stuartolson
people creating progress

2018 Annual Report - Management's Discussion and Analysis

March 5, 2019

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The following Management's Discussion and Analysis ("MD&A") of the consolidated operating performance and financial condition of Stuart Olson Inc. ("Stuart Olson", the "Company", "we", "us", or "our") for the three and twelve months ended December 31, 2018, dated March 5, 2019, should be read in conjunction with the December 31, 2018 Audited Consolidated Annual Financial Statements and related notes thereto, the December 31, 2017 Audited Consolidated Annual Financial Statements and related notes thereto, and the December 31, 2017 MD&A. Additional information relating to Stuart Olson is available under the Company's SEDAR profile at www.sedar.com and on our website at www.stuartolson.com. Unless otherwise specified, all amounts are expressed in Canadian dollars. The information presented in this MD&A, including information relating to comparative periods in 2017 and 2016, is presented in accordance with International Financial Reporting Standards ("IFRS") unless otherwise noted.

Certain measures in this MD&A do not have any standardized meaning as prescribed by IFRS and, therefore, are considered non-IFRS measures. These non-IFRS measures are commonly used in the construction industry, and by management of Stuart Olson Inc., as alternative methods for assessing operating results and to provide a consistent basis of comparison between periods. These measures are not in accordance with IFRS, and do not have any standardized meaning. Therefore, the non-IFRS measures in this MD&A are unlikely to be comparable to similar measures used by other entities. Non-IFRS measures include: contract income margin; work-in-hand; backlog; active backlog; book-to-bill ratio; working capital; adjusted free cash flow ("FCF"); adjusted free cash flow per share; adjusted earnings before interest, taxes, depreciation and amortization ("adjusted EBITDA"); adjusted EBITDA margin; long-term indebtedness; indebtedness to capitalization; net long-term indebtedness to adjusted EBITDA; interest coverage; dividend payout ratio; available liquidity; additional borrowing capacity; and debt to EBITDA. Further information regarding these measures can be found in the "Non-IFRS Measures" section of this MD&A.

We encourage readers to read the "Forward-Looking Information" section at the end of this document.

ABOUT STUART OLSON INC.

Stuart Olson provides public, private and industrial construction services to a diverse range of customers from Ontario to British Columbia.

The branding of our three operating groups is organized as follows:

Industrial Group

The Industrial Group operates under the general contracting brand of Stuart Olson and under our endorsed brands of Laird, Tartan, Studon, Northern, Fuller Austin and Sigma Power. The Industrial Group executes projects in a wide range of industrial sectors including oil and gas, petrochemical, refining, water and wastewater, pulp and paper, mining and power. With Industrial Group offices and projects across Western Canada, Ontario and the territories, we have developed a national platform to deliver industrial services.

The Industrial Group increasingly operates as an integrated industrial contractor, capable of self-performing larger projects in the industrial construction and maintenance, repairs and operations (“MRO”) space. The Industrial Group provides full-service general contracting, including mechanical, process insulation, metal siding and cladding, heating, ventilating and air conditioning (“HVAC”), asbestos abatement, electrical and instrumentation, high voltage testing and commissioning, as well as power line construction and maintenance services.

Buildings Group

Our Buildings Group provides services to clients in the public and private sectors. It operates offices and executes projects from Ontario to British Columbia.

Projects undertaken by the Buildings Group include the construction, expansion and renovation of buildings ranging from schools, post-secondary institutions, hospitals and sports arenas, to high-rise office towers, retail and high technology facilities. The Buildings Group focuses on alternative methods of project delivery such as construction management and design-build approaches. These methods provide cost effective construction solutions for clients as a result of the project efficiencies we are able to generate during our pre-construction process as well as during the lifecycle of the project. These approaches also support our ability to deliver on-time and on-budget project completion, assist us in building long-term relationships with clients, reduce project execution risk and improve our contract margins. The group adds value to projects through its state-of-the-art Centre for Building Performance, which positions the Buildings Group on the cutting edge of building technology and enables the delivery of value by design.

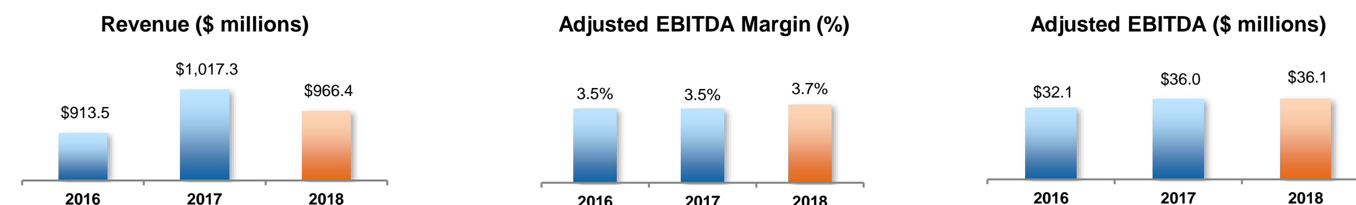
The majority of revenue generated by the Buildings Group is from repeat clients or arises through pre-qualification processes and select invitational tenders. The Buildings Group's business model is primarily to pursue and negotiate larger contracts on a construction management or design-build basis, as well as to selectively pursue lump sum projects. The Buildings Group subcontracts approximately 85% of its project work to subcontractors and suppliers and closely manages the construction process to deliver on its commitments.

Commercial Systems Group

The Commercial Systems Group is one of the largest electrical and data system contractors in Canada, with offices and projects from Ontario to British Columbia. The group is an industry leader in the provision of complex systems used in today's high-tech, high performance buildings. It not only designs, builds and installs a building's core electrical infrastructure, it also provides the services and systems that support information management, building systems integration, energy management, green data centres, security, risk management and lifecycle services. Additionally, the Commercial Systems Group provides ongoing maintenance and on-call service to customers across Canada, managing regional and national multi-site installations and roll outs via dedicated service technicians and a contractor partner network in Eastern Canada.

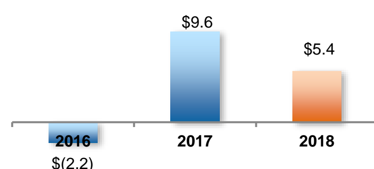
The Commercial Systems Group focuses primarily on large, complex projects that contain both data and electrical components, or that require extensive logistical expertise. The group's strategy is to deliver these services on a tendered (hard-bid) basis and as part of an integrated project delivery process that includes close involvement with customers from the earliest stages of design. It is also an industry leader in the use of off-site assembly of pre-fabricated modularized system components, which significantly improves worksite productivity.

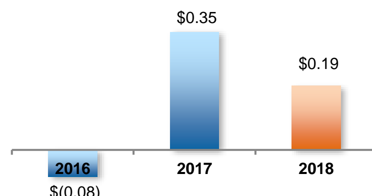
2018 OVERVIEW

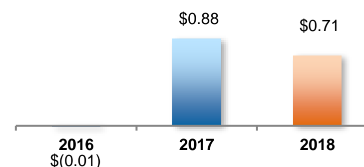


Financial Overview

- We generated consolidated revenue of $966.4 million in 2018, compared to $1,017.3 million in 2017. The year-over-year change reflects a decline in Buildings Group activity levels associated with a greater proportion of projects being in lower-activity stages of construction in 2018, combined with the completion of two large Industrial Group projects that were in high activity phases in 2017. These impacts were partially offset by significantly higher revenue contributions from the Commercial Systems Group as it continued to benefit from the significant project awards secured in 2017, along with meaningful revenue contributed from the group's new operations in Ontario.
- Adjusted EBITDA increased to $36.1 million, from $36.0 million in 2017. Adjusted EBITDA margin also increased to 3.7% from 3.5% in 2017, reflecting increased margins on certain Buildings Group and Industrial Group projects that were completed in 2018, together with a year-over-year reduction in incentive accruals, partially offset by lower adjusted EBITDA from the Commercial Systems Group.
- We recorded net earnings of $5.4 million (diluted earnings per share, or "EPS", of $0.19), as compared to $9.6 million (diluted EPS of $0.35) in 2017. The recognition of costs related to restructuring, investing and other one-time activities in 2018, were key factors in this change, and compares to a recovery recognized in 2017 related to restructuring activities.
- We generated adjusted free cash flow of $19.5 million ($0.71 per share) in 2018, a decrease of $4.4 million from $23.9 million ($0.88 per share) in 2017, primarily reflecting lower net earnings.
- We ended 2018 with a cash balance of $25.9 million and additional borrowing capacity of approximately $71.5 million, providing us with combined available liquidity of $97.4 million. This compares to combined available liquidity of $153.9 million as at December 31, 2017, which included $31.7 million of cash and $122.2 million of additional borrowing capacity. The change in combined available liquidity primarily relates to the use of cash and a draw on our Revolving Credit Facility ("Revolver") to fund investments in working capital required for ordinary operations and normal course final project adjustments and the acquisition of Tartan Canada Corporation ("Tartan") in November of 2018. Also contributing to the year-over-year change in available liquidity was a decline in last-twelve-month ("LTM") Revolver EBITDA, which differs from our calculation of reported adjusted EBITDA primarily with respect to the timing of recognition of certain expenditures.
- Our net long-term indebtedness to adjusted EBITDA ratio was 2.8x as at December 31, 2018, or 2.6x on a pro forma basis inclusive of Tartan's LTM adjusted EBITDA. This compares to 1.7x at December 31, 2017. This change in leverage reflects the draw on our Revolver in order to fund working capital requirements, as well as the impact of debt financing related to the Tartan acquisition in 2018.





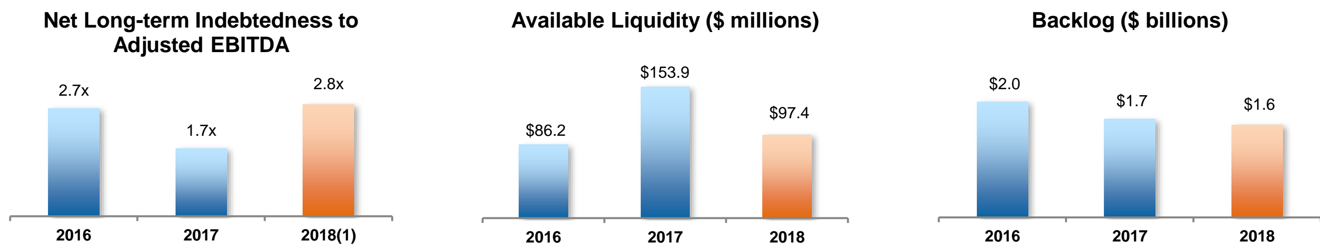


- On March 5, 2019, our Board of Directors ("Board") declared a quarterly common share dividend of $0.06 per share. The dividend is designated as an eligible dividend under the Income Tax Act (Canada) and is payable April 16, 2019 to shareholders of record on March 29, 2019.
  - In order to pursue the significant number of federal and provincial infrastructure projects that we are actively bidding on, and consistent with our strategy of diversifying our project delivery model to include larger design-build projects and projects with increasing scope and scale, we have decided to reduce the quarterly dividend to $0.06 per share. This will bring our dividend metrics more in line with our peers while giving us a stronger balance sheet and improving our ability to win major new projects, pursue growth opportunities and create shareholder value.
  - Since the introduction of the quarterly dividend in June 2011, we have paid a dividend for thirty-two consecutive quarters, including the dividend declared today. This represents $3.78 per share or $97.8 million in total, returned to shareholders.
  - On a pro forma basis, had the $0.06 per share quarterly dividend been in place throughout 2018, the dividend payout ratio would have been reduced from 55.4% to 27.7%.
- We negotiated the following amendments to our Revolver:
  - On November 28, 2018 we amended the terms to enable us to enter into equity hedging agreements.
  - Subsequent to year-end on March 5, 2019, we further amended the terms of the facility to: 1) temporarily increase the debt to EBITDA covenant to provide us with the optionality to use the Revolver to fully settle the repayment of our $80.5 million convertible debentures in 2019, 2) exclude certain non-cash interest costs from the calculation of our interest coverage ratio covenant, 3) minimize any adverse impacts to covenant calculations from the adoption of IFRS 16, and 4) exclude costs related to certain shareholder activities from the definition of EBITDA.

Operational Highlights

- We ended the year with a backlog of $1.6 billion, which includes a diverse mix of public, private and industrial projects from Ontario to British Columbia and is predominantly made up of low-risk contract arrangements. During 2018, we added approximately $825 million to our backlog comprising:
  - $460 million from the Buildings Group including three large post-secondary institution projects in Ontario, a large agricultural facility in Western Canada, the expansion of an event centre in Alberta, a health care facility in British Columbia and several horizontal infrastructure projects in British Columbia.
  - $200 million from the Commercial Systems Group comprised of numerous projects, including several residential towers in British Columbia and Winnipeg, an agricultural facility in British Columbia, and the design and revitalization of post-secondary institutions in Alberta and British Columbia.
  - $165 million from the Industrial Group, including the $64.1 million of backlog added as part of the acquisition of Tartan, as well as several insulation and electrical projects in the petrochemical, oil sands and power sectors.

- On November 6, 2018 we acquired 100% of the issued and outstanding shares of Tartan, a privately held industrial services provider in Western Canada, for a purchase price of approximately $12 million. Tartan specializes in the provision of mechanical maintenance services to the oil and gas, pulp and paper, petrochemical and power sectors. The acquisition expands the Industrial Group's access to a larger share of the industrial market, both in terms of mechanical and general contracting opportunities, and Tartan is expected to provide a meaningful contribution to Stuart Olson's 2019 results as the business is integrated into the Industrial Group. Please refer to our November 6, 2018 press release labeled "Stuart Olson Completes Acquisition of Tartan Canada Corporation" for additional information on this acquisition.
- We announced a number of changes to our Board of Directors in 2018, including the appointments of Raymond D. Crossley, David C. Filmon and Mary C. Hemmingsen, as directors.
- Subsequent to year-end, Stuart Olson was recognized as one of Alberta's Top Employers in 2019 for the third consecutive year.



Note: (1) 2018 net long-term indebtedness to adjusted EBITDA was 2.6x on a pro forma basis inclusive of Tartan's LTM adjusted EBITDA.

STRATEGY

Vision

Our vision is to become a top five construction and services company in Canada. We will have the size, scope and scale to respond to and withstand market shifts and challenging economic conditions. This will also increase our participation in the largest and most complex projects in Canada.

As we work towards achieving our vision, we will continue to be a top-tier construction and services provider in the sectors and geographic regions we serve, both in size and in reputation. We will also continue to attract top talent as a result of our inspiring, people-first culture, company-wide values and best-in-class safety environment, which are all rooted in our commitment to our "Promise" to positively impact the businesses we serve, the communities in which we operate and the lives we touch. We are "People Creating Progress".

Foundation is Built

During the last four years, we have worked to redefine our organization and position our business for long-term success. The result is a company and culture that is equipped to service the ever-changing needs of our core clients, target new opportunities and effectively respond to the volatility of the marketplace and emerging trends.

In 2014, we recognized that it was critical to streamline our brand and simplify our organization in order to strengthen our competitive advantage and ensure that the marketplace had a better understanding of who we are and what we do. We changed our name to Stuart Olson Inc. in that same year and began to rebrand all of our major subsidiaries.

Since 2014, we have become a more focused and integrated organization under one name, and have taken the important and necessary steps to refocus and rebrand our organization both internally and externally. At the same time, we have been steadily diversifying our business, both geographically and by sector, to reduce volatility and create new opportunities.

Growth Strategy

Going forward, we will continue to build a business that can adapt to changing market conditions, industry drivers and client needs, while continuing to diversify geographically. To stay abreast of market conditions and create value for shareholders, we plan to execute a growth strategy that will target the addition of complementary trade services, such as mechanical, into either or both of the Industrial Group and the Commercial Systems Group. This initiative is a two-pronged approach. In addition to investing internally in the organic growth of services, we have an active corporate development function that is pursuing the addition of services via accretive acquisitions. Ensuring we are able to capitalize on the right opportunity to complete our service offerings and increase our competitive advantage is critical to our growth strategy.

Investment Proposition

Our planned national platform, sector-diversified portfolio and full suite of services, together with a focus on operational excellence, will provide the size, scope, and scale necessary to deliver meaningful adjusted EBITDA growth that will unlock shareholder value, both through share price appreciation and an attractive quarterly dividend, all supported by a strong balance sheet.

Strategic Priorities

Grow the Core and Expand into New Markets

- Industrial Group – Integrated Solutions Provider: The Industrial Group is a national MRO service provider and industrial general contractor. The group plans to drive growth by expanding its market share through the diversification of its business, including into new sectors and through the addition of complementary trade services. Progress was achieved on this priority with the acquisition of Tartan in the fourth quarter of 2018.
- Buildings Group – Leverage Growth Platform: The Buildings Group is a leading provider of construction management ("CM") services for public and private developers from Ontario to British Columbia. The group's strategic priorities are focused on increasing market share in existing regions by leveraging its proven expertise as a leader in CM and design-build delivery methods. In addition, the group plans to grow market access through a calculated expansion of its delivery models into Public, Private Partnership ("P3"), and Design-Build-Finance projects, and execute a targeted entry into the horizontal infrastructure sector.
- Commercial Systems Group – Electrical & Mechanical Contractor: The Commercial Systems Group is a top-tier provider of electrical services from Ontario to British Columbia. This group's growth strategy is to further expand its geographic reach in existing core regions in Western Canada, as well as in its new Ontario market. The group also plans growth through the pairing of complementary mechanical capabilities with its industry-leading electrical base business, both organically and through the addition of complementary trade services.

2019 OUTLOOK

Implementation of IFRS 16 - *Leases*

Beginning in fiscal 2019 we will be adopting IFRS 16 – *Leases*, which will result in a significant change to the way certain leases are measured and presented in our financial results. The new standard includes a reclassification of a meaningful amount of facility costs from rent expense (which is included as a cost in the calculation of adjusted EBITDA), to depreciation and interest (which is excluded as a cost in the calculation of adjusted EBITDA). While the new standard will impact our calculation of adjusted EBITDA, it will not result in a change to net earnings over the life of each lease.

We will be adopting this new standard on a cumulative catch-up basis, meaning that our 2018 results will not be restated for 2019. As such, our outlook below reflects a comparison of our expected 2019 results under the new IFRS 16 lease standard to the amounts reported for 2018 under the previous standard. We currently estimate that $6.5 to $7.5 million of lease costs previously directly expensed will become depreciation and interest under the new standard. Please refer to the “Changes in Accounting Policies” section of this MD&A for further details of this change.

Stuart Olson Consolidated

On a full-year basis, we expect 2019 consolidated contract revenue and adjusted EBITDA to be significantly higher, and adjusted EBITDA margin to be slightly lower than in 2018, based on the outlooks for each of our operating groups below. Excluding the changes in accounting from the adoption of IFRS 16, we expect consolidated adjusted EBITDA to be modestly higher year-over-year.

While we do not ordinarily provide a quarterly outlook, we are including an outlook for our first quarter results due to the combined negative impacts of the continued oil price volatility and mandatory Alberta oil production curtailment on capital spending by our integrated oil sands customers in the first part of 2019, together with a significant first quarter shift in project mix and stage of completion as compared to the same period last year. Accordingly, while we expect full-year results to improve, we expect first quarter consolidated 2019 contract revenue to be meaningfully lower than in Q1 2018, with significantly lower adjusted EBITDA and meaningfully lower adjusted EBITDA margin results.

We expect capital expenditures for 2019, excluding leased right of use assets recognized under IFRS 16, to be between $5.0 million and $6.5 million.

Industrial Group

On a full-year basis, revenue and adjusted EBITDA from the Industrial Group is expected to be significantly higher in the 2019 fiscal year as compared to 2018. This outlook reflects a robust pipeline of construction opportunities for the group, together with the addition of a full year of revenue and adjusted EBITDA contribution from the recently acquired Tartan business, as well as an increase to adjusted EBITDA from the adoption of IFRS 16. Adjusted EBITDA margin for the group is expected to be meaningfully lower year-over-year, reflecting last year’s completion of major projects that contributed significant close-out margins to 2018 results.

Industrial Group results for the first quarter of 2019 are expected to reflect the reduction in planned oil sands capital spending related to both the negative impact on our integrated oil sands customers of the imposed mandatory Alberta production cuts and a volatile benchmark Western Canadian Select oil price, combined with a year-over-year shift in project mix and stage of completion. As a result, we anticipate that the Industrial Group’s first quarter revenue, adjusted EBITDA and adjusted EBITDA margin will be significantly lower as compared to the first quarter of 2018.

We expect to execute approximately $230.0 million of the Industrial Group’s December 31, 2018 backlog in 2019. New contract awards and changes in scope are expected to supplement the group’s 2019 revenue from year-end backlog.

Buildings Group

For the fiscal 2019 year, the Buildings Group anticipates significantly higher revenue and meaningfully higher adjusted EBITDA year-over-year on the basis of increased revenue and the impact of IFRS 16, paired with a modest decline in adjusted EBITDA margin. This outlook reflects a robust pipeline of opportunities for the group in 2019, combined with a greater proportion of projects in higher-activity but lower-margin stages of completion in 2019.

First quarter 2019 Buildings Group results are expected to include slightly lower year-over-year revenue with meaningfully higher adjusted EBITDA and adjusted EBITDA margin as a result of the shift in project mix and stage of completion.

We expect to execute approximately $440.0 million of the Buildings Group's December 31, 2018 backlog in 2019. New awards and scope increases on existing projects are expected to supplement revenue from secured projects in backlog.

Commercial Systems Group

On a full-year basis, Commercial Systems Group 2019 revenue is expected to be slightly higher than in 2018, while adjusted EBITDA and adjusted EBITDA margin are expected to be significantly higher as productivity challenges experienced in 2018 are not expected to repeat. The group's adjusted EBITDA will also increase related to the adoption of IFRS 16.

In the first quarter of 2019, the completion of several lower-margin projects, together with a significant shift in project mix and stage of completion, is expected to result in meaningfully lower revenue and significantly lower adjusted EBITDA and adjusted EBITDA margin as compared to the first quarter of 2018.

The Commercial Systems Group expects to execute approximately $115.0 million of its December 31, 2018 backlog in 2019. New awards, short-duration projects, building maintenance and tenant improvement work on existing projects are expected to supplement the secured projects in backlog.

Corporate Group

We expect Corporate Group adjusted EBITDA to decline significantly in 2019 as compared to 2018. This impact relates to both a significant reduction in share-based compensation expense that occurred in 2018 as a result of a decrease in our share price in the year, as well as an expected increase in 2019 incentive accruals relating to the anticipated improvement in operating performance. The Corporate Group also will benefit from the impact of adopting IFRS 16.

We expect first quarter Corporate Group adjusted EBITDA to significantly improve year-over-year, reflecting the changes in accounting from adopting IFRS 16 and a shift in timing related to incentive plan accruals.

ACQUISITION OF TARTAN

On November 6, 2018 we acquired 100% of the issued and outstanding shares of Tartan, a privately held industrial services provider in Western Canada, specializing in the provision of mechanical maintenance services to the oil and gas, pulp and paper, petrochemical and power sectors. Our reported results for the Industrial Group and consolidated Stuart Olson include Tartan's results from the acquisition date. For further information on the acquisition of Tartan, please refer to *Note 5* of our December 31, 2018 Audited Consolidated Annual Financial Statements.

RESULTS OF OPERATIONS

Consolidated Annual Results

	Year ended December 31		
$millions, except percentages and per share amounts	**2018**	**2017**	**2016[2]**
Contract revenue	**966.4**	1,017.3	913.5
Contract income	**96.1**	103.9	92.4
Contract income margin[1]	***9.9%***	*10.2%*	*10.1%*
Administrative costs	**79.8**	83.1	86.5
Adjusted EBITDA[1] [2]	**36.1**	36.0	32.1
Adjusted EBITDA margin[1] [2]	***3.7%***	*3.5%*	*3.5%*
Net earnings (loss)	**5.4**	9.6	(2.2)
Earnings (loss) per share			
Basic earnings (loss) per share	**0.19**	0.35	(0.08)
Diluted earnings (loss) per share	**0.19**	0.35	(0.08)
Dividends declared per share	**0.42**	0.48	0.48
Adjusted free cash flow[1]	**19.5**	23.9	(0.2)
Adjusted free cash flow per share[1]	**0.71**	0.88	(0.01)
$millions	**Dec. 31, 2018**	**Dec. 31, 2017**	**Dec. 31, 2016**
Backlog[1]	**1,567.4**	1,721.4	1,995.1
Working capital[1] [3]	**(10.9)**	33.1	37.4
Long-term debt (excluding current portion)	**43.1**	6.0	32.8
Convertible debentures (excluding equity portion) [3]	**78.2**	76.2	74.3
Total assets	**625.3**	630.3	602.2

Notes: (1) “Contract income margin”, “adjusted EBITDA”, “adjusted EBITDA margin”, “adjusted free cash flow”, “adjusted free cash flow per share”, “backlog” and “working capital” are non-IFRS measures. Please refer to “Non-IFRS Measures” for definitions of these terms.
(2) During Q4 2018, we changed our definition of Adjusted EBITDA to exclude costs related to certain shareholder activities. This change in definition has not had an impact on the calculations for the years ended December 31, 2017 and December 31, 2016. Please refer to the “Non-IFRS Measures” section of this MD&A for more information on our definition and the calculation.
(3) The convertible debentures issued in 2014 are presented as a current liability of $78.2 million as at December 31, 2018.

Consolidated Annual Results

For the year ended December 31, 2018, we generated consolidated contract revenue of $966.4 million, as compared to $1,017.3 million in 2017. While the Commercial Systems Group increased revenue by $46.4 million or 24.8% and intersegment revenue eliminated on consolidation was $29.0 million or 63.7% lower year-over-year, these gains were offset by an $88.4 million or 16.3% decrease in revenue from the Buildings Group and a $37.9 million or 11.3% decrease from the Industrial Group.

We achieved contract income of $96.1 million in 2018, a $7.8 million or 7.5% decrease from $103.9 million in 2017. Contract income declined by $4.0 million or 16.6% in the Commercial Systems Group, $2.6 million or 6.7% in the Industrial Group and $1.3 million or 3.1% in the Buildings Group.

We lowered full-year administrative costs by $3.3 million or 4.0% to $79.8 million, from $83.1 million in 2017. Industrial Group administrative costs were $3.1 million or 14.9% lower year-over-year and Corporate Group administrative costs decreased by $2.5 million or 8.6%. These improvements were partially offset by a $1.2 million or 6.0% increase in administrative costs in the Buildings Group and a $1.1 million or 8.5% increase in the Commercial Systems Group. The Corporate Group costs for the period reflect a significant decrease in incentive compensation accruals year-over-year, including a decrease in share-based compensation expense.

Adjusted EBITDA increased to $36.1 million in 2018, from the $36.0 million in 2017. The $0.1 million or 0.3% improvement primarily reflects administrative cost savings. Adjusted EBITDA margin increased to 3.7% from the 3.5% achieved in 2017.

We generated full-year consolidated net earnings of $5.4 million (diluted EPS of $0.19) as compared to $9.6 million (diluted EPS of $0.35) in 2017. The $4.2 million or 43.8% change in net earnings primarily reflects an increase in finance costs in 2018 associated with increases to the Canadian prime lending rate, combined with the 2018 recognition of costs related to restructuring, investing and other one-time activities, as compared to a 2017 recovery of costs related to restructuring activities.

We generated adjusted free cash flow of $19.5 million ($0.71 per share) in 2018, as compared to $23.9 million ($0.88 per share) in 2017. The $4.4 million ($0.17 per share) decrease was driven primarily by lower contract income and increased cash payments related to interest, share-based compensation, and restructuring costs. These impacts were partially offset by the collection of a tax refund in 2018 (related to prior years) as compared to final balance tax payments made in 2017.

Consolidated Q4 Results

$millions, except percentages and per share amounts	Three months ended December 31	
	2018	**2017**
Contract revenue	**227.6**	282.6
Contract income	**21.6**	34.7
Contract income margin[1]	***9.5%***	*12.3%*
Administrative costs	**20.9**	25.2
Adjusted EBITDA[1] [2]	**7.2**	11.5
Adjusted EBITDA margin[1] [2]	***3.2%***	*4.1%*
Net (loss) earnings	**(1.3)**	5.7
(Loss) earnings per share		
Basic (loss) earnings per share	**(0.05)**	0.21
Diluted (loss) earnings per share	**(0.05)**	0.18
Dividends declared per share	**0.06**	0.12
Adjusted free cash flow[1]	**(0.2)**	10.4
Adjusted free cash flow per share[1]	**(0.01)**	0.38

Notes: (1) "Contract income margin", "adjusted EBITDA", "adjusted EBITDA margin", "adjusted free cash flow", "adjusted free cash flow per share", "backlog" and "working capital" are non-IFRS measures. Refer to "Non-IFRS Measures" for definitions of these terms.
(2) During Q4 2018, we changed our definition of Adjusted EBITDA to exclude costs related to certain shareholder activities. This change in definition has not had an impact to the calculation for the quarter ended December 31, 2017. Please refer to the "Non-IFRS Measures" section of this MD&A for more information on our definition and the calculation.

Three-Month Results

For the three months ended December 31, 2018, we generated consolidated contract revenue of $227.6 million, as compared to $282.6 million in Q4 2017. While intersegment revenue eliminated on consolidation was $11.6 million or 92.1% lower year-over-year, this was offset by revenue decreases of $37.1 million or 36.8% in the Industrial Group, $25.5 million or 18.8% in the Buildings Group and $4.0 million or 6.8% in the Commercial Systems Group.

Fourth quarter contract income was $21.6 million in 2018, as compared to $34.7 million in Q4 2017. Contract income declined by $5.9 million or 59.6% in the Commercial Systems Group, $5.1 million or 39.5% in the Industrial Group and $2.1 million or 17.6% in the Buildings Group.

We reduced administrative costs by $4.3 million or 17.1% to $20.9 million in Q4 2018, from $25.2 million in the same period of 2017. Corporate Group administrative costs were $5.6 million or 44.4% lower, in part due to a significant year-over-year decrease in incentive compensation accruals. We also achieved administrative cost savings of $0.9 million or 15.8% in the Industrial Group. These administrative cost savings were partially offset by increases of $1.9 million or 54.3% in the Buildings Group and $0.2 million or 5.9% in the Commercial Systems Group. The increase in Buildings Group costs reflects a significant recovery recorded in Q4 2017 related to previously expensed restructuring costs, which did not repeat in the 2018 quarter.

For the three months ended December 31, 2018, we generated adjusted EBITDA of $7.2 million, as compared to $11.5 million in Q4 2017. The year-over-year change reflects the net impact of lower contract income and reduced administrative costs explained above (before the impact of an increase in costs related to restructuring, investing and other one-time activities in Q4 2018, which are excluded from the calculation of adjusted EBITDA). Adjusted EBITDA margin decreased to 3.2%, from the 4.1% achieved in the same period last year.

We recorded a consolidated net loss of $1.3 million (diluted loss per share of $0.05) in the fourth quarter of 2018. This compares to net earnings of $5.7 million (diluted earnings per share of $0.18) in the same period last year. The $7.0 million change in after-tax earnings primarily reflects the lower adjusted EBITDA, combined with the Q4 2018 recognition of costs related to restructuring, investing and other one-time activities, as compared to the Q4 2017 recovery related to restructuring activities.

Adjusted free cash flow declined to an outflow of $0.2 million (outflow of $0.01 per share) in the fourth quarter of 2018, from $10.4 million ($0.38 per share) in the same period last year. The year-over-year change was driven primarily by the decline in net earnings and an increase in cash payments in respect of interest, restructuring, acquisition and other one-time costs, as well as the required funding of legacy pension plans.

Consolidated Backlog

$millions, except percentages	Dec. 31, 2018	Dec. 31, 2017
Industrial Group	**538.2**	668.7
Buildings Group	**813.1**	802.3
Commercial Systems Group	**216.1**	250.4
Consolidated backlog	**1,567.4**	1,721.4
Cost-plus	**32.7%**	36.0%
Construction management	**39.4%**	40.2%
Design-build	**0.7%**	3.0%
Tendered (hard-bid)	**27.2%**	20.8%

Consolidated backlog as at December 31, 2018 was $1,567.4 million, a decrease of $154.0 million or 8.9% from backlog of $1,721.4 million at December 31, 2017. As at December 31, 2018, backlog consisted of work-in-hand of $884.0 million (December 31, 2017 - $853.3 million) and active backlog of $683.4 million (December 31, 2017 - $868.1 million). The backlog consists of approximately 32.7% cost-plus arrangements, 39.4% construction management contracts, 0.7% design-build contracts and 27.2% tendered (hard-bid) work. The majority of our backlog (72.1%) is comprised of construction management and cost-plus arrangements, which are low-risk project delivery methods. Net new contract awards and increases in contract values of $210.7 million and $812.5 million were added to backlog in the fourth quarter and fiscal 2018, respectively.

Our book-to-bill ratios for the fourth quarter and fiscal 2018 were 0.64 and 0.77 to 1.00, respectively, excluding the approximately $64.1 million of backlog added as part of the Tartan acquisition in the fourth quarter. Revenue exceeded backlog additions in both periods primarily due to the Industrial Group working through its long-term MRO contracts and the significant increase in activity levels for the Commercial Systems Group as its works through its record December 31, 2017 backlog.

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RESULTS OF OPERATIONS BY GROUP

Industrial Group Results

	Three months ended December 31		Year ended December 31	
$millions, except percentages	**2018**	**2017**	**2018**	**2017**
Contract revenue	**63.7**	100.8	**297.3**	335.2
Contract income	**7.8**	12.9	**36.0**	38.6
Contract income margin[(1)]	***12.2%***	*12.8%*	***12.1%***	*11.5%*
Administrative costs	**4.8**	5.7	**17.7**	20.8
Adjusted EBITDA[(1)]	**4.2**	8.7	**22.7**	23.2
Adjusted EBITDA margin[(1)]	***6.6%***	*8.6%*	***7.6%***	*6.9%*
Earnings before tax ("EBT")	**3.1**	7.3	**18.4**	18.1
			Dec. 31 2018	**Dec. 31 2017**
Backlog[(1)]			**538.2**	668.7

Note: (1) "Contract income margin", "adjusted EBITDA", "adjusted EBITDA margin" and "backlog" are non-IFRS measures. Please refer to the "Non-IFRS Measures" section of this document for definitions of these terms.

Three-Month Results

For the three months ended December 31, 2018, the Industrial Group generated revenue of $63.7 million, a $37.1 million or 36.8% decrease from $100.8 million executed in Q4 2017. The year-over-year change primarily reflects the completion of two large projects that contributed significant revenue to Q4 2017 results, partially offset by revenue contributed by Tartan from the November 6, 2018 acquisition date.

Fourth quarter contract income from the Industrial Group was $7.8 million, as compared to $12.9 million in Q4 2017. The $5.1 million or 39.5% decrease primarily reflects the lower revenue. Contract income margin decreased to 12.2% from 12.8% in the fourth quarter of 2017, primarily reflecting a decline in operational leverage as a result of the lower activity levels in 2018. This was partially offset by contract income earned by Tartan subsequent to the acquisition date.

Fourth quarter administrative costs decreased 15.8% to $4.8 million, from $5.7 million in 2017. The $0.9 million in savings were achieved in conjunction with the centralization in 2018 of support functions and their related costs into the Corporate Group as part of our strategy to realign our businesses for greater operational efficiencies. Also benefitting Q4 2018 was a year-over-year reduction in restructuring costs and bad debt expense.

Fourth quarter adjusted EBITDA from the Industrial Group was $4.2 million, as compared to $8.7 million during the same period of 2017. The $4.5 million or 51.7% decrease primarily reflects the net effect of the lower contract income, partially offset by administrative cost savings. The Industrial Group's fourth quarter adjusted EBITDA margin was 6.6%, as compared to 8.6% in Q4 2017.

Fourth quarter earnings before tax were $3.1 million, as compared to $7.3 million in Q4 2017. The $4.2 million or 57.5% change was driven primarily by the lower adjusted EBITDA.

Twelve-Month Results

For the year ended December 31, 2018, the Industrial Group generated revenue of $297.3 million, as compared to $335.2 million in 2017. The $37.9 million or 11.3% decrease reflects the completion in 2018 of two large construction projects that were in high activity phases in 2017, partially offset by revenue contributed by Tartan from the November 6, 2018 acquisition date.

Contract income from the Industrial Group was $36.0 million (12.1% contract income margin) in 2018, as compared to $38.6 million (11.5% contract income margin) in 2017. The $2.6 million or 6.7% change was due primarily to the lower revenue, partially offset by the combination of increased margins recognized on certain projects completed in 2018 and contract income earned by Tartan after the acquisition date.

The Industrial Group lowered administrative costs by 14.9% to $17.7 million for the year ended December 31, 2018, from $20.8 million in 2017. The $3.1 million savings were achieved in conjunction with the centralization in 2018 of support functions and their related costs into the Corporate Group as part of our strategy to realign our businesses for greater operational efficiencies. Also benefitting 2018 was a year-over-year reduction in restructuring costs and bad debt expense.

Adjusted EBITDA was $22.7 million (7.6% adjusted EBITDA margin) in 2018, a decline of 2.2% from $23.2 million (6.9% adjusted EBITDA margin) in 2017. The $0.5 million decrease primarily reflects the lower contract income, offset by administrative cost savings (before the impact of restructuring and depreciation costs).

Earnings before tax increased 1.7% to $18.4 million, from $18.1 million in 2017. The $0.3 million improvement was driven primarily by a year-over-year reduction in depreciation expense.

Industrial Group Backlog

As at December 31, 2018, Industrial Group backlog was $538.2 million, as compared to $668.7 million as at December 31, 2017. The decline of 19.5% or $130.5 million reflects the group working through its long-term MRO agreements, partially offset by the addition of $64.1 million of backlog related to our November 6, 2018 acquisition of Tartan. As at December 31, 2018, 92.6% of the Industrial Group's backlog was composed of cost-plus projects and 7.4% was tendered (hard-bid) projects. The December 31, 2018 backlog consisted of $231.0 million of work-in-hand and $307.2 million of active backlog, compared to $235.2 million of work-in-hand and $433.5 million of active backlog as at December 31, 2017. Excluding the acquired Tartan backlog, the Industrial Group added $102.6 million to backlog during 2018, and executed $297.3 million of contract revenue.

Buildings Group Results

	Three months ended December 31		Year ended December 31	
$millions, except percentages	**2018**	**2017**	**2018**	**2017**
Contract revenue	**110.1**	135.6	**452.4**	540.8
Contract income	**9.8**	11.9	**40.0**	41.3
Contract income margin[(1)]	***8.9%***	*8.8%*	***8.8%***	*7.6%*
Administrative costs	**5.4**	3.5	**21.2**	20.0
Adjusted EBITDA[(1)]	**4.8**	6.4	**20.2**	20.5
Adjusted EBITDA margin[(1)]	***4.4%***	*4.7%*	***4.5%***	*3.8%*
Earnings before tax	**4.7**	8.6	**19.7**	21.8
			Dec. 31 2018	**Dec. 31 2017**
Backlog[(1)]			**813.1**	802.3

Note: (1) "Contract income margin", "adjusted EBITDA", "adjusted EBITDA margin" and "backlog" are non-IFRS measures. Please refer to the "Non-IFRS Measures" section of this document for definitions of these terms.

Three-Month Results

For the three months ended December 31, 2018, the Buildings Group generated revenue of $110.1 million, as compared to $135.6 million in the same period of 2017. The $25.5 million or 18.8% decrease was due primarily to a shift in project stage of completion, with a greater proportion of projects in lower activity construction phases during the Q4 2018 period.

Fourth quarter contract income was $9.8 million (8.9% contract income margin), as compared to $11.9 million (8.8% contract income margin) during the same period in 2017. The $2.1 million or 17.6% decrease primarily reflects the lower revenue.

Administrative costs for the Buildings Group increased to $5.4 million, from $3.5 million in Q4 2017. The $1.9 million or 54.3% change primarily reflects a significant reversal of restructuring costs recognized in Q4 2017 as the result of a reassessment of our facilities strategy and a consolidation from multiple facilities into a single larger space. The impact of this 2017 recovery was partially offset by a Q4 2018 reduction in costs related to the 2018 centralization of support functions into the Corporate Group as we continue to realign our businesses for greater operational efficiencies.

We generated fourth quarter adjusted EBITDA of $4.8 million (4.4% adjusted EBITDA margin), as compared to $6.4 million (4.7% adjusted EBITDA margin) last year. The $1.6 million or 25.0% decrease primarily reflects lower contract income, partially offset by administrative cost savings (before the impact of restructuring and depreciation costs).

Earnings before tax from the Buildings Group was $4.7 million in the fourth quarter of 2018, a $3.9 million or 45.3% decrease from $8.6 million in the same period of 2017. The decline was driven primarily by lower adjusted EBITDA and the year-over-year change in restructuring costs.

Twelve-Month Results

For fiscal 2018, the Buildings Group generated revenue of $452.4 million, which compares to $540.8 million in 2017. The $88.4 million or 16.3% decrease is due primarily to a shift in project stage of completion, with a greater proportion of projects in lower-activity stages of construction in 2018.

Contract income decreased 3.1% to $40.0 million (8.8% contract income margin), from $41.3 million (7.6% contract income margin) in 2017. The $1.3 million change primarily reflects lower revenue, partially offset by increased contract income margin related to higher margins on a number of projects that approached completion in 2018.

Administrative costs of $21.2 million in 2018 were $1.2 million or 6.0% higher than the $20.0 million reported in 2017. The year-over-year increase primarily reflects a significant reversal of restructuring costs in 2017 as a result of a reassessment of our facilities strategy and a consolidation from multiple facilities into a single larger space. This was partially offset by the centralization in 2018 of support functions into the Corporate Group in conjunction with the realignment of our businesses for greater operational efficiencies.

Adjusted EBITDA from the Buildings Group decreased slightly to $20.2 million (4.5% adjusted EBITDA margin) for the year ended December 31, 2018, from $20.5 million (3.8% adjusted EBITDA margin) in 2017. The $0.3 million or 1.5% change primarily reflects lower contract income, partially offset by administrative cost savings (before the impact of restructuring and depreciation costs).

We generated earnings before tax of $19.7 million in 2018, down $2.1 million or 9.6% from $21.8 million in 2017. The decrease primarily reflects the year-over-year change in restructuring costs.

Buildings Group Backlog

As at December 31, 2018, the Buildings Group's backlog increased to $813.1 million, from $802.3 million as at December 31, 2017. The $10.8 million or 1.3% increase reflects the award of numerous projects throughout the year, including the award of several horizontal infrastructure projects primarily in British Columbia, together with a number of new institutional project awards in the group's Ontario market. As at December 31, 2018, 75.9% of the Buildings Group's backlog was composed of CM assignments and 24.1% was tendered (hard-bid) projects. The group's December 31, 2018 backlog consisted of $444.1 million of work-in-hand and $369.0 million of active backlog, compared to $379.8 million of work-in-hand and $422.5 million of active backlog as at December 31, 2017. The Buildings Group executed $452.4 million of contract revenue in 2018 and added $463.2 million of new work to backlog.

Commercial Systems Group Results

	Three months ended December 31		Year ended December 31	
$millions, except percentages	**2018**	**2017**	**2018**	**2017**
Contract revenue	**54.8**	58.8	**233.2**	186.8
Contract income	**4.0**	9.9	**20.1**	24.1
Contract income margin[(1)]	***7.3%***	*16.8%*	***8.6%***	*12.9%*
Administrative costs	**3.6**	3.4	**14.0**	12.9
Adjusted EBITDA[(1)]	**0.8**	6.9	**8.3**	13.1
Adjusted EBITDA margin[(1)]	***1.5%***	*11.7%*	***3.6%***	*7.0%*
Earnings before tax	**0.4**	6.6	**6.4**	11.4
			Dec. 31 2018	**Dec. 31 2017**
Backlog[(1)]			**216.1**	250.4

Note: (1) "Contract income margin", "adjusted EBITDA", "adjusted EBITDA margin" and "backlog" are non-IFRS measures. Please refer to the "Non-IFRS Measures" section of this document for definitions of these terms.

Three-Month Results

For the three months ended December 31, 2018, the Commercial Systems Group generated revenue of $54.8 million, as compared to $58.8 million in Q4 2017. This $4.0 million or 6.8% decrease is partially due to a shift in project mix and stage of completion between the two periods.

Fourth quarter contract income was $4.0 million (contract income margin of 7.3%), as compared to $9.9 million (contract income margin of 16.8%) in Q4 2017. These results also reflect the shift in project stage of completion, with more projects in early stages in 2018. Project margins were also lower than normal due to competitive pricing pressures as a result of market shifts in the group's busiest region (Alberta) and margin expectations in the group's new Ontario geography that are lower than historical levels in legacy markets. The Commercial Systems Group was also impacted by productivity challenges on certain projects in Q4 2018.

Administrative costs in the fourth quarter increased slightly to $3.6 million, from $3.4 million in Q4 2017. This $0.2 million or 5.9% increase reflects a shift in the timing of certain expenses as compared to prior years.

Adjusted EBITDA from the Commercial Systems Group was $0.8 million (1.5% adjusted EBITDA margin) in the fourth quarter of 2018, as compared to $6.9 million (11.7% adjusted EBITDA margin) in Q4 2017. The $6.1 million change primarily reflects the lower contract income.

Commercial Systems Group generated fourth quarter earnings before tax of $0.4 million, as compared to $6.6 million during the same period in 2017. The $6.2 million decline was mainly due to the change in adjusted EBITDA.

Twelve-Month Results

For the year ended December 31, 2018, Commercial Systems Group revenue climbed significantly to $233.2 million, from $186.8 million in 2017. This $46.4 million or 24.8% increase was achieved as the group continued to benefit from the significant project awards it secured in 2017, with substantial revenue contribution provided by the group's established Alberta offices as well as its new operations in Ontario.

Fiscal 2018 contract income was $20.1 million (8.6% contract income margin), as compared to $24.1 million (12.9% contract income margin) in 2017. The $4.0 million or 16.6% decrease was primarily due to a shift in project stage of completion, with more projects in early stages in 2018. Project margins were also lower than normal due to competitive pricing pressures as a result of market shifts in the group's busiest region (Alberta) and margin expectations in the group's new Ontario geography that are lower than historical levels in legacy markets. The group was also impacted by productivity challenges on certain projects in 2018.

Administrative costs increased to $14.0 million in 2018, from $12.9 million in 2017. This $1.1 million or 8.5% increase reflects investments in the group's expansion into new geographic regions, including Ontario, in 2018, combined with an increase in restructuring costs in 2018 related to a further realignment of the group's business.

The Commercial Systems Group generated adjusted EBITDA of $8.3 million (3.6% adjusted EBITDA margin), as compared to $13.1 million (7.0% adjusted EBITDA margin) in 2017. The $4.8 million or 36.6% change primarily reflects the lower contract income and higher administrative costs (before the impact of restructuring costs and depreciation expense).

Earnings before tax were $6.4 million in 2018, as compared to $11.4 million in 2017. The $5.0 million or 43.9% change was mainly due to the decrease in adjusted EBITDA.

Commercial Systems Group Backlog

As at December 31, 2018, the Commercial Systems Group's backlog was $216.1 million, down $34.3 million or 13.7% from $250.4 million as at December 31, 2017. The decrease reflects the ramp up in the group's activity levels as it works through its record December 31, 2017 backlog. As at December 31, 2018, the Commercial Systems Group's backlog was composed of 6.8% cost-plus projects, 4.5% design-build projects and 88.7% tendered (hard-bid) projects. The December 31, 2018 backlog consisted of $208.9 million of work-in-hand and $7.2 million of active backlog, compared to $238.3 million of work-in-hand and $12.1 million of active backlog as at December 31, 2017. The Commercial Systems Group executed $233.2 million of construction activity during 2018 and added $198.8 million to backlog in 2018, including project awards related to several residential towers in British Columbia and work in the group's growing Ontario market.

Corporate Group Results

	Three months ended December 31		**Year ended December 31**	
$millions	**2018**	**2017**	**2018**	**2017**
Administrative costs	**7.0**	12.6	**26.7**	29.2
Finance costs	**2.6**	2.2	**9.7**	8.8
Adjusted EBITDA(1)(2)	**(2.7)**	(10.5)	**(15.1)**	(21.0)
Loss before tax	**(9.6)**	(14.7)	**(36.3)**	(37.9)

Notes: (1) "Adjusted EBITDA" is a non-IFRS measure. Please refer to the "Non-IFRS Measures" section of this document for the definition of the term.
(2) During Q4 2018, we changed our definition of Adjusted EBITDA to exclude costs related to certain shareholder activities. This change in definition has not had an impact to the calculations for the year and quarter ended December 31, 2017. Please refer to the "Non-IFRS Measures" section of this MD&A for more information on our definition and the calculation.

Three-Month Results

For the three months ended December 31, 2018, Corporate Group administrative costs decreased to $7.0 million, from $12.6 million in the fourth quarter of 2017. This $5.6 million or 44.4% improvement reflects a significant decrease in incentive compensation accruals, including a reduction in share-based compensation expense as the result of a decrease in our share price in 2018. This was partially offset by an increase in Corporate Group costs related to the centralization of support functions and their related costs into this group in conjunction with the realignment of our businesses to generate operational efficiencies.

Fourth quarter 2018 Corporate Group finance costs were $2.6 million, an increase of $0.4 million or 18.2% from the $2.2 million incurred during the same period last year. The higher finance costs reflect an increase in our long-term debt, together with increases in the Canadian prime lending rate.

The Corporate Group recorded a fourth quarter adjusted EBITDA loss of $2.7 million, compared to a loss of $10.5 million in Q4 2017. The $7.8 million or 74.3% improvement primarily reflects the lower administrative costs, before the restructuring, investing, and other one-time activities recorded as part of administrative costs in Q4 2018 which are excluded from adjusted EBITDA.

The Corporate Group incurred a fourth quarter 2018 loss before tax of $9.6 million, compared to a loss before tax of $14.7 million in the comparable period of 2017. The $5.1 million or 34.7% improvement was primarily due to the reduction in administrative costs, partially offset by higher finance costs.

Twelve-Month Results

For the year ended December 31, 2018, Corporate Group administrative expenses decreased to $26.7 million, from $29.2 million in 2017. The $2.5 million or 8.6% savings primarily reflects a decrease in incentive compensation accruals, including a reduction in share-based compensation expense as a result of a decrease in our share price in 2018. The decrease in administrative costs was partially offset by the centralization of support functions and their related costs into the Corporate Group in conjunction with the realignment of our businesses to generate operational efficiencies, together with increased costs related to restructuring, investing and other one-time activities in 2018.

Corporate Group finance costs were $9.7 million in 2018, reflecting an increase of $0.9 million or 10.2% from the $8.8 million incurred last year. The higher finance costs reflect a year-over-year increase in long-term debt, together with increases in the Canadian prime lending rate.

Fiscal 2018 Corporate Group adjusted EBITDA declined to a loss of $15.1 million from a loss of $21.0 million in 2017. The $5.9 million or 28.1% improvement primarily reflects the decrease in administrative costs, before the restructuring, investing and other one-time activities recorded as part of administrative costs in 2018, which are excluded from adjusted EBITDA.

For the year ended December 31, 2018, the Corporate Group incurred a loss before tax of $36.3 million, representing savings of $1.6 million or 4.2% compared to a loss before tax of $37.9 million in 2017. This result reflects the lower administrative costs, partially offset by the increase in finance costs.

LIQUIDITY

Cash and Borrowing Capacity

We monitor our liquidity principally through cash and cash equivalents and available borrowing capacity under our Revolver.

Current cash and cash equivalents as at December 31, 2018 were $25.9 million, reflecting a $5.8 million reduction from the $31.7 million held at December 31, 2017. The change reflects an investment of cash into non-cash working capital in 2018. Please refer to the "Capital Resources" section of this MD&A for a detailed explanation.

As at December 31, 2018, we had additional borrowing capacity under the Revolver of $71.5 million, compared to $122.2 million as at December 31, 2017. This change is related to an increase in long-term indebtedness, which is explained in detail below, and a $5.0 million decrease in LTM Revolver EBITDA, which differs from our calculation of reported adjusted EBITDA primarily with respect to the timing of when certain expenses are recognized.

Debt and Capital Structure

Long-term indebtedness, including the current portion of long-term debt and convertible debentures, increased to $128.2 million as at December 31, 2018, from $91.1 million as at December 31, 2017. The $37.1 million change reflects an increase in our Revolver balance to fund a number of investments in working capital in 2018, including the funding of working capital required for ordinary operations and normal course final project adjustments, as well as the purchase of Tartan.

Long-term indebtedness consists of $80.5 million (December 31, 2017 - $80.5 million) principal value at maturity of outstanding convertible debentures and the principal value of long-term debt of $47.7 million (December 31, 2017 - $10.6 million) before the deduction of deferred financing fees for accounting purposes.

The current portion of long-term debt as at December 31, 2018 was $3.0 million (December 31, 2017 - $2.5 million).

We monitor our capital structure through the use of indebtedness to capitalization and net long-term indebtedness to adjusted EBITDA metrics. Indebtedness to capitalization as at December 31, 2018 was 38.9%, higher than the 30.6% ratio as at December 31, 2017 but within our long-term targeted range of 20.0% to 40.0%. The higher ratio as compared to year-end reflects the increase in long-term indebtedness.

$millions, except percentages	**Actual as at Dec. 31, 2018**	**Actual as at Dec. 31, 2017**
Convertible debentures, liability component for accounting purposes	**78.2**	76.2
Convertible debentures, unamortized accretion and deferred financing fees	**2.3**	4.3
Long-term debt, including current portion	**46.1**	8.5
Long-term debt, unamortized deferred financing fees	**1.6**	2.1
Total long-term indebtedness (principal value)	**128.2**	91.1
Total long-term indebtedness (principal value)	**128.2**	91.1
Add: Total equity	**201.2**	206.4
Divided by: Total capitalization	**329.4**	297.5
Indebtedness to capitalization percentage	**38.9%**	30.6%

As at December 31, 2018, our net long-term indebtedness to adjusted EBITDA ("net debt to adjusted EBITDA") ratio was 2.8x, or 2.6x on a pro forma basis inclusive of Tartan's LTM adjusted EBITDA. This compares to 1.7x ratio as at December 31, 2017. The year-over-year change reflects the draw on our Revolver in order to fund working capital requirements and the acquisition of Tartan. This metric is within our target range of 2.0x to 3.0x.

$millions, except ratio	**Actual as at Dec. 31, 2018**	**Actual as at Dec. 31, 2017**
Total long-term indebtedness (principal value)	**128.2**	91.1
Less: Cash on hand	**(25.9)**	(31.7)
Net long-term indebtedness	**102.3**	59.4
Divided by: LTM adjusted EBITDA	**36.1**	36.0
Net long-term indebtedness to adjusted EBITDA	**2.8x**	1.7x

As at December 31, 2018, we were in full compliance with covenants under the Revolver agreement.

Ratio	**Covenant**	**Actual as at Dec. 31, 2018**
Interest coverage	**>3.00:1.00**	**3.53**
Debt to EBITDA	**<3.25:1.00**	**1.19**

The outstanding balance under the Revolver fluctuates from quarter-to-quarter as it is drawn to finance working capital requirements, capital expenditures and acquisitions, and is repaid with funds from operations, dispositions or financing activities.

Revolver Amendments

On November 28, 2018, we amended the terms of our credit facility to enable us to execute equity hedging agreements.

Subsequent to the year-end, on March 5, 2019, we negotiated an additional amendment to improve a number of the terms of our Revolver Agreement, including 1) a temporary increase in the debt to EBITDA covenant to provide us with the optionality to use the Revolver to fully settle the repayment of our $80.5 million convertible debentures in 2019, 2) the exclusion of non-cash interest costs from the calculation of our interest coverage ratio covenant, and 3) a change in key covenant definitions to ensure that any potential negative impact from the adoption of IFRS 16 is minimized, and 4) exclude costs related to certain shareholder activities from the definition of EBITDA.

The amending agreements to the Revolver containing all of the foregoing changes and certain other non-material changes are available under our SEDAR profile at www.sedar.com.

Summary of Cash Flows

$millions	Year ended December 31 2018	2017
Operating activities	**(13.8)**	34.5
Investing activities	**(14.9)**	(2.1)
Financing activities	**22.9**	(32.2)
Decrease in cash	**(5.8)**	0.2
Cash and cash equivalents, beginning of period[1]	**31.7**	31.5
Cash and cash equivalents, end of period[1]	**25.9**	31.7

Note: (1) Cash and cash equivalents includes restricted cash.

Cash used by operating activities in 2018 was $13.8 million as compared to cash generated of $34.5 million in the comparable period of 2017. The $48.3 million change in cash flow from operating activities was driven primarily by a $44.5 million increased investment in non-cash working capital in 2018. These investments in working capital included the funding of working capital required for ordinary operations, the funding of normal course final project adjustments, and the usual payment of incentive compensation in the second quarter of the year. Also impacting the decline in non-cash working capital was the year-over-year decline in net earnings and an increase in share-based compensation settlements. Partially offsetting this use of cash was collection of a tax refund in 2018 (related to prior-years), as compared to final tax balance payments made in 2017.

Cash used by investing activities in 2018 was $14.9 million, as compared to $2.1 million in 2017. The $12.8 million increase in cash used primarily reflects consideration related to our 2018 acquisition of Tartan.

Cash generated from financing activities totalled $22.9 million in 2018, an increase from the $32.2 million used in financing activities in 2017. The $55.1 million year-over-year change reflects a draw on our Revolver in 2018 in order to fund required investments in working capital and the acquisition of Tartan, together with the collection of a long-term service provider deposit in 2017 that did not re-occur in 2018.

External Factors Impacting Liquidity

Please refer to the “Risks” section of this document for a description of circumstances that could affect our sources of funding.

CAPITAL RESOURCES

Our objectives in managing capital are to ensure that we have sufficient liquidity to pursue growth objectives, while maintaining a prudent amount of financial leverage.

Capital is comprised of equity and long-term indebtedness, including convertible debentures. Our primary uses of capital are to finance operations, execute growth strategies and fund capital expenditure programs.

Capital expenditures, including property, equipment and intangible assets, are associated with our need to maintain and support existing operations. We expect capital expenditures for 2019, excluding leased right of use assets recognized under IFRS 16, to be between $5.0 million and $6.5 million.

Working Capital

As at December 31, 2018, we had negative working capital of $10.9 million, as compared to positive working capital of $33.1 million as at December 31, 2017. The $44.0 million decrease in working capital is primarily related to the reclassification of the $78.2 million accounting balance associated with the 2014 convertible debentures to a current liability given the required settlement in 2019. This was partially offset by the funding of working capital required for ordinary operations and normal course final project adjustments.

On the basis of current cash and cash equivalents, our ability to generate cash from operations and the undrawn portion of the Revolver, we believe we have the capital resources and liquidity necessary to meet our commitments, support operations, finance capital expenditures, support growth strategies and fund declared dividends.

Contractual Obligations

The following are our contractual financial obligations as at December 31, 2018. Interest payments on the Revolver have not been included in the table below as they are subject to variability based upon outstanding balances at various points throughout the year. Further information is included in *Note 28(b)(iii)* of the December 31, 2018 Audited Consolidated Annual Financial Statements.

$thousands	**Carrying amount**	Contractual cash flows	Not later than 1 year	Later than 1 year and less than 3 years	Later than 3 years and less than 5 years	Later than 5 years
Trade and other payables	**$ 196,127**	$ 196,127	$ 196,127	$ nil	$ nil	$ nil
Provisions, including current portion	**10,055**	10,889	8,344	1,216	661	668
Convertible debentures (debt portion)	**78,241**	85,330	85,330	nil	nil	nil
Long-term debt, including current portion	**46,101**	48,611	3,274	43,001	2,336	nil
Operating lease commitments[1]	**nil**	44,762	7,235	11,454	11,454	14,619
	$ 330,524	$ 385,719	$ 300,310	$ 55,671	$ 14,451	$ 15,287

Note: (1) Includes sublease payments to be received related to operating lease commitments. Please refer to *Note 32* of the Audited Consolidated Annual Financial Statements for further details.

Scheduled long-term debt principal repayments due within one year of December 31, 2018 were $3.0 million (December 31, 2017 - $2.5 million).

Share Data

As at December 31, 2018, we had 27,783,097 common shares issued and outstanding and 1,689,883 options convertible into common shares (December 31, 2017 - 27,370,727 common shares and 2,173,088 options). Please refer to *Note 25* and *Note 26* of the December 31, 2018 Audited Consolidated Annual Financial Statements for further details. On January 15, 2019, we issued 129,464 shares pursuant to our Dividend Reinvestment Plan ("DRIP"). The details pertaining to our DRIP are available on our website at www.stuartolson.com. As at March 5, 2019, we had 27,912,561 common shares issued and outstanding and 1,689,883 options convertible into common shares.

The $80.5 million of 6.0% convertible debentures issued in September 2014 are convertible into 5,689,046 common shares, based on a conversion price of $14.15 per share.

As at December 31, 2018, shareholders' equity was $200.8 million, compared to $206.4 million as at December 31, 2017. This $5.6 million decrease primarily reflects $13.3 million of dividends declared and a $0.7 million defined benefit plan actuarial loss, net of tax. This effect was partially offset by increases of $5.4 million from 2018 net earnings, $2.5 million related to shares issued pursuant to the DRIP, $0.2 million related to an increase in the share-based payment reserve, and $0.3 million related to common shares issued under our stock option plan.

DIVIDENDS

Declaration of Common Share Dividend

On March 5, 2019, our Board of Directors declared a common share dividend of $0.06 per share. The dividend is designated as an eligible dividend under the Income Tax Act (Canada) and is payable April 16, 2019 to shareholders of record on March 29, 2019.

In order to pursue the significant number of federal and provincial infrastructure projects that we are actively bidding on, and consistent with our strategy of diversifying our project delivery model to include larger design-build projects and projects with increasing scope and scale, we have decided to reduce the quarterly dividend to $0.06 per share. This will bring our dividend metrics more in line with our peers while giving us a stronger balance sheet and improving our ability to win major new projects, pursue growth opportunities and create shareholder value. We remain committed to returning capital to shareholders and ensuring our business has the ability to pursue our growth and diversification strategies. On a pro forma basis, had the $0.06 per share quarterly dividend been in place throughout 2018, the dividend payout ratio would have been reduced from 55.4% to 27.7%.

We also maintain a DRIP, details of which are available on our website (www.stuartolson.com). Future dividend payments may vary depending on a variety of factors and conditions, including overall profitability, debt service requirements, operating costs, and other factors affecting cash flow.

OFF-BALANCE SHEET ARRANGEMENTS

We had no off-balance sheet arrangements in place as at December 31, 2018.

QUARTERLY FINANCIAL INFORMATION

The following table sets out our selected quarterly financial information for the eight most recent quarters:

	2018 Quarter Ended:				2017 Quarter Ended:			
$millions, except per share amounts	**Dec. 31**	Sep. 30	Jun. 30	Mar. 31	Dec. 31	Sep. 30	Jun. 30	Mar. 31
Contract revenue	**227.6**	223.7	249.3	265.9	282.6	268.1	246.4	220.1
Adjusted EBITDA[(1)]	**7.2**	11.8	9.0	8.1	11.5	11.7	7.1	5.7
Net earnings (loss)	**(1.3)**	3.9	1.1	1.6	5.7	3.6	0.5	(0.2)
Net earnings (loss) per common share								
Basic earnings (loss) per share	**(0.05)**	0.14	0.04	0.06	0.21	0.13	0.02	(0.01)
Diluted earnings (loss) per share	**(0.05)**	0.12	0.04	0.06	0.18	0.11	0.02	(0.01)

Note: (1) Adjusted EBITDA is a non-IFRS measure, please refer to the "Non-IFRS Measures" section of this document for its definition. Adjusted EBITDA is presented as calculated based on our current definition. Please refer to the "Non-IFRS Measures" section for more information on our definition and the calculation.

Financial results for the second quarter of 2017 improved compared to the first quarter of 2017, driven by seasonal activity level increases for the Industrial Group, together with a decrease in share-based compensation expense. The lower share-based compensation expense reflects a decline in our share price in the second quarter of 2017, as compared to slight share price appreciation in the first quarter. Partially offsetting the improvement in overall financial performance was lower adjusted EBITDA and earnings from the Buildings Group as a result of a change in project stage of completion.

Third quarter 2017 revenue increased compared to the second quarter of 2017, reflecting seasonal activity level increases for the Industrial Group, together with projects in our Buildings Group entering peak construction phases and our Commercial Systems Group entering early stages of construction on their significant 2017 project awards. Adjusted EBITDA and net earnings increased materially quarter-over-quarter, primarily due to the increase in revenue and the release of Industrial Group project contingencies in the third quarter at a greater scale than in Q2 as a result of a number of projects entering later stages.

Revenue for the fourth quarter of 2017 increased compared to Q3 2017 due to higher building activity levels for our Industrial Group and Commercial Systems Group. Notwithstanding the improved revenue, adjusted EBITDA declined slightly as a result of incentive compensation accruals by the Corporate Group, including marking-to-market of share-based compensation liabilities. Net earnings improved during the quarter, with a recovery related to the reversal of the remaining balance of a 2016 onerous lease provision, offsetting the decline in adjusted EBITDA.

Financial results for the first quarter of 2018 decreased compared to the fourth quarter of 2017, primarily reflecting seasonal activity level decreases for the Industrial Group, changes to project stage of completion for the Buildings Group and the Commercial Systems Group beginning to work through its significant 2017 project awards, which are in early stages of completion.

Revenue decreased in the second quarter of 2018 as compared to the first quarter of 2018 as a result of a shift in project stage of completion, with an increasing proportion of Buildings Group projects moving into final stages while recent awards were still in lower-activity early stages. Revenue was also negatively impacted by the Commercial Systems Group returning to more normal activity levels after record first quarter revenue. Notwithstanding the decline in revenue, adjusted EBITDA improved quarter-over-quarter as a result of strong project performance by the Industrial Group, with increased margins recognized on certain projects nearing completion. Net earnings declined in the second quarter of 2018 as a result of the recognition of $1.4 million of restructuring costs spread across all groups.

Third quarter 2018 revenue decreased compared to the second quarter of 2018, reflecting an increasing proportion of Buildings Group projects in lower-activity early stages, combined with a reduced activity level for the Industrial Group. The change in Q3 2018 Industrial Group activity was driven by the completion of larger projects in the second quarter, as well as the completion of seasonal spring turnaround activity that benefitted second quarter results. Adjusted EBITDA and net earnings increased materially quarter-over-quarter, primarily due to final margins being recognized on the increasing proportion of projects nearing completion, together with a decrease in share-based compensation expense as a result of a decrease in our share price in Q3 2018.

Notwithstanding a slight increase in revenue in the fourth quarter of 2018 compared to Q3 2018, adjusted EBITDA and net earnings decreased quarter-over-quarter, reflecting the recognition of higher margins in the third quarter as a number of projects neared completion. In addition, administrative costs increased in the fourth quarter, reflecting a lesser benefit from marking-to-market share-based compensation. Fourth quarter net earnings were also negatively impacted by the recognition of restructuring, investing, and other one-time costs.

For a more detailed discussion and analysis of quarterly results prior to December 31, 2018, please review our 2018 and 2017 annual and quarterly interim MD&As.

CRITICAL ACCOUNTING ESTIMATES

Our financial statements include estimates and assumptions made by management with respect to operating results, financial condition, contingencies, commitments and related disclosures. Actual results may vary from these estimates. The following are, in the opinion of management, the more significant estimates that have an impact on our financial condition and results of operations:

- Convertible debentures;
- Income taxes;
- Revenue, including the recognition of variable consideration;
- Estimates used to determine costs in excess of billings and contract advances;
- Estimates used to determine allowances for doubtful accounts or ongoing litigation;
- Measurement of defined benefit pension obligations;
- Estimates related to the useful lives and residual value of property and equipment;
- Estimates in impairment of property and equipment, goodwill and intangible assets;
- Estimates in amounts and timing of provisions; and
- Assumptions used in share-based payment arrangements.

Convertible Debentures

Convertible debentures issued by Stuart Olson are a compound financial instrument that can be converted to share capital at the option of the holder, and the number of shares to be issued does not vary with changes in their value.

The liability component of a compound financial instrument is recognized initially at the fair value of a similar liability that does not have an equity conversion option. The equity component is recognized initially at the difference between the fair value of the compound financial instrument as a whole and the fair value of the liability component. Any directly attributable transaction costs are allocated to the liability and equity components in proportion to their carrying amounts. Subsequent to initial recognition, the liability component of a compound financial instrument is measured at amortized cost using the effective interest method. The equity component of a compound financial instrument is not re-measured subsequent to initial recognition.

Interest, losses and gains relating to the financial liability component are recognized in profit or loss. Distributions to the equity holders are recognized in equity, net of any tax benefit.

Income Taxes

Income tax provisions, including deferred income tax assets and liabilities, may require estimates and interpretations of federal and provincial tax rules and regulations, and judgments as to their interpretation and application to our specific situation. Income tax provisions are estimated each quarter, updated each year-end to reflect actual differences and the impact of revenue recognition estimates, and then finalized during the preparation of the tax returns. Any changes between the quarterly estimates, the year-end provision, and the final filing position, may impact income tax expense, as well as income taxes recoverable, income taxes payable, deferred tax asset and deferred tax liability categories.

Revenue, Including the Recognition of Variable Consideration

Identification of a contract with a customer

A contract with a customer exists when the contract is legally enforceable and all of the following criteria are met:

- The contract is approved and the parties are committed to perform their respective obligations;
- Each parties' rights regarding the goods and services to be transferred can be identified;
- The payment terms for the goods and services can be identified;

- The contract has commercial substance, meaning the risk, timing or amount of our future cash flows is expected to change as a result of the contract; and
- It is probable that we will collect the consideration to which we will be entitled to in exchange for the goods or services that will be transferred to the customer.

A contract does not exist if each party has the unilateral enforceable right to terminate a wholly unperformed contract without compensating the other party. A contract is wholly unperformed if we have not yet transferred any promised goods or services to the customer and we have not yet received, and are not yet entitled to receive, any consideration in exchange for promised goods or services.

When determining the proper revenue recognition method for contracts, we evaluate whether two or more contracts should be combined and accounted for as a single contract and whether the combined or single contract should be accounted for as more than one performance obligation. This evaluation requires significant judgment and the decision to combine a group of contracts or to separate a single contract into multiple performance obligations could affect the amount of revenue and profit recorded in the reporting period. One or more contracts that are entered into at or near the same time, with the same customer, shall be combined as a single contract if one or more of the following criteria are met:

- The contracts are negotiated as a package with a single commercial objective;
- The amount of consideration to be paid in one contract depends on the price or performance of the other contract; and
- The goods or services promised in the contracts represent a single performance obligation.

Our revenue streams include construction contracts, service contracts and the sale of goods. Please refer to *Note 4* of the Audited Consolidated Annual Financial Statements for the allocation of total revenue to the revenue streams, along with the disaggregation of revenue from contracts with customers by contract type.

Identifying performance obligations in a contract

Performance obligations are those distinct services or goods which we explicitly or implicitly promises to provide to customers. For most of our contracts, individual goods and services are integrated as inputs to deliver a combined output in order to fulfill our promise to the customer. The individual goods and services that we provide are often highly dependent and interrelated. As a result, the entire contract is accounted for as one performance obligation. Less frequently, we may provide several distinct goods and services, in which case separate performance obligations would be identified.

Determining the transaction price

The transaction price is the amount of consideration that we are reasonably expected to be entitled to in exchange for transferring goods and services to a customer. We estimate the transaction price at contract inception, including any variable consideration, and updates the estimate each reporting period for any changes in circumstances. The transaction price may include the effects of fixed consideration, variable consideration, significant financing components, non-cash considerations and consideration payable to the customer. The majority of our contracts include information about fixed consideration that is used to estimate the transaction price. Some contracts, particularly master service agreements and maintenance service contracts, do not specify the amount of fixed consideration at contract inception, but will have a transaction price assigned to it once a work order is issued. For the purpose of revenue recognition and disclosure, only the transaction price of secured work, as evidenced by work orders, would be included.

Variable consideration includes all consideration that is subject to uncertainty for reasons other than collectability. Examples include discounts, rebates, refunds, credits, incentives, performance bonuses/penalties, contingencies, price concessions or other similar items. These variable amounts generally are awarded upon achievement of certain performance metrics, milestones or cost targets and can be based upon customer discretion. Variable consideration also includes change orders that have not been approved, as well as claims. Claims are amounts in excess of the agreed contract price, or amounts not included in the original contract price, that we seek to collect from customers for delays, errors in specifications and designs, contract terminations, change orders in dispute or unapproved as to both scope and price, or other causes of unanticipated additional costs. We estimate variable consideration by applying the highly probable threshold to either the most likely amount or expected value method, depending on which method is most appropriate for the contract type and circumstance. The method chosen is applied consistently throughout the contract and to similar types of contracts. The highly probable threshold is met when it is highly probable that the recognized revenue will not significantly reverse upon settlement of the variable consideration.

Contract modifications occur when there is a change in contract specifications and requirements, and they create new, or change existing, enforceable rights and obligations under the contract. If the contract modification is for goods and services that are not distinct from the existing contract, the effect of the contract modification on the transaction price and the measure of progress for the performance obligation to which it relates, is recognized as a cumulative adjustment to revenue as either an increase or decrease in revenue. If the contract modification is for goods and services that are distinct from the existing contract and the pricing of the contract modification reflects the standalone selling price of the additional goods or services, then the contract modification is treated as a separate contract.

Allocating the transaction price to performance obligations

The transaction price must be allocated to the performance obligations in a contract. The majority of our contracts have one performance obligation. If a contract is separated into more than one performance obligation, the total transaction price is allocated to each performance obligation in an amount based on the estimated relative standalone selling prices of the promises goods or services underlying each performance obligation.

Recognizing revenue when or as performance obligations are satisfied

We typically transfers the control of goods or services, and satisfies performance obligations, over time. As a result of control passing over time, revenue is recognized based on the extent of progress towards completion of the performance obligation.

Contract revenue includes the initial amount agreed in the contract plus any variations in contract work, claims and incentive payments, to the extent that it is highly probable that they will result in revenue. As soon as the outcome of a construction contract can be estimated reliably, contract revenue is recognized in profit or loss in proportion to the stage of completion of the contract at the end of the reporting period. Contract expenses are recognized as incurred unless they create an asset related to future contract activity. When estimates of total costs to be incurred on a performance obligation exceed the total estimated revenue to be earned, a provision for the entire loss on the performance obligation is recognized in the period the loss is determined.

Remaining performance obligations

Remaining performance obligations mean the total value of work that has not yet been that completed that: (a) is assessed by us as having a high certainty of being performed, either by the existence of a contract or work order specifying job scope, value and timing, or (b) has been awarded to us, as evidenced by an executed letter of intent or agreement, describing the general job scope, value and timing of such work, and with the finalization of a formal contract respecting such work assessed by us as being reasonably assured.

Estimates Used to Determine Costs in Excess of Billings and Contract Advances

Costs in excess of billings (contract assets) represent unbilled amounts expected to be collected from customers for contract work performed to date. The amount is measured at cost plus profit recognized to date less progress billings and recognized losses. Costs include all expenditures directly related to specific projects. If progress billings exceed costs incurred plus recognized profits, the difference represents amounts collected in advance for contract work yet to be performed and is presented as contract advances and unearned income (contract liabilities) in the Consolidated Statements of Financial Position. Variable consideration, to the extent not yet billed, is included as part of costs in excess of billings. Judgment is applied by management in measuring the amount of variable consideration meeting the highly probable threshold and there is inherent uncertainty with these amounts as they may be subject to negotiation.

Costs in excess of billings are presented as a current asset in the Consolidated Statements of Financial Position for all contracts in which costs incurred plus recognized profits exceeds the progress billings and the amounts are expected to be billed and recovered within our normal operating cycle. The operating cycle of many of our contracts exceed 12 months, depending on the type of project or the nature of services being provided. All contract assets and liabilities are classified as current, as they are expected to be settled within our normal operating cycle.

Estimates Used to Determine Allowance for Doubtful Accounts

We assess trade and other receivables for impairment on a case-by-case basis when they are past due or when objective evidence is received that a customer will default. We take into consideration the customer’s payment history, credit worthiness and the current economic environment in which the customer operates to assess impairment.

Prior to accepting new customers, we assess the customer’s credit quality and establish the customer’s credit limit. We account for specific bad debt provisions when management considers that the expected recovery is less than the actual amount of the accounts receivable.

Measurement of Defined Benefit Pension Obligations

Fluctuations in the valuation of our defined benefit pension plans expose us to additional risk. Economic factors such as expected long-term rates-of-return on plan assets, discount rates and future salary and bonus increases will cause volatility in the accrued benefit obligation. Please refer to *Note 3(d) and Note 12* to the Audited Consolidated Annual Financial Statements for further information.

Estimates Related to the Useful Lives and Residual Value of Property and Equipment

Items of property and equipment are measured at cost less accumulated depreciation and accumulated impairment losses.

Costs include expenditures that are directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour and any other costs directly attributable to bringing the assets to working condition for their intended use, the costs of dismantling and removing the items and restoring the site on which they are located, and borrowing costs on qualifying assets are also capitalized as part of property and equipment.

Borrowing costs that are directly attributable to the acquisition and construction or production of a qualifying asset form part of the costs of the asset. Borrowing costs that are not directly attributable to the acquisition, construction or production of a qualifying asset are recognized in profit or loss.

Gains and losses on disposal of an item of property and equipment are determined by comparing the proceeds from disposal with the net carrying amount of property and equipment and are recognized within other income in profit or loss.

The cost of replacing a part of an item of property and equipment is recognized in the carrying amount of the item if it is probable that the future economic benefits embodied within that part will flow to our company and its cost can be reliably measured. The carrying amount of the part replaced is derecognized. The costs of the day-to-day servicing of property and equipment are recognized in profit or loss when incurred.

Depreciation is calculated based on the cost of an asset (or deemed cost) less its residual value. Depreciation is recognized for each significant component of an item of property and equipment.

Depreciation is recognized in the Consolidated Statements of Earnings (Loss) on a straight-line basis over the estimated useful life of each asset. Leased assets are depreciated over the shorter of the lease term and their estimated useful lives, unless it is reasonably certain that we will obtain ownership by the end of the lease term. The chosen method of depreciation has been selected based on the expected pattern of consumption of the economic benefits of the asset.

The estimated useful lives of each class of property and equipment are as follows:

Asset	Basis	Useful Life
Land improvements	Straight-line	30 years
Buildings and improvements	Straight-line	10 to 25 years
Leasehold improvements	Straight-line	Lesser of estimated useful life or lease term
Construction equipment	Straight-line	5 to 20 years
Automotive equipment	Straight-line	5 years
Office furniture and equipment	Straight-line	3 to 5 years
Computer Hardware	Straight-line	1 to 4 years

Depreciation commences when the asset is available for use and ceases on the earliest of when the asset is derecognized or classified as held-for-sale. Depreciation methods, useful lives and residual values are reviewed at each financial year end and adjusted where appropriate.

Estimates in Impairment of Property and Equipment, Goodwill and Intangible Assets

Goodwill is the residual amount that results when the purchase price of an acquired business exceeds the sum of the amounts allocated to the identifiable assets acquired less liabilities assumed, based on their fair values. Goodwill is allocated as of the date of the business combination. Goodwill is not amortized and is tested for impairment annually in the fourth quarter, or more frequently if events or changes in circumstances indicate that the asset may be impaired.

Goodwill arose as a result of multiple past acquisitions. The Industrial Group's goodwill stems from the Laird Electric Inc. acquisition in 2003, the Studon acquisition in 2015 and the Tartan acquisition in 2018. Goodwill associated with the Buildings Group and the Commercial Systems Group arose from the Seacliff Construction Corp. acquisition in 2010. Additional goodwill was attributed to the Commercial Systems Group through the McCaine Electric Ltd. acquisition in 2011. Goodwill recognized on all of these acquisitions was attributable mainly to revenue growth, future market development, the assembled workforce and the synergies achieved from the integration of acquired companies into existing construction, commercial and industrial services.

During the fourth quarter of 2018, we performed our annual goodwill impairment test. The calculated business enterprise value for each of the Cash Generating Units ("CGUs") incorporated the financial projections set out in the respective CGU's strategic plans. The annual impairment review resulted in no impairment charge in the current year.

Intangible assets are comprised of Enterprise Resource Planning ("ERP") and other computer software assets, and assets related to the acquisition of a business, including backlog and agency contracts, customer relationships and trade names. These intangible assets are measured at cost less accumulated amortization and accumulated impairment losses, if any. An impairment loss in respect of an intangible asset is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate.

The recoverable amounts of the CGUs' assets were determined based on a value-in-use calculation. There is a significant amount of uncertainty with respect to the estimates of the recoverable amounts of the CGUs' assets given the necessity of making key economic assumptions about the future. The value-in-use calculation uses discounted cash flow projections which employ the following key assumptions: future cash flows, present and future discount rates, growth assumptions, including economic risk assumptions, and estimates of achieving key operating metrics and drivers. Stuart Olson management uses its best estimate to determine which key assumptions to use in the analysis.

Key Impairment Assessment Assumptions

The key assumptions in the value-in-use calculations to determine the recoverable amounts by CGU have been prepared using a four-year discounted cash flow analysis with a terminal value. The financial projections used for the discounted cash flow analysis were derived from our December 2018 strategic plan.

A four-year period for the discounted cash flow analysis was used since financial projections beyond a four-year time period are generally best represented by a terminal value. This period is appropriate given the timing of the project backlog and the predictability of CGU cash flows. Cash flows from growth opportunities are probability-weighted and relate to initiatives management expects to progress on in the medium-to long-term time frame. These cash flows require assumptions to be made regarding the likelihood of projects progressing and the future economics of those projects.

The terminal value was calculated using an after-tax discount rate of 11.0% (2017 – 11.0%) and a steady annual growth rate of 2.0% (2017 – 2.0%) in the terminal year. The same discount rate has been used in each of the Company's CGUs, given the similarity in the business and the fact that business-specific risks were adjusted for in the forecasted cash flows. In addition, entity-specific risks were separately factored into each CGU forecast. They take into consideration market rates of return, capital structure, company size, industry risk and the after-tax cost of debt and equity.

Estimates Associated with Amounts and Timing of Provisions

Provisions for the expected cost of construction warranty obligations under construction contracts are recognized upon completion or substantial performance under the construction contract and represent the best estimate of the expenditure required to settle our obligation.

Restructuring provisions relate to both ongoing operations and acquisitions, and are accrued when we demonstrate our commitment to implement a detailed restructuring plan. The amounts provided represent management's best estimate of the costs of restructuring.

Provisions related to claims and disputes arising on our contracts are included in this category. The timing and measurement of the related cash flows are, by nature, uncertain and the amounts recorded reflect the best estimate of the expenditure required to settle the obligations.

Subcontractor default provisions relate to management's best estimate of exposures and costs associated with prior or existing subcontractor performance and the risk of potential default. We conduct a thorough review of the liability every reporting period and take into consideration our experience to date with those subcontractors, some of which are enrolled in our subcontractor default insurance program, and the changes to factors that tend to affect the construction sector.

A provision for onerous contracts is recognized when the expected benefit from a contract is lower than the unavoidable cost of meeting the obligations under the contract. The provision is measured at the present value of the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract. Impairment losses on assets associated with the onerous contract are recognized prior to the provision being established.

Assumptions Used in Share-Based Payment Arrangements

The grant date fair value of equity-settled share-based payment awards, or stock options, granted to employees is recognized as an employee expense, with a corresponding increase in equity, over the period that the employees unconditionally become entitled to the awards. The amount recognized as an expense is adjusted to reflect the number of awards for which the related service and non-market vesting conditions are expected to be met, such that the amount ultimately recognized as an expense is based on the number of awards that meet the related service and non-market performance conditions at the vesting date.

The fair value of the amount payable to employees and Directors in respect of Medium Term Incentive Plans ("MTIPs") and Deferred Share Units ("DSUs"), for which the participants are eligible to receive an equivalent cash value of the common shares at a future date, is recognized as an expense with a corresponding increase in liabilities, over the period that the employees provide the related service and Directors become entitled to payment. The liability is re-measured at each reporting date and at the settlement date. Any changes in the fair value of the liability are recognized as compensation expense in profit or loss.

Bridging Restricted Share Units ("BRSUs") track the value of a common share and provide eligible participants with an equivalent cash value of common shares. Each grant vests 20% in the first year, 30% in the second year and the remaining 50% in the third year.

Restricted Share Units ("RSUs") track the value of a common share and provide eligible participants with an equivalent cash value of common shares. Each grant cliff vests at the end of three years.

Performance Share Units ("PSUs") track the value of a common share and provide eligible participants with an equivalent cash value of common shares. Each grant cliff vests at the end of three years and the payout can be 0% to 200% of the vested units, subject to the achievement of certain corporate objectives as approved by the Board. Each grant of PSUs is individually evaluated regularly with regard to vesting and payout assumptions.

The RSUs and PSUs granted in 2017 and 2018 differ from previous grants in that additional units are granted each time Stuart Olson pays a common share dividend.

We typically settle the BRSUs, RSUs and PSUs (collectively, the "MTIPs") in cash within 20 business days after vesting. The original cost of the MTIPs is equal to the fair market value at the date of grant. Changes in the amount of the liability due to fair value changes after the initial grant date are recognized as a compensation expense in the period in which the changes occur.

Information about the vesting conditions for share-based payments is disclosed in *Note 25* of the December 31, 2018 Audited Consolidated Annual Financial Statements.

CHANGES IN ACCOUNTING POLICIES

Current Changes in Accounting Standards

IFRS 15 – *Revenue from Contracts with Customers*

We adopted IFRS 15 – *Revenue from Contracts with Customers* using the full retrospective approach on January 1, 2018. IFRS 15 supercedes IAS 11 – *Construction Contracts* and IAS 18 – *Revenue*, and related interpretations. We have detailed below the impact of the transition to IFRS 15 on our accounting policy for revenue recognition.

We applied IFRS 15 retrospectively to all contracts that were not complete on January 1, 2018, the date of initial application, in order to determine if an adjustment was required for prior periods presented. We performed a comprehensive review of existing contracts, control processes and revenue recognition methodology. In evaluating the impact of IFRS 15 on previously reported comparative figures, we determined that there was no change required as the existing revenue recognition practices met the requirements of IFRS 15. There were no changes to the classification and timing of revenue recognition, the measurement of contract costs and the recognition of costs in excess of billings (contract assets) and contract advances and unearned income (contract liabilities).

We continue to recognize revenue at a contract level as performance obligations are satisfied over time, using project stage of completion based on costs incurred, labour hours expended and resources consumed. Revenue is recognized by applying the five-step model under IFRS 15.

Recognition requirements surrounding contract modifications (variations and claims) have been implemented, where we are required to provide a high level of evidence of customer acceptance. For any change in transaction price as a result of a variation or claim, we will only recognize revenue to the extent that it is highly probable that revenue will not significantly reverse in the future.

Please refer to *Note 8, 17 and 33* of the December 31, 2018 Audited Consolidated Annual Financial Statements for additional disclosures related to disaggregated revenue, movements in costs in excess of billings and contract advances and unearned income, and remaining performance obligations, respectively.

IFRS 9 – *Financial Instruments*

IFRS 9 – *Financial Instruments* was issued to replace IAS 39 – *Financial Instruments: Recognition and Measurement*. We adopted IFRS 9 retrospectively on January 1, 2018. IFRS 9 introduces a logical approach for the classification of financial assets, which is driven by cash flow characteristics and the business model in which an asset is held. This single principle-based approach replaces existing rule-based requirements. IFRS 9 results in a single impairment model being applied to all financial instruments measured at amortized cost or at fair value through other comprehensive income. This expected credit loss impairment model requires more timely recognition of expected credit losses. Specifically, the new standard requires entities to account for expected credit losses from when financial instruments are first recognized and to recognize full lifetime expected losses on a timelier basis. The adoption of this standard did not have a material impact to the Audited Consolidated Annual Financial Statements. Our policies and procedures surrounding the identification of credit risk and the recognition of credit losses comply with the requirements of this standard.

Please refer to *Note 28(b)* of the December 31, 2018 Audited Consolidated Annual Financial Statements for additional disclosures related to our financial instruments.

IFRS 2 – *Share-based Payment*
Amendments have been issued for IFRS 2 – *Share-based Payment*, providing clarification on the classification and measurement of certain types of share-based payment transactions. We adopted the amendments to IFRS 2 retrospectively on January 1, 2018. The amendments to IFRS 2 clarify that the accounting for the effects of vesting and non-vesting conditions on cash-settled share-based payments should follow the same approach as for equity-settled share-based payments. The amendments impact our disclosure surrounding Performance Share Units ("PSUs") outstanding, adjusting the number of units disclosed to factor in performance conditions that modify the vested value. The adoption of these amendments did not have any other material impact to the Audited Consolidated Annual Financial Statements.

Please refer to *Note 25(b)* of the December 31, 2018 Audited Consolidated Annual Financial Statements for a reconciliation of the PSUs.

Future Changes in Accounting Standards

We have reviewed new and revised accounting pronouncements that have been issued, but are not yet effective. Please see below and *Note 4* of the December 31, 2018 Audited Consolidated Annual Financial Statements for further information. We are still evaluating the potential impact of future accounting standard changes on our financial reporting.

IFRS 16 – *Leases*
IFRS 16 – *Leases* was issued by the International Accounting Standards Board (IASB) in January 2016. It will replace IAS 17 – *Leases* for annual and interim reporting periods beginning on or after January 1, 2019. For lessees, IFRS 16 will bring most leases onto the consolidated statements of financial position under a single model, eliminating the distinction between operating and finance leases. Lessors will continue accounting for leases under a dual lease classification model, and the classification between operating and finance leases will determine how and when a lessor will recognize revenue, and what assets would be recorded.

IFRS 16 may be applied retrospectively or using a cumulative catch-up approach. We have selected to use the cumulative catch-up approach, which does not require restatement of prior period financial information. Rather, the cumulative effect of applying the standard to prior periods is recorded as an adjustment to opening retained earnings. There are recognition exemptions available for certain short-term leases (less than 12 months) and leases for which the underlying asset is of low value. We will apply these recognition exemptions upon adoption, and will continue to treat such leases as operating leases.

On initial adoption, we expect to elect the following practical expedients permitted under the standard:

- Use our previous assessment under IAS 37 – *Provisions, Contingent Liabilities and Contingent Assets* for onerous contracts, instead of reassessing the lease asset for impairment on January 1, 2019;
- Exclude initial direct costs from the measurement of the lease asset at the date of initial application; and
- Use hindsight in determining the lease term where the contract contains terms to extend or terminate the lease.

On adoption of IFRS 16, we will recognize lease liabilities in relation to leases under the principles of the new standard at the present value of unavoidable future lease payments, discounted using our incremental borrowing rate as at January 1, 2019. The associated right-of-use assets will be measured at amounts equal to the lease liabilities, less any amounts previously recognized under IAS 37 for onerous contracts. The measurement of the total lease expense over the term of the lease is unaffected by the new standard; however, the required presentation on the consolidated statements of earnings will result in costs currently classified as lease expenses being presented as depreciation of leased assets and finance costs associated with lease liabilities. This depreciation expense will continue to be recognized as part of contract costs or administrative costs, depending on the nature of the leased asset, while the finance costs will be separately disclosed on the consolidated statements of earnings.

While we continue to assess the impact of adopting IFRS 16, we expect the most significant impact to relate to the changes in the accounting for lease agreements associated with office, yard and shop facilities, which are currently classified as operating leases and directly expensed on the consolidated statements of earnings.

As a result of adopting IFRS 16, we have estimated that as at January 1, 2019, we expected to recognize in the Consolidated Statements of Financial Position right-of-use lease assets of approximately $41.5 million, lease receivables of approximately $5.8 million related to subleased facilities, a deferred tax asset of approximately $0.2 million and lease liabilities of approximately $50.2 million, as well as the removal of onerous contract provisions of approximately $2.0 million and a cumulative estimated reduction to our opening retained earnings of approximately $0.7 million. These amounts are based on lease information gathered and management's evaluation to date and are subject to change.

IAS 19 – Employee Benefits

In February 2018, the IASB issued amendments to IAS 19 – *Employee Benefits*, to clarify the calculation of pension expenses when changes to a defined benefit pension plan occur as a result of an amendment, curtailment or settlement. We will be required to re-measure our net defined benefit obligation or asset and the updated assumptions from this re-measurement will be used to determine past service cost and net interest for the remainder of the reporting period after the change(s) to the plan. The amendments also clarify the effect of a plan amendment, curtailment or settlement on the asset ceiling requirements. The amendments are effective for annual periods beginning on or after January 1, 2019. We do not expect this amendment to have a material impact on our consolidated financial statements, as no changes to the defined benefit pension plans are expected.

IAS 1 – Presentation of Financial Statements and IAS 8 – *Accounting Policies, Changes in Accounting Estimates and Errors*

In October 2018, the IASB issued amendments to IAS 1 – *Presentation of Financial Statements and IAS 8 – Accounting Policies, Changes in Accounting Estimates and Errors*, clarifying the definition of material information. Under the amended definition, information is material if omitting, misstating or obscuring it could reasonably be expected to influence the decisions that the users of the financial statements make on the basis of those financial statements. The amendments also clarify the explanations accompanying the definition of material information. The amendments are effective January 1, 2020 and are required to be applied prospectively. We do not expect these amendments to have a material impact on our consolidated financial statements.

IFRS 3 – *Business Combinations*

In October 2018, the IASB amended IFRS 3 – *Business Combinations*, seeking to clarify whether an acquisition transaction results in the acquisition of an asset or a business. The amendments clarify the definition of a business and include a simplified assessment to determine whether the acquisition is a group of assets or a business. The amendments are effective for acquisition transactions on or after January 1, 2020, with earlier application permitted. This narrower definition of a business may reduce the number of business combinations that we will recognize in the future, but is not expected to have an impact on the current consolidated financial statements or the treatment of past acquisitions.

FINANCIAL INSTRUMENTS

Financial instruments consist of recorded amounts of receivables and other like amounts that will result in future cash receipts, as well as accounts payable, borrowings and any other amounts that will result in future cash outlays. The fair value of our short-term financial assets and liabilities approximates their respective carrying amounts on the Statements of Financial Position because of the short-term maturity of those instruments. The fair values of our interest-bearing financial liabilities also approximate their respective carrying amounts. This is due to the floating rate nature of the variable-rate interest bearing financial liabilities, including the revolving credit facility and long-term note payable. Further, the fair value of the Corporation's fixed rate convertible debentures approximates its carrying value based on their public trading price.

The financial instruments we use expose us to credit, interest rate and liquidity risks. Our Board has overall responsibility for the establishment and oversight of our risk management framework and reviews corporate policies on an ongoing basis. We do not actively use financial derivatives, nor do we hold or use any derivative instruments for trading or speculative purposes.

We are exposed to credit risk through accounts receivable. This risk is minimized by the number of customers in diverse industries and geographical centres. We further mitigate this risk by performing an assessment of our customers as part of our work procurement process, including an evaluation of financial capacity.

Under IFRS 9, we are required to review impairment of our trade and other receivables at each reporting period and to review our allowance for doubtful accounts for expected future credit losses. We take into consideration the customer's payment history, creditworthiness and the current economic environment in which the customer operates to assess impairment.

We establish a specific bad debt provision when we consider that the expected recovery will be less than the actual accounts receivable. The provision for doubtful accounts has been included in administrative costs in the December 31, 2018 Audited Consolidated Annual Statements of Earnings and Comprehensive Earnings, and is net of any recoveries that were provided for in a prior period. Allowance for doubtful accounts as at December 31, 2018 was $0.2 million (December 31, 2017 - $0.3 million).

In determining the quality of trade receivables, we consider any change in the credit quality of customers from the date credit was initially granted up to the end of the reporting period. As at December 31, 2018, we had $15.4 million of trade receivables (December 31, 2017 - $20.3 million) which were greater than 90 days past due, with $15.2 million not provided for as at December 31, 2018 (December 31, 2017 - $20.0 million). Management is not materially concerned about the credit quality and collectability of these accounts as our customers are predominantly large in scale and of high creditworthiness, and the concentration of credit risk is limited due to our sizeable and unrelated customer base.

Interest rate risk is the risk to our earnings that arises from fluctuations in the interest rates and the degree of volatility of these rates. We do not use derivative instruments to reduce exposure to this risk. On an annualized basis as at December 31, 2018, a change in 100 basis points in interest rates would have increased or decreased equity and profit or loss by $0.2 million (December 31, 2017 - $0.2 million) related to financial assets and by $0.3 million (December 31, 2017 - $0.1 million) related to financial liabilities.

Liquidity risk is the risk that we will encounter difficulties in meeting our financial obligations. We manage this risk through cash and debt management. We invest our cash with the objective of maintaining safety of principal and providing adequate liquidity to meet all current payment obligations. We invest cash and cash equivalents with counterparties that are of high credit quality as assessed by reputable rating agencies. Given these high credit ratings, we do not expect any counterparties to fail to meet their obligations. In managing liquidity risk, we have access to committed long-term debt facilities as well as equity markets, the availability of which is dependent on market conditions.

Under our risk management policy, derivative financial instruments are used only for risk management purposes and not for generating trading profits.

Please refer to *Note 28* of the December 31, 2018 Audited Consolidated Annual Financial Statements for further detail.

Controls & Procedures

The controls and procedures set out below encompass all Stuart Olson companies.

Disclosure Controls & Procedures

Disclosure controls and procedures are designed to provide reasonable assurance that all relevant information is gathered and reported to senior management, including our Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO"), on a timely basis, so that appropriate decisions can be made regarding public disclosure. The CEO and CFO together are responsible for establishing and maintaining our disclosure controls and procedures. They are assisted in this responsibility by the Disclosure Committee, which is comprised of members of our senior management team.

An evaluation of the effectiveness of the design of our disclosure controls and procedures was carried out under the supervision of management, including our CEO and CFO, with oversight by the Board of Directors and Audit Committee, as at December 31, 2018. Based on this evaluation, our CEO and CFO have concluded that the design and operation of our disclosure controls and procedures, as defined in NI 52-109, Certification of Disclosure in Issuers' Annual and Interim Filings, was effective as at December 31, 2018.

Internal Controls over Financial Reporting

Internal controls over financial reporting are designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS. Absolute assurance cannot be provided that all misstatements have been detected because of inherent limitations in all control systems. Management is responsible for establishing and maintaining adequate internal controls appropriate to the nature and size of the business, and to provide reasonable assurance regarding the reliability of our financial reporting.

Under the oversight of the Board of Directors and our Audit Committee, Stuart Olson management, including our CEO and CFO, evaluated the design and operation of our internal controls over financial reporting using the control framework issued by the Committee of Sponsoring Organizations of the Treadway Commission on Internal Control – Integrated Framework (2013). The evaluation included documentation review, enquiries, testing and other procedures considered by management to be appropriate in the circumstances. As at December 31, 2018, our CEO and CFO have concluded that the design and operation of the internal controls over financial reporting as defined in NI 52-109, Certification of Disclosure in Issuers' Annual and Interim Filings, was effective.

Material Changes to Internal Controls over Financial Reporting

There were no changes to our internal controls over financial reporting and the environment in which they operated during the period beginning on January 1, 2018 and ending on December 31, 2018 that have materially affected or are reasonably likely to materially affect our internal controls over financial reporting.

RISKS

Stuart Olson is subject to certain risks and uncertainties that are common in the construction industry and that may affect future performance. The risks described below are not exhaustive. We operate in a very competitive and ever-changing environment. New risk factors emerge from time to time and it is not possible for management to predict all such risk factors, nor can we assess the impact of all such risk factors on our business. Readers are also encouraged to review the "Forward-Looking Information" section of this MD&A.

The Operations of Stuart Olson are Dependent on the Price of Oil and Natural Gas

Macro-economic and geopolitical factors associated with oil and natural gas supply and demand are prime drivers for pricing and profitability within the oil and natural gas industry. Generally, when oil and natural gas prices are relatively high, demand for our services is high, while the opposite is true when oil and natural gas prices are low.

Some of our accounts receivable are with customers involved in the oil and natural gas industry, whose revenues may be impacted by fluctuations in oil and natural gas prices. The collection of receivables may be adversely affected by any prolonged weakness in oil and natural gas prices.

Regional Concentration

A large percentage of our revenue originates in Alberta. This regional concentration makes our performance sensitive to impacts of localized factors, such as, weather conditions, major disasters, provincial rules and regulations, provincial and municipal governments, available workforce, economic dependencies and trends, and other factors that are local to Alberta.

Access to Capital and Liquidity

We are reliant on external sources of financing to meet our ongoing operational needs. We use available liquidity from our Revolver to ensure that we have sufficient working capital to fund operations and meet our financial obligations. The interest rate payable under the Revolver is subject to change based on the amount of indebtedness and other internal and external factors. Our ability to make interest payments on the Revolver, as well as the scheduled payments of principal and interest on the 2014 Convertible Debentures, could be negatively impacted by operational or other internal events or external financial or other events that affect our liquidity. While we have a variety of options in connection with the maturity of the 2014 Convertible Debentures on December 31, 2019, some of these options are dependent on our access to external funds, which access may be affected by numerous external factors or changes in our performance or prospects. In addition, a tightening of capital markets generally, or deterioration of our share price or operational or financial performance, may affect our ability to raise funds or the cost of raising funds, which may in turn restrict our ability to fund future growth initiatives. There can be no assurance that, if, as and when we seek equity or debt financing or re-financing, we will be able to obtain the required financing or re-financing on favourable commercial terms, or at all. Any such future financing or re-financing may also result in dilution to existing shareholders.

Potential for Non-Payment and Credit Risk and Ongoing Financing Availability

During the term of a contract, we may be required to use our working capital to fund construction costs until payments are collected from clients. If a client defaults in making its payments on a project, we would generally have a right to register a lien against the project. If the client were ultimately unable or unwilling to pay the amounts owing to us, a lien against the property would normally provide some security that we could ultimately realize what is owed; however, in these situations our ability to ultimately collect what it is owed cannot be assured. A greater incidence of payment default by clients could result in a financial loss that could have a material adverse effect on our operating results and financial position.

Our operations, and particularly industrial operations, require a significant amount of working capital due to the requirement for large workforces on many projects. Our ability to obtain additional capital is a significant factor in achieving our strategy of expansion in the industrial services industry. There can be no assurance that our current working capital will be sufficient to enable us to implement all of our objectives. As well, there can be no assurance that, if, as and when we seek equity or debt financing, we will be able to obtain the required funding on favourable commercial terms, or at all. Any such future financing may also result in dilution to existing shareholders.

Industry and Inherent Project Delivery Risks

We perform construction activities under a variety of contracts including lump-sum, guaranteed maximum price, cost reimbursable and design-build. Some forms of these construction contracts carry more risk than others.

Historically, a portion of our revenue has been derived from lump-sum contracts pursuant to which a commitment is provided to the owner of the project to complete the project at a fixed price ("Lump Sum") or guaranteed maximum price ("GMP"). In Lump Sum and GMP projects, in addition to the risks associated with a fixed unit price contract (as described below), any errors in quantity estimates or schedule delays or productivity losses, for which contracted relief is not available, must be absorbed within the Lump Sum or GMP, thereby adding a further risk component to the contract. These contracts, given their inherent risks, may from time to time result in significant financial losses on projects. The failure to properly assess a wide variety of risks, appropriately execute these contracts or prevail with regards to contractual disputes in relation to these contracts may have a material adverse impact on our financial results.

We are also involved in fixed unit price construction contracts under which we are committed to provide services and materials at a fixed unit price. While this shifts the risk of estimating the quantity of units to the contract owner, any increase in our cost over the unit price bid, whether due to estimating error, inefficiency in project execution, inclement weather, inflation or other internal or external factors, will negatively affect our profitability and may also results in financial losses.

In certain instances, we commit to a customer that we will complete a project by a scheduled date or that the facility constructed will achieve certain performance standards. If the project or facility subsequently fails to meet the schedule or performance standards, we could incur additional costs or penalties commonly referred to as liquidated damages. Although we attempt to negotiate waivers of or limitations to, consequential or liquidated damages, on some contracts, we are required to bear the risk for failure to meet certain contractual milestones. These penalties may be significant and could materially impact our financial position or results of future operations. Furthermore, schedule delays may also reduce profitability or result in financial losses because staff may be prevented from pursuing and working on new projects. Project delays may also reduce customer satisfaction which could impact future awards and therefore our backlog.

We occasionally participates in design-build projects pursuant to which, in addition to the responsibilities and risks of a fixed unit price or Lump Sum contract, we assume the additional risk of quality or design-related flaws or failures. This risk is managed by using external consultants for the design component as well as by the purchase of appropriate insurance protection. Design remediation work could result in additional contract costs that may not be reimbursed by the client.

Certain of our contractual requirements may also involve financing elements, where we are required to provide one or more letters of credit, performance bonds or financial guarantees. There can be no assurance that we will be able to obtain the necessary financing on favourable or commercially reasonable terms and conditions to satisfy such requirements, nor that its working capital and bonding facilities will be adequate in order to issue the required letters of credit and performance bonds. This may result in not obtaining or losing certain projects and/or contracts.

Change orders (also commonly called variations in the context of construction) modify the nature or quantity of the work to be completed. These change orders are typically issued at the request of, or for the benefit of clients and often occur in the middle of execution of a project. Final pricing of and payment for these change orders is often negotiated after the changes have been started or completed and may ultimately only be determined after a formal or informal claim process, while accounting rules and practices may dictate that we recognize a reasonable amount of revenue associated with the unresolved change orders or claims. In such cases, the applicable revenue recognition rules require us to exercise our best judgment as to the likely outcome of a change order or claim once ultimately resolved. We exercise this judgment pursuant to rigorous internal controls, and practices and procedures, which are designed to ensure that the ultimate outcome is estimated as accurately and reasonably as possible in the circumstances at the time of estimation. Despite these efforts there remains a possibility that a change order or claim, once ultimately resolved, may result in less revenues, and potentially significantly less revenues, than originally estimated, resulting in a requirement to make financial adjustments to current or prior periods. Disputes regarding the quantum of unpriced change orders or claims could impact our profitability on a particular project, ability to recover costs, or in a worst case scenario, result in significant project and/or financial losses. The timing of the resolution of these events can have a material impact on income and liquidity and thus can cause fluctuations in the revenue and income in any prior, current or future reporting period.

Regulations

The operations of our clients are subject to or impacted by a wide array of regulations in the jurisdictions in which they operate, such as applicable environmental laws. As a result of changes in regulations and laws relating to these industries, client operations could be disrupted or curtailed by governmental authorities. The high cost of compliance with applicable regulations may cause clients to discontinue or limit their operations or may discourage companies from continuing further development activities. As a result, demand for our services could be substantially affected by regulations adversely impacting these industries.

Dependence on the Public Sector

A significant portion of the Buildings Group’s revenue is derived from contracts with various governments or their agencies. Consequently, any reduction in demand for the Buildings Group’s services by the public sector, whether from funding constraints, changing capital spending plans or changing political priorities, would likely have an adverse effect on us if that business could not be replaced from within the private sector.

Client Concentration

The Commercial Systems Group does a significant amount of work with a small number of major general contractors. Consequently, the loss of, or a significant reduction in business with, one or more of these contractors, whether as a result of completion of a contract, early termination, or a failure or inability to pay amounts owed, could have a material adverse effect on the Commercial Systems Group’s and consequently Stuart Olson’s business and results of operations. Similarly, the Industrial Group has a narrow concentration of clients. The loss of, or significant reduction in business with, one or more of these clients could have a material adverse effect on the Industrial Group, and consequently on Stuart Olson’s business and results of operations.

Labour Matters

Periods of high construction activity can create shortages of labour. In the past, the rapidly expanding markets in, among others, Alberta and British Columbia, have created general shortages of tradesmen and management personnel. Our operating companies attempt to mitigate labour shortages through positive union relationships, competitive remuneration, enhanced in-house training programs and expanded recruiting, both within Canada and internationally. If we are unable to recruit and retain enough employees with the appropriate skills, we may be unable to maintain our client service levels, and we may not be able to satisfy increased demand for our services. Similarly, a significant portion of our labour force is unionized and accordingly we are subject to the detrimental effects of a strike or other labour action, in addition to competitive cost factors. Any future labour shortage or disruption may lead to construction cost escalation, which could decrease contract margins, should clients not agree to absorb these additional costs. In addition, changes to the provincial Labour Relations Code could result in impacts to our labour structure. If the current structure is impacted, it may affect our competitiveness and profitability.

Loss of Key Management; Inability to Attract and Retain Management

Our success is highly influenced by the efforts of key members of management, including our executive officers. The loss of the services of any of our key management personnel could negatively impact us. Our future success also depends heavily on our ability to attract, retain and develop high-performing personnel in all areas of our operations. Most organizations in the construction industry face this challenge, and accordingly, competition for qualified personnel is significant. If we cease to be seen by current and prospective employees as an attractive place to work, we could experience difficulty in hiring and retaining the right people. This could have an adverse effect on our current operations and would limit our prospects and impair our future success.

Subcontractor Performance

The profitable completion of some contracts depends to a large degree on the satisfactory performance of subcontractors as well as design and engineering consultants who complete different elements of the work, especially within the Buildings Group. If these subcontractors or consultants do not perform to accepted standards, we may be required to hire different subcontractors to complete the tasks, which may impact schedule, add costs to a project, impact profitability on a specific job and, in certain circumstances, lead to significant losses. A major subcontractor default or failure to properly manage subcontractor performance could materially impact results.

Unanticipated Shutdowns

A portion of our work is generated from the development, expansion and ongoing maintenance of oil sands mining, extraction and upgrading facilities. Shutdowns of these facilities due to events outside of our control or the control of our clients, such as the cancellation of projects due to a downturn in oil and gas prices, natural disasters, mechanical breakdowns, technology failures or pressure from environmental activists, could lead to the temporary shutdown or complete cessation of projects on which we are working. These events could materially and adversely affect our business and results of operations.

Maintaining Safe Worksites

Our success as a contractor is highly dependent on our ability to keep our construction worksites safe. Failure to do so can have serious impacts beyond the threat to personal safety of our employees and others. It can expose us to fines, regulatory sanction and even criminal prosecution. Our safety record and worksite safety practices have a direct bearing on our ability to secure work.

Joint Venture Partners

We undertake certain contracts with joint venture partners. The success of our joint ventures depends on the satisfactory performance of our joint venture partners in their joint venture obligations. We may provide joint and several guarantees in connection with these joint ventures, and in each case, seek to obtain reciprocal guarantees and assurances from our partners. The failure of the joint venture partners to perform their obligations or their insolvency could impose additional financial and performance obligations on us that could result in increased costs.

Cyber Security Risks

We use a number of information technology systems for the management and operation of our business and are subject to a variety of information technology and system risks as part of our normal operations, including potential breakdown, invasion, virus, cyber-attack, cyber fraud, security breach and destruction or interruption of our information technology systems by third parties or individuals within the organization. Although we have security measures and controls in place that are designed to mitigate these risks, a breach of our security measures and/or loss of information could occur and could lead to a number of adverse consequences, including but not limited to: the unavailability, disruption or loss of key functionalities within our control systems and the unauthorized disclosure, corruption or loss of material and confidential information, breach of privacy laws and a disruption to our business activities.

We attempt to prevent such breaches through, among other things, the implementation of various technological security measures, providing cyber security training to all personnel, segregation of control systems from our general business network, engaging skilled consultants and employees to manage our technology applications, conducting periodic audits and adopting policies and procedures as appropriate. To date, we have not been subject to a cyber security breach that has resulted in a material impact on our business or operations; however, there is no guarantee that the measures we take to protect our information technology systems will be effective in protecting against a breach in the future.

Competition and Reputation

There is strong competition in the construction industry. We compete with a broad range of companies in each market, some of which are substantially larger than us. In addition, an increase in the number of international companies entering the Canadian marketplace has also made the market more competitive. Each competitor has its own advantages and disadvantages relative to Stuart Olson. New contract awards and contract margin are dependent upon the level of competition and the general state of the markets in which we operate. Fluctuations in demand in the segments in which we operate may impact the degree of competition for new work. Competitors that have greater financial and other resources can better bear the risk of under-pricing projects, whereas smaller competitors may have lower overhead cost structures and therefore may be able to provide their services at lower rates. Our business may be adversely impacted to the extent that we are unable to successfully compete with these companies. The loss of existing clients to competitors or the failure to win new projects could materially and adversely affect our business and results of operations.

Reputation in the construction industry is a significant factor in our long-term success. Adverse opinions may impact long-term financial results and can arise from a number of factors including errors or losses on specific projects, employee sentiment, questions concerning business ethics and integrity, corporate governance, the accuracy and quality of financial reporting and public disclosure as well as the quality and timing of the delivery of key products and services. We put in place various controls and procedures to mitigate this risk; however, these controls and policies cannot guarantee that future breaches of such controls and procedures will not occur, which may or may not impact our financial results.

Limitations of Insurance

Any catastrophic occurrence in excess of insurance limits at projects where our structures are installed or services are performed could result in significant professional liability, product liability, warranty or other claims against us. Such liabilities could potentially exceed our current insurance coverage and the fees derived from those services. A partially or completely uninsured claim, if successful and of a significant magnitude, could result in substantial losses.

Litigation Risk

In the normal course of our operations, whether directly or indirectly, we have been, and in the future we may become, involved in, named as a party to, or the subject of, various legal proceedings and legal actions relating to, among other things, construction disputes for which insurance is not available, human resources matters, personal injuries, property damage and general commercial and contractual matters arising from our business activities. Litigation is inherently uncertain. Accordingly, adverse outcomes to current litigation or pending litigation are possible. These potentially adverse outcomes could include financial loss, damage to our reputation or reduction of prospects for future contract awards.

Corporate Guarantees and Letters of Credit

In the course of business operations, we may be required to guarantee the performance pursuant to a contract of one or more of our groups by way of providing guarantees or letters of credit. If our capacity to issue letters of credit under our Revolver, combined with cash on hand, are insufficient to satisfy clients and surety providers, our business and results of operations could be adversely affected. Letters of credit are issued mainly to provide security to third parties in the case of non-performance under a contract. Significant claims under letters of credit and/or corporate guarantees could materially and adversely affect our business, financial stability and operating capacity.

Performance Bonds

Our operating companies are often required to provide performance and labour and material payment bonds as assurance for contract completion. The surety industry has endured a certain degree of instability and uncertainty as a result of recent economic conditions, which may constrain the overall industry capacity. Furthermore, the issuance of bonds under our surety program is at the sole discretion of the surety companies on a project by project basis. As such, even sizable sureties may be unwilling to guarantee bonding support on every project. Although we believe that we will be able to continue to maintain adequate surety capacity under our surety program to satisfy our requirements, should those requirements be materially greater than anticipated, or should sufficient surety capacity not be available to us for any reason, this may have an adverse impact on our ability to operate our business or take advantage of all market opportunities.

Volatility of Market Trading

The market price of our securities may be volatile and could be subject to fluctuations in response to quarterly variations in operating results, changes in financial estimates by securities analysts, or other events or factors. In addition, the financial markets have experienced significant price and volume fluctuations that have particularly affected the market prices of equity securities of many companies providing services to the commodity industry. Often these fluctuations have been unrelated to the operating performance of such companies or have resulted from the failure of the operating results of such companies to meet market expectations in a particular quarter. Broad market fluctuations, or any failure of our operating results in a particular quarter to meet market expectations, may adversely affect the market price of our securities.

Failure of Clients to Obtain Required Permits and Licenses

The development of construction projects requires our clients to obtain regulatory and other permits and licenses from various governmental licensing bodies. Our clients may not be able to obtain all necessary permits and licenses required for the development of their projects, in a timely manner or at all. These delays are generally outside our control. The major cost associated with these delays is personnel and associated overhead that is designated for the project which cannot be reallocated effectively to other work. If the client’s project is unable to proceed, it may adversely impact the demand for our services.

Dividends

The payment of dividends on common shares is at the discretion of our Board. In establishing the amount of any dividend, the Board will take into consideration, among other things, the need to meet future requirements for increases in working capital and equity to meet contract security requirements, provide the financial capacity to withstand any downturn in the construction industry, should one occur, expand the business and the desirability of maintaining the dividend rate. There can be no assurances that the dividend rate will not be reduced or suspended in the future.

Compliance with Environmental Laws

We are subject to numerous federal, provincial and municipal environmental laws and judicial, legislative and regulatory developments relating to environmental protection on an ongoing basis. While we strive to keep informed of and to comply with all applicable environmental laws, circumstances may arise and incidents may occur that are beyond our control that could adversely affect us. During our history, we have experienced incidents, emissions and spills of a non-material nature. None of these incidents has resulted in any liability to us to date, although there can be no guarantee that any future incidents will be of a non-material nature. We are not aware of any pending environmental legislation that would be likely to have a material adverse impact on any of our operations, capital expenditure requirements or competitive position, although there can be no assurance that future legislation will not be proposed, and if implemented, may have a material adverse impact on our operations.

NON-IFRS MEASURES

Throughout this MD&A certain measures are used that, while common in the construction industry, are not recognized measures under IFRS. The measures used are “contract income margin”, “work-in-hand”, “backlog”, “active backlog”, “book-to-bill ratio”, “working capital”, “adjusted EBITDA”, “adjusted EBITDA margin”, “adjusted free cash flow”, “adjusted free cash flow per share”, “dividend payout ratio" “indebtedness”, “indebtedness to capitalization”, “net long-term indebtedness to adjusted EBITDA”, “interest coverage”, “additional borrowing capacity”, “available liquidity”, and “debt to EBITDA”. These measures are used by management to assist in making operating decisions and assessing performance. They are presented in this MD&A to assist readers in assessing the performance of Stuart Olson and its operating groups. While we calculate these measures consistently from period to period, they will likely not be directly comparable to similar measures used by other companies because they do not have standardized meanings prescribed by IFRS. Please review the discussion of these measures below.

Contract Income Margin

Contract income margin is the percentage derived by dividing contract income by contract revenue. Contract income is calculated by deducting all associated direct and indirect costs from contract revenue in the period.

Work-In-Hand, Backlog and Active Backlog

Work-in-hand is the unexecuted portion of work that has been contractually awarded to us for construction. It includes an estimate of the revenue to be generated from MRO contracts during the shorter of: (a) twelve months, or (b) the remaining life of the contract.

Backlog means the total value of work, including work-in-hand, that has not yet been completed that: (a) is assessed by us as having a high certainty of being performed by us by either the existence of a contract or work order specifying job scope, value and timing, or (b) has been awarded to us, as evidenced by an executed binding or non-binding letter of intent or agreement, describing the general job scope, value and timing of such work, and with the finalization of a formal contract respecting such work currently assessed by us as being reasonably assured. Our backlog is comprised of remaining performance obligations, which are discussed in *Note 3* and *Note 33* of our December 31, 2018 Audited Consolidated Annual Financial Statements, and other backlog projects that do not meet the stringent definition of a performance obligation in accordance with IFRS. Other backlog projects include work in respect of our long-term stable MSA work that has not yet been issued as purchase orders by our customers. Stuart Olson management uses backlog as the predominant measure of the health of future contracted work to be completed by our business.

Active backlog is the portion of backlog that is not work-in-hand (has not been contractually awarded to us). We provide no assurance that clients will not choose to defer or cancel their projects in the future.

$millions	**Dec. 31, 2018**	**Dec. 31, 2017**
Remaining performance obligations[1]	1,108.9	1,124.3
Add: Other backlog projects	458.5	597.1
Consolidated backlog	**1,567.4**	**1,721.4**
Less: Active backlog	683.4	868.1
Work-in-hand	**884.0**	**853.3**

Note: (1) Please refer to *Note 3* and *33* of our December 31, 2018 Audited Consolidated Annual Financial Statements for more information on remaining performance obligations.

Book-to-Bill Ratio

Book-to-bill ratio means the ratio of net new projects added to backlog and increases in the scope of existing projects (book) to revenue (bill), for continuing operations for a specified period of time (excluding the impact of backlog additions from acquisitions and reductions for divestitures). A book-to-bill ratio above 1.00 implies that backlog additions were more than revenue for the specified time period, while a ratio below 1.00 implies that revenue exceeded backlog additions for the period. The following outlines the calculation of our book-to-bill ratio for the current year periods.

	Three months ended	**Year ended**
$millions, except book-to-bill ratio	**Dec. 31, 2018**	**Dec. 31, 2018**
Ending December 31, 2018 backlog	1,567.4	1,567.4
Less: Opening period backlog	(1,584.3)	(1,721.4)
Less: Backlog acquired from Tartan	(64.1)	(64.1)
Plus: Contract revenue	227.6	966.5
Net backlog additions	146.6	748.4
Divided by: Contract revenue	227.6	966.5
Book-to-bill ratio	0.64	0.77

Working Capital

Working capital is calculated as current assets less current liabilities. The calculation of working capital is provided in the table below:

$millions	Dec. 31, 2018	Dec. 31, 2017
Current assets	**335.0**	339.1
Current liabilities	**(345.9)**	(306.0)
Working capital[(1)]	**(10.9)**	33.1

Note: (1) The convertible debentures issued in 2014, are presented as a current liability of $78.2 million as at December 31, 2018.

Adjusted EBITDA and Adjusted EBITDA Margin

We have changed our definition of adjusted EBITDA for year-end 2018 to exclude costs related to activist shareholder activities. Over the near-term, we expect to incur meaningful costs related to activist shareholder activities, which we have not incurred before and do not expect to incur on a regular basis in the future. Given adjusted EBITDA is a measure of continuing operations, management believes it is appropriate to add back these non-operational costs to net earnings in the calculation of adjusted EBITDA. This change has not impacted the calculation of adjusted EBITDA in any comparative period.

We define adjusted EBITDA as net earnings (loss) from continuing operations before finance costs, finance income, income taxes, capital asset depreciation and amortization, impairment charges, costs or recoveries relating to investing activities, costs related to activist shareholder activities, restructuring costs, equity-settled share-based compensation expense and gains/losses on assets, liabilities and investment dispositions.

EBITDA and adjusted EBITDA are common financial measures used by investors, analysts and lenders as an indicator of cash operating performance, as well as a valuation metric and as a measure of a company's ability to incur and service debt. Our calculation of adjusted EBITDA excludes items that do not reflect our continuing operations, including restructuring charges, equity-settled share-based compensation and charges related to both investing decisions and activist shareholder activities, and that we believe should not be reflected in a metric used for valuation and debt servicing evaluation purposes.

While EBITDA and adjusted EBITDA are common financial measures widely used by investors to facilitate an "enterprise level" valuation of an entity, they do not have a standardized definition prescribed by IFRS and therefore, other issuers may calculate EBITDA or adjusted EBITDA differently.

Adjusted EBITDA margin is the percentage derived from dividing adjusted EBITDA by contract revenue.

Set out on the following pages are reconciliations from our EBT to adjusted EBITDA and adjusted EBITDA margin for each of the periods presented in this MD&A.

Consolidated

	2018 Quarter ended:				2017 Quarter ended:			
$millions, except percentages	**Dec. 31**	Sep. 30	Jun. 30	Mar. 31	Dec. 31	Sep. 30	Jun. 30	Mar. 31
Net (loss) earnings	**(1.3)**	3.9	1.1	1.6	5.7	3.6	0.5	(0.2)
Add: Income tax expense (recovery)	**(0.1)**	1.6	0.5	0.7	1.9	1.5	0.4	(0.1)
EBT	**(1.4)**	5.5	1.6	2.3	7.6	5.1	0.9	(0.3)
Add: Depreciation and amortization	**4.0**	3.7	3.7	3.7	3.8	3.7	3.7	3.7
Finance costs	**2.6**	2.4	2.5	2.2	2.2	2.3	2.2	2.2
Restructuring costs (recovery)	**1.5**	nil	1.4	nil	(2.1)	0.6	0.3	nil
Costs related to investing activities	**0.4**	nil	nil	nil	nil	nil	nil	nil
Costs related to activist shareholder activities	**0.2**	nil	nil	nil	nil	nil	nil	nil
Equity-settled share-based compensation	**0.1**	0.1	0.1	0.1	0.1	0.1	0.2	0.1
Loss (gain) on asset disposal	**(0.2)**	0.1	(0.3)	(0.2)	(0.1)	(0.1)	(0.2)	nil
Adjusted EBITDA	**7.2**	11.8	9.0	8.1	11.5	11.7	7.1	5.7
Divided by contract revenue	**227.6**	223.7	249.3	265.9	282.6	268.1	246.4	220.1
Adjusted EBITDA margin	**3.2%**	5.3%	3.6%	3.0%	4.1%	4.4%	2.9%	2.6%

	Year ended December 31	
$millions, except percentages	**2018**	**2017**
Net earnings (loss)	**5.4**	9.6
Add: Income tax expense (recovery)	**2.6**	3.7
EBT	**8.0**	13.3
Add: Depreciation and amortization	**15.2**	14.8
Finance costs	**9.7**	8.9
Restructuring costs	**2.9**	(1.2)
Costs related to investing activities	**0.4**	nil
Costs related to activist shareholder activities	**0.2**	nil
Equity-settled share-based compensation	**0.3**	0.5
Loss (gain) on asset disposal	**(0.6)**	(0.3)
Adjusted EBITDA	**36.1**	36.0
Divided by contract revenue	**966.4**	1,017.3
Adjusted EBITDA margin	**3.7%**	3.5%

Industrial Group

	Three months ended December 31		Year ended December 31	
$millions, except percentages	**2018**	2017	**2018**	2017
EBT	**3.1**	7.3	**18.4**	18.1
Add: Depreciation and amortization	**1.1**	1.2	**3.8**	4.4
Finance costs	**nil**	nil	**0.1**	0.1
Restructuring costs	**0.2**	0.3	**0.6**	0.9
Loss (gain) on asset disposal	**nil**	(0.1)	**(0.2)**	(0.3)
Adjusted EBITDA	**4.2**	8.7	**22.7**	23.2
Divided by contract revenue	**63.7**	100.8	**297.3**	335.2
Adjusted EBITDA margin	**6.6%**	8.6%	**7.6%**	6.9%

Buildings Group

	Three months ended December 31		Year ended December 31	
$millions, except percentages	**2018**	2017	**2018**	2017
EBT	**4.7**	8.6	**19.7**	21.8
Add: Depreciation and amortization	**0.2**	0.3	**0.8**	1.2
Finance income	**nil**	nil	**(0.1)**	nil
Restructuring costs	**nil**	(2.4)	**0.1**	(2.4)
Loss (gain) on asset disposal	**(0.1)**	(0.1)	**(0.3)**	(0.1)
Adjusted EBITDA	**4.8**	6.4	**20.2**	20.5
Divided by contract revenue	**110.1**	135.6	**452.4**	540.8
Adjusted EBITDA margin	**4.4%**	4.7%	**4.5%**	3.8%

Commercial Systems Group

	Three months ended December 31		Year ended December 31	
$millions, except percentages	**2018**	2017	**2018**	2017
EBT	**0.4**	6.6	**6.4**	11.4
Add: Depreciation and amortization	**0.4**	0.3	**1.4**	1.4
Restructuring costs	**nil**	nil	**0.6**	0.3
Loss (gain) on asset disposal	**nil**	nil	**(0.1)**	nil
Adjusted EBITDA	**0.8**	6.9	**8.3**	13.1
Divided by contract revenue	**54.8**	58.8	**233.2**	186.8
Adjusted EBITDA margin	**1.5%**	11.7%	**3.6%**	7.0%

Corporate Group

	Three months ended December 31		Year ended December 31	
$millions, except percentages	**2018**	2017	**2018**	2017
Loss before tax	**(9.6)**	(14.7)	**(36.3)**	(37.9)
Add: Depreciation and amortization	**2.3**	1.9	**9.1**	7.6
Finance costs	**2.6**	2.2	**9.7**	8.9
Restructuring costs	**1.3**	nil	**1.6**	nil
Costs related to investing activities	**0.4**	nil	**0.4**	nil
Costs related to activist shareholder activities	**0.2**	nil	**0.2**	nil
Equity-settled share-based compensation	**0.1**	0.1	**0.3**	0.4
Loss (gain) on asset disposal	**nil**	nil	**(0.1)**	nil
Adjusted EBITDA	**(2.7)**	(10.5)	**(15.1)**	(21.0)

Adjusted Free Cash Flow and Dividend Payout Ratio

We define adjusted free cash flow as cash generated/used in operating activities, less cash expenditures on intangible and property/equipment assets (excluding business acquisitions), adjusted to exclude the impact of changes in non-cash working capital balances. Adjusted free cash flow per share is calculated as adjusted free cash flow divided by the basic weighted average number of shares outstanding for each period.

Management uses adjusted free cash flow as a measure of our operating performance, reflecting the amount of cash flow from operations that is available, after capital expenditures, to pay dividends, repay debt, repurchase shares or reinvest in the business. Adjusted free cash flow is particularly useful to management because it isolates both non-cash working capital invested during periods of growth and working capital converted to cash during seasonal declines in activity.

The following is a reconciliation of adjusted free cash flow and per share amounts for each of the periods presented in this MD&A, and the dividend payout ratio.

	Three months ended December 31		Year ended December 31	
$millions, except per share data and number of shares	**2018**	**2017**	**2018**	**2017**
Net cash generated in operating activities	**5.1**	17.9	**(13.8)**	34.5
Less: Cash additions to intangible assets	**(0.7)**	(0.4)	**(1.1)**	(0.7)
Cash additions to property and equipment	**(0.5)**	(0.6)	**(2.5)**	(2.2)
Add: Cash invested in changes in non-cash working capital balances	**(4.1)**	(6.5)	**36.9**	(7.7)
Adjusted free cash flow	**(0.2)**	10.4	**19.5**	23.9
Divided by: Basic shares outstanding	**27,773,878**	27,348,951	**27,593,692**	27,175,651
Adjusted free cash flow per share	**(0.01)**	0.38	**0.71**	0.88

We define dividend payout ratio as cash dividend payments divided by adjusted free cash flow generated in that period. Management uses the dividend payout ratio to monitor the proportion that our cash dividend payments represent of adjusted free cash flow. Our dividend payout ratio as at December 31, 2018 is calculated as follows:

$millions, except percentages	**Year ended Dec. 31, 2018**
Cash dividend payments	**10.8**
Divided by: Adjusted free cash flow	**19.5**
Dividend payout ratio	**55.4%**

Long-term Indebtedness

Long-term indebtedness is the gross value of our indebtedness. It is calculated as the principal value of long-term debt (current and non-current amounts before the deduction of deferred financing fees) and principal value at maturity of convertible debentures.

Indebtedness to Capitalization

Indebtedness to capitalization is a percentage metric we use to measure our financial leverage. It is calculated as long-term indebtedness divided by the sum of long-term indebtedness and total equity. Please refer to the "Liquidity" section of this MD&A for the calculation.

Net Long-Term Indebtedness to Adjusted EBITDA

Net long-term indebtedness to adjusted EBITDA is a ratio used by management to measure financial leverage. It is calculated as long-term indebtedness less cash and cash equivalents, and the result is divided by LTM adjusted EBITDA. Please refer to the "Liquidity" section of this MD&A for the calculation.

Interest Coverage

Interest coverage is a Revolver covenant calculated as LTM EBITDA, as defined by the Revolver agreement, divided by LTM interest expense. The Revolver agreement and related amendments, including its prescribed calculation of this covenant and the definition of EBITDA for covenant purposes, can be found under Stuart Olson's SEDAR profile at www.sedar.com.

Debt to EBITDA

Debt to EBITDA is a Revolver covenant calculated as total debt, excluding convertible debentures, divided by LTM EBITDA, as defined by the Revolver agreement. The Revolver agreement and related amendments, including its prescribed calculation of this covenant and the definition of EBITDA for covenant purposes, can be found under Stuart Olson's SEDAR profile at www.sedar.com.

Additional Borrowing Capacity and Available Liquidity

Available additional borrowing capacity is calculated as our LTM Revolver EBITDA, as defined by the Revolver agreement, multiplied by our maximum allowed total debt to EBITDA covenant ratio, less debt as defined by the Revolver agreement. Available liquidity is calculated as additional borrowing capacity plus cash on hand. The Revolver agreement and related amendments, including its prescribed calculation of this covenant and the definition of EBITDA for covenant purposes, can be found under Stuart Olson's SEDAR profile at www.sedar.com.

Management uses additional borrowing capacity and available liquidity to assess our ability to fund operations, capital requirements and strategic initiatives, including investments in working capital, organic growth initiatives, capital expenditures and business acquisitions. Set out below is a reconciliation of the calculation of each metric:

$millions, except covenant ratios	As at Dec. 31, 2018	As at Dec. 31, 2017
LTM Revolver EBITDA	**34.6**	39.6
Total debt to EBITDA covenant	**3.25x**	3.25x
Total borrowing capacity	**112.5**	128.7
Less: Debt per Revolver agreement	**(41.0)**	(6.5)
Additional borrowing capacity on Revolver	**71.5**	122.2
Add: Cash on hand	**25.9**	31.7
Available liquidity	**97.4**	153.9

FORWARD-LOOKING INFORMATION

Certain information contained in this MD&A may constitute forward-looking information. All statements, other than statements of historical fact, may be forward-looking information. This information relates to future events or our future performance and includes financial outlook or future-oriented financial information. Any financial outlook or future oriented financial information in the MD&A has been approved by management of Stuart Olson. Such financial outlook or future oriented financial information is provided for the purpose of providing information about management's current expectations and plans relating to the future. Forward-looking information is often, but not always, identified by the use of words such as "seek", "anticipate", "plan", "continue", "estimate", "expect", "may", "will", "see", "project", "predict", "propose", "potential", "targeting", "intend", "could", "might", "should", "believe", "growth", "momentum" and similar expressions. This information involves known and unknown risks, uncertainties and other factors that may cause actual results or events to differ materially from those anticipated in such forward-looking information. No assurance can be given that the information will prove to be correct and such information should not be unduly relied upon by investors as actual results may vary significantly. This information speaks only as of the date of this MD&A and is expressly qualified, in its entirety, by this cautionary statement.

In particular, this MD&A contains forward-looking information, pertaining to the following:

- Our capital expenditure program for 2019;
- Our objective to manage our capital resources so as to ensure that we have sufficient liquidity to pursue growth objectives, while maintaining a prudent amount of financial leverage;
- Our belief that we have sufficient capital resources and liquidity, and ability to generate ongoing cash flows to meet commitments, support operations, finance capital expenditures, support growth strategies and fund declared dividends;
- The entire section with the heading "Outlook" and our expectations about backlog execution, revenue, adjusted EBITDA and adjusted EBITDA margins on a consolidated basis and for each of our operating groups;
- The entire section with the heading "Future Accounting Changes" and including whether such changes will be adopted and the resulting effects therefrom;
- The entire section with the heading "Strategy" and our ability to execute on our strategy;
- The Board's confidence in our ability to generate sufficient operating cash flows to support management's business plans, including its growth strategy, while providing a certain amount of income to shareholders;

- Our expectation that restructuring and cost-cutting initiatives will deliver permanent expense reductions going forward;
- Our expectations as to future general economic conditions and the impact those conditions may have on the company and our businesses including, without limitation, the reaction of oil sands owners to changes in oil prices; and
- Our projected use of cash resources.

With respect to forward-looking information listed above and contained in this MD&A, we have made assumptions regarding, among other things:

- The expected performance of the global and Canadian economies and the effects thereof on our businesses;
- The market conditions across Canada and in particular, in Alberta;
- The ability of counterparties with whom we invest cash and equivalents to meet their obligations;
- The impact of competition on our businesses;
- The global demand for oil and natural gas, its impact on commodity prices and its related effect on capital investment projects in Western Canada; and
- Government policies.

Our actual results could differ materially from those anticipated in this forward-looking information as a result of the risk factors set forth below:

- Regional concentration;
- Access to capital and liquidity;
- Potential for non-payment and credit risk and ongoing availability of financing;
- Industry and inherent project delivery risks;
- Changes in laws and regulations;
- Dependence on the public sector;
- Client concentration;
- Labour matters;
- Loss of key management, and the inability to attract and retain management;
- Subcontractor performance;
- Unanticipated shutdowns;
- Maintenance of safe worksites;
- Failures of joint venture partners;
- Cybersecurity, or other interruptions to information technology systems;
- Competition and reputation;
- Limitations of insurance;
- Litigation risk;
- Corporate guarantees and letters of credit;
- Availability of performance bonds;
- Volatility of market trading;
- Failure of clients to obtain required permits and licenses;
- Declaration and payment of dividends;
- Compliance with environmental laws;
- Fluctuations in the price of oil, natural gas and other commodities;
- Inadequate project execution;
- Unpredictable weather conditions;
- Erroneous or incorrect cost estimates;

- Unexpected adjustments and cancellations of projects;
- Adverse outcomes from current or pending disputes;
- General global economic and business conditions including the effect, if any, of a slowdown in Canada;
- Weak capital and/or credit markets;
- Fluctuations in currency and interest rates;
- Timing of client's capital or maintenance projects;
- Action or non-action of customers, suppliers and/or partners; and
- Those other risk factors described in our most recent Annual Information Form.

The forward-looking information contained in this MD&A is provided as of the date hereof and we undertake no obligation to update or revise any forward-looking information, whether as a result of new information, future events or otherwise, unless required by applicable securities laws.

Additional Information

Additional information regarding Stuart Olson, including our current Annual Information Form and other required securities filings, is available on our website at www.stuartolson.com and under Stuart Olson's SEDAR profile at www.sedar.com.

MANAGEMENT'S REPORT

Management's Responsibility for the Financial Statements

The management of Stuart Olson Inc. is responsible for the preparation of the consolidated financial statements. The financial statements have been prepared in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board and include certain estimates that reflect management's best judgment.

Management maintains appropriate systems of internal control. Policies and procedures are designed to give reasonable assurance that transactions are properly authorized, assets are safeguarded and financial records are properly maintained to provide reliable information for the preparation of consolidated financial statements.

The Board of Directors is responsible for ensuring that management fulfills its responsibilities for financial reporting and is ultimately responsible for reviewing and approving the consolidated financial statements. The Board fulfills its responsibility in this regard principally through its Audit Committee. The Audit Committee is comprised entirely of independent and financially literate Directors. The Audit Committee meets periodically with management, the internal auditors and the external auditors to review the consolidated financial statements, the management's discussion and analysis, auditing matters, financial reporting issues, the appropriateness of the accounting policies, significant estimates and judgments, to discuss the internal controls over financial reporting process and to oversee the discharge of responsibilities of the respective parties. The Audit Committee reports its findings to the Board of Directors for consideration when it approves the consolidated financial statements.

Deloitte LLP, whose report follows, were appointed as independent, external auditors by a vote of the Corporation's shareholders to audit the consolidated financial statements.

The Audit Committee has recommended, and the Board of Directors has approved the information contained in the consolidated financial statements.

(Signed) *"David LeMay"*

David LeMay, MBA
President and Chief Executive Officer

(Signed) *"Daryl E. Sands"*

Daryl E. Sands, CA
Executive Vice President Finance and Chief Financial Officer

March 5, 2019

Independent Auditor's Report
To the Shareholders of Stuart Olson Inc.

Opinion
We have audited the consolidated financial statements of Stuart Olson Inc. (the "Company"), which comprise the consolidated statements of financial position as at December 31, 2018 and 2017, and the consolidated statements of earnings and comprehensive earnings, changes in equity and cash flow for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies (collectively referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2018 and 2017, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards ("IFRS").

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards ("Canadian GAAS"). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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

- Management's Discussion and Analysis
- The information, other than the financial statements and our auditor's report thereon, in the Annual Report.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon. In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

We obtained Management's Discussion and Analysis and the Annual Report prior to the date of this auditor's report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in this auditor's report. We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Financial Statements
Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRS, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

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

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian GAAS will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Canadian GAAS, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

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

The engagement partner on the audit resulting in this independent auditor's report is Mr. Andrew Coutts.

(Signed) "*Deloitte LLP"*

Chartered Professional Accountants
Calgary, Alberta
March 5, 2019

stuartolson
people creating progress

STUART OLSON INC.

Consolidated Statements of Earnings and Comprehensive Earnings

For the years ended December 31, 2018 and 2017
(in thousands of Canadian dollars, except share and per share amounts)

	Note		December 31, 2018		December 31, 2017
Contract revenue	8	**$**	**966,408**	$	1,017,311
Contract costs			**870,306**		913,371
Contract income			**96,102**		103,940
Other income			**1,364**		1,289
Finance income	9		**83**		36
Administrative costs			**(79,769)**		(83,061)
Finance costs	9		**(9,751)**		(8,875)
Earnings before tax			**8,029**		13,329
Income tax (expense) recovery					
Current income tax			**(1,288)**		1,378
Deferred income tax			**(1,368)**		(5,105)
	12		**(2,656)**		(3,727)
Net earnings			**5,373**		9,602
Other comprehensive loss					
Items that will not be reclassified to net earnings					
Defined benefit plan actuarial loss	13		**(1,078)**		(972)
Deferred tax recovery on other comprehensive loss	12		**366**		262
			(712)		(710)
Total comprehensive earnings		**$**	**4,661**	$	8,892
Earnings per share:					
Basic earnings per share	14	**$**	**0.19**	$	0.35
Diluted earnings per share	14	**$**	**0.19**	$	0.35
Weighted average common shares:					
Basic	14		**27,593,692**		27,175,651
Diluted	14		**27,773,878**		27,175,651

See accompanying notes to the consolidated financial statements.

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STUART OLSON INC.
Consolidated Statements of Financial Position
As at December 31, 2018 and December 31, 2017
(in thousands of Canadian dollars)

	Note	December 31, 2018	December 31, 2017
ASSETS			
Current assets			
Cash and cash equivalents	15	**$ 25,905**	$ 31,651
Trade and other receivables	16	**240,461**	249,476
Inventory		**391**	397
Prepaid expenses		**3,283**	3,445
Costs in excess of billings	17	**61,992**	49,739
Income taxes recoverable		**2,928**	4,352
		334,960	339,060
Long-term receivable and prepaid expenses		**1,553**	1,360
Deferred tax asset	12	**20,439**	21,463
Property and equipment	18	**23,657**	17,450
Goodwill	19	**214,708**	214,024
Intangible assets	20	**29,991**	36,977
		$ 625,308	$ 630,334
LIABILITIES			
Current liabilities			
Trade and other payables	21	**$ 196,127**	$ 222,590
Contract advances and unearned income	17	**58,048**	73,470
Current portion of provisions	22	**8,206**	6,376
Income taxes payable		**2,239**	1,051
Current portion of long-term debt	23	**3,012**	2,488
Current portion of convertible debentures	24	**78,241**	-
		345,873	305,975
Employee benefits	13(b)	**3,290**	3,136
Provisions	22	**1,849**	1,199
Long-term debt	23	**43,089**	5,964
Convertible debentures	24	**-**	76,170
Deferred tax liability	12	**21,427**	20,401
Share-based payments	25(d)	**6,903**	8,516
Other liabilities		**2,115**	2,531
		424,546	423,892
EQUITY			
Share capital	26(a)	**147,692**	144,968
Convertible debentures	24	**4,589**	4,589
Share-based payment reserve	25(a)	**11,497**	11,309
Contributed surplus		**12,228**	12,228
Retained earnings		**24,756**	33,348
		200,762	206,442
		$ 625,308	$ 630,334

See accompanying notes to the consolidated financial statements.

On behalf of the Board of Directors:

(Signed) *"Albrecht W.A. Bellstedt"*

Albrecht W.A. Bellstedt
Chairperson

(Signed) *"Raymond D. Crossley"*

Raymond D. Crossley
Director

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STUART OLSON INC.
Consolidated Statements of Changes in Equity
For the years ended December 31, 2018 and 2017
(in thousands of Canadian dollars)

	Note	Share Capital	Convertible Debentures	Share-Based Payment Reserve	Contributed Surplus	Retained Earnings	Total Equity
Balance as at December 31, 2017		**$ 144,968**	**$ 4,589**	**$ 11,309**	**$ 12,228**	**$ 33,348**	**$ 206,442**
Net earnings						**5,373**	**5,373**
Other comprehensive loss:							
Defined benefit plan actuarial loss, net of tax						**(712)**	**(712)**
Total comprehensive earnings						**4,661**	**4,661**
Transactions recorded directly to equity							
Share-based compensation expense under stock option plan	25(a)			**188**			**188**
Common shares issued under stock option plan	26(a)	**279**					**279**
Dividends	26(a,b)	**2,445**				**(13,253)**	**(10,808)**
Balance as at December 31, 2018		**$ 147,692**	**$ 4,589**	**$ 11,497**	**$ 12,228**	**$ 24,756**	**$ 200,762**

	Note	Share Capital	Convertible Debentures	Share-Based Payment Reserve	Contributed Surplus	Retained Earnings	Total Equity
Balance as at December 31, 2016		$ 142,687	$ 4,589	$ 10,793	$ 12,228	$ 37,508	$ 207,805
Net earnings						9,602	9,602
Other comprehensive loss:							
Defined benefit plan actuarial loss, net of tax						(710)	(710)
Total comprehensive earnings						8,892	8,892
Transactions recorded directly to equity							
Share-based compensation expense under stock option plan	25(a)			516			516
Dividends	26(a,b)	2,281				(13,052)	(10,771)
Balance as at December 31, 2017		$ 144,968	$ 4,589	$ 11,309	$ 12,228	$ 33,348	$ 206,442

See accompanying notes to the consolidated financial statements.

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STUART OLSON INC.
Consolidated Statements of Cash Flow
For the years ended December 31, 2018 and 2017
(in thousands of Canadian dollars)

	Note	December 31, 2018	December 31, 2017
OPERATING ACTIVITIES			
Net earnings		**$ 5,373**	$ 9,602
Gain on disposal of assets		**(554)**	(426)
Depreciation and amortization	10	**15,227**	14,945
Share-based compensation (recovery) expense	25(e)	**(345)**	6,319
Defined benefit pension plan expense	13(b)	**1,083**	1,268
Finance costs	9	**9,751**	8,875
Income tax expense	12	**2,656**	3,727
Income tax recovery recorded in contract costs		**(503)**	(926)
Change in long-term receivable and prepaid expenses		**(193)**	270
Change in provisions	22	**1,579**	(2,164)
Change in other long-term liabilities		**(416)**	(371)
Change in non-cash working capital balances	27	**(36,960)**	7,577
Payment of share-based payment liability		**(2,976)**	(1,571)
Contributions to defined benefit pension plan	13(b)	**(2,007)**	(1,839)
Interest paid		**(7,073)**	(6,414)
Income taxes received (paid)		**1,538**	(4,420)
Net cash (used) generated in operating activities		**(13,820)**	34,452
INVESTING ACTIVITIES			
Acquisition of Tartan	5	**(12,076)**	-
Change in long-term receivable		**-**	100
Proceeds on disposal of assets		**830**	712
Additions to intangible assets	20	**(1,111)**	(722)
Additions to property and equipment		**(2,520)**	(2,205)
Net cash used in investing activities		**(14,877)**	(2,115)
FINANCING ACTIVITIES			
Change in service provider deposit		**-**	6,365
Proceeds of long-term debt		**294,000**	305,355
Repayment of long-term debt		**(260,499)**	(333,160)
Issuance of common shares		**209**	-
Dividend paid	26(b)	**(10,759)**	(10,717)
Net cash generated (used) in financing activities		**22,951**	(32,157)
(Decrease) increase in cash and cash equivalents during the year		**(5,746)**	180
Cash and cash equivalents, beginning of the year		**31,651**	31,471
Cash and cash equivalents, end of the year		**$ 25,905**	$ 31,651

See accompanying notes to the consolidated financial statements.

1. REPORTING ENTITY

Stuart Olson Inc. was incorporated on August 31, 1981 under the Companies Act of Alberta and was continued under the Business Corporations Act (Alberta) on July 30, 1985. The principal activities of Stuart Olson Inc. and its subsidiaries (collectively, the Corporation) are to provide general contracting and electrical building systems contracting in the public and private construction markets, as well as general contracting, electrical, mechanical and specialty trades, such as insulation, cladding and asbestos abatement, in the industrial construction and services market. The Corporation provides its services to a wide array of clients within Canada.

The Corporation's head office and its principal address is #600, 4820 Richard Road S.W., Calgary, Alberta, Canada, T3E 6L1. The registered and records office of the Corporation is located at #3700, 400 – 3rd Avenue, S.W., Calgary, Alberta, Canada, T2P 4H2.

2. BASIS OF PRESENTATION

(a) Statement of compliance

The consolidated financial statements of the Corporation have been prepared in accordance with International Financial Reporting Standards (IFRS).

These consolidated financial statements were approved by the Corporation's Board of Directors on March 5, 2019.

(b) Functional and presentation currency

These consolidated financial statements are presented in Canadian dollars, which is the Corporation's functional currency. Unless otherwise indicated, all financial information presented has been rounded to the nearest thousand.

(c) Basis of measurement

The consolidated financial statements have been prepared on the historical cost basis except for the following material items in the consolidated statements of financial position:

- Financial instruments at fair value through profit or loss are measured at fair value;
- Certain financial assets are measured at fair value; and
- Liabilities for cash-settled share-based payment arrangements are measured at fair value.

These consolidated financial statements were prepared on a going concern basis.

(d) Use of estimates and judgments

The preparation of the consolidated financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

Uncertainty is inherent in estimating the cost of completing construction projects, percentage of revenue earned, the estimated useful life and residual value of property and equipment and corresponding depreciation rates, the useful life of intangible assets and corresponding amortization rates, allowances for doubtful accounts receivable, deferred income taxes, employee benefits, provision for warranty work and legal contingencies, valuation of share-based payments and the recoverable amount of intangible assets including goodwill, and other financial instruments. The impact on the consolidated financial statements of future changes in such estimates could be material within the next financial year.

Information about critical judgments in applying accounting policies that have the most significant effect on the amounts recognized in the consolidated financial statements are related to:

- Convertible debentures – judgments applied to determine the classification of debt and equity components of convertible debentures (Note 24); judgments applied in the selection of comparable marketable debentures used in the calculation at inception of the fair value of the liability component of convertible debentures (Note 28(a)); and
- Income taxes – judgments applied to determine the likelihood of future taxable profits that will be sufficient to permit the recovery of deferred income tax assets (Note 12); judgments exercised in the assessment of continually changing tax interpretations, regulations and legislations.

Information about assumptions and estimation uncertainties that have a significant risk of resulting in material adjustments within the next financial year are related to:

- Revenue recognition – estimates used to determine percentage of completion for construction contracts, specifically related to estimated costs to complete included in the various construction projects (Note 8). In addition, estimates are used to determine variations, claims and incentives included in contract values;
- Estimates used to determine costs in excess of billings and contract advances (Note 17) – estimates in respect of variable consideration included as part of costs in excess of billings to the extent not yet billed. There is inherent uncertainty with these amounts as they may be subject to negotiation;
- Estimates used to determine allowance for doubtful accounts (Notes 16 and 28(b)(i));
- Measurement of defined benefit pension obligations (Note 13);
- Property and equipment – estimates related to the useful lives and residual values of assets (Note 18);
- Estimates in impairment of property and equipment, goodwill and intangible assets (Notes 18, 19 and 20);
- Provisions – estimates associated with amounts and timing (Note 22); and
- Assumptions used in share-based payment arrangements (Note 25).

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) New accounting standards and amendments adopted

(i) IFRS 15 – *Revenue from Contracts with Customers*

The Corporation adopted IFRS 15 – *Revenue from Contracts with Customers* using the full retrospective approach on January 1, 2018. IFRS 15 supercedes IAS 11 – *Construction Contracts* and IAS 18 – *Revenue*, and related interpretations. The Corporation has detailed below the impact of the transition to IFRS 15 on its accounting policy for revenue recognition.

The Corporation applied IFRS 15 retrospectively to all contracts that were not complete on January 1, 2018, the date of initial application, in order to determine if an adjustment was required for prior periods presented. The Corporation performed a comprehensive review of existing contracts, control processes and revenue recognition methodology. In evaluating the impact of IFRS 15 on previously reported comparative figures, the Corporation determined that there was no change required as the existing revenue recognition practices met the requirements of IFRS 15. There were no changes to the classification and timing of revenue recognition, the measurement of contract costs and the recognition of costs in excess of billings (contract assets) and contract advances and unearned income (contract liabilities).

The Corporation continues to recognize revenue at a contract level as performance obligations are satisfied over time, using project stage of completion based on costs incurred, labour hours expended and resources consumed. Revenue is recognized by applying the five-step model under IFRS 15.

Recognition requirements surrounding contract modifications (variations and claims) have been implemented, where the Corporation is required to provide a high level of evidence of customer acceptance. For any change in transaction price as a result of a variation or claim, the Corporation will only recognize revenue to the extent that it is highly probable that revenue will not significantly reverse in the future.

Updated accounting policies for IFRS 15 are included within the revenue recognition section of this note. Refer to Notes 8, 17 and 33 for additional disclosures related to disaggregated revenue, movements in costs in excess of billings and contract advances and unearned income, and remaining performance obligations, respectively.

(ii) IFRS 9 – *Financial Instruments*

IFRS 9 – *Financial Instruments* was issued to replace IAS 39 – *Financial Instruments: Recognition and Measurement*. The Corporation adopted IFRS 9 retrospectively on January 1, 2018. IFRS 9 introduces a logical approach for the classification of financial assets, which is driven by cash flow characteristics and the business model in which an asset is held. This single principle-based approach replaces existing rule-based requirements. IFRS 9 results in a single impairment model being applied to all financial instruments measured at amortized cost or at fair value through other comprehensive income. This expected credit loss impairment model requires more timely recognition of expected credit losses. Specifically, the new standard requires entities to account for expected credit losses from when financial instruments are first recognized and to recognize full lifetime expected losses on a timelier basis. The adoption of this standard did not have a material impact to the Corporation's consolidated financial statements. The Corporation's policies and procedures surrounding the identification of credit risk and the recognition of credit losses comply with the requirements of this standard.

The accounting policies for financial instruments are included within this note. Refer to Note 28(b) for additional disclosures related to the Corporation's financial instruments.

(iii) IFRS 2 – *Share-based Payment*

Amendments have been issued for IFRS 2 – *Share-based Payment*, providing clarification on the classification and measurement of certain types of share-based payment transactions. The Corporation adopted the amendments to IFRS 2 retrospectively on January 1, 2018. The amendments to IFRS 2 clarify that the accounting for the effects of vesting and non-vesting conditions on cash-settled share-based payments should follow the same approach as for equity-settled share-based payments. The amendments impact the Corporation's disclosure surrounding Performance Share Units (PSUs) outstanding, adjusting the number of units disclosed to factor in performance conditions that modify the vested value. The adoption of these amendments did not have any other material impact to the consolidated financial statements.

The accounting policies for share-based payments are included within this note. Refer to Note 25(b) for a reconciliation of the PSUs.

(b) Principles of consolidation

The consolidated financial statements incorporate the financial statements of the Corporation and entities controlled by the Corporation (its subsidiaries). Control exists when the Corporation has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefit from its activities. All subsidiary companies are wholly owned and inter-company balances, transactions, revenues and expenses have been eliminated on consolidation. The Corporation recognizes the assets, liabilities, revenues and expenses relating to its interest in a joint operation in accordance with the IFRS applicable to the particular assets, liabilities, revenues and expenses. Accounting policies have been applied consistently by the subsidiaries of the Corporation.

(i) Business combinations

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred to the Corporation, liabilities incurred by the Corporation to the former owners of the acquiree and the equity interests issued or cash paid by the Corporation in exchange for control of the acquiree. Acquisition-related costs are recognized in profit or loss as incurred, unless related to the issuance of debt or equity.

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

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

The Corporation measures goodwill as the excess of the sum of the fair value of the consideration transferred, the amount of any non-controlling interests and the fair value of the acquirer's previously held interest in the acquiree, if any, over the net recognized amount (generally fair value) of the identifiable assets acquired and liabilities assumed, all measured as of the acquisition date.

When the consideration transferred includes liabilities from a contingent consideration arrangement, the contingent consideration is measured at its acquisition-date fair value and included as part of the consideration transferred. Changes in the fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively, with corresponding adjustments against goodwill. Measurement period adjustments are those that arise from additional information obtained during the 'measurement period' about facts and circumstances that existed at the acquisition date.

Subsequent to the acquisition date, contingent consideration that is classified as a liability is remeasured at subsequent reporting dates, with the corresponding gain or loss being recognized in earnings or loss.

(ii) Joint arrangements

The classification of joint arrangements is determined based on the rights and obligations of parties involved by considering the structure, the legal form of the arrangement, the contractual terms agreed by the parties to the arrangement, and, when relevant, other facts and circumstances. A joint operation is a joint arrangement whereby the parties that have joint control of the arrangement (i.e. joint operators) have rights to the assets, and obligations for the liabilities, relating to the arrangement. A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement (i.e. joint venturers) have rights to the net assets of the arrangement.

The initial and subsequent accounting for joint ventures and joint operations are different. Investments in joint ventures are accounted for using the equity method. Investments in joint operations are accounted for such that each joint operator recognizes its assets (including its share of any assets jointly held), its liabilities (including its share of any liabilities incurred jointly), its revenue (including its share of revenue from the sale of the output by the joint operation) and its expenses (including its share of any expenses incurred jointly). Each joint operator accounts for the assets and liabilities, as well as revenue and expenses, relating to its interest in the joint operation in accordance with the applicable IFRS.

The Corporation's existing joint arrangements have been classified as joint operations.

(c) Revenue recognition

(i) Identification of a contract with a customer

A contract with a customer exists when the contract is legally enforceable and all of the following criteria are met:

- The contract is approved and the parties are committed to perform their respective obligations;
- Each parties' rights regarding the goods and services to be transferred can be identified;
- The payment terms for the goods and services can be identified;
- The contract has commercial substance, meaning the risk, timing or amount of the Corporation's future cash flows is expected to change as a result of the contract; and
- It is probable that the Corporation will collect the consideration to which it will be entitled to in exchange for the goods or services that will be transferred to the customer.

A contract does not exist if each party has the unilateral enforceable right to terminate a wholly unperformed contract without compensating the other party. A contract is wholly unperformed if the Corporation has not yet transferred any promised goods or services to the customer and the Corporation has not yet received, and is not yet entitled to receive, any consideration in exchange for promised goods or services.

When determining the proper revenue recognition method for contracts, the Corporation evaluates whether two or more contracts should be combined and accounted for as a single contract and whether the combined or single contract should be accounted for as more than one performance obligation. This evaluation requires significant judgment and the decision to combine a group of contracts or to separate a single contract into multiple performance obligations could affect the amount of revenue and profit recorded in the reporting period. One or more contracts that are entered into at or near the same time, with the same customer, shall be combined as a single contract if one or more of the following criteria are met:

- The contracts are negotiated as a package with a single commercial objective;
- The amount of consideration to be paid in one contract depends on the price or performance of the other contract; and
- The goods or services promised in the contracts represent a single performance obligation.

The Corporation's revenue streams include construction contracts, service contracts and the sale of goods. Refer to Note 4 for the allocation of total revenue to the revenue streams, along with the disaggregation of revenue from contracts with customers by contract type.

(ii) Identifying performance obligations in a contract

Performance obligations are those distinct services or goods which the Corporation explicitly or implicitly promises to provide to customers. For most of the Corporation's contracts, individual goods and services are integrated as inputs to deliver a combined output in order to fulfill its promise to the customer. The individual goods and services that the Corporation provides are often highly dependent and interrelated. As a result, the entire contract is accounted for as one performance obligation. Less frequently, the Corporation may provide several distinct goods and services, in which case separate performance obligations would be identified.

(iii) Determining the transaction price

The transaction price is the amount of consideration that the Corporation is reasonably expected to be entitled to in exchange for transferring goods and services to a customer. The Corporation estimates the transaction price at contract inception, including any variable consideration, and updates the estimate each reporting period for any changes in circumstances. The transaction price may include the effects of fixed consideration, variable consideration, significant financing components, non-cash considerations and consideration payable to the customer. The majority of the Corporation's contracts include information about fixed consideration that is used to estimate the transaction price. Some contracts, particularly master service agreements and maintenance service contracts, do not specify the amount of fixed consideration at contract inception, but will have a transaction price assigned to it once a work order is issued. For the purpose of revenue recognition and disclosure, only the transaction price of secured work, as evidenced by work orders, would be included.

Variable consideration includes all consideration that is subject to uncertainty for reasons other than collectability. Examples include discounts, rebates, refunds, credits, incentives, performance bonuses/penalties, contingencies, price concessions or other similar items. These variable amounts generally are awarded upon achievement of certain performance metrics, milestones or cost targets and can be based upon customer discretion. Variable consideration also includes change orders that have not been approved, as well as claims. Claims are amounts in excess of the agreed contract price, or amounts not included in the original contract price, that the Corporation seeks to collect from customers for delays, errors in specifications and designs, contract terminations, change orders in dispute or unapproved as to both scope and price, or other causes of unanticipated additional costs. The Corporation estimates variable consideration by applying the highly probable threshold to either the most likely amount or expected value method, depending on which method is most appropriate for the contract type and circumstance. The method chosen is applied consistently throughout the contract and to similar types of contracts. The highly probable threshold is met when it is highly probable that the recognized revenue will not significantly reverse upon settlement of the variable consideration.

Contract modifications occur when there is a change in contract specifications and requirements, and they create new, or change existing, enforceable rights and obligations under the contract. If the contract modification is for goods and services that are not distinct from the existing contract, the effect of the contract modification on the transaction price and the measure of progress for the performance obligation to which it relates, is recognized as a cumulative adjustment to revenue as either an increase or decrease in revenue. If the contract modification is for goods and services that are distinct from the existing contract and the pricing of the contract modification reflects the standalone selling price of the additional goods or services, then the contract modification is treated as a separate contract.

(iv) Allocating the transaction price to performance obligations

The transaction price must be allocated to the performance obligations in a contract. The majority of the Corporation’s contracts have one performance obligation. If a contract is separated into more than one performance obligation, the total transaction price is allocated to each performance obligation in an amount based on the estimated relative standalone selling prices of the promises goods or services underlying each performance obligation.

(v) Recognizing revenue when or as performance obligations are satisfied

The Corporation typically transfers the control of goods or services, and satisfies performance obligations, over time. As a result of control passing over time, revenue is recognized based on the extent of progress towards completion of the performance obligation.

Contract revenue includes the initial amount agreed in the contract plus any variations in contract work, claims and incentive payments, to the extent that it is highly probable that they will result in revenue. As soon as the outcome of a construction contract can be estimated reliably, contract revenue is recognized in profit or loss in proportion to the stage of completion of the contract at the end of the reporting period. Contract expenses are recognized as incurred unless they create an asset related to future contract activity. When estimates of total costs to be incurred on a performance obligation exceed the total estimated revenue to be earned, a provision for the entire loss on the performance obligation is recognized in the period the loss is determined.

(vi) Remaining performance obligations

Remaining performance obligations mean the total value of work that has not yet been that completed that: (a) is assessed by the Corporation as having a high certainty of being performed, either by the existence of a contract or work order specifying job scope, value and timing, or (b) has been awarded to the Corporation, as evidenced by an executed letter of intent or agreement, describing the general job scope, value and timing of such work, and with the finalization of a formal contract respecting such work assessed by the Corporation as being reasonably assured.

(d) Income taxes

Current and deferred tax are recognized in profit or loss except to the extent that it relates to assets acquired and liabilities assumed in a business combination or items recognized directly in equity or other comprehensive earnings.

Current tax is recognized and measured at the amount expected to be recovered from or payable to the taxation authorities based on the income tax rates enacted or substantively enacted at the end of the reporting period and includes any adjustment to tax payable in respect of previous years.

The Corporation follows the liability method of accounting for income taxes. Under this method, deferred tax is recognized on any temporary difference between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable earnings.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period when the asset is realized and the liability is settled based on tax rates and tax laws that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Corporation expects, at the end of the reporting period, to recover or settle the carrying amounts of its assets and liabilities. The effect of a change in the enacted or substantively enacted tax rates is recognized in net earnings and comprehensive earnings or in equity, depending on the item to which the adjustment relates.

Deferred tax is recognized on temporary differences arising from investments in subsidiaries, and interests in joint arrangements, except in the case where the Corporation is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax assets are recognized to the extent future recovery is probable. At each reporting period end, deferred tax assets are reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are not recognized if the temporary difference arises from the initial recognition of goodwill or the initial recognition of other assets and liabilities in a transaction which is not a business combination and, at the time of the transaction, affects neither accounting net earnings nor taxable earnings.

(e) Employee benefits

(i) Short-term employee benefits

The Corporation has an Employee Share Purchase Plan (ESPP). The Corporation contributes to the plan based on the amount of employee contributions. Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related services are provided.

Short-term compensation includes an annual discretionary employee cash bonus. A liability is recognized for the amount expected to be paid under short-term cash bonuses.

(ii) Post-employment benefits

The Corporation has a Registered Retirement Savings Plan (RRSP). The Corporation contributes to the plan based on the amount of employee contributions. The related obligation of RRSPs are measured on an undiscounted basis and are expensed as the related services are provided.

The Corporation maintains two registered pension plans. Each plan includes a defined contribution (DC) provision and a non-contributory defined benefit (DB) provision. The DB provision covers salaried employees for two of the operating segments. Annual employer contributions to the DB provision of each plan, which are actuarially determined by an independent actuary, are made on the basis of being not less than the minimum amounts required by provincial pension supervisory authorities.

Unlike the DB provision, there is no obligation recorded for the DC provision. The DC contributions made by the Corporation are measured on an undiscounted basis and are expensed as the related services are provided.

Defined benefit pension costs are actuarially determined using the projected unit credit method and management's best estimate of salary escalation and retirement age of employees. The Corporation's net obligation in respect of DB pension plans is calculated separately for each plan by estimating the amount of future benefits that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value. Any recognized past service costs and the fair value of plan assets are deducted. The discount rate used to establish the pension obligation is based on AA-rated corporate bond yields at the measurement date. When the calculation results in a benefit to the Corporation, the recognized asset is limited to the total of any unrecognized past service costs and the present value of economic benefits available in the form of any future refunds from the plan or reductions in future contributions to the plan. In order to calculate the present value of economic benefits, consideration is given to any minimum funding requirements that apply to any plan within the Corporation. An economic benefit is available to the Corporation if it is realizable during the life of the plan, or on settlement of the plan liabilities.

The pension deficit or surplus is adjusted for any material changes in underlying assumptions. The Corporation recognizes all actuarial gains and losses arising from the DB plans in other comprehensive earnings in the period in which they occur.

When the benefits of a plan are improved, the portion of the increased benefit related to past service by employees is recognized in profit or loss on a straight-line basis over the average service period until the benefits become vested. To the extent that the benefits vest immediately, the expense is recognized immediately in profit or loss.

(iii) Share-based payments

The grant-date fair value of equity-settled share-based payment awards, or stock options, granted to employees is recognized as an employee expense, with a corresponding increase in equity, over the period that the employees unconditionally become entitled to the awards. The amount recognized as an expense is adjusted to reflect the number of awards for which the related service and non-market vesting conditions are expected to be met, such that the amount ultimately recognized as an expense is based on the number of awards that meet the related service and non-market performance conditions at the vesting date.

The fair value of the amount payable to employees and Directors in respect of Medium Term Incentive Plans (MTIPs) and Deferred Share Units (DSUs), for which the participants are eligible to receive an equivalent cash value of the common shares at a future date, is recognized as an expense with a corresponding increase in liabilities, over the period that the employees provide the related service and Directors become entitled to payment. The liability is remeasured at each reporting date and at the settlement date. Any changes in the fair value of the liability are recognized as compensation expense in profit or loss. Information about vesting conditions for share-based payments is disclosed in Note 25.

(f) Earnings per share

The Corporation presents basic and diluted earnings per share (EPS) for its common shares. Basic EPS is calculated by dividing the profit or loss attributable to the common shareholders of the Corporation by the weighted average number of ordinary shares outstanding during the period, adjusted for the shares held by the Corporation. Diluted EPS is determined by adjusting the profit or loss attributable to the common shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential common shares, including share options granted to employees and Directors and shares related to convertible debentures, assuming that all of the debenture holders converted as allowed.

The average market value of the Corporation's common shares for the purposes of calculating the dilutive effect of share options is based on quoted market prices for the period during which the options were outstanding.

(g) Financial instruments

Financial assets and liabilities, including derivatives, are recognized in the consolidated statements of financial position when the Corporation becomes a party to the contractual provisions of the financial instrument or derivative contract. Financial instruments are required to be initially measured at fair value and are subsequently accounted for based on their classification as described below. The classification depends on the purpose for which the financial instruments were acquired and their characteristics. Except in very limited circumstances, the classification is not changed subsequent to initial recognition.

(i) Financial assets

Based on their nature, the Corporation classifies its non-derivative financial assets as subsequently measured at amortized cost, fair value through other comprehensive income and fair value through profit and loss. The classification of financial assets is based on the contractual cash flow characteristics and the Corporation's business model for managing the financial asset. Financial assets are recognized when the Corporation becomes party to the contractual provisions of the instrument. On initial recognition, the Corporation may irrevocably designate a financial asset that meets the amortized cost or fair value through other comprehensive income criteria as measured at fair value through profit or loss, if doing so eliminates or significantly reduces a measurement or recognition inconsistency. This designation will be recorded until the financial asset is derecognized.

Derivative instruments are recorded in the consolidated statements of financial position at fair value with both realized and unrealized changes in fair value recognized immediately in other income in the consolidated statements of earnings. As at December 31, 2018, the Corporation did not have any outstanding financial derivatives.

Financial assets are derecognized when the contractual cash flows from the asset expire or when the Corporation transfers the right to receive the contractual cash flows of the asset in a transaction whereby all risks and rewards of the financial asset are transferred. Any retained interest in the financial asset transferred is recognized as a separate financial asset or liability.

Financial assets and liabilities are offset and presented net in the consolidated statements of financial position only when a legal right of offset exists and the Corporation intends to settle the transaction on a net basis or realize the asset and the liability simultaneously.

Financial assets at amortized cost

Financial assets with fixed or determinable payments that are not derivatives and are not quoted in an active market are classified as financial assets at amortized cost. The objective is to hold such assets to collect contractual cash flows and contractual terms give rise on specified dates to cash flows that represent solely payments of principal and interest. These financial assets are initially recognized at fair value plus any transaction costs directly attributable to the asset. These assets are subsequently measured at amortized cost using the effective interest method, less any impairment losses. Financial assets at amortized cost are generally comprised of trade and other receivables, cash, cash equivalents and restricted cash.

Financial assets at fair value through other comprehensive income

Financial assets at fair value through other comprehensive income represent those non-derivative financial assets that are held to achieve an objective by both collecting contractual cash flows and selling the financial assets, where contractual terms give rise on specified dates to cash flows that represent solely payments of principal and interest. Financial assets at fair value through other comprehensive income are initially measured at fair value plus any transaction costs directly attributable to the asset. Subsequent fair value gains or losses are recognized in other comprehensive earnings, except for impairment. For interest-bearing financial assets, interest calculated using the effective interest method and any foreign exchange gains and losses on monetary financial assets are recognized in profit or loss.

Financial assets at fair value through profit or loss

A financial asset is measured at fair value through profit or loss if it does not meet the criteria for assets measured at amortized cost or fair value through other comprehensive income. Financial assets at fair value through profit or loss include held for trading assets and derivative instruments. Financial assets are classified as held for trading if the Corporation manages such investments and makes purchase and sale decisions based on their fair value in accordance with the Corporation's documented risk management or investment strategy and have been acquired principally for the purpose of selling in the near term. A financial asset is measured at fair value through profit or loss if it is a derivative that is not designated as effective as a hedging instrument. Financial assets at fair value through profit or loss are measured at fair value with changes recognized in profit or loss. Transaction costs associated with assets classified as fair value through profit or loss are recognized as incurred through profit or loss.

(ii) Financial liabilities

The Corporation has the following non-derivative financial liabilities that are classified as financial liabilities at amortized cost using the effective interest method: trade and other payables, current and long-term debt and convertible debentures. The Corporation initially recognizes financial liabilities on the trade date at which the Corporation becomes a party to the contractual provisions of the instrument.

Financial liabilities that are initially recognized at fair value through profit or loss originally include any transaction costs directly attributable to the liability. Financial liabilities are derecognized when their contractual obligations are discharged, cancelled or have expired.

The Corporation has the following financial assets and liabilities:

	Measurement
Financial assets:	
Cash and cash equivalents, including restricted cash	Amortized cost
Trade and other receivables	Amortized cost
Long-term receivable	Amortized cost
Financial liabilities:	
Trade and other payables	Amortized cost
Long-term debt, including current portion	Amortized cost
Convertible debentures - debt component, including current portion	Amortized cost

(iii) Compound financial instruments

Compound financial instruments issued by the Corporation are comprised of convertible debentures that can be converted to share capital at the option of the holder, and the number of shares to be issued does not vary with changes in their value.

The liability component of a compound financial instrument is recognized initially at the fair value of a similar liability that does not have an equity conversion option. The equity component is recognized initially at the difference between the fair value of the compound financial instrument as a whole and the fair value of the liability component. Any directly attributable transaction costs are allocated to the liability and equity components in proportion to their carrying amounts. Subsequent to initial recognition, the liability component of a compound financial instrument is measured at amortized cost using the effective interest method. The equity component of a compound financial instrument is not remeasured subsequent to initial recognition.

Interest, losses and gains relating to the financial liability component are recognized in profit or loss. Distributions to the equity holders are recognized in equity, net of any tax benefit.

(h) Cash and cash equivalents

Cash and cash equivalents is comprised of cash on hand, bank balances and short-term liquid investments with original maturities of three months or less.

(i) Restricted cash

Restricted cash is comprised of cash and cash equivalents for which the use is externally restricted for specific purposes.

(j) Inventory

Inventory is measured at the lower of cost and net realizable value. The cost of inventory is determined on a first in, first out basis. Net realizable value is the estimated selling price in the ordinary course of business less the estimated selling expenses.

(k) Costs in excess of billings, contract advances and unearned income

Costs in excess of billings (contract assets) represent unbilled amounts expected to be collected from customers for contract work performed to date. The amount is measured at cost plus profit recognized to date less progress billings and recognized losses. Costs include all expenditures directly related to specific projects. If progress billings exceed costs incurred plus recognized profits, the difference represents amounts collected in advance for contract work yet to be performed and is presented as contract advances and unearned income (contract liabilities) in the consolidated statements of financial position. Variable consideration, to the extent not yet billed, is included as part of costs in excess of billings. Judgment is applied by management in measuring the amount of variable consideration meeting the highly probable threshold and there is inherent uncertainty with these amounts as they may be subject to negotiation.

Costs in excess of billings are presented as a current asset in the consolidated statements of financial position for all contracts in which costs incurred plus recognized profits exceeds the progress billings and the amounts are expected to be billed and recovered within the normal operating cycle of the Corporation. The operating cycle of many of the Corporation's contracts exceed 12 months, depending on the type of project or the nature of services being provided. All contract assets and liabilities are classified as current, as they are expected to be settled within the Corporation's normal operating cycle.

(l) Property and equipment

(i) Recognition and measurement

Items of property and equipment are measured at cost less accumulated depreciation and accumulated impairment losses.

Costs include expenditures that are directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour and any other costs directly attributable to bringing the assets to working condition for their intended use, the costs of dismantling and removing the items and restoring the site on which they are located. Borrowing costs on qualifying assets are also capitalized as part of property and equipment.

Borrowing costs that are directly attributable to the acquisition and construction or production of a qualifying asset form part of the costs of the asset. Borrowing costs that are not directly attributable to the acquisition, construction or production of a qualifying asset are recognized in profit or loss.

Gains and losses on disposal of an item of property and equipment are determined by comparing the proceeds from disposal with the net carrying amount of property and equipment, and are recognized within other income in profit or loss.

(ii) Depreciation

Depreciation is calculated based on the cost of an asset (or deemed cost) less its residual value. Depreciation is recognized for each significant component of an item of property and equipment.

Depreciation is recognized in the consolidated statements of earnings on a straight-line basis over the estimated useful life of each asset. Leased assets are depreciated over the shorter of the lease term and their estimated useful lives, unless it is reasonably certain that the Corporation will obtain ownership by the end of the lease term. The method of depreciation has been selected based on the expected pattern of consumption of the economic benefits of the asset.

The estimated useful lives of each class of property and equipment are as follows:

Asset	Basis	Useful Life
Land improvements	Straight line	30 years
Buildings and improvements	Straight line	10 to 25 years
Leasehold improvements	Straight line	Lesser of estimated useful life or lease term
Construction equipment	Straight line	5 to 20 years
Automotive equipment	Straight line	5 years
Office furniture and equipment	Straight line	3 to 5 years
Computer hardware	Straight line	1 to 4 years

Depreciation commences when the asset is available for use and ceases on the earliest of when the asset is derecognized or classified as held-for-sale. Depreciation methods, useful lives and residual values are reviewed at each financial year end and adjusted where appropriate.

(m) Goodwill

Goodwill is the residual amount that results when the purchase price of an acquired business exceeds the sum of the amounts allocated to the identifiable assets acquired less liabilities assumed, based on their fair values. Goodwill is allocated as of the date of the business combination. Goodwill is not amortized and is tested for impairment annually in the fourth quarter, or more frequently if events or changes in circumstances indicate that the asset may be impaired.

(n) Intangible assets

Intangible assets are comprised of Enterprise Resource Planning (ERP) and other computer software assets, and assets related to the acquisition of a business, including backlog and agency contracts, customer relationships and trade names. These intangible assets are measured at cost less accumulated amortization and accumulated impairment losses, if any. Amortization is calculated using the cost of the asset, commences once the asset is available for use and is recognized in profit or loss based on the expected pattern of consumption of the economic benefits of the asset. Amortization methods, useful lives and residual values are reviewed at each financial year end and adjusted where appropriate.

The estimated useful lives of each class of intangible assets are as follows:

Asset	Basis	Useful Life
ERP	Straight line	12 years
Backlog and agency contracts	As related revenue is earned	1 to 3 years
Customer relationships	Straight line	5 to 15 years
Tradenames	Straight line	5 to 15 years
Computer software	Straight line	1 to 3 years

(o) Impairment

(i) Financial assets

Financial assets measured at amortized cost or at fair value through other comprehensive income are assessed at each reporting date to determine whether there is objective evidence of impairment. An expected credit loss impairment model is applied, where expected credit losses are the present value of all cash shortfalls over the expected life of the financial asset. Impairment is measured as either 12-month expected credit losses or lifetime expected credit losses. The Corporation recognizes 12-month expected credit losses in the consolidated statements of earnings; however, for trade receivables and contract assets that do not contain a significant financing component, the Corporation applies the 12-month expected credit losses. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event will have a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognized in profit or loss and reflected in an allowance account against receivables. Interest on the impaired asset continues to be recognized through the unwinding of the discount. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

(ii) Non-financial assets

The carrying amounts of the Corporation's non-financial assets, other than inventories and deferred tax assets for which separate processes apply, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. For intangible assets that have an indefinite useful life or intangible assets that are not yet available for use, the recoverable amount is estimated each year in the fourth quarter.

The recoverable amount of an asset or cash-generating unit (CGU) is the greater of its value-in-use and its fair value less costs to sell. In assessing value-in-use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (CGU). For the purpose of goodwill impairment testing, goodwill acquired in a business combination is allocated to the CGU, or the group of CGUs, that is expected to benefit from the synergies of the combination. This allocation is subject to an operating segment ceiling and reflects the lowest level at which that goodwill is monitored for internal reporting purposes.

An impairment loss is recognized if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount. Impairment losses are recognized in profit or loss. Impairment losses recognized in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the CGUs, and then to reduce the carrying amounts of the other assets in the CGUs on a pro rata basis.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognized in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

(p) Provisions

Provisions are recognized when the Corporation has a present obligation as a result of a past event, it is probable that the Corporation will be required to settle the obligation and a reliable estimate of the obligation can be made.

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

The Corporation has several classes of provisions, including:

(i) Warranties

Provisions for the expected cost of construction warranty obligations under construction contracts are recognized upon completion or substantial performance under the construction contract and represent the best estimate of the expenditure required to settle the Corporation's obligation.

(ii) Restructuring costs

Restructuring provisions relate to both ongoing operations and acquisitions and are accrued when the Corporation demonstrates its commitment to implement a detailed restructuring plan. The amounts provided represent management's best estimate of the costs for restructuring.

(iii) Claims and disputes

Provisions related to claims and disputes arising on contracts of the Corporation are included in this category. The timing and measurement of the related cash flows are, by nature, uncertain and the amounts recorded reflect the best estimate of the expenditure required to settle the obligations.

(iv) Subcontractor default

Subcontractor default provisions relate to management's best estimate of exposures and costs associated with prior or existing subcontractor performance and the risk of potential default. Management conducts a thorough review of the liability every reporting period and takes into consideration the Corporation's experience to date with those subcontractors, some of which are enrolled in its subcontractor default insurance program, and the changes to factors that tend to affect the construction sector. The current portion of the subcontractor default liability represents the risk related to payments required in order to resolve a subcontractor default issue.

(v) Onerous contracts

A provision for onerous contracts is recognized when the expected benefit from a contract is lower than the unavoidable cost of meeting the obligations under the contract. The provision is measured at the present value of the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract. Impairment losses on assets associated with the onerous contract are recognized prior to the provision being established.

(q) Leases

Leases under which the Corporation assumes substantially all the risks and rewards of ownership are classified as finance leases. Upon initial recognition, the leased asset is measured at an amount equal to the lower of its fair value at the inception of the lease and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset. The corresponding liability to the lessor is included in the consolidated statements of financial position as long-term debt.

Lease payments are apportioned between finance expenses and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance expenses are recognized immediately in profit or loss.

All other leases are operating leases, whereby the leased assets are not recognized in the Corporation's consolidated statements of financial position. Operating lease payments are recognized as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

4. STANDARDS AND INTERPRETATIONS NOT YET ADOPTED

The Corporation reviewed new and revised accounting pronouncements that have been issued but are not yet effective, and determined that the following may have an impact on the Corporation:

(a) IFRS 16 – *Leases*

IFRS 16 – *Leases* was issued by the International Accounting Standards Board (IASB) in January 2016. It will replace IAS 17 – *Leases* for annual and interim reporting periods beginning on or after January 1, 2019. For lessees, IFRS 16 will bring most leases onto the consolidated statements of financial position under a single model, eliminating the distinction between operating and finance leases. Lessors will continue accounting for leases under a dual lease classification model, and the classification between operating and finance leases will determine how and when a lessor will recognize revenue, and what assets would be recorded.

IFRS 16 may be applied retrospectively or using a cumulative catch-up approach. The Corporation has selected to use the cumulative catch-up approach, which does not require restatement of prior period financial information. Rather, the cumulative effect of applying the standard to prior periods is recorded as an adjustment to opening retained earnings. There are recognition exemptions available for certain short-term leases (less than 12 months) and leases for which the underlying asset is of low value. The Corporation will apply these recognition exemptions upon adoption, and will continue to treat such leases as operating leases.

On initial adoption, the Corporation expects to elect the following practical expedients permitted under the standard:

- Use the Corporation's previous assessment under IAS 37 – *Provisions, Contingent Liabilities and Contingent Assets* for onerous contracts, instead of reassessing the lease asset for impairment on January 1, 2019;
- Exclude initial direct costs from the measurement of the lease asset at the date of initial application; and
- Use hindsight in determining the lease term where the contract contains terms to extend or terminate the lease.

On adoption of IFRS 16, the Corporation will recognize lease liabilities in relation to leases under the principles of the new standard at the present value of unavoidable future lease payments, discounted using the Corporation's incremental borrowing rate as at January 1, 2019. The associated right-of-use assets will be measured at amounts equal to the lease liabilities, less any amounts previously recognized under IAS 37 for onerous contracts. The measurement of the total lease expense over the term of the lease is unaffected by the new standard; however, the required presentation on the consolidated statements of earnings will result in costs currently classified as lease expenses being presented as depreciation of leased assets and finance costs associated with lease liabilities. This depreciation expense will continue to be recognized as part of contract costs or administrative costs, depending on the nature of the leased asset, while the finance costs will be separately disclosed on the consolidated statements of earnings.

While the Corporation continues to assess the impact of adopting IFRS 16, the Corporation expects the most significant impact to relate to the changes in the accounting for lease agreements associated with office, yard and shop facilities, which are currently classified as operating leases and directly expensed on the consolidated statements of earnings.

As a result of adopting IFRS 16, the Corporation has estimated that as at January 1, 2019, it expects to recognize in the consolidated statements of financial position right-of-use lease assets of approximately $41,500, lease receivables of approximately $5,800 related to subleased facilities, a deferred tax asset of approximately $200 and lease liabilities of approximately $50,200, as well as the removal of onerous contract provisions of approximately $2,000 and a cumulative estimated reduction to opening retained earnings of approximately $700. These amounts are based on lease information gathered and management's evaluation to date and are subject to change.

(b) IAS 19 – *Employee Benefits*

In February 2018, the IASB issued amendments to IAS 19 – *Employee Benefits*, to clarify the calculation of pension expenses when changes to a defined benefit pension plan occur as a result of an amendment, curtailment or settlement. The entity will be required to remeasure its net defined benefit obligation or asset and the updated assumptions from this remeasurement will be used to determine past service cost and net interest for the remainder of the reporting period after the change(s) to the plan. The amendments also clarify the effect of a plan amendment, curtailment or settlement on the asset ceiling requirements. The amendments are effective for annual periods beginning on or after January 1, 2019. The Corporation does not expect this amendment to have a material impact on its consolidated financial statements, as no changes to the defined benefit pension plans are expected.

(c) IAS 1 – *Presentation of Financial Statements* and IAS 8 – *Accounting Policies, Changes in Accounting Estimates and Errors*

In October 2018, the IASB issued amendments to IAS 1 – *Presentation of Financial Statements* and IAS 8 – *Accounting Policies, Changes in Accounting Estimates and Errors*, clarifying the definition of material information. Under the amended definition, information is material if omitting, misstating or obscuring it could reasonably be expected to influence the decisions that the users of the financial statements make on the basis of those financial statements. The amendments also clarify the explanations accompanying the definition of material information. The amendments are effective January 1, 2020 and are required to be applied prospectively. The Corporation does not expect these amendments to have a material impact on its consolidated financial statements.

(d) IFRS 3 – *Business Combinations*

In October 2018, the IASB amended IFRS 3 – *Business Combinations*, seeking to clarify whether an acquisition transaction results in the acquisition of an asset or a business. The amendments clarify the definition of a business and include a simplified assessment to determine whether the acquisition is a group of assets or a business. The amendments are effective for acquisition transactions on or after January 1, 2020, with earlier application permitted. This narrower definition of a business may reduce the number of business combinations that the Corporation will recognize in the future, but is not expected to have an impact on the current consolidated financial statements or the treatment of past acquisitions.

5. ACQUISITION

On November 6, 2018, the Corporation acquired 100% of the issued and outstanding shares of Tartan Canada Corporation (Tartan), a privately held industrial services provider in Western Canada, specializing in providing mechanical maintenance services to the oil and gas, pulp and paper, petrochemical and power sectors. This acquisition aligns with the Corporation's strategy to expand its market share and service offerings through the addition of complementary trade services. The acquisition further enhances the Corporation's ability to service the maintenance, repair and operations sector of the industry.

The total purchase price of $12,076 is composed of three components, being cash of $9,530, a final adjustment holdback payable of $546 and a long-term note payable of $2,000. The final adjustment holdback payable is included within trade and other payables in the consolidated statements of financial position. The long-term note payable is included within long-term debt in the consolidated statements of financial position. Interest is charged on the note payable at a rate per annum equal to the Canadian prime rate plus 1%, compounded monthly. The principal amount will be repaid in three equal amounts, plus interest, on March 6, 2020, July 6, 2020 and November 6, 2020.

The value of the assets and liabilities associated with the Tartan acquisition were not finalized by March 5, 2019, and therefore are preliminary figures. Any future changes in these amounts will affect the recorded cost of the acquisition and assets and liabilities acquired.

Cost of Acquisition		
Cash	$	9,530
Trade and other payables		546
Long-term note payable		2,000
	$	**12,076**

Identifiable Assets Acquired and Liabilities Assumed		
Trade and other receivables	$	10,984
Costs in excess of billings		2,567
Other current assets		395
Property and equipment		6,712
Long-term receivable and prepaid expenses		10
Goodwill		684
Intangible assets		2,210
Trade and other payables		(7,869)
Income taxes payable		(252)
Long-term debt		(1,416)
Provisions		(901)
Deferred tax liability		(1,048)
	$	**12,076**

Goodwill and intangible assets

The $684 of goodwill recognized as part of the acquisition is mainly attributed to expected revenue growth, future market development, the assembled workforce and the synergies achieved from the integration of Tartan into the Corporation's Industrial Group. These benefits are not recognized separately from goodwill, as the future economic benefits arising from them cannot be reliably measured. The $2,210 of identifiable intangible assets acquired includes backlog, customer relationships and tradename.

6. SEGMENTS

The Corporation operates as a construction and maintenance services provider. The Corporation divides its operations into four reporting segments and reports its results under the categories of: Industrial Group, Buildings Group, Commercial Systems Group and Corporate Group. The accounting policies and practices for each of the segments are the same as those described in Note 3. Segment capital expenditures are the total costs incurred during the year to acquire property and equipment and intangible assets.

Industrial Group – The Industrial Group operates under the general contracting brand of Stuart Olson and under the endorsed brands of Laird, Tartan, Studon, Northern, Fuller Austin and Sigma Power. The Industrial Group executes projects in a wide range of industrial sectors including oil and gas, petrochemical, refining, water and wastewater, pulp and paper, mining and power. The Industrial Group provides full-service general contracting, including mechanical, process insulation, metal siding and cladding, heating, ventilating and air conditioning (HVAC), asbestos abatement, electrical and instrumentation, high voltage testing and commissioning, as well as power line construction and maintenance services.

Buildings Group **–** The Buildings Group operates offices and executes projects from Ontario to British Columbia. Projects undertaken by the Buildings Group include the construction, expansion and renovation of buildings for private and public sector clients in the commercial, light industrial and institutional sectors.

Commercial Systems Group **–** The Commercial Systems Group operates under the Canem brand, with offices and projects from Ontario to British Columbia. It designs, builds and installs a building's core electrical infrastructure. It also provides the services and systems that support information management, building systems integration, energy management, green data centres, security and risk management and lifecycle services. Additionally, the Commercial Systems Group provides ongoing maintenance and on-call service to customers, and manages regional and national multi-site installations and roll outs.

Corporate Group **–** The Corporate Group includes corporate costs not allocated directly to another reporting segment and any miscellaneous investments. It provides strategic direction, operating advice and support, supply chain management oversight, asset management services, financing, infrastructure services and the management of public company requirements to each of its reporting segments.

A significant customer is one that represents 10% or more of contract revenue earned during the year. For the year ended December 31, 2018, the Corporation had revenue of $110,441 from one significant customer of the Industrial Group (2017 – no significant customers).

For the year ended December 31, 2018	Industrial Group	Buildings Group	Commercial Systems Group	Corporate Group	Intersegment Eliminations	Total
Contract revenue (Note 8)	$ 297,261	$ 452,414	$ 233,171	$ -	$ (16,438)	$ 966,408
Costs, with exclusions [(1)]	274,621	432,687	225,138	15,368	(16,438)	931,376
Depreciation and amortization (Note 10)	3,754	774	1,351	9,137	211	15,227
Costs related to investing activities	-	-	-	368	-	368
Costs related to activist shareholder activities	-	-	-	198	-	198
Restructuring costs	599	106	563	1,638	-	2,906
Other income	(197)	(822)	(252)	(93)	-	(1,364)
Finance income (Note 9)	-	(43)	(2)	(38)	-	(83)
Finance costs (Note 9)	43	2	13	9,693	-	9,751
Earnings (loss) before tax	$ 18,441	$ 19,710	$ 6,360	$ (36,271)	$ (211)	$ 8,029
Income tax expense						(2,656)
Net earnings						$ 5,373
Gain on sale of assets	$ (144)	$ (326)	$ (36)	$ (48)	$ -	$ (554)
Goodwill and intangible assets	$ 53,646	$ 116,854	$ 62,511	$ 11,688	$ -	$ 244,699
Capital and intangible expenditures	$ 157	$ 616	$ 1,343	$ 3,621	$ -	$ 5,737
Total assets	$ 245,951	$ 288,063	$ 142,890	$ 301,612	$ (353,208)	$ 625,308
Total liabilities	$ 50,497	$ 183,625	$ 52,743	$ 144,061	$ (6,380)	$ 424,546

For the year ended December 31, 2017	Industrial Group	Buildings Group	Commercial Systems Group	Corporate Group	Intersegment Eliminations	Total
Contract revenue (Note 8)	$ 335,214	$ 540,813	$ 186,809	$ -	$ (45,525)	$ 1,017,311
Costs, with exclusions [(1)]	312,127	520,744	173,846	21,553	(45,525)	982,745
Depreciation and amortization (Note 10)	4,439	1,251	1,420	7,624	211	14,945
Restructuring costs (recovery)	886	(2,441)	319	(22)	-	(1,258)
Other income	(440)	(570)	(205)	(74)	-	(1,289)
Finance income (Note 9)	(7)	(9)	-	(20)	-	(36)
Finance costs (Note 9)	71	5	-	8,799	-	8,875
Earnings (loss) before tax	$ 18,138	$ 21,833	$ 11,429	$ (37,860)	$ (211)	$ 13,329
Income tax expense						(3,727)
Net earnings						$ 9,602
Gain on sale of assets	$ (284)	$ (97)	$ (45)	$ -	$ -	$ (426)
Goodwill and intangible assets	$ 52,890	$ 118,667	$ 65,600	$ 13,844	$ -	$ 251,001
Capital and intangible expenditures	$ 2,002	$ 474	$ 1,062	$ 1,100	$ -	$ 4,638
Total assets	$ 222,409	$ 335,148	$ 145,603	$ 278,963	$ (351,789)	$ 630,334
Total liabilities	$ 68,824	$ 209,210	$ 54,128	$ 106,461	$ (14,731)	$ 423,892

[(1)] Costs for the year ended December 31, 2018 exclude depreciation, amortization, costs related to investing activities, costs related to activist shareholder activities and restructuring costs. Costs for the year ended December 31, 2017 exclude depreciation, amortization and restructuring costs.

7. JOINT ARRANGEMENTS

The Corporation and its subsidiaries have the following significant interests in joint operations:

Name of Joint Operation	Principal Activity	Place of Incorporation or Operation	Proportion of Ownership Interest
Acciona Stuart Olson Joint Venture	Building Construction	British Columbia	50%
Kwanlin Dun First Nation - Yukon Corrections Institution JV	Building Construction	Yukon	90%
Kwanlin Dun First Nation - Whitehorse Cultural Centre JV	Building Construction	Yukon	51%
Stuart Olson/Nunavut Ltd.	Industrial Construction	Nunavut	40%
Canem/Plan Group Joint Venture	Electrical Contracting	Alberta	50%
FCG Construction/Stuart Olson, a Joint Venture	Building Construction	Manitoba	50%

During the year ended December 31, 2018, the Corporation entered into a joint operation, FCG Construction/Stuart Olson, a Joint Venture.

These consolidated financial statements include the Corporation's share of assets, liabilities, revenue, expenses, net income and cash flow of the joint operations as follows:

	December 31, 2018	December 31, 2017
Current assets	**$ 31,323**	$ 1,840
Current liabilities	**30,172**	2,537
Contract revenue	**$ 40,134**	$ 270
Contract costs and expenses	**38,286**	340
Cash flow generated in operating activities	**$ 21,308**	$ 18

8. REVENUE

The Corporation's revenue streams are as follows:

	December 31, 2018	December 31, 2017
Construction contract revenue	**$ 749,420**	$ 849,160
Service contract revenue	**215,964**	166,926
Sale of goods	**1,024**	1,225
Total revenue	**$ 966,408**	$ 1,017,311

Disaggregation of revenue

The Corporation disaggregates revenue from contracts with customers by contract type for each of its operating segments, as this best depicts how the nature, amount, timing and uncertainty of revenue and cash flows are affected by economic factors. Refer to Note 6 for further information on the Corporation's operating segments.

Set out below is the categorization of revenue based on the risk profiles associated with executing the Corporation's contracts.

Cost-plus and service work – The Corporation is compensated on the basis of the cost of materials, equipment and labour related to the project, plus a set fee percentage. This method of delivery is common for service and maintenance type work.

Construction management – As a member of an integrated project team along with the owner, architects and/or engineers, the construction manager works collaboratively with other stakeholders and has the opportunity to provide significant input into the cost, design, schedule and constructability of the project during the pre-construction planning stages. Construction management contracts may have terms that result in a contract value that is determined on a cost plus basis, fixed price basis or both cost plus and fixed price. The construction manager generally mitigates cost and schedule risk by entering into fixed price contracts, with defined scope and timeline, with the subcontractors that it selects to build the project. Given the level of input in the planning stages of construction management projects, the Corporation views these projects as containing less risk than tendered (hard-bid) project contracts. This method of delivery is common for general contractors in the public and private sectors, especially in Western Canada.

Notes to the Consolidated Financial Statements

For the years ended December 31, 2018 and 2017
(in thousands of Canadian dollars, except share and per share amounts)

Design-build – The Corporation is awarded a contract to both design and construct a project. These arrangements have risk with respect to the project's architectural and/or engineering design, in addition to construction of the project. This method of delivery is common for general contractors, especially in Ontario, and is normally completed under a fixed price contract.

Tendered (hard-bid) – The Corporation commits to executing a scope of work for a fixed price, generally during a tendering process based on a provided design. Tendered (hard-bid) projects generally contain additional cost and schedule risk as compared to cost plus or construction management arrangements. This method of project delivery is common for subcontractors in all sectors, and is often used by general contractors.

The following tables present revenue by contract type for each of the Corporation's operating segments:

For the year ended December 31, 2018	**Industrial Group**	**Buildings Group**	**Commercial Systems Group**	**Total**
Cost-plus and service work	**$ 199,111**	**$ -**	**$ 89,552**	**$ 288,663**
Construction management	**-**	**343,712**	**-**	**343,712**
Design-build	**-**	**40,097**	**2,320**	**42,417**
Tendered (hard-bid)	**98,150**	**68,605**	**141,299**	**308,054**
Segment revenue	**$ 297,261**	**$ 452,414**	**$ 233,171**	**$ 982,846**
Intersegment eliminations				**(16,438)**
Consolidated revenue				**$ 966,408**

For the year ended December 31, 2017	**Industrial Group**	**Buildings Group**	**Commercial Systems Group**	**Total**
Cost-plus and service work	$ 158,505	$ -	$ 46,982	$ 205,487
Construction management	-	436,337	-	436,337
Design-build	-	77,234	6,770	84,004
Tendered (hard-bid)	176,709	27,242	133,057	337,008
Segment revenue	$ 335,214	$ 540,813	$ 186,809	$ 1,062,836
Intersegment eliminations				(45,525)
Consolidated revenue				$ 1,017,311

9. FINANCE INCOME AND COSTS

The finance income and costs recognized in respect of assets and liabilities not at fair value through profit or loss consists of the following:

	December 31, 2018	December 31, 2017
Finance income on cash and cash equivalents	**$ 81**	$ 27
Finance income on loans and receivables	**-**	7
Other	**2**	2
Finance income	**$ 83**	$ 36
Finance costs on revolving credit facility	**$ 1,999**	$ 1,507
Other finance costs	**244**	77
Amortization of deferred financing fees on revolving credit facility	**607**	561
Finance costs on convertible debentures	**4,830**	4,830
Accretion on convertible debentures	**1,331**	1,221
Amortization of deferred financing fees on convertible debentures	**740**	679
Finance costs	**$ 9,751**	$ 8,875

10. DEPRECIATION AND AMORTIZATION

		December 31, 2018		December 31, 2017
Depreciation of property and equipment	**$**	**4,920**	$	5,121
Amortization of intangible assets		**10,307**		9,824
Total depreciation and amortization expense	**$**	**15,227**	$	14,945

Of the depreciation of property and equipment during the year ended December 31, 2018, $1,372 (2017 – $2,315) has been included in contract costs and the remainder in administrative costs in the consolidated statements of earnings. Amortization of intangible assets is included in administrative costs in the consolidated statements of earnings.

11. PERSONNEL EXPENSES AND EMPLOYEE BENEFITS

		December 31, 2018		December 31, 2017
Short-term employee benefits	**$**	**356,086**	$	307,607
Employee share purchase plan expenses		**2,686**		2,684
Employee retirement matching contributions		**2,279**		3,626
Defined benefit and defined contribution pension plan expense		**1,594**		1,653
Equity-settled share-based payment transactions		**258**		516
Cash-settled share-based payment transactions		**263**		4,152
Total personnel expenses and employee benefits	**$**	**363,166**	$	320,238

For the year ended December 31, 2018, personnel expenses and employee benefits of $325,147 were included in contract costs (2017 – $276,230) and $38,019 in administrative costs (2017 – $44,008). Short-term employee benefits consist primarily of salaries and bonuses.

Key management personnel consists of the Corporation's named executive officers. Their remuneration during the year was as follows:

		December 31, 2018		December 31, 2017
Short-term benefits	**$**	**2,400**	$	3,564
Share-based payments [(1)]		**471**		2,148
	$	**2,871**	$	5,712

[(1)] Share-based payments include equity-settled and cash-settled share-based payments.

The remuneration of key management is recommended to the Board for approval by the Human Resources and Compensation Committee of the Board of Directors (HRCC).

12. INCOME TAXES

Income tax recognized in the consolidated statements of earnings:

	December 31, 2018	December 31, 2017
Current income tax (expense) recovery		
Current year	**$ (1,267)**	$ 1,426
Adjustment relating to prior years	**(21)**	(48)
	(1,288)	1,378
Deferred income tax (expense) recovery		
Origination and reversal of temporary differences	**(1,362)**	(5,295)
Impact of changes in tax rates	**(11)**	78
Adjustment relating to prior years	**5**	112
	(1,368)	(5,105)
Income tax expense	**$ (2,656)**	$ (3,727)

Reconciliation of effective tax rate:

The Corporation's consolidated income tax expense differs from the provision computed at the statutory rates as follows:

	December 31, 2018	December 31, 2017
Net earnings before tax	**$ 8,029**	$ 13,329
Income tax expense at statutory rate of 27.0% (2017 – 26.9%)	**(2,168)**	(3,586)
Statutory and other rate differences	**(11)**	78
Non-deductible expenses	**(400)**	(356)
Non-taxable accounting income	**6**	69
Other	**(83)**	68
Income tax expense	**$ (2,656)**	$ (3,727)

The Corporation's statutory tax rate of 27.0% in 2018 and 26.9% in 2017 is the combined Canadian federal and provincial tax rates in the jurisdictions in which the Corporation operates.

The deferred tax assets and liabilities are comprised of the following:

	December 31, 2018	December 31, 2017
Deferred tax assets		
Tax loss carry forwards	**$ 14,250**	$ 15,345
Equipment and other assets	**(32)**	1,054
Pension and other compensation	**92**	(72)
Unbilled work-in-progress and holdback receivables	**2,317**	2,641
Provisions	**2,198**	1,753
Other	**1,614**	742
	20,439	21,463
Deferred tax liabilities		
Tax loss carry forwards	**5,502**	2,949
Equipment and other assets	**(649)**	162
Intangible assets	**(7,817)**	(9,672)
Pension and other compensation	**2,911**	3,980
Unrecognized deductible temporary differences	**(589)**	(589)
Unbilled work-in-progress and holdback receivables	**(20,598)**	(16,907)
Provisions	**380**	289
Other	**(567)**	(613)
	(21,427)	(20,401)
Net deferred income tax (liability) asset	**$ (988)**	$ 1,062

All deferred tax asset positions recognized by the Corporation are supported by either the reversal of existing taxable temporary differences or forecasted future taxable earnings in excess of the deductible temporary difference.

A continuity of the net deferred tax asset (liability) is as follows:

2018	**Asset (Liability) January 1, 2018**	**Recovery (Expense) Recognized in Profit or Loss**	**Recovery in Other Comprehensive Loss**	**Asset (Liability) Acquired in a Business Combination**	**Asset (Liability) December 31, 2018**
Tax loss carry forwards	**$ 18,294**	**$ 1,162**	**$ -**	**$ 296**	**$ 19,752**
Equipment and other assets	**1,216**	**(1,103)**	**-**	**(794)**	**(681)**
Intangible assets	**(9,672)**	**2,452**	**-**	**(597)**	**(7,817)**
Pension and other compensation	**3,908**	**(1,271)**	**366**	**-**	**3,003**
Unrecognized deductible temporary differences	**(589)**	**-**	**-**	**-**	**(589)**
Unbilled work-in-progress and holdback receivables	**(14,266)**	**(4,015)**	**-**	**-**	**(18,281)**
Provisions	**2,042**	**489**	**-**	**47**	**2,578**
Other	**129**	**918**	**-**	**-**	**1,047**
	$ 1,062	**$ (1,368)**	**$ 366**	**$ (1,048)**	**$ (988)**

2017	Asset (Liability) January 1, 2017	(Expense) Recovery Recognized in Profit or Loss	Recovery in Other Comprehensive Loss	Asset (Liability) Acquired in a Business Combination	Asset (Liability) December 31, 2017
Tax loss carry forwards	$ 19,076	$ (782)	$ -	$ -	$ 18,294
Equipment and other assets	1,841	(625)	-	-	1,216
Intangible assets	(11,955)	2,283	-	-	(9,672)
Pension and other compensation	2,630	1,016	262	-	3,908
Unrecognized deductible temporary differences	(589)	-	-	-	(589)
Unbilled work-in-progress and holdback receivables	(6,526)	(7,740)	-	-	(14,266)
Provisions	2,503	(461)	-	-	2,042
Other	(1,075)	1,204	-	-	129
	$ 5,905	$ (5,105)	$ 262	$ -	$ 1,062

The Corporation has accumulated net capital losses for income tax purposes of $21,511 (2017 – $21,511) which may be carried forward indefinitely to reduce future capital gains. The value of these losses has not been recognized in these consolidated financial statements.

The Corporation has accumulated non-capital losses for income tax purposes of $72,348 (2017 – $66,885), which expire as follows:

Expiration of accumulated non-capital losses:		
2026	$	199
2027		426
2028		225
2029		162
2030		966
2031		12,999
2032		5,958
2033		6,218
2034		17,831
2035		4,388
2036		2,402
2037		11,176
2038		9,398
	$	**72,348**

All deferred tax asset positions recognized by the Corporation are supported by either the reversal of existing taxable temporary differences or forecasted future taxable earnings in excess of the deductible temporary difference. The Corporation has unrecognized non-capital loss carryforwards of $1,174 (2017 – $1,174) for which no deferred income tax asset has been recognized, which remain available to reduce future taxable income.

13. EMPLOYEE BENEFITS

(a) Short-term employee benefits

Contributions made by the Corporation during the year ended December 31, 2018 to the company sponsored Employee Share Purchase Plan (ESPP) were $2,686 (2017 – $2,684) (Note 11).

(b) Post-employment benefits

Registered Retirement Savings Plan (RRSP)

Contributions made by the Corporation during the year ended December 31, 2018 to the company sponsored RRSP were $2,279 (2017 – $3,626) (Note 11).

Defined Contribution Pension Plans (DC)

The total expense recognized in the consolidated statements of earnings and comprehensive earnings during the year ended December 31, 2018 of $569 (2017 – $431) represents contributions paid to these plans by the Corporation at rates specified in the rules of the plans.

Defined Benefit Pension Plans (DB)

The Corporation maintains two non-contributory DB provisions that cover salaried employees for two of the operating entities. Annual employer contributions to the DB provisions, determined by an independent actuary, meet minimum amounts required by provincial pension supervisory authorities. The benefits provided by the DB provisions of the pension plans are based on years of service and final average earnings of the employees who are members of the plans.

Future benefits:

	December 31, 2018	December 31, 2017
Wholly or partially funded defined benefit obligation	**$ 35,183**	$ 37,753
Fair value of plan assets	**31,893**	34,617
Recognized liability for defined benefit obligations	**$ 3,290**	$ 3,136

Fair market value of plan assets:

	December 31, 2018	December 31, 2017
Equity securities	**$ 19,568**	$ 24,920
Debt securities	**12,287**	9,570
Short term	**38**	127
	$ 31,893	$ 34,617

Reconciliation of amounts in the consolidated financial statements:

	December 31, 2018	December 31, 2017
Accrued benefit obligation		
Balance, beginning of the year	**$ 37,753**	$ 36,240
Employer current service cost	**397**	471
Employee contributions	**2**	29
Interest cost on the defined benefit obligation	**1,260**	1,363
Benefit payments	**(1,923)**	(2,106)
Actuarial loss (gain) due to experience adjustments	**170**	(38)
Actuarial gain due to changes in demographic assumptions	**(169)**	-
Actuarial (gain) loss due to changes in financial assumptions	**(2,155)**	1,794
Settlements	**(152)**	-
Balance, end of the year	**$ 35,183**	$ 37,753

	December 31, 2018	December 31, 2017
Fair value of plan assets		
Balance, beginning of the year	**$ 34,617**	$ 33,505
Employer contributions	**2,007**	1,839
Employee contributions	**2**	29
Interest income on plan assets	**1,155**	1,285
Actuarial (loss) gain on plan assets, excluding interest income	**(3,232)**	784
Benefit payments	**(1,923)**	(2,106)
Administration costs	**(581)**	(719)
Settlements	**(152)**	-
Balance, end of the year	**$ 31,893**	$ 34,617

	December 31, 2018	December 31, 2017
Net pension liability	**$ 3,290**	$ 3,136
Funded status - deficit	**$ 3,290**	$ 3,136

For the year ended December 31, 2018, an amount of $1,083 (2017 – $1,268) was recorded in administrative costs in net earnings, and a loss of $1,078 (2017 – loss of $972), before tax, was recorded in other comprehensive loss in relation to the DB plans. This loss relates to lower than expected returns on the plan assets over the year, partially offset by an increase in the discount rate assumption, which gave rise to a gain on the DB obligation.

Actuarial assumptions:

	December 31, 2018	December 31, 2017
Discount rate on net benefit obligations	**3.9%**	3.4%
Rate of compensation increase	**3.0%**	3.0%
Inflation rate	**2.0%**	2.0%

The discount rate used to establish the pension obligation is based on AA-rated Canadian corporate bond yields at the measurement date. A change of 100 basis points in the discount rate at the reporting date would have increased or decreased the accrued benefit obligation by $4,546 (2017 – $5,204).

14. EARNINGS PER SHARE

(a) Basic earnings per share

	December 31, 2018	December 31, 2017
Net earnings - basic	**$ 5,373**	$ 9,602
Issued common shares, beginning of the year	**27,370,727**	26,921,371
Effect of shares issued related to Dividend Reinvestment Plan (DRIP)	**210,151**	254,280
Effect of shares issued on exercise of stock options	**12,814**	-
Weighted average number of common shares for the year - basic	**27,593,692**	27,175,651
Basic earnings per share	**$ 0.19**	$ 0.35

(b) Diluted earnings per share

	December 31, 2018	December 31, 2017
Net earnings - diluted	**$ 5,373**	$ 9,602
Weighted average number of common shares for the year - basic	**27,593,692**	27,175,651
Incremental shares - stock options	**180,186**	-
Weighted average number of common shares for the year - diluted	**27,773,878**	27,175,651
Diluted earnings per share	**$ 0.19**	$ 0.35

For the year ended December 31, 2018, the number of stock options excluded from the diluted weighted average number of common shares calculation was 1,689,883 (2017 – 2,173,088), as their effect would have been anti-dilutive.

For the years ended December 31, 2018 and 2017, there were no incremental shares related to convertible debentures included in the diluted weighted average number of common shares calculation, as the impact of the normalization of earnings (interest, accretion and amortization add-back) outweighed the effect of the related incremental shares and therefore the convertible debentures were anti-dilutive.

15. CASH AND CASH EQUIVALENTS

The cash and cash equivalents balance is comprised entirely of cash. Included in the cash and cash equivalents balance as at December 31, 2018 is $21,334 (2017 – $27) held in the bank accounts of joint operations and $nil of restricted cash held in trust (2017 – $1,225).

16. TRADE AND OTHER RECEIVABLES

	December 31, 2018	December 31, 2017
Trade receivables	**$ 165,749**	$ 159,949
Allowance for doubtful accounts (Note 28)	**(211)**	(344)
Net trade receivables	**165,538**	159,605
Construction holdbacks, due within one business cycle	**69,850**	87,630
Other receivables	**5,073**	2,241
	$ 240,461	$ 249,476

The average credit period is 65 days for maintenance contracts and 57 days for significant construction contracts.

As at December 31, 2018, holdbacks of $69,850 (2017 – $87,630) are recoverable within the normal operating cycle of the Corporation.

17. COSTS IN EXCESS OF BILLINGS AND CONTRACT ADVANCES AND UNEARNED INCOME

A reconciliation of the beginning and ending carrying amounts of costs in excess of billings (contract assets) and contract advances and unearned income (contract liabilities) is as follows:

	Costs in Excess of Billings		Contract Advances and Unearned Income	
	December 31, 2018	December 31, 2017	December 31, 2018	December 31, 2017
Balance, beginning of the year	**$ 49,739**	$ 35,006	**$ (73,470)**	$ (74,475)
Revenue earned in the year	**343,421**	264,292	**622,987**	753,019
Billings in the year	**(329,920)**	(248,650)	**(608,813)**	(752,923)
Transfers in the year	**(1,248)**	(909)	**1,248**	909
Balance, end of the year	**$ 61,992**	$ 49,739	**$ (58,048)**	$ (73,470)

18. PROPERTY AND EQUIPMENT

Included in construction and automotive equipment as at December 31, 2018 is $14,468 (2017 – $12,610) of assets relating to finance leases and $8,555 (2017 – $8,626) of accumulated depreciation, for a net carrying value of $5,913 (2017 – $3,984). These assets are pledged as security for the finance lease obligations disclosed in Note 23(b).

2018	Land and Improvements	Buildings and Improvements	Leasehold Improvements	Construction and Automotive Equipment	Computer Hardware	Office Furniture and Equipment	Assets Under Construction	Total
Cost								
Balance as at December 31, 2017	**$ 459**	**$ 2,342**	**$ 18,251**	**$ 23,598**	**$ 5,641**	**$ 4,957**	**$ 116**	**$ 55,364**
Additions, including finance leases	**-**	**-**	**870**	**2,839**	**570**	**46**	**301**	**4,626**
Disposals	**-**	**-**	**(3,159)**	**(3,541)**	**-**	**(1,020)**	**-**	**(7,720)**
Acquisitions (Note 5)	**-**	**-**	**3**	**6,523**	**164**	**22**	**-**	**6,712**
Reclassifications and transfers	**(23)**	**(2,353)**	**3,113**	**832**	**(1,467)**	**(16)**	**(408)**	**(322)**
Balance as at December 31, 2018	**$ 436**	**$ (11)**	**$ 19,078**	**$ 30,251**	**$ 4,908**	**$ 3,989**	**$ 9**	**$ 58,660**
Accumulated depreciation								
Balance as at December 31, 2017	**$ -**	**$ 815**	**$ 10,844**	**$ 16,995**	**$ 4,933**	**$ 4,327**	**$ -**	**$ 37,914**
Depreciation expense	**-**	**-**	**1,698**	**2,583**	**381**	**258**	**-**	**4,920**
Disposals	**-**	**-**	**(3,070)**	**(3,374)**	**-**	**(1,020)**	**-**	**(7,464)**
Reclassifications and transfers	**-**	**(826)**	**1,180**	**760**	**(1,467)**	**(14)**	**-**	**(367)**
Balance as at December 31, 2018	**$ -**	**$ (11)**	**$ 10,652**	**$ 16,964**	**$ 3,847**	**$ 3,551**	**$ -**	**$ 35,003**
Carrying amounts as at December 31, 2018	**$ 436**	**$ -**	**$ 8,426**	**$ 13,287**	**$ 1,061**	**$ 438**	**$ 9**	**$ 23,657**

2017	Land and Improvements	Buildings and Improvements	Leasehold Improvements	Construction and Automotive Equipment	Computer Hardware	Office Furniture and Equipment	Assets Under Construction	Total
Cost								
Balance as at December 31, 2016	$ 566	$ 3,041	$ 17,365	$ 26,792	$ 5,166	$ 4,942	$ -	$ 57,872
Additions, including finance leases	-	-	912	2,304	470	114	116	3,916
Disposals	(107)	(140)	(26)	(2,850)	-	(99)	-	(3,222)
Reclassifications and transfers	-	(559)	-	(2,648)	5	-	-	(3,202)
Balance as at December 31, 2017	$ 459	$ 2,342	$ 18,251	$ 23,598	$ 5,641	$ 4,957	$ 116	$ 55,364
Accumulated depreciation								
Balance as at December 31, 2016	$ -	$ 1,495	$ 8,988	$ 20,058	$ 4,560	$ 3,837	$ -	$ 38,938
Depreciation expense	-	-	1,878	2,281	373	589	-	5,121
Disposals	-	(121)	(22)	(2,696)	-	(99)	-	(2,938)
Reclassifications and transfers	-	(559)	-	(2,648)	-	-	-	(3,207)
Balance as at December 31, 2017	$ -	$ 815	$ 10,844	$ 16,995	$ 4,933	$ 4,327	$ -	$ 37,914
Carrying amounts as at December 31, 2017	$ 459	$ 1,527	$ 7,407	$ 6,603	$ 708	$ 630	$ 116	$ 17,450

19. GOODWILL

The Corporation has allocated its goodwill to its cash-generating units (CGUs) as follows:

	December 31, 2018	December 31, 2017
Industrial Group	**$ 43,007**	$ 42,323
Buildings Group	**114,078**	114,078
Commercial Systems Group	**57,623**	57,623
	$ 214,708	$ 214,024

The $684 increase in the Industrial Group's goodwill in 2018 is related to the acquisition of Tartan. Refer to Note 5 for further details.

During the fourth quarter of 2018, the Corporation performed its annual goodwill impairment test. The calculated business enterprise value for each of the CGUs incorporated the financial projections set out in the respective CGU's strategic plans. The annual impairment review resulted in no impairment charge in the current year.

The recoverable amounts of the CGUs' assets were determined based on a value-in-use calculation. There is a significant amount of uncertainty with respect to the estimates of the recoverable amounts of the CGUs' assets given the necessity of making key economic assumptions about the future. The value-in-use calculation uses discounted cash flow projections which employ the following key assumptions: future cash flows, present and future discount rates, growth assumptions, including economic risk assumptions and estimates of achieving key operating metrics and drivers. Management uses its best estimate to determine which key assumptions to use in the analysis.

Key assumptions

The key assumptions in the value-in-use calculations to determine the recoverable amounts by CGU have been prepared using a four-year discounted cash flow analysis with a terminal value. The financial projections used for the discounted cash flow analysis were derived from the Corporation's December 2018 strategic plan.

A four year period for the discounted cash flow analysis was used since financial projections beyond a four year time period are generally best represented by a terminal value. This period is appropriate given the timing of the project backlog and the predictability of CGU cash flows. Cash flows from growth opportunities are probability-weighted and relate to initiatives management expects to progress on in the medium to long-term time frame. These cash flows require assumptions to be made regarding the likelihood of projects progressing and the future economics of those projects.

The terminal value was calculated using an after-tax discount rate of 11% (2017 – 11%) and a steady annual growth rate of 2% (2017 – 2%) in the terminal year. The same discount rate has been used in each of the Corporation's CGUs, given the similarity in the business and the fact that business-specific risks were adjusted for in the forecasted cash flows. In addition, entity-specific risks were separately factored into each CGU forecast. They take into consideration market rates of return, capital structure, company size, industry risk and the after-tax cost of debt and equity.

20. INTANGIBLE ASSETS

2018	ERP Assets	Backlog and Agency Contracts	Customer Relationships and Tradename	Computer Software	Assets under Construction	Total
Cost						
Balance as at December 31, 2017	**$ 27,312**	**$ 25,400**	**$ 65,583**	**$ 6,387**	**$ 285**	**$ 124,967**
Additions	**529**	**-**	**-**	**232**	**350**	**1,111**
Acquisitions (Note 5)	**-**	**570**	**1,640**	**-**	**-**	**2,210**
Reclassifications and transfers	**525**	**-**	**-**	**-**	**(525)**	**-**
Balance as at December 31, 2018	**$ 28,366**	**$ 25,970**	**$ 67,223**	**$ 6,619**	**$ 110**	**$ 128,288**
Accumulated amortization						
Balance as at December 31, 2017	**$ 14,723**	**$ 24,632**	**$ 43,662**	**$ 4,973**	**$ -**	**$ 87,990**
Amortization expense	**2,690**	**768**	**6,147**	**702**	**-**	**10,307**
Reclassifications and transfers	**(190)**	**-**	**-**	**190**	**-**	**-**
Balance as at December 31, 2018	**$ 17,223**	**$ 25,400**	**$ 49,809**	**$ 5,865**	**$ -**	**$ 98,297**
Carrying amounts as at December 31, 2018	**$ 11,143**	**$ 570**	**$ 17,414**	**$ 754**	**$ 110**	**$ 29,991**

2017	ERP Assets	Backlog and Agency Contracts	Customer Relationships and Tradename	Computer Software	Assets under Construction	Total
Cost						
Balance as at December 31, 2016	$ 27,112	$ 25,400	$ 68,093	$ 5,389	$ 761	$ 126,755
Additions	200	-	-	124	398	722
Reclassifications and transfers	-	-	(2,510)	874	(874)	(2,510)
Balance as at December 31, 2017	$ 27,312	$ 25,400	$ 65,583	$ 6,387	$ 285	$ 124,967
Accumulated amortization						
Balance as at December 31, 2016	$ 12,008	$ 23,777	$ 40,220	$ 4,671	$ -	$ 80,676
Amortization expense	2,715	855	5,952	302	-	9,824
Reclassifications and transfers	-	-	(2,510)	-	-	(2,510)
Balance as at December 31, 2017	$ 14,723	$ 24,632	$ 43,662	$ 4,973	$ -	$ 87,990
Carrying amounts as at December 31, 2017	$ 12,589	$ 768	$ 21,921	$ 1,414	$ 285	$ 36,977

21. TRADE AND OTHER PAYABLES

	December 31, 2018	December 31, 2017
Trade payables	**$ 109,590**	$ 119,352
Holdbacks and accrued liabilities	**72,213**	82,528
Short-term employee benefits	**9,407**	12,884
Dividend payable	**3,334**	3,285
Other	**1,583**	4,541
	$ 196,127	$ 222,590

The Corporation's exposure to currency and liquidity risk related to trade and other payables is disclosed in Note 28.

22. PROVISIONS

Provisions are recognized when the Corporation has a settlement amount as a result of a past event, it is probable that the Corporation will be required to settle the obligation and a reliable estimate of the obligation can be made. Reversals of provisions are made when new information arises in the period which leads management to conclude that the provisions are not necessary.

	Warranties	Restructuring Costs	Claims and Disputes	Subcontractor Default	Onerous Contracts	Total
Balance as at December 31, 2016	$ 3,491	$ 308	$ 936	$ 393	$ 4,611	$ 9,739
Provisions made	6,472	-	849	1,899	862	10,082
Provisions used	(373)	(75)	(1,204)	(1,341)	(1,453)	(4,446)
Provisions reversed	(5,520)	(47)	(30)	-	(2,511)	(8,108)
Unwinding of discount	-	-	-	-	308	308
Balance as at December 31, 2017	$ 4,070	$ 186	$ 551	$ 951	$ 1,817	$ 7,575
Balance as at December 31, 2017	**$ 4,070**	**$ 186**	**$ 551**	**$ 951**	**$ 1,817**	**$ 7,575**
Provisions made	**5,840**	**849**	**55**	**1,573**	**861**	**9,178**
Provisions used	**(95)**	**(24)**	**(200)**	**(1,444)**	**(841)**	**(2,604)**
Provisions reversed	**(4,012)**	**(186)**	**-**	**(36)**	**-**	**(4,234)**
Unwinding of discount	**-**	**-**	**-**	**-**	**140**	**140**
Balance as at December 31, 2018	**$ 5,803**	**$ 825**	**$ 406**	**$ 1,044**	**$ 1,977**	**$ 10,055**

The provisions are presented in the consolidated statements of financial position as follows:

	December 31, 2018	December 31, 2017
Current portion of provisions	**$ 8,206**	$ 6,376
Long-term provisions	**1,849**	1,199
Total provisions	**$ 10,055**	$ 7,575

The following table represents the expected outflow of resources by category:

	Warranties	Restructuring Costs	Claims and Disputes	Subcontractor Default	Onerous Contract	Total
2019	$ 5,803	$ 825	$ 102	$ 1,044	$ 570	$ 8,344
2020	-	-	152	-	520	672
2021	-	-	152	-	392	544
2022	-	-	-	-	347	347
2023	-	-	-	-	314	314
Thereafter	-	-	-	-	668	668
	$ 5,803	**$ 825**	**$ 406**	**$ 1,044**	**$ 2,811**	**$ 10,889**

23. LONG-TERM DEBT

	December 31, 2018	December 31, 2017
Current portion of long-term debt		
Finance lease obligations	**$ 3,012**	$ 2,488
	$ 3,012	$ 2,488
Non-current		
Revolving credit facility	**$ 36,868**	$ 1,867
Finance lease obligations	**4,221**	4,097
Long-term note payable (Note 5)	**2,000**	-
	$ 43,089	$ 5,964

(a) Revolving credit facility

The revolving credit facility (Revolver) consists of a $150,000 credit facility syndicated by six lenders and a $25,000 operating facility provided by one of the co-lead lenders. The combined Revolver provides the Corporation with a maximum available borrowing capacity of $175,000. The maturity date of the Revolver is July 16, 2021.

The operating facility of $25,000 allows the Corporation to enter into an overdraft position. As at December 31, 2018, there was no drawdown on the operating facility.

During the fourth quarter of 2018, the Corporation amended the terms of its credit facility to enable it to enter into equity hedging agreements. As at December 31, 2018, the Corporation had not entered into any hedging agreements.

Subsequent to year end, the Corporation negotiated an amendment to improve a number of terms in its credit facility agreement. Refer to Note 35 for details.

The Revolver is subject to the financial covenants described below.

- Interest coverage – Represents the ratio of EBITDA to interest expense for the 12 months ending as at the end of the fiscal quarter. For the purposes of the Revolver, EBITDA is defined as earnings or loss before interest, income taxes, depreciation and amortization, non-cash gains and losses from financial instruments, non-cash share-based compensation and any other non-cash items deducted in the calculation of net earnings, with an allowable add back of up to $2,500 of cash-settled restructuring charges. The interest coverage ratio shall not be less than 3.00:1.00.
- Debt to EBITDA – Debt represents total indebtedness and total obligations of the Corporation and its subsidiaries, excluding convertible debentures. The Corporation's debt to EBITDA ratio cannot exceed 3.25:1.00.

These covenants are measured each quarter on March 31, June 30, September 30 and December 31. The Corporation was in full compliance with its covenants as at December 31, 2018 and 2017.

The maturity date of the Revolver is July 16, 2021, and there is no current portion of long-term debt related to the facility. The facility is supported by a comprehensive security package that includes all present and after acquired assets of the Corporation. Interest is charged at a rate per annum equal to the Canadian prime rate, LIBOR rate or Bankers' Acceptance rate as applicable and in effect during the interest period, plus additional interest based on a pricing rate schedule. The additional interest per the pricing rate schedule depends upon the debt to EBITDA ratio and ranges from a low of 75 basis points for Canadian prime rate loans to a high of 275 basis points for LIBOR and Bankers' Acceptances. The facility contains provisions for stamping fees on Bankers' Acceptances and LIBOR loans, and standby fees on unutilized credit lines that vary depending on certain consolidated financial ratios. Total finance costs on the credit facility for the year ended December 31, 2018 were $2,606 (2017 – $2,068). These finance costs represent the interest paid on the debt and amortization of the deferred financing charges of $607 for the year ended December 31, 2018 (2017 – $561) (Note 9).

(b) Finance lease obligations

For the year ended December 31, 2018, the Corporation held finance leases relating to automotive and construction equipment that mature between January 2019 and December 2023, and bear interest at rates between 2.8% and 11.3%, with a weighted average effective interest rate on the contracts of 4.4% per annum (2017 – 4.6%). Finance lease obligations are secured by automotive and construction equipment with a net book value of $5,913 (2017 – $3,984) and the lessors' title to the leased assets (Note 18). The Corporation has the option to purchase the equipment under lease at the conclusion of the lease agreements.

	Future Minimum Lease Payments		Present Value of Minimum Lease Payments	
	December 31, 2018	December 31, 2017	**December 31, 2018**	December 31, 2017
Not later than 1 year	**$ 3,274**	$ 2,691	**$ 3,012**	$ 2,488
More than 1 year but not later than 5 years	**4,672**	4,300	**4,221**	4,097
	$ 7,946	$ 6,991	**$ 7,233**	$ 6,585

	Interest	
	December 31, 2018	December 31, 2017
Not later than 1 year	**$ 262**	$ 203
More than 1 year but not later than 5 years	**451**	203
	$ 713	$ 406

(c) Changes in liabilities arising from financing activities

The table below details changes in the Corporation's liabilities arising from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are those for which cash flows were, or future cash flows will be, classified in the Corporation's consolidated statements of cash flows as cash flows from financing activities.

			Non-Cash Changes			
	Opening Balance January 1, 2018	Financing Cash Flows	New and Acquired Finance Leases	Accretion and Amortization	Other - Declaration of Dividend	Ending Balance December 31, 2018
Revolving credit facility	$ 1,867	$ 34,394	$ -	$ 607	$ -	**$ 36,868**
Finance lease obligations	6,585	(2,665)	3,313	-	-	**7,233**
Long-term note payable	-	2,000	-	-	-	**2,000**
Convertible debentures, debt component	76,170	-	-	2,071	-	**78,241**
Convertible debentures, equity component	4,589	-	-	-	-	**4,589**
Dividend payable	3,285	(10,759)	-	-	10,808	**3,334**
	$ 92,496	**$ 22,970**	**$ 3,313**	**$ 2,678**	**$ 10,808**	**$ 132,265**

24. CONVERTIBLE DEBENTURES

	December 31, 2018	December 31, 2017
Debt component, beginning of the year	**$ 76,170**	$ 74,270
Accretion on convertible debentures	**1,331**	1,221
Amortization of deferred financing fees	**740**	679
Debt component, end of the year	**$ 78,241**	$ 76,170
Equity component, end of the year	**$ 4,589**	$ 4,589

On September 19, 2014, the Corporation issued an aggregate of $70,000 principal amount of 6% convertible extendible unsecured subordinated debentures of the Corporation at a price of one thousand dollars per debenture. On September 29, 2014, an additional $10,500 principal amount of the convertible debentures was issued pursuant to the exercise of the underwriters' over-allotment option. Total gross proceeds from the offering amounted to $80,500. Net proceeds of the offering, after payment of the underwriters' fee and other expenses of the offering of $3,877, were $76,623. The maturity date of the convertible debentures is December 31, 2019.

The convertible debentures bear interest at an annual rate of 6% payable in equal installments semi-annually in arrears on December 31 and June 30 in each year. The convertible debentures may be converted into common shares at the option of the holder at any time prior to the earlier of redemption by the Corporation or maturity.

On and after December 31, 2018, and at any time prior to the final maturity date, the 2014 convertible debentures may be redeemed at the option of the Corporation, in whole or in part from time to time, at a redemption price equal to 100% of their principal amount plus accrued and unpaid interest thereon up to the date set for redemption.

The Corporation may, at its discretion, elect to satisfy its obligation to pay the principal of the debentures along with any accrued and unpaid interest amount by issuing and delivering common shares. The number of shares issued will be determined based on market prices at the time of issuance.

In the event of a change of control of the Corporation (as defined in the applicable trust indenture), the Corporation shall be required to offer to purchase all of the outstanding debentures on the date that is 30 business days after the date that such offer is delivered, at a purchase price equal to 100% of the principal amount of the debentures plus accrued and unpaid interest to the purchase date. Under certain circumstances where the convertible debentures are to be repurchased by the Corporation or converted into common shares upon a change of control, a make whole premium will apply. The amount of the make whole premium, if any, will be based on the price of the common shares on the effective date of the change of control. No make whole premium will be paid if the price of the common shares at such time is less than $10.46 per share or exceeds $50.00 per share.

25. SHARE-BASED PAYMENTS

(a) Stock options

Movement during the years:

	December 31, 2018		December 31, 2017	
	Number of Stock Options	**Weighted Average Exercise Price**	Number of Stock Options	Weighted Average Exercise Price
Outstanding, beginning of the year	**2,173,088**	**$ 6.57**	1,995,134	$ 8.15
Granted	**-**	**-**	582,721	5.90
Forfeited	**(247,897)**	**5.92**	-	-
Exercised	**(27,841)**	**7.50**	-	-
Expired	**(207,467)**	**7.68**	(404,767)	13.40
Outstanding, end of the year	**1,689,883**	**$ 6.51**	2,173,088	$ 6.57

The options outstanding for the year ended December 31, 2018 have an exercise price in the range of $5.77 to $9.94 (2017 – $5.77 to $9.94) and lives of between 5 and 10 years (2017 – 5 and 10 years).

The terms and conditions related to the grants of the stock option program are as follows:

Option Series	**Options Outstanding**	**Expiry Date**	**Exercise Price**	**Fair Value At Grant Date**	**Options Exercisable**
Issued on April 1, 2013	267,882	01-Apr-23	7.50	2.52	267,882
Issued on September 13, 2014	23,050	13-Sep-19	9.94	3.08	23,050
Issued on September 13, 2014	146,874	13-Sep-24	9.94	3.08	146,874
Issued on April 1, 2015	53,359	01-Apr-20	5.77	1.41	53,359
Issued on April 1, 2015	228,967	01-Apr-25	5.77	1.41	228,967
Issued on March 8, 2016	75,266	08-Mar-21	5.80	0.98	50,177
Issued on March 8, 2016	412,339	08-Mar-26	5.80	0.98	274,893
Issued on April 1, 2017	482,146	01-Apr-27	5.90	0.87	160,715
As at December 31, 2018	**1,689,883**				**1,205,917**

Inputs for measurement of grant date fair value

The grant date fair value of stock option plans was measured based on the Black-Scholes model. Expected volatility is estimated by considering historic average share price volatility. The amounts computed, using the Black-Scholes model, may not be indicative of the actual values realized upon the exercise of these options by the holders. The inputs used in the measurement of the fair values at grant date of the stock option payment plans are the following:

Option Series	Weighted Average Share Price	Exercise Price	Expected Volatility	Option Life	Dividend Yield	Risk-Free Interest Rate	Forfeiture Rate
Issued in 2017							
April 1, 2017	5.90	5.90	38.41%	10	7.83%	1.31%	10.00%

Compensation costs are recognized over the vesting period as share-based compensation expense and an increase to the share-based payment reserve. When options are exercised, the fair value amount in the share-based payment reserve is credited to share capital.

The following table illustrates the movement in the share-based payment reserve:

	December 31, 2018	December 31, 2017
Balance, beginning of the year	**$ 11,309**	$ 10,793
Share-based compensation expense	**258**	516
Stock options exercised	**(70)**	-
Balance, end of the year	**$ 11,497**	$ 11,309

(b) MTIPs

Bridging Restricted Share Units (BRSUs) track the value of a common share and provide eligible participants with an equivalent cash value of common shares. Each grant vests 20% in the first year, 30% in the second year and the remaining 50% in the third year.

Restricted Share Units (RSUs) track the value of a common share and provide eligible participants with an equivalent cash value of common shares. Each grant cliff vests at the end of three years.

Performance Share Units (PSUs) track the value of a common share and provide eligible participants with an equivalent cash value of common shares. Each grant cliff vests at the end of three years and the payout can be 0% to 200% of the vested units, subject to the achievement of certain corporate objectives as approved by the Board of Directors. Each grant of PSUs is individually evaluated regularly with regard to vesting and payout assumptions.

The RSUs and PSUs granted in 2017 and 2018 differ from previous grants in that additional units are granted each time the Corporation pays a common share dividend.

The Corporation will settle the BRSUs, RSUs and PSUs (collectively, the MTIPs) in cash within 20 business days after vesting. The original cost of the MTIPs is equal to the fair market value at the date of grant. Changes to the amount of the liability due to fair value changes after the initial grant date are recognized as a compensation expense in the period in which the changes occur.

Movement of units during the years:

	BRSUs	RSUs	PSUs
Outstanding as at December 31, 2016	52,085	744,599	717,292
Adjustment for PSU performance multiplier	-	-	(142,749)
Granted	-	460,246	320,783
Forfeited	(567)	(21,812)	-
Vested and paid	(51,518)	(198,855)	(158,129)
Outstanding as at December 31, 2017 [1]	-	984,178	737,197
Outstanding as at December 31, 2017	**-**	**984,178**	**737,197**
Adjustment for PSU performance multiplier	**-**	**-**	**(293,027)**
Granted	**-**	**431,144**	**299,166**
Forfeited	**-**	**(176,799)**	**(96,426)**
Vested and paid	**-**	**(294,000)**	**(127,791)**
Outstanding as at December 31, 2018	**-**	**944,523**	**519,119**

[1] The outstanding PSUs as at December 31, 2017 have been adjusted from 879,946 as previously disclosed, for the impact of the performance multiplier.

The RSUs and PSUs issued on April 1, 2016, 2017 and 2018 at a fair value at grant date of $6.79, $5.77 and $7.23 have a vesting date of April 1, 2019, 2020 and 2021, respectively.

In April 2018, the RSUs issued on April 1, 2015 vested at a weighted average price of $7.23. The PSUs issued on April 1, 2015 also vested in April 2018 at a weighted average share price of $6.85 and a payout ratio of 45%.

PSUs granted cliff vest at the end of three years and the payout can be 0% to 200% of the vested units, subject to the achievement of certain corporate objectives as approved by the Board of Directors. Each individual grant of PSUs is evaluated regularly with regard to vesting and payout assumptions. The outstanding units as at December 31, 2018 and 2017 factor in the performance conditions that modified the vested value. The reduction in PSUs outstanding for adjustments in performance multipliers relates to revised estimates of the expected PSU performance multiplier on payout based on the criteria of each individual grant.

(c) DSUs

The Corporation has a DSU plan under which participants were previously entitled to contribute a portion of their earnings. As of January 1, 2013, employees were no longer able to contribute under the DSU plan. DSUs are units which provide the holder the right to receive a cash payment equal to the five-day weighted average of the value of the common shares at the payout date. DSUs are cash settled only when an employee or Director ceases to be an employee or Director. The terms of the plan allow for discretionary grants by the Board of Directors. Discretionary grants vest immediately. As DSUs are awarded, a liability is established and compensation expense is recognized upon grant. Changes in the amount of the liability due to fair value changes after the initial grant date are recognized as a compensation expense in the period in which the changes occur. DSUs are also adjusted for the Dividend Reinvestment Plan (DRIP) as they are paid (refer to Note 26(b) for details on the DRIP).

Movement of units during the years:

	December 31, 2018	December 31, 2017
Outstanding, beginning of the year	**709,143**	561,804
Granted	**138,869**	147,339
Outstanding, end of the year	**848,012**	709,143

(d) Share-based payment liability

	December 31, 2018	December 31, 2017
Carrying amount of liabilities for cash-settled arrangements		
Current portion	**$ 941**	$ 2,825
Long-term portion	**6,903**	8,516
Total carrying amount	**$ 7,844**	$ 11,341
Total intrinsic value of liability for vested benefits	**$ 4,223**	$ 5,006

Included in trade and other payables is the current portion of the MTIPs to be paid out within the next 12 months. The long-term portion of MTIPs and DSUs of $6,903 as at December 31, 2018 (2017 – $8,516) is classified as share-based payments in the consolidated statements of financial position. The total intrinsic value reflects all of the outstanding DSUs and vested MTIPs as at December 31, 2018.

(e) Share-based compensation expense

	December 31, 2018	December 31, 2017
Share-based compensation expense on stock options	**$ 258**	$ 516
Effects of changes in fair value and accretion of MTIP grants	**263**	4,152
Effects of changes in fair value and grants for DSUs	**(866)**	1,651
Share-based compensation (recovery) expense	**$ (345)**	$ 6,319

26. SHARE CAPITAL

(a) Common shares and preferred shares

The Corporation's common shares have no par value and the authorized share capital is comprised of an unlimited number of common shares and an unlimited number of preferred shares issuable in series with rights set by the Directors.

	December 31, 2018			**December 31, 2017**		
	Shares		**Share Capital**	Shares		Share Capital
Common Shares						
Issued, beginning of the year	**27,370,727**	**$**	**144,968**	26,921,371	$	142,687
DRIP	**384,529**		**2,445**	449,356		2,281
Issued during the year	**27,841**		**279**	-		-
Issued, end of the year	**27,783,097**	**$**	**147,692**	27,370,727	$	144,968

No preferred shares are currently issued. Subject to the provisions of the Articles of the Corporation and the Business Corporations Act (Alberta), the Directors are authorized to fix the designation rights, privileges, restrictions and conditions attached to each series of preferred shares.

(b) Common shares and dividends

The holders of common shares are entitled to receive dividends if, as and when declared by the Directors of the Corporation, to receive notice of, to attend and to one vote per share at all meetings of the shareholders of the Corporation, and to share equally in the remaining property of the Corporation upon liquidation, dissolution or wind-up of the Corporation.

The Corporation declared its thirty-first quarterly dividend of $0.12 per share, which was paid on January 15, 2019 to shareholders of record on December 31, 2018.

The Corporation has a DRIP that allows eligible shareholders to direct cash dividends payable on their common shares of the Corporation to be reinvested in additional common shares. The portion of shares related to the DRIP, as determined by the share transfer agent, is calculated using the dividend per share for all DRIP shares divided by 95% of the weighted average market price of all common shares traded on the Toronto Stock Exchange for the 10 trading days preceding the dividend payment date. This value is recorded as a payable in that period with the offset recorded to retained earnings. Once the dividend is paid, the amount of DRIP shares issued is recorded as an increase to share capital with a decrease to the dividend payable. The accounts of DSU holders, as well as RSU and PSU holders beginning with the 2017 grants, are adjusted for the Corporation's declared dividends.

As at December 31, 2018, trade and other payables included $3,334 (2017 – $3,285) related to the dividend payable on January 15, 2019, of which $642 (2017 – $616) is to be reinvested in common shares under the DRIP and the remainder paid in cash.

		December 31, 2018				December 31, 2017
		Per Share		**Total**		Per Share		Total
Dividend payable, beginning of the year	**$**	**0.12**	**$**	**3,285**	$	0.12	$	3,231
Total dividends declared during the year		**0.48**		**13,253**		0.48		13,052
Total dividends paid during the year [1]		**(0.48)**		**(13,204)**		(0.48)		(12,998)
Dividend payable, end of the year	**$**	**0.12**	**$**	**3,334**	$	0.12	$	3,285

[1] Includes DRIP non-cash payments totaling $2,445 (December 31, 2017 – $2,281) which are recorded through share capital.

The Corporation's shareholder rights plan grants shareholders, other than the acquiring person, the right to purchase from the Corporation the number of common shares having an aggregate market price equal to twice the exercise price. Such rights can only be exercised on the occurrence of a triggering event, which is defined as a person acquiring, or publicly announcing their intention to acquire 20% or more of the common shares, other than by an acquisition pursuant to a takeover bid permitted by the plan.

27. CHANGE IN NON-CASH WORKING CAPITAL BALANCES RELATING TO OPERATIONS

		December 31, 2018 [1]		December 31, 2017
Trade and other receivables	**$**	**19,999**	$	(35,594)
Inventory		**6**		602
Prepaid expenses		**557**		3,081
Costs in excess of billings		**(9,686)**		(14,947)
Trade and other payables		**(32,414)**		55,225
Contract advances and unearned income		**(15,422)**		(790)
(Decrease) increase in non-cash working capital balances relating to operations	**$**	**(36,960)**	$	7,577

[1] Changes in non-cash working capital balances as at December 31, 2018 incorporate changes in Tartan's working capital from the November 6, 2018 acquisition date.

28. FINANCIAL INSTRUMENTS

(a) Carrying values and fair values

Financial instruments consist of recorded amounts of receivables and other like amounts that will result in future cash receipts, as well as trade and other payables, short-term borrowings and any other amounts that will result in future cash outlays.

The Corporation has determined that the fair value of its financial assets, including cash and cash equivalents, trade and other receivables and long-term receivable, and financial liabilities, including trade and other payables, approximates their respective carrying amounts as at the statement of financial position dates, because of the short-term maturity of those instruments. The fair values of the Corporation's interest-bearing financial liabilities also approximate their respective carrying amounts. This is due to the floating rate nature of the variable-rate interest bearing financial liabilities, including the revolving credit facility and long-term note payable. Further, the fair value of the Corporation's fixed rate convertible debentures approximates its carrying value based on their public trading price.

Fair value hierarchy

When required, the Corporation values instruments carried at fair value using quoted market prices, where available. Quoted market prices represent a Level 1 valuation. When quoted market prices are not available, the Corporation maximizes the use of observable inputs within valuation models. When all significant inputs are observable, the valuation is classified as Level 2. Valuations that require the significant use of unobservable inputs are considered Level 3. The Corporation does not carry any assets or liabilities that are measured at fair value on a recurring basis.

(b) Financial risk management

(i) Credit risk

The Corporation invests its cash with the objective of maintaining safety of principal and providing adequate liquidity to meet all current payment obligations. The Corporation invests its cash and cash equivalents with counterparties that it believes are of high credit quality as assessed by reputable rating agencies. Given these high credit ratings, the Corporation does not expect any counterparties holding these cash equivalents to fail to meet their obligations.

With the adoption of IFRS 9 – *Financial Instruments*, the Corporation now uses the new expected credit loss impairment model, as opposed to the incurred loss model under the previous standard, IAS 39 – *Financial Instruments: Recognition and Measurement.* The change to the new model did not have an impact on the carrying amounts of the Corporation's financial assets on the date of adoption, given the Corporation transacts with organizations with strong credit ratings and has had a negligible historical level of customer default.

Under IFRS 9, the Corporation is required to review impairment of its trade and other receivables at each reporting period and to review its allowance for doubtful accounts for expected future credit losses. The Corporation takes into consideration the customer's payment history, creditworthiness and the current economic environment in which the customer operates, to assess impairment.

Prior to accepting new customers, the Corporation assesses the customer's credit quality and establishes the customer's credit limit. The Corporation accounts for specific bad debt provisions when management considers that the expected recovery is less than the actual amount of the accounts receivable.

The provision for doubtful accounts has been included in administrative costs in the consolidated statements of earnings and is net of any recoveries that were provided for in a prior period.

The following table represents the movement in the allowance for doubtful accounts:

	December 31, 2018	December 31, 2017
Balance, beginning of the year	**$ 344**	$ 1,013
Impairment losses recognized on receivables	**219**	479
Amounts written off during the year as uncollectible	**(320)**	(943)
Amounts recovered during the year	**(32)**	(177)
Impairment losses reversed	**-**	(28)
Balance, end of the year	**$ 211**	$ 344

Trade receivables shown in the consolidated statements of financial position include the following amounts that are current and past due at the end of the reporting period. The Corporation does not hold any collateral over these balances. The terms and conditions established with individual customers determine whether or not the receivable is past due.

	December 31, 2018	December 31, 2017
Current	**$ 97,714**	$ 80,201
1-60 days past due	**46,763**	55,184
61-90 days past due	**5,910**	4,236
More than 90 days past due	**15,362**	20,328
	$ 165,749	$ 159,949

In determining the quality of trade receivables, the Corporation considers any change in the credit quality of the trade receivable from the date credit was initially granted up to the end of the reporting period. As at December 31, 2018, the Corporation had $15,362 of trade receivables (2017 – $20,328) which were greater than 90 days past due with $15,151 not provided for (2017 – $19,984). Management is not materially concerned about the credit quality and collectability of these accounts, as the Corporation's customers are predominantly large in scale and of high creditworthiness, and the concentration of credit risk is limited due to its sizeable and unrelated customer base.

(ii) Interest rate risk

Interest rate risk is the risk to the Corporation's earnings that arises from fluctuations in the interest rates and the degree of volatility of these rates. The Corporation is exposed to variable interest rate risk on its revolving credit facility. The Corporation does not use derivative instruments to reduce its exposure to this risk.

At the reporting date, the interest rate profile of the Corporation's interest-bearing financial instruments was:

	December 31, 2018	December 31, 2017
Fixed rate instruments		
Financial liabilities	**$ 85,474**	$ 76,170
Variable rate instruments		
Financial assets	**$ 25,905**	$ 31,651
Financial liabilities	**$ 38,868**	$ 8,452

Fixed rate sensitivity

The Corporation does not account for any fixed rate financial assets and liabilities at fair value through profit or loss.

Variable rate sensitivity

For the year ended December 31, 2018, a change of 100 basis points in interest rates would have increased or decreased equity and profit or loss by $189 related to financial assets and by $284 related to financial liabilities (2017 – $231 and $62, respectively). As at December 31, 2018, the impact to profit or loss from a change in interest rates related to financial assets would be partially offset by the impact related to financial liabilities.

(iii) Liquidity risk

Liquidity risk is the risk that the Corporation will encounter difficulties in meeting its financial liability obligations. The Corporation manages this risk through cash and debt management. In managing liquidity risk, the Corporation has access to committed short and long-term debt facilities as well as equity markets, the availability of which is dependent on market conditions.

The Corporation believes it has sufficient funding through the use of these facilities to meet foreseeable financial liability obligations.

The following are the contractual obligations, including interest payments, as at December 31, 2018, in respect of the financial obligations of the Corporation. Interest payments on the Revolver have not been included in the table below since they are subject to variability based upon outstanding balances at various points throughout the year.

	Carrying Amount	Contractual Cash Flows	Not Later Than 1 Year	Later Than 1 Year and Less Than 3 Years	Later Than 3 Years and Less Than 5 Years	Later Than 5 Years
Trade and other payables	**$ 196,127**	$ 196,127	$ 196,127	$ -	$ -	$ -
Provisions, including current portion	**10,055**	10,889	8,344	1,216	661	668
Convertible debentures (debt portion)	**78,241**	85,330	85,330	-	-	-
Long-term debt, including current portion	**46,101**	48,611	3,274	43,001	2,336	-
Operating lease commitments [(1)]	**-**	46,072	7,633	12,226	12,226	13,987
	$ 330,524	$ 387,029	$ 300,708	$ 56,443	$ 15,223	$ 14,655

[(1)] Includes sublease payments to be received related to operating lease commitments. Refer to Note 32 for further details.

29. CAPITAL MANAGEMENT

The Corporation's objectives in managing capital are to ensure sufficient liquidity to pursue growth objectives and fund the payment of dividends, while maintaining a prudent amount of financial leverage.

The Corporation's capital is comprised of equity and long-term indebtedness. The Corporation's primary uses of capital are to finance operations, execute upon its growth strategies and to fund capital expenditure programs.

The Corporation intends to maintain a flexible capital structure consistent with the objectives stated above and to respond to changes in economic conditions and the risk characteristics of underlying assets. In order to maintain or adjust its capital structure, the Corporation may issue new shares, raise debt or refinance existing debt with different characteristics.

The primary non-IFRS measures used by the Corporation to monitor its financial leverage are its ratios of long-term indebtedness to capitalization and net long-term indebtedness to adjusted EBITDA.

Over the long term, the Corporation strives to maintain a target long-term indebtedness to capitalization percentage in the range of 20% to 40%, calculated as follows:

	December 31, 2018	December 31, 2017
Long-term indebtedness:		
Long-term debt, principal amount [1]	**$ 47,733**	$ 10,585
Convertible debentures, principal amount [2]	**80,500**	80,500
Total long-term indebtedness	**128,233**	91,085
Total equity	**200,762**	206,442
Total capitalization	**$ 328,995**	$ 297,527
Indebtedness to capitalization percentage	**39%**	31%

[1] Principal amount of current and non-current long-term debt before the deduction of deferred financing fees.

[2] Includes the maturity value of the convertible debentures issued in 2014 (Note 24).

The Corporation targets a net long-term indebtedness to adjusted EBITDA ratio of 2.0 to 3.0 over a three to five-year planning horizon. As at December 31, 2018, the net long-term indebtedness to adjusted EBITDA was 2.8 (2017 – 1.7), calculated on a last 12 month basis as follows:

	December 31, 2018	December 31, 2017
Total long-term indebtedness [1]	**$ 128,233**	$ 91,085
Less: Cash on hand	**(25,905)**	(31,651)
Net long-term indebtedness for the last 12 months	**$ 102,328**	$ 59,434
Net earnings	**$ 5,373**	$ 9,602
Add:		
Finance income	**(83)**	(36)
Finance costs	**9,751**	8,875
Depreciation and amortization	**15,227**	14,945
Income tax expense	**2,656**	3,727
Costs related to investing activities	**368**	-
Costs related to activist shareholder activities	**198**	-
Restructuring costs (recovery)	**2,906**	(1,258)
Equity-settled share-based compensation expense	**258**	516
Gain on sale of assets	**(554)**	(426)
Adjusted EBITDA for the last 12 months [2] [3]	**$ 36,100**	$ 35,945
Net long-term indebtedness to adjusted EBITDA ratio	**2.8**	1.7

[1] As per the calculation in the indebtedness to capitalization percentage.

[2] While adjusted EBITDA is a common financial measure widely used by investors to facilitate an “enterprise level” valuation of an entity, it does not have a standardized definition prescribed by IFRS, and therefore other issuers may calculate adjusted EBITDA differently.

[3] Includes the long-term indebtedness associated with the acquisition of Tartan, but does not reflect the benefit of Tartan's trailing 12-month adjusted EBITDA prior to the November 6, 2018 acquisition date. Including Tartan's trailing 12-month adjusted EBITDA on a pro-forma basis, the net long-term indebtedness to adjusted EBITDA ratio is 2.6.

The Corporation monitors its capital requirements through a rolling forecast of operating results and the related financial position. In addition, the Corporation establishes and reviews operating and capital budgets and cash flow forecasts in order to manage overall capital with respect to financial covenants. The Corporation's Revolver is subject to the financial covenants described in Note 23(a).

30. PRINCIPAL SUBSIDIARIES

Details of the Corporation's principal operating subsidiaries as at December 31, 2018 are as follows:

Name of Subsidiary	Principal Activity	Place of Incorporation and Operation	Proportion of Ownership Interest and Voting Power Held
Stuart Olson Buildings Ltd.	Building Construction	Alberta	100%
Stuart Olson Industrial Inc.	Industrial Construction	Alberta	100%
411007 Alberta Ltd.	Corporate	Alberta	100%
TCC Holdings Inc.	Corporate	Alberta	100%
The Churchill Corporation	Electrical Contracting	Alberta	100%
Stuart Olson Asset Corp.	Corporate	Alberta	100%

31. RELATED PARTY TRANSACTIONS

Balances and transactions between the Corporation and its subsidiaries, which are related parties, have been eliminated on consolidation and are not disclosed in this note. There were no transactions between the Corporation and other related parties for the years ended December 31, 2018 and 2017.

32. OPERATING LEASE AGREEMENTS

The Corporation leases certain construction equipment, vehicles, office equipment and office, yard and shop facilities under operating leases. The Corporation subleases excess office, yard and shop facilities. Future minimum lease payments on non-cancellable operating lease commitments over the next five years and thereafter, both gross and net of sublease payments to be received, are as follows:

2018	Gross Future Minimum Lease Payments	Future Sublease Payments	Net Future Minimum Lease Payments
Not later than 1 year	**$ 8,728**	**$ (1,094)**	**$ 7,634**
Later than 1 year and not later than 5 years	**28,123**	**(3,672)**	**24,451**
Later than 5 years	**16,030**	**(2,043)**	**13,987**
	$ 52,881	**$ (6,809)**	**$ 46,072**

2017	Gross Future Minimum Lease Payments	Future Sublease Payments	Net Future Minimum Lease Payments
Not later than 1 year	$ 9,922	$ (1,304)	$ 8,618
Later than 1 year and not later than 5 years	30,292	(4,470)	25,822
Later than 5 years	21,054	(3,186)	17,868
	$ 61,268	$ (8,960)	$ 52,308

Payments recognized as expense:

		December 31, 2018		December 31, 2017
Lease payments	$	**10,354**	$	9,926
Sublease payments received		**(1,849)**		(1,727)
	$	**8,505**	$	8,199

Management has applied judgment in determining the classification of these leases as operating leases. Certain construction equipment, vehicles and equipment leases and office, yard and shop premise leases have been classified as operating leases since title does not pass, the monthly amounts paid do not represent substantially all of the fair value of the leased assets, the lease term is not for the major part of the economic life and the Corporation does not participate in the residual value of these assets.

33. REMAINING PERFORMANCE OBLIGATIONS

As at December 31, 2018, the aggregate amount of the transaction price of ongoing contracts allocated to remaining performance obligations is $1,108,919, compared to $1,124,284 as at December 31, 2017. The value of remaining performance obligations does not include amounts for estimated future work orders to be performed as part of master service agreements or maintenance service contracts, where the value of work is not specified. Therefore, the Corporation's anticipated future work to be performed at any given time is greater than what is reported as remaining performance obligations.

Remaining performance obligation duration, representing the expected period during which remaining performance obligation balances will be converted into revenue, is set out in the table below.

		December 31, 2018		December 31, 2017
Next 12 months	$	**652,713**	$	632,862
Next 13-24 months		**259,681**		284,820
Beyond		**196,525**		206,602
	$	**1,108,919**	$	1,124,284

34. CONTINGENCIES, COMMITMENTS AND GUARANTEES

(a) Contingencies

In the normal course of the Corporation's operations, whether directly or indirectly, it may become involved in, named as a party to or the subject of, various legal proceedings and legal actions relating to, among other things, construction disputes for which insurance is not available, human resources matters, personal injuries, property damage and general commercial and contractual matters arising from its business activities. In view of the quantum of the amounts claimed, the insurance coverage maintained by the Corporation and, in some cases, the provisions included in the Corporation's financial statements for any potential settlements in respect of these matters, management does not believe that any existing litigation or pending litigation will ultimately result in a final judgment against the Corporation that would have a material adverse impact on the financial position or results of operations of the Corporation. Litigation is, however, inherently uncertain. Accordingly, adverse outcomes to current litigation or pending litigation are possible. These potentially adverse outcomes could include financial loss, damage to the Corporation's reputation or reduction of prospects for future contract awards.

Subsidiaries of the Corporation are contingently liable for normal contractor obligations relating to performance and completion of construction contracts as well as obligations of associates in certain joint arrangements.

Commitments and guarantees

The Corporation has made various donations in support of local communities. Over the next three years the Corporation has committed to pay $88 (2017 – $136), of which $26 (2017 – $97) is to be paid in the upcoming 12 month period.

The Corporation is a participant in joint operations for which it has provided joint and several guarantees, increasing the maximum potential payment to the full value of the work remaining under the contract.

Several parental guarantees have been issued in support of joint operations and significant projects being undertaken by the Corporation's operating segments.

(b) Letters of credit

The Corporation has provided several letters of credit in the amount of $5,652 in connection with various projects and joint arrangements (2017 – $8,287), of which $2,500 are financial letters of credit (2017 – $2,500).

35. EVENTS AFTER THE REPORTING PERIOD

On March 5, 2019, the Corporation's Board of Directors declared a quarterly common share dividend of $0.06 per share. The dividend is designated as an eligible dividend under the Income Tax Act (Canada) and is payable April 16, 2019 to shareholders of record on March 29, 2019.

On March 5, 2019, the Corporation negotiated an amendment to improve a number of terms in its credit facility agreement, including (1) a temporary increase in the debt to EBITDA covenant, providing the Corporation with the optionality to use the Revolver to fully settle the repayment of the $80,500 convertible debentures in 2019, (2) the exclusion of non-cash interest costs from the calculation of the interest coverage ratio covenant, (3) a change in key covenant definitions to ensure that any potential negative impact from the adoption of IFRS 16 is minimized, and (4) costs related to certain shareholder activities are excluded from the definition of EBITDA.

Corporate & Shareholder Information

Officers

David LeMay, MBA
President and Chief Executive Officer

Daryl Sands, B.Comm., CA
Executive Vice President, Finance and Chief Financial Officer

Joette Decore, BSc., MBA
Executive Vice President, Strategy and Corporate Development

John Krill, P.Eng., MBA
President and Chief Operating Officer
Canem Systems Ltd.

Bob Myles, P.Eng.
Chief Operating Officer
Industrial Group

Bill Pohl, B.Mgmt., CA
Vice President Finance, Operations

Richard Stone, B.Comm., LL.B.
Vice President, General Counsel and Corporate Secretary

Directors

Albrecht W.A. Bellstedt, B.A., J.D., Q.C.
Chair

Raymond D. Crossley, B.A., CPA, CA [1] [3]

Chad Danard [1] [2]

David C. Filmon, B.Comm, LL.B. [1] [2]

David LeMay, MBA

Carmen R. Loberg [2] [3] [4]

Ian M. Reid, B.Comm. [2] [3] [4]

Mary Hemmingsen, CPA, CA [1] [4]

[1] Member of the Audit Committee

[2] Member of the Human Resources & Compensation Committee

[3] Member of the Corporate Governance & Nominating Committee

[4] Member of the Health, Safety & Environment Committee

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The Toronto-Dominion Bank

Bonding and Insurance

Aon Reed Stenhouse Inc.
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Liberty Mutual Insurance Company

Registrars and Transfer Agents

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Common Shares

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