2019 Annual Report - Management's Discussion and Analysis

March 24, 2020

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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, 2019, dated March 24, 2020, should be read in conjunction with the December 31, 2019 Audited Consolidated Annual Financial Statements and related notes thereto, the December 31, 2018 Audited Consolidated Annual Financial Statements and related notes thereto, and the December 31, 2018 Annual Report - 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 2018 and 2017, 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; 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; debt to EBITDA; and additional borrowing capacity. Further information regarding these measures can be found in the "Non-IFRS Measures" section of this document.

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, ventilation 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, 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.

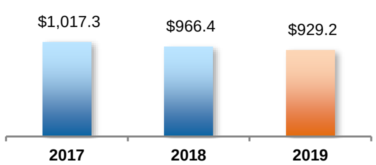
The Commercial Systems Group focuses primarily on large, complex projects that contain both data and electrical components, or that require extensive logistical expertise. The group is also engaged in mechanical maintenance and small project work through its Ontario operations. The group's strategy is to deliver data, electrical and mechanical 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.

ADOPTION OF IFRS 16 - *LEASES*

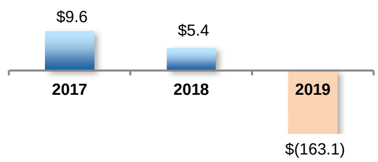
For fiscal 2019, we have adopted IFRS 16 – *Leases* on a cumulative catch-up basis, meaning that our 2018 results have not been restated in this document to reflect IFRS 16 changes in respect of measurement and presentation. Please refer to the "Changes in Accounting Policies" section of this MD&A, *Note 4(a)* of the December 31, 2019 Audited Consolidated Annual Financial Statements and our first quarter 2019 MD&A for further details on this change.

2019 OVERVIEW

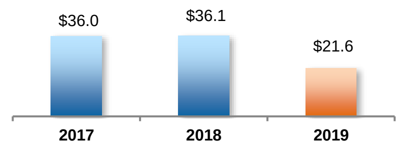
Revenue ($ millions)



Net Earnings ($ millions)



Adjusted EBITDA ($ millions)



Operational Highlights

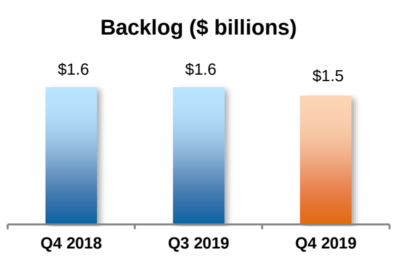
- We ended the year with a backlog of $1.5 billion, which includes a mix of public, private and industrial projects from Ontario to British Columbia and is predominantly made up of low-risk contract arrangements. During 2019, we added approximately $860 million to our backlog comprising:
  - $435.0 million from the Buildings Group, including a retail distribution warehouse in British Columbia, a fire hall in Ontario, multiple retirement residences in Alberta, the construction of a private sector light industrial facility, as well as a construction management award to build a new student residence at a post-secondary institution in Ontario.
  - $225.0 million from the Industrial Group comprised of numerous projects, including a bundled services maintenance contract in the petrochemical sector that includes our acquired mechanical maintenance capabilities, a master services agreement ("MSA") in the power sector with a repeat customer in Ontario, a mine facility construction project for a new client in Saskatchewan, an infrastructure project in Ontario for a mining customer, a maintenance and turnaround MSA extension in Alberta and a food facility construction project in Manitoba.
  - $200.0 million from the Commercial Systems Group, including the addition of a number of infrastructure projects recently secured in British Columbia and Alberta, office and residential tower projects, a health care facility, a public school and an events centre in Alberta.
- In January 2020, our Industrial Group was awarded a seven-year contract valued at an estimated $400.0 million to provide MRO services to an existing oil sands customer in Alberta. The contract, which will be added to backlog in Q1 2020, increased our scope of services over those previously supplied to the customer and underscores the strategic value of our acquisition of Tartan in 2018.
- Subsequent to year end, Stuart Olson was recognized as one of Alberta's Top Employers in 2020 for the fourth consecutive year.
- In order to improve financial flexibility in response to both the slowdown in oil sands customers' capital spending, as well as the negative impacts of working through the development phase of infrastructure projects, we have taken, and are continuing to take, decisive actions as follows:
  - The Board of Directors ("Board") suspended the quarterly dividend on November 6, 2019.
  - We have implemented a comprehensive organizational restructuring to create a leaner, more vertically integrated organization with direct lines of communication to operations and customers. The anticipated benefits of this restructuring are reflected in the 2020 Outlook included in this MD&A.
  - In January 2020, Ian M. Reid elected to retire early from the Board to help reduce governance costs and support our comprehensive restructuring initiatives. Mr. Reid joined the Board in 2007 and was the Chair of the Health, Safety & Environment Committee and member of the Corporate Governance & Nominating Committee and Human Resources & Compensation Committee. We do not expect to replace this Board position.

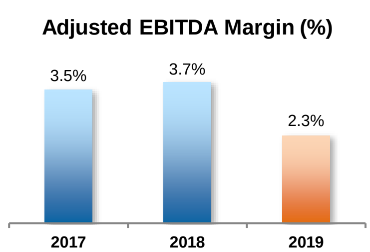
- Recent changes to the management team include the following:
    - On October 18, 2019, Bob Myles left his position as Chief Operating Officer of the Industrial Group and David LeMay, Stuart Olson's President and Chief Executive Officer, assumed leadership duties for the Industrial Group.
    - On December 31, 2019, Joette Decore retired from her position as Executive Vice President Strategy and Development.
    - On January 24, 2020, Dean Beacon was appointed Executive Vice President and Chief Financial Officer. Mr. Beacon brings his extensive experience in treasury, finance and risk management to Stuart Olson, and previously held the position on an interim basis from September 2019 to January 2020.

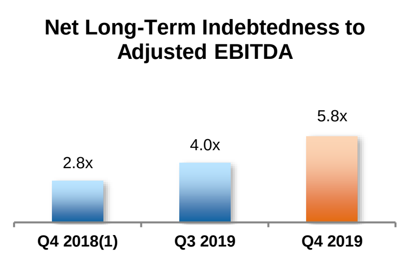
Financial Overview

- In order to improve liquidity in the near-term, subsequent to year-end we reached an agreement to settle a project dispute that was ordinary in nature for the construction industry, but much larger in scale than usual for the Company.
    - This settlement was made to enable us to collect approximately $22.0 million of cash proceeds in late March 2020.
    - The change in approach to resolving this larger than usual dispute resulted in a $14.3 million reduction of contract assets in the fourth quarter of 2019 related to a change in estimate, as we determined that it was preferable to collect the immediately available proceeds rather than deferring collection of proceeds to fund the claim through to its ultimate resolution, which could have been as late as the fourth quarter of 2021. Industrial Group adjusted EBITDA in the period was reduced by an equivalent amount.
    - For the purposes of calculating revolving credit facility ("Revolver") covenants, the impact of this settlement is considered an extraordinary and non-recurring loss and excluded from the Revolver EBITDA calculation.
    - As at December 31, 2019, we had outstanding a performance letter of credit associated with this project in the amount of $9.2 million, which is to be released as part of the settlement, further improving operational liquidity once that occurs.
- We generated consolidated revenue of $929.2 million, compared to $966.4 million in 2018. The 3.8% year-over-year change primarily reflects the combination of our Industrial Group's completion of large construction projects in 2018, the settlement of the project dispute outlined previously and a shift towards lower activity stages of completion for our Buildings Group.
- During the fourth quarter of the year, we recognized non-cash asset impairments of $142.2 million, primarily in respect of the write-down of goodwill. We do not expect these non-cash write-down to have an impact on future operations, liquidity, cash flows from operating activities or our ability to meet financial covenants.
- The combined effects of the goodwill impairment, Industrial Group project dispute settlement and an increase in restructuring and other one-time costs recognized in the year resulted in the recognition of a 2019 net loss of $163.1 million (diluted loss per share of $5.82). This compares to net earnings of $5.4 million (diluted earnings per share of $0.19) in 2018.
- As a result of the resolution of the previously identified project dispute that resulted in a $14.3 million reduction in contract income, adjusted EBITDA in 2019 was $21.6 million (adjusted EBITDA margin of 2.3%), which is lower than the $36.1 million (adjusted EBITDA margin of 3.7%) generated last year.
- Adjusted free cash flow was an outflow of $21.3 million (outflow of $0.76 per share) in fiscal 2019, as compared to an adjusted free cash inflow of $19.5 million (inflow of $0.71 per share) in 2018. The change primarily reflects the change in accounting related to the settlement of the project dispute, a year-over-year increase in costs related to restructuring, investing and other one-time activities, combined with higher interest paid associated with a higher Revolver average balance, increased cash tax payments due to a large refund received in 2018, an increase in required investments in capital expenditures and a project stage of completion-driven change in provisions in 2019.

- Inclusive of the $14.3 million negative impact to adjusted EBITDA of the project dispute settlement that we expect to improve near-term liquidity, our net long-term indebtedness to adjusted EBITDA ratio was 5.8x as at December 31, 2019. This compares to 2.8x, or 2.6x on a pro forma basis inclusive of Tartan's last twelve month ("LTM") adjusted EBITDA, as at December 31, 2018. This change primarily reflects the project dispute settlement, as well as a draw on our Revolver to fund adjusted free cash flow and to form a part of the proceeds used to settle the 2014 Convertible Debentures in 2019.
- During 2019 and subsequent to year-end, we worked collaboratively with our banking partners to secure a series of amendments that provided for sufficient and continued access to liquidity. The amended agreements have been filed under our profile on SEDAR, with the net effect of material changes to December 31, 2019 and future periods including:
    - Our required interest coverage ratio for the period ending December 31, 2019 shall be not less than 2.00:1.00, decreasing at March 31, 2020 to shall be not less than 1.50:1.00, returning to shall be not less than 2.00:1.00 beginning June 30, 2020, increasing to shall be not less than 2.25:1.00 at March 31, 2021, and increasing to shall be not less than 2.50:1.00 for each quarter thereafter.
    - Improved access to liquidity via a change to our required debt to EBITDA covenant to be not greater than 4.25:1.00 as at December 31, 2019, increasing to not greater than 5.10:1.00 as at March 31, 2020, returning to not greater than 4.25:1.00 at June 30, 2020, and decreasing to not greater than 3.25:1.00 for each quarter thereafter.
        - All lease liabilities are excluded from the definition of debt for covenant calculation purposes for the quarters ending June 30, 2020 through to December 31, 2020.
    - A temporary increase in the ceiling on restructuring costs permitted to be added back in Revolver EBITDA to $10.0 million from December 31, 2019 through September 30, 2020, returning to $2.5 million for each quarter thereafter.
    - The addition of a financial covenant in respect of cash flow variance tests.
- On September 20, 2019, we closed our investment agreement with Canso Investment Counsel Ltd. ("Canso"), pursuant to which Canso purchased $70.0 million aggregate principal amount of convertible unsecured subordinated debentures, with an interest rate of 7.0% per annum, conversion price of $4.87 per common share and a maturity date of September 20, 2024.
    - The conversion price per common share was established at 140% of the 30-day volume weighted average trading price calculated after the close of trading on August 1, 2019.
    - On October 23, 2019, we used the proceeds, together with available cash and a draw on our Revolver, to redeem and repay the previously outstanding $80.5 million convertible debentures originally issued in 2014.







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

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 is expected to unlock shareholder value, all supported by a strong commitment to a stabilized and stronger financial position. Our ongoing focus on increasing efficiency and effectiveness will ensure we deliver competitive and value-added services.

Growth Strategy

Going forward, we will continue to build a business that can adapt to changing market conditions, industry drivers and client needs, while reducing risk and improving our competitive position by continuing to diversify geographically. To stay abreast of market conditions and create value for shareholders, we plan to execute a focused 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, and continue to deliver effective and efficient products that provide value to our customers and ensure a competitive return on our business that supports our focus on strengthening our financial position. 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.

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 a dedicated design-build contractor or subcontractor on Public, Private Partnership ("P3") 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. The group's growth strategies include strengthening its position in existing core regions, further expanding its geographic reach in the Ontario market, and increasing its focus on subsectors in all regions. The group also plans growth through the pairing of complementary mechanical capabilities with its industry-leading electrical base business, both organically and through acquisitions.

OUTLOOK

We remain focused on managing through the unprecedented global challenges of the COVID-19 pandemic and historic decline in oil prices. As the duration and magnitude of the financial impact of these two events on the Company continue to evolve, we have put in place plans and mitigation strategies that prioritize the safety of our people and stakeholders first, and ensure we maintain a resilient business. Given the speed at which developments are occurring in our markets and communities, we will defer commentary on our 2020 outlook until the release of our financial results for the first quarter of 2020.

RESULTS OF OPERATIONS

Consolidated Annual Results

$ millions, except percentages and per share amounts	Year ended December 31 2019	2018	2017
Contract revenue	**929.2**	966.4	1,017.3
Contract income	**71.8**	96.1	103.9
Contract income margin [(1)]	***7.7%***	*9.9%*	*10.2%*
Administrative costs	**87.6**	79.8	83.1
Impairment loss	**142.2**	nil	nil
Adjusted EBITDA [(1)] [(2)]	**21.6**	36.1	36.0
Adjusted EBITDA margin [(1)] [(2)]	***2.3%***	*3.7%*	*3.5%*
Net (loss) earnings	**(163.1)**	5.4	9.6
(Loss) earnings per share			
Basic (loss) earnings per share	**(5.82)**	0.19	0.35
Diluted (loss) earnings per share	**(5.82)**	0.19	0.35
Adjusted free cash flow [(1)]	**(21.3)**	19.5	23.9
Adjusted free cash flow per share [(1)]	**(0.76)**	0.71	0.88

$ millions	Dec. 31, 2019	Dec. 31, 2018 [(4)]	Dec. 31, 2017 [(4)]
Backlog [(1)]	**1,489.3**	1,567.4	1,721.4
Working capital [(3)]	**44.8**	(10.9)	33.1
Long-term debt, excluding current portion	**52.1**	43.1	6.0
Convertible debentures, excluding equity portion [(3)]	**65.8**	78.2	76.2
Total assets	**485.1**	625.3	630.3

Notes: [(1)] "Contract income margin", "adjusted EBITDA", "adjusted EBITDA margin", "adjusted free cash flow", "adjusted free cash flow per share" and "backlog" are non-IFRS measures. Please refer to the "Non-IFRS Measures" section of this document for definitions of these terms.

[(2)] During 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 year ended December 31, 2017. Please refer to the "Non-IFRS Measures" section of this document for more information on our definition and the calculation.

[(3)] As at December 31, 2018, the 2014 Convertible Debentures were presented as a current liability of $78.2 million on the statement of financial position. During 2019, these convertible debentures were settled and new convertible debentures of $70.0 million were issued and presented as a non-current liability on the statement of financial position. Please refer to *Note 26* of the December 31, 2019 Audited Consolidated Annual Financial Statements for further information.

[(4)] We adopted IFRS 16 using the cumulative catch-up approach on January 1, 2019. Please refer to *Note 4(a)* of the December 31, 2019 Audited Consolidated Annual Financial Statements and our first quarter 2019 MD&A for further information.

For further detail on the year-over-year consolidated variances outlined on the following pages, please see the discussions by segment under the next section of this document, "Results of Operations by Group".

Consolidated Annual Results

For the year ended December 31, 2019, we generated consolidated contract revenue of $929.2 million, as compared to $966.4 million in 2018. While the Commercial Systems Group increased revenue by $5.4 million or 2.3%, this increase was offset by a $29.8 million or 6.6% decrease in revenue from the Buildings Group and a $23.6 million or 7.9% decrease from the Industrial Group. Intersegment revenue eliminated on consolidation was $10.7 million or 64.8% lower year-over-year.

We achieved contract income of $71.8 million in 2019, compared to $96.1 million in 2018. Contract income improved by $3.4 million or 16.9% in the Commercial Systems Group, but was offset by declines of $24.5 million or 68.1% in the Industrial Group, primarily reflecting the settlement of the larger than usual project dispute to improve liquidity combined with the completion of large projects in 2018, and $3.2 million or 8.0% in the Buildings Group.

Full-year administrative costs increased by $7.8 million or 9.8% to $87.6 million, from $79.8 million in 2018. The increase primarily reflects a year-over-year increase in costs related to restructuring, investing and other one-time activities, together with the addition of Tartan operating costs in 2019.

A $142.2 million impairment loss was recognized in the fourth quarter of 2019, primarily due to a $140.7 million non-cash write-down of goodwill as part of our required annual test, with the remainder relating to impaired right-of-use assets recognized as part of a restructuring and optimization of our use of facilities.

For the year ended December 31, 2019, we generated adjusted EBITDA of $21.6 million, a $14.5 million or 40.2% decrease from $36.1 million in 2018, primarily reflecting the settlement of the larger than usual project dispute to improve liquidity, partially offset by the benefit to adjusted EBITDA of the adoption of IFRS 16 in 2019. Adjusted EBITDA margin was 2.3%, as compared to 3.7% in 2018.

We recognized a consolidated net loss of $163.1 million (diluted loss per share of $5.82) for the year ended December 31, 2019, as compared to net earnings of $5.4 million (diluted earnings per share of $0.19) in 2018. The change in after-tax earnings is primarily due to the combination of the settlement of the Industrial Group project dispute to improve near-term liquidity, the previously identified impairment loss, an increase in interest costs associated with a higher average drawn balance on our Revolver in 2019, as well as a year-over-year increase in restructuring, investing and other one-time costs.

Adjusted free cash flow was an outflow of $21.3 million (outflow of $0.76 per share) for the year ended December 31, 2019, as compared to an adjusted free cash inflow of $19.5 million (inflow of $0.71 per share) in 2018. The year-over-year change was driven primarily by the impact to earnings of the settlement of the project dispute, an increase in costs related to restructuring, investing and other one-time activities, combined with higher interest paid associated with a higher Revolver average balance, increased cash tax payments due to a large refund received in 2018, an increase in required investments in capital expenditures and a project stage of completion-driven change in provisions in 2019.

Consolidated Q4 Results

$ millions, except percentages and per share amounts	Three months ended December 31 2019	2018
Contract revenue	**225.8**	227.6
Contract income	**6.5**	21.6
Contract income margin [(1)]	***2.9%***	*9.5%*
Administrative costs	**22.2**	20.9
Impairment loss	**142.2**	nil
Adjusted EBITDA [(1)]	**(4.6)**	7.2
Adjusted EBITDA margin [(1)]	***(2.0%)***	*3.2%*
Net loss	**(156.3)**	(1.3)
Loss per share		
Basic loss per share	**(5.55)**	(0.05)
Diluted loss per share	**(5.55)**	(0.05)
Adjusted free cash flow [(1)]	**(14.5)**	(0.2)
Adjusted free cash flow per share [(1)]	**(0.51)**	(0.01)

Notes: [(1)] "Contract income margin", "adjusted EBITDA", "adjusted EBITDA margin", "adjusted free cash flow" and "adjusted free cash flow per share" 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, 2019, consolidated contract revenue was $225.8 million, similar to the $227.6 million generated in the same period of 2018. The $1.8 million net decrease was driven by a $12.2 million or 19.2% revenue increase from the Industrial Group and a $3.4 million or 6.2% increase from the Commercial Systems Group, offset by a $15.9 million or 14.4% revenue decrease from the Buildings Group and a $1.5 million increase in intersegment revenue eliminated on consolidation.

Contract income was $6.5 million in Q4 2019, as compared to $21.6 million in the same period of 2018. The $15.1 million decline in contract income reflects a $2.1 million or 52.5% increase in the Commercial Systems Group, which was offset by declines of $1.9 million or 19.4% in the Buildings Group and $15.3 million or 196.2% in the Industrial Group. The primary driver of this decrease was the settlement of a project dispute in the Industrial Group to improve near-term liquidity.

Administrative costs increased by $1.3 million or 6.2% to $22.2 million in Q4 2019, from $20.9 million in the same period last year. Administrative costs increased by $0.5 million or 13.9% in the Commercial Systems Group and $2.2 million or 31.4% in the Corporate Group. Partially offsetting these higher costs were savings of $0.5 million or 10.4% in the Industrial Group and $0.5 million or 9.3% in the Buildings Group. Recorded as part of administrative costs in 2019 are significant restructuring costs in each of our groups related to the reduction of positions across the organization.

A $142.2 million non-cash impairment loss was recognized in the fourth quarter of 2019, primarily due to a $140.7 million write-down of goodwill as part of our required annual test, with the remainder relating to impaired right-of-use assets recognized as part of a restructuring and optimization of our use of facilities.

For the three months ended December 31, 2019, adjusted EBITDA was a loss of $4.6 million, compared to adjusted EBITDA of $7.2 million in Q4 2018. The decline was driven primarily by a $13.8 million decline in the Industrial Group as a result of the settlement of the project dispute, partially offset by a $2.5 million increase in adjusted EBITDA from the Commercial Systems Group.

We recorded a consolidated net loss of $156.3 million (diluted loss per share of $5.55) in the fourth quarter of 2019. This compares to a net loss of $1.3 million (diluted loss per share of $0.05) in the same period last year. The decrease in after-tax earnings primarily reflects the impairment loss of $142.2 million recognized in the fourth quarter of 2019, as well as the settlement of the Industrial Group project dispute and a year-over-year increase in restructuring costs.

Adjusted free cash flow was an outflow of $14.5 million (outflow of $0.51 per share) in the fourth quarter of 2019, as compared to an adjusted free cash outflow of $0.2 million (outflow of $0.01 per share) in the same period last year. The year-over-year change primarily reflects the decrease in adjusted EBITDA.

Consolidated Backlog

$ millions, except percentages	Dec. 31, 2019	Dec. 31, 2018
Industrial Group	**487.1**	538.2
Buildings Group	**825.9**	813.1
Commercial Systems Group	**176.3**	216.1
Consolidated backlog [1]	**1,489.3**	1,567.4
Cost-plus	**25.5%**	32.7%
Construction management	**36.9%**	39.4%
Design-build	**2.0%**	0.7%
Tendered (hard-bid)	**35.6%**	27.2%

Note: [1] "Backlog" is a non-IFRS measure. Please refer to the "Non-IFRS Measures" section of this document for a definition of this term.

Consolidated backlog as at December 31, 2019 was $1,489.3 million, a decrease of $78.1 million or 5.2% from backlog of $1,567.4 million as at December 31, 2018. As at December 31, 2019, backlog included work-in-hand of $844.3 million (December 31, 2018 – $884.0 million). The backlog consists of approximately 25.5% cost-plus arrangements, 36.9% construction management contracts, 2.0% design-build contracts and 35.6% tendered (hard-bid) work. The majority of our backlog (62.4%) is composed of construction management and cost-plus arrangements, which are low-risk project delivery methods. Net new contract awards and increases in contract values aggregating approximately $90 million and $860 million were added to backlog in the fourth quarter and fiscal 2019, respectively.

RESULTS OF OPERATIONS BY GROUP

Industrial Group Results

$ millions, except percentages	Three months ended December 31 2019	Three months ended December 31 2018	Year ended December 31 2019	Year ended December 31 2018
Contract revenue	**75.9**	63.7	**273.7**	297.3
Contract income	**(7.5)**	7.8	**11.5**	36.0
Contract income margin (1)	***(9.9%)***	*12.2%*	***4.2%***	*12.1%*
Administrative costs	**4.2**	4.8	**17.9**	17.7
Impairment loss	**43.6**	nil	**43.6**	nil
Adjusted EBITDA (1)	**(9.6)**	4.2	**2.2**	22.7
Adjusted EBITDA margin (1)	***(12.6%)***	*6.6%*	***0.8%***	*7.6%*
(Loss) earnings before tax ("EBT")	**(55.4)**	3.1	**(50.3)**	18.4
			Dec. 31 2019	**Dec. 31 2018**
Backlog (1)			**487.1**	538.2

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, 2019, the Industrial Group grew revenue to $75.9 million, an increase of $12.2 million or 19.2% from the $63.7 million of revenue executed in the same period in 2018. The year-over-year increase reflects additional revenue contributed by Tartan for the full quarter in 2019, oil sands sites requiring maintenance support longer into December in 2019 and increased industrial general construction revenue, as compared to the same period in 2018. Partially offsetting the increases to revenue in the fourth quarter of 2019 was an adjustment related to the settlement of the larger than usual project dispute.

Fourth quarter contract income from the Industrial Group was negative $7.5 million, as compared to $7.8 million in Q4 2018. Contract income margin was negative 9.9%, as compared to 12.2% in the fourth quarter of 2018, with the decrease primarily due to the settlement of the larger than usual project dispute in the fourth quarter of 2019 in order to improve near-term liquidity, as well as the completion of certain large projects in 2018 that contributed higher close-out margins to that year's results.

The Industrial Group reduced fourth quarter administrative costs by $0.6 million to $4.2 million, from $4.8 million in Q4 2018. The 12.5% decrease reflects targeted reductions in administrative spending, partially offset by the addition of a full quarter of Tartan administrative costs in the 2019 period, including the amortization of acquired intangibles.

During the fourth quarter of 2019, a non-cash impairment loss of $42.6 million was recognized on the Industrial Group's goodwill, as well as a $1.0 million non-cash impairment loss on right-of-use assets for facilities as a result of the closure of a small part of the Industrial Group business.

Fourth quarter adjusted EBITDA from the Industrial Group was a loss of $9.6 million, as compared to adjusted EBITDA of $4.2 million during the same period of 2018. The $13.8 million decrease primarily reflects the lower contract income in the period, partially offset by the lower administrative costs and the conversion of facility rent expense to depreciation and interest as a result of adopting IFRS 16 in 2019. The Industrial Group's fourth quarter adjusted EBITDA margin was negative 12.6%, as compared to 6.6% in Q4 2018.

The Industrial Group reported a Q4 2019 net loss of $55.4 million, as compared to earnings before tax of $3.1 million in Q4 2018. The $58.5 million change was driven primarily by the impairment loss recognized in Q4 2019 and the settlement of the larger than usual project dispute.

Twelve-Month Results

For the year ended December 31, 2019, the Industrial Group generated revenue of $273.7 million, as compared to $297.3 million in 2018. The $23.6 million or 7.9% decrease was due, in part, to the 2018 completion of certain large construction projects that contributed significant revenue to that year's results. It also reflects a reduction in spring turnaround activity at certain oil sands sites in 2019, as a result of normal plant turnaround cycles and the impact of Alberta's oil production curtailment, along with the settlement of the larger than usual project dispute in Q4 2019, improving near-term liquidity. These impacts were partially offset by additional revenue contributed by Tartan in 2019.

Contract income from the Industrial Group was $11.5 million (4.2% contract income margin) in 2019, as compared to $36.0 million (12.1% contract income margin) in 2018. The $24.5 million change was due primarily to the settlement of the larger than usual project dispute in Q4 2019, a loss on the closure of a small part of the Industrial Group business in the 2019 period and the 2018 completion of certain large projects that contributed higher close-out margins to 2018 results.

The Industrial Group's 2019 administrative costs of $17.9 million were $0.2 million or 1.1% higher than in 2018, reflecting the inclusion of a full year of Tartan costs in 2019, partially offset by targeted reductions in administrative spending.

During the fourth quarter of 2019, a non-cash impairment loss of $42.6 million was recognized on the Industrial Group's goodwill, as well as $1.0 million on right-of-use assets for facilities as a result of the closure of a small part of the Industrial Group business.

Adjusted EBITDA was $2.2 million (0.8% adjusted EBITDA margin) in 2019, compared to $22.7 million (7.6% adjusted EBITDA margin) in 2018. The $20.5 million decrease primarily reflects the lower contract income (before the loss on the closure of a small part of the Industrial Group business excluded from adjusted EBITDA), partially offset by the conversion of rent expense to depreciation and interest as a result of the adoption of IFRS 16 in 2019.

The Industrial Group incurred a net loss of $50.3 million in 2019, as compared to earnings before tax of $18.4 million in 2018. The $68.7 million decrease year-over-year was driven by the combination of the lower contract income, the non-cash impairment loss and the loss on the closure of a small part of the Industrial Group business in the 2019 period.

Industrial Group Backlog

As at December 31, 2019, Industrial Group backlog was $487.1 million, compared to $538.2 million as at December 31, 2018. The decline of $51.1 million or 9.5% reflects the group working through its long-term maintenance agreements. During 2019, approximately $225 million of new projects were added to backlog and the group executed $288.0 million of contract revenue. New awards in 2019 have included:

- a bundled services maintenance contract in the petrochemical sector that includes our acquired mechanical maintenance capabilities;
- an MSA in the power sector with a repeat customer in Ontario;
- a mine facility construction project for a new client in Saskatchewan;
- an infrastructure project in Ontario for a mining customer;
- a maintenance and turnaround MSA extension in Alberta; and
- a food facility construction project in Manitoba.

In January 2020, our Industrial Group was awarded a seven-year contract valued at an estimated $400.0 million to provide MRO services to an existing oil sands customer in Alberta. The contract, which will be added to backlog in Q1 2020, increased our scope of services over those previously supplied to the customer and underscores the strategic value of our acquisition of Tartan in 2018.

As at December 31, 2019, 74.7% of the Industrial Group's backlog was composed of cost-plus projects and 25.3% was tendered (hard-bid) projects. The December 31, 2019 backlog consisted of $274.0 million of work-in-hand, compared to $231.0 million as at December 31, 2018.

Buildings Group Results

	Three months ended December 31		Year ended December 31	
$ millions, except percentages	**2019**	**2018**	**2019**	**2018**
Contract revenue	**94.2**	110.1	**422.6**	452.4
Contract income	**7.9**	9.8	**36.8**	40.0
Contract income margin [(1)]	***8.4%***	*8.9%*	***8.7%***	*8.8%*
Administrative costs	**4.7**	5.4	**19.8**	21.2
Impairment loss	**44.1**	nil	**44.1**	nil
Adjusted EBITDA [(1)]	**4.1**	4.8	**19.8**	20.2
Adjusted EBITDA margin [(1)]	***4.4%***	*4.4%*	***4.7%***	*4.5%*
EBT	**(40.7)**	4.7	**(26.4)**	19.7
			Dec. 31 2019	**Dec. 31 2018**
Backlog [(1)]			**825.9**	813.1

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, 2019, Buildings Group revenue was $94.2 million, as compared to $110.1 million in the same period of 2018. The $15.9 million or 14.4% decline primarily reflects a change in project stage of completion, with a greater proportion of projects in lower-activity stages of construction in 2019.

Fourth quarter contract income was $7.9 million (8.4% contract income margin), as compared to $9.8 million (8.9% contract income margin) during the same period in 2018. The $1.9 million or 19.4% decrease primarily reflects the lower revenue and shift in project stage of completion.

Administrative costs of $4.7 million in the fourth quarter of 2019 were $0.7 million or 13.0% lower year-over-year, reflecting the group's cost-reduction initiatives.

During the fourth quarter of 2019, a non-cash goodwill impairment of $44.1 million was recognized associated with the annual test of goodwill.

Fourth quarter adjusted EBITDA was $4.1 million (4.4% adjusted EBITDA margin), as compared to $4.8 million (4.4% adjusted EBITDA margin) in Q4 2018. The $0.7 million or 14.6% decrease primarily reflects the lower contract income, partially offset by the administrative cost savings and the conversion of facility rent expense to depreciation and interest as a result of the adoption of IFRS 16 in 2019.

The Buildings Group incurred a net loss of $40.7 million in the fourth quarter of 2019, a $45.4 million decrease from earnings before tax of $4.7 million in the same period of 2018. The Q4 2019 net loss was due primarily to the non-cash goodwill impairment recognized.

Twelve-Month Results

For the year ended December 31, 2019, the Buildings Group generated revenue of $422.6 million, which compares to $452.4 million in 2018. The $29.8 million or 6.6% 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 2019.

Contract income of $36.8 million was generated in 2019, reflecting a modest decrease from the $40.0 million generated in 2018. The $3.2 million change primarily reflects the lower activity levels in certain regions in 2019. Contract income margin of 8.7% in 2019 was similar to the 8.8% contract income margin achieved in the same period last year.

Administrative costs of $19.8 million in 2019 were $1.4 million or 6.6% lower than the $21.2 million reported in 2018. The year-over-year decrease primarily reflects the group's cost-reduction initiatives.

During the fourth quarter of 2019, a non-cash impairment of $44.1 million was recognized on the Buildings Group's goodwill.

Adjusted EBITDA from the Buildings Group in 2019 was $19.8 million (4.7% adjusted EBITDA margin), similar to the $20.2 million (4.5% adjusted EBITDA margin) in 2018.

The Buildings Group incurred a net loss of $26.4 million in 2019, a decrease of $46.1 from earnings before tax of $19.7 million in 2018, primarily as a result of the non-cash goodwill impairment loss recognized in 2019.

Buildings Group Backlog

As at December 31, 2019, the Buildings Group's backlog grew to $825.9 million, from $813.1 million as at December 31, 2018. The $12.8 million or 1.6% increase reflects the addition of approximately $435 million of new work to backlog in 2019 and the execution of $422.6 million of contract revenue. New awards in 2019 included:

- a retail distribution warehouse in British Columbia;
- a fire hall in Ontario;
- multiple retirement residences in Alberta;
- the construction of a private sector light industrial facility; and
- a construction management award to build a new student residence at a post-secondary institution in Ontario.

As at December 31, 2019, 66.6% of the Buildings Group's backlog was composed of construction management assignments, 31.1% was tendered (hard-bid) projects and 2.3% was design-build projects. The group's December 31, 2019 backlog consisted of $395.2 million of work-in-hand, compared to $444.1 million as at December 31, 2018.

Commercial Systems Group Results

$ millions, except percentages	Three months ended December 31 2019	Three months ended December 31 2018	Year ended December 31 2019	Year ended December 31 2018
Contract revenue	**58.2**	54.8	**238.6**	233.2
Contract income	**6.1**	4.0	**23.5**	20.1
Contract income margin (1)	***10.5%***	*7.3%*	***9.8%***	*8.6%*
Administrative costs	**4.1**	3.6	**14.4**	14.0
Impairment loss	**54.0**	nil	**54.0**	nil
Adjusted EBITDA (1)	**3.3**	0.8	**12.5**	8.3
Adjusted EBITDA margin (1)	***5.7%***	*1.5%*	***5.2%***	*3.6%*
EBT	**(52.2)**	0.4	**(45.4)**	6.4

	Dec. 31 2019	Dec. 31 2018
Backlog (1)	**176.3**	216.1

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, 2019, the Commercial Systems Group grew revenue to $58.2 million, up $3.4 million or 6.2% from revenue of $54.8 million in Q4 2018. This increase was primarily driven by large projects in Alberta moving into higher-activity phases of construction.

Fourth quarter contract income increased to $6.1 million (contract income margin of 10.5%), from $4.0 million (contract income margin of 7.3%) in the same period of 2018. The $2.1 million or 52.5% improvement was primarily the result of higher revenue and improved project execution.

Administrative costs for Q4 2019 were $4.1 million, an increase of $0.5 million or 13.9%, from $3.6 million in Q4 2018. The increase in administrative costs was primarily driven by organizational restructuring costs recognized in the 2019 period.

During the fourth quarter of 2019, a non-cash impairment of $54.0 million was recognized on the Commercial Systems Group's goodwill.

Adjusted EBITDA increased sharply to $3.3 million (5.7% adjusted EBITDA margin) in the fourth quarter of 2019, from $0.8 million (1.5% adjusted EBITDA margin) in the same period of 2018. The $2.5 million improvement primarily reflects the higher contract income and the conversion of facility rent expense to depreciation and interest as a result of the adoption of IFRS 16 in 2019.

The Commercial Systems Group recognized a net loss of $52.2 million in 2019, from earnings before tax of $0.4 million during the same period in 2018. This $52.6 million decrease was driven primarily by the non-cash goodwill impairment loss recognized in Q4 2019.

Twelve-Month Results

For the year ended December 31, 2019, Commercial Systems Group revenue increased to $238.6 million, from $233.2 million in 2018. This $5.4 million or 2.3% increase was primarily driven by large projects in Alberta entering higher-activity phases in 2019.

Fiscal 2019 contract income increased to $23.5 million (9.8% contract income margin), as compared to $20.1 million (8.6% contract income margin) in 2018. The $3.4 million or 16.9% improvement was primarily due to improved project execution, as well as a shift in project stage of completion, with more projects in later, higher-margin stages in the 2019 period.

Administrative costs were $14.4 million in 2019, a $0.4 million or 2.9% increase from $14.0 million in 2018. This year-over-year change primarily reflects a slight increase in bad debt expense, as well as inflationary cost increases.

During the fourth quarter of 2019, a non-cash impairment of $54.0 million was recognized on the Commercial Systems Group's goodwill.

The Commercial Systems Group increased adjusted EBITDA to $12.5 million (5.2% adjusted EBITDA margin), from $8.3 million (3.6% adjusted EBITDA margin) in 2018. The $4.2 million or 50.6% improvement primarily reflects the higher contract income, together with the conversion of facility rent expense to depreciation and interest as a result of the adoption of IFRS 16 in 2019.

The Commercial Systems Group incurred a net loss of $45.4 million in 2019, as compared to earnings before tax of $6.4 million in 2018. The $51.8 million change was mainly due to the non-cash goodwill impairment loss recognized in the fourth quarter of 2019.

Commercial Systems Group Backlog

As at December 31, 2019, the Commercial Systems Group's backlog was $176.3 million, as compared to $216.1 million as at December 31, 2018. The $39.8 million or 18.4% change reflects the group having executed $238.6 million of construction activity during the year ended December 31, 2019 and added approximately $200 million of new work to backlog. The secured backlog is composed of numerous projects, including infrastructure projects recently secured in British Columbia and Alberta, office and residential tower projects, a health care facility, a public school and an events centre in Alberta.

As at December 31, 2019, the Commercial Systems Group's backlog was composed of 9.4% cost-plus projects, 5.8% design-build projects and 84.8% tendered (hard-bid) projects. The December 31, 2019 backlog consisted of $175.0 million of work-in-hand, compared to $208.9 million as at December 31, 2018.

Corporate Group Results

	Three months ended December 31		**Year ended December 31**	
$ millions	**2019**	**2018**	**2019**	**2018**
Administrative costs	**9.1**	7.0	**35.3**	26.7
Impairment loss	**0.5**	nil	**0.5**	nil
Finance costs	**3.6**	2.6	**13.1**	9.7
Adjusted EBITDA [1]	**(2.4)**	(2.7)	**(13.0)**	(15.1)
EBT	**(12.3)**	(9.6)	**(47.2)**	(36.3)

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.

Three-Month Results

For the three months ended December 31, 2019, Corporate Group administrative costs were $9.1 million, as compared to $7.0 million in the fourth quarter of 2018. This $2.1 million or 30.0% year-over-year increase primarily reflects higher depreciation and other costs related to the centralization of asset management functions in 2019, as well as costs related to the 2019 organizational restructuring.

During Q4 2019, a non-cash impairment loss of $0.5 million was recognized on a right-of-use asset related to office space to be subleased.

Fourth quarter 2019 Corporate Group finance costs were $3.6 million, an increase of $1.0 million or 38.5% from the $2.6 million incurred during the same period last year. The higher finance costs in Q4 2019 reflect increased costs related to carrying two sets of convertible debentures for a part of Q4 2019, increases in both the Revolver lending rate and the amount drawn on our Revolver, the centralization of automobile leases in the Corporate Group and the conversion of a portion of facility rent to interest expense in accordance with IFRS 16 in 2019.

The Corporate Group recorded a fourth quarter adjusted EBITDA loss of $2.4 million compared to the loss of $2.7 million in Q4 2018. The $0.3 million or 11.1% improvement primarily reflects the conversion of facility rent expense to depreciation and interest as a result of the adoption of IFRS 16 in 2019.

The Corporate Group incurred a fourth quarter 2019 loss before tax of $12.3 million, as compared to a loss before tax of $9.6 million in the comparable period of 2018. The $2.7 million or 28.1% change was primarily due to the increases in administrative costs, finance costs and non-cash impairment loss recognized in Q4 2019.

Twelve-Month Results

For the year ended December 31, 2019, Corporate Group administrative expenses increased to $35.3 million, from $26.7 million in 2018. The $8.6 million or 32.2% change primarily reflects an increase in depreciation and other costs related to the centralization of asset management, as well as higher restructuring and other one-time costs in the 2019 period. These increases were partially offset by a decrease in share-based compensation as a result of a decline in the Stuart Olson share price in 2019.

During 2019, a non-cash impairment loss of $0.5 million was recognized on a right-of-use asset related to office space to be subleased.

Corporate Group finance costs were $13.1 million in 2019, reflecting an increase of $3.4 million or 35.1% from the $9.7 million incurred last year. The higher finance costs year-over-year reflect carrying two sets of convertible debentures for a part of 2019, increases in both the Revolver lending rate and the amount drawn on our Revolver, the centralization of automobile leases in the Corporate Group and the conversion of a portion of facility rent to interest expense in accordance with IFRS 16 in 2019.

Fiscal 2019 Corporate Group adjusted EBITDA improved to a loss of $13.0 million, from a loss of $15.1 million in 2018. The $2.1 million or 13.9% change reflects the conversion of facility rent expense to depreciation and interest as a result of the adoption of IFRS 16 in 2019. It also reflects the change in administrative costs, excluding depreciation and amortization, and restructuring and other one-time activities recorded as part of administrative costs in 2019, which are all excluded from adjusted EBITDA.

For the year ended December 31, 2019, the Corporate Group incurred a loss before tax of $47.2 million, representing a decline of $10.9 million or 30.0% compared to a loss before tax of $36.3 million in 2018. This result primarily reflects the higher administrative and finance costs, as well as the non-cash impairment loss recognized on a right-of-use asset in 2019.

LIQUIDITY

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 and support growth strategies.

Cash and Borrowing Capacity

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

Current cash and cash equivalents as at December 31, 2019 were $8.2 million, reflecting a $17.7 million decrease from the $25.9 million held as at December 31, 2018. Included in the December 31, 2019 cash balance is $3.3 million of restricted cash held in trust related to contractual commitments that are payable in the first half of 2020 and trust contractual obligations under the Construction Act of Ontario. Excluding the restricted cash balance, our cash and cash equivalents as at December 31, 2019 were $4.9 million, which reflects a decrease of $21.0 million from the $25.9 million as at December 31, 2018. Please refer to the "Summary of Cash Flows" and "Capital Resources" sections of this document for a detailed explanation of the change in cash and non-cash working capital.

As at December 31, 2019, we had additional borrowing capacity under the Revolver of $38.6 million, compared to $71.5 million as at December 31, 2018. This change is related to an increase in long-term indebtedness, which is explained in detail below. It also reflects a $10.5 million decrease in Revolver-defined EBITDA, which differs from our calculation of reported adjusted EBITDA primarily with respect to the timing of when certain expenses are recognized and the deduction of facility lease payments recognized as depreciation and interest under IFRS 16. Subsequent to year end, a significant amount of the additional borrowing capacity on the Revolver was used to settle short-term liabilities. Additionally, in order to improve near-term liquidity, we reached an agreement to settle a larger than usual project dispute in order to enable the collection of approximately $22.0 million in late March 2020. For the purposes of calculating Revolver covenants, the impact of this settlement is considered an extraordinary and non-recurring loss and excluded from the calculation of Revolver EBITDA. As at December 31, 2019, we had outstanding a performance letter of credit on this project in the amount of $9.2 million, which is to be released as part of the settlement, further improving operational liquidity once that occurs.

Debt and Capital Structure

Long-term indebtedness, including the current portion of long-term debt and convertible debentures, increased to $133.8 million as at December 31, 2019, from $128.2 million as at December 31, 2018. The $5.6 million increase primarily reflects an increase in our Revolver balance to fund adjusted free cash flow and investing activities in 2019.

Long-term indebtedness consists of $70.0 million (December 31, 2018 – $80.5 million) principal value at maturity of outstanding convertible debentures, the principal value of long-term debt of $56.0 million (December 31, 2018 – $47.7 million) before the deduction of deferred financing fees for accounting purposes and $7.8 million of lease liabilities associated with equipment and automotive leases (December 31, 2018 – $nil). As at December 31, 2018, lease obligations associated with equipment and automotive leases were included as part of Stuart Olson management's measure of long-term debt.

The current portion of long-term debt as at December 31, 2019 was $2.0 million (December 31, 2018 – $3.0 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, 2019 was 79.3%, significantly higher than the 39.0% ratio as at December 31, 2018 and our long-term targeted range of 20.0% to 40.0%, due primarily to the non-cash goodwill impairment loss recognized in 2019.

$ millions, except percentages	**Actual as at Dec. 31, 2019**	**Actual as at Dec. 31, 2018 [(1)]**
Convertible debentures, liability component for accounting purposes	**65.8**	78.2
Convertible debentures, unamortized accretion and deferred financing fees	**4.2**	2.3
Lease liabilities for construction, automotive and office equipment, including current portion	**7.8**	nil
Long-term debt, including current portion	**54.1**	46.1
Long-term debt, unamortized deferred financing fees	**1.9**	1.6
Total long-term indebtedness (principal value)	**133.8**	128.2
Total long-term indebtedness (principal value)	**133.8**	128.2
Add: Total equity	**35.0**	200.8
Total capitalization	**168.8**	329.0
Indebtedness to capitalization percentage	**79.3%**	39.0%

Note: [(1)] We adopted IFRS 16 using the cumulative catch-up approach on January 1, 2019, and the December 31, 2018 comparative figures have not been restated. Please refer to *Note 4(a)* of the December 31, 2019 Audited Consolidated Annual Financial Statements and our first quarter 2019 MD&A for further information.

As at December 31, 2019, our net long-term indebtedness to adjusted EBITDA (“net debt to adjusted EBITDA”) ratio was 5.8x. This compares to the 2.8x, or 2.6x ratio on a pro forma basis inclusive of Tartan’s LTM adjusted EBITDA, presented as at December 31, 2018. The year-over-year change primarily reflects a reduction in LTM adjusted EBITDA due to the Industrial Group project dispute settlement, an increase in long-term indebtedness, related to a higher Revolver balance and the impact of lease liabilities recognized under IFRS 16, along with a decrease in cash on hand as at December 31, 2019. Notwithstanding this higher net debt to adjusted EBITDA level as at December 31, 2019, management remains committed to a three-to-five year target range of 1.5x to 2.5x (adjusted from the prior targeted range for the adoption of IFRS 16).

$ millions, except ratios	**Actual as at Dec. 31, 2019**	**Actual as at Dec. 31, 2018**
Total long-term indebtedness (principal value)	**133.8**	128.2
Less: Cash on hand, including restricted cash	**(8.2)**	(25.9)
Net long-term indebtedness	**125.6**	102.3
Divided by: Adjusted EBITDA	**21.6**	36.1
Net long-term indebtedness to adjusted EBITDA	**5.8x**	2.8x

As at December 31, 2019, we were in full compliance with covenants under the Revolver agreement.

Ratio	**Covenant**	**Actual as at Dec. 31, 2019**
Interest coverage	**>2.00:1.00**	**2.14**
Debt to EBITDA	**<4.25:1.00**	**2.65**

Please note that, in accordance with the Revolver agreement, Revolver-defined LTM EBITDA does not reflect the negative impact to financial results of the Q4 2019 settlement of the larger than usual project dispute as it is a non-recurring and extraordinary item. 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

During 2019 and subsequent to year-end, we worked collaboratively with our banking partners to secure a series of amendments that provided for sufficient and continued access to liquidity. The net effect of material changes to December 31, 2019 and future periods include:

- A reduction in the total size of the facility to $125.0 million (from $175.0 million previously).
- Our required interest coverage ratio for the period ending December 31, 2019 shall be not less than 2.00:1.00, decreasing at March 31, 2020 to shall be not less than 1.50:1.00, returning to shall be not less than 2.00:1.00 beginning June 30, 2020, increasing to shall be not less than 2.25:1.00 at March 31, 2021, and increasing to shall be not less than 2.50:1.00 for each quarter thereafter.
- Improved access to liquidity via a change to our required debt to EBITDA covenant to be not greater than 4.25:1.00 as at December 31, 2019, increasing to not greater than 5.10:1.00 as at March 31, 2020, returning to not greater than 4.25:1.00 at June 30, 2020, and decreasing to not greater than 3.25:1.00 for each quarter thereafter.
- All lease liabilities are excluded from the definition of debt for covenant calculation purposes for the quarters ending June 30, 2020 through to December 31, 2020.
- A temporary increase in the ceiling on restructuring costs permitted to be added back in Revolver EBITDA to $10.0 million from December 31, 2019 through to September 30, 2020, returning to $2.5 million for each quarter thereafter.
- The addition of a financial covenant in respect of cash flow variance tests.

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.

Convertible Debenture Financing

On September 20, 2019, after receiving 98.2% of shareholder votes in favour of the financing and regulatory approval, we closed our previously announced investment agreement with Canso, pursuant to which Canso purchased $70.0 million aggregate principal amount of convertible unsecured subordinated debentures, with an interest rate of 7.0% per annum and conversion price of $4.87 per common share. The conversion price per common share was established at 140% of the 30-day volume weighted average trading price calculated after the close of trading on August 1, 2019.

The maturity date established on closing is September 23, 2024. Proceeds, net of transaction costs, were $67.9 million. As a part of the conditions of the debenture agreement, the Company deposited the proceeds from the sale of the debentures in trust, for the redemption and repayment of the $80.5 million 2014 debentures to be paid thirty days from the closing date. Cash and cash equivalents of $70.0 million on the statement of financial position as at September 30, 2019 is classified as restricted cash for this purpose. We used the net proceeds, together with available cash and a draw on our Revolver, to redeem and repay the outstanding 2014 $80.5 million convertible debentures on October 23, 2019.

The agreement in respect of the $70.0 million convertible debentures is available under our SEDAR profile at www.sedar.com.

Summary of Cash Flows

$ millions	Year ended December 31 2019	2018
Operating activities	**(0.4)**	(13.8)
Investing activities	**(3.8)**	(14.9)
Financing activities	**(13.5)**	22.9
Decrease in cash	**(17.7)**	(5.8)
Cash and cash equivalents, beginning of the year (1)	**25.9**	31.7
Cash and cash equivalents, end of the year (1)	**8.2**	25.9

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

Cash used in operating activities in 2019 was $0.4 million, as compared to $13.8 million of cash used in the same period of 2018. The $13.4 million improvement in cash flow used in operating activities was driven primarily by a $37.3 million reduced investment in non-cash working capital, as compared to the larger-than-usual funding of working capital in 2018. This improvement was partially offset by an increase in costs related to restructuring, investing and other one-time activities, as well as an increase in cash tax payments due to a large refund in 2018, higher interest paid on our Revolver in 2019 due to a higher drawn balance and increased interest rates and a project stage of completion-driven change in provisions for the year ended December 31, 2019.

Cash used in investing activities in 2019 was $3.8 million, as compared to $14.9 million in 2018. The $11.1 million change was primarily related to our $12.1 million investment for the acquisition of Tartan in 2018. This was partially offset by an increased investment in information technology and property and equipment assets in the 2019 period, with this investment partially offset by higher proceeds from disposals as part of our asset optimization initiative.

Cash used in financing activities totalled $13.5 million in 2019, as compared to cash generated from financing activities of $22.9 million in 2018. The $36.4 million year-over-year change primarily reflects the repayment of principal amounts of lease liabilities as a result of adopting IFRS 16 in 2019, a reduction in dividend payments in 2019, combined with a draw on the Revolver to fund 2019 adjusted free cash flow.

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 composed 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 2020 to be between $3.0 million and $4.0 million, excluding leased right-of-use assets recognized under IFRS 16, primarily related to facilities and automotive equipment.

Working Capital

Working capital is current assets less current liabilities. As at December 31, 2019, we had working capital of $44.8 million, as compared to negative working capital of $10.9 million as at December 31, 2018. The $55.7 million increase in working capital is primarily related to the 2014 Convertible Debentures being presented as a current liability of $78.2 million on the statement of financial position as at December 31, 2018, ahead of their settlement in 2019. Partially offsetting this increase was a decrease in working capital related to the settlement of a larger than usual project dispute to improve near-term liquidity, along with the recognition of a portion of newly-recognized lease liabilities as current, as a result of the adoption of IFRS 16 in 2019.

Contractual Obligations

As at December 31, 2019, the carrying value of our total contractual obligations and commitments was $377.1 million, as compared to $330.5 million as at December 31, 2018. This increase is primarily due to our January 1, 2019 adoption of IFRS 16, which resulted in the recognition of lease liabilities that were previously classified as operating leases. The lease liabilities were previously reported as operating lease commitments and not recognized on the statement of financial position. For a reconciliation of our commitments as at December 31, 2018 to our lease liabilities as at January 1, 2019, please refer to *Note 4(a)* of the December 31, 2019 Audited Consolidated Annual Financial Statements. 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. For further details on changes in our contractual obligations from December 31, 2018, please refer to the "Liquidity", "Working Capital" and "Changes in Accounting Policies" sections of this document.

As at December 31, 2019, we had outstanding letters of credit in the amount of $12.8 million in connection with various projects and joint arrangements (December 31, 2018 – $5.7 million), of which $nil are financial letters of credit (December 31, 2018 – $2.5 million). As at December 31, 2019, we had outstanding a performance letter of credit associated with the Industrial Group project that we recently settled in the amount of $9.2 million, which is to be released as part of the settlement, further improving operational liquidity once that occurs.

	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	**$ 204.0**	$ 204.0	$ 204.0	$ nil	$ nil	$ nil
Provisions, including current portion	**1.9**	1.9	1.7	0.2	nil	nil
Lease liabilities, including current portion	**51.2**	60.9	11.6	19.4	12.9	17.0
Long-term debt, including current portion	**54.1**	56.2	2.2	54.0	nil	nil
Convertible debentures (debt portion)	**65.8**	93.2	4.9	9.8	78.5	nil
	$ 377.1	$ 416.2	$ 224.4	$ 83.4	$ 91.4	$ 17.0

Scheduled long-term debt and lease liability principal repayments due within one year of December 31, 2019 were $2.0 million (December 31, 2018 – $3.0 million) and $7.6 million (December 31, 2018 – $nil), respectively. Scheduled convertible debentures principal payments due within one year of December 31, 2019 were $nil (December 31, 2018 – $80.5 million).

Share Data

As at December 31, 2019, we had 28,193,928 common shares issued and outstanding and 1,206,684 options convertible into common shares (December 31, 2018 – 27,783,097 common shares and 1,689,883 options). Please refer to *Note 27* and *Note 28* of the December 31, 2019 Audited Consolidated Annual Financial Statements for further detail. The details pertaining to our DRIP are available on our website at www.stuartolson.com. As at March 24, 2020, we had 28,193,928 common shares issued and outstanding and 1,024,922 options convertible into common shares.

The $70.0 million of 7.0% convertible debentures issued in September 2019 are convertible into 14,373,716 common shares, based on a conversion price of $4.87 per share.

As at December 31, 2019, shareholders' equity was $35.0 million, compared to $200.8 million as at December 31, 2018. This $165.8 million decrease primarily reflects the net loss of $163.1 million, $5.0 million of dividends declared in the period, a $0.7 million decrease related to the adoption of IFRS 16 on January 1, 2019, and a $0.2 million defined benefit pension plan actuarial loss (net of tax). This effect was partially offset by an increase of $1.5 million related to shares issued pursuant to the DRIP, $1.6 million from the issuance of new convertible debentures in the third quarter of 2019 and $0.1 million related to share-based compensation under the stock option plan.

ACQUISITION OF TARTAN

On November 6, 2018, we acquired 100% of the issued and outstanding shares of Tartan Canada Corporation, 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. Industrial Group and Stuart Olson consolidated results both include Tartan's results from the acquisition date. For further information on the acquisition of Tartan, please refer to *Note 6* of our December 31, 2019 Audited Consolidated Annual Financial Statements.

OFF-BALANCE SHEET ARRANGEMENTS

We had no off-balance sheet arrangements in place as at December 31, 2019.

QUARTERLY FINANCIAL INFORMATION

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

	2019 Quarter Ended:				2018 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	**225.8**	243.1	239.5	220.9	227.6	223.7	249.3	265.9
Adjusted EBITDA [(1)]	**(4.6)**	11.1	6.9	8.1	7.2	11.8	9.0	8.1
Net (loss) earnings	**(156.3)**	(2.0)	(2.2)	(2.5)	(1.3)	3.9	1.1	1.6
Net (loss) earnings per common share								
Basic (loss) earnings per share	**(5.55)**	(0.07)	(0.08)	(0.09)	(0.05)	0.14	0.04	0.06
Diluted (loss) earnings per share	**(5.55)**	(0.07)	(0.08)	(0.09)	(0.05)	0.12	0.04	0.06

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

The decline in fourth quarter net earnings as compared to Q3 2019 primarily reflects the non-cash goodwill impairment charge of $140.7 million recognized in the quarter. Also impacting the financial results in the quarter is the negative impact of the settlement of a project dispute in the Industrial Group in order to improve near-term liquidity, which materially impacted revenue, adjusted EBITDA and net earnings.

Third quarter 2019 financial results improved compared to the second quarter of 2019. This primarily reflected higher contract income margin from our Commercial Systems Group related to improved project execution by the group, as well as a third quarter increase in adjusted EBITDA related to a greater impact from marking-to-market share-based compensation. Partially offsetting these benefits were the recognition in the third quarter of restructuring costs and a loss related to the closure of a small part of the Industrial Group business.

Revenue increased quarter-over-quarter in the second quarter of 2019 due primarily to seasonal activity level increases for our Industrial Group, much of it related to oil sands plant turnarounds that are typically completed in the spring. Adjusted EBITDA declined quarter-over-quarter primarily as a result of the Buildings Group having recognized higher-than-normal margins in the first quarter of 2019 on later stage projects. Net earnings and earnings per share improved in the second quarter of 2019 as a result of the recognition of restructuring, investing and other one-time activity costs in Q1 2019.

First quarter 2019 revenue and net earnings decreased compared to the fourth quarter of 2018, reflecting reduced activity levels for the Industrial and Buildings Groups, partially due to the cyclical nature of our businesses as well as the cold winter experienced across Canada in Q1 2019. Notwithstanding the decline in revenue, adjusted EBITDA increased primarily due to a number of Buildings Group projects reaching higher-margin later stages in Q1 2019, combined with the conversion of rent expense to depreciation and interest as a result of the adoption of IFRS 16 on January 1, 2019. Net earnings and earnings per share declined quarter-over-quarter primarily as a result of higher costs related to restructuring, investing and other one-time activities in Q1 2019.

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.

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.

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.

For a more detailed discussion and analysis of quarterly results prior to December 31, 2019, please review our 2019 and 2018 annual and quarterly MD&As.

CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

Our financial statements include estimates, judgments 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, judgments and assumptions that have an impact on our financial condition and results of operations:

- Contract revenue and contract income recognition, including the recognition of variable consideration;
- Estimates used to determine impairment of non-financial assets;
- Estimates related to depreciation and amortization of property and equipment and intangible assets;
- Estimates in amounts and timing of provisions, including the provision for doubtful accounts;
- Estimates and judgments related to amounts that may be subject to legal actions and dispute proceedings;
- Assumptions used in share-based payment arrangements;
- Measurement of defined benefit pension obligations;
- Estimated value of right-of-use assets and lease liabilities that are dependent upon estimates of discount rates and timing of lease payments;
- Convertible debentures; and
- Income taxes.

Contract Revenue and Contract Income Recognition

Construction revenue, construction costs, contract assets and contract liabilities are based on estimates and judgments used in determining contract revenue and contract costs to determine the stage of completion for a particular construction project, depending upon the nature of the construction contract. To determine the estimated costs to complete construction contracts, assumptions and estimates are required to evaluate matters related to schedule, material and labour costs, labour productivity, changes in contract scope and subcontractor costs. Due to the nature of construction activities, estimates can change significantly from one accounting period to the next.

The value of many construction contracts increases over the duration of the construction period. Change orders may be issued by customers to modify the original contract scope of work or conditions. In addition, there may be disputes or claims regarding additional amounts owing as a result of changes in contract scope, delays, additional work or changed conditions. Construction work related to a change order or claim may proceed, and costs may be incurred, in advance of final determination of the value of the change order. Many change orders and claims may not be settled until the construction project is completed or subsequent to completion and the nature of the relationship with the other party to the claim and the history of success of these claims may impact the associated revenue or cost recovery. Claims against customers for variable consideration due to delays, changes, etc. are assessed under our revenue policy, which requires significant judgment. The amount of variable consideration that is constrained is the difference between the total claim value and the best estimate of recovery. This constrained value is reviewed each reporting period.

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 are expected to change as a result of the contract; and
- It is probable that we 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 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. Refer to *Note* 9 of the December 31, 2019 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 promise 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 update 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 promised goods or services underlying each performance obligation.

Recognizing Revenue When or as Performance Obligations are Satisfied

We typically transfer the control of goods or services, and satisfy 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.

Contract Assets and Contract Liabilities

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) on the statement 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 on the statement 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 Impairment of Non-Financial Assets

Management evaluates property and equipment, intangible assets with finite lives and right-of-use assets at the end of each reporting period to determine if there are events or circumstances which indicate that the carrying value may not be recoverable. Goodwill is tested for impairment annually, or more frequently if events or changes in circumstances indicate that the asset may be impaired. Impairment assessments inherently involve management judgment as to the assumptions used to project these amounts and the impact of market conditions on those assumptions. Unanticipated changes in these assumptions or estimates could materially affect the determination of the fair value of a cash-generating unit (“CGU”) and, therefore, could reduce or eliminate the excess of fair value over the carrying value of a CGU entirely and could potentially result in an impairment charge in the future. Refer to *Note 20* of the December 31, 2019 Audited Consolidated Annual Financial Statements for further details regarding the assumptions and estimates regarding goodwill impairment, and *Note 24* for further details regarding right-of-use asset impairment.

The carrying amounts of our 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 annually.

The recoverable amount of an asset or CGU is the greater of its value-in-use and its fair value less costs of disposal. 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.

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 and is not amortized.

Our 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 2019, we performed our 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 impairment testing indicated that the recoverable amount of the Industrial, Buildings and Commercial Systems Group CGUs was less than their carrying amount and a resultant impairment loss was recognized in the statements of (loss) earnings.

Key Goodwill Impairment Assessment Assumptions

The recoverable amount of the CGUs was 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.

The calculations of 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 most current forecast. 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 14.5% (2018 – 11.0%) and a steady annual growth rate of 2.0% (2018 – 2.0%) in the terminal year. The same discount rate has been used in each of the 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 Related to Depreciation and Amortization of Property and Equipment and Intangible Assets

Depreciation and amortization is determined using estimates related to the useful lives and the residual value of property and equipment and intangible assets.

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 the statements of (loss) earnings.

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 statements of (loss) earnings on a straight-line basis over the estimated useful life of each asset. 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.

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

Estimates in Amounts and Timing of Provisions, Including the Provision for Doubtful Accounts

Provisions are recognized when we have a present obligation as a result of a past event, it is probable that we 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 determination of provisions may be a complex process that involves management judgments about the outcomes of future events and estimates on timing and amount of expected future cash flows.

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.

We review impairment of our trade and other receivables at each reporting period and review our provision for doubtful accounts for expected future credit losses. When receivables are past due or when objective evidence is received that a customer will default, we take 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, we assess the customer's credit quality and establish the customer's credit limit. We do not hold any collateral over our trade receivable balances.

Estimates and Judgments Related to Amounts That May be Subject to Legal Actions and Dispute Proceedings

Disputes are common in the construction industry and as such, in the normal course of business, we are involved in various legal actions and proceedings which arise from time to time, some of which may be substantial. We must make certain assumptions and rely on estimates regarding potential outcomes of dispute proceedings in order to determine if a provision is required. Estimating and recording the future outcome of dispute proceedings requires management to make significant judgments and assumptions, which are inherently subject to risks and uncertainties. Management regularly analyzes the most current information about these matters, and internal and external legal counsel provide support for these assessments. In making decisions regarding the need for provisions, management considers the degree of probability of an unfavourable outcome and the ability to make a sufficiently reliable estimate of the amount of loss. The outcome of these matters may have a material effect on our financial position, results of operations or cash flows, and there is no guarantee that there will not be a recurrence in litigation which, depending on the nature of the litigation, could impact our financial position, results of operations or cash flows. We also pursue claims against project owners and subcontractors for additional costs exceeding the contract price or for amounts not included in the original contract price, or against subcontractors for deficient work or project disputes.

In the normal course of business, we recognize contract assets in connection with claims for performance obligations that have been satisfied. Claims for satisfied performance obligations are part of variable consideration and can involve significant judgment and estimate (in areas of potential dispute) under IFRS 15 – *Revenue from contracts with customers*, and these are recognized when it is highly probable that no significant reversal in the claim amounts recognized will occur.

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 Restricted Share Units ("RSUs"), Performance Share Units ("PSUs") 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. Please refer to *Note* 27 of the December 31, 2019 Audited Consolidated Annual Financial Statements for information about vesting conditions for share-based payments.

Compensation expense accrued for PSUs is dependent on an adjustment to the final number of PSU awards that will eventually vest based on a performance multiplier that is estimated by management. Large fluctuations in compensation expense may occur due to changes in the underlying share price or revised management estimates of relevant performance factors.

Compensation expense recognized for our share options is based on a Black Scholes option pricing model. The inputs to this model, including dividend yield, expected volatility, forfeitures and discount rates, rely on management judgment. Expected volatility is estimated by considering historic average share price volatility. Forfeitures are estimated through the vesting period based on past experience and future expectations, and are adjusted upon actual forfeitures. 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.

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(e), Note 5(g) and Note 13* of the December 31, 2019 Audited Consolidated Annual Financial Statements for further information.

Estimated Value of Right-of-Use Assets and Lease Liabilities

Management applies judgment in reviewing each of its contractual arrangements to determine whether the arrangement contains a lease within the scope of IFRS 16. Leases that are recognized are subject to further management judgment and estimation in various areas specific to the arrangement. In determining the lease term to be recognized, management considers all facts and circumstances that create an economic incentive to exercise an extension option, or not to exercise a termination option.

Lease liabilities have been estimated using a discount rate equal to the Company-specific incremental borrowing rate. This rate represents the rate that we would incur to obtain the funds necessary to purchase an asset of a similar value, with similar payment terms and security in a similar economic environment.

Lessee Arrangements

A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. On the date that the leased asset becomes available for use, we recognize a right-of-use asset and a corresponding lease liability. Finance costs associated with the lease obligation are charged to the statements of (loss) earnings over the lease period with a corresponding increase to the lease liability. The lease liability is reduced as payments are made against the principal portion of the lease. The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. Depreciation of the right-of-use asset is recognized as part of contract costs or administrative costs, depending on the nature of the leased asset.

Right-of-use assets and lease liabilities are initially measured on a present value basis. Lease obligations are measured as the net present value of the lease payments which may include: fixed lease payments, variable lease payments that are based on an index or a rate, amounts expected to be payable under residual value guarantees, and payments to exercise an extension or termination option, if we are reasonably certain to exercise either of those options. Right-of-use assets are measured at cost, which is composed of the amount of the initial measurement of the lease liability, less any incentives received, plus any lease payments made at, or before, the commencement date and initial direct costs and asset restoration costs, if any. The rate implicit in the lease is used to determine the present value of the liability and right-of-use asset arising from a lease, unless this rate is not readily determinable, in which case our incremental borrowing rate is used.

Lessor Arrangements

When we act as a lessor, we determine at lease inception whether each lease is a finance lease or an operating lease. To classify each lease, we make an overall assessment of whether the lease transfers substantially all of the risks and rewards incidental to ownership of the underlying asset. If this is the case, then the lease is a finance lease; if not, then it is an operating lease. As part of this assessment, we consider certain indicators, such as whether the lease is for the major part of the economic life of the asset.

When we are an intermediate lessor, we account for our interests in the head lease and the sublease separately. We assess the lease classification of a sublease with reference to the right-of-use asset arising from the head lease, not with reference to the underlying asset.

Please refer to *Note 3(p)*, *Note 4(a)* and *Note 24* of the December 31, 2019 Audited Consolidated Annual Financial Statements for further detail on leases.

Convertible Debentures

Management judgment is applied to determine the classification of the debt and equity components of our convertible debentures. Judgment is also 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.

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.

CHANGES IN ACCOUNTING POLICIES

New Accounting Standards and Amendments Adopted

IAS 19 – *Employee Benefits*

We adopted amendments to IAS 19, effective January 1, 2019. The amendments 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 remeasure our 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 did not have a material impact on our consolidated financial statements for the year ended December 31, 2019.

IFRS 16 – *Leases*

On January 1, 2019, we adopted IFRS 16. The standard supersedes IAS 17 – *Leases*, International Financial Reporting Interpretations Committee ("IFRIC") 4 – *Determining whether an arrangement contains a lease* and related interpretations. IFRS 16 requires the recognition of a right-of-use asset and lease liability on the statement of financial position for most leases, where the entity is acting as a lessee. For lessees applying IFRS 16, the dual classification model of leases as either operating or finance leases no longer exists, treating all leases as finance leases. IFRS 16 allows lessors to continue with the dual classification model for recognized leases as either a finance or an operating lease.

We have elected to adopt the standard using the cumulative catch-up approach. Under this approach, the standard is applied prospectively and prior period financial information has not been restated. The cumulative effect of applying IFRS 16 to prior periods is recorded as an adjustment to opening retained earnings.

We have recognized lease liabilities at the present value of the remaining lease payments, discounted using our incremental borrowing rate on January 1, 2019. The incremental borrowing rate applied to each lease varied with the term of the agreement and ranged from 4.5% to 5.4%. The associated right-of-use assets have been measured at amounts equal to the lease liabilities, less any amounts previously recognized for onerous contracts. Existing finance leases related to construction and automotive equipment previously included within property and equipment and long-term debt are now included as right-of-use assets and lease liabilities, respectively, on the statement of financial position.

On initial adoption, we elected to apply the following practical expedients permitted under the standard:

- Leases with a remaining term of less than 12 months as at January 1, 2019 are accounted for as short-term leases;
- Leases where the underlying asset is of a low dollar value are excluded from recognition on the statement of financial position and are accounted for as an expense;
- Initial measurement of the right-of-use asset has excluded initial direct costs where applicable;
- As at January 1, 2019, the provision for onerous contracts previously recognized was applied to the value of the associated right-of-use asset, instead of reassessing the leased assets for impairment; and
- Hindsight has been used in determining the lease term where the contract contains terms to extend or terminate the lease.

Please refer to *Note 3(p)* of our December 31, 2019 Audited Consolidated Annual Financial Statements for our accounting policy for leases under IFRS 16, and *Note 4* and *Note 24* for further detail on the impact of adopting IFRS 16. For our previous accounting policy under IAS 17, refer to *Note 3(q)* of our December 31, 2018 Audited Consolidated Annual Financial Statements.

Future Accounting Policies

We have reviewed new and revised accounting pronouncements that have been issued but are not yet effective, and determined that the following may have a material impact on our financial reporting:

IFRS 3 – *Business Combinations*

In October 2018, the International Accounting Standards Board amended IFRS 3, 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.

Please see *Note 4(b)* of our December 31, 2019 Audited Consolidated Annual Financial Statements for further information.

FINANCIAL INSTRUMENTS

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 fair value of our short-term financial assets and liabilities approximates their respective carrying amounts on the statement 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 Revolver and current note payable. Further, the fair value of our fixed rate convertible debentures approximates its carrying value based on their calculation of fair value at inception on September 23, 2019, using comparable marketable debentures.

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

We are exposed to credit risk through accounts receivable. Prior to accepting new customers, we assess the customer's credit quality and establish the customer's credit limit. We do not hold any collateral over our trade receivable balances. We review impairment of our trade and other receivables at each reporting period and review our provision 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.

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, 2019, we had $18.9 million of trade receivables (December 31, 2018 – $15.4 million) which were greater than 90 days past due, with $18.5 million not provided for as at December 31, 2019 (December 31, 2018 – $15.2 million). The provision for doubtful accounts has been included in administrative costs in the December 31, 2019 Audited Consolidated Annual Statements of (Loss) Earnings and Comprehensive (Loss) Earnings, and is net of any recoveries that were provided for in a prior period. 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. We have had a negligible historical level of customer default.

Interest rate risk is the risk to our earnings that arises from fluctuations in interest rates and the degree of volatility of these rates. We are exposed to interest rate risk on our variable rate financial instruments, which include financial liabilities consisting of the Revolver and current note payable. For the year ended December 31, 2019, a change in 100 basis points in interest rates related to our financial liabilities would have increased or decreased equity and profit or loss by $0.4 million (December 31, 2018 – $0.2 million).

Liquidity risk is the risk that the Company will encounter difficulties in meeting its financial liability obligations as they become due. The Company manages this risk through management of its capital structure, monitoring and reviewing actual and forecasted cash flows and the effect on bank covenants, and maintaining unused credit facilities where possible to ensure there are available cash resources to meet the Company's liquidity needs. In managing liquidity risk, the Company 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 Company's cash and cash equivalents and existing Revolver are expected to be greater than anticipated expenditures and the contractual maturities of the Company's financial liabilities. This expectation that the Company has sufficient funding could be adversely affected by a material negative change in market conditions, which in turn could lead to covenant breaches on the Company's Revolver, which if not amended or waived, could limit, in part, or in whole, the Company's access to liquidity. Subsequent to year end, the COVID-19 pandemic and unprecedented decline in crude oil prices have had an adverse affect on the global economy and market conditions. As a result, a material uncertainty regarding the Company's ability to continue as a going concern exists, please refer to *Note 2(c)* in our December 31, 2019 Audited Consolidated Annual Financial Statements for further information.

We have recognized a total carrying amount of $39.7 million in accounts receivable and costs in excess of billings on our statement of financial position as at December 31, 2019 (December 31, 2018 – $65.0 million) that are either in negotiation with the customer over project variations or are the subject of claims and legal proceedings relating to various projects. The recovery of these amounts may exceed twelve months. A failure to ultimately recover on these amounts could have a material effect on liquidity and financial results.

Please refer to *Note 30* of the December 31, 2019 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 composed 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, 2019. 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, 2019.

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, 2019, 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, 2019 and ending on December 31, 2019 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.

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 factors. Our ability to make interest payments on the Revolver, as well as the scheduled payments of principal and interest on our 2019 Convertible Debentures, could be negatively impacted by operational or other internal events or external events that affect our liquidity. 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.

The Operations of Stuart Olson are Dependent on the Price of Oil and Natural Gas which are Highly Sensitive to External and Global Factors

Macro-economic and geo-political factors associated with oil and natural gas supply and demand are prime drivers for pricing and profitability within the oil and natural gas industry. These factors include the consequences of global price wars or supply actions of major oil-producing countries and the widespread impacts of pandemics and other global events, all of which can result in rapid and significant changes to commodity prices, interest rates and other key economic variables that impact the Canadian economy and our customers. Because we have traditionally derived the majority of our revenues in western Canada, particularly Alberta, 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. Volatility of oil and natural gas prices can often impact our service offerings negatively due to the impact that uncertainty has on the spending decisions of customers.

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.

Global Pandemics

On January 30, 2020, the World Health Organization declared the COVID-19 outbreak to be a public health emergency of international concern, and on March 11, 2020, COVID-19 was declared to be a pandemic. Since that time the sweeping impacts of the virus and the various countermeasures instituted by governments at all levels across the globe have had significant and unparalleled effects on the global economy and society in general. The operations of the Company are highly sensitive to such sweeping impacts and risks. A global pandemic can result in widespread illnesses and even deaths, can impact the health of our workforce and can prevent us from being able to carry on our operations, whether due to direct impacts or indirect impacts though customers and suppliers. These impacts can severely limit our ability to operate and to generate revenues or cash flows, while our ability to eliminate or reduce costs during such times would be limited. In such circumstances, the Company could suffer significant financial losses and a deterioration in its creditworthiness and therefore have a material adverse effect on us. Even though the effects of a pandemic may only last for a short time period, the resulting impacts to the Company and the economy could remain for months or even years after the initial event.

Repayment of Credit Facility

Our Revolver has a maturity date of July 16, 2021, on which date, the entire indebtedness under the Revolver is due and payable. Unless we complete one or more financings in order to raise new capital, or unless we are able to extend the Revolver or enter into a replacement credit facility, there is a risk that we will be unable to repay the amounts owing, in which case it could become the subject of creditor proceedings.

Collection of Recognized Revenue

Change orders (also commonly called variations in the context of construction) modify the nature or quantity of the work to be completed under a contract. These change orders are typically issued at the request of, or for the benefit of clients or parties responsible for design and engineering, 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 prior to actual collection. In such cases, the applicable revenue recognition rules require management to exercise its best judgment as to the likely outcome of a change order or claim once ultimately resolved. Management exercises 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 require an investment in working capital and put pressure on our access to liquidity. They also could affect our profitability on a particular project, our 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 revenue and income in any prior, current or future reporting period.

Performance Bonds and Contract Security

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.

Certain 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 our working capital and bonding facilities will be adequate in order to issue the required letters of credit and performance bonds. This may result in us not obtaining or losing certain projects and/or contracts.

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 result 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 participate 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.

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.

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 and economic factors and trends that are specific to Alberta.

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.

We attempt to prevent such breaches through, among other things, the implementation of various technological security measures, providing cyber security training to all personnel, segregating 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. 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.

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", "adjusted EBITDA", "adjusted EBITDA margin", "adjusted free cash flow", "adjusted free cash flow per share", "indebtedness", "indebtedness to capitalization", "net long-term indebtedness to adjusted EBITDA", "interest coverage", "debt to EBITDA" and "additional borrowing capacity". 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. Management uses contract income margin as a measure of profitability of the core operations of its operating groups and consolidated business.

Work-in-Hand and Backlog

Stuart Olson management uses work-in-hand and backlog as measures of the health of the amount of future work to be completed by our businesses.

Work-in-hand is the unexecuted portion of work that has been contractually awarded to us for construction. It also 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 composed of remaining performance obligations, which are discussed in *Note 3(c)* and *Note 33* of our December 31, 2019 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 includes work in respect of our long-term stable MSA work that has not yet been issued as purchase orders by our customers.

We provide no assurance that clients will not choose to defer or cancel their projects in the future.

$ millions	Dec. 31, 2019	Dec. 31, 2018
Remaining performance obligations [1]	**1,190.2**	1,108.9
Add: Other contracts meeting definition of backlog	**299.1**	458.5
Consolidated backlog	**1,489.3**	1,567.4
Less: Other backlog projects	**645.1**	683.4
Work-in-hand	**844.3**	884.0

Note: [1] Please refer to *Note 3(c)* and *Note 33* of our December 31, 2019 Audited Consolidated Annual Financial Statements for more information on remaining performance obligations.

Adjusted EBITDA and Adjusted EBITDA Margin

We define adjusted EBITDA as net earnings 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 cash flows of the business or continuing operations, including restructuring charges, equity settled share-based compensation and charges related to both investing decisions and activist shareholder activities, as we believe that these items 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, and is used by management as one measure of profitability per dollar of 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

	Three months ended December 31		Year ended December 31	
$ millions, except percentages	**2019**	**2018**	**2019**	**2018**
Net (loss) earnings	**(156.3)**	(1.3)	**(163.1)**	5.4
Add: Income tax (recovery) expense	**(4.4)**	(0.1)	**(6.5)**	2.6
EBT	**(160.7)**	(1.4)	**(169.6)**	8.0
Add: Depreciation and amortization	**6.2**	4.0	**24.2**	15.2
Finance costs	**4.0**	2.6	**14.8**	9.7
Finance income	**(0.3)**	nil	**(0.6)**	nil
Costs related to investing activities	**nil**	0.4	**0.3**	0.4
Costs related to activist shareholder activities	**nil**	0.2	**0.9**	0.2
Restructuring and business disposition costs	**4.6**	1.5	**10.7**	2.9
Impairment loss	**142.2**	nil	**142.2**	nil
Equity settled share-based compensation	**Nil**	0.1	**0.1**	0.3
Gain on sale of assets	**(0.6)**	(0.2)	**(1.4)**	(0.6)
Adjusted EBITDA	**(4.6)**	7.2	**21.6**	36.1
Divided by contract revenue	**225.8**	227.6	**929.2**	966.4
Adjusted EBITDA margin	**(2.0%)**	3.2%	**2.3%**	3.7%

Industrial Group

	Three months ended December 31		Year ended December 31	
$ millions, except percentages	**2019**	**2018**	**2019**	**2018**
EBT	**(55.4)**	3.1	**(50.3)**	18.4
Add: Depreciation and amortization	**1.0**	1.1	**4.8**	3.8
Finance costs	**0.1**	nil	**0.6**	0.1
Restructuring and business disposition costs	**1.2**	0.2	**3.7**	0.6
Impairment loss	**43.6**	nil	**43.6**	nil
Gain on sale of assets	**(0.1)**	nil	**(0.2)**	(0.2)
Adjusted EBITDA	**(9.6)**	4.2	**2.2**	22.7
Divided by contract revenue	**75.9**	63.7	**273.7**	297.3
Adjusted EBITDA margin	**(12.6%)**	6.6%	**0.8%**	7.6%

Buildings Group

$ millions, except percentages	Three months ended December 31 2019	2018	Year ended December 31 2019	2018
EBT	**(40.7)**	4.7	**(26.4)**	19.7
Add: Depreciation and impairment	**0.4**	0.2	**1.8**	0.8
Finance costs	**0.1**	nil	**0.5**	(0.1)
Finance income	**(0.2)**	nil	**(0.3)**	nil
Restructuring and business disposition costs	**0.5**	nil	**0.5**	0.1
Impairment loss	**44.1**	nil	**44.1**	nil
Gain on sale of assets	**(0.1)**	(0.1)	**(0.4)**	(0.3)
Adjusted EBITDA	**4.1**	4.8	**19.8**	20.2
Divided by contract revenue	**94.2**	110.1	**422.6**	452.4
Adjusted EBITDA margin	**4.4%**	4.4%	**4.7%**	4.5%

Commercial Systems Group

$ millions, except percentages	Three months ended December 31 2019	2018	Year ended December 31 2019	2018
EBT	**(52.2)**	0.4	**(45.4)**	6.4
Add: Depreciation and amortization	**0.7**	0.4	**2.7**	1.4
Finance costs	**0.2**	nil	**0.6**	nil
Restructuring and business disposition costs	**0.6**	nil	**0.6**	0.6
Impairment loss	**54.0**	nil	**54.0**	nil
Gain on sale of assets	**nil**	nil	**nil**	(0.1)
Adjusted EBITDA	**3.3**	0.8	**12.5**	8.3
Divided by contract revenue	**58.2**	54.8	**238.6**	233.2
Adjusted EBITDA margin	**5.7%**	1.5%	**5.2%**	3.6%

Corporate Group

$ millions, except percentages	Three months ended December 31 2019	2018	Year ended December 31 2019	2018
EBT	**(12.3)**	(9.6)	**(47.2)**	(36.3)
Add: Depreciation and amortization	**4.1**	2.3	**14.7**	9.1
Finance costs	**3.6**	2.6	**13.1**	9.7
Finance income	**(0.1)**	nil	**(0.3)**	nil
Costs related to investing activities	**nil**	0.4	**0.3**	0.4
Costs related to activist shareholder activities	**nil**	0.2	**0.9**	0.2
Restructuring and business disposition costs	**2.3**	1.3	**5.9**	1.6
Impairment loss	**0.5**	nil	**0.5**	nil
Equity settled share-based compensation	**nil**	0.1	**0.1**	0.3
Gain on sale of assets	**(0.5)**	nil	**(1.0)**	(0.1)
Adjusted EBITDA	**(2.4)**	(2.7)	**(13.0)**	(15.1)

Adjusted Free Cash Flow and Adjusted Free Cash Flow Per Share

We define adjusted free cash flow as cash generated from/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 cash operating performance, reflecting the amount of cash flow from operations that is available, after capital expenditures, to 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 or other declines in activity levels.

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

$ millions, except per share data and number of shares	Three months ended December 31 2019	2018	Year ended December 31 2019	2018
Net cash generated from (used in) operating activities	**15.5**	5.1	**(0.4)**	(13.8)
Less: Cash additions to intangible assets	**(0.3)**	(0.7)	**(2.6)**	(1.1)
Cash additions to property and equipment	**(1.6)**	(0.5)	**(3.7)**	(2.5)
Add: Cash invested in changes in non-cash working capital balances	**(28.1)**	(4.1)	**(14.6)**	36.9
Adjusted free cash flow	**(14.5)**	(0.2)	**(21.3)**	19.5
Divided by: Basic shares outstanding	**28,175,602**	27,773,878	**28,026,476**	27,593,692
Adjusted free cash flow per share	**(0.51)**	(0.01)	**(0.76)**	0.71

Indebtedness

Long-term indebtedness is the gross value of our indebtedness and is used by management in assessing leverage and our overall capital structure. It is calculated as the principal value of long-term debt (current and non-current amounts before the deduction of deferred financing fees), the principal value at maturity of convertible debentures and lease liabilities related to construction and automotive equipment. Please see the "Liquidity" section of this document for the detailed calculations.

Indebtedness to Capitalization

Indebtedness to capitalization is a percentage metric we use as one measure of 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 document 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, including restricted cash, with the result divided by LTM adjusted EBITDA. Please see the "Liquidity" section of this document for the detailed calculations.

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

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. 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 as one measure 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 the metric:

$ millions, except covenant ratios	As at Dec. 31, 2019	As at Dec. 31, 2018
LTM Revolver EBITDA	**24.1**	34.6
Total debt to EBITDA covenant	**4.25x**	3.25x
Total borrowing capacity	**102.4**	112.5
Less: Debt per Revolver agreement	**(63.8)**	(41.0)
Additional borrowing capacity on Revolver	**38.6**	71.5
Add: Cash on hand, excluding restricted cash	**4.9**	25.9
Available liquidity	**43.5**	97.4

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 included 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:

- The impacts of IFRS 16;
- Our capital expenditure program for 2020;
- 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 and support growth strategies;
- The section entitled "Outlook" and our expectations about backlog execution, capital expenditures, revenue, adjusted EBITDA and adjusted EBITDA margins on a consolidated basis and for each of our operating groups;
- The section entitled "Future Accounting Changes" and whether such changes will be adopted and the resulting effects therefrom;
- The section entitled "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;
- The future benefits of an organizational restructuring;
- Our expectation that restructuring and cost-cutting initiatives will deliver lasting 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
- Municipal, provincial and federal 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:

- Access to capital and liquidity;
- Fluctuations in the price of oil, natural gas and other commodities;
- Changes in external and global factors on our business;
- Disease outbreaks and pandemics;
- Repayment of credit facility;
- Collection of recognized revenue;
- Availability of performance bonds;
- Corporate guarantees and letters of credit;
- Industry and inherent project delivery risks;
- Potential for non-payment and credit risk and ongoing availability of financing;
- Regional concentration;
- 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;
- Cyber security, or other interruptions to information technology systems;
- Competition and reputation;
- Limitations of insurance;
- Litigation risk;
- Volatility of market trading;
- Failure of clients to obtain required permits and licenses;
- Declaration and payment of dividends;
- Compliance with environmental laws;

- 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 in this press release does not include an assessment or reflection of the unprecedented impacts of the recent COVID-19 pandemic and the resulting indirect global and regional economic impacts. 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.