

Management's Discussion and Analysis

August 7, 2018

This discussion and analysis of Stantec Inc.'s (Stantec or the Company) operations, financial position, and cash flows for the quarter ended June 30, 2018, dated August 7, 2018, should be read in conjunction with the Company's unaudited interim condensed consolidated financial statements and related notes for the quarter ended June 30, 2018; the Management's Discussion and Analysis and audited consolidated financial statements and related notes included in our 2017 Annual Report (filed on February 22, 2018); and the Report to Shareholders contained in our 2018 Second Quarter Report.

Our unaudited interim consolidated financial statements and related notes for the quarter ended June 30, 2018, 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 those used in 2017, except for the adoption of IFRS 15 *Revenue from Contracts with Customers* (IFRS 15) and IFRS 9 *Financial Instruments* (IFRS 9). A description of these new standards and their impact on our financial position and results of operations is described in note 4 of our unaudited interim consolidated financial statements for the quarter ended June 30, 2018 (incorporated here by reference) and in the Critical Accounting Estimates, Developments, and Measures section of this report (herein referred to as the "Definition section").

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.

We have refined our long-standing business objective—to be a top 10 global design firm. Having achieved that goal, we now seek to maintain our position in the top 10, plus be a top-tier global design and delivery firm, not only ranked by size but also assessed qualitatively based on our capabilities and perception in the marketplace. We expect to achieve 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 2018 from those described on pages M-2 and M-12 to M-21 of our 2017 Annual Report (incorporated here by reference).

Overall Performance

Consulting Services performed well in Q2 18. Our results were positively impacted by organic gross and net revenue growth in Consulting Services of 4.6% and 4.5% respectively, resulting in five consecutive quarters of gross and net organic revenue growth. Energy & Resources continues to have double-digit organic growth due to our expertise, client relations, and the improved commodity markets. We continued to expand our global footprint by completing three acquisitions in the quarter and five year to date. Consolidated backlog increased \$300 million—from \$5.0 billion in Q1 18 to \$5.3 billion in Q2 18.

Gross margin for Consulting Services was 54.5%, while administrative and marketing expenses was 41.3% of net revenue, due to our continued focus on operational efficiencies which resulted in improved utilization and cost-reduction efforts that led to reduced administrative expenses.

Consulting Services achieved a 13.6% EBITDA as a percentage of net revenue which is above the top end of our annual targeted range. Adjusted diluted earnings per share (EPS) for Consulting Services increased 7.4%—from \$0.54 in Q2 17 to \$0.58 in Q2 18.

Our consolidated adjusted EBITDA and adjusted diluted EPS were negatively impacted by \$24.7 million in downward project adjustments in Construction Services in the quarter. Construction Services negatively impacted Consolidated EPS by approximately \$0.17 in Q2 18, as further described below. Consolidated adjusted diluted EPS was \$0.41 in Q2 18 compared to \$0.51 in Q2 17.

The following table summarizes our consolidated financial results for Q2 18 compared to Q2 17:

	Quarter Ended June 30				Two Quarters Ended June 30			
	2018	2017	Change	% Increase	2018	2017	Change	% Increase
<i>(In millions of Canadian dollars, except per share amounts and percentages)</i>	\$	\$	\$	(Decrease)	\$	\$	\$	(Decrease)
Gross revenue	1,358.2	1,318.6	39.6	3.0%	2,639.9	2,594.9	45.0	1.7%
Net revenue	907.8	888.4	19.4	2.2%	1,784.4	1,759.2	25.2	1.4%
EBITDA <i>(note)</i>	94.3	158.2	(63.9)	(40.4%)	184.6	247.9	(63.3)	(25.5%)
Adjusted EBITDA <i>(note)</i>	94.4	103.5	(9.1)	(8.8%)	184.8	193.4	(8.6)	(4.4%)
Net income	39.6	97.6	(58.0)	(59.4%)	76.4	39.6	36.8	92.9%
Adjusted net income <i>(note)</i>	46.5	57.9	(11.4)	(19.7%)	94.3	103.7	(9.4)	(9.1%)
EPS - basic	0.35	0.86	(0.51)	(59.3%)	0.67	0.35	0.32	91.4%
EPS - diluted	0.35	0.85	(0.50)	(58.8%)	0.67	0.35	0.32	91.4%
Adjusted EPS – basic <i>(note)</i>	0.41	0.51	(0.10)	(19.6%)	0.83	0.91	(0.08)	(8.8%)
Adjusted EPS – diluted <i>(note)</i>	0.41	0.51	(0.10)	(19.6%)	0.83	0.91	(0.08)	(8.8%)
Dividends declared per common share	0.1375	0.1250	0.0125	10.0%	0.2750	0.2500	0.0250	10.0%

*note: EBITDA, adjusted EBITDA, adjusted net income, and adjusted basic and diluted earnings per share (EPS) are non-IFRS measures (discussed in the Definition section of our 2017 Annual Report and this report)
Certain comparative figures have been reclassified to conform to the presentation adopted for the current period. Gross and net revenue were accounted for using IAS 11 in 2017 and IFRS 15 in 2018.*

Highlights – Q2 18 Results

The following tables show our Q2 18 and Q2 17 results in our two service offerings—Consulting Services and Construction Services:

<i>(In millions of Canadian dollars, except per share amounts and percentages)</i>	Quarter Ended June 30, 2018					
	Consulting Services		Construction Services		Total	
	\$	% of NR	\$	% of NR	\$	% of NR
Gross revenue	1,092.0	126.5%	266.2	598.2%	1,358.2	149.6%
Net revenue	863.3	100.0%	44.5	100.0%	907.8	100.0%
Gross margin	470.1	54.5%	(4.9)	(11.0%)	465.2	51.2%
Administrative and marketing expenses	356.8	41.3%	18.8	42.2%	375.6	41.4%
Other (income) expenses	(4.5)	(0.4%)	(0.2)	(0.4%)	(4.7)	(0.6%)
EBITDA (note)	117.8	13.6%	(23.5)	(52.8%)	94.3	10.4%
Adjusted EBITDA (note)	117.9	13.7%	(23.5)	(52.8%)	94.4	10.4%
Adjusted net income (note)	65.7	7.6%	(19.2)	(43.1%)	46.5	5.1%
Adjusted EPS - Basic (note)	0.58		(0.17)		0.41	
Adjusted EPS - Diluted (note)	0.58		(0.17)		0.41	

note: EBITDA, Adjusted EBITDA, adjusted net income, adjusted EPS (Basic and Diluted) are non-IFRS measures (discussed in the Definition section of our 2017 Annual Report and this report).

<i>(In millions of Canadian dollars, except per share amounts and percentages)</i>	Quarter Ended June 30, 2017					
	Consulting Services		Construction Services		Total	
	\$	% of NR	\$	% of NR	\$	% of NR
Gross revenue	1,046.2	125.8%	272.4	480.4%	1,318.6	148.4%
Net revenue	831.7	100.0%	56.7	100.0%	888.4	100.0%
Gross margin	458.7	55.1%	17.0	30.0%	475.7	53.5%
Administrative and marketing expenses	352.1	42.3%	21.6	38.1%	373.7	42.1%
Other (income) expenses	(56.1)	(6.8%)	(0.1)	(0.2%)	(56.2)	(6.4%)
EBITDA (note)	162.7	19.6%	(4.5)	(7.9%)	158.2	17.8%
Adjusted EBITDA (note)	108.0	13.0%	(4.5)	(7.9%)	103.5	11.7%
Adjusted net income (note)	62.1	7.5%	(4.2)	(7.4%)	57.9	6.5%
Adjusted EPS - Basic (note)	0.54		(0.03)		0.51	
Adjusted EPS - Diluted (note)	0.54		(0.03)		0.51	

note: EBITDA, Adjusted EBITDA, adjusted net income, adjusted EPS (Basic and Diluted) are non-IFRS measures (discussed in the Definition section of our 2017 Annual Report and this report).

Consulting Services continues to build positive momentum in Q2 18 with organic net revenue growth of 4.5%, improved administrative and marketing expenses, and a 7.4% increase in adjusted diluted EPS in Q2 18 compared to Q2 17, and it is meeting all targets year to date. Our consolidated results continue to be impacted by legacy project issues in Construction Services. During the quarter, we recorded additional costs to complete and negative revenue adjustments of \$24.7 million on these projects. This impacted our consolidated gross margins, EBITDA, EPS, and year-to-date targets.

Consulting Services

Gross and net revenue. In Consulting Services, gross revenue was up 4.4% to \$1,092.0 million and net revenue was up 3.8% to \$863.3 million in Q2 18 compared to Q2 17. Organic net revenue growth occurred in all geographies and in our Energy & Resources, Environmental Services, and Water business operating units. Energy & Resources continued to show double-digit growth with strong growth in all sectors. These increases were partly offset by the impact of foreign exchange.

In Consulting Services – Canada, we had strong organic gross revenue growth of 8.8% and organic net revenue growth of 6.9% in Q2 18 compared to Q2 17. We had organic net revenue growth in all business operating units except Environmental Services, which was impacted by large projects winding down. Buildings, Energy & Resources, and Infrastructure had notable revenue growth due to activity on several projects.

In Consulting Services – United States, we had organic gross revenue growth of 4.7% and organic net revenue growth of 3.3% in Q2 18 compared to Q2 17. Organic revenue growth was driven by our Environmental Services business operating unit and WaterPower & Dams and Mining sectors. Buildings retracted in the quarter as a result of certain large healthcare projects winding down and the loss of certain architectural clients from acquired firms; however, due to new project wins in the quarter, we anticipate improvements over the remainder of the year.

In Consulting Services – Global, we had organic gross revenue retraction of 3.2% and organic net revenue growth of 3.9% in Q2 18 compared to Q2 17. A large subcontractor-heavy Environmental Services project in Italy slowed down and therefore contributed to the retraction in organic gross revenue. New projects starts in our Water business operating unit and Mining sector contributed to organic net revenue growth. Our Global team has recently been very successful in winning major strategic pursuits.

Gross margin. Gross margin in Consulting Services decreased—from 55.1% in Q2 17 to 54.5% in Q2 18—mainly due to project mix, competitive pricing pressures, and increased revenues in all Energy & Resources sectors, which are at lower margins.

Administrative and marketing expenses. Administrative and marketing expenses as a percentage of net revenue was lower in Q2 18 than in Q2 17 mainly due to operational efficiencies, improved utilization, lower integration, and lower occupancy costs. These decreases were partly offset by a \$1.0 million increase in software support and customization costs and investments in core infrastructure.

EBITDA. In Consulting Services, adjusted EBITDA increased 9.2% in Q2 18 compared to Q2 17 mainly due to acquisition and organic revenue growth and improvements in administrative and marketing expenses as a percentage of net revenue (described above). EBITDA decreased in Q2 18 compared to Q2 17 because Q2 17 was impacted by a gain of \$54.6 million (before tax) on the Innovyze sale.

Other. Amortization of intangibles was less in Q2 18 than in Q2 17 due to a decrease in amortization expense for backlog related to acquisitions made in previous years; however, the decrease was partly offset by a change in the Autodesk licencing structure, which reduced the software's estimated life and increased amortization expense by \$2.8 million. In Q2 17, a gain on sale of \$54.6 million was recognized from the Innovyze sale.

Other income included a \$2.8 million unrealized gain on equity funds that form part of our investments held for self-insured liabilities. Previously, unrealized fair value gains or losses on equity securities were recorded in other comprehensive income until they were realized, at which time they were recorded in income. After adoption of IFRS 9 (described in the Recent Accounting Pronouncements section), both realized and unrealized gains and losses on our equity securities are required to be recognized in income.

Net income and earnings per share (EPS). In Consulting Services, adjusted net income was up 5.8% and adjusted diluted EPS was up \$0.04 in Q2 18 compared to Q2 17. These increases were due to acquisition and organic revenue growth and improvements in administrative and marketing expenses as a percentage of net revenue (described above).

Construction Services

In Q2 18, we recorded additional negative revenue and cost adjustments of \$16.3 million for UK-based waste-to-energy projects, net \$5.4 million on US major design-build contracts, and \$3.0 million on legacy US-based hard-bid projects. The adjustments resulted from continued project delays and performance issues. We continue to advance claims against parties believed to be responsible for causing much of the added costs. Hard-bid projects were awarded years ago when Construction Services expanded to take on projects outside of its core regional areas of expertise. We have placed a hold on our hard-bid work outside of our established areas of expertise and are winding down our exposure to the waste-to-energy market in the United Kingdom. Settlement agreements in two of the three waste-to-energy projects have been agreed upon in principle, and minimal additional costs are expected. Additional costs associated with the remaining project are related to additional estimated costs to complete, and the project takeover is now expected in Q3 18.

Income Taxes. Our effective annual income tax rate increased from 27% in Q1 18 to 29% in Q2 18. The change in the effective tax rate is mainly due to the losses incurred in the UK Construction Services operation. The losses attract a tax benefit at our UK expected deferred tax rate of 17%, which is significantly lower than our Q1 18 effective tax rate of 27%. The relationship between the tax rates and the estimated earnings in the jurisdictions we operate has resulted in the increase of our annual effective tax rate. This increase to our annual rate increased our Q2 18 tax rate to 30.8%, resulting in a reduction in EPS of approximately \$0.02 in the quarter.

For further details regarding our overall performance, refer to the Financial Performance section of this report.

Other Q2 18 Information

Dividends. We declared a dividend of \$0.1375 per share on May 9, 2018, that was paid on July 12, 2018, to shareholders of record on June 29, 2018. Subsequent to the quarter end, on August 7, 2018, we declared a dividend of \$0.1375 per share, payable on October 10, 2018, to shareholders of record on September 28, 2018.

Strategic review of Construction Services. On April 26, 2018, we initiated a strategic review of MWH Constructors, Stantec Treatment, and Slayden ("Constructors"), acquired with MWH Global Inc. in May 2016. We are evaluating ways to optimize the value of Constructors and provide the best prospects for employees, clients, and shareholders. We are making positive progress on the review and are in discussions with several interested external parties. We anticipate concluding our strategic review by the end of Q4 18.

Amended credit agreement. On June 27, 2018, we amended our syndicated credit facilities agreement. The amendment removed provisions about Stantec and its subsidiaries granting collateral, making all facilities unsecured. The amendment extended the maturity date of our revolving credit facility to five years and Tranches B and C of our term loans to four years and five years respectively. The accordion feature of the facility was increased from \$200 million to \$400 million.

Integration. We continue to make significant progress integrating MWH Global Inc. (MWH) and have deployed key collaboration tools to the majority of its operations. We continue to evaluate and plan for the consolidation of the enterprise platforms for Consulting Services, streamlining where practical. We expect to integrate our Australian and New Zealand operations to our financial business systems by the first half of 2019 and our other foreign operations after that. 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.

Highlights – Two Quarters Ended Q2 18 Results

	Two Quarters Ended June 30, 2018					
	Consulting Services		Construction Services		Total	
	\$	% of NR	\$	% of NR	\$	% of NR
<i>(In millions of Canadian dollars, except per share amounts and percentages)</i>						
Gross revenue	2,113.3	126.4%	526.6	468.9%	2,639.9	147.9%
Net revenue	1,672.1	100.0%	112.3	100.0%	1,784.4	100.0%
Gross margin	910.6	54.5%	12.1	10.8%	922.7	51.7%
Administrative and marketing expenses	700.9	41.9%	36.3	32.3%	737.2	41.3%
Other (income) expenses	0.9	0.1%	-	-	0.9	0.1%
EBITDA (note)	208.8	12.5%	(24.2)	(21.5%)	184.6	10.3%
Adjusted EBITDA (note)	209.0	12.5%	(24.2)	(21.5%)	184.8	10.4%
Adjusted net income (note)	115.0	6.9%	(20.7)	(18.4%)	94.3	5.3%
Adjusted EPS - Basic (note)	1.01		(0.18)		0.83	
Adjusted EPS - Diluted (note)	1.01		(0.18)		0.83	

note: EBITDA, Adjusted EBITDA, adjusted net income, adjusted EPS (Basic and Diluted) are non-IFRS measures (discussed in the Definition section of our 2017 Annual Report and this report).

	Two Quarters Ended June 30, 2017					
	Consulting Services		Construction Services		Total	
	\$	% of NR	\$	% of NR	\$	% of NR
<i>(In millions of Canadian dollars, except per share amounts and percentages)</i>						
Gross revenue	2,050.4	125.3%	544.5	443.8%	2,594.9	147.5%
Net revenue	1,636.5	100.0%	122.7	100.0%	1,759.2	100.0%
Gross margin	905.3	55.3%	39.4	32.1%	944.7	53.7%
Administrative and marketing expenses	711.1	43.5%	39.9	32.5%	751.0	42.7%
Other (income) expenses	(54.1)	(3.4%)	(0.1)	(0.1%)	(54.2)	(3.1%)
EBITDA (note)	248.3	15.2%	(0.4)	(0.3%)	247.9	14.1%
Adjusted EBITDA (note)	193.8	11.8%	(0.4)	(0.3%)	193.4	11.0%
Adjusted net income (note)	105.9	6.5%	(2.2)	(1.8%)	103.7	5.9%
Adjusted EPS - Basic (note)	0.93		(0.02)		0.91	
Adjusted EPS - Diluted (note)	0.93		(0.02)		0.91	

note: EBITDA, Adjusted EBITDA, adjusted net income, adjusted EPS (Basic and Diluted) are non-IFRS measures (discussed in the Definition section of our 2017 Annual Report and this report).

Consulting Services

Consulting Services achieved year-to-date organic gross revenue growth of 3.9% and net revenue growth of 3.6%. Our Energy & Resources, Environmental Services, and Water business operating units had organic net revenue growth while Buildings and Infrastructure were flat. Energy & Resources had double-digit growth with strong growth in all sectors. Organic growth was partly offset by the impact of foreign exchange and the Innovyze sale in 2017. In our Water business operating unit in Q1 18, we recognized \$3.0 million in recoveries on a revenue adjustment recorded in Q4 17 for a major design-build project.

Our Consulting Services year-to-date gross margin was 54.5% in 2018 compared to 55.3% in 2017. The decrease was caused primarily by project execution issues in our Buildings business operating unit, project mix, and competitive pressures. Year-to-date administrative and marketing expenses as a percentage of net revenue was lower in 2018 than in 2017 mainly due to operational efficiencies, improved utilization, and lower occupancy costs. As a result of management's continued focus on reducing costs, cost savings were realized in discretionary spending and other areas. These decreases were partly offset by a \$2.6 million increase in software support and customization costs and by investments in core infrastructure.

Year-to-date adjusted EBITDA increased 7.8% in 2018 compared to 2017, and adjusted EPS was up \$0.08. These increases were due to acquisition and organic revenue growth and improvements in administrative and marketing expenses (described above). Year-to-date EBITDA and EPS decreased in 2018 compared to 2017 because the Innovyze sale in 2017 resulted in a gain on disposition of \$54.6 million and Innovyze had higher EBITDA margins in 2017.

Construction Services

Year-to-date Construction Services was impacted by continuing cost escalations as well as project life completion dates that were extended for certain legacy projects. Negative revenue and cost adjustments on these projects totaled \$27.7 million year to date. These adjustments impacted gross margins and EBITDA and decreased EPS by approximately \$0.18.

Results Compared to 2018 Annual Targets

In the Management's Discussion and Analysis section of our 2017 Annual Report, we established various ranges of expected performance for fiscal year 2018. The following table indicates our progress toward these targets as at June 30, 2018:

Measure	Consulting Services		Construction Services		Total	
	Target	Results	Target	Results	Target	Results
Gross margin as % of net revenue	53% to 55%	54.5% ✓	30% to 33%	10.8% ✗	52% to 54%	51.7% ✗
Administrative and marketing expenses as % of net revenue	41% to 43%	41.9% ✓	25% to 27%	32.3% ✗	41% to 43%	41.3% ✓
EBITDA as % of net revenue (notes 1 and 2)	11% to 13%	12.5% ✓	7% to 9%	(21.5%) ✗	10% to 12%	10.3% ✓
Net income as % of net revenue					At or above 5%	4.3% ✗

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 Definition section of our 2017 Annual Report and this report).

✓ Met or performed better than target.

✗ Did not meet target.

At the end of Q2 18, we are meeting our Consulting Services targets; however, we are not meeting our Construction Services targets because Construction Services was impacted primarily by Q2 18 downward project revenue adjustments (described on page M-5). We are not meeting our net income as a percentage of net revenue target mainly due to project issues in Construction Services. For Consulting Services, we believe we will achieve our annual targets by the end of the fiscal year; however, we expect to miss our Construction Services targets, given the project issues incurred to date in 2018. Excluding the net impact of the Construction Services project issues of approximately \$27.7 million year to date, net income as a percentage of net revenue was 5.4%.

Updated guidance on capital expenditures and the amortization of intangibles are provided in the Cashflow (Used in) From Investing Activities and Amortization of Intangibles sections of this report respectively. We continue to anticipate a one-time lease exit liability charge of approximately \$15 million in Q4 18 because of the move to our new corporate head office in Edmonton. The guidance changed our annual effective tax rate from 27% to 29%.

Financial Performance

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		
	% of Net Revenue		% Increase (Decrease)*	% of Net Revenue		% Increase (Decrease)*
<i>(In millions of Canadian dollars, except percentages)</i>	2018	2017	2018 vs. 2017	2018	2017	2018 vs. 2017
Gross revenue	149.6%	148.4%	3.0%	147.9%	147.5%	1.7%
Net revenue	100.0%	100.0%	2.2%	100.0%	100.0%	1.4%
Direct payroll costs	48.8%	46.5%	7.2%	48.3%	46.3%	5.8%
Gross margin	51.2%	53.5%	(2.2%)	51.7%	53.7%	(2.3%)
Administrative and marketing expenses	41.4%	42.1%	0.5%	41.3%	42.7%	(1.8%)
Depreciation of property and equipment	1.4%	1.5%	(5.1%)	1.4%	1.6%	(6.9%)
Amortization of intangible assets	1.9%	2.1%	(6.4%)	2.2%	2.4%	(7.3%)
Net interest expense	0.7%	0.7%	8.1%	0.7%	0.8%	(10.9%)
Other net finance expense	0.0%	0.1%	(71.4%)	0.1%	0.2%	(44.4%)
Share of income from joint ventures and associates	0.0%	(0.1%)	69.2%	0.0%	(0.1%)	65.0%
Foreign exchange loss (gain)	(0.1%)	(0.1%)	20.0%	0.1%	0.0%	n/m
Gain on disposition of subsidiary	0.0%	(6.1%)	n/m	0.0%	(3.1%)	n/m
Other (income) expense	(0.4%)	(0.2%)	n/m	(0.1%)	(0.1%)	(21.4%)
Income before income taxes	6.3%	13.5%	(52.2%)	6.0%	9.3%	(34.5%)
Income taxes	1.9%	2.5%	(20.4%)	1.7%	7.0%	(75.0%)
Net income	4.4%	11.0%	(59.4%)	4.3%	2.3%	92.9%

n/m = not meaningful

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

Certain comparative figures have been reclassified to conform to the presentation adopted for the current period. Gross and net revenue were accounted for using IAS 11 in 2017 and IFRS 15 in 2018.

The following sections outline specific factors that affected the results of our operations in the second quarter of 2018 and should be read in conjunction with our unaudited interim consolidated financial statements for the quarter ended June 30, 2018.

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. Therefore, we also report net revenue (gross revenue less subconsultant, subcontractor, and other direct expenses) and analyze the 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 consulting-related projects since our Construction Services business incurs proportionately higher direct costs. For construction projects, subcontractors provide specialized building services such as earthwork, HVAC, electrical, piping, local craft labor, and design- and engineering-related services. Direct costs for Construction Services include expenditures for insurance, travel, meals, and purchases of materials and equipment (such as membranes, pumps, steel, concrete, aggregate, pipe, and electrical components) to install into facilities.

For this analysis and the tables that follow, revenue earned by acquired or divested companies in the first 12 months is initially reported as revenue from acquisitions or divestitures and thereafter reported as organic revenue.

Consulting Services generates approximately 70% of gross revenue in foreign currencies, primarily in US dollars. Construction Services generates gross revenue primarily in British pound sterling and US dollars. Fluctuations in

these currencies had a \$29.7 million negative impact on our gross revenue results in Q2 18 compared to Q2 17 and a \$53.8 million negative impact year to date in 2018 compared to the same period in 2017, as further described below:

- The Canadian dollar averaged US\$0.74 in Q2 17 and US\$0.77 in Q2 18—a 4.1% increase. The Canadian dollar averaged US\$0.75 year to date in 2017 compared to US\$0.78 year to date in 2018—a 4.0% increase. The strengthening Canadian dollar had a negative effect on gross and net revenue in Q2 18 compared to Q2 17 and year to date in 2018 compared to year to date in 2017.
- The Canadian dollar averaged GBP0.59 in Q2 17 and GBP0.57 in Q2 18—a 3.4% decrease. The Canadian dollar averaged GBP0.60 year to date in 2017 compared to GBP0.57 year to date in 2018—a 5.0% decrease. The weakening Canadian dollar had a positive effect on gross and net revenue in Q2 18 compared to Q2 17 and year to date in 2018 compared to year to date in 2017.

Fluctuations in other foreign currencies did not have a material impact on our gross and net revenue in Q2 18 compared to Q2 17 and year to date in 2018 compared to the same period in 2017.

Our contract backlog was \$5.3 billion at June 30, 2018—\$4.0 billion in Consulting Services and \$1.3 billion in Construction Services. Backlog increased \$300 million compared to March 31, 2018. Backlog increases as a result of project wins and acquisitions completed in the year and may be offset by fluctuations in foreign exchange.

We define “backlog” as the total value of secured work that has not yet been completed where we have an executed contract or a letter of intent that management is reasonably assured will be finalized in a formal contract. Previously, contract backlog was considered a non-IFRS measure. As at January 1, 2018, we adopted IFRS 15, which requires that the total value of all secured work be reported as contract backlog. Before adopting IFRS 15, our backlog was limited to the first 12 to 18 months of secured work.

Acquisitions

Following are the acquisitions completed in 2017 and year to date in 2018 that impacted our reportable segments and business operating units (within Consulting Services):

REPORTABLE SEGMENTS	MONTH ACQUIRED	CONSULTING SERVICES - BUSINESS OPERATING UNITS				
		Buildings	Energy & Resources	Environmental Services	Infrastructure	Water
Consulting Services - Canada						
NWC	May 2018		●			
CEG	May 2018	●	●		●	
Consulting Services - United States						
Inventrix	April 2017	●				
RNL	July 2017	●				
NSR	October 2017			●		
OEI	March 2018					●
NWC	May 2018		●			
Consulting Services - Global						
RNL	July 2017	●				
ESI	March 2018			●		
TDG	April 2018				●	

Consideration for acquisitions completed was \$45.8 million in Q2 18 and \$60.7 million year to date in 2018. We completed the following acquisitions year to date in 2018:

- March 23, 2018 – Acquired all the shares and business of ESI Limited (ESI), adding 50 staff to our Company. ESI is based in Shrewsbury, England, and has additional offices in Reading, England, and Cardiff, Wales. ESI provides expertise in groundwater, land, and sustainable development.
- March 30, 2018 – Acquired certain assets and liabilities of Occam Engineers Inc. (OEI), adding 55 staff to our Company. OEI is based in Albuquerque, New Mexico, and has additional offices in Sante Fe, Roswell, Artesia, Las Cruces, Silver City, and Tucumcari in New Mexico and an office in Houston, Texas. OEI provides expertise in civil engineering, public works, transportation, development engineering, planning and feasibility, program management, water resources, and value analysis.
- April 1, 2018 – Acquired all the shares and business of Traffic Design Group Limited (TDG), adding approximately 80 staff to our Company. TDG is a transportation planning and traffic engineering design firm based in Wellington, New Zealand, with additional offices throughout New Zealand and an office in Sydney, Australia.
- May 18, 2018 – Acquired all the shares and business of Norwest Corporation (NWC), adding about 140 staff to our Company. NWC is based in Calgary, Alberta, and has offices in Vancouver, British Columbia; Denver and Trinidad, Colorado; Salt Lake City, Utah; and Charleston, West Virginia. NWC expands our geotechnical, geological, and mining expertise in our Energy & Resources business operating unit across western Canada and the western United States.
- May 25, 2018 – Acquired all the shares and business of Cegertec Experts Conseils Inc. (Cegertec), adding approximately 250 staff to our Company. Cegertec, based in Chicoutimi, Quebec, has additional offices in Quebec City, Montreal, and St. Georges, Quebec. Cegertec provides expertise in engineering, project management, risk management, construction supervision, and structural inspections and inventory.

Revenue by Reportable Segment

The following charts and tables summarize gross and net revenue as well as gross and net revenue growth in our two service offerings and four reportable segments:

Q2 18 YTD Gross Revenue by Reportable Segment



SERVICE OFFERINGS

80% Consulting Services
20% Construction Services

REPORTABLE SEGMENTS

44% United States
24% Canada
12% Global
20% 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

Gross Revenue by Reportable Segment

<i>(In millions of Canadian dollars, except percentages)</i>	Quarter Ended June 30, 2018	Quarter Ended June 30, 2017	Total Change	Change Due to Net Acquisitions (Divestitures)	Change Due to Foreign Exchange	Change Due to Organic Growth (Retraction)	% of Organic Growth (Retraction)
Consulting Services							
Canada	327.5	298.6	28.9	2.7	n/a	26.2	8.8%
United States	606.1	583.4	22.7	18.0	(22.6)	27.3	4.7%
Global	158.4	164.2	(5.8)	1.5	(2.1)	(5.2)	(3.2%)
Total Consulting Services	1,092.0	1,046.2	45.8	22.2	(24.7)	48.3	
Percentage growth (retraction)			4.4%	2.2%	(2.4%)	4.6%	
Construction Services	266.2	272.4	(6.2)		(5.0)	(1.2)	
Percentage growth (retraction)			(2.3%)		(1.9%)	(0.4%)	
Total	1,358.2	1,318.6	39.6	22.2	(29.7)	47.1	3.6%

note: Comparative figures have been reclassified due to a realignment between Consulting Services – United States and Consulting Services – Global reportable segments and to conform to the presentation adopted for the current period. Gross revenue was accounted for using IAS 11 in 2017 and IFRS 15 in 2018.

<i>(In millions of Canadian dollars, except percentages)</i>	Two Quarters Ended June 30, 2018	Two Quarters Ended June 30, 2017	Total Change	Change Due to Net Acquisitions (Divestitures)	Change Due to Foreign Exchange	Change Due to Organic Growth (Retraction)	% of Organic Growth (Retraction)
Consulting Services							
Canada	630.3	579.6	50.7	2.4	n/a	48.3	8.3%
United States	1,175.7	1,169.5	6.2	23.0	(49.1)	32.3	2.8%
Global	307.3	301.3	6.0	4.5	1.8	(0.3)	(0.1%)
Total Consulting Services	2,113.3	2,050.4	62.9	29.9	(47.3)	80.3	
Percentage growth (retraction)			3.1%	1.5%	(2.3%)	3.9%	
Construction Services	526.6	544.5	(17.9)		(6.5)	(11.4)	
Percentage growth (retraction)			(3.3%)		(1.2%)	(2.1%)	
Total	2,639.9	2,594.9	45.0	29.9	(53.8)	68.9	2.7%

note: Comparative figures have been reclassified due to a realignment between Consulting Services – United States and Consulting Services – Global reportable segments and to conform to the presentation adopted for the current period. Gross revenue was accounted for using IAS 11 in 2017 and IFRS 15 in 2018.

Net Revenue by Reportable Segment

	Quarter Ended June 30, 2018	Quarter Ended June 30, 2017	Total Change	Change Due to Net Acquisitions (Divestitures)	Change Due to Foreign Exchange	Change Due to Organic Growth (Retraction)	% of Organic Growth (Retraction)
<i>(In millions of Canadian dollars, except percentages)</i>							
Consulting Services							
Canada	282.8	262.1	20.7	2.7	n/a	18.0	6.9%
United States	461.8	453.1	8.7	11.4	(17.7)	15.0	3.3%
Global	118.7	116.5	2.2	0.2	(2.6)	4.6	3.9%
Total Consulting Services	863.3	831.7	31.6	14.3	(20.3)	37.6	
Percentage growth (retraction)			3.8%	1.7%	(2.4%)	4.5%	
Construction Services	44.5	56.7	(12.2)		(0.9)	(11.3)	
Percentage growth (retraction)			(21.5%)		(1.6%)	(19.9%)	
Total	907.8	888.4	19.4	14.3	(21.2)	26.3	3.0%

note: Comparative figures have been reclassified due to a realignment between Consulting Services – United States and Consulting Services – Global reportable segments and to conform to the presentation adopted for the current period. Net revenue was accounted for using IAS 11 in 2017 and IFRS 15 in 2018.

	Two Quarters Ended June 30, 2018	Two Quarters Ended June 30, 2017	Total Change	Change Due to Net Acquisitions (Divestitures)	Change Due to Foreign Exchange	Change Due to Organic Growth (Retraction)	% of Organic Growth (Retraction)
<i>(In millions of Canadian dollars, except percentages)</i>							
Consulting Services							
Canada	541.7	510.6	31.1	2.4	n/a	28.7	5.6%
United States	901.2	906.9	(5.7)	12.7	(37.6)	19.2	2.1%
Global	229.2	219.0	10.2	0.5	(1.4)	11.1	5.1%
Total Consulting Services	1,672.1	1,636.5	35.6	15.6	(39.0)	59.0	
Percentage growth (retraction)			2.2%	0.9%	(2.3%)	3.6%	
Construction Services	112.3	122.7	(10.4)		(0.6)	(9.8)	
Percentage growth (retraction)			(8.5%)		(0.5%)	(8.0%)	
Total	1,784.4	1,759.2	25.2	15.6	(39.6)	49.2	2.8%

note: Comparative figures have been reclassified due to a realignment between Consulting Services – United States and Consulting Services – Global reportable segments and to conform to the presentation adopted for the current period. Net revenue was accounted for using IAS 11 in 2017 and IFRS 15 in 2018.

Total gross and net revenue was positively impacted by the acquisitions completed in 2017 and 2018 and organic revenue growth. This increase was partly offset by the stronger Canadian dollar in Q2 18 compared to Q2 17 and year to date in 2018 compared to the same period in 2017. Consulting Services had positive organic net revenue growth in all geographies year to date in 2018 compared to the same period in 2017; Construction Services organic net revenue retracted in the quarter and year to date.

Year to date, the gross to net revenue ratio for Consulting Services was 1.26, falling within our targeted range of 1.25 to 1.30. The ratio for Construction Services was 4.69, falling within our targeted range of 4.5 to 5.0. Our consolidated gross to net revenue ratio was 1.48, falling within our targeted range of 1.45 to 1.50.

Consulting Services – Canada

In our Consulting Services – Canada operations, gross revenue increased 9.7% and net revenue increased 7.9% in Q2 18 compared to Q2 17. Gross revenue increased 8.7% and net revenue increased 6.1% year to date in 2018 compared to year to date in 2017. These increases were primarily due to organic revenue growth, which continued in all business operating units except Environmental Services.

The trend in our quarterly results was consistent with our year-to-date results. Growth was seen in the private sector, particularly in our Buildings, Energy & Resources, and Infrastructure business operating units. Growth in Buildings was mainly due to continuing work on three major healthcare projects. In Energy & Resources, growth in our Oil & Gas sector was primarily caused by an increased demand in midstream work over the last year and growth in our Power sector was mostly due to work continuing on several large manufacturing projects. In our Infrastructure business operating unit, increased urban development led to growth in our Community Development sector and several transit and rail projects led to growth in our Transportation sector.

Revenue retracted in our Environmental Services business operating unit in the private sector, mainly in Ontario. This was partly offset by growth in the public sector across the country. Organic revenue retraction slowed in Q2 18 compared to Q1 18, as evidenced by recent wins, including new clients and an increase in small project opportunities.

Growth in the public sector was seen in our Community Development sector and Environmental Services business operating unit; however, these increases were offset by declines in public spending in our Water business operating unit and Power and Transportation sectors.

Consulting Services – United States

In our Consulting Services – United States operations, gross revenue increased 3.9% and net revenue increased 1.9% in Q2 18 compared to Q2 17. Gross and net revenue remained flat year to date in 2018 compared to year to date in 2017. Organic revenue and acquisitions growth were partly offset by foreign exchange since the US dollar weakened compared to the Canadian dollar. Organic revenue growth was driven largely by our Environmental Services business operating unit, and WaterPower & Dams and Mining sectors and partly offset by organic revenue retraction in our Buildings business operating unit. Our Water business operating unit had organic net revenue growth during the quarter and was flat year to date due to the Innovyze divestiture in 2017. During the quarter, new contracts were awarded in Water, and these are expected to begin in the second half of 2018, bolstering already strong backlog in this business operating unit.

In the private sector, we continued to capitalize on our expertise in environmental mitigation and build our remediation and recovery expertise in our Environmental Services business. Our Environmental Services business operating unit saw year-to-date organic growth across several sectors. Activity in airport, rail, and highway and road projects increased. In our Power sector, our transmission and distribution activities remained steady. Our Buildings business operating unit saw year-to-date organic retraction caused by certain large healthcare projects winding down, the loss of certain architectural clients, and Q1 18 project execution issues. We expect organic growth in Buildings in the second half of 2018.

At both the state and federal government levels, business in the public sector continues to grow. US design-build opportunities increased because some clients view design-build as an efficient project delivery method. Year-to-date organic net revenue retracted in our Transportation sector; however, we continue to have a solid strategic market position in transit, bridge inspection, light-rail transit, roadway, and bridge projects. Design work on the Long Island Rail Road project (awarded in Q1 18) began in the quarter.

In our Energy & Resources business operating unit, WaterPower & Dams had strong year-to-date organic growth because of the execution of contracts awarded in Q4 17. Our Mining sector also had year-to-date organic growth as a

result of market improvements, which were caused by increases in certain commodity prices that were driven by global consumer confidence. This resulted in several new opportunities for Stantec.

In our Water business operating unit, we saw growth in certain markets, such as California, as a result of increased government spending. But growth was offset by the impact of certain water programs coming to completion in Q1 18 and the Innovyze sale in Q2 17. Water continued to benefit from regulatory requirements, including consent decrees that mandate municipalities to upgrade their water and wastewater facilities, as well as from the continued efforts of public agencies and private industry concerns to improve operational efficiency. We continued to build our expertise in flood damage risk reduction and resiliency with new project wins along the Gulf Coast.

Consulting Services – Global

In our Consulting Services – Global operations, gross revenue retracted 3.5% and net revenue increased 1.9% in Q2 18 compared to Q2 17. Gross revenue increased 2.0% and net revenue grew 4.7% year to date in 2018 compared to year to date in 2017. Overall retraction resulted from foreign exchange impacts and organic gross revenue declines and was partly offset by net acquisition growth. Organic gross revenue retraction in the second quarter was driven primarily by our Environmental Services business operating unit and our export business. A large subcontractor-heavy Environmental Services contract slowed down in Italy, impacting our quarterly results. As well, we saw large projects in our export group wind down. Our export business encompasses projects that are located outside of North America but managed and contracted from North America.

Organic revenue retraction in Q2 18 compared to Q2 17 was partly offset by growth in our Water business operating unit and Mining sector. We commenced large Water projects, which resulted in organic growth during the quarter in Australia and New Zealand. In addition, our Latin America operations continued to benefit from growing markets in our Mining services in Peru and Chile. The United Kingdom experienced modest organic net revenue growth because of Water clients that we provide project management services to.

Year to date, we saw organic revenue growth in our Mining sector in Latin America, Water business operating unit in Australia and New Zealand, and Mining export business. Mining markets continued to strengthen through the first half of 2018, resulting in an increased volume of work in Latin America and on Mining sector export projects. Growth in Water, our largest Consulting Services – Global business operating unit, was driven by new projects in Australia and New Zealand. We also saw consistent revenue volume through the Asset Management Programme 6 (AMP6) cycle in the United Kingdom.

Construction Services

In our Construction Services operations, gross revenue decreased 2.3% and net revenue decreased 21.5% in Q2 18 compared to Q2 17. Gross revenue decreased 3.3% and net revenue decreased 8.5% year to date in 2018 compared to year to date in 2017. Organic gross revenue was flat while organic net revenue retracted in Q2 18 compared to Q2 17. Year to date, organic gross and net revenue retracted when comparing 2018 to 2017. A number of projects had higher subcontractor involvement in Q2 18 compared to projects in Q2 17, resulting in a higher gross revenue to net revenue ratio in Q2 18.

The United States generated \$180.3 million in gross revenue in Q2 18 and \$347.6 million year to date in 2018. In Florida, Texas, and the western United States, we had significant and steady work on a number of major water and wastewater treatment plant construction projects. The remaining \$85.9 million in gross revenue and \$179.0 million year to date was earned mainly in the United Kingdom and was driven by ongoing construction activities for water utilities in the third year of the AMP6 cycle.

Our core water Construction Services business is meeting expectations. However, project issues for several legacy MWH projects from 2017 continued to impact results. During Q2 18, we recorded an additional \$16.3 million for

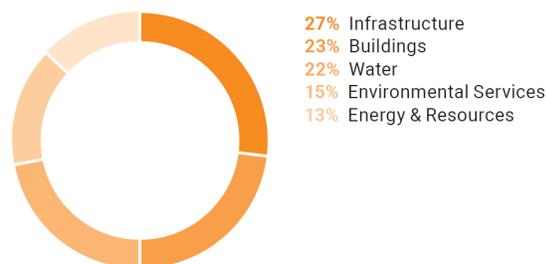
certain UK-based waste-to-energy projects, net \$5.4 million on major US design-build contracts, and \$3.0 million on legacy US-based hard-bid projects—a total impact of \$24.7 million. These adjustments related to project delays and certain performance issues. Net adjustments made for these projects totaled \$27.7 million year to date in 2018.

Claims against parties believed to be responsible for causing many of these overruns have been or will be asserted in due course; however, the claims process for additional potential recoveries may take a long time to resolve. Any recoveries may benefit future quarters as claims are resolved. These projects were awarded a number of years ago when US Construction Services expanded to take on projects outside of its core regional areas of expertise, and we have placed a hold on our hard-bid work outside our established areas. In addition, we are in the process of winding down the UK waste-to-energy business.

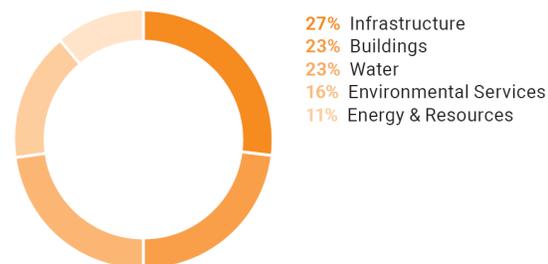
Revenue by Consulting Services – Business Operating Unit

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

Q2 18 YTD Gross Revenue by Business Operating Unit



Q2 17 YTD Gross Revenue by Business Operating Unit



Gross Revenue by Consulting Services - Business Operating Unit

	Quarter Ended June 30, 2018	Quarter Ended June 30, 2017	Total Change	Change Due to Net Acquisitions (Divestitures)	Change Due to Foreign Exchange	Change Due to Organic Growth (Retraction)	% of Organic Growth (Retraction)
<i>(In millions of Canadian dollars, except percentages)</i>							
Consulting Services							
Buildings	240.6	236.1	4.5	14.1	(5.6)	(4.0)	(1.7%)
Energy & Resources	150.6	114.7	35.9	2.2	(2.9)	36.6	31.9%
Environmental Services	166.8	169.0	(2.2)	3.6	(2.3)	(3.5)	(2.1%)
Infrastructure	300.0	301.4	(1.4)	3.6	(8.5)	3.5	1.2%
Water	234.0	225.0	9.0	(1.3)	(5.4)	15.7	7.0%
Total Consulting Services	1,092.0	1,046.2	45.8	22.2	(24.7)	48.3	
Percentage growth (retraction)			4.4%	2.2%	(2.4%)	4.6%	

note: Comparative figures have been reclassified due to a realignment of several business lines and to conform to the presentation adopted for the current period. Gross revenue was accounted for using IAS 11 in 2017 and IFRS 15 in 2018.

	Two Quarters Ended June 30, 2018	Two Quarters Ended June 30, 2017	Total Change	Change Due to Net Acquisitions (Divestitures)	Change Due to Foreign Exchange	Change Due to Organic Growth (Retraction)	% of Organic Growth (Retraction)
<i>(In millions of Canadian dollars, except percentages)</i>							
Consulting Services							
Buildings	476.4	466.7	9.7	30.9	(12.4)	(8.8)	(1.9%)
Energy & Resources	283.5	229.2	54.3	1.9	(5.7)	58.1	25.3%
Environmental Services	323.4	328.7	(5.3)	4.5	(3.6)	(6.2)	(1.9%)
Infrastructure	571.4	564.5	6.9	3.6	(17.0)	20.3	3.6%
Water	458.6	461.3	(2.7)	(11.0)	(8.6)	16.9	3.7%
Total Consulting Services	2,113.3	2,050.4	62.9	29.9	(47.3)	80.3	
Percentage growth (retraction)			3.1%	1.5%	(2.3%)	3.9%	

note: Comparative figures have been reclassified due to a realignment of several business lines and to conform to the presentation adopted for the current period. Gross revenue was accounted for using IAS 11 in 2017 and IFRS 15 in 2018.

Net Revenue by Consulting Services - Business Operating Unit

	Quarter Ended June 30, 2018	Quarter Ended June 30, 2017	Total Change	Change Due to Net Acquisitions (Divestitures)	Change Due to Foreign Exchange	Change Due to Organic Growth (Retraction)	% of Organic Growth (Retraction)
<i>(In millions of Canadian dollars, except percentages)</i>							
Consulting Services							
Buildings	188.2	186.6	1.6	7.8	(4.3)	(1.9)	(1.0%)
Energy & Resources	128.5	97.5	31.0	2.1	(2.7)	31.6	32.4%
Environmental Services	119.8	115.3	4.5	2.4	(1.9)	4.0	3.5%
Infrastructure	238.9	247.1	(8.2)	3.4	(6.7)	(4.9)	(2.0%)
Water	187.9	185.2	2.7	(1.4)	(4.7)	8.8	4.8%
Total Consulting Services	863.3	831.7	31.6	14.3	(20.3)	37.6	
Percentage growth (retraction)			3.8%	1.7%	(2.4%)	4.5%	

note: Comparative figures have been reclassified due to a realignment of several business lines and to conform to the presentation adopted for the current period. Net revenue was accounted for using IAS 11 in 2017 and IFRS 15 in 2018.

	Two Quarters Ended June 30, 2018	Two Quarters Ended June 30, 2017	Total Change	Change Due to Net Acquisitions (Divestitures)	Change Due to Foreign Exchange	Change Due to Organic Growth (Retraction)	% of Organic Growth (Retraction)
<i>(In millions of Canadian dollars, except percentages)</i>							
Consulting Services							
Buildings	372.1	374.5	(2.4)	18.3	(9.4)	(11.3)	(3.0%)
Energy & Resources	245.4	195.5	49.9	1.8	(5.0)	53.1	27.2%
Environmental Services	230.3	226.6	3.7	3.2	(3.8)	4.3	1.9%
Infrastructure	456.3	466.6	(10.3)	3.4	(13.4)	(0.3)	(0.1%)
Water	368.0	373.3	(5.3)	(11.1)	(7.4)	13.2	3.5%
Total Consulting Services	1,672.1	1,636.5	35.6	15.6	(39.0)	59.0	
Percentage growth (retraction)			2.2%	0.9%	(2.3%)	3.6%	

note: Comparative figures have been reclassified due to a realignment of several business lines and to conform to the presentation adopted for the current period. Net revenue was accounted for using IAS 11 in 2017 and IFRS 15 in 2018.

Buildings

In our Buildings business operating unit, organic gross revenue retracted 1.7% in Q2 18 and 1.9% year to date in 2018 compared to the same periods in 2017. Organic net revenue retracted 1.0% in Q2 18 and 3.0% year to date in 2018 compared to the same periods in 2017.

Organic revenue retraction has improved in Q2 18 over that experienced in Q1 18, but organic revenue is still affected by low private and public spending in the United Kingdom and Middle East. Year-to-date organic revenue retraction in the United States was impacted by project execution issues and the winding down of certain large healthcare projects. US organic revenue retraction also resulted from losing certain architectural clients from acquired firms, predominantly related to our engineering discipline; however, we are increasingly applying our integrated model approach for new clients and projects. During the quarter, our US East operations experienced growth. In Canada, organic revenue growth remains strong, particularly in our healthcare sector.

As a result of recent project wins and backlog growth, we anticipate that performance in our Buildings operations will improve over the remainder of the year. For example, during the quarter, we were selected to provide full-service architecture and engineering for a new student housing development in the South Neighborhood of Western Michigan University's campus in Kalamazoo. We were also selected as part of a design-build team to deliver the new Consolidated Headquarters Complex for the California Military Department. In addition, during the quarter, we secured airport and manufacturing facility projects, which we expect to begin in the second half of 2018.

Energy & Resources

In our Energy & Resources business operating unit, organic gross revenue increased 31.9% in Q2 18 and 25.3% year to date in 2018 compared to the same periods in 2017. Organic net revenue growth was 32.4% in Q2 18 and 27.2% year to date in 2018 compared to the same periods in 2017. Strong organic gross and net revenue growth was seen in all sectors and geographies in the quarter and year to date.

Our midstream business in our Oil & Gas sector continued to be awarded new work due to our expertise and strong client relationships. As well, compared to 2017, we had increased activity in construction management projects from our Oil & Gas clients. Our Mining sector achieved solid organic revenue growth in all geographies and was positively impacted by improvements in commodity prices that were driven by increased consumer confidence globally and increased demand for batteries for electric vehicles. This factor, complemented by reduced debt for several of the major mining companies, led to increased capital expenditures.

In our Power sector, we secured projects due to infrastructure improvement, environmental compliance, and resiliency requirements in the transmission and distribution and the power replacement markets. In addition, our expansion into smart technologies and execution of battery storage projects and electric vehicle (EV) charging stations for electric cars throughout Canada has expanded our footprint in this emerging technology. In WaterPower & Dams, our focus on business development efforts in Canada resulted in project awards.

During the quarter, we secured a \$7 million amendment to our master services agreement for California Department of Water Resources Oroville Facilities license implementation activities. We were also awarded geotechnical services—including geohazard analysis, terrain analysis, drilling investigation, test pit investigation, and geotechnical recommendations—for a 90-kilometre (56-mile) freshwater pipeline that supplies process water to a large copper mine in Peru.

Environmental Services

In our Environmental Services business operating unit, organic gross revenue retracted 2.1% in Q2 18 and 1.9% year to date in 2018 compared to the same periods in 2017. Organic net revenue grew 3.5% in Q2 18 and 1.9% year to

date in 2018 compared to the same periods in 2017. Organic net revenue growth in our US operations was partly offset by retractions in our Consulting Services – Canada and Consulting Services – Global operations. As well, subconsultant costs in our Global operations decreased due to our current project mix, which contributed to net revenue growth.

Improvements in the US economy led to increased demand for commercial and residential development and increased spending in power, transportation, and water resource infrastructure investments. In the quarter, we were selected to lead environmental assessments for the 120-megawatt Skipjack Wind Farm, an offshore wind project developed by Deepwater Wind off the coast of Maryland. Our team, along with technical and regulatory experts, will lead local biologists, engineers, marine archaeologists, and other researchers to conduct marine and environmental assessments for Skipjack, which has the potential to deliver renewable energy to 35,000 Maryland homes.

Environmental Services continued to be impacted by commodity prices, reduced capital spending, primarily in the midstream oil and gas sector, and by a late winter which delayed the start of field work. This led to delays and cancellations and put downward pressure on project fees. Existing large-scale projects continued to wind down; even so, the oil and gas industry showed signs of increasing activity in the first half of 2018 with a slight rebound in energy prices. Our North American operations continued to win a stream of smaller and lower-margin projects as a result of our strong client relationships and industry expertise, and larger opportunities are emerging in western Canada's midstream sector. The Mining sector shows signs of growth globally, resulting in more opportunities for permitting and environmental assessment work. We expect our Environmental Services business will improve throughout the rest of 2018 as we begin new projects that have been awarded year to date and provide additional work on existing projects.

Infrastructure

In our Infrastructure business operating unit, organic gross revenue increased 1.2% in Q2 18 and 3.6% year to date in 2018 compared to the same periods in 2017. Organic net revenue retracted 2.0% in Q2 18 and was flat year to date in 2018 compared to the same periods in 2017. Our work in several new projects resulted in higher subconsultant costs, thereby contributing to growth in gross revenue and a retraction in net revenue.

During the quarter, we see a trend consistent with our Q1 18 results in our Canadian Community Development sector. Organic growth was fueled by an increase in urban development, particularly in northern Alberta as energy prices rebounded. In our US operations, organic revenue was flat because some growth in the Southeast and Gulf regions was offset by competitive fee pressures. In Canada and the northern United States, we experienced delayed construction starts because of the late spring, resulting in the slower mobilization of our seasonal inspection work.

In our Transportation sector, organic net revenue retracted for two main reasons: large project work wrapped up in late 2017 in Colorado and Texas, and weather conditions in winter and spring 2018 caused delays in field work in some North American markets. Our Transit & Rail sector saw growth in British Columbia and in the northeastern United States with the start of the Long Island Rail Road project. As well, in the quarter we were selected to provide analysis and engineering services for the Hampstead Bypass from I-140 to US 17 north of Hampstead, North Carolina. The bypass consists of a 12-mile (19-kilometre) four-lane median-divided freeway with 4 interchanges, 4 overpasses, and 16 bridges.

Water

In our Water business operating unit, organic gross revenue increased 7.0% in Q2 18 and 3.7% year to date in 2018 compared to the same periods in 2017. Organic net revenue grew 4.8% in Q2 18 and 3.5% year to date in 2018 compared to the same periods in 2017. Organic growth was partly offset as a result of the Innovyze sale in

Q2 17 and the foreign exchange impact of the stronger Canadian dollar. Organic net revenue growth occurred in all geographies in the quarter.

In Canada, organic growth was mainly due to strong revenue from projects in lower British Columbia and the Greater Toronto Area, which continued to be strong markets. In our Global business, organic growth resulted from strong revenue in our Australia and New Zealand Water business and consistent revenue volume due to the AMP6 cycle in the United Kingdom.

In our US operations, year-to-date results improved significantly in certain markets, such as California and Texas, related to successful marketing campaigns and increased government spending. These improvements offset the winding down and delay of certain public water programs.

During the quarter, we were appointed, together with our joint venture partners, to a three-year Framework Agreement to deliver a range of design and construct, construct-only, and design-only projects for Melbourne Water's Water and Sewerage Capital Works Program.

Gross Margin

For a definition of gross margin, refer to the Definition section of our 2017 Annual Report (incorporated here by reference). Gross margin as a percentage of net revenue was 51.2% in Q2 18 compared to 53.5% in Q2 17. Year-to-date gross margin was 51.7% in 2018 compared to 53.7% in 2017. These results are below our targeted range of 52.0% to 54.0% (set out in our 2017 Annual Report). The decrease from Q2 17 to Q2 18 resulted primarily from decreased margins in Construction Services, with slightly lower margins in all geographies in Consulting Services. The year-to-date decrease from 2017 to 2018 resulted from decreased margins in Construction Services and all geographies and business operating units.

The following table summarizes gross margin percentages by reportable segments:

	Quarter Ended June 30			Two Quarters Ended June 30		
	2018	2017	Change	2018	2017	Change
Consulting Services						
Canada	52.1%	53.5%	(1.4%)	52.1%	53.5%	(1.4%)
United States	55.6%	55.8%	(0.2%)	55.6%	55.9%	(0.3%)
Global	55.6%	56.2%	(0.6%)	55.5%	57.0%	(1.5%)
Total Consulting Services	54.5%	55.1%	(0.6%)	54.5%	55.3%	(0.8%)
Construction Services	(11.0%)	30.0%	(41.0%)	10.8%	32.1%	(21.3%)

note: Comparative figures have been reclassified due to a realignment between reportable segments and to conform to the presentation adopted for the current period.

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, gross margin decreased in our Canada operations in Q2 18 and year to date in 2018 compared to the same periods in 2017; this decrease resulted from the mix of projects, driven largely by increased revenues earned in our Energy & Resources business. Gross margin in our Global operations decreased during the quarter because of project mix and the recognition of positive estimated cost-to-complete revisions on major UK Water projects in 2017. Global margins were lower year to date in 2018 than year to date in 2017, primarily due to positive revenue adjustments from risk releases and to commercial client agreements reached on a major Middle East Water project in 2017.

Construction Services had negative gross margins in the quarter and a decrease in our year-to-date margins in 2018 compared to 2017 due to an additional \$24.7 million of negative revenue and cost adjustments in Q2 18 from legacy projects. In addition, a net negative adjustment of \$3.0 million was incurred in Q1 18 on UK-based waste-to-energy projects. Continued delays and certain performance issues resulted in increases in costs to complete.

Gross margin percentages for Consulting Services can be broken down by business operating unit as follows:

	Quarter Ended June 30			Two Quarters Ended June 30		
	2018	2017	Change	2018	2017	Change
Consulting Services						
Buildings	54.1%	54.9%	(0.8%)	53.7%	55.3%	(1.6%)
Energy & Resources	50.4%	50.5%	(0.1%)	51.1%	51.9%	(0.8%)
Environmental Services	56.0%	57.3%	(1.3%)	56.4%	56.9%	(0.5%)
Infrastructure	54.1%	55.4%	(1.3%)	54.2%	54.3%	(0.1%)
Water	56.6%	56.2%	0.4%	56.6%	57.5%	(0.9%)
Total Consulting Services	54.5%	55.1%	(0.6%)	54.5%	55.3%	(0.8%)

note: Comparative figures have been reclassified due to a realignment of several business lines.

In our Buildings business operating unit, gross margin decreased in Q2 18 and year to date in 2018 compared to the same periods in 2017, primarily due to project mix and project execution issues; however, these issues are being mitigated, and we anticipate our performance will continue to improve over the remainder of the year.

Our Environmental Services business operating unit had lower margins in Q2 18 than in Q2 17. We continue to see downward pressures on fees and reduced subconsultant markups in response to economic challenges in certain markets, especially in the oil and gas industry in our Canadian operations.

Gross margins in our Infrastructure business operating unit decreased in Q2 18 compared to Q2 17 and year to date in 2018 compared to 2017. Margins were impacted by early cycles of extensive fee pressures from the alternative project delivery market. We expect gross margins to improve during the construction inspection season.

Our Water business operating unit had lower year-to-date margins in 2018 than in 2017. The first quarter of 2017 included the results of the Innovyze sale; Innovyze operated at higher margins and was divested on May 5, 2017.

Administrative and Marketing Expenses

Administrative and marketing expenses as a percentage of net revenue was 41.4% in Q2 18 compared to 42.1% in Q2 17. Our year-to-date administrative and marketing expenses as a percentage of net revenue was 41.3% in Q2 18 compared to 42.7% for 2017, falling at the low end of our targeted range of 41% to 43% (set out in our 2017 Annual Report). Consulting Services was 41.9% year to date—within our targeted range of 41% to 43%. Construction Services was 32.3% year to date—falling outside of our targeted range of 25% to 27% mainly because the percentage was impacted by lower year-to-date net revenue as a result of downward revenue adjustments in Q2 18 (described in the Gross and Net Revenue section of this report).

Administrative and marketing expenses as a percentage of net revenue was lower in in Q2 18 compared to Q2 17 and year to date in 2018 compared year to date in 2017; the decrease was mainly due to improved utilization, lower integration costs, and operational efficiencies. As we continued to monitor our backlog and made adjustments to align staffing levels with workloads, our utilization improved. Occupancy costs decreased due to our continued efforts to consolidate offices and negotiate lower lease rates. As a consequence of management's continued focus on reducing costs, cost savings in discretionary spending and other areas were realized. These cost reductions were partly offset by an increase of about \$1.0 million in software support, customization costs, and investments in our core infrastructure.

Administrative and marketing expenses fluctuate year to year due to the amount of staff time charged to marketing and administrative labor, which is influenced by the mix of projects in progress during the period, business development activities, and integration activities resulting from acquisitions. In the months after completing an acquisition, staff time charged to administration and marketing is generally higher as a result of integration activities, including orienting newly acquired staff. Our operations also include higher administrative and marketing expenses in the first and fourth quarters as a result of the holiday season and seasonal weather conditions in the northern hemisphere, which, in turn, result in lower staff utilization.

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.

The following table summarizes the amortization of identifiable intangible assets for Q2 18 and Q2 17 and year to date for 2018 and 2017:

<i>(In millions of Canadian dollars)</i>	Quarter Ended June 30		Two Quarters Ended June 30	
	2018	2017	2018	2017
Client relationships	7.2	6.8	14.1	16.2
Backlog	2.7	6.6	8.8	13.6
Software	6.6	3.8	13.2	9.1
Other	1.3	2.0	3.6	4.3
Lease disadvantage	(0.3)	(0.5)	(0.6)	(1.0)
Total amortization of intangible assets	17.5	18.7	39.1	42.2

Intangible asset amortization decreased \$1.2 million in Q2 18 compared to Q2 17 and \$3.1 million year to date in 2018 compared to 2017. The Innovyze sale contributed to the decrease in our year-to-date results. Excluding this impact, the decrease in our Q2 18 and 2018 year-to-date results resulted primarily because of a decrease in backlog; this was partly offset by increases in client relationships and software amortization. Backlog related to acquisitions made in previous years, such as MWH Global, Inc., Bury Holdings, Inc., and VOA Associates, Inc., were fully amortized during the quarter. Client relationships increased as a result of new acquisitions in 2017 and 2018. Software amortization expense increased \$2.8 million in Q2 18 and \$4.1 million year to date in 2018 compared to the same periods in 2017 because a change in the Autodesk licensing structure reduced the software's estimated life.

Based on the unamortized intangible asset balance remaining at the end of Q2 18, we expect our amortization expense for intangible assets for the full year 2018 to be approximately \$70 million, a \$17 million increase from guidance provided in our 2017 Annual Report. The guidance was adjusted to include acquisitions completed in the quarter and a change in our Autodesk licensing structure, which reduced the software's estimated life. The actual expense may be impacted by any new acquisitions completed after Q2 18 and fluctuations in foreign exchange.

Net Interest Expense

Net interest expense increased \$0.5 million in Q2 18 compared to Q2 17 and decreased \$1.5 million year to date in 2018 compared to year to date in 2017. Net interest expense was higher in Q2 18 than in Q2 17 as a result of a net increase of \$109.8 million in our total outstanding debt levels. Year-to-date net interest expense was lower for two

reasons: our revolving credit facilities decreased because of \$221.3 million received from net proceeds of the Innovyze sale in 2017 and interest rates on our notes payable decreased. The average interest rate for our revolving credit facility and term loan was 3.48% at June 30, 2018, and 3.25% at June 30, 2017. The weighted average interest rate on our notes payable was 2.95% at June 30, 2018, and 3.46% at June 30, 2017.

Foreign Exchange Losses and Gains

We recorded foreign exchange gains of \$0.9 million in Q2 18 and \$1.0 million in Q2 17. Foreign exchange gains or losses arise 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. Our 2018 year-to-date exchange loss of \$1.3 million included a foreign exchange loss of \$1.0 million on our investments held for self-insured liabilities, recorded in Q1 18.

We recorded a \$64.0 million gain on the translation of our foreign operations in other comprehensive income in the first two quarters of 2018 compared to an \$81.3 million loss in the same period in 2017. These unrealized gains arose when translating our foreign operations into Canadian dollars. The gain during the first two quarters of 2018 was primarily a result of the Canadian dollar weakening against the US dollar—from US\$0.80 at December 31, 2017, to US\$0.76 at June 30, 2018.

As at June 30, 2018, we had no material foreign-currency forward contracts.

Other Income

Other income was \$3.8 million in Q2 18 and \$0.7 million in Q2 17. In Q2 18, we recognized an unrealized gain of \$2.8 million on our equity securities in our investments held for self-insured liabilities. Our year-to-date results include a net gain of \$0.1 million as a result of an unrealized loss of \$2.7 million recorded in Q1 18. These changes represent fair value fluctuations on our equity securities. In 2017, fair value fluctuations on these investments were recorded in other comprehensive income. However, on adoption of IFRS (described in the Definition section of this report), the impact of fair value changes is now recorded through profit and loss.

Income Taxes

Our effective income tax rate for the first two quarters of 2018 was 29% and 63.2% in 2017. The effective tax rate is based on statutory rates in jurisdictions where we operate and on our estimated earnings in each of these jurisdictions.

Our effective income tax rate went from 27% in Q1 18 to 29% in Q2 18. This change was mainly due to losses incurred in the UK Construction Services operation. The losses attract a tax benefit at our UK expected deferred tax rate of 17%, which is significantly lower than our Q1 18 effective tax rate of 27%. The relationship between tax rates and estimated earnings in jurisdictions that we operate in has resulted in the increase of our effective tax rate.

After eliminating certain transactions impacting 2017, our effective tax rate would have been 24%. The increase of our effective tax rate from 24% in 2017 to 29% in 2018 was due to the recognition of tax credits in 2017 against income earned in jurisdictions with higher tax rates and the impact of losses incurred in jurisdictions with lower tax rates. The transactions affecting our 2017 tax rate that we eliminated to arrive at 24% were the following: a \$94.5 million net tax expense related to the Innovyze sale, a net \$18.6 million US tax reform adjustment, and a \$3.2 million corporate reorganization tax charge.

We monitored for changes to our previously recorded US tax reform positions, calculated under the US Tax Act, against actual and potential guidance and interpretation issued by the U.S. Internal Revenue service and state taxing authorities. We did not identify any significant changes that impacted our calculations.

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. In Q1 17 and Q2 17, certain line items in our consolidated financial statements of income were realigned to conform with our Q2 18 presentation and are reflected in this section.

Quarterly Unaudited Financial Information

	2018				2017			
	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3
<i>(In millions of Canadian dollars, except per share amounts)</i>								
Gross revenue	1,358.2	1,281.7	1,246.0	1,299.2	1,318.6	1,276.3	1,240.8	1,257.3
Net revenue	907.8	876.6	805.0	853.0	888.4	870.8	820.2	872.2
Net income (loss)	39.6	36.8	11.2	46.2	97.6	(58.0)	29.4	49.3
Adjusted net income (note)	46.5	47.8	37.2	61.1	57.9	45.8	40.4	63.0
Earnings (loss) per share - basic	0.35	0.32	0.10	0.41	0.86	(0.51)	0.26	0.43
Earnings (loss) per share - diluted	0.35	0.32	0.10	0.40	0.85	(0.51)	0.26	0.43
Adjusted EPS - basic (note)	0.41	0.42	0.33	0.54	0.51	0.40	0.35	0.55
Adjusted EPS - diluted (note)	0.41	0.42	0.32	0.54	0.51	0.40	0.35	0.55
Dividends declared per common share	0.1375	0.1375	0.1250	0.1250	0.1250	0.1250	0.1125	0.1125

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 diluted adjusted 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. Gross and net revenue in 2018 were accounted for using IFRS 15 and IAS 11 prior to 2018.

note: Adjusted net income and adjusted basic and diluted EPS are non-IFRS measures and are further discussed in the Definition section of our 2017 Annual Report and this report.

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

<i>(In millions of Canadian dollars)</i>	Q2 18 vs.	Q1 18 vs.	Q4 17 vs.	Q3 17 vs.
	Q2 17	Q1 17	Q4 16	Q3 16
Increase (decrease) in gross revenue due to				
Net acquisition growth	22.2	7.7	2.2	4.0
Organic growth	47.1	21.8	50.9	75.1
Impact of foreign exchange rates on revenue earned by foreign subsidiaries	(29.7)	(24.1)	(47.9)	(37.2)
Total net increase in gross revenue	39.6	5.4	5.2	41.9

In Q1 17, our results were impacted by a deferred tax charge of \$90.4 million related to the potential sale of Innovyze; excluding this impact, our net income for Q1 17 would have been \$32.4 million. In Q2 17, our results were impacted by the completion of the Innovyze sale; excluding this impact, our net income for Q2 17 would have been \$47.1 million. In Q4 17, our results were impacted by net tax expenses of \$18.6 million from the US tax reform; excluding this impact, our net income for Q4 17 would have been \$29.8 million.

We experience variability in our results of operations from quarter to quarter due to the seasonal nature of the industries and geographic locations we operate in. In the first and fourth quarters, we see seasonal slowdowns related to winter weather conditions and holiday schedules. (See additional information on the operating results in our Management's Discussion and Analysis for each respective quarter.)

Statements of Financial Position

The following table highlights the major changes to assets, liabilities, and equity since December 31, 2017:

Balance Sheet Summary

<i>(In millions of Canadian dollars, except percentages)</i>	Jun 30, 2018	Dec 31, 2017	\$ Change	% Change
Total current assets	1,721.6	1,608.2	113.4	7.1%
Property and equipment	253.1	212.6	40.5	19.0%
Goodwill	1,640.6	1,556.6	84.0	5.4%
Intangible assets	269.2	262.4	6.8	2.6%
Net employee defined benefit asset	16.9	12.7	4.2	33.1%
Other assets	13.2	9.4	3.8	40.4%
All other assets	226.4	221.2	5.2	2.4%
Total assets	4,141.0	3,883.1	257.9	6.6%
Current portion of long-term debt	51.2	198.2	(147.0)	(74.2%)
All other current liabilities	967.9	957.3	10.6	1.1%
Total current liabilities	1,019.1	1,155.5	(136.4)	(11.8%)
Income taxes payable	19.2	18.3	0.9	4.9%
Long-term debt	860.3	541.4	318.9	58.9%
Provisions	85.8	81.7	4.1	5.0%
Net employee defined benefit liability	28.1	31.2	(3.1)	(9.9%)
All other liabilities	149.6	155.7	(6.1)	(3.9%)
Equity	1,976.6	1,896.3	80.3	4.2%
Non-controlling interests	2.3	3.0	(0.7)	(23.3%)
Total liabilities and equity	4,141.0	3,883.1	257.9	6.6%

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 increased due to the weakening Canadian dollar—from US\$0.80 at December 31, 2017, to US\$0.76 at June 30, 2018. Other factors that impacted our long-term assets and liabilities are indicated below.

Property and equipment increased mainly because of \$31.5 million in additions for leasehold improvements for our new Edmonton headquarters building. Goodwill and intangible assets increased due to foreign exchange and acquisitions completed in the first two quarters of 2018; this was partly offset by amortization. Other assets increased mainly because we capitalized \$4.2 million in deferred contract fulfillment costs, as required under IFRS 15 (detailed in the Definition section of this report). Other assets also increased due to the capitalization of transaction costs incurred on the amendment of our syndicated senior credit facilities.

Total current and long-term debt increased \$171.9 million for the following reasons: an increase in our revolving credit facilities of \$304.8 million, finance lease obligations of \$9.9 million, and notes payable from prior year acquisitions of \$7.1 million. These increases were partly offset by a repayment of \$150.0 million of Tranche A of our term loan during Q2 18. Increases in the revolving credit facilities were made to finance acquisitions and working capital needs.

Our shareholders' equity increased \$80.3 million. Opening shareholders' equity was adjusted downward by \$24.7 million: \$23.9 million related to the adoption of IFRS 15 and \$0.8 million related to the adoption of IFRS 9 (detailed in the Definition section of this report). The increase in shareholders' equity was mainly due to net income of

\$76.4 million for the quarter and \$64.7 million in other comprehensive income primarily related to exchange differences on translation of our foreign subsidiaries. In addition, we had \$5.2 million in share options exercised for cash and a \$2.7 million share-based compensation expense. These increases were partly offset by \$31.3 million in dividends declared and \$12.7 million in shares repurchased under our Normal Course Issuer Bid.

Goodwill

In accordance with our accounting policies (described in note 4 of our audited consolidated financial statements for the year ended December 31, 2017, included in our 2017 Annual Report, and incorporated here by reference), we conduct a goodwill impairment test annually as at October 1 or more frequently if circumstances indicate that an impairment may occur or if a significant acquisition occurs between the annual impairment test date and December 31.

On October 1, 2017, we performed our most recent annual goodwill impairment test. At June 30, 2018, we assessed potential indicators of goodwill impairment. During the second quarter of 2018, the Construction Services group of cash generating units (CGUs) had a negative gross margin and for the six months ended June 30, 2018, it did not meet managements' budget expectations. As a result, we concluded that there were indicators of impairment that required the performance of a quantitative interim impairment test for the Construction Services group of CGUs to which goodwill of \$122.0 million is allocated.

We estimated the recoverable amount of the Construction Services group of CGUs by using the fair value less costs of disposal approach. For the Construction Services group of CGUs as at June 30, 2018, the recoverable amount approximated its carrying amount and, therefore, goodwill was not impaired. The valuation techniques and assumptions remained consistent with those disclosed in our 2017 Annual Report, except as disclosed below. Any adverse change in key assumptions could cause the carrying value to exceed the fair value less costs of disposal. The values assigned to the most sensitive key assumptions for the Construction Services group of CGUs are listed in the table below.

Key Assumptions	Construction Services
Operating margin rates (note)	0.8% - 1.1%
After tax discount rate	13.4%
Terminal growth rate	3.0%
Non-cash working capital rates (note)	(5.0%) – (5.2%)

note: Operating margin rates and non-cash working capital rates for Construction Services group of CGUs are calculated on gross revenue.

As there were no indicators of impairment for any other CGUs or group of CGUs, we have not updated any other impairment calculations. For further information regarding goodwill, refer to our 2017 Annual Report.

Liquidity and Capital Resources

We are able to meet our liquidity needs through various sources, including cash generated from operations, long- and short-term borrowings from our \$800 million revolving credit facility (with access to an additional \$400 million subject to approval), our \$310 million senior term loan, 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 section of our 2017 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.

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

Working Capital

The following table summarizes working capital information at June 30, 2018, compared to December 31, 2017:

<i>(In millions of Canadian dollars, except ratios)</i>	Jun 30, 2018	Dec 31, 2017	Change
Current assets	1,721.6	1,608.2	113.4
Current liabilities	(1,019.1)	(1,155.5)	136.4
Working capital <i>(note)</i>	702.5	452.7	249.8
Current ratio <i>(note)</i>	1.69	1.39	n/a

n/a= not applicable

note: Working capital is calculated by subtracting current liabilities from current assets. Current ratio is calculated by dividing current assets by current liabilities. Both non-IFRS measures are further described in the Definition section of our 2017 Annual Report.

Overall, the carrying amounts of current assets and liabilities for our US subsidiaries on our consolidated statements of financial position increased due to the weakening Canadian dollar. Other factors that impacted our current assets and liabilities are outlined in the following paragraphs.

Current assets increased primarily because trade and other receivables, unbilled receivables, and contract assets collectively had a net increase of \$149.6 million. The increases were partly offset by a net decrease in cash and cash equivalents and cash in escrow of \$25.2 million (explained in the Cash Flows section of this report).

Gross revenue trade receivables increased 4.2%, or \$31.3 million, from December 31, 2017, to June 30, 2018, and the over-90-day aging category increased 5.1%, or \$5.6 million. The increase is due to the mix of clients who, in certain cases, were given extended payment terms. This mix may impact our trade receivables aging categories going forward.

Included in allowance for doubtful accounts at December 31, 2017, was a \$27 million allowance related to price concessions rather than credit risk. As a result of adopting IFRS 15, on January 1, 2018, the \$27 million was adjusted from gross trade receivables. For the adoption of IFRS 9, we elected to apply the simplified approach to calculating expected credit losses, which requires lifetime expected credit losses to be recognized on initial recognition of our trade receivables, unbilled receivables, contract assets, and holdbacks. At June 30, 2018, our expected credit loss balance was \$2.6 million. (For a discussion of our adoption of IFRS 15 and IFRS 9, refer to the Definition section of this report.)

Investment in trade and other receivables, unbilled receivables, and contract assets increased from 84 days at December 31, 2017, to 95 days at June 30, 2018. This increase, occurring mainly in our Energy & Resources and Water business operating units, was partly offset by a decrease in our Environmental Services business operating unit and Construction Services. Construction Services decreased from 48 days at December 31, 2017, to 46 days at June 30, 2018.

The decrease in current liabilities was caused primarily by a decrease in the current portion of long-term debt, income taxes payable, and other liabilities and partly offset by a \$21.7 million increase in bank indebtedness and a \$15.7 million increase in trade and other payables. Tranche A of the term loan of \$150.0 million, previously included as current, was repaid on May 6, 2018. Income taxes payable decreased \$8.9 million due to the payment of final 2017 income taxes owed and timing of tax installments made. Other liabilities decreased because \$4.4 million of deferred share units and \$3.2 million of performance share units were paid in Q1 18; this was partly offset because we reclassified \$2.7 million from long-term to current for preferred share units payable. Increases in trade and other

payables were attributable to acquisition growth and the timing of payments to suppliers and payroll; this was partly offset by the timing of payments for annual employee bonuses.

Cash Flows

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

<i>(In millions of Canadian dollars)</i>	Quarter Ended June 30			Two Quarters Ended June 30		
	Jun 30, 2018	Jun 30, 2017	Change	Jun 30, 2018	Jun 30, 2017	Change
Cash flows from (used in) operating activities	82.1	103.7	(21.6)	(40.8)	76.1	(116.9)
Cash flows (used in) from investing activities	(61.7)	179.9	(241.6)	(106.8)	134.3	(241.1)
Cash flows (used in) from financing activities	(31.3)	(268.1)	236.8	98.2	(209.8)	308.0

Cash Flows From (Used in) Operating Activities

Cash flows used in operating activities are impacted by the timing of acquisitions, particularly the timing of payments for acquired trade and other payables, which includes short-term employee incentive awards. Cash flows used in operating activities year to date in 2018 compared to the same period in 2017 was impacted by an increase in the use of cash of approximately \$62 million in Construction Services. The remaining increase in the use of cash of approximately \$55 million related to Consulting Services and was mainly due to an increase in our days sales on investment in trade and other receivables, unbilled receivables, and contact assets.

Cash Flows (Used in) From Investing Activities

Cash flows from investing activities decreased year to date in 2018 compared to the same period in 2017. The Innovyze sale in 2017 included net proceeds of \$336.9 million, which was partly offset by an income tax payment of \$124.2 million that related to the sale. The net cash inflow was \$212.7 million. Excluding the results of the Innovyze sale, the cash flows used in investing activities would be \$28.4 million higher. Cash outflows increased mainly because of a \$26.5 million increase in property and equipment and software purchases and a \$3.3 million increase in cash used for business acquisitions.

We are primarily a professional services organization, so we are not capital intensive. In the past, we made capital expenditures mostly for items such as leasehold improvements, computer equipment and software, furniture, and other office and field equipment. Property and equipment and software purchases totaled \$31.6 million year to date in 2017 compared to \$58.1 million year to date in 2018. The increase mainly related to \$25.5 million spent on leasehold improvements for our new Edmonton headquarters building.

In the Management's Discussion and Analysis section in our 2017 Annual Report, we indicated that in 2018 we expected to spend approximately \$31 million in software additions and approximately \$120 million in property and equipment (which includes one-time costs of \$72 million for leasehold improvements and office furniture and equipment for our new Edmonton headquarters building), excluding capital assets acquired from acquisitions. Our expectations regarding these expenditures have not changed.

Cash Flows (Used in) From Financing Activities

Cash flows from financing activities increased year to date in 2018 compared to the same period in 2017 due to a net \$298.9 million increase in cash inflows from our revolving credit facility. This was partly offset by a \$150 million repayment made on Tranche A of our term loan.

Capital Management

We manage our capital structure according to our internal guideline of maintaining a net debt to EBITDA ratio of less than 2.5 to 1.0. At June 30, 2018, our net debt to EBITDA ratio was 1.97, calculated on a trailing four-quarter basis. Our net debt to EBITDA ratio at December 31, 2017 was 1.16. This ratio was lower, compared to June 30, 2018 due to less debt and a higher trailing EBITDA at December 31, 2017 (resulting from the Innovyze sale recorded in Q2 17). There may be occasions when we exceed our target by completing acquisitions that increase our debt level for a period of time.

On June 27, 2018, Stantec amended its syndicated credit facilities (Credit Facility) which, subsequent to the amendment, consists of a senior revolving credit facility of a maximum of \$800 million and senior term loans of \$310 million in two tranches. Before the amendment, a third tranche (Tranche A) was drawn in Canadian funds of \$150 million and was repaid on May 6, 2018.

The amendment changed certain terms and conditions, including making all the facilities unsecured and extending the maturity date of its revolving credit facility by five years and Tranches B and C of its term loans by four years and five years respectively. Additional funds can be accessed subject to approval and under the same terms and conditions. The amendment increased access to these additional funds from \$200 million to \$400 million.

The revolving credit facility expires on June 27, 2023, and may be repaid from time to time at our option and is available for future acquisitions, working capital needs, and general corporate purposes. Tranches B and C of the term loan were drawn in Canadian funds of \$150 million (due June 27, 2022) and \$160 million (due June 27, 2023) respectively.

The credit facilities may be drawn in Canadian dollars as either a prime rate loan or a bankers' acceptance; US dollars as either a US base rate or a LIBOR advance; or, in the case of the revolving credit facility, in sterling or euros as a LIBOR advance; and by way of letters of credit. Depending on the form under which the credit facilities are accessed, rates of interest vary between Canadian prime, US base rate, and LIBOR or bankers' acceptance rates, plus specified basis points. The specified basis points vary—depending on our leverage ratio (a non-IFRS measure)—from 0 to 150 for Canadian prime and US base rate loans, and from 100 to 250 for bankers' acceptances, LIBOR advances, and letters of credit. Before the amendment, the basis points varied depending on our leverage ratio, from 0 to 175 for Canadian prime and US base rate loans and from 100 to 275 for bankers' acceptances, LIBOR advances, and letters of credit.

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, 2018, \$198.5 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 our 2017 Annual Report.)

We were in compliance with all of these covenants as at and throughout the period ended June 30, 2018.

Shareholders' Equity

Share options exercised generated \$5.2 million in cash during the first two quarters of 2018 compared to \$4.4 million in cash generated during the first two quarters of 2017. Our Normal Course Issuer Bid on the TSX was renewed in 2017 and allows us to repurchase up to 2,278,747 of our common shares during the period November 14, 2017, to November 13, 2018. We believe that from time to time, the market price of our common shares does not fully reflect the value of our business or future business prospects and that, at such times, repurchasing outstanding common

shares are an appropriate use of available Company funds. We repurchased 395,029 common shares at an average price of \$32.39 per share for an aggregated price of \$12.7 million during the first two quarters of 2018 compared to 465,713 common shares repurchased in the first two quarters of 2017 at an aggregate price of \$14.4 million.

Other

Outstanding Share Data

At June 30, 2018, 113,852,947 common shares and 5,196,598 share options were outstanding. From July 1, 2018, to August 7, 2018, 12,098 share options were exercised and 10,857 share options were forfeited. At August 7, 2018, 113,865,045 common shares and 5,173,643 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, 2018, on a discounted basis.

<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	892.7	42.3	25.1	824.9	0.4
Interest on debt	140.4	30.3	58.0	52.1	-
Bank indebtedness	21.7	21.7			
Operating leases	1,081.3	197.9	329.5	231.0	322.9
Finance lease obligation	20.3	9.3	11.0	-	-
Purchase and service obligations	55.6	23.3	28.6	3.7	-
Other obligations	43.9	4.8	18.0	0.7	20.4
Total contractual obligations	2,255.9	329.6	470.2	1,112.4	343.7

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 13 and 19 of our unaudited interim consolidated financial statements for the quarter ended June 30, 2018.

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 Plan. 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 \$14.9 million to the pension plans in 2018.

Off-Balance Sheet Arrangements

As of June 30, 2018, we had off-balance-sheet financial arrangements relating to letters of credit of \$65.1 million that expire at various dates before July 2019. 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, 2018, \$754.9 million in bonds—expiring at various dates before February 2023—were issued under these surety facilities. This balance relates mainly to our construction business, which requires the use of construction and performance bonds. These bonds are intended to provide owners with financial security regarding the completion of their construction project in the event of default.

Financial Instruments and Market Risk

At June 30, 2018, 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 2017 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 practice and project officer (CPO), 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 25 of our unaudited interim consolidated financial statements for the quarter ended June 30, 2018, and notes 14 and 35 of our audited consolidated financial statements for the year ended December 31, 2017 (included in our 2017 Annual Report and incorporated here by reference).

Outlook

The outlook for fiscal 2018 is based on our expectations described in our 2017 Annual Report in the Outlook section (incorporated here by reference). An update on our outlook targets described on pages M-10 to M-12 of the 2017 Annual Report is provided on page M-7 of this 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. We expect organic gross revenue growth in 2018 to be in the low-to mid single digits, in line with global GDP growth. For 2018, we anticipate continued economic improvement in the United States; increased infrastructure spending in both Canada and the United States; a modest improvement in the energy and resource sectors compared to 2017; continued support for alternative project delivery (APD) methods, including public-private partnerships (P3s), in Canada, and increasing opportunities for APD in the United States; a moderate slowdown in the Canadian housing market offset by housing growth in the United States; and global economic growth.

Management expects the negative impacts from UK-based waste-to-energy and legacy US-based hard-bid projects are ending. However, we believe we are still exposed to liquidated damages and additional project cost risks associated with one UK waste-to-energy project. Revenues for US design-build contracts for a major manufacturer

are expected to be slightly lower for the remainder of the year compared to the same period in 2017. However, this revenue projection excludes potential opportunities and claim and insurance recoveries that we are pursuing.

On April 26, 2018, we initiated a strategic review of MWH Constructors, Stantec Treatment, and Slayden (“Constructors”), acquired with MWH Global Inc. in May 2016. As at August 7, 2018, we are making positive progress on our review and are in the process of evaluating ways to optimize the value of Constructors to provide the best prospects for employees, clients, and shareholders. We are in discussions with several interested external parties, and we anticipate the discussions will continue through Q3 18. We anticipate concluding our strategic review by the end of Q4 18.

We continue to make significant progress on the MWH integration. We have deployed key collaboration tools to the majority of our operations. We continue to evaluate and plan for the consolidation of our enterprise platforms, with the objective of streamlining where practical. We expect to consolidate our Australian, New Zealand operations to our business financial systems by the first half of 2019 and other global operations in the second half of 2019. 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.

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 section of our 2017 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 18 from those described in our 2017 Annual Report in the Critical Accounting Estimates, Developments, and Measures section and in note 5 of our December 31, 2017, audited consolidated financial statements (incorporated here by reference), except for the change in accounting estimates related to the adoption of IFRS 15 and IFRS 9, described in note 4 of our Q2 18 unaudited interim consolidated financial statements (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, EBITDA, net debt to EBITDA, leverage ratio, interest coverage ratio, adjusted EBITDA, adjusted net income, and adjusted earnings per share (EPS). These non-IFRS measures may not be comparable to similar measures presented by other companies.

For the two quarters ended June 30, 2018, there has been no significant change in our description of non-IFRS measures from that included in our 2017 Annual Report in the Critical Accounting Estimates, Developments, and Measures section (incorporated here by reference). Backlog is defined under the new standard, IFRS 15, and the change to our definition is discussed in the Financial Performance section of this report.

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

	Quarter Ended June 30, 2018			Quarter Ended June 30, 2017		
	Consulting Services	Construction Services	Total	Consulting Services	Construction Services	Total
<i>(In millions of Canadian dollars, except per share amounts)</i>						
Net income (loss) for the period	60.0	(20.4)	39.6	102.6	(5.0)	97.6
Add back:						
Income taxes	23.1	(5.5)	17.6	24.0	(1.9)	22.1
Net interest expense	6.4	0.3	6.7	5.8	0.4	6.2
Depreciation and amortization	28.3	2.1	30.4	30.3	2.0	32.3
EBITDA	117.8	(23.5)	94.3	162.7	(4.5)	158.2
Acquisition-related costs	0.2	-	0.2	0.1	-	0.1
Gain on sale of property and equipment	(0.1)	-	(0.1)	(0.2)	-	(0.2)
Gain on disposition of a subsidiary	-	-	-	(54.6)	-	(54.6)
Adjusted EBITDA	117.9	(23.5)	94.4	108.0	(4.5)	103.5

	Quarter Ended June 30, 2018			Quarter Ended June 30, 2017		
	Consulting Services	Construction Services	Total	Consulting Services	Construction Services	Total
<i>(In millions of Canadian dollars, except per share amounts)</i>						
Net income (loss) for the period	60.0	(20.4)	39.6	102.6	(5.0)	97.6
Add back:						
Amortization of intangible assets related to acquisitions <i>(note 1)</i>	5.7	1.2	6.9	10.0	0.8	10.8
Acquisition-related costs <i>(note 2)</i>	0.1	-	0.1	0.1	-	0.1
Gain on sale of property and equipment <i>(note 3)</i>	(0.1)	-	(0.1)	(0.1)	-	(0.1)
Gain on disposition of a subsidiary <i>(note 4)</i>	-	-	-	(50.5)	-	(50.5)
Adjusted net income (loss)	65.7	(19.2)	46.5	62.1	(4.2)	57.9
Weighted average number of shares outstanding - basic			113,877,678			114,045,875
Weighted average number of shares outstanding - diluted			113,987,518			114,355,587
Adjusted earnings (loss) per share						
Adjusted earnings per share - basic	0.58	(0.17)	0.41	0.54	(0.03)	0.51
Adjusted earnings per share - diluted	0.58	(0.17)	0.41	0.54	(0.03)	0.51

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, 2018, is net of tax of \$4.0 (2017 - \$4.1).

note 2: For the quarter ended June 30, 2018, this amount is net of tax of \$0.1 (2017 - nil).

note 3: For the quarter ended June 30, 2018, this amount is net of tax of nil (2017 - \$0.1)

note 4: This gain relates to the sale of Innovyze in 2017.

	Two Quarters Ended June 30, 2018			Two Quarters Ended June 30, 2017		
	Consulting Services	Construction Services	Total	Consulting Services	Construction Services	Total
<i>(In millions of Canadian dollars, except per share amounts)</i>						
Net income (loss) for the period	99.8	(23.4)	76.4	43.8	(4.2)	39.6
Add back:						
Income taxes	37.8	(6.6)	31.2	126.4	(1.6)	124.8
Net interest expense	11.5	0.8	12.3	12.8	1.0	13.8
Depreciation and amortization	59.7	5.0	64.7	65.3	4.4	69.7
EBITDA	208.8	(24.2)	184.6	248.3	(0.4)	247.9
Acquisition-related costs	0.3	-	0.3	0.3	-	0.3
Gain on sale of property and equipment	(0.1)	-	(0.1)	(0.2)	-	(0.2)
Gain on disposition of a subsidiary	-	-	-	(54.6)	-	(54.6)
Adjusted EBITDA	209.0	(24.2)	184.8	193.8	(0.4)	193.4

	Two Quarters Ended June 30, 2018			Two Quarters Ended June 30, 2017		
	Consulting Services	Construction Services	Total	Consulting Services	Construction Services	Total
<i>(In millions of Canadian dollars, except per share amounts)</i>						
Net income (loss) for the period	99.8	(23.4)	76.4	43.8	(4.2)	39.6
Add back:						
Amortization of intangible assets related to acquisitions <i>(note 1)</i>	15.1	2.7	17.8	22.0	2.0	24.0
Acquisition-related costs <i>(note 2)</i>	0.2	-	0.2	0.2	-	0.2
Gain on sale of property and equipment <i>(note 3)</i>	(0.1)	-	(0.1)	(0.1)	-	(0.1)
Loss on disposition of a subsidiary <i>(note 4)</i>	-	-	-	40.0	-	40.0
Adjusted net income (loss)	115.0	(20.7)	94.3	105.9	(2.2)	103.7
Weighted average number of shares outstanding - basic			113,970,164			114,087,887
Weighted average number of shares outstanding - diluted			114,149,597			114,454,989
Adjusted earnings (loss) per share						
Adjusted earnings per share - basic	1.01	(0.18)	0.83	0.93	(0.02)	0.91
Adjusted earnings per share - diluted	1.01	(0.18)	0.83	0.93	(0.02)	0.91

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 two quarters ended June 30, 2018, is \$8.1 (2017 - \$9.1).

note 2: For the two quarters ended June 30, 2018, \$0.1 (2017 - \$0.1)

note 3: For the two quarters ended June 30, 2018, nil (2017 - \$0.1)

note 4: This gain relates to the sale of Innovyz in 2017.

Recent Accounting Pronouncements

Effective January 1, 2018, we adopted the following standards and amendments (further described in note 6 of our December 31, 2017, annual consolidated financial statements and note 4 of our June 30, 2018, unaudited interim consolidated financial statements):

- IFRS 15 *Revenue from Contracts with Customers* (IFRS 15)
- IFRS 9 *Financial Instruments* (IFRS 9)
- *Amendments to IFRS 2 Classification and Measurement of Share-based Payment Transactions* (IFRS 2)
- IFRIC 22 *Foreign Currency Transactions and Advance Consideration* (IFRIC 22)
- *Annual Improvements (2014-2016 Cycle)* related to IAS 28 *Investments in Associates and Joint Ventures*

The adoption of these new standards, amendments, interpretations and improvements did not have an impact on our disclosure controls and procedures, and our business activities, including debt covenants, key performance indicators and compensation plans. IFRS 15 and IFRS 9 resulted in updates to certain internal controls over financial reporting.

Adopting the amendments to IFRS 2 and IFRIC 22 and to *Annual Improvements (2014-2016 Cycle)* did not have an impact on our financial position or performance.

IFRS 15 Revenue from Contracts with Customers

The adoption of IFRS 15 resulted in a change in accounting policies. We selected the modified retrospective approach, which resulted in the after-tax cumulative effect of adoption being recognized as an adjustment to opening retained earnings at January 1, 2018, the date of initial application. Comparative information was not restated and continues to be reported under IAS 18 *Revenue* and IAS 11 *Construction Contracts*. We also elected to apply IFRS 15 only to contracts not completed at January 1, 2018, and to aggregate the effect of all contract modifications that occurred before January 1, 2018.

a) Change in Accounting Policy and Impact on Financial Results

IFRS 15 sets out a five-step model for revenue recognition. The core principle is that revenue should be recognized to depict the transfer of promised goods or services to customers in an amount that reflects the consideration that the entity expects to be entitled to in exchange for those goods and services.

On adoption of IFRS 15, the after-tax impact on opening retained earnings was as follows:

	Retained Earnings		
	Consulting Services	Construction Services	Consolidated
<i>(In millions of Canadian dollars)</i>			
Contracts with multiple goods or services	-	(2.7)	(2.7)
Change orders and claims	(3.0)	(2.1)	(5.1)
Liquidated damages	-	(18.0)	(18.0)
Significant financing component	1.7	0.5	2.2
Deferred contract costs	-	(0.3)	(0.3)
Total impact of change in accounting policy, January 1, 2018	(1.3)	(22.6)	(23.9)

Contracts with multiple goods or services

Our contracts may include multiple goods or services. Previously, we may have segmented revenue recognition between the design, preconstruction, and construction phases of the contracts. Under IFRS 15, we account for goods and services as separate performance obligations if they are distinct—if a good or service is separately identifiable

from other items in the contract and if a customer can benefit from the good or service, either on its own or together with the resources that are readily available to the customer. The majority of our contracts include a single performance obligation because the promise to transfer the individual goods or services is not separately identifiable from other promises in the contract and therefore is not distinct. In some cases, accounting for multiple goods and services as a single performance obligation impacts the timing and pattern of revenue recognition.

Change orders and claims

Change orders and claims against the customer were included in our revenue estimates when it was probable the customer would approve or accept the amount and it could be reliably measured. Under IFRS 15, change orders and claims against the customer are included in estimated revenue when we have an enforceable right to the change order or claim, the amount can be estimated reliably, and realization is highly probable. To evaluate these criteria, we consider the cause of any additional costs incurred, the contractual or legal basis for additional revenue, and the history of favorable negotiations for similar amounts.

Liquidated damages

Previously, liquidated damages were included in estimated contract costs when it was probable the penalties would be incurred and paid. Under IFRS 15, the estimated amount of revenue in exchange for providing goods or services includes reductions in revenue for penalties such as liquidated damages. When uncertainties exist, estimated revenue is recognized to the extent it is highly probable that a significant reversal of cumulative revenue recognized will not occur when the uncertainty associated with the variable consideration is resolved. In estimating variable consideration related to liquidated damages, a probability weighting of the range of probable outcomes is used.

Significant financing component

Holdbacks on long-term contracts were previously recognized at their discounted present value. Under IFRS 15, holdbacks do not typically result in a significant financing component because the intent is to provide protection against the failure of one party to adequately complete some or all of its obligations under the contract. As a result, holdbacks on long-term contracts are no longer discounted.

Deferred contract costs

Certain contract fulfilment and mobilization costs were previously expensed as they were incurred. Under IFRS 15, these costs are deferred and capitalized in other assets when they relate directly to the contract or an anticipated contract and when they generate or enhance resources that will be used to satisfy performance obligations in the future. Deferred contract costs are typically amortized over the period of expected benefit using the percentage of completion applied to estimated revenue. The deferral of contract costs also impacts the timing and pattern of revenue recognition.

b) Impacts in Statement Presentation and Disclosure

Impacts on our financial statements

The following table summarizes the impacts of adopting IFRS 15 on the Company's interim financial statements for the quarter ended June 30, 2018:

<i>(In millions of Canadian dollars)</i>	June 30, 2018		
	As Reported	Increases (Decreases)	Before IFRS 15
Current assets			
Unbilled receivables	445.1	119.0	564.1
Contract assets	89.3	(89.3)	-
Other assets	7.2	(2.9)	4.3
Non-current assets			
Deferred tax assets	27.5	(3.0)	24.5
Other financial assets	186.6	(3.3)	183.3
Other assets	13.2	(2.0)	11.2
Current liabilities			
Deferred revenue	181.0	(3.5)	177.5
Other liabilities	15.4	(0.5)	14.9
Non-current liabilities			
Deferred tax liabilities	49.0	2.1	51.1
Shareholders' equity			
Retained earnings	958.7	19.8	978.5
Accumulated other comprehensive income	113.3	0.6	113.9

<i>(In millions of Canadian dollars, except per share amounts)</i>	For Two Quarters Ended June 30, 2018		
	As Reported	Increases (Decreases)	Before IFRS 15
Net income and other comprehensive income			
Net income	76.4	(4.1)	72.3
Other comprehensive income	64.7	0.6	65.3
Total comprehensive income	141.1	(3.5)	137.6
Earnings per share (basic and diluted)	0.67	(0.04)	0.63

Presentation of contract balances

Certain balances in the consolidated statements of financial position were reclassified to comply with IFRS 15. Receivables related to contractual milestones or achievement of performance-based targets were included previously in unbilled receivables and now in contract assets. In addition, contract asset and contract liability balances (deferred revenue) are now presented on a net basis for each contract. This reclassification had no impact on opening retained earnings at January 1, 2018, the date of initial application.

IFRS 9 Financial Instruments

The adoption of IFRS 9 resulted in a change in accounting policies. We selected the modified retrospective approach, which resulted in the cumulative effect of adoption being recognized as an adjustment to opening retained earnings at January 1, 2018, the date of initial application. Comparative information was not restated and continues to be reported under IAS 39 *Financial Instruments: Recognition and Measurement* (IAS 39).

a) Change in Accounting Policy and Impact on Financial Results

IFRS 9 introduces new requirements for classifying and measuring financial assets and financial liabilities, including derecognition. The new standard includes a single expected credit loss (ECL) impairment model and a reformed approach to hedge accounting. Adopting IFRS 9 did not have a significant effect on our measurement of financial assets and liabilities, except for the treatment of modifications on long-term debt. IFRS 9 replaces IAS 39 and significantly amends other standards dealing with financial instruments such as IFRS 7 *Financial Instruments: Disclosures*.

The impact on equity (after tax) on adoption of IFRS 9 follows:

<i>(In millions of Canadian dollars)</i>	Retained Earnings	Accumulated Other Comprehensive Income (Loss)
Reclassify equity securities from available-for-sale (AFS) to FVPL	0.9	(0.9)
Increase in provision on financial assets and contract assets	(0.4)	-
Transaction costs on long-term debt	(0.4)	-
Total impact of change in accounting policy, January 1, 2018	0.1	(0.9)

Reclassifications of financial assets

For classifying and measuring financial assets, IFRS 9 criteria is different than IAS 39 criteria. In IFRS 9, financial instruments are classified based on two criteria: (1) a company's business approach for managing financial assets and (2) whether the instruments' contractual cash flows represent "solely payments of principal and interest" on the principal amount outstanding (the SPPI criterion). The business approach considers whether a company's objective is to receive cash flows from holding assets, receive cash flows from selling assets in a portfolio, or a combination of both.

On January 1, 2018, we assessed the business approach that applies to our financial assets and classified our financial assets into appropriate IFRS 9 categories. Certain investments in equity securities were reclassified from assets available for sale to fair value through profit or loss (FVPL) at January 1, 2018; these investments cannot be classified at fair value through other comprehensive income (FVOCI) because their cash flows do not meet the SPPI criterion. The related unrealized gains of \$0.9 million were transferred from other comprehensive income to retained earnings at January 1, 2018. Year-to-date unrealized gains relating to these investments totaled \$0.1 million, and these were recognized in other (income) expense.

Provision on financial assets and contract assets

The previous incurred loss approach model under IAS 39 has been replaced with a forward-looking ECL model. Assets subject to the new ECL model include amounts receivable and debt investments carried at FVOCI. Amounts receivable include trade receivables, holdbacks, unbilled receivables, and contract assets. Debt investments include bonds that form part of our investments held in self-insured liabilities.

At December 31, 2017, we had \$29.1 million of allowance for doubtful accounts on trade receivables. Of this allowance, \$27.0 million related to provisions for revenue adjustments, such as price concessions for commercial

reasons, that reduced trade receivables and income before January 1, 2018. The remaining balance of \$2.1 million related to our opening ECL at January 1, 2018.

IFRS 9 requires that an allowance for ECL be recorded based on either a 12-month ECL or a lifetime ECL. The standard permits the election of a simplified approach for receivables and contract assets. We established a provision matrix that is based on our historical credit loss experience and adjusted for forward-looking factors. As a result of applying the new ECL model on holdbacks, unbilled receivables, and contract assets, a \$0.4 million increase in our provision was made to opening retained earnings on January 1, 2018.

We consider listed bonds as low credit risk because they have an investment grade credit rating with at least one major rating agency. As a result, the allowance is based on the 12-month expected loss, which is the portion of lifetime ECL resulting from default events on a financial instrument that are possible within 12 months after the reporting date. We consider a financial asset in default when contractual payments are 90 days past due.

Transaction costs on long-term debt

Under IFRS 9, amendments to financial liabilities that are considered modifications may require an immediate income impact at the modification date. The original debt would have to be derecognized and replaced with the present value of the modified debt instrument. Also, if costs or fees are incurred to change the terms, they would be adjusted to the carrying amount of the modified debt instrument and amortized over the remaining term. On transition, an adjustment of \$0.4 million from past modifications made to our credit facilities was made to our opening retained earnings.

b) Changes in Statement Presentation and Disclosure

The reclassification of financial instruments on adoption of IFRS 9 did not result in any measurement changes.

Additional disclosures required on adoption of IFRS 9 included an aging analysis of gross trade receivables and the expected loss rate and loss provisions recognized for each aging category. A reconciliation is required between opening and closing ECL for changes in the provisions recorded during the period.

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, 2018, 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. 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.

Risk Factors

For the two quarters ended June 30, 2018, there has been no significant change in our risk factors from those described in our 2017 Annual Report; the risk factors are incorporated here by reference.

Subsequent Event

Dividends

On August 7, 2018, we declared a dividend of \$0.1375 per share, payable on October 11, 2018, to shareholders of record on September 28, 2018.

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 outlooks 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 2018 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 goals in the Core Business and Strategy and Outlook sections, including but not limited to our ability to achieve a compound average growth rate of 15% through a combination of organic and acquisition growth, to provide divided returns for our shareholders, to capitalize on strategic opportunities, and to grow our market presence*
- Our 2018 target ranges and expectations for certain measures in the Results Compared to 2018 Targets section of this report*
- Our belief that we will achieve our annual targets for Consulting Services by the end of fiscal 2018*
- Our belief in our ability to recover costs on a significant portion of cost overruns on certain legacy projects*
- Our expectation that performance in our Buildings operations will improve over the remainder of 2018*
- Our expectation that performance in our Environmental Services business will improve over the remainder of 2018*
- Our expectation that margins will continue an upward trend during the upcoming construction inspection season in our Infrastructure business operating unit*
- Our expectation that we will complete the consolidation of our Australian and New Zealand operations to our business financial systems by the first half of 2019 and other global operations in the second half of 2019*
- Our belief that we will conclude our strategic review of Constructors by the end of Q4 18*
- Our expectations regarding economic trends, industry trends, and commodity prices in the sectors and regions that we operate in*

- *Our expectations regarding our sources of cash and our ability to meet our normal operating and capital expenditures in the Liquidity and Capital Resources section, based in part on the design of our business model*
- *Our expectations on capital expenditures, software additions, amortization expenses for intangible assets, and effective tax rate for 2018*

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, 2018, there has been no significant change in our risk factors from those described in our 2017 Annual Report (incorporated here 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 2018 and their effect on our business. The assumptions we made at the time of publishing our annual targets and outlook for 2018 are listed in the Cautionary Note Regarding Forward-Looking Statements section of our 2017 Annual Report. The following information updates and, therefore, supersedes those assumptions.

- *As stated in our 2017 Annual Report, the World Bank forecasted 2.9% GDP growth for the global economy, the Bank of Canada projected 2.1% GDP growth for Canada, and the Congressional Budget Office forecasted 2.2% GDP growth for the United States. The GDP forecasts for 2018 have since been revised to 3.1% for the global economy, 2.0% for Canada, and 3.0% for the United States.*
- *In our 2017 Annual Report, management assumed the Canadian dollar would be relatively stable compared to 2017 and used an average value of US\$0.77 in 2018. The average value for the two quarters ended June 30, 2018, is US\$0.78.*
- *In our 2017 Annual Report, management assumed the overnight interest rate target in Canada would increase and the US Federal Reserve would gradually increase the federal funds rate. Therefore, management assumed that the average interest rates would rise slightly in 2018 compared to 2017. The average interest rate for our revolving credit facilities and term loan was 3.48% at June 30, 2018, compared to 3.20% at December 31, 2017.*
- *In our 2017 Annual Report, the seasonally adjusted annual rate of total housing starts in the United States was expected to increase to 1,255,000 units in 2018 from the expected 1,191,000 units in 2017. This forecast has since been revised upwards to an expected 1,287,000 units in 2018 from an actual 1,208,000 units in 2017.*

- *As stated in our 2017 Annual Report, the US Energy Information Administration forecasted the price of WTI crude oil to average \$52.77 in 2018 compared to an expected \$50.56 in 2017 and US crude oil production to average 10.0 million barrels a day in 2018 compared to an expected 9.2 million barrels a day in 2017. These forecasts have since been revised to an expected average of \$65.95 in 2018 compared to an actual \$50.79 in 2017, and US crude oil production is expected to average 10.8 million barrels a day in 2018 compared to an actual 9.4 million barrels a day in 2017.*

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 7, 2018, and, accordingly, are subject to change after that 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 2018, our current practice is to evaluate and, where we deem appropriate, to provide updates. However, subject to legal requirements, we may change this practice at any time at our sole discretion.