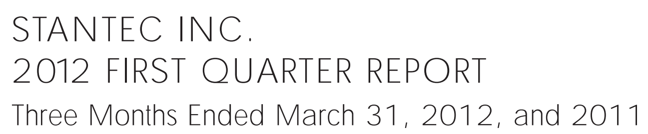

STANTEC INC.
2012 FIRST QUARTER REPORT

Three Months Ended March 31, 2012, and 2011

One Team. Integrated Solutions.

Report to Shareholders

First Quarter 2012

Focus on Shareholder Value

I am pleased to report that our Company began 2012 with solid results, and despite the ongoing challenges of the business environment, we saw our third consecutive quarter of organic growth coupled with good overall results. The following results reflect our commitment to our shareholders

- x Compared to Q1 11, our gross revenue increased 7.4% to C$439.1 million from C$408.7 million.
- x

study being undertaken by the client for an underground copper, nickel, and platinum metals mine in northeastern Minnesota. Relatively high oil prices led to additional projects in the oil and gas sector as our clients are adding capacity for storage and distribution. For example, we were recently awarded and commenced work on several new pipeline projects that include pipeline design engineering, routing analysis, environmental consulting, and permitting. Recent awards further position us in the Eagle Ford Shale, located in Texas, with a 140-mile, 20-inch (225-kilometer, 51-centimeter) pipeline expansion project. In addition, we are providing construction management oversight and regulatory support for other projects in Eagle Ford.

In our Transportation practice area, we continued to secure projects with repeat clients due to our strong relationships and past performance. For example, during the quarter we secured various planning services and work on traffic and revenue forecasting for bridges and tunnels for the Metropolitan Transportation Authority in New York.

In our Urban Land practice area, the housing market in western Canada showed signs of strengthening. For example, we continued our work on Big Lake Neighborhood in Edmonton, Alberta, and in the quarter, we worked on finalizing the engineering design for the first stage of the Hawks Ridge development within this neighborhood. This development incorporates low-impact development techniques, constructed wetlands for stormwater management in an environmentally sensitive natural area, as well as a major wildlife crossing under an arterial roadway.

On a consolidated basis, our outlook for 2012 is a targeted 2.0 to 3.0% increase in organic revenue compared to 2011. Further discussion on the outlooks for each of our practice area units for 2012 can be found in the Gross and Net Revenue subheading of the Results section of this Management Discussion and Analysis.

We remain focused on the disciplined execution of our strategy, which results in Tw [(e)]TJ 0 -2.5 TD -eve38.2[ly319(yCl)-5.94ue foreou

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MANAGEMENT'S DISCUSSION AND ANALYSIS

May 9, 2012

The following table summarizes key financial data for Q1 12 and Q1 11:

Quarter Ended March 31

(In millions of Canadian dollars, except per share amounts and %)

Measure	2012 Expected Range	Actual Q1 12 Results Achieved	
Gross margin as % of net revenue	Between 54.5 and 56.5%	54.4%	x
Administrative and marketing expenses as % of net revenue	Between 41 and 43%	41.5%	3
Net income as % of net revenue	At or above 6%	6.7%	3
Effective income tax rate	At or below 28.5%	27.0%	3
Return on equity (notes 1 and 3)	At or above 14%	2.1%	x
Net debt to EBITDA (notes 2 and 3)	Below 2.5	1.38	3

The above table contains forward-looking statements. See the Caution Regarding Forward-Looking Statements section of this Management's Discussion and Analysis.
note 1: Return on equity is calculated as net income for the last four quarters divided by average shareholders' equity over each of these quarters.
note 2: Net debt to EBITDA is calculated as the sum of (1) long-term debt, including current portion, plus bank indebtedness, less cash and term deposits, divided by (2) EBITDA for the last four quarters, which is calculated as income before income taxes plus net interest expense, amortization of intangible assets, deprecation of property and equipment, and goodwill and intangible impairment.
note 3: Return on Equity and Net debt to EBITDA are non-IFRS measures and are discussed in the Definitions Section of our 2011 Financial Review.
3 Met our target
X Did not meet target

At the end of Q1 12 we met all of our targets with the exception of return on equity and we were slightly below our gross margin range as further explained in the Gross Margin section below. Excluding the impact of the $90 million non-cash goodwill impairment recorded in Q4 11, our return on equity would have been 15.1%.

Balance Sheet

The following highlights the major changes to our assets, liabilities, and equity from December 31, 2011:

(In millions of Canadian dollars)	Mar 31, 2012	Dec 31, 2011	$ Change	% Change
Total current assets	523.8	529.2	(5.4)	(1.0%)
Property and equipment	105.7	107.9	(2.2)	(2.0%)
Goodwill	501.9	509.0	(7.1)	(1.4%)
Intangible assets	77.4	72.0	5.4	7.5%
Other financial assets	61.0	61.6	(0.6)	(1.0%)
All other assets	47.5	47.7	(0.2)	(0.4%)
Total assets	1,317.3	1,32.7( )-6.7(m-1.6669 TD .0316u-55.6(32t)2.3(,)ffset b.)48.o		

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

Property and equipment decreased due to depreciation charged in the quarter, partially offset by additions due to normal operations. Goodwill decreased due to foreign exchange as explained below. Intangible assets increased mainly due to the renewal of an agreement for AutoCAD software in the quarter. This increase was partially offset by amortization.
In total, long-term debt decreased $15.8 million mainly due to the payment of $26.6 million of notes payable for prior acquisitions, and $2.8 million for finance lease obligations. These payments were partially offset by a $13.5 million

increase in our revolving credit facility outstanding balance. Total provisions decreased $2.3 million in the quarter, mainly due to a decrease in our provisions for claims and lease exit and onerous contract liabilities.

Overall, the carrying amount of the assets and liabilities of our US subsidiaries on our consolidated balance sheets decreased due to the strengthening of the Canadian dollar from US$0.98 at December 31, 2011, to US$1.00 at March 31, 2012.

Our shareholders' equity increased mainly due to $24.9 milli

Gross and Net Revenue

The following discussion includes forward-looking statements. For an outline of the material risks and assumptions associated with these statements, refer to the Caution Regarding Forward-Looking Statements at the end of this report.

In the course of providing professional services, we incur certain direct costs for subconsultants, equipment, and other expenditures that are recoverable directly from our clients. The revenue associated with these direct costs is included in our gross revenue. Since such direct costs and their associated revenue can vary significantly from contract to contract, changes in our 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 our results in relation to net revenue rather than gross revenue.

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

All our practice area units generate a portion of their gross revenue in the United States. The value of the Canadian dollar averaged US$1.00 in Q1 12 compared to US$1.02 in Q1 11, representing a 2.0% decrease. This weakening of the Canadian dollar had a positive effect on the revenue reported in Q1 12 compared to Q1 11.

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

The increase in acquisition gross and net revenue in Q1 12 compared to the same quarter last year was due to the revenue earned in Q1 12 attributed to the acquisitions listed in the Revenue by Region and Revenue by Practice Area Unit sections below. The increase in organic gross revenue in Q1 12 compared to Q1 11 was experienced in our Industrial and Urban Land practice area units as described below. The increase in organic net revenue in Q1 12 compared to Q1 11 was experienced in our Environment, Industrial, and Urban Land practice area units.

The following table summarizes the growth in gross revenue by region:

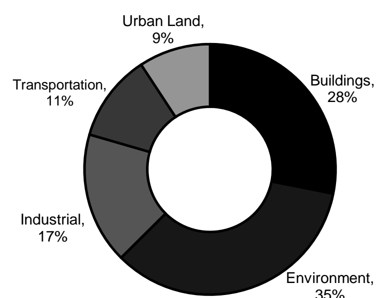
Total gross revenue was positively impacted by the acquisitions completed in 2011, organic growth, and by the weakening of the Canadian dollar in Q1 12 compared to Q1 11.

The following lists the acquisitions completed in 2011 that impacted specific regions, year to date:

- Canada: QuadraTec, Inc. (QuadraTec) (February 2011); the Caltech Group (Caltech) (May 2011); and FSC Architects and Engineers (FSC) (October 2011)
- United States: Bonestroo, Inc. and Bonestroo Services, LLC (Bonestroo) (September 2011); and ENTRAN, Inc. (ENTRAN) (October 2011)

Canada. Gross revenue in our Canadian operations increased by 8.3% in Q1 12 compared to Q1 11 due to acquisition

International. Gross revenue in our International operations grew by 9.7% in Q1 12 compared to Q1 11 due to organic growth mainly in the mining sector. We believe we will experience stable to moderate growth internationally in 2012 compared to 2011 as described in the Outlook section of our 2011 Financial Review.



The following table summarizes gross revenue by practice area unit:

Practice Area Unit Gross Revenue (In millions of Canadian dollars, except %)	Quarter Ended March 31, 2012	% of Consulting Services Gross Revenue	Quarter Ended March 31, 2011	% of Consulting Services Gross Revenue	% Change in Gross Revenue 2012 vs. 2011
Buildings	110.0	25.0%	111.9	27.4%	(1.7%)
Environment	142.4	32.4%	142.1	34.8%	0.2%
Industrial	89.1	20.3%	70.0	17.1%	27.3%
Transportation	49.9	11.4%	46.5	11.4%	7.3%
Urban Land	47.7	10.9%	38.2	9.3%	24.9%
Total	439.1	100.0%	408.7	100.0%	7.4%

Note: Comparative figures have been restated due to a realignment of several practice components between our Buildings, Industrial, Transportation, and Urban Land practice area units.

As indicated above, our gross revenue was impacted by acquisitions, organic growth, and the effect of foreign exchange rates on revenue earned by our foreign subsidiaries. The impact of these factors on gross revenue earned by practice area unit is summarized as follows:

Practice Area Unit Gross Revyhi4 on contractors, can be

The following lists the acquisitions completed in 2011 that impacted specific practice area units year to date:

- x Buildings : QuadraTec (February 2011); and FSC (October 2011)
- x Environment : Bonestroo (September 2011)
- x Industrial : Caltech (May 2011)
- x Transportation : ENTRAN (October 2011)
- x Urban Land : Bonestroo (September 2011)

Buildings. The 5.5% organic revenue retraction in Q1 12 compared to Q1 11 was due to the softening of the buildings market. However, we continued to secure steady work in Canada and India. Organic revenue was also impacted by revisions made to our estimated cost to complete on certain large projects.

The buildings industry in general has experienced increased competition and continued pressure in funding for private and public sector clients. Management is monitoring the reduction in organic revenue growth and backlog levels, and adjusting staff levels accordingly. We continue to secure projects in our key market sectors, which are healthcare, education, commercial/retail, and aviation despite the continued softening of the market in 2012. For example, as part of a team we secured the architecture and interior design work for the University of Wisconsin Hospitals and Clinics Authority East Side Campus Development in Madison, Wisconsin. This is a new satellite healthcare campus consisting of a 100-bed community hospital and their Orthopedic Center of Excellence. We also secured a multidisciplinary project for a new 102-bed seniors care facility on a site adjacent to the Powell River General Hospital in Powell River, British Columbia. This facility will be designed to LEED® Gold standards.

We believe that the outlook for our Buildings practice area unit is stable organic revenue for 2012. Our Buildings practice is ranked amongst the top building design practices in the industry and is well positioned to secure significant project opportunities in 2012, despite the overall uncertainty of the North American and global economy. Our combination of global expertise and local strength is in demand by major clients in our key market sectors. Our expanded geographic presence will enable us to continue to pursue a broad range of North American and international opportunities.

Environment. The 1.4% organic gross revenue retraction in Q1 12 compared to Q1 11 was due to a reduction in pass-through subconsultant costs. Notwithstanding the retraction in gross revenue, we achieved solid net revenue organic growth. Certain water and environmental services projects in 2011 used subconsultants that were not required in 2012 due to the timing and mix of projects. The use of subconsultants, such as remediation contractors, can be quite variable year over year which may have a material impact on gross to net revenue.

other industrial sectors. We expect that

economy, we expect certain locations

the end of Q1 12, we expect our amortization expense for intangible assets for the full year 2012 to be in the range of $10 to $11 million. The actual expense may be impacted by any new acquisitions completed after Q1 12.

Net Interest Expense

Net interest expense incurred in Q1 12 is consistent with Q1 11. While our long-term debt balance throughout Q1 12 was lower than the level outstanding in Q1 11, the mix of the debt and the interest rates applicable to the different types of debt resulted in the same level of interest expense being incurred. In Q1 11, our long-term debt balance consisted of our credit facility with an average interest rate of 3.33%, while at Q1 12, our long-term debt balance was a mixture of our credit facility and senior secured notes with an average interest rate of approximately 3.6%. The nature of our revolving credit facility and senior secured notes is further described in the Liquidity and Capital Resource section below.

Based on our credit facility balance at March 31, 2012, we estimate that a 0.5% increase or decrease in interest rates, with all other variables held constant, would have an immaterial impact on our net income and basic earnings per share for the quarter.

We have the flexibility to partially mitigate our exposure to interest rate changes by maintaining a mix of both fixed and floating rate debt. Our senior secured notes have fixed interest rates; therefore, interest rate fluctuations would have no impact on the senior secured notes interest payments.

Foreign Exchange Gains (Losses)

During Q1 12, we recorded a $0.3 million foreign exchange gain compared to a $0.6 million gain in Q1 11. These foreign

MANAGEMENT’S DISCUSSION AND ANALYSIS

During Q3 11, excluding the impact of a $5.9 million after-tax gain on sale of equity investments in Q3 10, net income increased $3.5 million, or 13.8%, and diluted earnings per share increased $0.08, or 14.5% compared to Q3 10. Including the impact of the gain on sale of equity investments, our net income decreased 7.7% to $28.9 million from $31.3 million, and diluted earnings per share decreased 7.4% to $0.63 from $0.68. Net income during Q3 11 was positively impacted by the increase in gross and net revenue, and by a decrease in our administrative and marketing expenses as a percentage of net revenue from 41.3% in Q3 10 to 40.0% in Q3 11. Net income in Q3 11 was negatively impacted by a reduction of gross margin as a percentage of net revenue from 56.2% in Q3 10 to 55.5% in Q3 11. This decrease in gross margin mainly occurred in our Buildings practice area unit because of increased competition, the continued softening of the market, and revisions made to our estimated cost to complete on certain large projects.

During Q4 11, excluding the impact of a $90.0 million non-cash goodwill impairment charge, net income increased by $1.0 million, or 4.3%, from the same period in 2010, and diluted earnings per share for Q4 11 increased by $0.02, or 3.9%, compared to Q4 10. Including the impact of the $90.0 million goodwill impairment charge, net income for Q4 11 decreased by $89.0 million from the same period in 2010, and diluted earnings per share for Q4 11 decreased by $1.96 compared to Q4 10. Net income during Q4 11 was positively impacted by the increase in gross revenue and a reduction in administrative and marketing labor as a percentage of net revenue from 43.0% in Q4 10 to 41.5% in Q4 11. Staff time charged to marketing and administrative labor may fluctuate from quarter to quarter because it is influenced by the mix of projects in progress and being pursued during the period, as well as by acquisition integration activities. In Q4 10, we were in the process of integrating the eight acquisitions completed during the second half of 2010 compared to three in the second half of 2011. Apart from the goodwill impairment charge, net income was also negatively impacted by a reduction in gross margin as a percentage of net revenue. Our gross margin percentage was 55.1% in Q4 11 compared to 56.7% in Q4 10. This decrease quarter over quarter was mainly due to a decrease in the gross margins for our Industrial and Buildings practice area units, resulting from the mix of projects during the quarter, increased competition, and a softening of the buildings market in the United States, United Kingdom, and United Arab Emirates.

LIQUIDITY AND CAPITAL RESOURCES

We are able to meet our liquidity needs through a variety of sources, including cash generated from operations, long- and short-term borrowings from our $350 million credit facility, senior secured notes, and the issuance of common shares. Our primary use of funds is for paying operational expenses, completing acquisitions, sustaining capital spending on property and equipment, and repaying long-term debt.

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, as described in the Management's Discussion and Analysis in our 2011 Financial Review, reduces the impact of changing market conditions on our operating cash flows. Consequently, we do not anticipate any immediate need to access additional equity capital through the sale of our equity. However, under certain favorable market conditions, we would consider issuing common shares to facilitate acquisition growth or to reduce the utilized level on our credit facility.

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

Working Capital

The following table represents summarized working capital information as at March 31, 2012, compared to December 31, 2011:

(In millions of Canadian dollars, except ratios)	Mar 31, 2012	Dec 31, 2011	Change
Current assets	523.8	529.2	(5.4)
Current liabilities	(293.1)	(327.5)	34.4
Working capital (note 1)	230.7	201.7	29.0
Current ratio (note 1)	1.79	1.62	0.17

note 1: Working capital is calculated by subtracting current liabilities from current assets. Current ratio is calculated by dividing current assets by current liabilities. Both terms are further discussed in the Definitions Section of our 2011 Financial Review.

Current assets decreased mainly due to a $21.8 million decrease in cash and short–term deposits due to cash being held at December 31, 2011, for the payment of notes from acquisitions that were paid in early January 2012. As well, income taxes recoverable decreased $3.2 million from December 31, 2011, and other financial assets decreased $2.1 million due to a reduction in indemnifications for claims from past acquisitions and the disposition of investments. These decreases were partially offset by a $23.6 million increase in trade and other receivables and unbilled revenue due to a delay in billing as we completed a major upgrade to our enterprise management system in the quarter. Our investment in trade and other receivables and unbilled revenue increased to 96 days at March 31, 2012, compared to 92 days at December 31, 2011.

Cash Flows Used in Investing Activities

Our cash flows used in investing activities decreased mainly due to a reduction in cash used for business acquisitions and the payment of notes payable from prior acquisitions. In Q1 12 we used $25.6 million for the payment of notes payable due from prior acquisitions, compared to using $31.7 million in Q1 11. Also contributing to the decrease in cash flows used in investing activities was a $2.3 million increase in cash inflows from the disposition of investments compared to the use of $1.7 million for the purchase of investments in Q1 11. These reductions in the use of cash were partly offset by a $6.3 million increase in the purchase of intangible assets, in particular, the purchase of AutoCAD software in the quarter.

As a professional services organization, we are not capital intensive. In the past, we have made capital expenditures primarily for items such as leasehold improvements, computer equipment, furniture, and other office and field equipment. Our property and equipment and software purchases totaled $14.0 million in Q1 12 compared to $7.4 million in Q1 11. One factor contributing to the higher spending was the renewal of our AutoCAD agreement in the quarter. Our Q1 12 purchases were within our expected range for 2012 to support ongoing operational activity and growth. In 2012, we plan to continue to invest in enhancements to our information technology infrastructure and enterprise systems in order to optimize and streamline our business processes and prepare for continued growth. During Q1 12, we financed our property and equipment and software purchases through cash flows from operations.

Cash Flows From Financing Activities

Our cash flows from financing activities increased mainly due to a $2.9 million net increase in cash flow from our revolving credit facility compared to the same period last year. These proceeds are partly used to pay employee bonuses, trade and other payables, income taxes, and notes payable. Our cash flows from financing activities also increased due to a $2.8 million increase in cash from share options exercised in the quarter. In Q1 12 no shares were repurchased for cancellation under our normal course issuer bid compared to $1.8 million spent on repurchases in the same period last year.

Capital Structure

We manage our capital structure according to the internal guideline established in our 2011 Financial Review of maintaining a net debt to EBITDA ratio of below 2.5. We calculate our net debt to EBITDA ratio, a non-IFRS measure, as the sum of (1) long-term debt, including current portion, plus bank indebtedness, less cash and short-term deposits, divided by (2) EBITDA, which is calculated as income before income taxes plus net interest expense, amortization of intangible assets, depreciation of property and equipment, and goodwill and intangible impairment. At March 31, 2012, our net debt to EBITDA ratio was 1.38 calculated on a trailing four quarter basis. Going forward, there may be occasions when we exceed our target by completing opportune acquisitions that increase our debt level above the target for a period of time.

Our credit facility is available for acquisitions, working capital needs, and general corporate purposes. Depending on the form under which the credit facility is accessed and certain financial covenant calculations, rates of interest may vary between Canadian prime, US base rate, or LIBOR or bankers' acceptance rates, plus specified basis points. The specified basis points may vary, depending on our level of consolidated debt to EBITDA, from 50 to 175 for Canadian prime and US base rate loans, and from 150 to 275 for bankers' acceptances, LIBOR loans, and letters of credit. During the third quarter of 2011 we renegotiated our interest rates. Prior to Q3 2011, the basis points varied, depending on our level of consolidated debt to EBITDA, from 100 to 225 for Canadian prime and US base rate loans, and from 200 to 325 for bankers' acceptances, LIBOR loans, and letters of credit. At March 31, 2012, $240.7 million was available in the revolving credit facility for future activities.

On May 13, 2011, we issued $70 million of 4.332% senior secured notes due May 10, 2016, and $55 million of 4.757% senior secured notes due May 10, 2018. These amounts were recorded net of transaction costs of $1.1 million. The senior secured notes were issued pursuant to an indenture dated May 13, 2011, between Stantec Inc., as issuer, and BNY Trust Company of Canada, as trustee. The senior secured notes are ranked equally with our existing revolving credit facility. Interest on the senior secured notes is payable semi-annually in arrears on May 10 and November 10 each year, until

secured notes, in whole at any time or in part from time to time, at specified redemption prices and subject to certain conditions required by the indenture. The senior secured notes contain restrictive covenants. All of our assets are held as collateral under a general security agreement for the revolving credit facility and the senior secured notes.

We are subject to financial and operating covenants related to our credit facility and senior secured notes. Failure to meet the terms of one or more of these covenants may constitute a default, potentially resulting in accelerated repayment of our debt obligation. In particular, at each quarter-end, we must satisfy the following at any time: 1) our consolidated EBITDAR to debt service ratio must not be less than 1.25 to 1.0 for the revolving credit facility and senior secured notes and 2) our consolidated debt to EBITDA ratio must not exceed 2.5 to 1.0 for the revolving credit facility, and 2.75 to 1.0 for the senior secured notes, except in the case of a material acquisition, when our consolidated debt to EBITDA ratio must not exceed 3.0 to 1.0 for the revolving credit facility, and 3.25 to 1.0 for the senior secured notes, for a period of two complete quarters following the acquisition. These EBITDA and EBITDAR to debt service ratios are defined in the Definitions Section of our 2011 Financial Review. We were in compliance with all these covenants as at and throughout the period ended March 31, 2012.

In 2011, we amended our $350 million revolving credit facility to add a bid bond facility in the amount of $10 million. This facility also allows us to access an additional $5 million under the same terms and conditions upon approval from our lenders. This facility may be used for the issuance of bid bonds, performance guarantees, letters of credit, and documentary credits in international currencies. At March 31, 2012, $1.1 million had been issued under this bid bond facility.

Shareholders’ Equity

Share options exercised during the first quarter of 2012 generated $3.2 million in cash compared to $0.5 million in cash generated during the same period in 2011. No shares were repurchased in Q1 12, compared to 65,000 shares for $1.8 million repurchased in Q1 11. During the quarter, we issued options to purchase 375,500 shares to officers and employees as part of our long-term compensation plan for our key staff and 28,126 restricted share units to our senior vice presidents as part of their 2011 annual bonus in accordance with our senior compensation strategy.

OTHER

Outstanding Share Data

As at March 31, 2012, there were 45,717,418 common shares and 1,757,467 share options outstanding. During the period of March 31, 2012 to May 9, 2012, no shares were repurchased under our normal course issuer bid, 14,333 share options were exercised, 4,167 share options were forfeited, and no share options were cancelled. As at May 9, 2012, there were 45,731,751 common shares and 1,738,967 share options 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 as at March 31, 2012, on a discounted basis:

For further information regarding the nature and repayment terms of our long-term debt and finance lease obligations, refer to the Cash Flows From (Used in) Financing Activities section of this report and notes 10 and 16 in our unaudited consolidated financial statements for the quarter ended March 31, 2012. Our operating lease commitments include obligations under office space rental agreements, and our purchase and service obligations include agreements to purchase future goods and services that are enforceable and legally binding. Our other obligations include amounts payable under our deferred share unit and restricted share unit plans and a commitment to purchase the non-controlling interests of The National Testing Laboratories Limited over a period ending in 2014. 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.

Off-Balance Sheet Arrangements

As of March 31, 2012, we had off-balance sheet financial arrangements relating to letters of credit in the amount of $6.3 million that expire at various dates before January 2013. These letters of credit were issued in the normal course of operations, including the guarantee of certain office rental obligations. We also provide indemnifications and, in limited circumstances, surety bonds. 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. Our surety facility facilitates, as part of the normal course of operations, the issuance of bonds for certain types of project work. As at March 31, 2012, $11.4 million in bonds (US$11.4 million) was issued under this surety facility. At March 31, 2012, $1.1 million was issued under our bid bond facility, which allows us to issue bid bonds, performance guarantees, letters of credit, and documentary credits in international currencies.

During 2009, we issued a guarantee, up to a maximum of US$60 million, for project work with the US federal government. If this guarantee is exercised, we have recourse to our insurers, subject to certain deductibles, policy terms, and limits, to recover claims costs and damages arising from errors or omissions in our professional services. At March 31, 2012, $155,000 of this guarantee had been exercised, but we have not made any payments under this guarantee, and no amounts have been accrued in our consolidated financial statements with respect to the guarantee.

Financial Instruments and Market Risk

The nature and extent of our use of financial instruments, as well as the risks associated with these instruments, have not changed from those described in the Financial Instruments and Market Risk section of our 2011 Financial Review and are incorporated by reference herein.

Related-Party Transactions

We have subsidiaries that are 100% owned and special purpose entities that are consolidated in our financial statements. From time to time, we enter into trans

Company and include its chief executive officer (CEO), chief financial officer (CFO), chief operating officer (COO), and senior vice presidents. 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 special purpose entity regarding lease agreements. In addition, from time to time, we guarantee a subsidiary or special purpose entity's obligations to a third party pursuant to an acquisition agreement. Transactions with subsidiaries, special purpose entities, associated companies, joint ventures, and key management personnel are further described in note 20 of our Q1 12 unaudited consolidated financial statements and are incorporated by reference herein.

OUTLOOK

We continue to believe that our overall outlook for 2012 is a moderate increase in organic revenue, with a targeted 2.0 to 3.0% increase compared to 2011. The outlook for each practice area unit in 2012 ranges from stable for our Buildings practice area unit, to stable to moderate organic growth for our Environment, Transportation, and Urban Land practice area units, to moderate organic growth for our Industrial practice area unit. Further discussion on the outlooks for each of our practice area units for 2012 can be found in the Gross and Net Revenue subheading of the Results section of this Management's Discussion and Analysis.

We operate in a highly diverse infrastructure and facilities market in North America and internationally consisting of many technical disciplines, practice areas, client types, and industries in both the private and public sectors, which 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. In the first quarter of 2012, we saw no significant changes in our industry environment or market opportunities. Our business model continues to focus on mitigating risk by diversifying our operations across geographic locations, practice area units, and all phases of the infrastructure and facilities project life cycle. In addition, our overall expectations remain consistent with those generally described in the Outlook section of the Management's Discussion and Analysis included in our 2011 Financial Review.

The above outlook is based, in part, on an update of the underlying assumptions found in the Outlook section of the Management's Discussion and Analysis included in our 2011 Financial Review. 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 our financial statements in accordance with IFRS requires us to make various estimates and assumptions. However, future events may result in significant differences between estimates and actual results. There has been no significant change in our critical accounting estimates in Q1 12 from those described in our 2011 Financial Review under the heading Critical Accounting Estimates, Developments, and Measures and in note 5 of our December 31, 2011 audited consolidated financial statements and incorporated by reference herein.

Definition of Additional IFRS Measures and Non-IFRS Measures

IFRS mandates certain minimum line items for financial statements and requires presentation of additional line items, headings, and subtotals when such presentation is relevant to an understanding of a company's financial position and performance. This Management's Discussion and Analysis includes additional IFRS measures, namely, gross revenue, net revenue, and gross margin. This Management's Discussion and Analysis also 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, namely, working capital, current ratio, net debt to equity ratio, return on equity ratio, EBITDA, EBITDAR, debt to EBITDA ratio, net debt to EBITDA ratio, EBITDAR to debt service ratio, and backlog. These non-IFRS measures may not be comparable to similar measures presented by other companies. For the first quarter ended March 31, 2012, there has been no significant change in our description of additional IFRS measures and non-IFRS measures from that included in

our 2011 Financial Review under the heading Critical Accounting Estimates, Developments, and Measures (referred to herein as the "Definitions Section") and incorporated by reference herein. Readers are encouraged to refer to this discussion in our 2011 Financial Review for additional information.

Recent Accounting Pronouncements

Standards, amendments, and interpretations which 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 Q1 12 unaudited consolidated financial statements which is incorporated by reference herein.

CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures. Our CEO and CFO evaluated our disclosure controls and procedures (as defined in the U.S. 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 during the last fiscal quarter covered by this quarterly report that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

RISK FACTORS

For the quarter ended March 31, 2012, there has been no significant change in our risk factors from those described in our 2011 Financial Review and are incorporated by reference herein. This includes our exposure to market factors that can affect our performance with respect to currency and interest rates.

SUBSEQUENT EVENT

On May 9, 2012, the Company declared a dividend of $0.15 per share, payable on July 19, 2012, to shareholders of record on June 29, 2012.

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SHAREHOLDER INFORMATION

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