

Management's Discussion and Analysis

AUGUST 8, 2017

This discussion and analysis of Stantec Inc.'s (Stantec or the Company) operations, financial position, and cash flows for the quarter ended June 30, 2017, dated August 8, 2017, should be read in conjunction with the Company's unaudited interim condensed consolidated financial statements and related notes for the two quarters ended June 30, 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 Second Quarter Report. Our unaudited interim consolidated financial statements and related notes for the quarter ended June 30, 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.

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 second 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 Q2 17

We had strong results in the quarter with organic gross revenue growth in all of our Canadian, US, and Global Consulting Services as well as our Construction Services reportable segments. Comparing the second quarter of 2016 to the second quarter of 2017:

- Gross revenue increased 26.0%—from \$1,046.6 million to \$1,318.6 million
- EBITDA increased from \$73.7 million to \$158.1 million; adjusted EBITDA increased 22.3%—from \$84.6 million to \$103.5 million
- Net income increased from \$21.2 million to \$97.6 million
- Diluted earnings per share (EPS) increased from \$0.20 to \$0.85; adjusted diluted EPS increased 37.8%—from \$0.37 to \$0.51

EBITDA was impacted by a pre-tax gain of \$54.6 million on the sale of our water software business, Innovyze Inc. and its subsidiaries (collectively, Innovyze). Diluted EPS was impacted by this gain and the associated tax expense. (EBITDA, adjusted EBITDA, and adjusted diluted EPS, all non-IFRS measures, are further discussed in the Definition of Non-IFRS Measures section of this report.)

The following table summarizes key financial data for Q2 17 and Q2 16 and the first two quarters of 2017 and 2016:

<i>(In millions of Canadian dollars, except per share amounts and %)</i>	Quarter Ended June 30				Two Quarters Ended June 30			
	2017	2016	\$ Change	% Change	2017	2016	\$ Change	% Change
Gross revenue	1,318.6	1,046.6	272.0	26.0%	2,594.9	1,802.0	792.9	44.0%
Net revenue	891.5	777.4	114.1	14.7%	1,765.3	1,406.0	359.3	25.6%
EBITDA <i>(note 1)</i>	158.1	73.7	84.4	114.5%	247.9	140.2	107.7	76.8%
Adjusted EBITDA <i>(note 1)</i>	103.5	84.6	18.9	22.3%	193.4	154.9	38.5	24.9%
Net income	97.6	21.2	76.4	360.4%	39.6	51.8	(12.2)	(23.6%)
Adjusted net income <i>(note 1)</i>	57.9	39.5	18.4	46.6%	103.7	77.4	26.3	34.0%
EPS – basic	0.86	0.20	0.66	330.0%	0.35	0.52	(0.17)	(32.7%)
EPS – diluted	0.85	0.20	0.65	325.0%	0.35	0.52	(0.17)	(32.7%)
Adjusted EPS – basic <i>(note 1)</i>	0.51	0.37	0.14	37.8%	0.91	0.77	0.14	18.2%
Adjusted EPS – diluted <i>(note 1)</i>	0.51	0.37	0.14	37.8%	0.91	0.77	0.14	18.2%
Cash dividends declared per common share	0.125	0.1125	0.0125	11.1%	0.250	0.225	0.025	11.1%
Cash flows								
From operating activities	103.7	31.0	72.7	n/m	76.1	21.3	54.8	n/m
From (used) in investing activities	179.9	(936.3)	1,116.2	n/m	134.3	(1,062.6)	1,196.9	n/m
(Used in) from financing activities	(268.1)	1,023.6	(1,291.7)	n/m	(209.8)	1,132.7	(1,342.5)	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.

Additional highlights of our key activities and initiatives undertaken during the quarter follows:

- Revenue increased 26.0% because of acquisitions completed in 2016 and 2017, organic revenue growth, and the impact of foreign exchange rates. Consulting Services achieved 1.8% organic gross revenue growth, and including Construction Services, we had overall organic gross revenue growth of 4.5% in Q2 17 compared to Q2 16.
- We had strong organic gross revenue growth of 5.1% in our Buildings business operating unit. Growth was mainly due to the mobilization of new project wins in Canada and increased opportunities within our US Education Sector. In Q2 17 compared to Q2 16, our Infrastructure business operating unit had organic gross revenue growth of 4.6%, resulting from growth in our US and Canadian Transportation sector; our Water business operating unit had 4.1% organic revenue growth; and our Environmental Services business operating unit was flat.
- Organic revenue in our Energy & Resources business operating unit retracted 11.8% in Q2 17 compared to Q2 16 because of the continued weakness in the oil and gas industry in Canada, but this rate of retraction is slowing compared to 2016. Our Oil & Gas sector in Energy & Resources now represents only approximately 3% of our total 2017 year-to-date gross revenue.
- Gross margin increased—from 53.6% in Q2 16 to 53.8% in Q2 17—mainly in our Buildings and Infrastructure business operating units.
- Our administrative and marketing expenses decreased as a percentage of net revenue—from 43.9% in Q2 16 to 42.3% in Q2 17—primarily due to Q2 16 acquisition-related costs associated with the MWH Global, Inc. (MWH) acquisition; without these costs, administrative and marketing expenses for Q2 16 would have been 42.6%. Items impacting Q2 17 administrative and marketing expenses include MWH Americas' integration costs and higher IT licensing and operating costs, offset by lower occupancy costs.
- Amortization of intangible assets decreased \$1.2 million in Q2 17 compared to Q2 16 due to the sale of Innovyze.
- Interest expense decreased \$4.6 million primarily because we had a \$3.9 million breakage fee on our senior secured notes in Q2 16.
- On May 5, 2017, we closed the sale of Innovyze, resulting in a pre-tax gain of \$54.6 million in Q2 17 (further described in the Innovyze Sale section of this report). We saw this as an opportunity to continue working with Innovyze in servicing our clients while allowing both companies to prosper with the best available resources.
- On the sale of Innovyze we received gross proceeds of US\$270.0 million, less working capital adjustments and assumed indebtedness and subject to customary post-closing adjustments. From a balance sheet perspective, the sale reduced our goodwill by \$194.4 million and intangible assets by \$95.1 million, and we reduced our credit facility revolving debt by \$221.3 million.
- We completed the transition of projects and financial integration of the Americas Consulting Services division of MWH into our enterprise management system. We are in the planning stages for full integration of MWH's global consulting operations, which we expect to complete in 2018.
- On April 28, 2017, we acquired certain assets and liabilities of Inventrix Engineering, Inc. (Inventrix), adding 22 staff to our Company. Inventrix, based in Seattle, Washington, provides expertise in mechanical engineering. This addition enhances our Buildings business operating unit in the United States.
- We extended the maturity of our \$800 million senior secured revolving credit facility to May 6, 2021, and redenominated tranche C of our senior secured term loan from US funds of \$116.7 million to Canadian funds of \$160.0 million.

- We declared and paid a cash dividend of \$0.1250 per share on July 13, 2017, to shareholders of record on June 30, 2017. Additionally, on August 8, 2017, we declared a dividend of \$0.1250 per share, payable on October 12, 2017, to shareholders of record on September 29, 2017.
- Stantec announced that following a nine-year tenure as the Company's president and chief executive officer, Bob Gomes will retire effective December 31, 2017. Bob will remain as a director on Stantec's board. Gord Johnston, executive vice president of Stantec's Infrastructure business operating unit, was selected by the board of directors to assume the role of president and chief executive officer, effective January 1, 2018. Gord has more than 30 years of industry leadership experience, including more than 20 years with Stantec. He holds both bachelor's and master's degrees in civil engineering from the University of Alberta and has also completed the Harvard Business School's Leading Professional Services Firms program. In addition, he has served on the board of directors for the Association of Consulting Engineering Companies (ACEC) in Canada and as the past president of the Consulting Engineers of Alberta. During his time at Stantec, Gord has taken on various roles, including business leader for our Water and Infrastructure business operating units and has played an active role in helping guide our strategic planning over the past nine years.

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 June 30, 2017:

Measure	2017 Target Range	Results Achieved YTD
Gross margin as % of net revenue	Between 53% and 55%	53.9% ✓
Administrative and marketing expenses as % of net revenue	Between 41% and 43%	42.9% ✓
EBITDA as % of net revenue (notes 1 and 2)	Between 11% and 13%	14.0% ✓
Net income as % of net revenue	At or above 5.0%	2.2% ✗

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 and this report).

✓ Met or performed better than target.

✗ Did not meet target.

At the end of Q2 17, we met our target for gross margin and administrative and marketing expenses as a percentage of net revenue and we exceeded our target for EBITDA. EBITDA as a percentage of net revenue was impacted by the \$54.6 million gain on the sale of Innovyze; without this impact, EBITDA would have been 11.0%.

We did not meet our target for net income as a percentage of net revenue. Net income was impacted by the sale of Innovyze because the \$54.6 million gain on the sale was more than offset by the associated income tax expense year to date of \$94.5 million. Without these impacts, our net income as a percentage of net revenue would have been 4.5%, which is slightly below our targeted range.

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 June 30			Two Quarters Ended June 30		
	Percentage of		Percentage	Percentage of		Percentage
	Net Revenue		Increase	Net Revenue		Increase
	2017	2016	2017 vs. 2016	2017	2016	2017 vs. 2016
Gross revenue	147.9%	134.6%	26.0%	147.0%	128.2%	44.0%
Net revenue	100.0%	100.0%	14.7%	100.0%	100.0%	25.6%
Direct payroll costs	46.2%	46.4%	14.3%	46.1%	46.2%	25.2%
Gross margin	53.8%	53.6%	15.0%	53.9%	53.8%	25.9%
Administrative and marketing expenses	42.3%	43.9%	10.5%	42.9%	43.6%	23.6%
Depreciation of property and equipment	1.5%	1.6%	8.8%	1.6%	1.6%	21.7%
Amortization of intangible assets	2.1%	2.6%	(6.0%)	2.4%	2.2%	37.5%
Net interest expense	0.7%	1.4%	(42.6%)	0.8%	1.0%	(0.7%)
Other net finance expense	0.2%	0.3%	(46.2%)	0.2%	0.3%	(2.7%)
Share of income from joint ventures and associates	(0.1%)	(0.1%)	100.0%	(0.1%)	(0.1%)	90.9%
Foreign exchange loss (gain)	(0.1%)	0.0%	n/m	0.0%	0.0%	n/m
Gain on disposition of a subsidiary	(6.1%)	0.0%	n/m	(3.1%)	0.0%	n/m
Other expense (income)	(0.1%)	0.0%	n/m	(0.1%)	0.0%	n/m
Income before income taxes	13.4%	3.9%	293.8%	9.3%	5.2%	125.5%
Income taxes	2.4%	1.2%	n/m	7.1%	1.5%	n/m
Net income	11.0%	2.7%	360.4%	2.2%	3.7%	(23.6%)

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 second quarter of 2017 and should be read in conjunction with our unaudited interim consolidated financial statements for the quarter ended June 30, 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 and direct materials.

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\$0.78 in Q2 16 and US\$0.74 in Q2 17, representing a 5.1% decrease. The weakening Canadian dollar had a positive effect on the revenue reported in Q2 17 compared to Q2 16. The value of the Canadian dollar averaged GBP\$0.59 in Q2 17 compared to GBP\$0.54 in Q2 16. The strengthening of our Canadian dollar relative to the British pound sterling had a negative effect on the revenue reported in Q2 17 compared to Q2 16. Fluctuations in other foreign currencies did not have a material impact on our revenue in Q2 17 compared to Q2 16.

Our contract backlog was \$3.9 billion at December 31, 2016, and was the same at June 30, 2017—\$2.9 billion in Consulting Services and \$1.0 billion in Construction Services. (Backlog is a non-IFRS measure further discussed in the Definitions section of our 2016 Annual Report.) Backlog increases as a result of project wins and acquisitions completed in a quarter. Year to date, these increases were offset by the fluctuation in foreign exchange since the Canadian dollar was US\$0.77 at June 30, 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 June 30	Two Quarters Ended June 30
<i>(In millions of Canadian dollars)</i>	2017 vs. 2016	2017 vs. 2016
Increase due to		
Net acquisition growth/divestiture	200.5	754.1
Organic growth	47.4	29.1
Impact of foreign exchange rates on revenue earned by foreign subsidiaries	24.1	9.7
Total net increase in gross revenue	272.0	792.9

Net Revenue	Quarter Ended June 30	Two Quarters Ended June 30
<i>(In millions of Canadian dollars)</i>	2017 vs. 2016	2017 vs. 2016
Increase (decrease) due to		
Net acquisition growth/divestiture	95.2	372.0
Organic growth (retraction)	0.6	(19.5)
Impact of foreign exchange rates on revenue earned by foreign subsidiaries	18.3	6.8
Total net increase in net revenue	114.1	359.3

The acquisitions that led to acquisition growth are listed in the following Gross Revenue by Reportable Segments section. When comparing Q2 17 to Q2 16, we had organic gross revenue growth in Construction Services and in our Buildings, Infrastructure, and Water business operating units. Our Environmental Services business operating unit was stable while organic gross revenue retracted in our Energy & Resources business operating unit.

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.

Q2 17 YTD Gross Revenue by Reportable Segment

SERVICE OFFERINGS

- 79% Consulting Services
- ▨ 21% Construction Services

REPORTABLE SEGMENTS

- 45% United States
- 22% Canada
- 12% Global
- ▨ 21% Construction Services



Q2 16 YTD Gross Revenue by Reportable Segment

SERVICE OFFERINGS

- 92% Consulting Services
- ▨ 8% Construction Services

REPORTABLE SEGMENTS

- 52% United States
- 33% Canada
- 7% Global
- ▨ 8% Construction Services



Gross Revenue by Reportable Segment

	Quarter Ended June 30, 2017	Quarter Ended June 30, 2016	Total Change	Change Due to Net Acquisitions/ Divestiture	Change Due to Organic Growth	Change Due to Foreign Exchange
<i>(In millions of Canadian dollars)</i>						
Consulting Services						
Canada	298.6	293.1	5.5	4.0	1.5	n/a
United States	583.5	509.7	73.8	44.0	7.9	21.9
Global	164.1	103.1	61.0	51.7	7.2	2.1
Total Consulting Services	1,046.2	905.9	140.3	99.7	16.6	24.0
Construction Services	272.4	140.7	131.7	100.8	30.8	0.1
Total	1,318.6	1,046.6	272.0	200.5	47.4	24.1

n/a = not applicable

Note: Comparative figures have been reclassified due to a realignment between Consulting Services—United States and Consulting Services—Global reportable segments.

Gross Revenue by Reportable Segment

	Two Quarters Ended June 30, 2017	Two Quarters Ended June 30, 2016	Total Change	Change Due to Net Acquisitions/ Divestiture	Change Due to Organic Growth (Retraction)	Change Due to Foreign Exchange
<i>(In millions of Canadian dollars)</i>						
Consulting Services						
Canada	579.6	592.0	(12.4)	8.4	(20.8)	n/a
United States	1,169.5	943.3	226.2	198.1	19.7	8.4
Global	301.3	126.0	175.3	174.7	(0.6)	1.2
Total Consulting Services	2,050.4	1,661.3	389.1	381.2	(1.7)	9.6
Construction Services	544.5	140.7	403.8	372.9	30.8	0.1
Total	2,594.9	1,802.0	792.9	754.1	29.1	9.7

n/a = not applicable

Note: Comparative figures have been reclassified due to a realignment between Consulting Services—United States and Consulting Services—Global reportable segments.

Total gross revenue in Q2 17 was positively impacted by the acquisitions completed in 2016 and 2017, the weakening Canadian dollar in Q2 17 compared to Q2 16, and organic growth in all reportable segments.

The following acquisitions, completed in 2016 and 2017, 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)
- Inventrix Engineering, Inc. (Inventrix) (April 2017)

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 increased 1.9% in Q2 17 compared to Q2 16 and decreased 2.1% year to date. Organic revenue grew 0.5% in Q2 17 compared to Q2 16 because of growth in our Buildings and Infrastructure business operating units; this was partly offset by retraction in our Energy & Resources and Environmental Services business operating units. Organic revenue in our Water business operating unit was flat in Q2 17 compared to Q2 16.

In the private sector, our Energy & Resources business operating unit experienced year-to-date organic revenue retraction in two sectors: Oil & Gas and Power. In our Oil & Gas sector, retraction in Q2 17 was slower than in the previous five quarters. We continued to win a stream of generally smaller projects because of our strong client relationships and industry expertise. Strength in our Atlantic region Power sector partly offset weakness in other areas of the country. Our Mining business revenues grew organically year to date compared to the same period in 2016 because we secured a major project in Q2 17.

In our Environmental Services business operating unit, we continued to see year-to-date revenue retraction compared to 2016, mainly in our Oil & Gas sector in Alberta and British Columbia. This was partly offset by growth in other provinces. Almost 67% of our Canadian Environmental Services revenue is derived from our Oil & Gas clients.

The Community Development sector of our Infrastructure business operating unit saw growth overall in Quebec and southern Alberta; however, central and northern Alberta showed retraction due to the continuing weakness in the oil and gas market. Benefiting from 2016 provincial budgets that provided stimuli for infrastructure spending, our Transportation sector continued to show strong year-to-date organic growth.

Our Water business operating unit has benefited from infrastructure spending on water and wastewater treatment facilities. Year to date, our Canadian Water business has experienced organic revenue growth, particularly in British Columbia.

Our Buildings business operating unit had stable organic gross revenue year to date compared to the same period in 2016. In Q2 17, we saw organic growth due to the mobilization of new project wins. Organic gross revenue grew in

British Columbia and Ontario, while we saw retraction in the Prairie Provinces. The Quebec telecommunication business has shown softness year to date.

Consulting Services – United States

Gross revenue in our Consulting Services – United States operations increased 24.0% year to date and 14.5% in Q2 17 compared to Q2 16. These increases resulted from acquisition growth, particularly in our Buildings and Water business operating units; organic revenue growth; and foreign exchange. Organic gross revenue grew 1.5% in Q2 17 compared to Q2 16 and grew 2.1% year to date in 2017 compared to the same period in 2016. This growth was largely driven by our Buildings and Infrastructure business operating units. Within our Infrastructure business operating unit, Transportation grew due to our strategic market position in North America. Organic growth in our Buildings business operating unit resulted mainly from steady activity in the healthcare and commercial markets, and we saw increased opportunities in the southwestern United States, particularly in our Education sector. Our Power business saw growth year to date, 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 continued trend toward urbanization, which means that cities need to be revitalized. We continued to capitalize on our expertise in environmental mitigation and to build on our remediation and recovery expertise in our Environmental Services business.

The public sector continued to be a growth area for us, though some uncertainty in the political and regulatory environment, notably at the federal level, remains. Partly in response to fiscal constraints, design-build opportunities increased in the United States because 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 the continued efforts of public agencies and private industry to improve operational efficiency. Acquisition revenue from our Waterpower & Dams sector was strong in our Energy & Resources business operating unit in our eastern US operations.

Consulting Services – Global

Gross revenue from our Consulting Services – Global operations increased \$175.3 million year to date and \$61.0 million in Q2 17 compared to Q2 16. Year to date, acquisition revenue increased as a result of the MWH acquisition. Organic gross revenue was flat year to date when compared to the same period in 2016. We experienced modest year-over-year organic revenue growth in our Environmental Services and Water business operating units. This growth was fueled by increased public water sector spending in Australia and New Zealand, strong water-related activity in the United Kingdom, and private sector environmental services activity in Continental Europe. This organic revenue growth was offset by continued softness in our Mining and Buildings businesses. Mining revenue was down primarily in Latin America, driven by project delays and cancellations where our major mining clients continue to struggle with low commodity prices. Revenue in our Buildings business operating unit was down primarily in the Middle East, which has been impacted by low oil prices and recent political instability.

Construction Services

Construction Services earned \$272.4 million in gross revenue in Q2 17 and \$544.5 million year to date. Revenue was generated primarily in the United States and United Kingdom.

The United States generated \$160.1 million in Q2 17 and \$338.8 million year to date in gross revenue. In Florida, Texas, and the western United States, we had significant and steady work during the quarter on a number of major water and wastewater treatment plant construction projects. Also, activity increased on a major new commercial contract in the western United States; under this contract, we are performing the construction management and project management services for a major manufacturer.

The remaining \$107.6 million in Q2 17 and \$197.4 million year to date 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 Asset Management Programme (AMP6) cycle.

An example of a project awarded during the quarter involves us providing pre-construction and construction services for the Southeast Water Pollution Control Plant Bio-Solids Digester Facility in San Francisco, California. To meet the community’s improved sewer system service goals, our team will replace the existing digester facilities with new, expanded, and modern facilities.

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:

Q2 17 YTD Gross Revenue by Business Operating Unit

BUSINESS OPERATING UNIT

- 27% Infrastructure
- 23% Buildings
- 23% Water
- 16% Environmental Services
- 11% Energy & Resources



Q2 16 YTD Gross Revenue by Business Operating Unit

BUSINESS OPERATING UNIT

- 31% Infrastructure
- 25% Buildings
- 17% Environmental Services
- 15% Water
- 12% Energy & Resources



Gross Revenue by Consulting Services - Business Operating Unit

	Quarter Ended June 30				
	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	238.0	22.8%	198.2	21.9%	20.1%
Energy & Resources	115.9	11.1%	109.0	12.0%	6.3%
Environmental Services	172.3	16.4%	153.5	16.9%	12.2%
Infrastructure	297.0	28.4%	272.4	30.1%	9.0%
Water	223.0	21.3%	172.8	19.1%	29.1%
Total Consulting Services	1,046.2	100.0%	905.9	100.0%	15.5%

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, Energy & Resources, and Infrastructure business operating units.

	Two Quarters Ended June 30				
	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	466.7	22.8%	413.0	24.9%	13.0%
Energy & Resources	232.3	11.3%	194.5	11.7%	19.4%
Environmental Services	331.9	16.2%	275.5	16.6%	20.5%
Infrastructure	561.4	27.4%	519.6	31.2%	8.0%
Water	458.1	22.3%	258.7	15.6%	77.1%
Total Consulting Services	2,050.4	100.0%	1,661.3	100.0%	23.4%

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, Energy & Resources, 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 tables:

Gross Revenue by Consulting Services - Business Operating Unit

Quarter Ended June 30, 2017 vs. 2016

<i>(In millions of Canadian dollars)</i>	Total Change	Change Due to Net Acquisitions/ Divestiture	Change Due to Organic Growth (Retraction)	Change Due to Foreign Exchange
Consulting Services				
Buildings	39.8	24.5	10.2	5.1
Energy & Resources	6.9	17.5	(12.9)	2.3
Environmental Services	18.8	14.8	(0.2)	4.2
Infrastructure	24.6	3.5	12.5	8.6
Water	50.2	39.4	7.0	3.8
Total Consulting Services	140.3	99.7	16.6	24.0

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, Energy & Resources, and Infrastructure business operating units.

Gross Revenue by Consulting Services - Business Operating Unit

Two Quarters Ended June 30, 2017 vs. 2016

<i>(In millions of Canadian dollars)</i>	Total Change	Change Due to Net Acquisitions/ Divestiture	Change Due to Organic Growth (Retraction)	Change Due to Foreign Exchange
Consulting Services				
Buildings	53.7	57.3	(4.5)	0.9
Energy & Resources	37.8	60.5	(24.2)	1.5
Environmental Services	56.4	54.5	(0.2)	2.1
Infrastructure	41.8	20.4	18.3	3.1
Water	199.4	188.5	8.9	2.0
Total Consulting Services	389.1	381.2	(1.7)	9.6

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, Energy & Resources, and Infrastructure business operating units.

The following lists the acquisitions completed in 2016 and 2017 that impacted specific Consulting Services business operating units year to date:

Buildings	Energy & Resources	Infrastructure
Bury (Mar. 2016)	MWH (May 2016)	Bury (Mar. 2016)
VOA (May 2016)		MWH (May 2016)
Edwards & Zuck (Sep. 2016)		
Arch TB (Dec. 2016)	Environmental Services	Water
Inventrix (Apr. 2017)	MWH (May 2016)	MWH (May 2016)

Buildings

Gross revenue for our Buildings business operating unit increased 20.1% in Q2 17 and 13.0% year to date in 2017 compared to the same periods in 2016 because of acquisition growth and foreign exchange. Organic revenue grew 5.1% when comparing Q2 17 to Q2 16, and we had 1.1% organic revenue retraction year to date when comparing 2017 to 2016. Organic revenue growth in Q2 17 is attributed to the mobilization of new project wins in Canada and an increase in contract revenue on a major project in the Middle East. Because of the robust quarter in Q1 16, the

year-to-date retraction was larger than it might otherwise have been. Also, 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, plus we experienced steady activity in the civic and industrial sectors. In the United States, gross revenue increased partly 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 (in partnership with DIALOG) to provide architectural and interior design as well as structural and electrical engineering services for the new Calgary Cancer Centre, a leading healthcare and academic facility with over 100 patient exam rooms, 160 inpatient beds, 15 radiation therapy treatment vaults, 120 systemic treatment chairs, and a variety of labs for cancer research. During the quarter, we were also awarded the contract to provide design, architecture, interior design, furniture planning, and lab planning for the Texas Woman's University's new Science and Technology Learning Center, a 73,000-square-foot graduate research facility with technologically advanced tools to investigate chemistry, psychology, applied biology, dental hygiene, and nutrition and food sciences.

Energy & Resources

Gross revenue for our Energy & Resources business operating unit increased 6.3% in Q2 17 compared to Q2 16 and increased 19.4% year to date in 2017 compared to the same period in 2016. Revenue was positively impacted by acquisition growth. Organic gross revenue retracted 11.8% in Q2 17 compared to Q2 16 and 12.4% year to date in 2017 compared to the same period in 2016. This represents a continued positive trend in our retraction in this business operating unit. Sustained weakness in the oil and gas sector in Canada and the United States continued to impact our engineering services. We experienced year-to-date organic revenue retraction in our Mining and Oil & Gas sectors in 2017 compared to 2016. Power retracted year over year with organic revenue growth in the United States offset by retraction in Canada.

In our Oil & Gas sector, organic revenue retraction continued year to date in 2017 compared to the same period in 2016. Despite a slowdown caused by uncertain market conditions, we continued to be awarded new work in our midstream business because of our strong client relationships.

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, plant services, and distributed energy, along with continued penetration in the transmission and distribution markets. Our Canadian Power operations were impacted by the slowdown in capital spending by Oil & Gas clients, resulting in deferred gas-generation projects. Nonetheless, we continued to secure smaller projects.

Our Mining sector's organic revenue retraction is primarily attributed to the continuing slowdown in the mining market and impacted by regulation changes in Indonesia, affecting a major project. The organic retraction in our operations is due mainly to continued challenging macroeconomic industry conditions and clients managing their debt levels. These debt levels resulted in a cautious approach to capital spending. The retraction in 2016 was challenging for the mining industry; however, in 2017, the number of small and midsized capital projects has increased.

An example of a mining project awarded in the quarter was an underground mining study to determine the final mine design, scheduling, costing, infrastructure, and equipment requirements for the Mariana Norte and Emilia deposits of the Cerro Negro gold mine in Santa Cruz, Argentina.

Activity in the Waterpower & Dams sector remains steady, especially in our US operations with recent project awards in US West operations and continued work on the Oroville Dam repairs in California.

Highlights of projects won in our Oil & Gas sector in the quarter include providing engineering and procurement services for additions to four compressor stations in Alberta, part of a project to increase the capacity of a natural gas pipeline in northwestern Alberta. We will also provide detailed engineering design that involves project management, construction management, contracting, and procurement services for a pipeline replacement project. This project will enable the continued transportation of refined petroleum products between the Edmonton and Calgary regions. As well this quarter, our Company earned a contract to provide pre-turnaround engineering and turnaround execution support for the ongoing safe operation of a refinery in the Edmonton region.

One Power project to highlight this quarter is our contribution to Manitoba Hydro's Bipole III High Voltage Direct Current (HVDC) project. Stantec will be providing additional office and site engineering support under an existing contract for construction and commissioning of the Riel and Keewatinohk converter stations. This project will improve the reliability and dependability of the overall power grid, which provides renewable energy to southern Manitoba.

Environmental Services

Gross revenue for our Environmental Services business operating unit increased 12.2% in Q2 17 compared to Q2 16 and 20.5% year to date in 2017 compared to year to date in 2016. Acquisition growth and foreign exchange positively impacted revenue.

Environmental Services continued to be impacted by low commodity prices and reduced capital spending, primarily in the midstream oil and gas sector. This led to delays and cancellations and put downward pressure on project fees. Existing large-scale projects continued to wind down; however, the oil and gas industry did start to show signs of stabilization in Q2 17. Our North American operations continued 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, rail, and highway and road projects, particularly in our eastern US operations, and we see strong backlog spread across all our primary sectors. With the addition of MWH, we expanded our services in the manufacturing sector to serve their key legacy clients.

In Canada, Environmental Services continued to face pricing pressure as clients reviewed their supply chain for opportunities to gain efficiencies; therefore, our margins were impacted. Organic gross revenue retraction slowed year to date 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 the award and execution of a few assessment projects. We saw growth in government infrastructure spending, including spending for Aboriginal communities.

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

Highlights of projects awarded in the quarter include our response to the Oroville Dam emergency. Within two days of the discovery of a damaged spillway at the Oroville Dam Facilities in Northern California, Stantec was on site supporting the recovery efforts of the California Department of Water Resources (DWR). Our long history and knowledge of DWR's facilities played a key role in our being selected this quarter to lead the engineering and construction management services for the rebuild of the Oroville Dam main and auxiliary spillways. In addition to this new contract, we are providing multiple other services during the recovery efforts, including monitoring dam and spillway safety, relocating a damaged transmission line, and providing ongoing regulatory and permitting support.

Infrastructure

Gross revenue for our Infrastructure business operating unit increased 9.0% in Q2 17 compared to Q2 16 and 8.0% year to date in 2017 compared to the same period in 2016. This increase was due to acquisition revenue and organic gross revenue growth of 4.6% in Q2 17 compared to Q2 16 and 3.5% year to date in 2017 compared to year to date in 2016 as well as due to foreign exchange.

Our Community Development sector was stable year to date in 2017 compared to the same period in 2016. We perform approximately 40% of our Community Development work in Canada and approximately 60% in the United States. The flat Alberta economy resulted in lower business volume and downward pressure on fees. 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. In Canada, we completed projects for Parks Canada across the country to prepare for celebrating Canada's 150th anniversary. US organic gross revenue was stable year over year; however, acquisition revenue benefited from the acquisition of Bury. We continued working on US urban design projects, further developing our expanded level of expertise to provide urban and brownfield solutions.

Our Transportation sector saw organic growth, mainly in the United States, that was primarily due to increased revenue in our Transit & Rail operations. 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, especially in the alternative project delivery market where we had several program management, light-rail transit, roadway, and bridge projects in various stages of development.

Our maturity and prominence in the Transportation sector allows us to compete for very large projects, which attracts top talent, increases our diversity, 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 in the quarter include our Community Development team winning the Alberta Infrastructure contract to provide project management, preliminary design, detailed design, and construction management for the next five years on the 2,000-acre Parsons Creek master-planned community development in Fort McMurray, Alberta. The Parsons Creek community will eventually be home to about 24,000 people.

Water

Gross revenue for our Water business operating unit increased 29.1% in Q2 17 compared to Q2 16 and increased 77.1% year to date in 2017 compared to the same period in 2016. These increases resulted from acquisition growth and organic revenue growth of 4.1% in Q2 17 compared to Q2 16 and 3.4% year to date in 2017 compared to year to date in 2016. During Q2 17, organic growth in gross revenue was notably strongest in our global operations, and we had modest positive organic growth in our US operations, particularly in Texas. Stability in our Canadian operations was supported by strong large project growth in Alberta and British Columbia, combined with retraction in other Prairie Provinces and Quebec. Year over year, organic revenue growth occurred in each of our Canada, US, and global operations.

Organic growth in North America in the first half of 2017 compared to the same period in 2016 was driven by the following: alternative project delivery, coastal restoration and protection, mandated regulatory improvements, water supply portfolio planning to accommodate growth and technology applications around water quality regulatory mandates, and operational efficiency.

Our Water sector in the United Kingdom benefited from strong revenue in the UK Water Asset Management Programme (AMP6) cycle. Our Middle East operations remained stable because of ongoing programs in Qatar and Dubai. In our Asia Pacific Water operations, revenues were better than expected, driven by the receipt of contract change orders, particularly in our Sydney, Australia, operations.

Highlights of projects secured in the quarter include a contract amendment to design the pump station and pipelines for the City of San Mateo, California's Basins 2 and 3 Collection System Improvements Project. The project, part of the City's Clean Water Program, will eliminate overflows from the City's water collection and treatment systems, protecting San Francisco Bay from unwanted discharges of contaminated water.

Also during the quarter, we were awarded a five-year contract for continued implementation of a Capacity Assurance Program (CAP) for Lexington, Kentucky. Stantec was awarded a similar five-year contract in 2012 to develop and implement the City's CAP. The CAP, mandated by federal consent decree under the U.S. Clean Water Act, ensures that there is adequate capacity in the wastewater conveyance, transmission, and treatment systems before new connections to the wastewater sewer system are authorized.

We believe that our goal of occupying the number one position in water and sewer work in the world has been realized with the combination of Stantec and MWH.

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 53.8% in Q2 17 compared to 53.6% in Q2 16. The year-to-date gross margin was 53.9% in 2017 compared to 53.8% in 2016. Our gross margin was within our previously targeted range of 53.0% to 55.0% (set out in our 2016 Annual Report). The increase from Q2 16 to Q2 17 resulted from an increase in margins in our US operations and in Consulting Services, particularly in our Buildings and Infrastructure business operating units.

The following table summarizes gross margin percentages by reportable segments:

Gross Margin by Reportable Segments

	Quarter Ended June 30		Two Quarters Ended June 30	
	2017	2016	2017	2016
Consulting Services				
Canada	53.5%	53.3%	53.5%	53.8%
United States	55.6%	54.3%	55.8%	54.1%
Global	54.0%	59.9%	57.5%	58.2%
Construction Services	34.5%	36.6%	36.1%	36.6%

Note: Comparative figures have been reclassified due to a realignment between Consulting Services—United States and Consulting Services—Global reportable segments.

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 in Q2 17 compared to Q2 16 and year to date mainly from the mix of projects acquired from MWH and predominantly in the Water and Energy & Resources business operating units due in part to the scale of projects and the way we managed the scope of the work.

Margins for our Global operations decreased in Q2 17 compared to Q2 16 due to a lower mix of high-margin mining projects, a higher mix of low-margin water projects, and the May 5, 2017, divestiture of Innovyze, which operated at high margins. Year-to-date gross margins declined compared to the same period in 2016 primarily due to a change in the mix of projects acquired from MWH, particularly in our Mining sector and Water business operating unit. This was partly offset by a higher contribution from Innovyze in 2017 compared to 2016.

Construction Services is a high-volume, lower-margin business that incurs more subcontractors and direct expenditures than Consulting Services. Margins decreased in Q2 17 compared to Q2 16 due to the extensions of project life completion dates for certain US- and UK-based projects that have resulted in recognizing additional costs. Also, a US facility management project with a lower margin had higher activity in Q2 17 compared to Q2 16.

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 June 30		Two Quarters Ended June 30	
	2017	2016	2017	2016
Consulting Services				
Buildings	54.8%	53.0%	55.0%	54.2%
Energy & Resources	50.3%	50.8%	51.7%	48.0%
Environmental Services	57.0%	57.3%	56.7%	57.3%
Infrastructure	55.5%	53.1%	54.6%	53.5%
Water	56.4%	58.9%	57.7%	58.1%

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, Energy & Resources, and Infrastructure business operating units.

Our Buildings business operating unit had higher margins in Q2 17 compared to Q2 16 and year to date in 2017 compared to the same period in 2016; this resulted because of more project work in our higher-margin US Commercial and Education sectors as well as an increase in contract revenue on a major project in the Middle East. These increases were partly offset by a decrease in gross margins in our Canadian operations due to increased competition.

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

Our Infrastructure business operating unit had higher margins in Q2 17 compared to Q2 16 and year to date in 2017 compared to 2016 due to the mix of projects, in particular, higher margin projects in our Texas operations.

Our Water business operating unit had lower margins in Q2 17 compared to Q2 16 due to the May 5, 2017, divestiture of Innovyze, which operated at high margins, as well as the mix of projects in the quarter.

ADMINISTRATIVE AND MARKETING EXPENSES

Administrative and marketing expenses as a percentage of net revenue was 42.3% in Q2 17 compared to 43.9% in Q2 16. Our year-to-date administrative and marketing expenses as a percentage of net revenue was 42.9% in 2017 compared to 43.6% in 2016, falling within the expected range of 41% to 43% (set out in our 2016 Annual Report).

For 2016, excluding the impact of \$14.2 million in acquisition-related costs year to date and \$10.8 million for Q2 16, our administrative and marketing expenses as a percentage of net revenue was 42.6% for both Q2 16 and year to date in 2016.

Year-to-date administrative and marketing expenses as a percentage of net revenue was lower in 2017 compared to 2016 mainly due to the decrease in acquisition-related costs incurred for the MWH acquisition as noted above. As well, office occupancy costs decreased year to date by approximately \$7 million compared to 2016 due to consolidating

our offices and optimizing our existing office space. These decreases were partly offset by higher IT software licensing and investments in our core infrastructure of approximately \$9 million year to date. Also, project and financial MWH Americas integration activities of approximately \$2 million were incurred because of lower utilization.

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.

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 Q2 17 and Q2 16 and year to date for 2017 and 2016:

Amortization of Intangibles	Quarter Ended		Two Quarters Ended	
	June 30		June 30	
<i>(In thousands of Canadian dollars)</i>	2017	2016	2017	2016
Client relationships	6,774	7,702	16,204	11,512
Backlog	6,618	6,538	13,622	8,718
Software	3,764	4,481	9,053	9,272
Other	2,101	1,685	4,410	2,035
Lease disadvantage	(530)	(465)	(1,052)	(793)
Total amortization of intangible assets	18,727	19,941	42,237	30,744

Intangible asset amortization decreased \$1.2 million in Q2 17 compared to Q2 16. This resulted mainly from a \$1.6 million decrease in client relationships and software amortization due to the divestiture of Innovyze. We ceased amortizing Innovyze's intangibles on March 31, 2017, when Innovyze was categorized as held for sale. Therefore, Q2 16 had two months of amortization related to Innovyze and Q2 17 had no amortization.

The year-to-date increase of \$11.5 million from 2016 to 2017 results from an increase in client relationships, backlog, finite-life trademarks, and lease advantages from acquisitions completed in 2016. Particularly, the MWH acquisition added \$315.3 million to intangible assets in 2016 (including Innovyze).

Based on the unamortized intangible asset balance remaining at the end of Q2 17, we expect our amortization expense for intangible assets for the full year 2017 to be approximately \$80.0 million. The actual expense may be impacted by any new acquisitions completed after Q2 17 and the fluctuation in foreign exchange.

NET INTEREST EXPENSE

Net interest expense decreased \$4.6 million in Q2 17 compared to Q2 16 and \$0.1 million year to date in 2017 compared to 2016. These decreases were primarily because we had a \$3.9 million breakage fee on our senior secured notes in Q2 16. In addition, during Q2 17, we repaid \$221.3 million of our revolving credit facility using the

proceeds we received from the Innovyze sale. The balance outstanding on our revolving credit facility and term loan was \$713.4 million at June 30, 2017, and \$942.8 million at June 30, 2016. We had a higher outstanding long-term debt balance in Q1 17 compared to Q1 16, which was incurred mainly for the MWH acquisition in May 2016. The average interest rate for our current revolving credit facility and term loan was approximately 3.25% at June 30, 2017, and approximately 3.0% at June 30, 2016. Our financing arrangements are further described in the Liquidity and Capital Resources section of this report.

Based on our credit balance at June 30, 2017, we estimate that a 0.5% increase in interest rates, with all other variables held constant, would have decreased net income for the first two quarters of 2017 by \$1.3 million and decreased basic earnings per share (EPS) by \$0.01. If the interest rate had been 0.5% lower, an equal and opposite impact on net income and basic EPS would have occurred.

FOREIGN EXCHANGE GAINS AND LOSSES

We recorded a \$1.1 million foreign exchange gain in Q2 17 compared to an immaterial foreign exchange gain in Q2 16. These gains 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 gain 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 an \$81.3 million loss on the translation of our foreign operations in other comprehensive income in the first two quarters of 2017 compared to a \$56.0 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 two quarters of 2017 was a result of the strengthening Canadian dollar—from US\$0.74 at December 31, 2016, to US\$0.77 at June 30, 2017.

We estimate that at June 30, 2017, a 1.0% decrease in foreign exchange rates, with all other variables held constant, would have increased net income by \$34,000 for the first two quarters of 2017 and increased basic earnings per share by less than \$0.01. If the exchange rates had increased by 1.0%, an equal and opposite impact on net loss and basic loss per share would have occurred.

INNOVYZE SALE

On May 5, 2017, we completed the sale of the shares of our software business, Innovyze, to the EQT Mid Market US fund, part of the international alternative investments firm EQT, for gross proceeds of \$369.1 million (US\$270 million), less estimated working capital adjustments, resulting in net cash proceeds of \$336.9 million. The working capital adjustments are expected to be finalized in the third quarter, at which time the payable will be settled.

In Q1 17, we recorded a \$90.4 million deferred tax liability and expense relating to the value of our net investment in Innovyze—the goodwill allocated to Innovyze and its undistributed profits. This deferred tax liability was reversed in Q2 17 when we recorded the gain on sale and current tax expense. This sale transaction resulted in an accounting gain of \$54.6 million. The gain for tax purposes was \$352.6 million, which is higher than the accounting gain because the adjusted cost base (for tax purposes) of Innovyze was \$9.0 million, resulting in a current tax provision of \$124.1 million (further explained in the Income Taxes section of this report).

During the quarter, the Company used the net proceeds on sale, less taxes payable and certain transaction costs, to repay its long-term debt by \$221.3 million.

This transaction straddled two quarters of our results. The following tables summarize the impact on our Q1 17 and Q2 17 and year-to-date results:

Impact of Innovyze Transaction

<i>(In millions of Canadian dollars except per share amounts)</i>	Q1 17	Q2 17	YTD
Gross proceeds	-	369.1	369.1
Estimated working capital adjustments	-	(15.3)	(15.3)
Transaction costs	-	(16.9)	(16.9)
Net proceeds from sale	-	336.9	336.9
Net assets on close	-	(282.3)	(282.3)
Pre-tax gain on disposal	-	54.6	54.6
Impact on Taxes, Net Income, and EPS			
Current tax provision	-	(124.1)	(124.1)
Deferred taxes previously recorded on Innovyze net assets	-	27.6	27.6
Deferred taxes recorded on held for sale classification	(90.4)	92.4	2.0
Income taxes expense	(90.4)	(4.1)	(94.5)
Impact on net income	(90.4)	50.5	(39.9)
Impact on EPS - basic	(0.79)	0.44	(0.35)
Impact on EPS - diluted	(0.79)	0.44	(0.35)

In our Q1 17 Management's Discussion and Analysis, we provided a proforma estimated impact of the Innovyze transaction. These estimates were not materially different from the table above, except for a \$15.5 million decrease in the income tax expense that resulted from a revised estimate of the tax expense on the disposition. Other differences between the table above and the proforma figures were due to assumptions made on foreign exchange.

INCOME TAXES

Without the impact of the \$94.5 million year-to-date tax expense related to the sale of Innovyze, our effective income tax rate for the first two quarters 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 those jurisdictions.

The taxable gain on the Innovyze sale was \$352.6 million, which is higher than the \$54.6 million accounting gain because the adjusted cost base of Innovyze was \$9.0 million. The shares of Innovyze were purchased as part of the MWH acquisition. Stantec acquired MWH in a taxable share acquisition where the tax basis of MWH's shares was equal to the consideration paid. Special elections were not available to push down this consideration to the adjusted cost base of MWH's subsidiaries. Therefore, the fair value of MWH's assets purchased, including intangibles and goodwill, could not be considered in calculating the taxable gain on the Innovyze sale. In addition, for US federal tax purposes, the current tax due on the gain on the sale of Innovyze was taxed as ordinary income at full US federal and state tax rates.

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>	Jun 30, 2017	Mar 31, 2017	Dec 31, 2016	Sept 30, 2016
Gross revenue	1,318.6	1,276.3	1,240.8	1,257.3
Net revenue	891.5	873.8	820.2	872.2
Net income (loss)	97.6	(58.0)	29.4	49.3
Adjusted net income <i>(note 1)</i>	57.9	45.8	40.4	63.0
Earnings (loss) per share – basic	0.86	(0.51)	0.26	0.43
Earnings (loss) per share – diluted	0.85	(0.51)	0.26	0.43
Adjusted EPS – basic <i>(note 1)</i>	0.51	0.40	0.35	0.55
Adjusted EPS – diluted <i>(note 1)</i>	0.51	0.40	0.35	0.55
	Jun 30, 2016	Mar 31, 2016	Dec 31, 2015	Sept 30, 2015
Gross revenue	1,046.6	755.4	710.4	750.8
Net revenue	777.4	628.6	567.4	620.1
Net income	21.2	30.6	25.3	49.9
Adjusted net income <i>(note 1)</i>	39.5	37.6	32.7	55.3
EPS – basic	0.20	0.33	0.27	0.53
EPS – diluted	0.20	0.32	0.27	0.53
Adjusted EPS – basic <i>(note 1)</i>	0.37	0.40	0.35	0.59
Adjusted EPS – diluted <i>(note 1)</i>	0.37	0.40	0.34	0.58

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 this report and the Definitions section of our 2016 Annual Report.

The table below compares quarters, summarizing the impact of net acquisition growth/divestiture, organic growth, and foreign exchange rates on gross revenue:

Gross Revenue	Q 2 17 vs.	Q1 17 vs.	Q4 16 vs.	Q3 16 vs.
<i>(In millions of Canadian dollars)</i>	Q2 16	Q1 16	Q4 15	Q3 15
Increase (decrease) in gross revenue due to				
Net acquisition growth/divestiture	200.5	553.6	563.7	568.6
Organic growth (retraction)	47.4	(18.3)	(31.3)	(59.1)
Impact of foreign exchange rates on revenue earned by foreign subsidiaries	24.1	(14.4)	(2.0)	(3.0)
Total net increase in gross revenue	272.0	520.9	530.4	506.5

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 (EPS) 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 EPS 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 had 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.

Q1 17 vs. Q1 16. During Q1 17, we had a net loss of \$58.0 million compared to a net income of \$30.6 million in Q1 16. Adjusted diluted EPS was \$0.40 in both Q1 17 and Q1 16. Our results were impacted by a deferred tax charge of \$90.4 million related to the potential sale of Innovyze. In accordance with IFRS, because the sale 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. If we had excluded this impact, 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. Our results were positively impacted by 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 MWH. This was offset by an increase in administrative and marketing expenses as a percentage of net revenue—from 43.2% in Q1 16 to 43.6% in Q1 17—mainly due to marketing and business development labor costs and integration activities resulting from the MWH acquisition. Amortization of intangible assets increased \$12.7 million and interest expense increased \$4.5 million; both increases resulted primarily from the MWH acquisition.

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>	Jun 30, 2017	Dec 31, 2016	\$ Change	% Change
Total current assets	1,608.3	1,582.5	25.8	1.6%
Property and equipment	210.2	213.9	(3.7)	(1.7%)
Goodwill	1,581.8	1,828.1	(246.3)	(13.5%)
Intangible assets	300.1	449.5	(149.4)	(33.2%)
Other financial assets	166.2	160.1	6.1	3.8%
All other assets	53.4	50.6	2.8	n/m
Total assets	3,920.0	4,284.7	(364.7)	(8.5%)
Current portion of long-term debt	200.6	91.9	108.7	118.3%
All other current liabilities	934.2	980.9	(46.7)	(4.8%)
Total current liabilities	1,134.8	1,072.8	62.0	5.8%
Long-term debt	601.2	928.6	(327.4)	(35.3%)
Net employee defined benefit liability	46.3	50.5	(4.2)	(8.3%)
Deferred tax liabilities	50.5	79.6	(29.1)	(36.6%)
All other liabilities	172.2	176.7	(4.5)	(2.5%)
Equity	1,911.8	1,975.7	(63.9)	(3.2%)
Non-controlling interests	3.2	0.8	2.4	n/m
Total liabilities and equity	3,920.0	4,284.7	(364.7)	(8.5%)

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 because of the strengthening Canadian dollar—from US\$0.74 at December 31, 2016, to US\$0.77 at June 30, 2017. Other factors that impacted our long-term assets and liabilities are indicated below.

Goodwill and intangible assets decreased as a result of completing the Innovyze sale on May 5, 2017. Most notably, we sold \$194.4 million of goodwill and \$95.1 million of intangible assets. Other financial assets increased mainly from an increase in investments held for self-insured liabilities.

Total current and long-term debt decreased, a result of a decrease in our revolving credit facility, a \$50.7 million decrease in notes payable from prior-year acquisitions, and an \$11.1 million decrease in finance lease obligations. In accordance with our Credit Facility Agreement, we were required to pay down our debt with the net proceeds of the Innovyze sale (less taxes payable and certain transaction costs), which reduced our revolving credit facility by \$221.3 million. This payment was partly offset by additional funds drawn from our revolving credit facility during the quarter. Deferred tax liabilities decreased due to the Innovyze sale.

Our shareholders' equity decreased mainly due to a \$67.2 million loss in other comprehensive income resulting from \$81.3 million of unrealized losses on the translation of our foreign subsidiaries. This was partly offset by

\$13.8 million of realized cumulative exchange loss that was reclassified out of equity on the disposition of Innovzye. Shareholders' equity also decreased because of \$28.5 million in dividends declared year to date and \$14.4 million spent to repurchase 465,713 shares in Q2 17 under our Normal Course Issuer Bid through the Toronto Stock Exchange. These decreases were partly offset by \$39.6 million in net income earned in the first two quarters of 2017, \$4.4 million in share options exercised for cash, and \$2.2 million expensed for share-based compensation.

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 (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 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 June 30, 2017, compared to December 31, 2016:

<i>(In millions of Canadian dollars, except ratio)</i>	June 30, 2017	Dec 31, 2016	\$ Change
Current assets	1,608.3	1,582.5	25.8
Current liabilities	(1,134.8)	(1,072.8)	(62.0)
Working capital <i>(note)</i>	473.5	509.7	(36.2)
Current ratio <i>(note)</i>	1.42	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 primarily because of a \$41.4 million increase in trade and other receivables and unbilled revenue. These increases in current assets were partly offset by a decrease of \$7.4 million in cash and cash equivalents and a decrease of \$5.4 million in cash in escrow.

Gross revenue trade receivables decreased by \$11.4 million or 1.5% from December 31, 2016, to June 30, 2017. During the same period, our gross trade receivables in the over-90-day aging categories decreased by \$9.8 million or 7.3%. This decrease is due to the mix of clients who, in certain cases, had been given extended payment terms and have subsequently made payment. 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 86 days at June 30, 2017. This decrease occurred mainly in our Environmental Services business operating unit. As well, compared to Consulting Services, our Construction Services business has lower overall investment in trade and other receivables and in unbilled revenue (58 days at June 30, 2017).

Current liabilities increased primarily due to reclassifying \$150.0 million of our term loan from long-term to current since Tranche A of our term loan is due May 6, 2018. (Without reclassifying, our current ratio would have been 1.63.) In addition, deferred revenue increased \$8.0 million. These increases were partly offset by a \$53.9 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. As well, the current portion of our long-term debt decreased because of a \$35.9 million decrease in the current portion of notes payable for past acquisitions, a \$4.7 million decrease in provisions for project-related claims due to the timing of claims payable, 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 June 30			Two Quarters Ended June 30		
	2017	2016	Change	2017	2016	Change
Cash flows from operating activities	103.7	31.0	72.7	76.1	21.3	54.8
Cash flows from (used in) investing activities	179.9	(936.3)	1,116.2	134.3	(1,062.6)	1,196.9
Cash flows (used in) from financing activities	(268.1)	1,023.6	(1,291.7)	(209.8)	1,132.7	(1,342.5)

Cash Flows from Operating Activities

Cash flows from 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 increase in cash flows from operating activities year to date in 2017 compared to the same period in 2016 resulted from an increase in cash receipts from clients due to acquisition growth. This increase in cash inflows was partly offset by an increase in cash outflows 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. Income taxes paid decreased by \$7.9 million mainly due to paying less tax instalments.

Cash Flows from Investing Activities

Cash flows from investing activities increased year to date in 2017 compared to the same period in 2016, mainly due to the receipt of \$336.6 million (net of cash sold) from the sale of Innovyze and less cash outflow for business acquisitions. Year to date in 2016, we used \$1.0 billion to pay cash consideration for acquisitions (mainly MWH) and notes payable for prior-year acquisitions compared to \$48.9 million used year to date in 2017. These increases in cash inflows were partly offset by an income tax instalment of \$124.2 million paid on the sale of Innovyze. In addition, we had \$3.5 million less cash outflow for the purchase of investments held for self-insured liabilities year to date in 2017 compared to year to date in 2016. We also had less cash inflows from other financial assets since last year we received \$13.3 million related to the liquidation of a trust acquired from MWH.

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 totalled \$31.6 million year to

date in 2017 compared to \$27.3 million year to date in 2016. 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. Year to date, 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 Used in Financing Activities

Cash flows used in financing activities increased year to date in 2017 compared to 2016, mainly due to a \$161.6 million net cash outflow for the payment of our revolving credit facility in 2017 compared to a net cash inflow of \$612.6 million in 2016. In 2017, we used \$221.3 million from the proceeds of the Innovyze sale to reduce our revolving credit facility. In 2016, we had a net cash inflow of \$579.7 million from the issuance of shares, as well as a net cash inflow of \$603.2 million from the settlement of our old revolving credit facility and senior secured notes and funds drawn on our new revolving credit facility and term loans. The increase in cash used in financing for 2017 year to date compared to 2016 year to date was also due to an additional \$6.6 million outflow for the payment of dividends. These increases were partly offset by a decrease of \$3.8 million paid to repurchase shares for cancellation under our Normal Course Issuer Bid.

CAPITAL MANAGEMENT

We manage our capital structure by maintaining a net debt to EBITDA ratio of less than 2.5 to 1.0. At June 30, 2017, our net debt to EBITDA ratio was 1.34, calculated on a trailing four-quarter basis. Based on an adjusted EBITDA, our net debt to adjusted EBITDA was 1.52. 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 on May 6, 2021, 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). On May 5, 2017, we reached an agreement to extend the maturity date of our \$800 million senior secured revolving credit facility from May 6, 2020, to May 6, 2021, and to redenominate tranche C of our \$450 million senior secured term loan from US funds of \$116.7 million to Canadian funds of \$160.0 million. Transaction costs for the Credit Facilities were \$9.4 million and will be amortized over the life of the facilities.

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 British pound 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 lenders at the time of the drawdown. As security for the obligations under these facilities, Stantec and certain of our subsidiaries granted 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 June 30, 2017, \$487.6 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 June 30, 2017.

Other

OUTSTANDING SHARE DATA

At June 30, 2017, 113,816,504 common shares and 4,625,536 share options were outstanding. From July 1, 2017, to August 8, 2017, 5,536 share options were exercised and 6,334 share options were forfeited. At August 8, 2017, 113,822,040 common shares and 4,613,666 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 June 30, 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	791.8	194.4	341.5	255.5	0.4
Interest on debt	59.7	22.6	30.1	7.0	-
Operating leases	1,065.1	184.8	313.9	209.5	356.9
Finance lease obligation	12.0	7.3	3.3	1.4	-
Purchase and service obligations	57.1	17.5	28.0	11.6	-
Other obligations	44.9	8.6	14.8	0.9	20.6
Total contractual obligations	2,030.6	435.2	731.6	485.9	377.9

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 12 and 18 of our unaudited interim consolidated financial statements for the quarter ended June 30, 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 \$20.5 million to the pension plans in 2017.

OFF-BALANCE SHEET ARRANGEMENTS

As of June 30, 2017, we had off-balance-sheet financial arrangements relating to letters of credit for \$61.2 million that expire at various dates before July 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 June 30, 2017, \$356.9 million in bonds—expiring at various dates before January 2021—were issued under these surety facilities. This balance relates mainly to our construction business, which requires construction and performance bonds. These bonds are intended to provide owners with financial security to complete their construction project in the event of default.

FINANCIAL INSTRUMENTS AND MARKET RISK

At June 30, 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 21 of our unaudited interim consolidated financial statements for the quarter ended June 30, 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 to 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 June 30, 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.

For the MWH integration, we expect to continue to review various segments of MWH's business, and we anticipate these segments will become fully integrated into Stantec's legacy business by the end of 2017. We expect that the integration of some of the Global operations 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 Q2 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 June 30, 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 two quarters ended June 30, 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 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 income to EBITDA and adjusted EBITDA, and a reconciliations of net income to adjusted net income and EPS to adjusted EPS.

	Quarter Ended June 30		Two Quarters Ended June 30	
	2017	2016	2017	2016
<i>(In thousands of Canadian dollars, except per share amounts)</i>				
Net income for the period	97,634	21,171	39,628	51,792
Add back:				
Income taxes	21,998	9,246	124,739	21,154
Net interest expense	6,204	10,843	13,812	13,931
Depreciation of property and equipment	13,568	12,547	27,474	22,604
Amortization of intangible assets	18,727	19,941	42,237	30,744
EBITDA	158,131	73,748	247,890	140,225
Acquisition-related costs	78	10,787	312	14,241
Loss (gain) on sale of property and equipment	(170)	106	(215)	395
Gain on Innovyze sale (note 4)	(54,576)	-	(54,576)	-
Adjusted EBITDA	103,463	84,641	193,411	154,861

	Quarter Ended June 30		Two Quarters Ended June 30	
	2017	2016	2017	2016
<i>(In thousands of Canadian dollars, except per share amounts)</i>				
Net income for the period	97,634	21,171	39,628	51,792
Add back:				
Amortization of intangible assets related to acquisitions (note 1)	10,848	10,760	24,058	15,245
Acquisition-related costs (note 2)	57	7,508	226	10,111
Loss (gain) on sale of property and equipment (note 3)	(123)	74	(156)	280
Gain on Innovyze sale (note 4)	(50,468)	-	39,971	-
Adjusted net income	57,948	39,513	103,727	77,428
Weighted average number of shares outstanding - basic	114,045,875	106,207,939	114,087,887	100,049,233
Weighted average number of shares outstanding - diluted	114,355,587	106,621,988	114,454,989	100,451,362
Adjusted earnings per share				
Adjusted earnings per share - basic	0.51	0.37	0.91	0.77
Adjusted earnings per share - diluted	0.51	0.37	0.91	0.77

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 June 30, 2017, is net of tax of \$4,115 (2016 - \$4,700). For the two quarters ended June 30, 2017, this amount is net of tax of \$9,126 (2016 - \$6,227).

note 2: For the quarter ended June 30, 2017, net of tax \$21 (2016 - \$3,279). For the two quarters ended June 30, 2017, net of tax \$86 (2016 - \$4,130).

note 3: For the quarter ended June 30, 2017, net of tax of (recovery) (\$47) (2016 - \$32). For the two quarters ended June 30, 2017, net of tax (recovery) \$59 (2016 - \$115).

note 4: Refer to the Innovyze sale section for further details.

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 June 30, 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 June 30, 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 June 30, 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 two quarters ended June 30, 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

RNL FACILITIES CORPORATION

On July 28, 2017, we acquired all the shares and business of RNL Facilities Corporation (RNL), increasing our staff count by approximately 130 people. RNL, based in Denver, Colorado, has additional offices in Phoenix, Arizona; Los Angeles, California; Washington, DC; and Abu Dhabi, United Arab Emirates. RNL provides expertise in architecture, interior design, urban design, and landscaping. This addition will enhance our Buildings business operating unit.

DIVIDENDS

On August 8, 2017, we declared a cash dividend of \$0.1250 per share payable on October 12, 2017, to shareholders of record on September 29, 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 Innovyze sale)*
- Our goal to occupy the number one position in water and sewer works in the world and our belief that we have realized this goal*
- Our expectation on the timing for completing 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 we operate in*
- 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*

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 June 30, 2017, there has been no significant change in our risk factors from those described in our 2016 Annual Report; the risk factors 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\$0.77 on June 30, 2017, and was US\$0.74 on December 31, 2016. The average interest rate for our revolving credit facility and term loan was 3.25% at June 30, 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 we operate in, primarily Canada and the United States. Our effective tax rate was 27.5% at June 30, 2017, compared to 27.8% for the year ended December 31, 2016 (further explained in the Income Taxes section of this report).*
- As stated 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 \$50.78 and 9.3 million barrels a day in 2017.*
- As stated 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 an expected 1,234,000 units in 2017 from 1,176,000 units in 2016.*
- The Canadian dollar is expected to remain stable or depreciate from its current level given the anticipated increases in the US federal funds rate. This forecast has since been revised: the Canadian dollar is expected to remain stable relative to its current level given the 0.25 increase in the Bank of Canada benchmark rate from 0.50 to 0.75 during Q2 17.*

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 August 8, 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.