Stantec

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2017 FIRST QUARTER REPORT

Three Months Ended March 31, 2017, and 2016

Table of Contents

We achieved good operating results this quarter, with a 69.0% increase in gross revenue and a 35.0% increase in earnings before interest, tax, depreciation, and amortization (EBITDA)

Organic gross revenue for our Infrastructure business operating unit grew 2.3% over the first quarter of 2016 thanks to strong organic growth in the US transportation sector and stability in our Canadian transportation operations. Our Water business operating unit saw 2.2% organic revenue growth in Q1 17 compared to Q1 16; that growth was achieved in both Canada and the United States. Our Environmental Services business operating unit had stable organic revenue in Q1 17 compared to Q1 16.

Our Buildings business operating unit saw organic revenue retract 6.8% this quarter compared to the first quarter of 2016, which was a very robust quarter for Buildings. We had strong organic growth in Buildings in the United States, but that was offset by retraction in our Canadian and Global operations, mostly due to continued weakness in the oil and gas sector that affected private and public spending in the Middle East and Canada. The retraction in Buildings was also partly due to a number of large public-private partnership projects that have been awarded but will not contribute to revenue until later in 2017. Finally, our Energy & Resources business operating unit experienced a 13.2% retraction in Q1 17 compared to Q1 16 due to the continued downturn in the mining and oil and gas sectors, though this retraction is at a reduced rate compared to 2016.

As the numbers show, our operations are in good shape. Our increasing diversity, worldwide operations, and strategic plan give us the flexibility to take advantage of a wide range of opportunities for short- and long-term growth. Shareholders can remain confident that Stantec provides consistent performance as we pursue our goal of becoming a top 10 global design firm.

In closing, I’m grateful for the expertise, creativity, passion, and hard work of our employees, our good relations with our clients, and the support of our shareholders. Thank you for making our good work possible.

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This discussion and analysis of Stantec Inc.'s (Stantec or the Company) operations, financial position, and cash flows for the quarter ended March 31, 2017, dated May 10, 2017, should be read in conjunction with the Company's unaudited interim condensed consolidated financial statements and related notes for the quarter ended March 31, 2017; the Management's Discussion and Analysis and audited consolidated financial statements and related notes included in our 2016 Annual Report filed on February 23, 2017; and the Report to Shareholders contained in our 2017 First Quarter Report. Our unaudited interim consolidated financial statements and related notes for the quarter ended March 31, 2017, are prepared in accordance with

The following table summarizes key financial data for the first quarter of 2017 and 2016:

	Quarter Ended March 31			
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(In millions of Canadian dollars, except per share amounts and %)	**2017**	**2016**	**$ Change**	**% Change**
Gross revenue	**1,276.3**	755.4	520.9	69.0%
Net revenue	**873.8**	628.6	245.2	39.0%
EBITDA *(note 1)*	**89.8**	66.5	23.3	35.0%
Adjusted EBITDA (*note 1)*	**89.9**	70.2	19.7	28.1%
Net (loss) income	**(58.0)**	30.6	(88.6)	n/m
Adjusted net income (*note 1)*	**45.8**	37.6	8.2	21.8%
(Loss) earnings per share – basic	**(0.51)**	0.33	(0.84)	n/m
(Loss) earnings per share – diluted	**(0.51)**	0.32	(0.83)	n/m
Adjusted EPS – basic *(note 1)*	**0.40**	0.40	-	-
Adjusted EPS – diluted *(note 1)*	**0.40**	0.40	-	-
Cash dividends declared per common share	**0.1250**	0.1125	0.0125	11.1%
Cash flows				
Used in operating activities	**(27.4)**	(9.7)	(17.7)	n/m
Used in investing activities	**(45.9)**	(126.3)	80.4	n/m
From financing activities	**58.3**	109.1	(50.8)	n/m

n/m = not meaningful

note 1: EBITDA, adjusted EBITDA, adjusted net income, and adjusted basic and diluted earnings per share (EPS) are non-IFRS measures 0.269014 Tw -51.433 -1.119 Td.25.4 Tm9

- During the quarter, we signed an agreement for the sale of our water software business, Innovyze, Inc. and its subsidiaries, Innovyze Pty Limited and Innovyze Limited, to the EQT Mid Market US fund, part of the international alternative investments firm EQT. The agreement at March 31, 2017, was subject to customary conditions and regulatory approvals. Innovyze develops and sells software and services related to the water industry and joined Stantec as part of the MWH acquisition in 2016. Subsequent to the MWH acquisition, we determined that this line of business would not add synergies and would potentially conflict with our core business. We saw this sale as an opportunity to continue working with Innovyze in servicing our clients while allowing both companies to prosper with the best available resources. From a balance sheet perspective, the sale reduces a portion of our goodwill and intangible assets, and provide us the opportunity to reduce debt by approximately $202.2 million. We estimate that the related net tax expense on the sale will be approximately $110 million.

  The sale of Innovyze closed on

The following charts and tables summarize gross revenue and

In the private sector, the housing market continued to grow, specifically in Florida, Texas, and the western United States. We saw a persistent trend toward urbanization, which means that cities need to be revitalized. Our Buildings business operating unit has experienced steady activity in the healthcare and commercial markets, and we saw increased opportunities in the southwestern United States, particularly in our Education sector. We continued to capitalize on our expertise in environmental mitigation and to build on our remediation and recovery expertise in our Environmental Services business. Our transmission and distribution opportunities remained steady.

The public sector continued to be an area of growth for us, though there remains some uncertainty in the political and regulatory environment, notably at the federal level. Partly in response to fiscal constraints, design-build opportunities increased in the United States as some clients view design-build as a more efficient project delivery method. Organic revenue growth occurred in our Transportation sector due to our strategic market position in program management, bridge inspection, light-rail transit, roadway, and bridge projects. Our Water business continued to benefit from regulatory requirements, including consent decrees that mandate municipalities to upgrade their water and wastewater facilities, as well as from the continued efforts of public agencies and private industrial concerns to improve operational efficiency. In addition, Water benefited from acquisition revenue driven by a high volume of design-build activity. We continued to build our expertise in flood protection and resiliency. In our Energy & Resources business operating unit, acquisition revenue from the Waterpower & Dams sector was strong in our eastern US operations.

Gross revenue from our Consulting Services – Global operations increased by $114.3 million in Q1 17 compared to Q1 16. Our acquisition revenue increased as a result of the MWH acquisition and was partly offset by organic gross revenue retraction in our Mining sector and our Buildings business operating unit. Our Water business operating unit in the United Kingdom benefited from strong revenue as a result of the UK Water Asset Management Program (AMP) cycle. Driven by the receipt of contract change orders, revenues were higher than expectations in our Asia Pacific Water operation. Latin America has encountered lower volume due to project delays and cancellations relating to slowing mining market conditions.

Construction Services earned $272.1 million in gross revenue in Q1 17. Revenue was generated primarily in the United States and United Kingdom.

In Q1 17, the United States generated $178.8 million, and Canada generated $3.6 million in gross revenue. In the United States, there was significant and steady work during the quarter on a number of major wastewater treatment plant construction projects in the west. Also, activity increased on a major new commercial contract; under this contract, we are performing the construction management and project management services for a major manufacturer.

The remaining $89.7 million in gross revenue for Construction Services was earned mainly in the United Kingdom. Revenue in the United Kingdom was driven by ongoing construction activities for water utilities in the third year of the AMP cycle.

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

As indicated above, gross revenue growth was impacted by acquisitions, organic revenue retraction, and the effect of foreign exchange rates on revenue earned by our foreign subsidiaries. The impact that these factors had on gross revenue earned by each Consulting Services business operating unit is summarized in the following table:

The following lists the acquisitions completed in 2016 that impacted specific Consulting Services business operating units in Q1 17:

Buildings
Bury (Mar. 2016)
VOA (May 2016)
Edwards & Zuck (Sep. 2016)

and Water business operating units. These increases were partly offset by the addition of the Construction Services business, which generates a lower margin than our Consulting Services business.

The following table summarizes gross margin percentages by reportable segments:

In general, gross margin fluctuations depend on ~~the~~ particular mix o-3.7(f)-12.1(pr)1.6(oj)e5.2(c)4.2(t)-7.8(t)-5.2(s)9.5(i)-5.2(n pr)1.7 units (within Consulting Services), and all phases of the infrastructure and facilities project life cycle.

In Coulting Services , our US operations had higher margins, mainly from the mix of projects acquired from MWH and predominantly in the Water business operating unit and Waterpower & Dams sector. ipropeta(i)-u(r)

Administrative and marketing expenses as a percentage of net revenue was 43.6% in Q1 17 compared to 43.2% in Q1 16, falling slightly above our expected range of 41% and 43% (set out in our 2016 Annual Report).

Administrative and marketing expenses fluctuate year to year because of the amount of staff time charged to marketing and administrative labor, which is influenced by the mix of projects in progress during the period, by business development, and by integration activities resulting from acquisitions. In the months after completing an acquisition, staff time charged to administration and marketing is generally higher because of integration activities, including orienting newly acquired staff.

Administrative and marketing expenses as a percentage of net revenue was higher in Q1 17 compared to Q1 16, mainly due to an increase in

Net interest expense increased $4.5 million in Q1 17 compared to Q1 16. This increase was primarily due to a $556.4 million increase in our

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

Quarterly Unaudited Financial Information

(In millions of Canadian dollars, except per share amounts)	**Mar 31, 2017**	**Dec 31, 2016**	**Sept 30, 2016**	**Jun 30, 2016**
Gross revenue	1,276.3	1,240.8	1,257.3	1,046.6
Net revenue	873.8	820.2	872.2	777.4
Net (loss) income	(58.0)	29.4	49.3	21.2
Adjusted net income *(note 1)*	45.8	40.4	63.0	39.5
(Loss) earnings per share – basic	(0.51)	0.26	0.43	0.20
(Loss) earnings per share – diluted				

Q2 16 vs. Q2 15.

terms. This mix of clients may impact our trade receivables aging categories going forward. We reduce our gross revenue trade receivables with an allowance for doubtful accounts that is calculated using historical statistics for compared to $15.8 million in Q1 16. During the remainder of 2017, we plan to continue investing in enhancements to our information technology infrastructure and enterprise systems; this will optimize and streamline business processes and prepare us for continued growth. During Q1 17, we financed property and equipment and software purchases through cash flows from operations.

In the Management's Discussion and Analysis in our 2016 Annual Report, we indicated that in 2017 we expected to spend approximately $15.0 million in software additions and approximately $75.0 million in property and equipment, excluding capital assets acquired from acquisitions. Our expectations regarding these expenditures have not changed.

Cash flows from financing activities decreased in Q1 17 compared to in Q1 16, mainly due to the net $88.2 million decrease of cash inflows from our revolving credit facility. In addition, cash outflows decreased due to no shares being repurchased for cancellation under our Normal Course Issuer bid in Q1 17 compared to $18.2 million used for share repurchases in Q1 16. These decreases in cash flows from financing activities were partly offset by a $2.9 million increase in the payment of dividends.

We manage our capital structure by maintaining a net debt to EBITDA ratio of less than 2.5 to 1.0. At March 31, 2017, our net debt to EBITDA ratio was 2.38, calculated on a trailing four-quarter basis. There may be occasions when we exceed our target by completing opportune acquisitions that increase our debt level for a period of time.

In 2016, we entered into an agreement for $1.25 billion syndicated senior secured credit facilities (Credit Facilities) consisting of a senior secured revolving credit facility in the maximum amount of $800 million and a $450 million term loan in the oc-14.4(m)1(ip.253 Tdt-19.96cip.253 T ip.2(m)21(ei)2.8(.al)2.5(D)3.8(ip.2 14.4(m)1v)(n)8.1(o)-4.1v)(n(n)8(t)2.9gi)

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We were in compliance with all of these covenants as at and throughout the period ended March 31, 2017.

Share options exercised generated $2.4 million in cash during the first quarter of 2017 compared to $0.5 million in cash generated during the same period in 2016. No shares were repurchased under our Normal Course Issuer Bid in Q1 17.

At March 31, 2017, 114,184,909 common shares and 3,528,962 share options were outstanding. From April 1, 2017, to May 10, 2017, 44,397 share options were exercised and 33,419 share options were forfeited. At May 10, 2017, 114,229,306 common shares and 3,451,146 share options w 00(.end)-iA$AR.00 0 Td(m)0.9(o)98(AR) 0 Td( )Tj0r

We believe this non-IFRS measure is useful for providing securities analysts, investors, and other interested parties with additional information to assist them in understanding components of our financial results (including a more complete understanding of factors and trends affecting our operating performance) and to provide supplemental measures of operating performance, thus highlighting trends that may not otherwise be apparent when relying solely on IFRS financial measures.

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

(In thousands of Canadian dollars, except per share amounts)	**2017**	**2016**
Net (loss) income for the period	**(58,006)**	**30,621**
Add back:		
Income taxes	**102,741**	11,908
Net interest expense	**7,608**	3,088
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Effective January 1, 2017, we adopted the following amendments (

In determining our forward-looking statements, we consider material factors, including assumptions about the performance of the Canadian, US, and various international economies in 2017 and their effect on our business. The assumptions we made at the time of publishing our annual targets and outlook for 2017 are listed in the Outlook section beginning on page M-58 of our 2016 Annual Report. The following information updates and, therefore, supersedes those assumptions.

- *To establish our level of future cash flows, we assumed that the Canadian dollar would be US$0.77 in 2017. We also assumed that our average interest rate would remain relatively stable in 2017 compared to 2016. The Canadian dollar closed at US$0.75 on March 31, 2017, and was US$0.74 on December 31, 2016. The average interest rate for our revolving credit facility and term loan was 3.17% at March 31, 2017, compared to 3.1% at December 31, 2016. To establish our effective income tax /LBodyarepl*

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