

Management's Discussion and Analysis

MAY 10, 2017

This discussion and analysis of Stantec Inc.'s (Stantec or the Company) operations, financial position, and cash flows for the quarter ended March 31, 2017, dated May 10, 2017, should be read in conjunction with the Company's unaudited interim condensed consolidated financial statements and related notes for the quarter ended March 31, 2017; the Management's Discussion and Analysis and audited consolidated financial statements and related notes included in our 2016 Annual Report filed on February 23, 2017; and the Report to Shareholders contained in our 2017 First Quarter Report. Our unaudited interim consolidated financial statements and related notes for the quarter ended March 31, 2017, are prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB). We continue to use the same accounting policies and methods as we used in 2016 in addition to the new accounting policy regarding assets held for sale described in note 9 of our interim consolidated financial statements for the quarter ended March 31, 2017 (incorporated here by reference).

All amounts shown in this report are in Canadian dollars unless otherwise indicated. Additional information regarding our Company, including our Annual Information Form, is available on SEDAR at sedar.com and on EDGAR at sec.gov. Such additional information is not incorporated here by reference, unless otherwise specified, and should not be deemed to be part of this Management's Discussion and Analysis.

Core Business and Strategy

Our Company's work—engineering, architecture, interior design, landscape architecture, surveying, environmental sciences, construction services, project management, and project economics, from initial project concept and planning through design, construction, commissioning, maintenance, decommissioning, and remediation—begins at the intersection of community, creativity, and client relationships. By integrating our expertise, we are able to provide our clients with a vast number of project solutions. We believe this integrated approach enables us to execute our operating philosophy by maintaining a world-class level of expertise, which we supply to our clients through the strength of our local offices.

Our business objective is to be a top 10 global design firm, and our focus is to provide professional services in the infrastructure and facilities market, principally on a fee-for-service basis, while maintaining our newly acquired construction management at-risk services. To realize our business objective, we plan on achieving a compound average growth rate of 15% through a combination of organic and acquisition growth, while also providing dividend returns for our shareholders. Our core business and strategy and the key performance drivers and capabilities required to meet our business objective have not changed in the first quarter of 2017 from those described on pages M-4 to M-19 of our 2016 Annual Report (incorporated here by reference).

Results

OVERALL PERFORMANCE

Highlights for Q1 17

We achieved good operating results in the quarter, particularly in our Infrastructure and Water business operating units which make up approximately 50% of our Company's gross revenue. Comparing the first quarter of 2016 to the first quarter of 2017, our gross revenue increased 69.0%—from \$755.4 to \$1,276.3 million; EBITDA increased 35.0%—from \$66.5 to \$89.8 million; and adjusted diluted earnings per share (EPS) was \$0.40 in both Q1 16 and Q1 17. (EBITDA and adjusted diluted EPS, both non-IFRS measures, are further discussed in the Definition of Non-IFRS Measures section of this report.)

Our Q1 17 results were positively impacted by an increase in revenue because of acquisitions completed in 2016, organic revenue growth in our Infrastructure and Water business operating units, and continued organic growth in our US operations. Also, positively impacting our results was an increase in gross margin—from 53.9% in Q1 16 to 54.1% in Q1 17—mainly due to the mix of projects acquired from the MWH Global, Inc. (MWH) acquisition in May 2016. Our administrative and marketing expenses increased as a percentage of net revenue—from 43.2% in Q1 16 to 43.6% in Q1 17—primarily because of an increase in marketing and business development labor costs and integration activities resulting from the MWH acquisition. The amortization of intangible assets increased \$12.7 million in Q1 17 compared to Q1 16 due to the acquisitions completed in 2016, and interest expense increased \$4.5 million; both increases resulted primarily from the MWH acquisition.

During the quarter, we signed an agreement for the sale of our water software business, Innovyze, Inc. and its subsidiaries (collectively, Innovyze). The sale closed on May 5, 2017, resulting in an estimated pre-tax gain of \$53.0 million in the second quarter of fiscal 2017, as further described in the Subsequent Events section of this report. In accordance with IFRS, because the sale of Innovyze was probable at March 31, 2017, in Q1 17 we recorded a deferred tax liability and expense relating to the value of our net investment in Innovyze. This resulted in a \$90.4 million deferred tax charge in Q1 17 that decreased our diluted earnings per share by \$0.79. This deferred tax liability will reverse when we record the gain on sale and associated taxes payable in Q2 17. If we exclude the impact of the \$90.4 million, our net income for Q1 17 would have increased 5.9%—from \$30.6 million in Q1 16 to \$32.4 million in Q1 17. Including the impact of this deferred tax charge, we had a net loss of \$58.0 million in the quarter, and our diluted loss per share was \$0.51.

The deferred tax charge relating to the sale of Innovyze does not affect our liquidity, our cash flows from operating activities, or our debt covenants in Q1 17.

The following table summarizes key financial data for the first quarter of 2017 and 2016:

	Quarter Ended March 31			
	2017	2016	\$ Change	% Change
<i>(In millions of Canadian dollars, except per share amounts and %)</i>				
Gross revenue	1,276.3	755.4	520.9	69.0%
Net revenue	873.8	628.6	245.2	39.0%
EBITDA <i>(note 1)</i>	89.8	66.5	23.3	35.0%
Adjusted EBITDA <i>(note 1)</i>	89.9	70.2	19.7	28.1%
Net (loss) income	(58.0)	30.6	(88.6)	n/m
Adjusted net income <i>(note 1)</i>	45.8	37.6	8.2	21.8%
(Loss) earnings per share – basic	(0.51)	0.33	(0.84)	n/m
(Loss) earnings per share – diluted	(0.51)	0.32	(0.83)	n/m
Adjusted EPS – basic <i>(note 1)</i>	0.40	0.40	-	-
Adjusted EPS – diluted <i>(note 1)</i>	0.40	0.40	-	-
Cash dividends declared per common share	0.1250	0.1125	0.0125	11.1%
Cash flows				
Used in operating activities	(27.4)	(9.7)	(17.7)	n/m
Used in investing activities	(45.9)	(126.3)	80.4	n/m
From financing activities	58.3	109.1	(50.8)	n/m

n/m = not meaningful

note 1: EBITDA, adjusted EBITDA, adjusted net income, and adjusted basic and diluted earnings per share (EPS) are non-IFRS measures and are further discussed in the Definition of Non-IFRS Measures in the Critical Accounting Estimates, Developments, and Measures section (the Definitions section) of our 2016 Annual Report and this report.

The following highlights our key activities and initiatives undertaken in the quarter ended March 31, 2017:

- Our gross revenue grew 69.0% in Q1 17 compared to Q1 16 due to acquisition growth; this was partly offset by organic gross revenue retraction and the impact of foreign exchange. Organic revenue is trending in a positive direction with retraction decreasing from 4.4% in Q4 16 to 2.4% Q1 17.
- Our Infrastructure business operating unit had organic gross revenue growth of 2.3% in Q1 17 compared to Q1 16 due to strong organic growth in our US Transportation sector while our Canadian Transportation sector was stable. Our Water business operating unit had 2.2% organic revenue growth with growth occurring in both Canada and the United States. Our Environmental Services business operating unit had stable organic revenue in Q1 17 compared to Q1 16.
- Our Buildings business operating unit had organic revenue retraction of 6.8% in Q1 17 compared to Q1 16, which was a very robust quarter for Buildings. During Q1 17, strong organic revenue growth in the United States was offset by organic revenue retraction in our Canadian and Global operations. The retraction occurred primarily because of the decline in the oil and gas sector that affected both private and public spending in Canada and the Middle East. We have successfully pursued and secured design-build public-private partnership (P3) projects, as a result of these project wins, we expect revenue to increase starting in Q2 17. Organic revenue in our Energy & Resources business operating unit retracted 13.2% in Q1 17 compared to Q1 16 because of the weakness in the oil and gas industry in Canada, but this retraction is at a reduced rate compared to 2016. Our Oil & Gas sector in Energy & Resources now represents only approximately 3% of our total Q1 17 gross revenue.

- During the quarter, we signed an agreement for the sale of our water software business, Innovyze, Inc. and its subsidiaries, Innovyze Pty Limited and Innovyze Limited, to the EQT Mid Market US fund, part of the international alternative investments firm EQT. The agreement at March 31, 2017, was subject to customary conditions and regulatory approvals. Innovyze develops and sells software and services related to the water industry and joined Stantec as part of the MWH acquisition in 2016. Subsequent to the MWH acquisition, we determined that this line of business would not add synergies and would potentially conflict with our core business. We saw this sale as an opportunity to continue working with Innovyze in servicing our clients while allowing both companies to prosper with the best available resources. From a balance sheet perspective, the sale reduces a portion of our goodwill and intangible assets, and provide us the opportunity to reduce debt by approximately \$202.2 million. We estimate that the related net tax expense on the sale will be approximately \$110 million.

The sale of Innovyze closed on May 5, 2017, for gross proceeds of US\$270.0 million less working capital adjustments and assumed indebtedness and subject to customary post-closing adjustments as further described in the Subsequent Events section of this report.

- During the quarter, we made substantial progress toward the merger of projects and financial integration of the America's division of MWH into our enterprise management system. We expect this work to be completed in Q2 17. In addition, we have harmonized key policies and procedures for our North American operations. We are in the planning stages for full integration of the MWH global consulting operations, which we expect to be completed in 2018.
- We declared and paid a cash dividend of \$0.1250 per share on April 13, 2017, to shareholders of record on March 31, 2017. Additionally, on May 10, 2017, we declared a dividend of \$0.1250 per share, payable on July 13, 2017, to shareholders of record on June 30, 2017.

RESULTS COMPARED TO 2017 TARGETS

In the Management's Discussion and Analysis in our 2016 Annual Report, we established various ranges of expected performance for fiscal year 2017. The following table indicates our progress toward these targets as at March 31, 2017:

Measure	2017 Target Range	Results Achieved
Gross margin as % of net revenue	Between 53% and 55%	54.1% ✓
Administrative and marketing expenses as % of net revenue	Between 41% and 43%	43.6% ✗
EBITDA as % of net revenue (notes 1 and 2)	Between 11% and 13%	10.3% ✗
Net (loss) income as % of net revenue	At or above 5.0%	(6.6%) ✗

This table and the discussion paragraph below contain forward-looking statements. See the Caution Regarding Forward-Looking Statements section of this report.

note 1: EBITDA as a percentage of net revenue is calculated as EBITDA, divided by net revenue.

note 2: EBITDA is a non-IFRS measure (discussed in the Definitions section of our 2016 Annual Report).

✓ Met or performed better than target.

✗ Did not meet target.

At the end of Q1 17, we met our target for gross margin as a percentage of net revenue. However, we did not meet our targets for administrative and marketing expenses, EBITDA, or net income as a percentage of net revenue. The results were impacted by an increase in administrative and marketing expenses due to higher marketing and business development labor costs and increased integration activities resulting from the MWH acquisition. In addition to these impacts, net income as a percentage of net revenue was also impacted by a deferred income tax expense of \$90.4 million incurred in the quarter related to the sale of Innovyze. Excluding the impact of this deferred tax charge, net income as a percentage of net revenue was 3.7%. Excluding the impact of the sale of Innovyze, we believe we will meet our 2017 annual targets.

RESULTS OF OPERATIONS

The following table summarizes key operating results as a percentage of net revenue and the percentage increase or decrease in the dollar amount for each key operating result:

	Quarter Ended March 31		
	Percentage of	Percentage	
	Net Revenue	2016	Increase (Decrease) *
	2017	2016	2017 vs. 2016
Gross revenue	146.1%	120.2%	69.0%
Net revenue	100.0%	100.0%	39.0%
Direct payroll costs	45.9%	46.1%	38.7%
Gross margin	54.1%	53.9%	39.3%
Administrative and marketing expenses	43.6%	43.2%	40.1%
Depreciation of property and equipment	1.6%	1.6%	37.6%
Amortization of intangible assets	2.7%	1.7%	117.6%
Net interest expense	0.9%	0.5%	145.2%
Other net finance expense	0.3%	0.2%	100.0%
Share of income from joint ventures and associates	(0.1%)	(0.1%)	75.0%
Foreign exchange loss (gain)	0.1%	0.0%	n/m
Other expense (income)	(0.1%)	0.0%	n/m
Income before income taxes	5.1%	6.8%	5.2%
Income taxes	11.7%	1.9%	n/m
Net (loss) income	(6.6%)	4.9%	n/m

n/m = not meaningful

** Percentage increase (decrease) calculated based on the dollar change from the comparable period.*

The following sections outline specific factors that affected the results of our operations in the first quarter of 2017 and should be read in conjunction with our unaudited interim consolidated financial statements for the quarter ended March 31, 2017.

GROSS AND NET REVENUE

While providing professional services, we incur certain direct costs for subconsultants, equipment, and other expenditures that are recoverable directly from our clients. Revenue associated with these direct costs is included in gross revenue. Because these direct costs and associated revenue can vary significantly from contract to contract, changes in gross revenue may not be indicative of our revenue trends. Accordingly, we also report net revenue (which is gross revenue less subconsultant, subcontractor, and other direct expenses) and analyze results in relation to net revenue rather than gross revenue. The difference between gross revenue and net revenue is larger for construction-related projects than for consulting-related projects since Construction Services incurs higher costs for subcontractors, direct materials, and equipment.

For the purpose of the analysis and tables that follow, revenue earned by acquired companies in the first 12 months following an acquisition is initially reported as revenue from acquisitions and thereafter reported as organic revenue.

Consulting Services generates a portion of gross revenue in foreign currencies primarily in US dollars. Construction Services generates gross revenue primarily in British pound sterling and US dollars. In 2016, our reportable segments generated a portion of gross revenue in US dollars. The value of the Canadian dollar averaged US\$0.73 in Q1 16 and US\$0.76 in Q1 17, representing a 4.1% increase. The strengthening Canadian dollar had a negative effect on the revenue reported in Q1 17 compared to Q1 16. Fluctuations in other foreign currencies did not have a material impact on our revenue in Q1 17 compared to Q1 16.

Our contract backlog was \$4.0 billion at March 31, 2017—\$2.9 billion in Consulting Services and \$1.1 billion in Construction Services—compared to \$3.9 billion at December 31, 2016. (Backlog is a non-IFRS measure further discussed in the Definitions section of our 2016 Annual Report.) This increase was partly offset by the fluctuation in foreign exchange since the Canadian dollar was US\$0.75 at March 31, 2017, compared to US\$0.74 at December 31, 2016.

The following tables summarize the impact of acquisitions, organic growth, and foreign exchange on our gross and net revenue:

Gross Revenue	Quarter Ended March 31
<i>(In millions of Canadian dollars)</i>	2017 vs. 2016
Increase (decrease) due to	
Acquisition growth	553.6
Organic retraction	(18.3)
Impact of foreign exchange rates on revenue earned by foreign subsidiaries	(14.4)
Total net increase in gross revenue	520.9

Net Revenue	Quarter Ended March 31
<i>(In millions of Canadian dollars)</i>	2017 vs. 2016
Increase (decrease) due to	
Acquisition growth	276.8
Organic retraction	(20.1)
Impact of foreign exchange rates on revenue earned by foreign subsidiaries	(11.5)
Total net increase in net revenue	245.2

The acquisitions that led to acquisition growth are listed in the following Gross Revenue by Reportable Segments section. When comparing Q1 17 to Q1 16, we had organic gross revenue growth in our Infrastructure and Water business operating units, and our Environmental Services business operating unit was stable. Organic gross revenue retracted in our Buildings and Energy & Resources business operating units.

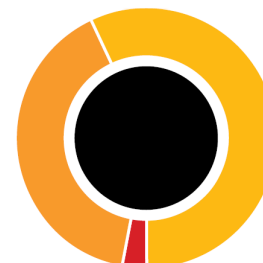
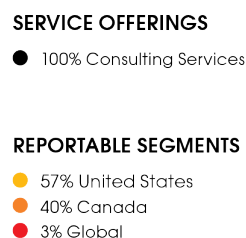
Gross Revenue by Reportable Segments

The following charts and tables summarize gross revenue and gross revenue growth in our two service offerings and our four reportable segments—Consulting Services for Canada, United States, and Global; and Construction Services.

Q1 17 Gross Revenue by Reportable Segment



Q1 16 Gross Revenue by Reportable Segment



Gross Revenue by Reportable Segment

<i>(In millions of Canadian dollars)</i>	Quarter Ended March 31, 2017	Quarter Ended March 31, 2016	Total Change	Change Due to Acquisitions	Change Due to Organic Growth (Retraction)	Change Due to Foreign Exchange
Consulting Services						
Canada	281.0	298.9	(17.9)	4.4	(22.3)	n/a
United States	586.0	433.6	152.4	154.1	11.8	(13.5)
Global	137.2	22.9	114.3	123.0	(7.8)	(0.9)
Total Consulting Services	1,004.2	755.4	248.8	281.5	(18.3)	(14.4)
Construction Services	272.1	-	272.1	272.1	-	-
Total	1,276.3	755.4	520.9	553.6	(18.3)	(14.4)

n/a = not applicable

Total gross revenue in Q1 17 was positively impacted by the acquisitions completed in 2016. This increase was partly offset by the strengthening Canadian dollar in Q1 17 compared to Q1 16 and by organic revenue retraction, primarily in our Canadian and Global Consulting Services operations.

The following acquisitions, completed in 2016, impacted our reportable segments year to date:

Consulting Services – Canada

- MWH Global, Inc. (MWH) (May 2016)
- Architecture | Tkalcic Bengert (Arch | TB) (December 2016)

Consulting Services – United States

- Bury Holdings, Inc. (Bury) (March 2016)
- VOA Associates, Inc. (VOA) (May 2016)
- MWH Global, Inc. (MWH) (May 2016)
- Edwards & Zuck, P.C. and Edwards & Zuck, D.P.C. (collectively, Edwards & Zuck) (September 2016)

Consulting Services – Global

- MWH Global, Inc. (MWH) (May 2016)

Construction Services

- MWH Global, Inc. (MWH) (May 2016)

Consulting Services – Canada

Gross revenue from our Consulting Services – Canada operations decreased by 6.0% in Q1 17 compared to Q1 16. We experienced organic revenue retraction in our Energy & Resources, Environmental Services, Infrastructure, and Buildings business operating units. These retractions were partly offset by strong growth in our Water business operating unit.

In the private sector, our Energy & Resources business operating unit experienced organic revenue retraction compared to Q1 16 in two sectors: Oil & Gas and Power. In our Oil & Gas sector, organic gross revenue retraction continued at the lower rates seen in the second half of 2016. We continue to win a stream of generally smaller projects because of our strong client relationships and industry expertise. Resulting from the slowdown in the power and telecommunications business in Quebec, our Power sector retracted, but this was partly offset by strength in our Atlantic region. Our Mining business results were consistent with Q1 16, and we were recently awarded several contracts we believe will lead to larger projects.

In our Environmental Services business operating unit, we saw organic retraction mainly in our Oil & Gas sector. Almost 65% of our Canadian Environmental Services revenue is derived from our Oil & Gas clients.

The Community Development sector of our Infrastructure business operating unit saw organic retraction in Q1 17 compared to Q1 16, particularly in central and northern Alberta, due to the continuing weakness in the oil and gas sector. Our Transportation sector benefited from the 2016 federal and provincial budgets, which provided stimuli for infrastructure spending. While these stimuli were introduced in 2016 budgets, we expect actual spending will continue throughout this year and beyond. Revenue in Q1 17 in our Transportation sector was consistent with Q1 16.

Within the public sector, our Water business operating unit is starting to benefit from infrastructure spending on water and wastewater treatment facilities. Compared to Q1 16, organic gross revenue growth in Water occurred in all provinces, except Saskatchewan and Manitoba.

Buildings retracted in Q1 17 compared to Q1 16. We were awarded several significant P3 projects this quarter; however, there is always a lag of several months between the award of a project and its financial close, when project work can begin and revenue can be recorded.

Consulting Services – United States

Gross revenue in our Consulting Services – United States operations increased by 35.1% in Q1 17 compared to Q1 16. This increase resulted primarily from acquisition growth, particularly in Buildings and Water business operating units, and from organic revenue growth. Gross revenue growth was partly offset by foreign exchange since the US dollar weakened compared to the Canadian dollar. Organic gross revenue growth—2.7% in Q1 17 compared to Q1 16—was largely driven by our Buildings and Infrastructure business operating units. In particular, within Infrastructure, Transportation grew due to our strategic market position in North America. Organic growth in our Buildings business in Q1 17 mainly resulted from an expansion in our Commercial and Education sectors. Our Power business saw growth assisted by renewable energy and distributed generation, along with continued market penetration in the transmission and distribution markets.

In the private sector, the housing market continued to grow, specifically in Florida, Texas, and the western United States. We saw a persistent trend toward urbanization, which means that cities need to be revitalized. Our Buildings business operating unit has experienced steady activity in the healthcare and commercial markets, and we saw increased opportunities in the southwestern United States, particularly in our Education sector. We continued to capitalize on our expertise in environmental mitigation and to build on our remediation and recovery expertise in our Environmental Services business. Our transmission and distribution opportunities remained steady.

The public sector continued to be an area of growth for us, though there remains some uncertainty in the political and regulatory environment, notably at the federal level. Partly in response to fiscal constraints, design-build opportunities increased in the United States as some clients view design-build as a more efficient project delivery method. Organic revenue growth occurred in our Transportation sector due to our strategic market position in program management, bridge inspection, light-rail transit, roadway, and bridge projects. Our Water business continued to benefit from regulatory requirements, including consent decrees that mandate municipalities to upgrade their water and wastewater facilities, as well as from the continued efforts of public agencies and private industrial concerns to improve operational efficiency. In addition, Water benefited from acquisition revenue driven by a high volume of design-build activity. We continued to build our expertise in flood protection and resiliency. In our Energy & Resources business operating unit, acquisition revenue from the Waterpower & Dams sector was strong in our eastern US operations.

Consulting Services – Global

Gross revenue from our Consulting Services – Global operations increased by \$114.3 million in Q1 17 compared to Q1 16. Our acquisition revenue increased as a result of the MWH acquisition and was partly offset by organic gross revenue retraction in our Mining sector and our Buildings business operating unit. Our Water business operating unit in the United Kingdom benefited from strong revenue as a result of the UK Water Asset Management Program (AMP) cycle. Driven by the receipt of contract change orders, revenues were higher than expectations in our Asia Pacific Water operation. Latin America has encountered lower volume due to project delays and cancellations relating to slowing mining market conditions.

Construction Services

Construction Services earned \$272.1 million in gross revenue in Q1 17. Revenue was generated primarily in the United States and United Kingdom.

In Q1 17, the United States generated \$178.8 million, and Canada generated \$3.6 million in gross revenue. In the United States, there was significant and steady work during the quarter on a number of major wastewater treatment plant construction projects in the west. Also, activity increased on a major new commercial contract; under this contract, we are performing the construction management and project management services for a major manufacturer.

The remaining \$89.7 million in gross revenue for Construction Services was earned mainly in the United Kingdom. Revenue in the United Kingdom was driven by ongoing construction activities for water utilities in the third year of the AMP cycle.

Gross Revenue by Consulting Services – Business Operating Units

The following charts and tables summarize gross revenue and gross revenue growth in our five Consulting Services business operating units—Buildings, Energy & Resources, Environmental Services, Infrastructure, and Water:

**Q1 17 Gross Revenue
by Business Operating Unit**

BUSINESS OPERATING UNIT

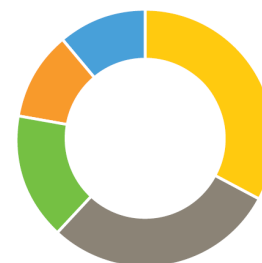
- 26% Infrastructure
- 23% Buildings
- 23% Water
- 16% Environmental Services
- 12% Energy & Resources



**Q1 16 Gross Revenue
by Business Operating Unit**

BUSINESS OPERATING UNIT

- 33% Infrastructure
- 29% Buildings
- 16% Environmental Services
- 11% Energy & Resources
- 11% Water



Gross Revenue by Consulting Services - Business Operating Unit

	Quarter Ended March 31				
	2017	% of Consulting Services Gross Revenue	2016	% of Consulting Services Gross Revenue	% Change in Gross Revenue 2017 vs. 2016
<i>(In millions of Canadian dollars, except %)</i>					
Consulting Services					
Buildings	228.7	22.8%	214.8	28.4%	6.5%
Energy & Resources	116.4	11.6%	85.5	11.3%	36.1%
Environmental Services	159.6	15.9%	122.0	16.2%	30.8%
Infrastructure	264.4	26.3%	247.2	32.7%	7.0%
Water	235.1	23.4%	85.9	11.4%	173.7%
Total Consulting Services	1,004.2	100.0%	755.4	100.0%	32.9%

Note: Comparative figures have been reclassified due to a realignment of our organizational structure from four to five business operating units and a realignment of several business lines between our Buildings and Infrastructure business operating units.

As indicated above, gross revenue growth was impacted by acquisitions, organic revenue retraction, and the effect of foreign exchange rates on revenue earned by our foreign subsidiaries. The impact that these factors had on gross revenue earned by each Consulting Services business operating unit is summarized in the following table:

Gross Revenue by Consulting Services - Business Operating Unit

Quarter Ended March 31, 2017 vs. 2016

<i>(In millions of Canadian dollars)</i>	Total Change	Change Due to Acquisitions	Change Due to Organic Growth (Retraction)	Change Due to Foreign Exchange
Consulting Services				
Buildings	13.9	32.8	(14.7)	(4.2)
Energy & Resources	30.9	43.0	(11.3)	(0.8)
Environmental Services	37.6	39.7	-	(2.1)
Infrastructure	17.2	16.9	5.8	(5.5)
Water	149.2	149.1	1.9	(1.8)
Total Consulting Services	248.8	281.5	(18.3)	(14.4)

Note: Comparative figures have been reclassified due to a realignment of our organizational structure from four to five business operating units and a realignment of several business lines between our Buildings and Infrastructure business operating units.

The following lists the acquisitions completed in 2016 that impacted specific Consulting Services business operating units in Q1 17:

Buildings	Energy & Resources	Environmental Services	Infrastructure	Water
Bury (Mar. 2016)	MWH (May 2016)	MWH (May 2016)	Bury (Mar. 2016)	MWH (May 2016)
VOA (May 2016)			MWH (May 2016)	
Edwards & Zuck (Sep. 2016)				
Arch TB (Dec. 2016)				

Buildings

Gross revenue for our Buildings business operating unit increased 6.5% in Q1 17 compared to Q1 16 because of acquisition growth. This increase was partly offset by a 6.8% organic revenue retraction and by foreign exchange because the US dollar weakened compared to the Canadian dollar in Q1 16. Our Canadian and Global operations experienced retraction that was partly offset by organic growth in our US operations. We were awarded several significant P3 projects this quarter; however, there is always a lag of several months between the award of a project and its financial close, when project work can begin and revenue can be recorded. Because of the robust quarter in Q1 16, the retraction in Q1 17 was larger than it might otherwise have been and the decline in the oil and gas sector, continued to impact private and public spending in our Canadian and Middle Eastern operations.

In Canada, we maintained strong activity in the healthcare, commercial, and education markets; experienced steady activity in the civic and industrial sectors; and in Q4 16, completed one strategic acquisition, the acquisition of Arch | TB. In the United States, gross revenue increased due to strategic acquisitions completed in 2016. We experienced steady activity in the healthcare and commercial markets and saw increased opportunities in the southwestern United States, particularly in our Education sector. We benefit from the urbanization trend across North America as inner cities are revitalized. Our Civic sector provides a range of services to respond to these needs.

Highlights of projects secured in the quarter include a contract for the design-build services of Phase 1 of the Royal Columbian Hospital Redevelopment Project in New Westminster, British Columbia. Phase 1 includes a new acute mental health and substance use building, an energy center, an underground parking structure, a new data center, and associated tunnel and bridge connections to the rest of the hospital campus. Also during the quarter, we were awarded the design-build services for the new LEED Silver Link Operations & Maintenance Facility East in Bellevue, Washington, to support the expansion of the Central Puget Sound Regional Transit Authority's Link light-rail transit system.

Energy & Resources

Gross revenue for our Energy & Resources business operating unit increased 36.1% in Q1 17 compared to Q1 16. Revenue was positively impacted by acquisition growth. Organic gross revenue retracted 13.2% in Q1 17 compared to Q1 16.

Sustained weakness in the oil and gas sector in Canada and the United States continues to impact our engineering services. We experienced organic revenue growth in our US Power, Mining, and Oil & Gas sectors in Q1 17 compared to Q1 16; however, this was offset by organic revenue retraction in these sectors in our Canadian operations with the exception of Mining which was stable. Our Oil & Gas engineering services represented approximately 8% of our Company's overall annual gross revenue in 2015, approximately 4% in 2016, and approximately 3% in Q1 17. This change, as well as the change in the environmental services we provide to this industry (described below), reduces the impact of our exposure to further potential declines in this industry.

The retraction in Q1 17 compared to Q1 16 for our Oil & Gas sector continued because of the ongoing substantially lower-price environment and the volatility in oil and gas prices. These factors are causing curtailed capital spending and continuing pressure to reduce rates in this sector. Delays in regulatory approvals for export pipelines have also contributed to the slowdown in both midstream and upstream work. Despite a slowdown caused by uncertain market conditions, in our midstream business, new work continued to be awarded for smaller projects. For example, during the quarter, we won a contract to provide construction management services for the reactivation of two segments of pipeline in western Alberta and eastern British Columbia. We will manage the work of third-party contractors performing services such as in-line inspection of the pipeline and general construction work.

In our Power sector, we continued securing projects as a result of infrastructure improvement, environmental compliance, and resiliency requirements in the transmission and distribution and the power replacement markets. In the United States, our organic revenue growth was strong, assisted by renewable energy and distributed energy, along with continued market penetration in the transmission and distribution markets. Our Canadian Power operations were impacted by the slowdown in capital spending by oil and gas clients, resulting in deferred and cancelled proposed gas-generation projects. Nonetheless, we continued to secure projects.

Our Mining sector's organic revenue retraction was caused primarily by the continuing slowdown in the mining market and by regulation changes in Indonesia. Latin America encountered lower volume due to project delays and prospect cancellations in the public sector. The organic retraction in our Mining operations is due mainly to continued challenging macroeconomic industry conditions and clients taking a cautious approach to capital spending. However, we continue to market our services, and the number of small to mid-sized capital projects we have been awarded has increased.

Activity remains strong in the Waterpower & Dams sector, especially with higher-than-expected volume in our eastern US operations and a positive adjustment in estimated costs to complete on the Panama Canal project.

Environmental Services

Gross revenue for our Environmental Services business operating unit increased 30.8% in Q1 17 compared to Q1 16. Revenue was positively impacted by acquisition growth, which was partly offset by foreign exchange.

Environmental Services continues to be impacted by low commodity prices and reduced capital spending, primarily in the oil and gas midstream sector. This led to project delays and cancellations and put downward pressure on project fees. Existing large-scale projects continue to wind down; however, the industry is starting to show signs of stabilization within the oil and gas sector in Q1 17. We believe project opportunities exist due to increased requests for proposals and the potential for key clients to make final investment decisions in the second half of 2017. Our North American operations continue to win a stream of generally smaller lower-margin projects because of our strong client relationships and industry expertise.

In the United States, we had organic gross revenue growth. The winding down of projects was offset by growth in our Power and Transportation sectors. We experienced increased activity in airport and rail projects as well as highway and road projects, particularly in our eastern US operations. Our Oil & Gas environmental services represented approximately 7% of our Company's overall annual gross revenue in 2015, approximately 5% in 2016, and approximately 3% in Q1 17. This change reduces the impact of our exposure to further potential declines in this industry. The downward trend in oil and gas over the last two years has stabilized, and based on an increase in Q1 17, we expect modest capital spending growth among oil and gas companies. We believe that the forecast for US performance is positive for the remainder of 2017 supported by strong backlog.

In Canada, Environmental Services continued to face pricing pressures as clients reviewed their supply chain for opportunities to gain efficiencies; therefore, our margins were impacted. Organic gross revenue retraction slowed in Q1 17 as evidenced by recent wins, including some new clients and an increase in small project opportunities. Although the oil and gas and mining markets continued to be challenged across North America, we maintained our backlog because of our strong emphasis on operations and maintenance programs and a significant gold mining environmental assessment project. We anticipate growth in government infrastructure spending, including spending in Aboriginal communities. This growth has been driven by additional fiscal stimulus from the federal government and significant commitments from key provinces in recent budgets; however, infrastructure spending has been slow in becoming meaningful revenue in Q1 17.

In our Global operations, we had higher-than-expected project volume in Italy due to a significant environmental services contract.

Highlights of projects won in the quarter include a contract to provide environmental services for the redevelopment of two mine sites in Lynn Lake, Manitoba. Our team will complete environmental baseline studies (started in 2015), additional environmental pre-construction monitoring, and an environmental assessment for the regulatory submission (federal and provincial environmental licensing). Also during the quarter, we secured a project to provide environmental consulting services to increase the capacity of a natural gas transmission pipeline in northeastern British Columbia. We will provide environmental and socioeconomic assessments and an environmental protection plan to assist our client in the assessment and mitigation of their project's impacts.

Infrastructure

Gross revenue for our Infrastructure business operating unit increased by 7.0% in Q1 17 compared to Q1 16. This increase was due to acquisition revenue and organic gross revenue growth of 2.3% in Q1 17 compared to Q1 16 and was partly offset by foreign exchange. We had strong organic growth in our Transportation sector and slight retraction in our Community Development sector in Q1 17 compared to Q1 16.

Our Community Development sector retracted in Canada—mainly in the west—in Q1 17 compared to Q1 16. We perform approximately 40% of our Community Development work in Canada and approximately 60% in the United States. The continuing slow Alberta economy resulted in lower business volume and increased downward pressure on fees, but eastern Canada remained stable. Except for Alberta, other parts of Canada and the United States experienced a continued demand for housing, a continued interest in urban development, and an increase in mixed-use commercial projects. US organic gross revenue was stable in Q1 17 compared to Q1 16. We continued to work on US urban design projects, further diversifying our strong greenfield business in the Sunbelt states. As well, landscape architecture opportunities for parks and open-space work and for private sector commercial and institutional work continued to improve.

Our Transportation sector saw organic growth, largely in the United States, in Q1 17 compared to Q1 16. Our Transportation sector generates approximately 75% of its revenue in the United States. An expanding US economy and our North American strategic market position led to increased organic growth opportunities because of projects such as program management, bridge inspection, light-rail transit, roadway, and bridges. Our Transportation sector works on projects of various sizes; this provides diversity, limits our liability exposure, and positions us to compete in

both large and small markets. Transportation's backlog grew, and we continued to pursue large project opportunities in both Canada and the United States.

Highlights of projects secured in the quarter include a contract to provide engineering services for the Metro Line Light-Rail Transit expansion in northwest Edmonton, Alberta. The 11-kilometre (6.8-mile) extension includes nine stations and two new transit centers. Our team will provide a concept plan review, preliminary engineering, and a procurement ready package for the initial one-kilometre section to move the project forward. We were also awarded a contract to prepare a project scoping report, design approval document, and preliminary plans for the Nassau Expressway Resiliency and Operations Improvement Design-Build Project in New York State's southwestern Nassau County. In addition, during the quarter, we were selected to join a Traffic and Transportation Engineering Professional Services panel to provide efficient professional services for small to mid-sized transportation projects in Auckland, New Zealand, from 2017 to 2022.

Water

Gross revenue for our Water business operating unit increased \$149.2 million in Q1 17 compared to Q1 16. This increase, partly offset by foreign exchange, was due to acquisition growth and 2.2% organic gross revenue growth.

During Q1 17, our Canadian water business outpaced the United States, and our Canadian operations performed well overall with some slowing in northern Alberta and the Prairies. Growth in our US operations occurred in all regions, except for the west. We continued to benefit from the need to replace aging and obsolete infrastructure. Our water and wastewater treatment facilities planning and design business performed well with a diverse mix of private and public clients addressing capacity expansion needs and regulatory requirements. The impact of large project starts on our Canadian operations was mixed due to extensions, resummptions, and initiation delays in the industrial wastewater treatment arena. We continued to benefit from regulatory requirements, including consent decrees in the United States that mandate municipalities to upgrade their water and wastewater facilities, and from the continued efforts of public agencies and private industrial concerns to improve operational efficiency. Additional regional drivers included population growth, climate change-driven resiliency, commodity production, and water resources availability.

Our Water sector in the United Kingdom benefited from strong revenue in the UK Water Asset Management Program cycle. In our Asia Pacific Water operations, revenues—driven by the receipt of contract change orders—were better than expected.

Highlights of projects awarded in the quarter include a contract to provide an environmental impact statement for the proposed Cedar Ridge Reservoir permit application, which is intended to provide a supply of water for the city of Abilene, Texas, and its regional customers. The project includes a dam and reservoir, pump stations, pipeline, and a water treatment plant expansion. Our team will validate the project purpose and need and formulate alternatives. In addition, during the quarter, we were selected to be part of a team of three engineering companies with New York City water tunnel experience to provide project management and design and construction support services for the Queens-Brooklyn portion of City Tunnel 3, Stage 2. The project involves construction of two new shafts to a depth of 750 feet (229 metres) and rehabilitation and activation of previously completed underground portions of City Tunnel 3 in Queens and Brooklyn. When complete, the project will provide drinking water supply to over 4.5 million people in Queens, Brooklyn, and Staten Island.

GROSS MARGIN

For a definition of gross margin, refer to the Definitions section of our 2016 Annual Report (incorporated here by reference). Gross margin as a percentage of net revenue was 54.1% in Q1 17 compared to 53.9% in Q1 16, falling within our previously targeted range of 53.0% to 55.0% (set out in our 2016 Annual Report). The increase from Q1 16 to Q1 17 resulted from an increase in margins in our US and Global operations, particularly in our Energy & Resources

and Water business operating units. These increases were partly offset by the addition of the Construction Services business, which generates a lower margin than our Consulting Services business.

The following table summarizes gross margin percentages by reportable segments:

Gross Margin by Reportable Segments

	Quarter Ended March 31	
	2017	2016
Consulting Services		
Canada	53.5%	54.2%
United States	56.0%	53.9%
Global	57.9%	50.7%
Construction Services	37.4%	n/a

In general, gross margin fluctuations depend on the particular mix of projects in progress during any quarter and on project execution. The fluctuations reflect our business model, which is based on providing two primary service offerings—Consulting Services and Construction Services—across diverse geographic locations, business operating units (within Consulting Services), and all phases of the infrastructure and facilities project life cycle.

In Consulting Services, our US operations had higher margins, mainly from the mix of projects acquired from MWH and predominantly in the Water business operating unit and Waterpower & Dams sector. Margins for our Global operations also increased due to the mix of projects acquired from MWH. Construction Services is a high-volume, lower-margin business that incurs more subcontractors and direct expenditures than Consulting Services.

Consulting Services can be further described by business operating unit. The following table summarizes our gross margin percentages by business operating unit:

Gross Margin by Consulting Services - Business Operating Unit

	Quarter Ended March 31	
	2017	2016
Consulting Services		
Buildings	55.2%	55.0%
Energy & Resources	53.1%	44.6%
Environmental Services	56.3%	57.2%
Infrastructure	53.5%	54.0%
Water	58.9%	56.6%

Note: Comparative figures have been reclassified due to a realignment of our organizational structure from four to five business operating units and a realignment of several business lines between our Buildings and Infrastructure business operating units.

Our Energy & Resources business operating unit had higher margins in Q1 17 compared to Q1 16, mainly due to the mix of projects acquired from MWH, particularly in the Waterpower & Dams sector.

Our Environmental Services business operating unit had lower margins, mainly due to the continued downward billing rate pressures, a decrease in subconsultant markups in both Canada and the United States, and the delay or cancellation of larger oil and gas capital-intensive projects that historically have had higher margins.

Our Water business operating unit had higher margins in Q1 17 compared to Q1 16 due to the mix of projects acquired from MWH and the normal fluctuations of our client and business mix.

ADMINISTRATIVE AND MARKETING EXPENSES

Administrative and marketing expenses as a percentage of net revenue was 43.6% in Q1 17 compared to 43.2% in Q1 16, falling slightly above our expected range of 41% and 43% (set out in our 2016 Annual Report).

Administrative and marketing expenses fluctuate year to year because of the amount of staff time charged to marketing and administrative labor, which is influenced by the mix of projects in progress during the period, by business development, and by integration activities resulting from acquisitions. In the months after completing an acquisition, staff time charged to administration and marketing is generally higher because of integration activities, including orienting newly acquired staff.

Administrative and marketing expenses as a percentage of net revenue was higher in Q1 17 compared to Q1 16, mainly due to an increase in marketing and business development labor costs and integration activities resulting from the MWH acquisition. These increases were partly offset by a decrease in occupancy costs in Q1 17 compared to Q1 16.

AMORTIZATION OF INTANGIBLE ASSETS

The timing of completed acquisitions, size of acquisitions, and type of intangible assets acquired impact the amount of amortization of intangible assets in a period. Client relationships are amortized over estimated useful lives ranging from 10 to 15 years, and contract backlog and finite-lived trademarks are generally amortized over an estimated useful life of 1 to 3 years. Consequently, the impact of the amortization of contract backlog can be significant in the 4 to 12 quarters following an acquisition. Also included in intangible assets is purchased and internally generated computer software that is amortized over an estimated useful life ranging from 3 to 7 years.

The following table summarizes the amortization of identifiable intangible assets for Q1 17 and Q1 16:

Amortization of Intangibles	Quarter Ended	
	March 31	
<i>(In thousands of Canadian dollars)</i>	2017	2016
Client relationships	9,429	3,810
Backlog	7,004	2,179
Software	5,289	4,791
Other	2,310	351
Lease disadvantage	(522)	(328)
Total amortization of intangible assets	23,510	10,803

The \$12.7 million increase in intangible asset amortization from Q1 16 to Q1 17 was mainly due to an increase in client relationships, backlog, finite-lived trademarks, software, and lease advantages from acquisitions completed in 2016. Particularly, the MWH acquisition added \$315.3 million to intangible assets in 2016.

Based on the unamortized intangible asset balance remaining at the end of Q1 17, we expect our amortization expense for intangible assets for the full year 2017 to be approximately \$82.0 million. The actual expense may be impacted by any new acquisitions completed after Q1 17.

NET INTEREST EXPENSE

Net interest expense increased \$4.5 million in Q1 17 compared to Q1 16. This increase was primarily due to a \$556.4 million increase in our outstanding long-term debt at March 31, 2017, compared to March 31, 2016, that was incurred mainly for the MWH acquisition in May 2016. The balance outstanding on our current revolving credit facility and term loan was \$947.3 million at March 31, 2017; our former revolving credit facility and senior secured notes was \$364.5 million at March 31, 2016. The average interest rate for our current revolving credit facility and term loan was approximately 3.17% at March 31, 2017, and for our former revolving credit facility and senior secured notes was approximately 2.67% at March 31, 2016. We expect our net interest expense will decrease in 2017 going forward due to the expected repayment of our debt using cash from the sale of Innovyze. Our financing arrangements are further described in the Liquidity and Capital Resources section of this report.

Based on our credit balance at March 31, 2017, we estimate that a 0.5% increase in interest rates, with all other variables held constant, would have increased net loss for the first quarter of 2017 by \$861,000 and increased basic loss per share by \$0.01. If the interest rate was 0.5% lower, an equal and opposite impact on net loss and basic loss per share would have occurred.

FOREIGN EXCHANGE LOSSES AND GAINS

We recorded a \$1.2 million foreign exchange loss in Q1 17 compared to a \$0.1 million loss in Q1 16. These losses arose from the translation of foreign-denominated assets and liabilities held in our Canadian, US, and other foreign subsidiaries. We minimize our exposure to foreign exchange fluctuations by matching foreign currency assets with foreign currency liabilities and, when appropriate, by entering into forward contracts to buy or sell foreign currencies in exchange for Canadian dollars. The foreign exchange loss reported during the quarter was caused by the volatility of daily foreign exchange rates and by the timing of the recognition and relief of foreign-denominated assets and liabilities.

We recorded a \$15.6 million loss on the translation of our foreign operations in other comprehensive income in the first quarter of 2017 compared to a \$48.3 million loss in the same period in 2016. These unrealized losses arose when translating our foreign operations into Canadian dollars. The loss during the first quarter of 2017 was due to the strengthening of the Canadian dollar—from US\$0.74 at December 31, 2016, to US\$0.75 at March 31, 2017.

We estimate that at March 31, 2017, a 1.0% decrease in foreign exchange rates, with all other variables held constant, would have decreased net loss by \$3,000 for the first quarter of 2017 and decreased basic loss per share by less than \$0.01. If the exchange rates increased by 1.0%, an equal and opposite impact on net loss and basic loss per share would have occurred.

INCOME TAXES

Without the impact of the \$90.4 million deferred tax charge related to the sale of Innovyze, our effective income tax rate for the first quarter of 2017 would have been 27.5% compared to 27.8% for the year ended December 31, 2016. The effective tax rate of 27.5% is based on statutory rates in jurisdictions where we operate and on our estimated earnings in each of these jurisdictions. In accordance with IFRS, we do not record temporary tax differences relating to our net investments in subsidiaries if it is probable that the temporary difference will not reverse in the foreseeable future and we can control the reversal. Because the sale of Innovyze was probable at March 31, 2017, we recorded a deferred tax liability and expense of \$90.4 million relating to the net investment in Innovyze. The liability and expense mainly related to the goodwill allocated to Innovyze and its undistributed profits. This deferred tax liability will reverse when we record the gain on sale and associated taxes payable in Q2 17 as further described in the Subsequent Events section of this report.

We review statutory rates, uncertain tax positions, and jurisdictional earnings quarterly and adjust our estimated income tax rate accordingly.

SUMMARY OF QUARTERLY RESULTS

The following table presents selected data derived from our consolidated financial statements for each of the most recently completed quarters. This information should be read in conjunction with the applicable interim unaudited and annual audited consolidated financial statements and related notes.

Quarterly Unaudited Financial Information

<i>(In millions of Canadian dollars, except per share amounts)</i>	Mar 31, 2017	Dec 31, 2016	Sept 30, 2016	Jun 30, 2016
Gross revenue	1,276.3	1,240.8	1,257.3	1,046.6
Net revenue	873.8	820.2	872.2	777.4
Net (loss) income	(58.0)	29.4	49.3	21.2
Adjusted net income <i>(note 1)</i>	45.8	40.4	63.0	39.5
(Loss) earnings per share – basic	(0.51)	0.26	0.43	0.20
(Loss) earnings per share – diluted	(0.51)	0.26	0.43	0.20
Adjusted EPS – basic <i>(note 1)</i>	0.40	0.35	0.55	0.37
Adjusted EPS – diluted <i>(note 1)</i>	0.40	0.35	0.55	0.37
	Mar 31, 2016	Dec 31, 2015	Sept 30, 2015	Jun 30, 2015
Gross revenue	755.4	710.4	750.8	710.3
Net revenue	628.6	567.4	620.1	593.9
Net income	30.6	25.3	49.9	43.1
Adjusted net income <i>(note 1)</i>	37.6	32.7	55.3	42.5
EPS – basic	0.33	0.27	0.53	0.40
EPS – diluted	0.32	0.27	0.53	0.40
Adjusted EPS – basic <i>(note 1)</i>	0.40	0.35	0.59	0.45
Adjusted EPS – diluted <i>(note 1)</i>	0.40	0.34	0.58	0.45

Quarterly earnings per share (EPS) and basic and diluted adjusted EPS are not additive and may not equal the annual EPS reported. This is a result of the effect of shares issued on the weighted average number of shares. Quarterly and annual diluted EPS and adjusted diluted EPS are also affected by the change in the market price of our shares, since we do not include in dilution options when the exercise price of the option is not in the money.

Note 1: Adjusted net income and adjusted basic and diluted EPS are non-IFRS measures and are further discussed in the Definitions section of our 2016 Annual Report and this report.

The table below compares quarters, summarizing the impact of acquisitions, organic growth, and foreign exchange on gross revenue:

<i>(In millions of Canadian dollars)</i>	Q1 17 vs. Q1 16	Q4 16 vs. Q4 15	Q3 16 vs. Q3 15	Q2 16 vs. Q2 15
Increase (decrease) in gross revenue due to				
Acquisition growth	553.6	563.7	568.6	354.6
Organic growth (retraction)	(18.3)	(31.3)	(59.1)	(36.0)
Impact of foreign exchange rates on revenue earned by foreign subsidiaries	(14.4)	(2.0)	(3.0)	17.7
Total net increase in gross revenue	520.9	530.4	506.5	336.3

Q2 16 vs. Q2 15. During Q2 16, net income decreased \$21.9 million, or 50.8%, from Q2 15, and adjusted diluted earnings per share for Q2 16 decreased \$0.08, or 17.8%, compared to Q2 15. Net income for Q2 15 was positively impacted by an increase in revenue due to acquisitions completed in 2016 and 2017 and the impact of foreign exchange rates on revenue earned by our US subsidiaries. The acquisition of MWH significantly added to our operating results and created a new service offering—Construction Services. Organic revenue retracted 5.1% in Q2 16 compared to Q2 15. We had strong organic revenue growth in our Infrastructure business operating unit compared to Q2 15, and our other Consulting Services business operating units retracted organically in the quarter. Our gross margin decreased—from 54.0% in Q2 15 to 53.6% in Q2 16. This decrease was due to the addition of the Construction Services business, which generates a lower margin than our Consulting Services business. In addition, there were downward margin pressures in some sectors and execution challenges with projects in our Buildings business operating unit and our Transportation sector. Our administrative and marketing expenses as a percentage of net revenue increased—from 41.2% in Q2 15 to 43.9% in Q2 16—mainly due to an increase in acquisition-related transaction costs, particularly those costs related to the MWH acquisition, as well as an increase in lease exit costs.

Q3 16 vs. Q3 15. During Q3 16, net income decreased \$0.6 million, or 1.2%, from Q3 15, and adjusted diluted earnings per share for Q3 16 decreased \$0.03, or 5.2%, compared to Q3 15. Net income for Q3 16 was positively impacted by an increase in revenue due to acquisitions completed in 2016 and 2017. This was partly offset by the impact of foreign exchange rates on revenue earned by our US subsidiaries and by a 7.9% organic revenue retraction. Our gross margin decreased—from 54.5% in Q3 15 to 54.2% in Q3 16. This decrease was caused by the mix of projects, downward pressures on fees in some sectors, and the addition of the lower-margin Construction Services business. Our administrative and marketing expenses as a percentage of net revenue increased—from 39.4% in Q3 15 to 41.1% in Q3 16—mainly due to higher administrative labor costs and an increase in integration activities from the MWH acquisition. Interest expense increased \$5.0 million in Q3 16 compared to Q3 15, primarily because of an increase in our outstanding long-term debt, attributable to the MWH acquisition.

Q4 16 vs. Q4 15. During Q4 16, net income increased by \$4.1 million, or 16.2%, from Q4 15, and adjusted diluted earnings per share for Q4 16 increased \$0.01, or 2.9%, compared to Q4 15. Net income for Q4 16 was positively impacted by a decrease in depreciation expense as a percentage of net revenue. This decrease is a result of a decrease in additions to property and equipment as a percentage of net revenue over the last two years and the fact that MWH has less depreciation as a percentage of net revenue compared to legacy Stantec. This was partly offset by an increase in amortization of intangible assets resulting from acquisitions and an increase in our net interest expense due to an increase in our outstanding long-term debt, mainly for the MWH acquisition. In addition, the effective interest rate decreased from 28.0% at Q3 16 to 27.8% at Q4 16. Our gross margin increased—from 54.1% in Q4 15 to 54.5% in Q4 16. This increase was due to higher margins in the mix of projects acquired from MWH. Our administrative and marketing expenses as a percentage of net revenue increased—from 43.7% in Q4 15 to 44.3% in Q4 16—mainly due to higher professional fees and marketing and business development labor as a percentage of net revenue.

Statements of Financial Position

The following table highlights the major changes to assets, liabilities, and equity since December 31, 2016:

Balance Sheet Summary

<i>(In millions of Canadian dollars)</i>	Mar 31, 2017	Dec 31, 2016	\$ Change	% Change
Current portion of other financial assets	17.1	20.9	(3.8)	(18.2%)
Assets held for sale	297.2	-	297.2	-
All other current assets	1,537.4	1,561.6	(24.2)	(1.5%)
Total current assets	1,851.7	1,582.5	269.2	17.0%
Goodwill	1,618.2	1,828.1	(209.9)	(11.5%)
Intangible assets	327.4	449.5	(122.1)	(27.2%)
Other financial assets	170.5	160.1	10.4	6.5%
All other assets	268.7	264.5	4.2	n/m
Total assets	4,236.5	4,284.7	(48.2)	(1.1%)
Current portion of long-term debt	267.9	91.9	176.0	191.5%
Liabilities associated with assets held for sale	41.2	-	41.2	-
All other current liabilities	870.8	980.9	(110.1)	(11.2%)
Total current liabilities	1,179.9	1,072.8	107.1	10.0%
Long-term debt	787.1	928.6	(141.5)	(15.2%)
Net employee defined benefit liability	48.2	50.5	(2.3)	(4.6%)
Deferred tax liabilities	148.3	79.6	68.7	86.3%
All other liabilities	176.5	176.7	(0.2)	(0.1%)
Equity	1,893.2	1,975.7	(82.5)	(4.2%)
Non-controlling interests	3.3	0.8	2.5	n/m
Total liabilities and equity	4,236.5	4,284.7	(48.2)	(1.1%)

n/m = not meaningful

Refer to the Liquidity and Capital Resources section of this report for an explanation of the changes in current assets and current liabilities.

Overall, the carrying amounts of assets and liabilities for our US subsidiaries on our consolidated statements of financial position decreased due to the strengthening Canadian dollar—from US\$0.74 at December 31, 2016, to US\$0.75 at March 31, 2017. Other factors that impacted our long-term assets and liabilities are indicated below.

Goodwill and intangible assets decreased due to the reclassification of Innovyze's assets to a held for sale line item on our balance sheet because at March 31, 2017, the sale of these assets was probable. Intangible assets also decreased as a result of amortization recorded in the quarter. Total current and long-term other financial assets increased \$6.6 million due to an increase in holdbacks and investments held for self-insured liabilities.

Total current and long-term debt increased by \$34.5 million due to an increase in our revolving credit facility but was partly offset by a decrease in notes payable from prior-year acquisitions. In accordance with our Credit Facility agreement, we are required to pay down our debt with the net proceeds of the Innovyze sale (less taxes payable and certain transaction costs); therefore, we reclassified \$202.2 million of our debt from long-term to current. Deferred

tax liabilities increased mainly due to a \$90.4 million deferred tax liability recorded as a result of the Innovyze sale as further explained in the Income Taxes section of this report.

Our shareholders' equity decreased by \$82.5 million, mainly due to a \$58.0 million net loss for the first quarter of 2017, \$14.3 million in dividends declared, and a \$13.9 million loss in other comprehensive income, resulting mainly from unrealized losses on the translation of our foreign subsidiaries. These decreases were partly offset by \$2.4 million in share options exercised for cash and a \$1.2 million share-based compensation expense. There were no repurchases of shares under our Normal Course Issuer Bid this quarter.

Liquidity and Capital Resources

We are able to meet our liquidity needs through a variety of sources, including cash generated from operations, long- and short-term borrowings from our \$800 million revolving credit facility, and the issuance of common shares. We use funds primarily to pay operational expenses; complete acquisitions; sustain capital spending on property, equipment, and software; repay long-term debt; and pay dividend distributions to shareholders.

We believe that internally generated cash flows, supplemented by borrowings, if necessary, will be sufficient to cover our normal operating and capital expenditures. We also believe that the design of our business model (explained in the Management's Discussion and Analysis in our 2016 Annual Report) reduces the impact of changing market conditions on operating cash flows. However, under certain favorable market conditions, we do consider issuing common shares to facilitate acquisition growth or to reduce borrowings under our Credit Facilities. This was the case for the MWH acquisition: we financed the acquisition through the net proceeds of both a public offering and funds drawn from our Credit Facilities (as defined and further described in the Capital Management section of this report).

We continue to limit our exposure to credit risk by placing our cash and deposits in short-term deposits in—and, when appropriate, by entering into derivative agreements with—high-quality credit institutions. Investments held for self-insured liabilities include bonds, equities, and term deposits. We mitigate risk associated with these bonds, equities, and term deposits through the overall quality and mix of our investment portfolio.

WORKING CAPITAL

The following table summarizes working capital information at March 31, 2017, compared to December 31, 2016:

<i>(In millions of Canadian dollars, except ratio)</i>	Mar 31, 2017	Dec 31, 2016	\$ Change
Current assets	1,851.7	1,582.5	269.2
Current liabilities	(1,179.9)	(1,072.8)	107.1
Working capital <i>(note)</i>	671.8	509.7	161.9
Current ratio <i>(note)</i>	1.57	1.48	n/a

note: Working capital is calculated by subtracting current liabilities from current assets. Current ratio is calculated by dividing current assets by current liabilities. Both are non-IFRS measures and are further discussed in the Definitions section of our 2016 Annual Report.

n/a = not applicable

Current assets increased mainly because we reclassified all long-term and current assets relating to Innovyze to a current held for sale line item on our balance sheet since at March 31, 2017, the sale of these assets was probable. In addition, trade and other receivables and unbilled revenue increased by \$7.3 million. These increases in current assets were partly offset by a decrease of \$16.9 million in cash and cash equivalents (further explained in the Cash Flows section of this report).

Gross revenue trade receivables decreased by 2.4%, or \$18.8 million, from December 31, 2016, to March 31, 2017. During the same period, our gross trade receivables in the over-90-day aging categories decreased by 2.8%, or \$3.7 million. This decrease is due to the mix of clients where, in certain cases, we may have extended payment

terms. This mix of clients may impact our trade receivables aging categories going forward. We reduce our gross revenue trade receivables with an allowance for doubtful accounts that is calculated using historical statistics for collection and loss experience. We also allow for specific projects based on our best estimate of an allowance after assessing the collectability of the outstanding receivables balance.

Investment in trade and other receivables and in unbilled revenue decreased from 88 days at December 31, 2016, to 87 days at March 31, 2017. This decrease occurred mainly in our Energy & Resources and Environmental Services business operating units. As well, our Construction Services business has lower overall investment in trade and other receivables and in unbilled revenue (55 days at March 31, 2017) compared to Consulting Services.

Current liabilities increased primarily due to the reclassification of \$202.2 million of our revolving credit facilities from long-term to current as further described in the Subsequent Events section of this report. In addition, billings in excess of costs increased by \$14.4 million. These increases were partly offset by a \$124.0 million decrease in trade and other payables that is mainly attributable to the timing of payroll and payments for annual employee short-term incentive award payments. In addition, the current portion of our long-term debt decreased because of a \$20.7 million decrease in the current portion of notes payable for past acquisitions and a \$5.5 million decrease in current finance lease obligations.

CASH FLOWS

Our cash flows from and used in operating, investing, and financing activities are reflected in the consolidated statements of cash flows and summarized in the following table:

<i>(In millions of Canadian dollars)</i>	Quarter Ended March 31		
	2017	2016	Change
Cash flows used in operating activities	(27.4)	(9.7)	(17.7)
Cash flows used in investing activities	(45.9)	(126.3)	80.4
Cash flows from financing activities	58.3	109.1	(50.8)

Cash Flows Used in Operating Activities

Cash flows used in operating activities are impacted by the timing of acquisitions, particularly the timing of payments for acquired trade and other payables, which includes short-term employee incentive awards. The \$17.7 million increase in cash flows used in operating activities in Q1 17 compared to Q1 16 resulted from an increase in cash paid to employees, which in turn was caused by an increase in the number of employees and short-term incentive awards paid in the quarter. As well, cash paid to suppliers increased because of acquisition growth and the timing of various payments. Interest paid increased by \$5.4 million, mainly as a result of an increase in our level of borrowings year over year. These increases in cash outflows were partly offset by an increase in cash receipts from clients due to acquisition growth and a \$14.7 million decrease in taxes paid as a result of paying less in tax instalments.

Cash Flows Used in Investing Activities

Cash flows used in investing activities decreased in Q1 17 compared to Q1 16, mainly due to a decrease in cash used for business acquisitions. In Q1 17, \$31.2 million was paid on notes payable from prior acquisitions compared to \$107.4 million paid in Q1 16 for the Bury acquisition and notes payable from prior acquisitions. Also, in Q1 16, \$6.8 million was placed in escrow for the indemnification of potential claims on acquisitions. These decreases in cash flows used in investing activities were partly offset by a \$1.8 million increase in the purchase of investments held for self-insured liabilities.

We are primarily a professional services organization; therefore, we are not capital intensive. In the past, we made capital expenditures mostly for items such as leasehold improvements, computer equipment and software, furniture, and other office and field equipment. Property and equipment and software purchases totaled \$15.7 million in Q1 17

compared to \$15.8 million in Q1 16. During the remainder of 2017, we plan to continue investing in enhancements to our information technology infrastructure and enterprise systems; this will optimize and streamline business processes and prepare us for continued growth. During Q1 17, we financed property and equipment and software purchases through cash flows from operations.

In the Management's Discussion and Analysis in our 2016 Annual Report, we indicated that in 2017 we expected to spend approximately \$15.0 million in software additions and approximately \$75.0 million in property and equipment, excluding capital assets acquired from acquisitions. Our expectations regarding these expenditures have not changed.

Cash Flows from Financing Activities

Cash flows from financing activities decreased in Q1 17 compared to in Q1 16, mainly due to the net \$88.2 million decrease of cash inflows from our revolving credit facility. In addition, cash outflows decreased due to no shares being repurchased for cancellation under our Normal Course Issuer bid in Q1 17 compared to \$18.2 million used for share repurchases in Q1 16. These decreases in cash flows from financing activities were partly offset by a \$2.9 million increase in the payment of dividends.

CAPITAL MANAGEMENT

We manage our capital structure by maintaining a net debt to EBITDA ratio of less than 2.5 to 1.0. At March 31, 2017, our net debt to EBITDA ratio was 2.38, calculated on a trailing four-quarter basis. There may be occasions when we exceed our target by completing opportune acquisitions that increase our debt level for a period of time.

In 2016, we entered into an agreement for \$1.25 billion syndicated senior secured credit facilities (Credit Facilities) consisting of a senior secured revolving credit facility in the maximum amount of \$800 million and a \$450 million term loan in three tranches. The revolving credit facility expires May 6, 2020, and may be repaid from time to time at our option. The facility is available for future acquisitions, working capital needs, and general corporate purposes. Tranches A and B of the term loan were drawn in Canadian funds of \$150 million each (due May 6, 2018, and May 6, 2019, respectively) and tranche C was drawn in US funds of \$116.7 million (due May 6, 2020). Transaction costs for the Credit Facilities were \$9.4 million and will be amortized over the life of the facilities. On May 5, 2017, we reached an agreement to amend certain terms of the Credit Facilities as further described in the Subsequent Events section of this report.

The Credit Facilities may be drawn in Canadian dollars as either a prime rate loan or a bankers' acceptance, in US dollars as either a US-base rate or a LIBOR advance, or, in the case of the revolving credit facility, in sterling or euros as a LIBOR advance and by way of letters of credit. These facilities bear interest at the reference rate plus an applicable margin ranging from 0.00% to 2.75%, depending on the nature of the loan drawn and our leverage ratio (a non-IFRS measure). We will also have available additional currencies under the revolving credit facility on a case-by-case basis, depending on availability from the lenders at the time of the drawdown. As security for the obligations under these facilities, Stantec and certain of our subsidiaries granted the lenders a first-ranking security interest over all present and after-acquired assets, property, and undertakings, subject to customary carve-outs.

The funds available under the revolving credit facility are reduced by any outstanding letters of credit issued pursuant to the facility agreement. At March 31, 2017, \$247.6 million was available in our revolving credit facility for future activities.

We are subject to financial and operating covenants related to our Credit Facilities. Failure to meet the terms of one or more of these covenants constitutes a default, potentially resulting in accelerated repayment of our debt obligation. In particular, we are required to satisfy the following at all times: (1) our leverage ratio must not exceed 3.0 to 1.0, except in the case of a material acquisition when our leverage ratio must not exceed 3.5 to 1.0 for a period of four complete quarters following the acquisition and (2) our interest coverage ratio must not be less than 3.0 to 1.0. Leverage ratio and interest coverage ratio are defined in the Definition of Non-IFRS Measures section of this report.

We were in compliance with all of these covenants as at and throughout the period ended March 31, 2017.

SHAREHOLDERS' EQUITY

Share options exercised generated \$2.4 million in cash during the first quarter of 2017 compared to \$0.5 million in cash generated during the same period in 2016. No shares were repurchased under our Normal Course Issuer Bid in Q1 17.

Other

OUTSTANDING SHARE DATA

At March 31, 2017, 114,184,909 common shares and 3,528,962 share options were outstanding. From April 1, 2017, to May 10, 2017, 44,397 share options were exercised and 33,419 share options were forfeited. At May 10, 2017, 114,229,306 common shares and 3,451,146 share options were outstanding.

CONTRACTUAL OBLIGATIONS

As part of our continuing operations, we enter into long-term contractual arrangements from time to time. The following table summarizes the contractual obligations due on our long-term debt, operating and finance lease commitments, purchase and service obligations, and other obligations at March 31, 2017, on a discounted basis.

Contractual Obligations

<i>(In millions of Canadian dollars)</i>	Payment Due by Period				
	Total	Less than 1 Year	1–3 Years	4–5 Years	After 5 Years
Debt	1,045.2	261.7	335.6	447.5	0.4
Interest on debt	63.4	27.1	35.1	1.2	-
Operating leases	1,050.6	189.5	293.8	201.0	366.3
Finance lease obligation	12.0	7.3	3.3	1.4	-
Purchase and service obligations	72.0	28.4	30.7	12.9	-
Other obligations	42.5	8.5	9.8	1.0	23.2
Total contractual obligations	2,285.7	522.5	708.3	665.0	389.9

For further information regarding the nature and repayment terms of our long-term debt, refer to the Cash Flows from Financing Activities and Capital Management sections of this report and notes 10 and 16 of our unaudited interim consolidated financial statements for the quarter ended March 31, 2017.

Our operating lease commitments include future minimum rental payments under non-cancellable agreements for office space. Our purchase and service obligations include enforceable and legally binding agreements to purchase future goods and services. Our other obligations include amounts payable under our deferred share unit plan and amounts payable for performance share units issued under our Long-Term Incentive Program. Failure to meet the terms of our operating lease commitments may constitute a default, potentially resulting in a lease termination payment, accelerated payments, or a penalty as detailed in each lease agreement. The previous table does not include obligations to fund defined benefit pension plans, although we make regular contributions. Funding levels are monitored regularly and reset with triennial funding valuations performed for the pension plans' board of trustees. The Company expects to contribute \$11.8 million to the pension plans in 2017.

OFF-BALANCE SHEET ARRANGEMENTS

As of March 31, 2017, we had off-balance-sheet financial arrangements relating to letters of credit for \$61.7 million that expire at various dates before April 2018. These—including the guarantee of certain office rental obligations—were issued in the normal course of operations. We also provide indemnifications and, in limited circumstances, guarantees. These are often standard contractual terms and are provided to counterparties in transactions such as purchase and sale contracts for assets or shares, service agreements, and leasing transactions. As part of the normal course of operations, our surety facilities allow the issuance of bonds for certain types of project work. At March 31, 2017, \$406.7 million in bonds—expiring at various dates before August 2021—were issued under these surety facilities. This balance relates mainly to our construction business, which requires the use of construction and performance bonds. These bonds are intended to provide owners with financial security regarding the completion of their construction project in the event of default.

FINANCIAL INSTRUMENTS AND MARKET RISK

At March 31, 2017, the nature and extent of our use of financial instruments and the risks associated with these instruments did not change materially from those described in the Financial Instruments and Market Risk section of our 2016 Annual Report (incorporated here by reference).

RELATED-PARTY TRANSACTIONS

We have subsidiaries that are 100% owned and structured entities that are consolidated in our financial statements. From time to time, we enter into transactions with associated companies, joint ventures, and joint operations. These transactions involve providing or receiving services and are entered into in the normal course of business. Key management personnel—including the chief executive officer (CEO), chief financial officer (CFO), chief operating officer (COO), chief business officer (CBO), and executive vice presidents—have the authority and responsibility for planning, directing, and controlling the activities of the Company. We pay compensation to key management personnel and directors in the normal course of business.

From time to time, we guarantee the obligation of a subsidiary or structured entity regarding lease agreements. Also from time to time, we guarantee a subsidiary or structured entity's obligations to a third party pursuant to an acquisition agreement. Transactions with subsidiaries, structured entities, associated companies, joint ventures, and key management personnel are further described in note 19 of our unaudited interim consolidated financial statements for the quarter ended March 31, 2017, and notes 13 and 34 of our audited consolidated financial statements for the year ended December 31, 2016 (included in our 2016 Annual Report and incorporated here by reference).

Outlook

The outlook for fiscal 2017 is based on our expectations described in our 2016 Annual Report in the Outlook section (incorporated here by reference). An update on our outlook targets described on pages M-58 and M-59 of the 2016 Annual Report is provided on page M-4 of this report. At March 31, 2017, our geographic outlooks had not changed materially from those described on pages M-59 to M-63 of the 2016 Annual Report.

We expect to achieve a long-term average annual compound growth rate for gross revenue of 15% through a combination of acquisition and organic growth. For 2017, we anticipate continued economic improvement in the United States; increased infrastructure spending in both Canada and the United States; increased spending in the water and wastewater sector; strong spending growth in the US transportation sector; a modest improvement in the energy and resource sectors compared to 2016; continued support for alternative project delivery (APD) methods, including public-private partnerships (P3s), in Canada with increasing opportunities for APD in the United States; and modest global economic growth offset by a moderate slowdown in the Canadian housing market.

With regards to the integration of MWH, we expect to continue to review various segments of their business, and we anticipate these segments will become fully integrated into Stantec's legacy business during 2017. We expect that some of their Global operations will be reviewed and that integration will extend into 2018. Construction Services will not be integrated into Stantec's Consulting Services platform and will continue to be reported as a separate segment of our business. Management believes synergies associated with revenue opportunities and cross-selling capabilities, as well as back-office functions, are progressing and expect to be realized as we move through the integration phases.

Our business operates in a highly diverse infrastructure and facilities market in North America and globally that consists of many technical disciplines, market sectors, client types, and industries in both the private and public sectors. This gives us the flexibility to adapt to changing market conditions in a timely manner. Our results may fluctuate from quarter to quarter, depending on variables such as project mix, economic factors, and integration activities related to acquisitions in a quarter.

Our overall outlook is based in part on an update of the underlying assumptions found in the Outlook section of the Management's Discussion and Analysis in our 2016 Annual Report. The Caution Regarding Forward-Looking Statements section of this Management's Discussion and Analysis outlines these updated assumptions.

Critical Accounting Estimates, Developments, and Measures

CRITICAL ACCOUNTING ESTIMATES

The preparation of consolidated financial statements in accordance with IFRS requires us to make various estimates and assumptions. However, future events may result in significant differences between estimates and actual results. There has been no significant change in our critical accounting estimates in Q1 17 from those described in our 2016 Annual Report under the heading Critical Accounting Estimates, Developments, and Measures and in note 5 of our December 31, 2016, audited consolidated financial statements (incorporated here by reference), except for a change in the useful lives of certain property and equipment as further described in note 2 of our interim consolidated financial statements for the quarter ended March 31, 2017 (incorporated here by reference).

DEFINITION OF NON-IFRS MEASURES

This Management's Discussion and Analysis includes references to and uses measures and terms that are not specifically defined in IFRS and do not have any standardized meaning prescribed by IFRS. These measures and terms are working capital, current ratio, return on equity ratio, EBITDA, net debt to EBITDA, leverage ratio, interest coverage ratio, backlog, adjusted EBITDA, and adjusted earnings per share (EPS). These non-IFRS measures may not be comparable to similar measures presented by other companies.

For the first quarter ended March 31, 2017, there has been no significant change in our description of non-IFRS measures from that included in our 2016 Annual Report under the heading Critical Accounting Estimates, Developments, and Measures (incorporated here by reference), except for adding adjusted net income as further described below. For more information, refer to this discussion in our 2016 Annual Report.

We currently use net income as a measure of our overall profitability. Management defines adjusted net income as follows:

- **Adjusted Net Income** is net (loss) income as prescribed by IFRS adjusted to exclude the amortization of acquisition-related intangibles, acquisition-related costs, out of ordinary course severance, and gains or losses on property and equipment, sale of subsidiaries, and the rebalancing of our investments held for self-insured liabilities. There is no directly comparable IFRS measure for adjusted net income; the most directly comparable measure is net (loss) income.

We believe this non-IFRS measure is useful for providing securities analysts, investors, and other interested parties with additional information to assist them in understanding components of our financial results (including a more complete understanding of factors and trends affecting our operating performance) and to provide supplemental measures of operating performance, thus highlighting trends that may not otherwise be apparent when relying solely on IFRS financial measures.

Below is a reconciliation of net (loss) income to EBITDA and adjusted EBITDA, and a reconciliation of net (loss) income to adjusted net income and EPS to Adjusted EPS.

	Quarter Ended	
	March 31	
<i>(In thousands of Canadian dollars, except per share amounts)</i>	2017	2016
Net (loss) income for the period	(58,006)	30,621
Add back:		
Income taxes	102,741	11,908
Net interest expense	7,608	3,088
Depreciation of property and equipment	13,906	10,057
Amortization of intangible assets	23,510	10,803
EBITDA	89,759	66,477
Acquisition-related costs	234	3,454
Loss (gain) on sale of property and equipment	(45)	289
Adjusted EBITDA	89,948	70,220

	Quarter Ended	
	March 31	
<i>(In thousands of Canadian dollars, except per share amounts)</i>	2017	2016
Net (loss) income for the period	(58,006)	30,621
Add back:		
Amortization of intangible assets related to acquisitions <i>(note 1)</i>	13,210	4,329
Acquisition-related costs <i>(note 2)</i>	170	2,487
Loss (gain) on sale of property and equipment <i>(note 3)</i>	(33)	208
Deferred tax on held for sale subsidiary	90,439	-
Adjusted net income	45,780	37,645
Weighted average number of shares outstanding - basic	114,130,365	93,957,468
Weighted average number of shares outstanding - diluted	114,667,828	94,358,094
Adjusted earnings per share		
Adjusted earnings per share - basic	0.40	0.40
Adjusted earnings per share - diluted	0.40	0.40

note 1: The add back of intangible amortization relates only to the amortization from intangible assets acquired through acquisitions and excludes the amortization of software purchased by Stantec. This amount for the quarter ended March 31, 2017, is net of tax of \$5,011 (2016 - \$1,683).

note 2: This amount for the quarter ended March 31, 2017, is net of tax of \$64 (2016 - \$967).

note 3: This amount for the quarter ended March 31, 2017, is net of tax of (recovery) (\$12) (2016 - \$81).

RECENT ACCOUNTING PRONOUNCEMENTS

Effective January 1, 2017, we adopted the following amendments (further described in note 6 of our December 31, 2016, annual consolidated financial statements and note 4 of our March 31, 2017, unaudited interim consolidated financial statements):

- *Recognition of Deferred Tax Assets for Unrealized Losses (Amendments to IAS 12)*
- *Disclosure Initiative (Amendments to IAS 7)*
- *Annual Improvements (2014-2016 Cycle) (Amendments to IFRS 12 Disclosure of Interests in Other Entities)*

Adopting these amendments had no impact on our financial position or performance.

FUTURE ADOPTIONS

Standards, amendments, and interpretations that we reasonably expect to be applicable at a future date and intend to adopt when they become effective are described in note 4 of our March 31, 2017, unaudited interim consolidated financial statements (incorporated here by reference).

Controls and Procedures

Evaluation of Disclosure Controls and Procedures. Our CEO and CFO evaluated our disclosure controls and procedures (defined in the US Securities Exchange Act Rules 13a–15(e) and 15d–15(e)) as of the end of the period covered by this quarterly report. Based on this evaluation, our CEO and CFO concluded that our disclosure controls and procedures were effective as of such date.

Changes in Internal Controls over Financial Reporting. Except as described below, there has been no change in our internal control over financial reporting identified in connection with the evaluation required by paragraph (d) of Rules 13a–15 or 15d–15 under the Securities Exchange Act of 1934 that occurred during our last fiscal quarter that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting. During the quarter ended March 31, 2017, the process of merging and integrating the MWH Global business into our overall internal control over financial reporting process continued.

Risk Factors

For the first quarter ended March 31, 2017, there has been no significant change in our risk factors from those described in our 2016 Annual Report; the risk factors are incorporated here by reference.

Subsequent Events

INVENTRIX ENGINEERING, INC.

On April 28, 2017, we acquired certain assets and liabilities of Inventrix, Engineering, Inc. (Inventrix), adding 22 staff to our Company. Based in Seattle, Washington, Inventrix provides expertise in mechanical engineering. This addition will enhance the Company's Buildings business operating unit in the United States.

LONG-TERM DEBT

On May 5, 2017, we reached an agreement to extend the maturity date of our \$800 million senior secured revolving credit facility to May 6, 2021, and to redenominate tranche C of our \$450 million senior secured term loan (due May 6, 2020) from US funds of \$116.7 million to Canadian funds of \$160.0 million.

INNOVYZE SALE

On May 5, 2017, we completed the sale of the shares of our water software business, Innovyze, for gross proceeds of US\$270.0 million (approximately \$359 million), less working capital adjustments and assumed indebtedness and subject to customary post-closing adjustments. We believe this sale transaction is strategically positive and will reduce an estimated \$291.6 million of goodwill and intangible assets, pay down approximately \$202.2 million of our debt, and result in an estimated pre-tax accounting gain of \$53 million.

In accordance with IFRS, because the sale of Innovyze was probable at March 31, 2017, we recorded a \$90.4 million deferred tax liability and expense in Q1 17 relating to the value of our net investment in Innovyze. This charge will reverse in Q2 17 when we record the gain on sale and current tax expense. We expect the gain for tax purposes to be approximately \$344 million which is higher than the expected accounting gain because the adjusted cost base (for tax purposes) of Innovyze is approximately \$13 million and the fair value grew organically over time, resulting in an estimated tax payable of \$136 million.

This transaction straddles two quarters of our results; the following tables summarize the impact on Q1 17 and the estimated impact we believe this sale will have on our Q2 17 and year-to-date results.

Estimated Impact of Innovyze Transaction

<i>(In millions of Canadian dollars except per share amounts)</i>	Q1 17	Q2 17 Pro Forma	YTD Pro Forma
Gross proceeds	-	359	359
Working capital adjustments and transaction costs	-	(31)	(31)
Net proceeds from sale	-	328	328
Net assets on close	-	(275)	(275)
Pre-tax gain on disposal	-	53	53

Estimated Impact on Taxes, Net Income, and EPS

Current taxes payable	-	(136)	(136)
Deferred taxes previously recorded on Innovyze net assets	-	26	26
Deferred taxes recorded on held for sale classification	(90)	90	-
Income taxes expense	(90)	(20)	(110)
Impact on net income	(90)	33	(57)
Impact on EPS - basic	(0.79)	0.29	(0.50)
Impact on EPS - diluted	(0.79)	0.29	(0.50)

This table includes estimates that may be different from the actual future results due to various assumptions including those related to foreign exchange, number of weighted average shares, estimated working capital and indebtedness of Innovyze, and estimated transaction costs that are contingent on the net proceeds. (See the Caution Regarding Forward-Looking Statements section of this report).

DIVIDENDS

On May 10, 2017, we declared a cash dividend of \$0.1250 per share payable on July 13, 2017, to shareholders of record on June 30, 2017.

Caution Regarding Forward-Looking Statements

Our public communications often include written or verbal forward-looking statements within the meaning of the US Private Securities Litigation Reform Act and Canadian securities laws. Forward-looking statements are disclosures regarding possible events, conditions, or results of operations that are based on assumptions about future economic conditions or courses of action and include financial outlook or future-oriented financial information. Any financial outlook or future-oriented financial information in this Management's Discussion and Analysis has been approved by management of Stantec. Such financial outlook or future-oriented financial information is provided for the purpose of providing information about management's current expectations and plans relating to the future.

Forward-looking statements may involve but are not limited to comments with respect to our objectives for 2017 and beyond, our strategies or future actions, our targets, our expectations for our financial condition or share price, or the results of or outlook for our operations. Statements of this type may be contained in filings with securities regulators or in other communications and are contained in this report. Forward-looking statements in this report include but are not limited to the following:

- The discussion of our overall outlook in the Outlook section, including but not limited to our plan to achieve a compound average growth rate of 15% through a combination of organic and acquisition growth*
- Our short-term, annual, and long-term targets and expectations for our regional and business operating units in the Results Compared to 2017 Targets and Gross and Net Revenue sections*
- Our belief that we will meet our 2017 annual targets (excluding the impact of the sale of Innovyze)*
- Our expectation on the timing for the completion of the MWH integration and the expected synergies and efficiencies of the combined business in the Outlook section*
- Our expectations regarding economic trends, industry trends, and commodity prices in the sectors and regions in which we operate*
- Our estimate of income taxes payable associated with the Innovyze sale*
- Our expectations for the costs of the software additions and property and equipment for 2017*
- Our expectations regarding our sources of cash and ability to meet our normal operating and capital expenditures in the Liquidity and Capital Resources section*
- Our estimate of debt reduction upon receipt of the net proceeds from the Innovyze sale*

These describe the management expectations and targets by which we measure our success and assist our shareholders in understanding our financial position as at and for the periods ended on the dates presented in this report. Readers are cautioned that this information may not be appropriate for other purposes.

By their nature, forward-looking statements require us to make assumptions and are subject to inherent risks and uncertainties. There is a significant risk that predictions, forecasts, conclusions, projections, and other forward-looking statements will not prove to be accurate. We caution readers of this report not to place undue reliance on our forward-looking statements since a number of factors could cause actual future results, conditions, actions, or events to differ materially from the targets, expectations, estimates, or intentions expressed in these forward-looking statements.

Future outcomes relating to forward-looking statements may be influenced by many factors and material risks. For the quarter ended March 31, 2017, there has been no significant change in our risk factors from those described in our 2016 Annual Report that are incorporated by reference.

Assumptions

In determining our forward-looking statements, we consider material factors, including assumptions about the performance of the Canadian, US, and various international economies in 2017 and their effect on our business. The assumptions we made at the time of publishing our annual targets and outlook for 2017 are listed in the Outlook section beginning on page M-58 of our 2016 Annual Report. The following information updates and, therefore, supersedes those assumptions.

- To establish our level of future cash flows, we assumed that the Canadian dollar would be US\$0.77 in 2017. We also assumed that our average interest rate would remain relatively stable in 2017 compared to 2016. The Canadian dollar closed at US\$0.75 on March 31, 2017, and was US\$0.74 on December 31, 2016. The average interest rate for our revolving credit facility and term loan was 3.17% at March 31, 2017, compared to 3.1% at December 31, 2016. To establish our effective income tax rate, we assumed the tax rate substantially enacted at the time of preparing our targets for 2017 for the countries in which we operate, primarily Canada and the United States. Our effective tax rate was 27.5% at March 31, 2017, compared to 27.8% for the year ended December 31, 2016 (further explained in the Income Taxes section of this report).*
- In our 2016 Annual Report, the Bank of Canada forecasted that GDP growth would be 2.0% in 2017, and the overnight target rate would be 0.50%. The GDP forecast for 2017 has since been revised to 2.6%.*
- In our 2016 Annual Report, the average price of WTI crude oil—according to the US Energy Information Administration—was forecasted to be \$52.50 in 2017 compared to an average of \$43.33 in 2016. The Administration forecasted that US crude oil production would average 9.0 million barrels a day in 2017 compared to an average of 8.9 million barrels a day in 2016. These forecasts have since been revised to an average of \$52.24 and 9.2 million barrels a day in 2017.*
- In our 2016 Annual Report, the US Congressional Budget Office forecasted that real GDP growth would be 2.4% in 2017. The GDP forecast for 2017 has since been revised to 2.3%.*
- In our 2016 Annual Report, we noted that according to the National Association of Home Builders (NAHB) in the United States, seasonally adjusted annual rates of total housing starts in the United States were expected to increase to 1,239,000 units in 2017 from the expected 1,162,000 units in 2016. This forecast has since been revised to and expected 1,240,000 units in 2017 from 1,762,000 units in 2016.*

The preceding list of assumptions is not exhaustive. Investors and the public should carefully consider these factors, other uncertainties, and potential events, as well as the inherent uncertainty of forward-looking statements, when relying on these statements to make decisions with respect to our Company. The forward-looking statements contained here represent our expectations as of May 10, 2017, and, accordingly, are subject to change after such date. Except as may be required by law, we do not undertake to update any forward-looking statement, whether written or verbal, that may be made from time to time. In the case of the ranges of expected performance for fiscal 2017, our current practice is to evaluate and, where we deem appropriate, provide updates. However, subject to legal requirements, we may change this practice at any time at our sole discretion.