CAPITAL	TOTAL
EBIT as reported	\$ (2,176.4)	\$ 62.5	\$ (2,113.9)	\$ 1.9	\$ 107.2	\$ 109.1
Interest expense on lease liabilities	5.5	0.1	5.6	-	-	-
EBIT excluding presentation impact from IFRS 16	\$ (2,181.9)	\$ 62.5	\$ (2,119.5)	\$ 1.9	\$ 107.2	\$ 109.1
EBITDA as reported	\$ (197.4)	\$ 62.6	\$ (134.8)	\$ 80.6	\$ 107.2	\$ 187.8
Interest expense on lease liabilities	5.5	0.1	5.6	-	-	-
Depreciation and amortization from ROU	25.4	-	25.4	-	-	-
EBITDA excluding presentation impact from IFRS 16	\$ (228.3)	\$ 62.6	\$ (165.8)	\$ 80.6	\$ 107.2	\$ 187.8

SIX MONTHS ENDED JUNE 30 (IN MILLIONS CA\$)	2019			2018		
	FROM E&C	FROM CAPITAL	TOTAL	FROM E&C	FROM CAPITAL	TOTAL
EBIT as reported	\$ (2,217.6)	\$ 117.6	\$ (2,100.0)	\$ 82.9	\$ 156.0	\$ 238.9
Interest expense on lease liabilities	11.4	0.1	11.5	-	-	-
EBIT excluding presentation impact from IFRS 16	\$ (2,229.0)	\$ 117.6	\$ (2,111.5)	\$ 82.9	\$ 156.0	\$ 238.9
EBITDA as reported	\$ (131.3)	\$ 117.7	\$ (13.6)	\$ 245.7	\$ 156.0	\$ 401.7
Interest expense on lease liabilities	11.4	0.1	11.5	-	-	-
Depreciation and amortization from ROU	52.3	0.1	52.4	-	-	-
EBITDA excluding presentation impact from IFRS 16	\$ (195.0)	\$ 117.5	\$ (77.5)	\$ 245.7	\$ 156.0	\$ 401.7

4.5 CORPORATE SELLING, GENERAL AND ADMINISTRATIVE EXPENSES ANALYSIS

SECOND QUARTER ENDED JUNE 30 (IN MILLIONS OF CA\$)	2019			2018 ⁽¹⁾		
	FROM E&C	FROM CAPITAL	TOTAL	FROM E&C	FROM CAPITAL	TOTAL
Corporate selling, general and administrative expenses	\$ 13.4	\$ 6.4	\$ 19.8	\$ 12.3	\$ 6.4	\$ 18.7

(1) Comparative figures have been revised. Please refer to Section 9 for further details.

SIX MONTHS ENDED JUNE 30 (EN MILLIONS DE \$ CA)	2019			2018 ⁽¹⁾		
	FROM E&C	FROM CAPITAL	TOTAL	FROM E&C	FROM CAPITAL	TOTAL
Corporate selling, general and administrative expenses	\$ 11.6	\$ 14.4	\$ 26.1	\$ 30.6	\$ 13.5	\$ 44.0

(1) Comparative figures have been revised. Please refer to Section 9 for further details.

For the second quarter of 2019, corporate selling, general and administrative expenses amounted to \$19.8 million, compared with \$18.7 million in the second quarter of 2018. For the first six months of 2019, corporate selling, general and administrative expenses amounted to \$26.1 million, compared with \$44.0 million in the corresponding period of 2018, a decrease due in part to a lower amount of certain benefits, including the reversal of some corporate incentives and revision of certain estimates.

4.6 RESTRUCTURING COSTS

(IN MILLIONS OF CA\$)	SECOND QUARTER		SIX MONTHS ENDED JUNE 30	
	2019	2018	2019	2018
Restructuring costs	\$ 41.8	\$ 1.1	\$ 52.2	\$ 2.6

The Company incurred restructuring costs totalling \$41.8 million in the second quarter of 2019 (2018: \$1.1 million) and \$52.2 million in the first six months of 2019 (2018: \$2.6 million). The restructuring costs recognized in the second quarter and first six months of 2019 were mainly for severances.

4.7 ACQUISITION-RELATED COSTS AND INTEGRATION COSTS

(IN MILLIONS OF CA\$)	SECOND QUARTER		SIX MONTHS ENDED JUNE 30	
	2019	2018	2019	2018
Acquisition-related costs and integration costs	\$ 4.0	\$ 12.8	\$ 9.0	\$ 23.5

For the second quarter of 2019, acquisition-related costs and integration costs amounted to \$4.0 million, compared with \$12.8 million in the second quarter of 2018. In the first six months on 2019, acquisition-related costs and integration costs amounted to \$9.0 million, compared with \$23.5 million in the first six months of 2018, mainly due to lower professional fees and related costs incurred in connection with the acquisition of Atkins, acquired in the third quarter of 2017, partially offset by professional fees and related costs incurred in connection with Linxon, acquired in the third quarter of 2018.

4.8 IMPAIRMENT OF GOODWILL AND INTANGIBLE ASSETS RELATED TO BUSINESS COMBINATIONS

(IN MILLIONS OF C\$)	SECOND QUARTER		SIX MONTHS ENDED JUNE 30	
	2019	2018	2019	2018
Impairment of goodwill	\$ 1,801.0	\$ –	\$ 1,801.0	\$ –
Impairment of intangible assets related to business combinations	72.8	–	72.8	–
Impairment of goodwill and intangible assets related to business combinations	\$ 1,873.8	\$ –	\$ 1,873.8	\$ –

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

4.9 NET FINANCIAL EXPENSES ANALYSIS

Second Quarter of 2019

SECOND QUARTER ENDED JUNE 30 (IN MILLIONS OF C\$)	2019			2018		
	FROM E&C	FROM CAPITAL	TOTAL	FROM E&C	FROM CAPITAL	TOTAL
Interest revenues	\$ (1.8)	\$ –	\$ (1.8)	\$ (2.4)	\$ (2.2)	\$ (4.6)
Net foreign exchange gains	(1.8)	(0.1)	(1.9)	(5.1)	(0.4)	(5.5)
Interest on debt:		–				
Recourse	28.6	–	28.6	19.5	–	19.5
Limited recourse	12.8	–	12.8	22.1	–	22.1
Non-recourse	1.7	4.6	6.4	–	4.2	4.2
Interest expense on lease liabilities	5.5	0.1	5.6	–	–	–
Other	43.3	–	43.3	1.3	–	1.3
Net financial expenses	\$ 88.4	\$ 4.6	\$ 92.9	\$ 35.4	\$ 1.7	\$ 37.1

For the second quarter of 2019, net financial expenses from E&C were \$88.4 million, compared with \$35.4 million for the second quarter of 2018, a variance mainly due to \$33.8 million of loss related to the amendments of the CDPQ Loan and \$3.7 million related to other E&C financing arrangements in connection with the agreement to sell 10.01% of the shares of Highway 407 ETR, both included in "Other" in the table above, combined with the increased level of indebtedness and the new \$5.5 million interest expense on lease liabilities in 2019 following the adoption of IFRS 16 in 2019.

For the second quarter of 2019, net financial expenses from Capital were \$4.6 million, compared with \$1.7 million for the second quarter of 2018, primarily due to lower interest revenues following the transfer of a Capital investment to the SNC-Lavalin Infrastructure Partners LP ("SNCL IP Partnership").

First Six Months of 2019

SIX MONTHS ENDED JUNE 30 (IN MILLIONS OF C\$)	2019			2018		
	FROM E&C	FROM CAPITAL	TOTAL	FROM E&C	FROM CAPITAL	TOTAL
Interest revenues	\$ (3.5)	\$ –	\$ (3.5)	\$ (4.2)	\$ (4.4)	\$ (8.6)
Net foreign exchange losses (gains)	(5.9)	–	(5.9)	0.8	(0.4)	0.4
Interest on debt:		–				
Recourse	53.9	–	53.9	34.4	–	34.4
Limited recourse	31.4	–	31.4	48.1	–	48.1
Non-recourse	3.0	8.9	11.9	–	7.7	7.7
Interest expense on lease liabilities	11.4	0.1	11.5	–	–	–
Other	46.2	–	46.2	(2.9)	–	(2.9)
Net financial expenses	\$ 136.5	\$ 8.9	\$ 145.4	\$ 76.2	\$ 2.9	\$ 79.1

For the first six months of 2019, net financial expenses from E&C were \$136.5 million, compared with \$76.2 million for the first six months of 2018, a variance mainly due to \$33.8 million of loss related to the amendments of the CDPQ Loan and \$3.7 million related to other E&C financing arrangements in connection with the agreement to sell 10.01% of the shares of Highway 407 ETR, both included in "Other" in the table above, combined with the increased level of indebtedness and the new \$11.4 million interest expense on lease liabilities in 2019 following the adoption of IFRS 16 in 2019.

For the first six months of 2019, net financial expenses from Capital were \$8.9 million, compared with \$2.9 million for the first six months of 2018, primarily due to lower interest revenues following the transfer of a Capital investment to the SNC-Lavalin Infrastructure Partners LP ("SNCL IP Partnership").

4.10 INCOME TAXES ANALYSIS

(IN MILLIONS OF C\$)	SECOND QUARTER		SIX MONTHS ENDED JUNE 30	
	2019	2018	2019	2018
Earnings (loss) before income taxes from E&C	\$ (2,264.8)	\$ (33.5)	\$ (2,354.0)	\$ 6.7
Earnings (loss) before income taxes from Capital	58.0	105.5	108.7	153.1
Earnings before income taxes	\$ (2,206.8)	\$ 72.0	\$ (2,245.3)	\$ 159.8
Income taxes from E&C	\$ (80.6)	\$ (16.9)	\$ (101.5)	\$ (8.5)
Income taxes from Capital	(7.5)	5.7	(6.8)	6.7
Income taxes	\$ (88.1)	\$ (11.2)	\$ (108.3)	\$ (1.7)
Effective income tax rate from E&C (%)	3.6 %	50.5 %	4.3 %	(126.2)%
Effective income tax rate from Capital (%)	(12.9)%	5.4 %	(6.3)%	4.4 %
Effective income tax rate (%)	4.0 %	(15.6)%	4.8 %	(1.1)%

For the second quarter of 2019, the income tax recovery from E&C was \$80.6 million, compared with an income tax recovery of \$16.9 million for the corresponding period of 2018. The effective income tax recovery rate from E&C was lower than the Canadian statutory income tax rate of 26.5% for the second quarter of 2019, mainly due to the non-tax deductible portion of the goodwill impairment recognized during the period and the write-down of previously recognized deferred income tax assets. In the second quarter of 2018, the effective income tax rate from E&C was higher than the Canadian statutory income tax rate of 26.7%, principally due to the impact of the geographic mix of earnings before

income taxes, earnings not affected by tax and other permanent items, partially offset with adjustments to deferred taxes due to the US tax reform and net losses that did not generate an income tax benefit.

For the second quarter of 2019, the income tax recovery from Capital was \$7.5 million, compared with an income tax expense of \$5.7 million for the corresponding period of 2018. The income tax recovery in the second quarter of 2019 was mainly due to the recognition of a deferred income tax asset following the classification of a portion of the Company's investment in Highway 407 ETR as an asset held for sale. The effective income tax rate from Capital was lower than the Canadian statutory income tax rate of 26.7% for the second quarter of 2018, principally due to the transfer of the McGill Health Care Infrastructure Group to the SNCL IP Partnership and non-taxable dividends received mainly from Highway 407 ETR.

For the first six months of 2019, the income tax recovery from E&C was \$101.5 million, compared with an income tax recovery of \$8.5 million for the corresponding period of 2018. The effective income tax recovery rate from E&C was lower than the Canadian statutory income tax rate of 26.5% for the first six months of 2019, mainly due to the non-tax deductible portion of the goodwill impairment recognized during the period and the write-down of previously recognized deferred income tax assets. For the first six months of 2018, the effective tax rate was lower than the Canadian statutory income tax rate of 26.7%, principally due to the impact of the geographic mix of earnings before income taxes as well as earnings not affected by tax and other permanent items, partially offset with adjustments to deferred income taxes due to the US tax reform and net losses that did not generate an income tax benefit.

For the first six months of 2019, the income tax recovery from Capital was \$6.8 million compared with an income tax expense of \$6.7 million for the corresponding period of 2018. The income tax recovery in the second quarter of 2019 was mainly due to the recognition of a deferred income tax asset following the classification of a portion of the Company's investment in Highway 407 ETR as an asset held for sale. The effective income tax rate was lower than the Canadian statutory income tax rate of 26.7% for the first six months of 2018, principally due to the non-taxable dividends received mainly from Highway 407 ETR and the tax effect from the transfer of the McGill Health Care Infrastructure Group to the SNCL IP Partnership.

5 Backlog

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

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

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

The following table provides a breakdown of the Company's backlog by segment:

(IN MILLIONS CA\$)				
BY SEGMENT			DECEMBER 31 2018 ⁽²⁾	JUNE 30 2018 ⁽²⁾
SNCL Engineering Services				
EDPM			\$ 2,793.1	\$ 2,897.1
Nuclear			1,202.9	1,314.8
Infrastructure Services			6,225.4	5,871.7
Capital ⁽¹⁾			155.4	166.1
SNCL Projects				
Resources	\$	1,727.2	\$ 1,907.3	\$ 1,851.3
Infrastructure EPC Projects		2,834.8	2,600.9	3,073.9
Total SNCL Projects	\$	4,562.1	\$ 4,508.2	
Total	\$	15,684.2	\$ 14,885.0	

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

(2) Comparative figures have been revised to reflect a change was made to the Company's reporting structure. Please refer to Section 9 for further details.

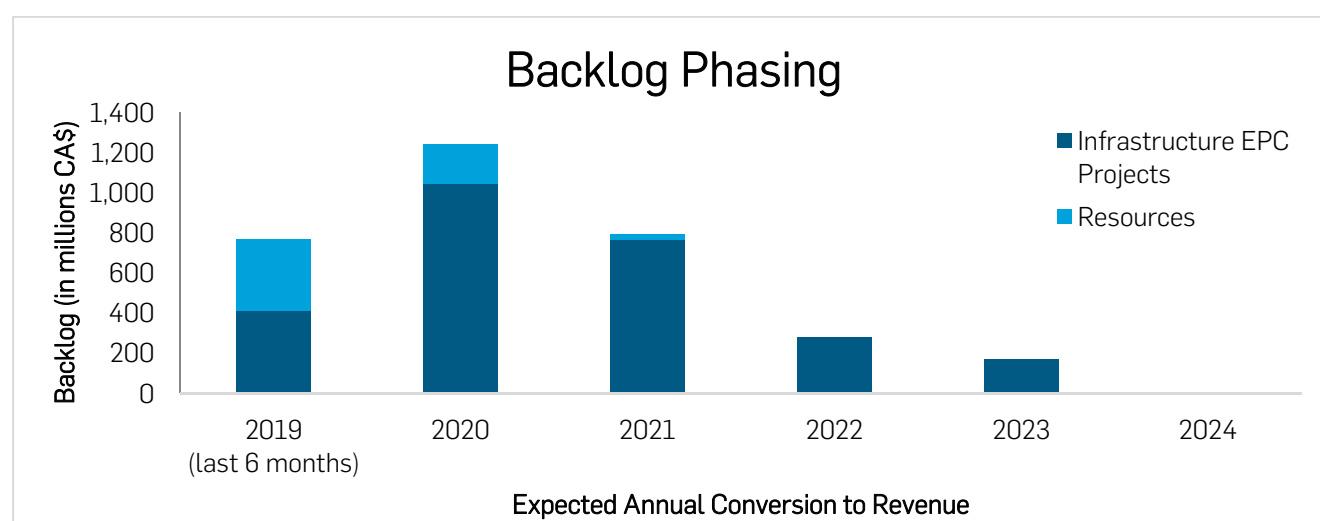
As at June 30, 2019, the Company reported backlog of \$15.7 billion, compared with a revenue backlog of \$14.9 billion at the end of December 2018, mainly reflecting an increase in Infrastructure Services and Infrastructure EPC Projects, partially offset by a decrease in EDPM and Resources. The increase in Infrastructure is mainly due to the inclusion of the contract related to the Trillium Line Extension O&M long-term contracts awarded in the first quarter of 2019. Contract bookings amounted to \$5.4 billion for the first six months of 2019, with \$1.8 billion in EDPM, \$1.4 billion in Infrastructure Services, \$0.9 billion in Resources, \$0.7 billion in Infrastructure EPC Projects and \$0.4 billion in Nuclear.

The following table shows the amounts and proportions of reimbursable and engineering service contracts, standardized EPC contracts and lump-sum turnkey construction contracts included in each segment's backlog, as at June 30, 2019:

BY SEGMENT (IN MILLIONS CA\$)	REIMBURSABLE & ENGINEERING SERVICE CONTRACTS		STANDARDIZED EPC CONTRACTS		LUMP-SUM TURNKEY CONSTRUCTION CONTRACTS	
SNCL Engineering Services						
EDPM	\$ 2,677.8	100%	\$ -	0%	\$ -	0%
Nuclear	968.8	86%	-	0%	161.7	14%
Infrastructure Services	6,195.9	87%	930.7	13%	-	0%
Capital ⁽¹⁾	187.2	100%	-	0%	-	0%
Total SNCL Engineering Services	\$ 10,029.7	90%	\$ 930.7	9%	\$ 161.7	1%
SNCL Projects						
Resources	\$ 1,146.4	66%	\$ -	0%	\$ 580.8	34%
Infrastructure EPC Projects	-	0%	-	0%	2,834.8	100%
Total SNCL Projects	\$ 1,146.4	25%	\$ -	0%	\$ 3,415.6	75%
Total	\$ 11,176.2	71%	\$ 930.7	6%	\$ 3,577.3	23%

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

The backlog from lump-sum turnkey construction contracts derived from the Resources and Infrastructure EPC Projects segments have expected completions between 2019 and 2024:



Most of the backlog from lump-sum turnkey construction contracts in these sectors is derived from the following projects; Réseau Express Métropolitain (REM), Trillium Line Extension, Eglinton LRT, Husky White Rose, Ottawa LRT and Samuel-de-Champlain Bridge.

6 Segment Information

The Company evaluates segment performance, using **Segment EBIT**, which is a non-IFRS financial measure defined in Section 10. Effective January 1, 2019, the Company changed the definition of Segment EBIT, its measure of profit or loss for its reportable segments, to reflect a change made to its internal reporting. As such, Segment EBIT now includes: i) the contribution attributable to non-controlling interests before income taxes, whereas in the past it excluded such contribution attributable to non-controlling interests before income taxes; and ii) an allocation to the segments of certain other corporate selling, general and administrative expenses. As such, these changes resulted in: i) a reclassification of the contribution attributable to non-controlling interests before income taxes in Segment EBIT of \$0.3 million for the three-month period ended June 30, 2018 and \$0.5 million for the six-month period ended June 30, 2018; and ii) a reclassification of certain other corporate selling, general and administrative expenses in Segment EBIT of \$5.8 million for the three-month period ended June 30, 2018 and \$11.1 million for the six-month period ended June 30, 2018. The Company believes that such inclusions improve the measure of profitability of its reportable segments by better reflecting the overall performance of its reportable segments.

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

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

On January 1, 2019, the Company adopted IFRS 16 under the modified retrospective approach. While the impact of this new accounting standard is explained in detail in Section 9, such change applied without restatement of comparative figures resulted in an increase of Segment EBIT in 2019 due to the presentation of the interest expense on lease liabilities, when such expense is not considered a project cost, in net financial expenses, which are excluded from the measure of Segment EBIT.

The Company derives its revenues from reimbursable and engineering service contracts (first six months of 2019: 76%, 2018: 76%), lump-sum turnkey construction contracts (first six months of 2019: 20%, 2018: 23%) and standardized EPC contracts (first six months of 2019: 4%, 2018: 1%).

SNC-Lavalin's Capital investments are accounted for as follows:

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

Such investments are grouped into the Capital segment wherein its performance is evaluated, as follows:

ACCOUNTING METHOD	PERFORMANCE EVALUATION
Cost method	Dividends or distributions received from investments
Equity method	SNC-Lavalin's share of the net results of its investments, or dividends from Capital investments for which the carrying amount is \$nil (such as Highway 407 ETR), before taxes
Consolidation method	EBIT from investments

The following tables summarize the Company's revenues and Segment EBIT and reconcile the Segment EBIT to the Company's EBIT for the second quarters and six-month periods ended June 30, 2019 and 2018:

SECOND QUARTER								
(IN MILLIONS OF C\$)								
BY SEGMENT	REVENUES	2019			REVENUES	2018 ⁽¹⁾		
		SEGMENT EBIT FROM E&C	SEGMENT EBIT FROM CAPITAL	TOTAL SEGMENT EBIT		SEGMENT EBIT FROM E&C	SEGMENT EBIT FROM CAPITAL	TOTAL SEGMENT EBIT
EDPM	\$ 972.1	\$ 81.5	–	\$ 81.5	\$ 913.6	\$ 98.7	–	\$ 98.7
Nuclear	241.9	31.9	–	31.9	233.4	39.1	–	39.1
Infrastructure Services	285.8	9.9	–	9.9	208.6	15.6	–	15.6
Capital	74.7	–	69.2	69.2	57.2	–	50.8	50.8
Total SNCL Engineering Services	\$ 1,574.5	\$ 123.4	\$ 69.2	\$ 192.5	\$ 1,412.8	\$ 153.4	\$ 50.8	\$ 204.3
Resources	479.2	(181.6)	–	(181.6)	794.6	15.8	–	15.8
Infrastructure EPC Projects	230.5	(126.1)	–	(126.1)	319.7	(4.5)	–	(4.5)
Total SNCL Projects	\$ 709.7	\$ (307.7)	–	\$ (307.7)	\$ 1,114.4	\$ 11.3	–	\$ 11.3
Total revenues and segment EBIT	\$ 2,284.2	\$ (184.3)	\$ 69.2	\$ (115.2)	\$ 2,527.1	\$ 164.8	\$ 50.8	\$ 215.6
Less:								
Corporate selling, general and administrative expenses		(13.4)	(6.4)	(19.8)		(12.3)	(6.4)	(18.7)
Impairment loss arising from expected credit losses		(0.1)	–	(0.1)		(0.1)	–	(0.1)
Gain (loss) arising on financial assets (liabilities) at fair value through profit or loss		(10.4)	–	(10.4)		4.6	–	4.6
Net 2012 class action lawsuits settlement expense		–	–	–		(88.0)	–	(88.0)
Restructuring costs		(41.6)	(0.2)	(41.8)		(1.1)	–	(1.1)
Amortization of intangible assets related to business combinations		(48.7)	–	(48.7)		(52.8)	–	(52.8)
Acquisition-related costs and integration costs		(4.0)	–	(4.0)		(12.8)	–	(12.8)
Gain on disposal of a Capital investment		–	–	–		–	62.7	62.7
Loss from adjustment on disposals of E&C businesses		(0.1)	–	(0.1)		(0.3)	–	(0.3)
Impairment of intangible assets related to business combinations		(72.8)	–	(72.8)		–	–	–
Impairment of goodwill		(1,801.0)	–	(1,801.0)		–	–	–
EBIT		\$ (2,176.4)	\$ 62.5	\$ (2,113.9)		\$ 1.9	\$ 107.2	\$ 109.1

(1) Comparative figures have been revised to reflect changes made to the measure of profit or loss for the Company's reportable segments and to changes made to the Company's reporting structure. Please refer to Section 9 for further details.

SIX MONTHS ENDED JUNE 30

(IN MILLIONS OF C\$)		2019			2018 ⁽¹⁾			
BY SEGMENT	REVENUES	SEGMENT EBIT FROM E&C	SEGMENT EBIT FROM CAPITAL	TOTAL SEGMENT EBIT	REVENUES	SEGMENT EBIT FROM E&C	SEGMENT EBIT FROM CAPITAL	TOTAL SEGMENT EBIT
EDPM	\$ 1,955.0	\$ 161.8	–	\$ 161.8	\$ 1,792.6	\$ 172.2	–	\$ 172.2
Nuclear	\$ 465.6	42.7	–	42.7	463.4	69.8	–	69.8
Infrastructure Services	\$ 521.2	19.7	–	19.7	410.1	23.3	–	23.3
Capital	146.9	–	134.6	134.6	121.4	–	107.2	107.2
Total SNCL Engineering Services	\$ 3,088.7	\$ 224.1	\$ 134.6	\$ 358.7	\$ 2,787.5	\$ 265.3	\$ 107.2	\$ 372.5
Resources	\$ 1,064.4	(243.0)	–	(243.0)	1,551.7	68.1	–	68.1
Infrastructure Legacy	\$ 494.3	(132.2)	–	(132.2)	619.2	3.7	–	3.7
Total SNCL Projects	\$ 1,558.7	\$ (375.2)	–	\$ (375.2)	\$ 2,171.0	\$ 71.8	–	\$ 71.8
Total revenues and segment EBIT	\$ 4,647.4	\$ (151.1)	\$ 134.6	\$ (16.5)	\$ 4,958.5	\$ 337.1	\$ 107.2	\$ 444.4
Less:								
Corporate selling, general and administrative expenses		(11.6)	(14.4)	(26.1)		(30.6)	(13.5)	(44.0)
Impairment loss arising from expected credit losses		(0.5)	–	(0.5)		(0.7)	–	(0.7)
Gain (loss) arising on financial assets (liabilities) at fair value through profit or loss		(21.5)	–	(21.5)		0.9	(0.5)	0.4
Net 2012 class action lawsuits settlement expense		–	–	–		(88.0)	–	(88.0)
Restructuring costs		(49.6)	(2.6)	(52.2)		(2.6)	–	(2.6)
Amortization of intangible assets related to business combinations		(100.3)	–	(100.3)		(109.5)	–	(109.5)
Acquisition-related costs and integration costs		(9.0)	–	(9.0)		(23.5)	–	(23.5)
Gain on disposal of a Capital investment		–	–	–		–	62.7	62.7
Loss from adjustment on disposals of E&C businesses		(0.2)	–	(0.2)		(0.3)	–	(0.3)
Impairment of intangible assets related to business combinations		(72.8)	–	(72.8)		–	–	–
Impairment of goodwill		(1,801.0)	–	(1,801.0)		–	–	–
EBIT		\$ (2,217.6)	\$ 117.6	\$ (2,100.0)		\$ 82.9	\$ 156.0	\$ 238.9

(1) Comparative figures have been revised to reflect changes made to the measure of profit or loss for the Company's reportable segments and to changes made to the Company's reporting structure. Please refer to Section 9 for further details.

6.1 SNCL ENGINEERING SERVICES

6.1.1 – ENGINEERING, DESIGN AND PROJECT MANAGEMENT (“EDPM”)

EDPM incorporates all engineering, design and project management services around the world, including the Canadian market, which was within the Infrastructure segment prior to January 1, 2019. It also harnesses our enhanced capabilities in intelligent mobility and digital asset management. Projects are mainly in transportation, (including rail, mass transit and roads), infrastructure, aerospace, defence and security & technology. Some projects are largely funded by the public sector, be it federal Government, its agencies, including departments for transportation and utilities, as well as, states and local authorities. The EDPM segment derived all its revenues from reimbursable and engineering service contracts in the first six months of 2019 and of 2018.

(IN MILLIONS OF CAS)	SECOND QUARTER		SIX MONTHS ENDED JUNE 30	
	2019	2018 ⁽¹⁾	2019	2018 ⁽¹⁾
Revenues from EDPM	\$ 972.1	\$ 913.6	\$ 1,955.0	\$ 1,792.6
Segment EBIT from EDPM	\$ 81.5	\$ 98.7	\$ 161.8	\$ 172.2
Segment EBIT over revenues from EDPM (%)	8.4%	10.8%	8.3%	9.6%

(1) Comparative figures have been revised to reflect changes made to the measure of profit or loss for the Company's reportable segments and a change made to the Company's reporting structure. Please refer to Section 9 for further details.

EDPM revenues increased to \$972.1 million for the second quarter of 2019, compared with \$913.6 million for the corresponding period of 2018. **For the first six months of 2019, revenues increased by 9.1% to \$1,955.0 million**, compared with \$1,792.6 million for the first six months of 2018, mainly reflecting an increased level of activity.

For the second quarter of 2019, EDPM Segment EBIT was \$81.5 million, compared with \$98.7 million for the corresponding quarter of 2018. **For the first six months of 2019, EBIT was \$161.8 million**, compared with \$172.2 million for the first six months of 2018, reflecting a lower profitability ratio, partially offset by an increased level of activity.

6.1.2 – NUCLEAR

Nuclear supports clients across the entire Nuclear life cycle with the full spectrum of services from consultancy, EPCM services, field services, technology services, spare parts, reactor support & decommissioning and waste management. As stewards of the CANDU technology, it also provides new-build and full refurbishment services of CANDU reactors. The Nuclear segment derives its revenues from reimbursable and engineering service contracts, 94% for the first six months of 2019 (2018: 99%), and two legacy lump-sum turnkey construction contracts, 6% for the first six months of 2019 (2018: 1%).

(IN MILLIONS OF C\$)	SECOND QUARTER		SIX MONTHS ENDED JUNE 30	
	2019	2018 ⁽¹⁾	2019	2018 ⁽¹⁾
Revenues from Nuclear	\$ 241.9	\$ 233.4	\$ 465.6	\$ 463.4
Segment EBIT from Nuclear	\$ 31.9	\$ 39.1	\$ 42.7	\$ 69.8
Segment EBIT over revenues from Nuclear (%)	13.2%	16.8%	9.2%	15.1%

(1) Comparative figures have been revised to reflect changes made to the measure of profit or loss for the Company's reportable segments and a change made to the Company's reporting structure. Please refer to Section 9 for further details.

Nuclear revenues increased to \$241.9 million for the second quarter of 2019, compared with \$233.4 million for the second quarter of 2018, mainly due to a higher level of activity. **For the first six months of 2019, revenues were \$465.6 million**, in line with \$463.4 million for the corresponding period of 2018.

For the second quarter of 2019, Nuclear Segment EBIT was \$31.9 million, compared with \$39.1 million for the corresponding quarter of 2018, reflecting higher forecasted costs on a specific legacy lump-sum turnkey construction project in Canada nearing completion. **For the first six months of 2019, Nuclear Segment EBIT was \$42.7 million**, compared with \$69.8 million for the corresponding period of 2018, mainly due to a lower profitability ratio driven by a change in business mix and higher forecasted costs on a specific legacy lump-sum turnkey construction project in Canada nearing completion.

6.1.3 – INFRASTRUCTURE SERVICES

Infrastructure Services provides services to a broad range of sectors, including mass transit, heavy rail, roads, bridges, airports, ports and harbours, district cooling, facilities architecture and engineering (structural, mechanical, electrical), industrial (pharmaceutical, agrifood, life sciences, automation, industrial processes), geotechnical engineering, materials testing, and water infrastructure. The segment also includes engineering solutions in hydro, transmission and distribution, renewables, energy storage, and intelligent networks and cybersecurity as well as the Linxon subsidiary. In addition, Infrastructure Services also includes O&M projects. As previously mentioned, Segment EBIT now includes the contribution attributable to non-controlling interests. As such, the Segment EBIT of Linxon, a subsidiary held at 51%, is reported at 100% both in 2019 and 2018.

The Infrastructure Services segment derives its revenues from reimbursable and engineering service contracts, 61% for the first six months of 2019 (2018: 90%), and standardized EPC contracts, 39% for the first six months of 2019 (2018: 10%).

(IN MILLIONS OF C\$)	SECOND QUARTER		SIX MONTHS ENDED JUNE 30	
	2019	2018 ⁽¹⁾	2019	2018 ⁽¹⁾
Revenues from Infrastructure Services	\$ 285.8	\$ 208.6	\$ 521.2	\$ 410.1
Segment EBIT from Infrastructures Services	\$ 9.9	\$ 15.6	\$ 19.7	\$ 23.3
Segment EBIT over revenues from Infrastructure Services (%)	3.5%	7.5%	3.8%	5.7%

(1) Comparative figures have been revised to reflect changes made to the measure of profit or loss for the Company's reportable segments and a change made to the Company's reporting structure. Please refer to Section 9 for further details.

Infrastructure Services revenues were \$285.8 million for the second quarter of 2019, compared with \$208.6 million for the corresponding period of 2018. **For the first six months of 2019, revenues increased by 27% to \$521.2 million**, compared with \$410.1 million for the first six months of 2018, reflecting, in part, the activities of Linxon, acquired in the third quarter of 2018.

For the second quarter of 2019, Infrastructure Services Segment EBIT was \$9.9 million, compared with \$15.6 million for the corresponding quarter of 2018. **For the first six months of 2019, Infrastructure Services Segment EBIT was \$19.7 million**, compared with \$23.3 million for the first six months of 2018, as the higher level of activities was more than offset by a lower profitability ratio, partially driven by the ramp-up of the Linxon business.

6.1.4– CAPITAL

Capital is the investment and asset management arm of SNC-Lavalin. Its main purpose is to invest equity or subordinated debt into projects. All investments are structured with the intention to earn a return on capital adequate for the risk profile of each individual project. SNC-Lavalin makes capital investments in a variety of infrastructure assets such as bridges and highways, mass transit systems, power facilities, energy infrastructure and water treatment plants. These investments are grouped together in the Capital segment and described in Section 7.8 of the Company's 2018 annual Management's Discussion and Analysis.

Capital investment revenues are generated mainly from dividends or distributions received by SNC-Lavalin from the investment concession entities or from all or a portion of an investment concession entity's revenues or net results, depending on the accounting method required by IFRS.

NET BOOK VALUE OF CAPITAL INVESTMENTS

The Company provides additional information on the net book value of its Capital investments in Note 4 to its unaudited interim condensed consolidated financial statements for the six-month period ended June 30, 2019.

The following table presents the net book value of Capital investments segregated by the method used to account for the investments:

(IN MILLIONS OF CA\$)	JUNE 30 2019	DECEMBER 31 2018
Capital investments accounted for by the consolidation method	\$ (27.6)	\$ 1.2
Capital investments accounted for by the equity method	387.8	357.2
Capital investments accounted for by the cost method	10.5	10.7
Total net book value of Capital investments	\$ 370.8	\$ 369.1

As at June 30, 2019, the Company estimated that the fair value of its Capital investments portfolio was much higher than its net book value, with the Company's investment in Highway 407 ETR having the highest estimated fair value of its portfolio. The net book value of the Company's investment in Highway 407 ETR was \$nil as at June 30, 2019 and as at December 31, 2018. SNC-Lavalin's 10.01% interest in Highway 407 ETR to be sold represents an asset held for sale as at June 30, 2019.

SEGMENT EBIT - CAPITAL

(IN MILLIONS OF CA\$)	SECOND QUARTER		SIX MONTHS ENDED JUNE 30	
	2019	2018 ⁽¹⁾	2019	2018 ⁽¹⁾
Revenues from Capital	\$ 74.7	\$ 57.2	\$ 146.9	\$ 121.4
Segment EBIT:				
From Highway 407 ETR	\$ 41.9	\$ 38.0	\$ 83.9	\$ 75.9
From other Capital investments ⁽²⁾	27.3	12.9	50.7	31.3
Segment EBIT from Capital	\$ 69.2	\$ 50.8	\$ 134.6	\$ 107.2

(1) Comparative figures have been revised to reflect changes made to the measure of profit or loss for the Company's reportable segments and a change made to the Company's reporting structure. Please refer to Section 9 for further details.

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

The Company's Capital investments are accounted for by the cost, equity or consolidation methods depending on whether or not SNC-Lavalin exercises significant influence, joint control or control. In evaluating the performance of the segment, the relationship between revenues and segment EBIT is not meaningful, as a significant portion of the investments are accounted for by the cost and equity methods, which do not reflect the line by line items of the individual Capital investment's financial results.

Capital Segment EBIT increased to \$69.2 million for the second quarter of 2019, compared with \$50.8 million for the same period last year. **Capital Segment EBIT increased to \$134.6 million in the first six months of 2019**, compared with \$107.2 million for the corresponding period of 2018, due to the higher contribution from Highway 407 ETR, lower selling, general and administrative costs and an increased contribution from certain other investments.

6.2 SNCL PROJECTS

6.2.1– RESOURCES

Resources combines the full lifecycle services in oil, gas and metals and mining. These areas remain regionally structured across the globe. This allows the Company to serve the cyclical markets while sharing our deep project execution expertise, which apply across all resource projects, and retaining our end-to-end capabilities. Resources includes projects in the upstream, midstream, downstream and supporting infrastructure sectors for major oil and gas and resources companies, while the mining and metallurgy business is now focused on studies, EPCM scopes, and design and owner's engineering. The Resources segment derives its revenues from reimbursable and engineering service contracts, 65% for the first six months of 2019 (2018: 64%), and lump-sum turnkey construction contracts, 35% for the first six months of 2019 (2018: 36%).

(IN MILLIONS OF CAS)	SECOND QUARTER		SIX MONTHS ENDED JUNE 30	
	2019	2018 ⁽¹⁾	2019	2018 ⁽¹⁾
Revenues from Resources	\$ 479.2	\$ 794.6	\$ 1,064.4	\$ 1,551.7
Segment EBIT from Resources	\$ (181.6)	\$ 15.8	\$ (243.0)	\$ 68.1
Segment EBIT over revenues from Resources (%)	(37.9%)	2.0%	(22.8%)	4.4%

(1) Comparative figures have been revised to reflect changes made to the measure of profit or loss for the Company's reportable segments and a change made to the Company's reporting structure. Please refer to Section 9 for further details.

Resources revenues were \$479.2 million for the second quarter of 2019, compared with \$794.6 million for the second quarter of 2018. **For the first six months of 2019, revenues were \$1,064.4 million**, compared with \$1,551.7 million for the first six months of 2018, mainly due to the completion or near completion of certain major lump-sum turnkey construction Oil & Gas projects, the termination of a major Mining & Metallurgy project and challenges in replenishing the revenue backlog.

For the second quarter of 2019, Resources Segment EBIT was negative \$181.6 million, compared with a positive EBIT of \$15.8 million for the corresponding quarter of 2018, mainly reflecting net unfavorable reforecasts on certain major projects for a combined impact totalling approximately \$150 million from higher forecasted costs, increased warranty costs or partial descope primarily for three lump-sum turnkey construction projects in Oil & Gas and Mining & Metallurgy in the Middle East, combined with a lower level of activity. **For the first six months of 2019, Segment EBIT was negative \$243.0 million**, compared with a positive EBIT of \$68.1 million for the corresponding period of 2018, mainly due to a lower profitability ratio resulting from the reason stated above coupled with a delay in claim settlements.

6.2.2 – INFRASTRUCTURE EPC PROJECTS

Infrastructure EPC Projects provides end-to-end services to a broad range of sectors, including mass transit, heavy rail, roads, bridges, airports, ports and harbours and water infrastructure. In addition, Infrastructure EPC Projects includes the lump-sum turnkey construction projects related to the former Clean Power segment, as well as the lump-sum turnkey construction projects from Thermal power activities which the Company exited in 2018.

The Infrastructure EPC Projects segment derives 100% of its revenues from lump-sum turnkey construction contracts for the first six months of 2019 (2018: 98%).

(IN MILLIONS OF C\$)	SECOND QUARTER		SIX MONTHS ENDED JUNE 30	
	2019	2018 ⁽¹⁾	2019	2018 ⁽¹⁾
Revenues from Infrastructure EPC Projects	\$ 230.5	\$ 319.7	\$ 494.3	\$ 619.2
Segment EBIT from Infrastructure EPC Projects	\$ (126.1)	\$ (4.5)	\$ (132.2)	\$ 3.7
Segment EBIT over revenues from Infrastructure EPC Projects (%)	(54.7%)	(1.4%)	(26.7%)	0.6%

(1) Comparative figures have been revised to reflect changes made to the measure of profit or loss for the Company's reportable segments and a change made to the Company's reporting structure. Please refer to Section 9 for further details.

Infrastructure EPC Projects revenues were \$230.5 million for the second quarter of 2019, compared with \$319.7 million for the corresponding period of 2018. **For the first six months of 2019, revenues were \$494.3 million**, compared with \$619.2 million for the first six months of 2018, as the higher revenues from certain major construction projects, most notably mass transit systems in Central and Eastern Canada, was more than offset by the lower level of activity mainly due to the completion or near completion of certain major construction and clean power projects.

For the second quarter of 2019, Infrastructure EPC Projects Segment EBIT was negative \$126.1 million, compared with negative \$4.5 million for the corresponding quarter of 2018. **For the first six months of 2019, Infrastructure EPC Projects Segment EBIT was negative \$132.2 million**, compared with a positive Segment EBIT of \$3.7 million for the first six months of 2018. The decrease in Segment EBIT in the second quarter and first six months of 2019 is mainly attributable to net unfavorable reforecasts totalling approximately \$130 million on certain major projects resulting from higher forecasted costs or increased warranty costs, primarily on two lump-sum turnkey construction projects nearing completion and on smaller clean power projects, combined with a lower level of activity.

7 Liquidity and Capital Resources

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

- › A **cash flows analysis**, providing details on how the Company generated and used its cash and cash equivalents;
- › A discussion on the Company's **capital resources**;
- › A discussion on the Company's **capital management indicators**;
- › An update on the Company's **credit ratings**;
- › The presentation of the Company's **dividends declared** and **normal course issuer bid**; and
- › A discussion on the Company's **financial position** at the end of the second quarter of 2019, compared with its financial position as at December 31, 2018.

7.1 CASH FLOWS ANALYSIS

SIX MONTHS ENDED JUNE 30 (IN MILLIONS OF C\$)		2019	2018
Net cash flows generated from (used for):			
Operating activities	\$	(616.5)	\$ (207.1)
Investing activities		(114.1)	(4.5)
Financing activities		681.7	216.1
Increase (decrease) from exchange differences on translating cash and cash equivalents		(4.6)	10.3
Net increase (decrease) in cash and cash equivalents		(53.5)	14.8
Cash and cash equivalents at beginning of period		634.1	706.6
Cash and cash equivalents at end of period	\$	580.6	\$ 721.4

Cash and cash equivalents decreased by \$53.5 million in the first six months of 2019, compared with an increase of \$14.8 million in the first six months of 2018, as discussed further below.

CASH FLOWS RELATED TO OPERATING ACTIVITIES

Net cash used for operating activities was \$616.5 million for the first six months of 2019, compared with \$207.1 million for the corresponding period of 2018, a variance reconciled as follows:

(IN MILLIONS OF CAS)	SIX-MONTH PERIOD
Net cash used for operating activities for the first six months of 2018	\$ (207.1)
<u>Changes between the first six months of 2018 and the first six months of 2019:</u>	
Decrease in net income for the period	(2,298.5)
Change in income taxes received	14.2
Increase in interest paid (from E&C and from Capital investments)	(37.1)
Decrease in depreciation of property and equipment and amortization of other non-current assets	(2.7)
Increase in depreciation of right-of-use assets	52.4
Change in income taxes recognized in net income	(106.6)
Higher net financial expenses recognized in net income	66.2
Decrease in share-based expense	(7.4)
Increase in income from Capital investments accounted for by the equity method	(24.8)
Gain on disposal of a Capital investment in 2018	62.7
Increase in restructuring costs recognized in net income	49.6
Increase in restructuring costs paid	(27.0)
Unpaid portion of the 2012 class action lawsuits settlement expense recognized in 2018	(88.0)
Impairment of intangible assets related to business combinations	72.8
Impairment of goodwill	1,801.0
Other items	16.0
Changes in the net cash generated by (used for) operating activities before net change in non-cash working capital items	\$ (457.2)
Decrease in cash used by the net change in non-cash working capital items	\$ 47.8
Net cash used for operating activities for the first six months of 2019	\$ (616.5)

- › Net cash used by operating activities before net change in non-cash working capital items totalled \$224.7 million for the first six months of 2019, compared with net cash generated from operating activities before net change in non-cash working capital items of \$232.4 million for the first six months of 2018, a variance mainly explained by the elements in the table above.
- › As detailed in Note 9B to the unaudited interim condensed consolidated financial statements for the three-month and six-month periods ended June 30, 2019, net change in non-cash working capital items used cash of \$391.7 million in the first six months of 2019, compared with \$439.6 million in the corresponding period of 2018, both mainly reflecting working capital requirements on certain major projects.
- › The changes in cash flows related to operating activities between the first six months of 2019 and the same period of 2018 were primarily explained by the elements in the table above, noting however that the decrease in net income in the first six months of 2019, compared to the same period in 2018, is partly due to the non-cash impairment of goodwill and intangible assets related to business combinations recognized in the first six months of 2019.

CASH FLOWS RELATED TO INVESTING ACTIVITIES

Net cash used for investing activities was \$114.1 million for the first six months of 2019, compared with \$4.5 million for the corresponding period of 2018, a variance reconciled as follows:

(IN MILLIONS OF C\$)	SIX-MONTH PERIOD
Net cash used for investing activities for the first six months of 2018	\$ (4.5)
<u>Changes between the first six months of 2018 and the first six months of 2019:</u>	
Decrease in acquisitions of property and equipment	7.4
Increase in payments for Capital investments	(10.0)
Variance in net cash inflow on acquisition of businesses	5.5
Increase in restricted cash position	(5.7)
Higher increase in receivables under service concession arrangements	(29.3)
Higher recovery of receivables under service concession arrangements	24.4
Lower decrease in short-term and long-term investments	(1.7)
Lower net cash inflow on disposal of a Capital investment accounted for by the equity method	(92.2)
Other items	(8.1)
Net cash used for investing activities for the first six months of 2019	\$ (114.1)

- › The changes in cash flows related to investing activities between the first six months of 2019 and the same period of 2018 were primarily explained by the elements in the table above, most notably by the net cash inflow of \$92.2 million on the disposal of a Capital investment, reflecting the transfer of the investment in MHIG and its holding company to SNCL IP Partnership.

CASH FLOWS RELATED TO FINANCING ACTIVITIES

Net cash generated from financing activities was \$681.7 million in the first six months of 2019, compared with \$216.1 million for the corresponding period of 2018, a variance reconciled as follows:

(IN MILLIONS OF C\$)	SIX-MONTH PERIOD
Net cash generated from financing activities for the first six months of 2018	\$ 216.1
<u>Changes between the first six months of 2018 and the first six months of 2019:</u>	
Lower increase in recourse debt	(725.1)
Payment of recourse debt issue costs	4.2
Decrease in repayment of recourse debt	645.8
Decrease in repayment of limited recourse debt	500.0
Increase in non-recourse debt	46.1
Increase in cash outflow for leases	(57.6)
Decrease in dividends paid to SNC-Lavalin shareholders	65.6
Other items	(13.5)
Net cash generated from financing activities for the first six months of 2019	\$ 681.7

- › The changes in cash flows related to financing activities between the first six months of 2019 and the corresponding period of 2018 were primarily explained by the elements in the table above, most notably by the lower level of repayment of debt in 2019 compared to 2018. In both periods, the Company borrowed and repaid certain amounts under its Revolving Facility as part of its financing of net cash used for operating and investing activities.

- › The Company repaid lease liabilities of \$57.6 million following the revised presentation requirements of adopting IFRS 16 on January 1, 2019.
- › The Company also provides a reconciliation between the opening and closing balances in its statement of financial position for liabilities arising from financing activities for the three-month and six-month periods ended June 30, 2019 and 2018 in Note 9C in its interim condensed consolidated financial statements for the three-month and six-month periods ended June 30, 2019.

7.2 CAPITAL RESOURCES

(IN MILLIONS OF CAS)	JUNE 30 2019	DECEMBER 31 2018
Cash and cash equivalents	\$ 580.6	\$ 634.1
Unused portion of committed revolving credit facility ^{(1) (2)}	1,059.9	2,051.4
Available short-term capital resources	\$ 1,640.5	\$ 2,685.4

(1) Including cash draws and letters of credit issued on a committed basis but excluding bilateral letters of credit which can be issued on a non-committed basis.

(2) Before considering potential limitations resulting from contractual covenants.

The decrease in cash and cash equivalents as at June 30, 2019 compared with December 31, 2018 is explained in Section 7.1. The Company has a committed revolving facility of \$2,600 million (December 31, 2018: \$2,600 million) of which \$1,059.9 million as at June 30, 2019 (December 31, 2018: \$2,051.4 million) was unused, and uncommitted credit facilities by way of bilateral letters of credit.

The Company intends to use the proceeds from the sale of 10.01% of the shares of Highway 407 ETR to retire outstanding debt, including a \$600 million partial payment on the CDPQ Loan.

Management continues to believe, subject to the risks and limitations described herein, that its current liquidity position, including its cash position and unused capacity under its credit facility combined with the expected proceeds from the sale of 10.01% of the shares of Highway 407 ETR should be sufficient to fund its operations.

7.3 CAPITAL MANAGEMENT INDICATORS

The Company periodically monitors capital using certain ratios which are described further below. The Company endeavours to keep these ratios at levels which are in line with its objective of maintaining an investment grade credit rating.

NET RECOURSE DEBT

Net recourse debt (or Cash net of recourse debt) is a non-IFRS financial measure. A definition of this financial measure is provided in Section 10.

(IN MILLIONS OF C\$)	JUNE 30 2019	DECEMBER 31 2018
Cash and cash equivalents	\$ 580.6	\$ 634.1
Less:		
Cash and cash equivalents of Capital investments accounted for by the consolidation method	2.7	3.3
Recourse debt:		
Short-term debt and current portion of long-term debt	1,819.4	1,116.6
Long term debt	1,172.0	1,171.4
Net recourse debt	\$ (2,413.5)	\$ (1,657.2)

- › **Net recourse debt as at June 30, 2019 was \$2.4 billion**, compared with \$1.7 billion as at December 31, 2018, mainly reflecting additional indebtedness used to finance the Company's operating and investing activities in the first six months of 2019.

AMENDMENTS TO THE CDPQ LOAN AND TO THE CREDIT FACILITY

On February 1, 2019, the Company amended its Credit Agreement, modifying the definition of EBITDA to provide that losses related to EPC contracts in Mining & Metallurgy be considered as non-recurring items, up to an amount of \$310 million. The Credit Agreement was also amended to provide that the net recourse debt to EBITDA ratio calculation be temporary increased to 4x. It should be noted that the ratio calculation in the Credit Agreement excludes interest and depreciation and amortization resulting from the adoption of IFRS 16.

In the second quarter of 2019, the Company and CDPQ have renegotiated certain terms of the CDPQ Loan, which include, among others, the following amendments:

- › modification of the covenant to align it with the amendment made to the Credit Agreement in 2018 and delay the application of such covenant from March 31, 2019 to June 30, 2019;
- › following the expected disposal of 10.01% of the shares of Highway 407 ETR, the Company committed to repay an amount of \$600 million out of \$1,000 million outstanding under the tranche A of the CDPQ Loan; and
- › decrease of the margin applicable to the base rate and payment by the Company of fees of \$15 million.

Such amendments resulted in financing costs of \$33.8 million recognized in net financial expenses in the second quarter of 2019.

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

As at June 30, 2019, the net recourse debt to EBITDA ratio in accordance with the terms of the Company's Credit Agreement, as amended, was **2.5x**.

RETURN ON AVERAGE SHAREHOLDERS' EQUITY ("ROASE")

ROASE is a non-IFRS financial measure. A definition of this financial measure is provided in Section 10. **ROASE was -98.1% for the 12-month period ended June 30, 2019**, mainly due to the net loss recognized in the fourth quarter of 2018 and the net loss recognized in the first six months of 2019, compared with 6.9% for the 12-month period ended June 30, 2018.

7.4 RECOURSE DEBENTURES – CREDIT RATING

On March 1, 2018, S&P affirmed its BBB issue-level rating on the Company's \$150 million senior unsecured notes due in 2019, on the Company's \$175 million senior unsecured notes due in 2021 and on the Company's \$200 million senior unsecured notes due in 2023. On May 14, 2018, S&P affirmed the Company's rating at BBB. On June 5, 2018, S&P assigned an issue credit rating of BBB on the Company's \$150 million senior unsecured notes due in 2019.

On February 12, 2019, S&P downgraded the Company's rating to BBB- from BBB but revised its outlook to stable from negative on expectation of higher than estimated leverage. S&P expects the Company's earnings and cash flow to be lower than its previous estimates over the next couple of years. S&P now expects the Company to generate an adjusted debt-to-EBITDA ratio in the low-4x in 2019 and the low-3x area in 2020. S&P considers that the Canada-Saudi Arabia diplomatic tension has weakened the Company's competitive position in the Middle East and will likely affect a meaningful share of the Company's future growth. The BBB- rating incorporates S&P's view of the Company's well-diversified revenue and cash flow geography, customer, services and end markets, which somewhat offsets the significant operating risks within the Company's industry. On April 10, 2019, S&P confirmed its BBB- credit rating on partial sale of Highway 407 ETR stake.

On July 23, 2019, S&P placed the Company under Negative CreditWatch. S&P believes that the Company is likely to report earnings and cash flows well below S&P's previous expectations for 2019 and potentially in 2020. S&P believes there is a high likelihood that the Company will generate credit measures that are no longer commensurate with an investment-grade rating, including debt-to-EBITDA above 2.5x over the next two years. The CreditWatch reflects the high likelihood that S&P could lower the ratings on the Company within the next few weeks. S&P considers that the decision to exit the lump-sum turnkey construction contracting is a positive step in de-risking the business.

On March 1, 2018 and on May 1, 2018, DBRS issued a rating report that confirmed the rating of the Company and its senior debenture rating at "BBB" with stable trend.

On February 15, 2019, DBRS placed the Company under review with negative implications. This was largely based on growing concerns regarding risk management and project control issues following the Company's announcement of a considerable project loss within the Mining and Metallurgy division. It is DBRS's opinion that the amendment to the Company's financial covenants was inconsistent with similarly rated companies. DBRS indicates that the Company's liquidity remains positive, with availability under its credit facility and access to saleable assets. On April 10, 2019, DBRS issued its rating report, in which it confirmed its BBB credit rating and that trends were stable. Such confirmation follows the Company's announced disposal of 10.01% of its investment in Highway 407 ETR. The confirmation reflects a use of proceed that will allow credit metrics to exceed those required for the current rating and will not be used towards material shareholder returns. The confirmation is also reinforced by the Company's response to and remediation of project control issues identified as a result of the considerable project loss in the Mining and Metallurgy division in 2018.

On July 24, 2019 DBRS downgraded the Company to BBB (low) and changed its trend to negative. Such downgrade reflects considerably weaker-than-anticipated results in the second quarter of 2019 which DBRS estimates will reduce

2019 forecast earning, resulting in a slower recovery of the Company's key financial metrics. DBRS may take an additional negative rating action if additional project challenges continue to adversely affect the Company's earnings and hinder meaningful debt repayment such that the Company's debt-to-EBITDA (as calculated by DBRS) remains above 3.0X on a sustained basis.

7.5 DIVIDENDS

Quarterly cash dividends of \$0.10 per share were declared on February 22, 2019 and May 2, 2019 and were paid on March 22, 2019 and May 30, 2019, compared with the corresponding quarterly cash dividends of \$0.287 per share paid in 2018. The Company reduced the quarterly cash dividend, declared on August 1, 2019, to \$0.02 per share.

7.6 NORMAL COURSE ISSUER BID

Under its previous normal course issuer bid that commenced on June 6, 2018 and ended on June 5, 2019, the Company had received the approval of the Toronto Stock Exchange to purchase for cancellation a maximum of 1,500,000 Common Shares. During that period, the Company did not purchase any of its Common Shares.

7.7 FINANCIAL INSTRUMENTS

The nature and extent of risks arising from financial instruments, and their related risk management, are described in Note 32 to the Company's 2018 annual audited consolidated financial statements and updated as needed in Note 11 to its unaudited interim condensed consolidated financial statements for the six-month period ended June 30, 2019. In the first six months of 2019, there was no material change to the nature of risks arising from financial instruments, related risk management or classification of financial instruments. Furthermore, there was no change in the methodology used to determine the fair value of the financial instruments that are measured at fair value on the Company's consolidated statement of financial position.

7.8 FINANCIAL POSITION

The following is an analysis of the changes to the Company's financial position between December 31, 2018 and June 30, 2019:

(IN MILLIONS CAS)	JUNE 30 2019	DECEMBER 31 2018	CHANGE (\$)	EXPLANATIONS
Current assets	\$ 4,934.7	\$ 4,658.0	\$ 276.7	The increase in current assets was mainly due an increase in contract assets and other current non-financial assets, partially offset by a decrease in cash and cash equivalents.
Non-current assets	6,530.8	8,281.7	(1,750.9)	The decrease in non-current assets was principally due to a decrease of goodwill and intangible assets related to business combinations, partially offset by the addition of right-of-use assets arising from the implementation of IFRS 16 on January 1, 2019.
Total assets	\$ 11,465.5	\$ 12,939.7	\$ (1,474.2)	
Current liabilities	\$ 6,251.6	\$ 5,608.1	\$ 643.5	The increase in current liabilities was mainly due to the increase in recourse debt and the addition of lease liabilities (current portion) arising from the implementation of IFRS 16 on January 1, 2019, partially offset mainly by a decrease in the current portions of non-financial liabilities and provisions.
Non-current liabilities	4,107.0	3,675.8	431.2	The increase in non-current liabilities was principally due to the addition of lease liabilities (non-current portion) arising from the implementation of IFRS 16 on January 1, 2019.
Total liabilities	\$ 10,358.7	\$ 9,283.8	\$ 1,074.8	
Equity attributable to SNC-Lavalin shareholders	\$ 1,104.4	\$ 3,650.9	\$ (2,546.5)	The decrease in equity attributable to SNC-Lavalin shareholders was mainly due to the transitional adjustments on the adoption of a new accounting standard and the total comprehensive loss for the first six months of 2019.
Non-controlling interests	2.4	5.0	(2.5)	-
Total equity	\$ 1,106.8	\$ 3,655.9	\$ (2,549.0)	
Total liabilities and equity	\$ 11,465.5	\$ 12,939.7	\$ (1,474.2)	

8

Related Party Transactions

In the normal course of its operations, SNC-Lavalin enters into transactions with certain of its associates and joint ventures, mainly its Capital investments. Investments in which SNC-Lavalin has significant influence or joint control, which are accounted for by the equity method, are considered related parties.

For the three-month and six-month periods ended June 30, 2019 and 2018, SNC-Lavalin recognized the following transactions with its related parties:

	SECOND QUARTERS		SIX-MONTH PERIODS ENDED JUNE 30	
	2019	2018	2019	2018
E&C revenue from contracts with investments accounted for by the equity method	\$ 137,363	\$ 301,197	\$ 336,236	\$ 551,607
Income from Capital investments accounted for by the equity method	63,383	46,517	122,590	97,798
Dividends and distributions received from Capital investments accounted for by the equity method	43,317	41,953	86,931	80,662
Income from E&C investments accounted for by the equity method	(4,314)	9,863	7,254	17,995
Dividends and distributions received from E&C investments accounted for by the equity method	\$ 9,110	\$ 3,334	\$ 11,863	\$ 6,470

As at June 30, 2019 and December 31, 2018, SNC-Lavalin has the following balances with its related parties:

	JUNE 30 2019	DECEMBER 31 2018
Trade receivables from investments accounted for by the equity method	\$ 118,378	\$ 117,359
Other current financial assets receivable from investments accounted for by the equity method	136,585	131,694
Remaining commitment to invest in Capital investments accounted for by the equity method	\$ 98,050	\$ 108,312

In the second quarter of 2018, SNC-Lavalin transferred its investment in MHIG and its holding company to an investment accounted for by the equity method, namely SNCL IP LP, which resulted in a gain on disposal of \$62.7 million before income taxes (\$58.4 million after income taxes). Refer to Note 4A of Company's unaudited interim condensed consolidated financial statements for the three-month and six-month periods ended June 30, 2019.

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

9 Accounting Policies and Changes

The Company established its accounting policies used in the preparation of its unaudited interim condensed consolidated financial statements for the second quarter of 2019 in accordance with IAS 34, Interim Financial Reporting. See Note 2 to the Company's 2018 annual audited consolidated financial statements for more information about the significant accounting policies used to prepare the financial statements, as they remain unchanged for the six-month period ended June 30, 2019, except for the changes explained in Sections 9.1 and 9.2.

The key judgments, assumptions and basis for estimates that management has made under IFRS, and their impact on the amounts reported in the unaudited interim condensed consolidated financial statements were disclosed in the Company's 2018 annual audited consolidated financial statements and updated in Section 9.3 below.

9.1 NEW STANDARD, AMENDMENTS AND AN INTERPRETATION ADOPTED IN THE SIX-MONTH PERIOD ENDED JUNE 30, 2019

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

- › IFRS 16, *Leases*, ("IFRS 16") provides a comprehensive model for the identification of lease arrangements and their treatment in the financial statements of both lessees and lessors. It superseded IAS 17, *Leases*, ("IAS 17") and its associated interpretative guidance.
- › *Prepayment Features with Negative Compensation* (Amendments to IFRS 9, *Financial Instruments*) allow financial assets with a prepayment option that could result in the option's holder receiving compensation for early termination to meet the solely payments of principal and interest condition if specified criteria are met.
- › *Long-term Interests in Associates and Joint Ventures* (Amendments to IAS 28, *Investments in Associates and Joint Ventures*) clarify that an entity applies IFRS 9, including its impairment requirements, to long-term interests in an associate or joint venture that form part of the net investment in the associate or joint venture but to which the equity method is not applied.
- › Amendments to IFRS 3, *Business Combinations*, state that an entity shall remeasure its previously held interest in a joint operation when it obtains control of the business.
- › Amendments to IFRS 11, *Joint Arrangements*, state that an entity shall not remeasure its previously held interest in a joint operation when it obtains joint control of the business.
- › Amendments to IAS 12, *Income Taxes*, clarify that all income tax consequences of dividends (i.e., distribution of profits) should be recognized in profit or loss, regardless of how the tax arises.
- › Amendments to IAS 23, *Borrowing Costs*, clarify that if any specific borrowing remains outstanding after the related asset is ready for its intended use or sale, that borrowing becomes part of the funds that an entity borrows generally when calculating the capitalization rate on general borrowings.
- › *Plan Amendment, Curtailment or Settlement* (Amendments to IAS 19, *Employee Benefits*) specifies how an entity determines pension expenses when changes to a defined benefit pension plan occur. When a change to a plan – an

amendment, curtailment or settlement – takes place, IAS 19 requires an entity to remeasure its net defined benefit liability or asset. The amendments require an entity to use the updated assumptions from this remeasurement to determine current service cost and net interest for the remainder of the reporting period after the change to the plan.

- › IFRIC Interpretation 23, *Uncertainty over Income Tax Treatments*, sets out how to determine the accounting for tax positions when there is uncertainty over the income tax treatment. The interpretation requires an entity to: i) determine whether uncertain tax positions are assessed separately or as a group; and ii) assess whether it is probable that a tax authority will accept an uncertain tax treatment as filed, or proposed to be filed, by an entity in its tax filings.

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

ADOPTION OF IFRS 16

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

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

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

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

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

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

Impact on the consolidated statement of financial position

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

(a) Includes mainly net investments in subleases.

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

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

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

Procedures and controls

The Company has updated and implemented revised procedures and controls in order to meet the requirements of IFRS 16, notably the recording of the transition adjustment and the change in presentation to be reported in the Company's interim condensed consolidated financial statements for the six-month period ended June 30, 2019, as well as additional disclosures to be provided in the Company's 2019 audited annual consolidated financial statements.

9.2 CHANGES IN ACCOUNTING POLICIES AND IN PRESENTATION

LEASES

Accounting for leases as a lessee

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

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

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

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

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

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

change in an index or a rate used to determine those payments, other than a change in floating interest rates, is based on an unchanged discount rate.

Accounting for leases as a lessor

When acting as a lessor, the Company determines at lease commencement whether each lease is a finance lease or an operating lease. To classify each lease, the Company makes an overall assessment of whether the lease transfers to the lessee substantially all of the risks and rewards of ownership incidental to ownership of the underlying asset. If this is the case, then the lease is a finance lease; if not, then it is an operating lease.

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

SEGMENT DISCLOSURES

Effective January 1, 2019, the Company changed the definition of Segment EBIT, its measure of profit or loss for its reportable segments, to reflect a change made to its internal reporting. As such, Segment EBIT now includes: i) the contribution attributable to non-controlling interests before income taxes, whereas in the past it excluded such contribution attributable to non-controlling interests before income taxes; and ii) an allocation to the segments of certain other corporate selling, general and administrative expenses. As such, these changes resulted in: i) a reclassification of the contribution attributable to non-controlling interests before income taxes in Segment EBIT of \$0.3 million for the three-month period ended June 30, 2018 and \$0.5 million for the six-month period ended June 30, 2018; and ii) a reclassification of certain other corporate selling, general and administrative expenses in Segment EBIT of \$5.8 million for the three-month period ended June 30, 2018 and \$11.1 million for the six-month period ended June 30, 2018. The Company believes that such inclusions improve the measure of profitability of its reportable segments by better reflecting the overall performance of its reportable segments.

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

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

9.3 CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

LEASES

Estimate of the lease term

When the Company recognizes a lease as a lessee, it assesses the lease term based on the conditions of the lease and determines whether it is reasonably certain that it will exercise its extension or termination option, if any. It then uses the expected modified term under such option if it is reasonably certain that it will be exercised. As such, a change in the assumption used could result in a significant impact in the amount recognized as right-of-use asset and lease liability, as well as in the amount of depreciation of right-of-use asset and interest expense on lease liability.

Assessment of whether a right-of-use asset is impaired

The Company assesses whether a right-of-use asset is impaired in accordance with IAS 36, Impairment of assets. Such assessment occurs particularly when it vacates an office space and it must determine the recoverability of the asset, to the extent that the Company can sublease the assets or surrender the lease and recover its costs. The Company examines its lease conditions as well as local market conditions and estimates its recoverability potential for each vacated premise. The determination of the lease cost recovery rate involves significant management estimates based on market availability of similar office space and local market conditions. This significant estimate could affect its future results if the Company succeeds in subleasing their vacated offices at a higher or lower rate or at different dates than initially anticipated.

Determining the discount rate for leases

IFRS 16 requires the Company to discount the lease payments using the rate implicit in the lease if that rate is readily available. If that rate cannot be readily determined, the lessee is required to use its incremental borrowing rate ("IBR"). The Company generally used its IBR when recording leases initially, since the implicit rates are not readily available due to information not being available from the lessor regarding the fair value of underlying assets and direct costs incurred by the lessor related to the leased assets. The determination of the IBR requires the use of various assumptions which, if different than those being used, could result in a significant impact in the amount recognized as right-of-use asset and lease liability, as well as in the amount of depreciation of right-of-use asset and interest expense on lease liability.

Determining if a contract modification increasing the scope of a lease is a separate lease or not

When a lease modification increasing the scope of a lease occurs, the Company needs to determine if such modification is to be accounted for as a separate lease or not. Such determination requires the use of judgment on the stand-alone selling price and any appropriate adjustments to the stand-alone selling price reflecting the circumstance of the particular contract.

9.4 AMENDMENTS ISSUED TO BE ADOPTED AT A LATER DATE

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

- › Amendments to IFRS 3, *Business Combinations*, improve the definition of a business. The amendments help entities determine whether an acquisition made is of a business or a group of assets. The amended definition emphasises that the output of a business is to provide goods and services to customers, whereas the previous definition focused on returns in the form of dividends, lower costs or other economic benefits to investors and others.
- › *Definition of Material* (Amendments to IAS 1, *Presentation of Financial Statements*, ["IAS 1"] and to IAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors* ["IAS 8"]) is intended to make the definition of material in IAS 1 easier to understand and is not intended to alter the underlying concept of materiality in IFRS Standards. The concept of "obscuring" material information with immaterial information has been included as part of the new definition. The threshold for materiality influencing users has been changed from "could influence" to "could reasonably be expected to influence". The definition of material in IAS 8 has been replaced by a reference to the definition of material in IAS 1.

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

10 Non-IFRS Financial Measures and Additional IFRS Measures

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

Performance

Adjusted diluted earnings per share from E&C ("Adjusted diluted EPS from E&C") is defined as the adjusted net income (loss) from E&C, divided by the diluted weighted average number of outstanding shares for the period. Adjusted diluted EPS from E&C is a non-IFRS financial measure that is an indicator of the financial performance of the Company's E&C activities. Refer to [Section 4.3](#) for the reconciliation of adjusted diluted EPS from E&C to net income as determined under IFRS.

Adjusted EBITDA is defined as earnings before net financial expenses (income), income taxes, depreciation and amortization, and excludes charges related to restructuring, right-sizing and other, acquisition-related costs and integration costs, the net expense for the 2012 class action lawsuits settlement and related legal costs, the GMP equalization expense, as well as the gains (losses) on disposals of E&C businesses and Capital investments. Refer to [Section 4.4](#) for a reconciliation of adjusted EBITDA to net income as determined under IFRS.

Adjusted net income (loss) from E&C is defined as net income (loss) attributable to SNC-Lavalin shareholders from E&C, excluding charges related to restructuring, right-sizing and other, acquisition-related costs and integration costs, as well as amortization of intangible assets related to business combinations, impairment of goodwill, impairment of intangible assets related to business combinations, the net expense for the 2012 class action lawsuits settlement and related legal costs, the GMP equalization expense, the gains (losses) on disposals of E&C businesses the impact of U.S corporate tax reform and the incremental financing costs related to the amendments to the CDPQ loan and other E&C financing arrangements in connection with the sale of 10.01% of the shares of Highway 407 ETR. Adjusted net income (loss) from E&C is a non-IFRS financial measure that is an indicator of the financial performance of the Company's E&C activities. Refer to [Section 4.3](#) for the reconciliation of adjusted net income from E&C to net income as determined under IFRS.

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

EBIT is an indicator of the entity's capacity to generate earnings from operations before taking into account management's financing decisions. Accordingly, EBIT is defined as earnings before net financial expenses (income) and income taxes. Refer to [Section 4.4](#) for the reconciliation of EBIT to net income as determined under IFRS.

EBITDA is defined as earnings before net financial expenses (income), income taxes, depreciation and amortization. Refer to [Section 4.4](#) for a reconciliation of EBITDA to net income as determined under IFRS.

Profitability ratio is defined as revenues less direct cost of activities (excluding overhead costs) divided by revenues.

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

Segment EBIT consists of revenues less i) direct cost of activities, ii) directly related selling, general and administrative expenses, and iii) corporate selling, general and administrative expenses that are allocated to segments. Expenses that are not allocated to the Company's segments include: certain corporate selling, general and administrative expenses that are not directly related to projects or segments, impairment loss arising from expected credit losses, gain (loss) arising on financial assets (liabilities) at fair value through profit or loss, restructuring costs, impairment of goodwill, impairment of intangible assets related to business combinations, acquisition-related costs and integration costs, amortization of intangible assets related to business combinations, the net expense for the 2012 class action lawsuits settlement and related legal costs, and the GMP equalization expense, as well as gains (losses) on disposals of E&C businesses and Capital investments. See reconciliation of Segment EBIT to the most directly comparable IFRS measure in [Section 6](#).

Liquidity

Net recourse debt (or Cash net of recourse debt) corresponds to cash and cash equivalents, less cash and cash equivalents from Capital investments accounted for by the consolidation method and the Company's recourse debt. Refer to [Section 7.3](#) for a reconciliation of net recourse debt (or cash net of recourse debt) to cash and cash equivalents as determined under IFRS.

11 Risks and Uncertainties

PRINCIPAL RISKS AND UNCERTAINTIES

The risk and uncertainties and risk management practices of the Company described in Section 15 of the Company's 2018 annual Management's Discussion and Analysis have not materially changed in the first six months of 2019, except for the risks identified below.

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

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

- › SNCL Engineering Services, which include EPDM, Nuclear, Infrastructure Services (including Linxon) and Capital. SNCL Engineering Services recorded a 10.8% growth in revenues in the first half of 2019 and the backlog for this segment totaled 11.1 billion at the end of the second quarter of 2019 and increase of 8.5% on an annual basis.
- › SNCL Projects which will include Resources (Oil & Gas and Mining & Metallurgy) and our existing Infrastructure lump-sum turnkey construction projects following continued poor performance of these segments. The Company is exploring all options for its Resources segment, particularly its Oil & Gas business, including transition to a services-based business or divestiture. The Company will fulfil the contractual obligations of its current lump-sum turnkey construction projects, including full commitment to the Réseau express métropolitain (REM) and be reorganized as SNCL Projects, while providing separate ongoing financial disclosure to the market on this business line. The Company expects to complete 80% of the remaining lump-sum turnkey construction projects by the end of 2021 and the rest by the end of 2024.

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

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

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

IMPACT OF OPERATING RESULTS AND LEVEL OF INDEBTEDNESS ON FINANCIAL SITUATION

The Company reported a negative adjusted EBITDA in the second quarter of 2019 while reporting an increase of net recourse debt during the same period. These measures, described in Section 4 and 7, respectively, of the current MD&A, do not exactly correspond to the definition of "adjusted EBITDA" and "net recourse debt" used to calculate the net recourse debt to adjusted EBITDA ratio under the Company's Credit Agreement and the CDPQ Loan. However, they both reflect the fact that operating results and change in indebtedness during the second quarter of 2019 had an unfavorable impact on such ratio. In June 2019, the Company sought and obtained consents under its Credit Agreement and the CDPQ Loan Agreement in order to allow the calculations of this ratio for the period ending June 30, 2019 to be made on a *pro-forma* basis as if the sale of the Company's 10.01% interest in Highway 407 ETR had occurred on June 30, 2019. While the Company met its modified covenant requirements as at June 30, 2019, a further increase of net recourse debt due to items such as cash requirements of operating activities or the delay/acceleration of certain investing/divestitures or financing transactions; or further delays in completing the sale of its 10.01% interest in Highway 407 ETR; or an inability to generate sufficient adjusted EBITDA to support the level of indebtedness in the ratio calculation in the future could have a negative impact on the Company, as further described in the risk factor entitled "Indebtedness" in the Company's 2018 annual MD&A.

CHARGES AND RCMP INVESTIGATIONS

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

The preliminary inquiry into the Charges against the Company began in the Court of Quebec from October 29, 2018 to April 1, 2019. The judgement of the court in respect of the preliminary inquiry was delivered on May 29, 2019; it determined that there is sufficient evidence to set the matter down for a full trial. The trial on the Charges has yet to be scheduled but may commence in late 2019 or 2020.

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

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

The Charges and potential outcomes thereof, and the persistent negative publicity associated therewith, have an adverse effect on the Company's share valuation, business, results of operations, reputation and staff morale and retention, and could subject the Company to sanctions, fines and other penalties, some of which may be significant. In addition, potential consequences of the Charges could include, in respect of the Company or one or more of its subsidiaries, mandatory or discretionary suspension, prohibition or debarment from participating in projects by certain governments or by certain administrative organizations under applicable procurement laws, regulations, policies or practices. The Company derives a significant percentage of its annual global revenue from government and government-related contracts. Further, private sector bid processes also in some instances assess whether the bidder, or an affiliate thereof, has ever been criminally convicted and/or debarred by a governmental agency. In such instances, if a member of the Company's group

must answer affirmatively to a query as to past convictions and/or debarment, such answer may affect that entity's ability to be considered for the private sector project. As a result, suspension, prohibition or debarment, whether discretionary or mandatory, from participating in certain government and government-related contracts (in Canada, Canadian provinces or elsewhere) could have a material adverse effect on the Company's business, financial condition and liquidity and the market prices of the Company's publicly traded securities.

CLASS ACTION LAWSUITS

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

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

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

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

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

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

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

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

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

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

PYRRHOTITE CASE

On June 12, 2014, the Quebec Superior Court rendered a decision in "Wave 1" of the matter commonly referred to as the "Pyrrhotite Case" in Trois-Rivières, Quebec and in which SNC-Lavalin is one of numerous defendants. The Superior Court ruled in favour of the plaintiffs, awarding an aggregate amount of approximately \$168 million in damages apportioned amongst the then-known defendants, on an in solidum basis (the "Wave 1 claims"). SNC-Lavalin, among other parties, filed a Notice to Appeal the Superior Court decision both on merit and on the apportionment of liability. Based on the current judgment, SNC-Lavalin's share of the damages would be approximately 70%, a significant portion of which the Company would expect to recover from its external insurers (such insurance coverage is itself subject to litigation). The appeal hearing started in October 2017 and was completed in the week of April 30th, 2018. A decision from the Quebec Court of Appeal is expected in 2019.

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

LEGAL PROCEEDING

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

12 Quarterly Information

	2019		2018				2017	
(IN MILLIONS OF C\$, EXCEPT EARNINGS PER SHARE AND DIVIDENDS PER SHARE)	SECOND QUARTER	FIRST QUARTER	FOURTH QUARTER	THIRD QUARTER	SECOND QUARTER	FIRST QUARTER	FOURTH QUARTER	THIRD QUARTER
Revenues	\$ 2,284.2	\$ 2,363.2	\$ 2,562.5	\$ 2,563.0	\$ 2,527.1	\$ 2,431.4	\$ 2,917.8	\$ 2,632.7
EBIT	\$ (2,113.9)	\$ 13.9	\$ (1,584.7)	\$ 185.4	\$ 109.1	\$ 129.8	\$ 159.8	\$ 181.3
Net income (loss) attributable to SNC-Lavalin shareholders from E&C	\$ (2,183.8)	\$ (67.4)	\$ (1,654.3)	\$ 76.6	\$ (16.8)	\$ 31.5	\$ 14.3	\$ 29.0
Net income attributable to SNC-Lavalin shareholders from Capital:								
From Highway 407 ETR	41.9	41.9	39.2	39.3	38.0	38.0	36.0	36.1
From other Capital investments	23.5	8.1	16.4	4.9	61.9	8.6	2.1	38.5
Net income (loss) attributable to SNC-Lavalin shareholders	\$ (2,118.3)	\$ (17.3)	\$ (1,598.7)	\$ 120.7	\$ 83.0	\$ 78.1	\$ 52.4	\$ 103.6
Net income (loss) attributable to non-controlling interests	(0.4)	(1.0)	–	0.2	0.2	0.2	0.1	(2.4)
Net income (loss)	\$ (2,118.7)	\$ (18.3)	\$ (1,598.8)	\$ 121.0	\$ 83.2	\$ 78.3	\$ 52.5	\$ 101.2
Basic earnings (loss) per share (\$)	\$ (12.07)	\$ (0.10)	\$ (9.11)	\$ 0.69	\$ 0.47	\$ 0.44	\$ 0.30	\$ 0.59
Diluted earnings (loss) per share (\$)	\$ (12.07)	\$ (0.10)	\$ (9.11)	\$ 0.69	\$ 0.47	\$ 0.44	\$ 0.30	\$ 0.59
Dividends declared per share (\$)	\$ 0.020	\$ 0.100	\$ 0.100	\$ 0.287	\$ 0.287	\$ 0.287	\$ 0.287	\$ 0.273

13 Controls and Procedures

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

13.1 DISCLOSURE CONTROLS AND PROCEDURES AND INTERNAL CONTROLS OVER FINANCIAL REPORTING

The Interim CEO and the CFO have caused management and other employees to design and document the Company's disclosure controls and procedures, and its internal control over financial reporting, in each case as at June 30, 2019. The design of internal controls was completed using the framework and criteria established in *Internal Control – Integrated Framework* (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO").

As at December 31, 2018, the CEO and the CFO concluded that the Company did not maintain effective controls over the reporting of forecasted costs and revenues of a major project in the Mining & Metallurgy segment. Specifically, the Company's controls over the reporting of estimated costs and related assessment of variable consideration were not operating effectively because project management did not appropriately consider the terms and conditions of the project contract and their impact on the overall project forecast. Additionally, the CEO and the CFO noted that there was no compensating control that detected the control deficiencies on a timely basis. The control deficiencies did not result in any material adjustment to the 2017 annual or 2018 interim consolidated financial statements. However, in light of the overall magnitude of the project these control deficiencies could have resulted in a misstatement to the estimated costs to complete this contract and its related variable consideration resulting in a material misstatement to the interim financial statements that would not be prevented or detected. Accordingly, management determined that these control deficiencies constitute a "material weakness" (as that term is defined in NI 52-109) relating to the operational effectiveness of the Company's internal control over financial reporting as at December 31, 2018 and June 30, 2019.

Furthermore, in light of the substantial overlap in the definitions of disclosure controls and procedures and internal control over financial reporting contained in NI 52-109, the CEO and the CFO have also concluded that this material weakness in the Company's internal control over financial reporting also represented a weakness relating to the operation of the Company's disclosure controls and procedures that was significant and existing as at December 31, 2018 and June 30, 2019, such that there was a reasonable possibility that the Company would not disclose material information required to be disclosed under applicable securities legislation within the time periods specified in such legislation. Accordingly, management could not conclude that the Company's disclosure controls and procedures were effective as at December 31, 2018 and June 30, 2019.

Remedial Measures

The control deficiencies described above were detected in the fourth quarter of 2018. Management immediately implemented a detailed review of all costs incurred to date and the estimate of costs to complete, as well as, a review of contractual terms and conditions. Additional project management personnel were assigned to the project from other E&C sectors as these operating units have more experience working on lump-sum turnkey construction projects, and

specialists in negotiating client / subcontractor settlements were added to the project team. As previously announced, the Mining & Metallurgy segment has ceased to bid on lump-sum turnkey contracts.

As previously disclosed, the Company has assigned the highest priority to the remediation of this material weakness and is working together with the audit committee to resolve the issue. We are currently in the process of implementing our remediation plan. To date we have implemented a number of measures to address the material weakness identified. Despite the progress achieved, the material weakness will not be considered remediated until the applicable controls operate for a sufficient period of time and management has concluded, through testing, that these controls are operating effectively. The Company expects that the remediation of this material weakness will be completed prior to the end of fiscal year 2019. However, if these actions are not successful in addressing this material weakness, the Company's ability to report its financial results on a timely and accurate basis may be adversely affected. Management believes that its unaudited interim consolidated financial statements contain its best estimates of the project's final estimated costs and revenues and that the appropriate compensating controls have been implemented at the particular site to ensure forecasted costs and revenues are adequately controlled and communicated on a timely basis.

13.2 CHANGES IN INTERNAL CONTROL OVER FINANCIAL REPORTING

There have been no changes in the Company's internal control over financial reporting that occurred during the most recent interim period ended June 30, 2019 that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting, other than changes resulting from the remedial measures described above and changes resulting from the acquisition of Linxon described below.

The Company acquired Linxon in September 2018. As a result, management's assessment and conclusion on the design of disclosure controls and procedures, and internal control over financial reporting, excludes the controls, policies and procedures of Linxon. In 2019, Linxon represents 3.9% of revenues, nil % of net loss attributable to SNC-Lavalin shareholders and 2.1% of total assets of the consolidated figures reported in the unaudited consolidated financial statements for the second quarter and six-month periods ended June 30, 2019.

14 Events After the Reporting Period

REPAYMENT OF UNSECURED DEBENTURES

In July 2019, SNC-Lavalin repaid at maturity its unsecured debentures in the principal amount of \$350 million that bore interest at a rate of 6.19%.

NEW UNSECURED BRIDGE FACILITY

In July 2019, SNC-Lavalin and a group of financial institutions entered into a new credit agreement, which made available to SNC-Lavalin an unsecured non-revolving bridge term facility (the "New Bridge Facility") in the principal amount of \$300 million and having a maturity of 1 year. The New Bridge Facility is repayable in full upon receipt by SNC-Lavalin of the proceeds from the sale of its 10.01% interest in Highway 407 ETR. Borrowings under the New Bridge Facility were available by way of prime rate loans or acceptances. As at July 31, 2019, borrowings under the New Bridge Facility amounted to \$300 million.