

NORTH AMERICAN CONSTRUCTION GROUP LTD.

2019 SECOND QUARTER REPORT

For the three and six months ended June 30, 2019



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Report to Shareholders

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Report to Shareholders

Our Company is in strong growth mode and our strategy to achieve this, organically and via acquisitions, is to:

1. Build production related recurring services volumes in our core oil sands market, together with the addition of value creating services; and
2. Expand our market coverage to include other resource mines (coal, copper, gold, diamonds) and infrastructure related projects that involve major earthworks.

Following on from two impressive expansion years in 2017 and 2018, we predicted further strong improvement in 2019 mainly due to two significant acquisitions made in late 2018. The estimated growth was 70% for revenue and 60% for Adjusted EBITDA.

Now with the first half of 2019 results in the books, we are very encouraged by the outcome for various reasons.

- We handily exceeded our Adjusted EBITDA projection despite the early and abrupt arrival of Spring break-up in mid-March and the negative impact of two assumed legacy contracts that affected much of the period, which will run their course by Q3 2019.
- As anticipated we caught up much of the revenue curtailed in Q1 during Q2, with that pattern expected to carry on in Q3.
- We continue to mitigate the impact of seasonality, as well as cyclicalities on our business, such that we expect to be profitable in any quarter of the year.
- The one time sustaining capital spend on the acquired heavy construction fleet continues on schedule, such that most of those assets will be fully operable as the year progresses. This will reduce the call on replacement rental gear.
- We have expended growth capital on several compelling opportunities that will boost 2019 growth and bring further stout improvement in 2020 and beyond.

Based on these achievements and investments we now expect full year 2019 revenue growth to be around 75% and Adjusted EBITDA growth to be about 70%, therefore both up from initial expectations. Beyond that, our early look at 2020 shows Adjusted EBITDA growth of around 15% and Adjusted EPS of over \$2.00. More detail on these projections can be found in the dedicated Q2 NOA IR Presentation, which can be found on our company website under Investors - Presentations.

Other highlights of Q2 include:

- Maintaining our top tier safety performance despite the introduction of hundreds of new field personnel to our work culture.
- Securing a management contract for a coal mine in Wyoming, USA, which will involve no capital expense and a fee based EBIT stream.
- The award of four heavy equipment rebuilds for a diamond mine in the Northwest Territories. The demand for our third-party equipment maintenance services has generally exceeded our expectations. In conjunction with this demand, we have begun construction of a new component rebuild facility in Acheson which we expect to provide a more efficient and effective supply chain process.

Despite a larger than anticipated growth capital spend this year, we remain on track to reduce our leverage by \$150 million from 2019 - 2021. Alternatively, we may well consider reducing the debt reduction target to say \$100 million and pursue additional NCIBs, if our stock price does not respond to our industry leading growth profile.

Martin Ferron
Chairman and Chief Executive Officer
July,30, 2019

Management's Discussion and Analysis

For the three and six months ended June 30, 2019

July 30, 2019

The following Management's Discussion and Analysis ("MD&A") is as of July 30, 2019 and should be read in conjunction with the attached unaudited interim consolidated financial statements and notes that follow for the three and six months ended June 30, 2019, the audited consolidated financial statements and notes that follow for the year ended December 31, 2018 and our annual MD&A for the year ended December 31, 2018. All financial statements have been prepared in accordance with United States ("US") generally accepted accounting principles ("GAAP"). Except where otherwise specifically indicated, all dollar amounts are expressed in Canadian dollars. The consolidated financial statements and additional information relating to our business, including our most recent Annual Information Form, are available on the Canadian Securities Administrators' SEDAR System at www.sedar.com, the Securities and Exchange Commission's website at www.sec.gov and our company website at www.nacg.ca.

CORE BUSINESS AND STRATEGY

We provide a wide range of mining and heavy construction services to customers in the resource development and industrial construction sectors, primarily within western Canada.

We believe that our excellent safety record, combined with our significant oil sands knowledge, experience, long-term customer relationships, equipment capacity and scale of operations, differentiate us from our competition and provide significant value to our customers.

Our core market is the Canadian oil sands, where we provide operations support and construction services through all stages of an oil sands project's lifecycle. We have extensive construction experience in both mining and in situ oil sands projects and we have been providing operations support services to the producers currently mining bitumen in the oil sands since inception of their respective projects: Suncor, Syncrude, Fort Hills, Imperial Oil and Canadian Natural. We focus on building long-term relationships with our customers and in the case of Suncor and Syncrude, these relationships span over 40 years. We are the largest contractor in the oil sands region.

Our ownership interest in the Nuna Group of Companies ("Nuna") expands our end user coverage into base metals, precious metals and diamonds. Nuna is an established incumbent contractor in Nunavut and the Northwest Territories but has also successfully completed major projects in Ontario, Saskatchewan and British Columbia.

We have demonstrated our ability to successfully leverage our oil sands knowledge and technology and put it to work in other resource development projects. We believe we are positioned to respond to the needs of a wide range of other resource developers and infrastructure projects.

OVERALL PERFORMANCE

Our Q2 2019 performance was driven by the strong top-line demand momentum for our heavy equipment fleet in the oil sands that was generated during the busy 2019 winter season. Revenue growth of 123% was achieved through our expanded fleet as well as the catch-up of lost production time as a result of the early and abrupt spring breakup that occurred in mid-March. Our share of reported revenue earned by Nuna contributed 11.8% of the year over year increase as their busy summer season in northern Canada started in mid-June. Of note, factoring in our share of equity accounted revenue from Nuna of \$5.7 million would have increase growth by an additional 7.2% to 130% year over year.

Gross profit margin of 13.3% was an improvement from the prior year as consistent and predictable demand for equipment led to overall more efficient operations. The margin continued to be impacted by the legacy contracts at the Fort Hills mine, one of which expired in Q2 and the other which expires in Q3. As reported in the 2019 First Quarter Report, excluding the transitional impact at Fort Hills, gross profit margin for the quarter would have been approximately 16.9%, which is a more accurate reflection of overall operating performance in the second quarter. Gross profit benefited from an out-of-period correction of \$2.8 million resulting from a change in the accounting for inventory where certain spare parts that were initially being expensed upon purchase are now recorded as inventory on the balance sheet and only expensed when ultimately utilized. We came to the determination that this accounting is the most appropriate treatment as our external maintenance and overall supply chain programs continue to grow and develop.

Included in gross profit margin was depreciation of 12.5% for the quarter. This depreciation percentage is lower than the prior year rate of 13.9% due to continued improvements of component maintenance and performance which has resulted in our year-to-date rate being in line with our current trend of approximately 14.0%.

General and administrative ("G&A") expenses, excluding stock-based compensation expense, of \$6.0 million were equivalent to 3.4% of revenue which is an outstanding record achievement for our Company. This level of administrative spending reflects the minimalist and disciplined approach to incremental overhead costs required as part of recent acquisitions. As a percentage of revenue, G&A spending benefited from the start of Nuna's busy season in late Q2 and will be realized for the entirety of Q3.

Adjusted EBITDA of \$37.1 million is a 144% increase over 2018 and illustrates the operating leverage that is gained by maintaining both profit margins and G&A spending while more than doubling top-line revenue.

Net interest expense was \$5.1 million for the quarter, which includes approximately \$0.6 million of non-cash interest. Our average cash cost of debt for the quarter was 4.5% and reflects a full quarter of the 5.00% Convertible Debentures issued in March 2019. As mentioned in the First Quarter Report, the adoption of the new US GAAP standard for leases has had no impact on Adjusted EBITDA or net income in the 2019 results.

In addition to the commentary above, net income, basic and diluted net income per share and Adjusted EPS for the quarter were positively impacted by \$3.5 million due to the staged reduction in the Alberta corporate tax rate cut of one percent each year from 2019 to 2022. With all factors taken into account, Adjusted EPS of \$0.43 per share is over six times greater than 2018 as average share count has remained steady at approximately 25 million shares, while year-over-year adjusted net earnings have increased by \$9.0 million.

Interim MD&A - Quarter 2 Highlights

(Expressed in thousands of Canadian Dollars, except per share amounts)	Three months ended		
	June 30,		
	2019	2018	Change
Revenue	\$ 176,935	\$ 79,471	\$ 97,464
Gross profit	23,466	9,651	13,815
Gross profit margin	13.3%	12.1%	1.2%
Adjusted EBITDA ⁽ⁱ⁾	37,122	15,205	21,917
Adjusted EBITDA margin ⁽ⁱ⁾	21.0%	19.1%	1.9%
Net income and comprehensive income available to shareholders	13,894	33	13,861
Net income - Basic	\$ 0.55	\$ 0.00	\$ 0.55
Adjusted EPS ⁽ⁱ⁾	\$ 0.43	\$ 0.07	\$ 0.36

⁽ⁱ⁾ See "Non-GAAP Financial Measures".

SIGNIFICANT BUSINESS EVENTS

Adoption of New US GAAP Lease Standard

Effective January 1, 2019, we adopted the new US GAAP standard for leases, "Accounting Standard Codification ("ASC") 842 - Leases" ("Topic 842"), which replaces the previous standard, "ASC 840 - Leases" ("Topic 840"). The new standard provides a right-of-use "ROU" model which requires most leases to be recognized on the balance sheets. We updated our lease recognition process to align with the new standard which resulted in the recognition of ROU assets and liabilities related to operating leases on our consolidated balance sheets.

We adopted the standard using the *Modified Retrospective* method where the cumulative effect adjustment is recognized to the opening balance of equity at January 1, 2019, therefore, the comparative information has not been adjusted and continues to report under Topic 840. We elected not to reassess whether expired or existing contracts contain leases under the new definition of a lease, not to reassess lease classification for expired or existing leases and not to reassess whether previously capitalized initial direct costs would qualify for capitalization under Topic 842. In addition, we elected to use hindsight when considering the likelihood that lessee options to extend or terminate a lease or purchase the underlying assets will be exercised.

The adoption of this new standard had an impact on our consolidated balance sheets and resulted in the recognition of operating lease right-of-use assets of \$16.0 million, current portion of operating lease liabilities of \$3.4 million and operating lease liabilities of \$14.0 million on January 1, 2019. ROU assets are net of \$1.4 million related to deferred lease inducements previously included in other long-term obligations. However, there was no adjustment to opening equity at January 1, 2019.

Notable terminology and accounting changes as a result of the implementation of Topic 842 include:

- Operating right-of-use assets - Included on the consolidated balance sheets are operating right-of-use assets, which represents our right to use the underlying asset over the lease term on leases classified as operating leases.
- Operating lease liabilities - Included on the consolidated balance sheets are the current portion of operating lease liabilities and operating lease liabilities, which represent the lease liabilities over the lease term on leases classified as operating leases.
- Finance leases - Included on the consolidated balance sheets are the current portion of finance leases and finance leases, which were previously referred to as "current portion of capital leases" and "capital leases", respectively.
- Financing obligations - Included in *Note 10 - Long-term debt*, of the notes to consolidated financial statements are financing obligations which represent sale-leaseback transactions in which control of the asset never transferred, therefore the obligation is accounted for as a financing transaction rather than a finance lease.

The adoption of Topic 842 includes the requirement for additional disclosures in our consolidated financial statements. The Financial Accounting Standards Board ("FASB") objectives of issuing this new standard is to provide financial statement users with sufficient information to understand the nature, timing and uncertainty of cash flows arising from leases. As prescribed by Topic 842, we have added "Note 7 - Leases" to our interim consolidated financial statements to meet the FASB objectives. This note contains the following sections:

- Lease expenses and income - information about the expenditures and income related to leases during the period.
- Supplemental balance sheet information - information about the weighted-average term of leases, weighted-average interest rate of leases and the carrying amount of the finance lease right-of-assets represented by the "Net book value of property, plant, and equipment under finance lease."
- Maturity analysis - information about the future expected cash flows arising from leases.

FINANCIAL RESULTS

Three and six months ended 2019 Results

(dollars in thousands, except per share amounts)	Three months ended June 30,		Six months ended June 30,	
	2019	2018	2019	2018
Revenue	\$ 176,935	\$ 79,471	\$ 363,343	\$ 194,174
Project costs	73,938	31,793	144,429	73,256
Equipment costs ⁽ⁱ⁾	57,432	26,990	114,485	55,247
Depreciation	22,099	11,037	51,380	29,229
Gross profit⁽ⁱⁱ⁾	\$ 23,466	\$ 9,651	\$ 53,049	\$ 36,442
Gross profit margin⁽ⁱⁱ⁾	13.3%	12.1%	14.6%	18.8%
Select financial information:				
General and administrative expenses (excluding stock-based compensation)	5,992	5,450	14,812	11,353
Stock-based compensation (benefit) expense	(872)	2,757	5,106	4,655
Loss on sublease	...	...	...	1,732
Operating income	18,572	1,696	33,105	18,763
Interest expense, net	5,123	1,622	10,584	3,441
Net income and comprehensive income available to shareholders	13,894	33	21,075	11,164
EBIT⁽ⁱⁱ⁾	18,896	1,663	34,013	18,740
EBIT margin ⁽ⁱⁱ⁾	10.7%	2.1%	9.4%	9.7%
Adjusted EBITDA⁽ⁱⁱ⁾	37,122	15,205	89,192	54,295
Adjusted EBITDA margin ⁽ⁱⁱ⁾	21.0%	19.1%	24.5%	28.0%
Free Cash Flow⁽ⁱⁱ⁾	1,746	12,952	(3,560)	29,520
Per share information				
Basic net income per share	\$ 0.55	\$ 0.00	\$ 0.84	\$ 0.45
Diluted net income per share	\$ 0.45	\$ 0.00	\$ 0.70	\$ 0.38
Adjusted EPS ⁽ⁱ⁾	\$ 0.43	\$ 0.07	\$ 0.93	\$ 0.62

⁽ⁱ⁾ See discussion in "Overall Performance" relating to the out-of-period adjustment.

⁽ⁱⁱ⁾ See "Non-GAAP Financial Measures". A reconciliation of net income and comprehensive income available to shareholders to EBIT, EBITDA and Adjusted EBITDA is as follows:

..	Three months ended		Six months ended	
	June 30,		June 30,	
(dollars in thousands)	2019	2018	2019	2018
Net income and comprehensive income available to shareholders	\$ 13,894	\$ 33	\$ 21,075	\$ 11,164
Adjustments:				
Interest expense, net	5,123	1,622	10,584	3,441
Deferred Income tax (benefit) expense	(121)	8	2,354	4,135
EBIT⁽ⁱ⁾	18,896	1,663	34,013	18,740
Adjustments:				
Depreciation	22,099	11,037	51,380	29,229
Amortization of intangible assets	293	88	501	241
EBITDA⁽ⁱ⁾	41,288	12,788	85,894	48,210
Adjustments:				
Gain on disposal of property, plant and equipment	(124)	(185)	(103)	(105)
Gain on disposal of assets held for sale	(395)	(155)	(372)	(197)
Stock-based compensation (benefit) expense	(872)	2,757	5,106	4,655
Loss on sublease	...	...	...	1,732
Restructuring costs	...	...	1,442	...
Pre-2019 inventory correction ⁽ⁱⁱ⁾	(2,775)	...	(2,775)	...
Adjusted EBITDA⁽ⁱ⁾	\$ 37,122	\$ 15,205	\$ 89,192	\$ 54,295

⁽ⁱ⁾ See "Non-GAAP Financial Measures".

⁽ⁱⁱ⁾ See discussion in "Overall Performance" relating to the out-of-period adjustment.

Analysis of three and six months ended June•30, 2019 Results

Revenue

For the three months ended June 30, 2019, revenue was \$176.9 million, up from \$79.5 million in the same period last year. More than half of this increase of \$97.5 million (or 123%) is attributable to the fleet acquired in Q4 2018 at the three oil sands mine sites, new work at the Fort Hills and Aurora mines and significant incremental work at the Millennium Mine. Consistent with momentum from Q1, scope at the Kearl Mine also increased significantly year-over-year, which is organic growth as it was not impacted by the 2018 acquisitions. These substantial increases in the oil sands have been made possible through the strategic focused growth capital invested in 2017, 2018 and the first half of 2019. Revenue from Nuna of \$11.5 million reflected only the initial start of their 2019 busy summer season which kicked off in mid-June.

For the six months ended June 30, 2019, revenue was \$363.3 million, up from \$194.2 million in the same period last year. This increase of 87.1% reflects the strong Q2 increases mentioned above as well as stronger performance in our external maintenance program. These increases were partially offset by higher mine support activity in 2018 at the Fording River coal mine and the Highland Valley Copper mine in southeast British Columbia.

Gross profit

For the three months ended June 30, 2019, gross profit was \$23.5 million, and a 13.3% gross profit margin, up from a \$9.7 million gross profit and a 12.1% gross profit margin in the same period last year. The gross profit increase of 143% was a direct result of the higher revenue. The slight increase in margin is the result of improved operating efficiency at most sites, in particular at the Kearl Mine and the higher gross margins achieved by Nuna. In addition, Q2 gross profit margin was positively impacted by a \$2.8 million out of period adjustment for spare parts inventory which was previously expensed pre-2019. Partially offsetting these increases were continued operating challenges and inefficiencies at the Fort Hills Mine stemming from legacy contracts which will run their course in Q3.

For the six months ended June 30, 2019, gross profit was \$53.0 million, and a 14.6% gross profit margin, up from a \$36.4 million, and a 18.8% gross profit margin in the same period last year. As disclosed in the Q1 Report, the margin achieved in the first quarter was significantly impacted by the early and abrupt spring breakup as well as the legacy Fort Hills contracts.

For the three months ended June 30, 2019, depreciation was \$22.1 million, or 12.5% of revenue, up from \$11.0 million, or 13.9% of revenue, in the same period last year. Depreciation as a percent of revenue was lower in the quarter as improved operating performance on site and component performance on the machines both led to higher revenue generation and achievement of target useful lives. The lower depreciation rate also reflects the 2019 benefits realized from the purchase of used equipment at low pricing and the benefits from our maintenance initiatives designed to extend the useful life of our equipment fleet.

For the six months ended June 30, 2019, depreciation was \$51.4 million, or 14.1% of revenue, up from \$29.2 million, or 15.1% of revenue, in the same period last year. Consistent with the Q2 commentary above, the year-to-date rate of 14.1% is indicative of the capital depreciation that we expect on the heavy equipment fleet we operate.

Operating income

For the three months ended June 30, 2019, we recorded operating income of \$18.6 million, an increase of \$16.9 million from the \$1.7 million for the same period last year. General and administrative expense, excluding stock-based compensation expense, was \$6.0 million (or 3.4% of revenue) for the quarter, higher than the \$5.5 million (or 6.9% of revenue) in the prior year. Stock-based compensation expense decreased \$3.6 million compared to the prior year, primarily from the effect of a fluctuating share price on the carrying value of our liability classified award plans.

For the six months ended June 30, 2019, we recorded operating income of \$33.1 million, an increase of \$14.3 million from the \$18.8 million for the same period last year. General and administrative expense, excluding stock-based compensation expense was \$14.8 million (or 4.1% of revenue) compared to the \$11.4 million (or 5.8% of revenue) for the six months ended June 30, 2018. Stock-based compensation expense increased slightly by \$0.5 million for the same period in the prior year.

Non-Operating Income and Expense

(dollars in thousands)	Three months ended June 30,		Six months ended June 30,	
	2019	2018	2019	2018
Interest expense				
Interest on finance lease obligations	\$ 1,020	\$ 809	\$ 1,943	\$ 1,577
Interest on credit facilities	2,107	175	4,863	616
Interest on Convertible Debentures	1,221	549	1,850	1,091
Interest on mortgage	238	...	476	...
Interest on promissory notes	293	...	1,035	...
Amortization of deferred financing costs	288	132	479	262
Interest expense	\$ 5,167	\$ 1,665	\$ 10,646	\$ 3,546
Interest income	(44)	(43)	(62)	(105)
Total interest expense, net	\$ 5,123	\$ 1,622	\$ 10,584	\$ 3,441
Equity earnings in affiliates and joint ventures	(461)	...	(1,120)	...
Foreign exchange loss	23	33	19	23
Income tax (benefit) expense	(121)	8	2,354	4,135

Total interest expense was \$5.1 million during the three months ended June 30, 2019, an increase from the \$1.6 million recorded in the prior year. During the six months ended June 30, 2019, total interest expense was \$10.6 million an increase from the \$3.4 million recorded in the prior year.

Cash related interest expense for the three months ended June 30, 2019, calculated as interest expense excluding amortization of deferred financing costs of \$0.3 million, implied interest of \$0.3 million and other non-cash adjustments of \$0.3 million was \$4.2 million and represents an average cost of capital of 4.5% when factoring in the credit facility balances during the quarter. Cash related interest expense for the six months ended June 30, 2019 (excluding amortization of \$0.5 million, implied interest of \$0.9 million and other non-cash adjustments of \$0.1 million) was \$9.1 million and represents an average cost of capital of 5.3%. In general, the increase of \$7.1 million from the prior year to date, relates to the merger and acquisition ("M&A") activity of Q4 2018, which was fully funded through debt.

Equity earnings in affiliates and joint ventures of \$0.5 million and \$1.1 million for the three and six months ended June 30, 2019, respectively, was generated by the entities within Nuna that are accounted for using the equity method.

We recorded a deferred income tax benefit of \$0.1 million and \$2.4 million expense for the three and six months ended June 30, 2019, respectively. This is lower than the expenses recorded for the same periods in 2018 due to the decreased Alberta general corporate income tax rate which came into effect on July 1, 2019.

Net income and comprehensive income available to shareholders

For the three months ended June 30, 2019, we recorded \$13.9 million net income and comprehensive income available to shareholders (basic income per share of \$0.55 and diluted income per share of \$0.45), compared to \$0.03 million net income and comprehensive income available to shareholders (basic income per share and diluted income per share of \$0.00) recorded for the same period last year. The net income and comprehensive income available to shareholders in the current year was affected by a \$3.5 million increase in interest expense in the current period.

For the six months ended June 30, 2019, we recorded \$21.1 million net income and comprehensive income available to shareholders (basic income per share of \$0.84 and diluted income per share of \$0.70), compared to \$11.2 million net income and comprehensive income available to shareholders (basic income per share of \$0.45 and diluted income per share of \$0.38) for the same period last year.

The table below provides our Adjusted EPS:

(dollars in thousands)	Three months ended		Six months ended	
	June 30,		June 30,	
	2019	2018	2019	2018
Net income and comprehensive income	\$ 14,008	\$ 33	\$ 21,268	\$ 11,164
Net income attributable to non-controlling interest	(114)	...	(193)	...
Net income and comprehensive income available to shareholders	13,894	33	21,075	11,164
Add back:				
Gain on disposal of property, plant and equipment	(124)	(185)	(103)	(105)
Gain on disposal of assets held for sale	(395)	(155)	(372)	(197)
Stock-based compensation (benefit) expense	(872)	2,757	5,106	4,655
Loss on sublease	...	...	...	1,732
Restructuring costs	...	...	1,442	...
Pre-2019 inventory correction ⁽ⁱ⁾	(2,775)	...	(2,775)	...
Tax effect of the above items	1,104	(652)	(874)	(1,644)
Adjusted net earnings ⁽ⁱⁱ⁾	\$ 10,832	\$ 1,798	\$ 23,499	\$ 15,605
Adjusted EPS ⁽ⁱⁱ⁾	\$ 0.43	\$ 0.07	\$ 0.93	\$ 0.62
Basic net income per share	\$ 0.55	\$ 0.00	\$ 0.84	\$ 0.45
Weighted-average number of common shares	25,253,970	24,718,484	25,170,150	25,000,063

⁽ⁱ⁾ See discussion in "Overall Performance".

⁽ⁱⁱ⁾ See "Non-GAAP Financial Measures".

Summary of Consolidated Quarterly Results

The table below summarizes our consolidated results for the preceding eight quarters:

(dollars in millions, except per share amounts)	Three Months Ended							
	Jun 30, 2019	Mar 31, 2019	Dec 31, 2018	Sep 30, 2018	Jun 30, 2018	Mar 31, 2018	Dec 31, 2017	Sep 30, 2017
Revenue	\$ 176.9	\$ 186.4	\$ 131.0	\$ 84.9	\$ 79.5	\$ 114.7	\$ 82.0	\$ 70.0
Gross profit ⁽ⁱ⁾	23.5	29.6	18.3	14.3	9.7	26.8	12.0	5.8
Operating income	18.6	14.5	7.5	3.7	1.7	17.1	4.5	1.0
EBIT ⁽ⁱ⁾	18.9	15.1	7.5	3.7	1.7	17.1	4.5	1.1
Adjusted EBITDA ⁽ⁱ⁾	37.1	52.1	28.4	19.1	15.2	39.1	18.1	11.5
Net income (loss) and comprehensive income (loss) available to shareholders	13.9	7.2	2.7	1.5	0.0	11.1	2.5	(0.6)
Income (loss) per share - basic ⁽ⁱⁱ⁾	\$ 0.55	\$ 0.29	\$ 0.11	\$ 0.06	\$ 0.00	\$ 0.44	\$ 0.10	\$ (0.02)
Income (loss) per share - diluted ⁽ⁱⁱ⁾	\$ 0.45	\$ 0.25	\$ 0.10	\$ 0.05	\$ 0.00	\$ 0.36	\$ 0.09	\$ (0.02)
Adjusted EPS ⁽ⁱ⁾⁽ⁱⁱ⁾	\$ 0.43	\$ 0.50	\$ 0.18	\$ 0.19	\$ 0.07	\$ 0.55	\$ 0.14	\$ (0.02)
Cash dividend per share ⁽ⁱⁱⁱ⁾	\$ 0.02	\$ 0.02	\$ 0.02	\$ 0.02	\$ 0.02	\$ 0.02	\$ 0.02	\$ 0.02

⁽ⁱ⁾ See "Non-GAAP Financial Measures".

⁽ⁱⁱ⁾ Net income (loss) per share and adjusted EPS for each quarter has been computed based on the weighted-average number of shares issued and outstanding during the respective quarter; therefore, quarterly amounts may not add to the annual total. Per-share calculations are based on full dollar and share amounts.

⁽ⁱⁱⁱ⁾ The timing of payment of the cash dividend per share may differ from the dividend declaration date.

For a full discussion of the factors that can generally contribute to the variations in our quarterly financial results please see [Financial Results](#) † [Summary of Consolidated Quarterly Results](#), in our annual MD&A for the year ended December,31, 2018.

Backlog

The following summarizes our non-GAAP reconciliation of anticipated backlog as at June,30, 2019 and the preceding three quarters, as well as revenue generated from backlog for each quarter:

(dollars in thousands)	Jun 30, 2019	Mar 31, 2019	Dec 31, 2018	Sep 30, 2018
Performance obligations per financial statements	\$ 112,922	\$ 84,508	\$ 206,900	\$ 129,911
Add: undefined committed volumes	1,334,164	1,381,008	1,021,430	209,644
Anticipated backlog	\$ 1,447,086	\$ 1,465,516	\$ 1,228,330	\$ 339,555
Revenue generated from backlog during the three month period	\$ 108,532	\$ 132,153	\$ 70,872	\$ 40,859

As at June,30, 2019, we expect that \$193.6 million of our anticipated backlog reported above will be performed over the balance of 2019.

Unpriced Contract Modifications

As at June,30, 2019, we had \$10.4 million of unresolved unpriced contract modifications on our balance sheets. This compares to \$7.5 million of unresolved unpriced contract modifications recorded as at December 31, 2018. We are working with our customers in accordance with the terms of our contracts to come to agreement on additional amounts, if any, to be paid to us with respect to these variable consideration amounts.

LIQUIDITY AND CAPITAL RESOURCES

Summary of Consolidated Financial Position

As at June,30, 2019, we had \$17.4 million in cash and \$147.1 million unused borrowing availability on the Company Credit Facility for a total liquidity of \$164.5 million (defined as cash plus available and unused Company Credit Facility borrowings). Our liquidity is complemented by available borrowings through our equipment leasing partners. Under our Company Credit Facility terms, our finance lease borrowing is limited to \$150.0 million. As at June,30, 2019 we have \$54.9 million in unused finance lease borrowing availability under the terms of our Credit Facility. There are no restrictions within the terms of our Company Credit Facility for borrowing using operating leases.

(dollars in thousands)	June 30, 2019	December 31, 2018	Change
Cash	\$ 17,433	\$ 19,508	\$ (2,075)
Current working capital assets			
Accounts receivable	\$ 71,150	\$ 82,399	\$ (11,249)
Contract assets	36,075	10,673	25,402
Inventories ⁽ⁱ⁾	20,073	13,391	6,682
Contract costs	299	2,308	(2,009)
Prepaid expenses and deposits	3,377	3,736	(359)
Current working capital liabilities			
Accounts payable	(89,089)	(63,460)	(25,629)
Accrued liabilities	(18,710)	(19,157)	447
Contract liabilities	(2,776)	(4,032)	1,256
Total net current working capital (excluding cash)	\$ 20,399	\$ 25,858	\$ (5,459)
Intangible assets	2,196	2,916	(720)
Assets held for sale	490	672	(182)
Property, plant and equipment	586,289	528,157	58,132
Total assets	774,889	689,800	85,089
Finance lease obligations (including current portion)	95,073	86,568	8,505
Credit facilities (including current portion)	154,332	194,918	(40,586)
Convertible Debentures	94,031	39,976	54,055
Mortgage	19,726	19,900	(174)
Promissory notes	28,976	42,937	(13,961)
Financing obligations	17,282	...	17,282
Total Debt ⁽ⁱⁱ⁾	\$ 409,420	\$ 384,299	\$ 25,121
Cash	(17,433)	(19,508)	2,075
Net Debt ⁽ⁱⁱ⁾	\$ 391,987	\$ 364,791	\$ 27,196

⁽ⁱ⁾ See discussion in "Overall Performance" relating to the out-of-period adjustment.

⁽ⁱⁱ⁾ For a definition of Total Debt and Net Debt, see "Non-GAAP Financial Measures".

As at June 30, 2019, we had \$3.5 million in trade receivables that were more than 30 days past due compared to \$1.5 million as at December 31, 2018. As at June 30, 2019 and December 31, 2018, we did not have an allowance for doubtful accounts related to our trade receivables as we believe that there is minimal risk in the collection of these past due trade receivables. We continue to monitor the credit worthiness of our customers. As at June 30, 2019, holdbacks totaled \$3.4 million, up from \$0.6 million as at December 31, 2018.

Excluding lease additions, gross capital expenditures, including additions to intangible assets, for the three months ended June 30, 2019 were \$42.8 million (\$22.5 million for the same period in 2018). Included in this amount was \$8.3 million of growth capital related to the purchase and commissioning of large loading units required to fulfill performance obligations under recently signed long-term contracts. Included in the prior period amount was \$10.0 million of growth capital related to our new maintenance and office facility coupled with the strategic acquisition of used equipment at discounted pricing.

Excluding lease additions, gross capital expenditures for the six months ended June 30, 2019 were \$83.8 million (\$41.3 million for the same period in 2018). Included in this amount was \$21.6 million of growth capital related to heavy equipment purchased under a right of first refusal arrangement with a customer. Included in the prior period amount was \$22.0 million related to our new maintenance and office facility coupled with the strategic acquisition of used equipment at discounted pricing.

A portion of our heavy construction fleet is financed through finance leases. We continue to lease our motor vehicle fleet through our finance lease facilities. Our sustaining capital additions financed through finance leases during the three months ended June 30, 2019 was \$0.6 million (\$0.2 million for the same period in 2018). For the six months ended June 30, 2019 sustaining capital additions financed through finance leases was \$28.1 million (\$15.4 million for the same period in 2018). Our equipment fleet is currently split among owned (58%), finance leased (28%), and rented equipment (14%).

For a complete discussion on our capital expenditures, please see "Resources and Systems - Liquidity" in our most recent annual MD&A for the year ended December 31, 2018.

Summary of Consolidated Cash Flows

(dollars in thousands)	Three months ended June 30,		Six months ended June 30,	
	2019	2018	2019	2018
Cash provided by operating activities	\$ 33,225	\$ 25,789	\$ 80,673	\$ 64,825
Cash used in investing activities	(39,188)	(21,409)	(77,773)	(38,135)
Cash provided by (used in) financing activities	2,981	(13,649)	(4,975)	(32,040)
Net decrease in cash	\$ (2,982)	\$ (9,269)	\$ (2,075)	\$ (5,350)

Operating activities

Cash provided by operating activities for the three months ended June 30, 2019 was \$33.2 million, compared to cash provided by operating activities of \$25.8 million in for the three months ended June 30, 2018. Cash provided by operating activities for the six months ended June 30, 2019 was \$80.7 million, compared to cash provided by operating activities of \$64.8 million in for the six months ended June 30, 2018. The increase in cash flow in the both current year periods is a result of improved EBITDA partially offset by the timing of working capital balances and higher cash interest as well as a cash settlement for a retiring directors' deferred share unit plan.

Cash provided by the net change in non-cash working capital specific to operating activities are summarized in the table below:

(dollars in thousands)	Three months ended June 30,		Six months ended June 30,	
	2019	2018	2019	2018
Cash provided by (used in) net change in non-cash working capital				
Accounts receivable	\$ 223	\$ 9,554	\$ 11,249	\$ (6,336)
Contract assets	(6,568)	2,502	(25,402)	12,177
Inventories ⁽ⁱ⁾	(4,853)	(1,345)	(6,682)	(1,447)
Contract costs	502	144	2,009	(166)
Prepaid expenses and deposits	394	(326)	452	(1,152)
Accounts payable	9,305	3,045	25,629	13,388
Accrued liabilities	3,543	249	78	(2,680)
Contract liabilities	794	(1,693)	(1,256)	(51)
	\$ 3,340	\$ 12,130	\$ 6,077	\$ 13,733

⁽ⁱ⁾ See discussion in "Overall Performance" relating to the out-of-period adjustment.

Investing activities

Cash used in investing activities for the three months ended June 30, 2019 was \$39.2 million, compared to cash used in investing activities of \$21.4 million for the three months ended June 30, 2018. Current period investing activities largely relate to \$42.6 million for the purchase of property, plant and equipment, offset by \$2.4 million in proceeds from the disposal of property, plant and equipment and assets held for sale. Prior year investing activities included \$22.4 million for the purchase of property, plant and equipment, partially offset by \$0.9 million cash received on the disposal of property, plant and equipment and assets held for sale.

Cash used in investing activities for the six months ended June 30, 2019 was \$77.8 million, compared to cash used in investing activities of \$38.1 million for the six months ended June 30, 2018. Current period investing activities largely relate to \$83.7 million for the purchase of property, plant and equipment, offset by \$2.5 million in proceeds from the disposal of property, plant and equipment and assets held for sale and \$3.5 million of net repayments received primarily related to activity within Nuna. Prior year investing activities included \$41.2 million for the purchase of property, plant and equipment, partially offset by \$2.4 million cash received on the disposal of property, plant and equipment and assets held for sale.

Financing activities

Cash provided by financing activities during the three months ended June 30, 2019 was \$3.0 million, which included \$30.3 million credit facility repayments (offset by \$40.0 million in borrowings from credit facility), \$12.5 million repayment of promissory notes, an increase to financing obligations of \$17.5 million, and \$10.6 million in finance lease obligation repayments. Cash used in financing activities during the three months ended June 30, 2018 was \$13.6 million, which included \$14.0 million of credit facility repayments (offset by \$14.0 million in borrowings from credit facility), \$8.5 million in finance lease obligation repayments and \$4.8 million for repurchase and subsequent cancellation of common shares.

Cash used in financing activities during the six months ended June 30, 2019 was \$5.0 million, which included \$103.6 million credit facility repayments (offset by \$63.0 million in borrowings from credit facility), \$55.0 million in issuance of Convertible Debentures, \$14.0 million repayment of promissory notes, an increase to financing obligations of \$17.5 million, \$2.7 million in financing costs, \$19.6 million in finance lease obligation repayments, and a dividend payment of \$1.0 million. Cash used in financing activities during the six months ended June 30, 2018 was \$32.0 million, which included \$27.0 million of credit facility repayments (offset by \$19.0 million in borrowings from credit facility), \$15.9 million in finance lease obligation repayments, a dividend payment of \$1.0 million, \$7.1 million for repurchase and subsequent cancellation of common shares, and \$0.7 million for treasury share purchases.

Free Cash Flow

(dollars in thousands)	Three months ended		Six months ended	
	June 30,		June 30,	
	2019	2018	2019	2018
Cash provided by operating activities	\$ 33,225	\$ 25,789	\$ 80,673	\$ 64,825
Cash used in investing activities	(39,188)	(21,409)	(77,773)	(38,135)
Capital additions financed by leases	(624)	(1,418)	(28,107)	(17,902)
Add back:				
Growth capital additions (cash)	8,333	9,990	21,647	22,000
Subtract:				
Proceeds from equipment sale leasebacks	...	...	...	(1,268)
Free Cash Flow⁽ⁱ⁾	\$ 1,746	\$ 12,952	\$ (3,560)	\$ 29,520

⁽ⁱ⁾ See "Non-GAAP Financial Measures".

Free Cash Flow for the three months ended June 30, 2019 was generally break even as cash provided by operations was used to fund the required sustaining capital program for in the first half of 2019. Sustaining capital additions of \$35.1 million was invested in the second quarter (which includes lease additions of \$0.6 million) when compared to \$13.9 million in 2018. A significant portion of this capital spending was required to establish our maintenance standards with the newly acquired fleet and ensure reliable equipment availability moving forward. This spending, along with our routine capital maintenance of our heavy equipment fleet, more than fully offset Adjusted EBITDA of \$37.1 million and when factoring in cash interest paid of \$4.2 million and other working capital impacts, the business generated \$1.7 million of cash in the quarter.

Free Cash Flow for the six months ended June 30, 2019 followed a similar trend as Q2 but was a use of cash due to the Q1 capital program. Sustaining capital additions of \$90.3 million was invested in the year (including lease additions of \$28.1 million) when compared to \$37.2 million in 2018. As mentioned, a significant portion of this capital spending was required to establish our maintenance standards with the newly acquired fleet and ensure reliable equipment availability moving forward. This spending, along with our routine capital maintenance of our heavy equipment fleet, more than fully offset Adjusted EBITDA of \$89.2 million and when factoring in cash interest paid of \$9.1 million, the business required \$3.6 million of cash in the first six months.

Contractual Obligations

Our principal contractual obligations relate to our long-term debt, supplier contracts, finance leases for property, plant and equipment and operating leases for facilities. The following table summarizes our future contractual obligations, excluding interest payments on credit facilities and Convertible Debentures as early repayment is possible resulting in lower interest payments unless otherwise noted, as at June 30, 2019:

(dollars in thousands)	Total	Payments due by fiscal year				
		2019	2020	2021	2022	2023 and thereafter
Company Credit Facility ⁽ⁱ⁾	\$ 152,000	\$...	\$...	\$ 152,000	\$...	\$...
Nuna Credit Facility	2,322	573	1,113	636	...	...
Finance leases	102,367	20,178	31,965	23,229	16,696	10,299
Convertible Debentures ⁽ⁱⁱ⁾	94,031	...	...	...	...	94,031
Mortgage ⁽ⁱⁱⁱ⁾	23,201	684	1,368	1,368	1,368	18,413
Promissory notes	31,047	15,993	15,054	...	...	...
Operating leases ^(iv)	7,043	550	1,091	1,057	1,002	3,343
Non-lease components of lease commitments ^(v)	2,531	181	414	461	486	989
Financing obligations	19,028	1,896	3,793	3,793	3,793	5,753
Supplier contracts	16,912	16,912	...	...	...	...
Total contractual obligations	\$ 450,482	\$ 56,967	\$ 54,798	\$ 182,544	\$ 23,345	\$ 132,828

⁽ⁱ⁾ The Company Credit Facility bears interest at Canadian prime rate, U.S. Dollar Base Rate, Canadian bankers' acceptance or London interbank offered rate ("LIBOR") (all such terms are used or defined in the Company Credit Facility), plus applicable margins payable monthly.

⁽ⁱⁱ⁾ The 5.50% Convertible Debentures mature on March 31, 2024. Interest is payable in equal installments semi-annually in arrears on March 31 and September 30 of each year, commencing September 30, 2017. The 5.00% Convertible Debentures mature on March 31, 2026. Interest is payable in equal installments semi-annually in arrears on March 31 and September 30 of each year.

- (iii) The mortgage bears interest for the first five years at a fixed rate of 4.80% and is secured by a first security interest in our maintenance facility and head office complex in Acheson, Alberta.
- (iv) Operating leases are net of receivables on subleases of \$10,807 (2019 - \$1,539; 2020 - \$3,067; 2021 - \$3,052; 2022 - \$2,150; 2023 and thereafter - \$999).
- (v) Non-lease components of lease commitments are net of receivables on subleases of \$5,968 (2019 - \$734; 2020 - \$1,520; 2021 - \$1,521; 2022 - \$1,460; 2023 and thereafter - \$733). These commitments include common area maintenance, management fees, property taxes and parking related to operating leases.

Our total contractual obligations of \$450.5 million, as at June 30, 2019, have increased from \$420.6 million as at December 31, 2018 primarily as a result of the issuance of new 5.00% Convertible Debentures for \$55.0 million and new finance leases, offset by a reduction in borrowings on our Company Credit Facility and scheduled payments on our finance and operating leases. For a full discussion on the Company Credit Facility see "Company Credit Facility", below, and for a discussion on Convertible Debentures see "Securities and Agreements" below.

We have no off-balance sheet arrangements.

Credit Facilities

Company Credit Facility

On November 23, 2018, we entered into an Amended and Restated Credit Agreement (the "Company Credit Facility") with a syndicate led by National Bank Financial Inc. The Company Credit Facility is comprised solely of a revolving loan which allows borrowings of up to \$300.0 million, of which letters of credit may not exceed \$25.0 million with an ability to increase the maximum borrowings by an additional \$50.0 million, subject to certain conditions. This facility matures on November 23, 2021, with an option to extend on an annual basis. The Company Credit Facility permits capital lease debt to a limit of \$150.0 million and other debt outstanding to a limit of \$20.0 million.

As at June 30, 2019, the Company Credit Facility had \$0.9 million in issued letters of credit (December 31, 2018 - \$0.9 million) and borrowings of \$152.0 million (December 31, 2018 - \$192.0 million). At June 30, 2019, our borrowing availability under the Company Credit Facility was \$147.1 million (December 31, 2018 - \$107.1 million).

Under the terms of the Company Credit Facility the Senior Leverage Ratio is to be maintained at less than or equal to 4.0:1 with a step down to less than or equal to 3.50:1 at Q3 2019, and less than or equal to 3.0:1 at Q4 2019 and thereafter. In the event the Company enters into a material acquisition, the maximum allowable Senior Leverage Ratio would include a step up of 0.50x for four quarters following the acquisition once the covenant reverts to 3.0:1 at Q4 2019. The Fixed Charge Coverage Ratio is to be maintained at a ratio greater than 1.15:1.

Financial Covenants are to be tested quarterly on a trailing four quarter basis. As at June 30, 2019, we were in compliance with the Company Credit Facility covenants. The Senior Leverage Ratio is 2.10:1, as at June 30, 2019, in compliance with the maximum of 4.0:1. The Fixed Charge Coverage Ratio is 1.33:1, as at June 30, 2019, in compliance with the minimum of 1.15:1.

For a more complete discussion on our Company Credit Facility, including covenants, calculation of the borrowing base, the pricing margin schedule, allowable finance lease debt and our credit rating, see "Resources and Systems - Credit Facility" and "Resources and Systems - Debt Ratings" in our most recent annual MD&A for the year ended December 31, 2018.

Nuna Credit Facility

On December 8, 2018, Nuna renewed its facility and security agreement with ATB Financial (the "Nuna Credit Facility"). The Nuna Credit Facility has three financial covenants that must be tested. As at June 30, 2019, Nuna was in compliance with its covenants.

Securities and Agreements

Capital structure

We are authorized to issue an unlimited number of voting common shares and an unlimited number of non-voting common shares.

On June 12, 2014, we entered into a trust agreement whereby the trustee may purchase and hold common shares, classified as treasury shares on our consolidated balance sheets, until such time that units issued under the equity

classified long-term incentive plans are to be settled. Units granted under such plans typically vest at the end of a three-year term.

As at July,26, 2019, there were 27,345,572 voting common shares outstanding, which included 1,656,144 common shares held by the trust and classified as treasury shares on our consolidated balance sheets (27,344,472 common shares, including 2,090,391 common shares classified as treasury shares at June,30, 2019). We did not have non-voting common shares outstanding on any of the foregoing dates. Additionally, as at June,30, 2019, there were an aggregate of 397,040 vested and unvested options outstanding under our Amended and Restated 2004 Share Option Plan which, in the event of full vesting and exercise, would result in the issuance of 397,040 common voting shares.

For a more detailed discussion of our share data, see "Description of Securities and Agreements - Capital Structure" in our most recent AIF, which section is expressly incorporated by reference into this MD&A.

Convertible Debentures

On March 20, 2019, we issued \$55.0 million in aggregate principal amount of 5.00% convertible unsecured subordinated debentures. On March 15, 2017, we issued \$40.0 million in aggregate principal amount of 5.50% convertible unsecured subordinated debentures.

The terms of the Convertible Debentures are summarized as follows:

	Date of issuance	Maturity	Conversion price	Share equivalence per \$1000 debenture	Debt issuance costs
5.50% Convertible Debentures	March 15, 2017	March 31, 2024	\$ 10.85	\$ 92.1659	\$ 2,133
5.00% Convertible Debentures	March 20, 2019	March 31, 2026	\$ 26.25	\$ 38.0952	\$ 2,691

Interest on the Convertible Debentures is payable semi-annually on March 31 and September 30 of each year. Interest on the 5.00% Convertible Debentures is payable commencing on September 30, 2019.

The 5.50% Convertible Debentures are not redeemable prior to March 31, 2020 and the 5.00% Convertible Debentures are not redeemable. The Convertible Debentures are redeemable under certain conditions after a change in control has occurred. On or after March 31, 2020, the 5.50% Convertible Debentures are redeemable at the option of the Company, in whole or in part at a redemption price equal to the principal amount provided the market price of the common shares is at least 125% of the conversion price; and on or after March 31, 2022 at a redemption price equal to the principal amount, plus accrued and unpaid interest to the redemption date.

If a change in control occurs, the Company is required to offer to purchase the Convertible Debentures at a price equal to 101% of the principal amount plus accrued and unpaid interest to the date of purchase.

Debt Ratings

On October 3, 2018, S&P Global Ratings ("S&P") changed our company outlook from "stable" to "positive" while affirming our "B" long-term corporate credit rating. S&P changed the outlook to reflect the view that the 2018 acquisitions could result in positive rating action once these acquisitions are fully integrated and generate the estimated stronger operating cash flow and margins. S&P further confirmed that the financial risk profile could be raised to a "B+" if at least two full quarters of combined operations are in line with the enhanced estimates of operating and credit metric forecasts for 2019 and 2020.

For a discussion of our debt ratings, see the "Debt Ratings" section of our most recent AIF, which section is expressly incorporated by reference into this MD&A.

INTERNAL SYSTEMS AND PROCESSES

Evaluation of disclosure controls and procedures

Our disclosure controls and procedures are designed to provide reasonable assurance that information we are required to disclose is recorded, processed, summarized and reported within the time periods specified under Canadian and US securities laws. They include controls and procedures designed to ensure that information is accumulated and communicated to management, including the Chief Executive Officer and the Executive Vice President & Chief Financial Officer to allow timely decisions regarding required disclosures.

An evaluation was carried out under the supervision of and with the participation of management, including the Chief Executive Officer and the Executive Vice President & Chief Financial Officer of the effectiveness of our disclosure controls and procedures as defined in Rule 13a-15(e) under the US Securities Exchange Act of 1934, as amended, and in National Instrument 52-109 under the Canadian Securities Administrators Rules and Policies. Based on this evaluation, our Chief Executive Officer and the Executive Vice President & Chief Financial Officer concluded that as of June,30, 2019 such disclosure controls and procedures were effective.

Management's Report on Internal Control over Financial Reporting

There have been no changes to our internal controls over financial reporting (fICFR,) for the three and six months ended June 30, 2019 that have materially affected, or are reasonably likely to affect, our ICFR. With the adoption of Topic 842, we assessed and revised ICFR to reflect the changes to our processes. These changes have not materially affected, nor are they reasonably likely to affect, the effectiveness of our ICFR.

Critical Accounting Estimates

The preparation of our consolidated financial statements in conformity with US,GAAP requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities and the reported amounts of revenues and expenses during the reporting period. For a full discussion of our critical accounting estimates, see "Critical Accounting Estimates" in our annual MD&A for the year ended December 31, 2018.

Accounting Pronouncements

Accounting pronouncements recently adopted

- Leases
 - ‡ In February 2016, the FASB issued Accounting Standard Update ("ASU") No. 2016-02, Leases (Topic 842). This standard was adopted January 1, 2019 and the adoption had an impact on the Company's consolidated balance sheets where the Company was required to recognize right-of-use assets and lease liabilities for operating leases. However, there was no material adjustment to opening equity at January 1, 2019.

Issued accounting pronouncements not yet adopted

- Fair Value Measurement
 - ‡ In August 2018, the FASB issued ASU No. 2018-13, Fair Value Measurement (Topic 820), Disclosure Framework - Changes to the Disclosure Requirements for Fair Value Measurement. This ASU will be effective January 1, 2020 with early adoption permitted. We are assessing the effect that the adoption of this standard will have on our consolidated financial statements.
- Internal Use Software
 - ‡ In August 2018, the FASB issued ASU No. 2018-15, Intangibles - Goodwill and Other - Internal-Use Software (Subtopic 350-40), Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract. This ASU will be effective January 1, 2020 with early adoption permitted. We are assessing the effect that the adoption of this standard will have on our consolidated financial statements.
- Related Party Guidance for Variable Interest Entities
 - ‡ In October 2018, the FASB issued ASU 2018-17, Consolidation (Topic 810), Targeted Improvements to Related Party Guidance for Variable Interest Entities. This ASU will be effective January 1, 2020. We are assessing the effect that the adoption of this standard will have on our consolidated financial statements.

For a complete discussion of accounting pronouncements, see the "Recent accounting pronouncements" section of our Consolidated Financial Statements for the three and six months ended June 30, 2019 and notes that follow, which sections are expressly incorporated by reference into this MD&A.

Non-GAAP Financial Measures

A non-GAAP financial measure is generally defined by the Canadian regulatory authorities as one that purports to measure historical or future financial performance, financial position or cash flows, but excludes or includes amounts that would not be adjusted in the most comparable GAAP measures. In our MD&A, we use non-GAAP financial measures such as "gross profit", "margin", "EBIT", "EBITDA", "Adjusted EBITDA" (as defined in our new credit agreement), "Total Debt", "Net Debt", "Free Cash Flow", "Adjusted EPS" and "Backlog". We provide tables in this document that reconcile non-GAAP measures used to amounts reported on the face of the consolidated financial statements.

Gross profit and loss

"Gross profit" is defined as revenue less: project costs; equipment costs; and depreciation.

We believe that gross profit is a meaningful measure of our business as it portrays results before general and administrative overheads costs, amortization of intangible assets and the gain or loss on disposal of property, plant and equipment and assets held for sale. Management reviews gross profit to determine the profitability of operating activities, including equipment ownership charges and to determine whether resources, property, plant and equipment are being allocated effectively.

EBIT, Adjusted EBIT, EBITDA, Adjusted EBITDA, Adjusted net earnings and Adjusted EPS

"EBIT" is defined as net income (loss) before interest expense and income taxes.

"Adjusted EBIT" is defined as EBIT excluding the effects of unrealized foreign exchange gain or loss, realized and unrealized gain or loss on derivative financial instruments, cash and non-cash (liability and equity classified) stock-based compensation expense, gain or loss on disposal of property, plant and equipment, gain or loss on disposal of assets held for sale and certain other non-cash items included in the calculation of net income (loss).

"EBITDA" is defined as net income (loss) before interest expense, income taxes, depreciation and amortization.

"Adjusted EBITDA", which is defined as EBITDA excluding the effects of unrealized foreign exchange gain or loss, realized and unrealized gain or loss on derivative financial instruments, cash and non-cash (liability and equity classified) stock-based compensation expense, gain or loss on disposal of property, plant and equipment, gain or loss on disposal of assets held for sale and certain other non-cash items included in the calculation of net income (loss).

We believe that Adjusted EBITDA is a meaningful measure of business performance because it excludes interest, income taxes, depreciation, amortization, the effect of certain gains and losses and certain non-cash items that are not directly related to the operating performance of our business. Management reviews Adjusted EBITDA to determine whether property, plant and equipment are being allocated efficiently. In addition, we believe that Adjusted EBITDA is a meaningful measure as it excludes the financial statement impact of changes in the carrying value of the liability classified award plans as a result of movement of our share price.

"Adjusted net earnings" is defined as net income and comprehensive income available to shareholders excluding the effects of unrealized foreign exchange gain or loss, realized and unrealized gain or loss on derivative financial instruments, cash and non-cash (liability and equity classified) stock-based compensation expense, gain or loss on disposal of property, plant and equipment, gain or loss on disposal of assets held for sale and certain other non-cash items included in the calculation of net income (loss).

"Adjusted EPS" is defined as Adjusted net earnings, divided by the weighted-average number of common shares.

As EBIT, EBITDA, Adjusted EBITDA, Adjusted net earnings and Adjusted EPS are non-GAAP financial measures, our computations may vary from others in our industry. These measures should not be considered as alternatives to operating income or net income as measures of operating performance or cash flows and they have important limitations as analytical tools and should not be considered in isolation or as substitutes for analysis of our results as reported under US GAAP. For example, EBITDA, and Adjusted EBITDA do not:

- reflect our cash expenditures or requirements for capital expenditures or capital commitments or proceeds from capital disposals;
- reflect changes in our cash requirements for our working capital needs;

- reflect the interest expense or the cash requirements necessary to service interest or principal payments on our debt;
- include tax payments or recoveries that represent a reduction or increase in cash available to us; or
- reflect any cash requirements for assets being depreciated and amortized that may have to be replaced in the future.

Margin

We will often identify a relevant financial metric as a percentage of revenue and refer to this as a margin for that financial metric. "Margin" is defined as the financial number as a percent of total reported revenue. Examples where we use this reference and related calculation are in relation to "gross profit margin", "operating income margin", "net income (loss) margin", "EBIT margin", or "Adjusted EBITDA margin".

We believe that presenting relevant financial metrics as a percentage of revenue is a meaningful measure of our business as it provides the performance of the financial metric in the context of the performance of revenue. Management reviews margins as part of its financial metrics to assess the relative performance of its results.

Total Debt and Net Debt

"Total Debt" is defined as the sum of the outstanding principal balance (current and long-term portions) of: (i) finance leases; (ii) borrowings under our credit facilities (excluding outstanding Letters of Credit); and (iii) convertible unsecured subordinated debentures (the "Convertible Debentures"), (iv) mortgage, (v) promissory notes, and (vi) financing obligations. Our definition of Total Debt excludes deferred financing costs related to Total Debt. We believe Total Debt is a meaningful measure in understanding our complete debt obligations.

"Net Debt" is defined as Total Debt less cash and cash equivalents recorded on the balance sheets. Net Debt is used by us in assessing our debt repayment requirements after using available cash.

Free Cash Flow

"Free Cash Flow" is defined as cash from operations less cash used in investing activities (including capital lease additions but excluding cash used for growth capital expenditures, cash used for / provided by acquisitions and proceeds from equipment sale leaseback). We believe that Free Cash Flow is a relevant measure of cash available to service our Total Debt repayment commitments, pay dividends, fund share purchases and fund both growth capital expenditures and potential strategic initiatives.

Backlog

"Backlog" is a measure of the amount of secured work we have outstanding and, as such, is an indicator of a base level of future revenue potential. Backlog, while not a GAAP term is similar in nature and definition to the "transaction price allocated to the remaining performance obligations", defined under US GAAP and reported in "Note 6 - Revenue" in our financial statements. When the two numbers differ, a reconciliation is presented in "Financial Results - Backlog" in this MD&A.

We have set a policy that our definition of backlog will be limited to contracts or work orders with values exceeding \$1.0 million. In the event that our definition of backlog differs from the US GAAP defined "remaining performance obligations" we will provide a reconciliation between the US GAAP and non-GAAP values.

We define backlog as work that has a high certainty of being performed as evidenced by the existence of a signed contract or work order specifying job scope, value and timing. However, it should be noted that our long-term contracts typically allow our customers to unilaterally reduce or eliminate the scope of the contracted work without cause. These long-term contracts represent higher risk due to uncertainty of total contract value and estimated costs to complete; therefore, potentially impacting revenue recognition in future periods.

Our measure of backlog does not define what we expect our future workload to be. We work with our customers using cost-plus, time-and-materials, unit-price and lump-sum contracts. This mix of contract types varies year-by-year. Our definition of backlog results in the exclusion of cost-plus and time-and-material contracts performed under master service agreements or master use contracts where scope is not clearly defined. While contracts exist for a range of services to be provided under these service agreements, the work scope and value are not clearly defined.

LEGAL AND LABOUR MATTERS

Laws and Regulations and Environmental Matters

Please see fLaws and Regulations and Environmental Matters...Legal and Labour Matters,, in our most recent annual information form ("AIF") for a complete discussion on this topic.

Employees and Labour Relations

As at June,30, 2019, we had 174 salaried employees (June,30, 2018 - 145 salaried employees) and 1,715 hourly employees (June,30, 2018 - 1000 hourly employees) in our western Canadian operations (excluding employees employed by Nuna).,Of the hourly employees, approximately 83% of the employees are union members and work under collective bargaining agreements (June,30, 2018 - 82% of the employees). Our hourly workforce fluctuates according to the seasonality of our business and the staging and timing of projects by our customers. The hourly workforce for our ongoing operations ranges in size from approximately 700 employees to approximately 1,800 employees, depending on the time of year, types of work and duration of awarded projects. We also utilize the services of subcontractors in our business.,Subcontractors perform an estimated 7.0% to 10.0% of the work we undertake.

OUTLOOK

We believe that we have the contracted work to provide sufficient free cash flow to both de-lever our balance sheet and pursue opportunities to continue our top tier growth profile. We expect to reduce total debt by \$150 million from 2019 to 2021. Our confidence in this positive outlook is underpinned by the fact that over 75% of the revenue will be derived from work linked to oil sands production which has proved to be very resilient to oil price falls in recent years.

We continue to assess and adjust the size and mix of our fleet to reflect our current and anticipated future demand with a focus on continued increases of utilization and reduction of maintenance costs, which in turn produces the highest return on these capital assets. In early 2019, we intended to limit our annual sustaining capital expenditures to approximately \$75 million to \$85 million, net of normal equipment disposals, primarily related to essential capital maintenance and equipment replacement requirements, but also factoring in the cost of upgrading the acquired fleet. Due to the poorer than anticipated condition of the recently acquired equipment fleet, we now expect that the range for 2019 to be \$110 to \$120 million. We also believed that our annual growth capital expenditures could range from \$15 million to \$25 million to support our anticipated growth in revenue. Due to the compelling nature of several growth opportunities that required 2019 investment, we now expect that range to be \$40 to \$45 million. As mentioned above, we believe our contracted cash flow from operations, will be sufficient to meet these sustaining equipment and growth investment requirements as well as deliver on our 2019 to 2021 debt leverage objectives.

FORWARD-LOOKING INFORMATION

Our MD&A is intended to enable readers to gain an understanding of our current results and financial position. To do so, we provide information and analysis comparing results of operations and financial position for the current period to that of the preceding periods. We also provide analysis and commentary that we believe is necessary to assess our future prospects. Accordingly, certain sections of this report contain forward-looking information that is based on current plans and expectations. Our forward-looking information is information that is subject to known and unknown risks and other factors that may cause future actions, conditions or events to differ materially from the anticipated actions, conditions or events expressed or implied by such forward-looking information. Readers are cautioned that actual events and results may vary from the forward-looking information.

Forward-looking information is information that does not relate strictly to historical or current facts and can be identified by the use of the future tense or other forward-looking words such as •anticipate,, •believe,, •could,, •estimate,, •expect,, •possible,, "predict", •will, or the negative of those terms or other variations of them or comparable terminology.

Examples of such forward-looking information in this document include, but are not limited to, statements with respect to the following, each of which is subject to significant risks and uncertainties and is based on a number of assumptions which may prove to be incorrect:

- Our prediction of strong financial improvement in 2019, including 75% growth in revenue and 70% growth in Adjusted EBITDA, due to the two acquisitions made in late 2018 as well as other achievements and investments;
- Our expectation that we will continue to catch up on revenue curtailed in Q1 during Q3;
- Our expectation of profitability in each quarter of 2019;
- Our expectation that the one-time sustaining capital spend on the acquired heavy construction fleet will allow most of the assets to be operable as the year progresses;
- Our expectation that 2019 growth will be boosted and that we will experience a further stout improvement in 2020 and beyond due to recent growth capital expenditures;
- Our expectation of Adjusted EBITDA growth in 2020 of around 15% and Adjusted EPS in 2020 of over \$2.00;
- That G&A spending as a percentage of revenue will continue to benefit from Nuna's busy season through the entirety of Q3;
- The capital depreciation we expect on the heavy equipment fleet we operate;
- The amount of backlog we anticipate will be performed over 2019;
- Our expectation that the upper end of our combined sustaining and growth capital expenditures will be roughly \$165.0 million;
- Our belief that contracted cash flow from operations will meet our sustaining equipment and growth investment requirements as well as deliver on our 2019 to 2021 debt leverage objectives;
- Our belief that we have the contracted work to provide sufficient free cash flow to both de-lever our balance sheet and pursue opportunities to continue our top tier growth profile;
- Our expectation that we will be able to reduce total debt by \$150.0 million from 2019 to 2021, or alternatively that we will be able to reduce the debt reduction target to around \$100.0 million and use the differential to pursue share buybacks; and
- Our expectation that over 75% of our revenue will be derived from work linked to oil sands production between 2019 and 2021.

Assumptions

The material factors or assumptions used to develop the above forward-looking statements include, but are not limited to:

- that oil prices remain stable and do not drop significantly in 2019;
- that the Canadian dollar does not significantly appreciate in 2019;
- that oil sands production continues to be resilient to drops in oil prices due to our customer's desire to lower their operating cost per barrel;
- continuing demand for heavy construction and earthmoving services, including in non-oil sands projects;
- continuing demand for external heavy equipment maintenance services and our ability to hire and retain sufficient qualified personnel and to have sufficient maintenance facility capacity to capitalize on that demand;

- that we are able to maintain our expenses at current levels in proportion to our revenue;
- that work will continue to be required under our master services agreements with various customers and that such master services agreements will remain intact;
- our customers' ability to pay in timely fashion;
- the oil sands continuing to be an economically viable source of energy;
- our customers and potential customers continuing to outsource activities for which we are capable of providing services;
- our ability to maintain the right size and mix of equipment in our fleet and to secure specific types of rental equipment to support project development activity enables us to meet our customers' variable service requirements while balancing the need to maximize utilization of our own equipment and that our equipment maintenance costs are similar to our historical experience;
- our ability to access sufficient funds to meet our funding requirements will not be significantly impaired;
- our success in executing our business strategy, identifying and capitalizing on opportunities, managing our business, maintaining and growing our relationships with customers, retaining new customers, competing in the bidding process to secure new projects and identifying and implementing improvements in our maintenance and fleet management practices;
- our relationships with the unions representing certain of our employees continues to be positive; and
- our success in improving profitability and continuing to strengthen our balance sheets through a focus on performance, efficiency and risk management.

and are subject to the risks and uncertainties highlighted in our MD&A for the year ended December,31, 2018 and in our most recently filed Annual Information form.

While we anticipate that subsequent events and developments may cause our views to change, we do not have an intention to update this forward-looking information, except as required by applicable securities laws. This forward-looking information represents our views as of the date of this document and such information should not be relied upon as representing our views as of any date subsequent to the date of this document. We have attempted to identify important factors that could cause actual results, performance or achievements to vary from those current expectations or estimates expressed or implied by the forward-looking information. However, there may be other factors that cause results, performance or achievements not to be as expected or estimated and that could cause actual results, performance or achievements to differ materially from current expectations. **There can be no assurance that forward-looking information will prove to be accurate, as actual results and future events could differ materially from those expected or estimated in such statements. Accordingly, readers should not place undue reliance on forward-looking information.** These factors are not intended to represent a complete list of the factors that could affect us. See *fAssumptions,, below, fAssumptions,, and fBusiness Risk Factors,,* in our annual MD&A for the year ended December,31, 2018 and risk factors highlighted in materials filed with the securities regulatory authorities filed in the United States and Canada from time to time, including, but not limited to, our most recent Annual Information Form.

Market Risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices such as foreign currency exchange rates and interest rates. The level of market risk to which we are exposed at any point in time varies depending on market conditions, expectations of future price or market rate movements and composition of our financial assets and liabilities held, non-trading physical assets and contract portfolios. We have experienced no material change in market risk as of the quarter ended June,30, 2019. For a full discussion of market risk please see our annual MD&A for the year ended December,31, 2018.

ADDITIONAL INFORMATION

Our corporate head office is located at 27287 - 100 Avenue, Acheson, Alberta, T7X 6H8. Our corporate head office telephone and facsimile are 780-960-7171 and 780-969-5599, respectively.

Additional information relating to us, including our AIF dated December,31, 2018, can be found on the Canadian Securities Administrators System for Electronic Document Analysis and Retrieval ("SEDAR") database at www.sedar.com, the Securities and Exchange Commission's website at www.sec.gov and on our company website at www.nacg.ca.

Interim Consolidated Balance Sheets

(Expressed in thousands of Canadian Dollars)
(Unaudited)€

	June 30, 2019	December 31, 2018
Assets		
Current assets		
Cash	\$ 17,433	\$ 19,508
Accounts receivable (note 5)	71,150	82,399
Contract assets (note 6(c))	36,075	10,673
Inventories (note 2(b))	20,073	13,391
Prepaid expenses and deposits	3,377	3,736
	148,108	129,707
Property, plant and equipment, net of accumulated depreciation of \$276,202 (December 31, 2018 † \$248,885)	586,289	528,157
Operating lease right-of-use assets (note 3 and note 7)	14,871	...
Other assets	7,643	10,876
Investments in affiliates and joint ventures (note 8)	8,557	11,788
Deferred tax assets (note 9)	9,421	9,272
Total assets	\$ 774,889	\$ 689,800
Liabilities and shareholders' equity		
Current liabilities		
Accounts payable	\$ 89,089	\$ 63,460
Accrued liabilities	18,710	19,157
Contract liabilities (note 6(c))	2,776	4,032
Current portion of long-term debt (note 10(a))	32,882	29,996
Current portion of finance lease obligations (current portion of capital lease obligations as at December 31, 2018) (note 3 and note 7)	30,675	32,250
Current portion of operating lease liabilities (note 3 and note 7)	3,521	...
	177,653	148,895
Long-term debt (note 10(a))	277,266	265,962
Finance lease obligations (capital lease obligations as at December 31, 2018) (note 3 and note 7)	64,398	54,318
Operating lease liabilities (note 3 and note 7)	12,311	...
Other long-term obligations	22,177	25,623
Deferred tax liabilities (note 9)	47,427	44,787
	601,232	539,585
Shareholders' equity		
Common shares (authorized † unlimited number of voting common shares; issued and outstanding † June 30, 2019 - 27,344,472 (December 31, 2018 † 27,088,816)) (note 13(a))	224,346	221,773
Treasury shares (June 30, 2019 - 2,090,391 (December 31, 2018 - 2,084,611)) (note 13(a))	(11,794)	(11,702)
Additional paid-in capital	54,771	53,567
Deficit	(94,233)	(113,917)
Shareholders' equity attributable to common shareholders	173,090	149,721
Non-controlling interest	567	494
	173,657	150,215
Total liabilities and shareholders' equity	\$ 774,889	\$ 689,800

See accompanying notes to interim consolidated financial statements.

Interim Consolidated Statements of Operations and Comprehensive Income

(Expressed in thousands of Canadian Dollars, except per share amounts)
(Unaudited)†

	Three months ended		Six months ended	
	June 30,		June 30,	
	2019	2018	2019	2018
Revenue (note 6)	\$ 176,935	\$ 79,471	\$ 363,343	\$ 194,174
Project costs	73,938	31,793	144,429	73,256
Equipment costs (note 2(b))	57,432	26,990	114,485	55,247
Depreciation	22,099	11,037	51,380	29,229
Gross profit	23,466	9,651	53,049	36,442
General and administrative expenses	5,120	8,207	19,918	16,008
Loss on sublease	...	...	...	1,732
Gain on disposal of property, plant and equipment	(124)	(185)	(103)	(105)
Gain on disposal of assets held for sale	(395)	(155)	(372)	(197)
Amortization of intangible assets	293	88	501	241
Operating income before the undernoted	18,572	1,696	33,105	18,763
Interest expense, net (note 12)	5,123	1,622	10,584	3,441
Equity earnings in affiliates and joint ventures	(461)	...	(1,120)	...
Foreign exchange loss	23	33	19	23
Income before income taxes	13,887	41	23,622	15,299
Deferred income tax (benefit) expense (note 9)	(121)	8	2,354	4,135
Net income and comprehensive income	14,008	33	21,268	11,164
Net income attributable to non-controlling interest	(114)	...	(193)	...
Net income and comprehensive income available to shareholders	\$ 13,894	\$ 33	\$ 21,075	\$ 11,164
Per share information				
Net income - basic (note 13(b))	\$ 0.55	\$ 0.00	\$ 0.84	\$ 0.45
Net income - diluted (note 13(b))	\$ 0.45	\$ 0.00	\$ 0.70	\$ 0.38

See accompanying notes to interim consolidated financial statements.

Interim Consolidated Statements of Changes in Shareholders' Equity

(Expressed in thousands of Canadian Dollars)
(Unaudited)

	Common shares	Treasury shares	Additional paid-in capital	Deficit	Shareholders' equity attributable to common shareholders	Noncontrolling interest	Total Equity
Balance at December 31, 2017	\$ 231,020	\$ (12,350)	\$ 54,416	\$ (127,162)	\$ 145,924	\$,	\$ 145,924
Adoption of revenue accounting standard	...	...	...	(45)	(45)	...	(45)
Net income and comprehensive income	...	...	...	11,164	11,164	...	11,164
Exercised stock options	1,097	...	(438)	...	659	...	659
Stock-based compensation	...	...	1,795	...	1,795	...	1,795
Dividends (\$0.04 per share)	...	...	...	(997)	(997)	...	(997)
Share purchase program	(8,514)	...	1,396	...	(7,118)	...	(7,118)
Purchase of treasury shares for settlement of certain equity classified stock-based compensation	...	(663)	...	...	(663)	...	(663)
Balance at June 30, 2018	\$ 223,603	\$ (13,013)	\$ 57,169	\$ (117,040)	\$ 150,719	\$,	\$ 150,719
Balance at December 31, 2018	\$ 221,773	\$ (11,702)	\$ 53,567	\$ (113,917)	\$ 149,721	\$ 494	\$ 150,215
Net income and comprehensive income	...	...	...	21,075	21,075	193	21,268
Exercised stock options	1,628	...	(644)	...	984	...	984
Issuance of common shares related to conversion of Convertible Debentures	945	...	...	...	945	...	945
Stock-based compensation	...	...	1,848	...	1,848	...	1,848
Dividends (note 13(c)) (\$0.04 per share)	...	...	...	(1,008)	(1,008)	...	(1,008)
Purchase of treasury shares for settlement of certain equity classified stock-based compensation	...	(92)	...	...	(92)	...	(92)
Distributions to affiliate and joint venture partners	...	...	...	(383)	(383)	(120)	(503)
Balance at June 30, 2019	\$ 224,346	\$ (11,794)	\$ 54,771	\$ (94,233)	\$ 173,090	\$ 567	\$ 173,657

See accompanying notes to interim consolidated financial statements.

Interim Consolidated Statements of Cash Flows

(Expressed in thousands of Canadian Dollars)
(Unaudited)

	Three months ended		Six months ended	
	June 30,		June 30,	
	2019	2018	2019	2018
Cash provided by (used in):				
Operating activities:				
Net income and comprehensive income	\$ 14,008	\$ 33	\$ 21,268	\$ 11,164
Adjustments to reconcile to net cash from operating activities:				
Depreciation	22,099	11,037	51,380	29,229
Amortization of intangible assets	293	88	501	241
Amortization of deferred financing costs (note 12)	288	132	479	262
Loss on sublease	...	...	...	1,732
Gain on disposal of property, plant and equipment	(124)	(185)	(103)	(105)
Gain on disposal of assets held for sale	(395)	(155)	(372)	(197)
Stock-based compensation (benefit) expense	(872)	2,757	5,106	4,655
Cash settlement of directors' deferred share unit plan	(5,084)	...	(5,084)	...
Equity earnings in affiliates and joint venture	(461)	...	(1,120)	...
Other adjustments to cash from operating activities	254	(56)	187	(24)
Deferred income tax (benefit) expense	(121)	8	2,354	4,135
Net changes in non-cash working capital (note 14(b))	3,340	12,130	6,077	13,733
	<u>33,225</u>	<u>25,789</u>	<u>80,673</u>	<u>64,825</u>
Investing activities:				
Purchase of property, plant and equipment	(42,611)	(22,369)	(83,684)	(41,222)
Additions to intangible assets	(164)	(84)	(164)	(84)
Proceeds on disposal of property, plant and equipment	226	190	248	1,544
Proceeds on disposal of assets held for sale	2,184	752	2,278	862
Net repayment received on loans issued to affiliate and joint venture partners	1,177	102	3,549	765
	<u>(39,188)</u>	<u>(21,409)</u>	<u>(77,773)</u>	<u>(38,135)</u>
Financing activities:				
Decrease in credit facilities	(30,288)	(14,000)	(103,586)	(27,000)
Increase in credit facilities	40,000	14,000	63,000	19,000
Issuance of Convertible Debentures (note 10(c))	...	...	55,000	...
Mortgage payments	(105)	...	(174)	...
Promissory note payments	(12,479)	...	(13,961)	...
Proceeds from financing obligations (note 10(d))	17,524	f	17,524	f
Repayment of financing obligations	(242)	...	(242)	...
Financing costs	(288)	...	(2,703)	...
Repayment of finance lease obligations	(10,644)	(8,512)	(19,602)	(15,903)
Distribution paid to noncontrolling interest of affiliates	...	...	(120)	...
Dividend payment (note 13(c))	(503)	(505)	(1,003)	(1,015)
Proceeds from stock options exercised	53	252	984	659
Share purchase program	...	(4,827)	...	(7,118)
Purchase of treasury shares for settlement of certain equity classified stock-based compensation	(47)	(57)	(92)	(663)
	<u>2,981</u>	<u>(13,649)</u>	<u>(4,975)</u>	<u>(32,040)</u>
Decrease in cash	(2,982)	(9,269)	(2,075)	(5,350)
Cash, beginning of period	20,415	12,105	19,508	8,186
Cash, end of period	\$ 17,433	\$ 2,836	\$ 17,433	\$ 2,836

Supplemental cash flow information (note 14(a))

See accompanying notes to interim consolidated financial statements.

Notes to Interim Consolidated Financial Statements

For the three and six months ended June 30, 2019

(Expressed in thousands of Canadian Dollars, except per share amounts or unless otherwise specified)

(Unaudited)

1. Nature of operations

North American Construction Group Ltd. ("NACG" or the *f*Company,) was formed under the Canada Business Corporations Act. The Company and its predecessors have been operating continuously since 1953 primarily in western Canada providing a wide range of mining and heavy construction services to customers in the resource development and industrial construction sectors.

2. Significant accounting policies

a) Basis of presentation

These unaudited interim consolidated financial statements are prepared in accordance with United States generally accepted accounting principles ("US GAAP"). These consolidated financial statements include the accounts of the Company, its wholly-owned, Canadian and United States incorporated subsidiaries and, via certain of its subsidiaries, the Company also holds investments in other Canadian corporations, partnerships and joint ventures. All significant intercompany transactions and balances are eliminated upon consolidation.

The Company has prepared the accompanying unaudited interim consolidated financial statements on the same basis as its annual consolidated financial statements, except for the adoption of ASC Topic 842, Leases with a date of initial application of January 1, 2019. The impacts of the adoption on the Company's financial results are summarized in note 3. Significant changes to the Company's accounting policies as a result of adopting Topic 842 are detailed below.

The Company's full-year results are not likely to be a direct multiple of any particular quarter or combination of quarters due to seasonality. The Company's mining revenues are typically highest in the first quarter of each year as ground conditions are most favorable for this type of work in the Company's operating regions while the Company's civil construction revenues are typically highest during the third and fourth quarter, as weather conditions are most favorable for this type of work during these seasons. The Company's mining activity declines near the end of the first quarter and through a large portion of the second quarter, as weather conditions make operations in the Company's operating regions difficult. The duration of this period is referred to as *f*spring breakup,,, as frost leaves the ground and many secondary roads are temporarily rendered incapable of supporting the weight of heavy equipment. In addition to revenue variability, gross profit margins can be negatively affected in less active periods because the Company is likely to incur higher maintenance and repair costs due to its equipment being available for servicing.

b) Out-of-period inventory correction

During the second quarter of 2019, management performed a comprehensive review of its inventory accounting policy and determined that certain spare parts initially expensed upon purchase should instead be recorded as inventory when acquired and only expensed when ultimately utilized. As a result, inventories reported in previous periods were understated by the amount of spare parts that remained on hand at the respective balance sheet date. Previously reported equipment costs were overstated by the net amount of any such inventory purchased in excess of amounts utilized in a given reporting period. At June,30, 2019, the Company recorded an out-of-period correction to increase inventories and decrease equipment costs by \$3,822 (\$2,809, net of deferred tax) and \$2,775 (\$2,040 net of deferred tax) during the three and six months ended June 30, 2019, respectively. Management concluded the impact of these adjustments were not material to these interim or any previously issued financial statements.

c) Changes in significant accounting policies

Leases

The Company determines whether a contract is or contains a lease at inception of the contract. At the lease commencement date, the Company recognizes a right-of-use ("ROU") asset and a lease liability. The ROU asset for operating and finance leases are included in operating lease right-of-use assets and property, plant and equipment,

respectively, on the consolidated balance sheets. The lease liability for operating and finance leases are included in operating lease liabilities and finance lease obligations, respectively.

Operating and finance lease assets and liabilities are initially measured at the present value of lease payments at the commencement date. Subsequently, finance lease liabilities are measured at amortized cost using the effective interest rate method and operating lease liabilities are measured at the present value of unpaid lease payments.

As most of the Company's operating lease contracts do not provide the implicit interest rate, nor can the implicit interest rate be readily determined, the Company uses its incremental borrowing rate as the discount rate for determining the present value of lease payments. The Company's incremental borrowing rate for a lease is the rate that the Company would pay to borrow an amount equal to the lease payments on a collateralized basis over a similar term. The Company uses the lease implicit interest rate when it is determinable.

The lease term for all of the Company's leases includes the non-cancellable period of the lease plus any period covered by options to extend (or not to terminate) the lease term when it is reasonably certain that the Company will exercise that option.

Lease payments are comprised of fixed payments owed over the lease term and the exercise price of a purchase option if the Company is reasonably certain to exercise the option. The ROU assets for both operating and finance leases are initially measured at cost, which consists of the initial amount of the lease liability adjusted for lease payments made at or before the lease commencement date, plus any initial direct costs incurred, less any lease incentives received. Subsequently, the ROU assets for finance leases are amortized on a straight-line basis from the lease commencement date to the earlier of the end of its useful life or the end of the lease term. ROU asset depreciation expense is recognized and presented separately from interest expense on the lease liability through depreciation and interest expense, net, respectively. The ROU asset for operating leases is measured at the amortized value of the ROU asset. Amortization of the ROU asset is calculated as the current-period lease cost adjusted by the lease liability accretion to the then outstanding lease balance. Lease expense of the operating lease ROU asset is recognized on a straight-line basis over the remaining lease term through general and administrative expenses.

ROU assets for operating and finance leases are reduced by any accumulated impairment losses. The Company's existing accounting policy for impairment of long-lived assets is applied to determine whether an ROU asset is impaired, and if so, the amount of the impairment loss to be recognized.

The Company monitors for events or changes in circumstances that require a reassessment of one or more of its leases. When a reassessment results in the remeasurement of a lease liability, a corresponding adjustment is made to the carrying amount of the corresponding ROU asset.

The Company generally accounts for contracts with lease and non-lease components separately. This involves allocating the consideration in the contract to the lease and non-lease components based on each component's relative standalone price. For certain leases, the Company has elected to apply the practical expedient to account for the lease and non-lease components together as a single lease component. Non-lease components include common area maintenance and machine maintenance. For those leases, the lease payments used to measure the lease liability include all of the fixed consideration in the contract.

ROU assets and lease liabilities for all leases that have a lease term of 12 months or less ("short-term leases") are not recognized. The Company recognizes its short-term lease payments as an expense on a straight-line basis over the lease term. Short-term lease variable payments are recognized in the period in which the payment is assessed.

The Company has entered into contracts to sublease certain operating property leases to third parties and generally accounts for lease and non-lease components of subleases separately.

3. Accounting pronouncements recently adopted

a) Leases

The Company adopted the new standard for leases, Topic 842, effective January 1, 2019. The Company applied the Modified Retrospective method where the cumulative effect adjustment is recognized to the opening balance of equity at January 1, 2019. As a result, the Company was not required to adjust its comparative period financial information for effects of the standard or make the new required lease disclosures for periods before the date of adoption (i.e. January 1, 2019). The Company elected to adopt the package of practical expedients available upon

transition, and therefore has not reassessed: (1) whether expired or existing contracts contain leases under the new definition of a lease, (2) lease classification for expired or existing leases, or (3) whether previously capitalized initial direct costs would qualify for capitalization under Topic 842. In addition, the Company elected to use hindsight when considering the likelihood that lessee options to extend or terminate a lease or purchase the underlying assets will be exercised. The adoption of this new standard had an impact on the Company's consolidated balance sheets where the Company was required to recognize ROU assets and lease liabilities for operating leases. However, there was no adjustment to opening equity at January 1, 2019.

As a result of adoption Topic 842, on January 1, 2019 the Company recognized operating lease liabilities of \$17,410 (of which \$3,407 was current and \$14,003 was non-current) and operating lease ROU assets of \$16,021. ROU assets are net of \$1,389 related to deferred lease inducements previously included in other long-term obligations. In addition, the Company reclassified its capital lease obligations (of which \$32,250 was current and \$54,318 was non-current) to the corresponding finance lease obligations captions on the consolidated balance sheets.

The following table provides the Company's future minimum lease payments as at December 31, 2018 under Topic 840, prior to the adoption of Topic 842:

	Capital Leases	Operating Leases
2019	\$ 33,886	\$ 6,003
2020	23,843	6,091
2021	15,115	6,091
2022	11,621	5,098
2023 and thereafter	6,308	12,382
Total minimum lease payments	\$ 90,773	\$ 35,665
Less: amount representing interest (at rates ranging from 2.48% to 7.51%)	(4,205)	
Carrying amount of minimum lease payments	\$ 86,568	

4. Recent accounting pronouncements not yet adopted

a) Fair value measurement

In August 2018, the FASB issued ASU 2018-13, Fair Value Measurement (Topic 820), Disclosure Framework - Changes to the Disclosure Requirements for Fair Value Measurement. This accounting standard update was issued to improve the effectiveness of disclosure requirements on fair value measurement. This standard is effective January 1, 2020 with early adoption permitted. The Company is assessing the impact the adoption of this standard will have on its consolidated financial statements.

b) Internal-use software

In August 2018, the FASB issued ASU 2018-15, Intangibles - Goodwill and Other - Internal-Use Software (Subtopic 350-40), Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement that is a Service Contract. This accounting standard update was issued to clarify the accounting for implementation costs in cloud computing arrangements. This standard is effective January 1, 2020 with early adoption permitted. The Company is assessing the impact the adoption of this standard will have on its consolidated financial statements.

c) Related party guidance for variable interest entities

In October 2018, the FASB issued ASU 2018-17, Consolidation (Topic 810), Targeted Improvements to Related Party Guidance for Variable Interest Entities. This accounting standard update was issued to provide an update for determining whether a decision-making fee is a variable interest requiring reporting entities to consider indirect interests held through related parties under common control on a proportional basis rather than as the equivalent of a direct interest in its entirety. This standard is effective January 1, 2020. The Company is assessing the impact the adoption of this standard will have on its consolidated financial statements.

5. Accounts receivable

	June 30, 2019	December 31, 2018
Trade	\$ 52,293	\$ 67,913
Holdbacks	3,375	558
Accrued trade receivables	10,662	9,807
Contract receivables	\$ 66,330	\$ 78,278
Other	4,820	4,121
	<u>\$ 71,150</u>	<u>\$ 82,399</u>

6. Revenue

a) Disaggregation of revenue

	Three months ended June 30,		Six months ended June 30,	
	2019	2018	2019	2018
Revenue by source				
Construction services	\$ 52,073	\$ 8,704	\$ 63,700	\$ 25,138
Operations support services	124,862	70,767	299,643	169,036
	<u>\$ 176,935</u>	<u>\$ 79,471</u>	<u>\$ 363,343</u>	<u>\$ 194,174</u>
By commercial terms				
Time-and-materials	\$ 69,622	\$ 35,040	\$ 120,893	\$ 62,427
Unit-price	107,313	44,431	242,450	126,759
Cost-plus	...	...	...	4,988
	<u>\$ 176,935</u>	<u>\$ 79,471</u>	<u>\$ 363,343</u>	<u>\$ 194,174</u>
Revenue recognition method				
Cost-to-cost percent complete	\$ 59,132	\$ 32,848	\$ 177,081	\$ 106,902
As-invoiced	117,803	46,623	186,262	87,272
	<u>\$ 176,935</u>	<u>\$ 79,471</u>	<u>\$ 363,343</u>	<u>\$ 194,174</u>

b) Customer revenues

The following customers accounted for 10% or more of total revenues:

	Three months ended June 30,		Six months ended June 30,	
	2019	2018	2019	2018
Customer A	32%	48%	34%	43%
Customer B	28%	...%	22%	...%
Customer C	17%	18%	22%	25%
Customer D	17%	21%	17%	19%

c) Contract balances

The following table provides information about significant changes in the contract assets:

	Three months ended June 30,		Six months ended June 30,	
	2019	2018	2019	2018
Balance, beginning of period	\$ 29,507	\$ 11,350	\$ 10,673	\$ 21,572
Transferred to receivables from contract assets recognized at the beginning of the period	(21,951)	(4,858)	(3,116)	(14,700)
Increases as a result of changes to the estimate of the stage of completion, excluding amounts transferred in the period	14,520	2,338	14,408	1,934
Increases as a result of work completed, but not yet an unconditional right to consideration	13,999	18	14,110	42
Balance, end of period	<u>\$ 36,075</u>	<u>\$ 8,848</u>	<u>\$ 36,075</u>	<u>\$ 8,848</u>

The following table provides information about significant changes in the contract liabilities:

	Three months ended June 30,		Six months ended June 30,	
	2019	2018	2019	2018
Balance, beginning of period	\$ 1,982	\$ 2,466	\$ 4,032	\$ 824
Revenue recognized that was included in the contract liability balance at the beginning of the period	(798)	(1,693)	(2,848)	(56)
Increases due to cash received, excluding amounts recognized as revenue during the period	1,592	...	1,592	5
Balance, end of period	\$ 2,776	\$ 773	\$ 2,776	\$ 773

The following table provides information about revenue recognized from performance obligations that were satisfied (or partially satisfied) in previous periods:

	Three months ended June 30,		Six months ended June 30,	
	2019	2018	2019	2018
Revenue recognized	\$ (214)	\$ 1,858	\$ 1,479	\$ 3,787

These amounts relate to cumulative catch-up adjustments arising from changes in estimated project costs on cost-to-cost percent complete jobs and final settlement of constrained variable consideration.

d) Unpriced contract modifications

The Company recognized revenue from variable consideration related to unpriced contract modifications for the six months ended June 30, 2019 of \$3,039 (six months ended June 30, 2018 - \$49).

The table below represents the classification of such uncollected consideration on the balance sheets:

	June 30, 2019	December 31, 2018
Contract assets	\$ 10,358	\$ 7,526

e) Transaction price allocated to the remaining performance obligations

The following table includes estimated revenue expected to be recognized in the future related to performance obligations that are unsatisfied (or partially unsatisfied) at the end of the reporting period. Included is all consideration from contracts with customers, excluding amounts that are recognized using the as-invoiced method and any constrained amounts of revenue.

For the year ended December 31,	
2019 (excluding the six months ended June 30, 2019)	\$ 107,261
2020	5,661
	\$ 112,922

7. Leases

The Company has finance and operating leases for heavy equipment, shop facilities, vehicles and office facilities. These leases have lease terms of 1 to 10 years, with options to extend on certain leases for terms up to 5 years.

a) Lease expenses and income

	Three months ended	Six months ended
	June 30, 2019	June 30, 2019
Depreciation of equipment under finance leases	\$ 6,658	\$ 15,509
Short-term lease expense	10,206	17,538
Operating lease expense	1,058	2,116
Operating lease income	769	1,539

The Company generates operating lease income from the sublease of certain office facilities.

b) Supplemental balance sheet information

	June 30, 2019
Net book value of property, plant and equipment under finance leases	\$ 151,684
Weighted-average remaining lease term (in years):	
Finance leases	3.40
Operating leases	4.32
Weighted-average discount rate:	
Finance leases	3.99%
Operating leases	5.00%

c) Maturity analysis

The future minimum lease payments and receipts from non-cancellable operating leases as at June,30, 2019 for the periods shown are as follows:

For the year ending December 31,	Payments		Receipts
	Finance Leases	Operating Leases	Operating leases
2019 (excluding the six months ended June 30, 2019)	\$ 20,178	\$ 2,089	\$ 1,539
2020	31,965	4,158	3,067
2021	23,229	4,109	3,052
2022	16,696	3,152	2,150
2023	8,206	1,666	999
2024 and thereafter	2,093	2,676	...
Total minimum lease payments	\$ 102,367	\$ 17,850	\$ 10,807
Less: amount representing interest (rates from 2.48% to 7.51%)	(7,294)	(2,018)	
Carrying amount of minimum lease payments	\$ 95,073	\$ 15,832	

8. Investments in affiliates and joint ventures

a) Nuna Group of Companies ("Nuna")

The Company accounts for the NL Partnership and its wholly-owned subsidiaries using proportionate consolidation and accounts for Nuna East Ltd., Nuna West Mining Ltd. and Nuna Pang Contracting Ltd. using the equity method.

The NL Partnership holds other investments in various affiliates and joint ventures.

The following table summarizes the movement in the investments in affiliates and joint ventures balance:

	Three months ended June 30,		Six months ended June 30,	
	2019	2018	2019	2018
Balance, beginning of the period	\$ 9,385	\$...	\$ 11,788	\$...
Share of net income	461	...	1,120	...
Distributions to partners	(1,289)	...	(4,351)	...
Balance, end of the period	\$ 8,557	\$...	\$ 8,557	\$...

The financial information for the investments in affiliates and joint ventures accounted for using the equity method is summarized as follows:

Balance Sheets

	June 30, 2019	December 31, 2018
Assets		
Current assets	\$ 8,743	\$ 9,769
Non-current assets	1,816	2,392
Total assets	\$ 10,559	\$ 12,161
Liabilities		
Current liabilities	\$ 2,320	\$ 4,013
Non-current liabilities	2,913	3,032
Total liabilities	\$ 5,233	\$ 7,045

Statement of Operations and Comprehensive Income

	Three months ended		Six months ended	
	June 30,		June 30,	
	2019	2018	2019	2018
Revenues	\$ 5,699	\$...	\$ 10,546	\$...
Gross profit	738	...	1,593	...
Income before taxes	809	...	1,579	...
Net income and comprehensive income	\$ 461	\$...	\$ 1,120	\$...

b) Mikisew North American Limited Partnership (fMNALP,,) and Dene North Site Services Partnership ("DNSS")

The Company holds a 49% interest in MNALP and DNSS, which are unincorporated partnerships. MNALP and DNSS are considered VIEs due to insufficient equity to finance activities without subordinated financial support. The Company determined that it does not meet the definition of the primary beneficiary because it does not have the exclusive right to direct the activities of MNALP and DNSS that most significantly impact economic performance. The Company accounts for its interest in these partnerships using proportionate consolidation.

9. Income taxes

On June 28th, the Province of Alberta signed into legislation Bill 3, reducing the Alberta general corporate income tax rate. Effective July 1, 2019, the Alberta general corporate income tax rate will be reduced from 12% to 11% and will continue to decrease by 1% annually on January 1, through 2022. Due to the reduction in Alberta general corporate income tax rate, the Company has remeasured its deferred tax assets and deferred tax liabilities as at June 30, 2019. As a result of this remeasurement, the Company has recorded a decrease in deferred income tax expense of \$3,476 during the three months ended June 30, 2019.

10. Long-term debt

a) Long-term debt amounts are as follows:

	June 30, 2019	December 31, 2018
Credit facilities (note 10(b))	\$ 154,332	\$ 194,918
Convertible Debentures (note 10(c))	94,031	39,976
Mortgage	19,726	19,900
Promissory notes	28,976	42,937
Financing obligations (note 10(d))	17,282	...
Unamortized deferred financing costs	(4,199)	(1,773)
	\$ 310,148	\$ 295,958
Less: current portion of long-term debt	(32,882)	(29,996)
	\$ 277,266	\$ 265,962

b) Credit facilities

	June 30, 2019	December 31, 2018
Company Credit Facility (note 10(b(i)))	\$ 152,000	\$ 192,000
Nuna credit facility (note 10(b(ii)))	2,332	2,918
	\$ 154,332	\$ 194,918

i) Company Credit Facility

On November 23, 2018, the Company entered into an Amended and Restated Credit Agreement (the "Company Credit Facility") with a banking syndicate led by National Bank Financial Inc. The Company Credit Facility is comprised solely of a revolving loan which allows borrowings of up to \$300.0 million, of which letters of credit may not exceed \$25.0 million, with an ability to increase the maximum borrowings by an additional \$50.0 million, subject to certain conditions. This facility matures on November 23, 2021, with an option to extend on an annual basis. The Company Credit Facility provides for a finance lease limit of \$150.0 million and other debt outstanding limit of \$20.0 million.

As at June 30, 2019, there was \$0.9 million (December 31, 2018 - \$0.9 million) in issued letters of credit under the Company Credit Facility and the unused borrowing availability was \$147.1 million (December 31, 2018 - \$107.1 million).

The Company Credit Facility has financial covenants that must be tested quarterly on a trailing four-quarter basis. The financial covenants consist of senior leverage and fixed charge coverage ratios. As at June 30, 2019, the Company was in compliance with its financial covenants.

The Company Credit Facility bears interest at Canadian prime rate, U.S. Dollar Base Rate, Canadian bankers' acceptance rate or London interbank offered rate ("LIBOR") (all such terms as used or defined in the Company Credit Facility), plus applicable margins. The Company is also subject to non-refundable standby fees, 0.35% to 0.65% depending on the senior leverage ratio, based on the undrawn portion of the Company Credit Facility. The Company Credit Facility is secured by a first priority lien on all of the Company's existing and after-acquired property.

ii) Nuna credit facility

On December 8, 2018, Nuna renewed its facility and security agreement with ATB Financial (the "Nuna Credit Facility"). The Nuna Credit Facility has three financial covenants that must be tested. As at June 30, 2019, Nuna was in compliance with its covenants.

c) Convertible Debentures

The Company has issued convertible unsecured subordinated debentures, collectively referred to as the "Convertible Debentures".

	June 30, 2019	December 31, 2018
5.50% Convertible Debentures	\$ 39,031	\$ 39,976
5.00% Convertible Debentures	55,000	...
	<u>\$ 94,031</u>	<u>\$ 39,976</u>

The terms of the Convertible Debentures are summarized as follows:

	Date of issuance	Maturity	Conversion price	Share equivalence per \$1000 debenture	Debt issuance costs
5.50% Convertible Debentures	March 15, 2017	March 31, 2024	\$ 10.85	\$ 92.1659	\$ 2,133
5.00% Convertible Debentures	March 20, 2019	March 31, 2026	\$ 26.25	\$ 38.0952	\$ 2,691

Interest on the Convertible Debentures is payable semi-annually on March 31 and September 30 of each year.

The 5.50% Convertible Debentures are not redeemable prior to March 31, 2020 and the 5.00% Convertible Debentures are not redeemable. The Convertible Debentures are redeemable under certain conditions after a change in control has occurred. On or after March 31, 2020, the 5.50% Convertible Debentures are redeemable at the option of the Company, in whole or in part at a redemption price equal to the principal amount provided the market price of the common shares is at least 125% of the conversions price; and on or after March 31, 2022 at a redemption price equal to the principal amount, plus accrued and unpaid interest to the redemption date.

If a change in control occurs, the Company is required to offer to purchase the Convertible Debentures at a price equal to 101% of the principal amount plus accrued and unpaid interest to the date of purchase.

d) Financing obligations

In June 2019, the Company entered into a sale-leaseback transaction for \$17,524. Control of the assets never transferred, and therefore, the obligations are accounted for as financing transactions rather than finance leases. The finance contracts are secured by property, plant and equipment, bear interest at rates between 3.20% and 3.34%, and expire June 2024.

11. Financial instruments and risk management

a) Fair value measurements

In determining the fair value of financial instruments, the Company uses a variety of methods and assumptions that are based on market conditions and risks existing on each reporting date. Standard market conventions and techniques, such as discounted cash flow analysis and option pricing models, are used to determine the fair value of the Company's financial instruments, including derivatives. All methods of fair value measurement result in a general approximation of value and such value may never actually be realized.

The fair values of the Company's cash, accounts receivable, contract assets, loan to partnership, accounts payable, accrued liabilities and contract liabilities approximate their carrying amounts due to the relatively short periods to maturity for the instruments.

Financial instruments with carrying amounts that differ from their fair values are as follows:

	Fair Value Hierarchy Level	June 30, 2019		December 31, 2018	
		Carrying Amount	Fair Value	Carrying Amount	Fair Value
Credit facilities	Level 3	\$ 154,332	\$ 154,332	\$ 194,918	\$ 194,918
Convertible Debentures	Level 2	94,031	106,570	39,976	48,371
Mortgage	Level 2	19,726	19,726	19,900	19,900
Promissory notes	Level 2	28,976	28,976	42,937	42,937
Financing obligations	Level 2	17,282	17,282	...	...
Finance lease obligations	Level 2	95,073	86,057	86,568	78,373

Non-financial assets measured at estimated fair market value on a non-recurring basis as at June 30, 2019 and December 31, 2018 in the financial statements are summarized below:

	June 30, 2019		December 31, 2018	
	Change in Fair Value	Carrying Amount	Change in Fair Value	Carrying Amount
Assets held for sale	\$ (185)	\$ 490	\$ (1,278)	\$ 672

Assets held for sale are reported at the lower of their carrying amount or estimated fair value less cost to sell. The change in fair value includes the write-down related to the carrying amount as at the balance sheet dates. The estimated fair market value less cost to sell of equipment assets held for sale is determined internally by analyzing recent auction prices for equipment with similar specifications and hours used, the residual value of the asset and the useful life of the asset. The estimated fair market value of the equipment assets held for sale are classified under Level 3 of the fair value hierarchy.

12. Interest expense, net

	Three months ended June 30,		Six months ended June 30,	
	2019	2018	2019	2018
Interest on finance lease obligations	\$ 1,020	\$ 809	\$ 1,943	\$ 1,577
Interest on credit facilities	2,107	175	4,863	616
Interest on Convertible Debentures	1,221	549	1,850	1,091
Interest on mortgage	238	...	476	...
Interest on promissory notes	293	...	1,035	...
Amortization of deferred financing costs	288	132	479	262
Interest expense	\$ 5,167	\$ 1,665	\$ 10,646	\$ 3,546
Interest income	(44)	(43)	(62)	(105)
	\$ 5,123	\$ 1,622	\$ 10,584	\$ 3,441

13. Shares

a) Common shares

Issued and outstanding:

The Company is authorized to issue an unlimited number of voting and non-voting common shares.

	Common shares	Treasury shares	Common shares outstanding, net of treasury shares
Voting common shares			
Number of common shares outstanding as at December 31, 2018	27,088,816	(2,084,611)	25,004,205
Issued upon exercise of stock options	168,560	...	168,560
Issued upon conversion of Convertible Debentures	87,096	...	87,096
Purchase of treasury shares for settlement of certain equity classified stock-based compensation	...	(5,780)	(5,780)
Issued and outstanding at June 30, 2019	27,344,472	(2,090,391)	25,254,081

b) Net income per share

	Three months ended June 30,		Six months ended June 30,	
	2019	2018	2019	2018
Net income available to common shareholders	\$ 13,894	\$ 33	\$ 21,075	\$ 11,164
Interest from Convertible Debentures (after tax)	1,026	...	1,550	888
Diluted net income available to common shareholders	\$ 14,920	\$ 33	\$ 22,625	\$ 12,052
Weighted-average number of common shares	25,253,970	24,718,484	25,170,150	25,000,063
Weighted-average effect of dilutive securities				
Dilutive effect of treasury shares	2,090,282	2,715,491	2,088,921	2,683,672
Dilutive effect of stock options	267,244	233,861	297,409	258,950
Dilutive effect of 5.50% Convertible Debentures	3,597,327	...	3,597,327	3,686,636
Dilutive effect of 5.00% Convertible Debentures	2,095,236	...	1,192,317	...
Weighted-average number of diluted common shares	33,304,059	27,667,836	32,346,124	31,629,321
Basic net income per share	\$ 0.55	\$ 0.00	\$ 0.84	\$ 0.45
Diluted net income per share	\$ 0.45	\$ 0.00	\$ 0.70	\$ 0.38

For the three months ended June 30, 2018, there were 155,232 stock options and 3,686,636 shares issuable on conversion of 5.50% Convertible Debentures that were anti-dilutive and therefore not considered in computing diluted earnings per share.

For the six months ended June 30, 2018, there were 176,269 stock options that were anti-dilutive and therefore not considered in computing diluted earnings per share.

c) Dividends

On April,30, 2019, the Company declared its second quarter 2019 dividend of \$0.02 per share payable to shareholders of record as of May,31, 2019. At June,30, 2019, the dividend payable of \$505 was included in accrued liabilities and was subsequently paid to shareholders on July,5, 2019.

On February,25, 2019, the Company declared its first quarter 2019 dividend of \$0.02 per share totaling \$503 which was paid on April,5, 2019 to shareholders of record as of March,12, 2019.

14. Other information

a) Supplemental cash flow information

	Three months ended June 30,		Six months ended June 30,	
	2019	2018	2019	2018
Cash paid during the period for:				
Interest	\$ 4,209	\$ 1,207	\$ 9,109	\$ 3,524
Operating leases included in cash from operations (note 3)	1,059	...	2,117	...
Cash received during the period for:				
Interest	44	28	58	32
Operating subleases included in cash from operations (note 3)	769	...	1,539	...
Non-cash transactions:				
Addition of property, plant and equipment by means of finance leases	624	1,418	28,107	17,902
Net increase (decrease) in assets held for sale, offset by property, plant and equipment	1,159	421	1,870	(911)
Non-cash working capital adjustments:				
Net decrease in contract assets related to adoption of revenue accounting standard	...	...	...	(547)
Net increase in other assets related to adoption of revenue accounting standard	...	...	...	502
Net increase in accounts payable related to purchase of intangible assets	(12)	...	...	...
Net decrease in accrued liabilities related to conversion of bonus compensation to deferred stock units	...	...	428	326
Net decrease in long term portion of payroll liabilities	102	...	102	...
Net (increase) decrease in accrued liabilities related to dividend payable	(2)	12	(5)	18

b) Net change in non-cash working capital

The table below represents the cash (used in) provided by non-cash working capital:

	Three months ended June 30,		Six months ended June 30,	
	2019	2018	2019	2018
Operating activities:				
Accounts receivable	\$ 223	\$ 9,554	\$ 11,249	\$ (6,336)
Contract assets	(6,568)	2,502	(25,402)	12,177
Inventories (note 2(b))	(4,853)	(1,345)	(6,682)	(1,447)
Contract costs	502	144	2,009	(166)
Prepaid expenses and deposits	394	(326)	452	(1,152)
Accounts payable	9,305	3,045	25,629	13,388
Accrued liabilities	3,543	249	78	(2,680)
Contract liabilities	794	(1,693)	(1,256)	(51)
	\$ 3,340	\$ 12,130	\$ 6,077	\$ 13,733

15. Related party transactions

A director of the Company is the President and Chief Executive Officer of a business that subleases space from the Company. The sublease was entered into several years before the director's appointment. During the three and six months ended June 30, 2019, the Company recorded \$79 and \$157, respectively, of sublease proceeds (three and six months ended June 30, 2018 - \$79 and \$157, respectively).

As of June 30, 2019, the Company had subsidiaries that it controlled and included in its consolidated financial statements. These subsidiaries are listed in the Company's December 31, 2018 annual consolidated financial statements. The Company also enters into related party transactions through a number of affiliates and joint ventures. These transactions involve providing or receiving services entered into in the normal course of business. For the quarter ended June 30, 2019, such related party transactions were not material.

16. Comparative figures

Certain comparative figures have been reclassified from statements previously presented to conform to the presentation of the current year.