Community

Report to Shareholders

Second Quarter 2014

As we move into the second half of the year, Stantec's performance continues to meet expectations and deliver solid results. For this, we recognize our hardworking employees who continue to provide creative solutions that build strong, local communities.

- Our gross revenue increased 11.8% to $633.8 million in Q2 14 from $566.7 million in Q2 13
- Our net income increased 22.4% to $44.3 million in Q2 14 from $36.2 million in Q2 13
- Our diluted earnings per share increased 20.5% to $0.94 in Q2 14 from $0.78 in Q2 13
- We continued to execute our disciplined acquisition strategy by closing the acquisition of four firms in Q2 14

The Company's positive performance in the quarter and year to date is a result of sustained activity throughout the organization and organic growth in our Energy & Resources and Infrastructure business operating units. For the first half of the year, our gross revenue grew organically by 4.7%.

Subsequent to the quarter end, we declared a dividend of $0.185 per share, payable on October 16, 2014, to shareholders of record on September 26, 2014.

Our Company closed four acquisitions in Q2 14, successfully executing on our consistent, disciplined acquisition strategy with the addition of JBR Environmental Consultants, Inc.; Group Affiliates Inc. (SHW); Wiley Engineering, Inc.; and USKH Inc.. addi 0 T1 Tw 6.22928dw 6.229 0 ((16)Tj 0.006 Tc -0.003 Tw 0.253 0 Tdov9(09(be)4.2(r)

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August 6, 2014

This discussion and analysis of Stantec Inc.'s (Stantec or the Company) operations, financial position, and cash flows for the quarter ended June 30, 2014, dated August 6, 2014, should be read in conjunction with the Company's unaudited interim condensed consolidated financial statements and related notes for the quarter ended June 30, 2014; the Management's Discussion and Analysis and audited consolidated financial statements and related notes included in our 2013 Annual Report; and the Report to Shareholders contained in our 2014 Second Quarter Report. Our unaudited interim consolidated financial statements and related notes for the quarter ended June 30, 2014, are prepared in accordance with International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB). We continue to use the same accounting policies and methods as those used in 2013.

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 www.sedar.com and on EDGAR at www.sec.gov. Such additional information is not incorporated by reference herein, unless otherwise specified, and should not be deemed to be made part of this Management's Discussion and Analysis.

Core Business and Strategy

Our Company provides professional consulting services—in planning, engineering, architecture, interior design, landscape architecture, surveying, environmental sciences, project management, and project economics—for infrastructure and facilities projects. By integrating our expertise in these areas across North American and international locations, we are able to provide our clients with a vast number of project solutions. We believe this integrated approach enables us to execute our operating philosophy by maintaining a world-class level of expertise, which we supply to our clients through the strength of our local offices. Through multidiscipline service delivery, we also support clients throughout the project life cycle—from the initial conceptual planning to project completion and beyond.

Our business objective is to be a top 10 global design firm, and our focus is to provide professional services in the infrastructure and facilities market, principally on a fee-for-service basis, while participating in various models of alternative project delivery. To realize our business objective, we plan on achieving a compound average growth rate of 15% through a combination of organic and acquisition growth, while also providing dividend returns for our shareholders. Our core business and strategy and the key performance drivers and capabilities required to meet our business objective have not changed in the second quarter of 2014 from those described on pages M-3 to M-14 of our 2013 Annual Report and are incorporated here by reference.

Results

Highlights for Q2 14

We achieved solid results for the second quarter of 2014. Compared to the second quarter of 2013, our gross revenue increased by 11.8%, from $566.7 to $633.8 million; EBITDA increased 18.1%, from $66.2 to $78.2 million; net income increased by 22.4%, from $36.2 to $44.3 million; and diluted earnings per share increased 20.5%, from $0.78 to $0.94.

Our results were positively impacted by an increase in revenue because of acquisitions completed in 2013 and 2014 and by strong organic growth in our Energy & Resources and Infrastructure business operating units. Strong growth occurred in our Water sector and in our Community Development sector, which benefited from the active energy sector. Overall activity in our Oil & Gas sector, particularly in the midstream industry, remained strong, although at a reduced pace of growth compared to Q1 14 due to the winding down of certain terminal projects. Organic growth occurred in our Canadian and International operations when comparing gross revenue in Q2 14 to Q2 13. The slight retraction in the United States was mostly due to a softened buildings sector, and harsh weather conditions in Q1 14 caused a slower-than-expected ramp-up on projects. Our results were also positively impacted by an increase in gross margin—from 54.2% in Q2 13 to 54.7% in Q2 14—and a reduction in our administrative and marketing expenses as a percentage of net revenue—from 40.0% in Q2 13 to 39.9% in Q2 14. Our bottom line was also positively impacted by a decrease in net interest expense and amortization of intangible assets.

The following table summarizes key financial data for Q2 14 and Q2 13 and for the first two quarters of 2013 and 2014:

	Quarter Ended June 30				Two Quarters Ended June 30			
(In millions of Canadian dollars, except per share amounts and %)	2014	2013	$ Change	% Change	2014	2013	$ Change	% Change
Gross revenue (note 1)	633.8	566.7	67.1	11.8%	1,207.7	1,079.9	127.8	11.8%
Net revenue (note 1)	530.2	469.4	60.8	13.0%	1,011.5	896.3	115.2	12.9%
EBITDA (note 2)	78.2	66.2	12.0	18.1%	140.2	121.0	19.2	15.9%
Net income	44.3	36.2	8.1	22.4%	77.8	64.6	13.2	20.4%
Earnings per share – basic	0.95	0.78	0.17	21.8%	1.67	1.40	0.27	19.3%
Earnings per share – diluted	0.94	0.78	0.16	20.5%	1.65	1.39	0.26	18.7%
Cash dividends declared per common share	0.185	0.165	0.02	12.1%	0.37	0.33	0.04	12.1%

Cash flows

Our contract backlog grew from $1.6 billion at March 31, 2014, to $1.8 billion at June 30, 2014. A significant majority of this increase resulted from recent projects and acquisitions completed year to date. We define backlog as the total value of secured work that has not yet been completed when we have an executed contract and a notice to proceed on the contract. Only approximately the first 12 to 18 months of the total value of secured work of a project is included in work backlog.

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

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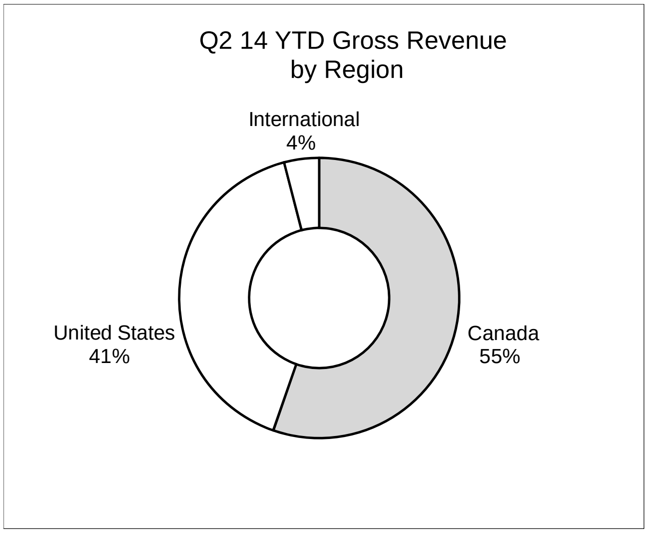
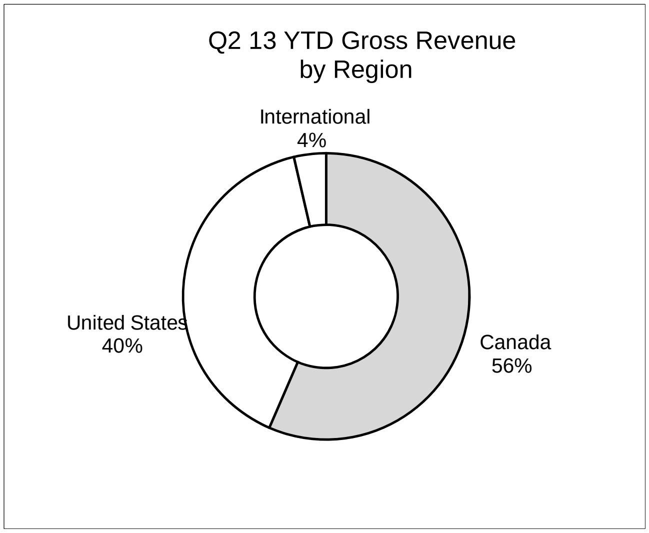
Gross Revenue

The increase in acquisition gross and net revenue in Q2 14 compared to Q2 13 resulted from revenue earned in Q2 14 that was attributed to the acquisitions listed in the Gross Revenue by Region and Gross Revenue by Business Operating Unit sections that follow. We experienced increases in organic gross revenue in Q2 14 compared to Q2 13 in our Canadian and International regions and in our Energy & Resources and Infrastructure business operating units, as described in these sections.

Gross Revenue by Region

The following charts and table summarize gross revenue and gross revenue growth in our three regions—Canada, United States, and International:





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Total gross revenue was positively impacted by the acquisitions completed in 2013 and 2014, by organic growth, and by the weakening of the Canadian dollar in Q2 14 compared to Q2 13.

Following are the acquisitions completed in 2013 and 2014 that impacted specific regions year to date:

- Canada: Ashley-Pryce Interior Designers Inc. (AP/ID) (May 2013); JDA Architects Limited (JDA) (November

International

Gross revenue in our International operations increased by 24.0% in Q2 14 compared to Q2 13 and by 24.3% year to date in 2014 compared to 2013. This

Gross Revenue by Business Operating Unit

(In millions of Canadian dollars)	Total Change	Change Due to Acquisitions	Change Due to Organic Growth	Change Due to Foreign Exchange
Buildings	3.7	7.2	(6.2)	2.7
Energy & Resources	40.0	23.2		

The following lists the acquisitions completed in 2013 and 2014 that impacted specific business operating units year to date:

- Buildings: AP/ID (May 2013); IBE (May 2013); JDA (November 2013); SHW (May 2014); and USKH (June 2014)
- Energy & Resources: CGL (November 2013); WEG (January 2014); ProU (March 2014); JBR (May 2014); and Wiley (June 2014)
- Infrastructure: Roth Hill (June 2013) and USKH (June 2014)

Buildings

The Buildings business operating unit had a 5.1% organic gross revenue retraction in Q2 14 compared to Q2 13 and a 4.8% retraction year to date. The year-to-date organic retraction was partly offset by a 2.7% increase attributed to foreign exchange since the US dollar strengthened compared to the Canadian dollar. We had organic revenue growth internationally. The organic gross revenue retraction occurred in Canada and the United States year to date, although Canada showed slight positive growth in the second quarter. The retraction year to date resulted from the soft buildings market, intense competition, and reduced availability of funding for public sector projects. The Buildings business operating unit continues to align staffing levels with workload.

The majority of revenue for our Buildings business operating unit is generated from our key sectors of Healthcare, Commercial, and Industrial Buildings. We are seeing increased opportunities in the education sector across Canada, especially in the areas of science, technology, engineering, and mathematics facilities. For example, we recently secured work as the prime consultant on a new science and academic building to enhance research, learning, community engagement, and outreach for the University of Lethbridge, Alberta. In association with KPMB Architects, we are

MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2014

Q3 13 vs. Q3 12 During Q3 13, net income increased by $11.8 million, or 34.6%, from the same period in 2012, and diluted earnings per share for Q3 13 increased by $0.23, or 34.4%, compared to Q3 12. Net income for Q3 13 was positively impacted by an increase in revenue because of ac

Cash Flows from (Used in) Financing Activities

Year to date, we had cash inflows from financing compared to cash outflows in 2013. We also had a net $88.1 million

During the quarter, we reached an agreement to extend the maturity of our bid bond facility to August 31, 2018, from August 31, 2017, and increased the limit from $10 million to $15 million. This facility allows us to access an additional

As of June 30, 2014, we had off-balance sheet financial arrangements relating to letters of credit in the amount of $3.2 million that expire at various dates before June 2015. 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 very limited circumstances, surety bonds. These are often standard contract terms and are provided to counterparties in transactions such as purchase and sale contracts for assets or shares, service agreements, and leasing. As part of the normal course of operations, our surety facility allows the issuance of bonds for certain types of project work. At June 30, 2014, $6.3 million in bonds was issued under this surety facility that expires at various dates before April 2020. At June 30, 2014, $6.6 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—and will expire at various dates before January 2016.

Buildings

We believe our Buildings business operating unit will recover the second half of 2014 and remain stable in 2014 compared to 2013 based on our expectations described in our 2013 Annual Report and incorporated here by reference. In particular, the buildings industry remains cautious, and while we expect to recover from the levels of previous years, we believe that a full recovery may not take place in 2014.

Energy & Resources

We believe our Energy & Resources business operating unit will achieve strong organic gross revenue growth in 2014. We revised the outlook included in our 2013 Annual Report due to greater-than-expected activity in our Oil & Gas sector. Activity in the midstream oil and gas market in Canada is expected to continue for the balance of the year, boding well for our midstream pipelines and facilities business, but we expect a slowdown in our midstream terminal work. In view of activities year to date, we believe mining companies will continue to slow construction on major projects and scale back exploration due to the softening of the market until late in 2014, when reduced inventory may create new demand. We see a general slowdown in the power industry, which may affect private and public sector clients. All other expectations for our Energy & Resources business operating unit remain unchanged as described in our 2013 Annual Report and incorporated here by reference.

Infrastructure

We believe our Infrastructure business operating unit will achieve moderate organic gross revenue growth in 2014 based on our expectations described in our 2013 Annual Report and incorporated here by reference. In particular, we expect that a gradual continuation of long-term tre

Controls and Procedures

Evaluation of Disclosure Controls and Procedures. Our CEO and CFO evaluated our disclosure controls and procedures (as 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 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 first two quarters ended June 30, 2014, there has been no significant change in our risk factors from those described in our 2013 Annual Report, and the risk factors are incorporated here by reference.

Subsequent Events

On August 6, 2014, the Company declared a dividend of $0.185 per share, payable on October 16, 2014, to shareholders of record on September 26, 2014.

Subsequent to the quarter end, we entered into an agreement for a premise operating lease for our head office that is contingent on the construction of a new building; the lease may, depending on the lessor meeting certain conditions, commence on June 1, 2018.

Caution Regarding Forward-Looking Statements

The outlook for our Energy & Resources business operating unit changed during the first quarter of 2014 from that described in the Outlook section of our 2013 Annual Report. The growth outlooks for our business operating units are stable for Buildings, strong for Energy & Resources, and moderate for Infrastructure.

The assumptions and expectations used to establish these outlooks are discussed in the Outlook paragraphs for each business operating unit for 2014 and in the Gross and Net Revenue subheading of the Results section in this Management's Discussion and Analysis, as well as in the Outlook section of our 2013 Annual Report, which is incorporated here by reference.

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 herein represent our expectations as of and the pub

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Shareholder Information

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Transfer Agent

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Calgary, Alberta

Auditors

Ernst & Young LLP
Chartered Accountants
Edmonton, Alberta

Principal Bank

Canadian Imperial Bank of Commerce

Securities Exchange Listing

Stantec shares are listed on the Toronto Stock Exchange and New York Stock Exchange under the symbol STN.