

# Management's Discussion and Analysis

August 7, 2019

This discussion and analysis of Stantec Inc.'s (Stantec or the Company) operations, financial position, and cash flows for the two quarters ended June 30, 2019, dated August 7, 2019, should be read in conjunction with the Company's unaudited interim condensed consolidated financial statements and related notes for the quarter and six months ended June 30, 2019, and the Management's Discussion and Analysis (MD&A) and audited consolidated financial statements and related notes included in our 2018 Annual Report filed on February 28, 2019.

Our unaudited interim consolidated financial statements and related notes for the quarter and six months ended June 30, 2019, 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 2018, except for the adoption of IFRS 16 Leases (IFRS 16) and other standards and amendments adopted as listed in the Recent Accounting Pronouncements section of this MD&A. A description of the new standard and the impact on our financial position and results of operations is described in the Basis of Presentation section of this report and in note 4 of our unaudited interim consolidated financial statements for the quarter and six months ended June 30, 2019 (incorporated here by reference), and in the Critical Accounting Estimates, Developments, and Measures section of this report (herein referred to as the "Definitions 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](http://sedar.com) and on EDGAR at [sec.gov](http://sec.gov). Such additional information is not incorporated here by reference, unless otherwise specified, and should not be deemed to be part of this MD&A.

## Core Business and Strategy

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

Our business goal is to maintain our position as a top 10 global design and delivery firm that is recognized for our creative, technology-forward, and collaborative approach. As we strive to deliver increasing value to our shareholders, we remain committed to achieving a long-term average compound net revenue growth rate of 15% through a combination of organic and acquisition growth. Our core business and strategy has not changed in the second quarter of 2019 from those described on pages M-2, M-10, and M-11 of our 2018 Annual Report (incorporated here by reference).

## Basis of Presentation

Effective January 1, 2019, we adopted IFRS 16 *Leases* (IFRS 16) using the modified retrospective approach and did not restate comparative information. The new standard requires companies to bring operating leases, formerly treated as off-balance sheet items, onto a company's statement of financial position. As such, on January 1, 2019, our consolidated statement of financial position recognized lease assets for our right to use the underlying assets and lease liabilities associated with future fixed lease payments. A summary of IFRS 16 impacts on our financial results is as follows:

### **IFRS 16 impact on January 1, 2019, statement of financial position:**

- Recognized lease assets of \$561.8 million and lease liabilities of \$645.0 million.
- Opening retained earnings was adjusted downward by \$34.0 million.
- Certain current and non-current items on our statement of financial position were also reclassified to conform to IFRS 16.

### **IFRS 16 impact on Q2 19 and year-to-date earnings and cash flows:**

- The adoption of IFRS 16 reduced Q2 19 and year-to-date net income and diluted earnings per share by approximately \$1 million (\$1.4 million pre-tax) and \$0.01, respectively.
- Administrative and marketing expenses decreased \$35.3 million in Q2 19 and \$70.8 million year to date.
- Depreciation expense for leased assets increased \$28.5 million in Q2 19 and \$55.9 million year to date.
- Interest expense increased \$8.2 million in Q2 19 and \$16.3 million year to date.
- EBITDA and adjusted EBITDA increased \$35.3 million in Q2 19 and \$70.8 million year to date.
- Operating cash inflows increased \$27.0 million in Q2 19 and \$52.6 million year to date, investing cash outflows increased \$2.8 million in Q2 19 and \$7.6 million year to date, and financing cash outflows increased \$24.2 million in Q2 19 and \$45.0 million year to date, resulting in a net zero effect on total cash flows in Q2 19 and year to date.

EBITDA and adjusted EBITDA are non-IFRS measures. For further details, including tabular presentation of IFRS 16 impacts on our financial results, refer to *IFRS 16 Leases* (M-24) in this MD&A and note 4 of our June 30, 2019, unaudited interim consolidated financial statements.

In the Financial Targets section of this MD&A, we include updates to our annual 2019 targets and the internal guidelines established in our 2018 Annual Report.

## Q2 2019 Financial Highlights

	Quarter Ended Jun 30			Two Quarters Ended Jun 30		
	2019	2018	Change	2019	2018	Change
<i>(In millions of Canadian dollars, except per share amounts)</i>	\$	\$	\$	\$	\$	\$
Gross revenue	1,224.1	1,092.0	132.1	2,375.6	2,113.3	262.3
Net revenue	953.6	863.3	90.3	1,857.7	1,672.1	185.6
EBITDA from continuing operations <i>(note)</i>	145.9	113.2	32.7	278.1	200.1	78.0
- Excluding IFRS 16 <i>(note)</i>	110.6	113.2	(2.6)	207.3	200.1	7.2
Net income from continuing operations	49.3	57.6	(8.3)	94.2	94.2	-
Net loss from discontinued operations	-	(18.0)	18.0	-	(17.8)	17.8
<b>Net income</b>	<b>49.3</b>	<b>39.6</b>	<b>9.7</b>	<b>94.2</b>	<b>76.4</b>	<b>17.8</b>
Basic and diluted earnings per share (EPS) from continuing operations	0.44	0.51	(0.07)	0.84	0.83	0.01
Dividends declared per common share	0.1450	0.1375	0.0075	0.2900	0.2750	0.0150
Continuing operations						
Adjusted EBITDA <i>(note)</i>	145.4	110.5	34.9	272.5	200.0	72.5
- Excluding IFRS 16 <i>(note)</i>	110.1	110.5	(0.4)	201.7	200.0	1.7
Adjusted net income <i>(note)</i>	56.1	62.0	(5.9)	106.4	109.9	(3.5)
Adjusted EPS – basic and diluted <i>(note)</i>	0.50	0.54	(0.04)	0.95	0.96	(0.01)

*note: EBITDA, adjusted EBITDA, adjusted net income, adjusted basic and diluted EPS, and measures excluding IFRS 16 are non-IFRS measures (discussed in the Definitions section of our 2018 Annual Report and this MD&A).*

### Q2 19 Highlights

#### After adoption of IFRS 16, compared to Q2 18 except where noted:

- Solid revenue growth and gross margin in line with our expectations diminished by higher than anticipated administrative and marketing expenses, which at 39.1% of net revenue, did not achieve internal cost targets.
  - Subsequent to June 30, 2019, we accelerated an initiative to reshape our organization, which we expect will result in cost savings of \$16 million to \$20 million (pre-tax) in the second half of 2019 and is further discussed in the Organizational Reshaping section (M-5).
- Adjusted net income of \$56.1 million or \$0.50 on a diluted per share basis; decreases of 9.5% and 7.4%, respectively, with excess labor costs within administrative and marketing expenses negatively impacting earnings by \$11 million or \$0.10 per share.
- Net income from continuing operations of \$49.3 million or \$0.44 on a diluted per share basis; decreases of 14.4% and 13.7%.
- Net revenue of \$953.6 million, reflecting growth of 10.5% with increases across all business units.
  - Organic net revenue growth of 2.3%, driven by strong growth in our US and Global operations, particularly in Environmental Services and Transportation.
  - Acquisition net revenue growth of 6.4%, predominately from the recent global acquisitions of Peter Brett Associates LLP (PBA) and Wood & Grieve Engineers (WGE).
- Gross revenue of \$1,224.1 million, reflecting growth of 12.1%.
- Adjusted EBITDA of \$145.4 million, representing 15.2% of net revenue.
- EBITDA of \$145.9 million, representing 15.3% of net revenue.
- Contract backlog of \$4.3 billion—a 3.5% increase from December 31, 2018—representing 11 months of work.

- DSO (days sales outstanding) of 104 days (90 days including deferred revenue) did not change from March 31, 2019. While our targeted efforts yielded some improvement intra-quarter, we have not yet achieved a sustained reduction in DSO. We continue to implement strategies to meet our 98-day target by the end of this year.
- Net debt to adjusted EBITDA (on a trailing twelve-month basis) of 1.8x—within our internal guideline of 1.0x to 2.0x (post-IFRS 16 adoption), an improvement from 2.0x at Q1 19.
- On August 7, 2019, our Board of Directors declared a dividend of \$0.145 per share, payable on October 15, 2019, to shareholders on record on September 30, 2019.

#### **Excluding adoption of IFRS 16:**

- Adjusted net income and diluted EPS would be increased by approximately \$1 million and \$0.01, respectively.
- Net income and diluted EPS would be increased by approximately \$1 million and \$0.01, respectively.
- Adjusted EBITDA of \$110.1 million was slightly lower than Q2 18, representing 11.5% of net revenue.
- EBITDA of \$110.6 million—a 2.3% decrease from Q2 18—representing 11.6% of net revenue.
- Administrative and marketing costs of \$407.7 million—a 12.8% increase from Q2 18—representing 42.8% of net revenue.
- Net debt to adjusted EBITDA of 2.42x.

#### **Year to Date Q2 19 Highlights**

##### **After adoption of IFRS 16, compared to 2018 year-to-date:**

- Adjusted net income of \$106.4 million or \$0.95 on a diluted per share basis; decreases of 3.2% and 1.0%, respectively.
- Net income from continuing operations of \$94.2 million or \$0.84 on a diluted per share basis, consistent with 2018 year-to-date results.
- Net revenue of \$1,857.7 million, reflecting growth of 11.1% with increases across all business units.
  - Organic net revenue growth of 2.4%, with growth in all business operating units, except Energy & Resources because of reduced activities in our Power and WaterPower & Dams sectors.
  - Acquisition net revenue growth of 6.5%, predominately from the recent global acquisitions of Peter Brett Associates LLP (PBA) and Wood & Grieve Engineers (WGE).
- Gross revenue of \$2,375.6 million, reflecting growth of 12.4%.
- Adjusted EBITDA of \$272.5 million, representing 14.7% of net revenue.
- EBITDA of \$278.1 million, representing 15.0% of net revenue.

##### **Excluding adoption of IFRS 16:**

- Adjusted net income and diluted EPS would be increased by approximately \$1 million and \$0.01, respectively.
- Net income and diluted EPS would be increased by approximately \$1 million and \$0.01.
- Adjusted EBITDA of \$201.7 million was slightly higher than 2018 year-to-date results, representing 10.9% of net revenue.
- EBITDA of \$207.3 million—a 3.6% increase from 2018 year-to-date results—representing 11.2% of net revenue.
- Administrative and marketing costs of \$800.3 million—a 12.8% increase from 2018 year-to-date results—representing 43.1% of net revenue.

## Reconciliation of Non-IFRS Financial Measures

(In millions of Canadian dollars, except per share amounts)	Quarter Ended Jun 30		Two Quarters Ended Jun 30	
	2019	2018	2019	2018
Net income from continuing operations	49.3	57.6	94.2	94.2
Add back:				
Income taxes	18.1	20.6	31.7	34.2
Net interest expense	17.7	6.7	34.9	12.0
Depreciation and amortization	60.8	28.3	117.3	59.7
<b>EBITDA from continuing operations</b>	<b>145.9</b>	<b>113.2</b>	<b>278.1</b>	<b>200.1</b>
Add back (deduct) pre-tax:				
Unrealized gain on investments held for self-insured liabilities	(0.5)	(2.7)	(5.6)	(0.1)
<b>Adjusted EBITDA from continuing operations</b>	<b>145.4</b>	<b>110.5</b>	<b>272.5</b>	<b>200.0</b>

(In millions of Canadian dollars, except per share amounts)	Quarter Ended Jun 30		Two Quarters Ended Jun 30	
	2019	2018	2019	2018
Net income from continuing operations	49.3	57.6	94.2	94.2
Add back (deduct) after tax:				
Amortization of intangible assets related to acquisitions (note 1)	8.1	6.4	15.1	15.8
Unrealized gain on investments held for self-insured liabilities (note 2)	(0.3)	(2.0)	(4.0)	(0.1)
Transition tax (recovery) expense (note 3)	(1.0)	-	1.1	
<b>Adjusted net income from continuing operations</b>	<b>56.1</b>	<b>62.0</b>	<b>106.4</b>	<b>109.9</b>
Weighted average number of shares outstanding - basic	111,676,731	113,877,678	111,740,256	113,970,164
Weighted average number of shares outstanding - diluted	111,684,858	113,987,518	111,740,256	114,149,597
<b>Adjusted earnings per share from continuing operations</b>				
Adjusted earnings per share - basic	0.50	0.54	0.95	0.96
Adjusted earnings per share - diluted	0.50	0.54	0.95	0.96

See the Definitions section of the 2018 Annual Report and this MD&A for our discussion of non-IFRS measures used. Construction Services operations are presented as discontinued operations. This table has been updated to include only continuing operation results.

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. For the quarter ended June 30, 2019, this amount is net of tax of \$3.1 (2018 - \$3.1). For the two quarters ended June 30, 2019, this amount is net of tax of \$5.8 (2018 - \$6.6).

note 2: For the quarter ended June 30, 2019, this amount is net of tax of \$0.1 (2018 - \$0.7). For the two quarters ended June 30, 2019, this amount is net of tax of \$1.5 (2018 - nil).

note 3: Refer to Income Taxes section for further details.

## Organizational Reshaping

We have accelerated the reshaping of our workforce by reducing our less-utilized, higher-level staff while continuing to grow at the levels that are more highly utilized in the generation of revenue and project execution, a step that will improve operational efficiency and significantly reduce annualized administrative and marketing expenses.

Early in 2019, we initiated that process intending to improve utilization and reshape the organization to significantly reduce excess labor costs. The process required more time to prepare, plan, and execute than anticipated, resulting in excess labor costs in the second quarter that were not in our earnings plan. Subsequent to the quarter, we accelerated that reshaping initiative by taking additional action that, in aggregate, translates to cost savings of approximately \$29 million to \$32 million (pre-tax) or \$0.19 to \$0.21 per share, on an annualized basis. We intend to

enhance this effort over the balance of the year to further drive costs down by an additional \$11 million to \$13 million (pre-tax) or \$0.07 to \$0.08 per share, on an annualized basis. We expect the cost savings in the second half of 2019 to be in the range of \$16 million to \$20 million (pre-tax), excluding severance costs, or \$0.11 to \$0.13 per share.

The actions taken to date have reduced the workforce at the higher levels of our organization and have grown the more highly utilized and billable levels. We will continue to assess opportunities to further optimize the shape of our organization over the course of the year.

## Financial Targets

### Annual Targets for 2019

We expect IFRS 16 will reduce 2019 net income by approximately \$3.0 million and EPS by \$0.03 evenly over Q2 19 to Q4 19. Our adoption of IFRS 16 resulted in non-cash impacts to administrative and marketing expenses, depreciation of leased assets, and net interest expense. As a result, in Q1 19, we updated our targets, previously provided in our 2018 Annual Report. We revised our EBITDA and net income targets to adjusted EBITDA and adjusted net income since we believe these measures better reflect our underlying operations.

Measure	2019 Target before IFRS 16 adoption*	Revised for adoption of IFRS 16	Q2 19 YTD Results Compared to Revised 2019 Annual Target
<i>(In millions of Canadian dollars, unless otherwise stated)</i>			
Gross margin as % of net revenue	53% to 55%	No change	54.2%
Administrative and marketing expenses as % of net revenue	41% to 43%	37% to 39%	39.3%
EBITDA as % of net revenue <i>(note)</i>	11% to 13%	withdrawn	
Adjusted EBITDA as % of net revenue <i>(note)</i>		15% to 17%	14.7%
Net income as % of net revenue	At or above 5.0%	withdrawn	
Adjusted net income as % of net revenue <i>(note)</i>		At or above 6.0%	5.7%
<b>Guidance</b>			
Gross to net revenue	1.25x to 1.30x	No change	
Capital expenditures	\$60 to \$65	No change	
Software additions	\$5 to \$10	No change	
Depreciation on property and equipment	\$55 to \$60	No change	
Depreciation on lease assets		\$105 to \$110	
Amortization of intangible assets	\$65 to \$70	No change	
Amortization of intangible assets related to acquisitions		\$40 to \$45	
Effective tax rate (without discrete transactions)	27%	28%	
Earnings pattern		45% in Q1 and Q4 55% in Q2 and Q3	
Days sales outstanding (DSO) <i>(note)</i>		98 days	

*note: EBITDA, adjusted EBITDA, and adjusted net income are non-IFRS measures and DSO is a metric (discussed in the Definitions section of this MD&A).*

*\* 2019 Target was previously published in our 2018 Annual Report*

Other than gross margin as a percentage of net revenue, our results for Q2 year to date were outside our annual target ranges. This has primarily been driven by excess labor costs within administrative and marketing expenses. While the organizational reshaping initiative we have undertaken will significantly reduce administrative and marketing expenses on an annualized basis, the savings in 2019 will be less impactful due to the partial year. We are maintaining our previously established target ranges for full year 2019; however, we are expecting to be in the upper end of the range for administrative and marketing expenses as a percentage of net revenue and in the lower end of the range for adjusted EBITDA and adjusted net income. As well, the previously expected quarterly earnings

pattern of 40% in Q1 and Q4 and 60% in Q2 and Q3 has been amended to reflect the impact of Q2 2019 results being lower than anticipated. Consequently, we now expect Q1 and Q4 to represent approximately 45% of annual earnings and Q2 and Q3 to reflect approximately 55% of annual earnings.

## Strategic Acquisitions

Following is a list of acquisitions completed in 2018 and year to date in 2019 that contributed to revenue growth in our reportable segments and business operating units:

REPORTABLE SEGMENTS	Date Acquired	Primary Location	# of Employees	BUSINESS OPERATING UNITS				
				Buildings	Energy & Resources	Environmental Services	Infrastructure	Water
<b>Canada</b>								
Norwest Corporation (NWC)	May 2018	Calgary, Alberta	110		●			
Cegertec Experts Conseils Inc. (CEG)	May 2018	Chicoutimi, Quebec	250	●	●		●	
True Grit Engineering Limited (TGE)	October 2018	Thunder Bay, Ontario	55			●		
<b>United States</b>								
Occam Engineers Inc. (OEI)	March 2018	Albuquerque, New Mexico	55					●
Norwest Corporation (NWC)	May 2018	Calgary, Alberta	30		●			
<b>Global</b>								
ESI Limited (ESI)	March 2018	Shrewsbury, England	50			●		
Traffic Design Group Limited (TDG)	April 2018	Wellington, New Zealand	80				●	
Peter Brett Associates LLP (PBA)	September 2018	Reading, England	700	●		●	●	
Wood & Grieve Engineers (WGE)	March 2019	Perth, Australia	600	●				

## Financial Performance

The following table summarizes key operating results as a percentage of net revenue. See M-25 for a reconciliation of the line items impacted by the adoption of IFRS 16.

	Quarter Ended Jun 30				Two Quarters Ended Jun 30			
	2019		2018		2019		2018	
	\$	% of Net Revenue	\$	% of Net Revenue	\$	% of Net Revenue	\$	% of Net Revenue
<i>(In millions of Canadian dollars, except per share amounts and percentages)</i>								
Gross revenue	1,224.1	128.4%	1,092.0	126.5%	2,375.6	127.9%	2,113.3	126.4%
Net revenue	953.6	100.0%	863.3	100.0%	1,857.7	100.0%	1,672.1	100.0%
Direct payroll costs	436.1	45.7%	393.3	45.6%	851.7	45.8%	761.6	45.5%
Gross margin	517.5	54.3%	470.0	54.4%	1,006.0	54.2%	910.5	54.5%
Administrative and marketing expenses	372.4	39.1%	361.3	41.9%	729.5	39.3%	709.3	42.4%
Other expense (income)	(0.8)	(0.1%)	(4.5)	(0.6%)	(1.6)	(0.1%)	1.1	0.1%
EBITDA from continuing operations <i>(note)</i>	145.9	15.3%	113.2	13.1%	278.1	15.0%	200.1	12.0%
Depreciation of property and equipment	14.7	1.5%	12.4	1.4%	28.4	1.5%	24.5	1.5%
Depreciation of lease assets	28.5	3.0%	-	0.0%	55.9	3.0%	-	0.0%
Amortization of intangible assets	17.6	1.8%	15.9	1.8%	33.0	1.8%	35.2	2.1%
Net interest expense	17.7	1.9%	6.7	0.8%	34.9	1.9%	12.0	0.7%
Income taxes	18.1	1.9%	20.6	2.4%	31.7	1.7%	34.2	2.1%
Net income from continuing operations	49.3	5.2%	57.6	6.7%	94.2	5.1%	94.2	5.6%
Net loss from discontinued operations	-	0.0%	(18.0)	(2.1%)	-	0.0%	(17.8)	(1.0%)
Net income	49.3	5.2%	39.6	4.6%	94.2	5.1%	76.4	4.6%
Basic and diluted earnings per share (EPS) from continuing operations	0.44	n/m	0.51	n/m	0.84	n/m	0.83	n/m
Adjusted EBITDA from continuing operations <i>(note)</i>	145.4	15.2%	110.5	12.8%	272.5	14.7%	200.0	12.0%
Adjusted net income from continuing operations <i>(note)</i>	56.1	5.9%	62.0	7.2%	106.4	5.7%	109.9	6.6%
Adjusted basic and diluted EPS from continuing operations <i>(note)</i>	0.50	n/m	0.54	n/m	0.95	n/m	0.96	n/m
Dividends declared per common share	0.1450	n/m	0.1375	n/m	0.2900	n/m	0.2750	n/m

*note: EBITDA, adjusted EBITDA, adjusted net income, and adjusted basic and diluted EPS are non-IFRS measures (discussed in the Definitions section of the 2018 Annual Report and this MD&A). n/m = not meaningful*

The adoption of IFRS 16 reduced our adjusted net income and net income by approximately \$1 million or \$0.01 per diluted share. Fixed lease costs, previously included in administrative and marketing expenses, of \$35.7 million in Q2 19 and \$71.2 million year to date are now recorded as depreciation of lease assets and interest expense. Results for Q2 18 and for the two quarters ended Q2 18 have not been restated for IFRS 16. For further details on our adoption of IFRS 16, refer to the Basis of Presentation section of this MD&A and note 4 of our June 30, 2019, unaudited interim consolidated financial statements.

Q2 19 adjusted net income was \$56.1 million or \$0.50 per diluted share, a 9.5% and 7.4% decrease, respectively, compared to Q2 18. Year-to-date adjusted net income was \$106.4 million or \$0.95 per diluted share, a 3.2% and 1.0% decrease, respectively, compared to the same period in 2018. Although our revenue growth and gross margin were in line with our expectations, our results were negatively impacted by higher than anticipated administrative and marketing expenses, with the primary driver being labor costs. Consequently, we have accelerated a cost reduction initiative that will improve our efficiency and drive value (see M-5). Year-to-date results were partly offset by a \$4.9 million tax recovery from recording previously unrecognized tax loss carryforwards in our Australian operations and by unrealized gains from investments held for self-insured liabilities recorded in other income. Adjusted net income as a percentage of net revenue in Q2 19 and year to date was 5.9% and 5.7%, respectively.

Q2 19 net income from continuing operations was \$49.3 million or \$0.44 per diluted share, a 14.4% and 13.7% decrease, respectively, compared to Q2 18. Year-to-date net income from continuing operations was \$94.2 million or \$0.84 per diluted share, remaining consistent with 2018 year-to-date results. In addition to the tax recovery from unrecognized tax loss carryforwards discussed above, we recognized adjustments on the US transition tax. Net income from continuing operations as a percentage of net revenue was 5.2% in Q2 19 and 5.1% year to date compared to 6.7% and 5.6% for the same periods in 2018.

Net revenue increased 10.5% in Q2 19 and 11.1% year to date compared to the same periods in 2018 due to acquisition and organic growth and fluctuating foreign exchange rates. Gross margin increased 10.1% in Q2 19 and 10.5% year to date compared to the same periods in 2018. As a percentage of net revenue, gross margin was comparable to Q2 18 and declined marginally for the year to date, primarily a result of project mix and the effect of a \$3.0 million revenue recovery adjustment on a major Water project recorded in Q1 18.

Administrative and marketing expenses, excluding the impact of IFRS 16, increased from 39.3% of net revenue in Q2 18 to 42.8% in Q2 19 and increased year to date from 42.4% in 2018 to 43.1% in 2019. These expenses increased primarily due to excess labor costs and were compounded by higher occupancy costs associated with the new head office in Edmonton.

Adjusted EBITDA in the quarter increased \$34.9 million, or 31.6%, compared to Q2 18, and year to date increased \$72.5 million, or 36.3%, compared to the same period in 2018, primarily due to the adoption of IFRS 16. Excluding the impact of IFRS 16, Q2 19 adjusted EBITDA decreased \$1.8 million, or 1.6%, and year to date remained consistent, as increased gross margin was offset by higher administrative and marketing expenses.

## Gross and Net Revenue

While providing professional services, we incur certain direct costs for subconsultants, equipment, and other expenditures that are recoverable directly from our clients. Revenue associated with these direct costs is included in gross revenue. Because these direct costs and associated revenue can vary significantly from contract to contract, changes in gross revenue may not be indicative of our revenue trends. Accordingly, we also report net revenue (which is gross revenue less subconsultant and other direct expenses) and analyze results in relation to net revenue rather than gross revenue.

We generate approximately 70% of gross revenue in foreign currencies, primarily in US dollars and British Pound Sterling (GBP). Fluctuations in these currencies had a net \$14.8 million positive impact on our net revenue results in Q2 19 compared to Q2 18 and a \$36.1 million positive impact year to date in 2019 compared to the same period in 2018, as further described below:

- The Canadian dollar averaged US\$0.77 in Q2 18 and US\$0.75 in Q2 19—a 2.6% decrease. The Canadian dollar averaged US\$0.78 year to date in 2018 and US\$0.75 year to date in 2019—a 3.8% decrease. The weakening Canadian dollar had a positive effect on gross and net revenue.
- The Canadian dollar averaged GBP0.57 in Q2 18 and GBP0.58 in Q2 19—a 1.8% increase. The Canadian dollar averaged GBP0.57 year to date in 2018 and GBP0.58 year to date in 2019—a 1.8% increase. The strengthening Canadian dollar had a negative effect on gross and net revenue.

Fluctuations in other foreign currencies did not have a material impact on our gross and net revenue.

Revenue earned by acquired companies in the first 12 months following an acquisition is reported as revenue from acquisitions and thereafter as organic revenue.

## Revenue by Reportable Segment

<i>(In millions of Canadian dollars, except percentages)</i>	Gross Revenue			Net Revenue	
	Quarter Ended	Quarter Ended	Quarter Ended	Quarter Ended	Q2 19 Organic Net Revenue
	Jun 30, 2019	Jun 30, 2018	Jun 30, 2019	Jun 30, 2018	Growth %
Canada	313.5	327.5	280.1	282.8	(3.6%)
United States	687.9	606.1	502.1	461.8	4.9%
Global	222.7	158.4	171.4	118.7	6.3%
<b>Total</b>	<b>1,224.1</b>	<b>1,092.0</b>	<b>953.6</b>	<b>863.3</b>	<b>2.3%</b>

<i>(In millions of Canadian dollars, except percentages)</i>	Gross Revenue			Net Revenue	
	Two Quarters Ended	Two Quarters Ended	Two Quarters Ended	Two Quarters Ended	Q2 YTD 19 Organic Net Revenue
	Jun 30, 2019	Jun 30, 2018	Jun 30, 2019	Jun 30, 2018	Growth %
Canada	621.4	630.3	551.0	541.7	(1.7%)
United States	1,324.2	1,175.7	979.5	901.2	3.7%
Global	430.0	307.3	327.2	229.2	7.2%
<b>Total</b>	<b>2,375.6</b>	<b>2,113.3</b>	<b>1,857.7</b>	<b>1,672.1</b>	<b>2.4%</b>

## Revenue by Business Operating Unit

<i>(In millions of Canadian dollars, except percentages)</i>	Gross Revenue			Net Revenue	
	Quarter Ended	Quarter Ended	Quarter Ended	Quarter Ended	Q2 19 Organic Net Revenue
	Jun 30, 2019	Jun 30, 2018	Jun 30, 2019	Jun 30, 2018	Growth %
Buildings	269.4	239.6	217.1	187.2	(0.4%)
Energy & Resources	157.6	151.6	131.5	129.5	(4.9%)
Environmental Services	192.1	166.8	144.8	119.8	13.8%
Infrastructure	352.3	300.0	267.6	238.9	3.4%
Water	252.7	234.0	192.6	187.9	1.3%
<b>Total</b>	<b>1,224.1</b>	<b>1,092.0</b>	<b>953.6</b>	<b>863.3</b>	<b>2.3%</b>

<i>(In millions of Canadian dollars, except percentages)</i>	Gross Revenue			Net Revenue	
	Two Quarters Ended	Two Quarters Ended	Two Quarters Ended	Two Quarters Ended	Q2 YTD 19 Organic Net Revenue
	Jun 30, 2019	Jun 30, 2018	Jun 30, 2019	Jun 30, 2018	Growth %
Buildings	530.4	475.4	421.0	371.1	0.5%
Energy & Resources	310.1	284.5	263.2	246.4	(1.8%)
Environmental Services	363.9	323.4	274.5	230.3	10.9%
Infrastructure	676.3	571.4	522.1	456.3	3.7%
Water	494.9	458.6	376.9	368.0	0.3%
<b>Total</b>	<b>2,375.6</b>	<b>2,113.3</b>	<b>1,857.7</b>	<b>1,672.1</b>	<b>2.4%</b>

*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 in line with our expectations, increasing by 10.5% and 11.1% for the quarter and year to date, respectively. Increased net revenue for the quarter was driven by acquisition growth of 6.4%, organic growth of 2.3%, and positive foreign exchange fluctuations of 1.8%. Increased net revenue year to date was driven by acquisition growth of 6.5%, organic growth of 2.4%, and positive foreign exchange fluctuations of 2.2%.

Year to date, the gross to net revenue ratio was 1.28, falling within our annual targeted range of 1.25 to 1.30.

## Canada

Net revenue from our Canadian business decreased 1.0% for the quarter but increased 1.7% year to date, bringing net revenues in line with our expectation of relatively weak economic growth in Canada for 2019.

Organic net revenue retracted 3.6% and 1.7% for the quarter and year to date, respectively. Canada's slow economic growth affected a number of markets, particularly industrial buildings, healthcare, major water/wastewater treatment plants, and housing. This contributed to retractions across most of our businesses. Retractions were also attributed to the completion or near completion of large Buildings, Power, and Water projects that drove significant growth in 2018.

Despite these retractions, Environmental Services generated strong growth and our Mining, Oil & Gas, and Transportation sectors continued to grow. We continued to see opportunities emerging from liquefied natural gas support projects and the midstream oil and gas sector. As well, large Transit & Rail projects, such as the Réseau Express Métropolitain, Montreal's light rail transit network, and other roadways and bridges projects contributed to growth in Transportation.

Acquisitions completed in 2018 contributed to net revenue growth of 2.6% for the quarter and 3.4% year to date, primarily in Energy & Resources.

## United States

Our United States business generated solid growth that was in line with our expectations, reflecting a strong U.S. economy spurred by steadily increasing business investment and consumer spending. Net revenue increased 8.7% for the quarter and year to date, reflecting organic revenue growth and positive impacts from the strengthening of the US dollar compared to the Canadian dollar.

We achieved organic net revenue growth of 4.9% and 3.7% for the quarter and year to date, respectively. Robust activity in our commercial, education, and civic sectors, particularly in the northeast, Florida, and Colorado drove solid growth in Buildings, while renewables and hydropower dam projects contributed to growth in our Environmental Services business. We also saw growth in Water attributable to our continued expansion into the California, Texas, and northwest US markets and opportunities in conveyance and wastewater projects. Our Transportation business continued to grow significantly with progress made on the Long Island Rail Road project and commencement of the Chicago Transit Authority's Red and Purple Line Modernization project. Energy & Resources retracted due to reduced activity in Mining and WaterPower & Dams, where we are transitioning through the wind down of large projects that began in 2017 and expecting a ramp up of work in the second half of 2019.

## Global

Our ongoing efforts to expand into the global markets continue to contribute to our growth, with Global net revenue increasing 44.4% and 42.8% for the quarter and year to date, respectively.

We achieved organic net revenue growth across all our businesses, aggregating to 6.3% and 7.2% in the quarter and year to date. New project work spurred strong growth in our Mining export business and in our Middle East Buildings and Water businesses. Water also saw steady work volume in the United Kingdom as we advance major projects associated with the latest AMP regulatory cycle. Environmental Services continues to perform well on the strength of its offerings in the Netherlands.

Acquisitions completed in 2018 and year to date in 2019 contributed to net revenue growth of 39.6% for the quarter and 36.9% year to date, primarily in Buildings and Infrastructure.

## Backlog

### Backlog by Reportable Segment

<i>(In millions of Canadian dollars)</i>	Jun 30, 2019	Dec 31, 2018
Canada	1,018.1	1,052.0
United States	2,651.7	2,538.9
Global	653.6	588.3
<b>Total</b>	<b>4,323.4</b>	<b>4,179.2</b>

Our contract backlog—\$4.3 billion at June 30, 2019—represents approximately 11 months of work.

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.

### Major Project Awards

Major projects awarded in Q2 19 in Canada include the BMO Convention Centre expansion project in Calgary, Alberta. Our team, along with two partners, was chosen as primary consultant for the project.

In the United States, we were selected to lead the design of a systemwide masterplan for all inpatient and outpatient facilities spanning Pennsylvania and New Jersey for Geisinger, a nationally recognized health services organization. As well, we will lead the construction management work on a rehabilitation project with the wastewater treatment division of King County’s Department of Natural Resources Parks in Washington state.

In Global, we were selected to review and evaluate Eti Bakir’s mining facility in Turkey to support the mine’s transition from an open pit to an underground operation.

## Gross Margin

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 services across diverse geographic locations, business operating units, and all phases of the infrastructure and facilities project life cycle. For a definition of gross margin, refer to the Definitions section of our 2018 Annual Report (incorporated here by reference).

### Gross Margin by Reportable Segments

<i>(In millions of Canadian dollars, except percentages)</i>	Quarter Ended Jun 30, 2019		Quarter Ended Jun 30, 2018		Two Quarters Ended Jun 30, 2019		Two Quarters Ended Jun 30, 2018	
	\$	% of Net Revenue	\$	% of Net Revenue	\$	% of Net Revenue	\$	% of Net Revenue
Canada	143.3	51.2%	147.1	52.0%	282.3	51.2%	282.0	52.1%
United States	277.3	55.2%	256.9	55.6%	539.6	55.1%	501.2	55.6%
Global	96.9	56.5%	66.0	55.6%	184.1	56.3%	127.3	55.5%
<b>Total</b>	<b>517.5</b>	<b>54.3%</b>	<b>470.0</b>	<b>54.4%</b>	<b>1,006.0</b>	<b>54.2%</b>	<b>910.5</b>	<b>54.5%</b>

Gross margin increased \$47.5 million in the quarter and \$95.5 million year to date. As a percentage of net revenue, gross margin decreased 0.1% in the quarter and 0.3% year to date.

In the quarter, gross margin in Canada decreased \$3.8 million and 0.8% as a percentage of net revenue compared to Q2 18. Year-to-date, gross margin was flat and decreased 0.9% as a percentage of net revenue compared to the same period in 2018. The decrease in gross margin resulted because of a shift in our project mix, driven largely by Energy & Resources, which generated higher revenues during the period compared to our other businesses but at lower margins. As well, gross margin in Environmental Services was lower for support work associated with the oil and gas sector.

In the quarter, gross margin in the United States increased \$20.4 million and decreased 0.4% as a percentage of net revenue compared to Q2 18. Year-to-date, gross margin increased \$38.4 million and decreased 0.5% as a percentage of net revenue compared to the same period in 2018. The decrease is partly due to the effect of a Water project recovery in Q1 18 that contributed to a higher gross margin for that period.

In the quarter, gross margin in Global increased \$30.9 million and 0.9% as a percentage of net revenue compared to Q2 18. YTD gross margin increased \$56.8 million and 0.8% as a percentage of net revenue compared to the same period in 2018. The increase was primarily due to a success fee recognized on a hydro project in Australia, an incentive fee earned on a major project in Qatar, and our project mix in the quarter.

## Administrative and Marketing Expenses

Administrative and marketing expenses were \$372.4 million in Q2 19 and 39.1% as a percentage of net revenue, or \$407.7 million and 42.8% without the adoption of IFRS 16, compared to \$361.3 million and 41.9% in Q2 18. For the year to date, administrative and marketing expenses were \$729.5 million and 39.3% of net revenue, or \$800.3 million and 43.1% without the adoption of IFRS 16, compared to \$709.3 million and 42.4% year to date in 2018.

The increase in Q2 19 and year-to-date administrative and marketing expenses as a percentage of net revenue (without the adoption of IFRS 16) compared to the same periods last year was mainly due to lower utilization, which drove labor costs allocated to administrative and marketing expenses to be significantly higher than anticipated. Other factors include anticipated increases in occupancy costs associated with our head office lease and subscription costs from the renewal of certain cloud-based software solutions, previously licenced-based and therefore capitalized and amortized as intangible assets. These increases were partially offset by reductions in various other items.

## 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 19 and Q2 18 and year to date for 2019 and 2018:

<i>(In millions of Canadian dollars)</i>	Quarter Ended Jun 30		Two Quarters Ended Jun 30	
	2019	2018	2019	2018
Client relationships	8.0	6.6	15.5	13.0
Backlog	3.0	2.3	5.0	7.4
Other	0.2	0.6	0.4	2.0
Total amortization of acquired intangible assets	11.2	9.5	20.9	22.4
Software	6.4	6.4	12.1	12.8
Total amortization of intangible assets	17.6	15.9	33.0	35.2

The increase in intangible asset amortization of \$1.7 million in Q2 19 compared to Q2 18 was mainly due to increases in client relationships and backlog amortization. The acquisition of WGE added \$30.5 million to client relationships and \$10.5 million to backlog. Lease advantages and disadvantages (in the Other category) from acquisitions completed in prior years were reclassified to lease assets as a result of our adoption of IFRS 16.

The year-to-date amortization decrease of \$2.2 million was mainly due to IFRS 16 reclassification of net lease advantages and a reduction in backlog amortization. Backlog related to the acquisitions made in previous years—such as MWH Global—was fully amortized in Q2 18. Software amortization also declined because subscription costs are now charged to administrative and marketing expenses. Vendors are moving to cloud-based software solutions, and IFRS does not permit the capitalization of these as intangible assets.

## Net Interest Expense

Net interest expense increased \$11.0 million in Q2 19 and \$22.9 million year to date compared to the same periods in 2018. The adoption of IFRS 16 increased net interest expense by \$8.2 million in Q2 19 and \$16.3 million year to date.

Without the adoption of IFRS 16, net interest expense increased \$2.8 million in Q2 19 and \$6.6 million year to date compared to the same periods in 2018, and was driven by increased drawings on our revolving credit facility to fund the WGE acquisition and share repurchases under our Normal Course Issuer Bid (NCIB) and by higher interest rates on our credit facilities.

## Other Income

Our year-to-date results included an unrealized gain of \$5.7 million, compared to an unrealized gain of \$0.7 million in 2018, on our equity securities in our investments held for self-insured liabilities. The unrealized gains and losses are non-cash adjustments and represent the fair value fluctuations in the equity markets.

## Income Taxes

Our effective income tax rate was 26.9% in Q2 19 and 25.2% year to date, compared to a normalized 26.8% in 2018. Our year-to-date income tax expenses included a \$4.9 million tax recovery due to the recording of previously unrecognized tax loss carryforwards in our Australian operations and partly offset by an additional \$1.1 million US transition tax adjustment based on recent regulations and guidance released by the US Internal Revenue Service.

Without these impacts, our normalized effective tax rate would have been 27.3% in Q2 19 and 27.6% year to date. Our estimated effective tax rate included in our 2018 Annual Report was revised in Q1 19 from 27% to 28% because the difference was caused by a higher proportion of income being earned in higher taxed jurisdictions and certain non-deductible expenses.

## Discussion of Discontinued Operations

On November 2, 2018, we completed the sale of our Construction Services operations. The results of our Construction Services operations are reported as discontinued operations in our 2018 consolidated financial statements for all periods presented as prescribed by IFRS 5. During the first quarter, management and the purchaser completed their review of the closing financial statements, resulting in an immaterial settlement adjustment.

## Summary of Quarterly Results

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

## Quarterly Unaudited Financial Information

Results for periods prior to Q1 19 have not been restated for the adoption of IFRS 16.

	2019		2018		2017			
<i>(In millions of Canadian dollars, except per share amounts)</i>	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3
Gross revenue	1,224.1	1,151.5	1,083.9	1,086.6	1,092.0	1,021.3	977.4	1,000.9
Net revenue	953.6	904.1	835.6	847.5	863.3	808.8	749.9	787.5
Net income from continuing operations	49.3	44.9	21.2	55.9	57.6	36.6	15.6	43.3
Net income (loss) from discontinued operations, net of tax	-	-	(32.2)	(73.9)	(18.0)	0.2	(4.4)	2.9
Net income (loss)	49.3	44.9	(11.0)	(18.0)	39.6	36.8	11.2	46.2
Basic earnings (loss) per share								
Continuing operations	0.44	0.40	0.19	0.49	0.51	0.32	0.14	0.38
Discontinued operations	-	-	(0.29)	(0.65)	(0.16)	-	(0.04)	0.03
Total basic earnings (loss) per share	0.44	0.40	(0.10)	(0.16)	0.35	0.32	0.10	0.41
Diluted earnings (loss) per share								
Continuing operations	0.44	0.40	0.19	0.49	0.51	0.32	0.14	0.37
Discontinued operations	-	-	(0.29)	(0.65)	(0.16)	-	(0.04)	0.03
Total diluted earnings (loss) per share	0.44	0.40	(0.10)	(0.16)	0.35	0.32	0.10	0.40
Continuing operations								
Adjusted net income <i>(note)</i>	56.1	50.3	45.5	51.2	62.0	47.9	39.7	57.1
Adjusted basic and diluted EPS <i>(note)</i>	0.50	0.45	0.40	0.45	0.54	0.42	0.35	0.50

*Adjusted net income and adjusted EPS are non-IFRS measures and are further discussed in the Definitions section of the 2018 Annual Report and this MD&A. Quarterly EPS and adjusted EPS are not additive and may not equal the annual EPS reported. This is a result of the effect of shares issued on the weighted average number of shares. Quarterly and annual diluted EPS and adjusted 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.*

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

### Gross Revenue

<i>(In millions of Canadian dollars)</i>	Q2 19 vs. Q2 18	Q1 19 vs. Q1 18	Q4 18 vs. Q4 17	Q3 18 vs. Q3 17
Increase (decrease) in gross revenue due to				
Net acquisition growth	60.7	59.8	50.5	27.3
Organic growth	51.9	44.1	35.5	34.1
Impact of foreign exchange rates on revenue earned by foreign subsidiaries	19.5	26.3	20.5	24.3
Total net increase in gross revenue	132.1	130.2	106.5	85.7

*Construction Services operations are presented as discontinued operations. This table has been updated to include only continuing operation results.*

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

## Statements of Financial Position

The following table highlights the major changes to assets, liabilities, and equity since December 31, 2018:

<i>(In millions of Canadian dollars)</i>	Jun 30, 2019	Jan 1, 2019	IFRS 16	Dec 31, 2018
Total current assets	1,597.4	1,573.7	(61.8)	1,635.5
Property and equipment	299.6	289.4	-	289.4
Lease assets	529.6	561.8	561.8	-
Goodwill	1,659.2	1,621.2	-	1,621.2
Intangible assets	253.9	242.0	(5.7)	247.7
Net employee defined benefit asset	13.3	10.0	-	10.0
Other assets	177.2	178.2	2.7	175.5
All other assets	32.1	30.6	-	30.6
<b>Total assets</b>	<b>4,562.3</b>	<b>4,506.9</b>	<b>497.0</b>	<b>4,009.9</b>
Current portion of long-term debt	60.3	48.5	-	48.5
Current portion of provisions	33.5	41.7	(0.7)	42.4
Current portion of lease liabilities	62.0	44.8	44.8	-
All other current liabilities	710.1	749.2	(18.5)	767.7
Total current liabilities	865.9	884.2	25.6	858.6
Lease liabilities	561.3	600.2	600.2	-
Income taxes payable	14.9	15.9	-	15.9
Long-term debt	999.1	885.2	-	885.2
Provisions	89.9	86.6	8.4	78.2
Net employee defined benefit liability	57.1	68.6	-	68.6
Deferred tax liability	73.6	45.6	(8.7)	54.3
Other liabilities	47.6	45.9	(94.5)	140.4
Equity	1,851.2	1,872.9	(34.0)	1,906.9
Non-controlling interests	1.7	1.8	-	1.8
<b>Total liabilities and equity</b>	<b>4,562.3</b>	<b>4,506.9</b>	<b>497.0</b>	<b>4,009.9</b>

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

The adoption of IFRS 16 resulted in an overall increase to assets and liabilities because the new standard requires the lessee to recognize an asset for the right to use the underlying asset during the lease term (lease assets) and recognize a liability to make lease payments (lease liabilities). We also reclassified certain balance sheet accounts to conform to the accounting requirements of IFRS 16. Refer to the Definitions section in this MD&A for IFRS 16 impacts. As well, the carrying amounts of assets and liabilities for our US subsidiaries on our consolidated statements of financial position decreased due to the strengthening Canadian dollar—from US\$0.73 at December 31, 2018, to US\$0.76 at June 30, 2019. Other factors that impacted our long-term assets and liabilities are indicated below.

For non-current assets, the adoption of IFRS 16 resulted in a recognition of lease assets, a reclass of lease advantages from intangible assets to lease assets, and a recognition of sublease receivables included in other assets. Excluding the adoption of IFRS 16, property and equipment increased mainly because of leasehold improvements and engineering equipment and included \$5.8 million relating to the acquisition of WGE; this was partly offset by depreciation expense. Goodwill and intangible assets increased due to our acquisition of WGE; this was partly offset by intangible amortization expense.

For liabilities, the adoption of IFRS 16 resulted in a recognition of lease liabilities, a reclass of lease inducement benefits from other liabilities to lease assets, a recognition of lease restoration liabilities included in provisions, and a net decrease in deferred tax liabilities. Excluding the adoption of IFRS 16, total current and long-term debt increased \$125.7 million due primarily to an increase in our revolving credit facility of \$94.4 million and a net increase of \$31.0 million in notes payable. Increases in the revolving credit facility were made to finance the WGE acquisition, working capital needs, and repurchases of shares; increases in notes payable were associated with the WGE acquisition.

Deferred tax liabilities, excluding IFRS 16 adjustments, increased \$28.0 million as a result of deferred taxes payable, recorded for the two quarters ended Q2 19, and of other items. Net employee defined benefit liability decreased \$11.5 million and net employee defined benefit asset increased \$3.3 million for a combined net decrease of \$14.8 million. The decrease was due to contributions of \$16.7 million made during the quarter and was partly offset by the addition of WGE's end-of-employment benefit liability of \$1.9 million.

Shareholders' equity decreased \$55.7 million. Opening shareholders' equity was adjusted downward by \$34.0 million related to the adoption of IFRS 16. The decrease in shareholder's equity was mainly due to a year-to-date comprehensive loss of \$77.9 million that related primarily to the exchange difference on translation of our foreign subsidiaries, \$32.4 million in dividends declared, and \$11.9 million in shares repurchased under our NCIB. These decreases were partly offset by net income of \$94.2 million earned in the first two quarters, \$4.0 million in share options exercised for cash, and \$2.3 million in share-based compensation expense.

## 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; repurchase shares; 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 MD&A of our 2018 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, equities, and term deposits. We mitigate risk associated with these bonds, equities, and term deposits through the overall quality and mix of our investment portfolio.

## Working Capital

The following table summarizes working capital information at June 30, 2019, compared to December 31, 2018:

<i>(In millions of Canadian dollars, except ratios)</i>	Jun 30, 2019	Jan 1, 2019	IFRS 16	Dec 31, 2018
Current assets	1,597.4	1,573.7	(61.8)	1,635.5
Current liabilities	(865.9)	(884.2)	(25.6)	(858.6)
Working capital <i>(note)</i>	731.5	689.5	(87.4)	776.9
Current ratio <i>(note)</i>	1.84	1.78	n/a	1.90

*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 Definitions section of this MD&A.*

The adoption of IFRS 16 resulted in reclasses of certain balance sheet accounts (discussed in the Definitions section of this MD&A). As well, the carrying amounts of assets and liabilities for our US subsidiaries on our consolidated statements of financial position decreased due to the strengthening Canadian dollar.

IFRS 16 resulted in a reclass of \$50.0 million of lease inducements receivable from other receivables and \$12.9 million of prepaid rent from prepaid expenses to lease assets. Excluding the adoption of IFRS 16, current assets increased primarily because of a collective net increase of \$71.7 million from trade and other receivables, unbilled receivables, and contract assets; income taxes recoverable of \$16.3 million; and prepaid expenses of \$7.2 million. The increases were partly offset by a decrease in cash and cash deposits and cash in escrow of \$78.5 million (explained in the Cash Flows section of this MD&A).

Gross revenue trade receivables increased 5.9%, or \$45.8 million, from December 31, 2018, to June 30, 2019, and the over-90-day aging category decreased 7.0%, or \$9.0 million. The increase in trade receivables is due primarily to our acquisition of WGE, which added approximately \$19 million in receivables. The decrease in the over 90-day aging category was due to the mix of clients in the quarter.

Our DSO, a metric that we use to evaluate our business that is defined in the Definitions section of this MD&A, was 104 days at June 30, 2019 (91 days including deferred revenue), unchanged from March 31, 2019, and one day higher than 103 days at December 31, 2018. DSO has historically been under 100 days, averaging 94 and 95 days in 2016 and 2017, respectively. We saw a marked increase in 2018 to an average of 104 days, mainly due to our expansion beyond North America, where factors such as milestone-based contracts and clients with long payment approval processes have impacted our consolidated DSO. In North America, where DSO is 99 days (82 days including deferred revenue), we are undertaking an increasing number of larger, more complex projects where we are not the prime consultant, or are part of a consortium where we are subject to "pay when paid" terms, which create additional payment delays. We are striving to reduce DSO across all geographies through increased scrutiny of our invoicing processes and targeting collection of receivables that have been outstanding for more than 60 days.

IFRS 16 resulted in the recognition of \$44.8 million of lease liabilities (current portion); this was partly offset by a decrease in other liabilities of \$18.2 million because lease inducement benefits and lease disadvantages were reclassified to lease assets. Excluding the adoption of IFRS 16, current liabilities decreased primarily because of a decrease in trade and other payables of \$41.5 million, mainly attributable to the timing of payments to suppliers and annual employee bonuses and to decreases in the current portion of our provisions of \$8.2 million, which resulted from cash payments made in the quarter. The decreases were partly offset by a reclass from non-current to current in notes payable of \$11.8 million.

## 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 Jun 30								
	Continuing Operations			Discontinued Operations			Total		
	2019	2018	Change	2019	2018	Change	2019	2018	Change
Cash flows from (used in) operating activities	162.3	98.3	64.0	(2.0)	(16.2)	14.2	160.3	82.1	78.2
Cash flows used in investing activities	(31.4)	(60.2)	28.8	-	(1.5)	1.5	(31.4)	(61.7)	30.3
Cash flows used in financing activities	(70.2)	(31.3)	(38.9)	-	-	-	(70.2)	(31.3)	(38.9)

<i>(In millions of Canadian dollars)</i>	Two Quarters Ended Jun 30								
	Continuing Operations			Discontinued Operations			Total		
	2019	2018	Change	2019	2018	Change	2019	2018	Change
Cash flows from (used in) operating activities	73.8	25.3	48.5	(3.6)	(66.1)	62.5	70.2	(40.8)	111.0
Cash flows used in investing activities	(135.6)	(104.7)	(30.9)	-	(2.1)	2.1	(135.6)	(106.8)	(28.8)
Cash flows (used in) from financing activities	(2.0)	98.2	(100.2)	-	-	-	(2.0)	98.2	(100.2)

Because of the adoption of IFRS 16, fixed lease payments and proceeds for leasehold inducements are no longer included in operating and investing activities, respectively, and are now recognized in financing activities in our statement of cash flows. These reclassifications had a net zero effect on total cash flows. Our comparative figures were not restated.

### 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.

The adoption of IFRS 16 increased reported year-to-date operating cash inflow by \$52.6 million. Excluding the adoption of IFRS 16, cash flows from operating activities for continuing operations would have been \$21.2 million, a 4.1 million year-to-date decrease compared to 2018. This decrease in cash inflow was driven by an increase in cash paid to suppliers and employees due to acquisition growth, the timing of various payments, and an increase in interest paid on debt. These cash outflows were partly offset by an increase in cash receipts from operations as a result of growth and a decrease in income tax installments paid. Additionally, consolidated cash flows from operating activities was positively impacted by a decrease in cash outflows associated with our discontinued operations.

### Cash Flows Used in Investing Activities

The adoption of IFRS 16 increased reported year-to-date investing cash outflow by \$7.6 million. Excluding the adoption of IFRS 16, cash flows used in investing activities would have been \$128.0 million, a \$21.2 million year-to-date increase compared to 2018, mainly due to a \$43.7 million increase in cash used for business acquisitions. The increase is partly offset by a decrease in property and equipment and software purchases—\$40.8 million year to date in 2019 compared to \$55.7 million in 2018. Purchases related mainly to leasehold improvements and engineering equipment at various locations.

### Cash Flows (Used in) From Financing Activities

The adoption of IFRS 16 increased reported year-to-date financing cash outflow by \$45.0 million. Excluding the adoption of IFRS 16, cash flows from financing activities would have been \$43.0 million, a \$55.2 million year-to-date decrease compared to 2018 because of a \$54.2 million net reduction in drawings from our revolving credit facility and term loan.

## Capital Management

Prior to the adoption of IFRS 16, we managed our capital structure according to our internal guideline of maintaining a net debt to EBITDA (actual trailing twelve months) ratio of less than 2.5 to 1.0. With the adoption of IFRS 16, our internal guideline was revised to a net debt to adjusted EBITDA (trailing twelve months) ratio of less than 2.0 to 1.0. There may be occasions when we exceed our target by completing acquisitions that increase our debt level for a period of time.

After applying IFRS 16 to our trailing twelve month adjusted EBITDA, our June 30, 2019, net debt to adjusted EBITDA ratio was 1.8 to 1.0. Our leverage in Q2 19 is within our stated internal guideline due to a combination of seasonality and several discrete reasons that are consistent with our overall approach to capital allocation. Typically, while our earnings are strongest in the second and third quarters of the year, our cash flows are strongest in the third and fourth quarters and lower in the first and second quarters. First quarter cash flows are further reduced due to the payment of annual short-term employee incentive awards. Increases in drawings were also made from our revolving credit facility to fund the WGE acquisition and support opportunistic repurchases of our shares under our NCIB program. We expect to reduce our net debt with cash flows from operating activities since cash inflows will continue to increase throughout the remainder of the year. We remain committed to maintaining a strong balance sheet and expect our net debt to adjusted EBITDA ratio to remain below 2.0 at the end of 2019.

Stantec has syndicated senior credit facilities consisting of a senior revolving credit facility of a maximum of \$800 million and a \$310 million term loan in two tranches. At June 30, 2019, \$133.4 million was available in our revolving credit facility for future activities. Our agreement allows for an additional \$400 million of debt, subject to approval, under the same terms and conditions, providing ample liquidity to fund our acquisition strategy. Subsequent to June 30, 2019, the \$400 million was increased to \$600 million as part of the extension of our revolving credit facility (see discussion on M-26).

We were in compliance with the covenants related to our credit facilities as at and throughout the period ended June 30, 2019.

## Shareholders' Equity

Share options exercised generated \$4.0 million in cash during the first two quarters of 2019 compared to \$5.2 million in cash generated during the first two quarters of 2018. Our NCIB on the TSX was renewed in 2018 and amended during the first quarter of 2019, enabling us to repurchase up to 5,684,699 of our common shares during the period November 14, 2018, to November 13, 2019. We also have an Automatic Share Purchase Plan with a broker that allows the purchase of common shares for cancellation under the NCIB at any time during predetermined trading blackout periods within certain pre-established parameters.

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, the repurchase of outstanding common shares are an appropriate use of available Company funds. We repurchased 382,512 common shares at an average price of \$31.00 per share for an aggregated price of \$11.9 million during the first two quarters of 2019, compared to the repurchase of 395,029 common shares at an average price of \$32.39 per share for an aggregated price of \$12.7 million in the first two quarters of 2018.

## Other

### Outstanding Share Data

At June 30, 2019, 111,700,217 common shares and 4,674,165 share options were outstanding. From July 1, 2019, to August 7, 2019, no share options were exercised and 7,384 share options were forfeited. At August 7, 2019, 111,700,217 common shares and 4,666,781 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, lease arrangements, purchase and service obligations, and other obligations at June 30, 2019, on an undiscounted 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	1,062.7	61.2	217.5	783.0	1.0
Interest on debt	142.2	42.0	79.7	20.5	-
Lease liabilities	788.5	148.3	246.5	149.7	244.0
Restoration	12.7	1.1	3.7	2.8	5.1
Variable lease payments	273.9	46.5	81.4	49.9	96.1
Short-term and low-value lease payments	28.9	17.0	11.5	0.4	-
Leases not commenced but committed	57.4	1.3	11.3	12.2	32.6
Purchase and service obligations	68.6	35.1	29.1	4.2	0.2
Other obligations	33.4	9.3	20.4	-	3.7
Total contractual obligations	2,468.3	361.8	701.1	1,022.7	382.7

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 MD&A and notes 13 and 19 of our June 30, 2019, unaudited interim consolidated financial statements.

Our lease arrangements include non-cancellable rental payments for office space, vehicles, and other equipment. Purchase and service obligations include enforceable and legally binding agreements to purchase future goods and services. Other obligations include amounts payable for our restricted share, deferred share, and performance share units issued under our Long-Term Incentive Plan. Failure to meet the terms of our lease payment 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 \$23.3 million to the pension plans in 2019.

### Off-Balance Sheet Arrangements

As at June 30, 2019, we had off-balance sheet financial arrangements relating to letters of credit in the amount of \$74.7 million that expire at various dates before July 2020, except for \$11.1 million that have open-ended terms. 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, 2019, \$524.1 million in bonds—expiring at various dates before July 2024—were issued under these surety facilities. These bonds are intended to provide owners with financial security regarding the completion of their construction project in the event of default and relate mainly to our former Construction Services business. Although we remain obligated for these instruments, the purchaser of the Construction Services business has indemnified Stantec should any of these obligations be triggered.

## Financial Instruments and Market Risk

At June 30, 2019, the nature and extent of our use of financial instruments did not change materially from those described in the Financial Instruments and Market Risk section of our 2018 Annual Report (incorporated here by reference), except for our fixed interest rate swap and foreign currency forward contracts, which are derivative financial instruments and are required to be measured at fair value.

During the first quarter, we entered into an interest rate swap to manage the fluctuation in floating interest rates on Tranche C of our term loan. The agreement matures on June 27, 2023, and has the effect of converting the variable interest rate associated with \$160 million of our term loan into a fixed interest rate of 2.295%, plus an applicable basis points spread. The fair value of the interest rate swap, estimated using market rates at June 30, 2019, is an unrealized loss in Q2 19 of \$2.2 million, net of tax, and year to date of \$2.7 million, net of tax. Since we designated the interest rate swap as a cash flow hedge, we included the non-cash fair value loss in other comprehensive income.

We had also entered into foreign currency forward contracts during the quarter to purchase foreign currencies totalling \$31.1 million (or notional amounts of GBP16.0 million, NZD3.6 million, and EUR0.9 million) maturing before September 2019. These forward contracts were entered into to mitigate the risk of foreign currency fluctuations related to GBP- and NZD-denominated liabilities against various foreign currencies. Because the forward contracts are not designated as a hedge, the unrealized fair value loss of \$0.2 million, calculated using estimated market rates as at June 30, 2019, is included in foreign exchange loss in the consolidated statement of income.

These arrangements are further described in note 19 of our June 30, 2019, unaudited interim consolidated financial statements.

## 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's 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 24 of our June 30, 2019, unaudited interim consolidated financial statements, and notes 14, 21, and 33 of our audited consolidated financial statements for the year ended December 31, 2018 (included in our 2018 Annual Report and incorporated here by reference).

## Outlook

The outlook for fiscal year 2019 is based on our expectations described in the Outlook section of our 2018 Annual Report (incorporated here by reference). An update on our financial and outlook targets, described on pages M-8, M-11, and M-12 of the 2018 Annual Report, is provided on page M-6 of this MD&A. We continue to expect organic net revenue growth in 2019 to be in the low- to mid-single digits, in line with global GDP growth, and we continue to target a long-term average compound net revenue growth rate of 15% through organic and acquisition growth.

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 MD&A in our 2018 Annual Report (incorporated here by reference). The Caution Regarding Forward-Looking Statements section of this MD&A 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 19 from those described in our 2018 Annual Report in the Critical Accounting Estimates, Developments, and Measures section and in note 5 of our December 31, 2018, audited consolidated financial statements (incorporated here by reference), except for the change in accounting estimates related to the adoption of IFRS 16, described in note 4 of our June 30, 2019, unaudited interim consolidated financial statements (incorporated here by reference).

### Definition of Non-IFRS Measures

This MD&A 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, EBITDA, net debt to EBITDA, leverage 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, 2019, there has been no significant change in our description of non-IFRS measures from that included in our 2018 Annual Report in the Critical Accounting Estimates, Developments, and Measures section (incorporated here by reference), except for substituting net debt to EBITDA with net debt to adjusted EBITDA and including days sales outstanding (DSO). A reconciliation of non-IFRS measures to their closest respective IFRS measures is provided on M-5 of this MD&A.

In addition, DSO is a metric we use to evaluate our business that does not have a standardized definition within IFRS. It represents the average number of days to convert our trade and other receivables, unbilled receivables, and contract assets to cash. Our method of calculating DSO may differ from the methods presented by other companies.

## Recent Accounting Pronouncements

Effective January 1, 2019, we adopted the following standards and amendments (further described in note 6 of our December 31, 2018, annual consolidated financial statements and note 4 of our June 30, 2019, unaudited interim consolidated financial statements):

- IFRS 16 *Leases* (IFRS 16)
- IFRIC 23 *Uncertainty over Income Tax Treatments* (IFRIC 23)
- Amendments to IFRS 9 *Financial Instruments* (IFRS 9)
- Amendments to IAS 28 *Long-term Interest in Associates and Joint Ventures* (IAS 28)
- Annual Improvements (2015-2017 Cycle) related to IFRS 3 *Business Combinations*, IFRS 11 *Joint Arrangements*, IAS 12 *Income Taxes*, and IAS 23 *Borrowing Costs*
- Amendments to IAS 19 *Employee Benefits* (IAS 19)

The adoption of these new standards, amendments, interpretations, and improvements did not have an impact on our disclosure controls and procedures or our business activities, including debt covenants, key performance indicators, and compensation plans. The adoption of IFRS 16 resulted in a change in accounting policies, non-cash changes to our financial results, and key non-IFRS indicators. Our debt covenants were not impacted since they continued to be reported under pre-IFRS 16 standards.

### *IFRS 16 Leases*

Effective January 1, 2019, we adopted IFRS 16 *Leases* (IFRS 16) using the modified retrospective approach and did not restate comparative information. The new standard replaces IAS 17 *Leases* and IFRIC 4 *Determining Whether an Arrangement Contains a Lease* (IFRIC 4) and requires companies to bring operating leases, formerly treated as off-balance sheet items, onto a company's statement of financial position. Certain current and non-current items on our statement of financial position were also reclassified to conform with the accounting requirements of IFRS 16.

The majority of our leases are for office space, vehicles, and other equipment. We no longer include fixed lease payments in administrative and marketing expenses. Instead, lease costs are replaced with depreciation of leased assets and interest expense using the effective interest method for lease liabilities. We continue to expense in administrative and marketing low-value asset leases, short-term leases with a term of 12 months, and variable lease expenses. Prior to IFRS 16, occupancy costs were accounted for on a straight-line basis. With the adoption of IFRS 16, leased assets are amortized on a straight-line basis; however, interest from the effective interest method results in higher interest at the start of the lease term, causing a difference between our pre- and post-IFRS 16 net income. We estimate the adoption of IFRS 16 will result in a non-cash reduction of our 2019 net income by \$3.0 million or \$0.03 on an earnings per share basis.

On inception of a lease agreement, lease liabilities are recognized at the present value of lease payments less any incentives receivable. Lease assets are equal to lease liabilities less lease incentives received, plus restoration costs, indirect costs, and prepayments. On transition, certain lease assets were measured at the amount equal to the lease liability; however, certain significant leases were measured retrospectively as though the standard was applied since the commencement date of the lease. Over time, depreciated leased assets and discounted liabilities are not equal; therefore, on transition, we recorded a non-cash after-tax cumulative debit adjustment of \$34.0 million against our opening retained earnings for the leases that were measured retrospectively.

On the statement of cash flows, fixed lease payments and proceeds for leasehold inducements are no longer included in operating and investing activities, respectively, and are now recognized in financing activities. This reclassification increases cash flows from operating activities and reduces cash flows from investing and financing activities, resulting in a net zero effect on total cash flows.

A summary of IFRS 16's impact on our January 1, 2019, statement of financial position, on our Q2 19 income statement items and non-IFRS financial measures, and on our statement of cash flows is included in the tables below.

Impact on Statement of Financial Position at January 1, 2019

<i>(In millions of Canadian dollars)</i>	IFRS 16 \$	Before IFRS 16 \$	Increase (Decrease) \$
<b>Current assets</b>			
Trade and other receivables	828.1	878.1	(50.0)
Prepaid expenses	43.9	56.8	(12.9)
Other assets	24.3	23.2	1.1
<b>Non-current assets</b>			
Lease assets	561.8	-	561.8
Intangible assets	242.0	247.7	(5.7)
Other assets	178.2	175.5	2.7
<b>Total increase in assets</b>			497.0
<b>Current liabilities</b>			
Trade and other payables	566.9	567.2	(0.3)
Lease liabilities	44.8	-	44.8
Provisions	41.7	42.4	(0.7)
Other liabilities	5.0	23.2	(18.2)
<b>Non-current liabilities</b>			
Lease liabilities	600.2	-	600.2
Provisions	86.6	78.2	8.4
Deferred tax liabilities	45.6	54.3	(8.7)
Other liabilities	45.9	140.4	(94.5)
<b>Shareholders' equity</b>			
Retained earnings	817.2	851.2	(34.0)
<b>Total increase in liabilities and equity</b>			497.0

Impact on Statement of Income - Continuing Operations

<i>(In millions of Canadian dollars)</i>	Quarter Ended Jun 30			Two Quarters Ended Jun 30		
	2019 as Reported \$	2019 before IFRS 16 \$	Increase (Decrease) \$	2019 as Reported \$	2019 before IFRS 16 \$	Increase (Decrease) \$
<b>Impact on income statement items</b>						
Administrative and marketing expenses	372.4	407.7	(35.3)	729.5	800.3	(70.8)
Net interest expense	17.7	9.5	8.2	34.9	18.6	16.3
Depreciation of lease assets	28.5	-	28.5	55.9	-	55.9
Net income	49.3	50.3	(1.0)	94.2	95.2	(1.0)
<b>Impact on non-IFRS financial measures <i>(note)</i></b>						
EBITDA	145.9	110.6	35.3	278.1	207.3	70.8
Adjusted EBITDA	145.4	110.1	35.3	272.5	201.7	70.8
Net debt/adjusted EBITDA - Continuing operations	1.80	2.42	(0.62)	1.80	2.42	(0.62)

*note: Non-IFRS measures are discussed in the Definitions section of our 2018 Annual Report and this MD&A. Net debt/adjusted EBITDA was calculated using a proforma IFRS 16 adjustment for Q3 18 to Q4 18 adjusted EBITDA, calculated as 3.8% of net revenue from the respective quarter.*

Impact on Statement of Cash Flows - Continuing  
Operations

	Quarter Ended Jun 30			Two Quarters Ended Jun 30		
	2019 as Reported	2019 before IFRS 16	Increase (Decrease)	2019 as Reported	2019 before IFRS 16	Increase (Decrease)
<i>(In millions of Canadian dollars)</i>	\$	\$	\$	\$	\$	\$
Cash flows from operating activities	162.3	135.3	27.0	73.8	21.2	52.6
Cash paid to suppliers	(366.3)	(401.5)	35.2	(881.3)	(950.2)	68.9
Interest paid	(18.4)	(10.2)	(8.2)	(36.3)	(20.0)	(16.3)
Cash flows used in investing activities	(31.4)	(28.6)	(2.8)	(135.6)	(128.0)	(7.6)
Proceeds from leasehold inducements	-	2.8	(2.8)	-	7.6	(7.6)
Cash flows (used in) from financing activities	(70.2)	(46.0)	(24.2)	(2.0)	43.0	(45.0)
Payments of lease obligations	(27.0)	-	(27.0)	(52.6)	-	(52.6)
Proceeds from leasehold inducements	2.8	-	2.8	7.6	-	7.6

## 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, 2019, 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, 2019, there has been no significant change in our risk factors from those described in our 2018 Annual Report; the risk factors are incorporated here by reference.

## Subsequent Events

### Revolving Credit Facility and Term Loan

On July 19, 2019, we reached an agreement to extend the maturity date of our revolving credit facility from June 27, 2023, to June 27, 2024, and increase our access to additional funds from \$400 million to \$600 million.

### Dividends

On August 7, 2019, we declared a dividend of \$0.145 per share, payable on October 15, 2019, to shareholders of record on September 30, 2019.

## 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 2019 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 capitalize on strategic opportunities, to grow our market presence, and to achieve global GDP growth;*
- Our expectation that our efforts to reshape our workforce will significantly reduce excess labor costs within administrative and marketing expenses;*
- Our 2019 target ranges and expectations for certain measures in the Financial Targets section, including our expectations regarding how IFRS 16 will impact such targets over the balance of 2019;*
- Our belief that we will achieve our annual targets by the end of fiscal year 2019;*
- 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 expectation of our ability to reduce net debt with cash flows from operating activities throughout the remainder of the year; and*
- Our expectations with respect to pension plan contributions, the amount and time thereof.*

*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, 2019, there has been no significant change in our risk factors from those described in our 2018 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 2019 and their effect on our business. The assumptions we made at the time of publishing our annual targets and outlook for 2019 are listed in the Cautionary Note Regarding Forward-Looking Statements section of our 2018 Annual Report. The following information updates and, therefore, supersedes those assumptions.*

- *As stated in our 2018 Annual Report, the World Bank forecasted 2.9% global real GDP growth. The Bank of Canada projects 1.7% GDP growth for Canada, and the Congressional Budget Office projected 2.3% GDP growth for the United States. The GDP forecast for 2019 has since been revised to 2.6% for global real GDP growth, 1.3% GDP growth for Canada, and 2.3% GDP growth for the United States.*
- *In our 2018 Annual Report, management assumed that the Canadian dollar would be relatively stable compared to 2018 and used an average value of US\$0.77 for 2019. The average value for the quarter ended June 30, 2019, is US\$0.76.*
- *In our 2018 Annual Report, management assumed that in Canada the overnight interest rate target—currently at 1.75%—is expected to rise over time, but not necessarily in 2019. The US Federal Reserve is expected to maintain the current federal funds rate in 2019. Therefore, management has assumed that the average interest rate remains flat in 2019. The average interest rate for our revolving credit facilities and term loan was 4.29% at June 30, 2019, compared to 4.53% at December 31, 2018.*
- *In our 2018 Annual Report, management assumed that the Canadian unemployment rate—5.8% in January 2019—is not expected to change significantly in 2019. In the United States, the unemployment rate—4.0% for January 2019—is near its lowest level in over 10 years and is expected to fall further, to 3.5%, in 2019. The unemployment rate forecast has since been revised to 5.4% in May 2019, for Canada, 3.7% in June 2019, for the United States.*
- *In our 2018 Annual Report, the seasonally adjusted annual rate of total housing starts in the United States was expected to increase to 1,272,000 units in 2019 from the expected 1,262,000 units in 2018. This forecast has since been revised to an expected 1,344,000 units in 2019 compared to an expected 1,317,000 units in 2018.*
- *In our 2018 Annual Report, the US Energy Information Administration, the price of WTI crude oil is expected to average \$54.79/barrel in 2019 compared to an average of \$65.06 in 2018. The expected price of WTI crude oil has since been revised to average \$62.00/barrel in the second half of 2019.*

*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, 2019, and, accordingly, are subject to change after such date. Except as may be required by law, we do not undertake to update any forward-looking statement, whether written or verbal, that may be made from time to time. In the case of the ranges of expected performance for fiscal year 2019, it is our current practice 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.*